



April 5th, 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

Time to Update Gateway's Local Officials Directory

Deb Joyce - Bureau of Local Assessment Program Coordinator

As election and appointment season nears, we'd like to kindly remind all assessors and municipal clerks to update [DLS Gateway's Local Officials Directory](#) (LOD) with new personnel contact information. In addition, all municipal clerks must annually certify all assessing personnel who have valuation responsibilities. For FY2019, we will send an informational email to all municipal clerks and assessing department contacts at the end of April using the email address listed in the LOD for your community.

In the interim, we ask that you please take time now to verify that your correct email address is listed in the [LOD](#). If you do not receive our email later this month, or if you have any questions, please contact Program Coordinator Deb Joyce at (508) 792-7300 ext. 22315 or send an email to joyced@dor.state.ma.us. If you need assistance updating your [Local Official's Directory](#) entry, please contact the Gateway Support staff at (617) 626-2350 or by email at dlsitgroup@dor.state.ma.us.

No changes to the process have been made for FY2019. For those comfortable with the Assessors Certification procedure, you may proceed before the directions are sent, but be advised that Gateway will default to FY2018 until July 1st. You will need to select FY2019 to complete the certification process for the upcoming year. Please note that changes to assessing staff should be updated on an ongoing, as-needed basis throughout the year. These edits will automatically remove the current certification sign off, thus allowing you to recertify the updated list to DOR.

All communities must have a DOR qualified and clerk-certified Board of Assessors to set annual values, hold a classification hearing, and submit information for tax rate approval to the DLS. Thank you all for taking the time to perform this important function.

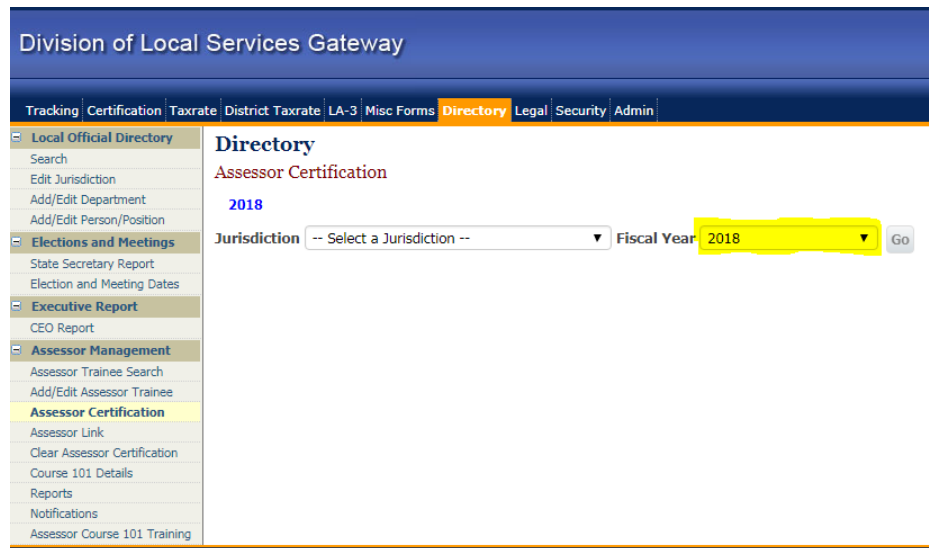
their interrelationship. If you are a recently elected/appointed local official (or if you know one), please consider attending. DLS will soon provide additional information including the registration form. Until then, please feel free to review [the City & Town piece we published last May](#) highlighting the many useful resources DLS has for local officials.

Bulletin 2018-2: FY19 Budget Issues and Other Related Matters

The Division of Local Services has posted on its website [Bulletin 2018-2: FY2019 Budget Issues and Other Related Matters](#). This Bulletin addresses several issues that cities, towns, regional school and other districts should consider for FY2019 budgets and other related matters.

