



Town of South Hadley

Financial Management Review

Division of Local Services / Technical Assistance Section

January 2011



January 28, 2010

Selectboard
Town of South Hadley
Town Hall
116 Main Street, Room 109
South Hadley, MA 01075

Dear Board Members:

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

As a routine practice, we will post the completed report on-line at the DLS website within a week or two. Also, we will forward a copy of the report to the town's state senator and representative.

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

Sincerely,

A handwritten signature in black ink that reads "Robert G. Nunes". The signature is written in a cursive, flowing style.

Robert G. Nunes
Deputy Commissioner &
Director of Municipal Affairs

cc: State Senator Stanley C. Rosenberg
State Representative John W. Scibak

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Overview

At the request of the selectboard, the Department of Revenue's Division of Local Services (DLS) completed this financial management review for the Town of South Hadley. The scope of our assessment involved a review of South Hadley's government structure in the context of the duties and responsibilities of finance officers; the degree of coordination and communication that exists between and among the various boards, committees and officials involved in financial management; the budget, capital planning, and warrant processes; and, the general efficiency and effectiveness of financial operations and department administration. Our report offers a series of recommendations to enhance the town's overall financial management activities, as well as recommendations specific to the offices of accountant, clerk/treasurer, collector, assessor and technology.

The recommendations contained within this report are based on site visits by a team from DLS' Technical Assistance Section in consultation with the Bureau of Accounts and Bureau of Local Assessment. During our visits and by telephone, we interviewed and received information from members of the selectboard, town administrator, accountant, collector, clerk/treasurer, associate assessor, school business manager, as well as the chairs of the appropriations committee and capital planning committees. We examined such documents as the Tax Recapitulation Sheet, Schedule A, annual town budget workbooks, trial balance reports, debt schedules, vendor and payroll warrants, and sample department turnover reports. We also reviewed the town charter and bylaws, job descriptions, as well as the independent bond rating report by Moody's Investor Services, and the outside audit reports completed by Scanlon & Associates for the fiscal years 2007, 2008 and 2009.

Established in 1753, the Town of South Hadley (estimated population of 17,387) is a residential community located in Hampshire County along the eastern bank of the Connecticut River and the southern slope of the Mount Holyoke Range in the heart of the Pioneer Valley. South Hadley is bordered by the cities of Holyoke to the east, Chicopee to the south, and the towns of Granby to the west and Hadley and Amherst to the north. The town is 14 miles north of Springfield and 90 miles west of Boston, and is easily accessed via Interstate I-91 and I-90. The town is home to Mount Holyoke College with a student enrollment of approximately 2,200. As a relative indicator of wealth, South Hadley's estimated per capita income among residents in 2007 of \$26,040 was 27.3 percent below the state average of \$35,852, while the 2008 Equalized Valuation (EQV) per capita of \$94,902 was 42.8 percent below the state average of \$165,919. In FY2010, the average single-family home value of \$232,576 was 37.8 percent below the state average of \$373,702. In Appendix I, Chart I, we include a comparison of South Hadley to other peer communities selected on the basis of population, budget and EQV.

The Town of South Hadley's government structure can be characterized as "horizontal" with administrative activities under the authority of a mix of elected and appointed officials. As provided for in the town charter and bylaws, a representative town meeting comprised of 120 members acts as the legislative body, while a five-member selectboard functions as the chief executive body. An elected moderator appoints a nine-member appropriations committee that advises town meeting on financial matters. Serving at the direction of the selectboard, a full-time town administrator handles day-to-day

management activities. The selectboard also appoints the accountant. The clerk/treasurer and collector are separately elected positions, as are the three members of the board of assessors who appoint the associate assessor. Other elected boards with separately appointed staff include the board of health, planning board, municipal light board and housing authority. A copy of the town's organizational chart is available in the Appendix II.

As reported to DOR on the Tax Recap sheet, South Hadley's total budget in FY2011 is \$42,340,703. Of that amount, approximately 50 percent is funded through the tax levy, 30 percent is funded by state aid, 17 percent by local receipts and 3 percent from other sources. Education accounts for 45 percent of the total budget or \$19,139,853. A combination of public works, public safety, general government, debt and other fixed costs make up the remaining operating budget. Among other available funds, certified free cash was equal to 3.86 percent of total budget or \$1,604,391 and another \$1,657,551 or 3.93 percent of total budget was in a stabilization fund with another .48 percent or \$205,771 in a capital stabilization fund. For the ensuing fiscal year, departments have been asked to submit level funded budget requests and to anticipate a five percent reduction.

South Hadley's Aa2 bond rating reaffirmed by Moody's illustrates the town's long-term stability, conservative financial management practices and manageable debt burden. It should be noted that since 1982 South Hadley has never passed a general operating override or a capital exclusion, and adopted only one debt exclusion, which dates back to 1998. In Appendix III, we provide data on South Hadley's finances and historical trends.

Like many cities and towns across the Commonwealth, South Hadley continues to struggle through the current recession. As illustrated in Appendix III, Chart I, municipal revenue sources remain flat or are in decline, while operating costs, particularly health insurance, continue to climb. Between FY2009 and FY2010 alone, South Hadley experienced a reduction in available funds of \$1,086,208. Despite the statewide economy showing signs of life, South Hadley faces a long road to recovery as local officials anticipate additional reductions in state aid next fiscal year. The current fiscal climate will continue to strain the town's financial flexibility and limit the resources available to operate government. Ultimately, South Hadley will be measured by the ability of local officials to think creatively and work as a team to balance the budget.

While the challenges associated with the current economic climate will continue to confront local officials, it is our sense that there is a renewed spirit of optimism brought about by the presence of the new town administrator. Hired last January, the town administrator has been a stabilizing force after a series of town administrators and interim town administrators provided inconsistent leadership. In addition, the selectboard recently held a series of strategic planning sessions facilitated by an outside consultant to establish goals and objectives for the town. Those planning sessions, which centered on topics of economic development, governance and financial planning, are expected to translate into a series of objectives for the town administrator and local officials to collectively pursue.

Conclusion – In a comparison to other communities across the state, South Hadley's conservative approach has resulted in higher reserve levels, a solid bond rating, and positive audits.

However, opportunities to enhance financial operations remain. Addressing the current government structure is one. While there have been two failed attempts to adopt a mayor/council form

of government in the recent past, we feel South Hadley could benefit from a model that introduces more direct accountability to the town administrator. As such, we encourage officials to reevaluate the town's current government structure with a particular eye toward establishing a strong town administrator position with authority to appoint and evaluate department heads, converting from elected to appointed positions and updating the town's bylaws. This is especially important given the selectboard's agenda to expand economic development and initiate long-term planning efforts.

Other recommendations outlined in the report are designed to be pragmatic and should work hand-in-hand with the goals and objectives established by the selectboard. We recommend that local officials develop financial guidelines, build a long-term financial forecast and a comprehensive five-year capital plan. Still more recommendations encourage the town to revisit the pay-for-performance program that has been a long-standing point of frustration for staff, while additional recommendations promote the need to consolidate administrative functions between the school and town, endorse regionalization opportunities, outline mechanisms to streamline internal operations, and identify areas of potential cost savings.

Together, we encourage the selectboard and others when formulating overall strategies for improving South Hadley's financial management to carefully consider the observations, analyses and recommendations contained within this report. In particular, our recommendations can only be implemented provided there is sufficient determination and cooperation at all levels of local government.

Overall Financial Management

A review of South Hadley's overall financial management practices centers on the fiscal procedures in place that typically involve finance related departments, but impact town government as a whole. Accordingly, we examined the budget, financial forecasting, capital planning, and the accounts payable processes. We looked at financial policies, long-term planning and financial monitoring practices, as well as the effect the town's organizational structure has on government. We further reviewed the town's current operations in the context of best practices observed in other municipalities and recommended by the Division of Local Services (DLS). We also considered the roles, responsibilities, and working relationships among individuals together with the level of communication and cooperation that exists between decision-makers, managers and staff. 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 DOR.

Overall, the finance related offices of the accountant, collector, clerk/treasurer and associate assessor operate effectively. The collection and deposit of receipts appears to work efficiently, as does the process of producing vendor and payroll warrants for review and approval by the selectboard. The associate assessor is timely in delivering the commitments of taxes to the collector. In general, communication is good and a regular exchange of information between offices typically takes place. Finance department heads attend continuing education classes sponsored by outside professional associations each year and encourage staff to stay current with new developments as well.

The budget process in South Hadley is initiated through a letter of request by the town administrator and town accountant for departments to submit budgets by the first week of January. Budget materials are then compiled, reviewed by the town administrator and town accountant. The budget and supporting materials are then distributed to the appropriations committee, selectboard and capital planning committee. The selectboard, appropriations committee and capital planning committee then review the budget and hold a series of hearings with department heads. By the beginning of April, a comprehensive budget packet, including department requests and various financial assumptions and analysis, as well as the draft list of warrant articles is available for pick-up by town meeting members. A public hearing and later a tri-board meeting, including the selectboard, appropriations committee and school committee, review the proposed budget. The final warrant with appropriations committee recommendations is mailed to town meeting members. Town meeting is then held on the second Saturday in May.

As described, the budget process is linear, includes instructions to guide department heads, and adheres to a clear calendar of events. Communication between and among the various boards and committees is described as good, as is the availability of analyses from departments to assist decision-makers. During the course of our review, we did note that while there is no formal set of financial guidelines to steer decision-makers, South Hadley errs on the side of caution in its use of free cash and stabilization funds, and is conservative in the projection of revenues as part of the annual budget process.

The accountant, assessors and clerk/treasurer 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 third quarter actual tax bill timely. South Hadley has consistently met this deadline. 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). DOR recommends that the balance sheet be submitted by the end of September and the town's Schedule A is due October 31. The town's free cash is typically certified at the beginning of October each year, while the Schedule A is submitted sometime between November and December.

