



# Bulletin

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2015-03B

## FY2016 BUDGET ISSUES AND OTHER RELATED MATTERS

TO: City/Town/Regional School District Officials  
FROM: Anthony A. Rassias, Deputy Director of Accounts  
DATE: April 2015  
SUBJECT: FY2016 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 FY2016 revenue and expenditure budgeting and other related matters.

*New or modified information from last year's letter*

### **Snow and Ice**

[Chapter 10, § 58 of the Acts of 2015](#) now authorizes cities and towns by local decision to amortize their FY2015 snow and ice removal account deficit over the next three fiscal years, in equal installments or more rapidly. The new law, which has an emergency preamble, took effect on March 31, 2015. The Bureau will soon provide local officials with further guidance in this matter.

In conjunction with this, the Bureau is aware that 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 February snowstorms. If FEMA agrees, the Bureau will allow special accounting treatment for the intended reimbursement and will provide local accounting officials with further guidance.

### **Pothole Funds and Transportation Bond Bill Apportionments**

The Division of Local Services will soon release further details on the accounting treatment for receipt and expenditure of \$30 million in "pothole funds" made available by Governor Baker through the Winter Recovery Assistance Program, or WRAP.

In addition, when apportionments are approved for the latest transportation bond bill, (Chapter 90 funding), the Bureau will provide local officials with further guidance.

### **New Laws**

The Division of Local Services will soon release its annual Summary of Municipal Law Changes for 2014. Please watch for this Summary as it will include information on the creation of new funds for Municipal Water Infrastructure Investment, Mass. Clean Water Trust, Cable PEG Access, Regional Transportation Reimbursements and Tax Title.

### **Community Preservation Fund**

During FY2015, 156 cities and towns collected the local Community Preservation Act (CPA) surcharge and are eligible for state matching grants in FY2016. 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 18% of the surcharge levied by each city and town.

In FY2015, 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 FY2016 Medicaid Receipts**

During the FY2015 tax rate certification process, the Bureau noted that FY2014 Medicaid receipts received were far less than estimated for FY2014. Many communities lowered their FY2015 estimates as a result. The Bureau urges caution when estimating these receipts as the amount due the community may not be consistent from year to year.

### **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. Treasurers, accounting and budgeting officials in communities using internal borrowing for capital projects especially must be aware that funds not externally borrowed by June 30<sup>th</sup> oftentimes results in a significant reduction to free cash.

## **Suggestions Please**

The Division of Local Services is beginning a Gateway modernization project starting with tax rate related forms. The forms are currently being updated, enhanced and improved. We are looking for your suggestions to make Gateway more user-friendly. Please E-mail your suggestions as to how to improve tax rate forms by June 1<sup>st</sup> to Jared Curtis ([curtisj@dor.state.ma.us](mailto:curtisj@dor.state.ma.us)) or Maura O'Neil ([oneilma@dor.state.ma.us](mailto:oneilma@dor.state.ma.us)) of our Bureau of Accounts staff.

## **Expenditure of Federal Funds Threshold**

The FY2016 threshold under the Federal Single Audit Act of 1984 as amended requires that there be a financial audit or, if properly petitioned to the appropriate federal oversight or cognizant agency, a specific program audit, if \$750,000 or more in federal funds are expended during any one fiscal year. The level has increased from \$500,000.

*Continued reminders from last year's letter that may be modified with respect to fiscal year reference*

## **Energy PILOTs**

Communities receiving "payment in lieu of taxes" (PILOTs) under 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.)***

Communities are not 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 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 6/30/2015 and Revenue Recognition**

The Bureau has traditionally 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.

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 MassDOT by September 30, 2015; and
- the Bureau must be satisfied that payment will be made.

## **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.

### G.L. Chapter 44, § 31 Emergencies

Emergency payments under [G.L. c. 44, § 31](#) made in FY2015 after the setting of the tax rate through June 30, 2015 must be reported to the Assessors for inclusion in the FY2016 tax rate unless otherwise provided for. Emergency payments made in FY2016 prior to the setting of the tax rate may be included in the FY2016 tax rate, but must be included in the FY2017 tax rate unless otherwise provided for.

### **Local and Regional School Finance**

#### *Requirement of Regional School District 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. 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 regulations 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 FY2016 assessment.

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

Per DESE regulations, the balance in this fund at the close of FY2015 can be no greater than DESE's FY2015 reimbursement, not including extraordinary assistance. Any excess fund balance must close to the General Fund. Any deficit fund balance must be charged to FY2016'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 for which the Bureau has not traditionally reduced free cash or excess and deficiency. 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, 2013.

## **Enterprise Funds**

### *On Estimating FY2016 Enterprise Revenues*

The Bureau will not allow FY2016 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.

### *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.

## **Expenditure Budgeting for FY2016**

- *Pension Appropriations:* A pension assessment must be provided for in the FY2016 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, 2015 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 FY2016 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. As indicated above, audits of regional school districts are required under [G.L. c. 71, § 16A](#). For FY2016, 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, 2014 has not been submitted to the Bureau.