



Town of Shirley

Financial Management Review

Division of Local Services / Technical Assistance Bureau

November 2008

Introduction

At the request of the Board of Selectmen, the Department of Revenue's Division of Local Services (DLS) has completed a financial management review of the Town of Shirley.

We have based our findings and recommendations on site visits by a Technical Assistance team consisting of staff from the Division's Technical Assistance Section, Bureau of Accounts, and Bureau of Local Assessment. During these visits and by telephone, the team interviewed and received information from the selectmen, members of the finance and capital planning committees, the town accountant, town collector, town clerk, treasurer, principal assessor, school superintendent and school business manager, as well as other staff members, as available, in each office.

DLS staff examined such documents as the tax recapitulation sheet, warrants, annual budgets, balance sheets, cash reconciliation reports, statements of indebtedness, the town by-laws as well as other assorted financial records. Other documents reviewed included the town's outside audit for fiscal year 2007 completed by Giusti, Hingston and Company.

In reviewing the town's financial management practices, we have focused on: (1) town government structure in the context of the duties and responsibilities of financial officers; (2) the town's budget, warrant and capital planning processes; (3) the degree of coordination and communication that exists between and among boards, officials and staff involved in the financial management function; and 4) the general efficiency of financial operations measured by the town's success in maximizing resources and minimizing costs.

We encourage the selectmen and others, when formulating overall strategies for improving the town's financial management, 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 boards, committees and officials.

Overview

The Town of Shirley is a rural residential community in Middlesex County, bordered by Townsend and Groton on the north, Ayer and Harvard on the east, Lancaster on the south, and Lunenburg on the west. Shirley is located 11 miles east of Fitchburg, 25 miles northeast of Worcester, and 39 miles northwest of Boston.

The town was incorporated in 1755 and development sprang up along the Catacoonamaug and Nashua Rivers as mill owners harnessed the water power. As the frontier stabilized, the number of settlers increased and they turned to agriculture as their main activity. Townspeople planted fruit trees and orchards became an early part of the town's economy. The railroad from Boston to Fitchburg opened Shirley to further development in 1845, and additional industries were established in town. Most of the mills are gone today and few farms remain. At just 7,726 in 2007, Shirley's population is fairly static, changing by less than one percentage point in the last 10 years. However, the composition of that population has changed over the last 15 years as professionals have been attracted to the town by its lower housing prices. Today, it is a largely residential community with workers commuting to the Route 128 and 495 belts, and to Boston by commuter rail.

According to the FY2008 tax recap sheet submitted to DLS, Shirley had a FY2008 budget of \$15.6 million funded largely by local property taxes (45.1 percent) and by state aid (42.0 percent). The town's average single-family tax bill was \$3,291 in FY2008, 20 percent below the state average of \$4,110. With a single property tax rate of \$10.15 per \$1,000, Shirley's tax rate is lower than all its immediate neighbors but Ayer. The town consistently taxes close to its levy capacity.

The legal framework for financial management in Shirley is established in relevant town by-laws and state statutes. The selectmen collectively act as the head of the executive branch of government and appoint a town administrator to manage day-to-day operations. The town accountant and town treasurer are appointed by the board of selectmen; the town collector is elected. Operations in the assessing office are overseen by a principal assessor who is appointed by an elected board of assessors. The seven-member finance committee, which annually reviews the budget and recommends action to town meeting, is appointed by the elected town moderator. The finance committee also serves as the capital improvement committee and prepares and makes recommendations to town meeting on a five-year capital plan.

Municipal affairs are overseen by a full-time town administrator. Among his duties are responsibilities that include coordinating departmental activities, budgeting, monitoring finances, identifying ongoing capital and maintenance needs, contract negotiations, economic development and procurement. The town administrator has been

adept at balancing budgets in difficult circumstances. He is very knowledgeable of town affairs having been involved for over twenty years as an assessor and selectman and is under contract until 2010.

Our review found many areas of strength at town hall. However, we also see challenges ahead. While finance managers and their staff effectively complete routine day-to-day duties, as well as most periodically recurring tasks, higher level attention to long-term planning is lacking. Still, we found that financial department heads are competent and well-versed in the application of public management principles. The elected officials we met are informed and engaged in the town's financial affairs.

At the same time, we noticed a great deal of disagreement on the board of selectmen about the role of the town administrator. As a result, the administrator lacks a clear sense of direction from the board of selectmen. In fact, we observed that the elected officials do not always work well with the town administrator and the members of his financial management team. As a result, the working environment in town hall is strained and employee morale is low. This is largely the result of poor communications and the lack of clear expectations. A clear set of goals and objectives and performance evaluations are helpful in this regard. Joint meetings have also been successful in opening the channels of communication in some towns. So-called "tri-board" meetings of the selectmen, finance committee, school committee provide an opportunity for all involved to share the same information and can help to foster consensus. If decision-makers had started earlier on the FY2009 budget and worked together, they may have been able to present a united front and avoided the drawn out seven-night annual town meeting with competing budget proposals from the selectmen and the finance committee.

Given the fiscal stress many communities are facing at the present time, capital and infrastructure spending is generally among the first things to be deferred. Shirley, on the other hand, has been very fortunate in this regard. The town received \$8.9 million in mitigation funds for hosting a state medium/minimum security correctional facility (MCI-Shirley) between fiscal year 1996 and 1999. Interest earnings on the grants brought the total reimbursement to just over \$10 million. The town has used these funds to build new town offices, a police station, a highway garage and a salt shed, and toward the construction and planning for a middle school. They have purchased almost \$2 million in town lands and loaned unspent funds to its sewer enterprise fund, at a significant interest savings to sewer ratepayers. The mitigation funds have funded capital and infrastructure improvements that would have been otherwise unimaginable given the limited resources of the town. Now, however, only \$0.5 million of MCI funds remain and the town will be required to pay more attention to how it will pay for capital improvements in the future.

Another challenge facing Shirley is the significant exodus of schoolchildren to other districts and the associated loss in state aid to education. Although not the subject of our report, the current state of the town's school system poses a considerable threat to long term fiscal stability in Shirley. Almost one out of every five school age kids in grades K-12 is now leaving town for another school system, an increase of 71 percent since FY2000. As a result, \$1.3 million in state education aid that would otherwise remain in town if kids attended their local school is going elsewhere. The loss of school funds will only worsen next year when the system will lose another \$600,000 when the children of Devens move from Shirley to the Harvard school system. The circumstances which encourage parents to send their children to other schools are not easily alleviated. A successful long-term plan to improve the quality of education, executed with patience and persistence, will restore parent's confidence in the system. It will not happen quickly, but as more students attend Shirley schools, state aid now going elsewhere will return to the town. With better schools, the quality of life in Shirley will also improve.

