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City & Town

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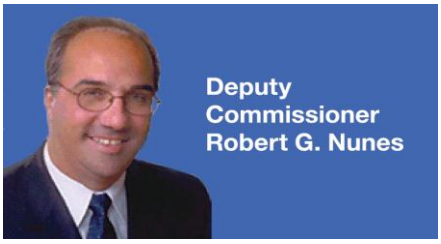


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***City & Town* is published by the Massachusetts Department of Revenue's Division of Local Services (DLS) and is designed to address matters of interest to local officials.**

**Dan Bertrand, Editor**

**Editorial Board: Robert Nunes, Robert Bliss, Zack Blake, Amy Handfield, Sandra Bruso and Patricia Hunt**

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# Welcome Aboard!

The *City and Town* Editorial Board is pleased to welcome two new members to its ranks, Sandra Bruso and Patricia Hunt.

Patricia Hunt has recently joined the Division of Local Services as an attorney in the Municipal Finance Bureau. Before joining DLS, she previously worked for the Quincy Housing Authority as General Counsel and has also served her community in Easton as a member of the Selectboard, Finance Committee and Community Preservation Committee.

Sandra Bruso is a Division of Local Services veteran having worked at DLS for more than 17 years in the Bureau of Local Assessment. Her subject matter expertise will be greatly appreciated.

We look forward to their valuable contributions going forward as we continue to provide articles, analysis, and subject matter expertise to our partners in municipal government.

# Analyzing Financial Trends for

# Budget Preparation

**Gerard D. Perry - Bureau of Accounts Director**

As most cities and towns finalize their FY14 budgets and begin the public meeting process, we highly suggest local officials, particularly those new to municipal finance, take the time to review the below financial trends, terms and definitions that may be helpful to the budget process.

As the Director of Accounts, I'm often asked by municipal public policy makers for my opinion on the financial health of their respective cities and towns of the Commonwealth as they formulate financial strategies for the upcoming year. One way to look at the future direction of a municipality's economic health is to review the past trends of various funds. I recommend the following be analyzed including, but not limited to, the undesignated fund balance, free cash, enterprise fund retained earnings, receivables, and estimated receipts. For those officials who are new to municipal government, these accounts are defined as:

**Undesignated Fund Balance:** Monies in the various government funds as of June 30 that are neither encumbered nor reserved, and are therefore available for expenditure once certified as part of free cash.

**Free Cash:** Remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown on the tax recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30, which is submitted by the community's auditor, accountant, or comptroller. Important: free cash is not available for appropriation until certified by the Director of Accounts.

**Retained Earnings** (Also known as Net Assets Unrestricted): An equity account reflecting the accumulated earnings of an enterprise fund that may be used to fund capital improvements, to reimburse the general fund for prior year subsidies, to reduce user charges and to provide for enterprise revenue deficits (operating loss).

**Receivables:** An expectation of payment of an amount certain accruing to the benefit of a city or town.

**Estimated Receipts:** A term that typically refers to anticipated local revenues listed on page three of the Tax Recapitulation Sheet. Projections of local revenues are often based on the previous year's receipts and represent funding sources necessary to support a community's annual budget.

Municipal officials should look back at the last three years to determine if any trends exist with these accounts. If you see a downward trend in your undesignated fund balance, free cash, retained earnings, or estimated receipts, one can infer that a problem may exist with your future financial position. Trends may need to be reversed in order to facilitate a healthier financial position as you deliberate during the budget season.

Conversely, if you see an increase in your tax receivables, this is a sign of possible stress in your budget. An increase in tax receivables can be an indication that taxpayers are facing economic hardship. Higher tax receivables can reduce cash flow and also decrease a municipality's certified free cash.

Developing a budget for any municipality involves a team effort by many officials within each city and town. Researching and analyzing past fund accounts can assist you with determining what will serve the best fiduciary interests for your community.

If you have any questions, or need assistance with your municipality's financial trends, please feel free to contact your Bureau of Accounts field representative to discuss the issues within your community. In addition, the items and recommendations above are just a fraction of the information available to you as you formulate your budgets. Much more can be found on the BOA page of the DLS website here: http://www.mass.gov/dor/local-officials/accountant-info/.

