



Bulletin

2014-03B

FY2015 BUDGET ISSUES AND OTHER RELATED MATTERS

TO: City/Town/Regional School District Officials
FROM: Gerard D. Perry, Director of Accounts
DATE: March 2014
SUBJECT: FY2015 Budget Issues and Other Related Matters

This *Bulletin* addresses several issues that cities, towns, regional school and other districts should consider for FY2015 revenue and expenditure budgeting and other related matters.

New or modified information from last year's letter

Energy PILOTs

Communities receiving "payment in lieu of taxes" (PILOTs) pursuant to the provisions of G.L. c. 59, §38H(b) must follow the requirements spelled out in IGR 98-403 for tax agreements regarding power plants of generation and wholesale generation companies, which include solar generation facilities that provide electricity to the grid. Note Part I. C. which indicates that:

Agreements should fix values or formulas for determining values (rather than fixing tax payments). These values should be representative of the future full and fair cash values of the plant for the term of the agreement and payments resulting from them will be treated as property taxes for Proposition 2½ and tax classification purposes. The payments are subject to the municipality's levy limit, and the values will be used to calculate its levy ceiling and minimum residential factor. (emphasis added)

For FY2015 forward, communities will not be allowed to place a negotiated dollar amount as part of PILOT estimated receipts on page 3 of the Tax Rate Recapitulation form. The negotiated payments must be translated into assessed value and applied as indicated in the Guideline.

For more detailed information on the matter, please contact the Bureau of Local Assessment.

Energy Generating Facilities Enterprise Fund

Cities and towns with energy generating facilities subject to accounting, finance and reporting provisions of G. L. Chapter 44 rather than Chapter 164 may establish an enterprise fund pursuant to 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 which would otherwise close to the General Fund pursuant to G.L. c. 44, § 53 would now close to the enterprise fund.

Monthly State Aid Distribution and Use of Additional Funds

For FY2015, the Municipal Data Management/Technical Assistance Bureau will distribute certain Cherry Sheet aid monthly as in FY2014. Further details of the FY2015 distribution process are expected to be released in the near future similar to those issued in IQR 13-301 for FY2014.

Receipt of monthly Cherry Sheet aid in FY2014 should have improved cash flow and provided some additional investment income. The Bureau wrote a best practice highlighting one community's use of its extra cash flow. Could their idea help your community or district?

"Hitting the Ceiling"

For some cities and towns in FY2014, their levy limit either approached their levy ceiling or "hit the ceiling" either because their levy limit rose faster than their levy ceiling or their ceiling fell due to market conditions or to an extraordinary circumstance to the point where a collision occurred. When this occurs, there is a further loss to the levy limit and there is no process to recoup the loss. For most cities and towns, the levy ceiling is not a concern. But it is for others and it is serious enough to affect public services.

For cities and towns where such a collision has occurred or where one may occur in FY2015, please contact either the Bureau of Local Assessment or Bureau of Accounts if you need further information.

Chapter 90 Apportionments

The Bureau received several calls and E-mails regarding FY2014 appropriation of Chapter 90 apportionments equal to the Governor's recommendation, but greater than those finally approved by the Legislature.

The Bureau recommends that communities whose current appropriation exceeds their current apportionment limit their expenditure to the apportionment amount and correct the vote at the next meeting of their legislative body.

Community Preservation Fund

During FY2014, 155 cities and towns collected the local Community Preservation Act (CPA) surcharge and are eligible for state matching grants in FY2015. 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 23% of the surcharge levied by each city and town.

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.

More Community Preservation

The FY2014 State budget provided supplemental CPA funding of up to \$25 million from the State's General Fund surplus. This supplemental funding allowed for a first round match of 52.22% rather than what would have been a first round match of less than 31%.

Some CPA communities may not have met the annual 10% appropriation/reservation requirement for all three purposes prior to the setting of the FY2014 tax rate due to the timing of the trust fund distribution and the amount in excess of our recommendation in last March's Bulletin. If the community hasn't, it should make the corrective appropriation from their FY2014 budgeted reserve or the CPA unreserved fund balance as of June 30, 2013 at their next legislative body's meeting. If these funds are not available, a corrective appropriation should be taken as soon as practicable from the new fund balance as of June 30, 2014 or FY2015's estimated CP Fund revenues. The extra State funds, if unbudgeted on Schedule A-4 when the FY2014 tax rate was certified, cannot be appropriated from until they become part of the new fund balance.

