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City and Town

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New On-Line Financial Forecasting Tool

Scott Dressel

The Division of Local Services is pleased to announce of a new [on-line financial management tool](#) that will help communities develop multi-year revenue and expenditure forecasts. This resource makes valuable historical data available, provides user-friendly structures and calculations, and advises the user through the process of formulating a multi-year financial forecast.

A multi-year forecast allows a municipality to evaluate the impact of various government decisions over time. Since policy choices affect the town's financial condition for years to come, it is beneficial to project and analyze the fiscal impacts into the future. The forecasting tool that is now available on the DLS website provides an effective framework to perform such an analysis.

A major benefit of this new forecasting tool is the structured access to historical data that has been gathered by the MDM/TAB from tax recapitulation sheets, Schedule A forms, and cherry sheets. Most of this information is currently available to cities and towns through MDM/TAB, but the process of organizing the necessary components that make up the different sources of revenue and expenditures can be time

consuming. This forecasting tool pulls all of the pieces together into one user-friendly program with information that is specific to a municipality and laid out in an intuitive way for easy analysis.

For example, estimating the levy limit and tax rate requires projecting new growth, identifying overrides, exclusions, and changes in assessed value, as well as determining if and how the tax rate will be split between residential and open space taxpayers and commercial, industrial, personal property (CIP) taxpayers. The forecasting tool ensures that the user addresses each of these components, one at a time, with the help of historical data and advice. Furthermore, some of these factors are interrelated and impact each other. The forecasting tool performs all of the necessary calculations and instantly incorporates each new estimate as the user enters it.

The screenshot below illustrates how the forecasting tool works. In this case, the user is working on the fixed costs step of the program. She can see the historical data for her town and she is working on projecting FY2007 expenditures. So far she has estimated that the cost of health insurance will increase

by 15 percent. The program allows her to either estimate each line item one at a time, or apply a percentage change to all of them at once. As she enters her projections, they will be added together automatically and pulled into a summary page where total expenses can be compared to forecasted revenues.

While this illustration only shows one forecast year, the DLS tool has room to project revenues and expenditures up to five years into the future. This can help communities analyze where current trends are leading (i.e. will revenues increase quickly enough to cover expanding costs?). It also makes it possible to estimate how much, if any, money will be available for "discretionary spending" such as capital purchases, collective bargaining settlements, or set aside reserves.

This announcement is the first step in introducing the DLS forecasting tool. Over the next few months, we will publish news and updates about the forecasting tool in *City & Town*, and travel throughout the Commonwealth to demonstrate and discuss it. Check your [e-mail](#) for the dates and venues of these presentations. ■

Fixed Costs	FY2004	FY2005	Chg.	FY2006	Chg.	FY2007	Chg.
Debt Service							
Retirement of Debt Principal	3,049,000	3,110,000	2.0%	4,449,787	43.1%	—	—
Interest on Long-Term Debt	2,430,149	2,811,282	15.7%	3,263,260	16.1%	—	—
Interest on Short-Term Debt	265,695	342,009	28.7%	—	-100.0%	—	—
Other Interest	—	—	—	—	—	—	—
Unclassified							
Workers' Compensation	169,351	130,657	-22.8%	121,996	-6.6%	—	—
Unemployment	2,005	37,530	1771.8%	57,515	53.3%	—	—
Health Insurance	5,914,947	6,787,506	14.8%	7,651,566	12.7%	8,799,301	15.0%
Other Employee Benefits	233,800	254,077	8.7%	264,333	4.0%	—	—
Court Judgements	—	—	—	—	—	—	—
Other Insurance	—	—	—	—	—	—	—
Retirement	4,579,118	5,010,922	9.4%	5,641,559	12.6%	—	—
Other	—	—	—	—	—	—	—
Totals	16,644,065	18,484,053	11.1%	21,450,016	16.0%	8,799,301	-59.0%

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From the Deputy Commissioner

Financial officials working together as a team is vital to the financial stability of their community. Regular, formalized

monthly meetings are an important part of this practice.

