



Town of Yarmouth

Financial Management Review

Division of Local Services / Technical Assistance Section

July 2011



July 14, 2011

Board of Selectmen
c/o Town Administrator's Office
1146 Route 28
South Yarmouth, MA 02664

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 Yarmouth. It is our hope that the information presented in this report will assist the town in improving its financial management practices, addressing areas of concern and meeting its long-term planning needs.

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

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

Sincerely,

A handwritten signature in black ink that reads 'Robert G. Nunes'.

Robert G. Nunes
Deputy Commissioner &
Director of Municipal Affairs

cc: State Senator Daniel A. Wolf
State Representative Demetrius J. Atsalis
State Representative Cleon H. Turner

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Introduction

At the request of the board of selectmen, the Department of Revenue's Division of Local Services (DLS) completed this financial management review for the Town of Yarmouth. The recommendations contained within this report are based on site visits by a team from the DLS Technical Assistance Section in consultation with the Bureau of Accounts and Bureau of Local Assessment. To complete the report we interviewed and received information from members of the board of selectmen, town administrator, assistant town administrator, finance director, treasurer, collector, director of assessing and others. A full list is available in the Acknowledgements section of this report. Included as part of our review, we examined and captured information from various documents including the Tax Recapitulation Sheet, Schedule A, Balance Sheet, and Yarmouth's annual budget, warrants payable and revenue and expenditure reports. We also reviewed the town charter and bylaws, locally accepted statutes, as well as the outside audit report completed by Malloy, Lynch, Bienvenue, LLP and the independent credit rating report by Standard & Poor's.

The scope of our assessment involved a review of the duties and responsibilities of finance officers in the context of Yarmouth's government structure. We also reviewed the degree of coordination and communication that exists between and among the various boards, committees and officials involved in financial management. We examined the budget, capital planning and warrant processes, and evaluated the general efficiency and effectiveness of financial operations and department administration. The report that follows offers a series of recommendations to enhance the town's overall financial management practices as well as those specific to the finance department related offices of accounting, treasury, collection, assessing and technology.

We encourage the board of selectmen, town administrator and others when formulating overall strategies for improving Yarmouth's financial management to consider the observations, analyses and recommendations contained within this report. In particular, these recommendations can be implemented only if there is sufficient determination and cooperation at all levels of local government.

Overview

The Town of Yarmouth is located in the mid-Cape region of Cape Cod. The town comprises about 24 square miles, and is bordered by the towns of Barnstable and Dennis. Cape Cod Bay and Nantucket Sound comprise its northern and southern boundaries. Yarmouth is approximately 75 miles from Boston, and is accessed by Route 6, 6A and 28. A seasonal community, Yarmouth has a population of 23,793 that nearly doubles during the summer months. As a relative indicator of wealth, estimated per capita income among residents is \$25,381 (state average: \$33,411), while the Equalized Valuation (EQV) per capita is \$258,627 (state average: \$155,402). In FY2011, the average single-family home value was \$321,016 (state average: \$361,600). Of particular note, the average single-family tax bill in Yarmouth is only \$2,774, which is one of the lowest rates on Cape Cod. In Appendix I, we include a comparison of Yarmouth to other communities located on Cape Cod.

The town charter and bylaws define the government structure in Yarmouth. Typical of communities this size, legislative power is vested in town meeting, while executive authority falls to the five-member board of selectmen. Selectmen are responsible for setting goals and establishing town policy. To carry out these initiatives, they appoint a full-time town administrator who manages day-to-day administrative activities on their behalf. The town administrator coordinates the activities of all employees and departments under the control of the board of selectmen. The extensive powers and duties of the town administrator are documented in section 4-3 of the town charter. Yarmouth hired a new town administrator in May after his predecessor retired following 30 years of service. The new town administrator brings extensive municipal management experience from Cape Cod, including the towns of Chatham and Dennis.

Yarmouth has adopted a consolidated municipal finance department authorized under M.G.L. c. 43C, §11. The board of selectmen appoints the director of municipal finance, who functions as the town accountant. She supervises the finance related departments of the treasurer, collector, accountant and assessors. We outline these departments in greater detail in the finance department section of this report. A full-time assistant town administrator, who has been with the town for about 10 years, is also present in town hall. He supervises community services, which includes the town clerk, council on aging, recreation, golf and IT departments. He also coordinates the capital planning process and oversees higher-level human resource issues.

Yarmouth's total operating budget in FY2011, as reported to the DOR on the Tax Recap Sheet, is \$78,410,714. Approximately 60 percent of the budget is funded through the tax levy, 34 percent from local receipts, two percent through state aid and four percent from other sources. The amount of state aid to Yarmouth reflects that town's membership in a K-12 regional school district where the bulk of Chapter 70 education aid goes to the schools. Education accounts for about 45 percent of the general fund operating budget. A combination of public safety, public works, general government, debt and other fixed costs account for the remaining portions of the budget. Yarmouth has also adopted the provisions of M.G.L. c. 44B, establishing a community preservation fund, which is a restricted fund

financed through a three percent surcharge on real property tax bills and state matching funds that can only be appropriated for legally defined purposes.

Certified free cash as of July 1, 2010 was \$1,086,943 or about 1.39 percent of the total budget. Among other reserves, the stabilization fund balance as of the close of FY2010 was \$208,715 or .27 percent of the total budget. As of June 30, 2010, Yarmouth had \$33,593,421 in total outstanding debt with annual debt service of \$5,747,404 or 7.73 percent of the budget. Of special note, Standard & Poor's raised Yarmouth's bond rating to AA- in FY2009, which they attributed to the town's long-term stable outlook and consistent financial position. In Appendix II, IV and V, we provide a history of Yarmouth's recent revenue and expenditure trends, reserve levels and a five-year history of total outstanding debt and annual debt service.

The financial challenges in Yarmouth are not unlike those in many communities. Increasing costs, revenue reductions and a drawdown in reserve levels continue to put pressure on local officials to operate more efficiently and effectively. Illustrated in the Appendix II, education costs have increased by over five percent a year over the last ten years, while over the same period rising fixed costs for employee health and pension benefits continued to climb. The cost of health insurance has been reined in recently, but Yarmouth still experienced an increase of more than 36 percent since FY2005 with the cost going from \$1,470,208 to \$2,006,553, as reported to DOR. At the same time, local officials have seen significant declines in available revenues. State aid has dropped by more than a million dollars since FY2009. Reserves, including free cash and stabilization funds, are also a concern. Despite a recent up-tick in certified free cash in FY2011, reserve levels have dropped by more than 45 percent in the last two years.

Because of these challenges, local officials have searched for innovative solutions to streamline government operations and reduce overall costs. A sampling of recent efforts include, adopting an employee self-service portal for payroll and human resource related activities; implementing a lockbox payment option and automating procedures within the collector's office to eliminate manual activities; negotiating with vendors for electronic bill presentment and free EFT payments; and, decentralizing and eliminating manual data entry and other activities in the accounts payable process. Still others include reengineering the financial management software to generate bills and using technology in the treasurer's office to streamline the cash reconciliation process.

Despite signs that the economy in Massachusetts is improving, there is little doubt that local officials need to stretch every dollar and think about innovative ways of doing things. The snapshot of data we include only confirms what local officials have observed in recent years that operating costs continue to climb, while revenue remains stagnant. However, with the hiring of a skilled and experienced town administrator and a collection of capable and engaged department heads and staff, we are confident that government will move forward in a positive direction. The recommendations we outline should serve to enhance Yarmouth's financial management practices and activities. They are designed to be constructive and work hand-in-hand with the goals and objectives established by the board of selectmen.

Overall Financial Management

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

The former town administrator controlled all aspects of budget development. With his departure, the assistant town administrator initiated the budget process, but it is likely to remain in flux until the practices of the recently appointed new town administrator are known. As in the past, the FY2012 budget process began in the fall when selectmen issue a policy statement to guide planning. Department heads were then asked to submit their operating and capital appropriation requests. The town administrator then develops and presents a draft budget simultaneously to the selectmen and the finance committee by December for their review. Selectmen input filters to the finance committee which completes its work by late February and in time for public comments received at a town-wide hearing scheduled in early March. Any further changes must be completed in time for the annual town meeting on the first Monday in April.

The offices of the collector and treasurer collect, post and deposit town receipts. The accounting office produces vendor and payroll warrants for review and approval by the selectmen. The assessors are timely in delivering property tax and motor vehicle excise commitments to the collector and, in general, a regular exchange of information between offices typically takes place. Staff is collectively responsible, as well, for the preparation of required submissions to DOR. The various finance officers collaborate and are historically timely in the preparation of the town's Tax Recapitulation Sheet, which is the basis of DOR approval of the annual tax rate. The town also submits its balance sheet, which is the basis for free cash certification, and the Schedule A on time. Separately, the town has an annual audit completed by Malloy, Lynch, Bienvenue, LLP. The most recent audit found the town to be in "general compliance" with internal controls and found no material weaknesses or reportable conditions.

