

TOWN OF ADAMS

FISCAL EVALUATION AND MANAGEMENT REVIEW

JUNE 2017



DLS
DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

PREPARED BY:

DLS | Technical Assistance Bureau

100 Cambridge Street, Boston, MA 02114

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DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

Michael J. Heffernan
Commissioner of Revenue

Sean R. Cronin
Senior Deputy Commissioner

June 6, 2017

Tony Mazzucco
Town Administrator
Town Hall
8 Park Street
Adams, MA 01220

Dear Mr. Mazzucco,

I am pleased to present the enclosed fiscal evaluation and management review for the Town of Adams. In this analysis, we identified structural, operational, and fiscal challenges. It is our hope that the information presented in this report will assist the town in addressing these issues and developing strategies and goals for the future.

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

Sincerely,

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

Sean R. Cronin
Senior Deputy Commissioner

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INTRODUCTION

At the request of the board of selectmen, the Division of Local Services (DLS) Technical Assistance Bureau (TAB) conducted a fiscal evaluation and management review of the Town of Adams. Various factors had created an unsustainable budget trajectory, but under new central management, steps have been taken to fine-tune strategy and better position the town. In this context, the selectmen sought an outside opinion on the progress made to date, analysis of the difficulties that may still cause distress, and advice for continuing to refine management practices going forward. These objectives defined the scope of this review.

Over the past decade, the town's year-to-year revenues have been outpaced by its annual expenses. Underlying this condition is the weak economy in the area generally, which in part, has suppressed property values even as municipal fixed costs continue to rise. The town's declining and disproportionately aging population have reduced enrollment in its local school district but not in the cost to fund education. A significant renovation to the wastewater treatment plant was approved within the levy limit and has placed stress on the town's financial resources. Past practices did not follow well-founded methods to realistically forecast revenues and expenditures and to develop sustainable departmental budgets.

In recent years, local officials have dedicated themselves to refining financial management procedures to redress former negative trends and proactively strategize to meet the challenges of the future. Particular credit is owed to the leadership and expertise of the town administrator. Through his budget oversight, the town has decreased its reliance on reserves to supplement the annual operating budget and directed more attention to planning for future capital needs in Adams. Formal financial policies have been established, and greater government transparency is now evident.

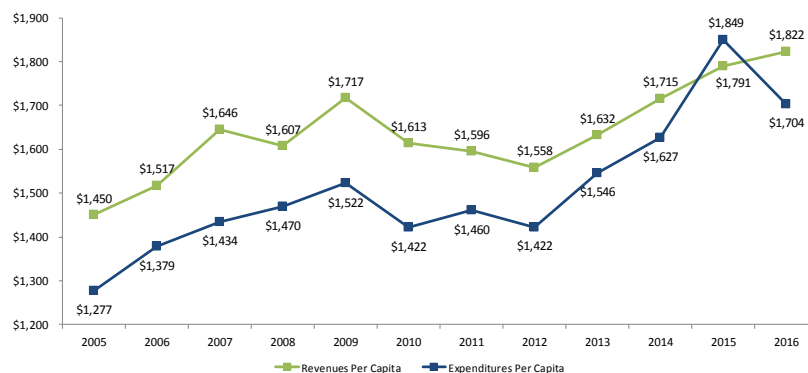
From our perspective, there are many opportunities for local leaders to build on this positive momentum and make changes that will, in an enduring way, establish a strong framework to complete timely reconciliations, develop multiyear forecasts, build sustainable budgetary and capital plans, and implement strong policies governing fiscal decisions. We encourage the town administrator, board of selectmen, finance committee, and others, when formulating overall strategies for improving financial management, to consider the observations and recommendations contained within this report.

FISCAL AND OPERATIONAL ANALYSIS

Located at the base of Mount Greylock in northern Berkshire County, the Town of Adams is a community with 8,300 residents and a FY2017 budget of approximately \$15 million. A five-member board of selectmen acts as the town's executive branch of government, while its legislative body is a 150-member representative town meeting. The town moderator appoints a finance committee to make recommendations to town meeting, and the town funds public education through the Adams-Cheshire Regional School District (ACRS). Through its annual budget, Adams provides a full array of services to its residents, including police, public works, community development, health, planning, library, and various other government activities.

To manage day-to-day operations across all town departments, the select board appoints a town administrator, who is empowered with broad authority to create and abolish departments, hire, supervise, and discipline direct reports. Responsibilities of the position include developing a balanced budget and five-year capital plan, coordinating departmental activities, managing facilities, negotiating contracts, conducting public relations, providing customer service, managing procurement, and carrying out the select board's goals and objectives. The treasurer/collector, assessor, and town clerk are elected officials, and the town administrator has no line authority over them.

The current town administrator is the sixth officeholder in 12 years. Upon taking office in January 2015, he immediately developed strategic responses to address the structural budget deficit he inherited. In May 2015, Standard & Poor's reaffirmed the town's AA- bond rating, while also noting weaknesses both in the local economy and in the town's budgetary performance due to operating deficits. During our visit we observed a high degree of support and cooperation between the town administrator and executive leadership. Through our conversations, it was obvious that local officials have great pride in their community and are committed to "right-sizing" the operations to an affordable level.



REVENUES AND EXPENDITURES PER CAPITA

Source: Tax Recapitulation (revenues) Schedule A (expenditures), US Census Population

The following analysis illustrates some of the challenges local officials faced during the period of FY2010 through FY2015. The town's property wealth, as measured by equalized valuation per capita and average single-family home value, has declined while the average single-family tax bill rose more than 32 percent. Total general fund operating expenses grew by more than 29 percent, but revenue growth during that same period was just slightly over 10 percent. The year-over-year spending increases outpaced revenue growth and forced local officials to clamp down on spending beginning in FY2016.

