

Town of Middletown *Strategic Management Review*



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Institute for Public Administration
College of Human Services, Education & Public Policy
University of Delaware

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PREFACE

As the Director of the Institute for Public Administration at the University of Delaware, I am pleased to provide the Town of Middletown Strategic Management Review. Funded by the Town of Middletown, this report will serve as a roadmap for the town as it works to enhance its management capacity in the coming years.

This report reviews the town's present management policies, practices, and management-improvement initiatives and makes recommendations for the continuing development of the town's management capacity in the areas of financial management, capital management, human resources management, and information technology. Additionally, it provides a recommended timeline for implementing management enhancements needed to keep pace with town growth and development. Finally, the document's appendices detail the methodology used to complete the management review and provide a list of resource materials that should aide the town in its implementation efforts.

Jerome R. Lewis, Ph.D.
Director, Institute for Public Administration

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MIDDLETOWN OFFICIALS

Mayor and Council

Kenneth Branner, Jr., Mayor
James Reynolds, Vice Mayor
Jason Faulkner, Councilman
Catherine Kelly, Councilwoman
Robert McGhee, Councilman

Town Staff

Morris Deputy, Town Manager
Louis Vitola, Finance Manager
Rebecca Ennis, Clerk
Rae Teel, Administrative Assistant

INSTITUTE FOR PUBLIC ADMINISTRATION

This report was prepared by the Institute for Public Administration (IPA), a unit within the College of Human Services, Education & Public Policy at the University of Delaware. IPA links the research and resources of the University of Delaware with the management and information needs of local, state, and regional governments in the Delaware Valley. IPA provides assistance to agencies and local governments through direct staff assistance and research projects as well as training programs and policy forums.

IPA staffers Jonathan Justice and Troy Mix functioned as co-managers of the Middletown Strategic Management Review project, developing the project methodology, directing the efforts of graduate research assistants, and drafting much of the report. IPA Graduate Research Assistants Barrett Edwards, Lindsey Interlante, and Manoj Doss provided valuable research and drafting support to the project.

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CHAPTER 1. EXECUTIVE SUMMARY

The population of Middletown, Delaware, has more than tripled from 3,834 in 1990 to an estimated 13,868 in 2005. Its population is projected to double again by 2020, as the Town develops into a commercial center for lower New Castle County and adjoining areas of Delaware and Maryland. This growth will cause significant and irreversible qualitative change for the residents and government of Middletown. At the town's request, the Institute for Public Administration (IPA) conducted a strategic management review to recommend a strategy by which the Town and its public officials can design and implement a proactive organizational response to the challenges associated with this rapid growth and development. The purpose of the project and this report is to provide a framework and strategic roadmap for the town to use in structuring and administering the management capacity-related aspects of its transformation from a small rural town to a growing regional center.

Organization of the Report

This chapter provides a brief summary of the project's analytic approach and recommendations. Chapter 2 provides a more detailed introduction to the report. Chapters 3 through 6 provide detailed descriptions of and recommendations concerning the town's policies and practices for managing its human, financial, capital, and information resources. Chapter 7 integrates the detailed recommendations into a framework of "managing for results," and organizes them into an overall action plan for phased implementation. Appendix A provides a detailed description of the project's methodology, including tables summarizing the management systems, subsystems, and elements analyzed, and the criteria and standards used as the basis for diagnosing those existing systems and making recommendations for their enhancement. Appendix B provides bibliographic references, suggestions for further reading, and recommended information resources for strategy implementation and ongoing organizational development efforts.

Project Overview

The review and recommendations are based on an extensively modified version of the Government Performance Project (GPP) framework. The framework focuses on the capacity of governments to manage for results, supported by the integrated management capacity created by four underlying management systems—financial management, human-resources management, capital management, and information management—and the key linkages among those four systems. Additional diagnostic criteria and standards of good practice were derived from recognized professional organizations and published sources. Two central principles for this particular management review and the implementation of its recommendations are the following:

- 1) The town's ongoing growth and the goals identified in its recent Comprehensive Plan update will require quantitative and qualitative changes in the town's management systems and capacity. Although significant organizational change is always challenging for stakeholders within and outside the organization, taking a systematic and proactive approach helps to obtain the best results. This management review, therefore, evaluated Middletown's present management practices and systems in order to recommend a three-year strategic "roadmap" of enhancements to the town's management systems and its overall capacity to manage for results.

- 2) Providing a basic framework within which the town's residents and officials can design and implement that change is preferred to an attempt to design the details of management practices and enhancements from the outside. This approach will make the most effective use of local participants' special knowledge of the town and its governance needs while promoting local "ownership" of the process and institutionalization of the changes made. The recommendations here, therefore, identify what to do and when to do it in general terms, by comparing current practices to accepted criteria and standards of good practice, but they do not attempt to identify the precise content of new management practices and policies.

The project began in January 2006, and IPA personnel collected information from Middletown's records and through questionnaires and structured interviews of key town personnel in the first half of 2006, supplemented by a number of follow-up queries. Town officials gave freely of their time and expertise to provide documents and basic factual information to the IPA team and review and suggest improvements to IPA's analyses and recommendations as they were developed over the course of the year.

Summary of Findings and Recommendations

The chapters that follow identify a number of specific recommendations for developing Middletown's management capacity over the next three years. Those recommendations and the reasons for them are described in detail in Chapters 3 through 6. In Chapter 7, the 81 individual recommendations made in those chapters are organized into an integrated overall three-year implementation roadmap comprising 54 actions and projects in the following five categories:

- (1) Recommended immediate actions (10 actions)
- (2) Actions to complete during calendar year 2008 (10 actions)
- (3) Development of planning processes and related actions for CY 2008 – 2009 (8 actions)
- (4) Planning- and systems-enhancement actions for CY 2009 – 2010 (6 actions)
- (5) Management-systems enhancements to be undertaken by December 2010 (20 actions)

The rest of this executive summary provides an overview of selected major recommendations for each of the four management systems, a summary table listing only the specific actions recommended for implementation in the 2008 fiscal and calendar years (categories 1 and 2 immediately above), and two additional recommendations generated outside the GPP framework. Please refer to the body of the report for a full listing and detailed explanations of all of the recommended actions and their sequencing.

Financial Management

Middletown already has in place many of the basic elements upon which a sound financial-management system can be built, although not all of them are documented. Enhancements to these elements are strongly recommended, as are the addition of some additional policies and procedures to ensure optimal financial-resource planning, acquisition, and management. Major recommendations, many of which will require some time to implement fully, include

- 1) Formalize and document procedures to ensure budgetary compliance and maintain appropriate internal controls over financial assets, expenditures, and receipts, including compliance with any applicable restrictions on the use of funds. See Chapter 3, section 3-5.
- 2) Document and enhance the current process for developing the town's operating budget. Provide opportunities for meaningful public review and input into the process and develop a budget document suitable for general public distribution. See Chapter 3, section 3-2.
- 3) Develop and document a process for regularly engaging in medium- and long-term financial planning, including strategies to maintain a structural balance between recurring revenues and recurring expenditures. See Chapter 3, sections 3-1 and 3-3.

Capital Management

To date, Middletown has been able to manage its capital assets and capital-improvement program without major problems. As the scale and scope of the town's service responsibilities and infrastructure continue to expand, and as newly acquired assets age, it will be desirable to adopt a systematic approach to planning, managing, and financing capital assets. Recommended actions include:

- 1) Design, document, and implement a process for multi-year capital improvement planning, programming, and financing that is linked to annual capital budgets. See Chapter 4, sections 4-1 and 4-3.
- 2) Formalize and document policies and procedures for capital project management, reporting, and oversight. See Chapter 4, section 4-2.

Human-Resources Management

While human-resources management is the area that generated the largest total number of specific recommendations (34), those recommendations all flow logically from one broad recommendation:

- 1) Translate the town's growth and service plans into a human-resources strategic plan and use that plan to organize and structure a system of new and revised human-resources policies and procedures. (Because we are also recommending some immediate modifications of policies and practices, it is possible that completion of the strategy will lead to further modifications.) See Chapter 5, section 5-1.

Additional broad recommendations are 2) to formalize and document human-resources policies and procedures, and 3) to develop mechanisms for obtaining and acting upon employee feedback.

Information Technology and Managing for Results

- 1) Develop a strategic-planning process which can explicitly identify the town's goals (including the services, facilities, and results of operations desired) and appropriate measures of performance.

- 2) Develop a broad strategy for documenting and disseminating information about Middletown's performance and employee and elected-official knowledge about the town's management and service-delivery processes and resources. This strategy should also address the need to design and acquire the information architecture required to support the town's operations. The elements of the strategy may include a regular newsletter, enhancements to the town's website, and a variety of practices designed to gather and document knowledge and suggestions from employees, residents, and other stakeholders. The broad strategic and technology-related aspects of this are treated in Chapter 6, but this recommendation also incorporates a number of specific practices recommended in Chapters 3 through 5.

Recommended Immediate Actions

Table 1-1 is excerpted from Table 7-2 and lists the specific actions recommended for completion before the end of calendar year 2008, because they are considered high priorities, can be implemented relatively quickly, and/or describe initiatives already begun while this report was being prepared. Refer to Chapters 3 through 7 for details on the recommendations.

Table 1-1. Short-Term Implementation Priorities

Recommended Actions	Chapter References
Implement financial controls and auditor recommendations	3.5.1.a, 3.5.1.b
Implement basic project management and reporting procedures	4.2.1.b
Update the town's personnel manual as indicated in Chapter 5	Sec. 5.1.3, Sec. 5.1.4
Hire or train an IT specialist backup	5.4.3.b
Document and regularize the town's hiring procedures	5.2.1, 5.2.2
Document and regularize current and new job descriptions	5.2.4
Develop and implement a disaster recovery plan and backup data offsite,	6.2.5.b, 6.2.5.a
Document existing budget process and begin enhancements	3.2.1, 3.2.2
Enhance budget documents for internal and external use	3.2.3
Establish and disseminate a regular informational newsletter	6.3.2, 6.3.1.b
Institute a financial forecasting and planning process	3.1.1, 3.1.2
Adopt, document, and implement a debt policy	3.1.3.a
Adopt budget-balance and financial reserve policies	3.3.1.a, 3.3.2
Adopt user-charge policies	3.3.1.e
Implement other budget-balance recommendations	3.3.1.b-d, f, g
Develop enhanced practices for new-hire orientation	5.4.1.b
Regularize and document new-hire performance evaluations	5.2.3
Implement job-specific performance evaluations	Sec. 5.5.1 - 5.5.3
Update and document employee-termination procedures	5.3.4
Revise and document exit-interview forms and procedures	5.3.1.a

Additional Recommendations

In addition to the 54 specific actions recommended on the basis of the management capacity framework, the review identified two additional recommendations:

- 1) Middletown's elected, managerial, and professional personnel should consider joining relevant professional associations such as the ICMA, GFOA, the Delaware Public Purchasing Association, and others. Such organizations are a source of formal as well as informal guidance and information regarding solutions to common problems as well as accepted standards for good practice in government management.
- 2) As the Town continues to grow and formalize its management, officials may wish to consider whether it makes sense to continue operating with what is, in effect, although not in name, a modified version of the commission form of government.

CHAPTER 2. INTRODUCTION

At the request of the Town of Middletown, Delaware, the Institute for Public Administration (IPA) reviewed the town's present management policies, practices, and management-improvement initiatives and made recommendations for the continuing development of the town's management capacity. The purpose of this project and report is to facilitate the development of administrative management capacity appropriate to the town's growth and the implementation of its comprehensive plan. Middletown's population more than tripled from 3,834 in 1990 to an estimated 13,868 in 2005. The town's population is projected to double again by 2020. The Town is also experiencing growth in the scale of commercial land use as it becomes a regional economic center for southern New Castle County.

The town's recent and expected growth represents significant and irreversible qualitative change for its residents and government. This report was commissioned as one of the means by which the Town and its public officials can design and implement a strategic, rather than reactive, organizational response to this change. Two central principles for the management review and the implementation of desired increases in management capacity are (1) that although organizational change is difficult to undertake, a systematic and proactive approach is preferred, and (2) that providing a basic framework within which the town's residents and officials can design and implement that change will make the most effective use of their special knowledge of the town and its governance needs while promoting local "ownership" of the process and institutionalization of the changes made.

This report presents IPA's findings and recommendations for the continuing development of the town's overall management capacity, organized according to a framework that focuses on four underlying management systems—financial management, capital management, human-resources management, and information management. The body of the report is organized as follows. This introductory chapter describes the context for the town's plans to enhance its management capacity in a systematic and strategic fashion, details the analytic framework and methodology used for the study, and explains how to use the report. Chapters 3 through 6 provide a detailed review of the town's existing policies and practices within each of the four management systems, as of calendar year 2006, and make recommendations for each system based on established criteria and standards of good practice. Chapter 7 provides an overall strategic "roadmap" for integrating the findings across the four systems and strategically developing the town's management capacity over the next three years.

2-1. Project Purpose, Scope, and Context

The purpose of this project is to provide a basis for the town's systematic and orderly development of its individual management systems and overall management capacity in keeping with the growth of its governing and service-delivery responsibilities and the vision for the town's future articulated in its recently updated comprehensive plan. IPA performed an assessment of the town's present management systems and capacity with reference to accepted standards and criteria appropriate to the future responsibilities of the town, and developed specific recommendations for particular components of each management system and overall

management capacity. This report also recommends an overall strategic road map for systematically developing the town's management capacity concurrently with the growth in the town's management responsibilities. Detailed prescription and implementation of the individual capacity enhancements themselves is beyond the scope of the current project and will be performed by the town over the next three years.

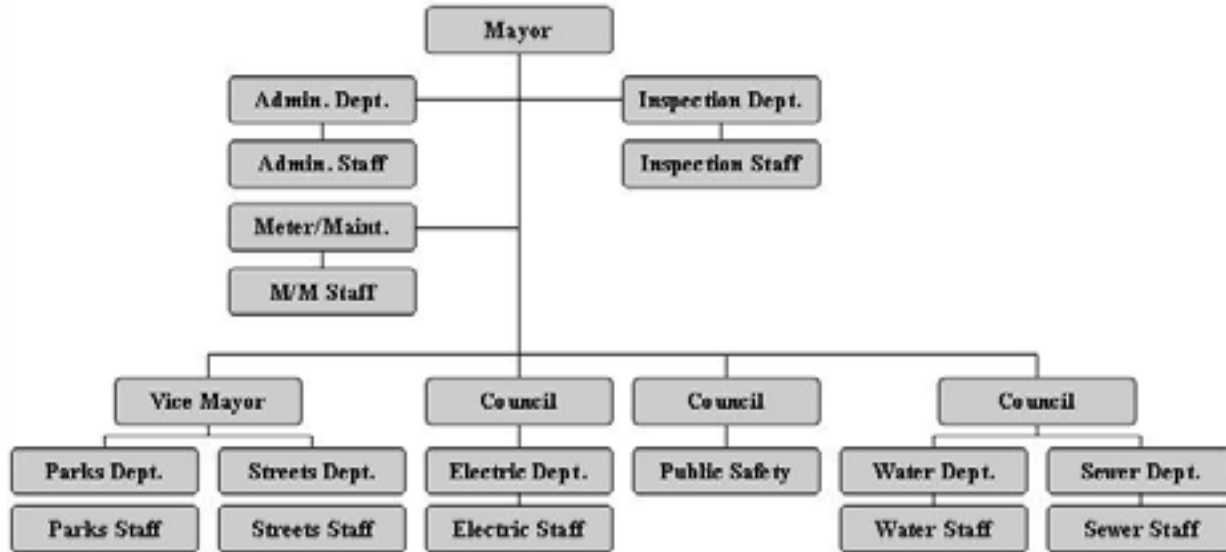
Town Origins and Government

Located in southern New Castle County, the Town of Middletown straddles the boundary of the St. Georges and Appoquinimink Hundreds. State Route 299 (Main Street) bisects the town from east to west and connects it to Delaware's major north-south highways, U.S. Route 13 and State Route 1 (SR 1), just east of the present town limit. U.S. Route 301 (US 301) runs north to southwest through the western half of Middletown. The town's southern boundary is formed by the Appoquinimink Creek.

The land of present day Middletown was first surveyed in 1678, shortly after a Swede named Adam Peterson assumed warrants for the area. In the 1750s the name Middletown began to be used because of the town's location midway on a trade route known as the "Cart Road" between the head of the Bohemia River and the waters of the Appoquinimink Creek. Middletown's economy originally formed around the prosperous agricultural industry. This industry was enhanced in 1855 when Middletown became connected to the Pennsylvania, Baltimore, and Wilmington Railroad. The addition of the railroad depot caused the town to prosper, and it eventually became the largest village in the Hundred. In the second half of the nineteenth century, the town charter was granted, police protection was provided to residents, and the Light and Water Commission was organized (*Town of Middletown Comprehensive Plan*, 2005).

Incorporated in 1861, Middletown is chartered with a mayor-council form of government and employs a Town Manager charged with general management responsibilities. However, as seen in Figure 2-1, each councilmember is responsible for a specific department within the town, making the government similar in practice to the commission form. The commission form effectively requires elected council members to function as executive department heads and is the official form of government for about five percent of municipalities in the Mid-Atlantic region.

Figure 2-1. Middletown Organization Chart



Current Scope of Services

Middletown provides a range of common municipal and public-utility services within its boundaries. At the time of data collection for this review, many of the town's services were delivered through contracts with New Castle County, private contractors, and a volunteer fire department. The following summary is based largely on the 2005 *Town of Middletown Comprehensive Plan*.

Electricity

Middletown currently provides electric service to approximately 4,900 residential and 550 commercial/industrial customers. Middletown is a member of the Delaware Municipal Electric Corporation (DEMEC). Through this corporation, the Town, along with eight other municipalities, negotiates the purchase of electricity for its customers. A town department is responsible for reading customer's electric meters.

Fire Protection

Fire protection for Middletown is provided by the Volunteer Hose Company of Middletown. The fire company is responsible for approximately 57 square miles and includes the Town of Middletown and the surrounding areas bounded on the north by Howell School, on the east by a line dividing the county into eastern and western halves (just prior to U.S. Route 13), on the south by the northern boundary of the Townsend Fire District, and on the west by the Maryland State Line.

Parks and Recreation

Silver Lake Park is the primary recreational space in Middletown and is operated by the town. The park covers 22 acres and contains various amenities, including a baseball field, two softball fields, five soccer fields, four tennis courts, a community pool, and an all-weather running track. A 100-acre park is planned to be located east of Levels Road in the southwest portion of town. This department also cuts and maintains grass found at the town's parks.

Police Services

At the time this review was conducted, New Castle County Police provided 24-hour-a-day police protection for Middletown residents through a contract with the town. The Town has since made the transition to operating its own police department.

Solid-Waste Disposal

Middletown contracts with Waste Management, Inc., to provide trash collection services to residences and commercial operations in the town. The Middletown Street Department collects and disposes of yard waste.

Streets

The state of Delaware maintains most of the streets in Middletown's historic district. The town is responsible for maintaining all the roads the state does not maintain, which are mostly located on the town's perimeter. Middletown is also responsible for snow removal on town-maintained roads.

Wastewater

The Town of Middletown currently provides sewer service to approximately 4,900 residential customers and 550 commercial/industrial customers. Most of the wastewater is treated at Middletown's new spray facility; however, wastewater is also treated at the Frog Hollow spray facility, and Middletown currently has a contract with New Castle County to treat wastewater at its spray facility in Odessa.

Water

Middletown provides water service to 4,900 residential and 550 commercial/industrial customers. In addition to its own water service, Middletown partners with Artesian Water Company to purchase water to serve all the areas of the town annexed after 1996.

Anticipated Growth

The basis for evaluating current management practices in Middletown is the town's anticipated growth forecasted over the next few decades. In land area, households, populations, and commercial development, Middletown in 2020 will be several times its 1990 size. Each kind of expansion will increase the requirements for effective management capacity.

The U.S. Census recorded 6,161 residents and 2,298 households in Middletown in 2000. Recently constructed housing units together with already approved, but yet-to-be-built, residential developments will increase the number of households to as many as 9,750 by the year 2020. Since a majority of the units are single-family homes, likely to be occupied by young families, average household size may peak at over three residents per unit. Assuming that all of the planned units are built over a ten-year period, Middletown's population by 2020 will range from approximately 23,000 residents, assuming an average household size in the new units of 2.5, to approximately 33,000 residents, assuming an average household size of 3.6 (*Town of Middletown Comprehensive Plan*, 2005).

Commercial growth is likely to occur at a greater rate than residential development within town limits, as the Town experiences the development of commercial nodes serving its own population and the populations of surrounding unincorporated areas of southern New Castle County. For example, the recently approved Bayberry development, immediately to the north of town, is slated to include nearly 2,500 residential units. Because Middletown will serve as a regional commercial center for southern New Castle County, its own and nearby residential development will lead to increased commercial development, traffic, and demand for public infrastructure, services, and facilities.

Implications of the Comprehensive Plan Update

The process of updating Middletown's Comprehensive Plan, completed in November 2005 identified four broad growth-related areas of interest related to the town's management capacity:

- Ensuring adequate infrastructure and government services in light of rapid population growth. Concerns here included being able to anticipate infrastructure needs in order to finance and acquire capital assets in a timely and cost-effective fashion, having the right people and other resources in place to manage the town and deliver public services at the desired quantity and quality and at a reasonable cost, and being able to measure and act upon residents' and other stakeholders' evaluations of public services. (The performance of this management review was itself one of the projects identified by the Comprehensive Plan update.)
- Providing for an adequate public information system. Public information was identified as increasingly important for a growing town, as the number of residents and non-resident business stakeholders expands far beyond historic levels. Specific concerns included having suitable means to make public documents available, providing public notice of matters of interest, and expanding the scope and use of the town's website.
- Enabling coordination of infrastructure management and service delivery among the town, county, Appoquinimink School District, the Artesian Water Company, and other relevant entities. Like many other contemporary local governments, Middletown affects and is affected by other local governments and interacts with a range of public and private organizations and contractors in planning and managing its infrastructure and public services.
- Developing the capacity to evaluate the effectiveness and efficiency of contracting services vs. developing and hiring in-house capability. Middletown has historically utilized a variety of outside vendors to help provide certain government services, including police protection, financial management, and development-plan review. As Middletown continues to grow, the demand for these services may increase and/or change in character, so that it will be desirable to have the capacity to systematically decide whether to "make-or-buy" services and facilities.

Key Management Needs

Town officials identified several specific concerns to be addressed in the management review:

- The implementation of a capital-improvement-planning process
- An analysis of strengths and weaknesses of key current policies
- Evaluation of Middletown's need to enhance its internal "checks and balances"
- Preparing for projected continuing population growth

- Intergovernmental relations, including potential changes in Middletown's current and future relationship with the federal government
- Long-term financial- and revenue-planning capacity, to prepare for the end of growth and associated changes in the town's operating income and expenses

2-2. Analytic Framework, Criteria, and Procedures

The approach employed for this project was based on a synthesis and adaptation of established criteria-based diagnostic frameworks and accepted recommendations for good practice in public organizations generally, and local governments in particular. The underlying framework is based on the Government Performance Project (GPP) and its adaptation for the New Jersey Initiative (NJI). The GPP and NJI are criteria-based frameworks for evaluating the management capacity (the capacity of governments to achieve the results of governance required by their citizens) and management systems (financial management, human-resources management, capital management, and information management) of state and local governments. These frameworks were developed for larger jurisdictions and, therefore, required some adaptation to make them more suitable for application to Middletown. Additional sources of criteria and standards of good practice were also consulted. The frameworks facilitated comparison of the town's existing management systems and management capacity to relevant standards for good practice. That comparison in turn was used as the basis for identifying priorities for capacity development.

GPP/NJI Framework and Criteria

The GPP was originally developed by the Maxwell School of Citizenship and Public Service at Syracuse University and has more recently been taken over by its financial sponsor, the Pew Charitable Trusts. It is familiar to some for its periodic "Grading the States" reports. As the report title indicates, the GPP is an ongoing undertaking oriented to evaluating large government organizations, such as the 50 states. It has also been used to assess the management of the 50 largest counties and the 50 largest cities in the U.S.

The basic GPP framework is a criteria-based approach to evaluating four management systems—financial management, human-resources management, capital management, and information management—and the overall capacity of a government to integrate those four basic systems in order to "manage for results." The idea of a criteria-based approach is to employ generally accepted standards for good practice as a reference for evaluating the government being studied. The concept of "managing for results" focuses on a government's ability to employ the various management systems in an integrated fashion in order to deliver results for its constituents. The ability to deliver results is what defines the GPP's measures of management capacity.

The New Jersey Initiative (NJI) was undertaken by researchers from Syracuse and Rutgers Universities in 2002 and 2003. It involved adapting the GPP approach to analyze several New Jersey municipalities with populations ranging from 50,000 to 150,000. It also went beyond the basic "grading" approach of the GPP by using its diagnoses as the basis for offering specific policy recommendations to the individual municipalities as well as to state government.

For this project, the GPP/NJI model was adapted in two major ways. First, adjustments were made to the selection and content of the criteria employed in the analysis to reflect Middletown's smaller size and the unique operating environment of municipal government in Delaware. Second, the diagnosis resulting from comparing actual management systems to the criteria was used as the basis for recommending a strategy for the systematic development of the town's management capacity as it seeks to respond to growth and to realize the vision laid out in its updated Comprehensive Plan.