The town's annual audit and accompanying management letter completed by Thomas J. Scanlon & Associates provides an independent assessment that confirms sound financial practices are followed or points out systemic weaknesses. The most recent audit found the town's internal controls to be adequate and noted no material weaknesses. The management letter identified several areas that are "opportunities for strengthening internal controls and operating efficiency," including monitoring the reconciliation process, developing financial policies and procedures manuals, as well as other internal control related recommendations.

Conclusion – Our first recommendations encourage South Hadley to revisit its government structure and to formulate clear expectations for the town administrator. We view the need for a strong chief executive in town who has the authority to orchestrate a more unified, collaborative effort among departments and finance officials. Ultimately, successful long-term financial management depends on the active cooperation of all boards, committees and local officials. Oftentimes, a town administrator can facilitate the communication necessary to achieve the desired level of coordination. The presence of a relatively new town administrator provides an opportunity for the selectmen to review and clarify the role of the position in that regard. Further still, we comment on the need for financial team meetings that have proven helpful in other communities where communication has sometimes been an obstacle. Additional recommendations suggest ways to strengthen financial management practices, as well as opportunities to collaborate with the schools.

1. Strengthen Municipal Government

There have been two failed attempts in South Hadley in the recent past to change the form of government from a representative town meeting to a mayor/council. While it can be difficult to build public support for such a fundamental change, we do feel there is merit to strengthening government as it currently exists. Specifically, we feel South Hadley could benefit from an organization that introduces more oversight and accountability. We encourage officials to reinforce the role of the town administrator, to convert the clerk/treasurer and collector positions from elected to appointed, and to appoint an assistant town administrator. We also recommend establishing a financial management team, forming a consolidated facilities committee, and reviewing and updating the town's bylaws.

Overall, this recommendation reflects the bias of DOR favoring a more centralized organizational structure, and a point of view derived from observing the collective experience of

Massachusetts municipalities. Over time, a single management presence has emerged as the vehicle to promote clear lines of authority and accountability in government.

Reinforce Role of Town Administrator – The town administrator’s role in South Hadley is not well defined. The authority granted to the position is largely driven by the ability of the individual to assert himself, rather than any formal power granted in bylaw or town charter. The incumbent is only able to function well because of years of experience and a personal reputation he has developed in his short period of time in town.

We recommend that the town restructure the town administrator’s position to give it more authority. A government study committee should be appointed by the selectmen to examine the capacity and structure of the town administrator’s position. In reconsidering the role of the office, the town should reflect on the most effective way to bring focus to financial management and centralized decision-making. Listed below is a series of steps that we encourage South Hadley to take in order to strengthen the town administrator’s position.

- Delegate appointing authority so that department managers are appointed by and report directly to the town administrator;
- Formally assign the town administrator responsibility to develop and guide the town’s annual operating and capital budget processes; and,
- Delegate authority to the town administrator to sign payroll and vendor warrants.

Appoint Clerk/Treasurer & Collector Positions – We recommend the town convert the clerk/treasurer and collector from elected to appointed positions. This recommendation is not meant to reflect on the performance of the current clerk/treasurer or collector, or in any way to suggest that the incumbents should be replaced. Rather it follows a prevailing theory of government practice that policy makers should be elected, but operational positions, where a certain skill set is required, especially financial positions such as the treasurer and collector should be appointed.

South Hadley is one of only 13 towns with a combined clerk/treasurer. Looking ahead to when present personnel leave town service, South Hadley may find it difficult to find a resident who is both qualified to serve and willing to run for election. An appointed position would greatly expand the number of qualified candidates. By requiring potential candidates to go through a background check and an extensive interview process, the town would attract a person with the strongest credentials and/or most relevant professional experience. In addition, an appointed clerk/treasurer and collector would be placed on equal footing with other finance officers and department managers who have similar level responsibilities. As such, they would be accountable to and report to the town administrator, and be subject to annual performance reviews instead of a three-year review by the voters.

At a convenient point in the future, the town might also consider merging the treasurer and collector positions, which is a more natural fit, and spinning off the clerk’s role into a separate position.

In addition, local officials might weigh the merits of establishing a municipal finance department under M.G.L. c. 43C.

Appoint Assistant Town Administrator – It is clear from our conversations with local officials that the personnel officer/chief procurement officer (PO/CPO) is a valuable employee who regularly works outside her current job description. Her scope of responsibilities has expanded to include a wide array of highly visible and progressively responsible administrative duties. Her recent tenure as interim town administrator is further evidence of the confidence in her abilities on the part of local officials.

As demonstrated during our visit, the PO/CPO works independently, assists in day-to-day town management activities and responds willingly to town-wide operational issues. All of these qualities are more appropriately aligned with an assistant town administrator, which we recommend be established. Accordingly, the position should be reclassified with pay and benefits commensurate with a full-time assistant town administrator. During deliberations, the town administrator and selectboard should bring some level of focus to define the duties and responsibilities of the position.

Establish Financial Management Team – Financial team meetings are a useful forum for reviewing responsibilities and deadlines related to town meetings, the annual budget, the Schedule A, the Tax Recapitulation Sheet, and Free Cash certification. They are an occasion to analyze financial problems, spur creative thinking as well as develop and incubate new ideas. Meetings present opportunities to identify critical junctures for the town and to formulate strategies to avert potential fiscal problems. The group can be a sounding board for proposed procedures or policies.

In addition, meetings enhance lines of communication and ensure that all involved receive the same message or new information at the same time. They provide a forum to raise and resolve interdepartmental issues. The financial management team is not intended, however, to function as a policy making body, nor as one that would encroach on the duties or decision-making responsibilities of the selectboard, appropriations committee or a town administrator.

In South Hadley, we would expect a financial management team to be comprised of the town administrator, accountant, clerk/treasurer, collector and associate assessor, together with a representative from the school business office. The IT director should also be invited as appropriate.

Form a Consolidated Facilities Committee – The management of facilities in South Hadley is decentralized. While the school department has a facilities director devoted to day-to-day building maintenance, there is no town-wide professional responsible for coordinating the ongoing maintenance, care and planning activities for all municipal buildings. Local officials have taken initial steps through the formation of a shared services committee to discuss in broad context the possibility of collaborative efforts between the school and town, including a shared facilities management function, but action appears limited.

Moving forward, we recommend establishing a separate committee to explore the formation of a shared facilities department between the school and town. A consolidated facilities committee, made up

of members from the school committee, selectboard and individuals with relevant experience, would be responsible for planning and making a recommendation for a new shared facilities department to the selectboard and school committee. Among its tasks, the committee would develop a plan for a consolidated department (i.e. identifying roles, responsibilities, authorities and accountability for individuals responsible for facilities maintenance), prepare a draft memorandum of agreement between the selectboard and school committee, and formulate a transition plan for launching the consolidated department.

We believe there is also merit to exploring consolidated personnel and information technology departments between the school and town. Although direct financial savings may not be achievable, efficiencies may be gained.

Review & Update Bylaws – Until such time when there is sufficient public support to fully embrace a charter review and change, we recommend that local officials evaluate and recodify the town's bylaws. A strong set of bylaws typically establishes a formal framework under which town government operates, sets-out certain financial procedures to be followed and describes the role of departments and the responsibilities of managers, as well as those of appointed and elected officials. For South Hadley, town bylaws could be more comprehensive and informative. In addition, Massachusetts General Laws and acts accepted by the town have not been updated recently and in some instances are inaccurate. A more orderly tracking system (i.e. in Excel) should be developed and initiated.

2. Define Town Administrator Goals & Objectives

We encourage the selectboard and town administrator to review their working relationship in order to establish clear expectations and priorities. While we recognize that the selectboard recently held a series of retreats moderated by an outside consultant to facilitate the development of town-wide goals and objectives, they now need to agree on how the town administrator's time will be spent if he is to advance those goals. The town administrator has been on the job now for approximately eleven months, and absent any goals and objectives there is no foundation for his performance review at year-end.

3. Develop Financial Guidelines

To their credit, officials in South Hadley are conservative in their use of free cash and stabilization funds, and maintain a sizable balance between the two approaching eight percent of total budget as last reported to the Division of Local Services. Nevertheless, in an effort to strengthen financial management practices further in South Hadley, we encourage officials to adopt reserve guidelines that direct the use of free cash and stabilization funds. Additional information is available at www.mass.gov/dls under Financial Management Assistance, Sound Financial Management Practices.

4. Build Long-Term Financial Forecast

We recommend that the town administrator build a three to five year financial forecast. Long-range revenue and expenditure planning presents spending obligations beyond one year in the context of future estimated revenue. Analysis of the ongoing relationship between the town's revenue and expenditure trends will assist decision-makers by allowing them to anticipate the financial future of the town in an informed and thoughtful way, and to plan accordingly. In addition, forecasting permits the town to quantify the long-range fiscal impact of proposed policies and initiatives before final action is taken. Specifically, it can help identify revenue gaps, highlight potential deferred maintenance issues, and enable the community to plan for capital and other infrastructure improvements. It can also be an effective tool to educate officials and residents on the financial condition and challenges the town faces.

DLS offers a forecasting tool that can be downloaded at www.mass.gov/dls. The tool draws on historical data and offers a structured approach for developing a multi-year forecast. As an additional resource, the Government Finance Officers Association provides a [Long-Term Financial Planning](#) best practice on its website: www.gfoa.org.