DEP Offering Municipal Recycling IQ Kit

The Baker-Polito Administration has a new resource through the [Massachusetts Department of Environmental Protection \(MassDEP\)](#) to help cities and towns across the Commonwealth increase the quality of the residential recycling stream. The *Recycling IQ Kit* will help municipalities educate residents on how to better recycle in order to remove contaminants from the recycling stream and make those materials more attractive to the world's commodity markets. The program has already awarded a total of \$187,500 to the



Rainy Day Planning: Geographic Variations in Municipal Reserves

Theo Kalivas - Technical Assistance Bureau Project Manager

Now that we are entering the rainy season in Massachusetts, we thought it appropriate to revisit the topic of free cash and stabilization (“rainy day”) funds. These reserves enable cities and towns to make one-time purchases, fund capital acquisitions, and prevent spending deficits caused by emergencies. This article updates an earlier FY2015 [stabilization fund and free cash analysis](#). Free cash amounts utilized in this article are certified as of July 1st, 2016 (start of FY2017), and represent all free cash amounts certified for FY2017. As stabilization fund data for June 30th, 2017 (year-end FY2017) is still being collected, the stabilization fund values shown here are as of **June 30th, 2016**. Please also note that the data does not distinguish between stabilization funds and specialized stabilization funds, as they are combined into a single category.

In FY2017, Massachusetts cities and towns held approximately \$2.7 billion in combined reserves comprised of free cash and all stabilization funds.

	Reserves	As % Statewide Municipal Budgets
Free Cash	\$1,641,389,180	6.54%
Stabilization Funds	\$1,070,169,502	4.27%
Total Combined Reserves	\$2,711,558,682	10.81%
Total Aggregate Budgets	\$25,083,462,109	

As we did in [a previous article](#), let’s divide the state into six regions based on geography: Suffolk County (which includes Revere, Chelsea and Winthrop in addition to Boston), Northeast (Essex and Middlesex Counties), Southeast (Norfolk, Bristol and Plymouth Counties), Central (Worcester County), West (Franklin, Hampshire, Hampden and Berkshire Counties), and the Cape and Islands (Barnstable, Dukes and Nantucket Counties).

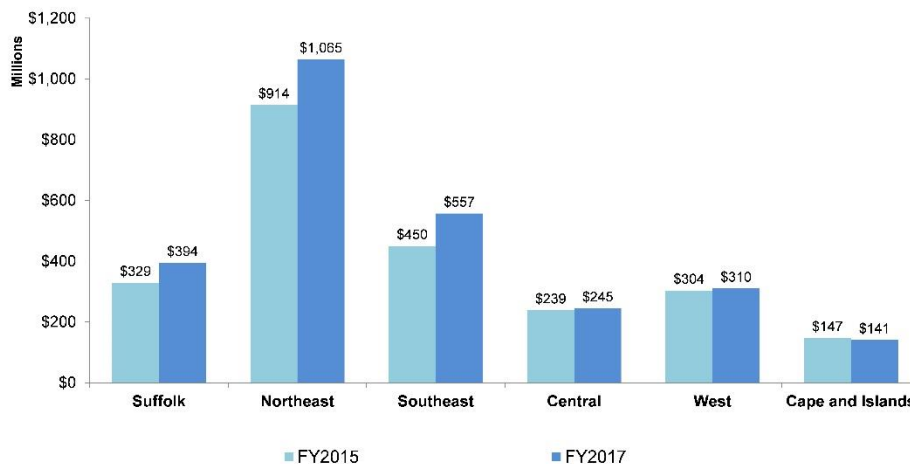
Statewide Combined Reserves

communities of Dartmouth, Lowell, Lynn, New Bedford, Halifax and Chatham, and additional funding is available to more communities that sign up to implement the strategies included in the [Recycling IQ Kit](#) program.

