



# DLS

DIVISION OF LOCAL SERVICES  
MA DEPARTMENT OF REVENUE

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BUL-2023-2

## **FY2024 BUDGET ISSUES AND OTHER RELATED MATTERS**

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

FROM: Deborah A. Wagner, Director of Accounts

DATE: February 2023

SUBJECT: FY2024 Budget Issues and Other Related Matters

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This *Bulletin* addresses several topics that cities, towns, regional school and other districts should consider for FY2024 budgeting and other related matters. We encourage local officials to read this Bulletin thoroughly so that they are aware of matters impacting budgetary votes and revenue estimates, as well as current requirements of the tax rate setting process.

The Division of Local Services' Data Analytics and Resources Bureau publishes real-time updates for local aid estimates as the budget process progresses. This information is on our *Local Aid/Cherry Sheets* page under [Cherry Sheet Estimates](#). Changes in local aid estimates should be monitored for potential impact on a community's excess levy capacity.

Also, please visit the [Municipal Finance Training and Resource Center](#) on our website to see all of the resources we provide to local official regarding a myriad of topics including resources for new officials, budgeting, financial forecasting, and capital planning.

### **New Items for Fiscal Year 2024:**

#### **New Legislation**

Recently, various laws were passed that could have an impact on FY2024 and future budget decisions in cities and towns. This legislation includes the following:

AN ACT RELATIVE TO MASSACHUSETTS' TRANSPORTATION RESOURCES AND CLIMATE, Chapter 176 of the Acts of 2022 – Refer to [Legal Finance Opinion LFO-2022-3](#), issued in September 2022. The changes concern the accounting treatment of moneys distributed to municipalities as a result of charges on transportation network companies (TNC's). In addition to other reporting requirement changes beginning in FY2024, the legislation allows for the following:

*Starting with distributions received on or about June of 2023, if the amount of the distribution to a city or town is \$25,000 or less, the chief executive officer as defined in section 7 of chapter 4 of the General Laws may expend the funds for the statutory purposes without further appropriation. St. 2022, c. 176, § 27.*

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AN ACT RELATIVE TO EQUITY IN THE CANNABIS INDUSTRY, Chapter 180 of the Acts of 2022 – This legislation became effective 11/9/2022 and includes changes to rules around community host agreements and negotiated impact fees under a community host agreement, as well as social equity business distributions pursuant to G.L. c. 64N, § 2. The Division of Local Services (DLS) is awaiting further guidance regarding how or whether this legislation impacts existing community host agreements. DLS cautions communities with negotiated community impact fees to contemplate the now temporary nature of these revenues when making budget decisions. Also, please refer to [Legal Finance Opinion \(LFO\) 2022-4](#).

AN ACT RELATIVE TO SCHOOL OPERATIONAL EFFICIENCY, Chapter 198 of the Acts of 2022 – This legislation became effective 11/24/2022 and makes certain changes to Ch. 30B procurement thresholds for schools. It also allows the establishment of an enterprise fund for school transportation services and/or allows the establishment of a special revenue fund for Commonwealth transportation reimbursements. Expenditures from this fund may be made by the school committee, and revenues in this fund may carry forward for one year. This legislation also permits prepayment for various expenses and payment after annual appropriations are made for the ensuing fiscal year for certain materials, supplies and equipment. Refer to [Bulletin 2022-8](#).

### **Opioid Settlement Proceeds**

In the July 7, 2022 issue of *City and Town*, [Ask DLS: Treatment of Opioid Settlement Payments](#), DLS wrote an FAQ regarding the required treatment of opioid settlement proceeds. This treatment remains in effect.

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

Cities and towns that have COVID-19 expenses charged to Coronavirus Relief Fund – Municipal Program (CvRF-MP) that have been deemed ineligible upon audit by the Executive Office for Administration and Finance’s (A&F) Federal Funds Office (FFO) will not be mandated to raise them on the FY2024 Tax Rate Recap (Recap) or otherwise fund such expenses. Please refer to [Bulletin 2022-3](#). This bulletin remains applicable.

Deficits in FEMA and CvRF-MP special revenue funds on the 6/30/2023 balance sheet will not have to be raised on the 2024 tax rate recap form or otherwise provided for. These deficits will need to be provided for at a later date.