The Division of Local Services is preparing new guidance on the CPA to be released soon that will:

- combine all prior guidance and incorporate recent amendments to Chapter 44B related to additional revenues and spending purposes;
- explain how a CPA community may adopt § 3(b½) to assess at least a 1% surcharge and appropriate additional municipal revenues to the CPA fund to equal 3% of the levy required to receive the maximum State match;
- explain that the 10% Open Space appropriation requirement now includes Recreation;
- provide further clarity on expenditure purposes; and
- remind that the annual disbursement date for trust fund monies has changed from on or before October 15 to on or before November 15.

Withholding Cherry Sheet Aid

Section 3 of the FY2014 Massachusetts State budget authorizes the Commissioner of Revenue to delay payment of State Cherry Sheet aid to any community that has not timely filed Schedule A with the Bureau of Accounts. Two reminder letters have already been sent to applicable communities for FY2013 form submission which was due last November 30. Please be advised that as in the past, the Bureau expects to recommend withholding monthly Cherry Sheet aid payments to communities that have not filed by March 14, 2014.

Firearm Identification Card Application Fee

Questions have arisen regarding proper distribution of the Firearm Identification Card application fee pursuant to G.L. c. 140, § 129B (subsection 9A).

In our opinion, the \$100 fee is distributed as follows: \$50 to the State's General Fund which must be deposited into that fund not later than January 1, April 1, July 1 and October 1 of each year, \$25 to the State's Trust Fund for Firearms Fingerprint Identity Verification and \$25 to the city or town's General Fund. Reservation of the city's or town's portion apart from the General Fund requires special legislation.

Balance Sheets as of 6/30/2014 and Revenue Recognition

The Bureau has traditionally allowed revenue recognition of State aid payments as well as other reimbursements on their 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.

Until further notice, the Bureau will not allow revenue recognition for expected reimbursements not received by September 30 from any source except MassDOT for Chapter 90 expenditures provided:

- the community can document that the request for reimbursement has been filed with the MassDOT by September 30, 2014; and
- the Bureau must be satisfied that payment will be made.

Casino Related Revenues

Use of community impact fees, commission application fees, pre-application payments or other casino-related revenues may be used as FY2015 estimated receipts to offset appropriations provided they are received prior to certification of the Tax Rate Recap by the Bureau of Accounts. Receipts received after this time may become part of a free cash update request in order to make the funds available for appropriation after certification (see below).

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.

Continued reminders from last year's letter modified with respect to fiscal year reference. Meals and Rooms Excise Tax adoption numbers have also been updated.

G.L. Chapter 44, § 31 Emergencies

Emergency payments under G.L. c. 44, § 31 made in FY2014 after the setting of the tax rate through June 30, 2014 must be reported to the Assessors for inclusion in the FY2015 tax rate unless otherwise provided for. Emergency payments made in FY2015 prior to the setting of the tax rate may be included in the FY2015 tax rate, but must be included in the FY2016 tax rate unless otherwise provided for.

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 FY2014 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.

Local and Regional School Finance

MSBA Annual Grant Payments

As in prior years, FY2015 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 FY2015 assessment.

State Special Education Reimbursement Fund ("Circuit Breaker")

Per DESE regulations, the balance in this fund at the close of FY2014 can be no greater than DESE's FY2014 reimbursement, not including extraordinary assistance. Any excess fund balance must close to the General Fund. Any deficit fund balance must be charged to FY2015's school budget. See 603 CMR 10.07 for additional details.

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, 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, 2012.

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.

Dealing with an FY2014 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 FY2014 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. [I GR 06-209](#) detailing alternative year-end transfer procedures may be of assistance.

Enterprise Funds

On Estimating FY2015 Enterprise Revenues

The Bureau will not allow FY2015 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.

Revenue Budgeting for FY2015

- The Bureau **will continue to require** that any FY2015 estimated receipt above its FY2014 actual amount (except for rounding) be supported by reasonable documentation. Unreasonable FY2015 estimates may be rejected by the Bureau for tax rate setting purposes.
- *Meals Excise Taxes:* According to DLS' Municipal Data Bank, 182 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 FY2015 must vote to accept it by May 31, 2014.
- *Rooms Excise Taxes:* According to DLS' Municipal Data Bank, 177 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 FY2015 must vote to accept it by May 31, 2014.
- *Meals/Rooms Estimated Receipts:* If adopting either or both of these local options effective in FY2014, revenue estimates for FY2015 will be based upon 12 months of receipts. For cities and towns adopting by May 31, 2014, either or both local option for the first time in FY2015, only 10 months of receipts should be expected. DLS' Municipal Data Bank provides meals tax revenue estimates and room occupancy actuals to assist in FY2015 revenue estimation.

Expenditure Budgeting for FY2015

- *Pension Appropriations:* A pension assessment must be provided for in the FY2015 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, 2014 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 FY2015 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 FY2015, 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, 2013 has not been submitted to the Bureau.