

# FINANCIAL MANAGEMENT UPDATE | CITY OF HOLYOKE

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FEBRUARY 2020



# DLS

DIVISION OF LOCAL SERVICES  
MA DEPARTMENT OF REVENUE

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**PREPARED BY:**

**DLS | Technical Assistance Bureau**

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# DLS

DIVISION OF LOCAL SERVICES  
MA DEPARTMENT OF REVENUE

Kevin Brown  
Acting Commissioner of Revenue

Sean R. Cronin  
Senior Deputy Commissioner

February 20, 2020

The Honorable Alex Morse  
Office of the Mayor  
536 Dwight Street  
Holyoke, MA 01040

Dear Mayor Morse,

I am pleased to present the enclosed financial management update for the City of Holyoke. It is my hope that our guidance provides direction and serves as a resource for local officials as we build better government for our residents.

If you have any questions regarding the report, please contact Zack Blake, Technical Assistance Bureau Chief, at (617) 626-2358 or [blakez@dor.state.ma.us](mailto:blakez@dor.state.ma.us).

Sincerely,

A handwritten signature in black ink, appearing to read "Sean R. Cronin".

Sean R. Cronin  
Senior Deputy Commissioner

*Supporting a Commonwealth of Communities*

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## INTRODUCTION

At the request of the mayor, the Division of Local Services (DLS) recently engaged the City of Holyoke to determine what, if any, steps had been taken by the community to adopt previous recommendations and address ongoing financial management concerns. Like other Gateway cities of similar size and budget, Holyoke faces numerous challenges. Geographic, social and economic factors influence Holyoke in ways that impact both the City's current and future financial prospects, while Proposition 2 ½ places additional limits on its ability to sustain and support existing municipal infrastructure, operations and services. Examples of Holyoke's ongoing issues are evidenced by its limited ability to generate funds through its tax levy (state aid accounts for nearly 60% of its incoming revenue) and a lack of support for additional taxation as evidenced by its recent failure to pass a debt exclusion.

For further guidance on how to address these challenges, the City requested an update to the two financial management projects previously created by the Division in 2007 and 2015 as they might relate to its existing "fiscal operating processes." In addition, the City requested regulatory guidance and review of a select group of commercial and industrial parcels. The Division's Bureau of Local Assessment provided a Data Quality Review Sample report based upon that list in October of 2019.

## BACKGROUND

Located in Hampden County on the western bank of the Connecticut River, the City of Holyoke has a Census estimated population of 40,358 and a total FY2020 operating budget of \$156M. Its city charter and ordinances define the government structure and the distribution of powers and certain duties and procedures. Holyoke operates under a council-mayor form of government where council members are popularly elected every two years and the mayor every four. The council consists of 15 members, seven of whom represent residential wards within the city and the remaining eight are elected at large. By charter, the council appoints the tax collector, assessors, auditor and certain other municipal officials as well as confirms most mayoral appointments. The mayor appoints the chief procurement officer, personnel director and remaining department heads, except for the city clerk and city treasurer who are elected to four-year terms.

The city's governing structure, which is organized under a "Plan B" Charter (M.G.L. c. 43), is often characterized as a "strong mayor" form of government. This characterization is misleading, however, with respect to city finance officers. In fact, Holyoke's mayor is neither fully empowered to direct operations nor able to hold department heads universally accountable. Whether directed by charter or indirectly born out of an institutional culture that developed over time, the mayor's authority is

limited exclusively to his appointees—none of whom are finance officers. A city ordinance (Section 2-66) exists that speaks to the mayor’s general management and supervisory responsibilities over daily operations and his authority to discipline employees appointed by city council, but in practice this authority has been narrowly defined in Holyoke. As a result, the observations made in our 2007 review and referenced in our 2015 financial management review describing the mayor’s “limited ability to execute sound financial management practices, to coordinate activities of city departments, or to implement citywide initiatives and goals effectively,” still hold true.

### **Previous DLS Reports**

In 2007, the Division completed a financial management review of the City of Holyoke. Findings were based on site visits by DLS staff, interviews with municipal officials and a comprehensive review of such documents as the tax recapitulation sheet, warrants, annual budgets, balance sheets, cash reconciliation reports, statements of indebtedness, the city ordinances as well as other assorted financial records.

Then in 2015, at the request of the Mayor, the Division returned and completed a review of the city’s financial management structure. The scope of this review focused specifically on the reporting relationship between the mayor and Holyoke’s key financial management personnel and the overall impact of the structure on the city’s financial operations. The resulting report provided an outline of the current roles and responsibilities within the city’s finance-related offices, including how auxiliary functions such as information technology, procurement, and personnel administration fit into the overall picture.