Conclusion—Shirley is at a critical juncture with many important issues to confront. In addition to its current fiscal problems, residents' confidence in town leaders is low because of the adversarial relationship between and among the board of selectmen, the finance committee, the town administrator and the finance officers that has been on display in Shirley. Not only must town leaders overcome their differences and learn to work cooperatively, but they need more active citizen involvement in government to effectively address problems of this magnitude. To restore confidence in town government and encourage greater participation, there needs to be ongoing, competent communication of financial and budget information to citizens so they can grasp the true significance of the town's fiscal situation. As a first step, the selectmen need to define their relationship with the town administrator and establish goals and objectives that will advance the interests of the town.

To restore confidence not only in local government, but in the town itself, municipal and school officials must also acknowledge and collectively address the root causes of the flight from the Shirley schools. Clearly, the health and success of the school system and the town are intertwined and impacted in a dramatic and negative way by the choice of parents to send their children to public schools outside Shirley. The town should consider the need to invest in its schools and/or to reorganize or regionalize.

Finally, to accomplish the goals outlined in our recommendations will require a realization by town policy-makers and residents that, as in any community, ongoing revenues rarely, if ever, support level service budgets in a long-term scenario. Increases in school choice and charter assessments, energy costs, and health insurance typically exceed the growth in revenues, leading to a growing budgetary gap each year. The budget is always tight and residents' rejection of Proposition 2½ overrides has necessitated difficult

decision-making. Keeping pace will require creative thinking as well as an on-going effort to plan and manage in a way that balances what the town wants and needs with what its citizens are willing to pay for.

Shirley's current fiscal situation did not arise overnight and the MCI mitigation funds delayed the need for town leaders to confront its fiscal problems. Today, however, the mitigation funds are nearly gone, reserves are low, free cash is negative, and cash flow has been an issue. It is imperative that town leaders resolve their differences and work together to restore fiscal stability.

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Overall Financial Management

A review of the town's overall financial management practices focuses on the procedures in place to accomplish tasks that typically cross over various municipal departments, as well as those that tend to impact town government on a global basis. Accordingly, we examined the budget process and the payroll and vendor warrant processes. We looked at long-term planning, financial monitoring practices and financial policies, as well as the effect of the town's organizational structure on the operation of government. We examined the purchasing system and personnel administration. We considered the roles and relationships among individuals together with the level of communication and cooperation that exists among offices. Finally, we reviewed local compliance with state laws and regulations relating to finance issues, adherence to acceptable form, and to timetables for the submission of periodic reports to the State Department of Revenue (DOR).

This year, the annual budget process in Shirley deviated from past practice. Usually, town departments submit their budget requests to the town accountant in mid-February which are forwarded to the town administrator. The town administrator compiles a budget for the selectmen and finance committee to review. Each committee conducts independent hearings over the same period with department heads. Then, the selectmen typically submit the spring town meeting warrant, including the budget, to the finance committee for review. In a normal year, the finance committee budget recommendations are mailed to residents well in advance of town meeting.

However, this year the selectmen delayed their deliberations until after the May town election. The finance committee went ahead with the advance mailing of recommendations to town meeting members, but without the benefit of the selectmen's input. Furthermore, communication stopped. Without consulting the finance committee, the selectmen proposed their own amendments to the budget on the floor of town meeting. Town meeting went through the budget article item by item, requiring an unprecedented seven nights of town meeting. At the end of the process, the budget approved by town meeting was estimated to be \$740,000 out of balance because citizens were reluctant to vote for reduced services.

Immediately after the 2008 Annual Town Meeting, the selectmen appointed a Deficit Committee composed of two members each from the board of selectmen and the finance and school committees to try to resolve the estimated deficit in the FY2009 operating budget passed by town meeting in June. The Deficit Committee recommended three Proposition 2½ override questions to raise an additional \$739,545 for FY2009, one question to approve \$221,545 in school spending that was approved at town meeting

contingent on the override. The other two questions, for \$189,000 and \$329,000 respectively, were proposed as alternatives to cutting the budget approved at town meeting. Without the overrides, the town planned to reduce staffing by two police officers, two firefighter/EMTs and one DPW worker, and to reduce library hours from 36 hours a week to 25. All three questions were rejected by the voters at a special election on September 9, 2009.

After the defeat of the three overrides, the town moved forward with plans to reduce staff and library hours. In addition, the town is evaluating a list of 15 cost-saving items proposed by the town administrator, and already acted on a measure to close Town Hall offices on Fridays to save on energy costs, effective November 7, 2008. Still, selectmen decided to give voters one more opportunity to restore services and placed seven override questions on the ballot (\$327,809 in total). At the November 4, 2008 election voters approved three of the questions and rejected four as follows:

<u>Budget Item</u>	<u>Amount</u>	<u>Outcome</u>
Police Department	\$ 48,000	Passed
Fire Department	\$100,434	Failed
Department of Public Works	\$ 34,000	Failed
Curbside Trash/Recycling	\$ 98,500	Passed
Council on Aging	\$ 14,000	Failed
Library	\$ 17,000	Passed
Non-Union Longevity Pay	\$ 15,875	Failed
<i>Total, Passed Items</i>	<i>\$163,500</i>	
<i>Total, Failed Items</i>	<i>\$164,309</i>	

The selectmen also initiated action on the revenue side of the budget balancing equation. They appointed another committee composed of an assessor, the tax collector, the treasurer and principal assessor, the Tax Collection Committee, to address an estimated \$500,000 backlog in delinquent property taxes. The committee identified the amount of unpaid taxes, purchased new tax title financial software, and adopted an aggressive timetable to pursue the tax title process. The intensified efforts included 353 demand letters, 110 follow up letters to advise the town would advertise, 71 notices of takings were advertised, and 51 tax title liens were recorded. They hope to cut the backlog in half this fiscal year and have already collected \$200,000 for the town.

Also of concern is the lack of meaningful reserves and the negative free cash figure in FY2008. The town's stabilization fund balance is projected to be \$188,726 after an appropriation to maintain services in the FY2009 operating budget. The reserve

balance is a meager 1.4 percent of the projected operating budget, despite an adopted policy goal to target the fund at five to ten percent of the annual budget. The lack of reserves has not been a serious problem until recently because of the mitigation funds mentioned above. While the MCI mitigation funds have been segregated, the large cash balances masked the declining level of other town reserves. DOR certified free cash of negative \$57,291 for FY2008 as the result of a \$60,000 deficit in a withholding account for town retirees health insurance contributions. This deficit will continue to adversely affect the town's free cash position until it is resolved.