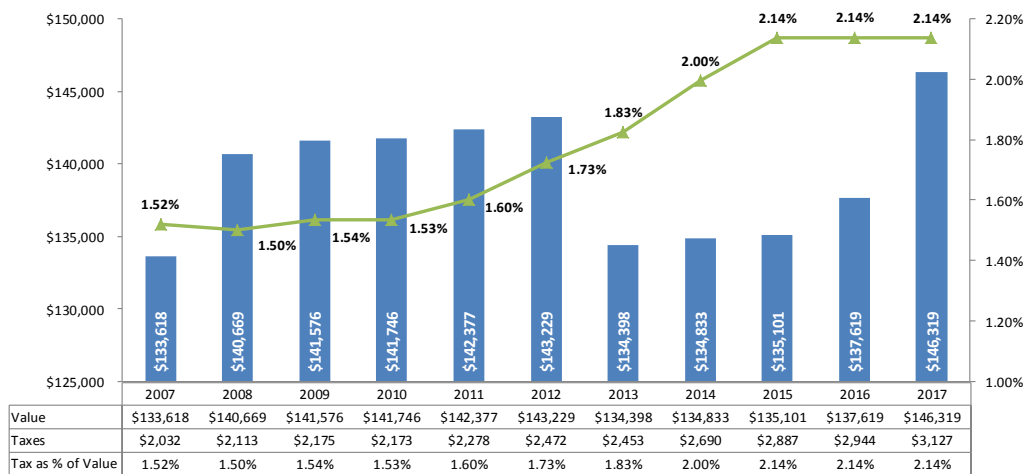
FY	AVERAGE SINGLE-FAMILY		DOR		EXPENDITURES ^{(a) (b)}			REVENUES ^(c)			RESERVES	
	Home Value	Tax Bill	Income per capita ^(d)	EQV per capita	Total General Fund	School	Fixed Costs	Tax Levy	State Aid	Total Receipts	Free Cash	Stabilization
2010	\$141,746	\$2,173	\$18,626	\$64,484	\$12,065,078	\$4,236,143	\$1,838,136	\$7,812,443	\$2,200,560	\$13,690,520	\$1,796,894	\$638,569
2011	\$142,377	\$2,278	\$19,128	\$64,982	\$12,296,972	\$4,513,644	\$1,990,544	\$8,197,966	\$2,130,070	\$13,437,737	\$1,254,485	\$619,979
2012	\$143,229	\$2,472	\$19,652	\$62,970	\$11,924,664	\$4,563,176	\$1,825,756	\$8,795,827	\$1,968,161	\$13,056,942	\$1,628,676	\$512,419
2013	\$134,398	\$2,453	\$20,378	\$63,356	\$12,878,584	\$4,586,885	\$1,952,634	\$8,771,423	\$2,213,474	\$13,596,816	\$1,480,484	\$380,258
2014	\$134,833	\$2,690	\$21,675	\$58,567	\$13,557,368	\$5,374,271	\$1,868,575	\$9,604,171	\$2,304,932	\$14,288,126	\$1,506,531	\$260,452
2015	\$135,101	\$2,887	\$21,675	\$59,089	\$15,579,445	\$5,961,520	\$1,955,669	\$10,378,451	\$2,383,484	\$15,086,055	\$1,016,254	\$214,650
2016	\$137,619	\$2,944	\$21,675	\$60,722	\$14,354,350	\$6,309,915	\$2,084,685	\$10,730,020	\$2,415,430	\$15,350,136	\$911,955	\$261,054
2017	\$146,319	\$3,127	\$21,675	\$60,722	\$14,808,782	n/a	n/a	\$11,131,708	\$2,535,205	\$15,546,735	\$1,343,319	n/a

2010 - 2015	% Chg	(4.7%)	32.9%	16.4%	(8.4%)	29.1%	40.7%	6.4%	32.8%	8.3%	10.2%	(43.4%)	(66.4%)
2010 - 2017	% Chg	3.2%	43.9%	16.4%	(5.8%)	22.7%	n/a	n/a	42.5%	15.2%	13.6%	(25.2%)	n/a
2015 - 2017	% Chg	8.3%	8.3%	0.0%	2.8%	(4.9%)	n/a	n/a	7.3%	6.4%	3.1%	32.2%	n/a

FINANCIAL ANALYSIS

Source: DLS Gateway: Expenditures (a) Schedule A (2010-2016), (b) FY2017 Town Budget; DLS Gateway: Revenues (c) Tax Recapitulation; DLS Databank: (d) Department of Revenue per capita Income (2015-2017 not available)

Across its 3,100 residential parcels, the town's FY2017 average single-family home value of \$146,319 is 173 percent below the state average of \$399,306 and 77 percent below the Berkshire County average of \$259,124. The town's average single-family tax bill of \$3,127 is 80 percent below the state average of \$5,620 and 18 percent below the county average of \$3,703. However, after a four-year period of significant disparity between the value of an average single-family home and its relative tax burden, the town's recent recertification has more closely aligned those values.



