MESM ACADEMY:

Introduction to Municipal Financing



October 29

10-11am

MESM Academy: Training Norms

Please:

- Add your municipality(ies) to zoom name
- Keep camera on, if possible
- Stay present, avoid distractions
- Take the brief evaluation at the end of this training!

Reminders:

- Only the presentation is recorded, not Q&A
- Feel free to add questions in the chat throughout
- Slides & recording will be posted on the website in 1-2 weeks



NOTIFICATION OF RECORDING

This meeting will be recorded. MAPC may choose to retain and distribute the video, still images, audio, and/or the chat transcript. By continuing with this virtual meeting, you are consenting to participate in a recorded event. The recordings and chat transcript will be considered a public record. If you do not feel comfortable being recorded, please turn off your camera and/or mute your microphone, or leave the meeting.



MESM ACADEMY:

Introduction to Municipal Financing



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Today's Lesson

Lesson Questions

- What do I need to know now about municipal financing and capital planning to be successful in my role?

Learning Objectives

- Describe how local budgets and financing operate at a high level.
- Understand how a local clean energy project can be part of a capital planning process.
- Explain Proposition 2 ½.



Introductory Polls

Rate your level of agreement with the following statements:

- I understand how local budgets and financing work.
- I know how a local clean energy project can be part of a capital planning process.
- I understand the provisions of Proposition 2 ½.

1 = Strongly Disagree
2 = Disagree
3 = Neutral
4 = Agree
5 = Strongly Agree



Meet the Instructor



Sean Cronin

Senior Deputy Commissioner of Local Services

Department of Local Services

Commonwealth of Massachusetts

Division of Local Services

Supporting a Commonwealth of Communities

Fundamental Concepts of Municipal Finance in MA & Capital Planning

October 29, 2026

Municipal Finances

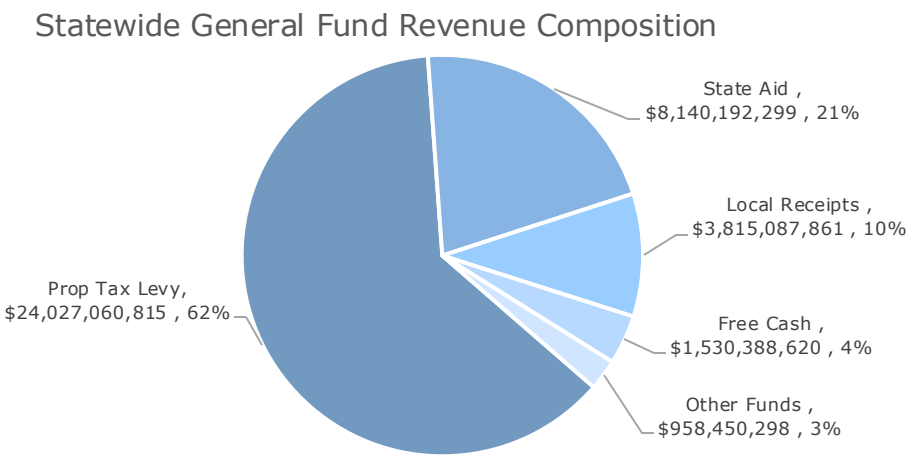
- Local government services funded by property taxes, local receipts, state aid, issuance of debt and use of reserves

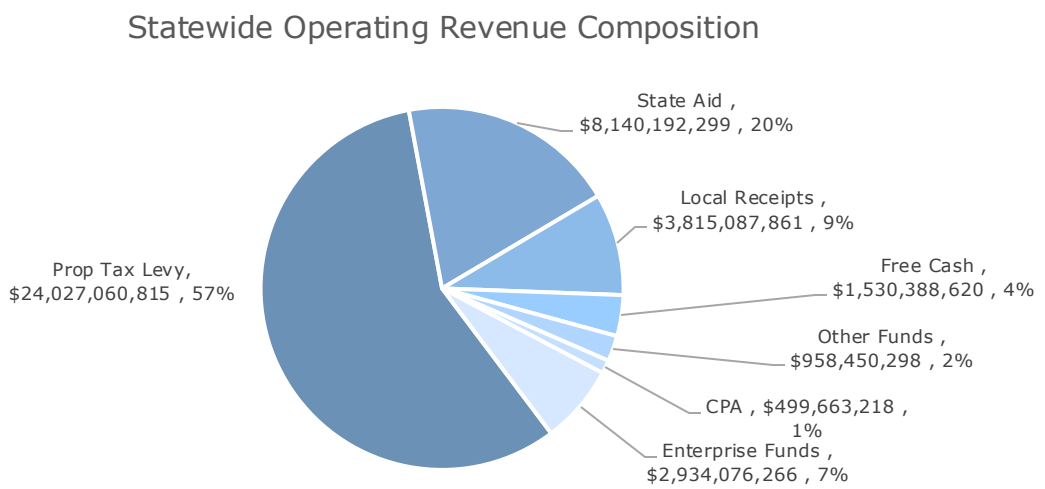
- Income and sales taxes levied by state government

- Local government totaled $40B+ in FY26 ($50B+ all funds)

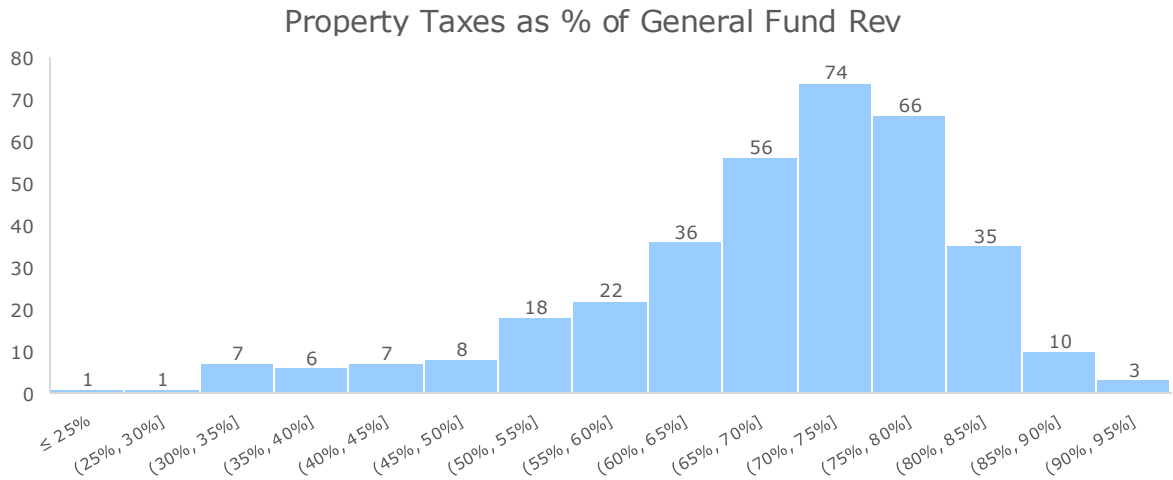


Statewide Local Revenues (FY26 Budgeted)





