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DOR 360



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Thirteen Communities Sign Up for TAP

I am pleased to announce that 13 communities reflecting the diversity of city and towns in Massachusetts have enlisted in our new pilot, the Taxpayer Assistance Project (TAP). These communities will "tap into" DLS experience and expertise to efficiently and successfully set a timely tax rate in November.

The communities include the cities of Revere, Worcester and Chelsea, as well as towns that range the length of Massachusetts from Egremont, Becket, Heath and Royalston in the west to Pepperell, Tewksbury, East Bridgewater and Hanover to the coastal communities of Newburyport on the north shore and Dartmouth in southeastern Massachusetts.

Four of the communities - Revere, Heath, Pepperell and Hanover - are conducting their triennial property revaluation; the remainder of the communities is in an interim cert year.

All of these communities volunteered. Some see TAP as a way to enhance and increase communication between their assessing and finance teams and the Division of Local Services. Others welcome the opportunity to move out of the December rush to approve tax rates.

We are now in the process of scheduling kick off meetings in each of the communities. In every community, the Bureau of Accounts and Bureau of Local Assessment field advisors will visit local officials in their town halls to review and discuss the schedules each community has proposed to reach the goal of a tax rate set in November. If you haven't heard from us yet on scheduling this meeting, rest assured

you will have by the end of next week.

We have developed a tracking system that will monitor the progress of TAP communities as they move through the checkpoints and approvals on the road to setting a tax rate. This tracking system is designed to prevent TAP communities from "falling between the cracks" in what is always a busy and hectic fall during tax rate setting season.

By signing onto TAP, these communities have joined our efforts to change "business as usual" in the tax rate setting process. I greatly appreciate their participation as it is not always an easy decision to try something new. I believe that working together we can make this program a success.

Robert G. Nunes
Deputy Commissioner and Director of Municipal Affairs
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Best Practice: How is Needham Addressing OPEB?

Rick Kingsley - Municipal Data Management and Technical Assistance Bureau Chief

With many local officials struggling to understand and plan for looming liabilities related to Other Post-Employment Benefits (OPEB), we thought it would be beneficial to explore the approach that the Town of Needham has taken to address these future obligations. A community that fails to act on its OPEB liabilities runs the risk that future health insurance expenses will become so large that they eventually overwhelm other budget priorities and have a detrimental impact on municipal services.

Background

For those that may not be familiar with this topic, other post-employment benefits refer to benefits other than pensions that employees receive after they retire. By far, the most significant of these is health insurance, but may also include life insurance, dental or other benefits paid after an employee's retirement. In 2004, the Governmental Accounting Standards Board (GASB) issued directives concerning how these liabilities must be presented in a municipality's financial statements going forward ([Pronouncements 43 and 45](#)).

Similar to an employee's pension benefits, OPEB are earned during the employee's active working career, but are not actually paid until after the employee retires. GASB directed that these future costs no

longer be accounted for on a pay-as-you-go basis, but rather these liabilities must be recognized as they are earned or accrued. In other words, employees earn the right to receive health insurance and other benefits upon retirement incrementally over their active working career. Therefore, on an accrual basis, the annual cost of an employee's health insurance includes both the municipal share of the actual premium paid on the employee's behalf plus a portion of the projected post-retirement benefit earned in the current accounting period.

These projections are done by actuaries who look at several variables to estimate these future costs. These variables include a projected rate of inflation for future medical costs, assumptions about employee turnover, age at retirement, Medicare eligibility, election rates for various plans at retirement, and mortality. Factored in as well are the respective cost sharing agreements for splitting benefit costs between the municipality and retirees. To attribute these future costs to current accounting periods, it is necessary to calculate a present value of these future benefits using a discount rate. As we will discuss later, the discount rate has a tremendous impact on the calculation of OPEB liabilities.

The important estimates that emerge from an actuarial analysis include the total present value of future OPEB benefits and the required contribution that must be appropriated annually to address this liability over multiple years. The projected cost of future benefits discounted to a present value is referred to as the Actuarial Accrued Liability (AAL). This amount is then attributed to the current and prior fiscal years based on when these benefits were earned. The amount of the AAL is reduced in cases where there are OPEB reserves set aside. The Annual Required Contribution (ARC) is the portion of projected benefits earned in or attributable to the current fiscal year (normal cost), plus an additional amount necessary to amortize the unfunded actuarial accrued liability for prior years. The amortization period cannot be more than 30 years.

