



March 1st, 2018

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Important Dates & Information

Save the Date! 2018 New Officials Finance Forum

Please mark your calendars for Thursday, June 7th, 2018. That's the date of the 2018 New Officials Finance Forum. With an emphasis on the basics, this course is designed to foster a team approach to the various offices by developing an understanding of the responsibilities of the various offices as well as their interrelationship. If you are a recently elected/appointed local official (or if you know one), please consider attending. DLS will provide additional information including the registration form in the next edition of *City & Town*. Until then, please feel free to review [the City & Town piece we published last May](#) highlighting the many useful resources DLS has for local officials.

On Debt Affordability Studies

Tony Rassias - Bureau of Accounts Deputy Director

What is a Debt Affordability Study?

According to the New England Public Policy Center at the Federal Reserve Bank of Boston, states conduct debt affordability studies:

- to inform and guide policymakers making decisions about state borrowing
- to protect or enhance state credit rating
- to provide the general public with a transparent view of state debt burden

Why produce such a study?

[A June, 2017 study by the Pew Charitable Trusts](#), an independent nonprofit global research and public policy organization, reported that only 27 of all 50 states conducted debt affordability studies between January 2010 and October 2015. Pew's study also indicated that 18 other states produce studies "that could be improved" and that in five cases no documents were found.

In Pew's report, Massachusetts was one of only nine states considered by the study a leader in "producing robust debt affordability studies." Pew's report also indicated that top advisors from Moody's, Standard & Poor's and Fitch all agree that a comprehensive, forward-looking debt study that helped policymakers manage debt, although not by itself an automatic credit upgrade, could contribute to one.

Can local governments also profit from such a study?

Local governments definitely can. Has your local government conducted its own debt affordability study? If not, here are some suggestions from experts on where to begin and what to consider.

1.) Organize a Committee of Experts

The Pew Trust report recommends that a requirement "either by statute or other mechanism" mandate a debt affordability study making clear:

- its purpose and use
- who will prepare it
- the timetable for ensuring regular publication

Have you tried out the DLS Municipal Finance Trend Dashboard yet?

In [the February 1st edition of City & Town](#), we highlighted the comprehensive [Municipal Finance Trend Dashboard](#) now available on our website. The dashboard is comprised of key municipal fiscal health indicators and graphically displays trends in revenues and expenditures, municipal operating positions, demographic information, unfunded liabilities, property taxes, Proposition 2 ½ data, and debt. For decades, the DLS [Municipal Databank](#) has served as an invaluable resource for local and state officials, professional associations, academic institutions, bond rating agencies, advocacy organizations, think tanks, the media, and interested taxpayers for research, analysis, and policy development. We are now leveraging that resource to provide a transparent and accessible tool to analyze and visualize the fiscal health of Massachusetts' 351 cities and towns. Click [here](#) to see more!

Housing Choice Designation Online Application Now Open

The [Housing Choice Initiative](#) provides incentives, rewards, technical assistance and targeted legislative reform to encourage and empower municipalities to plan and build the diverse housing stock that the Commonwealth needs to continue to thrive.

A Housing Choice Designation rewards communities that are producing new housing and have adopted best practices to promote sustainable housing development. Housing Choice designation provides 1.) Exclusive admission to new Housing Choice Capital Grants, Housing Choice Communities will be eligible for a major new capital grant program and 2.) Bonus Points for many Commonwealth grant and capital

- how much more borrowing is affordable

The report further recommends that the study “originate from an office or body with a commitment to objective analysis and close to the decision-making process to ensure that it is used by policymakers.”

Does your community currently have such a body? The Capital Planning Committee perhaps?

2.) Understand the Borrowing Laws

Capital planning and borrowing of funds most oftentimes go hand-in-hand and are meant to produce long-term benefits.

Your community's treasurer and an independent financial advisor can help committee members and other taxpayers generally understand allowable borrowing purposes, both inside and outside of the debt limit, and borrowing periods, as well as provide a cost estimate for debt issuance and other specific requirements.

For guidance on borrowing laws, the Division of Local Services' (DLS) has written two new Informational Guideline Releases (IGRs): [17-21 \(Borrowing\)](#) and [17-22 \(Premiums and Surplus Proceeds for Proposition 2½ Excluded Debt\)](#). The Director of the DLS Bureau of Account's "Asset Useful Life Schedules and Maximum Borrowing Terms" are also found on the [DLS website](#).

3.) Profile Your Community's Debt

Pew's report recommends that a debt affordability study be forward-looking and that long-term liabilities such as pensions and retiree health care also be included as these costs will claim current and future tax dollars.

DLS recommends developing a spreadsheet of long-term principal and interest (debt service) due by fiscal year until maturity to view the community's debt service over the long term, even if no additional debt is issued. This may even reveal an opportunity to refinance debt issued years ago at today's lower interest rates. However, before refinancing any debt, DLS advises that a community discuss the issue with local bond counsel and its financial advisors.

