



# Bulletin

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2011-03B

## FY2012 BUDGET ISSUES AND PROCEDURES

TO: City/Town/Regional School District Officials via DLS Alerts  
FROM: Gerard D. Perry, Director of Accounts  
DATE: March 2011  
SUBJECT: FY2012 Budget Issues and Procedures

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This *Bulletin* addresses several issues that cities, towns, regional school and other districts should consider for FY2012 revenue and expenditure budgeting and other related matters.

### **Snow and Ice Removal Costs**

Cities and towns may charge the costs of removing snow from the roof of any municipal (including school) building to the snow and ice account that may be legally overspent under G. L. c. 44, § 31D. Unless otherwise funded, any deficit spending must be included in the next annual tax rate without appropriation, net of any federal/state reimbursements received.

For regional school districts, similar snow removal costs must be funded within the FY2011 regional school district budget. The regional school district committee may appropriate any applicable available funding source or may request the Director of Accounts to authorize the appropriation of regional school district stabilization fund monies (G.L. c. 71, § 16G½) to cover the costs.

### **Aid for Snow Damaged Schools**

The Massachusetts School Building Authority (MSBA) has advised the Bureau that schools which have sustained significant damage due to heavy snow and are declared unsafe by a credentialed professional may be eligible for emergency aid from MSBA. The total repair cost must first be reduced by any insurance or other reimbursement. Any residual cost may then be eligible for MSBA reimbursement. See 963 CMR 2.09 or contact MSBA for further details.

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

As a reminder, per Department of Elementary and Secondary Education (DESE) regulations, the balance in this fund at the close of FY2011 can be no greater than DESE's FY2011 reimbursement, not including extraordinary assistance. Any excess fund balance must close to the General Fund. Any deficit fund balance must be charged to FY2012's school budget. See 603 CMR 10.07 for additional details.

### **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 quarterly distribution of state aid for that school district until a balance sheet is submitted.

State law and the DESE regulation 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.

### **Extension of the School Year Beyond June 30**

DESE, in consultation with the Division of Local Services (DLS), issued the following guidance regarding possible extension of the school year beyond June 30.

**Q:** If the school year is extended beyond June 30 in order to comply with the 180-day requirement, may the district pay salaries and costs incurred from the current year's budget?

**A:** The Department of Revenue's Division of Local Services has advised that the answer is yes. If the school year must be extended beyond June 30 to comply with state law on student learning time, that would extend the scope of the municipality's appropriation for the schools beyond June 30. See Mass. General Laws Chapter 71, Section 40, which provides that the compensation paid teachers is deemed "fully earned at the end of the *school year*, and proportionately earned during the *school year*" (emphasis added). Teachers, therefore, could teach school in early July to comply with the 180-day requirement, and any salaries paid would appear on warrants payable for the fiscal year that ended on June 30.

In short, state law permits the school year (and salary payments) to extend beyond June 30 in these circumstances. School officials still should consult with their own legal counsel to determine whether any provisions in collective bargaining agreements or local ordinances would affect the decision to schedule school days after June 30.

## **Payroll**

Payroll expenditures must be charged to the fiscal year in which they were earned. If a July 2011 payroll warrant includes days worked in June 2011, journal entries should be posted to move proportionate expenditures to the prior fiscal year. Budget officials are reminded that fiscal years may not have exactly 52 pay periods and that charging the following fiscal year's budget for the extra day(s) is not generally accepted accounting practice. It may be necessary to review how payroll is calculated to be sure that sufficient payroll is available to cover expenditures for each fiscal year.

## **The Uniform Massachusetts Accounting System (UMAS) Manual and GASB 54**

The Bureau is in the process of updating the UMAS Manual on the following topics:

- GASB 54;
- Massachusetts Water Pollution Abatement Trust;
- Massachusetts School Building Authority;
- Health Care Trust Funds.

It is expected that the updated Manual will be available on DLS' website on July 1, 2011.

## **Community Preservation Fund**

During FY2011, 143 cities and towns collected the local Community Preservation Act (CPA) surcharge and are eligible for state matching grants in FY2012. DLS estimates that the balance in the state trust fund will be sufficient to provide a first round match of 25% of the surcharge levied by each city and town. This will trigger a second round or equity distribution for those cities and towns that have adopted the maximum 3% surcharge. With the equity distribution, the total state reimbursement for qualifying cities and towns will increase, depending on their decile and total surcharge amount (see [www.mass.gov/dls](http://www.mass.gov/dls) for applicable decile). Please note that these estimates are subject to change depending on Registry of Deeds collections between now and September.

For purposes of completing schedule A-4, part 1a, state trust fund distribution, the Bureau will accept no amount greater than 25% of the FY2011 net (after abatements) surcharge committed unless:

- the actual FY2012 distribution calculated and published by DLS (by law no later than October 15) shows a greater amount; or
- reasonable supporting documentation submitted can support a greater amount.

