

Bulletin

BUL-2021-2

FY2022 BUDGET ISSUES AND OTHER RELATED MATTERS

TO: City/Town/District/Regional School District Officials

FROM: Mary Jane Handy, Director of Accounts

DATE: April 2021

SUBJECT: FY2022 Budget Issues and Other Related Matters

Please review the information in each of the hyperlinks, as these links provide greater detail on the subject matter referenced.

This *Bulletin* addresses several issues that cities, towns, regional school and other districts should consider for FY2022 revenue and expenditure budgeting and other related matters.

New information in this year's Bulletin:

Coronavirus Relief Fund (CvRF) and The American Rescue Plan Act (ARPA)

The Federal Government is in the process of finalizing numerous changes to CvRF including expanding eligible costs and increasing the FEMA reimbursement of FEMA allowable expenses from 75% to 100%. Additionally, the US Treasury will be issuing initial guidance on ARPA. As information related to federal actions is received, the Executive Office for Administrative and Finance (A&F) and/or the Director of Accounts (Director) of the Division of Local Services (DLS) may issue further guidance.

In [Bulletin 2020-07](#), Accounting for COVID-19 Emergency Expenditures and for Reimbursements, the Bureau outlined accounting procedures that should be followed to properly record expenditures, reimbursements and monies received from CARES ACT CvRF and FEMA related to the COVID-19 emergency. Establish two separate COVID-19 Emergency Fund Accounts, one fund titled "COVID-19 CARES CvRF" and the other "COVID-19 FEMA". Within these funds, at a minimum, specific expense accounts should be established according to [Attachment A](#) of the Secretary's letter. Additionally, in each fund, a revenue account should be established. One for FEMA reimbursements in the FEMA Fund and one for CARES ACT CvRF reimbursements in the CARES ACT CvRF Fund. Please refer to [Bulletin 2020-07](#) for more information.

Dedication of Revenue Stream to a Stabilization Fund

After a city, town or district has accepted [G.L. c. 40, § 5B](#), its legislative body may vote to dedicate a revenue source to a stabilization fund by a two-thirds vote. The vote must include the (1) specific revenue source being dedicated; (2) the percentage of that revenue source being dedicated, which must be at least 25 percent of the source; and (3) the fund into which the revenue source is being dedicated. A separate vote should be taken for each dedication. The vote must take place before July 1 of the fiscal year in which the dedication is to begin. Please refer to [IGR 17-20, Stabilization Funds](#), for more information.

Estimating FY2022 Receipts

It is the Bureau of Accounts' (Bureau) position that forecasts for property taxes, local receipts (page 3 of the tax recap), and state aid should be conservatively based on historical trend analyses and that municipalities use generally accepted forecasting techniques and appropriate data. Under G.L. c. 59, § 23, estimated receipts "shall not exceed the aggregate amount of actual receipts received during the preceding fiscal year from the same source, except with the written approval of the commissioner...." When revenue is from a new source and there is no historical information available to help with forecasting future revenue, we will require written documentation to support the revenue estimate.

With regard to estimating local receipts, please complete the [Recap Page 3 variances template](#) to provide explanations for increases in revenue estimates and details for both actual and estimated miscellaneous recurring and non-recurring receipts. Upload this form in Gateway on page 3 of the tax rate recap. We encourage cities and towns to estimate conservatively for FY2022.

Estimating FY2022 Enterprise Revenues

If a community intends to increase FY2022 enterprise fund revenue estimates based on increases in user rates, the charges must be increased 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. Please complete the [Enterprise Fund User Charge Template](#) to support increases of estimated vs actual revenues. Note that a structural deficit in enterprise fund retained earnings, not due to timing, must be provided for in the next tax rate.

Appropriations from Free Cash to Reduce the Tax Levy

There is a provision on the tax recap to apply appropriations from free cash to reduce the tax levy. All votes need to include the amount. Sample appropriation vote language:

"I move that the city/town vote to appropriate \$120,000 from Free Cash to Reduce the FY22 Tax Rate."

Modified information from last year's Bulletin:

Appropriating from Free Cash or Enterprise Retained Earnings

Appropriation from free cash and retained earnings may only be made after certification by the Bureau and in no greater amount than so certified. Under G.L. c. 59, § 23, appropriations from certified free cash may only be made until the June 30th following its July 1 certification date. As a result, free cash certified by the director as of July 1, 2020 is available for appropriation only up to and including June 30, 2021.

We note that Section 6 of [An Act to Address Challenges Faced by Municipalities and State Authorities Resulting From COVID-19, Chapter 53 of the Acts of 2020](#), which allows a city, town or district that was unable to adopt an annual budget by June 30, 2020 due to the coronavirus to appropriate from July 1, 2019 certified free cash or retained earnings after June 30, 2020 for the funding of FY21 expenditures does not apply for FY22.