Due to budgetary constraints, there is competition for funds and resources. Monthly meetings will allow officials to fully understand and appreciate the various needs in each department. Formalized meetings provide the team with a venue to discuss goals and objectives. Each member becomes aware of his or her role in completing tasks required to reach said objectives.

The meetings should be held after the accountant meets with the treasurer and collector in order to reconcile cash and receivables. This will allow each team member to obtain a comprehensive picture of where the municipality stands throughout the year with regards to the financial outlook; including accounts receivable, tax takings, unexpected expenses and other critical issues. The team can then work together to readily identify any budgetary issues and work together to resolve the matter in a timely manner.

Newly elected or appointed municipal finance officials from across the state recently attended the New Officials Finance Forum. The workshop provided attendees with a wealth of information, with a particular emphasis on the need to work together as a team. The event was held at The College of the Holy Cross, and pictures of this event can be found on page 6.

Gerard D. Perry
Deputy Commissioner

Legal

in Our Opinion

Smoking Ban in Private Clubs Upheld

James Crowley

The Supreme Judicial Court (SJC) ruled in March that local boards of health can prohibit smoking at all times in private clubs. The case arose when the Athol Board of Health promulgated a regulation in November 2004 prohibiting smoking in the enclosed areas of membership associations, also known as private clubs. Three membership associations in the town challenged the regulation by filing suit in Superior Court. The plaintiffs alleged that the Athol Board of Health had exceeded its authority by extending the State smoke-free workplace law to membership associations. The Superior Court judge agreed and held that the regulation was unenforceable. The town appealed, and the SJC granted direct appellate review. The State's highest court reversed the lower court ruling in *American Lithuanian Naturalization Club, Athol, Mass., Inc. v. Board of Health of Athol*, 446 Mass. 310 (2006).

In its decision, the SJC recognized that local boards of health may make reasonable health regulations pursuant to M.G.L. c. 111, § 31. In this instance, the Athol Board of Health's authority in promulgating this regulation was not preempted by State legislation. In 2004 the Legislature had revised M.G.L. c. 270, § 22, the so-called smoke-free workplace law. The purpose of the law was to establish a smoke-free environment for employees who are required to work in an enclosed workplace. M.G.L. c. 270, § 22 provided that smoking may be permitted in nine listed places and circumstances. Specifically exempted from the provisions of the smoke-free law were premises occupied exclusively by members of membership associations. The SJC noted,

however, that the Legislature further provided in M.G.L. c. 270, § 22(j) that "Nothing in this section shall preempt further limitation of smoking by the Commonwealth or any department, agency or political subdivision of the Commonwealth." Consequently, in the SJC's view, further action by local boards of health was permissible.

In response to the Legislature's 2004 enactment, the Athol Board of Health had written a comprehensive regulation to prohibit smoking in membership associations. The Athol Board of Health cited health concerns for its action, and set forth in the regulation possible fines of \$100 or more for violators. The Department of Public Health later promulgated its own statewide antismoking regulation, which, among other subjects, pertained to membership associations. The State regulation specifically stated, however, that further restrictions on smoking by a local by-law, ordinance or regulation were not barred or preempted by the State regulation (105 CMR 661.01).

In their appeal to the SJC, the three membership associations in Athol contended the Board of Health acted unlawfully in regulating smoking in private clubs when only members, and not the general public, were present. The plaintiffs, all of whom were Chapter 180 nonprofit corporations, contended that the Board of Health's rule making authority under M.G.L. c. 111, § 31 did not extend to member only meetings in private clubs. The SJC rejected this argument. The SJC observed that prior court decisions had recognized the broad rule making authority of boards of health. Local health regulations were presumed to be valid and would only be overturned if there were no rational basis to support them. In the case at hand, the SJC found that there was a rational connection between the Athol

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Focus

on Municipal Finance

Other Post-Employment Benefits

Joe Markarian

In the December 2005 issue, *City & Town* presented a cover story on health insurance for municipal employees. Five months earlier, The Massachusetts Taxpayers Foundation issued a report entitled, "A Mounting Crisis for Local Budgets: The Crippling Effects of Soaring Municipal Health Costs." In each case, historical trends were referenced or analyzed, and future cost escalations to provide health insurance for municipal employees were forewarned.

