



DLS
DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE



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DLS to Highlight Recent Modernization Bill in Upcoming Legal Seminars

I can't believe it's here already, but happy Labor Day! I hope you were able to enjoy the summer.

Here at DLS we're getting ready for the tax rate setting season. In fact, it's already begun as the first FY17 municipal tax rate (Yarmouth) was set on July 13th. That was the earliest date in at least ten years! We're also reviewing balance sheet submittals for free cash and approving property values for those communities in certification. Our goal is to have the FY17 tax rate setting process go as well as, if not better than, FY16. That can only be done by working collaboratively with you, our partners in local government, and we are strongly committed to that goal.

In our [last edition of City & Town](#), we provided a comprehensive overview designed to highlight and clarify the specifics of the [Municipal Modernization legislation](#).

In the coming weeks and months, DLS will host a number of events and meet with professional organizations and associations to provide in-depth analysis and review of this important legislation. As part of these efforts, our upcoming "Recent Developments in Municipal Law" seminars for local officials will feature presentations on this and other new legislation and recent court decisions pertaining to local government. The seminars will be held on Thursday September 29th, 2016 at The Log Cabin Banquet & Meeting House in Holyoke and Thursday, October 6th, 2016 at The Lantana in Randolph. We highly encourage you to attend. For registration information, [click here](#).

Thank you again to all our partners in these modernization efforts. We look forward to seeing you September 29th and October 6th!

Sean R. Cronin
Senior Deputy Commissioner of Local Services

A Review of Financial Management Structures

Tara Lynch - Technical Assistance Bureau Senior Project Manager

(This is the second of a two-part series examining local government structures and financial management frameworks in Massachusetts.)

A recent *City & Town* [article](#) examined municipal governing structures. This one takes a look at various structural aspects of municipal financial management. Both articles are based on data the Technical Assistance Bureau (TAB) continuously accumulates from various sources, which although subject to limited errors due to update timeliness, nevertheless provides a credible overall picture of municipal governments statewide.

The fiscal health of every municipality depends on effectively managing its core financial functions, which are accounting, treasury, collecting, and assessing. Massachusetts General Laws lay out the specific duties that must be carried out by the individuals appointed or elected to each associated office. To be successful, these financial officials need to work together in a well-coordinated fashion in light of their interdependent procedures and objectives. TAB provides a summary of these officeholders' responsibilities on our [website](#).

Among communities statewide, TAB has observed an increasing trend toward consolidating individual financial offices into a single department of municipal finance headed by a finance director or chief financial officer. One impetus is the desire to ensure greater oversight of internal controls as work volumes increase. A properly managed, comprehensive system of internal controls can maximize efficiency while simultaneously mitigating revenue loss from errors or fraud. For many communities, the increased risk of control failure associated with expanded operations justifies investing in a finance director to coordinate and manage fiscal affairs on a full-time, dedicated basis. Also compelling are the budget orchestration, long-range planning, and ad hoc advising, among other services that city and town policymakers can expect to be afforded by a well-qualified finance director.

Based on TAB's data, consolidated finance departments now exist in 120 communities (34% of the state). Since city governments are more centralized and vertical than towns, it is not surprising that finance

departments predominate among them, being present in 34 of the state's 56 cities (61%). In contrast, finance departments exist in 81 of 195 of towns (27%). Only a quarter of finance departments are managed by a standalone director position, while fully half of all finance directors are also their community's accounting officer (i.e., the accountant, auditor, or comptroller). The remaining 30 finance directors simultaneously hold treasurer or treasurer/collector titles.

Although the data is less definitive, a small but significant portion of finance departments statewide do not include the assessing function, roughly 10 to 15% of them. On the other hand, TAB knows of some information technology (IT) units that administratively report under finance directors. This is not a good model, though, because communitywide IT concerns are better managed at a more senior-level reporting position. Additionally, segregation of duty controls are more strongly reinforced by positioning an IT director apart from those responsible for day-to-day financial transactions so that he or she can independently exercise administrator rights for all systems, including their user permissions.

In some municipalities, the finance department has only been set up on an informal, administrative basis. Long-term stability can be achieved by establishing it through a bylaw or ordinance as permitted under [MGL c. 43C, sec. 11](#) and subsequently incorporating the codified provisions in the community's charter.

