

**COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF REVENUE  
DIVISION OF LOCAL SERVICES**

Bureau of Accounts  
Informational Guideline Release (IGR) No. 92-105  
December 1992

**REVISED MUNICIPAL BORROWING PROCEDURES**

Chapter 133, S. 374 and Chapter 143 of the Acts of 1992  
(Amending G.L. Ch. 44, SS. 4, 17, 20 & 20A  
Repealing Ch. 44, S. 17A and Adding Ch. 44, S. 22C)

**SUMMARY:**

As a result of several legislative changes, cities, towns and districts now have greater flexibility in the use of surplus bond proceeds and in the period of time temporary debt in anticipation of permanent debt may be issued and refunded. In addition, once debt is authorized or a federal or state grant approved for a project, cities, towns and districts may now make expenditures from any available funds in anticipation of borrowing or receipt of grant moneys in accordance with guidelines established by the Director of Accounts. Other changes clarify the procedure for authorizing revenue anticipation borrowings, treat premiums and accrued interest on bonds as general revenue, and give towns and districts the same authority cities have to secure their bonds and notes by insurance or letters of credit.

**GUIDELINES:**

**I. REVENUE ANTICIPATION BORROWING**

Cities, towns and districts may now borrow in anticipation of revenue for a fiscal year with the approval of the same official or board required to countersign the notes, i.e., Mayor or City Manager and Auditor if the city charter so requires, Selectmen, District Commissioners or Regional School Committee Chairman. An annual vote of the municipal or district appropriating body is not required. G.L. Ch. 44 §4.

The authorization to issue (or renew) these notes should be voted by the selectmen or district commissioners, or approved by the mayor or city manager, prior to the treasurer soliciting bids or negotiating terms of such notes.

**II. BOND ANTICIPATION BORROWING**

The procedures for issuing and renewing bond anticipation notes (BANS) have been streamlined in G.L. Ch. 44 §17.

A. **Term of Temporary Debt**

Bond anticipation notes may now be issued or renewed for up to two years without payment of principal. Previously, they were limited to a one year term if the purpose of the borrowing was one for which debt could be incurred for less than ten years.

B. **Refunding and Repayment of Temporary Debt**

Refunding of BANS is now permitted for up to five, rather than only two, years from the date of issue of the original loan. However, reductions of the amount refunded are required in the third and fourth years. Each paydown is required to be at least equal to the minimum payment that would have been required if the temporary loan had been converted to a serial loan.

**EXAMPLE NO. 1.  
FIVE YEAR BORROWING  
(Purchase of Vehicles or Other Departmental Equipment)**

\$150,000	BAN issued 8/10/92 due 8/9/93 renewed 8/9/93 due 8/9/94
\$150,000	Refunding issued 8/9/94 due 8/9/95
\$100,000	Refunding issued 8/9/95 due 8/9/96
\$50,000	Refunding issued 8/9/96 due 8/9/97

**EXAMPLE NO. 2**  
**TEN YEAR BORROWING**  
**(Removal of Asbestos from Public Buildings)**

\$400,000	BAN issued 8/1/92 due 7/31/93 renewed 7/31/93 due 7/31/94
\$400,000	Refunding issued 7/31/94 due 7/31/95
\$350,000	Refunding issued 7/31/95 due 7/31/96
\$300,000	Refunding issued 7/31/96 due 7/31/97

**THEN, EITHER**  
**(A) PERMANENT LOAN**

\$50,000	issued 7/31/97 due 7/31/98
\$50,000	issued 7/31/97 due 7/31/99
\$50,000	issued 7/31/97 due 7/31/00
\$50,000	issued 7/31/97 due 7/31/01
\$50,000	issued 7/31/97 due 7/31/02

**OR**

**(B) REFUNDING LOANS**  
**(Ch. 44, sec. 21A)**

\$250,000	issued 7/31/97 due 7/31/98
\$200,000	issued 7/31/98 due 7/31/99
\$150,000	issued 7/31/99 due 7/31/00
\$100,000	issued 7/31/00 due 7/31/01
\$50,000	issued 7/31/01 due 7/31/02

C. Term of Permanent Debt

The issuance of BANs cannot extend the time within which a serial loan must be payable beyond the time fixed by statute (as in example 2(A) above). Under prior law, the loan had to be payable within the time specified in the debt authorization voted by the municipality or district.