To further advance the discussion, this article focuses on the emerging need for cities and towns to address the cost of non-pension benefits and compensations due municipal employees on their retirement, as opposed to during their employment.

"Other post-employment benefits" (OPEB) generally take the form of health insurance and dental, vision, prescription, or other healthcare benefits provided to eligible retirees, including in some cases their beneficiaries. They may also involve some type of life insurance, but as noted do not include pensions.

The Government Accounting Standards Board (GASB) recently determined that OPEB is a part of the compensation that employees earn each year, and as such, should be accounted for as a liability on a municipality's year-end financial statements. In practice, however, most governments report only their cash outlays for OPEB in the year of actual distribution, rather than in the year benefits are earned (these two amounts may be vastly different).

Furthermore, most governments do not report information about the nature and size of their long-term financial obligations and commitments related to OPEB. Consequently, the readers of financial statements, including the public, have incomplete information with which to assess the cost of public services or to analyze the financial position and long-run financial health of a government.

The response from GASB was to address these shortcomings in the form of [GASB Statement No. 45](#), *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. (A companion [Statement 43](#) deals with related plans.)

The purpose of the new standard is to compel municipalities, through actuarial analysis, to assign an aggregate cost to the OPEB earned by employees and projected over their estimated years of service. Similar to the implementation of [GASB 34](#), municipalities across the Commonwealth will have to be in compliance with GASB 45 according to the following schedule:

Tier 1 ([FY1999](#) revenues larger than \$100 million): **FY2008**

Tier 2 ([FY1999](#) revenues between \$10 million and \$100 million): **FY2009**

Tier 3 ([FY1999](#) revenues less than \$10 million): **FY2010**

To identify OPEB cost, an actuarial valuation is required biennially for retiree health plans with a total membership of 200 or more. Triennial actuarial valuations are required for plans with less than 200 plan members. GASB also allows for an "Alternative Measurement Method" for employers with fewer than 100 plan members. Included in the count are active employees, terminated employees not yet receiving benefits and retired employees or beneficiaries who are currently receiving benefits.

The implementation of GASB 45 and a new reporting standard could force noticeable changes in government practice. Initially, the disclosure of a city or town's total obligation to future retirees, and particularly the unfunded portion of that liability, will gain the attention of taxpayers, municipal employees and decision makers. Whether or not a community chooses to fund its OPEB liability in advance, which is not presently required, will be of interest to municipal credit rating agencies. In either case, the total OPEB cost to a community is an issue.

Because the largest component of OPEB is health insurance, governments nationwide are exploring cost reduction options.

In Massachusetts, some communities have focused on part-time positions and whether persons in those positions contribute to the pension system. After a compensated employee becomes "vested" in the local retirement system, that employee becomes eligible for health coverage, upon retirement, at a cost to the municipality. An appointed person vests after contributing to the pension system for 10 years, while elected officials vest after 6 years. (See [PERAC Vesting Regulations](#).) As a potential area of future savings, a community can decide to eliminate compensation (salary or stipend) for elected or appointed, part-time persons — usually board or committee members — who would then serve as volunteers.

Also, once the OPEB liability is known, a community can adopt a funding plan (as presently exists for pensions) to pay future retiree benefits, rather than continue with a pay-as-you-go approach. Since no general statewide authority exists to create a post-employment health insurance liability fund, it would have to be approved through special

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OBEB

legislation. Several communities have set up such funds by special legislation, including Bedford, Waltham, Hingham, Winchester, Lexington, Wellesley, Arlington and Sudbury. The enabling acts for those funds stipulate that they are to be locally managed in a way similar to a pension or other trust fund. Since the amounts set aside in these funds are from general municipal appropriations, they should be subject to the same investment limitations as other municipal trusts under [M.G.L. c. 44, § 54](#), which are more flexible than for other town funds, but more restrictive and protective than private trusts. Because interest can accrue in those accounts, the fund balance builds and retiree health coverage costs a municipality less in the long run.

