

A Publication of
the Massachusetts
Department of Revenue's
Division of Local Services

City & Town

Supporting a Commonwealth of Communities

Mike Heffernan Commissioner • Sean R. Cronin, Senior Deputy Commissioner of Local Services



Updates on the Community Compact Grant Program

Lieutenant Governor Karyn Polito



Happy holidays to all of you! It's hard to believe that just shy of a year ago today we stood on the steps of the Grand Staircase in the State House with mayors, managers, assessors, procurement officers and other finance officials from across the Commonwealth to announce the filing of "[An Act to Modernize Municipal Government](#)."

Since that time, our Administration has worked hard to promote smarter and more efficient government by updating obsolete laws, increasing local independence, streamlining state oversight, and providing municipalities with greater flexibility. We're greatly appreciative of the support and collaboration we've received from local officials throughout the state and remain committed to supporting and assisting you in this important work.

In addition to the municipal modernization legislation we filed and eventually passed, we embarked upon our [Community Compact Cabinet \(CCC\) program](#). Through the CCC program, we sought to provide a new model of collaboration between the Commonwealth and our partners in local government. Our goal was to establish a program offering helpful tools and resources to communities while leveraging the technical and policy expertise available across state government and beyond. With more than two-thirds of Massachusetts cities and towns signed up for the Best Practice program and more than half of eligible municipalities applying for the Information Technology (IT) Grant program, we're immensely proud to report that the first year of the CCC program was a resounding success.

The Best Practices Program is available to any community that has yet to apply. "Compact communities" receive additional bonus points for various state grants including the new Efficiency and Regionalization Grant program. To learn more about the Best Practices Program, [click here](#).

The [Information Technology Grant program](#) is also returning in

December 15th, 2016

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By the Numbers

City & Town will provide updates on the progress of the tax rate and certification season in each edition through the rest of the calendar year. In addition to these helpful statistics, we're also pleased to announce that you can now follow the tax rate setting process in real time. Thanks to our Municipal Databank staff, this public information is available 24/7 by [clicking here](#).

Preliminary Certifications:

115 Communities Approved

Final Certification: 112 Communities

(of 117 Total in Certification Year)

LA4: 344 Approved (347 Submitted)

LA13/ New Growth: 344 Approved

(347 Submitted)

Tax Rates: 314 Approved

Balance Sheets: 245 Approved

Aggregate Free Cash Approved

Total: \$992,468,260

MUNICIPAL Databank



Other DLS Links:

[Local Officials Directory](#)

[Information Guideline
Releases \(IGRs\)](#)

[Bulletins](#)

[Publications & Training Center](#)

[Tools and Financial
Calculators](#)

early 2017. This is a *competitive* grant program focused on driving innovation and transformation at the local level via investments in technology. It will be open to municipalities that did not previously receive an IT grant in FY16 and that have applied for the Best Practice program by February 15th. The program opens on March 1, 2017 and applications must be received by April 1st, 2017. To learn more about the program, [click here](#).

New Grant Program for FY17

In addition to continuing the Best Practice and IT Grant programs, Year 2 provides for the new [Efficiency and Regionalization competitive grant program](#). This program provides financial support for governmental entities interested in implementing regionalization and other efficiency initiatives that allow for long-term sustainability. Round 1, open from October 15th through November 15th, was very competitive with nearly 40 applications from more than 120 governmental entities.

Today, [we were happy to announce](#) that a total of 17 grant awards were made totaling more than \$1.2 million. The 17 grants involve more than 70 municipalities and 10 school districts interested in various projects, including: regional approaches to stormwater and wastewater management, combined dispatch, and municipal/school consolidations.

The next round will open on January 1, 2017 and close on February 1. Any new applicant or any eligible entity that was not awarded a grant in Round 1 can apply for a grant in Round 2. To learn more, [click here](#).

We thank you all for working with us to build upon our mutual success and the lessons we've learned through this program. We encourage any and all communities that did not previously receive grants to consider applying.

We appreciate all that you do in cities and towns across the Commonwealth. I wish you, your family and your friends all the best during this holiday season. See you in 2017!

Using and Rebuilding Free Cash

Deb Wagner – BOA Springfield Office Supervisor
Tony Rassias - BOA Deputy Director of Accounts

Will this be another banner year for city and town certified free cash, continuing a trend that has exceeded the \$1 billion mark each of the last four fiscal years? At this point, it appears that will be the case.