Other Guidelines and Criteria

A variety of other sources were used to enhance and complement the basic framework and criteria created from the Government Performance Project and the New Jersey Initiative. Among the additional sources were recommended practices of the Government Finance Officers Association (GFOA) and its National Advisory Council on State and Local Budgeting (NACSLB), the International City/County Management Association (ICMA), and other published sources and professional organizations. A complete list of the sources used to develop Middletown's management-evaluation framework and criteria, in addition to other useful resources, can be found in Appendix B.

Data Collection and Analysis

Data for the project were obtained from a variety of sources. Relevant policy-related and procedural records and documents were compiled with the assistance of town personnel. Structured interviews and an extensive human resources–management questionnaire were used to collect information directly and to identify additional relevant documents. Semi-structured interviews, telephone calls, and email correspondence were used to follow up on information in documents and staff responses to structured instruments, as well as to help the IPA team better understand some of the town's undocumented practices. Current policies and practices were then evaluated with reference to the GPP/NJI criteria and other sources of good-practice standards in order to develop recommendations. Town officials and personnel reviewed draft chapters in order to help the IPA team correct errors, fill in missing details, and refine its review and recommendations. Appendix A documents the methodology for the project, including the questionnaire and structured interview protocols.

2-3. Organization of the Report

The sections following this introduction present specific diagnoses and recommendations for each component of the four major management systems (financial, capital, human-resources, and information management), diagnoses and recommendations for the enhancement and integration of the systems into overall management capacity, and a roadmap for the strategic development of management capacity in keeping with the town's needs and desires. Each of Chapters 3 through 6 is devoted to a specific management system and is organized into several sections—one for each of the major subsystems within that system under the framework. Within each section are subsections detailing (1) the criteria, (2) the findings, and (3) the recommendations related to each management subsystem and several specific elements within each subsystem. The overall structure within these chapters is as follows:

- X. Management system (e.g., 3. Financial Management)
 - X.X. Subsystem (e.g., 3.1 Financial Planning)
 - X.X.X. Element of subsystem (e.g., Element 3.1.1. Goal setting)
 - Criteria/standards (bullet points)
 - Findings (narrative)
 - Recommendations (numbered X.X.X or X.X.X.x)

Chapter 7 provides a framework for integrating the four management systems into an overall approach grounded in the GPP's model of "managing for results," and provides a roadmap for implementing the recommended capacity enhancements in a logical and priority-based sequence over three years.

Appendix A provides a detailed description of the project's methodology, including tables summarizing the management systems, subsystems, and elements analyzed, and the criteria and standards used as the basis for diagnosing those existing systems and making recommendations for their enhancement.

Appendix B provides bibliographic references for chapters 3 through 6, suggestions for further reading, and recommended information resources for action plan implementation and ongoing organizational-development efforts.

CHAPTER 3. FINANCIAL MANAGEMENT AND BUDGETING

The overall goals of financial management and budgeting are to obtain and manage financial resources over time in such a way as to ensure that the town can reliably meet its financial obligations and allocate appropriate levels of funding to the service priorities identified by the town and its residents.

For Middletown, specific areas of attention identified by IPA, the town, and its auditors are primarily related to the town's current rapid growth. These include

- Increases in the quantity, and therefore, the cost of service provision required by growth.
- Maintaining an appropriate revenue structure and structural balance in the town's budget both during and after the rapid growth phase.
- Adopting explicit policies and procedures to govern the town's financial planning, budgeting, and procurement practices.
- Formalizing and enhancing financial-control structures as the town government grows.
- Identifying a feasible and effective strategy and sequence of activities for addressing these concerns, in accordance with their relative importance and the linkages among them.

The criteria used to assess financial management and budgeting practices, and generate recommendations, were adapted from the Government Performance Project (GPP), the New Jersey Initiative (NJI), the recommended budget practices developed by the National Advisory Council on State and Local Budgeting (NACSLB, 2000), and the practices recommended by the NACSLB's sponsoring organization, the Government Finance Officers Association (GFOA). The five subsystems and 11 elements analyzed in this chapter are summarized in Table 3-1.

Table 3-1. Financial-Management Framework

Subsystems	Elements
3-1. Financial Planning	3.1.1 Goal setting
	3.1.2 Forecasting
	3.1.3 Managing long-term financial assets and liabilities
3-2. Budgeting	3.2.1 Budget process
	3.2.2 Budgeting for performance
	3.2.3 Budget documentation
3-3. Structural Balance	3.3.1 Revenue structure
	3.3.2 Planning and management
3-4. Contracting and Procurement	3.4.1 Contracting and procurement
3-5. Financial Controls and Reporting	3.5.1 Managerial controls
	3.5.2 Financial reporting

Sources: GFOA Recommended Practices; GPP; NACSLB; NJI.

3-1. Financial Planning

Financial-planning criteria focus on whether and how the town uses a long-term perspective as a basis for making budget and financial decisions. Major elements of financial planning include (1) the establishment of overall goals (2) the development and use of forecasts of revenues, expenditures, and the impacts of internal and external events on future revenues and expenditures and (3) the management of long-term obligations and assets.

Element 3.1.1. Goal Setting

Criteria

- The Town regularly collects and evaluates information about trends in community condition and the external factors affecting it.
- The town's financial planning and budgeting are informed by broad goals based on the town's assessment of the community it serves and its operating environment.

Findings

Evaluation of conditions and trends is, to some extent, conducted in conjunction with evaluation of debt-service requirements. Middletown does not have a fully documented set of overall financial goals and processes for routinely and systematically assessing the town's overall financial condition or the implications of policy decisions and external events on future financial condition. However, major policy decisions are evaluated by staff and elected officials with respect to likely fiscal impacts. At present, the town's overall financial goals are to meet debt-service obligations, avoid tax increases, and ensure that costs associated with new development are not unfairly borne by existing residents and businesses. Electric rates are evaluated annually with the assistance of a specialist consultant, based on cost projections and regional competitive benchmarks (both municipal and investor-owned utilities).

One relevant set of broad community goals has been identified in the recently updated Comprehensive Plan. Some additional management goals are likely to be developed in the course of the strategic-planning activity recommended in Chapter 6. Information is available describing projected growth in residential and commercial development that will affect Middletown over the next few years, both within the town and nearby. This information is not presently linked explicitly to a financial-planning process or to the town's annual budget preparation process.

Recommendations

3.1.1.a Monitor community conditions and trends. In the town and in adjacent areas, continue to update information about likely property developments and their timing. Consider establishing a set of community-monitoring indicators to track such variables as the town's and neighboring areas' population, education and income levels, employment statistics, age distribution, community preferences, and intergovernmental mandates. Indicators should be updated on an annual or more frequent basis, so it is desirable to adopt an explicit policy calling for routine

updating. Census data, state and county agencies, and the town's own records are useful data sources for this. Citizen surveys, or other means of obtaining citizen input regarding service quality, needs, and priorities, may also prove useful in the future (see Miller & Miller, 2000). For example, the City of Dover has commissioned surveys through the ICMA's National Citizen Survey service. A number of other options are also available.

3.1.1.b Identify financial implications of community conditions and goals. Identify the operational and financial implications of the town's broad community goals and community indicators. These implications will include the staffing and infrastructure requirements associated with growth, as well as shifts in the town's revenue base during and after the period of rapid expansion. Costs of services, such as police protection, can also be expected to increase as growth continues and the demand for services increases accordingly. It may be appropriate to evaluate whether alternative service-delivery arrangements should be considered as development continues, based on cost effectiveness, service quality, and other criteria.

It may be appropriate to identify some specifically fiscal goals. For example, to what degree does the town wish to use its business-type activities, such as the utility operations as profit centers, to subsidize governmental activities (or vice versa), and how should that objective be balanced against goals concerning affordability and relative pricing versus local investor-owned utilities? For which services and to what extent should user charges and fees for service be relied upon for financing? It would be appropriate to include a wide variety of individuals in the goal-setting process, including town officials, employees, residents, and non-resident owners of Middletown properties and businesses.

3.1.1.c Reflect goals and conditions in financial plans and budgets. Community indicators, goals, and their fiscal implications can then be linked to the town's financial-planning and budgeting processes (both of which are discussed in subsequent sections of this chapter). See Nollenberger et al. (2003) for a particularly useful framework of community and financial indicators and recommendations for establishing linkages from them to financial plans and budgetary choices; Brown (1993), Clifford (2005), and Genito (2005) provide suggestions for how to regularly assess financial condition and trends. Broad community goals and specifically financial goals can be used to guide the periodic forecasting and annual budget processes as well as long-term choices about service types and levels and fiscal policies, including revenue structure. See GFOA recommended practice "Establishment of strategic plans" (2005) and NACSLB practices 1.1 through 3.2 (2000).

Element 3.1.2. Forecasting

Criteria

- The town's revenue and expenditure forecasting processes are thorough, accurate, and transparent and include a multiyear perspective of at least three years:
 - Major revenue sources are analyzed to identify factors that have influenced historical collections, forecasting assumptions, and other concerns.
 - Potential changes to revenue-source rates and bases are evaluated.

- The impact of potential foregone revenue as a result of exemptions, credits, and discounts is estimated.
- The town has policies and procedures to analyze the impact of financial decisions, major land-use actions, and choices concerning what services and service levels to provide, using a full-cost approach, and addresses such impacts in its capital-improvement plan (CIP) and operating budget plan/forecast.
- The Town uses information that assesses the future fiscal impact of external financial decisions in financial planning and in developing the annual budget.

Findings

Middletown's current forecasting practices are primarily short-term and informally organized. Town staff forecast revenues and expenditures only for the following year when compiling the annual budget. By combining building permit data with known household numbers, town staff members project the total number of households for Middletown. Household estimations are combined with trend data and anticipated service-fee levels to forecast revenue and expenditures. Evaluation of the financial implications of policy decisions occurs in conjunction with annual budget preparation. Town staff does, however, intend to prepare a five-year fiscal plan and have already worked to forecast the availability of development-related revenues over the life of the town's current long-term bond issue.

The town's expenditures will, of course, continue to increase as the town's population and commercial development continue to increase and as a result of ordinary price inflation. Revenues will vary in their responses to growth and inflation. The main current-revenue sources for Middletown include electric, water, sewer, trash, building and permit fees, property taxes, real estate-transfer taxes, and impact fees. Of these, only the utility charges and property taxes are fully recurrent revenues. As town officials are aware, permit fees, transfer-tax revenues, and impact fees will decline as the building boom reaches its end, although property taxes will increase as additional development occurs over the course of the growth. Utility charges, trash fees, and other user charges are relatively more controllable and can reasonably be expected to grow proportionately to the increases in costs.

Recommendations

3.1.2.a Institute a financial-planning process. Immediately following the conclusion of the FY 2007 budget-formulation effort, the town should proceed with its plan to develop a five-year or longer financial forecast and plan. Equally important, the town should do so in the context of establishing an ongoing process for annually updating that long-term forecast and using it to inform the annual budget process. Anticipated trends provide information that is useful for making annual budget decisions, and annual budget decisions will have implications for long-term trends—especially if they involve changes in recurrent activities, expenses, or revenues. Financial planning should integrate the long-term forecasts, capital-improvement planning (see Chapter 4), and the annual budget.

The criteria listed above, together with the criteria and recommendations under “Goal Setting,” above, offer a good general guide to the components of a long-term forecast: consideration of the financial implications of the town’s goals and operating environment; major revenues, bases, and rates; scenario and sensitivity analyses; life-cycle or full-cost (including operating costs and contracts for service delivery, capital costs, and applicable debt-service and maintenance costs) modeling of actual and potential policy and financial decisions (internal and external), service options, and land-use actions (fiscal impact analysis); and linkages with both the operating and capital budgets. Useful guidance is provided by several sources in the Appendix, including Clifford (2005), Schroeder (2004), and Vogt (2004, Chapter 12).

Forecasts will need to take into account baseline revenues and expenditures, as well as changes in revenues and expenditures that will result from any contemplated program or policy changes, including growth in demand for existing services. Baseline forecasts project the revenues and expenditures that can be expected as the result of external factors, such as inflation, development occurring as a result of past or future approvals, or deaths and births, if no policy changes (such as changes in tax rates or service fees, expansion or elimination of town services, annexations, increases or decreases in authorized headcounts, etc.) are adopted by the town. Useful references for practical guidance include the GFOA recommended-practices documents titled “Financial forecasting in the budget preparation process” and “Use of financial status in the budget process,” NACSLB Practices 9.1 through 9.5, and several of the other sources identified in Appendix B of this document. Also refer to the budget process, structural balance, revenue, and capital-budgeting discussions in this document.

3.1.2.b *Plan for the transition from a growing to a fully developed town.* Although very long-term forecasts are, by necessity, imprecise and even somewhat speculative, the town should also prepare a forecast of baseline budget revenues and expenditures from FY 2008 through the first two or three years following the completion of the current development boom. Assuming the current boom is a singular event, this need not be an annually recurrent process, although this forecast should be monitored against actual results and updated as appropriate from time to time.

The current mix of revenues is dominated by development-related fees for permitting and inspection services, developer charges and impact fees, and real estate-transfer taxes. These are probably at or close to their maximum levels now, while the costs associated with providing ongoing services to the new development will continue to increase for some time. A forecast that spans the post-boom period will be a tool for adopting financial and budgetary policies to achieve a sustainable mix of revenues. Careful advance consideration will allow new revenue structures to be phased in over time, avoiding disruptive tax increases and/or revenue shortfalls.

3.1.2.c *Integrate long-term forecasts with capital and operating budgets.* These longer-term forecasts should also be linked to the town’s capital-improvement planning process (see Chapter 4) and to a systematic process of annual baseline revenue and expenditure estimation to be performed in conjunction with the annual budget process. It may be desirable to conduct rate-setting and revenue estimation together, at or prior to the beginning of the annual budget cycle, in order to provide a firm budget constraint to guide the budget-development process.

3.1.2.d Make forecasting and financial planning a staff-directed activity. The town should make the preparation and updating of these forecasts primarily a staff function, rather than contracting it out to consultants. This can help to ensure “ownership” of the forecasts by those charged with responding to them and the efficient retention and use of relevant knowledge. Consultants could still be used to render specialized services in connection with the forecasting and planning activities, under the direction of town staff.

3.1.2.e Consult key internal and external stakeholders. The NACSLB recommends adopting a consensus approach to financial forecasting and planning and using a transparent process to ensure that all stakeholders (both internal and external to the town government) understand how estimates were derived, even if complete consensus cannot finally be achieved.

Element 3.1.3. Management of Long-term Financial Assets and Liabilities¹

Criteria

- The Town maintains a modest, reasonable level of borrowing and does not rely on debt to finance current expenditures. The town has debt-management policies that are integrated with operating and capital budget policies.
- The Town manages long-term investments, including pension assets, to promote solvency and avoid financial instability.
- The Town carefully evaluates the use of early retirement incentives.

Findings

The town’s total indebtedness includes approximately \$4 million in long-term general-obligation notes issued to finance the new town hall and other capital improvements and about \$26 million outstanding in long-term general-obligation bonds issued in 2001 to construct a wastewater-treatment facility and electrical substation. Total debt service was more than 20 percent of general fund expenditures for fiscal 2005, but this proportion will decrease as overall expenditures increase, unless the Town issues significant additional debt. Funds for repayment of the outstanding infrastructure bonds will probably not have to be drawn from the town’s general revenue. Projections by the financial manager indicate that under reasonable assumptions,² the town’s currently accrued fund balance, together with the investment earnings thereon and reasonably anticipated future sewer-connection fees, will be sufficient to cover all debt payments for the sewer bond until its maturity in 2031. There has been no use of debt to finance operating expenditures.

As is true of many small jurisdictions, Middletown does not yet have a documented debt policy beyond the gross debt limitation provided in its charter. With the assistance of external financial advisors, the Mayor and Council currently decide on an ad-hoc basis whether to fund major

¹ Capital assets, including basic infrastructure, are discussed in Chapter 4.

² Key assumptions are that the town will discontinue its current practices of deficit finance and the utilization of impact fees to fund recurring operating costs incurred in excess of recurring revenue.

capital projects through current revenues, development fees, or debt. Restrictions against the use of debt to finance current expenditures, calculations of debt affordability, and criteria for decisions about debt refunding are provided for by the undocumented norms and practices of town staff and officials.

Middletown approved an official investment policy in September 2006, in a form based on the GFOA's and other sources' recommendations, and planned to transfer management of its investments to an outside advisor in January 2007. The Town outsources the administration and investment of its deferred-compensation (457) plan and pension funds, which are not covered by the investment policy. Pension benefits are provided on a defined-contribution basis only. Other post-employment benefits provided by the town include health insurance, which is currently funded on a pay-as-you-go basis. The health insurance plan for current employees and retirees is managed on an annual-contract basis, with the assistance of an insurance broker. Dental and vision coverage are budgeted and paid directly from the general fund.

Because the pension is a defined-contribution type and externally managed, there should be little or no long-term financial implications for the town under ordinary circumstances. Current annual costs of other post-employment benefits (OPEB) are modest, and the implementation of Governmental Accounting Standards Board Statement 45 (GASB 45) in the near future should produce an estimate of the annual contributions required to fully fund OPEB costs in order to provide long-term stability.

The early-retirement incentive is a lump-sum contribution. The costs associated with this are estimated annually, and projected future early-retirement costs will be included in the upcoming five-year financial plan.

Recommendations

3.1.3.a Adopt a documented debt policy. The town should adopt a formal debt policy, as recommended by the GFOA ("Adoption of financial policies," 2001; "Debt management policy," 1995, 2003) and NACSLB (Practices 4.3 and 4.3a). Debt policies will generally address issues including the following: when debt finance may be used, debt limits, debt structuring and issuance practices, and debt-administration practices. The guide published by the GFOA (Tigue, 1998) is one useful source of examples and advice.

3.1.3.b Evaluate the early-retirement program. Annual estimation is satisfactory for the lump-sum retirement incentives, and the incentive program does not appear to have significant direct financial impacts. However, if it has not already done so, the town may wish to consider, as part of its human-resources planning, whether the program in its current form continues to serve the needs of the town in a period of considerable growth (see Workforce Planning, in Chapter 5).

3-2. Budget Process, Content, and Documentation

Element 3.2.1. Budget Process

Criteria

- The town has a set of procedures that facilitate the review, discussion, modification, and adoption of a proposed budget.
- The Town clearly defines and follows a predetermined budget cycle, format, and deadlines.
- The town's budget process is transparent and easy to follow.
- The Town provides clear and timely budget guidelines and instructions.
- The Town effectively communicates its fiscal priorities.
- The Town disseminates broad goals to citizens and provides opportunities for public input about the budget to identify stakeholder concerns, needs, and priorities.

Findings

The town budgets for its business-type activities (e.g., water, sewer, and electric utilities), governmental activities, and capital and operating expenditures in a single annual budget. This appears to be largely in keeping with standard practices in Delaware. Peer municipalities in Delaware, such as Newark and Dover, similarly budget their business-type activities together with governmental activities. The town's current practices in developing its annual budget follow a pattern of activities and steps that is fairly standard, although not fully documented. Citizen participation in the town's financial planning presently takes place in the council meetings, during which the final budget is reviewed and adopted each year. The town's fiscal year runs from July 1 through June 30.

Although the budget process is not fully documented (as also noted by the town's auditors), town staff and elected officials do follow a routine and relatively consistent set of procedures for producing an annual budget, which includes provision for capital outlays as well as operating expenditures. For operating expenditures, foremen and the town's financial manager are the primary developers of the budget proposal. Foremen are assumed to know best what is needed in their departments, and by mid-April they are responsible for putting together a budget request for their department's needs. Foremen base their requests on past trends, taking into account changes in the prices of materials used in each department. The budget process is interactive, and the finance director helps foreman estimate their budgetary needs. The finance director reviews the final budget requests from the foremen and compiles a budget draft by the last day of May. Council adopts a budget in July.

For capital outlays, foremen prepare estimates of the coming year's requirements at the start of April and then work with the individual council members overseeing their units to develop formal requests. Once capital and operating requests are combined into an annual budget, the budget is reviewed by the mayor and council through a series of meetings until it is adopted on the first Monday in July. At the end of the process, the final budget document is available to

staff, Council, and citizens. Supporting documentation and budget revisions are maintained by the financial manager and are available for public inspection.

Revenue estimation is performed routinely as part of the process. Electric rates are determined annually, based on cost projections and regional competitive benchmarks (both municipal and investor-owned utilities). Current town policy is to maintain stability of tax rates. Forecasting of the relatively volatile income from the municipal real estate–transfer tax is based on conservative assumptions. Budgetary comparison schedules for fiscal years 2003 through 2005 indicated that actual operating revenues reported for the general, electric, water, and sewer funds exceeded annual budget forecasts each year, with the variance ranging from 6 to 34 percent. Reconciliation of expenditure requests and revenue forecasts is performed centrally in the preparation of the final budget proposal.

The present budget process does not incorporate a formal mechanism for public participation in budget preparation prior to the final budget hearings and relies on citizens to take the initiative to contact the Mayor, Council, or staff. Copies of the final budget document and supporting documentation are available to any citizen upon request.

Recommendations

3.2.1.a Budget process enhancements. The town should develop and document a systematic budget process that identifies the steps and responsibilities involved in the full budget cycle from formulation through audit. This includes the development of a capital-improvement plan and capital budget, as discussed in Chapter 4, with links to the operating budget. For the annual operating budget itself, many of the required elements are already in practice in a condensed budget cycle. A more complete and systematic budget process will require a longer development cycle and budget calendar and should provide a clearer grounding in baseline revenue and expenditure forecasts as well as meaningful opportunities for public engagement, but it can be built upon the elements already practiced by town staff and elected officials. See NACSLB Practices 7.3 through 10.2.

3.2.1.b Budget process and calendar. Typically the basic elements of a process for preparing the operating budget and integrating it with that year's capital budget into an overall current-year budget include at least the following major steps:

- 1) Preparation of baseline revenue and expenditure estimates, based on the town's current strategic plan and performance objectives
- 2) The identification of key budgetary priorities for the next fiscal year
- 3) An initial budget "call" memorandum from the chief executive or chief financial officer to the operating units, including instructions for preparing budget requests and information about priorities
- 4) Preparation of departmental requests
- 5) Central-staff review of requests
- 6) Compilation of a recommended executive budget
- 7) Publication of the recommended budget, public hearings, and consideration by the town council

8) Adoption and publication of an approved budget.

Additional activities in a budget cycle for which policies and procedures should be adopted include budget execution, periodic reviews of actual to budgeted results, modification or re-budgeting when required (also see “Managerial Controls”), and auditing and financial reporting. Some jurisdictions conduct budget “kick-off” meetings to begin the departmental preparation phase.

Baseline revenue and expenditure estimates should be prepared at the start of the annual cycle, linked to the long-term forecasts (see “Forecasting” above), and used to guide decisions concerning desired spending limits and/or revenue enhancements. The initial budget-call memorandum provides instructions to departments concerning the form, timing, and content of their budget-request submissions, specifying guidance about spending limits and key priorities adopted by elected officials and administrators for the next fiscal year. Generally, these instructions include a maximum total-expenditure limit for each major department or activity, based on town-wide priorities and the overall spending constraint represented by the revenue estimate.

A calendar should be adopted with specific dates for major activities and milestones in the development, execution, mid-year review, and closing-out of the annual budget. This should include the final adoption of a budget before the start of the fiscal year. Current practice can serve as a starting point for development.

3.2.1.c Transparency and communication. Contemporary guidance for good practice tends to recommend providing formal, structured opportunities for public review and comment well before the final budget–adoption hearing. A number of recommendations and specific examples of practices are available for ways to use the Internet (GFOA, “Using Websites to Improve Access to Budget Documents and Financial Reports,” 2003), citizen surveys and advisory boards (Miller & Kobayashi, 2000; Stampfler, 2005), and other means (NACSLB, 2000) to engage citizens efficiently and effectively. By explicitly designing this into a documented budget calendar and process, the town can provide residents with meaningful opportunities to help shape a proposed budget, and even actively to shape the proposal, without introducing needless inefficiencies in the process. Transparency also serves to help reassure residents and other stakeholders that the town government is a careful steward of public resources.

The development and dissemination of a publishable budget document is an important component of transparency and stakeholder communication. (See Element 3.2.3, “Budget Documentation”)

Element 3.2.2. Budgeting for Performance

This aspect of financial management focuses on the degree to which town officials have appropriate data on the relationship between cost and performance and use those data to guide resource-allocation decisions.

Criteria

- The Town routinely produces valid cost and performance information, including information on past performance.
- Town officials have cost and performance information available during budget deliberations.
- Departments routinely use cost and performance information when developing the budget, and the finance department routinely uses cost and performance information when it reviews the budget.
- Financial indicators and performance measures are used to monitor financial condition, the achievement of set goals, and the performance of vendors.

Findings

While some unit-cost and equipment-usage data are maintained, the town does not yet have a formal performance-monitoring and -management system in operation. The annual budget document and the monthly financial status reports currently used to monitor budget execution do not routinely include cost-effectiveness, unit cost, or other performance information. Officials do not have extensive performance data available to them for use during budget deliberations.

When making the budget, staff and Council have access to budgeted and actual numbers for revenue and expenditures from the previous years, in addition to the budget they are reviewing. Town officials do not have any cost or performance information available to them during budget deliberations.