- While data shows 62% of General Fund revenue comes from Property Taxes, ~55% of muni's have Property Taxes comprising 70%+ of General Fund revenue
  - ~72% of muni's get at least 80% of Property Taxes from residential properties
- $2.9B of Enterprise Funds revenues
  - Water/Sewer, Golf, Airport, Parking, etc.
  - Not available for General Fund expenditures
- $500M of Community Preservation Act (CPA) monies
  - Not available for General Fund expenditures



Proposition 2 ½

Approved by voters via a ballot initiative in 1980

Places annual limits on property taxes

1. Property tax levy cannot exceed 2.5% of the municipality's total assessed property valuation

2. Annual property tax levy cannot increase by more than 2.5%, except for "New Growth"
   - Can ask local voters to exceed the 2.5% annual growth limit via an "operating override" or a "debt exclusion"

Property Tax Levy Building Blocks

Levy Ceiling	**2.5% of total Assessed Value (AV)** **ex: 2.5% x $1B of AV = $25M**
Levy Limit	**Formula essentially =** **(Prior year Levy Limit X 2.5%) + New Growth + Overrides**
Levy	**Determined annually as part of budget process**

Referenda Questions

Overrides

1. Any Legal Spending Purpose

2. Permanent

3. Amount Limited by Ceiling

Exclusions

1. Only Capital Purchases

2. Temporary



Debt
(Life of Bond)

Capital
(1 Year)

3.No Limit on the Number or Dollar Amount

New Growth

- New growth reflects certain increases in the tax base and becomes a permanent part of the levy limit base:
  - properties that have increased in assessed valuation since the prior year because of development or other changes
  - exempt real property returned to the tax roll
  - new personal property
  - new subdivision parcels and condominium conversions

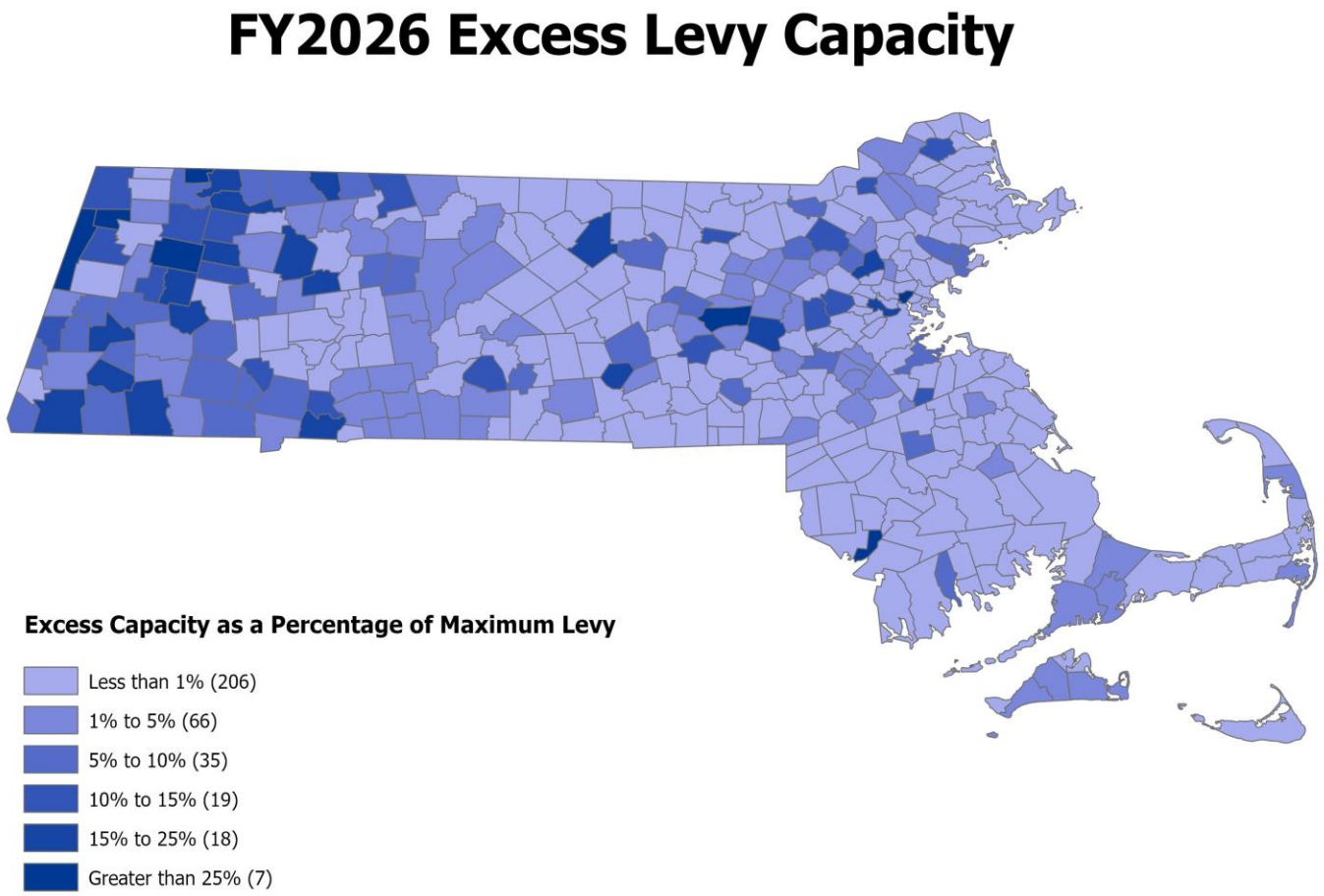
- New growth does not include market value increases

