



April 6th, 2017

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Important Dates to Remember

New Officials Finance Forum

This year's New Officials Finance Forum will be held on Wednesday, May 31st at the College of the Holy Cross in Worcester. This course is intended for recently elected or appointed local municipal finance officials and includes an overview of municipal government, the budget process, the tax recapitulation process, and reserve and debt policies. The registration form and \$50 registration fee must be received by May 22nd. [Click here for the registration form.](#)

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Statewide Expansion of Enterprise Funds

Melinda Ordway - Technical Assistance Bureau Senior Project Manager

A growing number of communities in Massachusetts have been establishing enterprise funds as the means to account for the finances of particular types of operations. Within the statutory provisions that define the services that may be operated as enterprise funds ([M.G.L. c. 44, § 53F½](#)), it is a local management decision whether to implement this option, but it has certain benefits that may account for its general popularity.

A city or town that operates a utility or other business-type service must account for its revenues within the general fund unless there is an applicable statute or special act that permits special revenue fund treatment (i.e., receipts reserved for appropriation or revolving fund). As an alternative for certain services, the community may accept M.G.L. c. 44, § 53F½ to create an enterprise fund, which establishes a mechanism for the separate accounting and financial reporting of a service for which a fee is charged in exchange for providing goods or services. An enterprise fund segregates all the service's revenues and expenditures from the general fund, which has the advantage of allowing the community to identify the service's true costs—direct, indirect, and capital. The city or town can thereby determine the sufficiency of the rates or fees being charged. Although many communities operate wholly self-supporting enterprise funds, this is not a requirement. An enterprise fund may be subsidized by the general fund through shared services, debt exclusions, or appropriations of other available funds.

The number of communities managing enterprise funds for various operations (e.g., water, sewer, solid waste, recreation, airport, ambulance services, etc.) has been increasing over the past decade, as illustrated by the two charts below. In FY2006, 199 communities had such funds, and by FY2016 (year-end results for June 30, 2015), the number had expanded to 244, an increase of almost 23 percent. Thus, by June 30, 2016, 70 percent of the 351 municipalities statewide had at least one enterprise fund. This trend continues, with six more communities—Billerica, Cheshire, East Longmeadow, Holliston, Milton and Newbury—having adopted and budgeted their first 53F½ enterprise funds in FY2016.

Growth in Statewide Proportion of Communities with 53F1/2 Enterprise Funds



Other DLS Links:

[Local Officials Directory](#)

[Information Guideline](#)

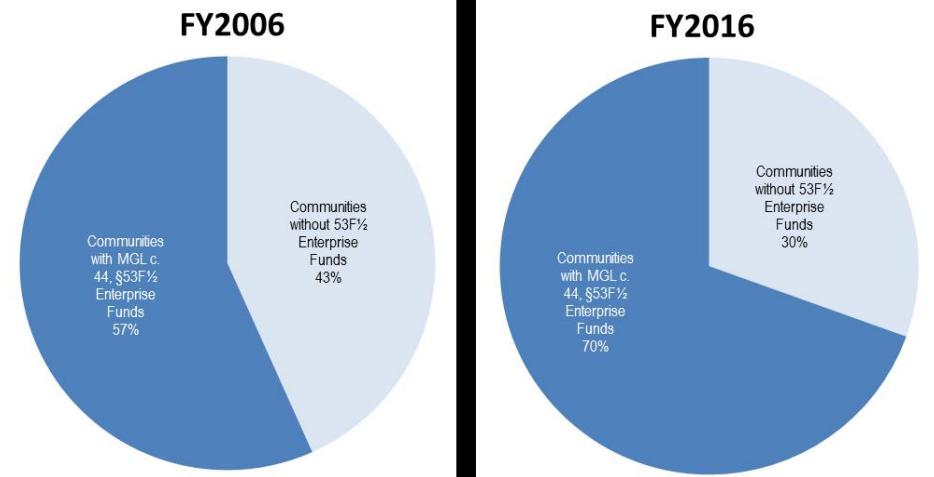
[Releases \(IGRs\)](#)