D. Temporary Debt Proceeds

The balance of BAN proceeds remaining when a serial loan is issued may, but no longer must, be applied to the payment of the BAN.

For example, if a major portion of a construction project was bonded prior to completion of the entire project to take advantage of favorable interest rates, the bond proceeds would be applied to reduce the BAN, but a balance of the BAN would remain to cover the remaining expenditures in the project.

However, if the serial loan is issued after the final project costs are known and those costs are less than the amount for which the BAN was issued, the serial loan may only be issued for the amount of the project costs.

E. Approvals

No changes were made in the requirements for approval of renewals of revenue or grant anticipation notes, i.e., renewals must be approved by the official(s) whose approval is required for borrowing in a city, or vote of the selectmen- in a town or commissioners in a district.

### **III. BOND PROCEEDS**

#### **A. Surplus Bond Proceeds**

After completion or abandonment of a project for which a loan was authorized, cities, towns and districts may now appropriate the balance of bond proceeds remaining for any purpose for which debt may be authorized for an equal or longer period of time than that for which the original loan, including temporary debt, was issued. G.L. Ch. 44 §20. Previously, the appropriation of surplus bond proceeds for completed or abandoned projects was limited to other capital projects for which a city, town or district could by law authorize debt for a longer period of time than the original project.

For example, a city or town votes to authorize debt for a building project for ten years, although the maximum term authorized by law is twenty years. Bond anticipation notes were issued for two years, and bonds for eight years, for a total period of ten years. Any surplus bond proceeds could be appropriated by majority vote for any purpose for which borrowing is authorized for ten years or longer, rather than twenty years or longer as was previously the case.

#### **B. Premiums and Interest**

Premiums and accrued interest on bonds or notes are now general revenue and should be treated as local estimated receipts. G.L. Ch. 44 §20. Previously, these amounts were earmarked in separate accounts and used to reduce debt service payments.

### **IV. INTERFUND BORROWING**

Cities, towns and districts that have authorized debt or had a federal or state grant approved may now spend for those purposes from available unrestricted funds in anticipation of the borrowing or receipt of grant funds. Previously, the use of moneys from one fund on a temporary basis to prevent borrowing was not permitted. Any so-called interfund or internal borrowings or advances must be repaid during the same fiscal year and be made according to rules, regulations and guidelines promulgated by the Director of Accounts. G.L. Ch. 44 §20A.

#### **A. Advance Procedures**

Treasurers may use an interfund advance as an alternative to borrowing in anticipation of grants, bonds or revenue with the approval of the same official or board authorized to approve the issuance of notes, i.e., Mayor or City Manager and Auditor if the city charter so requires, Selectmen, District Commissioners or Regional School Committee Chairman.

The treasurer must document each advance using the "Report of Advance of Funds in Lieu of Borrowing" attached to this IGR. The approved report form is to be delivered to the auditor or accountant, who will complete it when the advance is repaid and maintain it as part of the financial records of the municipality or district.

A copy of the report should be submitted to the Debt Section, Bureau of Accounts, within 48 hours following approval of the advance by the Mayor, Selectmen or other appropriate official or board.

#### **B. Advance Sources**

Interfund advances would typically be made from the General Fund. Trust funds, retirement funds and municipal insurance funds established under G.L. Ch. 40 §§13, 13A or 13C will be deemed restricted for the purpose of this provision and advances may not be made from those funds. However, an advance may be made from the stabilization fund, provided the balance of the stabilization fund available for appropriation will be reduced by the amount of the advance. Prior to recommending any advance, the treasurer and accountant should insure that no restrictions apply to any fund from which the advance is to be made.