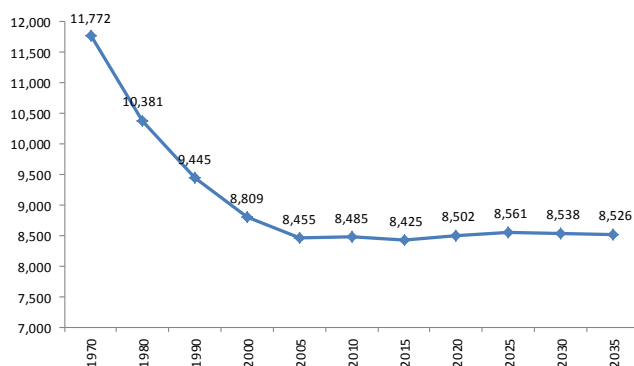
AVERAGE SINGLE-FAMILY HOME VALUE AND TAX BILL

Source: DLS Databank

The challenges of stagnating population, rapidly declining school enrollments, and minimal tax levy growth are not unique to Adams. The town remains very close to its levy ceiling, which limits its ability to absorb annual price and inflationary increases. After years of continual cost increases, driven in large part by a 40 percent increase in education¹, the town struggles to balance high quality town services and amenities with an affordable, sustainable tax base.

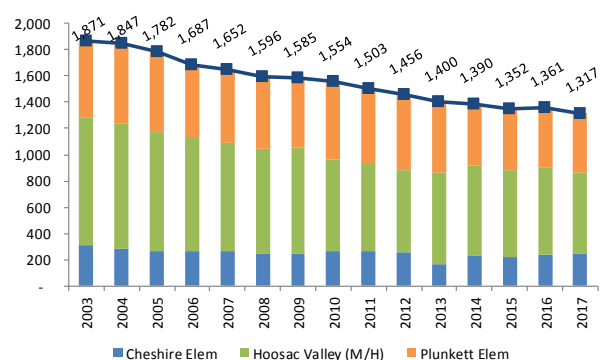
Adams allocates approximately 40 percent of its annual operating revenues to support public education for students in grades pre-K through 12. In 2010, Adams and Cheshire voters approved a \$40 million debt exclusion to renovate the district's middle/high school building, with the Massachusetts School Building Authority reimbursing almost 78 percent of eligible costs. Consequently, the average single-family tax bill in Adams increased about \$185 beginning in FY2015. As the larger member of the ACRSD, Adams is responsible for 65 percent of the district's annual operating assessment. The gap between student enrollments and operating expenses has been widening to an untenable degree. A state Community Compact grant provided funding for the district and member towns to commission the Edward J. Collins, Jr. Center for Public Management to analyze regional school trends and propose cost-saving measures. In its February 2017 report, the Collins Center presented a series of cost reduction strategies and best practice recommendations that, if implemented, could save the district up to \$1.1 million.

Shortly after the release of the report, the regional school committee voted, with a 4-3 split along town lines, to close the Cheshire elementary school, reconfigure space among other existing school buildings, and continue operating the C.T. Plunkett elementary school in Adams. The school committee's decision to close Cheshire elementary school was so unpopular that it delayed adoption of the FY2018 school budget beyond the March 31st deadline required by the Department of Elementary and Secondary Education.



ADAMS RESIDENTIAL POPULATION

Source: DLS Databank and UMass Donahue Institute

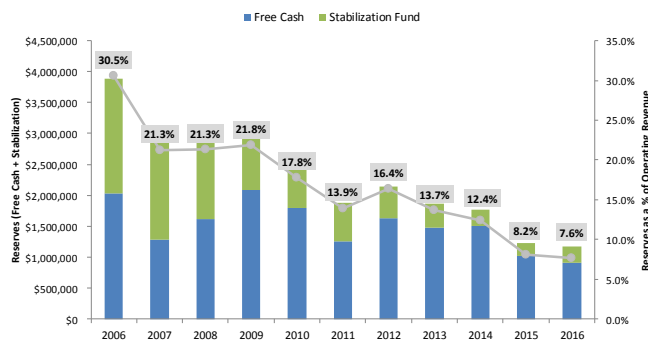


ACRSD STUDENT ENROLLMENT

Department of Elementary and Secondary Education

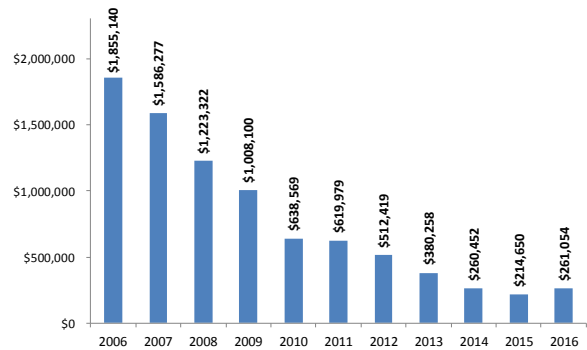
¹ FY2015 and FY2016 Schedule A, Part 2, General Fund Expenditures, Education (300)

Up until FY2016, the town has continually used the stabilization fund to pay down debt service and free cash to reduce the tax rate, and these actions substantially eroded the town's reserves over the past decade. When measured as a percentage of operating revenues, the reserves declined from 30.5 percent in 2006 to 7.6 percent in 2016. Although the town maintains reserves slightly below our recommended guidelines of eight to ten percent of operating revenues, the rapid decline over the past decade signals budgetary distress.