Officials should revisit both the 2007 and 2015 reports to address any unresolved recommendations. The Appendix includes a status update on previous report recommendations.

### **Current Challenges**

Based on our most recent visit, internal communications issues and lack of coordination hamper the City’s ability to enact meaningful policies and streamline operations.

Holyoke’s inability to achieve some level of coordination among the city’s finance offices is evident in the interdepartmental relationship between certain staff. Only recently has the executive branch begun holding regular finance team meetings to improve collaboration and remove barriers that hinder the implementation of initiatives to streamline operations, or otherwise improve financial practices and processes. We applaud this effort and view these team meetings as critical to the success of the City as a whole.

The purpose of the financial team is to coordinate the city’s financial affairs and maintain open lines of communication among the assessor, treasurer/collector, school business manager, comptroller, and others deemed appropriate. Regular meetings serve as a forum where the budget calendar and other finance-related deadlines can be reviewed. Government finance is more complex and challenging than ever before, and municipalities like Holyoke that have significant revenue constraints cannot afford to continue to operate under antiquated organizational structures. A disjointed structure lacking in clear lines of authority and accountability can result in inefficiencies, errors and critical lapses that can have profound impacts on a community’s fiscal wellbeing. Such lapses are evidenced by City’s ongoing inability to properly account for free cash and maximize its annual free cash certification.

Free cash is the remaining, unrestricted funds from operations of the previous fiscal year, including unexpended free cash from the previous year, actual receipts in excess of revenue estimated on the tax recapitulation sheet, and unspent amounts in budget line items. Free cash is also reduced to account for illegal deficits and is part of the financial reserves when they are evaluating the strength of the community’s finances. Bond rating agencies review these reserves as part of the bond rating process. Additionally, these reserves allow the City to spend for capital and other one- time purchases.

Since the Fiscal Year 2014 free cash calculation, Holyoke’s free cash has been reduced by at least \$2 million each year. These reductions occurred for the following reasons:

1. Reconciliation variances for cash and real estate receivables
2. Appropriation deficits (overspending compared to budgets)
3. Capital project deficits for which no short-term borrowing was done prior to year-end
4. Grant deficits for which reimbursements were not obtained within 90 days of year-end
5. Other deficits which are structural in nature related to over-spending

The following grid outlines free cash certified for the City over the past four years with related reductions:

<b>CERTIFICATION YEAR</b>	<b>FREE CASH CERTIFIED</b>	<b>TOTAL REDUCTIONS TO FREE CASH</b>	<b>APPROPRIATION DEFICITS (INCLUDED IN PRIOR COLUMN)</b>	<b>STRUCTURAL DEFICITS FUNDED ON THE TAX RECAP</b>
<b>2017</b>	\$2,324,717	\$2,418,099	0.00	
<b>2018</b>	\$1,544,942	\$2,135,315	\$602,707	\$388,282
<b>2019</b>	\$1,349,948	\$2,291,458	\$418,474	\$323,590
<b>2020</b>	(\$428,751)	\$1,789,574	0.00	\$365,915

As part of the free cash certification process, the Division identified recurring account deficits within the same accounts in the same amounts as the prior fiscal year. These structural deficits must be funded. In the past, the City has appropriated from free cash to reduce the tax levy in the same amount as these deficits. As the City had no free cash available to offset these items this year, they were provided for from taxation. Therefore, Holyoke has raised these deficits from taxation as part of the tax rate setting process. As such, previous structural deficits will no longer reduce the free cash calculation. However, if the City is not vigilant in monitoring their grants, appropriations, and capital project spending, new deficits could take their place, and will again reduce free cash. We strongly recommend coordination among all members of the finance team to ensure illegal deficits do not occur.

In April of 2019, DLS representatives met with Holyoke officials from the school finance department, the auditor's office and the City's outside audit firm, Melanson and Heath. The discussion centered around a review the 2019 free cash certification and related reductions as well as the steps necessary to avoid deductions for the 2020 certification. Unfortunately, issues related to the City's free cash certification have persisted.

For its FY2020 certification, the City's free cash was reduced by certain reconciliation variances. This does not indicate in any way that funds are missing, only that there are variances between the collector, treasurer and accountant's records. These differences may simply be timing in nature or related to transactions posted in one set of records that are not in the other. Examples include a cash variance of \$44,455 and a tax liens variance of \$71,253. A Dental Health Trust Fund deficit of \$195,220 was also identified. Moving forward, the City should evaluate the underlying reasons for such a deficit and possibly explore the need for a rate increase.