Needham's Experience

Well before the formal issuance of GASB's OPEB pronouncements, Needham was among the first municipalities in the state to recognize the need to take action regarding OPEB liabilities. In January of 2002, the Legislature approved the Town's special act to establish a post retirement insurance liability trust fund. The act was modeled after similar legislation that had been approved earlier for Bedford.

An initial appropriation of \$380,000 was achieved through savings that arose in the contributory pension appropriation and a favorable actuarial analysis of the retirement system. An additional \$380,000 was appropriated to the trust fund in each subsequent year from FY2002 through FY2007. In FY2005, when the town converted its health insurance coverage to the West Suburban Health Group, it

saved more than \$1 million. Half of the savings (\$500,000) were also appropriated to the trust fund.

By 2007, with a modest amount set aside in the trust, the Town reviewed its pay-as-you-go retiree health insurance appropriation in relation to its Annual Required Contribution. It found that with the retiree health insurance appropriation, plus the annual set aside of \$380,000, that the town was only about \$120,000 away from appropriating its full ARC. The important message here is that retiree health costs can be paid as part of the annual appropriation of the ARC with the difference between the ARC and retiree health costs reserved in the trust for future liabilities.

Through a second special act approved by the Legislature in 2008, the Town amended the investment standard for assets in the trust from investments that are legal for savings banks to the more flexible prudent investor standard. This change opened the door to more lucrative investment opportunities and put the fund on equal footing with the investments allowed for a pension fund. It also made it far more likely that the town could achieve its targeted rate of return on these investments of eight percent.

As noted earlier, the discount rate used to calculate the present value of future OPEB costs plays a significant role in the size of the liability. For communities contributing their full ARC, GASB allows a discount rate of eight percent based on the estimated long-term yield on plan investments needed to pay future benefits. For plans that are pay-as-you-go and not funded at all, a discount rate of four percent or less is required, reflective of the much lower rate of return on general assets. For partially funded plans, a blended discount rate can be used.

To illustrate the importance of this discount/investment rate in these actuarial calculations, Needham's unfunded actuarial accrued liability as of July 1, 2007 was \$76.4 million using a four percent discount rate and it dropped to \$43.6 million with the use of an eight percent discount rate.

Investing with PRIT

With the adoption of the prudent investor standard, Needham began analyzing its options for investments and investment advisory services. For many years, the Town's pension assets had been invested with state pension assets in the Pension Reserves Investment Trust (PRIT). Through this long-standing relationship, Town officials were aware that the PRIT fund had an average annual rate of return of more than 9.6 percent since its inception in 1985. At the time, however, there was no legal mechanism to combine the Town's OPEB funds with its pension assets or otherwise invest these funds with PRIT, so the Town was forced to invest its OPEB trust on its own.

With the approval of Outside Sections 50 and 57 of the FY2012 state budget ([Chapter 68 of the Acts of 2011](#)), cities, towns, districts, counties and municipal lighting plants were authorized to invest their OPEB trusts with PRIT. To do so, entities must accept [MGL c.32B, s.20](#) to establish a trust fund and seek approval from the Board of Trustees of the state's Health Care Security Trust (HCST) to invest in the State Retiree Benefits Trust Fund (SRBTF, [MGL c.32A, s.24](#)). The SRBTF is invested in the PRIT Fund's General Allocation Account (GAA), also known as the PRIT Core Fund. This fund contains about \$58 billion in state and local pension assets, as well as the state's OPEB assets. For communities like Needham with existing OPEB trusts authorized by special act, similar permission to invest in PRIT was contained in an amendment to MGL c.32A, s.24.