Also include on a spreadsheet:

- debt authorized but unissued
- all short-term debt interest due
- a note as to which debt has been debt excluded from the provisions of Prop 2½ by the voters

Seen in this way, policymakers, budget managers and others have a transparent and comprehensive view of the community's current and future obligations.

4.) Consider a Debt Management Policy

According to the Government Finance Officers Association (GFOA), debt

funding programs such as MassWorks, Complete Streets, MassDOT capital projects, and LAND and PARC grants.

Recognizing that small towns face different challenges, the Housing Choice Initiative will set aside funding for a competitive capital grant program exclusively for rural towns with populations under 7,000 as of July 2016 US Census Population estimates. \$1M in capital grant monies is expected to be available in the first year and to grow thereafter. Small towns can also apply for Housing Choice Designation.

The [online application](#) contains detailed information about the criteria for designation and submittal requirements. The application period will close on April 30, 2018 at 3:00pm. For more information about the program, please visit <https://www.mass.gov/housingchoic>
[e](#)

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management policies are “written guidelines, allowances, and restrictions that guide the debt issuance practices of state or local governments including the issuance process, management of a debt portfolio, and adherence to various laws and regulations.” The Association not only recommends written policies, but considers them a “Best Practice.”

The [GFOA’s recommendation](#) includes the following points that should be addressed in a debt management policy:

- Debt limits
- Debt structuring practices
- Debt issuance practices

The GFOA also advises:

Adherence to a debt management policy signals to ratings agencies and the capital markets that a government is well managed and therefore likely to meet its debt obligations in a timely manner.”

5.) Gather Data

The primary measures of debt burden in a community involve metrics including debt outstanding (principal payments that must be paid) and debt service (principal and interest payments that as fixed costs replace other expenditures).

Metrics will help determine the community’s debt burden. The following are measures of debt burden suggested by the GFOA:

Debt Outstanding

- as a percentage of the fair market value of taxable property
- per capita
- as a percentage of personal income per capita

Debt Service (principal and interest)

- as a percentage of property tax revenue
- per capita
- per capita as a percentage of personal income per capita
- as a percentage of general fund revenues
- as a percentage of general fund budgeted expenditures
- as a percentage of operating expenditures

6.) Compare Your Ratios to those of Your Peers

Many Massachusetts communities compare their expenditures, results of operations, and various other statistics to communities based upon shared geography or demographics. This comparison to a peer or peer group is referred to as a “benchmark comparison” or simply as “benchmarking.”

Other DLS Links:

[Local Officials Directory](#)

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

[Bulletins](#)

[Publications & Training Center](#)

[Tools and Financial Calculators](#)

GFOA offers eight major steps to comprehensively benchmark and measure debt capacity:

1. Define study objectives
2. Collect data
3. Construct indicators
4. Define comparison groups for benchmarking
5. Compare key indicators against peer group
6. Establish debt issuance scenarios
7. Utilize the “break-even year” methodology
8. Develop or revise formal debt policy

7.) Develop and Manage Your Debt Plan

The DLS Technical Assistance Bureau recently recommended to one community the following debt policy and debt management plan. This policy and overall plan may be adapted to meet your community’s needs. The policy includes consideration of factors such as:

- Debt financing
- Debt limits
- Structure and Term of Debt
- Protection of Bond Rating
- Internal Reporting

The debt financing plan recommended the community:

- Issue debt only for objects and purposes authorized by state law
- Use available funds to the greatest extent possible to reduce the amount of borrowing on all debt-financed projects
- Confine long-term borrowing to capital improvements and projects that cost at least [\$100,000] and that have useful lifespans of at least [10] years or whose lifespans will be prolonged by at least [10] years.

For more examples, check out Financial Policies within the [Community Compact Cabinet Reports’](#) website.

8.) Evaluate Your Plan in Search of Best Practices

According to the GFOA, many jurisdictions have adopted debt policies, but once established, few regularly evaluate their effectiveness, changes in the economic environment or financing techniques.

Once the policy has been developed and the management plan is in place, the GFOA recommends that these policies and plans be continually analyzed to provide assurance to all that they result in affordable and cost-effective practices and “Assessing debt on an on-going basis is essential for effective debt management and for ensuring

that debt-planning activities are integrated with the capital improvement process.”

Other references to best practices for state debt affordability studies, debt management and capital planning can be found on the [The Federal Reserve Bank of Boston](#) website and in publications written by the National Advisory Council on State and Local Budgeting (NACSLB).

Conclusion

This article has noted the advice of experts on how to produce an effective Debt Affordability Study. Don't be hesitant to seek your own advice by researching [the DLS Databank](#), [the DLS Technical Assistance Bureau](#), your professional associations, Certified Public Accountants, Financial Advisors and other professionals with knowledge in this area for more information. They are excellent resources should your community seek the benefits of a debt affordability study.

The author would like to thank Zack Blake, Chief of the Division of Local Services' Technical Assistance Bureau, for his help in reviewing this article.