Departments do not use performance information extensively when developing the budget, and the finance department does not have this information available to use when reviewing department budgets.

Middletown does not systematically use explicit, quantified performance goals and financial indicators to monitor the performance of vendors.

Recommendations

3.2.2. *Work toward integrating performance information in budgeting and procurement.* Some degree of performance measurement is an important element in preparing, justifying, and reviewing budget requests and evaluating budget execution. The town should use its broad goals, once they are identified (see “Goal Setting”), as a starting point for selecting the measures appropriate for determining whether the town’s activities are accomplishing those goals. Specific benchmarks and indicators for the quantity and quality of public service activities and outputs should also be identified in order to assess the performance of town departments, contractors, and vendors. These measures should then be applied and used to inform budget, procurement, and other policy decisions. Refer to NACSLB (2000) Practices 6.3 through 6.4a, GASB’s Performance Measurement for Government website (seagov.org), Hatry et al. (2006), and other references in Appendix B.

Types of performance measures to be considered in a budget process include demand, input, workload, output, efficiency or productivity, outcome, and impact (Bland & Rubin, 1997, p. 131). Note that the terminology is only partially standardized and there is often some ambiguity as to how a specific measure should be classified within the typology. The jargon should not distract from concentrating on the important consideration in devising useful ways to measure performance: whether a particular measure provides meaningful information that can be used to make decisions and evaluate the results of those decisions. Demand indicators can be used to help determine the level of service, inputs, and outputs required. Using the example of police services, one example of a demand measure could be the number of reported crimes or calls for service or even simply the number of households and businesses in the town. Input measures quantify resource consumption, such as man-hours or personnel headcounts. Workload indicators measure the amount of effort expended and activities engaged in, such as the number of dispatched emergency responses. Output indicators measure the immediate results of service efforts and activities, such as hours of patrol service provided, number of responses to calls, arrests, value of stolen goods recovered, and so on. Efficiency or productivity measures compare inputs, workload, and outputs, in order to generate ratios or unit costs, such as the cost per crime cleared or per hour of patrol service provided. Outcomes are typically the result of outputs, and include such measures as the percent decrease in reported crimes per 1,000 residents, the percent of crimes cleared, or public satisfaction and perceptions of safety. More distant outcomes, or impacts, might include increased/decreased home values or retail trade, resulting from changed perceptions of safety.

Evaluation of vendor and town service performance should be based on the qualitative and quantitative objectives their contracts are meant to achieve. For trash removal, measures might assess the number of complaints, by type, per thousand customers, residents' or trained observers' assessments of whether streets are littered with spills from collection operations, costs per household or per ton of refuse, average time it takes the vendor to respond to complaints, and so on. For parks and recreation, measures might include the proportion of households using the facilities in a given period of time, the number of visits per month, resident satisfaction with hours of operation and quality of facilities, the ratio of households per facility by type or acreage, and the like. The Hatry et al. (2006) book provides a good list of sample municipal service objectives and related performance measures one can consider as starting points, but the final choice of measures should reflect the particular goals and objectives of Middletown and its residents for the scope, quality, and cost of each local service. See Nollenberger et al. (2003) for a particularly useful framework of financial indicators and related community indicators, as well as recommendations for establishing linkages from the indicators to the town's financial plans and budgetary choices. Brown (1993), Clifford (2005), and Genito (2005) provide suggestions for how smaller municipalities with constrained staff availability can regularly assess financial condition in a meaningful way on an ongoing basis.

Consider developing indicators and integrating performance data into budgetary decisions in a phased effort over three to five years, in conjunction with the development of a more public-oriented budget document, as described in the following section. Service objectives and performance measures derived from community goals should also be used as key elements in make-or-buy decisions, preparation of contract specifications, and the evaluation of performance

by contractors and units of the town. One starting point can be the demand, output, and unit-cost information foremen and other local officials are already using to estimate budget requirements. Another place to start is with the community goals identified in the recently updated Comprehensive Plan. For example, “adequate open space and recreation opportunities” can be converted into a demand measure by estimating the need for specific facilities for a given number of households and children. Then capital-improvement and service efforts and accomplishments toward that end can be compared. Or the community’s specific requirements in terms of “safe and efficient flow . . . of traffic” can be assessed and resources allocated accordingly.

Element 3.2.3. Budget Documentation

Budget documents should be designed to serve the needs of both internal (elected officials and staff) and external stakeholders. In doing so, a budget document performs four broad functions, as described by the GFOA’s criteria for its distinguished budget presentation award (Fishbein, 2006; GFOA, n.d). A budget serves as:

- 1) a policy document, identifying financial and non-financial policies and their consequences;
- 2) a financial plan, identifying how resources will be acquired and used in service of the town’s service goals;
- 3) a guide to the town’s operations and operating units, describing what the town and its organizational components are and what they do; and
- 4) a communications device, serving the information needs of the full range of stakeholders (including residents, officials, employees, businesses, and bondholders) concerned with the town.

Criteria

- The budget document communicates policy decisions and their financial and other implications.
- The budget document clearly identifies how revenues are to be raised and how expenditures are allocated.
- The budget document provides the reader with a guide to the programs the government operates and the organization structure in place. This can include statements of organizational vision/mission, goals, and performance standards and measures, either by incorporation or by reference.
- The budget document and related materials are clear and comprehensible and contain a summary of key issues, choices, and financial trends, in both the proposed and final budget documents. A comprehensive budget document generally includes the following aids to navigation and interpretation:
 - Table of Contents
 - Summaries
 - Consistent format
 - High-level summary info that describes overall funding sources
 - Description of the overall budgeting process

- Charts and graphs to illustrate important points
- The form of accounting used to describe revenues and expenditures in the budget and CAFR are described
- For non-specialists, it may also be useful to include a glossary of terms used in the budget.
- The budget is widely accessible—both available and presented in such a way as to provide meaningful and actionable information—to residents and other stakeholders.

Findings

The current town budget is a set of linked spreadsheets, with information on anticipated revenues and authorized allocations by object of expenditure presented in line-item format, with no narrative, interpretation, or performance information. Salary information is listed by individual employees' names. This budget format is minimally adequate as an internal reference for controlling salary and other-than-personal-services (OTPS) expenditures, but it is not well suited for use as a tool for financial planning or management, not suitable for publication, and provides no context for the decisions that resulted in the authorized expenditure quantities it documents.

The Town does not actively publish or disseminate the budget, but citizens can obtain copies at the town hall. The Town does not currently place any budgetary information on its website. There are no current plans to make the entire budget available on the website in the future, but it is possible that a brief explanation of the budget could become available in the future via the town's website.

Recommendations

3.2.3. *Develop a more complete budget document.* Develop a budget document that adopts at least some of the recommendations of the NACSLB (Practices 10.1 through 10.1g) and is more suitable for informing decisions by elected officials and for public information purposes. This can be undertaken in stages, and in parallel with the work of formalizing procedures for the budget process and of integrating some measures of performance into budgetary decision-making, beginning with the FY 2008 budget.

Consider working incrementally over a period of three to five years toward producing a “distinguished” budget document similar to those produced by Dover, Wilmington, New Castle County, and Sussex County. GFOA has recently published a guide to “preparing high-quality budget documents” (Fishbein, 2006). Award-winning budgets are valuable sources of information for stakeholders, and winning the award provides recognition for the exemplary efforts of town officials and staff.

First steps can include adding basic descriptive information and summaries to the budget and taking steps to disseminate it more broadly to stakeholders. The work by foremen, administrators, and elected officials of developing suitable descriptive summaries of what the various units of town government do, and how that is reflected in the budget, can additionally serve as the stepping-off point for development of objectives and measurable workload and

performance indicators. This first step should be integrated with the preparation of the FY 2008 budget by requiring that departmental requests include narrative explanations of what the departments do and why the requested allocations are necessary and appropriate to furthering that work. Departments should be informed that, once edited, these descriptions will be matters of public record. For 2009 units should be required to identify appropriate indicators and continue to develop both the document and the integration of performance-based justifications for requests in successive budget cycles.

The town's website can be used to provide public access to budget and financial documents, as recommended by the GFOA ("Using Websites to Improve Access to Budget Documents and Financial Reports," 2003). The town may also wish to consider replacing individual employee's names in the salary schedule with information simply describing the number and nature of filled and vacant positions.

3-3. Structural Balance

Any local government's budgeting and financial-management practices should support a structural balance between ongoing town revenues and expenditures, in order to promote fiscal sustainability and a continuing ability to deliver services and meet financial obligations. Major elements in maintaining balance include the town's revenue policies and structure, and its policies and practices for planning and managing cash flows and risks and for accommodating fluctuations in the economic cycle. See Clifford (2005) for a concise overview, based on the experience of Scottsdale, Arizona. The design of a revenue structure should also provide for overall adequacy of revenue and appropriate responsiveness to factors that drive increases in governmental expenditures, such as inflation, population growth, expanded commercial activity, and so on. Management of long-term liabilities such as long-term debt, pensions, and other post-employment benefits—as discussed under the financial planning heading in this document—is also critical to maintaining structural balance and a municipality's fiscal health.

Element 3.3.1. Revenue Structure

Criteria

- The Town maintains a diversity of revenue sources and assesses sources according to stability, growth, sensitivity to inflation/business cycle effects, and impact on tax- and rate-payers.
- The town's revenue structure accommodates fluctuating economic climates.
- The Town does not depend on "one-time" or "windfall" revenues for ongoing expenditures.
- The Town identifies what major revenue sources it considers unpredictable or impermanent, and defines how these revenue sources can be used.
- Policies dictate how fees and charges are set. The extent to which fees cover the cost of the services provided is regularly evaluated.

Findings

Middletown generates revenue from a variety of sources, although a relatively small number of these account for the majority of revenue. Most of the town's current general revenue is directly tied to the ongoing land-development activity and is, therefore, sensitive to the business cycle and prevailing interest rates. There may be a structural imbalance between recurrent governmental revenues and expenditures.

Revenue overview. The town's major sources of revenue include user charges for the town-owned electric, water, and sewer utilities ("sales"); utility connection fees for new construction ("impact fees"); real estate-transfer taxes; business-license and building-permit fees; property taxes; and trash-removal fees. The revenue from utility sales are accounted for in the proprietary (business-type activities) funds and primarily pays for utility operations. There was also a net operating funds transfer from the utilities as a whole to the general fund in 2005. Utility connection fees and much of the building-permit revenue, accrue to the capital-projects fund and are, or should be, dedicated to capital cost-recovery payments to the Artesian Water Company, to the utilities' capital-improvement and debt-service costs, and to other capital outlays. Municipal Street Aid revenues and expenditures are accounted for in the special revenue fund. Revenues and expenditures for governmental activities other than capital outlays and the share of street construction funded by the State's Municipal Street Aid grant program are accounted for within the general fund.

Impermanent revenues. While none of the town's major revenue sources represent entirely nonrecurring, "one-shot" or "windfall" revenues, at least in the short run, the two dominant sources of general revenue—"impact fees" (utility connection charges, accounted for as revenue to the capital-projects fund) and real estate-transfer taxes (accounted for as operating revenue in the general fund)—will decline sharply as the current development boom reaches its end. Moreover, even before the town's land is fully built-out, these development-based revenues may be susceptible to the usual effects of the business cycle and interest rates on new construction and purchases of new homes and commercial property.

All revenue sources associated with development are recognized as impermanent and somewhat unpredictable by town officials, including licenses and permits, impact fees, and real estate-transfer taxes. While the Town is attempting to divert most of this revenue to the capital projects funds, some of this revenue has been used to supplement the operating budget. Town officials have noted a slowing in development and anticipate a decrease in revenue from these sources in the near future.

Tax revenues. The two major sources of tax revenue for Middletown are property taxes and the town's share of the real estate-transfer tax. Property taxes averaged roughly 14 to 15 percent of general-fund revenues over fiscal years 2003 through 2005, while transfer taxes averaged about half of general-fund revenues. Together they covered about three-quarters of the share of expenses associated with governmental activities not covered by user charges, grants, and other program revenues over that period.

The town's share of the transfer tax equals 1.5 percent of the aggregate value of real estate transactions within the town. This is a large source of revenue now but will decline when the building boom ends. It may eventually settle at around \$1.5 million to \$2 million per year, in today's dollars and values, assuming a complete buildout of the town and taking Dover's experience as a rough guide for the amount of ordinary turnover to expect while allowing for somewhat higher values in Middletown. After the volume of transactions settles at a normal turnover level, however, revenue will tend to increase gradually over time as property values increase, because the tax base is the full market value of a property as recorded for a transaction. This makes the tax base somewhat elastic with respect to increases in price levels over the long term. The town has no direct control over the tax base.

The town's nominal property tax rate is \$0.30 per \$100 of taxable assessed valuation (AV). The tax rate has been constant for several years and as it is expected to remain for the foreseeable future. For AV, Middletown uses the County Assessor's estimate of an imputed fair market value as of July 1, 1983, as determined in a revaluation completed in 1985. On a countywide basis, AVs average about 27 to 28 percent of current market value, with considerable variation from place to place.³ Conservatively this figure is probably no more than 25 percent for Middletown⁴ and will continue to decline as long as no reassessment is performed. Thus an estimate of the effective tax rate would be about \$0.075 per \$100, or less than one mil. The tax base, AV, will continue to grow as long as large-scale development continues. Because it is based on static, imputed historical values, however, it will not grow in response to increases in the market value of properties. Thus the tax base is not elastic with respect to increases in the price level, and the ratio of the effective tax rate to the nominal tax rate will continue to decline unless and until the County performs a comprehensive re-assessment. The development of planned age-restricted communities may further reduce the size of the property-tax base relative to recurrent operating costs, as a result of the town's policy of exemptions for senior citizens.

Elderly homeowners are eligible to receive full property-tax exemptions, as are non-profit and religious organizations. Tax exemption eligibility for the elderly is based on a status test (the householder's age) only. The Town does not regularly use this information to estimate the cost of the exemptions in foregone revenues. Presently, the revenue lost from exemptions is believed by the town to be minimal and not a cause for concern. However, town officials have expressed concern about the effect of several planned age-restricted developments on future tax revenues. By preparing and regularly updating an estimate of this tax expenditure, the town can confirm whether the amount of lost revenue is great enough to merit concern. Options for reducing

³ For new properties/subdivisions, taxable AV is determined by the County Assessor's office based on comparable developments existing in 1983, emphasizing location within the county and the size of the dwelling and lot, with cost-based adjustments for differences in standard features now versus 1983 (e.g., the number of bathrooms). In 2006, the countywide average ratio of current market value to AV was roughly 3.8, or a 27 to 28 percent ratio of assessed to market values, according to the County Assessor's office. This is not an equalization ratio, though, and particular locales will vary (e.g., downtown New Castle properties seem to be assessed at no more than 20 percent of their current market value).

⁴ So, in preparing forecasts, Middletown will need to compare sales prices to AV imputations for at least a sample of recent transfers and make a more precise estimate of what the ratio is locally. The precise figure can readily be calculated by comparing the declared values of specific transactions as reported by the County when remitting transfer taxes to the assessed valuations applied to the same properties by the County Assessor.

revenue loss without completely eliminating tax relief for senior citizens include income qualifications, exemptions only up to a specified dollar amount of assessed valuation (AV), and partial, rather than full, exemptions. For example, senior-citizen tax exemptions for New Castle County and school property taxes are income-qualified and limited to the first \$50,000 or \$32,000 of AV respectively; a partial reduction of school taxes is granted to seniors who are over the income limits for exemptions. The City of Newark reportedly accepts the County's reduction of the share of seniors' AV subject to county taxes in determining its own city property taxes for seniors. This approach can have the additional advantage of reducing the administrative burden of granting tax exemptions.

User charges and fees. A number of governmental activities and business-type activities are wholly or partially financed through fees and user charges. The town's utility operations as a whole appear to generate operating income adequate to cover most or all of its operating expenses, with the surplus from the electric utility offsetting the deficits in the water and sewer utilities. Fees and charges generate revenue to cover about a quarter of general-fund expenditures. Trash removal charges are set high enough to cover all of the direct costs of the service contract and at least some share of indirect costs. User charges for construction permitting and inspections⁵ and for the town pool recover significant fractions of the expenses associated with those services. A variety of smaller fees and charges offset about four percent of the expenses of governmental activities in fiscal 2005.

The Town Manager and Finance Manager, together with the Mayor and Council are responsible for setting utility rates and performing or overseeing related cost analyses. Rate-setting practices have been made routine but have not yet been fully documented. Of the major user charges, only electric rates are formally set by resolution. Electric rates are evaluated annually with the assistance of a specialist consultant, based on cost projections and regional competitive benchmarks (both municipal and investor-owned utilities). Trash, sewer, and water rates are set administratively, according to town staff. For these three services, the town identifies comparable services in other towns or the private sector to use as benchmarks when setting rates. When possible, the Town tries to charge a lower rate than what would otherwise be available in the private sector while always ensuring rates are set to cover the costs of materials. Making services self-supporting is certainly a goal of Middletown, but offering affordable rates has been a higher a priority than making proprietary activities profitable. Rates are evaluated in the monthly financial-statement analysis, and rates are determined in conjunction with the annual budget cycle and contract agreement cycles.

Electric utility rates are set with the assistance of a consultant, and one pricing objective is to keep the cost of service lower for Middletown's customers than for customers of the local investor-owned electric utility. The electric charges consistently yield a surplus over operating costs, as is the practice in Dover and Newark. Water and sewer charges are consistently less than operating costs. In fiscal years 2003 and 2004, the operating losses for water and sewer together

⁵ Available documents do not break out the revenue derived from charges for business licensing separately from charges for permits and inspections of construction projects. The business-license fee closely resembles a gross-receipts tax in its structure, albeit one with a very low tax rate.

were larger than the operating revenue for electricity, so the business-type activities as a group yielded negative net revenue from operations. For FY 2005, positive net operating revenue for electricity exceeded the operating loss from water and sewer service. Pricing for the water, sewer, and electric utilities is based on declining block-rate structures, which encourage increased consumption and may not be proportional to the cost structure associated with increased consumption. Charges for household trash removal are currently set to provide a small margin in excess of the per-household price the town pays to its service contractor. It is not clear whether, or to what extent, indirect costs, capital outlays, depreciation, and debt-service costs are factored into pricing decisions for the utilities and trash-removal service.

Middletown imposes a business-license charge at flat rates for various service businesses and at the rate of 0.00046 times gross receipts or purchases for resale for merchants and manufacturers. The rates are benchmarked against Dover's and can be changed by municipal ordinance.

Grants. Middletown does not systematically pursue external sources of funding, such as intergovernmental grants, for operating expenses or small capital projects. Town officials have concluded that because the town is growing and because its current presentation of financial data suggests no fiscal distress, the town is ineligible for many of the intergovernmental grants available to municipalities in Delaware. Financial reports for recent fiscal years have indicated adequate cash flow and available fund balances to cover minor capital improvements without such aid.

Structural deficit. Table 3-2 summarizes the town's general-fund revenues and expenditures in FY 2005 and indicates that there is likely a structural imbalance between general government operating revenues and expenditures. While gross general-fund revenues, at \$8 million, exceeded the \$6.3 million in general-fund expenditures by more than 25 percent in fiscal 2005, over three-fifths of that revenue was from the real estate-transfer tax. The table also presents a "best-case" estimate of the portion of revenue that can be considered recurring, independent of the land-development cycle. In this best case, the operating ratio is less than 84 percent, even without accounting for the need to divert some portion of general revenues other than the utility connection fees to fund pay-as-you-go capital outlays.

Without more precise forecasts, this deficit can be expected to increase over time, all things being equal. Expenditures will tend to grow proportionately with increasing population, increasing commercial development and activity, and other trends that increase demand for services, and also with general price inflation. From fiscal 2003 through 2005, general-fund expenditures increased at an average annual rate of 13.4 percent, as the number of households increased at about 12.7 percent per year, from roughly 3,700 to roughly 4,700.

The town's adopted budget for 2006 anticipated an acceleration of spending growth even as a decline in the rate of household growth was occurring, and projected a general-fund deficit of about \$2.5 million, assuming \$2.5 million of transfer-tax revenue for the year. These future trends, as well as the current gap, will eventually have to be made up through increases in the property-tax rate, increases in user charges and operating transfers, development of new sources of revenue, spending reductions, or some combination of these.

Table 3-2. General Fund Revenues and Expenditures, FY 2005

General Fund Revenue, FY 2005	Gross Revenue	Percent of Expenditures	Recurrent Portion	Percent of Expenditures
Real estate—transfer tax*	5,027,241	79.7	2,250,000	35.7
Property tax	985,476	15.6	985,476	15.6
Trash fees**	801,268	12.7	801,268	12.7
Net operating transfers from utilities	403,250	6.4	403,250	6.4
Licenses and permits – recurring**	378,053	6.0	378,053	6.0
Inspection fees**	128,397	2.0	128,397	2.0
Water tower—lease proceeds**	101,501	1.6	101,501	1.6
Pool membership fees**	69,705	1.1	69,705	1.1
Fines**	65,153	1.0	65,153	1.0
Other program revenues and taxes***	116,120	1.8	85,990	1.4
TOTAL GENERAL FUND REVENUES	8,076,164	128.1	5,268,793	83.6
GENERAL FUND EXPENDITURES****	6,305,206		6,305,206	

Source: Town of Middletown, annual financial statements, fiscal year 2005. Note. Budgetary basis of accounting.

* Recurrent portion estimate assumes roughly 10 percent annual turnover among 5,000 total housing units, or 500 sales per year, at an average value of \$300,000 per transaction. See text.

** Classified as user charges, fees, or other program revenue.

*** \$33,105 of this was program revenue.

**** Includes all reported town operating costs other than those for the utilities. Excludes capital outlay, which is accounted for in the capital projects fund. Includes \$57,430 in debt-service payments (principal and interest). Debt service for the sewer bond was accounted for in the capital-projects fund.

Recommendations

Assuming the current growth and development does not end abruptly in the next year or two, Middletown can use the time, any accrued unencumbered, unreserved, and undesignated fund balance,⁶ and the current abundance of transfer taxes, to prepare strategically for and make the transition to a sustainable revenue mix and structural budget balance. The following recommendations, together with the recommendations under the Planning headings, encourage the town to adopt a strategic approach to its financial stability and sustainability and should be pursued jointly. Promptly beginning and following through with a strategic effort and the adoption of the indicated policies will enable the town to emerge from the current period of rapid growth with a stable revenue base for the long term and avoid disruptive tax increases or service reductions when the increasing operating costs associated with growth confront the decrease in impermanent revenues.

3.3.1.a Adopt a policy on balancing the operating budget. Middletown “should develop a policy that defines a balanced operating budget, encourages commitment to a balanced budget under

⁶ Amounts attributable to revenue from utility-connection charges should be reserved for their utilities’ respective capital improvements and debt-service needs, unless there is clear evidence in a carefully prepared capital-improvement plan and financial forecast that surplus funds are available. Any available surplus, to the extent it is not required by applicable law or anticipated capital-funding requirements to be reserved for capital improvements to the respective utilities, should be allocated to other capital improvements, rather than operating expenditures.

normal circumstances, and provides for disclosure when a deviation from a balanced operating budget is planned or when it occurs” (NACSLB, Practice 4.5, 2000). Definitions of balance may apply to the adopted budget, the year-end position, or preferably both. The funds included and the relevant basis of accounting should also be stipulated. Definitions of acceptable revenue may vary from one fund to another. For example, debt proceeds should never count as revenue for an operating fund. Fund balances that are or should be designated or reserved, such as the amounts required to service the sewer debt and pay for capital projects for the electric and water utilities, should not be treated as revenue to the general-fund operating budget. This policy should be coordinated with policies governing the maintenance of an adequate level of financial reserves, transfers from the utility funds, overall revenue structure, and taxes and user charges.

Instructions to departments at the start of the annual budget process should include explicit instructions as to departmental expenditure limits and required allowances for reserves and contingencies that will in the aggregate ensure the town’s ability to implement a balanced budget given its estimate of overall revenues and its targeted reserve levels.

3.3.1.b Forecast the budget gap or surplus. In order to determine what corrections are needed, perform a detailed forecast of recurring operating revenues and expenditures. A spreadsheet model should be used to allow town officials to test a range of environmental conditions, including price inflation and the rate and extent of land development in the town, and alternative policy choices, such as tax rates and the pricing of user charges, through sensitivity analysis. Also refer to the discussion of financial planning and forecasting.

3.3.1.c Adopt policies concerning revenue structure and use. Middletown should also consider adopting policies governing revenue diversification, the use of one-time revenues (including revenues that will recur only for a few years, such as the current level of transfer taxes), the use of unpredictable revenues, and revenue diversification, as recommended by the GFOA (“Adoption of Financial Policies,” 2001) and NACSLB (Practices 4.4, 4.4a, 4.6, and 4.7, 2000). Recurring (those which continue fairly reliably from year to year, such as property taxes) and nonrecurring revenues (those which are partially or wholly temporary in nature, such as impact fees and the transfer taxes on sales of new homes or one-time sales of assets) should be differentiated from one another. As a general rule of thumb, the patterns of revenues and expenditures over time should be matched, so that routinely recurring expenditure needs are supported by recurring revenue streams and nonrecurring revenues are used to support nonrecurring expenditures.