In other actions, communities can adopt [M.G.L. c. 32B, § 18](#). The local acceptance of M.G.L. c. 32B, § 18 will require all eligible retirees to enroll in Medicare Part B. In its simplest terms, this section allows a community to shift a meaningful portion of its retiree health care costs to the federal Medicare program. The retiree sees no loss in benefits received. However, as this is a very specialized area of the law, we suggest that counsel be consulted prior to moving forward. Please see the [Best Practices](#) on the subject.

Nationally, discussion has been directed to drug benefits because it is an area of significant cost under health care coverage plans. Measures under consideration include increased cost sharing through the imposition of higher co-pays and deductibles, adoption of incentives to encourage the use of generic drugs, and requirements for prior authorization to purchase certain drugs.

Although more apt to be seen in the private sector, a dramatic action for a municipality would be to convert from a defined-benefit to a defined-contribution health plan. Commonly referred to as consumer driven or self-directed health care plans, defined-contribution

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plans place responsibility for making health care choices on the employees. The employer continues to contribute, but the benefits expense is a more fixed and predictable cost.

In one form, the employer offers multiple health plans to choose from, and then contributes directly to the health care provider selected by the employee. If the premium is higher, the employee makes up the difference. If it is lower, then the employee receives the difference.

Defined contribution plans can also work in tandem with health savings accounts. Under some models, employers contribute a fixed dollar amount to a health savings account to which an employee may also contribute. Once the employee expends the account balance, he pays a deductible for further care, after which employer coverage continues, often in the form of catastrophic insurance. The accumulated savings over the employees work years is intended to cover health insurance costs during retirement.

The defined contribution alternative can be shaped and reshaped into multiple configurations. It also gives rise to major collective bargaining implications. Only one municipality in the country is reported to have implemented the switch.

The release of GASB 45 further accelerated debate on health care cost containment. As actuarial analyses are completed across the country and begin to produce what are likely to be enormous OPEB liabilities, pressure to address costs at all levels of government will only intensify.

Massachusetts municipalities must recognize that the issues related to health care cost containment for retirees are a complicated, evolving area of law and financial management practice. The Division of Local Services strongly recommends that competent legal counsel be engaged throughout any process of evaluating options available to your community. ■

Legal

continued from page two

regulation and the public purpose of reducing health risks from smoking for every member of the community. Furthermore, the SJC held that the plaintiffs were Massachusetts corporations with the benefit of Massachusetts laws and licenses, and were therefore subject to local health regulations. In the SJC's view, the Athol regulation complemented and did not conflict with the provisions of the State's antismoking legislation, M.G.L., c. 270. The SJC therefore rejected any claim of preemption.

The plaintiffs in this case raised a number of constitutional issues. First, the plaintiffs alleged the penalty provisions of the Athol regulation were impermissibly vague. In its review of the regulation, the SJC noted that the regulation, by its terms, specifically described the circumstances under which criminal penalties could be imposed. According to the SJC, the Athol smoking regulation was not void for vagueness. The organizations then claimed the regulation violated the civil rights of their members. The SJC summarily dismissed these claims. In the SJC's view, the regulation did not unreasonably interfere with their rights of privacy, their freedom to assemble or their religious liberty. The SJC also stated that there was no due process violation since the enactment of the regulation did not require a public hearing. However, with regard to the 5th Amendment takings claim that the Athol regulation deprived plaintiffs of property without just compensation, the SJC remanded the matter to the Superior Court for further proceedings.