Ask DLS: Personal Property Taxes

This month's Ask DLS features frequently asked questions about local taxation of personal property owned by a business corporation. This is another in a series of FAQs about personal property taxes. 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 a business corporation?

Business corporations comprise the broadest category of corporations and include most retail and wholesale businesses. Manufacturing corporations and telephone, insurance companies or financial institutions that are corporations are treated separately from business corporations for local tax exemption purposes.

A business corporation must be more than a paper entity. It must be involved in an activity that occupies the time, attention and labor of workers for the purpose of livelihood, profit or gain. A nominal corporation is not entitled to the business corporation personal property exemptions if it employs no personnel of its own and is not in business to make a profit. See [Brown, Rudnick, Freed & Gesmer v. Board of Assessors of Boston](#), 389 Mass. 298 (1983) (A corporation created by a partnership for the purpose of selling its assets to the corporation for lease-back to the partnership and that does not conduct a business separate from the partnership is not a business corporation for local tax purposes.)

A partnership, trust, association, limited liability company (LLC) or other non-corporate entity may be treated as a corporation for federal income tax purposes, either by federal default rules or by election of the entity.

Any entity treated as a corporation for federal income tax purposes that carries on the same business as a business corporation is treated as a business corporation for personal property tax exemption purposes.

What is machinery for personal property tax purposes in Massachusetts?

Machinery is, generally speaking, a mechanical device with independent moving parts or electronic components designed to perform a specific function or functions. Examples of these devices described in court cases include electric generators, pumps, rotisserie toasters, air-conditioners, typewriters, refrigerators, calculators, movie projectors, electronic data drums and cable television converter boxes. Machinery does not include furniture, shelving, or simple tools or equipment, such as hand-held saws, hammers, bubble levels, and other non-motorized hand tools; and simple heating devices, even if electrical. However, machinery does include electrical tools with moving parts and other devices with electronic or programmable components.

What is machinery used in the conduct of business?

Business corporations are taxable on machinery used in the conduct of business, subject to exceptions. [M.G.L. c. 59, § 5, Clause 16\(2\)](#). Taxable machinery used in the conduct of business includes machinery directly used by or capable of use by the corporation to carry out its business and profit-making operation. Specifically excluded, however, are stock in trade (inventory); and any machinery directly used in 1) laundering and dry cleaning; 2) refrigeration of goods and air-conditioning of premises; or 3) in any selling, purchasing, and accounting or administrative function for its own in-house purposes.

Stock in trade includes machinery that is sold or leased by a business corporation in the regular course of its business. Finance leases or installment sales are excluded from the stock in trade exemption, since the title to property is legally transferred to the lessee. Also excluded from the exemption are goods consigned to a business corporation, since ownership is retained by the consignor. In the latter case, the property is taxable to the owner unless another exemption applies.

Machinery that a business corporation truly leases to others is exempt as stock in trade if the corporation is principally engaged in leasing. Machinery used to sell goods is exempt, such as soda and candy vending machines. However, machinery used to provide entertainment or a service that the corporation is in business to provide, such as video game machines, pinball machines and juke boxes, is taxable.

Non-taxable accounting and administrative machinery serves in-house record keeping functions. This category includes copiers, typewriters, computers and FAX machines that are used for the corporation's internal functions. It also includes cash registers, [Assessors of Haverhill v. J.J. Newberry Co.](#), 330 Mass. 469 (1953), and credit card machines since they are used in a purchasing or selling function. If machinery is used to provide a service to customers for a fee, however, it is taxable. For example, gasoline pumps at filling stations and computers used by tax preparers to produce tax returns for clients would be taxable.

March Municipal Calendar

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|----|---------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Municipal Data/Local Aid Unit | Notification of Cherry Sheet Estimates for the Following Year (pending action taken by the Legislature)
The cherry sheet provides estimates of 1) receipts: local reimbursement and assistance program appropriations and 2) assessments: state and county assessments and charges to local governments. MDM posts cherry sheet estimates on the DLS website and updates them at every stage of the state budget process. |
| 1 | Personal Property Owner | Submit Form of List to Assessors
This return is due on or before March 1, but the Assessors may extend the deadline to a date no later than the date abatement applications are due. |
| 1 | Charitable Organization | Submit 3ABC Forms
To be eligible for exemption from taxation for the next fiscal year, a charitable organization must file this form with the Assessors detailing the property held for charitable purposes. It is due on or before March 1, but the Assessors may extend the deadline to a date no later than the date that abatement applications are due. |
| 1 | Telephone and Telegraph Company | Deadline for Telephone and Telegraph Company to File Form of List
BLA may extend the deadline to a date no later than April 1. |
| 31 | State Treasurer | Notification of Monthly Local Aid Distributions , see IGR 17-17 for more cherry sheet payment information, monthly breakdown by program is available here . |

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Contact *City & Town* with questions, comments and feedback by emailing us at cityandtown@dor.state.ma.us.

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