



BUL-2025-2

FY2026 BUDGET ISSUES AND OTHER RELATED MATTERS

TO: City/Town/District/Regional School District Officials
 FROM: Deborah A. Wagner, Director of Accounts
 DATE: March 2025
 SUBJECT: FY2026 Budget Issues and Other Related Matters

This *Bulletin* addresses topics that cities, towns, and districts should consider for FY2026 budgeting. 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. Matters discussed in prior years remain in effect unless noted.

The Division of Local Services’ (DLS) Bureau of Local Payments 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.

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.

Additionally, DLS requests that officials please review their local officials directory for accuracy. New officials should be added, using unique email addresses. Officials no longer with the jurisdiction should be noted as “inactive”. In most jurisdictions, the clerk is the local administrator that maintains the directory and can follow these instructions: [Adding and Editing Officials in Local Officials Directory](#). Otherwise, please contact [Gateway Support](#) for assistance.

Tax Rate Submission Planning

FY25 Tax Rate season saw an unprecedented number of tax rate submissions in the five weeks preceding December 31, 2024. Of the 343 tax rates set, 262 were submitted during this period, as follows:

Week prior to Thanksgiving	52
Week of Thanksgiving	52
Week after Thanksgiving	81
Week of December 8 - 14	47
Ten days leading up to Christmas	30

Of these submissions, 126 communities waited more than 15 days between getting final value certification and holding the classification hearing, with an average of 33.2 days between the two dates. Further, 71 municipalities waited more than 7 days after the classification hearing to submit their tax rate recap for approval, with 28 communities waiting between 20 and 58 days to submit the tax rate recap.

DLS encourages all cities and towns to consider holding the classification hearing as soon as values are certified and submit the tax rate recap for approval once the classification hearing has concluded. Completion of the tax rate recap forms as soon as FY26 budgets are adopted and entering Proposition 2 ½ ballot vote results timely will assist in that goal. Most importantly, the finance team should meet, including the assessors and the Chief Executive, to develop a timeline for completion of this important task. This timeline should work backwards from the date the billing file needs to be with the vendor for tax bill printing and mailing to the beginning of the valuation process, ensuring that there are appropriations for any necessary vendors involved in the valuation process to begin their work timely in order to meet timeline goals.

➤ **New Items for Fiscal Year 2026:**

New Legislation

Chapter 140 of the Acts of 2024 - Tax Title Reform

[Bulletin 2024-6](#) summarizes the legislative changes affecting municipal tax title foreclosures which went into effect November 1, 2024. The legislative changes to the tax title foreclosure process were intended to bring the State into compliance with the 2023 U.S. Supreme Court ruling in Tyler vs. Hennepin County. All relevant [State Tax Forms](#) noted in the bulletin can be found on the DLS website.

Chapter 178 of the Acts of 2024 – An Act Honoring, Empowering and Recognizing Our Servicemembers and Veterans (“HERO” Act)

The HERO Act is a piece of recently passed legislation that adds two new local options that increase certain veteran exemption amounts and changes how to determine eligibility for the motor vehicle exemption for a veteran with a 100% disability rating or is unemployable due to their service-connected disability. [Bulletin 2024-5](#) summarizes the provisions and implementation requirements of the Act, as well as the impact of the provisions.

Municipal Empowerment Act

The Municipal Empowerment Act was filed by Governor Healey on January 31, 2025 and is designed to arm local governments with greater tools and supports to chart their own course, making it easier for communities to generate resources for vital local services and access the products and people they need to best serve Massachusetts residents. [Learn more about the Municipal Empowerment Act.](#)

COVID-19 Related Balance Sheet Deficits

To date, the Bureau of Accounts has certified FY25 free cash in 289 communities. We noted that in 59 of those communities, Covid-19 related deficits totaling \$54.2 million appear on these balance sheets as of 6/30/2024. These deficits are reported in the following categories:

- CvRF-MP (CARES) - \$6.3 million
- FEMA Deficits - \$17.1 million
- ARPA Deficits - \$7.2 million
- ESSER Deficits - \$8.3 million
- Misc. Covid Deficits - \$15.3 million

We anticipate requiring municipalities to provide for any remaining Covid-19 deficits by the setting of the FY27 tax rate. At that time, if further reimbursements remain outstanding, the municipality will be required to provide documentation that the receipt is forthcoming to avoid not providing for outstanding deficits on the FY27 recap.