Conclusion – From our vantage point, the town appears to have adequate financial controls. The budget process, although in flux, conforms to recommended practice, as does capital planning. The town also has proper vendor and payroll warrant procedures in place. Yarmouth benefits from the recent hiring of an experienced town administrator and professional staff including the assistant town administrator and finance department heads. Our recommendations that follow offer specific

opportunities to strengthen various policies, procedures and practices. The recommendations are prioritized with more significant recommendations addressing higher-level issues, such as government structure. Other recommendations offer guidance on financial management practices and procedures such as developing a formal reserve policy, leveraging capital spending and adopting quarterly tax billing.

1. Evaluate Government Structure

We recommend that local officials reevaluate the current structure of government. As Yarmouth continues to struggle with on-going budget constraints and a requirement to do more with less, discussions must focus on steps to streamline operations and reduce overall costs. At the same time, the recent departure of a town administrator with over 30 years in town hall and the hiring of a new town administrator provide the opportunity to gain a fresh perspective on government operations. Based on our observations, we encourage local officials to consider the consolidation of the treasurer and collector positions, the creation of a human resources position and an expanded role for the finance director. We elaborate on each of these recommendations below:

Combine treasurer & collector positions: Because of the parallels in responsibilities, many communities find that having the duties combined in one office generates efficiencies in terms of personnel and cash management. Specifically, having receipts collected, counted, posted, deposited and managed in the same office makes organizational sense. In Yarmouth, the pending retirement of the collector this summer presents a good opportunity to combine positions and consolidate offices. If a decision is made to merge the positions of treasurer and collector, staff in each office should be cross-trained so individually they could manage all office responsibilities.

Develop human resource officer: The Town of Yarmouth is of a sufficient size to warrant a full-time human resources position. While a combination of individuals currently handles human resource and other personnel related activities, including the assistant treasurer and assistant town administrator, a full-time position would provide for a more robust human resources function. Moving forward, we envision an individual addressing matters of recruitment, selection and hiring, promotion, performance evaluation, grievance procedures, discipline, layoffs, employee policy and training, as well as providing support to collective bargaining decisions. If the consolidation between the treasurer and collector's office occurs, we believe the assistant treasurer, with additional training, might be in the best position to assume the lion's share of these responsibilities. She estimates that approximately 80 percent of her time is already spent on personnel related activities.

Reexamine role of finance director: Yarmouth's finance director is responsible for supervising the activities of the various finance related offices including the treasurer, collector, assessor and accountant. Contrary to the typical finance director's role, she is not involved in coordinating the annual operating and capital budgets. Based on our experience, we feel the role of the finance director should be expanded so it not only involves supervising the finance team and monitoring internal controls, but orchestrating higher-level budget and capital planning activities. This would include completing

revenue and expenditure projections, developing fiscal policy and serving as a liaison between and among the various boards and committees.

To address these recommendations, Yarmouth's charter under Section 4-5 allows the town administrator to "recommend to the board of selectmen and implement, with the selectmen's approval, [the] reorganization of any department or position" under his direction or supervision. Given this authority, we suggest that the board of selectmen direct the town administrator to review government operations and report on any meaningful changes that would build a more effective and efficient organization.

2. Consider Alternative Approach to Article 5

Article 5 is a litany of funding sources deemed necessary to the annual operating budget. While every appropriation article must state a purpose, amount and funding source, Article 5 is an overly cumbersome means of satisfying these requirements and is an approach we have not seen anywhere else. To meet the requirements of the law and streamline the budget approval process we recommend the following.

Discontinue Offset Receipts: Even apart from the matter of Article 5, we would strongly recommend that the town eliminate offset receipts. It is an archaic budget methodology no longer in favor among almost all Massachusetts cities and towns. If eliminated, the corresponding Article 5 revenue sources can be removed as well.

Through so-called "offset receipts", the Town of Yarmouth earmarks the revenue a department collects as a direct funding mechanism to defray or "offset" all or part of the department's annual operating budget. If, by the close of the fiscal year, receipts do not materialize in the amount approved then the resulting deficit must be raised on the following year's Tax Recap Sheet. Any surplus would flow to free cash. Current departments using offset receipts include, among others, recreation, sanitation, health and building.

In a more sound approach, local officials should close-out these accounts and direct any departmental revenue to the general fund for appropriation. In this way, all departments would be subject to the same budgeting rules, revenue projections would be more straightforward, threat of deficits would be reduced and planning for free cash would be simplified. Where appropriate, revenue could be directed to an already existing enterprise fund or special revenue fund might be established, such as a revolving fund under M.G.L. c.44, §53E½.

Identify Enterprise Fund Revenue Sources: The proposed departmental operating budget presented at annual town meeting includes enterprise fund salaries and expenses with related receipts listed as part of the Article 5 motion. Moving forward, enterprise fund appropriations could continue be included as part of the line item budget, but identify the specific revenue sources, such as user charges and transfers to the general fund to cover indirect costs that pertain to that fund. It this way, the warrant article itself would identify related receipts and any transfers, rather than listed in the motion. We encourage local officials to review the Enterprise Fund Manual available at www.mass.gov/dls under DLS Publications.

Identify Funding Sources directly in Line Item Budget: Once offset receipts are eliminated and the details of enterprise fund budgets are provided in separate warrant articles, all that remains in Article 5 are revenue sources for individual budget lines items. To address these, we recommend a simple addition to the town's annual budget format.

The budget warrant article currently lists in columns actual spending for the last completed fiscal year, previously appropriated spending for the current fiscal year, plus departmental requests and recommended appropriations for the upcoming fiscal year. We suggest that the finance committee insert an additional column along the right that would list the revenue source for each proposed line item expenditure. A sample format from the Town of Westwood is shown in Appendix III. If a separate article is not included for each enterprise fund, then a funding source (i.e., water rates) can be placed next to those departments' line items.

With these changes, the Article 5 list of funding sources can be eliminated and the reading and separate approval of funding sources can stop altogether.

3. Develop Formal Reserve Practices

We recommend that local officials adopt and commit to practices that encourage the accumulation of reserves. Yarmouth's financial reserves, including free cash and stabilization funds, are limited, especially when measured against peer communities and a broader statewide index of cities and towns (see Appendix IV and www.mass.gov/dls under Municipal Data and Financial Management > Data Bank Reports > Debt/Financial Indicators > Free Cash and Stabilization Fund Balances as Percentage of Budget). As reported to DOR, Yarmouth's certified free cash of \$1,086,943 and stabilization fund balance of \$208,715 as of June 30, 2010 amounted to 1.65 percent of the total annual operating budget. While low, this total also reflects a continued erosion of reserve levels over the last ten years. By comparison, in FY2002, the combined balance between free cash (\$4,734,135) and stabilization (\$757,112) was equal to \$5,491,247 or 9.29 percent of the total operating budget. Below we offer a series of policy steps, which if formalized and adhered to, will help the town rebuild its reserves:

Stabilization:

- Establish a target balance for the stabilization fund in a total dollar amount or as a percentage of the total annual budget. Over time, the town should commit to raise and maintain a cumulative stabilization balance in the range of three-to-five percent of the operating budget;
- Appropriate non-recurring revenue (i.e. free cash), or surplus revenue, to the stabilization fund; and,
- Restrict the use of stabilization funds to non-recurring expenditures and only in an amount above a certain dollar threshold. Do not use stabilization funds to finance continuing operations.

Free Cash:

- Direct the use of all or a portion of free cash as a funding source for stabilization, or only as an outlay for one-time capital projects or purchases;

- If free cash must be used for operations, treat it as a general revenue source for the ensuing year's budget and not to supplement current year appropriations. Always retain a portion of free cash as unexpended to serve as a beginning point in the subsequent year's free cash calculation; and,
- The town administrator should annually report to the board of selectmen and finance committee on how free cash was generated in a given year and what, if any, factors contributed to a change in balance.

4. Leverage Capital Spending

Yarmouth has developed a thoughtful capital improvement plan and budget that set expectations and guide management decisions. Unfortunately, the single greatest challenge to this planning process has been the steady erosion of funds to a point where it is no longer a “progressive” investment tool, but one that only addresses deferred maintenance. As stated in the FY2012 report of the Town of Yarmouth Capital Budget Committee, the recommended \$647,300 for capital improvements from available funds (i.e. free cash) is approximately 40 percent less than the average amount allocated each year from 1986 through 2007. If the amount approved in 1986 were adjusted for inflation, Yarmouth would be spending approximately \$1,800,000 or an additional \$1,200,000 over and above current spending levels. The report goes on to state that the current “funding level is inadequate to meet the needs for equipment replacement and infrastructure maintenance and...will need to be supplemented with either borrowed funds or capital exclusions...to avoid equipment and infrastructure failures.”