Although the CvRF-MP grant is deemed closed, denied costs may be eligible for FEMA reimbursement. The FEMA emergency declaration remains in effect. Eligible costs through July 1, 2022 will be reimbursed at 100% of cost. After July 1, 2022, the rate of reimbursement reduces to 90% of eligible cost. Although the deadline to report costs prior to July 1, 2022 to FEMA was December 31, 2022, the [guidance](#) suggests that, should extenuating circumstances apply, a time extension may be requested.

Although it is not mandated that a municipality provide on the FY24 tax recap form or otherwise fund Covid-19 deficits that remain on the balance sheet, a municipality may do so at their option.

### **Residential or Small Commercial Exemption**

Municipalities that have voted to grant or have voted a change to a residential exemption or a small commercial exemption must send an email to the Municipal Databank at [databank@dor.state.ma.us](mailto:databank@dor.state.ma.us) to ensure the proper percentage has been entered into the DLS Gateway application. Failure to do so may delay the submission of the LA5 Options form and delay the certification of the annual tax rate.

## **Year-End Encumbrances including for union contracts**

DLS has published two FAQ's in *City and Town* relevant to the issue of year end encumbrances (inclusive of contracts under negotiation), carry forward of special articles, and year-end transfers. The relevant issues are:

- [June 7, 2018](#), and
- [June 2, 2022](#).

The procedures outlined in these FAQ's should be followed.

## **Community Preservation – State Match**

Fluctuations in the registry of deeds real estate transaction recording fees in this current environment make it difficult to predict the community preservation state distribution amount. Therefore, we recommend that communities conservatively estimate their FY24 state match.

As a reminder, the appropriation for administrative expenses cannot exceed 5% of estimated revenues.

## **Override and Exclusion Votes**

If a municipality has voted a new override/underride or debt/capital exclusion, the vote must be uploaded by the city or town clerk into the Gateway system ahead of submission of the tax rate recap form. Instructions for this process can be found on the DLS website, [Submitting Proposition 2 ½ Votes using DLS Gateway](#). For additional assistance with this process is available at [dlsgateway@dor.state.ma.us](mailto:dlsgateway@dor.state.ma.us). Not uploading this documentation can delay the setting of the municipality's tax rate.

## **Snow and Ice Budget**

[G.L. c. 44 § 31D](#) allows a city or town to incur liabilities or make expenditures in excess of appropriations under the following conditions:

- That such expenditures are approved by the chief executive officer, and
- That the appropriation for such purposes in said fiscal year equaled or exceeded the appropriation for said purposes in the prior fiscal year.

When both of these conditions are met, the amount in excess of appropriation may be raised on the next fiscal year's tax recap form or otherwise provided for and free cash will not be reduced by the amount of the deficit.

DLS noted on the FY22 snow and ice form several communities that did not appropriate as much for the FY22 snow and ice budget as was appropriated in the FY21 snow and ice budget. Where a deficit was noted, free cash was reduced.

## **Recurring Matters:**

### **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 FY2024 Receipts**

It is the Bureau of Accounts' position that forecasts for local receipts (page 3) of the tax recap should be conservatively based on historical trend analyses. The Division of Local Services' (DLS) *Municipal Finance Trend Dashboard* includes a [Local Receipts – Estimates vs. Actuals](#) metric that shows historical trend information on local receipts for assistance when estimating receipts. 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 Cannabis Excise, please be sure estimates take into consideration when the establishment opened and when the community will receive its first distribution of local option excise revenue from the state, and whether that will be for a full year or less. When estimating revenue for a Cannabis Impact Fee, please be sure that these funds have either already been received or are not contingent on a receipt of a license which has not yet been granted.

When estimating local receipts, you must complete the recap Page 3 Support Form. This is a Gateway form, implemented for the FY2023 tax rate recap, that will auto-populate amounts after page 3 of the recap is completed, eliminating the need for city and town officials to data enter this information. Municipalities will only need to provide explanations for increases and decreases on this form and to provide details for both actual and estimated miscellaneous recurring and non-recurring receipts.

