



# DLS

DIVISION OF LOCAL SERVICES  
MA DEPARTMENT OF REVENUE

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## **FY2025 BUDGET ISSUES AND OTHER RELATED MATTERS**

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

FROM: Deborah A. Wagner, Director of Accounts

DATE: March 2024

SUBJECT: FY2025 Budget Issues and Other Related Matters

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This *Bulletin* addresses several topics that cities, towns, and districts should consider for FY2025 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' (DLS) 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.

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.

### ➤ **New Items for Fiscal Year 2025:**

#### **New Legislation**

Several recent legislative changes affecting municipal finance were passed in "AN ACT MAKING APPROPRIATIONS FOR THE FISCAL YEAR 2023 FOR SUPPLEMENTING CERTAIN EXISTING APPROPRIATIONS AND FOR CERTAIN OTHER ACTIVITIES AND PROJECTS" [Chapter 77 of the Acts of 2023](#).

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The changes affect stabilization funds, the use of insurance proceeds, the general rules concerning municipal receipts, mitigation or exaction funds and major disaster amortization. [Bulletin 2023-8](#) summarizes these changes.

### Special Purpose Stabilization Funds

§ 8 of the Act amends [G.L. c. 40, § 5B](#), and changed the quantum of votes to appropriate funds from special purpose stabilization funds so that it is now a simple majority. The present two-thirds quantum of votes needed for appropriating funds from a general-purpose stabilization remains the same. Likewise, a two-thirds vote is still needed to create either stabilization fund or to change its purpose.

### Changes to the General Rules Regarding Municipal Receipts

§ 9 of the Act amends [G.L. c. 44, § 53](#), which governs municipal receipts, in the following two ways.

1. The change now allows spending by a municipal or district department in charge of property that was damaged and for which the municipality or district receives insurance proceeds or restitution payments of \$150,000 or less, without appropriation and with the approval of the chief executive officer, to replace or repair the property in advance of the monies being received. However, if the monies are not received by the close of the fiscal year after the fiscal year in which the damage occurred, the municipality must report the same in the determination of the applicable annual tax rate or otherwise make provision therefor. Refer also to [Legal Finance Opinion \(LFO\) 2024-1](#).
2. The Act adds Clauses 4 and 5 allowing the Director of Accounts, in certain circumstances, to determine that certain onetime monies may be reserved in a special revenue fund, thereby not closing to fund balance at the end of the fiscal year and not becoming part of the free cash certification. Clause 4 does so for monies received for one specific purpose and can be spent without further appropriation, while Clause 5 does so for monies received for multiple purposes and requires appropriation. In both scenarios, there must be an authorization from the Director of Accounts and is limited to one-time, unanticipated receipts that affect multiple communities.

To see how this change, pursuant to Clause 4, will impact opioid settlement receipts, please see [Bulletin 2023-7](#). The Bulletin further discusses Section 197 of the Act which allows a community to consolidate all monies previously received for this purpose into the special revenue fund in the ways described therein.

[Bulletin 2024-1](#) discusses Clause 4 treatment of monetized credits received under the Federal Inflation Reduction Act for certain green energy projects as well as proceeds received as a result of the Altria settlement regarding JUUL products.

### New Rules Regarding Mitigation/Exaction Funds

§ 10 of the Act inserts new section 53K into [G.L. c. 44](#) allowing communities to separately account for mitigation/exaction payments described in [Bulletin 2023-8](#) in a special revenue fund and spend them for the dedicated purposes without further appropriation

### Amortization of FY24 Major Disaster Deficit Over Three Years

§ 205 of the Act allows a city or town to amortize over fiscal years 2025 to 2027 the amount of its fiscal year 2024 major disaster related deficit. To utilize this section, there must be a declaration of emergency, either locally or by the Governor, and [an approval to expend for the liabilities incurred by the Director of Accounts, as required by G.L. c. 44, § 31](#). Refer to [Bulletin 2023-10](#) for further

instruction. To report to DLS the amortization schedule adopted, please complete the [Major Disaster Amortization Schedule](#).