On balance, the finance related offices of the accountant, collector and treasurer are effective in the execution of most tasks required in the collection and deposit of receipts, and in producing vendor and payroll warrants for review and approval by the selectmen. The assessors are timely in delivering the commitments of taxes to the collector and, in general, a regular exchange of information between offices typically takes place. The single exception is the timeliness of reconciliations between the accountant and the collector.¹ All of the financial officers are relatively experienced: the accountant began in 2004; the treasurer in 1994; the collector in 1992; and, the principal assessor in 2002. Only the collector and the board of assessors are elected.

Staff collaborate and cooperate, as well, in the preparation of required submissions to DOR. The balance sheet (for free cash certification) is completed by the accountant, as is the town's Schedule A (a year-end report of financial activity). Finally, the accountant, assessors and town clerk collaborate on the preparation of the town's Tax Recap Sheet, which is the basis of DOR approval of the annual tax rate. DOR needs to approve Tax Recap submissions in December in order to generate the first actual quarterly tax bill on time; Shirley has consistently met this deadline.

Conclusion— There are relatively few department-specific recommendations in our report, which reflects our finding that finance-related managers and staff perform their respective duties in a professional and competent manner. Therefore, our most important recommendation is for the selectmen to define the role of the town administrator by establishing clear goals and objectives for the position. During the course of our review, we also noted the general lack of long-term planning. Absent are formal policies for multi-year revenue and expenditure forecasts, and reserve levels are low. As a result, the town is ill-prepared to deal with unanticipated revenue shortfalls, cuts in local aid or emergency needs.

¹ We address this issue in the Accountant and Collector sections of the report that follow.

Recommendation 1: Set Goals and Objectives for the Town Administrator

We recommend that the selectmen reach consensus on goals and objectives for the town administrator. We expect the town administrator to take a lead role in providing the type of financial coordination and analysis needed by town policy-makers to make informed decisions. For the town administrator to be effective, there needs to be a clear understanding of his role. We recommend that the selectmen and town administrator come to an understanding on long and short-term priorities, expectations, and realistic reporting or decision-making deadlines. Together they should establish goals and objectives that clearly define their relationship, as well as day-to-day responsibilities, and follow-up with a formal, annual performance review of the town administrator.

Among assigned responsibilities for the town administrator, the selectmen might consider the following:

- Coordinate financial operations and the activity of town departments under the jurisdiction of the board of selectmen.
- Continue to prepare the initial draft of the annual budget by working with department heads to insure that budget priorities are met, but also require that the budget be balanced.
- Review monthly financial reports and monitor the status of the budget throughout the year.
- Develop a multi-year revenue and expenditure forecast to assist the town in analyzing the affordability of current operations and proposed capital projects, to assess the impact of additional debt service, and evaluate other long-term obligations.
- Prepare financial and cost/benefit analyses to examine potential cost saving measures such as providing health insurance through the state's Group Insurance Commission or consider joining with other communities or districts in a joint or regional purchasing consortium.
- Develop for selectmen approval formal financial policies on target levels and allowable uses of reserves, parameters for the issuance of debt and funding guidelines for capital needs.
- Ensure that the town addresses the findings contained in its annual audit report.
- Develop uniform personnel policies and personnel file maintenance.

- Meet with the chairs of the board of selectmen and the finance committee in advance of meetings to set the agenda and determine what information is needed or expected.

We further recommend that the town codify the responsibilities of the town administrator and his financial management team in town bylaws. The adoption of a bylaw outlining the role of town administrator and the financial management team indicates a firm commitment to centralized management. Codifying their responsibilities ensures that these changes become a more lasting improvement to the town's governance, one that is likely to endure as elected and appointed officials change. For greater long-term stability, towns have included similar provisions in their charter. Shirley should consider doing the same at some future date when it also evaluates the appropriateness of adopting a town charter. Additional guidance on adopting a town charter is at: [City and Town Charters - Adoption, Revision and Amendments](#).

Recommendation 2: Work Towards Generating Positive Free Cash

We recommend that the town take the steps necessary to generate positive free cash. Negative free cash is a red flag to credit rating agencies and does not reflect well on those overseeing town finances. In Shirley, negative free cash was caused by three factors: the lack of conservatism in the estimation of local receipts, a withholding deficit for retiree health insurance benefits estimated to be \$60,000 or more, and the lack of a consistent effort to firmly collect taxes. It is our understanding that greater attention is now directed on multiple levels to decisions with the potential to impact free cash. To underscore the initiatives taken, and the importance of moving out of a negative free cash position, we recommend the following:

- To avoid the risk of revenue deficits, the annual estimate of local receipts should be conservative. Rather than link estimates to speculation on the future, as a matter of policy, estimate local receipts at less than 100 percent of the prior year's actual receipts.
- The town needs to address the so-called "withholding" deficit, the amount owed the town by employees and retirees for their share of the health insurance cost which the town pays in advance. It needs to make a commitment to fund the deficit amount or determine if any amounts are legitimately due from employees and retirees. Otherwise, free cash will continue to suffer. As an alternative to fully funding the deficit in one year, the town might adopt a plan to reduce it by smaller annual amounts over a three or five year period.

- The town needs to maintain the more vigorous efforts to pursue delinquent taxes and tax titles that began earlier this year with the formation of the Tax Collection Committee.

Recommendation 3: Adopt Policies to Build Reserves and Finance Capital Expenditures

We recommend that the selectmen formally adopt policies to build stabilization reserves and finance capital expenditures. The combination of competing spending priorities and limited revenue options make building reserves a challenging task. At the same time tension between operating budgets and capital budgets often lead to deferred maintenance in tight fiscal times. Shirley has been inattentive to its reserve position because it had a sizable balance of MCI-mitigation funds to fall back on in a pinch. Similarly, these funds have provided for the town's capital program for the last decade. However, the funds will be exhausted by commitments already made through FY2010. Now, the town will have to plan ahead to build its reserves and finance a capital program.