### **Estimating FY2024 Enterprise Fund Revenues**

Estimated increases in FY2024 enterprise fund receipts above prior year actual receipts must be supported by a voted rate increase made prior to the submission of the tax rate recap. If the increase in receipts is due to an increase in usage, this should be documented in writing as well, with an explanation justifying the assumed increase in usage.

Please complete the [Enterprise Fund User Charge Template](#) to support increases of estimated vs actual revenues. The date of the rate increase vote, the effective date of the rate increase, along with the old rates and new rates should be included on the template. If usage has increased the old usage and new usage should be documented here also. This template must be uploaded to the applicable A-2 in Gateway. Lack of proper documentation for estimated revenue increases above actual may cause additional questions, potentially delaying the setting of the tax rate.

General fund subsidies to an enterprise fund must be voted by the legislative body. Certified retained earnings deficits must be provided for in the next annual tax rate; for example, 6/30/2023 certified retained earnings deficits must be provided for on the FY2024 tax rate recap. If 6/30/2023 retained earnings are not certified, any deficits must be shown on the Letter in Lieu of Balance Sheet on the Enterprise Fund Balance Deficit line and provided for on the FY2024 tax recap. For more information regarding enterprise funds, refer to the [Enterprise Fund Manual](#).

## Budgeting Overlay

Guidance regarding budgeting for overlay, calculating overlay surplus and releasing overlay surplus is contained in [IGR 17-23 Overlay and Overlay Surplus](#).

As part of the annual budget and tax rate process, the assessors must analyze the balance in the overlay account and determine whether it is adequate to fund anticipated property tax abatements, exemptions and receivables during the upcoming fiscal *year in addition to* existing abatement, exemption and receivable exposure for all previous fiscal years. If the account balance is not adequate, the assessors may raise any additional amount required in the municipal or district tax rate for the year without appropriation. [G.L. c. 59 § 25](#). Assessors should provide the amount they intend to raise to their local budget officials during the annual budget process.

Several cities and towns transferred from overlay to overlay surplus an amount greater than excess overlay under [G.L. c. 59 § 25](#). While the Bureau will take no action in requiring a municipality to raise overlay to make up for the excessive transfer, we urge cities and towns to maintain an adequate overlay balance going forward.

Further, in order to approve the annual tax rate, the Commissioner must determine that the overlay account balance is reasonable, i.e., adequate to cover anticipated abatements and exemptions and property tax receivables for all fiscal years. [G.L. c. 59 § 25](#). The reasonableness of the account balance will be judged based on the following factors:

- The account balance as of June 30 of the previous fiscal year.
- Abatements and exemptions granted, and payments made for prior fiscal years from July 1 to the date the tax rate is submitted.
- The average of granted abatements and exemptions and outstanding receivables for the five previous fiscal years.
- Whether local assessments are scheduled for review and certification by the Department of Revenue. [G.L. c. 40 § 56](#).
- The potential abatement liability in cases pending before, or on appeal from, the Appellate Tax Board (ATB).
- Other significant factors known to the Commissioner.

The Bureau may require a revision of the overlay to be raised on the FY2024 tax rate recap if such amount is determined to be insufficient by the Bureau.

## Structural Deficits

Cities and towns may have had their certified free cash reduced for deficits in special revenue, capital projects, and trust and agency funds. Some of these reductions to free cash may be recurring in both amount and description, indicative of a structural deficit. Notification of free cash certification is made with a copy of the free cash calculation attached. We encourage municipalities to review these calculations and, where the same deficits occur in multiple years, consider providing for them on the FY2024 tax rate recap. In some instances, DLS may require that these structural deficits be funded. This will eliminate reductions to free cash for the same amounts in the subsequent years' certifications.

## Appropriations from Free Cash to Reduce the Tax Levy

If a city or town has taken a vote to reduce the tax rate, the vote must be clear as to the intention of the vote and include a specific dollar amount. The following is sample motion language:

"I move that the city/town vote to appropriate \$120,000 from Free Cash to Reduce the FY24 Tax Rate."

Also, votes to reduce the tax rate must be included on tax rate recap page 2, Part III d. in order to have the intended effect on the tax rate. Such a vote does not belong on tax rate recap page 4 as it will have no effect on the tax rate.

### **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 30<sup>th</sup> following its July 1 certification date. As a result, free cash certified by the director as of July 1, 2022 is available for appropriation only up to and including June 30, 2023.