We wish you the best as you move forward with what is an important and integral part of the budget process.

# The Prudent Investment of Public Funds

**Bill Arrigal, Bureau of Accounts & David Okun, former Weston Town Treasurer**

Cities, towns, and districts are restricted in the choices their officials can make regarding the investment of public funds and the majority of treasurers have a firm understanding of what they can and cannot do. For those who don't, the Massachusetts Collectors and Treasurers Manual (MCTA) clearly explains how to effectively and safely invest public funds.

Every year in May at the New Collectors and Treasurers School in Westborough there's a class on borrowing and investing. This year's New Collectors and Treasurers Day will be held on May 8th, 2013 at the Dudley Town Hall, 71 West Main Street, Dudley, MA 01571. The topic is also presented and discussed at the annual summer school in Amherst. The MCTA holds its annual school for Collectors and Treasurers at the University of Massachusetts at Amherst from August 13th to 16th at the Campus Center at 1 Campus Center Way, Amherst, MA 01003.

The Division of Local Services highly recommends that officials stay informed and up-to-date by attending these informational sessions regarding investments. Even treasurers who clearly understand their duties and responsibilities are on occasion pressured to justify their choices to well-meaning but misinformed officials and citizens in their communities.

In instances when a treasurer is being advised by a well-intentioned official, citizen, or investment broker, it's important to remember who is ultimately responsible for the investment of public funds. There are no provisions in Massachusetts General Laws allowing for the custody of public funds to be delegated to an outside party. Although there are times when this is a difficult responsibility for a treasurer to bear, it remains the treasurer's responsibility.

In describing the scope of the bond of the treasurer M.G.L., Ch. 41, Sec. 35 clearly states: "the bond required herein shall cover the duties of the treasurer with respect to trust funds and funds of retirement systems which are in his custody by

virtue of his office, and any such funds, for the purposes of said bond, shall be deemed to be public funds."

**M.G.L. Ch. 44, Sec. 55B: Investment of public funds**

*M.G.L., Ch. 44, Sec. 55B: All moneys held in the name of a city, town, district or regional school district or any other account under the jurisdiction of a city, town, district, or regional school district or officer thereof, which are not required to be kept liquid for purposes of distribution, shall be invested in such a manner as to require the payment of interest on the money at the highest possible rate reasonably available, taking account of safety liquidity and yield. All officers of a city, town district or regional school district who control the investment of such funds shall invest them prudently, consistent with the provisions of sections fifty-four and fifty-five and, if the funds are the result of gift or grant or bequest, the terms of such gift or grant or bequest, so as to accrue the highest amount of interest reasonably available on such funds taking account of safety, liquidity and yield. The provisions of section sixty-two shall not apply to this section.*

The treasurer signs off on these investments and is held responsible for them. A well-meaning consultant is not taking any risk by making recommendations to a treasurer. Therefore, the first priority of any public investment is the consideration of the safety of the investment.

The members of the Massachusetts Collectors and Treasurers Association have years (in some cases decades) of experience dealing with the issues involved with the handling of investments both in the general fund or a trust fund and the MCTA Treasurer's Manual is a very helpful resource available to the public online at no cost.

**M.G.L. Ch. 44, Sec. 55A: Liability of depositor for losses due to bankruptcy**

M.G.L., Ch.44 Sec. 55A absolves treasurers of any personal liability if they, in good faith and in the exercise of due care, deposit public money in the MMDT or in a Massachusetts-organized savings bank, trust company or FDIC banking company and a loss results from the closing up of the depository or from the liquidation of its affairs. However, this statute does not absolve from liability a treasurer who invests

public funds in a non-FDIC bank outside of Massachusetts.

**M.G.L. Ch. 44, Sec. 55: Public funds on deposit; limitations; investments**

The short version for investments of revenue cash in accordance with M.G.L., Ch.44, Sec. 55 is as follows:

1. Certificates of Deposit with FDIC-insured institutions
2. United States Government Securities (U.S. Treasury bills, notes, and bonds) or Agencies (i.e. Federal Home Loan Bank) for no longer than one year.
3. Repurchase Agreement (no longer than 90 days and backed by the United States government securities or securities of United States government agencies.)
4. Money market funds (registered with the SEC and receiving the highest rating from a nationally recognized rating organization). The underlying securities of the funds must be within the guidelines approved by the Commonwealth, similar to securities that would appear on the "legal list" of investments.
5. Combined investment fund (in Massachusetts this would be the Massachusetts Municipal Depository Trust also known as the MMDT.