[Bulletins](#)

[Publications & Training Center](#)

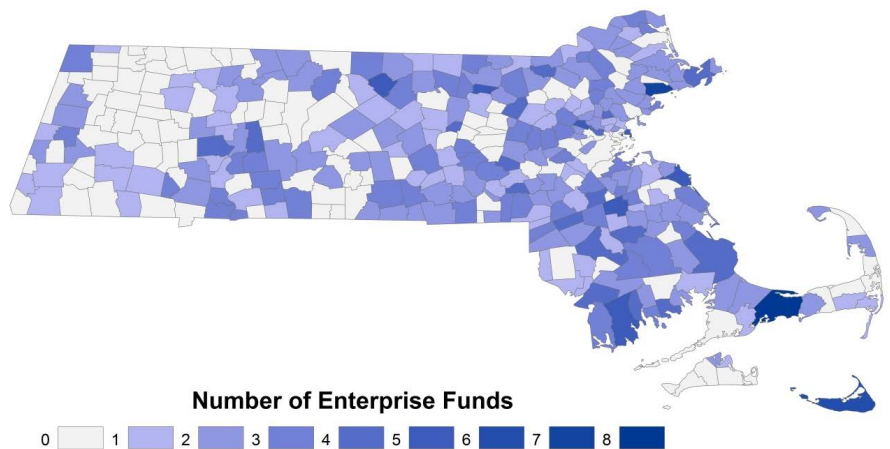
[Tools and Financial](#)

[Calculators](#)



Along with the expansion in communities adopting 53F½ enterprise funds, there has been growth in the number of these fund types being adopted by them. In FY2006, the cumulative statewide total was 399, and the City of Beverly had the most enterprise funds with seven. By the start of FY2016, there were 547 total enterprise funds under 53F½, and the Town of Barnstable had risen to the top spot in total funds with eight. The map below shows the distribution of communities managing 53F½ enterprise funds as of FY2016, along with the number of funds established within each.

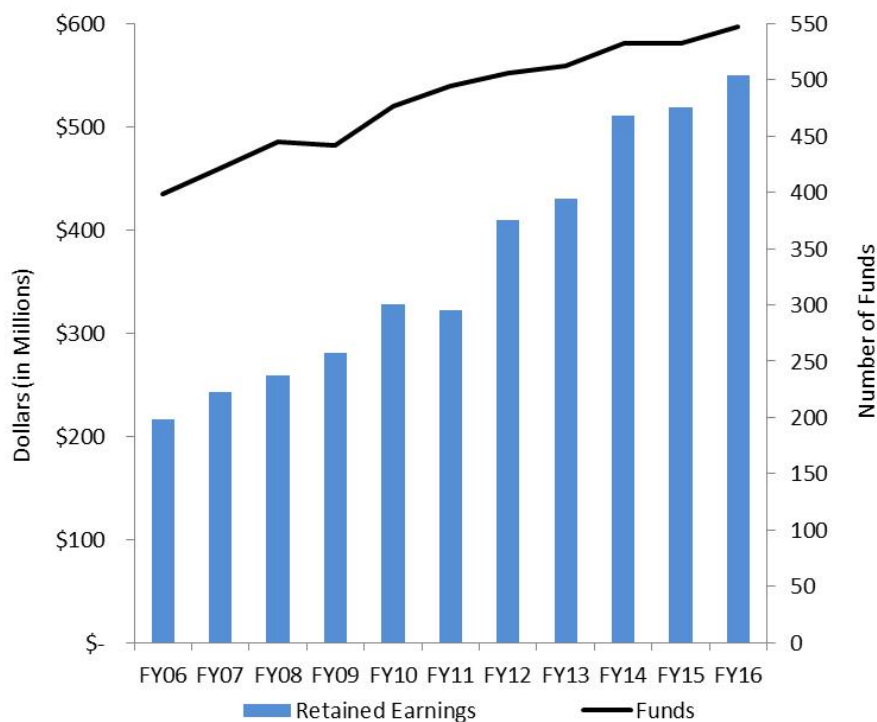
53F½ Enterprise Funds Adopted as of FY2016



