AGENDA

1. Open Session, Announcement of Audio and Video Recording, Pledge of Allegiance
2. Remote Participation Discussion and Possible Vote
3. Announcements
4. Resident Comments
5. 7:00 PM Joint Meeting with Finance Committee
6. 7:30 PM FY21 Budget Forum
   FY21 Proposed Budget Review
7. Vote DIF Percent Capture
   Documents:
   DIF PERCENT CAPTURE FY21.PDF
8. Vote Solid Waste Recycling Enterprise Fund Status
   Documents:
   ENTERPRISE FUNDS 3-5-20.PDF
9. Adjourn

~ The listing of matters are those reasonably anticipated by the Chair which may be discussed at the meeting. Not all items listed may in fact be discussed and other items not listed may also be brought up for discussion to the extent permitted by law. ~
TO: Longmeadow Select Board Members  
Lyn N. Simmons, Town Manager

FROM: Paul J. Pasterczyk, Finance Director

DATE: March 2, 2020

SUBJECT: District Improvement Financing Procedures

As a result of the District Improvement Financing (DIF) Program established by the affirmative vote of Article # 13 at the May 9, 2017 Annual Town Meeting, a number of procedural steps must be adhered to on an annual basis dealing with the valuation, taxes, the use of the taxes generated and any third party contributions that are part the Dwight Road Improvement District.

For FY 2021, the Select Board again will need to establish a “Percent Capture” of the tax increment in which to build its next year’s budget upon. Longmeadow’s budget dollars will be used for the repayment of the debt service on the $2.50 million bond issued in August of 2018 for the infrastructure improvements within the improvement district. The FY 2021 debt service for the Dwight Road Improvement District is $180,025.

Based upon the current assessment on the DIF property of $8,491,300 and the FY 20 tax rate of $24.21, I am conservatively estimating that a 90% capture of the incremental taxes be utilized for FY 2021.

**The Select Board needs to vote the percent capture as follows:**

*I move that the Select Board utilize 90% of the of the Dwight Road Improvement District’s incremental tax revenues in establishing the FY 2021 District Improvement Financing budget.*

The FY 2020 debt service on the DIF financing is $183,625. Total taxes due Longmeadow are approximately $205K and the Town recently received its first of twenty $20K allotments from the Town of East Longmeadow as part of the DIF Inter Municipal Agreement. In summary the DIF project will put nearly $35K in incremental revenues into the Town General Fund this fiscal year along with the payment of the $183,625 debt service.

I would estimate the FY 2021 DIF revenues will exceed DIF costs by close to $40K.
TO: Longmeadow Select Board Members
   Lyn N. Simmons, Town Manager

FROM: Paul J. Pasterczyk, Finance Director

DATE: March 5, 2020

SUBJECT: Enterprise Funds

Within our independent auditor’s FY 2018 and FY 2019 Management Letters (ML), the Town has had a ML finding concerning the handling of the Solid Waste / Recycling Enterprise Fund and the Stormwater Enterprise Fund. Specifically, the independent auditor states in the FY 2019 ML finding “we recommend the town review these funds to determine if they truly should be reported as an enterprise fund, or if the operations should be absorbed into and reported as part of the general fund”. This memo’s main focus is on the Solid Waste / Recycling Enterprise Fund.

To help assist in this discussion it is first helpful to understand what an enterprise fund is and the purpose it is meant to serve. The Department of Revenue / Division of Local Services identifies what an enterprise fund is (see attached). A couple of key statements within the definition include: “The enterprise fund establishes a separate accounting and financial reporting mechanism for a municipal service for which a fee is charged in exchange for goods or services (M.G.L. c.44, 53F 1/2). Under enterprise accounting the services revenues and expenditures are segregated into a separate fund with its own financial statements rather than being comingled with the revues and expenses of all other governmental activities...To support the services, a community may choose to recover costs through user charges(rates), through a tax levy subsidy, or through appropriations of other funds”.

While the town is not being accused on any wrongdoing, the auditor is questioning if we are truly operating an enterprise fund or just accounting as if we were. The rationale behind the question stems from the fact that we are not truly charging a fee for trash / recycling pickup and disposal. While blue trash bags are being sold and may bring in $80,000 annually, the costs of the pickup and disposal of trash and recyclable materials runs close to $1,000,000 annually.

I personally feel that we should abandon the enterprise fund accounting for the solid waste / recycling activities no later than FY 2022. The accounts can be set up as separate sub department within the DPW’s general fund budget similar to the way the Grounds and Town Building sub departments are currently handled.