5. Develop Comprehensive Long-Term Capital Plan

According to bylaw, the capital planning committee prepares an annual capital budget along with an updated five-year plan of proposed capital expenditures for annual town meeting. The committee works with the town administrator, town accountant and department heads to assimilate information from departments into a working capital request package. The committee then "considers the relative need, impact, timing and cost" of proposed requests, based on judgments that are more qualitative than quantitative. The committee then presents a ranking of recommended capital purchases to the selectboard, absent any sources of funding. The selectboard and appropriations committee then review the capital recommendations and identify any potential funding sources prior to presentation at town meeting. While we praise the work of the capital planning committee and their ability to extract and communicate capital needs and deferred maintenance, at no fault of their own they function more like a committee that responds to capital issues than a planning body. To this end, we offer several opportunities to improve the overall effectiveness of the program:

- *Document Capital Budget & Debt Policies*: Capital budget and debt policies set expectations and guide the capital planning process and debt management decisions. See sample policies included in the Developing a Capital Improvements Program Manual, available at www.mass.gov/dls under Financial Management Assistance, Publications and Other Useful Links;
- *Assess the Town's Financial Capacity*: The committee, with the help of the town administrator and accountant, should analyze the town's ability to carve out a defined annual funding source, such as a direct outlay, in advance of the capital planning process. Although funds may not be

available, it is important to examine recent and anticipated trends in revenues, expenditures and debt to determine the capacity to fund projects or leverage financing as funds become available;

- *Consider Modest Bonding:* South Hadley has historically generated significant free cash, so local officials might consider modestly increasing their revenue projections to carve out a small percentage of general fund revenue for capital bonding purposes, especially as the economy improves. By leveraging a consistent revenue source to support the debt service for a capital bond issuance, local official can develop a manageable and consistent stream of funds to supplement capital spending.
- *Project Evaluation and Communication:* Rather than using intuitive judgments to evaluate and prioritize projects, the committee should move toward a defined set of objective criteria. Criteria are generally based on operational impact and urgency, including public safety needs, legal requirements, items deferred from prior years, or items that might result in the loss of a grant or reimbursement opportunity; and,
- *Develop Five-Year Capital Plan:* Based on the capital facilities and equipment inventory provided on pages 32-35 of the FY2011 capital request packet, the capital planning committee should develop a summary long-range plan incorporating capital needs across all departments. A sample capital improvement project summary is available in Appendix V.

6. Revisit Employee Pay-for-Performance Program

The pay-for-performance program is a point of consternation among staff that needs to be revisited. It was consistently raised in almost every interview we conducted as the number one issue for employees. While the program's intentions to reward a more efficient and effective workforce are admirable, it has not lived up to its targeted objective and has negatively impacted morale as a result.

The program itself involves an annual evaluation of employees by department supervisors. Under the program, each staff member's individual performance is ranked as either "often exceeds expectations", "sometimes exceeds expectations", "meets expectations" and "does not meet expectations." Employees who receive a ranking above meets expectations are then eligible to receive a performance bonus, if money is appropriated. The program covers approximately 70 positions.

Despite its design however, the program is construed by staff as subjective and not uniformly applied across departments. Unless addressed, it will continue to fester and further deteriorate employee morale. In fact, the formation of a collective bargaining unit was a direct consequence of the employee dissatisfaction with the program.

A program alternative we recommend involves a two-step process. At the start of the fiscal year supervisors meet with staff to confirm job responsibilities and document expectations (goals and objectives) for the ensuing year. Then, sometime in January, supervisors would only meet with employees they view as underperforming to discuss any necessary steps for improvement. Lastly, at the close of the fiscal year, supervisors meet with all staff to conclude the evaluation process. At this final stage, supervisors evaluate progress over the previous twelve months and rank the employee

performance into one of three categories (meets, exceeds or below expectations). Once the employee and supervisor have met and acknowledged the ranking, the employee is granted an annual salary step increase at the start of the fiscal year if they meet or exceed expectations. If the employee fails to meet expectations, the salary increase is withheld.

The process we propose may be more meaningful for both managers and staff. To encourage good performance, it focuses on those who fail to meet established standards. Employees that perform below expectations are not eligible for a raise. It is also grounded in job descriptions and goals and objectives jointly established at the beginning of the year. Before moving forward, it is also our expectation that local officials would complete a salary survey and classification review to confirm that wages are competitive and that the way employees are classified is consistent and equitable.

7. Follow Through on MUNIS Recommendations

At the request of local officials, MUNIS assessed the town's effectiveness at utilizing its financial management software. The comprehensive report issued by MUNIS identified various software components and processes, along with observations, analysis and results and recommendations. In response, officials formed a committee charged with evaluating and incorporating the recommendations to more fully leverage the capabilities of the software. While the committee has taken steps to incorporate a number of the recommendations, including the use of the tax title program in the collector's office and automated accrual tracking by the treasurer and accountant, work remains to be done.

To this end, we advise the committee to develop a realistic implementation plan for each recommendation to identify the party responsible for implementing each recommendation identified, required steps, and estimated time to completion. It might also make sense for the committee to merge with our recommended financial management team (see Recommendation 4). In this way, the taskforce remains focused with clear direction from the town administrator on meeting their goals and seeing them through to completion.

8. Adopt Recreation Revolving Fund

We recommend that town meeting, upon recommendation by the selectboard, establish a revolving fund for the recreation department under the provisions of M.G.L. c. 44, §53E½. The recreation program in South Hadley is operating as a revolving fund – program fees are earmarked to cover the cost of department operations and related activities. While town bylaws indicate this section was accepted by the town, we could not confirm that the town meeting ever legally authorized a revolving fund for the recreation department. Barring any special legislation, the town should take steps to formally adopt a recreation revolving fund under M.G.L. c. 44, §53E½. The revolving fund authorization will allow the town to retain and expend revenues from program fees without appropriation to support the recreation department.

9. Review & Close Inactive Fund Accounts

A review of South Hadley's FY2010 year-end balance sheet submitted to the Division of Local Services revealed several school grant and other fund accounts that appear inactive. We recommend that the accountant and school business manager meet to identify what steps should be taken to close these dormant funds. If deficits exist, they should be appropriately funded, while any surplus resources should be transferred following guidelines identified in the grant agreements.

10. Annually Review Health Insurance Costs & Adopt M.G.L. c. 32B, §18

We encourage officials to hold annual discussions to consider all opportunities, alternatives or options to alleviate the overall expense of providing employees health insurance. Program choices, relative plan deductibles and employee out-of-pocket expenses should be part of the analysis, as well as the potential to negotiate larger percentage contributions from employees in more expensive plans. In addition, officials should take measure of joint purchasing groups, regional health insurance consortiums and the state Group Insurance Commission (GIC). Using reasonable benefit assumptions, a comparison of competing program costs can be developed to identify potential savings for the town.

11. Update Employee Handbook

At the direction of the selectboard, the personnel officer together with the town administrator should review and revise the town's personnel policy manual. Designed to provide a broad overview of the town's employee policies, the manual has not been updated or revised since 2006. As a matter of practice, officials should annually review the handbook to confirm that policies remain applicable and represent current law and practice. We specifically encourage a review of the town's Internet and web use policies that appear overdue for a rewrite.

Once updated, manuals should be distributed to department heads who should secure signatures from employees acknowledging that the handbook was read. Going forward the town would also require new employees, as part of the orientation process, to verify through signature that they have read the town's policies. Signed acknowledgements should be retained in personnel files. Ultimately, employee manuals are not only designed to inform, but also to protect both the town and employee from instances of inappropriate conduct.

12. Disband Personnel Board

Detailed in Article V, Section 501 of the South Hadley Bylaws, a five-member personnel board comprised of the town moderator and the chairs of the selectboard, school committee, planning board

and appropriations committee, is responsible to review and make recommendations to the selectboard on matters of reclassification and personnel policy or administration. It was described to us however, that the town's personnel board is largely defunct and only reconvenes on issues of reclassification. Therefore, we recommend that the board be disbanded as it appears to perform a duplicative function to the personnel officer and represents an additional layer of bureaucracy that may be unnecessary.

13. Negotiate a PILOT Agreement

We recommend that South Hadley contact the administration of Mount Holyoke College to begin negotiations toward a formal Payment in Lieu of Tax Agreement (PILOT). PILOTs are voluntary payments made by non-profit institutions as a substitute for property taxes on their tax-exempt property. They can provide crucial revenue for distressed municipalities and are one way that non-profits can pay for the public services that they consume.

We recognize that while Mount Holyoke College recently contributed a PILOT between FY2007 and FY2010 as part of a land acquisition deal, there is no ongoing relationship to help alleviate or offset the cost of public services provided to the campus. The property value of Mount Holyoke College (\$168,399,000) constitutes 10.3 percent of South Hadley's total property value. If taxable, it would have raised another \$2,355,902 for the town in FY2010, but a PILOT would be significantly less than this amount.

Based on observations of successful PILOT programs in other communities, we advise local officials to consider the following factors in designing and negotiating an agreement: a target level for contribution (i.e. five percent of the tax savings on exempt property); a consistent basis for calculating payments (assessed values or square footage); an adjustment for direct community benefits to local residents; a policy to establish PILOTs for properties taken off the tax rolls when acquired by a non-profit; and, reach multi-year agreements to reduce uncertainty for both parties.

Similarly, we recommend that local officials revisit the negotiated PILOT agreement with the South Hadley Electric Light Department (SHELD). Although SHELD has made regular payment of \$527,600 over the past five years, the decision about how much to contribute is no longer formulaic as it once was. Moving forward, we advise the town administrator, working with the town accountant and associate assessor, to revisit the calculation. The formula should have long-term applicability in a way that reflects a fair, consistent and predictable annual payment, which would be of benefit to both the town and SHELD.

14. Pursue Regional Opportunities

We encourage local officials to explore regionalization opportunities with neighboring towns. Today, communities across the state are actively pursuing the merger of services to combat ongoing operating cost increases. Health agents, code enforcement, inspectional services, animal control, veterans' services, facility directors, dispatch and others have all been the subject of consolidation

discussions. With some internal research, the town can determine where potential merger opportunities exist. At that time, or even earlier, contact with other towns might be initiated to explore prospects for sharing the costs of services.

A number of resources are available to assist in this effort. As an initial starting point, we direct local officials to the “Regionalization Resources” link on the DLS website www.mass.gov/dls, available under the Financial Management Assistance. Materials and information include resources from a state-wide conference for cities and towns on mergers and consolidations, as well as links to the Hamilton-Wenham Enhanced Regionalization and Merger Analysis and Police & Communications Regionalization Analysis for Ashby-Townsend completed by DLS. Although these reports are specific to the situation in each town, they offer valuable information on the subject of shared services. The Massachusetts Municipal Association (www.mma.org) and Hampshire Council of Governments (www.hampshirecog.com) may also prove useful.