It should be noted that community size has no bearing on the decision to adopt enterprise funds. Based on the FY2016 data, the smallest community with a 53F½ was Tolland (pop. 496) and the largest was Worcester (pop. 184,815). Notably missing from the maps are Boston, Cambridge, Newton and Lynn. These cities either operate their water and sewer utility operations as departments within their general funds or have separately legislated commissions that oversee these services.

At year-end, an enterprise fund's performance is measured in terms of positive (surplus) or negative (deficit) operations. An operating surplus results from revenue collected in excess of estimates and appropriation turnbacks, and this translates into retained earnings, which are kept in the fund rather than closing to the general fund. An enterprise fund's retained earnings accumulate interest, which may be used to support the service's operating, capital project, or debt service costs. As with free cash, the Division of Local Services (DLS) must certify retained earnings before a community may appropriate the monies for enterprise-only expenditures. The table below shows figures for the total number of enterprise funds statewide and the aggregated amounts of certified retained earnings by fiscal year.

Statewide 53F1/2 Enterprise Funds and Retained Earning by Fiscal Year



If an enterprise fund incurs an operating loss during the year, the community would not have to raise a revenue deficit, although it may have to raise an overexpenditure in the subsequent year's budget. When the fund's year-end performance results in negative retained earnings, the community loses budgetary flexibility for managing unexpected events or significant disruptions in revenue-expenditure patterns. As a best practice to help stabilize and maintain operations, the community should incorporate guidance on retained earnings into a financial reserve policy that also covers free cash, overlay, and stabilization funds. Such a policy would commit to building and maintaining the enterprise fund's retained earnings by setting a minimum target reserve level as a percentage of its operating budget. It would also identify the preferred uses of the reserve, such as stabilizing rates and funding future capital projects. To help maintain a target reserve level, officials must periodically review operating results and adjust user rates when necessary.

DLS has published an enterprise fund [manual](#) to provide more detailed guidance. In addition, the DLS website has examples of financial reserve policies posted on the Technical Assistance Bureau's reports webpage under [Community Compact Reports](#).

Ask DLS: Property Tax Incentive and Financing Program Changes

This month's *Ask DLS* features questions relating to changes in economic and housing development property tax incentives and financing programs under the [Job Creation and Workforce Development Act, Chapter 219 of the Acts of 2016](#), and the [Municipal Modernization Act, Chapter 218 of the Acts of 2016](#). A summary of the changes made by the Municipal Modernization Act can be found in the [August 18, 2016 issue of City & Town](#). We have also compiled the questions answered in the [Municipal Modernization Act series](#) of *Ask DLS* for your convenience. 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 District Improvement Financing Program?

Under [MGL c. 40Q](#), cities and towns may create one or more improvement districts within their boundaries to promote increased residential, industrial, and commercial activity. Development districts are created by action of the mayor and council in cities, and town meeting in towns.

The centerpiece of the district improvement financing (DIF) program is the "District Development Program," which is a statement of means and objectives designed to improve the quality of life, the physical facilities and structures and the quality of pedestrian and vehicular traffic control and transportation within a development district. Development programs may also include means and objectives to increase residential housing, both market rate and affordable. Every development program must include a financial plan, which is a statement of the costs and revenue sources needed to carry out development programs, to include (1) cost estimates for the development program; (2) the amount of indebtedness to be incurred; and (3) sources of anticipated capital. [MGL c. 40Q, sec. 2](#).

How is municipal financing of improvements under the DIF program different than financing of other improvements?

