



March 10, 2004

Assessors
Accountants/Auditors

Dear City/Town Officials:

Your preliminary FY2005 levy limit worksheet and instructions are now available. This information should assist you in developing your FY2005 budget. All local officials and other interested parties are welcome to view this information on our web site at www.mass.gov/dls.

In most cases, the method for calculating the FY2005 levy limit remains the same as in FY2004. Your attention is called to four areas highlighted in the instructions. These areas may refer you to further instructions.

- IIC. FY2005 New Growth - new growth calculation clarification;
- IIIB. FY2005 Debt Exclusion(s) - application of bond premiums;
- IIIB. FY2005 Debt Exclusion(s) - excess/shortage of debt service;
- IIID. FY2005 Other Adjustment - override for stabilization fund.

Adjustments to your preliminary levy limit should be made to reflect new growth, overrides, debt exclusions, capital expenditure exclusions, etc.

If your community is approaching its levy ceiling, which is 2½ percent of the total full and fair cash value of the taxable property in your community, be aware that you may not be able to use the entire 2½ percent increase in the limit, any new growth or overrides.

For communities whose FY2004 tax rate is not set as of the date of this letter, no preliminary FY2005 levy limit will appear on the website until the FY2004 tax rate is finally set. If you have any questions on the computation of your levy limit or on the reporting of Proposition 2½ referenda, please contact your community's Bureau of Accounts field representative. If you have any questions on the computation of new growth, please contact your community's Bureau of Local Assessment field representative. Both Bureau of Accounts and Bureau of Local Assessment field representatives are located in Boston, Worcester and Springfield.

Sincerely,

Handwritten signature of Marilyn H. Browne in cursive script.

Marilyn H. Browne, Chief
Bureau of Local Assessment

Handwritten signature of James R. Johnson in cursive script.

James R. Johnson
Director of Accounts

INSTRUCTIONS FOR DETERMINING FY2005 LEVY LIMIT

If the community's FY2004 tax rate has been set, all of Section I and only parts A and B of Section II have been completed.

I. TO CALCULATE THE FY2004 LEVY LIMIT

- A. FY2003 Levy Limit - FY2003 levy limit exclusive of debt or capital expenditure exclusion, water/sewer exclusion, or other adjustments per special legislation.
- A1. Amended FY2003 Growth - Amended growth for FY2003 certified by the Bureau of Local Assessment after FY2003 tax rate approval but before FY2004 tax rate approval.
- B. 2.5% Annual Increase - IA plus IA1, multiplied by 2.5%.
- C. FY2004 New Growth - FY2004 tax base growth certified by the Bureau of Local Assessment.
- D. FY2004 Override - Override approved by voters for FY2004 or amount appropriated for the same purpose(s), whichever is less. Do not include FY2004 debt and/or capital expenditure exclusions.
- E. FY2004 Subtotal - Add lines IA, IA1, IB, IC and ID.
- F. FY2004 Levy Ceiling - FY2004 assessed valuation multiplied by 2.5%.
- I. FY2004 Levy Limit - The lesser of lines IE and IF.

II. TO CALCULATE THE FY2005 LEVY LIMIT

The FY2005 levy limit is determined in the same manner as the FY2004 levy limit.

- A. FY2004 Levy Limit - Amount from I above.
- A1. Amended FY2004 Growth - Amended growth for FY2004 certified by the Bureau of Local Assessment after FY2004 tax rate approval but before FY2005 tax rate approval.
- B. 2.5% Annual Increase - IIA plus IIA1, multiplied by 2.5%.
- C. FY2005 New Growth - FY2005 tax base growth certified by the Bureau of Local Assessment.

New Growth Calculation Clarification

Some assessors are incorrectly calculating tax base levy growth by not using the current year's valuation schedules. The Bureau of Local Assessment's position on this matter has never changed. In a year in which there is neither a revaluation nor interim year adjustment you take the difference between the current and prior year's value. However, if a revaluation or interim year adjustment has occurred the new growth is determined by finding the difference between the prior year's *adjusted* value or articles and the current year's assessed value. For fiscal year 2005 tax rate setting purposes adjust the prior year's values (FY2004) using the current year's valuation tables (FY2005). In an escalating real estate market the use of old tables will underestimate new growth. For further information please refer to IGR No. 03-402, *Fiscal Year 2004 Guidelines for Determining Annual Levy Limit Increase for Tax Base Growth*, section "b" page 3.

- D. FY2005 Override - Override approved by voters for FY2005 or amount appropriated for the same purpose(s), whichever is less. Do not include FY2005 debt and/or capital expenditure exclusions.
- E. FY2005 Subtotal - Add lines IIA, IIA1, IIB, IIC and IID.
- F. FY2005 Levy Ceiling - FY2005 assessed valuation multiplied by 2.5%.
- II. FY2005 Levy Limit - The lesser of lines IIE and IIF.

III. TO CALCULATE THE FY2005 MAXIMUM ALLOWABLE LEVY

- A. FY2005 Levy Limit - Amount from II above.
- B. FY2005 Debt Exclusion(s) - For each debt exclusion approved by the voters, the total principal and interest due and payable in FY2005 on the borrowing must be net of:
 - any state or federal reimbursement received for the project (e.g., Cherry Sheet School Building Assistance);
 - **any bond premium received for bonds or notes issued and maturing in FY2005 or later. See DLS Bulletin 2003-20B dated October 15, 2003 for details.**

Excess/Shortage of Debt Service

Any unspent debt service excluded in FY2004 must be reserved and appropriated for the next fiscal year's debt service associated with the excluded project. The reservation must be shown on the community's balance sheet. Any amount not so reserved must be shown on form DE-1 as a reimbursement to reduce the eligible debt exclusion for the applicable project. Reserved debt service for an excluded regional school project must be so

appropriated within two fiscal years. For example, the FY04 balance sheet reserve must be used for either the FY2005 or FY2006 regional school district budget process.