RESERVES AS A % OF REVENUES

Source: DLS Databank



STABILIZATION FUND

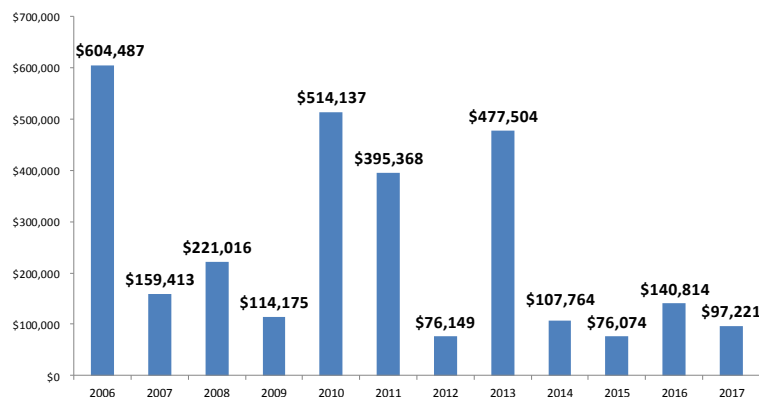
Source: DLS Databank

Town budget documents indicate a 14.9 percent increase in the cost of employee benefits from FY2015 to FY2018. As a member of the Berkshire Health Group, the town offers Blue Cross/Blue Shield medical coverage, with no deductible, to eligible employees. Active employees are covered under a 75/25 contribution rate. The town adopted a change in the premium allocation rate for retired subscribers, from 75/25 to 70/30, in an effort to control increases. At this time, the town is exploring lower-cost, higher-deductible plans that may be supplemented with a health reimbursement account program. We support the town's efforts in researching alternatives and encourage additional cost-saving measures to address the rapidly escalating cost of employee fringe benefits.

Since 1971, Adams has operated a wastewater treatment plant, which currently provides sanitary sewer services to approximately 90 percent of the town's residents and businesses. The plant is permitted for an average flow of 4.6 million gallons per day (MGD) between November 1 and May 31 and 3.5 MGD between June 1 and October 31, but it averages only 2.2 MGD. This excess capacity indicates the town can support new economic development ventures within the existing wastewater infrastructure. For example, Adams has an opportunity to expand services by offering flow to private septage haulers and other communities.

In 2004, town meeting approved a \$3 million renovation to the wastewater treatment facility, the cost of which was approved within the levy limit and added to the general fund's outstanding debt. The project was permanently financed in 2006 and, as a result, the town's excess levy capacity quickly

declined along with the stabilization fund, which was used to pay the debt service over the next several years. All costs of the operation, including labor, expenses, equipment, insurance, and debt service, are borne by the general fund and embedded into the property tax rate. By this method, the costs of providing sewer services are based on property values rather than consumption. Not surprisingly, this leads to inequities when, for example, a business property valued at \$110,000 pays the same amount in taxes as a senior living alone in a single-family dwelling also valued at \$110,000, though their relative sewer consumption may vary considerably. We discuss this further in the Financial Planning Recommendations section of this report.



EXCESS LEVY CAPACITY

Source: DLS Databank

Given the numerous factors impacting the town's financial flexibility, it became evident to local officials that urgent action was needed to resolve the imbalance between maintaining services and funding those services. In the FY2016 budget, town meeting authorized a 15 percent workforce reduction, affecting services in tourism, public works, and various administrative offices. Across all departments, several full-time positions were scaled back to part-time, resulting in cost savings in wages, benefits, and long-term benefit liabilities.

Immediately following town meeting, in July 2015, the town administrator instituted a program of public workshops focused on town meeting and municipal finance matters in an effort to course correct and to engage stakeholders. We laud these outreach initiatives to promote accessibility to town government, enhance transparency, and encourage civic engagement among residents and business owners. Supported by the select board and buoyed by a willingness to break with longstanding practices, the town administrator began to implement additional strategies such as:

- Cutting short- and long-term costs by reducing the workforce and its associated fringe benefit obligations
- Adopting financial management policies

- Reducing use of one-time revenues as a funding source in the operating budget
- Developing confidence in the town's future financial direction
- Shaping financing plans to fund capital projects needed to protect the town's infrastructure and rolling stock
- Improving executive-level communication and transparency

About two years ago, the town adopted both the meals (0.75 percent) and room occupancy (6 percent) excises. A locally adopted financial policy dedicates the meals excise revenue to a special revenue fund supporting economic development in the community. Local officials had projected that the meals tax could generate up to \$80,000 annually, and are on track to reach this goal for FY2018.

In June of last year, town meeting adopted the FY2017 budget, which reduced library and public works staff. Additionally, emergency dispatching services were regionalized and relocated to the Pittsfield Jail, which eliminated two more full-time positions. In the absence of new revenues to support general operations, it is doubtful any of the eliminated positions will be restored. Rather, it is likely these lower staffing levels represent a new baseline, and the town's focus is to provide services as efficiently as possible within these limits.

Apart from the town's fiscal constraints, certain structural impediments undermine the coordination of some basic financial management duties. For instance, the treasurer/collector, elected in 2014 and currently serving her second term, has not reconciled cash with the accountant on a consistent basis. While each office is responsible for conducting its own independent operation, they share a duty to ensure fiscal accountability. Prompt and frequent reconciliations of cash and receivables between these two offices are essential to maintaining controls and ensuring checks and balances are in place. Lacking authority over elected officials, the town administrator is limited in his ability to remedy this ongoing issue.

As with many Massachusetts municipalities, the Town of Adams has faced several fiscally challenging years. We commend local officials for facing difficult and unpopular decisions, making cuts to balance the budget, and establishing new standards of fiscal responsibility. As a result of these changes, positive trends in key financial areas have emerged to align a balanced budget, strengthen fiscal stewardship of the town, and incorporate essential best practices. On the following pages, we provide recommendations and observations to enhance the positive momentum achieved by the town.