A unique financing option involves setting aside all or a portion of the additional taxes, generated by the public improvements entailed in the development program. Districts that set aside a portion of the rise in property tax revenues (the "increment") to finance the development program are referred to as "invested revenue districts." General obligation or revenue bonds can be issued in anticipation of higher property tax revenues spurred by the development program in the district.

The revenue from the retained tax increment is reserved and credited to two

accounts. [MGL c. 40Q, sec. 3](#). First in priority is the “development sinking fund account” that is used to cover payment of interest and principal on debt taken out to fund the program. Second priority goes to a “project cost account” to cover separate project costs as outlined in the financial plan for the program. An amendment made by the Municipal Modernization Act provides that the requirement to reserve the increment ends when sufficient monies have been reserved to cover the full, anticipated liabilities of both these accounts. [MGL c. 40Q, sec. 3\(d\)](#).

How is the District Improvement Financing tax increment calculated?

The Municipal Modernization Act amended the calculation of the tax increment reserved for debt service and project costs in cities and towns with invested revenue districts under [MGL c. 40Q](#). It will now equal the actual new growth increase added to the municipality’s levy limit under Proposition 2½ for the development activity and expanded tax base within the district. [MGL c. 40Q, sec. 1](#). The previous formula was based on certain adjusted valuation increases that were difficult to calculate, did not correspond to the new property tax revenue generated by the program and were not fixed until the tax rate for the year was set. The amount will now be known before the rate is set since it is based on Proposition 2½ new growth. Moreover, the assessors can provide a realistic estimate of the increment for budgeting purposes. This will ensure that the revenues generated by the increment are not used to support the budget generally.

The annual increment is based on the increase in the community’s levy limit (“new growth”) attributable to real estate parcels within the district for that year, including the portion attributable to prior years with an assessment date after the base date of the program. The percentage of the increment being reserved for financing the project must be specified as part of the district financing plan.

Example

District is created April 1, 2017

Base date is January 1, 2017 (FY18)

FY19 with January 1, 2018 assessment date is first year for tax increment

\$100,000 of FY19 tax base growth is attributable to parcels in district

FY19 increment = \$100,000.

\$150,000 of FY20 tax base growth is attributable to parcels in district

FY20 increment = \$252,500 [\$102,500 (\$100,000 FY19 increment increased by 2.5%)

PLUS \$150,000 additional increment]

\$100,000 of FY21 tax base growth is attributable to parcels in district

FY21 increment = [\$358,813 [\$258,813 (\$252,500 FY20 increment increased by

2.5%) PLUS \$100,000 additional increment]

Where can municipalities enter into TIF Agreements?

The [Job Creation and Workforce Development Act, Chapter 219 of the Acts of 2016](#), made a number of changes in the economic development incentive program (EDIP), which makes state tax credits and local property tax exemptions available for certain economic development projects. [MGL c. 23A, secs. 3A-3G](#). The EDIP program is administered by the state Economic Affairs Coordinating Council (EACC), which approves the tax incentives. The Act streamlined the requirements and procedures for the two local property tax exemptions under the program, which are the tax increment financing (TIF) exemption and the special tax assessment (STA).

Municipalities may now apply to the EACC to declare an area in their city or town, or contiguous areas in neighboring cities or towns, as eligible for TIF agreements. An area can be designated as TIF-eligible if the EACC finds that there is a strong likelihood that any of the following will occur within a specific and proximate period of time: (1) a significant influx or growth in business activity; (2) creation of a significant number of new jobs—not merely replacement or relocation of current jobs within the state; or (3) a private project or investment will contribute significantly to the resiliency of the local economy. It is no longer necessary that a TIF-eligible area be within an Economic Target Area (“ETA”).