Combining treasurer and collector duties into one office is another trend that has expanded over the years. This model is nearly as popular in towns (209 of them, 71%) as in cities (45, 80%), together constituting 72% of local governments. This represents an 18% increase since its last reporting in *City & Town* two years ago. Among consolidated finance departments, treasurer and collector operations are merged in 106 of them, or 88%.

Efficiency and cost-saving gains motivate communities to consolidate treasurer and collector operations. Given that both offices manage daily volumes of receipts, it makes organizational sense to have these parallel tasks handled together in a single place. Furthermore, this structure not only allows for more personnel availability to meet task fluctuations, like payroll and tax bill cycles, but it also seamlessly unifies the tax taking and tax title process flow. By merging part-time treasurer and collector positions into a single, full-time job, a small town can enhance its ability to attract and retain well-qualified officeholders. The recently passed Municipal Modernization Act has made it easier for a community with elected treasurer and collector positions to formally combine them into a single, appointed position through an approval vote of the local legislature and subsequent referendum, as opposed to the lengthier options of special act or charter provision change. See [secs. 51-52 of c. 218 of the Acts of 2016](#).

With each passing year, municipalities around the state confront a

growing scarcity of interested and qualified candidates for their finance officer jobs, and this issue is particularly pronounced in the west. It is increasingly common to see accountants who have created full- or nearly full-time careers by working part-time hours for multiple small towns. Communities in Franklin County were some of the first to seek out a large-scale regional solution, and today, the Franklin Regional Council of Governments provides accounting services to 12 towns. A similar motivation has brought together an exploratory collaborative of Hampshire County communities, otherwise known as the Hill Towns, to examine potential strategies for sharing financial services and other resources. Lastly, the Berkshire towns of Lee, Lenox, and Stockbridge have a standing advisory committee dedicated to assessing possible shared services as vacancies occur or other cooperative opportunities arise.

Ask DLS

This month's *Ask DLS* features frequently asked questions regarding the residential exemption. Additional information on the residential exemption may also be found in the article published in the [October 16, 2014 issue of *City & Town*](#), "Understanding the Residential Exemption." Please let us know if you have other areas of interest or send a question to cityandtown@dor.state.ma.us. We would like to hear from you.

What is the residential exemption?

A residential exemption is one of the options available to cities and towns under property tax classification. [MGL c. 59, sec. 5C](#). It shifts the tax burden within the residential class from owners of moderately valued residential properties to the owners of vacation homes, higher valued homes and residential properties not occupied by the owner, such as apartments and vacant land.

How is the residential exemption adopted?

The selectmen or mayor, with the approval of the city council, may adopt a residential exemption for all Class One residential properties that are the principal residence of the taxpayer on January 1. Beginning in fiscal year 2017, the exemption may be up to 35 percent of the average assessed value of all Class One residential properties unless the city or town has special legislation setting a different limit. See secs. 124 and 247 of [c. 218 of the Acts of 2016](#) (the Municipal Modernization Act). The adoption is made annually, usually at the same time as the adoption of the residential factor which determines the percentages of the local tax levy to be borne by each class of real property under [MGL c. 40, sec. 56](#). See [Section IV-C of Informational Guideline Release \(IGR\) 16-402](#). However, the residential exemption may be adopted before or after the adoption of the residential factor.

How is the residential exemption calculated?

To calculate the exemption, the assessors first determine the average assessed value of all residential parcels. The adopted percentage (not more than 35 percent unless a special act provides otherwise) is applied to this amount. The assessed valuation of each residential parcel that is the domicile of the taxpayer is then reduced by that amount. However, the application of the residential exemption, in addition to any other exemptions allowable under [MGL c. 59, sec. 5](#), may not reduce the taxable value of the property to less than 10 percent of its full and fair cash value, except through the application of the hardship exemption found in [MGL c. 59, sec. 5, Cl. 18](#).

What is the effect of the adoption of the residential exemption?

Adopting a residential exemption increases the residential tax rate. The amount of the tax levy paid by the residential class remains the same, but because of the exempted residential valuation, the levy is distributed over less assessed value. This higher rate creates a shift within the class that reduces the taxes paid by homeowners with moderately valued properties. Those taxes are then paid by owners of rental properties, vacation homes and higher valued homes.