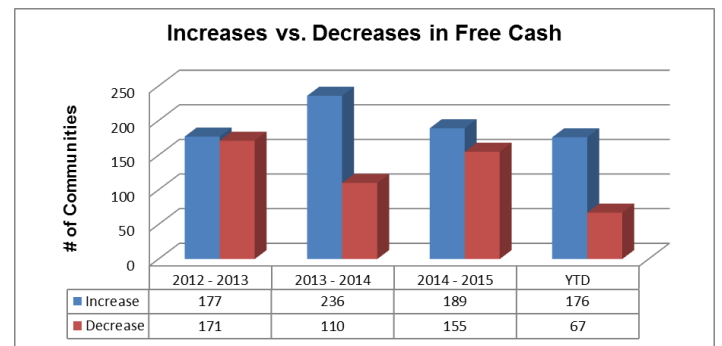
As of close of business on Monday, December 12th, 2016, certified free cash for 243 communities has increased \$131.3 million (15%) compared to the prior year's certification for that same group.

The graph below shows total overall certifications doubling from July 1st, 2009 to July 1st, 2016. Should this trend continue, last fiscal year's record for free cash will likely again be broken.



However, this isn't the whole story. A review of the last several free cash certification cycles for all communities reveals that not every entity has experienced an increase in its free cash certification.

This article will provide advice and guidance to those cities and towns where free cash certification has decreased, (see graph below) particularly where it has decreased for two certifications in a row. It will also be helpful to municipalities where certification is in the negative and any community that just wants to improve its free cash position.



What is Free Cash?

Free cash is a term believed to be first used in a 1923 letter from the Commissioner of the Department of Corporations and Taxation (now known as the Commissioner of Revenue) to Boards of Assessors. At that time, surplus funds available for appropriation were considered as unappropriated cash on hand. In that letter, the Commissioner referred to this cash as "free", and the label "free cash" stuck.

Today, 93 years later, the idea of unappropriated cash available for appropriation remains about the same, although its calculation methodology and supporting documentation are somewhat different.

7 Rules for Using Free Cash

1. It must first be certified by the Bureau of Accounts from the community's balance sheet accompanied by certain supporting documents as detailed in the Director of Accounts' annual letter to accountants and auditors.
2. To be spent, it must be appropriated by the community's legislative body applying the usual process for appropriating funds.
3. The certification is only effective from the date certified until the following June 30, after which any certified balance remaining cannot be appropriated until the amount is certified by the Bureau from the community's next balance sheet submission.
4. It may be appropriated in particular for any lawful purpose or in general as an amount to reduce the tax rate, thereby releasing it as revenue applied against the entire omnibus budget.
5. It cannot be appropriated to an amount greater than the amount certified.
6. Upon request by the community's accounting officer, the certification as of July 1 may be updated once during the fiscal year by receipts attributable principally to prior fiscal year property taxes, net of refunds, collected in the current fiscal year between July 1 and March 30. Receipts may also include non-recurrent distributions. An update will not be certified if, in the opinion of the Director of Accounts, the update could result in a negative certification as of the following June 30, and no similar update may be requested for the following fiscal year if an update is certified and a negative certification results.
7. Be very careful if appropriating it for anything other than one-time expenses or uses, such as capital expenses to paying down unfunded pension and OPEB liabilities. Since free cash is not a guaranteed revenue source, it shouldn't be used to balance the operating budget. Using it to support ongoing expenses can lead to serious structural budget deficits. Also, replenishment must be planned for during the budget process and supported by strong property tax collections. Appropriating it for ordinary operating purposes could result in continued expenses the following fiscal year, with insufficient revenue to fund them.

On Rebuilding or Improving Free Cash

Credit rating agencies look for healthy reserves. Free cash is certainly one such reserve they focus upon to assess a community's overall fiscal health and its ability to honor its debt obligations. Here are the building blocks of free cash and some tips on how to rebuild or improve free cash position.

- *Not Using it All* - Don't appropriate the entire certification in the first place. Some communities do; many do not. For certifications as of July 1, 2014, the median average free cash appropriated was 87% of the amount certified. For those that appropriate it all, pay attention to the tips below because your community's free cash must be entirely rebuilt. For those communities that don't appropriate it all, what goes unappropriated in one fiscal year becomes a building block for the next fiscal year's certification.
- *Strong Tax Collection Procedures* - For most communities, the property tax is the largest revenue source. Receivables are not included in free cash until they've been collected. Poor collections will affect a free cash position, which could result in a cash shortfall requiring temporary borrowing along with an unplanned payment of interest and other associated borrowing costs.
- *Conservative Estimated Receipts* - State cherry sheet aid must be budgeted in full, but other locally generated receipts (a.k.a. "local estimated receipts") need to be conservatively budgeted for the upcoming fiscal year. Of course, all else being equal, one should keep in mind that with a greater budgeted estimate comes a greater appropriation for goods and services and with a lesser budgeted estimate, a lesser appropriation for goods and services.

