



# Bulletin

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2013-02B

## **FY2014 BUDGET ISSUES AND OTHER RELATED MATTERS**

TO: City/Town/Regional School District Officials  
FROM: Gerard D. Perry, Director of Accounts  
DATE: March 2013  
SUBJECT: FY2014 Budget Issues and Other Related Matters

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This *Bulletin* addresses several issues that cities, towns, regional school and other districts should consider for FY2014 revenue and expenditure budgeting and other related matters.

### **G.L. Chapter 44, § 31 Emergencies**

Over the past several months, many Massachusetts communities experienced multiple emergencies after which they were granted permission to expend in excess of appropriation by the Director of Accounts under G.L. c. 44, § 31. Accountants should track expenditures and possible reimbursements for these emergencies individually to prepare for any final reporting requirement or necessary borrowing authorization.

Emergency payments made in FY2013 after the setting of the tax rate through June 30, 2013 must be reported to the Assessors for inclusion in the FY2014 tax rate unless otherwise provided for. Emergency payments made in FY2014 prior to the setting of the tax rate may be included in the FY2014 tax rate but must be included in the FY2015 tax rate unless otherwise provided for.

### **Budgeting in Full Prior to Tax Rate Certification**

In the Bureau's opinion, although events may occur after tax rate certification that require additional budget action, the city or town budget as reported on the tax rate recap should represent final spending authority as budgeted and appropriated. Cities and towns should not submit the form for tax rate certification with the intention of funding the remainder of the budget as funds become available.

## **Community Preservation Fund**

During FY2013, 148 cities and towns collected the local Community Preservation Act (CPA) surcharge and are eligible for state matching grants in FY2014. The Division of Local Services (DLS) estimates that the balance in the state trust fund will be sufficient to provide a first round match of 26% of the surcharge levied by each city and town.

Please note that this estimate does not include the potential impact of Section 155 of Chapter 139 of the Acts of 2012 that transfers up to \$25 million from the state's FY2013 surplus to the state trust fund at year end. The amount of any additional funding will not be known until the state's books are closed in the fall. Amendments to the Community Preservation statute (Chapter 44B), also push back the distribution date of the state payments from October 15th to on or before November 15<sup>th</sup>, to allow time for closing the state's books. If additional state funding is available, communities may use this on their FY2014 tax rates, provided that it has been appropriated or reserved by city council or town meeting action prior to the setting of the tax rate.

In FY2014, there will be equity and surplus distributions for those cities and towns that have adopted the maximum 3% surcharge. With these additional distributions, the total state reimbursement for qualifying cities and towns will increase, depending on their decile and total surcharge amount. The above estimates are subject to change depending on Registry of Deeds collections between now and October.

For purposes of completing schedule A-4, part 1a, state trust fund distribution, the Bureau will accept no amount greater than 26% of the FY2013 net (after abatements) surcharge committed unless:

- the actual FY2014 distribution calculated and published by DLS (by law no later than November 15) shows a greater amount; or
- reasonable supporting documentation submitted can support a greater amount.

## **Snow and Ice Removal Costs**

It's time to remind cities and towns of the provisions of G. L. Chapter 44, § 31D, regarding authority to deficit spend their snow and ice removal appropriations and to include the deficit on the next annual tax rate without appropriation provided two conditions:

- appropriation for snow and ice removal in the year the deficit occurred equaled or exceeded the appropriation for snow and ice removal in the prior fiscal year;
- deficit spending was approved by the Town Manager and Finance or Advisory Committee with a Town Manager or by the Selectmen and the Finance or Advisory Committee in any other town. In a city, deficit spending was approved by the City Manager and City Council with a City Manager or by the Mayor and City Council in any other city.

If these two conditions are not met, the emergency provisions of G.L. Chapter 44, § 31 apply.

For regional school districts, similar snow removal costs must be funded within the FY2013 regional school district budget. The regional school district committee may appropriate any applicable available funding source or may request the Director of Accounts to authorize the appropriation of regional school district stabilization fund monies (G.L. c. 71, § 16G½) to cover the costs. The provisions of G. L. Chapter 44, §§ 31 and 31D do not apply to regional school districts.