## **Use of Sale of Real Estate**

Proceeds from the sale of real estate acquired by other than tax title foreclosure are not allowed as an estimated receipt on page 3 of the tax rate recap without special legislation. These proceeds must be placed into an available fund for appropriation toward certain restricted purposes indicated in G.L. c. 44, § 63.

### **Transfer of Overlay to Overlay Surplus**

By law, the overlay account for a particular fiscal year remains open until exhausted or surplus overlay is transferred by vote of the board of assessors to overlay surplus in accordance with G.L. c. 59, § 25. Surplus is defined in the statute as the amount in the overlay account that exceeds:

- (1) the amount needed for abatements and exemptions that may still be granted for that fiscal year;
- plus
- (2) the total real and personal property taxes still outstanding against the collector's warrant (including omitted and revised assessments) for that fiscal year. Real estate taxes secured by a tax title may, but need not, be reserved against the overlay, except to the extent the assessors believe these taxes may be abated.

Overlay surplus is an available fund that may be appropriated for any lawful purpose until June 30, after which it must be closed to the General Fund.

### **Dealing with an FY2011 Revenue Deficit**

During these difficult financial times, the Bureau reminds that a revenue deficit occurs when actual revenues and expenditures (exclusive of legal appropriation deficits) compare unfavorably to budgeted non-property tax revenues and appropriations. If appropriation turn-backs are insufficient to cover the non-property tax revenue shortfall, a revenue deficit exists that must be provided for in the following fiscal year, no later than the setting of that fiscal year's tax rate.

### **Dealing with an FY2011 Appropriation Deficit**

G.L. c. 44, § 31 specifically states that "no department financed by municipal revenue, or in whole or in part by taxation of any city or town...shall incur a liability in excess of the appropriation made for the use of such department..." Overspending is allowed by the General Laws only in certain circumstances. All governmental entities must closely monitor their spending pattern, especially during the latter half of the fiscal year, so that improper overspending does not occur.

Appropriation deficits must be provided for in the following fiscal year's tax rate recap. IGR 06-209 detailing alternative year-end transfer procedures may be of assistance.

### **Budgeting in Full Prior to Tax Rate Certification**

In the Bureau's opinion, although events may occur after tax rate certification that require additional budget action, the city or town budget as reported on the tax rate recap should represent final spending authority as budgeted and appropriated. Cities and towns should not submit the form for tax rate certification with the intention of funding the remainder of the budget as funds become available.

## Enterprise Funds

### *When Converting from Special Revenue to Enterprise*

When converting from a special revenue fund to an enterprise fund, the fund balance in the special revenue fund may be transferred to the fund balance of the enterprise fund by vote of the city or town legislative body. Any fund balance not so transferred must close to the General Fund on June 30. Any fund balance transferred will become retained earnings only after certification by the Bureau.

### *On Estimating FY2012 Enterprise Revenues*

The Bureau will not allow FY2012 estimated revenue for user charges based upon the government's intent alone to raise these charges in the future. These charges must be raised 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.

### *Appropriating from Retained Earnings for a Special Purpose Stabilization Fund*

An appropriation from retained earnings to a special purpose stabilization fund is permissible provided the city or town maintains a record in the fund balance of the amount from this revenue source. Should the city or town's legislative body change the purpose of this stabilization fund, the retained earnings must be returned to retained earnings of the enterprise from which they were voted.

## Revenue Budgeting for FY2012

- Despite slightly improved economic conditions, the Bureau **will continue to require** that any FY2012 estimated receipt above its FY2011 actual amount (except for rounding) be supported by reasonable documentation. The Bureau cautions against unreasonable FY2012 estimates that may be rejected by the Bureau for tax rate setting purposes.
- *Meals Excise Taxes:* According to DLS' Municipal Data Bank, 125 cities and towns have adopted the local option meals excise tax. Cities and towns expecting to adopt this local option effective at the beginning of FY2012 must vote to accept it by May 31, 2011.

- *Rooms Excise Taxes:* According to DLS' Municipal Data Bank, 89 cities and towns have voted to increase their local option rooms excise tax rate. Cities and towns expecting to adopt this local option effective at the beginning of FY2012 must vote to accept it by May 31, 2011.
- *Meals/Rooms Estimated Receipts:* For cities and towns that adopted either or both of these local options effective in FY2011, revenue estimates for FY2012 will be based upon 12 months of receipts. For cities and towns adopting by May 31, 2011 either or both local option for the first time in FY2012, only 10 months of receipts should be expected. DLS' Municipal Data Bank provides meals tax revenue estimates and room occupancy actuals to assist in FY2012 revenue estimation.
- *School-Based Medicaid estimated receipts:* The Bureau is aware that several communities for multiple reasons have experienced a significant reduction in receipts from this revenue source in FY2010, FY2011 or both. The Bureau suggests that city and town budget officials review their FY2012 revenue estimate carefully with their school department or local program administrator. Any increase from actual receipts received in FY2011 must be supported by reasonable supporting documentation.