Cities and towns can enter into TIF agreements with persons or entities undertaking either (1) certified projects, or (2) real estate or facility expansion projects in a TIF-eligible area. Any project must be consistent with the municipality’s economic development objectives and likely to increase or retain employment opportunities for residents of the municipality. [MGL c. 23A, sec. 3E](#). A certified project is a project run by a business for which the EACC has approved state tax incentives. An eligible real estate project must be construction, rehabilitation or improvement of any building or other structure on a parcel of real property which, when completed, will result in at least a 100% increase in the assessed value of the real property over the assessed value of the real property prior to the project. A facility expansion project requires relocation from one location to another in the state or expansion of an existing facility that results in a net increase in the number of full-time jobs at the relocated or expanded facility. See definitions in [MGL c. 23A, sec. 3A](#).

What happens to a local tax incentive for a certified project when the certification is revoked?

The 2016 Act clarified the impact of an EACC revocation of a certified project for a business that is also receiving a local tax incentive. [MGL c. 23A, sec. 3F](#). The EACC can revoke state tax credits for certified projects that are in material non-compliance with the job creation or other requirements agreed to as a condition of the credits. The local tax incentive will now terminate at the beginning of the tax year in which the material non-compliance occurred, unless the agreement between the municipality and business expressly provides otherwise. If a local tax incentive is terminated, the municipality may amend the agreement to continue it. The amended agreement must be approved by the legislative body and EACC. In addition, the municipality may

recapture the previously foregone taxes by making a “special assessment” on the taxpayer in the year after the year of the EACC’s decision to revoke project certification. The recapture could go as far back as the finding of material non-compliance. The procedure for municipalities to assess and collect the recaptured amount as a property tax is also spelled out.

What is the new local option to promote creation of middle income housing?

(Republished from [March 2, 2017 City & Town](#))

Under G.L. c. 40, sec. 60B, cities and towns may, through their respective legislative bodies, provide for Workforce Housing Special Tax Assessments (WH-STA’s) as incentive to create middle-income housing. [Municipal Modernization Act, Chapter 218, sec. 39 of the Acts of 2016](#). Unlike other property tax incentives, such as economic development tax increment finance (TIFs) agreements, no state-level approval is required. Local WH-STA plans may allow for exemptions as great as 100% of the fair cash value of the property during the first two years of construction. Over a three-year stabilization phase following construction, the exemptions are available in declining maximum percentages of the fair cash value.

To use this incentive, a city or town must designate one or more areas that present exceptional opportunities for increased development of middle income housing as WH-STA zones. The plan must describe in detail all construction activities and types of residential developments intended for the WH-STA zone. The city or town must also promulgate regulations establishing eligibility requirements for developers to enter into WH-STA agreements. The regulations must address procedures for developers to apply for a WH-STA; the minimum number of new residential units to be constructed to qualify for WH-STA tax incentives; maximum rental prices and other eligibility criteria to facilitate and encourage construction of workforce housing.

The city or town may then enter into tax agreements with property owners in WH-STA zones that will set maximum rental prices that may be charged by the owner to create middle income workforce housing.

Municipal ADA Improvement Grant Program

David D’Arcangelo - Director of the MA Office on Disability

The Massachusetts Office on Disability (MOD) is pleased to announce the Municipal Americans with Disabilities Act (ADA) Improvement Grant Program application and selection process. Eligible applicants include any Massachusetts city, town, special purpose district or regional governmental organization (hereinafter referred to as “applicants”). These grants will support capital improvements specifically dedicated to improving programmatic access or removing barriers encountered by persons with disabilities in applicant facilities throughout the Commonwealth. Grants of up to \$250,000 will be awarded to successful applicants.

Examples of eligible capital improvements include, but are not limited to, the addition of features such as ramps, elevators, power lifts and Limited Use/Limited Application elevators (LULAs), signage, communication access devices, curb cuts, etc. Grants will be awarded on a competitive basis to projects that demonstrate real and tangible positive impacts to persons with disabilities.

Municipalities that have signed, or are willing to sign, a Community Compact (CC) and selected the "Public Accessibility Best Practice" option will be provided priority for grant funding. Additionally, Planning Grants will be available for applicants that have not yet met the Administrative Requirements set forth in Title II of the ADA and do not have Self-Evaluation or Transitions Plans.