We recommend that officials assess the town's financial capacity with an eye towards increasing the direct outlay and/or leveraging capital funds. The capital budget committee, with the help of the town administrator, should analyze the town's ability to carve out an incrementally larger direct outlay in advance of the capital planning process. Although funds may not be available, it is also important to examine recent and anticipated trends in debt to determine the town's capacity to leverage available funds through modest bonding. Local officials might consider using 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 officials can develop a manageable and consistent stream of funds to supplement capital spending. A formal debt policy, adopted by the selectmen, would specify the purposes for which long and short-term borrowing is permissible and establish goals for financing terms (i.e. less than ten years).

5. Rescind Borrowing Authorizations or Redirect Bond Proceeds

We recommend the town consider rescinding bond authorizations where a project has yet to begin or a set time period has passed since its approval by town meeting. To begin, officials should investigate the underlying reasons for a project's delay. Often, there may be situations when the original purpose no longer exists or priorities change. Generating a status report of projects and bond authorizations should become a

core responsibility of the capital budget committee. If two years have passed and bonds or notes are not issued, a reassessment of the appropriation is justified. According to the June 30, 2010 statement of indebtedness submitted to the Department of Revenue, Yarmouth has \$5,315,000 in authorized and unissued debt.

Officials should also review the benefits of merging excess bond proceeds and diverting the combined total to an alternative use. Remaining bond proceeds of completed, or abandoned, projects may be redirected by a two-thirds vote of town meeting to an alternative use. Required under M.G.L. c. 44, §20, the reappropriation “must be for a purpose for which a loan may be incurred for an equal or longer time than that of the original loan, including temporary debt.” A town meeting article is needed to group remaining bond proceeds according to their term and identify the purpose and amount of the new appropriation. A statement that the funding source is bond proceeds from previous articles where projects have been completed, or abandoned, should be inserted together with a list itemizing the funding sources.

Below, we provide a table of authorized and unissued debt in Yarmouth, as well as sample warrant articles to rescind borrowing authorizations and to redirect bond proceeds.

DOR Statement of Indebtedness

Purpose	Date of Vote	Article Number	Amount Authorized	Issued, Retired, Rescinded	Unissued
Roads	4.12.06	26	\$5,000,000	\$2,165,000	\$2,835,000
Wastewater Planning	4.10.07	14	400,000	200,000	200,000
Sewer Design System	4.09.08	12	3,100,000	2,100,000	1,000,000
Capital Projects	5.04.10	12	1,280,000	0	1,280,000
Total Authorized and Unissued Debt:					\$5,315,000

Sample Rescind or Redirect Town Meeting Warrant Articles

Article XX. RESCIND BORROWING AUTHORIZATIONS. To see if the town will vote to rescind the following borrowing authorizations for projects completed under budget or no longer needed, as stated below, or to take any action relative thereto:

Purpose	Date of Vote	Unissued
Roads	04.12.2006	\$2,835,000
Wastewater Planning	04.10.2007	200,000
Sewer Design System	04.09.2008	1,000,000
Total Unissued:		\$4,035,000

Article XX. REDIRECT BOND PROCEEDS. To see if the town will vote to redirect remaining bond proceeds from the following completed projects to new purpose(s) as indicated below:

Completed Project	Proceeds	New Purpose	Amount
Wastewater Planning	\$30,000	Roads	\$80,000
Sewer Design System	50,000		
Total:			\$80,000

6. Restructure Assessors Revaluation Spending Authorization

We recommend that the board of assessors submit a separate article to town meeting authorizing funds to cover the consulting costs associated with the triennial town-wide property revaluation. Currently, the capital budget committee proposes a warrant article requesting town meeting authorization for various capital spending purposes, including the assessor's revaluation. The assessor's revaluation involves the purchase of a service and does not meet the definition of a capital item. Therefore, it is more appropriately funded through a separate, standalone spending authorization, which would also allow balances to carry over from year to year. Below, we provide sample language for a town meeting warrant article:

Article XX. ASSESSORS REVALUATION. To see if the town of Yarmouth will vote to raise and appropriate from available funds the sum of \$XX for the purposes of completing the Fiscal Year 20XX Revaluation as mandated by the Massachusetts Department of Revenue and required by M.G.L. c. 40 §,56.

7. Adopt Quarterly Tax Billing System

The Town of Yarmouth currently issues real estate and personal property tax bills on a semi-annual basis. Although Massachusetts General Laws allows for a semi-annual tax billing process, communities have an option to issue quarterly tax bills under M.G.L. c. 59, §57C. This local option enables towns to collect property taxes four times per year instead of twice, which increases interest earnings and reduces the potential for short-term revenue anticipation borrowing.

To reduce workloads, communities with a quarterly tax billing system can mail two preliminary bills by July 1 and two actual tax bills by December 31 after the tax rate has been set. Payments are received four times a year, due on the first of August, November, February and May. The first two payments are equal to one half of the prior year's bill and may be adjusted to reflect the annual 2.5 percent tax increase allowed under Proposition 2½ and any increase attributable to approved overrides or debt/capital exclusions. The final two quarters represent the actual tax payment owed minus the first and second quarter payments.

As of this report, 272 or 77.5 percent of communities have adopted quarterly tax billing, in contrast to the 72 municipalities that issue semi-annual and the seven that issue preliminary semi-annual bills. In fact, Yarmouth is one of only three communities with a similar population that still issue tax bills semi-annually. Issuing tax bills on a quarterly basis does involve more work and will affect operations, at least initially. There will be an incremental cost increase for issuing two extra bills per year, which can be offset by including two payment coupons in one mailing every six months. The collector's office will need to process payments during two additional periods, but online payments, lockbox and other alternative payment options can be encouraged. The assessor's office will need to have property records updated by July 1 in order to generate the tax commitment for mailing preliminary

tax bills. Regardless, we feel there is a sufficient benefit to offset the cost because the town will receive an infusion of cash every three-months, thereby improving cash flow.

To adopt quarterly billing, local officials must seek town meeting authorization by a majority vote accepting M.G.L. c. 59, §57c. In addition, DLS requests a notification of acceptance through a form available at www.mass.gov/dls, under Municipal Data Bank > Data Bank Reports > Local Options.

8. Revise Disaster Recovery Plan

We credit Yarmouth's IT department for developing a formal written disaster recovery plan, which is often lacking in communities we visit. However, based on our observations it appears the plan is outdated and might need to be revised. Any organization can experience a serious incident that stops normal day-to-day workflow and prevents it from continuing normal operations. Under these circumstances, it is important that Yarmouth's IT director take the necessary steps to update the town's disaster recovery plan in order to ensure the continuation of services.

9. Encourage Remote Backup

Backup systems in Yarmouth are typical of most municipalities. On a routine schedule town hall data is backed-up to tapes that are held offsite at one of the town's public safety buildings. We encourage local officials to explore redundancy options and to consider storing computer files remotely through an online cloud storage solution similar to how the financial management software application MUNIS is protected. Remote backup in a secure offsite datacenter can be provided by a relatively inexpensive, web-based subscription service. Typically, remote backup software is installed which manages the file selection, backup scheduling and location of backups.

10. Consider Helpdesk Software Application

The IT department currently receives user service requests through email. While this system appears to be adequate, we recommend the IT department adopt a helpdesk tracking and management system in an effort to streamline user support services. In a basic system, users submit requests that IT staff then prioritize. The system should identify when an issue was logged, who it was assigned to, what action has occurred to date and when it was closed. For end-users, the advantages of adopting a system include the confidence that a particular issue is being logged and prioritized through a standardized reporting and tracking mechanism, while for the IT department the system serves as a valuable management tool for prioritizing requests, identifying potential problem areas and establishing a structured workflow. It can also produce management reports that can help advocate for various software or hardware upgrades. A number of free or inexpensive help desk systems are available. We encourage the IT director to determine which system would be most appropriate for Yarmouth. As a more cost effective alternative, the IT department might simply begin logging user requests in a

spreadsheet so any trends are documented. In this way, the IT department can generate management reports, which can be useful for capital planning purposes or when requesting additional resources.

11. Complete Bylaw Review

We recommend that the board of selectmen form a five-member committee to review the general bylaws of the Town of Yarmouth and bring any amendments to town meeting. Chapter 3, Section 7 of the Yarmouth Town Charter states that the board of selectmen shall update the town bylaws at least every five years. A comprehensive review should determine that bylaws are accurate, current, and complete. Redundancies appear to exist between the town charter and bylaws such as the requirement for an annual audit, which might be rescinded. In addition, the personnel board under Chapter 35, Section 2 of the town bylaws appears to perform a duplicative function to the town administrator and represents an additional layer of bureaucracy that may be unnecessary.