## **Debt Exclusions (DE-2)**

The Bureau has been advised that the start of certain school building projects has been delayed for a variety of reasons causing an increase to project costs due to construction inflation. Should your project fall into this category, please be reminded of the provisions of [IGR 02-101](#) and contact the Bureau if necessary.

## **Local and Regional School Finance**

### *Transportation Reimbursement for Homeless Children*

The appropriation for this reimbursement, known by some as McKinney/Vento, was reduced by the Governor's 9C reduction plan last December and has been included in the Governor's FY2014 budget at the reduced level. If approved, these funds will be distributed separate from FY2014 Cherry Sheet aid. For cities and towns planning to estimate these funds on the FY2014 tax rate recap, the Bureau will only allow estimates up to DESE's intended distribution. Higher estimates will likely be denied. Regional School Districts as well should be cognizant of DESE's estimates.

### *MSBA Annual Grant Payments*

As in prior years, FY2014 estimated payments will be allowed on the tax rate recap provided (1) the amount is reported on MSBA's website, and/or (2) an additional amount is indicated in separate correspondence from MSBA apart from the website amount.

### *Requirement of Regional School District Annual Audit*

Per G.L. Chapter 71, § 16A, the regional school committee has the duty to ensure that the district has an annual financial audit. The committee must solicit proposals and contract with an independent certified public accountant to perform the audit and make management recommendations. It must also receive the audit report during a meeting open to the public and within 10 days, forward a copy of the audit to the Director of Accounts and the board of selectmen, city/town manager or mayor of each member municipality.

### *Regional School District Balance Sheet Required*

Regional school districts must submit a balance sheet to the Bureau for certification of excess and deficiency as of June 30. DESE regulations indicate that if a balance sheet is not filed timely, the Commissioner of DESE may request of the Commissioner of Revenue to withhold all or some part of the distribution of state aid for that school district until a balance sheet is submitted.

State law and the DESE regulation require a balance sheet to be submitted to the Bureau on or before October 31 of each year. Annual Bureau instructions indicate the submission requirements. Audited balance sheets are not required, but the submission must be in a format that will allow the Bureau to calculate an excess and deficiency amount.

### *Appropriation of Excess and Deficiency by Regional School District*

The Bureau of Accounts and the DESE agree that excess and deficiency must be certified by the Bureau of Accounts from a regional school district's balance sheet and can only then be applied by the members for purposes of the FY2014 assessment.

## *State Special Education Reimbursement Fund (“Circuit Breaker”)*

Per DESE regulations, the balance in this fund at the close of FY2013 can be no greater than DESE’s FY2013 reimbursement, not including extraordinary assistance. Any excess fund balance must close to the General Fund. Any deficit fund balance must be charged to FY2014’s school budget. See [603 CMR 10.07](#) for additional details.

### *A.R.R.A. Grants*

City, town, school and regional school budget officers must pay special attention to budget line items or projects once funded by other than the General Fund, such as A.R.R.A. or other grants. The Bureau is aware of situations in which budgeted expenditures were supported by an unrealistic expectation of receipt of additional federal funds. Depending upon the amount of such an error, the consequences may be severe.

### **Federal School Grant Deficits**

The Bureau has taken note that a number of city, town and regional school district balance sheets report deficits in certain federal school grants which the Bureau has not traditionally reduced free cash or excess and deficiency for. However, for certifications as of July 1, 2013, the Bureau may reduce free cash or excess and deficiency for any federal school grants which have been reported in deficit on the balance sheet since June 30, 2011. The Bureau’s end-of-year letter to be issued July, 2013 will have more details in this matter.

### **Expenditure of Federal Funds Threshold**

The Federal Single Audit Act of 1984 as amended requires a financial audit or, if properly petitioned to the appropriate federal oversight or cognizant agency, a specific program audit, if \$500,000 or more in federal funds are expended during any one fiscal year. Towns, especially smaller ones not accustomed to an annual audit, having received federal funds in connection with recent storm activity, should pay special attention to this requirement.

### **Bond Premiums**

Local municipal and regional school district officials should take note of the Bureau’s new Bulletin regarding an alternative use for certain premiums received in connection with debt excluded from the limits of Proposition 2½ so called. The current rule requires such premiums to be amortized over the life of the debt. The new rule, if applicable, will allow additional flexibility.