As a result of this decision, cities and towns can legally impose smoking bans in private clubs. ■

DLS Update

2006 Municipal Law Seminars

The Division of Local Services' (DLS) legal staff will offer the seminar "What's New in Municipal Law" Friday, September 29, 2006, at the Best Western Hotel in West Springfield, and Friday, October 6, 2006, at The Lantana in Randolph. Presentations will include new legislation and recent court decisions pertaining to local government.

Attorneys Kathleen Colleary, Chief of the Bureau of Municipal Finance Law, Gary Blau, James Crowley, Christopher Hinchey, Daniel J. Murphy, and Mary Mitchell will conduct the general session in the morning.

The afternoon session will consist of three simultaneous workshops. Workshop A, *From Farmland to the Waterfront*, will review current assessment and collection issues facing assessors and collectors. Workshop B, *School Budgets, Special Funds and Other Finance Issues*, is another episode in the exploration of frequently asked municipal finance and accounting questions. Workshop C, *Dealing with Health Insurance and Other Employee Benefits*, is a workshop for finance officers and others focusing on current legal and financial issues relating to health insurance and other employee benefits.

The [registration bulletin](#) for this seminar is available on the DLS website. ■

Proposed 2006 Equalized Values Released

The Bureau of Local Assessment (BLA) has completed the proposed 2006 Equalized Valuations (EQVs), representing the full and fair cash value of all taxable property for each municipality as of January 1, 2006. Once finalized, the EQVs will be used as a basis of

comparison among the 351 municipalities within the Commonwealth for certain state and local purposes.

From June 1 to 12, 2006, BLA worked with Boards of Assessors to address concerns and review documentation supporting different values. Assessors who subsequently remain dissatisfied can file an appeal at the Appellate Tax board (ATB). Appeals must be filed on or before August 10, 2006.

For more information, please look under "Proposed 2006 Equalization (EQV) Study – LA19 Reports" on the [Bureau of Local Assessment's website](#). ■

Operational Services Division Provides Opportunities for Municipalities

Statewide Contract Educational Sessions – Paging Devices

OSD offers Educational Sessions each time a Statewide Contract changes or renews in a way that has a significant impact on a large number of users. Currently the Paging Devices and Services Contract (ITT08) has changed to Contract #ITT30. OSD invites you to attend a session on how the changes will impact your municipality or department. The vendors will be present in order to answer questions. If you are interested in attending a session please go to the [OSD website](#) and choose the link to "outreach." If you need further assistance please contact the Procurement Manager, [Gloria Harris](#), by email or by phone at 617-720-3106.

State Vehicle Sales

All Massachusetts municipalities are eligible to purchase State owned surplus vehicles and related equipment. Since 1988, the State Surplus Property Office

(SSPO) has conducted public auctions to sell vehicles and related equipment no longer needed by the Commonwealth. In accordance with rules and regulations governing the disposition of State owned equipment, all municipalities are given the right of first refusal on any vehicle or equipment slated for sale.

On the day prior to the public auction all Massachusetts municipalities are invited onto the auction site between the hours of 9 AM to Noon to examine all vehicles or equipment slated for sale.

If a municipality finds something they would like to obtain, the person who is representing the municipality will be required to fill out a bid document (available at the sale site) and submit a quote for the item(s).

A letter must accompany all bid documents on official municipality letterhead authorizing the individual who will do the bidding. The letter must be dated and signed by the municipality's chief procurement officer.

Awards will be given to the municipality that offers the highest bid deemed acceptable by SSPO. Acceptable bids are determined by calculating the average of sale price of the vehicle at auction less a 20 percent discount.

If a bid has been accepted, SSPO will remove the vehicle(s) from the auction lineup and transfer ownership to the municipality. The municipality will have 30 days to submit payment to SSPO.

Many municipalities have taken advantage of these sales and have obtained equipment such as passenger vehicles, pickups, vans, trucks, plows and spreaders at a substantial savings. Interested municipalities are encouraged to contact Paul Guerino at (617) 720-3146 to learn more about this program. ■



Department of Revenue Commissioner Alan LeBovidge welcomes the new municipal officials.



