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City & Town

Supporting a Commonwealth of Communities

Mark E. Nunnelly, Commissioner • Sean R. Cronin, Senior Deputy Commissioner of Local Services

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MUNICIPAL DATA BANK

***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.**

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Supporting a Commonwealth of Communities

Early on, I wanted the Division of Local Services (DLS) to adopt a motto that best captures what DLS does and reflects the commitment of its employees. I asked all our employees for their ideas, and there were lots of great suggestions, but one rose to the top. If you look above this section in our *City & Town* masthead, you'll see it, "Supporting a Commonwealth of Communities."

At DLS, we often perform many different functions and roles. We can be advisors, regulators, data managers, legal references, informational resources, technical consultants and informal sounding boards. Ultimately, our mission boils down to this: we exist to support municipalities. As we navigate forward, we will continue to adhere to this core principle. Formalizing our motto on all our communications serves as a simple way to reaffirm our commitment to you, both now and in the future. This will be evident when we publish a new website, as the underlying goal is to make it easier for all users to navigate and find what they're looking for.

As part of our ongoing commitment to communication, last week we sent out an alert regarding FEMA being more flexible in the determination of eligible costs for removing snow, undertaking emergency protective measures and repairing damage to public facilities. This resulting flexibility means communities can seek reimbursement for *any* 48 hour window with a nexus to the disaster declaration of January 26-28, thereby increasing the potential overall reimbursement amount as long as it relates to the initial storm. FEMA and MEMA provided additional guidance at a series of Applicant Briefings at which DLS staff was present to answer any questions you had concerning how the FEMA reimbursement will be handled. As you move forward with the development of your community's snow and ice deficit closure plan, know that Bureau of Accounts staff stand ready to assist you with issues such as FEMA reimbursements and the three-year amortization option. (Please consider this an early reminder to spend your "Pothole funds" from the Winter Recovery Assistance Program by June 30th.)

DLS continues the search for our new Director of the Bureau of Accounts. This critical position oversees the tax rate setting process, free cash certification, compliance with Proposition 2 1/2, the Qualified Bond and State House Notes Programs, and plays a vital regulatory role in the fiscal well-being of every community in the Commonwealth. We've received a wide array of interest but believe there may still be additional qualified candidates interested in the opportunity. There is still time left to apply. For more information, please click here.

Finally, we want to hear your success stories. If there are initiatives or projects you're proud of that you think other municipalities would benefit from hearing about, email us at cityandtown@dor.state.ma.us. We'll highlight them in future editions of *City & Town*.

Sean R. Cronin
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How Much Will an Override Add to the Tax Rate?

Tony Rassias - Deputy Director of Accounts and Karen Rassias - Town of Wilmington Assessor

Tony Rassias: Single Tax Rate

I've been working for the Division of Local Services for many years now, and I've been asked this following question many times, mostly by local officials from small to mid-sized communities with single tax rates and all interested in an override. The question goes like this: "If we override for $500,000, how much will it add to our single tax rate?"

Here's my quick calculation tip. It's easy! Yes, it's an estimate, but it uses probably all the information known at the time of the override, which is likely held well before final data is available for the fiscal year involved.

Along with the override amount, you'll need two more things:

- Page 1 of the most recently approved Tax Rate Recap; and

- your right thumb.

From Page 1 of the community's Tax Rate Recap, find the *total taxable value* of real and personal property. Note the amount outlined in red in the example below.

CLASS	(b) Levy percentage (from LA5)	(c) Ic above times each percent in col (b)	(d) Valuation by class (from LA-5)	(e) Tax Rates (c) / (d) x 1000	(f) Levy by class (d) x (e) / 1000
Residential	90.3574%	4,724,224.70	452,078,840.00	10.45	4,724,223.88
Net of Exempt					
Open Space	.0000%	0.00	0.00	0.00	0.00
Commercial	3.8321%	200,356.60	19,172,966.00	10.45	200,357.49
Net of Exempt					
Industrial	0.2233%	11,674.96	1,117,000.00	10.45	11,672.65
SUBTOTAL	94.4128%		472,368,806.00		4,936,254.02
Personal	5.5872%	292,119.83	27,954,265.00	10.45	292,122.07
TOTAL	100%		500,323,071.00		5,228,376.09

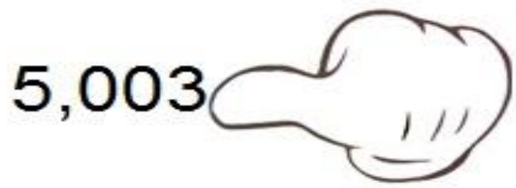
Now, take your right thumb and, beginning with the decimal point, cover the first three digits to the left like this:

In our example, this means that for every $500,323 of override, the single tax rate will increase by $1 per thousand. Let's continue.