To estimate the potential impact of the adoption of the residential exemption in your community, there is a Residential Exemption Financial Calculator on the DLS Technical Assistance Bureau's ["Tools and Financial Calculators"](#) webpage.

What is the qualification date for the residential exemption?

January 1 is the qualification date for the residential exemption. Generally, MGL c. 59, sec. 5 generally establishes a July 1 qualification date for personal exemptions, e.g., veterans, seniors and surviving spouses. However, the residential exemption is established by MGL c. 59, sec. 5C and is part of property tax classification. Therefore, eligibility is determined as of the January 1 assessment and classification date for the fiscal year for which the exemption relates.

Who is eligible for the residential exemption?

The exemption is applied to the "principal residence of a taxpayer as used by the taxpayer for income tax purposes." A taxpayer must own the residence and can receive the residential exemption on only one property. If the property is subject to a trust, the taxpayer must be a trustee of record on January 1, i.e., hold record legal title. [Moscatiello v. Board of Assessors of Boston, 36 Mass. App. Ct. 622 \(1994\)](#).

Can a taxpayer receive a residential exemption if taxpayer is not required to file income tax returns or if the address on the taxpayer's income tax return is not the property for which an application for exemption has been submitted?

Yes, if the property was the person's principal residence on January 1. In [Wiggins v. Board of Assessors of Boston, Appellate Tax Board No. X299727 \(January 13, 2009\)](#), taxpayer purchased and moved into the subject property in July of 2006, residing there continuously through January 1, 2007, the assessment date for FY2008. However, taxpayer's 2006 state and federal income tax returns used the address of taxpayer's place of business located in Medford. The assessors denied the exemption stating that a "taxpayer must use the address of the property for which an exemption is claimed on the taxpayer's Massachusetts income tax return in order to qualify for the exemption." The ATB disagreed and held that the taxpayer was eligible for the residential exemption, stating, "In both the federal and Massachusetts income tax contexts, the determination of whether a taxpayer is using his property as his principal residence is based on an analysis of all the facts and circumstances present in each case." In reaching its decision that the property was the principal residence of the taxpayer for purposes of the residential exemption, the ATB considered the following evidence: quitclaim deed to the taxpayer of the property, monthly utility and cable bills addressed to the taxpayer at the property for services rendered at the property, letters from the Boston Public Schools addressed to taxpayer at the property as a parent of a Boston Public School student, IRS Forms 1098 and tax returns for calendar years 2006 and 2007 showing the deductible home mortgage interest paid by taxpayer regarding the property, and evidence that taxpayer did not own or use another property as a residence.

Other indicators for determining place of principal residence include voting records, membership in churches or clubs, motor vehicle registration records, census records and address on Massachusetts driver's license.

How does a taxpayer apply for the residential exemption?

Annual applications are not required in order to receive the residential exemption, which is applied by the assessors to reduce the assessed valuation before billing. If applied, the exemption is shown on the actual tax bill. A taxpayer who believes he or she is eligible for the exemption and did not receive it may apply to the assessors for an abatement or exemption. Beginning with fiscal year 2017, the application must be filed by April 1, or three months after the actual tax bills are mailed if later, unless the city or town has special legislation setting a different deadline. See secs.125 and 247 of [c. 218 of the Acts of 2016](#). A timely application for residential exemption functions as an application for abatement for purposes of [MGL c. 59, sec. 59](#), which gives the taxpayer a right of appeal under [MGL c. 59, secs. 64 and 65](#) if the assessors deny the exemption.

MassIT: Register Now for the

Public Sector IT Event of the Year

Massachusetts Office of Information Technology

This year, the 22nd annual [Massachusetts Digital Government Summit](#) will be held on Monday, September 12th and Tuesday, September 13th at the Park Plaza Hotel in Boston. This event is specifically planned for - and open only to - members of our public sector IT community. There is no cost to attend.

Each year, the summit gives our state and municipal government IT workers the opportunity to gather and hear the latest on technology initiatives from Commonwealth leaders and industry experts while networking with colleagues from across the state.

This year's event will feature keynotes by Manley Feinberg, an award-winning speaker, transformative IT leader, and worldwide climber/adventurer, as well as well-respected communications expert Anthony Huey, and a senior fellow from the Center for Digital Government talking about *Exponential Government: The Future of Public Service*.