Deputy Commissioner Gerard D. Perry discusses the importance of financial team management.



Bureau of Accounts field representative Diane Dziura facilitates a group of local officials.

New Officials Finance Forum a Success!

Photographs by Sharyn Adelman

On June 8, new municipal officials from around the Commonwealth came to the College of Holy Cross in Worcester in order to learn about the basics of local government. The day is an annual event, designed to foster a team approach to the various finance offices by developing an understanding of the responsibilities of the departments as well as their interrelationship. ■



Bureau of Accounts field representative Deborah Wagner chats with a local official.



Division staff members Deb Joyce and Deb Tetrault.

DLS Profile

John Gillet, Program Coordinator with Local Assessment

The Bureau of Local Assessment (BLA), overseen by Bureau Chief Marilyn Browne, is responsible for supervising local property valuation and assessment practices. It also administers the Equalized Valuation (EQV) and State Owned Land (SOL) programs, among other duties. **John Gillet** has been with BLA for the last year and a half. In coordination with other bureau staff members, John works with both the municipal assessors as well as the BLA field advisors to accomplish timely submission and review of EQV, SOL, triennial certification and interim year adjustments, as well as New Growth. He also works on the analysis and generation of centralized telegraph, telephone and pipeline values.

John has always had an interest in real estate and the valuation process. Just after completing college at Bridgewater State, he took a real-estate appraising course. Although he then spent the next ten years as an Internal Auditor for Mutual Funds at State Street Bank, he moved back into the world of real estate as a residential broker before coming to the Division of Local Services (DLS).

Here at DLS, John enjoys his work specifically because he is in constant conversation with both the BLA field advisors as well as the town assessors.

"Working with the towns to help them through the process, especially those towns with few technological resources or experts, is very satisfying to me," John has said. "Additionally, the staff at DLS is knowledgeable, helpful and fun. It is simply a great group, and I feel very comfortable working here."

John loves to travel, kayak and read, even though his free time is less since having two boys, one age four, the other just turned one. He and his wife of five years, Diane, live in Hanson. ■



John Gillet

Mark Your Calendars

Municipal Fiscal Calendar

July 1

Collector: Mail Annual Preliminary Tax Bills

July 15

Accountant: Certification Date for Free Cash: Anytime after Books are Closed

Accountant: Report Community Preservation Fund Balance: Anytime after Books are Closed

School Business Officials: Certification Date for Excess and Deficiency (E&D) Fund

Assessors: Deadline for Appealing Commissioner's Pipeline Valuations to ATB

July 20

DOR/BLA: Notification of Changes in Proposed EQVs

July 31

Treasurer: File IRS Form 5500 (Report of Employee Benefit Plan)

August 1

Taxpayer: Quarterly Tax Bills — Deadline for Paying 1st Quarterly Tax Bill Without Interest

Taxpayer: Annual Boat Excise Return Due

Accountant: Notification of Total Receipts of Preceding Year

August 10

Assessors: Deadline for Appealing EQVs to ATB

August 15

Assessors: Deadline to Vote to Seek Approval for Authorization to Issue Optional Preliminary Tax Bills

August 31

Taxpayer: Last Filing Day for Classified Forest Land, M.G.L. Ch. 61

DOR/BOA: Issue Instructions for Determining Local and District Tax Rates

Assessors: Begin Work on Tax Rate Recapitulation Sheet (to set tax rate for semi-annual bills)

More information is available in the [Municipal Calendar](#), found on the DLS website.

Opportunities for Training

What's New in Municipal Law

The Division of Local Services' Bureau of Municipal Finance Law will offer the seminar "What's New in Municipal Law" on Friday, September 29, 2006 at the Best Western Hotel in West Springfield and Friday, October 6, 2006 at The Lantana in Randolph. Presentations will include new legislation and recent court decisions pertaining to local government. For more details, see the Updates section on page 5. ■

City & Town

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.

Lydia Hill, Editor

To obtain information or publications, contact the Division of Local Services via:

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