Take your right thumb and cover the next digit to the left like this: (The comma has been shifted.)

In our example, this means that for every $50,032 of override, the single tax rate will increase by ten cents per thousand.

Once again, take your right thumb and cover the next digit to the left like this: (The comma has shifted again.)



In our example, this means that for every $5,003 of override, the single tax rate will increase by one cent per thousand.

So to answer the question, a $500,000 override would increase the single tax rate about $1 per thousand.

Karen Rassias: Multiple Tax Rates

I've been a municipal assessor for many years now and I've been asked this above question from both local officials and taxpayers as well. Here are my two quick calculation tips. Let's use the same example as before knowing that the single tax rate will increase by about $1 per thousand.

Here's my first tip. You'll need two more things:

- an assumed residential factor (let's assume 95%);
- an assumed CIP shift (let's assume 150%).

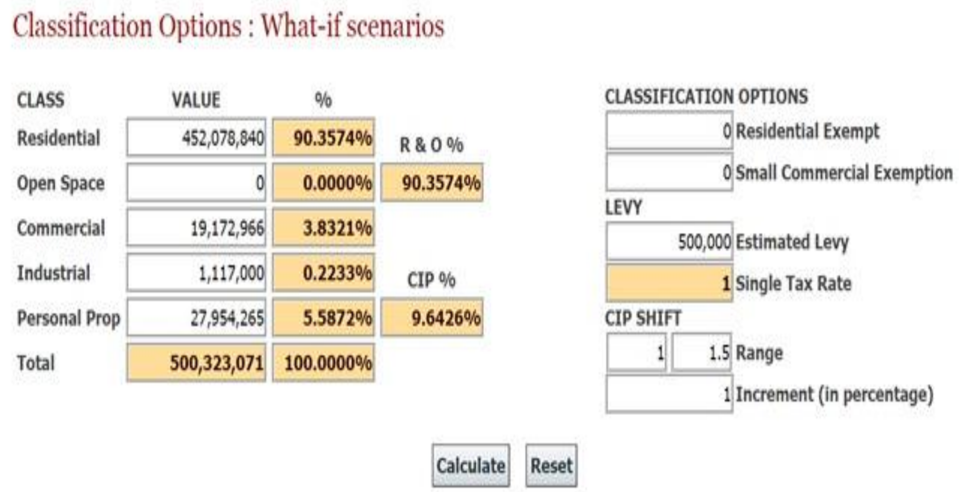
Multiply the estimated effect upon a single tax rate ($1 per thousand) by the assumed residential factor (95%) to get the estimated effect on the Residential tax rate ($1 per thousand x .95 = 95 cents per thousand).

Multiply the estimated effect upon a single tax rate ($1 per thousand) by the assumed CIP shift (150%) to get the estimated effect on the CIP classes ($1 per thousand x 1.5 = $1.50 per thousand).

Here's my second tip. Use DLS Gateway.

1.) Click on the Tax Rate Module at the top of the screen, scroll down and look to the left for Tax Rate - Reports, then find Options Table:

2.) After you click on Options Table, select the most recent fiscal year for which LA-4 values are entered. As shown below, the values will automatically appear. Now, enter the override amount as the Estimated Levy ($500,000), change the CIP shift from 1% (shown as 1) to 150% (shown as 1.5), and click on Calculate.



3.) You'll then see estimated tax rates for an override of $500,000 for a single tax rate all the way down to a 150% CIP shift. You can export this information to an Excel file and manipulate the columns like this:

		Estimated Tax Rates				
CIP Shift	Res Factor	Res	O S	Com	Ind	PP
1	100	1	0	1	1	1
1.01	99.8933	1	0	1.01	1	1
1.02	99.7866	1	0	1.02	1	1
1.03	99.6799	1	0	1.03	1	1
1.04	99.5731	1	0	1.04	1	1
1.05	99.4664	0.99	0	1.05	1.1	1.1
1.46	95.091	0.95	0	1.46	1.5	1.5
1.47	94.9843	0.95	0	1.47	1.5	1.5
1.48	94.8776	0.95	0	1.48	1.5	1.5
1.49	94.7709	0.95	0	1.49	1.5	1.5
1.5	94.6642	0.95	0	1.5	1.5	1.5

Notice how no shift at all (in yellow highlight) increases a single tax rate by $1 per thousand. Also, notice how a 150% shift to CIP (in gray highlight) reduces the Residential rate to 95 cents per thousand and increases the CIP rate to $1.50 per thousand.