Balance Sheets as of 6/30/2021 and Revenue Recognition

The Bureau historically has allowed revenue recognition of State aid payments including MSBA and other quasi state agencies as well as other reimbursements on the balance sheet as of June 30. For free cash certification purposes, receipts from July 1 thru September 30 can be applied to offset expenditures that resulted in a deficit fund balance as of June 30. The Bureau will allow revenue recognition for expected reimbursements not received by September 30 from MassDOT for Chapter 90 expenditures, provided:

- the community can document that the request for reimbursement has been filed with MassDOT by September 30, 2021; and
- the Bureau must be satisfied that payment will be made.

Betterment Reserve

[G.L. c. 44, § 53J](#), requires that betterment and special assessment payments must be reserved for appropriation to pay debt service on any bonds issued to finance the improvements for which betterments were assessed. This reserve is required when a city, town or district authorizes a borrowing on or after November 7, 2016, to pay for improvements for which betterments or special assessments are assessed.

When money is borrowed to pay for enterprise improvements for which the betterments or special assessments are assessed, the payments and any interest earned thereon are reserved for appropriation to pay debt service.

Special Accounting Treatment for Intended FEMA Reimbursement

For the March 2-3, 2018 Nor'easter, FEMA issued a Major Disaster Declaration for the counties of Barnstable, Bristol, Essex, Nantucket, Norfolk, and Plymouth. For the March

13-14, 2018 Nor'easter, FEMA issued a Major Disaster Declaration for the counties of Essex, Middlesex, Norfolk, Suffolk and Worcester.

These Declarations activated the Federal Emergency Management Agency (FEMA)'s Public Assistance Program for these counties making federal funding available to local governments for eligible disaster-related costs such as emergency work and permanent repair and replacement of facilities damaged as a direct result of the storm.

For June 30, 2021 balance sheet purposes, the Bureau will allow city and town accounting officials in Barnstable, Bristol, Essex, Middlesex, Nantucket, Norfolk, Plymouth, Suffolk, and Worcester counties a transfer of qualifying expenditures incurred during the applicable time period into a separate special revenue fund account. We recommend separate special revenue fund accounts be established for each storm (if applicable).

The deficit in this account is to be offset as reimbursements are received. After the community receives final reimbursements from FEMA, any remaining deficit in this account must be raised or otherwise funded on the next Tax Rate Recap, or any remaining surplus must be closed to the General Fund on the next June 30. The Bureau will not reduce free cash due to the deficit in this special account if properly recorded.

Early Voting Law

We have been informed by the Office of State Mandates that communities were reimbursed recently for their clerks' costs in implementing the Early Voting Law for the November 2020 election. These receipts are classified as general fund revenues under G.L. c. 44, § 53. These funds cannot be separately appropriated as available funds.

911 Reimbursements

The Bureau has been informed by the State 911 Department that reimbursements for all fiscal years FY2020 and prior have been completed. Any community with a deficit in this account for fiscal year FY2020 and any prior year must provide for that deficit in the FY2022 tax rate. Once the State 911 Department has completed reimbursements for fiscal years FY2021 and after, any grant deficits reported on the balance must be raised if not otherwise funded.

Please be aware that the contracted amount must be less than the apportioned amount and is the limit of the reimbursement. Also, be aware that the contracted amount may not be reimbursed if non-eligible costs are included. If already paid, these non-eligible costs must be funded.

Additional matters of concern:

Borrowing Purposes and Terms

In August 2017, [Informational Guideline Release \(IGR\) 17-21](#) was issued to explain amendments made by the Municipal Modernization Act regarding city, town and district borrowing. The Act makes changes to the purposes for which cities and towns may borrow

under [G.L. c. 44, §§ 7 and 8](#), as well as the terms for those loans. These changes also apply to the purposes for which districts, as defined in [G.L. c. 44, § 1](#), may borrow. See [G.L. c. 44, § 9](#). There was no change to the debt limit for city, town and district borrowings. See [G.L. c. 44, § 10](#).

For a listing of the changes to the borrowing purposes under [G.L. c. 44, §§ 7 and 8](#), please refer to the “[Borrowing Purposes Table Before and After the Municipal Modernization Act](#).” Please also refer to the [Director of Accounts Guidelines – Asset Useful Life Schedules and Maximum Borrowing Term](#) that establish the maximum term that cities, towns, improvement districts and regional school districts may borrow to finance certain capital projects based on the useful life of the asset. These guidelines include (1) all borrowing purposes authorized by those statutes, (2) their maximum statutory terms, and (3) their maximum terms, if any, established by the Director.