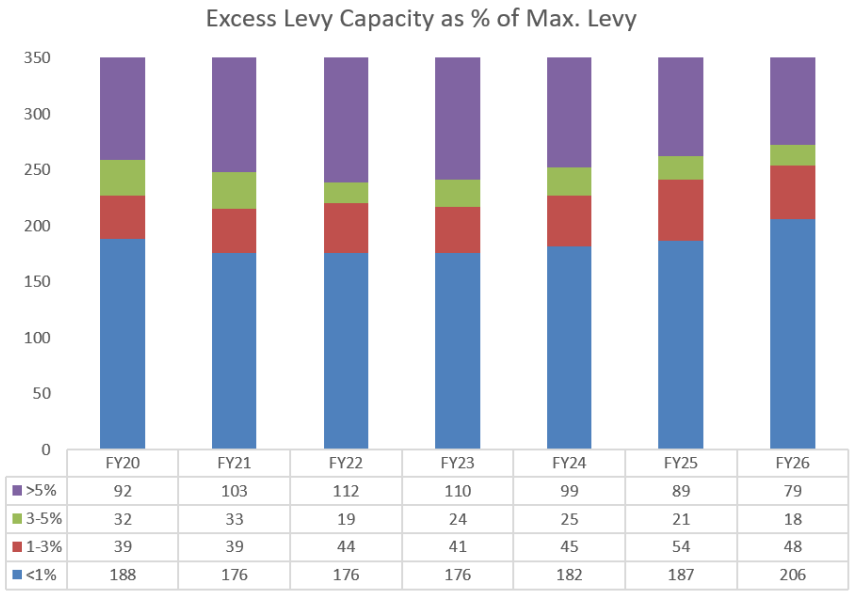
Example: vacant parcel valued at $50K in prior year now valued at $450K because of construction of single family home

- $400,000 included in New Growth calculation
- if tax rate was $14.90, $5,960 in additional revenue

Property Taxes – Excess Capacity

- Excess Capacity = difference between what a muni can levy and chooses to levy





	FY20	FY21	FY22	FY23	FY24	FY25	FY26
>5%	92	103	112	110	99	89	79
3-5%	32	33	19	24	25	21	18
1-3%	39	39	44	41	45	54	48
<1%	188	176	176	176	182	187	206

Annual Levy Limit + Ceiling

	FY1	FY2	FY3	FY4	FY5
Prior Year Levy Limit	$30,000,000	$31,200,000	$32,480,000	$34,817,000	$36,187,425
2.5% Increase	$750,000	$780,000	$812,000	$870,425	$904,686
New Growth	$450,000	$500,000	$525,000	$500,000	$450,000
Sub-Total	$31,200,000	$32,480,000	$33,817,000	$36,187,425	$37,542,111
Override	$0	$0	$1,000,000	$0	$0
Levy Limit	**$31,200,000**	**$32,480,000**	**$34,817,000**	**$36,187,425**	**$37,542,111**
		4.1%	**7.2%**	**3.9%**	**3.7%**
Debt Exclusion	$0	$0	$0	$2,000,000	$1,900,000
Max. Allowable Levy	**$31,200,000**	**$32,480,000**	**$34,817,000**	**$38,187,425**	**$39,442,111**
		4.1%	**7.2%**	**9.7%**	**3.3%**
Actual Levy	$31,075,000	$32,380,000	$34,667,000	$37,987,425	$39,267,111
		4.2%	**7.1%**	**9.6%**	**3.4%**
Excess Capacity	$125,000	$100,000	$150,000	$200,000	$175,000
Assessed Value	**$2,000,000,000**	**$2,060,000,000**	**$2,080,600,000**	**$2,018,182,000**	**$1,917,272,900**
Levy Ceiling	**$50,000,000**	**$51,500,000**	**$52,015,000**	**$50,454,550**	**$47,931,823**

Property Tax Rate Formula

$$\text{Tax Rate} = \frac{\text{Tax Levy}}{\text{Assessed Value}} \text{ X } 1{,}000$$

Ex.

$$\frac{79{,}205{,}926}{6{,}465{,}789{,}910} \text{ x } 1{,}000 = 12.25$$

What if tax less?

$$\frac{78{,}000{,}000}{6{,}465{,}789{,}910} \text{ x } 1{,}000 = 12.06$$

Impact:

Avg SF Home	749,953	749,953
Tax Bill	9,047	9,187
Variance		140
Reduction in PT Rev		1,205,926

Learning Check!

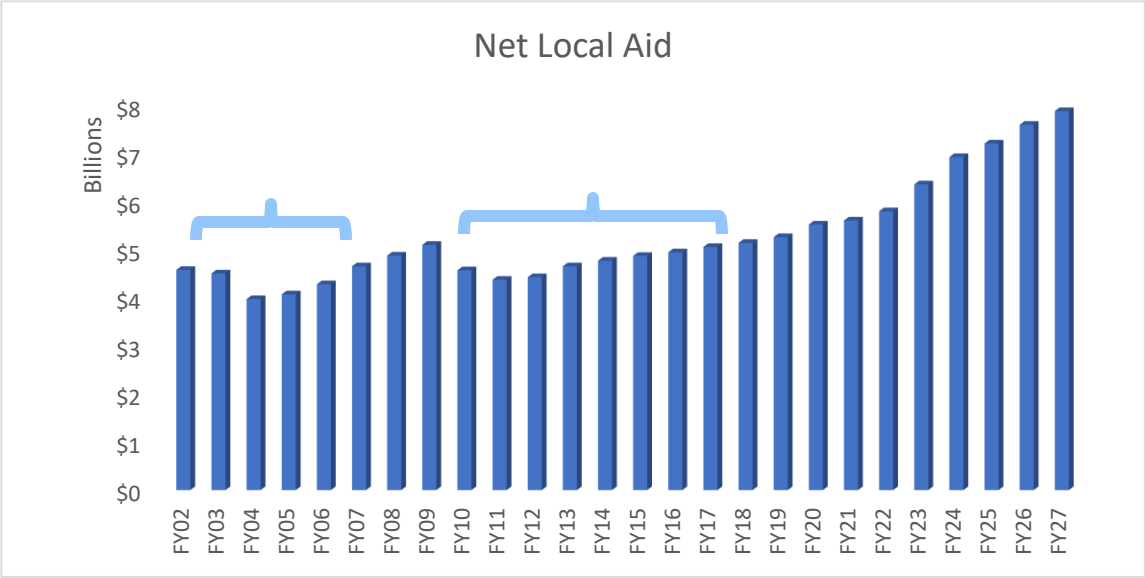
Which of the following does NOT count as new growth in the property tax levy limit calculation?