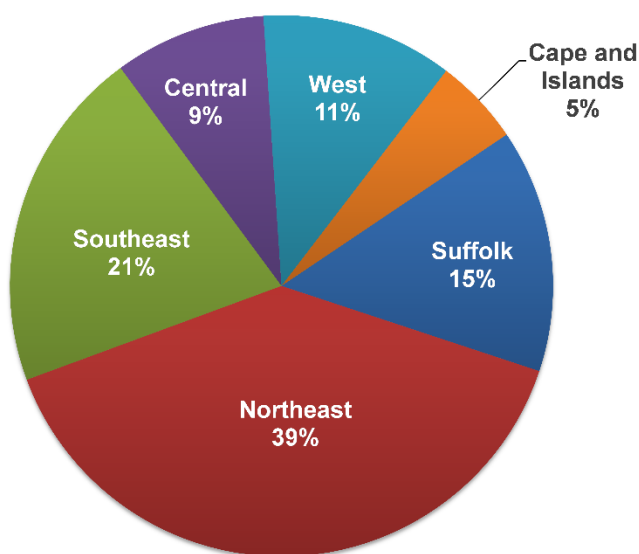
The Commonwealth encourages residents do their part to recycle at home, work or school, however, items are often placed in recycling bins that can contaminate the valuable materials and add handling costs at the local recycling facility. The *Recycling IQ Kit* provides steps, tools and resources to “Increase the Quality” or IQ of the materials collected locally. Municipalities can apply for funding of \$7,500 to \$40,000 to implement the *Recycling IQ* program, which involves providing direct feedback to residents by leaving “oops” tags on recycling carts letting them know what should and should not be recycled. The funding also pays for production of signage, mailers and banners and for staff to monitor recycling carts and distribute educational materials.

MA Clean Water Trust Increases Subsidies for Eligible Borrowers

The [Massachusetts Clean Water Trust](#) will be doubling the amount of additional subsidy for eligible borrowers. Through a combination Federal and Commonwealth funds, the Trust estimates that \$15.2 million will be made available for principal forgiveness for projects on



FY2017 Combined Reserves as a Percentage of Total



We can see that nearly all regions of the Commonwealth have experienced an increase in total reserve dollars since we first performed this analysis for FY2015, except for the Cape and Islands, which experienced a minimal decrease. Areas with larger budgets and higher community wealth (in and around Greater Boston) still hold the majority of the state’s combined reserve dollars. The Northeast in particular stands out, in part because Middlesex and Essex are respectively the first and third most populous counties in the state. We can better see gradations and variances within each region when the data is plotted to a map.

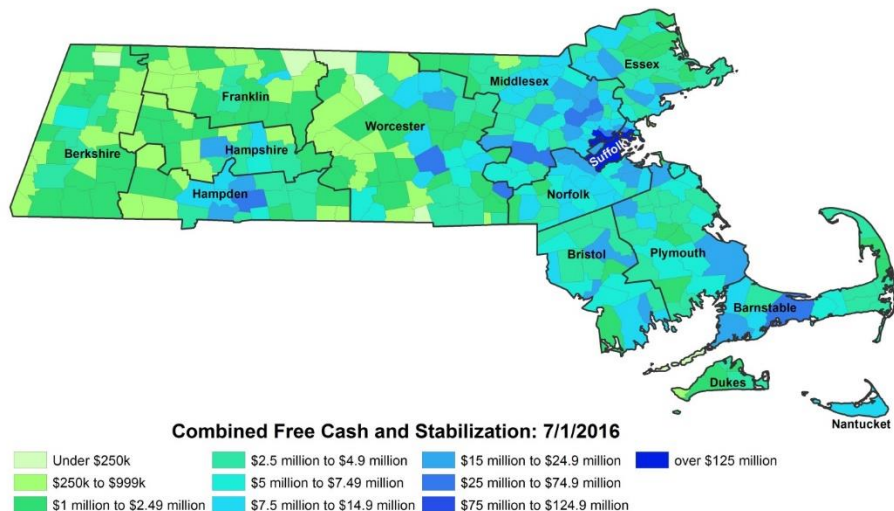
the 2018 Intended Use Plan. Additionally, changes to [MGL c. 29C sec. 6](#) have modified the requirements to receive Principal Forgiveness.