#### **C. Advance Limitations**

The aggregate amount of all interfund advances outstanding at any time during the fiscal year is limited to the unappropriated balance of the certified free cash or stabilization fund of the city, town or district, or one percent of the annual operating budget, whichever is greater. As noted above, if an advance is made from the stabilization fund, it must be repaid before any appropriation is made from the fund. Requests for exceptions to these limits will be considered if submitted in writing to the Director of Accounts.

When an advance is repaid, for instance, from payment of the reimbursement grant funds, another advance may be made for a different grant, but the aggregate amount of advances outstanding at any time is limited as set forth in the paragraph above.

D. Repayment of Advances

On or about June first of each year, the Treasurer and Accountant must review all outstanding interfund advances. If payment of reimbursement grant funds is not expected by the end of the fiscal year, the Treasurer should issue state or federal grant anticipation notes prior to June thirtieth and repay the advance to the general fund. The statute requires that advances be reimbursed in the fiscal year in which the advance was made. Therefore, no advance may be carried as a receivable of the general fund at year end.

E. Accounting Standards

The accountant or auditor is to record interfund borrowing transactions as shown in the attached accounting examples.

**V. BOND SECURITY**

Bonds or notes issued by a town or district may now be secured by bond insurance or letters or lines of credit. G.L. Ch. 44 §22C. Previously, only cities had this authority. G.L. Ch. 44 §22A.

## ACCOUNTING ENTRIES FOR INTERFUND BORROWING

### UMAS

#### EXAMPLE 1

This example assumes that reimbursement of a grant will be made by the Commonwealth during the current fiscal year.

1. The Accountant received from the Treasurer a Report of Advance of Funds in lieu of Borrowing which stated that on September 1, 1992, the general fund advanced \$100,000 to the capital projects fund to fund expenditures on a capital project which will be reimbursed by a state grant.

#### GENERAL FUND

Due from capital projects fund - internal borrowing	100,000	
Cash		100,000

To record an advance in lieu of borrowing to the capital projects fund.

#### CAPITAL PROJECTS FUND

Cash		100,000
Due to general fund - internal borrowing	100,000	

To record an advance in lieu of borrowing from the general fund.

2. On December 1, 1992, the Town billed the granting agency \$100,000 for reimbursement for moneys expended.

#### CAPITAL PROJECTS FUND

Due from Comm. of Mass.		100,000
Deferred revenue - intergovernmental		100,000

To record grant funds applied for.

3. The Town received \$100,000 from the granting agency on February 15, 1993.

#### CAPITAL PROJECTS FUND

Cash		100,000
Due from Comm. of Mass.		100,000

To record grant funds received.

Deferred revenue - intergovernmental Revenue	100,000	
		100,000

To recognize funds received as revenue.

Due to general fund - internal borrowing	100,000	
Cash		100,000

To record repayment of advance from general fund.

#### GENERAL FUND

Cash		100,000
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Due from capital projects fund - internal borrowing	100,000
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To record repayment of advance to general fund.

**EXAMPLE 2**

This example assumes that the reimbursement from the Commonwealth of Massachusetts will not be received by June 30, 1993.

1. The Accountant received from the Treasurer a Report of Advance of Funds in lieu of Borrowing which stated that on September 1, 1992, the general fund advanced 100,000 to the capital projects fund to fund expenditures on a capital project which will be reimbursed by a state grant.

GENERAL FUND

Due from capital projects fund - internal borrowing	100,000	
Cash		100,000

To record an advance in lieu of borrowing to the capital projects fund.

CAPITAL PROJECTS FUND

Cash		100,000
Due to general fund - internal borrowing	100,000	

To record an advance in lieu of borrowing from the general fund.