Policies to contribute additional revenues to reserves and to restrict spending of reserve funds should be formally adopted. Formal written policies that establish guidelines for funding and maintaining reserves can help a community sustain operations during difficult economic periods. Reserves can be used to finance unforeseen or emergency needs, to hold money for specific future purposes, or in limited instances, to serve as a revenue source for the annual budget. Reserve balances and policies can also positively impact a community's credit rating and as a consequence, its long-term cost to fund major projects.

A prudent reserve policy will:

- Establish target balances for the stabilization fund, annual free cash and other reserves in a total dollar amount or as a percentage of the total annual budget. The policy will develop a schedule of annual appropriations to stabilization, or limitations on use of free cash, designed to reach and sustain target balances gradually over time;
- Direct the use of all or a portion of free cash as a funding source for stabilization, or as an outlay for one-time capital projects. It will use revenue from a specific recurring income source (i.e., rental income) for similar purposes;
- If free cash must be used for operations, restrict its use as a general revenue source for the ensuing year's budget and to a maximum percentage of total free cash available;

- Restrict the use of unexpected, non-recurring revenue, or surplus revenue, to one-time costs, to tax levy relief, etc.;
- Restrict the use of the stabilization fund to non-recurring expenditures and only in an amount above a certain dollar threshold. It will set similar guidelines on use of free cash.

We recommend that the town establish a recurring funding source for capital improvements. In order to budget on a prospective basis, we recommend that the town adopt a permanent policy that identifies a consistent, annual funding source, or expenditure level, for capital improvements. Many communities base capital expenditures on a percentage of total projected general revenue (excluding free cash, stabilization, and other one-time income), while others dedicate a portion of free cash. Policies would set out which projects qualify for bonding by defining a capital item in terms of a threshold dollar amount and useful life; which might be accomplished through direct capital outlay; and, which qualify for a capital outlay expenditure exclusion under Proposition 2½.

Recommendation 4: Develop Multi-Year Revenue and Expenditure Forecasts

We recommend that the town administrator, in coordination with the financial management team and finance committee, develop revenue and expenditure forecasts for the next three-to-five fiscal years. Building revenue and expenditure assumptions helps community leaders to enhance fiscal stability through planning, and quantify the future financial commitment required for current policy decisions. Forecasting reveals trends in income and spending, and enables a community to build capital and infrastructure improvements into a financial plan. More importantly in the case of Shirley, a rigorous, well designed forecast can be a useful tool for educating residents on the town's fiscal position and demonstrating some level of fiscal competence to the citizens.

DLS offers a free forecasting tool that can be downloaded off the Internet at the "Financial Management Assistance" page at www.mass.gov/dls. The tool draws the town's historical data from DOR databases and presents it in an organized way. It then offers a structured method for developing a multi-year forecast. Such a tool would help the town administrator, selectmen and finance committee to analyze the impact of different fiscal scenarios such as changes in local aid, the impact of additional debt service, or the passage of a Proposition 2 ½ override.

Recommendation 5: Modify the Budget Process

We recommend that the town modify its budget process. The process for adopting the FY2009 operating budget was delayed and divisive. In order to avoid repeating the mistakes of last spring in the future, we recommend the following:

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 projections are developed by the town administrator. We expect that to arrive at estimates, he would work with the accountant and 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 projections and projections of fixed costs (e.g., health care coverage, pension obligations, debt service, etc.) to a joint meeting of the selectmen, finance committee and school committee. To facilitate long-term thinking, a multi-year forecast should be produced. A consensus accepting the projections should be recorded and a decision should be made on a division of revenue between the town and the school department. 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, if any, the town administrator should communicate and confirm to the selectmen, finance committee and school committee the previous consensus on the allocation of the additional revenue.

Lineal Process - Once department requests are received, a lineal 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, his 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.

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, the finance committee and 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, he should inform the selectmen and finance committee chair.

Recommendation 6: Fully Utilize All Available Means to Collect Property Taxes

We recommend that the town utilize an interdepartmental approach to collect delinquent property taxes. In addition to the tax taking process, there are other alternatives² to compel delinquent property owners to pay real estate taxes owed without resorting to the long, more costly process of foreclosure. Increasingly effective are those actions that impose an immediate and direct impact on the delinquent taxpayer, require a straightforward administrative process and apply without restriction. Most notably, with local acceptance of c. 40, §57, a municipality has the authority to deny, revoke or suspend any local license or permit to any person delinquent in the payment of taxes, fees, assessments, betterments, etc. Typically, a system is set up where, each year, the collector, treasurer and other offices where payments are received, circulate a list of delinquents. The action to deny, revoke or suspend is carried out by the license or permit granting department.

While these other alternatives exist, the best way to collect delinquent property taxes is to regularly issue demands, promptly advertise, and follow through on tax takings each year.

Recommendation 7: Formulate Other Post-Employment Benefits Liability Policy

We recommend the town formulate a policy in response to the Other Post-Employment Benefits (OPEB) liability. The OPEB unfunded liability is the cost assigned to benefits other than pensions already earned by public employees and to be

² These other alternatives include: Civil Suit (MGL c. 60, §35), Bulk Assignment (Sale) of Tax Receivables and Liens (MGL c. 60, §2C), Assignment of Tax Titles (MGL c. 60, §52), Collector's Sale (MGL c. 60, §40-50, inclusive), Deeds in Lieu of Foreclosure (MGL c. 60, §77C), Land of Low Value (MGL c. 60, §79 and §80), Owners Unknown (MGL c. 59, §11), Payment Agreements (MGL c. 60, §22), Accelerated Abatement Process (MGL c. 58, §8).

distributed upon retirement. Post-employment benefits other than pensions generally take the form of health insurance and dental, vision, prescription, or other healthcare benefits provided to eligible retirees, including in some cases their beneficiaries. They may also include some type of life insurance. As a group, these are referred to as Other Post-Employment Benefits, or OPEB.

While there is no requirement to fund the OPEB liability thus far, the Governmental Accounting Standards Board (GASB) Statement 45 requires that the dollar value of the unfunded OPEB liability be determined every three years for governments with fewer than 200 participants. After it completes its evaluation, which is required as of June 30, 2010 under GASB 45, the town should define an OPEB policy. It may be as simple as confirming that costs will be covered on a “pay-as-you-go” basis, working toward the establishment of a reserve through special legislation, or a combination of the two.

For additional information regarding OPEB, and steps to reduce the size of the liability, see resources available on the Department of Revenue, [Division of Local Services website](#). In addition, the Government Finance Officers Association (GFOA) has published a request for proposal checklist for OPEB actuarial valuations, see [OPEB RFP checklist](#) for details.