Massachusetts General Law does not permit spending in excess of appropriation. Therefore, the City should ensure that all budget line items are properly and fully funded. Additionally, spending that exceeds budgeted amounts should be unacceptable and line items must be properly monitored by department heads to ensure spending occurs only within budget. Regarding capital project deficits, the treasurer should work with project managers to ensure that borrowing occurs *prior* to June 30 to cover any capital project deficits, including any Chapter 90 amounts for which reimbursement requests will not be completed by September 30 and sent to Mass DOT.

Department heads in charge of spending grants should ensure that all grant reimbursements have been drawn down prior to June 30 and that all reimbursement paperwork is completed timely and accurately to ensure that reimbursements are received prior to September 30.



## CURRENT RECOMMENDATIONS

### 1. Establish Chief Administrative and Finance Officer Position

To better streamline operations and avoid future issues regarding Holyoke's free cash certification, Holyoke should establish a chief administrative and finance officer (CAFO) position. This role would bring together the community's siloed financial management functions of accounting, assessing, treasury, and collecting under one centralized organizational framework. Led by the CAFO, the finance team should analyze the financial impact of potential policy decisions and identify critical junctures and offer early strategies to deal with anticipated areas of concern. For example, the team could assist the CAFO in analyzing the potential cost impacts of collective bargaining agreements, capital acquisitions, new debt, or proposed economic development projects, as well as policy decisions on debt limits, reserve fund levels, and annual budget guidelines. Furthermore, greater centralized oversight of financial management functions will also help strengthen internal controls, the lack of which resulted in a negative free cash certification of \$428,751 in FY2020.

To formalize this structure, the CAFO position should be codified in the city charter. It should include all significant duties and responsibilities, including coordinating, administering and supervising all financial services and activities in all departments, including the school department, boards, commissions, agencies, offices and other units of city government. Additionally, the charter should identify all financial offices (see City of Holyoke Organizational Chart). It is our belief that the addition of an empowered CAFO to the City's financial management structure will allow the Mayor and City Council to develop a coherent financial strategy, address communication issues and articulate their vision for Holyoke's future prosperity.

We recommend that the city repeal the residency requirement for city employment. The city's interests are best served when it can hire and retain employees that have the strongest credentials and the most relevant professional experience. This is achieved by expanding, to the greatest extent possible, the pool from which a prospective candidate is likely to emerge. A residency requirement generally limits the field of candidates that may have the necessary skills required to perform in a job successfully and may present a hardship to a strong candidate if the individual must relocate.

A singular point of contact and oversight related to financial management would allow elected policy makers the opportunity to address the need to implement core financial management practices including policies, forecast, capital plan, and transparent budget document through the development of a comprehensive strategic plan. Long-term strategic planning is not unique among communities. In other municipalities, a strategic plan is developed to articulate their priorities through a series of workshops facilitated by an outside firm and using various organizational planning tools and group exercises, identifying a core set of values for the community. These values are then used to generate

goals for individual departments with estimated timelines for completion. In doing so, they annually gauge resident opinion on any number of issues through a survey that assists their joint planning process to accomplish town goals. These practices offer insight and suggestions into designing and implementing a strategic planning process for the City of Holyoke. The following three recommendations demonstrate the convergence of policy development, strategic planning and performance evaluation necessary for Holyoke to identify and address its current and future fiscal obstacles.

## **2. Develop a Strategic Plan**

We recommend that the city council initiate a strategic planning process to identify a list of clearly defined priorities. Establishing this comprehensive list of goals will help give the city direction and guide local officials in matters that are of primary importance to the community. This will not only become the basis for allocating resources when formulating the annual budget but foster an environment of expectations.

To begin, we recommend that the CAFO present a five-year financial forecast to a joint meeting of the city council, finance committee and school committee (tri-board). The intent of the projection is to demonstrate that simply maintaining existing service levels will outstrip available revenues in the near future. Inflation of fixed costs, contractual obligations, and other anticipated long-term spending obligations will quickly result in a budget deficit if additional revenues are not identified in the short-term. By framing these financial challenges that lay ahead, policymakers can then begin to make decisions on what the appropriate mix is of spending on schools verses general government, and how capital expenditures and other key issues facing the city might be funded.