### **Monthly State Aid Distribution**

Per Chapter 165, § 116 of the Acts of 2012, the Municipal Data Management/Technical Assistance Bureau will distribute certain Cherry Sheet aid monthly rather than quarterly as of July, 2013. Further details of the distribution process will be released by that Bureau in the near future.

### **Dealing with an FY2013 Revenue Deficit**

The Bureau reminds that a revenue deficit occurs when actual revenues and expenditures (exclusive of legal appropriation deficits) compare unfavorably to budgeted non-property tax revenues and appropriations. If appropriation turn-backs are insufficient to cover the non-property tax revenue shortfall, a revenue deficit exists that must be provided for in the following fiscal year’s tax rate.

## **Dealing with an FY2013 Appropriation Deficit**

G.L. c. 44, § 31 specifically states that “no department financed by municipal revenue, or in whole or in part by taxation of any city or town...shall incur a liability in excess of the appropriation made for the use of such department...” Overspending is allowed by the General Laws only in certain circumstances. All governmental entities must closely monitor their spending pattern, especially during the latter half of the fiscal year, so that improper overspending does not occur. Appropriation deficits must be provided for in the following fiscal year’s tax rate. Illegal appropriation deficits are reductions in the free cash calculation. [IGR 06-209](#) detailing alternative year-end transfer procedures may be of assistance.

## **Compensated Absence Legislation**

Chapter 66 of the Acts of 2012, which is now G. L. Chapter 40 § 13D, provides for “a reserve fund for future payment of accrued liabilities for compensated absences due any employee or full-time officer of the city or town upon the termination of the employee’s or full-time officer’s employment.” The Chapter first requires acceptance by cities, towns, and districts (majority vote required by a regional school committee). Regional school districts already maintaining such a fund as of the effective date of the act may continue to maintain the fund. Otherwise, funding may be provided via the annual budget process.

The Bureau advises cities, towns and non-regional school districts currently maintaining such a fund to note the acceptance provision and take appropriate action at city/town council or town meeting prior to June 30, 2013. Otherwise, the Bureau may require the account to be closed to the General Fund.

## **Enterprise Funds**

### *Combining Water and Sewer Funds*

Communities with separate water and sewer enterprise funds voted under G.L. c. 44, § 53F<sup>1</sup>/<sub>2</sub> may, by vote of the local legislative body, combine both utilities into a single water-sewer fund. The combined fund will be treated the same as the individual funds were and will have only one certified retained earnings.

### *When Converting from Special Revenue to Enterprise*

When converting from a special revenue fund to an enterprise fund, the fund balance in the special revenue fund may be transferred to the fund balance of the enterprise fund by vote of the city or town legislative body. Any fund balance not so transferred must close to the General Fund on June 30. Any fund balance transferred will become retained earnings only after certification by the Bureau.

### *On Estimating FY2014 Enterprise Revenues*

The Bureau will not allow FY2014 estimated revenue for user charges based upon the government’s intent alone to raise these charges in the future. These charges must be raised before the tax rate recap is submitted for tax rate certification to the Bureau. When revenues are estimated based upon consumption alone, the Bureau will continue to require reasonable supporting documentation for this claim. Be reminded that a structural deficit in enterprise fund retained earnings (not due to timing) must be provided for in the next tax rate.

### *On Appropriating Enterprise Retained Earnings*

Appropriation from retained earnings may only be made after the earnings are certified by the Bureau and in no greater amount than so certified.

### *On Betterments and Proceeds from Borrowed Funds*

Without special legislation, communities cannot reserve betterments or the proceeds from borrowed funds in an enterprise fund. [See IGR 08-101](#). Communities intending to appropriate betterments solely for enterprise fund debt service are advised to appropriate from retained earnings the amount received in the prior fiscal year from betterments into a special purpose stabilization fund for this purpose. Should the legislative body change the purpose of this stabilization fund, the funds must be returned to retained earnings of the enterprise from which they were voted. Proceeds from borrowed funds should be recorded in the capital projects fund.