- New construction on a previously vacant parcel
- An increase in assessed valuation due to new construction
- An increase in property value due to market appreciation
- New subdivision parcels and condominium conversions

Questions on Proposition 2 ½ and property taxes?

State Aid to Municipalities

- Outside a municipality's control and dependent on overall economy
- In FY26, ~$9B of "Cherry Sheet" aid
- Two major programs:
  - Ch. 70 Education Aid = $7B+
  - Unrestricted General Government Aid (UGGA) = $1.3B
- Historically, fluctuates with the economy



- After Dot-Com bust, took 5 years to get to previous level of aid
- After Great Recession, took 7 years to get to previous level of aid

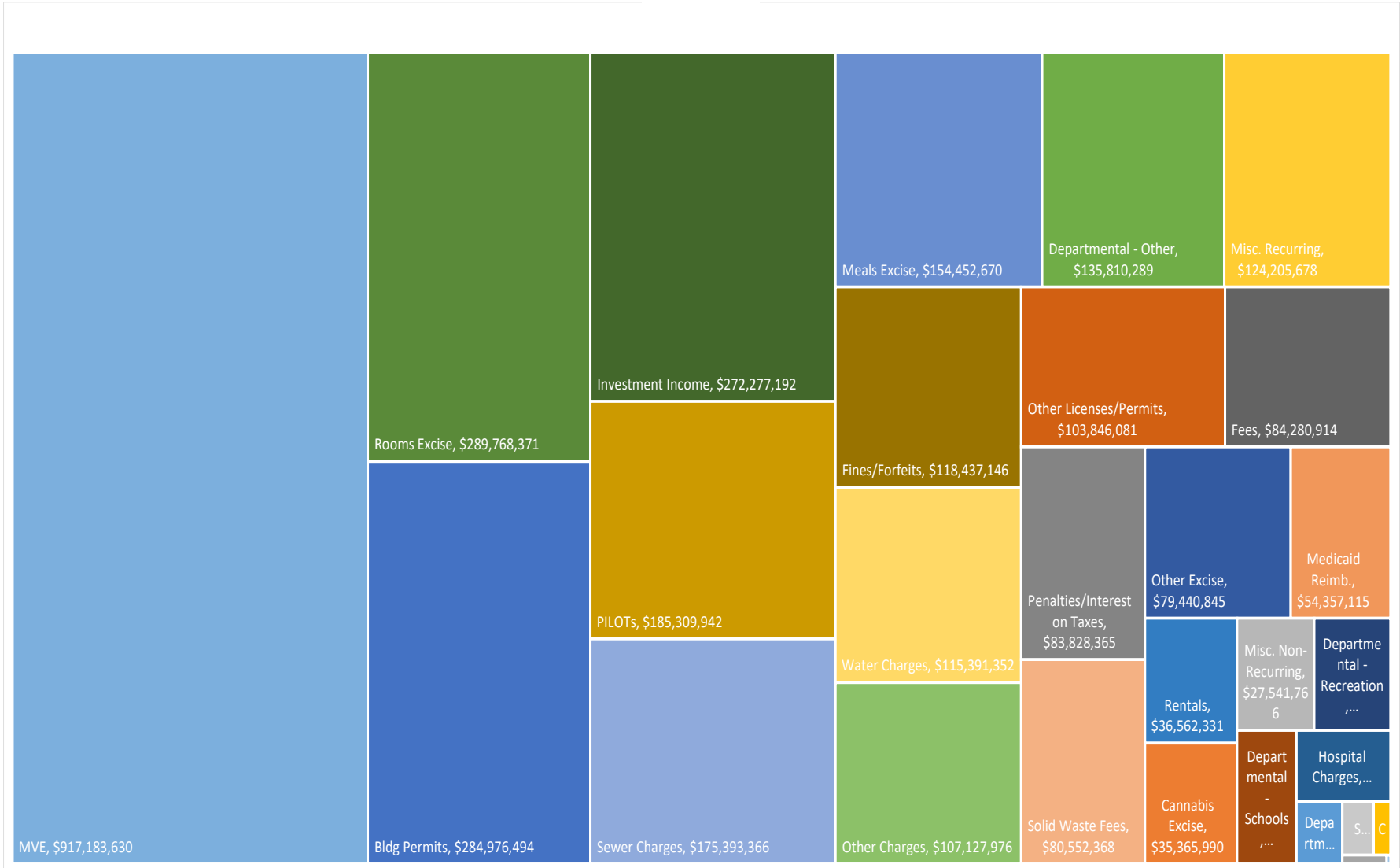
Statewide Local Receipts

- Local Receipts come from a variety of sources other than property taxes, including excise taxes, regulatory fees, user fees, building permits, departmental revenues, investment income

- In FY26 (budgeted), totaled $3.8B, or ~10% of total revenue
  - largest is MVE (FY25 actual = $1.1B)

- The 3 excise taxes (MVE, Meals, Lodging) account for nearly 40% of Local Receipts
  - all formulas or percentages set by state law
  - all economically-sensitive

- Last couple of years, Investment Income has grown significantly due to high interest rate environment



Free Cash

- Free Cash is the amount of unrestricted funds, as of July 1, from operations of the previous FY based on the balance sheet as of June 30

- Includes
  - actual receipts in excess of estimates
  - unspent amounts in budget line items for the year just ending
  - unexpended Free Cash from the previous year

- Offset by property tax receivables and certain deficits, so can be a negative number

- Free Cash is the culmination of multiple years' operating results and is not an annual "budget surplus"