STRUCTURAL RECOMMENDATIONS

1. Convert the Treasurer/Collector and Assessor from Elected to Appointed

We recommend the town join the majority of communities across the Commonwealth in modifying its financial management structure to include an appointed treasurer/collector and assessor under the town administrator. An appointed position provides access to a broader pool of candidates, who will be required to meet minimum job qualifications, have relevant education and experience, complete thorough background checks, and go through extensive interviews. An appointed position under the town administrator, as we propose, can also be more effectively monitored and held accountable to ensure activities such as monthly reconciliations are complete. To accomplish this, the town would need to modify Section 1A of its home rule charter, either via a special act of the legislature or through a charter commission.

2. Establish a Financial Management Team

We recommend forming a financial management team chaired by the town administrator and including the treasurer/collector, accountant, and assessor. A formally established financial team has proven to be an effective tool for addressing local fiscal policy and other finance-related matters in many communities. Regardless of whether the finance officials in Adams are elected or appointed, we would expect a common desire to be informed and well-coordinated to effectively manage the town's finances.

To promote strong cohesion, we suggest the town administrator establish a regular meeting schedule to provide a consistent forum for the discussion of budget, state and federal regulatory calendars and other finance-related deadlines. At these meetings, the team can collaborate on compliance matters, offer early strategies to deal with anticipated areas of concern, and coordinate the collection of data sets needed by the town's decision makers. The sponsorship of a financial team bylaw by the select board would signal a firm commitment to enhancing the town's financial management effectiveness.

3. Reduce the Size of the Finance Committee

Adams has a 15-member finance committee that considers all matters relating to town appropriations, makes reports and recommendations, and submits a budget at each annual town meeting. Several town officers stated that the committee's size has interfered with its productivity and effectiveness. We therefore recommend reducing it to a more manageable five- or seven-member committee.

From a practical standpoint, it can be challenging to coordinate such a large group. Reducing the size will help ensure each member participates actively and quorums are regularly attainable, while still allowing for a broad community representation. To bring in new points of view, the moderator should continually seek candidates who can provide a broad range of expertise and perspective. To reduce the size of the finance committee would require amending Chapter 46 § 46-1 of the general town bylaws through a town meeting majority vote.

4. Revise the Town Charter

The government structure in Adams is outlined in its charter and general bylaws, which together define the responsibilities of officeholders and summarize the procedures of government. According to the charter's footnotes, it was last revised in November 2004. TAB routinely recommends that a town review and update its charter every ten years. Although bylaw amendments can be used to effect some modifications, charter revision is the preferred means for change since it reflects a decision to assess all of municipal government rather than merely addressing individual aspects through incremental adjustments.

[M.G.L. c. 43B](#) contains provisions that allow a municipality to form a charter commission to alter its government structure. Such a commission, in Adams, may entirely revise the existing charter or simply amend selected charter provisions. Alternatively, as our preferred method, Adams could change its charter by a special act of the state legislature with approval of the governor. More information about restructuring government can be found on TAB's [webpage](#).

FINANCIAL PLANNING RECOMMENDATIONS

5. Develop Multiyear Forecasts of Revenues and Expenditures

We recommend that the town administrator develop and actively manage a multiyear forecast to serve as an early warning system to detect future gaps between revenues and expenditures. Warning signs were present for several years, such as habitual reserve reductions, stagnant state aid, increasing debt obligations, and escalating employee benefit costs. However, there is no evidence that prior town administrators prepared multiyear revenue and expenditure forecasts detecting budgetary gaps or projecting the impact of budgetary decisions.

As a living document, a forecast includes reasonable assumptions that must be continually evaluated and updated to reflect changing circumstances and events. By doing so, the forecast provides a fair

representation of the community's fiscal future to help guide the budget and strategic planning process. TAB offers a financial forecasting policy and practical tools that that town may wish to use. To view and download samples², please visit the *Community Compact Reports* section of our [webpage](#).

6. Revise and Adhere to Financial Reserve Policies

In February 2017, the town administrator developed, and the select board adopted, a set of financial policies. It includes a free cash policy establishing a minimum amount, or “floor”, of free cash to maintain. We recommend the town revise the policy to establish minimum, maximum, and target goals for free cash. The policy should also include appropriate uses of free cash, such as funding snow and ice deficits, paying down other postemployment benefits liabilities, funding the capital improvement plan, or purchasing smaller, noncapital assets to support departmental operations.

As mentioned in the analysis section, the town drew down reserve balances over the past decade to pay for operating expenses, including debt service. The use of one-time resources for ongoing operations is not a sustainable practice as there is no guarantee these funds will be replenished. Maintaining healthy reserves provides cash flow liquidity and enables the town to respond to emerging issues. Best practices recommend that the town maintain free cash between three and five percent of operating revenues and a stabilization fund between five and seven percent of operating revenues. In the absence of extenuating circumstances, those reserves should not be used for recurring expenses. The Appendix includes a worksheet to calculate annual reserve goals and other financial targets.

7. Revise and Adhere to an Operating Reserve Fund Policy

We recommend the town develop and adhere to an operating reserve fund policy. Adams currently appropriates, in the annual budget, a fixed amount of \$175,000 for an operating reserve account. The town's policy states that the remaining balance shall be transferred via town meeting vote to the general purpose stabilization fund at the close of the fiscal year. For the period of FY2007 through FY2017, the town transferred over \$960,000 from the operating reserve account to the stabilization fund.