There are two ways for a project to be eligible for principal forgiveness; (1) the borrower qualifies based on an established [affordability criteria](#) or (2) the project qualifies as a Green Infrastructure project as defined by U.S. EPA. Eligibility requirements for 2018 IUP projects remain unchanged from the previous year, but the requirements needed to receive funds have been changed. In addition to qualifying through the affordability criteria, applicants for additional subsidy are required to:

1. Adopt and use [best management practices](#)
2. Establish a water enterprise fund - as applicable under [MGL c. 44 sec. 53F1/2](#) (or equivalent separate restricted account)
3. Not have made any transfer from such enterprise a fund since January 1st, 2015 to fund the community's "local governmental operating budget, other than to pay or reimburse, valid expenses or obligations related to such fund or restricted account."

If a community cannot certify as to having met these conditions at or prior to project completion, then principal forgiveness cannot be applied and the loan will be paid in full. The Trust is excited about the opportunity to promote

FY2017 Combined Reserves

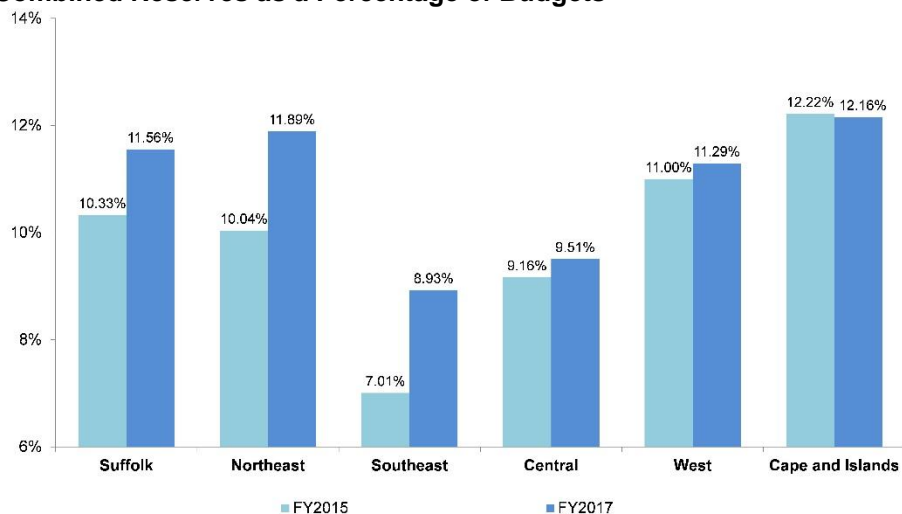


(To view this map on a larger scale, please [click here](#).)

As we can see on the map, Middlesex and Suffolk Counties have the highest concentration of reserve dollars, with Suffolk County containing the most reserves for a single community (Boston). But while aggregate dollar amounts can be interesting from demographic and economic points of view, they do not take into account the size and financial needs of a municipality.

As a way of determining whether a city's or town's reserves are reflective of its needs, we should examine their reserves as a percentage of total budget. This is one factor that may determine how prepared a community is for a fiscal emergency. As a rough indicator, the chart below takes total combined reserves as a percentage of all budgets in each region. In FY2015, the Cape and Islands held the highest amounts of reserves relative to budgets. While this is still true in FY2017 (despite a slight decrease in the Cape and Islands), all other regions have narrowed the gap and hold more in reserve as a percentage of their budgets than they did in FY2015.

Combined Reserves as a Percentage of Budgets



The following map shows that most Massachusetts communities continue to have moderate-to-high reserve levels relative to their budget into FY2017. In fact, most communities' reserves are at or above the minimally advisable 5% to 7% range. From this perspective, Western Massachusetts stands out by

additional infrastructure investment while lowering the cost to eligible borrowers. If there are any questions of concerns about these requirements or any of the services provided by the Trust, please feel free to contact Program Associates Joshua Derouen at (617) 367-9333 x515 and Jonathan Maple at (617) 367-9333 x546.