Any excluded debt service expended in excess of the amount excluded will not be credited in the next fiscal year unless a debt service deficit due to this project is being raised by taxation in the next fiscal year.

School Building Assistance

School Building Assistance funds reimbursed prior to the first fiscal year in which debt service is due on an excluded project must be shown as a Cherry Sheet Offset on the Tax Rate Recapitulation form and be reserved on the community's 6/30 balance sheet. The amount reserved must be applied in the first fiscal year that excluded debt service is due unless a DE-3 is submitted and approved by the Bureau of Accounts.

School Building Assistance funds received in any fiscal year after the last fiscal year that debt service is due on an excluded project, must first be used to reduce all other excluded debt service and any remainder to reduce the levy limit for that fiscal year. This would result in a negative debt exclusion.

Funded Through Other Revenues

If the debt service for the project is funded through user fees, betterments or other local revenues, a community has the option to exclude a lesser amount by reporting the principal and interest net of the local revenue.

Enterprise Fund

For a community operating an enterprise fund (M.G.L. Ch.44, §53F½) or special revenue fund (water per M.G.L. Ch. 41 §69B, others by special acts): If a community chooses to exclude the gross debt service, it must budget that property tax subsidy to the enterprise fund or special revenue fund. The increase in allowable levy attributable to the exclusion cannot be spent for any other purpose.

DE-2 and DE-3

IGR 02-101, Proposition 2½ Debt Exclusions, includes new procedures and forms to be used by cities and towns with approved debt exclusions for obtaining a determination about the inclusion of cost increases within an exclusion or approval to use an adjusted exclusion schedule.

- C. FY2005 Capital Expenditure Exclusion(s) - For each capital expenditure exclusion approved by the voters, include the amount approved for FY2005 or amount appropriated for the same purpose(s), whichever is less minus any state or federal reimbursement received for each capital acquisition. For this purpose, a capital expenditure is any item that a community could fund by incurring debt under M.G.L. Ch. 44 §7 or §8, but has elected to fund by appropriation.

Funded Through Other Revenues

If the appropriation for the capital acquisition is funded through user fees, betterments, or other local revenues, a community has the option to exclude the lesser amount by reporting the capital expenditure exclusion net of the local revenue.

Enterprise Fund

For a community operating an enterprise fund (M.G.L. Ch. 44 §53F½) or special revenue fund (water per M.G.L. Ch. 44 §69B, others by special acts): If the community chooses to exclude the gross capital expenditure exclusion, it must budget that property tax subsidy to the enterprise fund or special revenue fund. The increase in allowable levy attributable to the exclusion cannot be spent for any other purpose.

- D. FY2005 Other Adjustment - Applicable amount as adopted by:
1. Special legislation (i.e., Cape Cod Commission assessment, certain Regional Refuse Disposal Management District assessments, etc.).
 2. M.G.L. Ch. 111 §127B½ for septic system repairs and upgrades, lead paint abatements and underground fuel tank removals treated as betterments.
 3. **Stabilization Fund. See DLS IGR 04-201 for more details.**
- E. FY2005 Water / Sewer - Amounts added pursuant to M.G.L. Ch. 59 §21C(n) for water and sewer debt where rates are reduced by the same amount. See IGR 93-207 for details.
- F. FY2005 Maximum Allowable Levy - Add lines IIIA, IIIB, IIIC, IIID and IIIE. This is the maximum amount you may raise in property taxes for FY2005. Your FY2005 tax levy, as reported on the FY2005 Tax Rate Recapitulation form, CANNOT exceed this amount.

IV. REPORTING REQUIREMENTS

Copies of all Proposition 2½ ballot votes for FY2005 with final voting results (wins and losses) should be submitted within two weeks after the election to:

Lisa Juskiewicz
Division of Local Services
P.O. Box 9569
Boston, Mass. 02114-9569

To correctly certify your FY2005 levy limit, include the following with your FY2005 Tax Rate Recapitulation form unless previously provided to the Division of Local Services:

- A. New Growth - Tax Base Growth Report (LA-13) in accordance with departmental guidelines.
- B. Amended New Growth - Amended Tax Base Levy Growth Report (LA-13A) in accordance with departmental guidelines.
- C. Overrides
 - 1. Copy of new ballot questions, certified by the Clerk, including date of election and number of votes for and against.
 - 2. Please identify that the ballot question is an override.
 - 3. Copy of the appropriation for the purpose if the override is specific rather than general in nature.
- D. Debt Exclusions
 - 1. Copy of the ballot question, certified by the Clerk, including date of election and number of votes for and against.
 - 2. Schedule DE-1 "Debt Exclusion Form".
 - 3. Debt schedule for new excludable debt obligations.
 - 4. Schedules DE-2 and/or DE-3, if applicable.
 - 5. Any additional schedule(s) in accordance with departmental guidelines.
- E. Capital Expenditure Exclusions
 - 1. Copy of the ballot question, certified by the Clerk, including date of election and number of votes for and against.
 - 2. Please identify that the ballot question is a capital exclusion.
 - 3. Copy of appropriation(s) vote(s) for the purpose(s) stated in the ballot question.