So, the next time the question is asked, we hope that you'll use one of these tools to help estimate an override's effect on your community's tax rate.

(Editor's Note: In a related news, DLS is pleased to announce the availability of its recently upgraded Tax Impact Calculator. The Tax Impact Calculator is intended to help local officials analyze the impact on the local tax rate from hypothetical changes to the budget, including Proposition 2 1/2 overrides, debt exclusions, and capital exclusions. This calculator is effective for determining the impact of an expenditure based on most recent, available data in the DLS Gateway system. In succeeding years, the results will vary with changes in a community's total assessed value, tax rate, and debt service structure. Click here to utilize this tool.)

Ask DLS

This month's *Ask DLS* features frequently asked questions on the relationship between appropriations and Proposition 2 1/2 and extended school year expenditures. We hope the answers will provide helpful information. 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.

If a town does not have an approved annual operating budget on July 1, can it spend based upon 1/12 of the prior fiscal year's budget?

No. There is no legal authority for a town to spend 1/12 of its prior fiscal year's operating budget (commencing July 1 and then going forward on a month-to-month basis) in the event of a failure to pass an operating budget for the upcoming fiscal year by July 1.

In a city only, the mayor may submit a "continuing appropriation budget ... on a month to month basis for a period not to exceed three months" if the city has not approved an operating budget for the fiscal year due to circumstances beyond its control. MGL c. 44, sec. 32. However, there is no requirement that a continuing budget for a month be equal to 1/12 of the previous fiscal year's operating budget for that month. The monthly budget can provide for all expenses that may be incurred for that particular month. The tax rate will be based upon the actual budget that is adopted for the year which would include the continuing budget amounts.

If annual town meeting approves the annual operating budget for the upcoming fiscal year contingent on a Proposition 2 1/2 override which is on the ballot for an election scheduled in

mid-July, will the town have an approved budget on July 1 from which to spend funds?

It depends upon the town meeting vote and whether the adoption of the entire budget was expressly contingent upon the passage of the override.

Scenario One - Annual Budget Expressly Contingent upon Passage of Override

If the motion and vote to approve the entire annual budget expressly stated it was subject to or contingent upon passage of an override (presumably for a portion of the total voted), the town will not have an approved budget on July 1 and therefore, town officials have no authority to spend money. MGL c. 44, sec. 31. The exception would be to pay debt service due or other amounts that the municipality is allowed by statute to pay without an appropriation. MGL c. 59, sec. 23.

A possible solution to address the lack of spending authority on July 1 is for the town to hold a special town meeting to amend the vote. The amendment could make particular items or portions of items within the budget subject to the contingency or could eliminate the contingency altogether. In the latter case, if the override fails, the town has voted a budget that is not balanced but does provide spending authority for the fiscal year. The town would have to balance the budget before it sets its tax rate and may find it difficult to do so, particularly if significant budget cuts are needed.

For these reasons, we advise against voting approval of the entire budget upon passage of an override unless the referendum is scheduled so there is enough time for town meeting to adopt a budget after the referendum is held, and before July 1, if the override fails. Please see Sections IV-B-C of our publication, *Proposition 2 1/2 Ballot Questions - Requirements and Procedures*, regarding contingent appropriations and the recommended sequencing of votes. See also Appendix D on the sequencing options and Appendix E for sample contingent appropriation votes.

Scenario Two - Annual Budget Not Expressly Contingent upon Passage of Override

If town meeting's vote to approve the entire annual budget was not expressly contingent upon the passage of the override, then the town voted a budget that provides spending authority as of July 1, even though the budget may not be balanced at that time. If the override fails, the town will have to take action to balance the budget before it sets its tax rate, as noted above.

If a city or town approves a Proposition 2 1/2 override referendum under MGL c. 59, sec. 21C(g), must its legislative body appropriate the additional amount approved by the override in order to

increase its levy limit?

If an override passes, the municipality's levy limit will be increased by the amount stated in the question *whenever total appropriations for the identified purposes and fiscal year equal or exceed that amount.* All appropriations made for those purposes are considered in that determination. In effect, the first dollars appropriated for the stated purposes are treated as being funded by the override, with any amount above that coming from the remainder of the municipality's general unrestricted revenues, as determined by the appropriating body. Once the levy limit is increased in the fiscal year of the override, it becomes a permanent increase in the levy limit of the municipality, which as part of the levy limit base, increases at the rate of 2.5 percent each year. However, the additional funds raised by the override are "earmarked" for the stated spending purpose *only* in the first fiscal year. For more information, see Section IV-A-1-a, *Proposition 2 1/2 Ballot Questions - Requirements and Procedures,* and page nine of *Levy Limits: A Primer on Proposition 2 1/2*.

