



# Bulletin

2016-02B

## **FY2017 BUDGET ISSUES AND OTHER RELATED MATTERS**

TO: City/Town/Regional School District Officials  
FROM: Mary Jane Handy, Director of Accounts  
DATE: April 2016  
SUBJECT: FY2017 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 FY2017 revenue and expenditure budgeting and other related matters.

*New information from last year's Bulletin:*

### **PEG access**

Since the passage of [Chapter 352 of 2014](#) regarding Cable Television PEG Access funds and the issuance of [IGR 16-102](#) on the matter, the Bureau has received numerous calls and e-mails from communities as to their current accounting treatment of these funds.

In order to facilitate local decisions about the most appropriate accounting treatment for these revenues, the Bureau will extend for one year the date announced in IGR 16-102 for completing any transition from a community's current accounting treatment. Communities will now have until the close of fiscal year 2017 on June 30, 2017 to consider the available accounting options and take the necessary actions to implement it. Accounts treated otherwise at the end of fiscal year 2017 will be closed to the General Fund as part of the June 30, 2017 free cash certification. Any inconsistent statement in Section 1 of IGR 16-101 or other prior written publications or statements is superseded.

## **911 Reimbursements**

The Bureau has been informed by the State 911 Department that reimbursements for all fiscal years prior to FY2014 have been completed. Any community with a deficit in this account for any fiscal year prior to FY2014 must provide for that deficit in the FY2017 tax rate.

Be aware that the contracted amount must be less than the apportioned amount and is the limit of the reimbursement. Also be aware that even the contracted amount may not be reimbursed if non-eligible costs are included. If already paid, these non-eligible costs will have to be provided for.

## **Municipal Modernization**

Legislative hearings are continuing for [\*The Act to Modernize Municipal Finance and Government\*](#) filed by the Governor in December of 2015. Although none of the bill's provisions has yet to pass, the Division of Local Services (DLS) expects to notify and to explain all new provisions to local officials later this year.

## **Accountant's Manual**

The new Accountant's Manual for the Massachusetts Municipal Auditors' and Accountants' Association is under final review and will be issued in the near future. Watch for additional details in this matter.

## **Gateway**

The Tax Rate module of Gateway, the application that allows authorized local officials to enter, analyze, sign and submit local government data to the Division, has been improved and is currently being tested for FY2017 submissions. Improvements for overall efficiency have been suggested by many users and will be incorporated into this update.

## **BOA Field Rep Assignments**

The Bureau of Accounts has recently promoted two field representatives to supervisors, hired three new field representatives and hired one additional staff member. You should expect our field representatives to contact your community or regional school district in the near future. Here is the new [listing](#) of field representatives and their assignments.

*Modified information from last year's Bulletin:*

## **Snow and Ice**

[Chapter 10, § 58 of the Acts of 2015](#) authorized cities and towns by local decision to amortize their FY2015 snow and ice removal account deficit over three fiscal years. Please remember to include the amortized amount on the FY2017 Tax Rate Recap either as an appropriation or as an amount to be raised.

Massachusetts Emergency Management Agency (MEMA) has been working closely with the Federal Emergency Management Agency (FEMA) for potential reimbursement for qualifying expenditures incurred during certain January 2015 snowstorms. The Bureau has allowed special accounting treatment for the intended reimbursement.

## **Community Preservation Fund**

During FY2016, 158 cities and towns collected the local Community Preservation Act (CPA) surcharge and are eligible for state matching grants in FY2017. DLS estimates that the balance in the state trust fund will be sufficient to provide a first round match of 19% of the surcharge levied by each city and town.

In FY2016, 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.

## **Estimating FY2017 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.

## **Estimating FY2017 Enterprise Revenues**

The Bureau will not allow FY2017 estimated revenue for user charges based upon the government's intent alone to raise these charges in the future. These 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. Be reminded that a structural deficit in enterprise fund retained earnings, not due to timing, must be provided for in the next tax rate.

## **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.

## **Expenditure Budgeting for FY2017**

- **Pension Appropriations:** A pension assessment must be provided for in the FY2017 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, 2016 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 FY2017 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.

Communities with a self-insurance fund must record on the balance sheet for the fund both the warrants payable and IBNR amounts as of 6/30/16. 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. Should the balance sheet for free cash certification not be submitted to the Division of Local Services prior to the setting of the tax rate, this deficit must be disclosed on the Accountant's Letter in Lieu of Balance Sheet.

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

For FY2017, 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, 2015 has not been submitted to the Bureau.

*Additional matters of concern:*

## **Host Agreement Funds Received from Medical Marijuana Dispensaries**

Funds received by communities per agreements with medical marijuana dispensaries belong to the community's General Fund under [G.L. c. 44, § 53](#). These funds cannot be separately appropriated as available funds.

## **Internal Borrowing**

The Bureau reminds Treasurers and other local officials that provisions of internal borrowing ([G.L. c. 44, § 20A](#)) require that advances must be repaid during the same fiscal year. Communities using internal borrowing especially for capital projects must be aware that funds not externally borrowed by June 30th may result in a significant reduction to free cash.

## **Expenditure of Federal Funds Threshold**

The FY2017 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, if \$750,000 or more in federal funds are expended during any one fiscal year.

## **Energy PILOTs**

Communities receiving “payment in lieu of taxes” (PILOTs) under the provisions of [G.L. c. 59, § 38H\(b\)](#) must follow the requirements discussed 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.

Communities are not allowed to place a negotiated dollar amount as part of PILOT estimated receipts on page 3 of the Tax Rate Recap form. The negotiated payments must be translated into assessed value and applied as indicated in IGR 98-403.

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

## **Energy Generating Facilities Enterprise Fund**

Cities and towns that own and operate energy generating facilities subject to 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 which would otherwise close to the General Fund under G.L. c. 44, § 53 would now close to the enterprise fund.

## **Balance Sheets as of 6/30/2016 and Revenue Recognition**

The Bureau historically has allowed revenue recognition of State aid payments 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 only 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, 2016; and
- the Bureau must be satisfied that payment will be made.

## **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.

[G. L. c. 59, § 23](#) permits inclusion of receipts attributable to prior years, principally collection of property taxes, up to March 31. 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.

## **[G.L. Chapter 44, § 31 Emergencies](#)**

Emergency payments under [G.L. c. 44, § 31](#) made in FY2016 after the setting of the tax rate through June 30, 2016 must be reported to the Assessors for inclusion in the FY2017 tax rate unless otherwise provided for. Emergency payments made in FY2017 prior to the setting of the tax rate may be included in the FY2017 tax rate, but must be included in the FY2018 tax rate unless otherwise provided for.

## **School Finance**

### *State Special Education Reimbursement Fund ("Circuit Breaker")*

Per DESE regulations, the balance in this fund at the close of FY2016 can be no greater than DESE's FY2016 reimbursement, not including extraordinary assistance. Any excess fund balance must close to the General Fund. Any deficit fund balance must be charged to FY2017's school budget. See [603 CMR 10.07](#) for additional details

## **Federal School Grant Deficits**

The Bureau has noted that a number of balance sheet reports reflect deficits in certain federal school grants. 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.

## **Regional Schools Only**

### *Annual Audit*

Per [G.L. c. 71, § 16A](#), the Regional School Committee has the duty to ensure that the district has an annual financial audit and forwards a copy of the audit to the Director of Accounts.

### *Balance Sheet*

Regional school districts must submit a balance sheet as of June 30 to the Bureau 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. The Bureau provides annual instructions on 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*

The Bureau 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 used as a funding source in the FY2017 budget.