- As a nonrecurring revenue source, should be restricted to paying 1-time expenditures, funding capital projects or put toward reserves
  - not recommended for on-going expenses

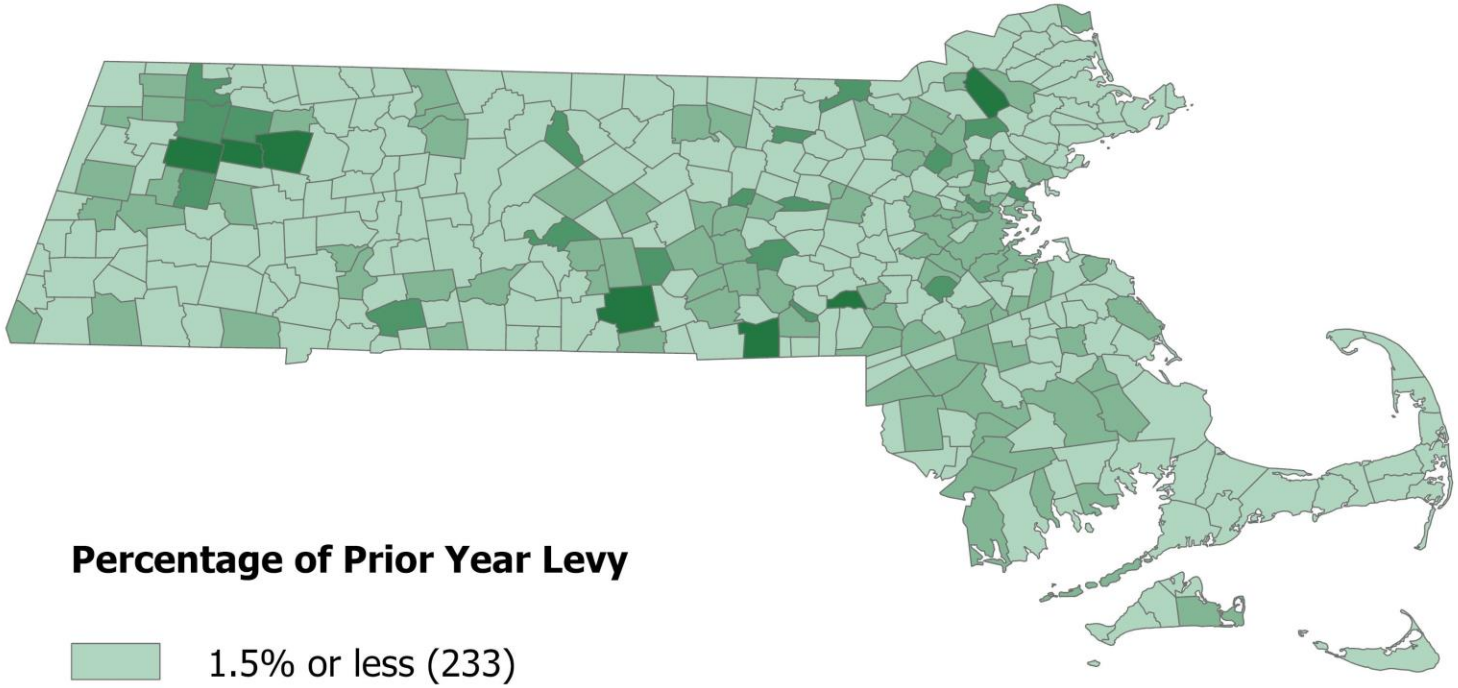
Expenditures

- Personnel costs (wages and benefits) comprise ~70% of a municipality's budget
  - No surprise since local government is a service industry that requires employees to deliver those services
    - Health Insurance
    - Pensions
    - Medicare
    - OPEB
    - Worker's Comp
    - Unemployment

Stresses on Local Budgets

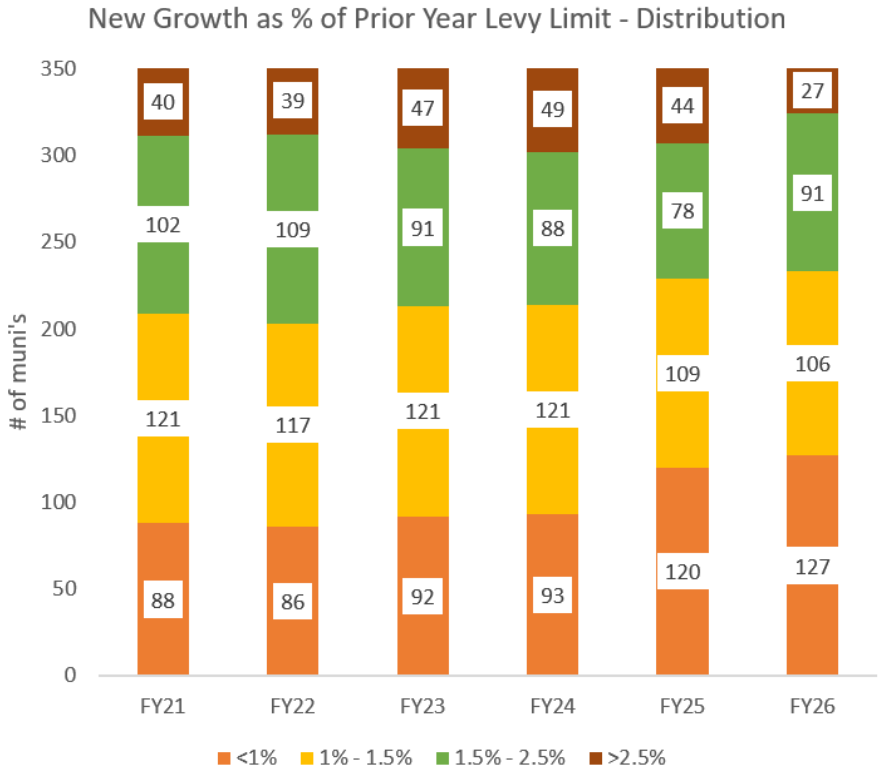
- Property Taxes capped by Proposition 2 ½
- New Growth experience varies greatly across the state
  - Smaller amounts for “bedroom” communities
- Majority of municipalities annually levy property tax to the maximum extent possible
- State Aid is heavily dependent on the economy and is mostly for education
- Local Receipts grow minimally except for economically-sensitive items
  - Can actually decline during economic downturns
- Three major Local Receipt items (MVE, Meals Excise, Lodging Excise) have formulas or percentages set by state law
- Wages + Benefits comprise ~70%+ of a budget
- Pensions and Health Insurance annual budget challenges
- Municipalities limited in financial flexibility