[M.G.L. c. 40 § 6](#) allows towns to establish a reserve account and fund it within the annual operating budget. The fund's purpose is to respond to extraordinary or unforeseen financial obligations that arise during the fiscal year. These funds may not be encumbered or carried forward in any manner. We

² *Sample: Dunstable, MA Financial Forecast*

<http://www.mass.gov/dor/docs/dls/mdmstuf/technical-assistance/finmgmtrev/dunstableccc32017.pdf>

suggest the town revise downward the amount appropriated and, by doing so, free up budget capacity for debt service, capital outlay, or other expenses. We further advise the town to appropriate an amount equivalent to no less than \$50,000 and no greater than one percent of the previous year's tax levy.

8. Continue to Expand the Financial Policy Manual

We recommend the town supplement its policy manual to include additional core financial planning and operational policies to help guide responsible stewardship of the town, promote transparency and trust in government, and provide additional assurance to credit rating agencies of the fiscal dependability of the town's leaders. We further recommend communities periodically update their financial planning and operations policies to reflect current business practices. The table below displays the policies TAB deems to be essential, as well as optional policies the town should consider.

	CORE POLICIES	OPTIONAL POLICIES
Financial Planning	Forecasting Capital Planning Financial Reserves Debt Management Investments OPEB Indirect costs	Town/School Revenue Sharing Finance Committee Reserve
Financial Operations	Reconciliations Tax Enforcement Revenue Turnover Antifraud Conflict of Interest	Procurement Travel Reimbursement Annual Reporting Requirements
Other		Financial Management Team Overlay Disbursements Cash Flow Reporting Tax Recapitulation

To view and download policy samples, please visit the *Community Compact Reports* section of TAB's [webpage](#).

9. Incorporate Asset and Fleet Schedules into the Capital Improvement Plan

We recommend the town administrator develop and actively maintain schedules of the town's assets. An effective capital improvement plan requires the implementation of an asset management program, including a detailed inventory of all town-owned structures, fleet, and other large, durable equipment. Without a proper record of what is on hand, it is difficult to develop a strategy for current and future capital needs. The most valuable asset management schedules include dates of acquisition or last improvement, current conditions, and estimated dates for replacement or expansion. When asset schedules and capital requests are viewed together, local officials can address both the maintenance and care of existing assets as well the replacement or purchase of new ones.

Beginning with the accountant's fixed asset records, the town administrator should cross-reference the schedules against the town's property and casualty insurance policies for completeness. The schedules should also reflect planned road improvements and master plan initiatives. Updating these documents should be part of the annual capital budget process.

Reference materials and sample forms are available on the *Tools and Financials Calculators* section of TAB's [webpage](#).

10. Reexamine the Option to Establish a Sewer Enterprise Fund

Despite previous unsuccessful town meeting votes on the matter, we recommend the town administrator present a comprehensive proposal to stakeholders to determine whether converting to an enterprise fund is the best course of action for the wastewater department. A recent [City & Town article](#) reported on the growing adoption of [enterprise funds](#) across the Commonwealth.

Enterprise funds connect service consumption with its associated expenses to equitably distribute costs among ratepayers. Some local officials maintain that the split property tax rate provides sufficient budgetary support to cover the disparities in demand between residential and commercial/industrial accounts. Others reason that an enterprise fund is needed to equitably charge for services based on consumption. There is no "one-size-fits-all" approach to enterprise funds; rather, it must be rooted in a local decision. Given the complex nature of the issue, we encourage local officials to evaluate multiple options, including converting to:

- A self-supporting enterprise fund
- An enterprise fund with a permanent general fund subsidy
- An enterprise fund with a declining general fund subsidy

11. Establish a Board of Trustees for the Other Postemployment Benefits (OPEB) Trust Fund

In June 2015, annual town meeting established an irrevocable OPEB trust fund under [M.G.L. c. 32B, § 20](#). Town meeting appropriated \$10,000 to the fund in fiscal years 2016 and 2017. In accordance with a town policy of increasing the prior year's appropriation by \$10,000, the FY2018 budget requests \$20,000. The amounts appropriated to date are well below the annual required contribution (ARC) as reported in the town's June 30, 2016 Governmental Accounting Standards Board Statement 45 actuarial valuation. Despite not meeting the ARC, we commend the town for its continued funding efforts and in demonstrating to creditors a good faith effort to address the liability.

At this time, the treasurer/collector is the sole trustee and custodian of the trust, responsible exclusively for the sound investment and management of these funds. To become compliant with the Government Accounting Standards Board and its Statement 75, we advise the town to reaccept [M.G.L. c. 32B, § 20](#). Subsequently, selectmen should establish a board of trustees to implement an effective OPEB trust investment and management strategy. An investment option the town may wish to consider is the [State Retiree Benefits Trust Fund](#) (SRBT).

Note: Section 238 of Chapter 218 of the Acts of 2016 (Municipal Modernization Act) specifically provides that OPEB funds established before the effective date of the Act, November 7, 2016, will continue as originally established, unless the community "reaccepts said section 20 of said chapter 32B after the effective date of this act." Therefore, to operate an OPEB fund under the amended section 20, town meeting would have to vote to reaccept [M.G.L. c. 32B, § 20](#) after November 7, 2016. If the town reaccepts section 20 and does not invest in the SRBT, town meeting must also authorize investment under the prudent investor rule [M.G.L. c. 203C](#) for additional investment options.