### **Balance Sheets as of 6/30/2023 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 and for other similarly managed grants provided by MassDOT, provided the community can document that the request for reimbursement has been filed with MassDOT by September 30, 2023; and the Bureau must be satisfied that payment will be made. SOMETHING ABOUT BORROWING BY 9/30??

### **Debt Exclusions**

All voted debt exclusions must be reflected in the levy limit in any year a debt service payment is due, whether or not that levy capacity is needed to balance the budget within the limits of proposition 2 1/2. Therefore, all voted debt exclusions must be shown on the DE-1 so that the correct maximum allowable levy is shown on the levy limit form and the actual excess capacity can be calculated.

### **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**

In circumstances where the Federal Emergency Management Agency (FEMA) has issued a Major Disaster Declaration for particular cities, towns or counties for weather related events, special accounting treatment will be allowed for related costs. These declarations activate FEMA's Public Assistance Program for these local governments making federal funding available for eligible disaster-related costs such as emergency work and permanent repair and replacement of facilities damaged as a direct result of these events.

For June 30, 2023 balance sheet purposes, the Bureau will allow city and town accounting officials in any such area to 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 emergency (if applicable).

For these events, deficits in the special revenue accounts are to be offset as reimbursements are received. We are aware that reimbursements for prior emergency declarations are still pending. After the community receives final reimbursements from FEMA, any remaining deficit in these accounts 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 and where the proper FEMA emergency declaration has been made.

### **Borrowing Purposes and Terms**

In February 2022, [Informational Guideline Release \(IGR\) 22-02](#) was issued to inform city, town and district treasurers and other officials about borrowing purposes and debt issuance procedures.

The purposes for which cities and towns may borrow as well as the terms for those loans are included under [G.L. c. 44 §§ 7 and 8](#). See [G L. c. 44 § 9](#) for the purposes for which districts, as defined in [G.L. c. 44 § 1](#), may borrow. The debt limits for city, town and district borrowings are included in [G.L. c. 44 § 10](#).

Refer to [IGR 22-01 and IGR 22-02](#) for procedures related to the receipt of premiums on bonds and notes, including for excluded debt issued on or after December 13, 2021.

Please 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.

### **Borrowing - Premiums, Surplus Proceeds and Debt Exclusions**

Please refer to [IGR 22-01](#) for an explanation of adjustments to an approved Proposition 2½ debt exclusion under [G L. c. 59 § 21C\(k\)](#) when premiums are received in connection with the sale of the bonds or notes for the excluded borrowing and when surplus loan proceeds remain after the project or purpose of the borrowing is completed.

For bonds sold pursuant to a Proposition 2½ debt exclusion on or after December 13, 2021, premiums (net of issuance costs) and accrued interest must be used to pay project costs and to reduce the amount of the borrowing authorization by the same amount. [G.L. c. 44 § 20](#). Additionally, the borrowing vote no longer requires express authorization language. This change eliminates the need for the community to adjust the debt exclusion to reflect the true interest costs of the borrowing. Also, premiums (net of issuance costs) and accrued interest received as a result of the issuance of bonds, in the amount of \$50,000 or less, can alternatively be applied to the payment of any debt service with the approval of the chief executive officer.

For notes sold on or after December 13, 2021, premiums (net of issuance costs) and accrued interest must be applied to the first payment of interest on the note.

For bonds or notes sold on or after November 7, 2016, but before December 13, 2021, premiums (net of issuance costs) and accrued interest must be (1) used to reduce the amount of the borrowing authorization by the same amount when the borrowing vote so authorizes or (2) reserved for appropriation for capital projects for which a loan has been or may be authorized for an equal or longer period of time than the loan for which the premiums were received. [G.L. c. 44 § 20.](#) Since the excluded amount must be adjusted to reflect the true interest cost of the borrowing per [G.L. c. 44 § 20](#), bonds or notes for which net premiums and accrued interest are reserved for appropriation for capital projects must be reduced by a premium adjustment unless the amount of the net premium received at the time of the sale is \$50,000 or less.

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. In either case, the use must be appropriated by the legislative body.

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

For FY2024, 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, 2022 has not been submitted to the Bureau.

