Massachusetts Department of Revenue *Division of Local Services*
Alan LeBovidge, Commissioner Joseph J. Chessey, Jr., Deputy Commissioner

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FISCAL YEAR 2003 LOCAL AID REDUCTIONS

TO: Mayors, Selectmen, City/Town Managers, Executive Secretaries, Finance Directors, City/Town Councils, Assessors, Collectors, Treasurers, Accountants, Auditors, City Solicitors and Town Counsels

FROM: James R. Johnson, Director of Accounts

DATE: January 2003

SUBJECT: Addressing Budgetary Impact of FY03 Local Aid Reductions

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This *Bulletin* discusses the budgetary and financial implications of the reductions in Fiscal Year 2003 local aid just made by the Governor in accordance with G.L. Ch. 29 §9C and the options available to address them.

A. LOCAL AID REDUCTION

The Municipal Data Management and Technical Assistance Bureau has posted the local aid reduction for each city and town on our website: www.dls.state.ma.us .

B. IMPACT ON MUNICIPAL BUDGETS AND BALANCE SHEETS

Reductions in budgeted local aid, like shortfalls in any municipal revenue source except the property tax, will have a negative effect on FY03 operations unless action is taken as soon as possible during this fiscal year to address them. Otherwise, the resulting general fund revenue deficit will have to be raised in FY04. The revenue shortfall can be offset in part by actual receipts from other sources that exceed the amounts budgeted, as well as regular appropriation turn-backs. It is not anticipated, however, that ordinary favorable operations alone would be sufficient to absorb the impact of the local aid cuts in many communities.

Cities and towns have the options discussed below to address the local aid reduction and bring their budgets into balance. Any transactions will be reflected in the fund balance on June 30, 2003, the audited financial statements as of that date and the free cash certified as of July 1, 2003 and available for appropriation during FY04.

Cities and towns that have not yet set their FY03 tax rate are expected to submit tax rate recapitulations that reflect the reduced Cherry Sheet aid and to bring their budgets into balance before doing so.

1. **Reduce FY03 Operating Appropriations**

Cities and towns may cut departmental operating budgets and other annual appropriations made from the FY03 levy. Budget cuts may be made in any department, provided any statutory spending obligations are met. In making proposed cuts that will result in reductions in force, communities must recognize and provide for any associated expenses, such as payment of accrued vacation and other earned benefits, as current year liabilities.

Local officials should consult with their town counsel or city solicitor regarding any special charter provisions that may apply. In general, however, in towns, any proposed reductions in annual budget or special purpose appropriations must be presented to and voted by town meeting. Appropriation reductions or any other actions regarding FY03 that require town meeting approval should be taken at a special meeting held before or within the annual so that they can take effect immediately. In cities, spending cuts are made by the mayor and council in accordance with the charter and applicable statutes.

Reductions in appropriations from the levy will be treated as unspent appropriations (turn-backs) and will reduce any revenue deficit that would otherwise have to be raised in FY04.

2. **Reduce Special Purpose Appropriations**

Cities and towns may reduce or rescind current or prior year general fund appropriations made for special purposes or capital projects that have not yet commenced. This option may be used only to the extent liabilities have not been incurred against the appropriation and third party rights are not affected by the community's action, *i.e.*, no contract has been executed or sufficiency of appropriation certified by the accounting officer for the project.

These reductions are also treated as appropriation turn-backs and reduce any revenue shortfall that would otherwise occur at year-end.

3. **Use Reserves as Offsetting Revenue Source**

Cities and towns may use reserves to offset the revenue shortfall and fund some or all budgeted spending that would otherwise have to be cut, *i.e.*, use free cash, stabilization fund or other unrestricted available funds to cover FY03 operations. We recommend the following language for the proposed city council/town meeting vote:

> VOTED: That the city/town transfer $_____ from _____ to be used as an other financing source in the general fund for FY03.

The Director of Accounts will treat this vote as a transfer that will reduce any revenue shortfall that would otherwise occur at year-end.

4. **Increase Local Fees and Charges**

Cities and towns may review current schedules for fees and charges to determine if they reflect the full cost of service delivery and if not, revise them accordingly. Communities considering increasing existing fees, or imposing new ones, should consult with municipal counsel to determine their authority to impose or increase the particular fee in question and the proper procedure for doing so. This may vary from community to community depending on the type of fee and local charter or special act provisions.

For communities in the Massachusetts Water Resources Authority (MWRA) area, water and sewer fees may be revised to recover the recently announced increase in their FY03 assessments. See Section C below.

Additional receipts from local fees and charges will be reflected at the close of the fiscal year in the general or enterprise fund balance and reduce any revenue deficit that would otherwise have to be raised in FY04.

C. MWRA ASSESSMENT INCREASES

On January 3, 2003, the MWRA issued FY03 assessment increases for communities in its service area. Payment of the increase is due no later than July 1, 2003. Regardless of when actually paid, however, the increased assessment is clearly a liability that must be recognized in FY03.

Many MWRA members operate their water and sewer services as enterprises and have sufficient retained earnings available for appropriation by city council or town meeting to cover the assessment increase. Communities not operating on an enterprise fund basis may appropriate from available funds such as free cash or stabilization fund. If a city or town does not cover the assessment increase, it will incur a deficit that must be raised in FY04. Any additional revenues from retail rate increases the community chooses to impose to reflect its higher costs will be reflected at the close of the fiscal year in the enterprise or general fund balance.

We are available to respond to questions you may have regarding these options during these difficult times. Please feel free to contact your Bureau of Accounts accountant or other member of our staff.