Ensure that nonrecurring and short-lived revenues, such as impact fees and the bulk of the current transfer-tax revenues, are reserved to pay first for nonrecurring expenses such as development-related costs of debt-service and capital improvements. Adopt a formal policy stipulating this requirement, and allowing diversion of development-related revenues to recurring expenditures, to the extent permitted by applicable law, only after appropriate sinking funds and other capital needs associated with the new development are adequately financed. Periodically (every two to three years) conduct a revenue survey to assess the appropriateness of the town’s mix of revenue bases and rates, compared to expenditure needs and benchmarked against peer municipalities.

3.3.1.d Adjust tax and fee rates as appropriate. Raise the property-tax rate and/or the business-license charge as necessary to plug revenue gaps in a measured fashion. Current tax rates are quite low, and taking a long-term, strategic approach will allow the town to phase in any needed increases gradually, rather than imposing large and sudden tax changes. For purposes of comparison, Dover's effective property-tax rate in fiscal 2005 was approximately three mils, or four times as great as Middletown's.⁷ Middletown's business-license charge, at the current 0.00046 multiplier, would generate only about \$15,000 per annum from an average Wal-Mart store.⁸ The town's position as a key retail hub for the rapidly growing Middletown-Odessa-Townsend region and its attraction as a tax-free shopping area for nearby Maryland communities should allow it to derive reasonable revenues from major retailers without discouraging them from locating in Middletown. Continuing increases in commercial activity are likely to drive significant increases in the demand for, and therefore, the cost of providing police service. This will be true in general, even though Wal-Mart's recent amendments to its shoplifting policy—reflecting the company's decision no longer to demand the arrest and prosecution of even petty shoplifters—can be expected to mitigate somewhat the increased demand for service that will result from the new Wal-Mart store in particular, as long as they remain in force and apply to the Middletown store.

3.3.1.e Adopt policies on user charges. Adopt a policy or policies concerning the use and setting of fees and charges, including those for utility services, trash removal, permits, and various parks and pool fees, as recommended by GFOA ("Adoption of Financial Policies," 2001) and NACSLB (Practice 4.2, 2000). In conjunction with the adoption of a policy, conduct an analysis of the full costs (both direct and indirect costs, and both operating and capital costs) of activities, the charges for which will be explicitly related to the cost of providing services. Monitor actual operating results, review the analyses, and update them as necessary, in conjunction with the annual budget process (see forecasting and budget process above). When revising utility charges, consider eliminating the declining block-rate structure (Bierhanzl, 2004). It may be desirable to conduct rate-setting and revenue estimation together, at or prior to the beginning of the annual budget cycle, in order to provide a firm budget constraint to guide the process of developing a budget from the beginning of the annual budget cycle.

3.3.1.f Consider pursuing intergovernmental and other grants more aggressively. Dover, for example, secured \$125 per capita in operating and capital grants and contributions in its fiscal year 2005, covering 16 percent of its total expenses for governmental activities that year, compared to \$21 per capita and 3 percent for Middletown (consisting of Municipal Street Aid only).

⁷ Based on Dover's nominal tax rate of \$0.411 per \$100 of AV and an aggregate AV of \$1.747 million, compared to a July 1, 2005, aggregate appraised market value of \$2,452 million as determined by the next year's comprehensive reassessment. Newark's nominal property tax rate for FY 2004 was closer to Middletown's at \$0.411 per \$100, while Wilmington's nominal rate was set much higher at \$1.3969 in FY 2006, with both cities, like Middletown, using New Castle County AVs.

⁸ Based on average 2002 sales per store of \$51 million (as reported at www.bizstats.com/storesales) and assuming that purchases subject to the charge amount to roughly two-thirds of gross sales.

3.3.1.g Monitor spending and correct as appropriate. Use financial forecasts and retrospective analysis to identify opportunities to control or reverse increases in spending. Analysis of per capita costs, financial ratios, trends over time, and comparisons to peer jurisdictions can help to identify areas for which detailed scrutiny of financial and operational management is indicated (Chase and Phillips, 2004; Nollenberger et al., 2003).

Element 3.3.2. Planning and Management Activities

Criteria

- The Town has policies to guide the creation, maintenance, and use of resources for financial-stabilization purposes, including a minimum reserve level.
- The Town uses counter-cyclical or contingency-planning devices to address economic downturns.

Findings

Middletown does not have policies stipulating the maintenance of a minimum reserve level or budget-stabilization fund. The Town does have an informal capital-reserve fund of accumulated utility impact-fee collections, to be used for related debt service and capital outlays.

Recommendation

3.3.2. Adopt a policy on financial reserves. The town should adopt policies providing for a minimum level of contingency reserves and/or unreserved fund balance as recommended by the GFOA (“Business preparedness and continuity guidelines,” 2005; “Appropriate level of unreserved fund balance in the general fund,” 2002) and NACSLB (Practices 4.1 and 4.7, 2000). Fund balance required for eventual payments of debt principal and interest or for funding pay-as-you-go capital outlays, including accumulated balances of impact-fee payments, should not be counted toward the desired reserve amount. Reserves should provide for at least capital consumption and lifecycle replacements, operating contingencies, and working-capital requirements (Clifford, 2005). Middletown should also take into account the risk of downturns in property-development trends when deciding on desired reserve-fund levels, since for the near future these property development cycles are likely to amplify the effects of ordinary business-cycle upturns and downturns on the town’s finances. Specific requirements for reserve levels and allowable uses of reserves should be documented in a written administrative policy or an ordinance establishing a formal budget-stabilization fund. This will make it easier to maintain appropriately prudent policy and practices in the face of short-term pressures to cut corners.

3-4. Contracting and Procurement

This group of criteria is concerned with the degree to which contracting and purchasing protocols allow the town to operate programs and deliver services effectively.

Criteria

- The Town uses a systematic approach to “make-or-buy” decisions about whether and how to contract out for services versus producing them directly, and uses outside vendors (including government, nonprofit, and for-profit producers) strategically.
- The town’s procurement and grant-making practices are covered by adequate guidelines and controls (also see internal controls).
- The Town follows set procedures when selecting grantees, contractors and vendors.
- The Town monitors the performance of grantees, vendors and contractors, and incorporates the results into the future selection process (also see budgeting for performance, above).

Findings

The Town contracts with public and private vendors for the production of many of the town’s services. Services produced in-house include electric distribution, parks and recreation, police service, regulatory functions such as business licensing and inspections, and general and administrative services. Electricity is purchased from the Delaware Municipal Electric Corporation cooperative. Private contractors are used for investment management, solid-waste removal, operation of the town’s wastewater-treatment facilities, and construction projects. Fire protection is provided by a volunteer fire company.

The Town purchases part of its water supply from Artesian and has paid for the capital costs of the corresponding expansions of Artesian’s production, storage and distribution capacity. Artesian enjoys a state-granted monopoly on water supply for much of Middletown’s land area.

Administration and investment management for the town’s pension plan are contracted out. Management of the town’s other investments will be assigned to an outside manager in early 2007.

Middletown does not have explicit criteria and procedures for deciding which services to contract for and which to produce in-house, nor for selecting vendors, although the town is careful to follow the regulations accompanying intergovernmental grants. Mayor and council hold the main responsibility regarding what services should be provided for by the town and what should be contracted out.

The town has a list of approved vendors for routine purchases, but there are no other formal procurement policies and guidelines. Those responsible for making the purchases usually go to individuals with whom they already have a good working relationship. Sometimes these vendors might not provide the most inexpensive service available, but they are used as a way for the town to avoid the risk associated with using unproven vendors. When the price is close, they will

usually go with the local vendor. They have a formal bid process that is used for selecting contractors for large projects or for projects that require a bid process, as is the case with projects using Municipal Street Aid funds. While it is possible for local governments in Delaware to use contracts bid and managed by the State's Division of Support Services, it has not been the Council's policy to do so.

There are no written procedures to follow when dealing with vendor issues. However, town staff members dealing with vendors and contractors routinely examine the cost and timeliness of the projects. For routine projects, staff members' experience enables them to determine when there are discrepancies with bids and monitor the performance of vendors and contractors. The town's auditors have also noted that processes for prior approval of purchases and review of payments are not fully developed.

Town officials report that Middletown has not had major problems delivering services and operating programs because of a lack of contracting and purchasing protocols. When using federal and state money, the Town carefully follows the corresponding laws. Town officials are confident that Middletown's current service and contracting arrangements have allowed them to operate programs and deliver services effectively.

Recommendations

3.4. Develop and document procurement policies and procedures. Middletown can take steps to insure its continuing happy experience with contractors and vendors by adopting an integrated set of procurement policies and procedures stipulating decision processes and criteria for deciding whether to "make or buy" specific goods and services; pre-qualifying contractors and vendors and using past performance experience when re-qualifying them; selecting suppliers for specific contracts, whether through least-cost bidding or other methods; paying or withholding payment when required; and monitoring vendor/contractor/grantee performance and taking appropriate corrective action when indicated.

The town should also consider formalizing its grant programs and adopting explicit policy statements that govern the appropriate grant purposes, amounts, and recipients, as well as grantee performance and reporting requirements and what corrective action will be taken in case of unacceptable grantee performance. Policy statements should indicate the public-purpose rationale for each grant program.

Make-or-buy decisions and other procurement policies should be grounded in explicitly identified goals and performance standards for particular services, goods, or activities (also see budgeting for performance, above). The town may wish to allow for differences in vendor-selection procedures and grants of contracting authority to staff, according to the size, scope, and purpose of contracts. For example, some vendors can be selected on a least-cost basis, while many providers of professional services may more appropriately be selected first on quality and only secondarily on pricing. In selecting local vendors preferentially, the town may also wish to define explicitly what "close" is when selecting local vendors over slightly more expensive non-

local vendors and identify which types of procurement are subject to this local business–enterprise (LBE) policy.

Middletown should consider taking advantage of the range of resources available through the state of Delaware. In formulating policy statements for procurement, for instance, the town should systematically evaluate whether it wishes to continue its blanket policy of not using state contracts or instead to specify for which particular products and under what conditions it will use or decline to use the state contracts. The state’s Government Support Services unit also sponsors the Delaware Public Purchasing Association, which the town’s purchasing managers should consider joining (gss.omb.delaware.gov/dppa)

In keeping with GFOA recommendations, the town may also wish to “explore the use of purchasing cards” to determine whether such a program would have benefits (“Purchasing card programs,” 2003). The University of Delaware has recently updated its purchasing card program, and procurement specialists there may be a useful source of information for the town.

3-5. Financial Controls and Reporting

Element 3.5.1. Managerial Controls

Criteria

- Budget-to-actual comparisons of revenues, expenditures, cash flow, and fund balances are conducted periodically.
- There are mechanisms in place to detect and correct deviations from the budget.
- The Town regularly assesses and effectively links financial costs with operational performance.
- The town’s departments engage in sound internal control practices.
- The Town manages its cash to maintain and support ongoing expenditures and to minimize short-term borrowing.
- The Town manages risk to limit government liability and to maintain overall fiscal health.

Findings

Monthly-budget-to-actual comparisons are conducted in conjunction with the weekly staff meetings. Performance and unit-cost information based on historical cost trends, comparison of vendor bids, and forecasts, is loosely used in these meetings. This information is also reviewed during the annual budget deliberations. These meetings are where deviations from the budget would be detected and corrected. Deviations from budget are handled on an informal ad hoc basis through staff meetings. The town does not have documented policies and procedures governing budget execution, amendments, reporting, periodic comparisons of actual to budgeted expenditures and revenues, and corrective actions.

The town’s auditors have recommended improvements in certain internal controls, including inventory management and segregation of duties in several areas. Town staff has been

responding to the auditor's control concerns in accordance with Council direction, but there does not appear to be a firm plan or timeline for implementing all of the recommended changes in policies and procedures. The town's auditors have also noted that processes for prior approval of purchases and payments are not fully developed.

The town does not have a cash-management policy or engage in systematic cash budgeting, but it has been able to manage cash in such a manner that it has not been necessary to use short-term borrowing to support ongoing expenditures. The town's cash fund was placed in a Sweep Account in July 2006. Middletown's investment policy, adopted in September 2006, is based on guidance provided by the Government Finance Officers Association (GFOA) and other sources.

Middletown minimizes risk through employee-theft insurance, blanket-bond coverage and an annually budgeted bad-debt reserve.

Recommendations

3.5.1.a Develop mechanisms for budgetary compliance. Routinely compare actual expenditures to budget at regular intervals, and develop a policy that identifies appropriate responses to divergence, as recommended by the GFOA ("Adoption of financial policies," 2001) and NACSLB (Practice 7.2, 2000).

For mischaracterizations of expenditures, solutions may include providing explicit guidance on suitable uses of appropriated funds by object code and establishing procedures for purchasing controls and enforcement of line-item spending constraints. Adoption and enforcement of stricter prior-approval requirements for purchases and reimbursements can also help. The town should also consider developing a monthly or quarterly allotment system, in conjunction with a cash budget, to forecast and regulate spending by departments over the course of each fiscal year.

Additional or alternative solutions could include 1) expanding the scope of discretion for foremen to purchase certain categories of items in the context of performance or activity standards rather than line-item controls and 2) reducing the incentives to "use it or lose it" by allowing for departments to reallocate or carry over to a subsequent fiscal period some amounts of funding, subject to a documented procedure. For example, Dover also uses a line-item budget format, but allows for some staff discretion in reallocating among lines. Department heads are permitted by explicit policy to move allocations among lines within their overall OTPS budgets, as long as the total OTPS budgets for their departments are not exceeded. The City Manager permitted, by ordinance, to make interdepartmental transfers of budget authority up to five percent. More extensive re-budgeting or allocation of available fund balances requires city council approval.

Grants of re-allocation authority should be adopted in conjunction with at least minimal performance standards and criteria identifying suitable performance- or goal-related rationales for re-allocating budgeted funds (see budgeting for performance, above). Requirements that changes be explicitly linked to performance objectives, if systematically observed in practice, can help maintain fiscal discipline and can be used to inform budget preparation going forward.

3.5.1.b Implement auditor recommendations. Continue implementing the auditors' recommendations for improvements in internal controls and fraud-prevention procedures, financial planning, contingency planning, risk management, and other managerial controls.

Element 3.5.2. Financial Reporting

Criteria

- The Town prepares an annual financial audit in accordance with generally accepted accounting principles (GAAP), and routinely receives a clean audit opinion.
- The audit report is made available to the public.

Findings

Audited financial statements for fiscal years 2002 through 2005 received clean opinions as to their accuracy, although at least one significant restatement of fund balance was required over that period. The auditors' reports also note, however, that the Town did present all the required supplemental information (RSI) called for by GAAP.

Citizens can get access to the audit report by coming into Town Hall and requesting a copy. The procedures followed for requesting the audit report and all public documents are as outlined in the Freedom of Information Act. There are no plans in the future to make it available on the town website.

Recommendations

3.5.2.a Provide fuller annual financial reporting. The town should provide management's discussion and analysis (MD&A) as well as any other RSI as part of a fully GAAP-compliant annual financial report, beginning, if possible, with the report for FY 2006. The town may wish to consider moving over time toward producing a full comprehensive annual financial report (CAFR), although doing so is not required for GAAP compliance.

MD&A should provide an analysis and interpretation of the financial statements and the government's financial condition, discussion of activities related to capital assets and long-term debt, analysis and discussion of the condition of infrastructure, and discussion of factors that bear on the future financial status of the town (Mead, 2000, 2001, 2005). The preparation by staff and review by elected officials of MD&A can be also useful for internal management purposes as well as for external reporting, particularly in conjunction with the town's current effort to assess and enhance its management capacity. Much of the forecasting and analysis recommended in this chapter and in the capital-management chapter can be readily adapted for use in MD&A (or vice versa).

If the town elects in the future to produce a full CAFR, it may also wish to take advantage of the CAFR to fulfill its continuing disclosure obligations (GFOA, “Using the Comprehensive Annual Financial Report to Meet SEC Requirements for Periodic Disclosure, 1996, updated 2006).

3.5.2.b Consider Internet publication of annual reports. The GFOA recommends publishing the CAFR on a jurisdiction’s website (“Using Websites to Improve Access to Budget Documents and Financial Reports,” 2003). Middletown should consider so publishing its annual financial statements and RSI, even if it elects not to produce a full CAFR. In order to maximize the benefits of making financial information widely available to the public, the required MD&A should be provided in published reports as an aid to interpretation of the statements by non-specialists. In preparation for more widespread public presentation of financial results, the town may also wish to review and update its fund-accounting structure, both to ensure adequate control over restricted-use resources, such as impact-fee collections, and facilitate clarity in public presentations of financial data. Recent GFOA guidance includes a recommended practice, “Improving the Effectiveness of Fund Accounting” (2004), and a related article (Fritz, 2005).

3-6. Summary

Middletown already has in place many of the basic elements upon which a sound financial-management system can be built, although not all of them are documented. Enhancements to these elements are strongly recommended, as are the addition of some additional policies and procedures to ensure optimal financial-resource planning, acquisition and management. Major recommendations, many of which will require some time to implement fully, include

- Formalizing and documenting procedures to ensure budgetary compliance and maintain appropriate internal controls over financial assets, expenditures and receipts, including compliance with any applicable restrictions on the use of funds as described in section 3-5 and as recommended by the town’s auditors.
- Documenting and enhancing the current process for developing the town’s operating budget. This should include providing opportunities for meaningful public review and input into the process and developing a budget document suitable for general public distribution as described in section 3-2.
- Developing and documenting a process for regularly engaging in medium- and long-term financial planning, and developing strategies to maintain a structural balance between recurring revenues and recurring expenditures as described in sections 3-1 and 3-3.
- Developing and documenting procurement policies and procedures, including a systematic approach to making “make-or-buy” decisions as described in section 3-4.

CHAPTER 4. CAPITAL-ASSET AND INFRASTRUCTURE PLANNING AND MANAGEMENT

Capital management involves planning, constructing, maintaining, and renewing the town's physical infrastructure and other capital assets.⁹ This chapter employs criteria for the activities of (1) capital-improvement planning, (2) project management, (3) asset management, (4) internal coordination, and (5) intergovernmental coordination. Table 4-1 lists the capital-management subsystems and criteria analyzed within this chapter.

Table 4-1. Capital-Management Subsystems and Criteria

<p>4-1. Capital-Improvement Planning</p> <ul style="list-style-type: none"> • The Town regularly conducts an infrastructure condition assessment. • The systematic assessment of future infrastructure needs informs the capital-planning process. • The town has a formal, prioritized multi-year capital plan, linked to budgets and financial forecasts. • Selection of projects relies on capital-planning priorities, condition assessments, and public input. • The Town estimates operating and maintenance costs and links them to the operating budget. • Useful lives of capital assets are estimated.
<p>4-2. Project Management</p> <ul style="list-style-type: none"> • The Town adequately monitors and evaluates project progress. • The Town follows set procedures when selecting contractors and vendors. • The Town monitors contractors' performance and incorporates the results into future selections. • The Town effectively intervenes to take corrective action, as necessary. • The Town effectively manages the private companies that build its infrastructure. • Capital-project reports are prepared for decision-makers to ensure that projects progress as planned.
<p>4-3. Asset Management</p> <ul style="list-style-type: none"> • The Town maintains its infrastructure according to generally recognized engineering practices. • The Town adopts a life-cycle approach to asset management. • The Town employs current-condition assessments in setting maintenance and renewal priorities. • The Town funds maintenance at a level that ensures service and safety, and minimizes total costs. • The Town effectively manages the private companies that operate and maintain its infrastructure.
<p>4-4. Internal Coordination</p> <ul style="list-style-type: none"> • When responsibilities overlap, departments coordinate effectively with one another. • Capital plans recognize the interrelated nature of the infrastructure system.
<p>4-5. Intergovernmental Coordination</p> <ul style="list-style-type: none"> • The town, county, and state offices effectively coordinate infrastructure responsibilities. • The Town incorporates intergovernmental regulations into capital planning and project selection. • The Town is aware of and complies with existing and new intergovernmental requirements.

Sources: GFOA Recommended Practices; GPP; ICMA; NACSLB; NJI; Vogt.

⁹ Capital assets are generally those with a minimum useful life of two years and a minimum acquisition value of \$5,000 per unit. Establishing specific criteria for defining assets as "capital" will be part of the work for the town to do in developing a capital-planning process and policies. See the GFOA recommended practice "Establishing Appropriate Capitalization Thresholds for Capital Assets (1997, 2001, and 2006)."

4-1. Capital-Improvement Planning

The major steps in capital-improvement planning are identifying needs, determining costs, setting priorities among the requested projects, and developing strategies for financing the capital program. This group of criteria helps assess whether the town conducts a thorough analysis of its infrastructure, and other capital-asset needs, and has a transparent process for selecting infrastructure and other capital projects.

Criteria

- The Town regularly conducts an infrastructure-condition assessment in accordance with accepted engineering standards.
- The systematic assessment of future infrastructure needs informs the capital-planning process.
- The town has a formal, multi-year capital plan that prioritizes capital activities and links directly to the town's capital budget, its long-term financial forecast and plans, and its operating budget.
- The town's selection of projects for inclusion in the capital plan and capital budget relies on capital-planning priorities, condition assessments of infrastructure, and public input.
- The Town includes estimates of the operating and maintenance costs of the capital projects in the capital plan and the capital budget, and it formally links those estimates to the town operating budget prior to legislative adoption.
- Useful lives of capital assets are estimated.

Findings

There are currently no procedures for routinely assessing the condition of town's infrastructure. The town's auditor maintains an inventory of assets that is adequate for financial reporting purposes but does not include information on condition and remaining useful life for use in asset management and capital planning. Staff members are implementing a geographic information system (GIS), which will be used to track repairs and the general condition of town infrastructure. Foremen are currently responsible for determining town infrastructure and capital-improvement needs.

The town does not currently have a capital-improvement plan. Part of the five-year financial plan that the finance director intends to prepare will address capital improvements. Some estimation of the adequacy of accrued and anticipated impact fees, and investment earnings thereon, for servicing existing debt and funding pay-as-you-go capital projects has been performed.

Middletown does not systematically pursue external sources of funding, such as intergovernmental grants, for small capital projects. This has not been a priority for the town, to date, as a matter of expediency and because of restrictions on the town's eligibility for intergovernmental aid.

Mayor and Council prioritize and select capital projects annually. Priorities are developed at the same time as the operating budget in a parallel process that begins with foremen discussing their priorities for the next year's capital outlays with individual Council members. Project selection is not fully and formally constrained by a calculation of funding availability, but relative priorities are used in determining the final annual list of projects. Citizen feedback and expressions of priorities for capital projects are provided in routine Town Council meetings and in annual budget hearings.

Estimation of proposed capital projects' operating and maintenance costs is performed informally, and sometimes only after capital-outlay decisions have been made in the annual budget process. The Town does estimate the useful lives of capital assets to the extent required for purposes of calculating straight-line depreciation costs in connection with preparing its annual financial statements.

Recommendations

4.1.a *Develop and implement a capital-improvement planning process and a capital-budget process.* At a minimum, this should include the initial preparation and annual updating of a five- or six-year capital-improvement plan, an annual capital budget derived from that plan, and careful integration of long-term financial forecasts and plans, capital-improvement priorities and project selection, and the capital and operating budgets, as recommended by the GFOA ("Multi-year capital planning," 2006) and NACSLB (Practices 5.2, 6.2, and 9.6, 2000). The following summary of a ten-step "model" for developing a capital-planning and budgeting process comes from the ICMA publication, *Capital Budgeting and Finance: Guide for Local Governments* (Vogt, 2004, pp. 19-32). Also recommended are the GFOA's guide to capital-improvement planning (Tigue, 1996), its online recommended practices for capital planning and implementation, other sources cited in the Appendix (including Westerman, 2004), and Web links to examples of best practice from the NACSLB.

4.1.b *Decide which types of capital projects and acquisitions to include in the capital-improvement program (CIP) and capital budget.* This includes establishing a definition of "capital" based on cost, value, and/or useful life criteria, and deciding which ancillary costs (if any) associated with their construction or acquisition should also be charged to the capital budget rather than the operating budget.

4.1.c *Organize the capital-budgeting process.* This includes assigning primary responsibility for coordinating the process (likely to the Town Manager or Finance Director), assigning other responsibilities, designing a process for public participation, identifying intergovernmental requirements and funding, developing an annual calendar for CIP updating and capital-budget preparation, developing procedures and forms, and integrating CIP and capital-budget preparation with long-term financial planning and the operating budget.

4.1.d *Prepare and approve a multiyear CIP.* A CIP typically covers a rolling five- or six-year period. Each year, the first year of the CIP is converted into the capital budget for the upcoming fiscal year, and the multiyear CIP is adjusted and extended so that it continues to extend five or

six years ahead. The CIP provides a context for identifying the capital needs associated with growth, facilities and technology upgrades, service expansions, routine operations, normal replacement of assets, and other factors; organizing them according to importance and appropriate sequence; and reconciling the “wish list” with actually available funding. The next four steps are interdependent and constitute major activities required in preparing a CIP.

4.1.e Evaluate and prioritize requested capital projects and acquisitions. Middletown is no more likely than other communities to have enough money to fund every project its residents desire. The process for developing and updating the CIP needs to include criteria and procedures for prioritizing, ranking, and selecting projects, and understanding any interdependencies among them. For instance, it would generally be preferable to lay underground utility lines before, rather than immediately after, performing major street reconstruction. Priorities and rankings allow for selection of the most appropriate projects given the constraints on funding availability.