To receive approval from the HCST Board to invest in PRIT requires that a municipality submit several documents as part of the application process. This documentation includes evidence of adoption of MGL c.32B, s.20 or special legislation, acknowledgement of investment risk and an investment agreement and a designation of a custodian. The custodian can be either the municipal treasurer or the HCST. If the treasurer is to be the custodian, the SRBTF should be identified as an authorized investment vehicle for the treasurer. Lastly, the Board requires indication of the commitment to fund these liabilities. The Board has set a minimum initial investment requirement of \$250,000 and a non-binding goal for qualified governmental entities to reach \$1,000,000 over three years.

Earlier this fiscal year, Needham liquidated its OPEB investments and transferred the resulting cash balance to PRIT. The town now has about \$15 million in assets invested with PRIT, or roughly 20 percent of the total municipal OPEB assets invested with PRIT. Needham officials identified several factors that influenced their decision:

- The Town's longstanding, successful relationship with PRIT to invest the Town's pension assets provided a comfort level with moving OPEB funds to PRIT.
- Investing with PRIT eliminated the need for Needham to procure investment management services through the MGL c.30B procurement process.
- The PRIT fund is one of the best performing state pension funds in the country and serves as an excellent vehicle for attaining the town's targeted rate of return on OPEB investments.
- Professional investment management is provided at a lower cost due to economies of scale than the Town of Needham would have realized by going out on its own for the services.

- A highly diversified portfolio that makes use of investment vehicles not available to smaller investors (e.g., private equity, direct hedge funds, timber, and private real estate).
- PRIT understands the investments that are legal in MA where an outside investment advisor might not be aware of various prohibited investments.

Conclusion

Needham's experience provides several important takeaways for other cities and towns that might not be as far along with OPEB. Although GASB has not mandated a funding requirement for OPEB liabilities, it is important for municipalities to start saving for these costs as soon as possible. Through the adoption of MGL c.32B, s.20, a community can establish an OPEB trust, use the prudent investor rule for trust assets and invest these funds with PRIT. Even if your community is not in the position to contribute the full ARC each year, modest and manageable contributions are better than nothing. Strategies to set aside one-time revenues, appropriation balances or other windfalls and appropriate them to the trust as available or identifying an appropriate recurring revenue stream can make a significant difference.

Once funding sources have been identified, it is important that these assets are invested with a long-term outlook similar to pension assets. A simple, low cost way to meet these long-term funding needs is to apply for authorization to invest these funds in the state's PRIT fund. The tremendous diversification of investments, the annual performance of this fund over time for pension assets and the similarities between the long-term investment horizons for pension and OPEB liabilities make the PRIT fund an excellent vehicle for the investment of OPEB trusts. For additional information about PRIT, please contact Senior Client Services Officer Paul Todisco at 617-946-8423 or ptodesco@mapension.com.

Needham Town Manager Kate Fitzpatrick, Assistant Town Manager/Finance Director David Davison and Treasurer/Collector Evelyn Poness contributed to this article.

Ask DLS

This month's *Ask DLS* features frequently asked questions about motor vehicle excise exemptions for individuals, organizations and other entities. 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 individuals, organizations or other entities are exempt from motor vehicle excises for vehicles they own and register?

The following individuals, organizations or entities qualify for exemptions from motor vehicle excises assessed for vehicles they own and register. [G.L. c. 60A, sec. 1.](#)

A.) Governments - The United States, the Commonwealth of Massachusetts or any political subdivision of the Commonwealth is exempt from excise for *all* vehicles it owns and registers.

B.) Charitable or Religious Organizations - A charitable or religious organization that qualifies for an exemption from personal property taxes under [G.L. c. 59, sec. 5, Clause 3](#) or [10](#) is exempt from the excise for *all* vehicles it owns and registers.

C.) Disabled or Blind Veterans - A veteran is exempt from the excise for *one* vehicle the veteran owns and registers for personal, non-business use if:

1. The veteran was honorably discharged from peacetime or wartime military service.
2. The Veterans Administration certifies that due to military service the veteran:
 - a.) Has actually lost at least one foot or hand,
 - b.) Has a permanent loss of use of at least one foot or hand, or
 - c.) Has permanent impairment of vision meeting certain specifications in at least one eye.OR
3. The Medical Advisory Board within the Registry of Motor Vehicles (RMV) has determined that the veteran is permanently disabled and the RMV has issued a disabled veteran (DV) plate.