Finance Departments

Treasurer – In South Hadley the position of town clerk and treasurer are combined. The current clerk/treasurer was elected to the position in April 2009. The department includes a full-time assistant town clerk/treasurer and two full-time senior account clerks. The senior account clerks are cross-trained, although one devotes her time exclusively to payroll while the other serves in a more general administrative role.

The treasurer's office records turnovers from the collector and other departments, and disbursements through the biweekly payroll and weekly vendor warrants. The office deposits the town's cash receipts to a local bank at least once a week and uses a check scanner to make deposits instantaneously. The office maintains all necessary logs including a cash book and debt schedule.

A senior accounts clerk is responsible for generating the payroll warrant and checks. Payroll detail is entered on an exception basis using the town's financial management software package MUNIS. The same clerk is also responsible for benefits administration. She educates employees on available benefit options, administers payroll and insurance changes, and orchestrates the annual open enrollment process for employees. The town offers employees health insurance through the Hampshire County Group Insurance Trust. Depending on the plan, the town covers between 60 to 70 percent of the cost of health insurance for active employees, and 55 to 70 percent for retirees. Retirement benefits are managed through Hampshire County Retirement System.

Collector – The elected collector in South Hadley has 21 years of service with the town, the last six as town collector. She is a Certified Massachusetts Municipal Collector. A full-time assistant collector and senior clerk, with more than 32 years of combined service, support the office. The assistant collector manages all day-to-day activities of the office, while the senior clerk primarily handles taxpayer requests over the phone and at the counter.

The office is located on the first floor of town hall where bill payments are received and other business is conducted. Individual staff access MUNIS financial management software to post payments including real estate, personal property, excise (motor vehicle, farm and boat), sewer and curbside pickup. Payments are received over-the-counter, by mail, drop box, online (Unibank) and lockbox (TD Banknorth). Payment options include cash, credit card, check or direct debit. The volume of work includes 28,000 real estate, 800 personal property, 11,000 sewer and 600 curbside pickup bills. Mark Altman & Associates prints, stuffs and mails bills, while Kelly & Ryan functions as the deputy collector.

Accountant – The town accountant has been with South Hadley for 17 years. Office staff includes a full-time assistant town accountant and an applications specialist with over 30 years of combined service. The town accountant supervises department activities, and supports a host of administrative responsibilities including monitoring the town's finances, issuing various reports and assisting in the development of operating and capital budgets. The assistant town accountant is primarily responsible for handling day-to-day activities including preparing journal entries, reconciling

accounts and verifying bills payable. The applications specialist divides her time between the accounting office and the IT department on an as-needed basis but estimates that 70 percent of her time is spent on accounting-related functions, which include entering bills payable, reviewing town payroll and processing warrants.

Assessor – The three member elected board of assessors in South Hadley review and approve valuations, abatements and exemptions, and approve the overlay and the new growth estimate, which is used to calculate the community's levy limit. Full-time staff, including an associate assessor, assistant to the associate assessor and senior clerk, handles remaining day-to-day responsibilities.

All residential and commercial valuation, along with property inspections are done in-house. The assessors contract with Roy Bishop, an outside consultant, to assist with interim and annual revaluation and some building permit inspections on an as-needed basis. The department uses Vision Appraisal software for maintaining property record data and for hosting the town's property information online.

The volume of work in the assessing office involves approximately 6,700 residential parcels, 200 commercial and industrial parcels, and 200 personal property accounts. Some 7,000 real estate and 200 personal property tax bills are issued quarterly. Preliminary tax bills are issued on July 1 and October 1, and actual tax bills issued on January 1 and April 1. In FY2010, the office also commit almost 500 boat excise bills and over 15,000 motor vehicle bills to the collector. In addition, the department completed about 460 building permit inspections on approximately 400 parcels and reviewed almost 100 sales.

For FY2010, the department had an allowance for abatements and exemptions, or overlay reserve, of \$210,245 that represents about one percent of the total tax levy. Of the applications filed in FY2010, the department issued 16 total abatements and 278 exemptions. There are a number of cases pending before the Appellate Tax Board (ATB), but most involve personal property for wireless communications. They have one real estate case pending for a large industrial parcel.

Conclusion – Overall, departments operate on a professional level. Department staff are knowledgeable, experienced and customer service oriented. Essential checks and balances appear to be in place and sound practices and procedures have been developed. Offices effectively fulfill fundamental responsibilities and complete requisite tasks. Still there are opportunities for improvement in operations, which are reflected below.

The treasurer admits that learning on the job has been difficult and that she receives a lot of assistance and counsel from peers. However, despite her lack of experience, she is aggressively educating herself as she continues to climb a steep learning curve since first being elected in 2009. To her credit, she has implemented a number of solid policy and procedural changes to improve operations. Among them was the streamlining of banking relationships, adopting a cash reconciliation workbook that allows for a more comprehensive analysis of cash flow, standardizing department turnover forms, and adopting new investment policies. Of the primary recommendations offered, we point to the need to

reconcile accounts, streamline the payroll process, and confirm cash handling procedures in other town departments.

We feel the collector's office is strong. The collector fulfills her core responsibilities with support from skilled and knowledgeable staff. Everyday activities of the department are carried out efficiently and effectively with an emphasis on quality customer service. Since assuming office, the collector is credited with implementing several innovative practices that are not always found in other communities. Among others, these include online banking, direct deposit using remote check capture, e-billing, a credit card payment option, as well as the MUNIS tax title program.

The accounting department in South Hadley effectively carries out its day-to-day responsibilities. The vendor and payroll warrant process, reconciliation of cash and receivables, and internal and external reporting requirements are completed timely and done according to accepted standards. The recommendations we offer reflect our positive opinion of the office. We recommend that the town accountant distribute quarterly finance reports to the selectboard and appropriations committee to continually keep them apprised of the town's financial position. Next, town officials should consider advertising for audit services. Lastly, we encourage the town accountant to perform internal audits of the departments, beginning with the golf course.

Based on our review, the assessing department in South Hadley completes requisite tasks and complies with the Bureau of Local Assessment's (BLA) accepted practices and state regulations. We encourage the assessing office to implement the BLA's prior recommendations, which we understand to be underway.

15. Reconcile Accounts

A combination of issues contributed to year-end variances in cash, real estate and tax title accounts as reported on South Hadley's balance sheet to DLS. We understand that the treasurer's office has isolated the problem and implemented procedures resulting in a significant improvement in the reconciliation of town accounts. However, to sustain the credibility of the process, we encourage the treasurer and accountant, along with the collector, to continue to meet on a monthly basis to complete reconciliations. By meeting and comparing entries, a clearer understanding will be gained of what adjustments tend to be systemic, where timing issues arise and how the process can be further improved.

16. Streamline Payroll Process

Under the current payroll process, the senior account clerk in the treasurer's office receives a coversheet along with a corresponding summary sheet of individual time from each department. Separately, each department sends individual timesheets to the accounting department. The senior account clerk in the treasurer's office verifies the coversheets for accuracy, enters data into MUNIS on an exception basis, and prepares a preliminary payroll report. That report is then sent to accounting where it is proofed against employees timesheets, with any adjustments communicated back to the senior

account clerk. A payroll warrant is then generated by the senior account clerk and sent to the accountant and selectboard office for signature.

Moving forward, we recommend transferring the responsibility for entering timesheet information into MUNIS to a select group of departments, school and police for example. A hardcopy summary coversheet with department head signature would still be forwarded to the senior account clerk in the treasurer's office for verification, but all individual employee timesheets would be retained at the department level. Under this approach, department heads and employees would be directly responsible for the accuracy of time sheets. If successful, we would envision other offices entering time at the department level.

A diagram of the current and proposed processes is included in Appendix VI.

17. Confirm Departmental Cash Handling Procedures

We recommend that the town clerk/treasurer confirm that proper cash handling procedures are in place across all town departments. Maintaining strong cash controls is a fundamental element of any financial accounting system. As a process, cash control procedures ensure that money is secure and accurately received, recorded and deposited.

At the time of payment, each individual transaction should have a corresponding numbered receipt issued to the customer and appropriately logged in the financial management software or a spreadsheet. Once the transaction is complete, cash should be held in a secure place, like a locked cash drawer or safe, until it is turned over to the clerk/treasurer's office or deposited directly at the bank. We recommend at a minimum that departmental turnovers to the treasurer be made weekly, and more often during periods of high volume. As is the practice in South Hadley, turnover sheets should be standardized and include the department's name, related revenue account information, and locations for dates and signatures.

18. Encourage Direct Deposit

According to the clerk/treasurer, only about 60-65 percent of employees utilize direct deposit. We recommend that the town negotiate direct deposit for all employees. For the town, direct deposit further reduces the cost of issuing checks, prevents the need to reissue lost checks and simplifies the reconciliation of payroll bank accounts because there are no outstanding checks. For employees, direct deposit is much safer and the money is available when deposited.

19. Verify Use of FID Number

We recommend that the treasurer verify any unauthorized use of the town's federal identification (FID) number. The town should contact banks to confirm any unauthorized use of South Hadley's FID number. If any fraudulent use is detected, the treasurer, with the assistance of town counsel, should

inform account holders in writing through a cease and desist letter that funds not belonging to South Hadley are being held under its FID number.

20. Issue Quarterly Finance Report

We recommend that the town accountant electronically distribute quarterly finance reports to the selectboard and appropriations committee. Using MUNIS, the accountant can extract data to benchmark year-to-date income and spending against estimated revenues and the approved budget. Once all financial activity for the last month in a quarter is closed (September, December, March), new projections to year-end can be developed based on expenditure and payroll information contained within the financial system along with information obtained from department heads on their intended expenditures. It is the analysis through year-end that differentiates quarterly projections from the monthly expenditure reports distributed to department heads. To be most effective, a projection analysis should be performed on each city fund, i.e. the general, capital, revolving, grant, trust and special revenue funds. Some narrative analysis of the fiscal picture should also accompany each projection to highlight a specific problem, if any, in a given department that may cause a budget deviance. These finance reports provide information necessary to monitor the financial performance of the town, help to analyze the causes of any shortfalls, excesses or one-time receipts, and provide guidance during the budget process if adjustments need to be made. Moreover, if financial gains are projected, reliable conclusions can be made relative to the potential for free cash in the ensuing year.