MUNICIPAL Databank



Other DLS Links:

[Local Officials Directory](#)

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

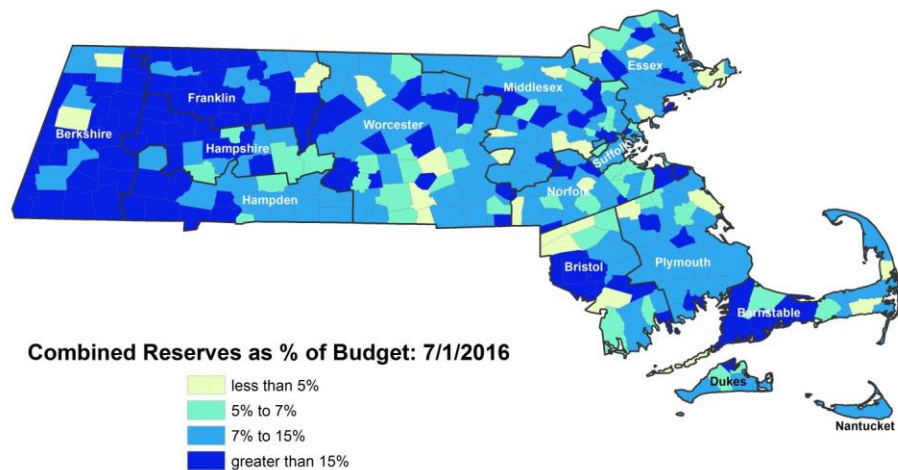
[Bulletins](#)

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Center](#)

[Tools and Financial
Calculators](#)

having the most communities with reserves greater than 15% of their FY2017 budgets.

FY2017 Reserves Relative to Budget



(To view this map on a larger scale, please [click here](#).)

On the whole, it seems that the Commonwealth's 351 cities and towns have been able to maintain healthy stabilization fund and free cash balances. For any community, a well-crafted policy is a key component in effectively managing these important reserves. A good reserve policy should define authorized uses and funding sources, establish target balances as either a total dollar amount or percentage of the community's annual budget, and include a replenishment requirement.

The Technical Assistance Bureau (TAB) provides guidance on reserves and other subjects on this [webpage](#). To directly download reserve topics, click on the following links: [Reserve Policies](#), [Free Cash](#), [Special Purpose Stabilization Funds](#).

Ask DLS: Personal Property Taxes

This month's *Ask DLS* is another in a series of frequently asked questions 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 manufacturing?

Manufacturing is not defined in the general laws, However, cases have described manufacturing as a process that transforms raw or finished materials by hand or machinery, and through human skill and knowledge, into something with a new nature and name and adapted to a new use. For example, baking, publishing, cutting lumber from trees and the making of dairy products and other packaged and treated foods are considered manufacturing. Building construction, gravel making, the breeding of animals, and transmission of information are not considered manufacturing.

Many cases have been decided delineating the scope of manufacturing activity. Some of these cases have held that even processes commenced only at the very beginning or very end of a manufacturing process are considered manufacturing. For example, collecting, sorting, bundling and compacting of scrap metal for sale to other companies for manufacturing a finished product is considered a manufacturing process. However, the mere crushing of cars for resale to a scrap metal company is not considered manufacturing. In another case, mixing of pigment and base paint at a retail store location was considered manufacturing. In order to be a manufacturer, the manufacturing must occur in Massachusetts and be a substantial part of its business.

See [M.G.L. c. 63, § 42B](#); See also [830 CMR 58.2.1\(6\)](#) for DOR's regulations that explain the qualifying factors for classification as a manufacturing corporation.

What is research and development?