Information about the Massachusetts Municipal Depository Trust and who to contact can be found on the MMDT's new website.

Information on United States Government Securities can be found on the U.S. Treasury's website.

It's not always understood by people who do not work in a treasurer's office that the investment of public funds is restricted by the laws of the Commonwealth.

Another area in which a Treasurer may be scrutinized is in the investment of municipal trust funds.

**M.G.L. Ch. 44, Sec. 54: Investment of trust funds**

M.G.L., Ch. 44, Sec. 54. *Trust funds, including cemetery perpetual care funds, unless otherwise provided or directed by the donor thereof, shall be placed at interest in savings banks, trust companies incorporated under the laws of the commonwealth, banking companies incorporated under the*

*laws of the commonwealth which are members of the Federal Deposit Insurance Corporation, or national banks, or invested by cities or towns in participation units in a combined investment fund under section thirty-eight A of chapter twenty-nine, or in paid-up shares and accounts of and in co-operative banks, or in shares of savings and loan associations or in shares or savings deposits of federal savings and loan associations doing business in the commonwealth to an amount not exceeding one hundred thousand dollars, or in bonds or notes which are legal investments for savings banks. Cities and towns having such funds in the custody of the treasurer in an aggregate amount in excess of two hundred and fifty thousand dollars may also invest such funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the commonwealth; provided, that not more than fifteen per cent of any such trust funds shall be invested in bank stocks and insurance company stocks, nor shall more than one and one-half per cent of such funds be invested in the stock of any one bank or insurance company. This section shall not apply to the city of Boston.*

The regulations concerning the investment of trust funds are similar to those for the investments of revenue cash. The short version for investments of trust funds in accordance with M.G.L. Ch. 44, Sec. 54 is as follows:

If aggregate trust funds equal less than $250,000:

1. Place at interest in banks (no more than $100,000 can be placed in a federal savings and loan association).
2. Combined investment fund (MMDT)
3. Bonds and notes that are legal investments for savings bank (refer to legal list)

If aggregate trust funds exceed $250,000:

1. All of the above
2. Securities which are legal for savings banks (refer to legal list).

Every year, the Commonwealth of Massachusetts Division of Banks publishes a "List of Legal Investments."

Although neither Moody's nor Standard & Poor's require

cities and towns to have a written investment policy, they suggest it. Moody's also prefers to see written investment and fund balance policies. Ideally, any such policies adopted by the government would be done in a formalized manner like a resolution. These actions, while not necessarily legally binding, indicate to Moody's that the appropriate government officials have discussed the policy in full and arrived at a consensus. The Division of Local Services concurs with this recommendation of these ratings agencies as well.

Several cities and towns, including the Town of Weston, have drawn up written investment policies. For example, in the Town of Weston the policy is a covenant that is signed by all the officers of the Town that control the investment of public funds and/or trust funds. This is an excellent example of how public and trust funds can be managed in accordance with Massachusetts General Laws. Based on our experience in dealing with the cities, towns and districts, the establishment of a written investment policy will benefit both the officials the municipalities.

Once again, DLS highly recommends attending a MCTA workshop as they offer Treasurers useful guidance on how to approach the complex challenges inherent in responsibly managing the investments. They also provide the opportunity for Treasurers in similar situations to share their experience and knowledge.

Finally, we advise any local officials who believe their municipality may have received false representation of your municipality's investments to contact the Office of the Attorney General. The AG's Insurance and Financial Services Division can be of great assistance to cities and towns misled into making inappropriate investments.

## Municipal Cabinet Meetings Taking Place Across Commonwealth

Over the past few weeks, Lieutenant Governor Timothy Murray has led a series of meetings with the Municipal Affairs Coordinating Cabinet highlighting new and innovative developments in state and local government and promoting resources and investments in cities and towns. Since 2007, Lieutenant Governor Murray has chaired over 30 meetings of

the Municipal Affairs Coordinating Cabinet which has led to significant policy initiatives for communities including the Municipal Partnership Act I and II and regionalization incentive programs. This latest series features cabinet secretaries such as ANF Secretary Glen Shor and Transportation Secretary Richard Davey highlighting key investments in each region, providing a forum for local officials to discuss the Patrick-Murray Administration's efforts to create growth and opportunity by building a 21st century education, innovation and transportation network that will support cities and towns today and in the future.