2. On December 1, 1992, the Town billed the granting agency \$100,000 for reimbursement for moneys expended.

CAPITAL PROJECTS FUND

Due from Comm. of Mass.		100,000
Deferred revenue - intergovernmental		100,000

To record grant funds applied for.

3. The Treasurer and Accountant met on June 1, 1993 to review the outstanding advances. It was determined that reimbursement from the state was not expected to be received by June 30, 1993. on June 10, 1993 the Treasurer issued a state grant anticipation note (GAN) in the amount of \$100,000 and notified the Accountant of such.

CAPITAL PROJECTS FUND

Cash		100,000
Grant anticipation notes payable		100,000

To record proceeds of GAN issued June 10, 1993.

Due to general fund - internal borrowing	100,000	
Cash		100,000

To record repayment of advance from general fund.

GENERAL FUND

Cash		100,000
Due from capital projects fund - internal borrowing		100,000

To record repayment of advance to general fund.

- The Town received \$100,000 from the granting agency on September 10, 1993. The GAN was paid off on the same day.

CAPITAL PROJECTS FUND

Cash	100,000	
Due from Comm. of Mass.		100,000

To record grant funds received.

Deferred revenue - intergovernmental Revenue	100,000	100,000
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To recognize funds received as revenue.

Grant anticipation notes payable-Cash	100,000	100,000
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To record repayment of GAN.

STATUTORY

EXAMPLE 1

This example assumes that reimbursement of a grant will be made by the commonwealth during the current fiscal year. The grant is to be expended in conjunction with a town appropriation for a highway capital project.

- On August 15, 1992 the Accountant received a notice of grant award.

Due from the Comm. of Mass.	100,000	
Aid to highway revenue		100,000

To record notice of grant award.

- The Accountant received from the Treasurer a Report of Advance of Funds in lieu of Borrowing which stated that on September 1, 1992, the town advanced \$100,000 to fund expenditures on a highway capital project which will be reimbursed by a state grant.

Cash advance - internal borrowing	100,000	
Cash		100,000

To record an advance in lieu of borrowing for a highway capital project.

State aid to highway revenue	100,000	
Appropriation/highway		100,000

To transfer internal borrowing to appropriation.

NOTE: Expenditures for the grant should be charged to cash. Cash advance - internal borrowing should not be reduced until the advance is paid off. This account will have to be included in cash when reconciling cash with the Treasurer.

- The Town received \$100,000 from the granting agency on - February 15, 1993.

Cash	100,000	
Due from Comm. of Mass.		100,000

To record grant funds received.

Cash	100,000	
Cash advance - internal borrowing		100,000

To record repayment of advance.

**EXAMPLE 2**

This example assumes that reimbursement of a grant will be made by the commonwealth during the current fiscal year. There is no town appropriation required to complete the project (100% state funded)

1. On August 15, 1992 the Accountant received a notice of grant award.

Due from the Comm. of Mass.	100,000	
Revenue reserved until collected (purpose)		100,000

To record notice of grant award.

2. The Accountant received from the Treasurer a Report of Advance of Funds in lieu of Borrowing which stated that on September 1, 1992, the town advanced \$100,000 to fund expenditures on a capital project which will be reimbursed by a state grant.

Cash advance - internal borrowing	100,000	
Cash		100,000

To record an advance in lieu of borrowing for a capital project.

Revenue reserved until collected (purpose)	100,000	
Grant (title)		100,000

To transfer advance to grant

**NOTE:** Expenditures for the grant should be charged to cash. Cash advance - internal borrowing should not be reduced until the advance is paid off. This account will have to be included in cash when reconciling cash with the Treasurer.

3. The Town received \$100,000 from the granting agency on February 15, 1993.

Cash	100,000	
Due from Comm. of Mass.		100,000

To record grant funds received.

Cash	100,000	
Cash advance - internal borrowing		100,000

To record repayment of advance.