Recommendation 8: Appoint the Collector

We recommend that the town convert the collector to an appointed position. The collector is one of those positions in municipal government, like the treasurer and accountant, requiring a specific skill-set and, therefore, should be appointed rather than elected. The move toward appointed positions reflects a clear trend among Massachusetts’ communities. By requiring potential office holders to go through a background check and an extensive interview process, the town can attract a person with the strongest credentials and most relevant professional experience. As an appointed position in town hall, the collector would be placed on equal footing with other finance officers and department managers who have similar level responsibilities.

This recommendation is not meant as a reflection on the performance of the current collector but is a step for the town to consider for the future.

Recommendation 9: Combine the Treasurer and Collector

We recommend that the town combine the offices of treasurer and collector long term. The town also has the option through a special act, or a charter provision, to

combine the offices of treasurer and collector. Because of the parallels in the responsibilities of each of these offices, many communities find that having the duties combined in one office generates long-term cost savings in terms of personnel and cash management. Having receipts collected, counted, posted, deposited and managed in the same office makes organizational sense. The town may consider combining these offices if it chooses to make the collector an appointed position.

Recommendation 10: Commission a Salary Survey for Town Employees

We recommend that the town perform a salary survey for all town employees. Salaries within town hall seem to vary for positions with comparable levels of responsibility. The principal assessor, in particular, is paid considerably less than the accountant, collector and treasurer despite saving the town considerable amounts in consulting costs. The selectmen, through the town administrator, should perform a salary survey to determine whether personnel are earning commensurate salaries with equals in town hall, as well as with those throughout the region. Equity within town hall will improve morale and competitive salaries within the region will help the town to retain its capable professionals.

Recommendation 11: Establish Secure Locations for all Monies

We recommend that the town administrator establish security procedures for departments that take in money. It is common that various municipal departments take-in money over the counter or by mail as payment of fees or in exchange for services. Most departments generally turnover receipts on a regular basis, however, for those that do not and because other departments can hold money for days at a time, the town should establish security measures for retaining funds over time. At a minimum, a policy should require that departments store funds in a locked box which should be placed in a secure location overnight, such as a locked desk draw, file cabinet, safe or vault. While we always encourage the transfer of town receipts between responsible individuals, a safe, lockbox, or cash register offers a secure alternative. In addition the town administrator should ensure that any town employee receiving money is bonded.

Computers and Technology

Computers and technology play vital roles in contemporary municipal government. On the revenue side, computers are used by the assessor to adjust and maintain property values and generate the property tax and motor vehicle excise commitments; the collector takes the assessor's commitments electronically to generate the tax bills, and then to post receipts and manage receivables; the treasurer records the turnovers of town monies to his department to track the town's cash position. On the expenditure side, employees' time and data from vendor invoices is entered into the computer system so that the accountant can generate the payroll and vendor warrants for the selectmen's approval; the treasurer signs the computer-generated checks and tracks the disbursements in his electronic cash book. Cash balances and receivables are all reconciled on electronically generated reports. Debt schedules, monthly revenue and expenditure reports, annual budgets, and balance sheets are all maintained in electronic files. Email is used regularly to communicate and to provide internal access to information. Electronic transactions between governments and banking institutions have also become the norm. Town websites can be a valuable source of information to residents and help to reduce foot traffic in town hall.

In Shirley, the town's technology needs are the responsibility of the full-time school technology coordinator. Under an agreement with the schools, she spends every Thursday in Town Hall. The town also pays a portion of the salary for her assistant in the school department who staffs the help desk for town employees. The coordinator maintains an inventory of equipment as well as a maintenance schedule and replacement program. She is responsible for a separate technology line-item from which all contracted services, equipment and supplies are centrally purchased, including telephone services.

The coordinator meets monthly with a network consultant and a technology advisory committee of three citizen volunteers who are employed in technology industries. The committee developed written employee policies on accepted use of the internet and email which users, including students, are required to acknowledge by their signature. Two of the members also volunteered their time pulling cables to install the fiber network to link all town and school offices.

All the computers in the finance-related town offices are networked and have email capacity and internet access. Operating systems include a variety of Windows versions and Microsoft office products. Otherwise, the accountant and the treasurer use UniFund BudgetSense software and rely heavily on Excel spreadsheets. The collector uses VADAR software and the assessor's office uses the Patriot Properties software. The town's

conservation commission has a 10 year-old GIS system, but the technology coordinator has recommended an upgrade and sharing it with other town departments. All of the town's datasets are backed up regularly to tape and stored in a fire-proof safe in Town Hall.

In Shirley, telephones are a part of the technology budget. On the advice of a technology consultant, the town replaced its telephone system at a cost of \$80,000 in June, 2003. The new system reduced the number of telephone lines into town from 88 to 29 and, at a savings of \$25 per line per month, the new system has more than paid for itself.

The town web site is designed and maintained by an outside contractor, Broken Eggs Media. The website is well designed and has place holders for many items we typically recommend for town sites, but, aside from the clerk's, collector's and assessors' pages, the content tends to be spotty. Contact information for town offices is available as are meeting dates, but meeting agendas and many town reports and forms are missing.

Conclusion – Shirley is diligent and comprehensive in addressing its computer and information technology needs. They are fortunate to have a qualified professional managing their technology plan. An IT assessment, a replacement plan, a separate line-item for technology including software and hardware, and training, policies on backups, internet and email use by employees are all things we typically recommend. Therefore, our recommendations are few.

Recommendation 12: Enhance Information Availability on the Town's Website

We recommend that the town make more information and material available through its Internet website. An up-to-date, comprehensive website would help bolster public awareness of issues and confidence in municipal government. Other communities are finding that user-friendly and informative websites are successful in reducing the amount of time that staff spend fielding questions in person or on the phone. A reciprocal time-savings is also experienced by residents and taxpayers. The town currently has a web site, <http://www.shirley-ma.gov/>, but it could provide more content.

Information not currently on the town's website that would serve as an improvement includes:

- Town meeting minutes
- All board and committee meeting dates, agendas and minutes
- Proposed/approved budget data; audited financial statements
- Links to the town by-laws
- Links to commonly requested forms

Doing business online rather than in person or by mail benefits citizens and town officials alike. With a well-designed web site, many time-intensive tasks such as researching deeds, filling out permit applications and paying multiple bills can be handled by citizens themselves. Then municipal officials can focus on other work and citizens can have their needs met at their convenience, rather than adapting to the town's schedule.