A veteran who qualifies and owns more than one vehicle may have the exemption applied to the vehicle of choice. A full exemption is granted even if the veteran is not the sole owner of the vehicle, e.g., co-owns it with his or her spouse. The surviving spouse of the veteran does not qualify for an exemption.

D.) Prisoners of War and their Surviving Spouses - A veteran who was a prisoner of war, or the veteran's surviving spouse, is exempt from the excise for *one* vehicle the veteran or surviving spouse owns and registers for personal, non-business use if:

1. The city or town has accepted this local option exemption. Acceptance is by vote of the legislative body subject to local charter.
2. The Veterans Administration, or the veteran's discharge, documents that the veteran was held as a prisoner of war.

A veteran who was a prisoner of war and owns more than one vehicle may have the exemption applied to the vehicle of choice. A full exemption is granted even if the veteran is not the sole owner of the vehicle, e.g., co-owns it with his or her spouse. If the surviving spouse remarries, the exemption terminates.

E.) Massachusetts Servicemembers - A member of the military whose domicile is in Massachusetts is exempt from the excise for *one* vehicle the servicemember owns and registers for personal, non-business use if:

1. The city or town has accepted this local option exemption. Acceptance is by vote of the legislative body subject to local charter. The exemption takes effect the January 1 after the calendar year the acceptance is voted,
2. The servicemember is on active military duty outside the continental United States for at least 45 days of the excise calendar year. If the service person is wounded or killed in an armed conflict, the 45 day limitation does not apply.

A servicemember who qualifies and owns more than one vehicle may have the exemption applied to the vehicle of choice. A full exemption is granted even if the servicemember is not the sole owner of the vehicle, e.g., co-owns it with his or her spouse. The surviving spouse of the servicemember does not qualify for an exemption.

If this option is adopted, the charge added by the collector to a delinquent excise when a warrant to collect is issued to a deputy collector is increased by \$3.

F.) Disabled or Blind Persons - A person, who is not a veteran, is exempt from the excise for *one* vehicle the individual owns and registers for personal, non-business use if the person:

1. Has actually lost both legs or both arms,
2. Has a permanent loss of use of both legs or both arms, or
3. Has permanent impairment of vision meeting certain specifications in both eyes.

A disabled or blind non-veteran who qualifies and owns more than one vehicle may have the exemption applied to the vehicle of choice. A full exemption is granted even if the person is not the sole owner of the vehicle, e.g., co-owns it with his or her spouse. The surviving spouse of the person does not qualify for an exemption.

G.) Non-domiciliary Servicemembers and their Spouses - In addition, under the federal Servicemembers Civil Relief Act. 50 U.S.C. App. 571, the following servicemembers and their spouses qualify for exemptions from *all* motor vehicle excises assessed for vehicles they

own and register for personal, non-business use:

1. A servicemember whose domicile is in a state other than Massachusetts and is stationed in Massachusetts or elsewhere due to military orders, as documented by the servicemember's commanding officer.
2. The spouse of a servicemember domiciled in a state other than Massachusetts if the spouse is domiciled in the same state as the servicemember and the spouse is in Massachusetts solely to reside with the servicemember, as documented by the servicemember's commanding officer.

May individuals, organizations or other entities who qualify for exemptions on the vehicles they own and register also receive an exemption for vehicles they lease?

No. With the one exception explained below, vehicles leased by individuals, organizations or other entities are not exempt from the excise. The excise is assessed to the owner-lessor, not the lessee. This cost may be passed on to the lessee by the terms of the lease, but the owner is legally liable for payment.

The one exception is for vehicles leased for the full calendar year of the excise by charitable organizations that are not degree granting or diploma awarding educational institutions.

For example, a charitable hospital leases a motor vehicle beginning on July 1, 2014 and ending on June 30, 2017. The calendar year 2015 and 2016 excises assessed on the leased vehicle are exempt.

[G.L. c. 60A, sec. 1.](#)

May anyone other than the individual who qualifies for motor vehicle excise exemptions file the application?