So is the local focus to rebuild/improve free cash or to increase current spending?

- *"Turn backs"* - Return unnecessary or unexpended general fund appropriations (a.k.a. "turn backs") to fund balance which becomes another building block for the next fiscal year's certification.
- *Curing Capital Projects Deficits* - Capital projects funded during the fiscal year using the provisions of [MGL c. 44, sec. 20A](#) (internal or interfund borrowing) must repay the funds borrowed by June 30. If any capital project is estimated to be in deficit as of June 30, external borrowing is necessary on a temporary or permanent basis to cure the deficit by June 30 or free cash is reduced by the deficit. Project reimbursements to offset the deficit are credited up through September 30.
- *Curing Grant Deficits* - Apply for grant reimbursements timely. Similar to the rule for capital projects noted above and to escape a free cash reduction, deficit balances in grants funded using the provisions of internal borrowing must be cured by either borrowing in anticipation of the grant reimbursement by June 30 or by actual reimbursement by September 30. For Chapter 90 highway apportionments, borrowing for, receipt of or application for

reimbursement is allowed by September 30. Borrowing in anticipation of a grant reimbursement, [MGL c. 44, sec. 6A](#), is only allowed when the municipality may incur debt for five years or longer for the grant's underlying purpose.

Communities should adopt policies on generating and using free cash. The Division of Local Services recommends that free cash:

1. Be restricted to paying one-time expenditures, funding capital projects, reducing OPEB or pension liabilities, or replenishing other reserves; and
2. Be maintained between three to five percent of the annual budget.

Credit rating agencies have their threshold percentages for all reserves. Local finance officials should understand these thresholds, especially when intending to borrow funds or when seeking a rating upgrade.

In September of 2015, the Executive Board of the Government Finance Officers Association (GFOA) recommended as a best practice that:

“governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund” and that adequacy “should take into account each government’s own unique circumstances...Nevertheless, GFOA recommends, at a minimum, that general- purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.”

Additional information regarding [GFOA's position](#) on the [appropriate level of unrestricted fund balance in the general fund](#). Additional information on Free Cash and other reserves can be found in the [November 17th, 2016 edition of City & Town](#).

To view the data used for this article, please see our *Data Highlight of the Month*.

Data Highlight of the Month

The Division of Local Services (DLS) offers a wide variety of municipal, financial and socioeconomic information. This month's data highlight focuses on [Certified Free Cash](#).

Related to last month's Data Highlight of the Month article, free cash is one part of a community's reserve. Communities, “generally use [certified] free cash to support current-year operations or to provide a revenue source for the ensuing year's budget.”

Certified free cash information can be found in the [Debt and Other Financial Indicators](#) on the Databank website. Certified free cash is based on data submitted by cities and towns. Free cash is in years 1982 to present, and includes 138 taxing districts (FY2016). Fiscal years 1982 to fiscal year 2010 and other taxing districts fiscal years 2013 to present is displayed in an excel worksheet. [For FY2003 to present there is a report](#) that also includes a graph for comparative purposes and state totals. The state totals tab displays positive, negative, net free cash and the free cash certified count. The report and graph can be exported to Excel or PDF.

We hope you become better acquainted with the data the Division of Local Services has to offer through the *Data Highlight of the Month*.

For more information, contact us directly at databank@dor.state.ma.us or (617) 626-2384.

December Municipal Calendar

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|-------------------------|--|---|
| Dec. 1 | Taxpayer | Deadline for Applying for Property Tax Exemptions for Persons If tax bills are mailed after September 15, taxpayers have 3 months from the mailing date to file applications for exemptions. |
| Dec. 15 | Accountant/ Superintendent/ School Committee | Submit Amendments to End of School Year Report to DESE Last filing date to impact next year's Chapter 70 State Aid. |
| Dec. 31 | Water/Sewer Commissioners | Deadline for Betterments to be Included on Next Year's Tax Bill (MGL Ch. 80, Sec. 13; Ch. 40, Sec. 42I and Ch. 83, Sec. 27) |
| Dec. 31 | Selectmen | Begin to Finalize Budget Recommendation for Review by Finance Committee |
| Dec. 31 | Assessors | Mail 3ABC Forms to Charitable Organizations and Forms of List to Personal Property Owners. |
| Dec. 31 | Collector | Deadline for Mailing Actual Tax Bills For communities using the annual preliminary billing system on a quarterly or semi-annual basis, the actual tax bills should be mailed by this date. |
| Final Day of Each Month | State Treasurer | Notification of monthly local aid distribution. Click www.mass.gov/treasury/cash-management to view distribution breakdown. |

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