### Local Option Excises, Impact Fees and Mitigation Payments Received Pursuant to Retail Sales of Marijuana for Adult Use

The Cannabis Control Commission has provided guidance regarding the provisions of 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. DLS has issued [LFO 2024-2](#) to address questions about the municipal finance law and accounting treatment of (1) local option excises on the retail sales of marijuana for adult use and (2) impact fees or other payments under a community host or other agreement with a marijuana establishment or medical marijuana treatment center in connection with its siting and operation in the municipality. We encourage communities to estimate their general fund cannabis receipts conservatively.

### **COVID-19 Related Balance Sheet Deficits**

To date, the Bureau of Accounts has certified FY24 free cash in 285 communities. We noted that in 131 of those communities, Covid-19 related deficits totaling \$98.6 million appear on these balance sheets as of 6/30/2023. These deficits are reported in the following categories:

- CvRF-MP (CARES) - \$11.8 million
- FEMA Deficits - \$45.5 million
- ARPA Deficits - \$4.5 million
- ESSER Deficits - \$10.9 million
- Misc. Covid Deficits - \$26.3 million

The CvRF-MP program has been closed. If remaining deficits are attributable to costs denied during the audit process and not potentially reimbursable by another funding source, municipalities should plan on providing for those deficits on the FY27 recap.

We expect that deficits in other categories listed above are not structural deficits and will ultimately be reimbursed by FEMA, county ARPA disbursements and drawdown of ESSER grants, which will continue through calendar year 2026. For this reason, we anticipate requiring municipalities to provide for any remaining 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 FY25 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 editions 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 FY25 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). Failure to upload this documentation may 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.

### ➤ **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. An updated IGR is forthcoming.

## Estimating FY2025 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 FY2025 Enterprise Fund Revenues

Estimated increases in FY2025 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, 6/30/2024 certified retained earnings deficits must be provided for on the FY2025 tax rate recap. If 6/30/2024 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 FY2025 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 FY2025 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 FY2025 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 30<sup>th</sup> following its July 1 certification date. As a result, free cash certified by the director as of July 1, 2023 is available for appropriation only up to and including June 30, 2024.

## **Balance Sheets as of 6/30/2024 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, 2024; and the Bureau must be satisfied that payment will be made.

## **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, 2024 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 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.

## **Emergency Expenditures**

Non-COVID-19 Emergency expenditures made in FY2024 under [G.L. c. 44 § 31](#) may be amortized from FY25 to FY27 as allowed by Section 205 of Chapter 77 of the Acts of 2023 described above. Municipalities may choose to provide for such deficits on the FY25 tax rate if they so choose.

## **Borrowing Purposes and Terms**

[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 does not require express authorization language, meaning there is no need for the community to adjust the debt exclusion to reflect the true interest costs of the borrowing.

Premiums (net of issuance costs) and accrued interest received on bonds sold on or after December 13, 2021 and not related to a debt exclusion, must be used for project costs and to reduce the amount borrowed or reserved for appropriation for capital purposes. [G.L. c. 44, § 20](#).

- a) Used for Project Costs and to Reduce the Amount of Borrowing  
The premium can be used to pay project costs and reduce the amount of the

borrowing authorization by the same amount.

b) Reserved for Appropriation for Other Capital Purposes

Net premiums not used to pay project costs and reduce the amount borrowed must be reserved for appropriation for capital projects for which the city, town or district could authorize a borrowing. The previous requirement that each premium reserved for capital purposes be appropriated for a purpose for which the city, town or district could borrow for an equal or greater term than the original borrowing has been removed.

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 FY2025, 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, 2023 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](#).

## **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.

Changes to this are included in the proposed Municipal Empowerment Act. If the proposal ultimately becomes law, updated guidance will be provided.

## **Expenditure Budgeting for FY2025**

Pension Appropriations: Pension assessments must be fully funded in the FY2025 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, 2024 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 FY2025 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, 2024. 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 FY2024 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 FY2024 reimbursement, not including extraordinary assistance. Any excess fund balance must close to the General Fund. Any deficit fund balance must be charged to FY2024’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 FY2024 can be no greater than DESE’s FY2024 reimbursement. Any excess fund balance must close to the General Fund. Any deficit fund balance must be charged to FY2024’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.