Individuals, who qualify for exemptions from the motor vehicle excise for vehicles they own and register, and the following persons acting on their behalf, may apply to the assessors:

- A. A qualifying owner's spouse if the vehicle is jointly owned and registered in the names of the individual and spouse.
- B. A qualifying owner's surviving spouse, executor under a will, or administrator of the estate if the owner did not apply while alive.

[G.L. c. 60A, sec. 1.](#)

When is a motor vehicle excise exemption application due? May the assessors grant an exemption if the taxpayer does not timely apply?

As with motor vehicle abatement applications, the exemption application is due within three years after the date the excise is due, or one year after the date the excise is paid, whichever is later. [G.L. c. 60A, sec. 2.](#)

For example, bills for 2014 motor vehicle excises are mailed on March 1, 2014 and are due 30 days later on March 31, 2014. Exemption applications for those excises are due March 31, 2017, or 1 year after the excise is paid if later. If the taxpayer pays the excise on or after April 1, 2016, the application would be due 1 year later. Otherwise, it is due March 31, 2017.

Filing an application does not stay the collection of the excise. To avoid interest and collection charges or action, the taxpayer should pay the excise in full on or before the due date.

The assessors may grant exemptions where an application is not timely filed, but only if the excise is still outstanding. [G.L. c. 60A, sec. 8](#); Section B of [IGR 04-209, Motor Vehicle and Boat Excise Abatements](#). Any action on a late filed application is solely within the discretion of the assessors, however, and cannot be appealed to any local or state board, agency or official. If the assessors decline to exercise their discretion, the taxpayer's recourse is to pay the excise in full and apply for the exemption by right within one year of the payment date.

May an individual who receives an exemption on a motor vehicle for an excise year and then buys and registers a new vehicle during the same year also receive an exemption on the new vehicle?

An individual qualifying for a motor vehicle excise exemption may only exempt the excise on one vehicle owned and registered for personal, noncommercial use. [G.L. c. 60A, sec. 1](#). This means that a qualifying person is eligible for an excise exemption on only on one vehicle *at a time during the excise calendar year*. A qualifying person may receive an exemption on a second vehicle in the calendar year provided the exemption applicant (1) conveys title to the first vehicle upon which an excise exemption was granted and (2) transfers the registration from the first vehicle to the second or cancels the registration on the first vehicle and obtains a new registration on the second. If the person retains ownership of the first vehicle, however, there is no exemption on the second vehicle that year. However, the person may choose which of the excises assessed on the two vehicles to exempt in the following year.

**Division of Local Services Employment
Opportunity
Bureau of Accounts**

The Bureau of Accounts has posted an Accountant IV position for its Springfield Regional Office. Duties are those for a field representative who will work with certain western Massachusetts cities and towns regarding tax rates, balance sheets, Schedule As, audit reports, and other municipal finance related matters. The deadline for application is June 14, 2014. For more information, click [here](#).

Proposed 2014 Equalized Valuations

The Bureau of Local Assessment has posted the 2014 Equalized Valuations (EQVs) representing the full and fair cash value of all taxable property for each municipality as of January 1, 2014 on [our website](#).

These EQVs will be used as a basis of comparison among the 351 municipalities within the Commonwealth for certain state and local purposes. Specifically, EQV is used in the allocation of aid to public libraries, in the calculation of Chapter 70 funding, and in the reimbursement of school construction projects. Certain Cherry Sheet charges also use EQV: County Tax, Boston Metropolitan Transit District, Mosquito Control Projects and Air Pollution Control Districts. In addition, EQV is used in calculating a community's debt limit (MGL Ch.44, Sect. 10).

Informal Hearings will be conducted for the convenience of communities who wish to question their proposed EQV. These hearings will be held from June 2 through June 10, 2014. Bureau of Local Assessment representatives will meet personally with Boards of Assessors in Boston and/or conduct telephone conference calls to address concerns and discuss documentation submitted by assessors that support different values. Municipal assessors interested in scheduling appointments can contact Donna Demirai at (617) 626-2391 or at demirai@dor.state.ma.us.