21. Seek Proposals for Independent Audit

Not uncommon among municipalities, South Hadley has been with the same audit firm for at least the last ten years. Contracting with a new audit firm can not only bring a fresh perspective, but reflects good practice. Independent audits are not only critical to sound financial management, but demonstrate that the municipality's assets are safe and handled responsibly. In general, communities are encouraged to re-advertise for auditing services every five to eight years.

Town officials may also want to consider the merits of appointing an audit committee. The audit committee, independent of staff, would engage the auditor, review audit reports and monitor the town's progress in formulating and completing an action plan. As a resource, our Annual Outside Audits recommendation is available under the Financial Management Assistance, Sound Financial Management Practices section of the DLS website: www.mass.gov/dls.

22. Perform Internal Audits

We encourage the town accountant to perform periodic internal audits of departments as recommended in the outside auditor's management letter to South Hadley. Massachusetts General Law empowers the town accountant to examine the financial records maintained by departments who receive

and expend funds. Routine internal audits not only work hand in hand with the independent audit, but support strong fiscal oversight.

23. Implement Bureau of Local Assessment Recommendations

In FY2010, BLA completed a triennial certification of values for South Hadley to ensure full and fair market value of real estate in town. As part of the process, BLA issued a letter that included recommendations to improve the accuracy of valuations and the effectiveness of assessing operations. We advise that the associate assessor plan to address the recommendations, including the cyclical reinspection and land schedules, prior to the town's FY2013 certification.

Technology

The management of technology is a central component of municipal government. As technology advances, so too does the need for investment in both time and financial resources necessary to properly manage and maintain computer systems. Today, managers of technology must ensure that computer hardware and software are running properly and that critical data is safeguarded. Technology departments must provide routine computer backups and maintain high security standards. They must monitor system performance and develop contingency plans in the event of a failure. Technology departments must also provide regular helpdesk support and maintain the community's website.

The information technology (IT) department consists of a full-time director, who has been in the position since the department was formed in 2001. He receives support from a full-time network technician. Although dormant, a technology committee exists to provide outside support, as does a separate MUNIS advisory committee that was formed more recently.

The department maintains all computer related hardware and software located in town hall and at the council on aging building. The school, library and police department have separately assigned technology support staff. The department's wide-ranging responsibilities include the administration and service of the town-wide computer network, phones, peripherals such as printers and routers, and the town's website. The IT director maintains a detailed inventory of all computer related hardware and operating information. Finance office computers utilize the MUNIS financial management software package. All finance office workstations are networked, with email and internet access. South Hadley's website is hosted by Virtual Town Hall.

Conclusion – The IT director appears knowledgeable and experienced, however from our perspective a clear understanding of his workload is lacking. Our initial recommendation centers on the need to document current and proposed future projects, as well as to track day-to-day helpdesk activities. In this way, the department can better communicate the need for additional resources, if necessary. As an initial starting point, we suggest that the town administrator orchestrate a needs assessment, so roles and responsibilities of IT personnel can then be realigned to meet these expectations. Our remaining recommendations encourage analysis of a move to Software as a Service and highlight the value of implementing a four-year computer replacement schedule.

24. Document Tasks

We recommend that the IT department adopt two methods for documenting its workload in order to track productivity: one that focuses on projects and the other that logs requests for computer support.

The IT director working with the network technician should list all current and proposed projects. Created in Excel, the spreadsheet would include a brief description of the project or issue, the person assigned, an action plan of necessary work and the status and estimated date of completion. Not only will this provide town officials with a working document, but it can also be incorporated as part of the department's goals and objectives to evaluate performance at year-end.

The IT director should adopt a helpdesk system to track and manage requests for technical support. A basic helpdesk system requires users to submit requests to the IT department in a defined manner so responses can be organized by priority. The system should identify when an issue was logged, who it was assigned to, what action has occurred, and when it was closed. A helpdesk system serves as a valuable tool for prioritizing requests, identifying potential problem areas, and establishing a structured workflow. It also benefits the town because end-users feel confident that issues are being addressed through a standardized reporting and tracking mechanism.

25. Host MUNIS Offsite

We recommend that town officials compare the cost of hosting their financial management software locally versus having it hosted offsite. Software as a Service (SaaS), sometimes synonymous with cloud computing, refers to the purchase of a service where the vendor provides Internet access to its financial management package. In general, municipal departments would have full access, over the internet, to MUNIS, but the application and town data would reside with the vendor remotely. This is in contrast to the current practice of purchasing the software application outright and having it hosted locally on the town's servers.

The advantages of this approach for South Hadley include the following:

- Avoids upfront and maintenance capital costs for software “ownership”, as well as for network wiring, servers, and other network hardware or infrastructure;
- Updates, patches and other software maintenance would occur automatically and without cost to the city or town. Data backups would occur nightly as well;
- The vendor has an incentive to ensure the stability and reliability of the system, because multiple clients access the service at a centralized location. As a result, the burden on local in-house IT support would be lessened; and,
- Web-based access also allows any authorized person to use the software from any computer anywhere with an Internet connection, avoiding the expense and upkeep of cable connections between remote buildings and a city or town hall server.

When considering the SaaS option, we encourage department managers and staff to probe a variety of topics including what support is the municipality required to provide, what is the level of security that protects data, and where and how is data stored. A full list is available at www.mass.gov/dls, under Financial Management Assistance, Sound Financial Management Practice.

26. Adopt Four-Year Computer Replacement Schedule

According to the IT director, computers in town hall are generally on a six-year replacement cycle. Although we can appreciate the town's desire save money, the potential risks to the computer

network may outweigh the savings. After three years, chances are significantly higher that a hardware failure will occur which can be costly. Older computers require more repairs, applications are outdated and in some instances no longer supported, and productivity decreases. Moving forward, we recommend a four-year replacement schedule for computers. Under this approach, all town computers would be covered by a three-year warranty with the option for a one-year extension. Alternatively, local officials can weight the cost of leasing computers, which also absolves them of maintenance and other ownership related concerns.

Municipal Golf Course

Ledges Golf Club is a municipally owned and operated golf course located in South Hadley. Entering its tenth year of operation, the 18-hole course was designed by architect Howard Maurer and encompasses some 244 acres of rolling landscape overlooking the Mount Tom Range and the Connecticut River. Course amenities include a clubhouse with full-service restaurant and pro shop, outdoor pavilion, driving range, and practice putting and chipping greens. A full-time golf professional serves as the general manager, while outside contractors provide golf course maintenance and concessions. A nine-member appointed golf commission advises the selectboard on operations and policy including fees, capital purchasing, finances, staffing and general management, as well as other promotional and program related activities.¹ The club operates as an enterprise fund, which is a method of accounting for all the direct, indirect and capital costs associated with operating the facility. A five-year budget history is available in Appendix IV.

Originally constructed in 2001, the golf club grew out of a desire by local officials to preserve open space and build a multi-purpose recreational area. The course's first three and a half years of operation were difficult. During this "growing" period, the club functioned out of a doublewide trailer and course conditions were less than favorable. Play was "inconsistent" and the club was described as being "less than satisfactory." In addition, it was communicated to us that a succession of golf professionals serving as general manager demonstrated inadequate management capability and weak leadership. Between 2005 and 2007, however, the club began an aggressive turnaround with the hiring of a qualified golf course maintenance company, International Golf Maintenance, Inc., along with construction of a driving range and clubhouse. As a result, conditions improved and attendance increased. Today the golf course has seen significant improvements in both its condition and facilities, but challenges remain. It continues to rely on a significant annual subsidy from the general fund, an operating deficit is projected and ongoing capital needs are not necessarily being met.

Conclusion – There is no question that Ledges Golf Club has been a topic of controversy in South Hadley since its inception. As was described to us, residents are deeply divided over the operation of the club and its continued need for town support. At the center of this argument is the tremendous amount of debt associated with the original purchase of the course and the construction of the clubhouse. Although local officials appear largely resigned to the fact that this debt burden is a cost of doing business, it places a significant financial strain on the club and hinders its ability to finance additional investment. Significant concerns also center on what is currently projected to be an operating deficit of over \$500,000 in FY2011.

In the opinion of some, the club needs to create ongoing value for its customers. The status quo combined with limited long-term thinking and an aversion to invest strategically will only aggravate the current situation and put the golf course further behind in the future. We also caution local officials against placing too high an expectation on the general manager. Over the life of the golf course, a

¹ Article IV, Section 416 of the South Hadley Bylaws

succession of golf professionals serving as general manager proved inadequate. While it may be cost effective, having a golf professional serving as general manager may not be in the best interest of the town as their experience, knowledge and skill sets might not directly translate to managing the business.

While we acknowledge that some of the challenges facing the golf course are beyond our area of expertise, we offer several recommendations for local officials to explore. As an initial starting point, we believe local officials need to develop a five-year plan to ease the financial burden placed on the town. As part of this recommendation, we propose reconfiguring the structure of the golf commission, and evaluating maintenance and concessions options. While it may not be politically palatable, we also suggest that local officials consider all possible options to alleviate the financial strain on the town.

27. Develop a Five-Year Financial Plan

The golf course has received over \$2.7 million in subsidies from free cash in the last five years and nothing on the horizon suggests that this is going to change. To begin to confront this issue, we recommend developing a five-year plan to stabilize the course's finances to place it in a better position long-term.

Management should start by building a meaningful multi-year revenue and expenditure forecast for the golf course. Because of the current projected revenue deficit, there is a natural desire to manage for the short-term. However, a long-term fiscal perspective can allow the golf course to create the financial stability that is so critically important to successful administration. Absent a solid projection, a true picture of future spending obligations in relation to estimated revenue is lacking for the club. Serving as a strong fiscal blueprint for the enterprise fund, financial forecasting not only allows officials to better understand and quantify the long-range financial impact of proposed policy decisions, it contributes in a significant way to the annual budget process by working hand-in-hand with the capital planning and fee setting processes. It also requires officials to engage stakeholders, think creatively and manage expectations.