As a starting point, the board of selectmen should define the scope of the committee's responsibilities along with a set of defined goals and objectives. The ad hoc committee would then convene to establish a regular schedule of meetings working backwards from annual town meeting when they will present a final report of any recommend changes. The bylaw review committee would hold public hearings and periodically meet with selectmen and other town officials, such as the town clerk, to inform them of their progress and suggestions.

12. Pursue Regionalization Opportunities

Signed by the Governor, the State's FY2012 budget includes an appropriation to support city and town regionalization efforts. The incentive program will provide financial assistance to help defray transition and other one-time costs related to regionalization and other efficiency initiatives. In addition, the Division of Local Services, in partnership with the Franklin Regional Council of Governments and Massachusetts Association of Regional Planning Agencies, will be hosting the third annual Regionalization Toolkit Conference on September 1. The conference is an opportunity where a broad group of participants will share their insight and experiences on regionalizing municipal services and best practices. Below we provide two specific examples we feel local officials should explore to regionalize municipal services with neighboring towns.

Regionalize Emergency Dispatch Communication Services: Due to ever-tightening public safety budgets and recent incentive grants provided through the State E-911 Department, a number of communities are forming regional dispatch services. The primary purpose of the grants is to provide development and startup support, as well as ongoing financial support to regional communication centers that receive 911 calls and dispatch, transfer or relay emergency responses. Yarmouth could use this funding, in partnership with neighboring communities, to augment communication staffing or pursue eligible equipment upgrades. To determine the best course of action, it is important, early in the process, to examine and analyze several important factors. These include the relative workloads,

vacancies, the need for major capital outlays, collective bargaining considerations, technology and equipment needs and any other barriers that may affect operational responsiveness. For additional information and assistance on the various grant programs, we encourage officials to view the State E-911 Department's website at www.mass.gov/e911.

Implement Automated Permits, Licenses, Inspections and Work Orders Software: A recent study completed by the Town of Yarmouth found that 88 percent of building permits are express permits taken out by licensed contractors. While express permits are efficient, the regional software solution proposed by local officials appears to offer an additional opportunity to streamline the process for customers and the towns. From what we understand, the concept involves an online self-service portal that includes applications and an e-commerce mechanism to pay for services. It also offers the flexibility, scalability and multi-user accessibility to host regionally so software costs could be offset.

13. Adopt Green Communities Designation

The Massachusetts Department of Energy Resources (DOER) Green Communities Division provides consulting services to cities and towns seeking a Green Communities Designation. Once designated, communities are eligible to receive grants to fund local projects that reduce energy consumption; create clean, renewable and alternative energy initiatives; and encourage economic development in the clean energy sector.

To be designated a Green Community requires a multi-step process. The municipality must apply to DOER's Green Communities Division for designation and demonstrate that it meets the five specific designation criteria. Once the application is reviewed and the municipality is determined to meet the five criteria, the newly designated community is eligible to apply for grant funding. The Division then evaluates the municipality's grant application and determines if the proposed projects are eligible for funding and provide the best overall beneficial impact for the municipality.

As of this report, 53 cities and towns have earned the Green Community Designation. In its first three years of operation, the Division has awarded \$12.2 million in grants to 97 municipalities to execute solar, thermal and photovoltaic installations, energy savings performance contracts and thermal-efficiency projects.

Finance Department

By town charter, the finance director in Yarmouth serves as the town accountant. She has been with the town for nearly 20 years. Office staff includes a full-time assistant town accountant and two finance technicians. A part-time financial analyst also supports the department. Beyond supervising accounting activities, the finance director oversees the treasurer, collector and assessing divisions. The assistant town accountant is primarily responsible for handling day-to-day accounting activities including posting journal entries and verifying bills payable. The financial analyst is an expert in business process reengineering whose role has expanded to include a wide range of town initiatives to streamline activities. The two finance technicians are cross-trained and are primarily responsible for processing payroll and vendor bills, and accounting for fixed assets.

The treasurer in Yarmouth has been with the town for about 17 years. Before being appointed treasurer in 2009, she was the assistant treasurer. The department includes a full-time assistant treasurer, a finance assistant and a consultant who is actively working on cash reconciliations. The treasurer's office records turnovers from the collector's office and other departments and makes disbursements through the weekly payroll and vendor warrants. The office deposits the town's cash receipts to a local bank on a regular basis and maintains all necessary logs including a cashbook and debt schedule. The assistant treasurer is generally responsible for personnel management on which she spends approximately 80 percent of her time. The town offers employees health insurance through the Cape Cod Municipal Health Group, and covers 50 percent of the cost, except for police who have a specific policy option available in which the town covers 60 percent of the cost. There are approximately 300 full-time active employees, 300 part-time and 150 retirees.

The collector, who has served nine years, will be retiring at the end of this summer. Her office receives support from a full-time assistant collector and two financial assistants who combine have over 50 years of experience. Individual staff access MUNIS financial management software to post payments including real estate, personal property, and excise (motor vehicle, boat). Payments are received over-the-counter, by mail, drop box, online (MCC) and lockbox (Century Bank). The office also accepts Discover Card. Other departments, including the two golf courses accept Master Card and Visa. Yarmouth is a semi-annual tax billing community. The office also prints bills for the septage and town disposal facilities. Brian LaCroix provides Deputy Collector services.

The Town of Yarmouth has a three-member board of assessors appointed by selectmen that review and approve valuations, abatements and exemptions, and approve the overlay and the new growth estimate. Full-time staff includes the director of assessing, appraisal assistant and an office assistant who handles remaining day-to-day responsibilities. While the director of assessing completes interim revaluation work, the office contracts with Vision Appraisal to complete all building permit inspections, the triennial certification and the nine-year cyclical reinspection requirement. RRC is contracted to maintain personal property accounts. The volume of work in the assessing office involves 15,884 residential parcels, 1,375 commercial and industrial parcels, and 5,787 personal property accounts. For FY2011, the department had an allowance for abatements and exemptions, or overlay

reserve, of \$650,015 that represents just over one percent of the total tax levy. Of the applications filed in FY2011, the department issued 40 total abatements and over 600 exemptions. There are currently three cases pending before the Appellate Tax Board (ATB).

Conclusion – The staff we spoke with, including those in the accountant, treasurer, collector and assessors offices, are experienced and competent. Based on our review, essential checks and balances appear to be in place and sound practices and procedures have been installed. The finance department is innovative and continuously strives to be more efficient. This is most evident in how staff have embraced technology and the number of business practices that have been improved over the last several years. In particular, we recognize the dedication of the financial analyst to modernize operations to save money. The recommendations we include below are designed to support the ongoing effort of departments to streamline activities and operate effectively.

14. Complete Cash Reconciliation Timely

We recommend that the treasurer's office complete cash reconciliations on a monthly basis. This recommendation is merely intended to underscore the importance of cash reconciliations as a critical component in the protection of town assets. The treasurer's office has struggled to complete cash reconciliations on a timely basis, which are about two months behind. We are encouraged, however, by the efforts of local officials and an outside consultant to complete cash reconciliations on time and to streamline the process all together. These efficiencies include migrating the cashbook from multiple Excel spreadsheets to QuickBooks and reducing the total number of operating bank accounts. Once complete, and with proper staff training, the issue of timely cash reconciliations should be resolved.

15. Review Special Account Authorizations and Balances

In reviewing the town's financial statements, we noted that Yarmouth has a variety of special revenue and grant accounts. For most of these accounts listed on the combined balance sheet, we were able to verify the legal authorizations and the account balances were positive. However, we recommend that the finance director review all special revenue accounts for legal compliance. The finance director, as town accountant, should verify that each account has been properly established by special or general enabling legislation. Any account determined to lack proper legal authorization should be adopted or closed to the general fund. Accounts that have been properly authorized should be scrutinized to ensure they are in compliance with the relevant rules and regulations. In addition, the finance director should contact all departments to verify the current status of each grant, and require that a copy of any active grant agreement be submitted in compliance with M.G.L. c. 41, §57. If the grant purpose is completed, the finance director should investigate how to handle any residual balance appropriately or request that town meeting provide for any account deficit balances.

16. Adopt Third-Party Credit Card Processing

We recommend that Yarmouth contract with an outside financial institution to process all credit card payments made to the town. Several departments, including golf and recreation, accept credit cards for a variety of payments. The acceptance of credit cards by these departments and the imposition of associated fees give rise to accounting and legal issues. In addition, credit card fees must be annually budgeted, which, if inadequate, can result in a deficit. To avoid these problems, the Town of Yarmouth 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 town departments. The payment and related service charge would be part of a transaction between the customer and the third party institution facilitating the transaction (i.e. a bank), and not the credit card company directly. The full amount due 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.