## **Revenue Budgeting for FY2014**

- The Bureau **will continue to require** that any FY2014 estimated receipt above its FY2013 actual amount (except for rounding) be supported by reasonable documentation. Unreasonable FY2014 estimates may be rejected by the Bureau for tax rate setting purposes.
- *Meals Excise Taxes:* According to DLS' Municipal Data Bank, 163 cities and towns have adopted the local option meals excise tax. Cities and towns expecting to adopt this local option effective at the beginning of FY2014 must vote to accept it by May 31, 2013.
- *Rooms Excise Taxes:* According to DLS' Municipal Data Bank, 176 cities and towns have adopted a local option room occupancy excise tax. Cities and towns expecting to adopt this local option effective at the beginning of FY2014 must vote to accept it by May 31, 2013.
- *Meals/Rooms Estimated Receipts:* If adopting either or both of these local options effective in FY2013, revenue estimates for FY2014 will be based upon 12 months of receipts. For cities and towns adopting by May 31, 2013 either or both local option for the first time in FY2014, only 10 months of receipts should be expected. [DLS' Municipal Data Bank](#) provides meals tax revenue estimates and room occupancy actuals to assist in FY2014 revenue estimation.

## **Expenditure Budgeting for FY2014**

- *Other Amounts to be Raised:* State law allows for only certain items to be raised without appropriation. Any other amounts being so raised must be supported by special legislation.
- *School lunch deficit:* The Bureau will not require a school lunch account deficit to be provided for on the next tax rate recap if the deficit is deemed to be due to timing of receipt of funds. Otherwise, a structural deficit must be raised, subject to approval of the Director of Accounts, on the tax rate recap without appropriation if not otherwise provided for.
- *Pension Appropriations:* A pension assessment must be provided for in the FY2014 tax rate. If the amount appropriated is less than the assessment, the amount needed to fully fund the assessment must be raised on the tax rate recap, (page 2, part IIB, line 10) per G.L. c. 32, § 22.

- *Court Judgments and Settlements for Judgment*: Any final court judgment (one in which no further appeal has or will be taken) or settlement for judgment rendered between July 1 and the time the next tax rate is set may be raised on the tax rate recap without appropriation on page 2, part IIB, line 3 if not otherwise provided for. If not, then it must be raised in the following fiscal year's tax rate recap. Any judgment or settlement for judgment rendered (1) after the setting of the tax rate through June 30, and (2) in an amount greater than \$10,000, may with the written approval of the Director of Accounts be paid from available funds in the treasury and must be raised on the next fiscal year's tax rate recap if not otherwise provided for.
- *Self-Insurance Plans for Employee Health Insurance*: If the June 30, 2013 claims trust fund balance is in deficit for cities, towns or regional school districts with such a fund, the deficit must be provided for (1) in a city or town by appropriation or by raising it on the tax rate recap as an other amount to be raised and (2) in a regional school district by providing for it in the FY2014 regional school district budget. The Bureau will notify DESE of any deficit in the regional school district. Any deficit is also a reduction to a city or town's certified free cash or to a regional school district's certified excess and deficiency amount.

### **Certification of Notes and Receipt of Audit Reports**

Audit reports of cities, towns and districts are required if expenditure of federal funds exceed threshold amounts promulgated by the federal Office of Management and Budget. Audits of regional school districts are required under G.L. c. 71, § 16A. For FY2014, the Bureau will not certify revenue notes of a city, town, district or regional school district if a required audit for the period ended June 30, 2012 has not been submitted to the Bureau.

### **Free Cash Notification Letters and Calculation Worksheet**

For June 30, 2013 free cash certification purposes, along with the usual certification letter E-mailed to officials will be a free cash calculation worksheet, and worksheets for Retained Earnings and Excess and Deficiency where applicable. This will be done in an effort to add transparency to the certification process. If you have any questions, please contact your Bureau of Accounts field representative.

### **Free Cash Update and Non-Recurrent Distributions to Cities and Towns**

The Bureau will continue its policy to allow cities and towns an opportunity to request from the Director of Accounts authority to reserve and appropriate non-recurrent distributions over a certain period of time through the free cash update process.

For cities and towns, state law permits inclusion of receipts attributable to prior years, principally collection of property taxes, up to March 31. G.L. c. 59, § 23. This update to the amount previously certified provides additional spending authority based on those items, but must first be certified by the Director prior to appropriation. The Director will not certify an additional amount if use of those funds could, in the Director's opinion, result in a negative free cash as of the following June 30. Only one request may be made per fiscal year. If an amount is certified by the Director and a negative free cash results the following June 30, no similar update may be requested for the following fiscal year.