### **Expenditure Budgeting for FY2011**

- *Other Amounts to be Raised:* During the FY2011 tax rate approval process, the Bureau noted several communities attempting to raise on the tax rate recap certain amounts without appropriation. State law allows for only certain items to be raised in that manner. Any other amounts being so raised must be supported by special legislation.
- *School lunch deficit:* The Bureau will not require a school lunch account deficit to be provided for on the next tax rate recap if the deficit is deemed to be due to timing of receipt of funds. Otherwise, a structural deficit must be raised, subject to approval of the Director of Accounts, on the tax rate recap without appropriation if not otherwise provided for.
- *Court Judgments and Settlements for Judgment:* Any final court judgment (one in which no further appeal has or will be taken) or settlement for judgment rendered between July 1 and the time the next tax rate is set must be raised on the tax rate recap without appropriation on page 2, part IIB, line 3 if not otherwise provided for. Any judgment or settlement for judgment rendered (1) after the setting of the tax rate through June 30, and (2) in an amount greater than \$10,000, may with the written approval of the Director of Accounts be paid from available funds in the treasury and be raised on the next fiscal year's tax rate recap.
- *Self-Insurance Plans for Employee Health Insurance:* If the June 30, 2011 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 FY2012 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.

- *Pension Appropriations:* Please be reminded that the assessment must be provided for in the FY2012 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.

### **Certification of City, Town, District and Regional School District 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. Audits of regional school districts are required under G.L. c. 71, § 16A. For FY2012, 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, 2010 has not been submitted to the Bureau.

### **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 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 as of the following June 30 results, the city or town may not request a similar update for the following fiscal year.

### **Pro Forma Recap and Preliminary Real and Personal Property Tax Bills**

Semi-annual and quarterly tax billing city, town and special purpose taxing districts continue to have the option to issue preliminary tax bills (first half for semi-annuals and 3<sup>rd</sup> quarter for quarterlies) if a reassessment or the final determination of assessed valuations has been delayed. Although the purpose and procedure for issuance have not changed, it should be noted that pro forma approval is at the discretion of the Director, subject to a recommendation from the Chief of the Bureau of Local Assessment.

### **Levy Limits on the Website**

FY2012 preliminary levy limits for budget planning purposes and instructions are available on the DLS website. The levy limit calculation is the same as in FY2011 unless otherwise noted in the instructions' cover letter.

## **Health Reimbursement Arrangement (HRA)**

An HRA is one of several health related medical spending arrangements that provide federal income tax benefits for employees. Internal Revenue Service (IRS) Publication 969 describes the HRA as an employer-established benefit plan which may be offered in conjunction with other health benefits. All contributions to an HRA must come from the employer and may not be funded from salary deferrals under a cafeteria plan. They are also not included in the employee's income and the amounts are not included for income or employment tax purposes. There is no limit on contributions the employer can make and any maximums established may be increased or decreased by amounts not previously used.

The funds may be held over for use in later years under federal law. If your community's HRA is recognized by the IRS as an HRA for federal tax purposes, the appropriation is a special purpose appropriation and the funds will not be closed out at the end of the fiscal year.

## **Cash Management and Investments**

G.L. c.44, §§ 54 and 55 are the primary provisions of law regulating deposits and investments. All officers of a city, town, district or regional school district who control the investment of funds are legally required to invest consistent with those provisions per G.L. c. 44, § 55B. The Bureau is currently working with the Division of Banks, the Attorney General's Office and the Massachusetts Collectors' and Treasurers' Association to review these sections of law and suggest revisions given recent events in the banking world.

## **Budgeting for Senior Rebates, G.L. c. 59, § 5, cl. 57**

The Municipal Relief Act authorized a local option for cities and towns to provide a property tax reduction or rebate to senior citizens who received the "circuit breaker" state income tax credit. See Bulletin 2011-02B, Local Option Personal Exemptions. Questions have arisen about how to calculate the necessary overlay allocation if the option is adopted. The Department of Revenue includes on its website a spreadsheet (see #10) with the number of seniors who received the income tax credit in 2009 per city and town and the average credit that was granted. This is the best information available for FY2012 estimates.

## **Going Green**

The Bureau has been made aware of several energy saving projects which include wind and/or solar panel farms on leased municipal and regional school district properties. These projects may involve more than just a reduction to the entity's energy bill for the fiscal year, i.e. reporting additional funds as local estimated receipts or involving reservation of funds. This is a rapidly growing area and the Bureau will make every effort to advise local financial officials on matters within its purview.