A **Formal Public Hearing** on the proposed 2014 Equalized Valuations will be held by the Department of Revenue's Bureau of Local Assessment in Boston, Massachusetts at the Saltonstall Building, 100 Cambridge Street, 6th floor conference room, on Monday, June 9, 2014 at 10:00am.

June Municipal Calendar

June 1

Clerk

Certification of Appropriations

This is done after City/Town Council or Town Meeting so the Accountant may set up accounts for each department in the municipality.

June 1	Assessors	Determine Valuation of Other Municipal or District Land In certain communities where land is owned by another community or district, the value of the land is determined by the Assessors in the year following a revaluation year, for in-lieu-of-tax payments.
June 1	DOR/BLA	Notification of Proposed EQVs (even numbered years only)
June 1	DOR/BLA	Notification of SOL Valuations (every 4th year after 2005)
June 10	DOR/BLA	Concludes Public Hearings on Proposed EQVs (even numbered years only)
June 10	DOR/BLA	Concludes Public Hearings on Proposed SOL Valuations (every 4th year after 2005)
June 15	DOR	Commissioner Determines and Certifies Pipeline Valuations
June 15	Assessors	Deadline for Appealing Commissioner's Telephone & Telegraph Valuations
June 15	Assessors	Make Annual Preliminary Tax Commitment The preliminary tax commitment must be based on the prior year's net tax on the property and may not exceed, with limited exceptions, 50% of that amount. This should be done early enough for the annual preliminary quarterly or semi-annual bills to be mailed by July 1.
June 20	Assessors	Final Date to Make Omitted or Revised Assessments As required by M.G.L. Ch. 59, Sections 75 and 76, if a property is inadvertently excluded or mistakenly under-assessed on the warrant for property taxes, it is the Assessors' role to correct the mistake and assess the property correctly. Such an assessment may not be made later than June 20 of the taxable year or 90 days after the date the tax bills are mailed, whichever is later.
June 30	State Treasurer	Notification of Quarterly Local Aid Payments Before June 30

<p>June 30</p>	<p>Assessors</p>	<p>Overlay Surplus Closes to Surplus Revenue Each year, any balance in the overlay reserve accounts in excess of the remaining amount of the warrant to be collected or abated in that year, is certified by the Assessors. The transfer from overlay reserves to the overlay surplus is done on the Assessors' initiative or within 10 days of a written request by the chief executive officer. Once in overlay surplus, these funds may be appropriated for any lawful purpose. Any balance in the overlay surplus at the end of the fiscal year shall be closed to surplus revenue and, eventually, free cash.</p>
<p>June 30</p>	<p>Assessors</p>	<p>Physical Inventory of all Parcels for Communities that Accepted M.G.L. Ch. 59, Sec. 2A(a)</p>
<p>June 30</p>	<p>Taxpayer</p>	<p>Deadline for Applying to Have Land Classified as Forest Land, M.G.L. Ch. 61 According to M.G.L. Ch. 61, Section 2, this is the deadline to apply to the State Forester to have land classified as forest land.</p>
<p>June 30</p>	<p>Assessors</p>	<p>Submit Annual Report of Omitted or Revised Assessments</p>
<p>June 30</p>	<p>Assessors</p>	<p>Last Day to Submit Requests for Current Fiscal Year Reimbursements of Exemptions Granted Under the Various Clauses of Ch. 59, Sec. 5 If an exemption is granted to a residential property owner, the property tax is lowered, and the city or town collects fewer tax revenues than anticipated. These exemptions are partially reimbursed by the state as indicated under "Exemptions", section B of the Cherry Sheet.</p> <p>It is the responsibility of the Assessors to submit all exemptions to DOR so that the community may be reimbursed for statutory exemptions. If the Assessors fail to submit a request, the community's loss of tax revenues will not be</p>

		<p>offset by exemption reimbursements from the state. These reimbursements may not be filed retroactively for any year.</p> <p>If tax bills are mailed late, assessors may submit requests for reimbursement until August 20.</p>
<p>Final Day of Each Month</p>	<p>Treasurer</p>	<p>Notification of monthly local aid distribution.</p> <p>Click www.mass.gov/treasury/cash-management to view distribution breakdown.</p>

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