With regard to the Stormwater Enterprise, I recommend we continue the enterprise accounting mainly because of the Select Board’s commitment to fully fund over time the Stormwater expense budget via stormwater fees.
CURRENT YEAR ISSUES

1. DEVELOP PLAN FOR THE SOLID WASTE AND STORMWATER ENTERPRISE FUNDS

The Town accepted enterprise fund legislation for a Solid Waste fund to account for processing of solid waste and recycling activities. However, in fiscal year 2019, approximately 75% of the operation’s expenditures were funded by taxation (a budgeted transfer in from the general fund).

The Town also recently accepted enterprise fund legislation for a Stormwater fund to account for processing of stormwater. However, in fiscal year 2019, approximately 70% of the operation’s expenditures were funded by taxation (a budgeted transfer in from the general fund).

We recommend the Town review these funds to determine if they truly should be reported as an enterprise fund, or if the operations should be absorbed into and reported as part of the general fund.

Town’s Response:
Develop a Plan for Solid Waste and Stormwater Enterprise – The Finance Director will discuss the accounting for the Solid Waste / Recycling Enterprise Fund with The Town Manager and the Select Board during the FY 2021 budget process highlighting the intent of the enterprise fund accounting vs the actuality. The initial thought of the Finance Director is to revert the accounting for such back to the General Fund. The Finance Director has previously discussed the accounting of the Stormwater Fund as an enterprise fund and the Select Board has agreed to annually decrease the reliance on taxation for the fund. The FY 2019 reliance on taxation was approximately 69.00%, in FY 2020 it was 65.00% and the Select Board has already agreed that the FY 2021 reliance will be 57.50%. The Finance Director will write a policy during the FY 2021 budget process memorializing the commitment to fully fund the Stormwater Enterprise Fund with Stormwater revenues over a period of 10 – 15 years.

PRIOR YEAR ISSUES

2. REVIEW IT CONTROLS

During our evaluation of the Town’s internal controls over information technology (IT), we continue to note the following issues:

- There is no formal committee/group responsible for IT oversight. This group could be internally or externally appointed and should review and approve IT plans, priorities, and the annual budget. The group should also regularly evaluate the Town’s IT for potential risks and threats.
Increasingly, communities are establishing enterprise funds for their business-type services (e.g., water, sewer, trash disposal, ambulance services, skating rinks, golf courses, airports, etc.). A community adopts an enterprise by a vote of town meeting or city council with the mayor’s approval. The enterprise fund establishes a separate accounting and financial reporting mechanism for a municipal service for which a fee is charged in exchange for goods or services (M.G.L. c. 44, §53F½). Under enterprise accounting, the service’s revenues and expenditures are segregated into a separate fund with its own financial statements, rather than being commingled with the revenues and expenses of all other governmental activities.

Enterprise accounting allows a community to demonstrate to the public the true, total cost of providing a service by consolidating all the program’s direct and indirect costs (e.g., interdepartmental support, insurance costs, etc.), debt service, and capital expenditures into a segregated fund. To support the service, a community may choose to recover total costs through user charges (rates), through a tax levy subsidy, or through appropriation of other available funds.

At year-end, the enterprise fund’s performance is measured in terms of positive (surplus) or negative (deficit) operations. An operating surplus results from revenue collected in excess of estimates and appropriation turnbacks and translates into retained earnings, which are retained in the fund rather than closing to the town general fund. The Division of Local Services (DLS) Director of Accounts must certify enterprise fund retained earnings as an available fund based on the community’s submission of a June 30th balance sheet to DLS. Once certified, retained earnings may be appropriated only for expenditures relating to the enterprise fund.

The consolidation of a program’s revenues and costs combined with information on the fund’s operating performance (positive or negative) provides the community with useful information to make decisions on user charges and other budgetary items. The community can analyze how much the user fees and charges support the service and to the extent to which the tax levy or any other available revenues may be needed to subsidize the enterprise fund. The community can include the enterprise’s fixed assets and infrastructure as assets in financial statements and recognize these assets’ annual depreciation.

Establishing an enterprise fund does not create a separate, autonomous entity from the municipal government operation. Like every other department, the municipal department overseeing the enterprise service prepares a budget to be reviewed and analyzed by the finance committee. The budget and any line-item transfers among the enterprise fund’s appropriations still require action by the mayor and
council or town meeting. And the enterprise-related department must fulfill the same financial and managerial reporting requirements as any other department.

For further information on enterprise funds, please refer to our Enterprise Fund Manual.