The Director’s *Guidelines* and the *Borrowing Purpose Table* are published on the DLS website under Borrowing Guidelines on the [Accounting Guidance, Oversight and Financial Management Publications](#) page of our website. The term established in the [Director’s Guidelines](#) is the maximum borrowing term allowed by law for that purpose and may be used for debt issued on or after the effective date shown.

Borrowing - Premiums, Surplus Proceeds and Debt Exclusions

In August 2017, [IGR 17-21](#) was issued to explain to local officials the procedures and requirements regarding: (1) the application of premiums received in connection with the sale of bonds or notes; and (2) the allowable disposition of surplus loan proceeds remaining after the completion of a project. [G.L. c. 44, § 20. IGR 17-22](#) addresses the treatment of premiums and surplus proceeds on borrowings for which debt exclusions have been approved under [G.L. c. 59, § 21C\(k\)](#).

General fund premiums received on Bonds or Notes Sold before November 7, 2016 for debt excluded borrowings must either be: (1) reserved for appropriation to offset interest paid in future years for the loan; or (2) appropriated to pay project costs and reduce the amount of the borrowing. For more information on treatment of premiums for excluded debt. See [IGR 17-22](#).

Certification of Notes and Receipt of Audit Reports

For FY2022, 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, 2020 has not been submitted to the Bureau.

Court Judgments

[G.L. c. 44, § 31](#) allows payments without appropriation for final judgments, awards or payments ordered or approved by a state or federal court or adjudicatory agency with municipal counsel certification. However, these payments must be funded before the next fiscal year’s tax rate is set or the amount will be included in the determination of the next subsequent annual tax rate.

Departmental Revolving Funds

The revolving funds statute, [G.L. c. 44, § 53E½](#), requires that such funds be established once by by-law or ordinance and that the legislative body vote to establish the spending limit before July 1 each year for the upcoming fiscal year for each fund so established. This spending limit can be increased, as needed, during the fiscal year with approval of the selectboard and finance committee in a town and city council and mayor in a city.

Please see the [“Model Departmental Revolving Fund By-law/Ordinance and Sample Spending Cap Vote”](#) we have issued to assist cities and towns in establishing departmental revolving funds and voting spending limits. The model is found on the [Accounting Guidance, Oversight and Financial Management Publications](#) page of our website.

Emergency Expenditures

Non COVID-19 Emergency expenditures made in FY2021 after the setting of the FY2021 tax rate and through June 30, 2021 under [G.L. c. 44, § 31](#) must be reported to the assessors for inclusion in the FY2022 tax rate unless otherwise funded.

Energy Generating Facilities Enterprise Fund

Cities and towns that own and operate energy generating facilities subject to the accounting, finance and reporting provisions of G.L. Chapter 44 rather than Chapter 164 may establish an enterprise fund under [G.L. c. 44, § 53F½](#) using the same method as for any other utility. Any funds received as energy credits by the city or town that would otherwise close to the General Fund under [G.L. c. 44, § 53](#) would now close to the enterprise fund.

Energy PILOTs under G.L. c. 59, § 38H(b)

Communities receiving “payment in lieu of taxes” (PILOTs) pursuant to PILOT agreements under [G.L. c. 59, § 38H\(b\)](#) must follow the requirements of [IGR 17-26](#) for tax agreements regarding power plants of generation and wholesale generation companies, which include solar generation facilities that provide electricity to the grid.

The PILOT payment under [G.L. c. 59, § 38H\(b\)](#) cannot be reported on page 3 of the Tax Rate Recap (or Pro Forma Recap) as general fund estimated receipts. The negotiated payments must be translated into assessed value and applied as indicated in IGR 17-26.

For more detailed information on the matter, please contact your Field Advisor at the Bureau of Local Assessment.

Estimating FY2022 Medicaid Receipts

The Bureau continues to urge caution when estimating these receipts as the amount due the community may not be consistent from year to year.

Expenditure Budgeting for FY2022

- Pension Appropriations: Pension assessments must be fully funded in the FY2022 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](#).
- Self-Insurance Plans for Employee Health Insurance: If the June 30, 2021 claims trust fund balance is in deficit, 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 or (2) in a regional school district by providing for it in the FY2022 regional school district budget. The Bureau will notify DESE of any regional school district deficit. Any deficit in a city or town will result in a reduction to its certified free cash and in a regional school district, a reduction to its certified excess and deficiency amount.
- Communities with a self-insurance fund must record on the balance sheet for the fund both the warrants payable and IBNR amounts as of June 30, 2021. Any undesignated fund balance deficit which may result, after being offset by the working deposit, must be raised on the current year's Tax Rate Recap. If the balance sheet for free cash certification is not submitted to the Division of Local Services before the setting of the tax rate, this deficit must be disclosed on the Accountant's Letter in Lieu of Balance Sheet.