12. Readvertise for Auditing Services

Independent audits are critical to sound financial management by providing a measure of assurance that town assets are safe and being handled responsibly. As a rule, the town should issue a request for auditing services every five to eight years, provided there is adequate competition among qualified auditors. Based on a review of our records, Adams has been with the same outside audit firm, Adelson & Company PC, for over seven years. Contracting with a new audit firm will not only bring a fresh perspective and foster objectivity, but also reflects good practice. Short of contracting with a new firm, the town can also ask to rotate the audit lead.

As a resource, please review our Annual Audit Best Practice found in the *Departmental Procedures* section of the TAB [website](#).

OPERATIONAL RECOMMENDATIONS

13. Complete Cash and Receivable Reconciliations Monthly

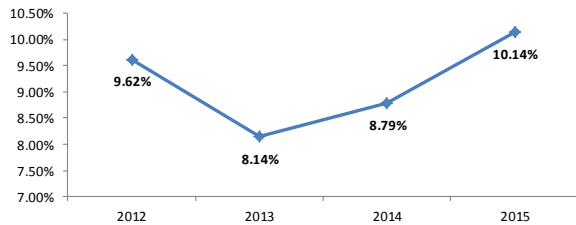
We recommend the town administrator monitor monthly reconciliations of cash and receivables, which are critical financial controls. The lack of regular reconciliations has been repeatedly cited in management letters, impacts the town accountant's ability to file year-end reports to DLS timely, and delayed the start of the FY2016 year-end audit field work.

Regular reconciliations are essential for protecting town assets, and the failure to do them has the potential to affect the town's credit worthiness. As such, the town administrator should require a joint report of reconciliation activity from the treasurer/collector and town accountant each month. Financial management team meetings present a vehicle to discuss the status of reconciliations and address any obstacles that may interfere with the timely and accurate reconciliation of these records.

14. Pursue Delinquent Receivables More Aggressively

We recommend the treasurer/collector take the necessary steps to move delinquent receivable accounts into tax title before the town's automatic liens expire and to stay current with subsequent tax takings. A tax lien is valid for three and a half years from the end of the fiscal year for which the taxes were assessed, unless the property's ownership is transferred or the tax is discharged by a municipal lien certificate. Once in tax title, the treasurer/collector should continue to take appropriate action to initiate foreclosure proceedings, especially on high value properties. Each year, the treasurer/collector should identify the largest tax title accounts to prepare for foreclosure and proceed in Land Court in an aggressive fashion.

Our four-year analysis of outstanding real estate and personal property receivables indicates an average collection rate of 90 percent, which is well below the recommended best practice level of 98 to 99 percent. If uncollected taxes are higher than five percent of a community's net tax levy (tax levy less overlay), or the trend shows uncollected taxes increasing, as is the case in Adams, then the town is in a weakened financial position. If left unchecked, inadequate cash flow could impact the town's ability to pay its obligations on time or force it to defer necessary purchases. Although the treasurer/collector inherited a large delinquency backlog, she has had made no noticeable progress in addressing it and the year-over-year uncollected rate has continued to rise during her three years in office.



**OUTSTANDING REAL AND PERSONAL PROPERTY RECEIVABLES
AS A % OF PROPERTY TAX LEVY**

Source: DLS Databank, Outstanding Receivables

	2013	2014	2015	2016
Personal Property	\$20,138	\$25,929	\$29,669	\$35,347
Real Estate	\$679,658	\$802,769	\$1,004,262	\$1,072,535
Motor Excise	\$207,543	\$200,075	\$190,813	\$205,371
Tax Title	\$355,676	\$483,208	\$401,215	\$371,075
Foreclosures	\$27,168	\$37,192		
	<u>\$1,290,183</u>	<u>\$1,549,173</u>	<u>\$1,625,959</u>	<u>\$1,684,328</u>

OUTSTANDING RECEIVABLES

Source: DLS Gateway

Town officials should also note that the successful collection of outstanding taxes requires an infusion of resources sufficient to cover advertising and filing fees, as well as ongoing commitments from the treasurer/collector, town administrator, and board of selectmen. Under [M.G.L. c. 60, § 15B](#), the town can establish a tax title collection revolving fund and provide financial resources to secure liens for delinquent real estate tax receivables and to foreclose tax titles.

15. Implement Procedures to Resolve Unclaimed Checks

We recommend the treasurer/collector establish a process to resolve unclaimed checks, which are known as tailings. Tailings commonly include tax refunds, vendor payments, and payroll checks that have been issued but remain uncashed. Since her election in May 2014, the treasurer/collector has not addressed the accumulating tailing balances, currently estimated at \$15,000, and we recommend she develop a plan and timeline to resolve this issue.

To begin, a diligent effort should be made to contact the payees to determine whether issued checks that appear stale should be either voided or reissued. For those payees who cannot be located, the treasurer/collector should initiate the procedures outlined in [M.G.L. c. 200A, § 5](#) and [M.G.L. c. 200A, § 9A](#). Moving forward, the treasurer/collector should complete the following steps to keep the list of unclaimed checks to a minimum:

- Review the outstanding check list during the monthly process of reconciling the cash book to bank statements.
- Notify the appropriate department head when a vendor, employee or other check is uncashed for 30 days or more, and request that he or she contact the payee to determine why the check has not been cashed.
- If the payee is contacted, notify him or her that the check will be voided if not cashed within 30 days. If the payee cannot be located, void the check and notify the accountant. In either case,

the town's obligation remains for three years from date of issuance, but a new invoice and warrant approval will be necessary to reissue payment.