Research and development includes experimental or laboratory activity having as its ultimate goal the development of new products, the improvement of existing products, the development of new uses for existing products and the development or improvement of methods for producing products. It does not include testing or inspection for quality control purposes, efficiency surveys, management studies, consumer surveys or other market research, advertising or promotional activities or research in connection with literacy, historical or similar projects.

In order to qualify for classification as a research and development corporation, a company must meet certain income and expense minimums.

See [M.G.L. c. 63, § 42B\(b\)](#); See also [830 CMR 64H.6.4](#) for DOR regulations that explain the qualifying factors for research and development status.

How does a corporation become classified as a manufacturing or research and development corporation?

Generally, a manufacturing corporation or a research and development corporation does not have to be formally classified in order to be eligible for certain corporate excise tax benefits. However, for property tax purposes a business corporation that is engaged substantially in manufacturing must apply to the Department of Revenue and be classified as a manufacturer by the Department in order to receive the manufacturing corporation exemptions. In addition, a corporation must be classified as a research and development corporation in order to receive the research and development corporation exemptions in a city or town that has accepted the local option for that exemption.

Application for classification as a manufacturer must be made on or before January 31 in order to be classified as of the prior January 1, the fiscal year assessment date. For example, an application for manufacturing classification filed November 1, 2018 may be approved for the January 1, 2019 assessment date. An application for classification filed January 15, 2019 may be approved for January 1, 2019 as well. However, an application for classification filed February 15, 2019 may be approved as of the January 1, 2020 assessment date. Application is made on Form 355Q. Foreign and domestic corporations may qualify for manufacturing corporation status. Taxpayers and assessors

may appeal the denial or approval of the classification. See [M.G.L. c. 58, § 2](#); See also [830 CMR 58.2.1](#) for DOR's regulations that explain the procedure for classification as a manufacturing corporation.

Application for classification as a research and development corporation must also be made on or before January 31 in order to be classified as of the prior January 1, the fiscal year assessment date. Application is made on Form 355RD.

What exemptions apply to limited liability companies, partnerships, trusts and other unincorporated legal entities that are treated as corporations for federal income tax purposes?

Limited liability companies (LLCs), partnerships, associations, trusts and other unincorporated entities treated as corporations for federal income tax purposes are treated as corporations for personal property tax purposes. The exemptions that apply depend on whether the entity conducts a business that may be conducted by a business corporation, manufacturing or research and development corporation, telephone corporation, incorporated financial institution or insurance corporation. In addition, to receive the exemptions for a manufacturing or research and development corporation, the entities must apply for and be classified as manufacturing or research and development corporations, as the case may be.

See [M.G.L. c. 59, § 5, cl.16](#); [M.G.L. c. 63, §§ 30, 39](#) and [42B](#).

April Municipal Calendar

- | | | |
|---|-----------|--|
| 1 | Collector | Mail 2nd Half Semiannual Tax Bills
By this date, collectors in communities using the regular semiannual billing system mail the 2 nd half actual tax bills or, if using optional preliminary bills, mail the actual tax bills. |
| 1 | Collector | Mail 4th Quarter Tax Bills
Collector mails these bills if the 4 th quarter bills were not included in the December mailings. |
| 1 | Taxpayer | Deadline to Pay Semiannual Bill
M.G.L. c. 59, § 57C sets this as the deadline to pay the actual tax without interest in communities using the annual preliminary tax billing system on a semiannual basis, unless the bills were mailed after December 31. If mailed after December 31, payment is due either May 1 or 30 days from the date of the mailing, whichever is later. |
| 1 | Taxpayer | Deadline to Apply for Property Tax Exemptions for Persons, Residential Exemptions, and Small Commercial Exemptions
This is the deadline to apply to the assessors if actual tax bills are mailed on or before January 1. If mailed after January 1, taxpayers have 3 months from the mailing date to file exemption applications. |

30 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](#).

Editor: Dan Bertrand

Editorial Board: Sean Cronin, Anthonia Bakare, Linda Bradley, Deb Joyce, Theo Kalivas, Patricia Hunt and Tony Rassias

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

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