4.1.f Assess the financial condition of the jurisdiction and forecast its capital-financing capacity. This assessment can be derived in part from the long-term financial forecasting exercise recommended in Chapter 3, in conjunction with the analysis of financing options.

4.1.g Identify capital-financing options and select appropriate financing for specific projects and acquisitions. Options may include pay-as-you-go options such as general, reserved, and special revenues; accumulated fund balances designated for capital projects; capital contributions associated with development; and debt options such as general obligation (GO) bonds, revenue bonds, revolving fund loans, and long-term leases.

4.1.h Develop and follow a capital-financing strategy. This will usually involve identifying a desired balance between pay-as-you-go and debt sources of funds. Considerations include the “lumpiness” and size of particular assets or particular years’ capital budgets, availability of grants, forecasts of revenue availability, and existing indebtedness and credit-rating considerations. The town should consider more systematically pursuing grant funding and intergovernmental assistance to finance portions of its capital program, particularly as the current cash flow from development activities diminishes.

4.1.i Prepare and recommend a capital budget. This is normally taken directly from the first year of the CIP, with appropriate adjustments to both the capital budget and out-years of the CIP as required to reflect changes in funding availability, new information, and changed priorities. Note that this involves a significant change from the current process by which the town makes decisions on each year’s capital outlays.

4.1.j Authorize capital projects and acquisitions and appropriate money to fund them. Generally, this would involve Council’s adoption of a capital budget for the year or appropriations for specific major projects. Vogt also discusses some additional options and considerations concerning the duration of authorizations and appropriations (2004, pp. 25-26).

4.1.k Implement the capital budget. This encompasses project management, reporting, and accounting. Capital-improvement planning involves linkages with the town’s operating budgets

and long-term solvency. The full or “life-cycle” costs of projects should be identified and taken into account when assessing the fiscal impact and affordability of capital projects. To balance capital costs with subsequent operating and maintenance costs, value engineering can be considered for major projects in the capital-planning stage, the project implementation stage, or both.

4.1.l Determine useful lives of assets. The useful lives of assets, including the anticipated useful lives of planned projects and the remaining useful lives of existing capital assets, should be determined. This information is part of the fundamental data required for preparing a CIP. Prompt development of a capital-planning process and adequate funding of capital budgets can help to maintain the town’s assets on a normal replacement cycle, so that assets are maintained appropriately and replaced at suitable intervals. As part of its development of a full set of financial and asset-management policies, Middletown should develop standard vehicle/equipment-replacement schedules and guidelines, to determine the cycle for orderly renewal and replacement of fleet vehicles, trucks, and other capital equipment.

4.1.m Model growth and development scenarios. The town may also wish to do some modeling of different growth and land-development scenarios, to determine the extent, characteristics, and timing of the overall infrastructure and capital-asset needs associated with the possible scenarios.

4-2. Project Management

This group of criteria is concerned with the planning, design, and execution of infrastructure construction and other projects to acquire specific major capital assets identified in capital-improvement plans and capital budgets. The town may decide to adopt for smaller capital-asset acquisitions the same procedures used for ordinary procurement of supplies and short-lived equipment. Procedures for construction of major assets and infrastructure, however, will probably vary from those used for routine procurement as well as from the procedures used for selecting vendors to produce ongoing services. An additional set of procedures may be required for any design-build-operate agreements into which the town wishes to enter.

Criteria

- The Town adequately monitors, evaluates, and detects project-cost overruns, delays, and safety compliance.
- The Town follows set procedures when selecting contractors and vendors for construction projects and other capital assets.
- The Town monitors the performance of vendors and contractors and incorporates the results into the future selection process.
- The Town effectively intervenes to take corrective action, as necessary, in managing the construction of capital projects by its own personnel as well as by private contractors.
- The Town effectively manages the private companies that build its infrastructure.
- Capital-project reports are prepared for decision-makers to ensure that projects progress as planned.

Findings

Foremen in charge of capital projects are responsible for tracking the projects' status and staying current on the project's progress with regards to the contracted timeframe and cost. Senior management and elected officials are routinely informed of project status. Project-tracking reports are generated through the Harris ERP system, as requested by foremen and elected officials, and it is possible for senior officials to query the system for overviews and basic project-specific tracking reports. Improvement of project management, tracking, and reporting is a key priority for town staff, however.

The Town employs a formal bid process for selecting contractors for large projects or for projects that require a bid process, such as projects using Municipal Street Aid funds. There are no documented procedures or guidelines for recording contractor performance, taking corrective action in response to deficiencies in contractor performance, using past performance as a consideration in future selections of contractors, or pre-qualifying contractors. Staff report that they have had to take corrective action on capital projects but did not report pervasive difficulty with contractors' performance. The Town Solicitor is drafting documentation related to delegation of authority, bid procedures, contract engagement and management, and other aspects of project management.

Recommendations

4.2.a *Develop project-management and -tracking policies and procedures.* Project management is the conscious, active planning and coordinating of the resources and tasks required to achieve the specified goals of a project on time, within budget and in accordance with the project's performance and/or technical specifications (Frame, 1994). Major components of project management are the designation of a single point of responsibility for each project; explicit stipulation of each project's cost, quality, and schedule requirements; regular reporting and comparison of actual to planned project performance; and taking appropriate corrective action when indicated.

4.2.b *Assign project managers.* The central concept of project management in organizations is that a single individual is assigned primary responsibility for managing each capital project, usually within the context of a "matrix" organization. In a matrix organization, most personnel have permanent, "line," assignments to functional departments or units. Project managers and the other members of project teams are assigned as needed for particular projects. For instance, an engineer in the public works department might also be the project manager for a major building project and the current years' program of capital repairs to parks facilities. Or a streets employee might have overall responsibility for managing a contract to make repairs and reconstruct streets in several locations. Often other members of staff will be tasked to perform specific activities related to a project at the direction of, or in coordination with, the project manager. This will generally include such specialized tasks as managing bidding and procurement details, accounting and payment processing, engineering design, inspection, and so on. These horizontal responsibility relationships combine with the vertical relationships defined by permanent hierarchical relationships in the organization to form the "matrix."

4.2.c Stipulate project plans/goals. The goals of project management are to ensure that the project meets the “triple constraint” established by previously specified cost, schedule, and quality/performance objectives. These targets should be initially identified in the CIP and/or capital budget for each project but will almost certainly be re-estimated and refined in the design or specification phase of implementation. Small or simple projects and contracts may require little more than stipulation of price, delivery date, and basic performance/unit-cost specifications. More complex projects may require the development of formal project plans laying out the targets and the means for achieving them. The town’s policies and procedures can establish criteria for determining whether a particular project or contract requires a formal project plan. Policy should also address the scope of authority granted to project managers, such as whether and under what circumstance it extends to issuing notices to proceed, approving change orders, approving payments, and terminating contractors whose performance cannot be corrected.

4.2.d Implement reporting procedures. Reporting is based on periodic (monthly, semi-monthly, or quarterly) comparisons of actual progress and status to the project plan. For projects failing to meet one or more of the three constraints, the project manager will normally be expected to recommend appropriate corrective action (or to explain why the plan should be revised in light of new information or events). Significant changes in cost, quality, and schedule will also need to become inputs into the capital-planning and -budgeting process. For major projects, it may also be appropriate to have project managers prepare close-out reports that identify any issues of interest related to operation and maintenance, future planning of similar projects, and the performance of contractors and vendors.

Regular reporting of project status, documentation of contractor performance, and the documentation and appropriate reporting of information useful for other personnel and projects (such as problems with standard specifications, interdependencies among projects or infrastructure systems, or implications of deviations from project plans) should be considered a fundamental responsibility of every project manager. This responsibility is in addition to the delivery of projects on time, within budget, and in compliance with quality and performance targets.

Integrate the specification of project goals with the general goal-setting and performance-management activities discussed in Chapter 6 and with the capital-planning process discussed in this chapter. Integrate project reporting with the procurement process, by documenting contractors’ performance and any corrective actions and using that information in future selections of contractors.

4.2.e Short-term actions. In the short term, the town should consider assigning project managers for ongoing projects and routinely distributing status and/or exception reports for major projects, using available data and technology. Reports should, for each project, identify at least (1) its project manager; (2) its original budget, schedule, and performance goals; (3) its currently forecasted final costs, completion date, and performance characteristics; (4) explanations of any variances; and (5) the project manager’s recommendations for corrective action and/or description of corrective actions already taken. The use of exception reports is one way to avoid overloading executives and elected officials with too much information, by calling out for their

attention only those projects failing to meet one or more targets (or even only those failing by a certain dollar amount, number of months, and so on).

References listed in Appendix B (Brown & Kreklow, 2006; Cleland, 1994; Daun, 2004; Frame, 1994; Martin, 1999) provide additional information on project management.

4-3. Asset Management

The concept of asset management is borrowed from the private sector, with its emphasis on maximizing net return by strategically selecting and maintaining physical and financial assets. In the public sector, it involves using a strategic approach to realizing the greatest public value (attainment of purposes and goals desired by local government and residents) relative to the total cost of infrastructure and other capital assets. The following criteria emphasize the desirability of operating and maintaining infrastructure and other capital assets in such a way as to minimize the full cost (also referred to as life-cycle cost, full costs include the costs of constructing/acquiring, operating, and maintaining an asset over its useful life) of assets and infrastructure associated with specified performance goals.

Criteria

- The Town maintains its infrastructure according to generally recognized engineering practices.
- The Town adopts a life-cycle approach to asset management.
- The Town employs current condition assessments in setting priorities for infrastructure maintenance and renewal.
- The Town funds maintenance at a level that minimizes a facility's life-cycle costs and that ensures defined levels of service and safety standards are met.
- The Town effectively manages the private companies that operate and maintain its infrastructure, including setting performance standards and incorporating those standards in their contracts.

Findings

Staff report that the Town maintains its infrastructure according to generally recognized engineering practices. The town does not maintain a planning- and management-oriented central inventory of its capital assets and infrastructure that includes information on condition, remaining useful life, or maintenance requirements. This is an issue the Town is actively working on in anticipation of implementing the infrastructure reporting requirements of GASB Statement 34.

To ensure that assets are properly maintained so as to minimize life-cycle costs, the Town uses the iHelper Preventative Maintenance Program to track maintenance of capital assets and infrastructure. This system serves as an electronic tickler file, tracking complaints and automating the generation and resolution of work orders, but it does not interface with the financial system. The town's ERP vendor does produce a module that would provide this

functionality. There is no formal policy governing the disposal of assets, but they do hold asset sales.

The town's wastewater-treatment facilities and a water tower are operated and maintained by private companies under contract. Those firms have maintenance requirements they are required complete. Through the maintenance records, the Town is able to determine if private companies are performing the necessary maintenance to optimize the useful life of the assets. Oversight is governed by relevant provisions of the permit guidelines and operating contracts for the utilities, and enforced through document and contract reviews.

Recommendations

4.3. Implement an infrastructure-asset-management system. Adopt and implement a policy providing for the preparation and regular updating of an inventory and condition assessment for the town's infrastructure and capital assets as recommended by the GFOA ("Adoption of financial policies," 2001; "Sustainability," 2002) and NACSLB (Practice 2.2, 2000). Prepare the inventory in accordance with the policy and continue to update it on a regular basis going forward. Integrate this information with the capital-planning process and estimates of remaining useful life. Include standards defining the anticipated service life for each category of fixed assets. Use the capital-planning process to schedule renewal and reconstruction of infrastructure and replacement and disposal of other capital assets, when the ends of their useful lives are reached.

4-4. Internal Coordination

Criteria

- When responsibilities overlap, departments coordinate effectively with one another in the planning, design, construction, operation, and maintenance of capital assets.
- Capital plans recognize the interrelated nature of the infrastructure system.

Findings

All departmental coordination generally occurs during the weekly staff meetings, which give the foremen an opportunity to identify overlapping needs and projects and coordinate their efforts accordingly.

There is no capital-improvement plan.

Recommendation

4.4. Systematize interdepartmental coordination. Internal, interdepartmental coordination should be made a part of the to-be-adopted capital-planning and -budgeting process. Individual units and project managers should be held responsible for coordinating with one another and assessing interdependencies in preparing their recommendations for the capital-improvement plan and

budget. Central staff should confirm that adequate coordination has taken place in preparing the overall recommendations for the capital plan and annual capital budgets. Project managers should flag newly identified interdependencies and issues as they occur and document them in their project status and close-out reports.

4-5. Intergovernmental Coordination

Criteria

- When responsibility overlaps, town, county, and state offices effectively coordinate infrastructure issues.
- The Town effectively incorporates intergovernmental regulations into capital planning and project selection.
- The Town works to conform to, maintain awareness of, and comply with existing and new federal, state, and county regulations and mandates.

Findings

The Mayor and Council manage through a project-based coordination system, seeking to coordinate efforts when projects overlap jurisdictional boundaries. The Town Manager maintains regular contact with relevant state and local agencies including the Delaware Department of Transportation, Delaware Department of Natural Resources and Environmental Control, and neighboring local governments.

Recommendation

4.5. Systematize intergovernmental coordination. Integrate current intergovernmental-coordination efforts related to infrastructure and other construction projects with the capital-planning and project-management policies and systems to be developed. Operating personnel with responsibility for the water and sewer utilities and other assets subject to intergovernmental mandates should stay abreast of relevant requirements and standards.

4-6. Summary

To date, Middletown has been able to manage its capital assets and capital-improvement program without major problems. As the scale and scope of the town's service responsibilities and infrastructure continue to expand, and as newly acquired assets age, it will be desirable to adopt a systematic approach to planning, managing, and financing capital assets. Recommended actions include

- Designing, documenting and implementing a process for multi-year capital-improvement planning, programming, and financing that is linked to annual capital budgets as described in section 4-1. This includes implementing a systematic approach to asset management as described in section 4-3.
- Formalizing and documenting policies and procedures for capital-project management, reporting, and oversight as described in section 4-2.

CHAPTER 5. HUMAN RESOURCES MANAGEMENT

Human resources are a key component of every organization, the Town of Middletown being no exception. Staff members are responsible for the delivery of nearly all town services; therefore, it is necessary to effectively plan and manage for adequate staffing of the organization. For a rapidly developing town like Middletown, it is imperative to recognize what size the future workforce needs to be in order to provide a comparable level and quality of services to future residents. Furthermore, the town must be conscious of how employees are treated and motivated in order to retain a quality workforce. By addressing these and additional issues, the following section will provide Middletown with a realistic assessment of its current workforce while offering a roadmap to ensure adequate staffing as its population stabilizes over the next few decades. Table 5-1 summarizes the five subsystems and 21 elements of the human resources–management system analyzed in this chapter.

Table 5-1. Human Resources–Management Framework

Subsystems	Elements
5-1. Workforce planning	5.1.1 Strategic workforce planning
	5.1.2 Workforce data
	5.1.3 Human Resources–policy communication
	5.1.4 Internet and computer policies
5-2. Recruitment and hiring	5.2.1 Timely hiring
	5.2.2 Employee recruitment
	5.2.3 New employee performance
	5.2.4 Job descriptions and classifications
	5.2.5 Workforce composition
5-3. Employee retention	5.3.1 Employee turnover
	5.3.2 Promotions
	5.3.3 Employee benefits
	5.3.4 Termination
5-4. Employee training and development	5.4.1 Employee-development resources
	5.4.2 Career-advancement opportunities
	5.4.3 Cross-training
5-5. Performance appraisal and management	5.5.1 Linking municipal, department, and employee goals
	5.5.2 Notification of performance-evaluation criteria
	5.5.3 Individual performance evaluations
	5.5.4 Rewards for high performers
	5.5.5 Employee feedback

Sources: Government Performance Project, Grading Criteria, 2005; The New Jersey Initiative, 2002, www.maxwell.syr.edu/campbell/nji/report/NJI_Summary.pdf; Jarret, 2005.

5-1. Workforce Planning

Element 5.1.1. Strategic Workforce Planning

Criteria

The municipality should have a human resources (HR) strategic workforce plan that provides direction and coherence to all HR activities and systems and addresses the following issues (Mello, 2002, p. 135):

- Future staffing needs
- Placing the right employees with the right skills in the right positions at the right times
- Responding to changes in the organization's environment
- Uniting the perspectives of line and staff managers

The plan should be based on the municipality's mission statement, goals, and objectives and should address trends affecting service delivery, anticipated future skill gaps, and critical-skill shortages (U.S. Department of the Interior, 2002, p. 15-17). The plan should also address how the municipality's budget will provide for recruitment and retention of needed employees.

Findings

Middletown does not have a strategic workforce plan, and there are not currently plans to develop one.

Recommendations

5.1.1. Create a human resources–management plan as either a stand-alone document or component of a larger strategic-management plan, which includes methods to track necessary HR data and provide staffing-need projections to accommodate future population and service-provision growth. Financial needs for HR staffing projections should be addressed in relation to budget projections to ensure that adequate funding will be available. Planning should include identifying goals and objectives for:

- Training and development
- Employee compensation and recognition
- Performance evaluation
- Employee separation
- HR policies (hiring practices, employee benefits, etc.)
- Employee feedback

In addition to establishing HR-management goals, the workforce plan will serve as the basis for determining Middletown's current and future HR needs on a continuing basis. The strategic plan can facilitate this process by:

- Identifying what systems or programs will be used to gather the data needed to effectively manage and determine HR needs.
- Creating staffing projections needed to accommodate future population growth.

- Address service-provision changes that will affect town staffing in the future (e.g., addition of a refuse-collection department).
- Incorporate foreman knowledge of how staffing needs will change as the population and corresponding services provided also change.
- Compare projected staffing levels to local municipal benchmarks and identify any issues Middletown needs to address.
- Formalize the information used to determine staffing increases for departments.

Element 5.1.2. Workforce Data

Criteria

- Attrition data should be maintained and updated in order to forecast HR needs.
- Employee to service-level ratios should be maintained and compared to benchmark municipalities to estimate what department staffing levels are optimal.

Findings

The Mayor and Council do use specific information when making hiring decisions, but no formal data are gathered and used. Town officials stay informed of department circumstances and generally know when additional staffing is required. No formal data-collection process is in place to track current workforce data and project-staffing needs. For example, the town does not monitor turnover rates.

Table 5-2 shows what Middletown's employment-turnover rate has been over the past three years, based on employment data gathered from the town. While Middletown's turnover rate has fluctuated over the past few years, it has been similar to typical national public-sector turnover rates estimated to be between 13 percent and 14.9 percent (Shafritz et al., 2001, p. 135 and Stephens et al., 2005).

Table 5-2. Middletown Staff Turnover Rate

	2003	2004	2005
Total Employee Separation	12	15	9
Total Employment	86	80	89
Turnover Rate	14.0%	18.8%	10.1%

Note: Figures include employees who have left voluntarily, involuntarily, retired, and died, other than temporary summer workers.

Source: Annual staffing levels gathered from Middletown staff, 2006.

Table 5-3 compares the current staffing levels of Middletown to Newark and Dover, Del. While differences in department divisions and duties for the three jurisdictions result in a less-than-perfect comparison, the data in the table are helpful to get a rough idea of how Middletown's staffing levels measure up to those of Newark and Dover. The total number of full-time equivalent employees (FTE) is listed by department for each municipality, along with the FTE per 1,000 residents, which has been included to control for population differences.

Table 5-3. Middletown, Newark, and Dover Staffing Comparisons

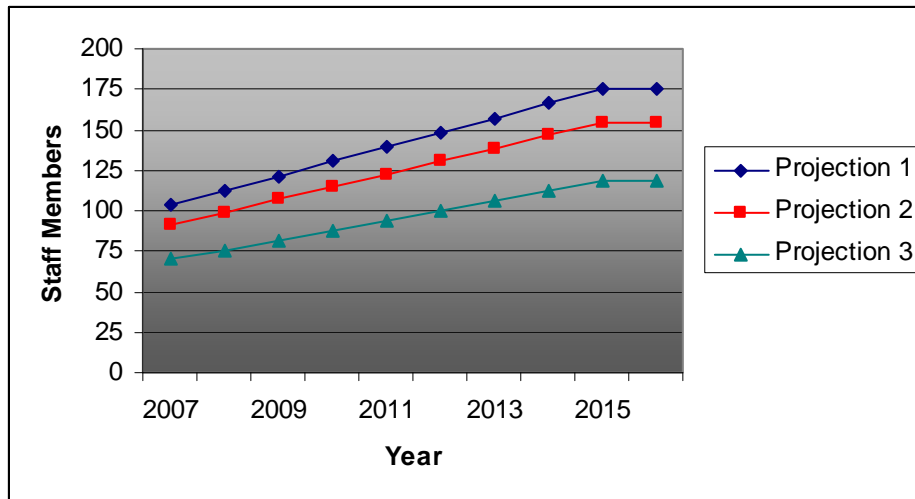
	Middletown		Newark		Dover	
Population	13,868		28,547		33,693	
Department	FTE	FTE/1000	FTE	FTE/1000	FTE	FTE/1000
Administration	15.5	1.1	5.5	0.2	34.5	1.0
Electric	14.5	1.0	20.0	0.7	52.5	1.6
Finance	1.0	0.1	19.5	0.7	8.0	0.2
Inspection/Building	10.0	0.7	12.5	0.4	15.0	0.4
Parks & Recreation	9.8	0.7	19.0	0.7	5.0	0.1
Public Works/Maintenance	9.0	0.6	6.0	0.2	38.0	1.1
Streets	13.5	1.0	12.5	0.4	11.0	0.3
Water & Sewer	14.0	1.0	19.0	0.7	32.0	0.9
Totals	87.3	6.2	114	4.0	196.0	5.6
Non-comparable departments						
Engineering	N/A	N/A	11.0	0.4	3.0	0.1
Fire	N/A	N/A	N/A	N/A	6.0	0.2
Judicial	N/A	N/A	3.5	0.1	N/A	N/A
Information Technology	1.0	0.1	N/A	N/A	8.0	0.2
Legislative	N/A	N/A	4.0	0.1	N/A	N/A
Library	N/A	N/A	N/A	N/A	17.0	0.5
Meter	7.0	0.5	N/A	N/A	6.0	0.2
Parking	N/A	N/A	3.5	0.1	N/A	N/A
Planning	N/A	N/A	6.0	0.2	5.0	0.1
Police	N/A	N/A	79.0	2.8	119.0	3.5
Refuse	N/A	N/A	16.0	0.6	13.0	0.4
Tax Assessor	N/A	N/A	N/A	N/A	2.0	0.1
Totals	8.0	0.6	123.0	4.3	179.0	5.3

Sources: 2005 Middletown Budget, 2004 Newark Budget, and 2005 Dover Budget. Population estimates for Dover and Middletown for 2005 were found at www.ipa.udel.edu/localgovt/dllg/municipalities/index.asp, and 2004 population estimate for Newark was found at auditor.delaware.gov/information/publications/MSA_Guidelines_032006.pdf.

Figure 5-1 illustrates a rough projection of future staffing needs for Middletown. Projection 1 shows the number of employees Middletown will need in the future if it continues to provide town services using its current ratio of employees-to-residents. Projection 2 illustrates the number of employees that Middletown would need if it operated at the ratio of employees-to-residents that Dover uses to provide similar services as Middletown (excluding non-comparable departments like police), while projection 3 shows the same information for Newark's employee-to-resident ratio. As previously mentioned, differences in service levels provided by each municipality limit the accuracy of these benchmarks, but they are still helpful to get a rough idea of the future staffing levels Middletown will need to provide the current level of services to a growing population. As municipalities grow in size, it is expected that their employee-to-resident ratios will change, making the straight-line projections used here less accurate. The employee-to-

resident ratio may be expected to change as certain economies of scale are achieved within departments or residents' service desires change.

Figure 5-1. Future Staffing Levels for Middletown



Sources: 2005 Middletown Budget; 2004 Newark Budget; 2005 Dover Budget; U.S. Census 2000; Certificate of Occupancy information, and proposed development information obtained from Middletown, 2005.

Recommendations

5.1.2.a Formalize the collection and use of data to assess department hiring needs.

5.1.2.b Create employee to service-level ratios to forecast department staffing needs and compare against benchmark municipalities.

5.1.2.c Work with foreman to get a more accurate estimate of how staffing needs will change as the population and corresponding services provided also change.

5.1.2.d Create a data-management system wherein information can be easily accessed and readily used by those making hiring decisions. This system should be an integral part of the town's existing or future enterprise-resource-planning (ERP) system.

Element 5.1.3. Human Resources–Policy Communication

Criteria

- HR goals and policies should be communicated to each employee, through an employment-policy manual, when employment commences.
- Documentation and signatures should be kept to ensure employees have been notified of, and understand, town policies.
- Formal policies regarding the updating of the policy manual should be in place.

Findings

Each employee receives a copy of the personnel policy manual and signs a form acknowledging that they are responsible for the information found in the manual. The signed paper is kept in their employment records. The manual lacks a Family Medical Leave Act (FMLA) policy, and there are no formal procedures in place for updating the personnel policy manual. The manual's table of contents does not reference sections such as general employee work practices, adjusted-service-time policy, separations, and computer-usage policy. The Town is currently drafting a policy regarding employee attendance awards and the employee suggestion program.

Recommendations

5.1.3.a Update the personnel policy manual with the following additions:

- Town's position as an equal-opportunity employer
- Policy regarding use of business cell phones and use of personal cell phones during working hours
- Whistleblower policy
- Policies regarding voluntary and involuntary job reassignments, demotions, and promotions
- Dress-code policy for staff who do not wear specific uniforms
- The town policy regarding employee attendance awards and the employee suggestion program that is currently being drafted.