Recommendation 13: Expand GIS Use

We recommend that the town expand the use of its Geographical Information System (GIS). Currently, the town's GIS data base is only available to the conservation commission. However, at full utilization, a GIS system typically incorporates overlay information of value to the assessors, the water and sewer operations, the highway department and any other town office that works with real property, infrastructure or natural characteristics of the town. Therefore, unless internet viewing of the information is problematic, we recommend the town explore expanding its utilization of GIS. One course of action is to meet with counterparts in other communities to learn of potential applications.

Treasurer

The treasurer is a community's cash manager and, as such, has custody of all municipal money. Included is the responsibility to make certain that town receipts are deposited into appropriate bank accounts and to monitor balances to ensure that sufficient funds are available to cover town obligations as they become due. The treasurer invests town funds and manages debt to maximize investment income and meet cash flow needs. To fulfill these responsibilities, the treasurer maintains a cashbook, debt schedule, check registers, and various logs to track balances for grants, trusts and revolving funds as well as other special revenue funds. As a financial control, the treasurer is obligated to reconcile cash balances and debt, internally, and then with the accountant on a regular basis. Finally, the treasurer maintains tax title accounts, conducts sales of land and prepares documents to petition for foreclosure. In Shirley, the treasurer's office is also responsible for payroll and benefits administration.

The Shirley treasurer was first appointed in 1994. A staff of one is a full-time assistant treasurer whose main responsibility is payroll and benefits administration for all town employees in the absence of a town human resources department. She has been on the job eight years.

The treasurer maintains his cash book and debt schedules on Excel spreadsheets. The cash book tracks the cash position in the town's nearly 40 checking and investment accounts. It records turnovers from the collector and other departments, and disbursements through vendor and payroll warrants. The treasurer reconciles his cash book, internally against bank statements and externally against the accountant's general ledger, on a monthly basis. The assistant treasurer enters the detail from employee time sheets submitted by departments into UniFund Budget Sense software to generate the payroll warrant and payroll checks; the software also keeps records of employee's accumulated sick and vacation time. School employees are paid by direct deposit bi-weekly, but town employees are paid weekly. Most have direct deposit, but it is not required.

The treasurer invests the town funds according to a cogent set of investment guidelines designed to balance the investment goals of safety of principal, liquidity and yield while meeting all legal requirements, including federal arbitrage rules. In addition, he provides a schedule of town debt to the capital planning committee.

Cash flow has recently become an issue in Shirley. Payroll warrants have been paid on time, but some vendor checks have been held for several weeks in anticipation of the town's local aid payment, and to avoid temporary borrowing. The treasurer maintains

a detailed monthly record of receipts and disbursements covering the last 12 years, but it is not incorporated into a cash flow budget.

Conclusion — The most serious concerns in the Shirley treasurer's office are the backlog of tax titles and his holding of vendor checks because of the recent cash flow problem. By his own admission, tax takings had not been a high priority until early this spring when selectmen appointed the Tax Collection Committee. It was also reported to us that past budgets did not include an appropriation for the costs associated with tax takings. Now, the collection of delinquent taxes is a greater priority and the collector and treasurer are getting the support necessary to reduce the inventory of tax receivables. In part, the cash flow problem is the result of the diminution of the MCI-related funds discussed earlier in this report. However, fund balances are low and free cash was negative. In addition, cash was further squeezed because the treasurer prepaid the entire year's retirement contribution for current employees in order to receive a two percent discount on the payment. Still, it is important that the town's creditors are paid in a timely fashion to avoid late payment penalties and foster good vendor relations. Many cities and towns issue temporary notes in anticipation of taxes or other revenue, but this option is not open to the Shirley treasurer because town meeting did not appropriate for the associated borrowing costs. Therefore, our primary recommendation for the treasurer's office is to develop a cash flow budget.

Recommendation 14: Create a Monthly Cash Flow Budget

We recommend that the treasurer create a monthly cash flow budget. It is the responsibility of the treasurer to manage the town's cash and ensure that account balances are sufficient to cover town obligations as they arise. In this regard, a cash flow budget is a useful tool that can help anticipate periods of low cash balances and better manage short-term investment and borrowing.

A simple spreadsheet can be devised in Microsoft Excel to serve as a cash flow budget. By applying past patterns of monthly spending and collections (as evidenced by warrants and monthly revenue reports) to current year appropriations, and overlaying projected debt service obligations, a reasonable forecast of the town's cash flow will emerge. Through the course of the year, the cash flow forecast can be adjusted for unexpected circumstances, and actual monthly costs and revenues should replace estimates. This should be a relatively simple exercise for the treasurer since he already maintains all of the historical revenue data in excel spreadsheets.

Recommendation 15: Implement Direct Deposit for All Employees

We recommend the town implement direct deposit for all employees on the payroll. Governments, companies, and organizations nationwide have found that direct deposit benefits both the employer and employee. In Shirley, most of the town workforce is already enrolled. Additional employees can voluntarily enroll in direct deposit, but to impose it universally would require collective bargaining.

Direct deposit eliminates the cost of expensive check stock necessary to print paychecks. Instead, the town would only need to print and distribute, or make available via a secure website, statements to mirror the pay stubs that employees currently receive. Moreover, staff will no longer need to devote hours dealing with lost and uncashed checks. Employees will benefit from immediate access to their pay as it will be credited automatically to their accounts before the town offices and the bank even open. Furthermore, many banks offer incentives to individuals who enroll in direct deposit.

Recommendation 16: Turnover Receipts Frequently

We recommend that town departments turn over receipts to the treasurer at least once every week. It is our understanding that most town departments that handle money turn over their receipts to the treasurer on a monthly basis. We encourage the treasurer to adopt a policy requiring departments to turn over their receipts at least weekly, and more frequently if certain thresholds are reached. This will both improve the town's cash flow and increase the security of town funds.

Recommendation 17: Cleanup Withholding Account Deficits

We recommend that the treasurer research and resolve the deficit in the health insurance withholding account. The town makes payments for health insurance to its insurance carrier, MIIA, at the beginning of the fiscal year. The current employee's share is financed by a withholding account and deducted from employees' gross pay. However, the portion owed by retiree's and their spouses is not withheld because they no longer receive any direct payments from the town. It is our understanding that the amount owed the town is \$60,000 to \$80,000, and that as much as \$20,000 is owed by the spouse of a single retiree. The treasurer should take steps to collect these receivables, or write them off if uncollectible. The town's free cash will continue to be adversely affected until this deficit is resolved.