In addition, state and local technology leaders will present and lead breakout discussions on a range of key issues, including security, data, cloud, engagement, and more. Interested employees should talk with their supervisors about making time to attend. Please find the link to [register here](#).

OSD Announcements: Statewide Contract Opportunity and a "Municipal Shoutout"

Operational Services Division

Foreign Language Interpretation and Translation Services (PRF63) Statewide Contract Kickoff Event

Join us on September 9th in Boston as we kickoff Statewide Contract PRF63 for Foreign Language Interpretation and Translation Services! Meet the vendors, network with other buyers, and hear about the potential benefits and cost savings from using the Statewide Contract, which include expedited services at no additional charge from select vendors and a new lower minimum engagement commitment. [Click here to register](#).

Find additional contract details in the [PRF63 Contract User Guide](#). If you have questions, reach Sorraia Tavares, Contract Manager, at sorraia.tavares@state.ma.us.

Municipal Shoutout

Lexington Public Schools recently completed the largest single purchase ever in COMMBUYS by a municipality! Local Government Enablement Team Account Manager Jackie Abbott worked with Lexington administration to purchase Apple computers from [Statewide Contract ITC47](#) using the RPA function in [COMMBUYS](#).

"I was happy and excited to document our purchase in COMMBUYS," says Kristen McGrath, Administrative Assistant for Educational Technology. With this purchase on August 3, Lexington Public Schools may be a future contender for the next level of the [COMMBUYS Hall of Fame](#). To learn about how the Enablement Team may help your city or town, [click here](#).

August Municipal Calendar

September 15	Accountant/ Assessors	Jointly Submit Community Preservation Surcharge Report This report (CP-1) is a statement of the prior year's net Community Preservation Surcharge levy, and is used to distribute state matching funds on November 15.
September 15	Local Reporting Officers	Submit Smart Growth School Cost Reimbursement Report to DLS Local Reporting Officers report (a) local smart growth property tax and excise tax revenue for prior fiscal year or (b) municipality's waiver of reimbursement.
September 30	Municipal and District Treasurer/Collector	Submit Compensating Balance Report If compensating balance accounts were maintained during the prior fiscal year, a report and account analysis schedules must be submitted to DOR.

<p>September 30</p>	<p>Accountant/ Superintendent/ School Committee</p>	<p>Jointly Submit End of Year Report to the DESE</p> <p>Schedule 1 - determines compliance with prior year Net School Spending requirement. Schedule 19 - determines compliance with current year Net School Spending requirement.</p>
<p>September 30</p>	<p>Accountant</p>	<p>Submit Snow and Ice Report</p> <p>This report is a statement of snow and ice expenditures and financing sources.</p>
<p>September 30</p>	<p>Treasurer</p>	<p>Year-End Cash for the Previous Fiscal Year (due upon submission of a balance sheet for free cash/excess and deficiency certification)</p> <p>A reconciliation is the process of comparing the Treasurer's accounts to the Accountant's/ Auditor's or Schools Business Manager's ledger balance to determine if they are consistent, and for the officials to make any necessary corrections. When the reconciliation is complete, the Accountant/Auditor/School Business Manager should indicate agreement with the Treasurer's balances.</p> <p>Reconciliations are required annually, but communities and school districts should reconcile monthly for their own purposes. The year-end report as of June 30 must be completed and returned to DOR. Municipalities and school districts should also use monthly reports to monitor cash practices of the Treasurer's office. If the Accountant/Auditor/School Business Manager and Treasurer are not consistently reconciling cash accounts, or if the reconciliations indicate variances,</p>

		the Mayor, Selectmen or School Committee should inquire as to the reasons.
September 30	Treasurer	<p>Submit Statement of Indebtedness</p> <p>MGL Ch. 44, Sec. 28 requires the Director of Accounts to maintain complete and accurate records of indebtedness by cities, towns and districts. This statute also requires Treasurers to furnish any other information requested by the Director in respect to the authorization and issuance of loans. This Statement is the annual report required from Treasurers to accomplish this purpose. Treasurers should reconcile their debt records with the Accountant/Auditor before filing the Statement of Indebtedness to ensure that the Statement and balance sheet are in agreement.</p>
Final Day of Each Month	State Treasurer	<p>Notification of Monthly Local Aid Distribution</p> <p>Click www.mass.gov/treasury/cash-management to view distribution breakdown.</p>

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