17. Implement Bi-Weekly Payroll and Vendor Payment Process

We recommend a conversion to a bi-weekly payroll and vendor payment process. An increasing number of communities are realizing the benefits of compensating employees and issuing vendor checks on a bi-weekly payment schedule. On alternating weeks, a bi-weekly schedule for payroll and vendor payments can reduce workloads, freeing staff for other more mission critical tasks, and reduce overall costs to the town, both indirect and direct (e.g. staff time, paper, check stock). A move to a bi-weekly pay period for town employees will require collective bargaining with town labor unions.

Absent a mandatory requirement negotiated through the collective bargaining process, Yarmouth should also encourage direct deposit of payroll for all employees. Direct deposit 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. Approximately 80 percent of employees are on direct deposit.

18. Reformat Payroll Warrant

We recommend that officials simplify the payroll warrant, while retaining sufficient detail to authorize payroll amounts due. Under M.G.L. c. 41, §52, selectmen have the legal obligation to review and authorize all payrolls. The payroll warrant must also provide necessary detail to be approved by the accountant and for checks to be issued by the treasurer. Although all required information appears to be present, the current level of detail and presentation of Yarmouth's payroll warrant is difficult to understand and decipher. To ease the authorization of payroll, we suggest that officials adopt a template

that includes gross and net salary amounts due each employee, along with a list of withholding categories in gross and the total amount due for the payment period as a separate page or an attachment. The MUNIS software should be able to produce such a report or combination of reports

19. Adopt Receivable Recovery Methods

Despite a successful real estate collection rate of 99.78 percent over the last five years, the balance of outstanding receivables in Yarmouth remains high. As reported on the combined balance sheet submitted to DOR as of June 30, 2010, outstanding receivables totaled \$2,137,575 with \$834,147 in real estate and \$844,725 in Tax Title (see table below). We encourage the treasurer and collector to continue to take the necessary steps to move outstanding receivables into tax title, to stay current with subsequent, and to take appropriate action by initiating foreclosure proceedings. Local officials should be aware that the successful collection of outstanding taxes requires an infusion of resources sufficient to cover advertising and filing fees, as well as an ongoing commitment from the treasurer, collector, town administrator and the board of selectmen.

In addition, local officials should take the necessary steps to formally adopt provisions of Massachusetts General Law that allow the community to lien municipal fees and other charges against a property, and/or deny certain services to any person owing money to the town. The collector might also include a statement that credit-reporting agencies will be notified if payment is not received in a timely manner as part of her written notice to delinquent taxpayers.

Moving forward, we also recommend that local officials adopt a formal written policy for uncollectable receivables, including for example write-offs for the ambulance, septage and transfer station, which is simply a recognition that the asset will never be collected. The policy should not only outline how to account for an adjusting entry, but define who is responsible to determine amounts uncollectible and what receivables qualify on a monthly basis. We suggest that the board of selectmen, or any other authority responsible for a given department, should ultimately make a determination based on the recommendation of the collector and department head.

Total Outstanding Receivables as of June 30, 2010*

Source	Amount Outstanding
Real Estate	\$834,147**
Personal Property	25,973
Excise	266,871
Tax Title	844,725
Departmental	165,859
Total Outstanding Receivables:	2,137,575

*Not including those from intergovernmental

**Includes: Tax Liens \$434,802, CL41A \$126,224, Foreclosures \$281,320

20. Inventory Check Stock

We recommend that the finance office establish a basic inventory control method in the form of a log for blank check stock. The log, typically a hardcopy binder, should identify the beginning and ending check number, the balance of checks on hand, the signatures of the persons advancing and receiving checks and the date. It is our expectation that the treasurer and finance director would then reconcile the log on a routine basis to ensure proper compliance, and that all checks drawn and unused are accounted for and that no checks have been removed without proper authority.

21. Establish Fixed Office Hours for Turnovers

On a daily basis, the treasurer's office accepts turnovers of cash and checks for deposit from approximately 25 different town departments that collect money. The data entry of receipts is decentralized to the individual departments who use the MUNIS financial management software package to generate an electronic deposit and turnover, along with a three-part hardcopy turnover report. Cash and checks along with the report (including a list of revenue types, corresponding account numbers and receipt amounts) is then submitted by each department to the treasurer's office. Staff in the treasurer's office compare the receipt amounts against the turnover report. A copy of the turnover report is retained by the treasurer's office, while a second copy is hand delivered by the treasurer's office to the accountant. The department making the turnover maintains the third copy for its records.

To ensure the integrity of financial checks and balances, staff in the treasurer's office should always count cash and checks at the moment receipts are turned over by individual departments. The treasurer's staff would then sign and date all three copies of the turnover report, one of which would be hand-delivered to the accountant by the person making the turnover. To facilitate these changes, the treasurer should adopt fixed office hours when turnovers will be accepted. While it is our understanding that this has been attempted in the past, with little success, it is worth implementing again particularly with the new town administrator's support. Any turnover made outside that schedule should be rejected and redirected back to the department.

22. Develop Seasonal New and Re-Hire Policy

The Town of Yarmouth hires between 250 and 300 seasonal employees to work in various departments including recreation, golf, highway, cemetery and parks. Prior to their individual start dates, employees are required to complete a variety of forms for payroll (i.e. I9, W4, direct deposit, OBRA) and receive workplace policies (i.e. sexual harassment, violence, computer usage). Although informal, longstanding policy requires all departments to notify the treasurer's office a minimum of five days in advance of an employee start date to complete the hiring process. However, it is our understanding that each season a handful of departments fail to notify the treasurer's office on a timely basis, which delays the hiring process and frustrates all involved. To avoid this situation, departments

should direct prospective or returning seasonal employees to the town’s employee web portal, which offers most of the new hire forms that are required to be completed or updated.

23. Work with Senior Center Staff to File Exemption Applications

Massachusetts allows cities and towns to provide real estate exemptions for seniors, surviving spouses and minors, disabled veterans, the blind and for those with financial hardship. While eligibility is specific to the particular exemption, homeowners must file appropriate paperwork no later than 90 days from the date that the actual tax bill is due (May 1 in the case of Yarmouth). Although assessor’s staff regularly encourages homeowners to complete the necessary applications in advance and the town offers applications online at www.yarmouth.ma.us, many seniors prefer the one-on-one customer assistance they receive at the window. As a result, the customer service required to assist seniors in completing necessary paperwork involves significant staff time in the assessor’s office.

To alleviate this pressure and provide the continued level of customer service expected, we encourage the involvement of the senior center. Similar to the income tax filing assistance currently provided by the senior center, staff could advertise an exemption workshop where homeowners would seek help in completing property tax exemption applications. To speed the process, exemption forms can be preprinted or be made available electronically for filing. Below we provide a table identifying the number of property tax exemptions granted by Yarmouth in FY2010.

Total Property Tax Exemptions Granted in FY2010

<u>Exemption</u>	<u>Granted</u>
17C½ (see Clause 17)	2
18 Hardship	1
22(a-f) Veterans	275
Paraplegics & surviving spouses of paraplegics (G.L. 58, §8)	1
22A Veterans & surviving spouses	5
22C Veterans & surviving spouses	1
22E Veterans & surviving spouses	69
37A Blind	57
41C (see Clause 41)	217
41A Deferred taxes -- persons 65 years or over	14
42 Surviving spouses of police officers/firefighters killed in the line of duty	2
Total Number of Exemptions Granted:	644

Enterprise Funds (Transfer Station, Septage Treatment Plant & Golf)

The Town of Yarmouth has a transfer station, a septage treatment plant and two municipal golf courses that operate as enterprise funds, a method of accounting and financial reporting. Enterprise funds allows for the accounting of all the direct, indirect and capital costs associated with operations and for the establishment of user fees and other charges at an appropriate level to recover all or part of those costs. Enterprise fund accounting also enables local officials to reserve any year-end “surplus” revenue as retained earnings. Any deficits realized must be funded through the use of user charges, other financing sources, budget cuts or a combination of the three. A four-year financial history for transfer station and nine-year financial history for the septage treatment plant is available in Appendix VII.

Based on our understanding, the regional transfer station receives solid waste from commercial haulers and residents from the towns of Barnstable and Yarmouth. Solid waste delivered to the facility for processing is shipped by rail to the SEMASS waste-to-energy plant located in Rochester, Massachusetts. In recent years, the transfer station has struggled to generate the necessary revenue to meet current operating expenses and has required an infusion of reserves to help offset any revenue deficits (operating loss).