5.1.3.b Notify all employees of the updates that have occurred and have employees sign a form acknowledging that they have read and understand the changes that have been made.

5.1.3.c Establish procedures to ensure that the personnel policy manual is regularly reviewed and updated to meet the town's changing needs and policies.

Element 5.1.4. Internet and Computer Policies

Criteria

Internet and computer policies should be used to

- Establish what constitutes town property.
- Identify the characteristics of proper computer use.
- Identify the consequences of computer misuse.

Findings

Internet and computer policies have recently been included as part of the personnel policy manual, but their placement in the back of the manual with a lack of page numbers and no mention in the table of contents evidences that the incorporation was never formalized. Furthermore, discipline procedures for Internet and computer policies are not part of the disciplinary action table.

Recommendations

5.1.4.a Formally incorporate the Internet and computer policies into the personnel-policy manual.

5.1.4.b Clarify what disciplinary actions will be taken for specific policy infractions and include these policies in the disciplinary action table.

5.1.4.c Require all employees to sign an affidavit stating that they have read and are aware of the changes to the policy manual.

5-2. Recruitment and Hiring

Element 5.2.1. Timely Hiring

Criteria

- The municipality should avoid unnecessary hiring delays by following specified hiring procedures (Johnson County, 2002, p. 5, 6).
- Hiring timeframes required for various positions should be known and accounted for in the hiring process.
- A central department should have the primary responsibility for hiring new employees (p. 10).
- The town should be aware of future personnel needs and eliminate staffing gaps by anticipating employee departures and providing accurate predictions of staffing needs to accommodate future growth (p. 6).

Findings

There are no formalized hiring procedures. The HR department receives all applications and then forwards them on to the appropriate town foreman and council members. Once it has been decided who will be interviewed, reference checks are conducted for all potential interviewees. The HR department then schedules interviews for all applicants. All Town Council members previously participated in each interview, but now the foreman and the responsible Council person do the interviews and recommend individuals for hire to the Council. The applicant pool is narrowed down through interviews, at which point an employment offer is made. Once an employment offer is made, background checks and drug tests are conducted. Background checks are conducted for all employees, and drug tests are conducted for all non-seasonal employees. Lifeguards are the only seasonal employees who receive drug tests. Once the drug tests and background checks have been successfully completed, employment commences.

The Town anticipates employee departures and attempts to hire new employees in time to receive training from out-going employees. However, the town does not use specific procedures to predict future staffing needs related to town growth. The average time it takes to hire an employee is around 84 days, from the time the new hire request is submitted to the first day of

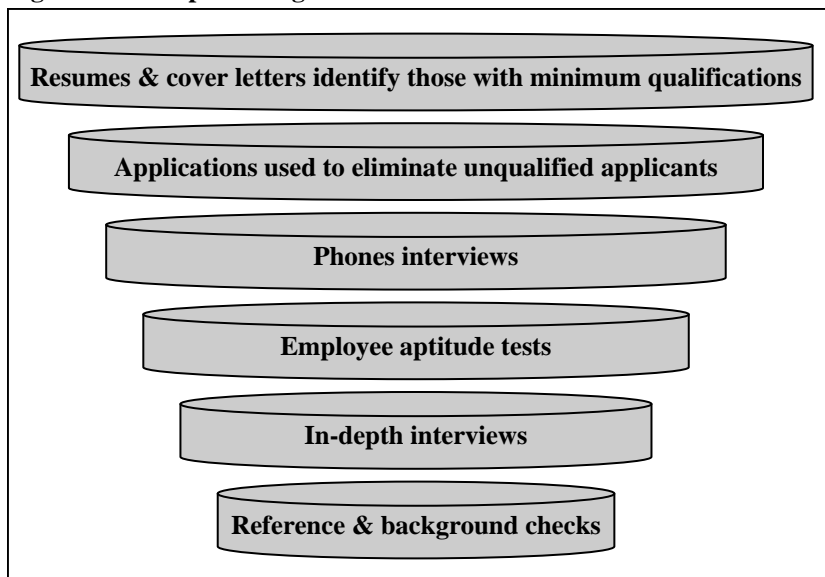
work. *Hiring Right: A Practical Guide* (Herman, 1994) reported that “the average time positions remain vacant is approximately 18 weeks.” While the timeframe Middletown used to calculate the time needed to hire an employee does not likely cover exactly the same period of time as the “average time positions remain vacant,” it is a useful comparison and shows that Middletown’s hiring time of 84 days or 12 weeks is commendable. The personnel-requisition form mentioned in the personnel-policy manual does not exist. It was noted that the two items constantly holding up the hiring process are interviews and reference checks. While the interview process has recently been improved by including fewer interviewers, reference checks are still an issue because they are currently done in the beginning of the application process for every applicant interviewed.

Recommendation

5.2.1. Create a formal hiring process initiated by the submission of a hiring-request form. Figure 5-2 provides an example that Middletown should consider when developing their hiring process. Middletown’s hiring process should accomplish at least the following items:

- Create an objective way to narrow down the applicant pool before interviews are conducted, possibly through a system that ranks applicants according to their knowledge, skills, and abilities. Aptitude tests should also be considered as part of the hiring process. Tests should reasonably measure employee ability to perform expected job duties. A brief Internet search provides sources where a variety of hiring aptitude tests can be acquired.
- Decide at what point in the hiring process reference checks will be most effective.
- Link hiring practices to the Human Resources Strategic Plan and use attrition and turnover data, along with town services–growth predictions, to estimate and plan for future staffing needs.

Figure 5-2. Sample Hiring Procedures



Adapted from Susan Herman’s book, *Hiring Right*, 1994.

Element 5.2.2. Employee RecruitmentCriteria

- Recruitment is supported by adequate funding for future personnel needs (Johnson County, 2002, p. 18).
- An advertising budget is dedicated to recruitment efforts and the most-effective advertising sources for various job openings are identified and utilized.
- The municipality maintains an image as an attractive place to work.
- The town does not have a disproportionate number of recruits who reject employment offers.

Findings

Middletown recently completed the construction of its Town Hall, which has added to the town's image as a desirable place to work. Town officials ensure funding for future employment needs by allocating funds during budgeting sessions to positions they anticipate filling during the upcoming fiscal year. Middletown has been very successful at filling its employment needs. In FY05 the Town made 12 employment offers that were accepted and two that were not. In one instance, a potential finance manager turned down an employment offer from the town; however, the town still hired a fully qualified individual for the position. In another instance, a plumber turned down an employment offer from the town because of a pay disagreement. The town decided to refrain from pursuing another individual for the same position and instead opted to contract out for the position. Their offer/acceptance ratio is 86 percent, substantially higher than the 68 percent acceptance rate found by the National Association of Colleges and Employers in their 1996 *Employer Benchmark Survey* (Collins, 1997, p. 45). The recruitment budget of \$3,000–\$5,000 is used for advertising, but advertising for positions still occasionally delays hiring new employees.

Recommendations

5.2.2.a Continuously evaluate why employment offers are rejected and make the necessary changes to avoid similar problems in the future.

5.2.2.b Determine why advertising for position openings occasionally causes delays and make adjustments to remedy the problem.

5.2.2.c Decide what level of clarity is needed when posting starting salaries in order to provide the town with flexibility, while avoiding hiring setbacks related to salary disagreements.

Element 5.2.3. New Employee PerformanceCriteria

- All employees have a provisional period, during which the employer evaluates whether the employee is satisfactorily performing responsibilities of the position according to pre-specified performance measures.

Findings

All new hires are subject to a probationary period, after which time they receive a verbal evaluation from their supervisor to determine if employment will continue on a permanent basis. While the evaluation criteria may be informally communicated to new hires, there does not appear to be set criteria that is formally communicated. New hires are evaluated according to the same criteria as everyone else in the organization. In the past fiscal year, only one individual was terminated during the probationary period, and no employees quit during the probationary period.

Recommendations

5.2.3.a Formalize the probationary period evaluation by creating position-specific evaluation criteria that will be used to evaluate the performance of new hires and allow the evaluator to make an informed decision concerning whether to hire an individual on a permanent basis.

5.2.3.b Inform new hires of the evaluation criteria before they commence the probationary employment period.

Element 5.2.4. Job Descriptions and Classifications

Criteria

- Position descriptions are a written record of what the employee is expected to do and include job duties, responsibilities, work products, and the level of supervision received (Shafritz, 2001, p. 278).
- Position descriptions are regularly updated to prevent them from becoming obsolete (Van Poucker, 2004).
- Descriptions contain enough detail to be used when conducting employee performance evaluations (Van Poucker, 2004).

Findings

Detailed job descriptions exist for each employee in the town, but the descriptions have never been formally adopted. There are no procedures in place to periodically review and update the job descriptions. The position descriptions are detailed enough to be used when conducting performance evaluations, but the criteria used for evaluations have no direct correlation to the job descriptions. Job classifications are formally aligned with the pay scale, and job descriptions are linked to job-classification levels as seen by how job descriptions are titled according to the job classification level.

Recommendation

5.2.4. Formally adopt the current job descriptions, along with procedures to review and update descriptions as necessary.

Element 5.2.5. Workforce CompositionCriteria

- The municipality is aware of issues arising from its demographic composition and is appropriately staffed to serve the needs of the town (Jarret, 2005).

Findings

Spanish-speaking individuals frequently visit or call Town Hall to conduct business. These individuals often have someone call in for them or bring someone with them to Town Hall to act as a translator. When IPA staff conducted interviews, there was one Spanish-speaking staff member on hand and it was mentioned that an additional Spanish-speaking staff member would be helpful. However, the Spanish-speaking staff member no longer works with the town, making the need for a bilingual staff member more pressing.

Recommendations

5.2.5.a Maintain demographic records to identify the service needs of Middletown's residents, and periodically evaluate what staff composition will best serve those needs.

5.2.5.b Consider the need for Spanish-speaking staff members when making future hiring decisions.

5-3. Employee Retention***Element 5.3.1. Employee Turnover***Criteria

- The municipality conducts exit interviews to evaluate where employees go, why they are leaving, and what they felt about their time of employment in the town (Kaye, 2001, p. 7).
- Information extracted from exit interviews is utilized to address the rate of departure in the future.
- The municipality periodically compares its annual-turnover rate to other towns of similar size and service levels.

Findings

The town's exit-interview form requests all the necessary information. The information is given to the Mayor and Council so that they can make any changes deemed necessary, but there have been no known changes resulting from the exit interviews. The exit interview includes personal information such as specific health reasons for leaving and employee social security numbers. As previously mentioned, the town does not monitor annual-turnover rates; however, from 2003 through 2005, Middletown's annual-turnover rate has been between 10.1 percent and 18.8

percent. The town does not compare turnover data with other similar towns for benchmarking purposes, nor does the town compare data across years.

Recommendations

5.3.1.a The exit-interview form should be modified to prohibit passing unnecessary personal information, such as social security numbers and specific medical reasons for leaving, along to Mayor and Council during the review process.

5.3.1.b The review of the exit-interview information should include compiling data from all exit interviews to analyze trends that may exist.

5.3.1.c Officials should annually review exit-interview trends and the town's employment-turnover rate compared to previous averages and benchmarks.

Element 5.3.2. Promotions

Criteria

- The Town has designated procedures to determine when it is appropriate to consider inter-agency promotions.
- Criterion is in place that determines how promotions are decided with regard to tenure, job performance, and qualifying knowledge, skills, and abilities.

Findings

All position openings in Middletown are internally posted before the town seeks to attract external applicants. Promotions do occur from within the organization. In FY05 there were four job openings that were filled by internal candidates. Candidates are thoroughly evaluated for promotions, and performance evaluations are heavily relied upon, but there are no set criteria and standards in place that are used to determine promotions.

Recommendations

5.3.2.a Continue the practice of giving town employees priority when position openings arise.

5.3.2.b Continue using performance-evaluation measures to determine promotions. Formalize criteria used to evaluate candidates for promotions in order to create uniformity throughout the process.

Element 5.3.3. Employee BenefitsCriteria

- The Town supports employees by providing benefits that meet employee's life needs and demands. Table 5-4 illustrates some of the employee benefits that municipalities should consider providing.

Table 5-4. Employee Benefits

Health/Wellness Benefits	Leave Benefits	Retirement Benefits
Child-care programs	Compressed work weeks	Defined-benefit retirement plan
Dental insurance	Flextime	Defined-contribution retirement plan
Dependent care-flex accounts	Job-sharing	Healthcare benefits
Employee-assistance program	Leave-sharing	
Fitness center membership/subsidy	Paid family leave	
Full flexible benefits plan	Telecommuting	
Health insurance		
Life insurance		
Medical flexible-spending accounts		
Prescription-drug program coverage		
Tuition assistance		
Vision insurance		
Wellness program		

Source: GPP Questionnaire, 2004, pp. 10-11.

Findings

The Town offers health, dental, and vision insurance. Employees have access to the Delaware Federal Credit Union, Blood Bank of Delaware membership, flextime, a prescription-drug program, life insurance, long-term-care insurance, retiree healthcare benefits, employee-assistance program, tuition reimbursement, and a defined-contribution retirement plan. The Town offers a leave-sharing program, which addresses sick-time donations.

Recommendations

5.3.3.a Periodically survey employees to identify what life needs exist and how those needs can be addressed by the town.

5.3.3.b Give special consideration to offering benefits that will not directly affect the town financially, such as compressed work weeks, but which will help the town accommodate employee needs.

Element 5.3.4. TerminationCriteria

- The Town clearly communicates to employees what actions merit discipline or termination.
- The Town identifies what measure of discipline will be administered depending on the severity and frequency of the behavioral infractions.

Findings

The personnel policy manual clearly outlines what the disciplinary procedures will be for corresponding actions. Disciplinary actions for Internet and computer misuse are not included in the personnel policy manual. Grievance procedures, along with a hearing and appeals process, are included in the manual. There was one grievance filed in FY05 and it was resolved within two days. There has only been one complicated termination case in recent years. The proper procedures were followed to ensure that the employee involved received fair treatment.

Recommendations

5.3.4.a Keep the disciplinary-actions chart in the personnel policy manual updated to address past, present, and future disciplinary issues involving employees.

5.3.4.b As termination issues arise, update policies to avoid similar problems in the future.

5-4. Employee Training and Development***Element 5.4.1. Employee Development Resources***Criteria

- The Town designates an annual training-and-development budget that is proportional to the workforce and used to increase employee knowledge and skill.

Findings

The overall training budget for FY06, including agency budgets and tuition reimbursement, was \$50,000, or \$561 per employee. In FY05 the Town spent \$17,686 on employee training. Employee trainings occur as needed for items such as training for new computer programs. New hires receive a brief orientation at the municipal level, but all subsequent employment training occurs within each department. Middletown recently provided staff members with additional training for the Harris system.

Recommendations

5.4.1.a Evaluate how training resources are being used and whether the current training budget is appropriate.

5.4.1.b Evaluate the need for a more extensive new-hire training/orientation at the municipal level to help employees better understand their job responsibilities and town policies and procedures.

5.4.1.c Include training-and-development plans in the Human Resources Strategic Plan to ensure all positions have adequate training in place.

5.4.1.d Determine how employees can receive additional training with the Harris system to fully take advantage of the system's potential.

Element 5.4.2. Career Advancement Opportunities

Criteria

- Employee training is provided by the municipality, and employees are encouraged to seek training from additional sources that enhance professional competency.
- The municipality rewards high-performing individuals through increased job training and responsibilities.

Findings

Employees are given funding to attend professional conferences, and attendance at conferences is encouraged. Employees receive promotions and classification increases as a result of excellent performance.

Recommendation

5.4.2.a Work with supervisors to identify and notify each employee about what career-advancement opportunities are available for his or her specific position.

5.4.2.b Mention advancement possibilities in the hiring process to attract applicants seeking positions with opportunities for professional growth.

Element 5.4.3. Cross-Training

Criteria

- Employees receive basic training in positions related to their primary position and are called upon to bridge gaps during times of temporary staffing shortages (Jarret, 2005).

Findings

Within the HR department and administration department, individuals are trained as backups in many positions to replace someone who is sick or on vacation. It appears that the same is the case in all town departments except for the information-technology department, which is only staffed by the manager. It was noted that the town could be in a difficult situation if something unexpected were to occur while he is away. The Town has recognized the staffing issue in the IT department and has recently initiated the process to hire an additional IT staff member.

Recommendations

5.4.3.a Supervisors should work to train backups for each essential position within their departments to ensure the municipality is continually able to fulfill basic responsibilities despite staffing shortages. Training should include periodic reviews to guarantee position knowledge remains fresh for backups.

5.4.3.b The town should follow through with its plans to hire an additional staff member for the IT department.

5-5. Performance Appraisal and Management

The fundamental objective of performance appraisal and management is to create a performance-evaluation system that measures employee performance according to appropriate and job-specific criteria. Job-specific performance measures for individual employees should be linked to the accomplishment of departmental goals, and employees should understand how the two are related. Employees from all management levels and departments need to be actively involved in the process of establishing goals and performance measures. The following should be considered when establishing job-specific performance measures and goals:

- Employees should feel they can affect the goals for which they will be held accountable (Plant, 2006, pp. 16-20).
- The trade-off between the time needed to collect performance data and the performance data's usefulness should be considered (pp.16-20).
- Job descriptions and classifications should be used to generate performance-evaluation measures and goals.
- Performance-evaluation measures and goals should challenge employee abilities but always be realistic and attainable.
- Results of evaluations should be used to identify goals for subsequent evaluation periods.
- Employees should be informed of the forthcoming year's performance-evaluation measures during their annual performance-evaluation interview.

Element 5.5.1. Linking Municipal, Department, and Employee GoalsCriteria

- Employee-performance goals are linked to the achievement of department goals, and municipal goals should be achieved through the attainment of department goals.
- Employees from all levels of the town workforce are included in meetings where goals, objectives, and work plans are discussed and created.

Findings

Some individual departments have performance goals, but there are no municipal and employee performance goals.

Recommendation

5.5.1 Create municipal goals that can be accomplished through the completion of department goals. Employees from all management levels and departments need to be actively involved in the process in order to establish goals that employees will readily accept. This process is further discussed in 6-1.

Element 5.5.2. Notification of Performance Evaluation CriteriaCriteria

- Employees know from their first day of employment on what criteria their performance will be evaluated.

Findings

Employees are not notified of the performance measures they are going to be judged on prior to their first evaluation. However, the same criteria are used for all evaluations, so employees know on what they will be measured in subsequent evaluations.

Recommendations

5.5.2.a Notify new employees of any differences in performance-evaluation measures and methods between those used during the probationary period and during the formal employment period. Illustrate how each employee's job responsibilities are tied to departmental goals. This can either be done during orientation or on an individual basis during the first few weeks of employment.

5.5.2.b Notify all employees as changes to evaluation measures occur. All employees should be informed of the forthcoming year's performance-evaluation measures during their annual performance-evaluation interview.

Element 5.5.3. Individual Performance EvaluationsCriteria

- Municipal employees are evaluated according to the same criteria necessary for successful performance in all positions, including communication, decision-making, leadership, meeting goals, objectives, and deadlines, and interpersonal skills and integrity (Reno, 2004).
- Evaluations address how well an individual performs within his/her specific job-description (Jarret, 2005).
- Evaluations are a personal and individual process (Jarret, 2005).

Findings

Evaluations are conducted on an individual basis, and each employee has a mid-year evaluation of his/her performance to identify adjustments that need to be made before the annual evaluation occurs. The only evaluation that occurs is a general evaluation that covers basic personality traits. There is no evaluation to measure job-specific criteria. Merit pay increases are determined by annual evaluations. The evaluation form is not created internally.

Recommendations

5.5.3.a Develop job-specific performance measures that are tied to department goals and objectives.

5.5.3.b Use job descriptions and classifications to generate a performance-evaluation system that specifically measures performance for each job position.

5.5.3.c Use results of evaluations to identify goals for subsequent evaluation periods.

5.5.3.d Performance-evaluation results should be linked to a pay-for-performance program to determine who should get merit pay increases and what the increases should be.

Element 5.5.4. Rewards for High PerformersCriteria

- The municipality recognizes employees on an annual, semi-annual, and/or monthly basis with both monetary and non-monetary awards.
- Performance awards are given based on specific evaluation criteria.

Findings

Safety awards are given out in the public-works department that lead to monthly cash awards (\$50) and prizes. At the end of the year, public-works employees in the town that have not had safety infractions are included in a drawing for an annual award. The Town administers an

attendance award for those who do not use any sick time over the course of the year. This award is \$250 per person and the Town spent \$5,750 this past year on the award. Based on the current policy of unlimited accrual and partial cash-out, it may be possible for employees to claim both the award and, subsequently, also the sick leave or cash equivalent. The Town also administers an end-of-the-year award that can be withheld if an employee is deemed undeserving, and the type of award administered depends in part on the town's fiscal situation. There are no incentive or recognition programs that do not involve cash rewards or prizes. Safety incidents and injuries are periodically evaluated to determine if the safety awards are accomplishing their goals.

Recommendations

5.5.4.a Continue administering the current awards, but periodically evaluate the effects of the awards to ensure they are still serving their intended purposes. Consider making the criteria for awarding or withholding the year-end bonus more explicit.

5.5.4.b Evaluate the possibility of instituting a recognition program that would encourage higher performance from town employees.

5.5.4.c Consider implementing a formal pay-for-performance program that is linked to the results of performance evaluations. The City of Dover uses a pay-for-performance system that could serve as a model for Middletown. Such a program would ensure town staff is compensated at market rates while encouraging high performance by linking pay increases to performance-evaluation results. Additionally, as the town grows in size, the scope of jobs for department heads is also going to increase, meriting increased compensation. Middletown should plan to increase department heads' salaries accordingly in order to retain and attract employees who are qualified to manage the size of departments Middletown will eventually have. Table 5-5 illustrates how average compensation changes as municipalities become larger.

Table 5-5. Salaries for Town Officials

	Population of Municipality		
	5,000-9,999	10,000-24,999	25,000-49,999
Chief Administrative Officer	80,176	102,296	126,351
Chief Financial Officer	59,473	71,780	89,929
Clerk	42,683	49,793	58,430
Engineer	73,907	68,546	78,178
HR Director	47,400	58,913	77,621
Information Services Director	59,998	64,658	76,884
Parks and Rec. Director	48,348	65,973	80,281
Planning Director	57,901	66,015	79,271
Public Works Director	57,133	70,479	87,445

Source: *The Municipal Yearbook 2006*. All data are mean results for all municipalities included in the "South" region of the United States, which contains Delaware.

Element 5.5.5. Employee FeedbackCriteria

- The municipality uses a variety of methods to receive employee feedback, and employees are able to provide anonymous comments when applicable.
- Concerns expressed through employee feedback are addressed by the municipality, and changes within the town are made accordingly.

Findings

Employees are able to provide feedback or express concern to any of their supervisors or other town authorities. Town officials are open to suggestions from employees and respond as deemed necessary. The town does have an incentive-based employee suggestion program that allows employees to find ways in which the town can save money, improve safety, or improve town operations. If the corresponding foreman approves an employee's idea, the employee takes the idea before Mayor and Council, who then evaluate the idea. If the idea gets the blessing of the Mayor and Council, the employee gets a one-time bonus and is placed in charge of researching and implementing the idea. Weekly foreman meetings are held to review town performance and facilitate discussion between town staff and officials regarding public-works projects.

Recommendations

5.5.5.a Create an employee suggestion policy that identifies the relationship between types of suggestions and the size of the monetary award. Stipulate that the bonus will not be paid in full until the suggested programmatic change is implemented.

5.5.5.b Efforts should be made to formally obtain feedback from employees regarding town operations and employment policies. Employment satisfaction interviews can be conducted as part of the annual performance interviews and/or handwritten satisfaction surveys can be distributed on an annual basis. An employee suggestion box should be considered as a means of anonymously obtaining employee opinions throughout the year.

5.5.5.c Continue to ensure that all employees are represented at meetings where town policies and procedures are discussed, such as at "whole house" meetings.

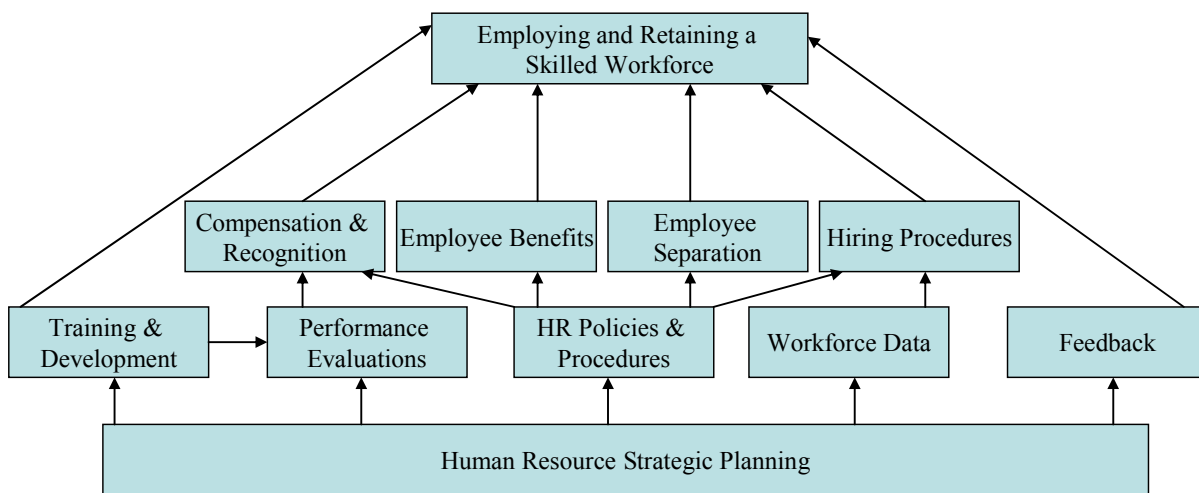
5-6. Summary

The analysis of HR management in Middletown has brought several key themes to the surface. First and foremost is the need for an HR strategic plan. With a strategic plan in place, the town will have a framework that can be used to guide the second theme of the analysis: formalization of HR policies and procedures. Most policies are unwritten and appear to be implemented on a consistent basis, but the town needs to formalize their policies in order to establish a solid foundation upon which they can withstand any challenges that might arise.