Recommendation 18: Reduce the Number of Bank Accounts

We recommend that the treasurer consolidate and reduce the number of town bank accounts. The Shirley treasurer maintains almost 40 bank accounts for the town. Many are small and dedicated for a single budget line-item or grant program. While some federal and state grant programs may require the town to maintain a separate account, most do not. In addition, many of these smaller single purpose accounts are not very active and should be consolidated. One reason for maintaining separate accounts is to correctly apply any interest earned. However, many banks today offer accounts with sub-accounts that will appropriately apply the interest. We support the treasurer's plan to consolidate his accounts when a local bank begins to offer this sub-account option.

Collector

The Shirley collector is elected and has served the town since May, 1992. Prior to her election she served in the assessors' office. As a town collector, she possesses the authority to collect real and personal property taxes, excises, betterments as well as other charges and payments due the town. She has attended the Massachusetts Collector and Treasurer's Association's (MCTA) collector's school but has yet to receive her certification. A 23-hour part-time assistant collector, formerly fulltime, has served in the office since 1985.

The collector's office prints and issues approximately 2,600 real estate tax bills and 66 personal property tax bills twice a year, sending two bills at a time. Some 1,000 sewer betterments are also committed to the real estate bills. In addition, the collector receives the commitment of sewer charges from the sewer commissioners and collects 1,000 sewer bills quarterly. The collector uses the senior work off program to assist in stuffing and mailing the bills. A deputy collector receives the motor vehicle excise information directly from the Registry of Motor Vehicles, presents the commitment to the assessors for review and approval, then issues about 6,700 motor vehicle excise tax bills annually.

Collections are counted and posted to taxpayer accounts as received, and deposited to a treasurer's bank account daily. Close to half of all real estate collections are received from bank escrow services, roughly 40 percent are through the mail and 10 percent are from walk-ins. The office also accepts on-line payments but there is little volume as yet. The mail payments used to be processed by a lock box, but the collector concluded that it was too costly to continue and the mail is now processed in-house. A turnover sheet detailing all the deposits to the treasurer's account is provided to the treasurer and the accountant monthly.

The collector maintains a receivable control that is reconciled with the accountant's general ledger every quarter. A common goal is to move to monthly reconciliations in the current fiscal year. In accordance with state law, the office responds to requests for municipal lien certificates (MLCs) promptly. The MLC process is time-consuming because sewer balances must be entered manually as the collector's software (VADAR) and the sewer department's software (Jayhawk) are not integrated.

There is a new calendar of procedures for pursuing delinquent accounts developed by the Tax Collection Committee recently appointed by the selectmen. Until this committee was formed, the pursuit of delinquent taxpayers had been lax. The collector sent demand letters for all FY2008 delinquencies on June 10. Follow-up letters were sent to those taxpayers still delinquent on August 26 advising them that the town would

exercise its right to take their properties. The letter advised taxpayers that the town would advertise the takings on September 16 and take the properties on October 3. The new procedure has worked and encouraged all but 51 of the 353 delinquent taxpayers notified in June to either pay their liability in full or enter a payment agreement.

Conclusion—The pursuit of delinquent taxpayers is now more timely and productive with the active participation of the new Tax Collection Committee. Still, to further improve on the progress already made in fulfilling all the duties of her office, we recommend that the collector reconcile receivables with the accountant on a monthly basis in order to maintain proper control and to ensure that checks and balances are in place. We also believe the collector could enhance the standing of her office by completing the coursework to become a MCTA-certified town collector.

Recommendation 19: Reconcile Receivables on a Monthly Basis

We recommend that the collector and the accountant reconcile receivables each month. The collector should reconcile internal records of outstanding receivables on a regular monthly basis. This process requires verification that entries in the receivables control are supported by source documents. Once completed, the collector's receivable control balances of outstanding amounts due should be reconciled externally to the accountant's general ledger balances to ensure that records of the two offices match. This is an important check and balance, as well as a fiduciary obligation. Although acceptable to complete on a quarterly basis, we suggest that reconciliations occur, internally and externally, on a monthly basis with the accountant. It is more prudent and variances are easier to identify and correct. We recognize that this was raised by the town's outside auditor and that it is a goal of the collector and accountant for the coming year, but we want to reiterate the importance of timely reconciliations for sound financial management.

Recommendation 20: Attend Professional Classes

We recommend that the collector pursue certification as a municipal collector from the Massachusetts Collectors and Treasurers Association (MCTA). Attending formal collector's track training will provide useful information and opportunities to learn about alternative professional practices conducted in other Massachusetts municipalities. While the Shirley collector has attended classes in the past and has been in office many years she would still benefit from the MCTA courses and contact with her peers from other communities. Gaining certification as a municipal collector will improve her professional standing, benefit town operations and enhance public confidence in town government.

Accountant

The accountant has a legal obligation to oversee all financial activity of a municipality. Through the maintenance of independent records and by following well-defined procedures, the office documents the flow of money into and out of municipal accounts and plays a role in the system of checks and balances established by statute to monitor and protect local assets. To fulfill this responsibility, the office prepares warrants; maintains a general ledger where receipts, expenditures and all other town financial activity are recorded; and, reconciles cash, debt and receivables with the treasurer and collector regularly. She produces monthly expenditure reports and reports annually on the town's liability for accrued sick leave and vacation time. The accountant also tracks revenue, is required to maintain a detailed record of the town debt, and provides support to town departments during the annual budget process. Among required submissions to DOR, the accountant is responsible for producing the town's annual Schedule A by October 31 and its year-end Balance Sheet (for free cash certification). Finally, the accountant works with the assessor and town clerk in the preparation of the town's Tax Recap Sheet.

The Shirley town accountant is appointed by the selectmen and reports to the town administrator. She has been employed by the town as accountant since 2004, and had no previous municipal experience. She is assisted by a full-time assistant who has been in the office nine years. In terms of fulfilling her primary duties, the accountant's office functions well. The assistant enters data from invoices for the town's departments so that vendor warrants can be prepared for the selectmen's weekly approval. She maintains detailed records to track sick and vacation time by employee for a required end-of-year report.

By town by-law, the accountant is a non-voting member of the finance committee and assists them in budget deliberations and the development of a capital spending plan. She also provides a revenue estimate for budget purposes, but it is only a single year estimate, not a multi-year forecast as we have recommended above.³ In fact, she does not produce monthly revenue reports to the other financial officers. Monthly reports are an important financial tool and should be generated even though they may not be 100 percent accurate because reconciliations with the collector are not up to date.