The financial challenges facing the transfer station are twofold. The transfer station does not maintain a monopoly on the processing of solid waste along the upper and mid-Cape region. The Town of Bourne operates a nearby landfill that provides similar services at lower tipping fees, which Yarmouth has been unable to match (tipping fees are charges levied upon haulers for a given quantity of solid waste received for processing). As a result, many of the commercial haulers that previously used the regional transfer station in Yarmouth are now using the Bourne Landfill (below is a table outlining the recent decline in solid waste tonnage). Not only does this result in a loss of direct revenue, but according to local officials, the facility has not met its minimum tonnage requirements as negotiated with the Mass Coastal Railroad (85,000 tons annually) for the past two fiscal years. Consequently, the transfer station was required to compensate the railroad for this shortfall (FY2009: \$170,676 & FY2010: \$128,390). To cover this unforeseen expense and resulting operating loss, local officials relied on retained earnings. Further compounding the problem is an overall reduction in the amount of solid waste being processed because of the current economic slowdown and the increased rates of recycling experienced by towns across Cape Cod.

Although the transfer station presents officials with immediate financial management challenges, there is a sense locally that the situation might be resolved shortly. This assumption appears largely based on the idea that current tipping fees paid by Yarmouth to dispose of the solid waste are not advantageous and that the overall economy is slowly beginning to recover. Negotiated with SEMASS, tipping fees for Yarmouth are included as part of a long-term contract that is not set to expire in the near future. Officials, however, are optimistic that they may be able to reopen the contract with SEMASS and renegotiate rates that are more favorable within the next six months, so they can be more competitive with Bourne.

The septage treatment plant in Yarmouth faces a similar situation. It is a regional facility for the disposal of septic system waste, which serves commercial haulers and the towns of Dennis and Yarmouth. Operation and maintenance services are contracted through Weston & Sampson, a private consulting firm. Like the transfer station, the treatment plant struggles to generate the necessary revenue to meet current operating expenses. The plant has required additional funds to help offset year-end deficits, which has resulted in a continuous drawdown in reserve levels.

Based on our conversations with local officials, this loss of revenue results from an overall decline in the amount of septage being processed over the last three years due to increased competition from “on” and “off Cape” treatment facilities (below we include a table showing the decline in gallons processed). To date, there are four septage treatment plants located on the Cape. Of these, Yarmouth’s primary competitors include the treatment facilities located in Orleans and Harwich. Off-Cape treatment plants offer lower processing fees, but the price of gasoline can be cost prohibitive for haulers to truck septage waste long distances.

Like the transfer station, local officials are optimistic that the situation will resolve itself. Effective June 1, 2011 Yarmouth rates increased from 8 cents per gallon to 9 cents after their competitors in Orleans and Harwich raised their rates to 10 cents. Yarmouth has kept their rate a penny less than these plants to encourage more collection. There is also a sense that the increasing cost of gasoline will encourage haulers to use more local facilities, thereby increasing collections. Separately, the septage treatment plant is nearing the end of its useful life, which will require a significant investment to maintain current operations. Local officials are hoping to avoid this cost as they are in the design stage of constructing a new town-wide sewer system and plant. If completed, the new sewer handling capability would replace the septage treatment plant, which could be decommissioned.

Lastly, the Town of Yarmouth owns and operates two municipal golf courses, Bass River and the Bayberry Hills. As outlined on the town website, Bass River is one of Cape Cod’s oldest courses having opened as a private nine-hole club in 1900. Bayberry Hills, opened in 1986, is a Geoffrey Cornish and Brian Silva design that includes three nine-hole courses. The financial challenges facing both these courses are attributed to the struggling economy and the weather. Affecting the golf industry nationwide, the economy continues to have an impact on the number of customers, as players are less likely to spend as their disposable income shrinks. Secondly, the weather at the end of last season and this spring has limited the number of playable days, which has negatively impacted revenues.

Transfer Station and Septage Treatment Plant Processing Rates

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011*
Transfer Station Total Tonnage	96,356.44	91,432.30	86,690.01	76,290.12	72,417.05	n/a
Septage Treatment Plant Total Gallons	n/a	18,078,668	15,194,236	15,534,840	15,850,272	13,519,950

* Thru April 30

24. Address BOA Concerns & Structural Budget Deficits

There is a growing concern within the DOR Bureau of Accounts (BOA) about unrealistic budget estimates for these enterprise funds. As evidenced in the Budgeted (estimated) vs. Actual Revenues table included in the Appendix VI, Yarmouth continues to budget revenues substantially higher than the actual revenue generated from the prior year. Although any operating losses have been offset through a combination of reserves, budget cuts and a drawdown in fund balance, BOA is concerned about establishing yet another year's tax rate based on what appear to be artificially high revenue projections. Compounding this problem is the longstanding structural budget deficit that exists within the septage treatment plant, as represented in the Appendix VII.

While we appreciate local official's optimism that these situations may resolve themselves, immediate financial management challenges remain. To this end, we offer several steps to both alleviate the concerns of the BOA and address the structural budget deficits that exist. These solutions, however, could force local officials to make difficult and potentially unpopular decisions.

To begin, we recommend that the town administrator and assistant town administrator work to develop realistic revenue estimates for the ensuing fiscal year as part of the annual tax rate process. Overall, projections should be conservative based on prior year actual revenues and measured against operating expenses. If officials anticipate an operating loss, as has occurred in years past, they should appropriate retained earnings or an alternative funding source as part of the annual budget process, not at year end. The concept is to build in the presumption that the enterprise will require a subsidy to offset any operating loss. If revenues eclipse what was originally anticipated, then retained earnings are generated that could be used to reduce rates or complete capital projects.

Next, we recommend that local officials consider all options to correct the structural budget deficit specifically within the septage enterprise fund. There may be merit to several possible options, including combining the septage, water and sewer operations into a single enterprise fund, formally subsidizing the enterprise fund, incrementally increasing rates, or closing the facility all together. While it may be imprudent to increase fees given the competitive nature of the business, fees should reasonably reflect the cost to operate the facilities. A review of fees should involve an examination of both direct and indirect costs, and include a survey of fees other facilities charge for benchmarking purposes. Once compiled, officials should consider an aggressive five-year plan to raise revenues through increases in fees or other charges (or until the new sewer treatment plant is online or a single enterprise fund between water, sewer and septage is formed, for example). Alternatively, consideration should be made on whether the general fund should subsidize part of the cost to operate the facility or if they should be closed all together.

Appendix

I. Cape Cod Community Comparison

Municipality	2010 US Census	FY2010 Operating Budget	2010 EQV/2009 US Census	2008 DOR Income/2009 Census	FY2011 Avg. Single Family Home Value	FY2011 Avg. Single Family Tax Bill	Bond Rating
YARMOUTH	23,793	\$78,798,218	\$258,627	\$25,381	\$321,016	\$2,774	AA-
BARNSTABLE	45,193	162,174,811	322,826	29,104	n/a	n/a	AAA
BOURNE	19,754	63,933,257	245,444	28,342	422,510	3,469	AA-
BREWSTER	9,820	38,841,541	408,412	30,752	458,251	3,180	AA-
CHATHAM	6,125	40,762,534	1,024,099	38,232	793,290	3,395	AAA
DENNIS	14,207	50,733,426	459,680	25,424	407,314	2,277	AA
EASTHAM	4,956	21,354,391	574,332	24,680	462,912	2,736	AA
FALMOUTH	31,531	116,016,687	370,708	30,471	490,714	3,533	AA+
HARWICH	12,243	56,669,978	438,414	29,852	448,342	3,452	AA+
MASHPEE	14,006	52,368,715	362,506	28,118	448,639	3,755	AA-
ORLEANS	5,890	28,577,702	679,257	36,868	712,928	3,971	AA+
PROVINCETOWN	2,942	27,888,232	776,594	28,529	729,094	4,965	AA-
SANDWICH	20,675	68,397,779	212,624	33,064	358,225	4,363	AA
TRURO	2,003	16,835,667	1,114,271	28,052	723,718	4,118	AA
WELLFLEET	2,750	18,596,768	868,677	28,828	567,903	3,459	AA
Average	13,721	54,510,821	561,275	30,023	540,295	3,590	
State Average (Towns)	11,172	36,967,285	236,831	40,140	395,243	4,539	