As the Town establishes HR policies on an ongoing basis, the third theme, employee feedback, needs to be incorporated into the decision-making process. Furthermore, the town needs to establish more means for employees to provide input as a method of increasing workforce satisfaction and helping Middletown better serve its residents and employees.

Finally, HR management should not be seen as various topics simply grouped together under the HR umbrella, but as a series of interrelated components. By joining the various branches of HR management, the Town will reduce overlap and create consistency throughout its policies and procedures. Figure 5-3 depicts the interdependency of these components, based on a foundation of strategic planning.

Figure 5-3. Human Resources–Management Interconnections



CHAPTER 6. INFORMATION TECHNOLOGY AND MANAGING FOR RESULTS

This chapter focuses on the municipality's identification of broad quality-of-life goals and service strategies to achieve those goals and its use of information technology to integrate town management systems and support the achievement of desired service outcomes. Specific areas of attention include information-technology (IT) strategy and management, hardware and software performance, integration with other management systems, training, cost, and reporting capabilities. The chapter includes an examination of the municipality's overall strategic direction, IT-planning and -acquisition procedures, data storage, IT human resources, and the availability of electronic-government services for citizens. Findings and recommendations for each of these areas are detailed in the chapter and are meant to provide the municipality with a good understanding of its current and potential capabilities and for using information technology to support the town's management capacity. These recommendations can be used to update and adapt information-management capabilities to the needs of the municipality as it continues to grow. Table 6-1 summarizes the three information-management subsystems and 12 elements analyzed in this chapter.

Table 6-1. Information Technology and Managing for Results Criteria

Subsystems	Elements
6-1. Strategic planning and performance management	6.1.1. Results-oriented strategic planning
	6.1.2. Data development and use
6-2. Information-technology strategy and management	6.2.1. IT strategic analysis
	6.2.2. IT procurement
	6.2.3. Data storage and retrieval
	6.2.4. IT human resources
	6.2.5. IT-systems maintenance
6-3. Electronic government and citizen engagement	6.3.1. Public access to services
	6.3.2. Municipality communication to citizens
	6.3.3. Public access to programs and financial information
	6.3.4. Public access to municipal officials
	6.3.5. Public feedback on town programs and services

Sources: Government Performance Project (2001, 2005); New Jersey Initiative (2002).

6-1. Strategic Planning and Performance Management

Element 6.1.1. Results-Oriented Strategic Planning

A strategic-planning process and the resulting strategic plans provide a means for translating the desires of local officials and residents into specific objectives and management plans. The explicit identification of the town's service mission, goals, and the means by which they will be pursued leads to the following elements that underlie the model of "managing for results":

- Measurable service outcomes for use in determining whether municipal services are achieving desired results supportive of the town's goals

- Indicators at the staff, department, and municipal levels that will be collected and used to track progress towards achieving desired outcomes
- Mechanisms to evaluate how effectively department and staff activities are working toward achieving municipal goals and make necessary changes to ensure that department and staff activities support municipal goals

Criteria

- Strategic goals and objectives for the municipality are established by town officials, in conjunction with citizens, and provide the town with a clear purpose and direction.
- Elected officials use long-term strategic goals and objectives to create annual goals and targets that can be measured to evaluate the town's progress towards meeting goals (Lawson, 2006).
- Municipal officials draw clear links between managerial action and program results, and they communicate this information to appropriate agency personnel.

Findings

The town has not established formal goals and objectives, but there are general goals employees strive to achieve. The town does not link the informal goals to annual goals and targets that can be readily measured.

Recommendation

6.1.1. Engage in a strategic-planning process that:

- Establishes a municipal mission statement and municipal goals for achieving that mission.
- Determines the mix of municipal services necessary to achieve the town's mission and goals.
- Establishes measurable service outcomes for use in determining whether municipal services are achieving desired results supportive of the town's goals.
- Develops indicators at the staff, department, and municipal levels that will be collected and used to track progress towards achieving desired outcomes.
- Provides for a mechanism to evaluate how effectively department and staff activities are working toward achieving municipal goals and make necessary changes to ensure department and staff activities support municipal goals. Areas addressed in the plan should include human resources, information technology, financial, and capital management.

Element 6.1.2. Data Development and Use

Criteria

- Municipality maintains adequate data for analysis and decision-making.
- Municipality integrates data across functions for analysis and decision-making.
- Departments regularly monitor performance and use the information to manage programs, improve performance, and inform elected officials about deviations from agreed-upon levels of performance.

- Cost and performance information is used to monitor contracts and influence decisions to contract out for department activities.

Findings

There are no formal goals established at the department level and no performance-measurement goals at the employee level. Total revenue and expenditure information is used to make policy decisions. Performance-evaluation data is not regularly compiled by town officials for individuals or departments. Department performance is generally judged by staying within the annual budget and by completing department responsibilities in a timely manner.

Recommendations

6.1.2.a Develop specific department-level performance measures that are tied to the established service goals, and regularly report on progress towards achieving goals.

6.1.2.b Formalize policies for contracting services by developing written procedures to select among potential vendors and considering service goals and performance objectives when making decisions about whether to contract for services.

6.1.2.c Determine and adopt the most appropriate methods and technologies needed to track and encourage progress towards performance goals. Tools to track performance may include existing technologies adapted for new purposes, such as the town's enterprise-resource-planning system, and new tools such as geographic information systems (GIS) or database software to track performance.

6.1.2.d Implement a GIS system to inventory municipal infrastructure and resources, track municipal effort devoted to maintaining/protecting infrastructure and resources, and identify existing and potential infrastructure and resource problem areas. Such a system can be a key component in a municipal performance-measure system as it can assist the town in tracking short- and long-term trends and help to prioritize municipal work efforts. The development of a GIS system will require that the town invest in appropriate hardware, software, and human resources in order to maintain a stable, updated, and readily accessible tool for municipal use.

6-2. Information-Technology Strategy and Management

Element 6.2.1. Information-Technology Strategic Analysis

Criteria

- In order to ensure that the town's IT systems provide information that adequately supports the town's programmatic and administrative needs, the municipality has established a multi-year strategic plan for IT activities that does the following:
 - Tells staff members how IT can be utilized as a municipal business tool.

- Forecasts the potential benefits the municipality will experience as a result of IT implementation.
- Outlines the organizational structure of IT staff and activities.
- Outlines the infrastructure needed to accomplish IT goals.
- Identifies industry standards and trends to incorporate into IT practices.
- Takes into account concepts such as return on investment and total cost of ownership of IT components (i.e., hardware, software, and other assets).
- Establishes measurable IT project outcomes.

Findings

The town currently does not have a formal strategy for information technology. However, there is a staff member who has generated ideas and is working on a five-year plan for the town's IT strategic direction and goals. IT planning is conducted on an as-needed basis in the municipality. When the need for new IT components becomes evident, staff members present the need to Mayor and Council. The Mayor and Council have the final say in any IT-investment decisions.

Recommendation

6.2.1. Create a strategic plan for IT, either as a stand-alone document or as a component of a larger strategic-management plan. This strategic document should provide staff with an outline of staff responsibilities and best practices for IT management, determine likely future IT needs based on anticipated growth, and plan IT investments appropriately.

Element 6.2.2. Information Technology Procurement

Criteria

- Products selected have a known upgrade path that was considered upon purchase.
- Applications selected are compared with others in the market and evaluated for municipal use.
- Applications and equipment purchased are compatible with the organization's technical skill set.
- Applications and equipment purchased successfully integrate with the city's current technology portfolio (Otte, 2002).

Findings

The acquisition and replacement of IT components is currently done on an as-needed basis. Need is identified by staff members who relay their request to the IT staff. IT staff then investigate which products can fulfill staff needs, determine the best solution for the municipality, and present a proposal to Mayor and Council. IT staff also engage in site visits to facilities using the proposed technology to make sure it will fulfill the municipality's needs.

Recommendations

6.2.2.a The municipality should continue to assess staff needs and determine long-term IT needs. Annual appraisals of software and hardware adequacy and needs should be considered. Formalize and document policies for contracting services by developing written procedures to select among potential vendors and considering service goals and performance objectives when making decisions about whether to contract for services.

6.2.2.b The use of research and site visits to determine which products are best suited for the town should be continued.

Element 6.2.3. Data Storage and Retrieval

Criteria

- All data is integrated into a set of interconnected files managed by an IT unit.
- The municipality avoids data redundancy and promotes information-sharing across functional departments.
- Applications developed and purchased are set to retrieve relevant data items on an as-needed basis.
- Data confidentiality is maintained.

Findings

The municipality purchased and utilizes an enterprise-resource-planning system (ERP) created and supported by Harris. All records and data are processed through this application. Staff members only have access to relevant information in an effort to preserve data confidentiality. No off-site copy of records is maintained.

Recommendation

6.2.3. The municipality should continually evaluate whether to use the Harris system, and how they can use the Harris system to more fully meet the town's needs.

Element 6.2.4. Information Technology Human Resources

Criteria

- Adequate IT human resources are in place to support daily operation.
- Demand for properly trained staff is anticipated when considering future technology-based projects.
- Employees are subject to IT-skill assessments in an effort to identify the need for additional training of current employees or the need to hire additional IT personnel (Otte, 2002).

Findings

The municipality currently has three IT specialists on hand and will be hiring an additional staff member in the near future. The responsibilities fulfilled by these individuals are software, hardware, and website maintenance. Training is conducted on an as-needed basis as additional technologies are implemented by the municipality. Skill assessments are not currently conducted. Procedures for hiring new IT staff members are unknown.

Recommendations

6.2.4. The performance of employee skill assessments for all employees who deal with IT systems and programs would be beneficial to the municipality. This would provide an adequate diagnostic of current IT capabilities and the future potential town staff members have, allowing the municipality to tailor its IT strategic plan to current and anticipated needs. This would also allow the municipality to anticipate need for additional skilled staff members, as new technology-intensive projects are considered. The municipality also needs to develop procedures for hiring new IT staff members, but should only consider new hires if IT staff needs can't be met internally.

Element 6.2.5. Information-Technology Systems Maintenance

Criteria

- Written policies and procedures regarding technology failures following a disaster are formally established. At a minimum, these policies should:
 - Formally appoint individuals to serve as disaster-recovery coordinators.
 - Create and preserve back-up data.
 - Develop alternative methods of data processing in the event of a disaster.
 - Provide detailed instructions for the restoration of files.
 - Establish guidelines and an action plan to be utilized in the event of a disaster.
- An off-site copy of formal recovery procedures is maintained and periodically updated.
- Periodic testing of the plan should be conducted in an effort to identify and remedy deficiencies.
- Secure, off-site backup copies of records are maintained.

Findings

The municipality currently creates nightly record backups which are stored on-site. Paper copies of most records are kept in the basement of the municipal building, but transaction records are only kept in electronic form. Billing reports can be burned to a disk for backup purposes. There are currently no disaster-recovery procedures in place, and no off-site data backups are maintained.

Recommendations

6.2.5.a Develop a disaster-recovery plan that addresses alternative methods of data processing, file restoration and recovery, and staff coordination. Staff should be informed of this plan, and periodic testing should be conducted to ensure preparedness in the event of a disaster.

6.2.5.b Backup copies of records should be developed and stored at a secure, off-site location.

6-3. Electronic Government and Citizen Engagement

Element 6.3.1. Public Access to Services

Criteria

- Information regarding key services, such as utilities, is publicly and readily accessible through a variety of sources including town hall, the website, written correspondence, and the Internet.

Findings

Information about key services, taxes, public notices, and contact information is all provided on the municipal website. The municipality does not currently provide bill-paying services online; however, this is a goal the town is pursuing.

Recommendations

6.3.1.a The town should strive to implement online bill paying as soon as possible.

6.3.1.b The municipality should continue to expand service and information offerings provided online.

Element 6.3.2. Municipality Communication to Citizens

Criteria

- Residents are regularly informed of the town's progress towards the achievement of goals and objectives.

Findings

At the beginning of each fiscal year the Mayor reviews the previous year's accomplishments at a Town Council meeting. However, a lack of detailed performance measures and results for each department limit the effectiveness of this review.

Recommendation

6.3.2. Consider instituting a semi-annual town newsletter that updates residents on the performance of the municipality.

Element 6.3.3. Public Access to Programs and Financial Information

Criteria

- Performance information, including budget documents and annual financial reports, are publicly available through a variety of formats, including the town website and hard-copies.
- Electronic budget documents are identical to the printed versions (Government Finance Officers Association, 2003).

Findings

The municipality furnishes budget and financial reports upon request. These documents are not currently available on the town's website.

Recommendation

6.3.3. The municipality should post budget and financial reports on the town website to ensure public access and information. These budget documents should match paper copies exactly, and should be carefully posted to ensure security. The municipality should also remain in compliance with the recommended practices set forth by the Government Finance Officers Association.

Element 6.3.4. Public Access to Municipal Officials

Criteria

- Town staff should be available to meet with citizens during normal business hours.
- Town council members should be accessible to meet through other methods (e.g., appointment, email, etc.).
- Procedures are in place to accommodate those unable to meet during normal business hours.
- The Town provides electronic contact information for key municipal officials and departments.

Findings

Town staff is available to meet with citizens during normal business hours. Phone and electronic contact information for town officials is also provided on the website. No general message box is available on the town website, but information is provided for new residents who may not know whom to call to address various problems.

Recommendations

6.3.4.a Procedures for dealing with citizens unable to meet during normal business hours should be established to ensure full accessibility.

6.3.4.b Add an electronic submission box to the town website that allows comments and messages to be relayed from residents to staff.

Element 6.3.5. Public Feedback on Town Programs and Services

Criteria

- A variety of methods are used to determine how the public feels about services offered.

Findings

The public communicates with town officials via telephone and email when they have complaints. Normally, this is the only type of feedback received by the town. There is currently no feedback form provided on the town's website.

Recommendations

6.3.5.a Consider implementing a feedback form on the town website to ensure that the public can communicate with town staff more effectively.

6.3.5.b Consider using the website, or other means, to conduct periodic citizen surveys to ensure citizen needs are being met.

6.3.5.c Consider forming citizen-advisory boards to advise Mayor and Council on certain issues of interest, such as open space and recreation.

6-4. Summary

The need for an ongoing strategic-planning process that encompasses all of Middletown's services is a common theme throughout this study. The strategic-planning process needs to include an IT plan that will maximize the potential of the town's IT resources by gathering data that can be used for ongoing strategic planning and evaluating individual and departmental performance. Key to achieving all IT goals is the town's ability to maintain properly operating IT systems. In order to meet the demands of future growth, the town needs to establish a plan for replacement, upgrades, and addition to IT infrastructure and human resources.

Interaction between town officials and residents needs to be improved, and the town's website needs to be utilized far more than it is currently. The town should be open to citizen comments, and the website needs to be updated to include improved means to conduct town business online and access frequently requested documents.

CHAPTER 7. MEETING THE DEMANDS OF GROWTH

7-1. Overview

The preceding four chapters provided detailed diagnoses of four management systems and a number of specific recommendations for enhancing Middletown's management systems and overall management capacity. This chapter organizes the specific recommendations detailed in Chapters 3 through 6 into a general roadmap for the town to use in implementing those recommendations over the next three years, through its fiscal year 2010. Recommended actions within the three-year period through June 2010 include the establishment of ongoing planning processes; the formulation of specific decisions, strategies and plans; and the implementation of specific actions and management policies and practices. Some actions are confined to individual management subsystems, while others require explicit attention to the linkages between individual subsystems and/or between management capacity and service-planning decisions. In general, this recommended program of management-capacity enhancements is grounded on the following observations:

- Irrevocable changes in the town's size and the corresponding management challenges have already been set in motion, and change is difficult for people and organizations.
- Because much of the town's physical, economic, and demographic change can be predicted with at least some degree of confidence, it is possible to formulate a strategy for responding to that change in a timely fashion, rather than reacting after the fact.
- The involvement of town officials, employees, and citizens, as appropriate, in designing as well as implementing new and enhanced management systems, policies, and procedures will help promote staff, Council, and citizen acceptance, ownership, and institutionalization of the necessary changes.
- Establishing priorities and a logical sequence of actions facilitates phased implementation, reduces disruption of ongoing management and service-delivery activities, and reduces the need to undo or re-do previous decisions and work (although it does not completely eliminate this possibility, and the formulation of management strategies in fiscal 2008 and 2009 may lead eventually to adjusting some of the policies and practices we recommend for immediate implementation, as discussed below).

The detailed descriptions of individual recommendations are provided in Chapters 3 through 6 and are, for the most part, simply cross-referenced in this chapter. This chapter focuses on identifying a suitable sequence for implementing those recommendations, in light of their relative degrees of urgency, difficulty, and interdependence across as well as within each of the four management systems (financial management, capital management, human-resources management, and information management). The recommended sequence of activities was prepared with an awareness of the competing demands for attention and other resources placed on the town, its officials, and its citizens by Middletown's continued significant growth.

Toward that end, the individual recommendations from the detailed analyses of the four management systems are grouped here into five categories of actions and projects:

- *Recommended Immediate Actions* – ten actions that can and should be implemented quickly, before the end of the current fiscal year 2008.
- *Actions to complete no later than the end of calendar year 2008* – primarily high-priority new policies and practices, or changes to existing policies and practices, that will meet the town's short-term needs for enhanced financial and human-resources management capacity but may require several months to design and implement (ten actions/projects).
- *Strategic-planning projects to be undertaken beginning in 2008* – the establishment of planning processes to identify the town's service-provisions goals and identify the performance measures and management resources that will support the achievement of those goals, resulting in initial plans in calendar years 2008 and 2009 (eight actions/projects).
- *Management-planning and resource-management systems to be developed during calendar years 2009 and 2010* – the design and implementation of systems for managing financial and other physical and informational resources (six actions/projects).
- *Other recommended capacity enhancements* – 20 actions or continuing practices that can be implemented relatively simply and should be completed as soon as feasible, but no later than December 2010.

Table 7-1 summarizes the recommendations by category. It is important to note that although the recommendations are organized into an overall strategy for ordering the actions to be taken, this does not signify that actions recommended for the last year of the three-year period are unimportant. Rather, the sequencing recognizes that constraints on managers', elected officials', and citizens' time will prohibit undertaking every recommended capacity enhancement simultaneously. If actions are completed more quickly and easily than anticipated, however, the town should by all means take the opportunity to accelerate the implementation of out-year recommendations.

The balance of this chapter begins by providing an explanatory map of the various planning and management processes and documents that support a systematic approach to developing and maintaining management capacity. It then lays out the recommended sequence of actions for the next three years in detail. A final section identifies a few recommendations that did not fall precisely within the framework of the four management systems. At the end of this chapter Figure 7-3 presents a consolidated implementation timeline for recommendations made throughout this report.

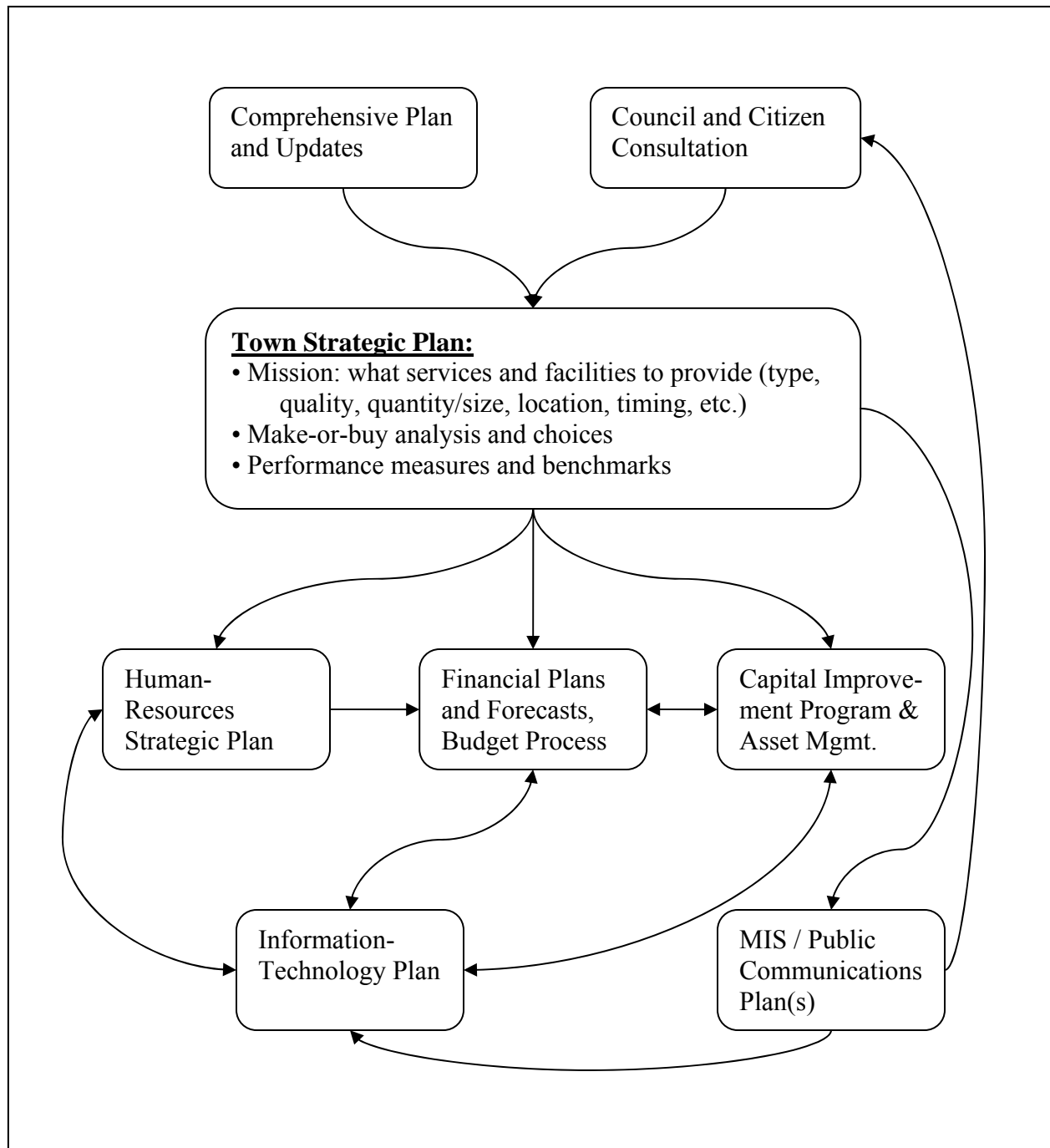
Table 7-1. Summary of Recommended Implementation Sequence

Recommended Actions	Chapter References
Recommended Immediate Actions (Fiscal Year 2008)	
Implement financial controls and auditor recommendations.	3.5.1.a-b
Implement basic project-management and reporting procedures.	4.2.b
Update the town's personnel manual as indicated in Chapter 5.	Sec. 5.1.3, Sec. 5.1.4
Hire (or train) an IT specialist backup.	5.4.3.b
Regularize and document the town's hiring procedures.	5.2.1, 5.2.2
Regularize and document current and new job descriptions.	5.2.4
Back up data offsite; develop and implement disaster-recovery plan.	6.2.5.a-b
Document existing budget process and begin enhancements.	3.2.1, 3.2.2
Enhance budget documents for internal and external use.	3.2.3
Establish and disseminate a regular informational newsletter.	6.3.2, 6.3.1.b
Actions to Complete During Calendar Year 2008	
Institute a financial forecasting and planning process.	3.1.1, 3.1.2
Adopt, document, and implement a debt policy.	3.1.3.a
Adopt budget-balance and financial-reserve policies.	3.3.1.a, 3.3.2
Adopt user-charge policies.	3.3.1.e
Implement other budget-balance recommendations.	3.3.1.b-d, f, g
Develop enhanced practices for new-hire orientation.	5.4.1.b
Regularize and document new-hire performance evaluations.	5.2.3
Implement job-specific performance evaluations.	Sec. 5.5.1 - 5.5.3
Update and document employee-termination procedures.	5.3.4
Revise and document exit-interview forms and procedures.	5.3.1.a
Planning Processes and Related Actions (CY 2008 - CY 2009)	
Develop a town strategic plan, process, measures, and benchmarks.	6.1.1
Develop policies and procedures to obtain citizen feedback.	6.3.4.a-b, 6.3.5.a-c
Adopt procurement policies, including make-or-buy decision criteria.	3.4.1
Develop a capital-improvement program and planning process.	4.1.1, 4.4.1
Develop a human-resources (workforce) strategic plan and process.	5.1.1, 5.1.2
Establish and routinely report performance measures.	6.1.2.a, 6.1.2.b
Create a performance-measure information system.	6.1.2.c, 6.3.2, 6.3.3
Develop an information-technology strategic plan and process.	6.2.1, 6.2.2.a-b
Planning and Systems Enhancements (CY 2009 - CY 2010)	
Enhance financial reporting formats and distribution.	3.5.2.a, 3.5.2.b
Implement a project-management and -reporting system.	4.2.1.a
Implement an asset-management system.	4.3.1
Consider implementing GIS to integrate asset management., land use, etc.	6.1.2.d
Continue and institutionalize intergovernmental coordination.	4.5.1
Evaluate whether to retain or replace existing ERP system.	6.2.3, 6.2.2.b
Management-System Enhancements (December 2010 or Sooner)	
Assess staff composition and needs on a continuing basis.	5.2.5
Perform workforce-turnover analysis on a continuing basis.	5.3.1.b

Recommended Actions	Chapter References
Re-evaluate the existing early-retirement system.	3.1.3.b
Maintain practices concerning staff promotions.	5.3.2.a, 5.3.2.b
Review employee benefits and update as appropriate.	5.3.3.a, 5.3.3.b
Implement employee career-advancement planning and advising.	5.4.2.a, 5.4.2.b
Implement position cross-training as a standard practice.	5.4.3.a
Formalize and document IT contracting policy and procedures.	6.2.2.a, 6.2.2.b
Evaluate required and existing employee IT skills.	6.2.4
Implement information-system training as needed.	5.4.3.b, 5.4.1.d
Review training budget for possible modification.	5.4.1.a, 5.4.1.c
Develop a performance-data information system.	5.5.1
Expand use of website for info, transaction processing.	6.3.1
Post budget, other documents on website.	6.3.3
Review and update awards, bonuses, and recognition programs.	5.5.4.a, 5.5.4.b
Design and implement a pay-for-performance plan, as appropriate.	5.5.4.c
Adopt policy and procedures on market adjustment for salaries.	5.5.4.c
Implement a formal employee-suggestion program.	5.5.5.a
Implement a system of employee-satisfaction assessments.	5.5.5.b
Maintain upper-management receptiveness to employee inputs.	5.5.5.c
Additional Recommendations	
Sponsor professional memberships and continuing education.	
Evaluate continuing suitability of the commission form of government.	