If a town meeting warrant includes an article to appropriate an additional $1 million for the school operating budget, contingent upon the passage of a Proposition 2 1/2 override under MGL c. 59, sec. 21C(m), and town meeting does not appropriate an additional amount under the article, but voters subsequently approve a $1 million Proposition 2 1/2 override referendum under MGL c. 59, sec. 21C(g) to fund school operations, will the town's levy limit increase by the $1 million override?

Yes, if the town has otherwise appropriated at least $1 million for the year's school operating budget, then the levy limit will be increased $1 million as a result of the approval of the override question. In this case, although the levy limit is increased, the town may not have appropriated to its levy limit and may have "excess levy capacity" for the year. Regardless, the levy limit increase resulting from the override is permanently added to the community's levy limit base. For an explanation of "excess levy capacity," please see page 14 of *Levy Limits: A Primer on Proposition 2 1/2*.

If a school year is extended beyond June 30 in order to comply with the 180-day requirement, are the salaries and costs paid from the school year budget ending on that June 30?

Yes. If the school year must be extended beyond June 30 to comply with state law on student learning time, that would extend the scope of the municipality's appropriation for the schools beyond June 30. See MGL c. 71, Sec. 40, which provides that the compensation paid teachers is deemed "fully earned at the end of the *school year*, and proportionately earned during *the school year*" (emphasis added). Teachers, therefore, could teach school in early July to comply with the 180-day requirement, and any salaries paid would appear on warrants payable for the fiscal year that ended on that June 30.

In short, state law permits the school year (and salary payments) to extend beyond June 30 in these circumstances. School officials still should consult with their own legal or labor counsel to determine the impact of any provisions in collective bargaining agreements or local ordinances or bylaws on school days after June 30.

IGRs for FY2016 Annual Assessment and Tax Base Growth

Bureau of Local Assessment

Fiscal Year 2016 Guidelines for Annual Assessment and Allocation of Tax Levy: This guideline addresses the annual determination of property assessments, classification of property according to usage class, calculation of the minimum residential factor and allocation of the tax levy among the property classes for Fiscal Year 2016.

Fiscal Year 2016 Guidelines for Determining Annual Levy Limit Increase for Tax Base Growth: This guideline provides Boards of Assessors with detailed instructions for identifying and reporting growth in their community's property tax base that may be used to increase the FY2016 levy limit, as provided by Proposition 2 1/2.

Registration Now Open for New Officials Finance Forum

Division of Local Services

Registration is now open for The Department of Revenue's New Officials Finance Forum. The event will be held on Tuesday, June 2nd at the Courtyard Marriott in Marlborough. This course is intended for recently elected or appointed local municipal finance officials. With an emphasis on the basics, it's designed to foster a team approach to municipal finance by developing an understanding of the responsibilities of the various offices as well as their interrelationships.

The day will begin with Senior Deputy Commissioner Sean R. Cronin's opening remarks and topics will include an overview of municipal government, the budget process, the tax recapitulation process and reserve and debt policies. We encourage municipalities to forward this information to any and all new officials who would benefit from attending.

The registration form and $50 registration fee must be received by May 22nd. For additional information, contact Donna Quinn at (617) 626-3838 or quinnd@dor.state.ma.us.

May Municipal Calendar

May 1	**Taxpayer**	**Deadline for Payment of Semi-Annual and 4th Quarterly Tax Bill Without Interest** According to M.G.L. Ch. 59, Sec. 57, this is the deadline for receipt of the 2nd half actual tax payment, or the actual tax payment if an optional preliminary bill was issued. According to M.G.L. Ch. 59, Sec. 57C, this is the deadline for the 4th Quarter tax payment.
May 1	**Treasurer**	**Deadline for Payment of Second Half of County Tax**
May 1	**Accountant/Treasurer**	**Notification of Amount of Debt Due in Next Fiscal Year** As required by M.G.L. Ch. 44, Sec. 16, the Accountant or Treasurer must notify the Assessors of all debt due in the next fiscal year because the municipality is required to pay its debts, appropriated or not. Since all debt service must be paid, any debt service not covered by appropriations is added to the "Other Local Expenditures" category, found on 2 of the Tax Recapitulation Sheet. It is important that the Assessors have this information in order to avoid setting a tax rate lower than required and raising insufficient revenue to cover the municipality's expenditures.
May 15	**DOR/BLA**	**Commissioner Determines and Certifies Telephone and**

		Telegraph Company Valuation
Final Day of Each Month	**State Treasurer**	**Notification of monthly local aid distribution.** Click www.mass.gov/treasury/cash-management to view distribution breakdown.