In addition to her accounting duties, she is also taking the lead role in developing detailed procedure manuals to document internal control procedures relating to cash and banking, accounts receivable, and purchasing in response to the management letter of the town's fiscal year 2007 financial audit. Her goal is to have these policies approved and in place by December 31, 2008.

³ See Recommendation 4 on page 12.

Conclusion—The accounting function is competently performed by the accountant as fundamental responsibilities relative to the general ledger, the payroll and vendor warrant process, as well as reporting requirements are fulfilled. The only deficiencies we note are the lack of timely reconciliation with the collector and absence of monthly revenue reports to the financial team and the selectmen.

Recommendation 21: Schedule and Complete Reconciliations of Receivables

We strongly recommend that the accountant schedule and complete monthly reconciliations of receivables. The failure to reconcile receivables with the collector has made the accountant reluctant to generate monthly revenue reports, an important financial management tool. Although a shared responsibility with the collector, the initiative to reconcile the town's receivables should originate with the accountant.

Individual, internal reconciliations by the collector do not satisfy DOR requirements unless and until they are measured against the accountant's general ledger and adjusted for variances, if necessary. Toward this end, the accountant should speak with the collector, as soon as practical, to agree on a specific day each month when they will meet to complete reconciliations. Each should complete an internal reconciliation in advance of the monthly meetings.

Recommendation 22: Prepare Monthly Revenue Reports

We recommend that the accountant's office prepare monthly revenue reports. While the information is not legally required, it can provide useful management information for the town's policymakers. These reports provide essential information to monitor the financial performance of the town, to analyze the underlying causes of any shortfalls, excesses and one-time receipts, and to make necessary mid-course budget adjustments.

Assessors

The assessors' office is responsible for valuing all the town's real and personal property, assigning tax payments to owners, and generating the commitments authorizing the collector to collect real estate tax, personal property tax and motor vehicle excise payments. In Shirley there is a three-member elected board of assessors with staggered three-year terms. They appoint the principal assessor who makes recommendations to the board on property values, new growth and the overlay, as well as performing all the administrative and clerical functions of the assessing office.

To ensure that residents are taxed equitably and accurately, an assessing office maintains and updates property records with information received in response to mailings, from deeds and through the on-site inspection of sale properties and properties where a building permit has been issued. Additional information is gathered during an on-going property measure and list program. Upon resident application, assessors act on and track exemptions and abatements. They estimate new growth and conduct classification hearings. The assessors recommend the annual overlay and provide levy information for use in the Tax Recap Sheet submitted to DOR for setting the tax rate. The office is required by DOR to document an annual property value adjustment analysis and to prepare for state certification of property values every three years.

The volume of work in the Shirley assessing department involves approximately 2,400 residential real estate parcels, 90 commercial/industrial parcels, 55 parcels of mixed use and 62 parcels in agricultural, forestry or recreational use. There are an additional 66 personal property accounts. All are billed on a quarterly basis. Over the course of one year, motor vehicle commitments total about 6,700 accounts. All real estate parcels will be re-inspected by 2010 as part of a cyclical re-inspection program and the principal assessor accompanies the building inspector on final inspections. Also in fiscal 2008, the office issued 101 personal exemptions and the assessors approved 22 of 35 abatement applications. In addition, the office is responsible for apportioning the sewer betterments, adding the amount due to the tax bill and providing the payoff amounts for 1,000 sewer accounts.

Most office functions are now performed in-house by the principal assessor with minimal assistance from a 7-hour per week clerk. Included are residential property inspections as part of a cyclical re-inspection program, building permit inspections and inspections of sales properties. Commercial/industrial/personal property inspections and valuations are performed by an outside contractor, Patriot Properties. The office used to contract out for a cyclical inspection program, new growth calculations, and valuation analyses, but, except for the commercial, industrial and personal properties, brought these

functions in-house at a significant savings to the town. The assessors estimate that they will save the town from \$19,000-\$29,000 a year in consulting costs over each of the next five years.

The assessing office has made good use of technology in an effort to reduce foot traffic in town hall and improve efficiencies. The assessors' website is very complete with explainers in the form of FAQs for real estate taxes and valuations, the motor vehicle excise, and sewer betterments. There are links to commonly requested forms such as abatement and exemption applications, and the senior deferral program. Property values are available online and maintained in a Patriot Properties database. Patriot Properties also provides the appraisal software for the assessing office computers to store property data and aid in property valuation analyses. The assessors are very satisfied with the quality of the consulting services and the performance of the software.

Conclusion – Overall, the assessing office performs well. The town is fortunate to have experienced and knowledgeable staff in its assessing office who are capable of performing most of the assessing work in-house at a significant cost savings. Our only recommendation is to adopt a formal process for setting the overlay, to ensure the overlay reserve has sufficient funds to offset any uncollected taxes and losses resulting from cases at the Appellate Tax Board (ATB).

Recommendation 23: Formalize the Overlay Setting Policy

We recommend that the assessors formally develop a process for projecting the annual overlay. The annual overlay, as it appears on the annual Tax Recap Sheet, is intended to cover anticipated abatements and exemptions and uncollected taxes in the upcoming fiscal year. Toward this end, the annual overlay projection should not be arbitrary or fluid. Nor is it a number that is influenced by projected revenues or town-wide expenditures in any given year. Remaining overlay at year end should be held in a reserve sufficient enough to offset receivables as well as the town's financial exposure associated with cases pending before the State Appellate Tax Board (ATB).

It is the sole responsibility of the board of assessors, working with the principal assessor, to arrive at the annual overlay estimate. The assessors should develop the annual overlay estimate based on the abatement and exemption history of the town and the town's collection rate. The overlay reserve for any year should at least equal taxes and excises still outstanding and the potential liability of cases pending before the ATB. Amounts beyond these calculations can be certified by the board as overlay surplus.

In particular, we recommend that the Shirley assessors adjust the overlay balance to mitigate any potential liability associated with two recent ATB telecommunication

decisions involving Verizon and MCI until the appeal process is complete. DOR requires that cities and towns place and retain sufficient amounts in their overlay accounts dating back to FY2004 to cover the new tax revenue they have already collected as a reserve against any abatements or refunds that will result if these ATB decisions are not upheld. In order to assist city and town assessors to make adequate provisions, BLA has provided information on these telecommunication issues and valuation data specific to each community on the “Local Assessment” section at www.mass.gov/dls.

Acknowledgements

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Armand Deveau, Clerk, Board of Selectman

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