

# Focus

## on Municipal Finance

### Short-term Borrowing and the State House Note Program

by William Arrigal and William Meehan

Municipal short-term borrowing in Massachusetts is utilized to meet cash requirements prior to receipt of revenue, grants or bond proceeds. This borrowing may be conducted internally within a fiscal year by cities, towns and districts through the so-called interfund borrowing act, M.G.L. Ch. 44 Sec. 20A. Most short-term borrowing, however, requires the issuance of notes.

#### Certification of Notes by Commercial Banks

Certification as to the validity of the borrowing is a prerequisite in order for a municipality to access the credit market. The certification procedure consists of bond counsel review and preliminary opinion on the authority of the municipality to borrow. Upon conclusion of the sale, notes are prepared, either by the municipality or its agent, signed by the treasurer and countersigned by the mayor or a majority of the selectmen as the case may be, and forwarded to the certifying bank. The certifying bank confirms the signatures of the local officials on the notes while also reciting the approving opinion of bond counsel prior to its delivery of the notes to the purchaser.

#### State House Note Program

The State House Note Program, administered by the Division of Local Services's Bureau of Accounts, is a note certification procedure which is an alternative to the certification procedure discussed above. Established by legislative act in 1910, the State House Note Program received its "State House" designation by virtue of the Bureau of Accounts's original office loca-

tion within the capitol building. The program continues to provide a useful service to municipal issuers, especially the smaller towns and districts. In towns and districts that do not have a credit rating from a national credit rating agency, and are borrowing short-term in relatively small amounts, the State House Note Program provides a convenient and low-cost certification mechanism. In the case of short-term notes placed with local banks, the Bureau of Accounts's location in downtown Boston serves to facilitate settlement activities. All cities, towns and districts in Massachusetts have the option of using the State House Note Program.

Under the State House Note Program, following the sale, notes, commonly referred to as "State House Notes," are prepared for the total amount to be borrowed. The treasurer may either use forms provided by the Bureau of Accounts to prepare the notes or notes prepared by a bank in the appropriate format. In the case of the issuance of State House Notes by a town, the notes are signed by the treasurer, and, as is statutorily required, countersigned by a majority of the selectmen in the presence of the town clerk. A Certificate of Town Clerk is prepared, which includes a certification of the clerk that the treasurer and selectmen were duly authorized and qualified when the note was signed, and a certified copy of the loan authorization if applicable. It has been a long-standing practice of the Bureau of Accounts to require an approving opinion of bond counsel for bond anticipation notes where the authorization is \$500,000 or more. The treasurer then submits the notes, the completed Certificate of Town Clerk and the note certification fee to the Bureau of Accounts. Note certification by the Director of Accounts is addressed in M.G.L. Ch. 44 Sec. 24: "If upon examination the note appears to the director to have been

duly issued in accordance with law and the vote of the city, town, or district authorizing it, or in accordance with an act of the general court, and to have been signed by the duly qualified officials of such city, town or district, he shall so certify... ." The statute empowers the Director of Accounts to require such information so as to enable him to certify notes. The Bureau of Accounts requires the town treasurer to submit a cash flow report in support of revenue anticipation notes and copies of grant agreements with respect to federal and state grant anticipation notes. With respect to regional school district revenue anticipation notes, copies of the regional district committee borrowing authorization, the district member assessment form, and a cash flow report are required.

Certification of notes through the State House Note Program does not convey any greater or lesser borrowing capacity, i.e., the authority to borrow is statutory, either by general or special law.

#### Recent Trends

Over the past decade there has been a decline in state house note certifications for revenue anticipation notes. The adoption of quarterly tax bills, the ability to execute interfund borrowings beginning in 1992, and the generally good annual financial results of municipalities in Massachusetts have reduced the need for this type of borrowing.

The acceptance in the mid-1990s of State House Notes for book-entry ownership system services by the Depository Trust Company (DTC) in New York, New York has improved the market for State House Notes and resulted in a more competitive bidding environment and more favorable rates for issuers. Under the book-entry system, DTC acts as depository for the securities being issued. Purchases and transfers of own-

[continued on page six](#)