Next, as part of this recommendation, we encourage local officials consider the following:

Reconfigure Golf Commission – Appointed by the selectboard, the size and configuration of the current Municipal Golf Course Commission appears less than productive. Based on our discussions with local officials, the majority of members are golfers who have little direct knowledge or experience in running a municipal golf course or other business related activities (marketing, business management, etc.).

Moving forward, we suggest that the selectboard reconfigure the commission to include the club's general manager and superintendent, along with the town administrator and two appointed residents. Held on a monthly basis, commission meetings would facilitate planning and decision-making efforts and ensure officials are communicating regularly, that management issues are being discussed, addressed and resolved, and that requested analyses and reports are being completed. Also, having the town administrator on the golf commission creates a more direct link between the golf

course's finances and the town's overall financial condition. Long-term, the selectboard might consider disbanding the commission all together if it appears to perform a duplicative function and only represents an unnecessary layer of bureaucracy.

Begin Discussion on Contractor RFP – Golf course maintenance and concessions are contracted to outside vendors International Golf Maintenance, Inc. and Cal-A-Hearty. In both instances, local officials have exercised the option to extend the contracts by an additional season. Given this circumstance, we recommend that local officials, including the town administrator, chief procurement officer and general manager, begin to outline desired services to be included in a request for proposal (RFP) for next year.

Specifically, we feel South Hadley could benefit from wholly outsourcing the operation of the course. While the club operates as a public benefit, it has put significant financial strain on the municipal budget. To reduce this burden and continued risks, maintenance and other services could be outsourced with a goal that any privatization effort should include “increasing municipal income, improving course quality, and improving operational efficiency.”² Alternatively, local officials could explore a revenue-sharing agreement for food and beverage concessions. While the money the municipally receives is subject to fluctuation depending on how much the golf course concessions earns, it could prove beneficial to the town. In either case, we would caution local officials to include proper reporting controls within contract language that provides them the right to review and audit financial statements in order to ensure that revenue earned equals revenue reported.

As part of this exercise, we encourage officials to review the Advisory on Municipal Golf Course Management Contracts published by the Office of the Inspector General. Available on the Inspector General's website, www.mass.gov/ig, this comprehensive document provides advice and guidance on the procurement of golf course services.

Consider Other Options – Local officials seem resigned to the fact that the golf course will never generate sufficient revenues to cover its debt. As a result, the general fund has been forced to subsidize revenues to cover the full cost of operating the facility. This has saddled the general fund with a significant financial burden, which takes away limited revenues that might otherwise be directed toward more core municipal services, such as public safety or education. Given this dynamic, there may be merit to several possible options: authorizing a debt exclusion to cover the club's debt, selling a developable portion of the club to cover debt, or selling the club in its entirety.

In addition, we offer several observations related to the golf course's current budget practices:

- Review Fee Schedule: Golf course fees should reasonably reflect the cost to operate the club. A review should involve an examination of direct and indirect costs, and include a survey of fees other clubs charge for benchmarking purposes. While additional study is necessary, there appears to be little competitive advantage for the club to offer lower fees since there are

² Advisory on Municipal Golf Course Management Contracts, Office of the Inspector General

relatively few alternatives. Nevertheless, officials should consider an aggressive five-year plan to raise revenues through fee increases.

- *Delay Fee Setting Process*: Based on discussions with local officials, Ledges Golf Club is routinely the first out of the gate with respect to establishing its annual fees. Although anecdotal, evidence suggests that this places the club at a competitive disadvantage as surrounding courses may use the club as a benchmark for establishing their own fees. Moving forward, we suggest that if revenue estimates are required in order to set next year's budget that the club use last year's actual revenue. User fees can then be set at a later date.
- *Develop a Cost Accounting Strategy*: It is our understanding that the current retail price for goods sold at the pro shop has little to do with covering costs or generating overall profits. Moving forward, we suggest that the management team discuss with suppliers a suggested retail price that can begin to cover operating expenses in the pro shop.

28. Adopt Third Party Credit Card Processing

South Hadley should consider contracting with an outside financial institution to process credit card payments made to the golf course. The golf course currently accepts credit cards for a variety of payments including greens fees, memberships, and purchases made at the pro shop. The acceptance of credit cards by the golf course and the imposition of associated fees give rise to accounting issues. In addition, credit card fees must be annually budgeted, which, if inadequate, can result in a deficit. To avoid these problems, the golf course should separate itself from this practice and have credit card payments processed by a third party administrator.

Under an agreement, a financial institution can act as an intermediary to process credit card payments for the club. The payment and related service charge would be part of a transaction between the customer and the third party institution facilitating the transaction, and not the credit card company directly. The full amount due the golf course would still be electronically deposited into the town's bank account with corresponding back-up information provided. In this way, the town is not billed a convenience fee from the credit card company and will no longer need to appropriate funds to cover the obligation. In FY2011, \$11,000 was budgeted to cover the convenience fee.

Appendix:

I. Comparative Community Data ³

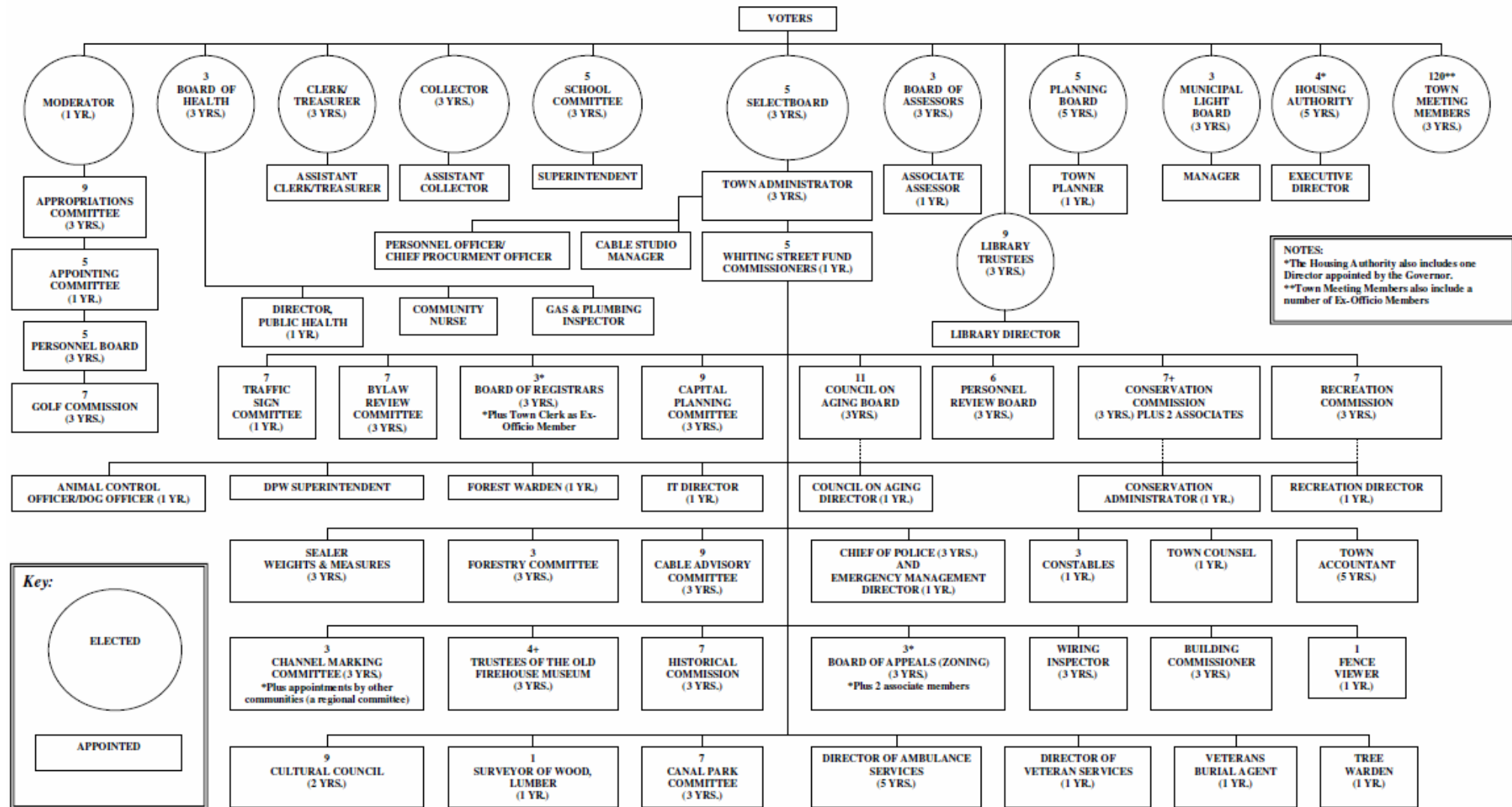
Chart I: Comparative Community Data

Municipality	County	Town/ City	FY2010 Total Budget	2009 Estimated US Census	2008 EQV/2009 US Census	FY2010 Avg. Single Family Home Value	FY2010 Avg. Single Family Tax Bill	Moody's Bond Rating
<i>SOUTH HADLEY</i>	<i>Hampshire</i>	<i>Town</i>	<i>\$41,585,199</i>	<i>17,387</i>	<i>\$94,105</i>	<i>\$232,600</i>	<i>\$3,254</i>	<i>Aa2</i>
EAST LONGMEADOW	Hampden	Town	51,571,826	15,936	126,453	260,660	4,530	Aa2
EASTHAMPTON	Hampshire	City	36,928,443	16,324	92,289	229,151	2,844	A1
GREENFIELD	Franklin	Town	48,473,857	17,537	85,678	190,928	3,376	A1
HOLDEN	Worcester	Town	44,787,655	17,658	129,007	277,156	4,102	Aa3
NORTHBRIDGE	Worcester	Town	44,239,436	14,720	128,474	288,555	3,001	Aa3
Average			44,597,736	16,594	109,334	\$246,508	\$3,518	