16. Update the Town Website

Adams has a website that provides departmental listings and contact information, community links, access to forms, electronic payment options, news, and announcements. To help residents interact more effectively with town hall, and vice versa, the town plans to update and modernize the site. A comprehensive, up-to-date, and accurate website generates public awareness, promotes confidence in government, and provides opportunities for greater citizen engagement. We encourage the town to update its website to correct broken links and include important information such as:

- Town meeting minutes
- Economic development projects, funding sources, and project status reports
- Assessor's forms (e.g., forms of list, exemption forms, income and expense forms)
- Billing due date notifications
- Bids and proposals

APPENDIX – FINANCIAL TARGETS WORKSHEET

This worksheet is to be used by policymakers to establish a framework for budgetary and capital benchmarks, stabilization fund targets, and total targeted reserves. It should be an active, living tool that is updated annually and reflects fiscal policies of the town.

FINANCIAL TARGETS WORKSHEET

PURPOSE: To determine dollar amounts based on policy decisions, and apply those amounts to the current year's budget and capital planning process.

Instructions

Section [I]: Enter values in the PEACH colored cells
Section [III]: Enter values in the PEACH colored cells

[I] DEMOGRAPHICS				ENTER LOCALLY ADOPTED POLICY DECISIONS FOR:			
Enter fiscal year being budgeted		2018		Minimum Cost of item to borrow		\$ 50,000	
Enter prior fiscal year		2017		Minimum Cost of item requiring debt exclusion		\$ 500,000	
Enter most recent EQV		\$ 497,127,100					
Enter FY2017 Total Assessed Valuation		\$ 507,917,076					
Enter FY2017 Tax Levy		\$ 11,131,708					
Enter FY2017 General Fund Gross Operating Revenue		\$ 15,546,735					
Enter revenue offsets (as positive amounts):				Establish targets for the following as a % of Net Operating Revenues:			
Debt service for:		2017 \$ 565,003		Combined Reserves (i.e., FC/Stabil/Other)		8.00%	
MSBA Reimbursement for:		2017 \$ -		Budgetary Reserve Fund		1.00%	
Other (enter description and reason)		\$ -		Capital Plan Funding-Direct debt		5.00%	
Other (enter description and reason)		\$ -		Capital Plan Funding-Exempt debt		2.50%	
Add rows as needed and adjust formula.		Total \$ 565,003		Debt service-Direct debt		5.00%	
				Debt service-Exempt debt		2.50%	
				Enter local policy levels for the following:			
				Debt service as a % of assessed value		0.10%	
				Total Outstanding debt as a % of assessed value		1.00%	
Net Operating Revenues							
		\$ 14,981,732					

[II] RESERVES							
Targets as a % of Operating Budget							
	Minimum		TARGET		Maximum		
Free Cash	3.00%	\$ 449,452	5.00%	\$ 749,087	10.00%	\$ 1,498,173	
Stabilization Fund	5.00%	\$ 749,087	5.00%	\$ 749,087			no limit
Education Stabilization Fund	0.00%	\$ -	0.00%	\$ -			no limit
COMBINED TOTAL RESERVES							
	Minimum		TARGET		Maximum		
% of Net Operating Revenues	5.00%	\$ 749,087	10.00%	\$ 1,498,173	10% of EQV	\$ 49,712,710	
COMBINED TOTAL RESERVES							
	Net	Monthly	GFOA Recommendation				
2 months Operating Revenues	\$ 15,546,735	\$ 1,248,478	2 Months	\$ 2,496,955			
RESERVES - OTHER							
	Minimum		TARGET		Maximum		
^(a) Budgetary Reserve Fund	\$ 50,000		1.00%	\$ 149,817	5% FY2017 Tax Levy	\$ 556,585	

[III] STABILIZATION: [SPECIAL PURPOSE]							
Targets as a % of Operating Budget							
	Minimum		TARGET		Maximum		
[Capital Stabilization] Fund	1.00%	\$ 149,817	3.00%	\$ 449,452			no limit
[Other-Insert Name] Fund	0.00%	\$ -	0.00%	\$ -			no limit

[IV] CAPITAL PLAN							
Targets as a % of Operating Budget							
	Minimum		TARGET		Maximum		
Annual capital plan [w/o exempt debt]	1.00%	\$ 149,817	2.50%	\$ 374,543	10.00%	\$ 1,498,173	
Annual capital plan [with exempt + non exempt debt]	7.00%	\$ 1,048,721	10.00%	\$ 1,498,173	12.00%	\$ 1,797,808	

[V] DEBT SERVICE							
	Minimum		TARGET		Maximum		
^(c) % of operating budget: non-exempt only	2.50%	\$ 374,543	5.00%	\$ 749,087	10.00%	\$ 1,498,173	
% of operating budget: exempt+non-exempt	5.00%	\$ 749,087	10.00%	\$ 1,498,173	20.00%	\$ 2,996,346	
As a % of total assessed valuation	0.10%	\$ 507,917	0.10%	\$ 507,917	1.50%	\$ 7,618,756	
Min cost of item debt eligible		\$ 50,000					

[VI] OUTSTANDING DEBT							
	Minimum		TARGET		Maximum		
^(b) As a % of assessed valuation	0.50%	\$ 2,539,585	1.00%	\$ 5,079,171	10% of EQV	\$ 49,712,710	

^(a) May not exceed 5% of prior year's levy

^(b) May not exceed 10% of total EQV per M.G.L. c.44 §10

^(c) Credit agencies suggest less than 20% of net operating revenues