DLS will provide further instruction regarding any remaining Covid-19 deficits over the next year. Although it is not mandated that a municipality provide on the FY26 tax recap form or otherwise fund Covid-19 deficits that remain on the balance sheet, a municipality may do so at their option.

Local Option Excise and Other Local Option – DLS Notification

It is imperative that city/town clerks notify DLS of adoptions of or changes to local option excise taxes, such as meals, rooms and cannabis excise. Municipalities that have voted to grant or have voted a change to a residential exemption or a small commercial exemption must also notify DLS of such changes. Additionally, municipalities must notify DLS of adoption of, or percentage changes to the Community Preservation Act. Please send the necessary form to the Municipal Databank at databank@dor.state.ma.us. Timely notification will ensure that municipal revenues are not negatively impacted and ensure there is no delay certification of the annual tax rate. Information regarding [Local Option Adoption](#) and [notification](#) can be found on our website. DLS does not require notification of local option adoptions of the HERO Act.

Proposition 2 ½ Ballot Votes

Clerks must notify DLS of the results of all Proposition 2 ½ ballot votes, including losses, as soon as the results of the election are known by entering the results in Gateway. Please do not wait to enter ballot results for debt exclusions until the debt is issued and debt service is due for the project. These results must also be entered in Gateway as soon as the election is complete. The results of these elections are only entered in the year passed. No further action is necessary in subsequent years. Stabilization overrides have a different procedure for each succeeding year after the initial election. See [IGR 24-12, Stabilization Funds](#), pages 5-7. A [webinar](#) on entering ballot vote results can be found on our website, along with related [slides](#).

Community Preservation – State Match Simulations

FY26 Simulations for the Community Preservation Act state match can be found on our [website](#). These amounts are estimates of the FY26 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 FY26 state match.

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

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 administrative 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.

➤ **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 24-12, Stabilization Funds](#), for more information.

Estimating FY2026 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. DLS' Data Analytics and Visualization page has a visualization that shows [trends in 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. Additionally, please refer to [LFO 2024-2](#) as noted above.

When estimating local receipts, you must complete the recap Page 3 Support Form. This is a Gateway form 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 FY2026 Enterprise Fund Revenues

Estimated increases in FY2026 enterprise fund receipts above prior year actual receipts must be supported by either, or both, (1) a voted rate increase made prior to the submission of the tax rate recap or (2) documentation justifying an 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, 6/30/2025 certified retained earnings deficits must be provided for on the FY2026 tax rate recap. If 6/30/2025 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 FY2026 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 FY2026 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 fund title, 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 FY2026 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 FY25 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 30th following its July 1 certification date. As a result, free cash certified by the director as of July 1, 2024 is available for appropriation only up to and including June 30, 2025. Amounts appropriated in advance of certification or in excess of the amounts certified may be declared as invalid votes by the Director.

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.

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, 2025 balance sheet purposes, the Bureau will allow city and town accounting officials in any such area to transfer qualifying expenditures incurred during the applicable time period into a separate special revenue fund account. We recommend separate special revenue funds 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 some of these 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.

Certification of Notes and Receipt of Audit Reports

For FY2026, the Bureau will not certify revenue notes of a city, town, district, or regional school district if a required audit for the period ending June 30, 2024 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

[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](#).

Expenditure Budgeting for FY2026

Pension Appropriations: Pension assessments must be fully funded in the FY2026 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, 2025 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 FY2026 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, 2025. 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 FY2026 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 \$1M or more in federal funds are expended during any one 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 FY2025 can be no greater than DESE's FY2025 reimbursement, not including extraordinary assistance. Any excess fund balance must close to the General Fund. Any deficit fund balance must be charged to FY2025'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 FY2025 can be no greater than DESE's FY2025 reimbursement. Any excess fund balance must close to the General Fund. Any deficit fund balance must be charged to FY2025'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.