FY2026 New Growth Applied to Tax Levy



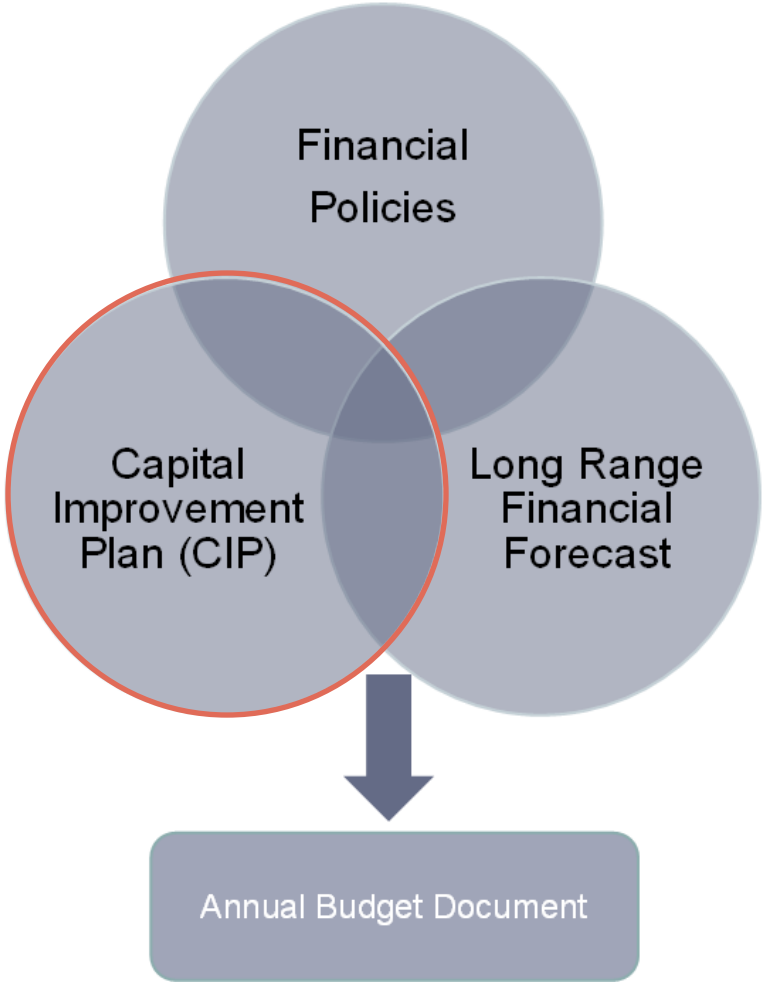
Percentage of Prior Year Levy

- 1.5% or less (233)
- 1.5% to 2.5% (91)
- 2.5% to 5% (20)
- Greater than 5% (7)



Questions before moving on to Capital Planning?

Essential Financial Management Concepts



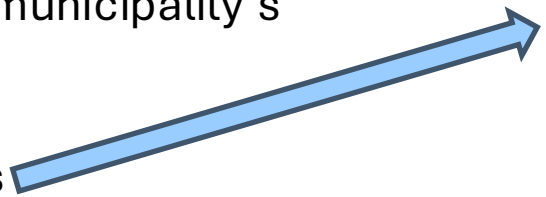
Capital Improvement Plan (CIP)

- A critically important aspect of municipal finance that often isn't given the time and attention it deserves

- Municipalities must maintain its infrastructure
  - Schools, public safety facilities, other municipal buildings
  - Parks, playgrounds, other open spaces
  - Water, sewer systems
  - Streets, sidewalks, bridges, culverts
  - Information Technology
  - Heavy equipment (e.g., fire trucks, DPW trucks)

- Mismanaging debt can cripple a municipality's finances

- Integrate with other master plans



  - Facilities master plan
  - Open Space Master Plan
  - ADA Transition Plan
  - Housing Development/Economic Development Master Plan
  - IT Master Plan
  - Decarbonization Plan
  - Climate Change Adaptability Plan
  - Vehicle/Heavy Equipment Master Plan
  - Complete Streets Plan
  - Pavement Management Plan
  - Culvert/Bridge Master Plan