**EXAMPLE 3**

This example assumes that the reimbursement from the Commonwealth of Massachusetts will not be received by June 30, 1993. The grant award is to be expended-in conjunction with a town appropriation for a highway capital project.

1. On August 15, 1992 the Accountant received a notice of grant award.

Due from the Comm. of Mass.	100,000	
Aid to highway revenue		100,000



To record notice of grant award.

2. The Accountant received from the Treasurer a Report of Advance of Funds in lieu of Borrowing which stated that on September 1, 1992, the town advanced \$100,000 to fund expenditures on a capital highway project which will be reimbursed by a state grant.

Cash advance - internal borrowing	100,000	
Cash		100,000

To record an advance in lieu of borrowing for a capital project.

State aid to highway revenue	100,000	
Appropriation/highway		100,000

To transfer internal borrowing to appropriation.

**NOTE:** Expenditures for the grant should be charged to cash. Cash advance - internal borrowing should not be reduced until the advance is paid off. This account will have to be included in cash when reconciling cash with the Treasurer

3. The Treasurer and Accountant met on June 1, 1993 to review the outstanding advances. It was determined that reimbursement from the state was not expected to be received by June 30, 1993. on June 10, 1993 the Treasurer issued a state grant anticipation note (GAN) in the amount of \$100,000 and notified the Accountant of such.

Cash		100,000
Temporary loan - in anticipation of grant	100,000	

To record proceeds of GAN issued June 10, 1993.

Cash		100,000
Cash advance - internal borrowing		100,000

To record repayment of advance.

4. The Town received \$100,000 from the granting agency on September 10, 1993. The GAN was paid off on the same day.

Cash		100,000
Due from Comm. of Mass. -		100,000

To record grant funds received.

Temporary loan - anticipation of grant	100,000	
Cash		100,000

To record repayment of GAN.

#### **EXAMPLE 4**

This example assumes that the reimbursement from the Commonwealth of Massachusetts will not be received by June 30, 1993. There is no town appropriation required(100% state funded).

1. On August 15, 1992 the Accountant received a notice of grant award.

Due from the Comm. of Mass.	100,000	
Revenue reserved until collected (purpose)		100,000

To record notice of grant award.

2. The Accountant received from the Treasurer a Report of Advance of Funds in lieu of Borrowing which stated that on September 1, 1992, the town advanced \$100,000 to fund expenditures on a capital project which will be reimbursed by a state grant.

Cash advance - internal borrowing	100,000	
Cash		100,000

To record an advance in lieu of borrowing for a capital project.

Revenue reserved until collected (purpose)	100,000	
Grant (title)		100,000

To transfer advance to grant.

**NOTE:** Expenditures for the grant should be charged to cash. Cash advance - internal borrowing should not be reduced until the advance is paid off. This account will have to be included in cash when reconciling cash with the Treasurer.

3. The Treasurer and Accountant met on June 1, 1993 to review the outstanding advances. It was determined that reimbursement from the state was not expected to be received by June 30, 1993. on June 10, 1993 the Treasurer issued a state grant anticipation note (GAN) in the amount of \$100,000 and notified the Accountant of such.

Cash		100,000
Temporary loan - in anticipation of grant	100,000	

To record proceeds of GAN issued June 10,1993.

Cash		100,000
Cash advance - internal borrowing		100,000

To record repayment of advance.

4. The Town received \$100,000 from the granting agency on September 10, 1993. The GAN was paid off on the same day.

Cash		100,000
Due from Comm. of Mass.		100,000

To record grant funds received.

Temporary loan - anticipation of grant	100,000	
Cash		100,000

To record repayment of GAN.

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The Division of Local Services is responsible for oversight of and assistance to cities and towns in achieving equitable property taxation and efficient fiscal management.

The Division regularly publishes IGRs (informational Guideline Releases detailing legal and administrative procedures) and the BULLETIN (announcements and useful information) for local officials and others interested in municipal finance.

P.O. Box 9655, Boston, MA 02114-9655 (617) 626-2300

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