### **Court Judgments**

[G.L. c. 44 § 31](#) allows payments without appropriation for final judgments, which is defined as 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**

In September 2021, [IGR 21-23](#) was issued to inform local officials about the procedures and requirements of 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.

For various models concerning the establishment of a departmental revolving fund bylaw or ordinance, please see DLS [Bulletin 2017-01B](#).

### **Emergency Expenditures**

Non-COVID-19 Emergency expenditures made in FY2023 after the setting of the FY2023 tax rate and through June 30, 2023 under [G.L. c. 44 § 31](#) must be reported to the assessors for inclusion in the FY2024 tax rate unless otherwise funded or unless reimbursement for the emergency remains outstanding.

### **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

In October 2021, [IGR 21-24](#) regarding property tax exemptions for solar powered, wind powered, fuel cell powered and energy storage systems, was issued. This IGR provides assessors, local officials and energy system owners with information about property tax exemptions for solar powered systems, wind powered systems, fuel cell powered systems and energy storage systems, including under a negotiated tax agreement.

These guidelines explain the municipal finance provisions of assessing solar powered, wind powered, fuel cell powered and energy storage systems under [G.L. c. 59 § 5, cl. 45](#) and [cl. 45B](#), as amended by [Chapter 8 of the Acts of 2021, An Act Creating A Next-Generation Roadmap for Massachusetts Climate Policy](#) (the Act).

The Act amended [clause 45](#) to provide clarity for local officials when determining whether certain energy systems are exempt from local property taxes. That determination will be based upon a combination of factors including the type of system, the ability of that system to produce certain levels of electricity measured in relation to the real property where it is located, whether a solar or wind powered system is co-located with a verified energy storage system, and whether the municipality has entered into an agreement for payments in lieu of taxes (PILOT) for that system. **The amended [clause 45](#) exemption will become effective for the first time for property tax assessments as of the January 1, 2022 assessment date for fiscal year 2023.**

As with all property tax exemptions, the burden is on the property owner seeking the exemption to demonstrate eligibility for the exemption as of the eligibility date. If the property does not qualify for the exemption, the property will be taxable unless another exemption applies.

For more detailed information on the matter, including whether any revenue estimates for PILOT payments should be included in local receipts (page 3) of the tax recap, please contact your Field Advisor at the Bureau of Local Assessment prior to submitting the tax rate recap.

## Expenditure Budgeting for FY2024

Pension Appropriations: Pension assessments must be fully funded in the FY2024 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, 2023 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 FY2024 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, 2023. 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 FY2023 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. In October 2021 the Bureau issued a [letter to municipalities](#) that may be required to have an audit for the first time due to the historic disbursement of COVID-19 mitigation funds by the federal government. This letter also provides a link to several audit resources that can be found on our website.

The Office of Management and Budget (OMB) has amended its compliance rules to allow for a simplified process for municipalities that would not be required to undergo a federal audit if not for expenditures of Coronavirus State and Local Fiscal Recovery Funds (SLFRF) under the American Rescue Plan Act (ARPA).

Under the OMB addendum, issued on April 8, SLFRF recipients that expend \$750,000 or more during their fiscal year and meet two specific criteria have the option for their auditor or practitioner to follow the Alternative Compliance Examination Engagement guidance. The criteria are:

1. The recipient's total SLFRF award received directly from the U.S. Department of the Treasury or received (through states) as a non-entitlement unit of local government is at or below \$10 million; and
2. Other federal award funds the recipient expended (not including their SLFRF award funds) are less than \$750,000 during the recipient's fiscal year.

We encourage communities to reach out to their audit firm for further guidance on this matter.

## **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. A free cash update may also be approved for capital project borrowing done between September 30 and March 31 related to a deficit capital project fund balance that existed at June 30. 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. 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, transfers may be made between May 1 to July 15 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 FY2023 can be no greater than DESE’s FY2023 reimbursement, not including extraordinary assistance. Any excess fund balance must close to the General Fund. Any deficit fund balance must be charged to FY2023’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 FY2023 can be no greater than DESE’s FY2023 reimbursement. Any excess fund balance must close to the General Fund. Any deficit fund balance must be charged to FY2023’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 FY2024 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 FY2024 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.