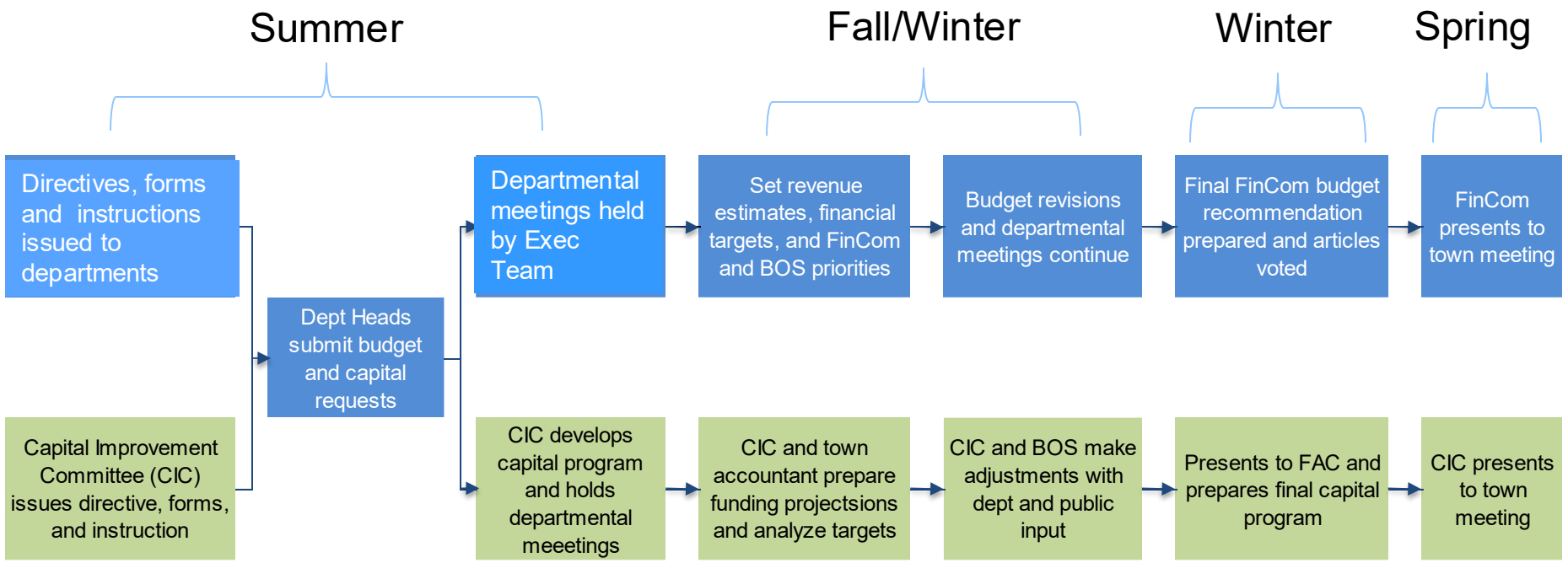
CIP Process & Players

- Adopt a planning process guided by policies
- Prepare/update inventory of existing capital assets
- Solicit, compile and evaluate project requests
- Establish project priority
- Develop a CIP financing plan
- Annually Present the CIP

- Executive team
  - Mayor and CFO
  - Town Administrator/Town Manager and CFO
  - Treasurer
  - Accountant/Auditor
- Other local entities
  - Department Heads (e.g., DPW Dir, Fire Chief, Building Comm)
  - Finance Committee
  - Capital Planning Committee
- External
  - Financial Advisor (FA)
  - Bond counsel

CIP Process - Timeline

- Town examples

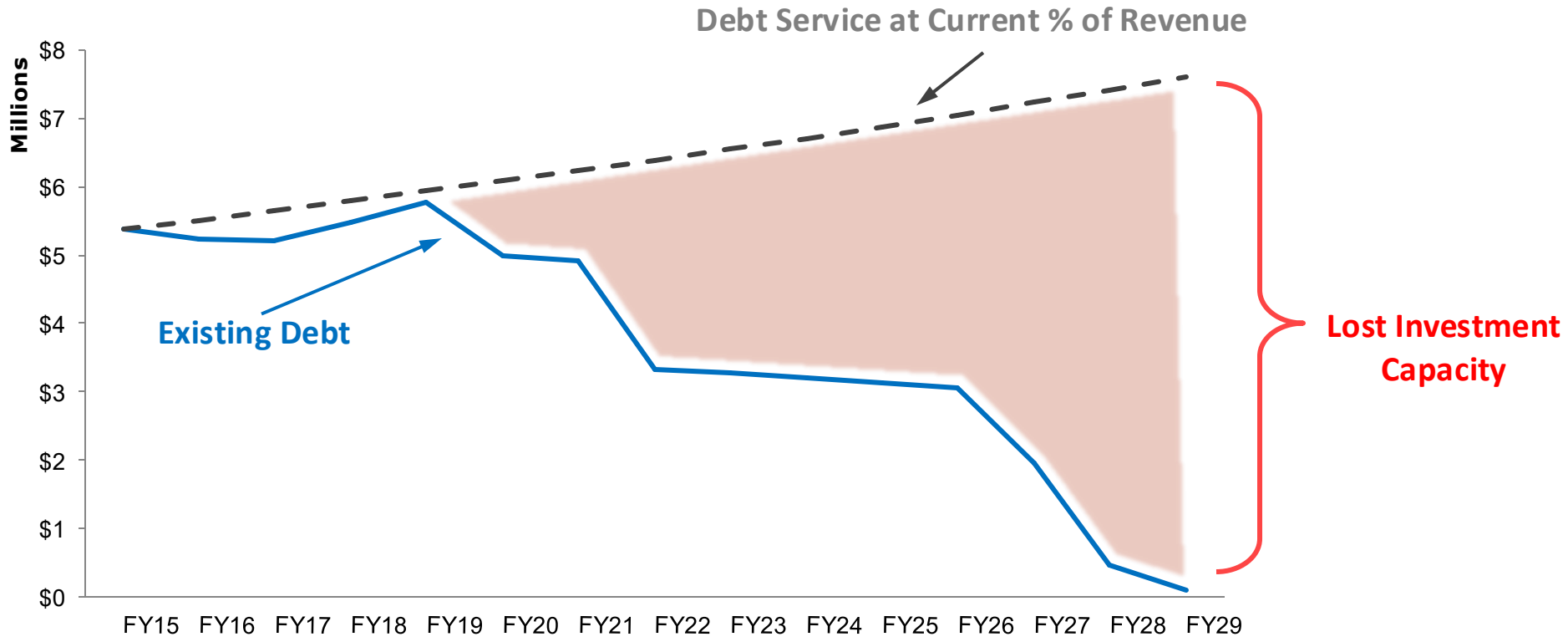


CIP Financing

- Debt (Bonds) – best for major projects with long useful life
  - Debt Exclusion – option to fund projects “outside the budget”
- Pay-Go – best for one-time, limited scope items
  - Tax levy
  - Free Cash
  - Special Purpose Stabilization Fund
  - Other one-time revenues
  - Capital Exclusion
- State/Federal Grants
- Community Preservation Act (CPA)
- Enterprise Funds
  - User fees

Maintain a Steady Balance of Capital Investment

- Because of its critical nature and large financial obligation, municipalities should reinvest decreases in debt service
  - don't use it for "operating budget relief"
  - maintain debt service as a constant percent of revenue
- Lack of reinvestment leads to lost capacity