"During our Administration, these cabinet meetings have successfully engaged local officials as we deliver critical resources and services for municipalities," said Lieutenant Governor Murray. "Local government is closest to the people, and we will continue to partner with communities to ensure cities and towns have the resources to grow as we invest in the state's long-term economic development plan."

These public meetings engage municipal managers, local planners and residents interested in discussing regionalizing local services and other policy to strengthen the partnership between governments. To learn more about the Municipal Affairs Coordinating Cabinet or for additional information or updates on these meetings, visit www.mass.gov/governor/municabinet.

To attend one of the following meetings, we ask that you RSVP by calling 617.626.2338.

PEABODY (Hosted by Mayor Ted Bettencourt)
Tuesday, April 23rd at 10:00am
Peabody City Hall
24 Lowell St.

MARSHFIELD (Hosted by Town Administrator Rocco Longo)
Thursday, April 25th at 11:30am
Seth Ventress Building (School Administration Building)
76 South River Street

BUCKLAND (Hosted by Bob Dean, Chairman of the Board of Selectman)
Thursday, May 23rd at 2:00pm
Town Hall
17 State Street, Shelburne Falls

## Registration Open for the MASS*buys* EXPO 2013!

Join your peers on Thursday May 2nd, 2013, for the highly anticipated MASS*buys* EXPO returning again to the DCU Center in Worcester, MA. This event, designed exclusively for Commonwealth Statewide Contractors and public purchasing and procurement officials, will provide you with a one-of-a-kind opportunity to discover the latest products and services available on Statewide Contracts.

At MASS*buys* you'll have the opportunity to meet with over 350 vendors on Statewide Contracts and attend morning and afternoon workshops that cover the latest in Strategic Sourcing best practices, supplier diversity, and more, all designed to improve job performance and enhance professional growth.

The exhibit hall opens at 8:00am with a continental breakfast until 9:30am and a hot buffet lunch from 12 noon until 1:30pm. The MASS*buys* EXPO is FREE to attend, so register for an exciting day where a wealth of knowledge is exchanged and you can buy on-site! Register today at the MASS*buys* EXPO website.

The Office of the Comptroller's (CTR) General Accounting Bureau also invites you to attend an exciting workshop at the MASS*buys* EXPO. The Debt Collection Management: Balances Matter session is designed to provide attendees with an overview of the payments and collections process, overall effective debt management best practices, and highlights Statewide Contract PRF55DesignatedOSC - Debt Collection Services. The 60-minute session will deliver a comprehensive summary of improving the financial performance of the Commonwealth through identification of and prevention of improper payments, effective receivables management, and aggressive collection of delinquent debt.

The workshop is from 1:15pm - 2:15pm in Meeting Room B on Level 3. Register today as an attendee and sign up for this dynamic workshop session. Please visit the Comptroller's exhibit booth (located in the DCU Atrium Across from registration) #02A to learn more about agency

programs, services, and upcoming training opportunities. Stop by to ask questions and take advantage of information and resources.

# April Municipal Calendar

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| **1** | **DOR/MDM-TAB** | **Notification of Cherry Sheet Estimates for the Following Year** (pending action taken by the Legislature)<br><br>The Cherry Sheet is an estimate of: 1) Receipts - local reimbursement and assistance programs as authorized by law and appropriated by the General Court; and 2) Assessments - state and county assessments and charges to local governments. All amounts listed on the Cherry Sheet are estimates. Actual receipts and charges are determined based on detailed formulas or guidelines for each program. Cherry Sheets are posted on the DLS website and updated at each juncture of the state budget process. |
| **1** | **Personal Property Owner** | **Submit Form of List**<br><br>This is a listing of all personal property filed by the owner with the Assessors each year for the purpose of determining taxes in the next fiscal year. The return is due on or before March 1, but the deadline may be extended by the Assessors to a date no later than the date abatement applications are due. |

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