II. Revenue & Expenditure Components

Revenue Sources & Total Operating Budget

FY	Tax Levy	State Aid	Local Receipts	All Other	Operating Budget	As Percent of Total Operating Budget			
						Tax Levy	State Aid	Local Receipts	All Other
2000	\$28,847,719	\$1,571,180	\$17,740,280	\$4,298,752	\$52,457,931	54.99	3.00	33.82	8.19
2001	30,771,228	1,680,679	19,383,671	4,833,297	56,668,875	54.30	2.97	34.21	8.53
2002	32,070,726	1,869,377	20,138,185	5,003,872	59,082,160	54.28	3.16	34.09	8.47
2003	32,308,380	1,714,647	20,888,798	7,654,533	62,566,358	51.64	2.74	33.39	12.23
2004	35,496,632	1,523,367	20,309,218	6,576,535	63,905,752	55.55	2.38	31.78	10.29
2005	36,474,719	1,551,574	20,410,556	7,494,032	65,930,881	55.32	2.35	30.96	11.37
2006	37,671,208	1,750,307	25,518,524	4,881,534	69,821,572	53.95	2.51	36.55	6.99
2007	40,290,462	2,100,773	24,693,882	5,284,365	72,369,482	55.67	2.90	34.12	7.30
2008	40,385,422	2,204,124	28,253,027	3,319,622	74,162,195	54.46	2.97	38.10	4.48
2009	42,521,724	2,406,665	25,925,210	3,459,714	74,313,313	57.22	3.24	34.89	4.66
2010	44,519,715	1,547,981	24,907,981	7,822,541	78,798,218	56.50	1.96	31.61	9.93
2011	46,961,755	1,479,145	26,504,749	3,465,065	78,410,714	59.89	1.89	33.80	4.42

General Fund Expenditures

Fiscal Year	General Government	Public Safety	Education	Public Works	Human Service, Culture & Recreation	Debt Service, Fixed Costs & Other	Total Expenditures	As Percent of Total Expenditures					
								General Government	Public Safety	Education	Public Works	Human Service, Culture & Recreation	Debt Service, Fixed Costs & Other
2000	\$2,343,813	\$6,805,794	\$15,040,311	\$2,268,228	\$3,381,499	\$9,345,839	\$39,185,484	5.98	17.37	38.38	5.79	8.63	23.85
2001	2,795,833	7,505,059	15,756,129	2,393,395	3,620,868	9,578,666	41,649,950	6.71	18.02	37.83	5.75	8.69	23.00
2002	2,869,194	8,496,270	16,886,202	2,375,566	3,735,167	9,629,663	43,992,062	6.52	19.31	38.38	5.40	8.49	21.89
2003	3,209,133	8,864,558	17,803,927	2,634,128	3,838,083	8,874,310	45,224,139	7.10	19.60	39.37	5.82	8.49	19.62
2004	3,463,921	10,223,315	20,228,496	2,621,722	3,912,913	9,173,638	49,624,005	6.98	20.60	40.76	5.28	7.89	18.49
2005	3,231,020	10,774,709	20,882,689	2,727,976	3,880,329	9,208,104	50,704,827	6.37	21.25	41.18	5.38	7.65	18.16
2006	2,830,812	11,042,926	21,265,133	2,719,401	2,275,416	9,376,619	49,510,307	5.72	22.30	42.95	5.49	4.60	18.94
2007	3,706,634	11,858,076	22,183,189	2,611,869	2,379,951	9,041,098	51,780,817	7.16	22.90	42.84	5.04	4.60	17.46
2008	3,756,508	12,490,681	21,851,014	2,763,211	2,486,361	8,850,760	52,198,535	7.20	23.93	41.86	5.29	4.76	16.96
2009	3,626,899	12,166,800	24,466,035	2,461,090	2,877,422	9,688,349	55,286,595	6.56	22.01	44.25	4.45	5.20	17.52
2010	3,530,243	12,915,156	25,492,103	2,390,878	2,571,656	10,587,650	57,487,686	6.14	22.47	44.34	4.16	4.47	18.42

III. Sample Departmental Salary & Expense Budget by Funding Source

Description	Expended FY2009	Current FY2010 Budget	Proposed FY2011 Budget	\$ Change FY11 vs. FY10	% Change FY11 vs. FY10	Funding Sources
Selectmen Department						
1 Salaries	\$392,876	\$397,732	\$400,275	\$2,543	0.6	Taxation
2 Expenses	42,399	50,000	47,457	-2,543	-5.1	Taxation
	<u>435,275</u>	<u>447,732</u>	<u>447,732</u>	<u>0</u>	<u>0.0</u>	
Finance Commission						
3 Salaries	33,287	33,389	33,414	25	0.1	Taxation
4 Expenses	21,901	22,038	22,013	-25	-0.1	Taxation
	<u>55,188</u>	<u>55,427</u>	<u>55,427</u>	<u>0</u>	<u>0.0</u>	
Accounting Department						
5 Salaries	162,636	168,885	169,791	906	0.5	Taxation
6 Expenses	3,904	4,800	4,800	0	0.0	Taxation
	<u>166,540</u>	<u>173,685</u>	<u>174,591</u>	<u>906</u>	<u>0.5</u>	
Audit						
7 Expenses	46,290	50,000	52,500	2,500	5.0	Taxation
Assessors Department						
8 Salaries	164,447	165,637	166,685	1,048	0.6	Taxation
9 Expenses	36,671	21,450	20,400	-1,050	-4.9	Taxation
	<u>201,118</u>	<u>187,087</u>	<u>187,085</u>	<u>-2</u>	<u>0.0</u>	
Treasurer's Department						
10 Salaries	78,524	78,670	78,695	25	0.0	Taxation
11 Expenses	6,635	15,130	15,105	-25	-0.2	Taxation
	<u>85,159</u>	<u>93,800</u>	<u>93,800</u>	<u>0</u>	<u>0.0</u>	
Collector's Department						
12 Salaries	95,104	99,180	101,040	1,860	1.9	Taxation
13 Expenses	66,641	66,950	73,850	6,900	10.3	\$32,500 Amb. Receipts/Taxation
	<u>161,745</u>	<u>166,130</u>	<u>174,890</u>	<u>8,760</u>	<u>5.3</u>	
Town Clerk Department						
14 Salaries	126,083	131,212	130,939	-273	-0.2	Taxation
15 Expenses	40,007	45,000	51,242	6,242	13.9	Taxation
	<u>166,090</u>	<u>176,212</u>	<u>182,181</u>	<u>5,969</u>	<u>3.4</u>	
Conservation Commission						
16 Salaries	38,384	39,749	39,774	25	0.1	\$17,00 Consv. Receipts/Taxation
17 Expenses	2,750	5,450	5,425	-25	-0.5	Taxation
	<u>41,134</u>	<u>45,199</u>	<u>45,199</u>	<u>0</u>	<u>0.0</u>	
Total General Government	1,358,539	1,395,272	1,413,405	18,133	1.3	

IV. Reserve Levels (Free Cash, Stabilization & Retained Earnings)

Certified Free Cash (FY2001-2011)

Unrestricted funds from operations of the previous fiscal year that are certified by the Director of Accounts as available for appropriation. Remaining funds include unexpended free cash from the previous year, receipts in excess of estimates shown on the tax recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30, which is submitted by the town accountant.

	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Certified Free Cash	\$3,282,601	\$4,734,135	\$3,496,076	\$3,154,671	\$1,718,433	\$2,240,419	\$1,225,841	\$1,262,431	\$1,103,891	\$295,171	\$1,086,943
As a % of Budget	5.79	8.01	5.59	4.94	2.61	3.21	1.69	1.70	1.49	0.37	1.39
Current FY Uses											
Prior Yr. Bills				2,096	44,854	3,075		2,419	12,437		585
Other	459,911	981,020		25,000		37,800					
Ensuing FY Uses											
Operating Budget	1,654,569	1,655,000	585,183	1,416,632							
Capital Items	1,095,431	1,100,000	1,175,000	1,100,000	1,000,000	910,000	800,000	451,300	116,300	185,000	647,300
Debt								598,700	798,937		
Stabilization								150,000		50,000	150,000
D-Y School		525,000	865,607	523,354	638,579	1,108,157	200,000		100,000		
CC Tech			597,286						27,362		
Medical	35,000	35,000	35,000	35,000	35,000	35,000					
Fire Works	15,000	15,000	15,000	15,000							
Anniversary Park		23,000	23,000								
Fire/Police Medical								35,000	35,000	35,000	40,000
Tourism Revenue								15,000	10,000	25,000	65,300
Other				28,559		142,565		1			
Total:	3,259,911	4,334,020	3,296,076	3,145,640	1,718,433	2,236,597	1,000,000	1,252,420	1,100,036	295,000	903,185
Balance:	22,690	400,116	200,000	9,031	0	3,822	225,841	10,011	3,855	171	183,758

Stabilization Fund Balance (FY2001-2011)

Fund within a municipal accounting system used to accumulate amounts for capital or other future spending purposes, although it may be appropriated for any lawful purpose per MGL Ch. 40 - Powers and Duties of Cities and Towns § 513. Communities may appropriate into this fund an annual amount not to exceed ten percent of the prior year's tax levy. The aggregate of the stabilization fund shall not exceed 10 percent of the community's equalized value, and any interest shall be added to and become a part of the fund. A two-thirds vote of town meeting is required to appropriate money from the stabilization fund. DLS does not collect fund balances for separate stabilization funds authorized by Chapter 46, sections 14 and 50 and Chapter 140, sections 19 and 137 of the Acts of 2003.