To assist the board in this decision-making process, we recommend the formation of a steering committee, which might be appointed by the mayor, city council, or a combination of the two. Composed of local officials and community volunteers, the committee's mission would be to solicit input through a series of public hearings and outside surveys in order to report on the general public's opinion of priorities for local government. Using this information, the mayor would work through the tri-board to arrive at a set of core values for the community that might include financial stability, education, public safety, or economic development. These values would then be translated into a strategic plan that would outline specific goals, which would be used to guide the annual budget process. There are a number of outside firms that offer consensus-building services to facilitate strategic planning and mediate discussions, including the Massachusetts Office of Public Collaboration ([www.umb.edu/mopc](http://www.umb.edu/mopc)).

### **3. Link City-wide Strategy to the Annual Budget**

With a strategic plan in hand, the CAFO can begin to engage department heads during the annual budget process to align city-wide priorities with individual department goals. The challenge is to link the community's long-term objectives with the budget's short-term realities. To do so, we recommend that the mayor work with the finance officers to develop a revenue projection at the onset of the budget process. With a revenue projection that is reviewed with and accepted by the city council in discussion with the tri-board, the city can provide more specific guidance to department heads concerning the parameters for their budget requests. Based on these assumptions, the CAFO would formulate budget guidelines that would include a discussion of the relative economic condition of the community and a description of city-wide goals for the ensuing year.

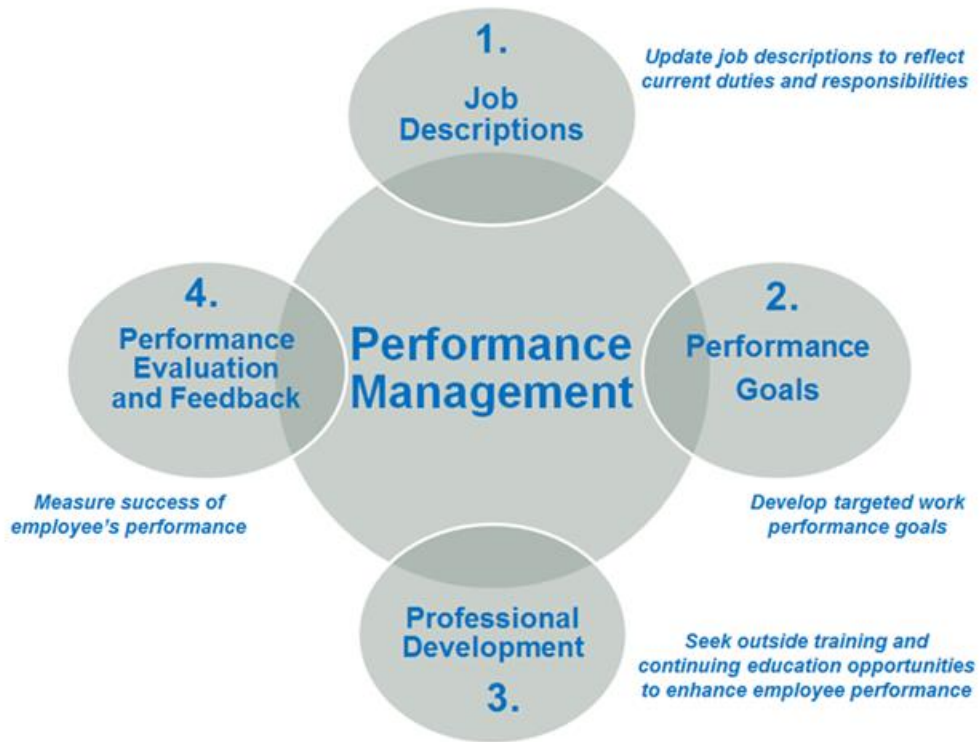
The CAFO would then work individually with department heads on their requests for appropriation and department goals. The CAFO would compile department requests and their lists of goals into an omnibus budget, which would be balanced and forwarded to the city council sometime in May. The city council would be expected to hold a series of one-on-one public hearings with department heads to discuss goals and budget requests. The package, including any adjustments made by the city council, would be forwarded to the finance committee for their review. The finance committee, as the city's financial watchdog, would make certain that the budget conforms to local fiscal policies and guidelines before being presented to the city council.

In the end, the annual operating budget would contain a complete picture of available revenues and obligations for the ensuing year and summarize individual department goals and how they will be measured. Conceptually, these budget components would support Holyoke's shared priorities as determined through public outreach and through the tri-board's strategic planning sessions.