Chart II: Free Cash & Stabilization Fund Balance Comparison

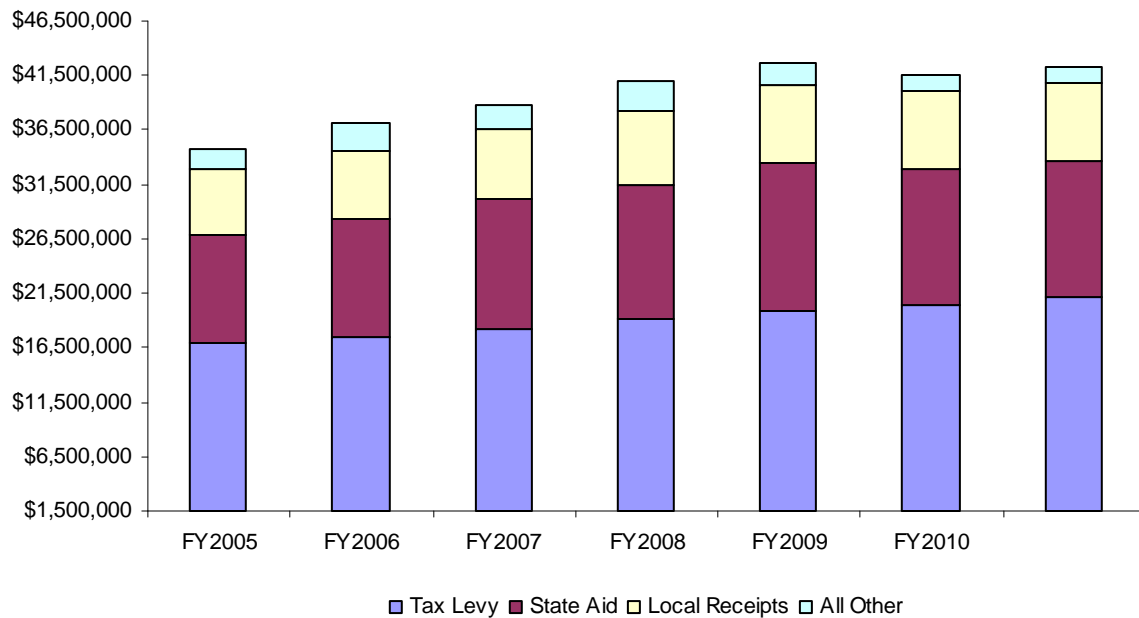
Municipality	FY2010 Free Cash	% of Budget	FY2009 Stabilization	% of Budget
<i>SOUTH HADLEY</i>	<i>\$1,604,391</i>	<i>3.86</i>	<i>\$1,583,427</i>	<i>3.81</i>
EAST LONGMEADOW	4,322,931	8.38	1,493,736	2.90
EASTHAMPTON	909,073	2.46	1,205,819	3.27
GREENFIELD	1,355,233	2.80	832,882	1.72
HOLDEN	162,788	0.36	2,389,358	5.33
NORTHBRIDGE	1,256,665	2.84	2,049,222	4.63
Average	\$1,601,847	3.59	1,592,407	3.57

³ Comparative Community Data is sorted by Population, Total budget, and EQV per Capita. Data are gathered and obtained through the Tax Recap and Schedule A that is submitted to the Division of Local Services by Local Government Officials.

II. Town of South Hadley Government Organization Chart ⁴⁴ Source: Town of South Hadley Organization Chart

III. Financial Data & Historical Trends ⁵

Chart I: Revenue Sources



	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Tax Levy	\$16,923,428	\$17,537,689	\$18,255,543	\$19,137,630	\$19,887,707	\$20,469,599	\$21,098,089
State Aid	9,973,786	10,827,073	11,959,193	12,359,377	13,562,280	12,494,407	12,522,535
Local Receipts	5,971,302	6,234,130	6,318,685	6,739,632	7,259,340	7,182,149	7,251,307
All Other	1,825,376	2,606,513	2,284,294	2,713,582	1,962,080	1,439,044	1,468,772
Total Budget	\$34,693,892	\$37,205,405	\$38,817,715	\$40,950,221	\$42,671,407	\$41,585,199	\$42,340,703

⁵ Revenues by source data are gathered and obtained through the Tax Recap that is submitted to the Division of Local Services

Chart II: Free Cash (FY2005-2010)

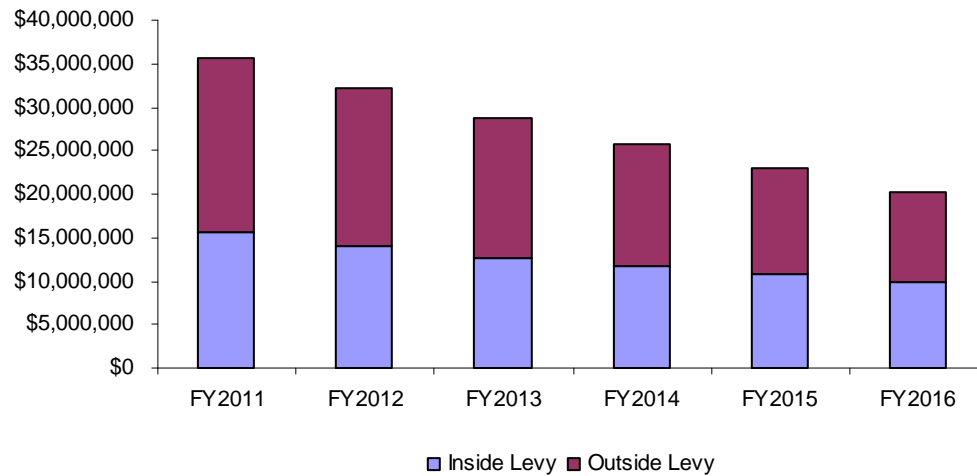
	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	Total
Certified	\$1,282,817	\$1,743,995	\$1,526,792	\$2,097,666	\$1,970,236	\$1,604,391	\$11,777,919
As % of Total Budget	3.70	4.69	3.93	5.12	4.62	3.86	
Current FY Use							
Dept. Related Expenses	(141,240)	(54,500)	(21,000)	(26,485)	(46,200)	(236,000)	(612,425)
Snow & Ice	(110,304)	(22,340)		(168,000)	(195,000)	(84,200)	(579,844)
Capital Related Purchase		(115,225)	(38,000)	(639,145)	(88,200)	(8,100)	(920,884)
Debt & Interest		(19,816)					(19,816)
Golf Course Deficit		(115,125)					(115,125)
Collective Bargaining/Merit Raises					(3,000)	(9,829)	(180,229)
Reduce Tax Rate (Balance Budget)		(60,000)					(60,000)
Reserve Fund							(13,062)
Tax Levy Shortfall					(40,000)		(40,000)
Other/Misc.	(4,667)	(35,875)			(6,000)		(46,542)
Total Current FY Use:	(256,211)	(422,881)	(59,000)	(833,630)	(378,400)	(338,129)	(2,587,927)
Subsequent FY Use							
Golf Course Deficit	(526,444)	(562,312)	(543,000)	(445,775)	(405,461)	(216,355)	(2,699,347)
Stabilization Fund	(60,000)						(60,000)
Capital Stab. Fund	(148,000)	(102,500)					(250,500)
Capital Related Purchases	(61,000)		(302,800)	(210,611)		(145,000)	(719,411)
Dept. Related Expenses		(151,302)	(107,583)			(100,661)	(359,546)
Other/Misc.		(5,000)					(5,000)
Total Subsequent FY Use:	(795,444)	(821,114)	(953,383)	(656,386)	(405,461)	(462,016)	(4,093,804)

Chart III: Stabilization Fund (FY2005-2010)

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Stabilization Fund Balance:	\$1,688,109	\$1,818,342	\$1,733,630	\$1,857,986	\$1,583,427	\$1,657,551
As % of Total Budget	4.54	4.68	4.23	4.35	3.81	3.93
Capital Stabilization Fund Balance:	n/a	152,923	257,347	202,946	177,357	205,771
As % of Total Budget	n/a	.39	.63	.48	.43	.48

Chart IV: Enterprise Fund Retained Earnings (FY2005-2010)

Retained Earnings	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Wastewater	n/a	\$646,188	\$726,302	\$673,849	\$547,282	\$268,646
Landfill	n/a	734,835	370,349	203,849	508,386	743,174
Golf	n/a	15,425	5,425	5,425	126,609	229,523

Chart V: Projected Total Outstanding Debt (FY2011-FY2016) ⁶

Outstanding Debt	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
General Fund	\$1,410,159	\$883,964	\$526,809	\$402,646	\$284,148	\$171,315
Sewer	7,187,764	6,577,769	5,973,901	5,514,308	5,033,470	4,603,851
Golf Course	6,947,014	6,580,866	6,213,899	5,846,635	5,478,340	5,114,170
Total Inside Levy	15,544,937	14,042,598	12,714,608	11,763,589	10,795,958	9,889,336
Total Outside Levy	20,177,614	18,065,610	16,025,756	14,050,878	12,147,409	10,311,550
Total Outstanding Debt:	\$35,722,550	\$32,108,208	\$28,740,365	\$25,814,466	\$22,943,367	\$20,200,886

⁶ Long-term debt consists of Bonds, USDA Rural Development Loans, Serial Notes and Refunding Notes.

Chart VI: Proposition 2½ Override, Capital Exclusion and Debt Exclusion Vote History ⁷

Override	Date	Yes	No	Win /Loss
General operating expenses	1982	450	2,739	LOSS
General operating expenses	1982	308	2,798	LOSS
Making repairs to town facilities	1994	1,696	3,294	LOSS
Replacing equipment for different depts.	1994	1,592	3,370	LOSS
Replacing street lights	1994	1,524	3,466	LOSS
Reconst. and repair storm drainage system	1994	1,319	3,634	LOSS
Pay raises for town employees	1994	1,260	3,688	LOSS
Support and maintenance of school system	1995	2,407	2,464	LOSS
Capital Exclusion				
	n/a	n/a	n/a	n/a
Debt Exclusion				
Pay raises for town employees	1994	1,260	3,688	LOSS
Reconst. and repair storm drainage system	1994	1,319	3,634	LOSS
Replacing street lights	1994	1,524	3,466	LOSS
Replacing equipment for different depts.	1994	1,592	3,370	LOSS
Making repairs to town facilities	1994	1,696	3,294	LOSS
Support and maintenance of school system	1995	2,407	2,464	LOSS
Repairs to middle and high school	1998	3,142	1,471	WIN

⁷ Table contains data on all overrides, capital exclusion and debt exclusion votes taken as reported to DLS. The vote date column is based on the actual day of the vote.