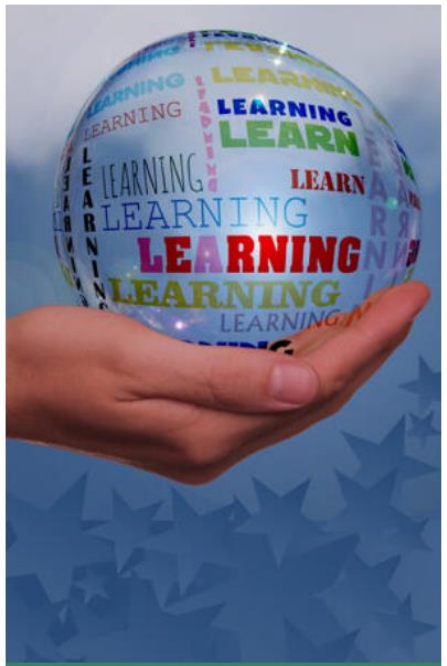
Debt Exclusion

	FY1	FY2	FY3	FY4	FY5
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Sub-Total	$31,200,000	$32,480,000	$33,817,000	$36,187,425	$37,542,111
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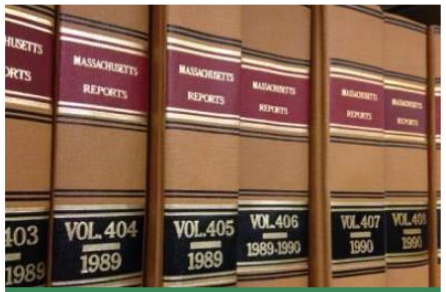
Municipal Finance Information

- www.mass.gov/dls

Most Requested



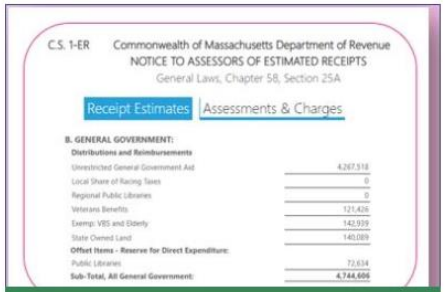
Municipal Finance Training and Resource Center →



Bulletins, Guidelines and Opinions (IGR/BUL/LFO) →



Data Analytics & Visualizations →



Cherry sheet & state payment reports →

City & Town

DLS Publications and Financial Tools →

Learning Check!

Which financing strategy is best for projects with a long, useful life?

A. Debt (bonds)
B. Pay-Go (tax levy, free cash, other one-time revenue sources)
C. State/federal grants
D. Enterprise funds (user fees)
E. All of the above

Next Steps

Reminder to please complete the anonymous evaluation form!

Upcoming Events:

- **11/04:** Designing Outreach Materials on Canva *(MassEnergize Webinar)*
- **11/09:** Using MassEnergyInsight Training
- **11/16:** Mass Save Municipal Programs & Incentives Training
- **11/23:** Leominster School Decarbonization Tour *(in-person site visit!)*



Q&A Notes

- Q: Does the debt exclusion/proposition 2 ½ apply for regional school improvements/builds? Our town had recently voted on contributing towards the improvement on a regional technical school. Do the same rules generally apply?
  - Regional schools are more complex because more entities are involved. Decisions made to renovate or build a new regional school does provide the legal ability to a municipality to issue a debt. The municipalities involved incur proportional costs. It is up to the communities to assess the financing and whether they want to pursue debt exclusion to finance. If the voters vote against debt exclusion, the municipalities still owe the money for the project. Franklin County Voc Tech school construction is an example. 19 communities voted on it. The communities need to figure out if the cost fits in their budget or if they need to pursue debt exclusion.
- Q: Does it count as new growth if you renovate an existing house so that it is assessed at a higher value?
  - Yes. Assessors track the building permits. Renovations are counted as new growth. For most communities, this makes up most of their new growth value.
- Q: What happens to the Excess Capacity? Why would a voter agree to an override if there is excess capacity?
  - The opportunity to use excess capacity never goes away. In the Franklin County Voc tech school case, half of the 19 communities had excess capacity in an amount that is greater than their share of the cost. If those communities chose to do so, they could tap into that capacity so they have the line item to pay for the projects. Using the excess capacity would mean an increase in taxes for voters. One of the reasons municipalities sit with that excess capacity is to use that flexibility in the future.

Q&A Notes

- Q: If a community is looking to add their regional schools to their Green Community Energy Reduction Plan, could they use the funding to help offset the need for an exclusion or override? Can you speak a little more about the timing of that?
  - Any non-municipal revenue source is always welcome. If you get X million dollar project and have Y amount in grants. The cost to municipality decreases because of the grants, which is welcome. The more outside funding you have, the less the impact on the voters in terms of tax, thus more favorable when it comes to pursuing debt exclusion.
- Q: Does any tax increase need to be approved by Town meeting? At what point does a tax increase become an override?
  - Town meeting is the legislative branch of the municipal government, and approves the budget. Leading up to the town meeting, departments put together a budget. The town may be able to fund budget increases through the 2.5% levy limit increase + new growth without needing an override. The town may also submit a "contingent budget" for approval (i.e., the a budget that includes the override and no lay-offs). If the voters do not approve the override, the Town proceeds with the budget that stays within the levy limits and requires the layoffs. Town meeting cannot force a levy limit to exceed the maximum without voter approval.
- Q: Do these guidelines apply to school budgets or does a school budget just become a part of the overall budget?
  - School budget is a part of the municipal budget. In Massachusetts, it's all within the 2.5%, that is why we have annual debate about how much schools get.

Q&A Notes

- Q: Can a community give free cash back to residents?
  - Not directly. Can move the free cash to reduce tax levy next year.
- Q: Within a municipality, which position has the lead responsibility/expertise to develop the budget?
  - In a city, it is the mayor. In a town, the presence of a town administrator will vary. It may be the town manager, finance committee, varies across municipalities.
- Q: What strategies do you have, if any, to support feasibility studies for major projects? It can be a challenge to convince a community of a small town to spend even tens of thousands of dollars in town funding.
  - Don't know the answer. In Brookline, for example, the town was willing to invest money upfront and generally not afraid to appropriate money for such studies. This is not the case for all municipalities. In some smaller towns especially, finding budget for such studies can be a challenge. May be worth it to bring in consultants to cut costs, but it depends on the context of the town.
- Q: Is there guidance for planning projects that are eligible for rebates (i.e., utility energy efficiency projects/federal direct pay) ?
  - Talk to finance committee to determine how the municipality can apply rebates after funding is received. Rebates can be used to reduce the debt exclusion.

Municipal Energy and Sustainability Managers ACADEMY

Thank you!