### **4. Develop Performance Management Program**

We recommend that the mayor initiate a performance management program. The first step toward formal and comprehensive performance management begins by ensuring that employee job descriptions are up to date. With a current set of job responsibilities in hand, the mayor would develop targeted work performance goals for department heads that would develop them for individual staff members. These goals, which would channel an employee's efforts toward achieving department objectives, should be measurable in a way that confirms whether performance expectations are being met. The city council, to better ensure success, would allocate necessary funds for staff to attend outside training and continuing education opportunities to help fine-tune skillsets and improve job effectiveness. At year-end, the mayor would meet with department heads, who would meet with individual staff members to ensure that goals are being achieved. Designed this

way, a performance management program serves as the final component in the strategic planning initiative that not only supports organizational objectives, but proactively develops employee talents. Below is a diagram which illustrates the various components within a performance management program.



The lack of both a CAFO and a strategic vision for its priorities currently hamper Holyoke’s abilities to properly plan and implement strong and effective fiscal policies. Its ongoing free cash certification issues are emblematic of broader communication problems that have a direct, negative impact on the City’s finances. However, by revisiting previous DLS recommendations and implementing the additional suggestions contained in this report, Holyoke can take concrete steps to remove existing barriers that impede current operations. Collectively and collaboratively identifying and addressing the community’s priorities, engaging and encouraging internal and external policy discussions and implementing strong formal structures and better accountability will position the community to face the demands of operating a modern Gateway city in the years to come.

## APPENDIX

### 2007 DLS Financial Management Review

Section	Recommendation	Status
Primary	Come to Agreement on a New Position in the Treasurer's Office	Complete
Primary	Require the Treasurer to Report to the City Council	Incomplete
Primary	Convert the Treasurer to an Appointed Position	Incomplete
Primary	Initiate a Process to Evaluate the Structure of Government	Incomplete
Overall Financial Management	Set City Hall and Employee Hours	Complete
Overall Financial Management	Require Detailed Time Sheets from All Employees	Incomplete
Overall Financial Management	Formulate Other Post-Employment Benefits Liability Policy	Incomplete
Overall Financial Management	Establish an Audit Committee	Incomplete
Overall Financial Management	Create a Financial Team	Partially Complete
Overall Financial Management	Systematic Review of Job Descriptions	Partially Complete
Overall Financial Management	Institute a Purchase Order Threshold	Complete
Overall Financial Management	Survey Staff	Incomplete
Computers and Technology	Increase Training Opportunities for Staff	Partially Complete
Treasurer	Account for All Office Responsibilities	Partially Complete
Treasurer	Reconcile Cash Promptly	Incomplete
Treasurer	Create a Monthly Cash Flow Budget	Partially Complete
Treasurer	Comply with Electronic Filing Requirements	Complete
Treasurer	Print Payroll Reports to Spool Files	Complete
Treasurer	Send School Payroll Checks to School Department	Partially Complete
Treasurer	Bond All Employees Who Handle Money	Complete
Treasurer	Control Over Signature Stamp	Complete
Treasurer	Cease Writing Manual Checks	Partially Complete
Treasurer	Improve Controls Over Tax Title Accounts	Partially Complete
Treasurer	Distribute All Longevity Pay at One Time	Incomplete
Treasurer	Address the City's Custodial Credit Risk	Partially Complete
Collector	Turnover Receipts Frequently/Deposit Directly to Treasurer's Account	Partially Complete
Collector	Create Daily Log Sheets in Excel	Complete
Collector	Reconcile Receivable Balances to Receivable Control	Complete
Collector	Improve Controls on the Deputy Collector Account	Complete
Collector	Send Demand Letters After 15 Days	Complete
Collector	Impose Maximum Penalty for Bounced Checks	Complete
Collector	Reformat Billing Address Information	Incomplete
Assessors	Appoint an Odd-Numbered Member Board of Assessors	Complete
Assessors	Adopt an Assessing Department Calendar	Partially Complete
Assessors	Redefine Relationship with Professional Real Estate Appraisal Firm	Complete
Assessors	Inspect All Sales Properties	Partially Complete
Assessors	Accompany the Real Estate Appraisal Consultant	Complete
Auditor	All Departments to Submit Turnover Sheets to Auditor	Partially Complete
Auditor	Develop On-Off Payroll Notification Process	Complete

## 2015 DLS Review of Financial Management Structure

Recommendation	Status
Strengthen Mayor's Authority to oversee Financial Management Operations	Incomplete
Establish Finance Department	Incomplete
Consolidate the treasurer and tax collector functions	Incomplete
Establish a Three-member Board of Assessors	Complete
Rebuild Information Technology Department	Complete
Address Collins Center's Human Resources Compliance Audit and Personnel Review	Partially Complete