IV. Ledges Golf Club Enterprise Fund Operating Budget (FY2006-FY2011) ⁸

	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY2011 Budget
Revenues						
Greens Fee's/ Cart Rentals	\$630,311	\$651,881	\$747,394	\$832,721	\$835,335	\$852,174
Pro Shop	21,513	30,766	36,580	41,716	41,370	40,000
Concession Fee's	9,000	3,000	5,500	8,750	9,875	20,000
Driving Range	3,031	11,236	15,483	21,749	20,137	13,000
Utility Reimbursement			1,119	8,657	7,831	8,657
Misc./ Lessons	2,370	1,030	1,975	6,409	-2,976	14,528
Total Revenues:	666,226	697,913	808,051	920,002	911,572	948,359
Expenditures						
Personal Services	128,991	131,807	141,817	109,834	117,169	137,334
Other Services & Supplies	700,752	670,553	748,646	777,214	776,691	794,525
Debt & Interest	398,153	396,573	371,540	388,548	385,728	411,528
Capital			76,550	40,000		30,000
Other			3,820			
Total Expenditures:	1,227,896	1,198,933	1,342,373	1,315,596	1,279,588	1,373,387
<i>Direct General Fund Subsidy:</i>	<i>561,670</i>	<i>501,020</i>	<i>534,322</i>	<i>395,594</i>	<i>368,016</i>	<i>425,028</i>
Indirect Costs:						
Employee Benefits			37,508	24,554	12,503	20,240
DPW Related Services				29,324	23,039	14,146
Administrative Costs			66,785	24,110	19,510	18,352
Total Indirect Costs:	n/a	n/a	104,293	77,988	55,052	52,738
Total Expenditures & Indirect Costs:	1,227,896	1,198,933	1,446,666	1,393,584	1,334,640	1,426,125
Total Subsidy:	\$561,670	\$501,020	\$638,615	\$473,582	\$423,068	\$477,766

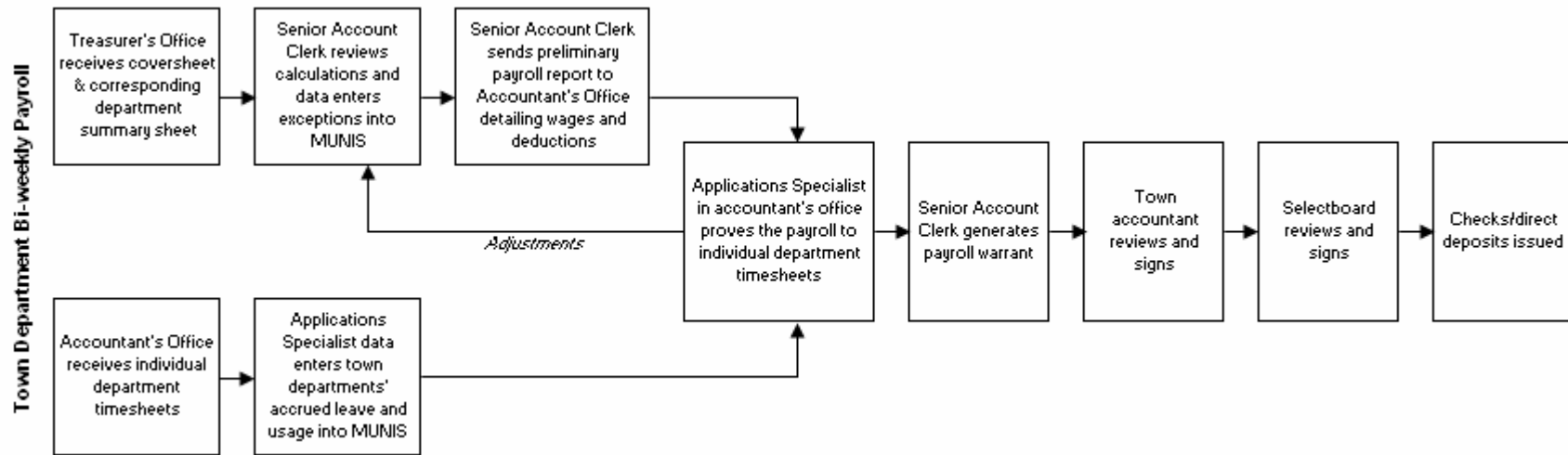
⁸ Ledges Golf Club Enterprise Fund Operating Budget data was gathered and obtained through reports submitted to the Division of Local Services by Local Government Officials. Expenditures including debt & interest reflect costs supported outside the operating budget.

V. Sample Capital Improvement Project Summary

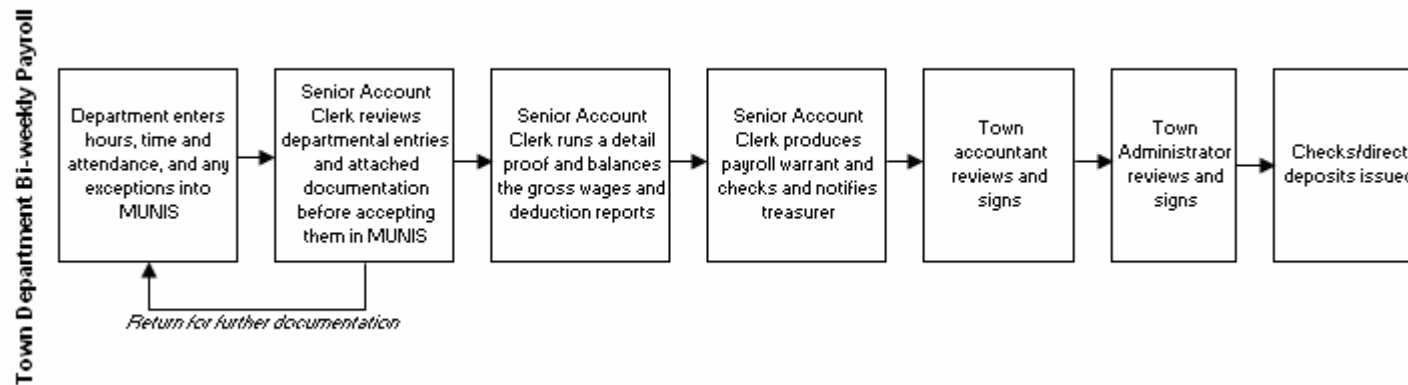
Department	Project	Project No.	Est. Expenditure	Current Year	1st Year	2nd Year	3rd Year	4th Year	5th Year
Health	Mosquito Control	1-7101	\$75,000	\$30,000	\$10,000	\$10,000	\$10,000	\$1,000	\$5,000
Health	Landfill Bulldozer	1-7102	10,000	8,000	2,000				
DPW	Storm Drain	2-7101	30,000	10,000	10,000			10,000	
DPW	Curb Construction	2-0707	60,000	20,000	40,000				
DPW	Dump Truck	2-7701	20,000		10,000	10,000			
DPW	Steam Cleaner	2-7401	6,000				6,000		
Parks	Land Acquisition	3-7101	25,000	25,000					
Parks	Site Preparation & Bldg.	3-7101	225,000	100,000	125,000				
Public Safety	Police Cruiser	4-7101	20,000	20,000					
Public Safety	Equipment Truck	4-7301	5,000			5,000			
Public Safety	New Headquarters	4-7401	75,000				50,000	25,000	
Sub-Total Municipal			551,000	213,000	197,000	25,000	66,000	36,000	5,000
Schools	School Expansion	5-7821	2,000,000			500,000	500,000	500,000	500,000
Schools	New School	5-7302	3,000,000		1,000,000	2,000,000			
Sub-Total Schools			5,000,000		1,000,000	2,500,000	500,000	500,000	500,000
Sewer	Extension of Sewer System	6-7402	3,500,000				1,500,000	1,500,000	500,000
Total Expenditures			\$9,051,000	\$213,000	\$1,197,000	\$2,525,000	\$2,066,000	\$2,036,000	\$1,005,000
Funding Summary									
	General Obligation Bonds		\$4,500,000	\$213,000	\$146,000	\$525,000	\$1,066,000	\$1,545,000	\$1,005,000
	State Aid		3,500,000		1,000,000	2,000,000	500,000		
	Federal Aid		1,000,000				500,000	500,000	
	Direct Outlay		51,000		51,000				
Total Funding			\$9,051,000	\$213,000	\$1,197,000	\$2,525,000	\$2,066,000	\$2,045,000	\$1,005,000

VI. Current & Proposed Payroll Processes

Current Payroll Process



Proposed Payroll Process



Acknowledgements

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Robert Judge, Vice Chair, Selectboard
Frank DeToma, Clerk, Selectboard
Marilyn Ishler, Member, Selectboard
Bruce MacCullagh, Member, Selectboard
Tom Terry, Chair, Appropriations Committee
Ted Boulais, Chair, Capital Planning Committee
Candice Walczak, School Business Manager
Paul Beecher, Town Administrator
Laura Krutzler, Administrative Secretary
William Sutton, Town Accountant
Lynn Roberts, Assistant Town Accountant
Jennifer Picard, Application Specialist
Melissa Couture, Associate Assessor
Maureen Cronin, Senior Clerk
Deborah Baldini, Town Collector
Joan Germain, Assistant Collector
Claudia Frappier, Senior Clerk
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Marissa Kulig, General Manager/Golf Pro, Ledges Golf Club
Michael Fontaine, Superintendent, Ledges Golf Club