## FY2002 State House Note Issues

<u>Issuer</u>	<u>State House Note Issues</u>	<u>Issuer</u>	<u>State House Note Issues</u>	<u>Issuer</u>	<u>State House Note Issues</u>
Abington	6	Chesterfield	3	Hillcrest Sewer District	2
Acton Boxborough RSD	1	Chesterfield Goshen RSD	1	Hinsdale	1
Acushnet	3	Chilmark	1	Holbrook	1
Adams Cheshire RSD	5	Clarksburg	2	Holland	4
Amesbury	3	Cohasset	2	Hopedale	1
Amherst	5	Colrain	2	Hopkinton	9
Amherst Pelham RSD	3	Cotuit Fire District	2	Hubbardston	13
Aquinnah	1	Cummington	1	Hudson	1
Arlington	1	Dalton	1	Huntington	2
Ashburnham	2	Dedham	2	Lakeville	2
Ashby	3	Dennis	1	Lancaster Sewer District	1
Ashfield	5	Dennis Water District	1	Lee	1
Ashfield Water District	9	Dennis Yarmouth RSD	2	Leicester	1
Athol	2	Dighton	2	Leverett	7
Athol Royalston RSD	2	Dighton Rehoboth RSD	1	Lincoln	3
Avon	1	Dover Sherborn RSD	1	Lincoln Sudbury RSD	1
Barnstable Fire District	3	Dracut	1	Littleton	3
Barre	1	Dracut Water Supply District	1	Longmeadow	1
Becket	4	Dudley	3	Ludlow	3
Bedford	3	Dudley Charlton RSD	1	Lynnfield	2
Belchertown	5	Dunstable	3	Malden	1
Bellingham	1	Duxbury	1	Manchester-by-the-Sea	6
Belmont	1	Eastham	3	Mansfield	1
Berkley	1	Edgartown	2	Marblehead	3
Berkshire Hills RSD	6	Egremont	1	Marion	1
Bernardston Fire & Water District	3	Erving	2	Marshfield	3
Billerica	2	Essex	5	Martha's Vineyard Refuse & Recovery District	2
Blackstone	2	Falmouth	1	Mashpee	2
Blackstone Valley VRSD	1	Florida	1	Mashpee Water District	2
Blandford	2	Freetown	3	Mattapoissett	1
Bolton	1	Freetown Lakeville RSD	1	Maynard	6
Bourne	3	Gateway RSD	3	Medway	4
Boxborough	4	Georgetown	1	Melrose	2
Boxford	2	Gill Montague RSD	8	Mendon	3
Brewster	2	Goshen	1	Mendon Upton RSD	2
Bridgewater	1	Greater New Bedford RVTHSD	1	Merrimac	1
Bridgewater Raynham RSD	1	Grafton	2	Metropolitan Area Planning Council	5
Bristol County	1	Granby	6	Middleborough	7
Buckland	2	Granville	1	Middlefield	6
Buckland Fire District	1	Great Barrington	1	Middleton	1
Buzzards Bay Water District	3	Groton	1	Milford	11
Byfield Water District	1	Groveland	4	Millis	5
Canton	1	Hadley	1	Milton	1
Carlisle	4	Hamilton Wenham RSD	1	Mohawk Trail RSD	1
Carver	2	Hampden	1	Monson	2
Centerville Osterville Fire District	1	Hampden Wilbraham RSD	1	Montague	15
Central Berkshire RSD	2	Hampshire RSD	5	Monterey	3
Charlemont	1	Hancock	1	Montgomery	1
Charlton	6	Hanson	6	Mount Greylock RSD	3
Chatham	2	Harwich	6	Nahant	4
Chelmsford	1	Hatfield	2	Narragansett RSD	2
Cherry Valley Sewer District	4	Hawlemont RSD	7	Nashoba RSD	4
Cheshire	1	Hawley	1	Nashoba Valley THSD	1
Chester	9	Heath	11		

Table 1

continued on page five

# FY2002 State House Note Issues

continued from page four

<u>Issuer</u>	<u>State House Note Issues</u>	<u>Issuer</u>	<u>State House Note Issues</u>	<u>Issuer</u>	<u>State House Note Issues</u>
Natick	1	Randolph	4	Tewksbury	1
New Braintree	2	Raynham	2	Tisbury	1
New Salem	3	Raynham Center Water District	1	Tolland	4
Newbury	3	Reading	1	Truro	11
Newburyport	2	Rehoboth	1	Tyngsborough	1
Norfolk	6	Rockland	6	Tyringham	1
Northborough-Southborough RSD	3	Rutland	4	Upper Cape Cod RVTSD	1
North Adams	2	Salisbury	1	Wachusett RSD	1
North Attleborough	3	Sandwich	3	Ware	2
North Brookfield	3	Saugus	1	Wareham	4
North Chelmsford Water District	1	Savoy	2	Wareham Fire District	2
North Middlesex RSD	1	Scituate	1	Warren	5
North Sagamore Water District	1	Seekonk	3	Warwick	1
Northampton	1	Seekonk Water District	2	Washington	2
Northbridge	1	Sharon	1	Wayland	3
Northern Berkshire VRSD	2	Sherborn	12	Webster	11
Norton	4	Sherwood Forest Road Maintenance District	2	Wellfleet	13
Norwell	1	Shirley	4	Wendell	2
Oak Bluffs	6	Shirley Water District	1	West Barnstable Fire District	1
Oak Bluffs Water & Sewer District	3	Shutesbury	2	West Bridgewater	2
Oakham	1	Silver Lake RSD	1	West Newbury	1
Old Rochester RSD	2	South Deerfield Fire District	2	West Tisbury	2
Onset Fire District	1	South Hadley	5	Westfield	2
Orange	2	Southampton	4	Westford	2
Orleans	1	Southborough	2	Westhampton	2
Palmer	4	Southbridge	1	Westminster	6
Paxton	2	Southern Worcester County RVSD	2	Weston	1
Pelham	5	Southwick	3	Westport	2
Pembroke	4	Southwick Tolland RSD	2	Whitman Hanson RSD	1
Pepperell	1	Spencer	1	Whittier RVTHSD	2
Peru	2	Spencer East Brookfield RSD	1	Wilbraham	1
Petersham	6	Stiles Lake Water District	1	Williamsburg	4
Phillipston	4	Stoneham	1	Williamstown	1
Pioneer RSD	1	Stoughton	1	Wilmington	1
Plymouth	1	Stow	1	Winchendon	6
Plympton	4	Sturbridge	1	Winthrop	1
Princeton	2	Sunderland	6	Wrentham	6
Provincetown	13	Sutton	3	Yarmouth	3
Quabbin RSD	4	Swansea	9		
Quaboag RSD	1	Templeton	9		
Ralph C Mahar RSD	1			<b>Total number of State House Note Issues</b>	<b>774</b>