Expenditure of Federal Funds Threshold

The FY2022 threshold under the Federal Single Audit Act of 1984, as amended, requires that there be a financial audit or, a specific program audit, if granted by the appropriate federal oversight or cognizant agency whenever \$750,000 or more in federal funds are expended during any one fiscal year.

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

Cities and towns may request from the Director of Accounts an update of free cash to reserve and appropriate non-recurrent distributions over a certain period of time.

Under [G.L. c. 59, § 23](#), collections attributable to prior years, principally collection of property taxes, received up to March 31 may be included in an update of the free cash amount previously certified. This update provides additional spending authority based on those items, but must first be certified by the Director before appropriation. The Director will not certify an additional amount if use of those funds could, in the Director's opinion, result in 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 negative free cash results the following June 30, no similar update may be requested for the following fiscal year.

Advances in Anticipation of Issuing Debt

The Bureau reminds treasurers and other local officials that, [G.L. c. 44, § 20A](#) which permits advances from available unrestricted revenue funds to pay expenses of a

borrowing before the debt is issued also requires that such advances be repaid during the same fiscal year. Communities making such advances must be aware that funds not externally borrowed by June 30th may result in a significant reduction to free cash. [See IGR 17-21, section VII.](#) The treasurer must complete an "[Advance of Funds in Lieu of Borrowing](#)" form to document each advance. The form must be signed by the approving official or board and a copy submitted to the accounting officer and the Bureau of Accounts Public Finance Section within 48 hours of approval of the advance.

Minimum Performance Bond – Treasurers, Collectors and Clerks

You will find guidance on how to determine your minimum bond amount using the bond amount schedule on the [Accounting Guidance, Oversight and Financial Management Publications](#) page of our website. Please review the requirements to ensure the bond is satisfactory for the faithful performance of your duties.

Year End Transfers

Under the [G.L. c. 44, § 33B](#) alternative end-of-fiscal-year transfer procedures, from May 1 to July 15, transfers may be made from any departmental budget and from health insurance, debt service or other unclassified or non-departmental line item appropriations. School and light departments are exempt from this procedure. See [IGR 17-13](#).

School Finance

State Special Education Reimbursement Fund (“Circuit Breaker”)

Per DESE regulations, the balance in this fund at the close of FY2021 can be no greater than DESE’s FY2021 reimbursement, not including extraordinary assistance. Any excess fund balance must close to the General Fund. Any deficit fund balance must be charged to FY2021’s school budget. See [603 CMR 10.07](#) for additional details.

Regional Transportation Reimbursement Fund

Per DESE regulations, the balance in this fund at the close of FY2021 can be no greater than DESE’s FY2021 reimbursement. Any excess fund balance must close to the General Fund. Any deficit fund balance must be charged to FY2021’s school budget. See Chapter 233 of the Acts of 2014 and [DESE’s Advisory](#) for additional details.

Federal and State School Grant Deficits

The Bureau has noted that a number of balance sheet reports reflect deficits in certain federal and state school grants. The Bureau may reduce free cash or excess and deficiency for any federal or state school grants which have been reported in deficit on the balance sheet.

Regional Schools Only

Annual Audit

Per [G.L. c. 71, § 16A](#), the regional school committee must ensure that the district has an annual financial audit and its auditors forward a copy of the audit directly to the Director of Accounts.

Appropriation of Excess and Deficiency (E & D)

If a regional school district plans to use E & D in their FY2022 proposed budget, E & D must be certified prior to the budget adoption by the School Committee and submittal to the local appropriating authority for the assessment vote. If E & D is not certified prior to that vote, the District does not have authority to use E & D as a funding source in the FY2022 budget. If the District plans to use E & D after the vote, the district would have to follow the procedures as defined in statute to amend their budget which may impact local assessments.

The authority to appropriate E & D in the fiscal year expires on June 30.

Balance Sheet

Regional school districts must submit a balance sheet as of June 30 to the Bureau of Accounts for certification of excess and deficiency on or before October 31 of each year. DESE regulations indicate that if a balance sheet is not filed timely, the Commissioner of DESE may request the Commissioner of Revenue to withhold all or some part of the District's State Aid distribution until the balance sheet is submitted. [603 CMR 41.06](#). The Bureau provides annually instructions on submission requirements. Audited balance sheets are not required, but the submission must be in the required format that will allow the Bureau to calculate an excess and deficiency amount.