	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Stabilization Fund Balance	\$757,112	\$786,081	\$791,449	\$816,625	\$840,235	\$881,611	\$925,663	\$1,104,044	\$2,099,576	\$208,715
As % of Total Budget	1.28	1.26	1.24	1.24	1.20	1.22	1.25	1.49	2.66	0.27

Enterprise Fund Retained Earnings (FY2006-2010)

An equity account reflecting the accumulated earnings of an enterprise fund that may be used to fund capital improvements, to reimburse the general fund for prior year subsidies, to reduce user charges and to provide for enterprise revenue deficits (operating loss).

	FY2006	FY2007	FY2008	FY2009	FY2010	2011
Golf	n/a	\$73,472	\$230,910	\$241,674	\$330,435	\$224,378
Septage Treatment Plant	341,243	148,876	143,925	254,388	232,422	183,767
Transfer Station	1,969,420	1,678,676	1,668,116	1,883,418	1,692,246	967,982

V. Debt Levels (Debt Service & Outstanding Debt)

Total Debt Service (FY2006-2010)

Debt Service is the repayment cost, usually stated in annual terms and based on an amortization schedule, of the principal and interest on any particular bond issue.

	FY2006	FY2007	FY2008	FY2009	FY2010
Total Debt Service	\$6,217,475	\$6,470,692	\$5,603,674	\$8,498,679	\$5,747,404
As % of Total Budget	8.90	8.94	7.56	11.44	7.73

Total Outstanding Debt (FY2006-2010)

Total Outstanding Debt refers to the remaining principal payments that have not been paid off as of July 1 of the current fiscal year.

	FY2006	FY2007	FY2008	FY2009	FY2010
Total Inside Levy	\$15,108,000	\$19,697,000	\$17,107,000	\$19,056,000	\$21,078,000
Total Outside Levy	21,755,372	19,428,688	17,025,747	14,768,613	12,515,422
Total Outstanding Debt	36,863,372	39,125,688	34,132,747	33,824,613	33,593,421

VI. Enterprise Funds: Budgeted (Estimated) vs. Actual Revenues ¹

Transfer Station				Septage Treatment Plant				Golf			
Fiscal Year	Budgeted Revenues	Actual Revenues	Surplus (Deficit)	Fiscal Year	Budgeted Revenues	Actual Revenues	Surplus (Deficit)	Fiscal Year	Budgeted Revenues	Actual Revenues	Surplus (Deficit)
2004	\$2,920,734	\$2,425,184	\$-495,550	2004	\$2,275,101	\$2,395,873	\$120,772	2004	-	-	-
2005	2,817,123	2,348,793	-468,330	2005	2,124,421	2,180,796	56,375	2005	-	-	-
2006	3,435,342	2,485,741	-949,601	2006	2,342,543	2,338,072	-4,471	2006	3,456,197.00	3,320,358.00	-135,839.00
2007	2,986,159	2,035,686	-950,473	2007	2,053,207	1,705,777	-347,430	2007	3,547,568.00	3,670,199.00	122,631.00
2008	2,811,280	2,074,103	-737,177	2008	1,923,487	1,722,034	-201,453	2008	3,612,557.00	3,543,803.00	-68,754.00
2009	2,795,775	1,805,419	-990,356	2009	1,848,470	1,698,832	-149,638	2009	3,753,788.00	3,412,374.00	-341,414.00
2010	2,960,673	1,707,063	-1,253,610	2010	1,901,266	1,281,292	-619,974	2010	3,940,122.00	3,276,700.00	-663,422.00
2011	2,844,247	n/a	n/a	2011	1,320,746	n/a	n/a	2011	4,083,218.00	n/a	n/a

¹ Data are gathered and obtained through the Tax Recap that is submitted to the Division of Local Services by local government officials

VII. Enterprise Fund Balance ²

Transfer Station (FY2007-2010)

Revenues	FY2007	FY2008	FY2009	FY2010
Charges for Services	\$1,916,459	\$2,020,089	\$485,154	\$1,697,000
Miscellaneous Revenues	34,516	0	1,307,337	
Earnings on Investments	119,226	54,013	21,256	10,067
Total Revenues	2,070,201	2,074,102	1,813,747	1,707,067
Other Financing Sources				
Transfers From Other Funds	1,925,723	0	0	100,000
Total Other Financing Sources	1,925,723	0	0	100,000
Total Revenues and Other Financing Sources	3,995,924	2,074,102	1,813,747	1,807,067
Expenditures				
Salary and Wages	278,931	329,521	349,282	406,989
Expenditures	1,369,773	1,362,061	1,273,476	1,427,192
Construction	24,132	0	0	0
Capital Outlay	312,295	30,389	13,000	55,496
Debt Service	218,400	0	0	0
Total Expenditures	2,203,531	1,721,971	1,635,758	1,889,677
Other Financing Uses				
Transfers to Other Funds	76,656	115,218	154,021	267,698
Total Other Financing Uses	76,656	115,218	154,021	267,698
Total Expenditures and Other Financing Uses	2,280,187	1,837,189	1,789,779	2,157,375
Excess (Deficiency)	-209,986	236,913	23,968	-350,308
Fund Balance Beginning of Year	0	1,715,737	1,929,734	1,953,702
Adjustments	0	-22,916	0	0
Fund Balance End of Year	1,715,737	1,929,734	1,953,702	1,603,394

² Data are gathered and obtained through the Schedule A that is submitted to the Division of Local Services by local government officials

Septage Treatment Plant (FY2005-2010)

Revenues	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Charges for Services	\$1,475,022	\$1,549,644	\$1,591,815	\$1,449,148	\$1,425,712	\$1,266,315
Miscellaneous Revenues	69,853	4,020	3,967	5,254	22,268	3,437
Earnings on Investments	0	93,439	109,995	68,394	25,853	11,541
Total Revenues	1,544,875	1,647,103	1,705,777	1,522,796	1,473,833	1,281,293
Other Financing Sources						
Transfers From Other Funds	5,164	0	0	0	0	0
Total Other Financing Sources	5,164	0	0	0	0	0
Total Revenues and Other Financing Sources	1,550,039	1,647,103	1,705,777	1,522,796	1,473,833	1,281,293
Expenditures						
Salary and Wages	0	0	0	0	0	0
Expenditures	1,122,915	1,308,248	1,323,002	1,215,522	1,289,211	1,133,477
Construction	0	0	0	0	0	0
Capital Outlay	342,337	377,269	50,000	36,877	111,500	27,975
Debt Service	466,674	506,280	507,611	514,230	360,695	162,270
Total Expenditures	1,931,926	2,191,797	1,880,613	1,766,629	1,761,406	1,323,722
Other Financing Uses						
Transfers to Other Funds	61,075	57,911	55,911	86,722	96,098	98,496
Total Other Financing Uses	61,075	57,911	55,911	86,722	96,098	98,496
Total Expenditures and Other Financing Uses	1,993,001	2,249,708	1,936,524	1,853,351	1,857,504	1,422,218
Excess (Deficiency)	-442,962	-602,605	-230,747	-330,555	-383,671	-140,925
Fund Balance Beginning of Year	5,099,582	2,536,054	1,933,449	1,702,702	1,388,288	1,004,617
Adjustments	2,120,566	0	0	16,141	0	0
Fund Balance End of Year	2,536,054	1,933,449	1,702,702	1,388,288	1,004,617	863,692

Golf (FY2007-2010)

Revenues	FY2007	FY2008	FY2009	FY2010
Charges for Services	3,606,962	3,520,842	3,408,583	3,273,436
Miscellaneous Revenues	0	0	0	5,766
Earnings on Investments	63,237	22,961	3,791	3,266
Total Revenues	3,670,199	3,543,803	3,412,374	3,282,468
Other Financing Sources				
Transfers From Other Funds	112,844	0	0	0
Total Other Financing Sources	112,844	0	0	0
Total Revenues and Other Financing Sources	3,783,043	3,543,803	3,412,374	3,282,468
Expenditures				
Salary and Wages	1,282,204	1,310,875	1,250,696	1,255,365
Expenditures	1,172,640	1,263,160	1,293,149	1,147,255
Capital Outlay	242,057	130,123	0	160,690
Debt Service	581,744	587,064	591,820	568,309
Total Expenditures	3,278,645	3,291,222	3,135,665	3,131,619
Other Financing Uses				
Transfers to Other Funds	195,150	216,148	223,147	244,424
Total Other Financing Uses	195,150	216,148	223,147	244,424
Total Expenditures and Other Financing Uses	3,473,795	3,507,370	3,358,812	3,376,043
Excess (Deficiency)	309,248	36,433	53,562	-93,575
Fund Balance Beginning of Year	0	309,248	345,681	399,243
Adjustments	0	0	0	0
Fund Balance End of Year	309,248	345,681	399,243	305,668

Acknowledgements

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