The model of management capacity adapted for this report is grounded in the ideal of “managing for results.” This can be visualized, as in Figure 7-1, as involving a series of planning processes and plans that identify goals, the capacities and resources required to achieve those goals, and indicators of whether those goals are, in fact, being accomplished. It should be noted that the “plans” do not need to be bulky, formal documents, and are in some ways less important as documents than as the outputs of systematically pursued planning processes. That is, town officials and citizens need to be regularly and systematically thinking ahead about—that is to say, planning—what purposes the town wants to accomplish and what resources it will need in order to accomplish those purposes: infrastructure, workforce, information and information technology, and money to pay for it all.

Figure 7-1. Relationships of Strategic Plans and Planning Processes



The logic of this system of planning processes and plans is simply that the design and operation of the town's management systems should be grounded specifically in the quality and quantity of the tasks the organization will be asked to perform. The determination of those tasks should be based on a systematic process that engages residents, elected officials, and employees in determining what the town's scope of public services and improvements will be and how those services can best be delivered. This involves taking the general statements from the town's Comprehensive Plan, and using input from citizens and public officials to translate general goals into specific action plans that describe in detail what, how (including whether to "make" or

“buy” services and improvements), when, and how much the town will provide and how the town’s performance in providing services and improvements will be measured.

Strategies, policies, and procedures for each of the interdependent, major management systems then follow. Management- and public-information needs, capital-improvement and infrastructure needs, and workforce requirements can be determined based on the overall town strategy. Financial and information-technology planning both drive and are driven by information, workforce, and infrastructure needs. Additionally, the capital-improvement program and capital budget, as updated each year, will respond in part to forecasts of financial-resource availability. Financial policies, such as a debt policy and a budgetary-reserve policy, will influence the amounts of money available to support capital projects and operating activities. Finally, the information- and communications-management subsystems facilitate the continuing engagement of the town’s officials and citizens in well-informed planning and decision-making.

Although the overall town strategy is logically the starting point for development of plans for the supporting management systems, the development of the town’s first strategic plan may occur in time after the development of the first capital-improvement, workforce, financial, communications, and IT plans. Updates of the individual management-system plans and policies will be performed once a process for strategic planning is in place and an initial strategic plan is formulated, possibly in conjunction with the next Comprehensive Plan update. Ideally, these updates, as well as updates to the strategic plan itself, should be performed routinely as part of a continuing strategic-planning process, keyed to the periodic updates of the town’s Comprehensive Plan, or otherwise regularly scheduled.

The following six sections detail the recommended roadmap for implementation. A suggested program of 54 actions and projects, encompassing the 81 specific recommendations detailed in Chapters 3 through 6, is organized into the five sequential categories described previously. Two additional recommendations, which can be implemented independently of the sequence, constitute a sixth category.

7-2. Recommended Immediate Actions (FY 2008)

These are ten actions that can and should be implemented quickly, before the end of the current 2008 fiscal year:

- 1) Develop mechanisms for budgetary compliance (recommendation 3.5.1.a) and continue to implement the auditors’ recommendations concerning financial planning, risk management, and other managerial controls (3.5.1.b), including policies and procedures to ensure continuing compliance with restrictions and designations concerning the use of certain funds and revenues.
- 2) Adopt interim procedures for capital-project management and reporting by assigning project managers and instituting basic requirements for project planning and status reporting (4.2.1.b).

- 3) Update the town's Personnel Policy Manual, as recommended in sections 5.1.3 and 5.1.4 of Chapter 5 and summarized in Table 7-2, in order to ensure that the manual thoroughly communicates the town's pertinent human resources policies to employees.

Table 7-2. Personnel Policy Manual Updates

Policies to Include	Equal-opportunity-employer policy
	Cell phone-use policy
	Whistleblower policy
	Voluntary and involuntary job reassignments, demotions, and promotions
	Dress code for non-uniform wearing staff
	Internet and computer policy
Programs to Explain	Attendance-award program (currently being drafted by town)
	Employee suggestion program (currently being drafted by town)
Update Disciplinary-Action Table	Incorporate Internet- and computer-use infractions
Ongoing Issues	Annually review and update manual
	Gather signatures from employees verifying all are aware of changes

Sources: Salisbury, "Employee Handbook," 2003. McConnell, *How to develop essential HR policies and procedures*, 2005.

- 4) Hire (or train) a backup IT specialist (5.4.3.b).
- 5) Regularize and document the town's hiring procedures (5.2.1 and 5.2.2).
- 6) Regularize and document the town's current and new job descriptions (5.2.4).
- 7) Institute regular backups to a secure offsite location of the town's critical data and develop and implement a disaster-recovery plan that addresses alternative methods of data processing, file restoration and recovery, and staff coordination, as well as providing for routine staff training and testing of recovery plans and systems (6.2.5.a and 6.2.5.b)
- 8) Document the town's existing budget processes and begin implementing enhancements to procedures for formulating and executing budgets (3.2.1 and 3.2.2) in time for use in preparing the budget for fiscal 2009.
- 9) Begin working toward meeting GFOA and NACSLB standards for budget documentation as well as processes (3.2.3). In the short term (by the end current calendar year 2007, for use in preparing the budget for fiscal 2009), revise the present budget documents so that they are suitable for routine public dissemination. Over the longer term (through fiscal year 2010), consider working toward meeting GFOA's standards for a "distinguished budget presentation."
- 10) Develop a simple, regular informational newsletter to keep residents informed about town service activities and policies (see recommendations 6.3.2 and 6.3.1.b), for distribution in utility bills, on the town's website, and by other means. This can serve immediate needs for

information dissemination and as the nucleus for continuing development of resident information efforts.

7-3. Actions to Complete During Calendar Year 2008

These ten actions/projects include high-priority new policies and practices, or changes to existing policies and practices, that will meet the town's short-term needs for enhanced financial and human-resources management capacity but may require several months to design and implement:

- 1) Institute a financial forecasting and planning process (3.1.1 and 3.1.2). This is an important component of the system of interrelated plans mapped in Figure 7-1, and provides essential information about the financial opportunities and constraints relevant to the town's substantive plans for public services and other goals. Some revisions to this process may be appropriate once policies have been developed for the regular development of the other plans in the town's management-planning system. The next four actions are closely related to the production of financial forecasts and plans and should be pursued in close coordination.
- 2) Adopt, document, and implement a debt policy (3.1.3.a).
- 3) Adopt policies on budget balance and financial reserves (3.3.1a and 3.3.2).
- 4) Adopt policies concerning the use of user charges (3.3.1.e).
- 5) Implement the other recommendations concerning budget balance (3.3.1.b, 3.3.1.c, 3.3.1.d, 3.3.1.f, and 3.3.1.g).
- 6) Develop enhanced practices for new-hire orientation (5.4.1.b).
- 7) Regularize and document new-hire performance evaluations (5.2.3).
- 8) Begin to implement procedures for performing job-specific performance evaluations for continuing employees (see sections 5.5.1 through 5.5.3). While the final form of the process, including links to the town's overall strategic plan, may take some time to develop and may involve revisions to the initial approach, it is important to begin providing employees and their managers with valid and reliable means to evaluate and improve their performance. The fundamental objective is to create a performance-evaluation system that measures employee performance according to appropriate and job-specific criteria. Once the full system of plans and resource-management strategies is developed, job-specific performance measures for individual employees should be linked to the accomplishment of departmental goals, and employees should understand how the two are related. Employees from all management levels and departments need to be actively involved in the process of establishing goals and performance measures.
- 9) Update and document procedures for employee termination (5.3.4).

10) Update and document forms and procedures for exit interviews (5.3.1.a)

7-4. Planning Processes and Related Actions (CY 2008 – CY 2009)

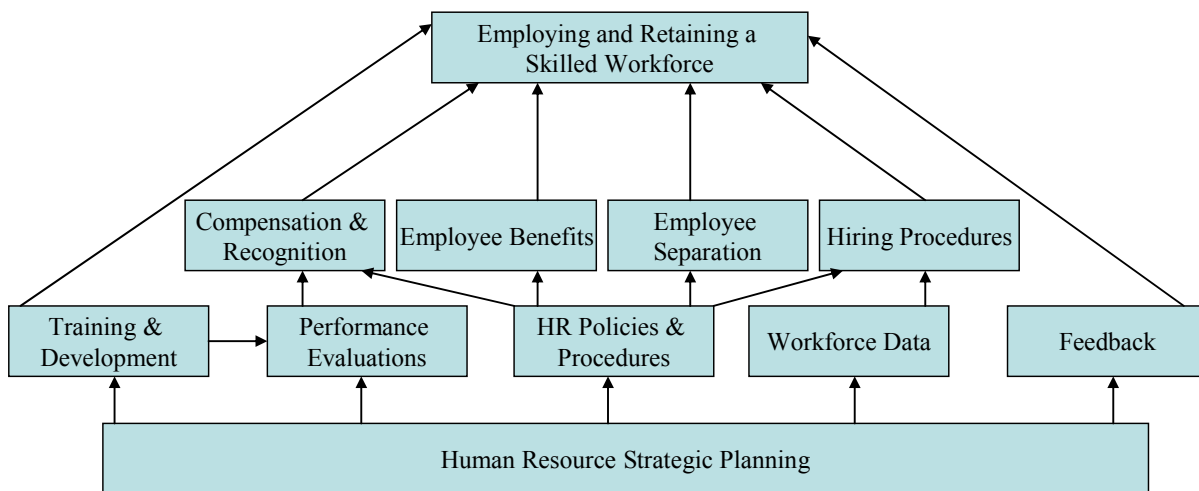
These eight projects will develop and implement planning processes to identify the town's service-provisions goals and the performance measures and management resources that will support the achievement of those goals. The projects should result in the development of initial strategic and management plans (capital-, workforce-, and information-, in addition to the financial-management plan recommended for development by the end of 2008) in calendar years 2008 and 2009:

- 1) Develop a town strategic-planning process, initial strategic plan, and performance measures and benchmarks (6.1.1). This process and the resulting strategic plans provide a means for translating the desires of local officials and residents, and the goals expressed in the town's comprehensive plans, into specific objectives and management plans, as described in Chapter 6 and earlier in this chapter. The explicit identification of the town's service "mission" and goals and the means by which they will be pursued leads to the elements that underlie the model of "managing for results":
 - a. Measurable service outcomes for use in determining whether municipal services are achieving desired results supportive of the town's goals
 - b. Indicators at the staff, department, and municipal levels that will be collected and used to track progress towards achieving desired outcomes
 - c. Mechanisms to evaluate how effectively department and staff activities are working toward achieving municipal goals and make necessary changes to ensure that department and staff activities support municipal goals.
- 2) As an integral part of the strategic-planning process, as well as for ongoing and routine citizen input, develop policies and procedures to obtain citizen feedback (6.3.4.a-b and 6.3.5.a-c).
- 3) In conjunction with the formulation of a strategic plan, adopt procurement policies, including criteria to guide decisions about whether and under what circumstances to "make or buy" specific public services (3.4.1).
- 4) Develop a capital-improvement planning process and a capital-improvement program (4.1.1 and 4.4.1).
- 5) Develop a human resources (workforce) strategic-planning process and plan (5.1.1 and 5.1.2), including goals and objectives for:
 - a. Training and development
 - b. Employee compensation and recognition
 - c. Performance evaluation
 - d. Employee separation
 - e. Human resources policies (hiring practices, employee benefits, etc.)
 - f. Employee feedback

As figure 7-2 depicts, the strategic plan is the foundation of effective human resources management. However, the policies and procedures, which are based on the plan, must be created or revised as the means to achieve the outlined goals. This will include reviewing the policies and procedures adopted in 2008 for possible adjustments. In addition to establishing human resources–management goals, the workforce plan will serve as the basis for determining Middletown’s current and future human resources needs on a continuing basis. The strategic plan can facilitate this process by:

- Identifying what systems or programs will be used to gather the data needed to effectively manage and determine human resources needs.
- Creating staffing projections needed to accommodate future population growth.
 - Address service provision changes that will affect town staffing in the future (e.g., addition of a refuse-collection department).
 - Incorporate foreman knowledge of how staffing needs will change as the population and corresponding services provided also change.
 - Compare projected staffing levels to local municipal benchmarks and identify any issues Middletown needs to address.
 - Formalize the information used to determine staffing increases for departments.

Figure 7-2. Human Resources–Management Interconnections



- 6) Establish and routinely report performance measures (6.1.2.a and 6.1.2.b).
- 7) Create a performance-measure information system (6.1.2.c, 6.2.3 and 6.2.2).
- 8) Develop an information-technology planning process and strategy (6.2.1, 6.2.2.a, and 6.2.2.b).

7-5. Planning and Systems Enhancements (CY 2009 – CY 2010)

These six items are projects aimed at the design and implementation of systems for managing financial and other physical and informational resources. These projects should be implemented during calendar years 2009 and 2010:

- 1) Enhance the town's financial reporting formats and distribution, ideally leading to the annual production of a comprehensive annual financial report (CAFR) and its dissemination through the town's website and other channels (3.5.2.a and 3.5.2.b).
- 2) Implement a comprehensive project-management and -reporting system (4.2.1.a), possibly integrated with the town's existing or new enterprise-resource-planning (ERP) system.
- 3) Implement an asset-management system both for operations-and-maintenance and capital-planning purposes (4.3.1), possibly integrated with the town's existing or new ERP system.
- 4) Consider implementing a geographic information system (GIS) that can integrate asset management, land use, and other activities (6.1.2.d).
- 5) Continue and institutionalize intergovernmental coordination in capital-improvement planning (4.5.1) as well as other service-planning activities.
- 6) Evaluate whether to retain and augment or replace the present ERP system (6.2.3 and 6.2.2.b).

7-6. Management-System Enhancements (December 2010 or Sooner)

These 20 actions should be implemented as soon as feasible, but no later than December 2010, as resources are available. Many of these actions will build on or require some modifications of the products of earlier actions and projects:

- 1) Assess staff composition and needs, including language abilities and cultural competencies, on a continuing basis (5.2.5).
- 2) Perform workforce-turnover analysis, and utilize findings in continuing or adjusting workforce-management practices, on a continuing basis (5.3.1.b).
- 3) Consider whether it is appropriate to discontinue the existing early-retirement system in light of current workforce composition and anticipated workforce needs (3.1.3.b).
- 4) Maintain practices of promoting employees from within the existing workforce, based on demonstrated performance and potential (5.3.2.a and 5.3.2.b).
- 5) Review employee benefits in comparison to employees' needs, and update as appropriate (5.3.3.a and 5.3.3.b).

- 6) Implement employee career-advancement planning and advising (5.4.2.a and 5.4.2.b).
- 7) Implement position cross-training as a standard practice (5.4.3.a) and as a way to meet seasonal, and other, changes over time in service and staffing requirements.
- 8) Formalize and document policies for contracting services by developing written procedures to select among potential vendors and considering service goals and performance objectives when making decisions about whether to contract for services (6.2.2.a and 6.2.2.b).
- 9) Evaluate required and existing employee IT skills, and determine what combination of training and recruitment can best serve the town's needs for a qualified workforce (6.2.4).
- 10) Implement information-system training as needed (5.4.3.b and 5.4.1.d).
- 11) Review the current training budget for possible adjustments to meet the town's employee-development goals and requirements (5.4.1.a and 5.4.1.c).
- 12) Develop a performance-data information system (5.5.1).
- 13) Expand the use of the town's website for disseminating notices, general information, and performance information, and for processing payments and other transactions (6.3.1).
- 14) Post the budget, CAFR, and other documents on the town's website (6.3.3).
- 15) As appropriate, review and update the town's employee-award, -bonus, and -recognition programs (5.5.4.a and 5.5.4.b).
- 16) Design and implement a pay-for-performance plan, as appropriate (5.5.4.c).
- 17) Adopt policy and procedures on market adjustment for salaries (5.5.4.c).
- 18) Implement a formal employee-suggestion program (5.5.5.a).
- 19) Implement a system of employee-satisfaction assessments (5.5.5.b).
- 20) Maintain upper-management receptiveness to employee inputs (5.5.5.c).

7-7. Additional Recommendations




Two additional recommendations reflect general observations outside of the four-system framework within which the primary recommendations were developed:














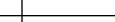


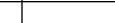














- 1) In order to maintain and develop both their own knowledge and skills and a network of colleagues who can serve as problem-solving and information resources, the town should

encourage employees—particularly managers and supervisors—to join and participate in appropriate professional associations. These include but are not limited to the International City/County Management Association (ICMA) and the Government Finance Officers Association (GFOA). An incomplete list of professional organizations is provided in Appendix B. Professional staff members are likely to have their own suggestions for more specialized professional organizations.

- 2) As growth continues over the next few years, the town is encouraged to evaluate options for its general organizational structure and form of government. The governing and management practices we observed closely resemble those associated with the “commission” form of government, which vests significant managerial responsibility in part-time Council members, in spite of the town’s ostensible mayor-council form of charter. As the town grows, it will be worthwhile for the Council to consider whether transforming the actual arrangements in order to vest greater managerial responsibility more with professional staff is warranted. The informal commission-type procedures, which have worked well to date, may become time-consuming for council members as the town continues to expand its scope of responsibilities. On the other hand, there is no need to change just for the sake of change. If satisfactory municipal performance continues to be measured and does not overburden elected officials, the town may well wish to retain the existing system. Data from the ICMA’s 2006 *Municipal Year Book* indicate that the commission form is employed by nearly ten percent of municipalities with populations between 10,000 and 20,000 in Delaware, Maryland, New Jersey, and Pennsylvania, but by only about five percent of municipalities in those states with more than 20,000 residents.

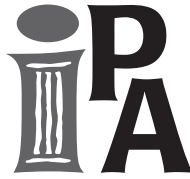
Figure 7-3. Consolidated Timeline of Recommendations

 approximate schedule for task/project
 window for executing task/project
 continuing process, practice, revisions/updates

Recommended Actions/Implementations	Chapter References	Jan-Jun 2008	Jul-Dec 2008	Jan-Jun 2008	Jul-Dec 2008	Jan-Jun 2008	Jul-Dec 2008
A. Recommended Immediate Actions (Fiscal Year 2008)							
Implement financial controls and auditor recommendations	3.5.1.a-b						
Implement basic project management and reporting procedures	4.2.1.b						
Update the town's personnel manual as indicated in Chapter 5	Sec. 5.1.3, 5.1.4						
Hire (or train) IT specialist backup	5.4.3.b						
Regularize and document the town's hiring procedures	5.2.1, 5.2.2						
Regularize and document current and new job descriptions	5.2.4						
Back up data offsite, develop and implement disaster-recovery plan	6.2.5.a-b						
Document existing budget process and begin enhancements	3.2.1, 3.2.2						
Enhance budget documents for internal and external use	3.2.3						
Establish and disseminate a regular informational newsletter	6.3.2, 6.3.1.b						
B. Actions to Complete During Calendar Year 2008							
Institute a financial-forecasting and -planning process	3.1.1, 3.1.2						
Adopt, document, and implement a debt policy	3.1.3.a						
Adopt budget-balance and financial reserve policies	3.3.1.a, 3.3.2						
Adopt user-charge policies	3.3.1.e						
Implement other budget-balance recommendations	3.3.1.b-d, f, g						
Develop enhanced practices for new-hire orientation	5.4.1.b						
Regularize and document new-hire performance evaluations	5.2.3						
Implement job-specific performance evaluations	Sec. 5.5.1 - 5.5.3						
Update and document employee-termination procedures	5.3.4						
Revise and document exit-interview forms and procedures	5.3.1.a						
C. Planning Processes and Related Actions (2008-2009)							
Develop a town strategic plan, process, measures and benchmarks	6.1.1						
Develop policies and procedures to obtain citizen feedback	6.3.4.a-b, 6.3.5.a-c						
Adopt procurement policies, including make-or-buy decision criteria	3.4.1						
Develop a capital-improvement program and planning process	4.1.1, 4.4.1						
Develop a human-resources (workforce) strategic plan and process	5.1.1, 5.1.2						
Establish and routinely report performance measures	6.1.2.a-b						
Create a performance-measure information system	6.1.2.c, 6.3.2, 6.3.3						
Develop an IT strategic plan and process	6.2.1, 6.2.2.a-b						

Recommended Actions/Implementations	Chapter References	Jan-Jun 2008	Jul-Dec 2008	Jan-Jun 2008	Jul-Dec 2008	Jan-Jun 2008	Jul-Dec 2008
D. Planning and Systems Enhancements (2009-2010)							
Enhance financial reporting formats and distribution	3.5.2.a-b						→
Implement a project-management and -reporting system	4.2.1.a						
Implement an asset-management system	4.3.1						
Consider implementing GIS to integrate asset management, land use, etc.	6.1.2.d			• • • • •	• • • • •		
Continue and institutionalize intergovernmental coordination	4.5.1	→	→	→	→	→	→
Evaluate whether to retain or replace existing ERP system	6.2.3, 6.2.2.b						
E. Management-System Enhancements (Dec. 2010 or earlier)							
Assess staff composition and needs on a continuing basis	5.2.5	→	→	→	→	→	→
Perform workforce turnover analysis on a continuing basis	5.3.1.b	→	→	→	→	→	→
Re-evaluate the existing early retirement system	3.1.3.b			• • • • •			
Maintain practices concerning staff promotions	5.3.2.a-b	→	→	→	→	→	→
Review employee benefits, and update if and as appropriate	5.3.3.a-b	→	→	→	→	→	→
Implement employee career-advancement planning and advising	5.4.2.a-b	→	→	→	→	→	→
Implement position cross-training as a standard practice	5.4.3.a	→	→	→	→	→	→
Formalize, document IT contracting policy, procedures	6.2.2.a-b						
Evaluate required and existing employee IT skills	6.2.4	→	→	→	→		
Implement information-system training as needed	5.4.3.b, 5.4.1.d	→	→	→	→		
Review training budget for possible modification	5.4.1.a, 5.4.1.c		→	→	→		
Develop a performance-data information system	5.5.1						
Expand website use for info, transaction processing	6.3.1	→	→	→	→	→	→
Post budget, other documents on website	6.3.3		→	→	→	→	→
Review and update awards, bonuses, and recognition programs	5.5.4.a-b	→	→	→	→	→	→
Design and implement a pay-for-performance plan, as appropriate	5.5.4.c				→	→	→
Adopt policy and procedures on market adjustment for salaries	5.5.4.c				→	→	→
Implement a formal employee suggestion program	5.5.5.a	→	→	→	→	→	→
Implement a system of employee satisfaction assessments	5.5.5.b	→	→	→	→	→	→
Maintain upper-management receptiveness to employee inputs	5.5.5.c	→	→	→	→	→	→
Additional Recommendations							
Sponsor professional memberships and continuing education		→	→	→	→	→	→
Evaluate continuing sustainability of the commission form of government, after completing first strategic plan					→	→	→

Note: Most tasks/projects here are to be followed up by continuing practices and updates, even if not indicated here by a symbol. Refer to the text for detailed descriptions of the recommendations and practices.

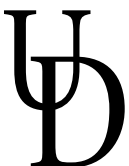


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