**SOL**

will adjust their most recently certified SOL value by the most recently finalized or proposed residential, or commercial and industrial EQV percentage. Use of EQV data is a long-standing practice in other local aid programs. New SOL acquisitions would continue to use the municipal valuation from the year prior to acquisition until the next SOL revaluation.

Overall, we believe that the most significant advantage of this new program, in addition to the cost savings, is the involvement of local assessors in the

continued from page one

valuation process. Over the years we have received numerous requests for explanations of how the land was valued. The new methodology will be evident to assessors. Reconciling our databases will eliminate municipal uncertainty over what portions of SOL are eligible for reimbursement. The initial job of getting this program up and running will be time-consuming for some but once done, the valuing of state-owned land will be straightforward and easier in the future. ■

**Payments in Lieu of Taxes**

As with pre-46 property, the assessors must notify the city, town or district owning the land of the new value and the owner, if aggrieved by the new valuation, can appeal to the ATB.

Valuations used to calculate a PILOT required by M.G.L. Ch. 59 Secs. 5D–5F cannot be adjusted to include structures built on the land after acquisition. For example, the assessors cannot add the value attributable to a water purification plant built in 2001 on land the community acquired in 1954 to the adjusted or redetermined valuation. The reason, according to the Supreme Judicial Court, is that basing the PILOT on the value of land and any improvements as of the January 1 assessment date each year would be the equivalent of assessing an annual tax on the parcel and would render meaningless the phrase “payment in lieu of tax.” *Avon v. Brockton*, 355 Mass. 401 (1969).

The third category of property subject to a PILOT is land held by the Division of Watershed Management of the Metropolitan District Commission (MDC) on behalf of the Massachusetts Water Resources Authority (MWRA) in the Quabbin, Wachusett, Sudbury and Ware watersheds for water supply or protection purposes. Under M.G.L. Ch. 59 Sec.

5G, the MWRA, through the MDC, must make a PILOT annually to any city or town where the MDC holds such land on January 1. These payments are also based on the value of land only (with certain exceptions) and the host community's tax rate, but the valuation is determined by the Commissioner of Revenue every five years when he values state-owned land at its current fair cash value under M.G.L. Ch. 58 Secs. 13–17. If there is a revaluation during any five-year cycle, the value of the watershed land is adjusted by the local assessors in the year after the revaluation in the same manner as pre-46 property by dividing the PILOT in the fiscal year before revaluation by the commercial tax rate in the revaluation year. There is also a hold-harmless provision, under which the PILOT for any year cannot be less than that of the prior year.

All of these PILOTs are billed by and made to the treasurer of the host community. Because the parcels are exempt from taxation there is no commitment by the assessors to the collector and no lien exists to secure collection. The host community would have to bring a legal action to collect any payment that is not made. ■

**State House Notes**

continued from page three

ership are executed through computerized book-entry transfers, thereby eliminating the physical movement of the securities. The ease of re-sale afforded to large institutional purchasers by the use of the DTC book-entry system has had a positive influence.

**FY2002 Activity**

During FY2002 the Bureau of Accounts's State House Note Program conducted certifications of 774 issues of State House Notes for 280 municipalities with an aggregate issue amount of \$519.8 million. Of those 774 issues, 741 were for short-term borrowing totaling \$508.7 million. The short-term note issues were in amounts from as little as \$4,000 to as much as \$8.6 million.

There were 17 “Serial Issues” totaling \$5.84 million certified by the Director of Accounts. These are considered by all definitions to be long-term debt. The amounts of these issues ranged from \$75,000 to \$780,000. The terms of the loans were as short as two years and as long as 20 years. In general, State House Note serial issues are usually under \$1 million for terms of five years or less. There is not a great demand by financial institutions for serial note issues. In almost all instances long-term debt is issued as bond issues which are not certified by the Director of Accounts.

In addition to the 17 serial issues there were 16 “Refunding Notes” issues certified totaling \$5.28 million.

*Table 1* lists the municipalities which utilized the State House Note program during FY2002 and the number of issues certified for each. ■