Application Process and Deadlines: Year 1 Application period is from February 6, 2017 through June 30, 2017. All Year 1, FY17 grants must be submitted in hard-copy.

MOD will also be conducting a grant overview meeting scheduled for April 28, 2017 from 10am-11am at 1 Ashburton Place, Room 1306 Boston, MA at which we will provide technical assistance regarding the grant program.

Due to high demand for this program, it is recommended that you submit applications as soon as possible. Expenses must be incurred and invoiced by June 30th, 2017 (for FY17 applications); therefore, please submit applications prior to June 5th, 2017, which we hope will allow for our proper consideration.

OSD Announcements

Operational Services Division

Statewide Contract Reference Guide

Due to popular demand, OSD is providing an online version of the [Statewide Contract Reference Guide](#), a handy, one-page document that lists all of the current statewide contracts. Originally designed as a tool for OSD staff, this reference guide has been a popular handout at many OSD events, and we are making it available through the OSD newsletter, [Buy the Way](#). The Statewide Contract Reference Guide is updated every other month; look for the next update in the May 2017 issue of [Buy the Way](#). Not signed up to receive our monthly newsletter? Take a moment to [sign up](#).

Ordering goods and services through a statewide contract (SWC) can offer significant benefits, including time savings and obtaining best value at competitive prices. Most SWC vendors offer prompt pay discounts, and most all SWCs have exclusive benefits. For example:

- [VEH98 - Purchase of Light Duty Vehicles – Passenger Cars, SUVs, Trucks, Vans, SSVs and PPVs](#): Every vehicle is delivered with three sets of keys, a full tank of gas, and license plates;

- [ITC66 - Copiers, Printers, and Related Devices](#): Minimum 1-hour onsite user training, 4-hour service response time, and a lemon clause that provides 36 months of protection against repeated failures (4 incidents in 4 weeks or recurring related problems);
- [PRF59 – Card Processing Services](#): The vendors on this contract establish merchant accounts to assist with credit and debit card acceptance, merchant services, and certification on the web, IVR, point of sale, kiosk, and mobile channels; provide competitive per-item rates and convenience fee program rates; support complete end-to-end reporting; and provide technical support of the payment system. Entities do not need staff to maintain the system.

Every SWC has a [contract user guide](#) that provides important information for buyers, including a contract summary and category names, benefits and cost savings; who is eligible to use the contract; pricing and purchase options (how to order); counties or regions; vendor list; and general contract information. Questions regarding specific SWCs should be directed to the contract manager noted in the contract user guide for that SWC.

MASSBUYS EXPO

There is still time to [register](#) to attend the 2017 MASSBUYS EXPO being held on April 27 at Gillette Stadium, home of five-time Super Bowl Champions, the New England Patriots! MASSBUYS is your opportunity to meet the statewide contract vendors and learn about the products and services they offer.

MASSBUYS Municipal Breakfast/Panel Discussion – Update

We have exciting news! As previously reported, OSD is hosting a municipal networking breakfast/panel discussion in conjunction with the MASSBUYS EXPO on April 27 from 8:00 a.m. to 9:30 a.m. in the Cross Insurance Pavilion at Gillette Stadium.

We are pleased to announce that Stephanie Pollack, Secretary and CEO for the Department of Transportation, and William Bell, Senior Associate Commissioner for Administration and Finance for the Department of Elementary and Secondary Education, will be participating in the panel discussion along with Jay Ash, Secretary of the Executive Office of Housing and Economic Development, and Matthew Beaton, Secretary of the Executive Office of Energy & Environmental Affairs. Each panelist will focus on the services and opportunities provided by their office or department to Local Governments. Sean Cronin, Senior Deputy Commissioner of Local Services for the Department of Revenue, will moderate the panel discussion.

Attendance at this event requires a [special registration](#), which differs from the general attendee registration for the MASSBUYS EXPO. For additional registration information, please contact Danielle Frizzi at danielle.frizzi@state.ma.us. We hope to see you there!

