



DLS

DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

Financing Local Government & Best Budget Practices

Presented by
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February 6, 2024

Municipal General Fund Budget

	<u>FY1</u>
<i>Prop Tax</i>	93,318,921
<i>State Aid</i>	54,195,259
<i>Local Receipts</i>	13,180,400
<i>Other Avail. Funds</i>	979,113
Total Rev.	161,673,693

	<u>FY1</u>
<i>Gen. Gov't</i>	5,905,634
<i>Human Svcs.</i>	906,698
<i>Culture & Rec</i>	1,779,815
<i>DPW</i>	8,601,318
<i>Public Safety</i>	23,581,616
<i>Debt Svc.</i>	4,258,791
<i>Benefits</i>	27,942,062
<i>Schools</i>	84,135,307
<i>Non-Approp.</i>	3,912,451
<i>Other Approp.</i>	650,000
Total Expend.	161,673,693
Surplus/(Deficit)	0

Proposition 2 ½

Placed two caps on property taxes:

1. Property tax levy cannot exceed 2.5% of the municipality's total property assessed valuation
2. Annual property tax levy cannot grow by more than 2.5%, except for "New Growth"
 - Can ask local voters to exceed the 2.5% annual limit via an "operating override" or a "debt exclusion"

Property Tax Levy Building Blocks

Levy
Ceiling

2.5% of total Assessed Value (AV)
ex: 2.5% x \$1B of AV = \$25M

Levy
Limit

Formula essentially =
(Prior year Levy Limit * 2.5%) + New Growth + Overrides

Levy

Determined annually as part of budget process

New Growth

New growth reflects certain increases in the tax base and becomes a permanent part of the levy limit base:

- **Properties that have increased in assessed valuation since the prior year because of development or other changes**
- **Exempt real property returned to the tax roll**
- **New personal property, and**
- **New subdivision parcels and condominium conversions**

Example

Vacant parcel valued at \$50K in prior year now valued at \$450K because of construction of single-family home

- **\$400,000 included in New Growth calculation**
- **If tax rate was \$14.90, \$5,960 in additional revenue**

□ **New growth does not include market value increases**

Annual Levy Limit

	<u>FY1</u>	<u>FY2</u>	<u>FY3</u>	<u>FY4</u>	<u>FY5</u>
Prior Year Levy Limi	\$30,000,000	\$31,200,000	\$32,480,000	\$33,817,000	\$35,162,425
2.5% Increase	\$750,000	\$780,000	\$812,000	\$845,425	\$879,061
<u>New Growth</u>	<u>\$450,000</u>	<u>\$500,000</u>	<u>\$525,000</u>	<u>\$500,000</u>	<u>\$450,000</u>
Sub-Total	\$31,200,000	\$32,480,000	\$33,817,000	\$35,162,425	\$36,491,486
Actual Levy	\$31,075,000	\$32,380,000	\$33,667,000	\$35,137,425	\$36,441,486
Excess Capacity	\$125,000	\$100,000	\$150,000	\$25,000	\$50,000
Assessed Value	\$2,000,000,000	\$2,060,000,000	\$2,080,600,000	\$2,018,182,000	\$1,917,272,900
Levy Ceiling	\$50,000,000	\$51,500,000	\$52,015,000	\$50,454,550	\$47,931,823

Referenda Questions

Overrides

Any Spending Purpose

Permanent

Amount Limited by Ceiling

Exclusions

Only Capital Purchases

Temporary



Debt
(Life of Bond)

Capital
(1 Year)

No Limit on the Number
Or Dollar Amount

Underride

- A vote by a community to permanently decrease the tax levy limit
(exact opposite of an override)
- Very rarely done

Current Levy
Limit

New Levy
Limit



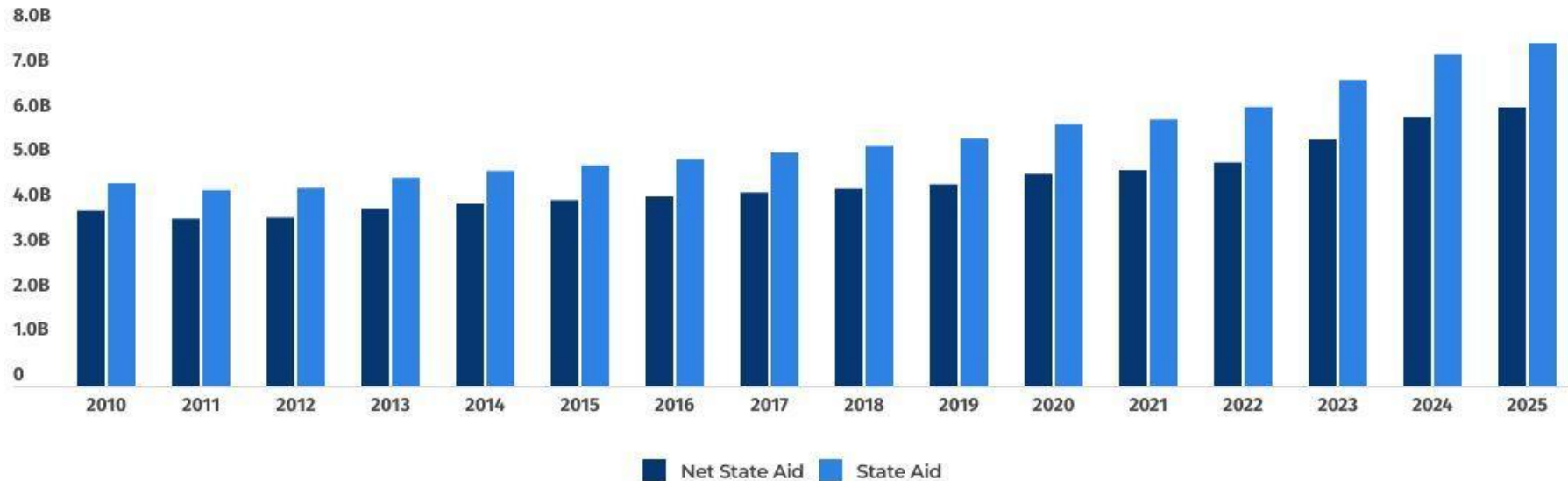
State Aid

- **State government collects all tax revenues, except for property taxes, and has a revenue sharing structure that provides municipalities with State Aid**
- **Chapter 70 (Education Aid) and Unrestricted General Government Aid (UGAA) are the two largest**

	<u>FY1</u>
Ch. 70	47,567,622
Unrestricted General Gov't Aid	5,773,605
Charter Tuition Reimb.	231,628
Veterans Benefits	282,738
Property Tax Exem.	271,582
Public Libraries	68,084
TOTAL	54,195,259

State Aid

- For FY25, the Governor has proposed \$7.6B of “Cherry Sheet” aid
- Two major programs:
 - Ch. 70 Education Aid - \$5.9B for FY25
 - Unrestricted General Government Aid (UGGA) - \$1.3B for FY25
- Historically, UGGA fluctuates with the economy



Local Receipts

- Some of these revenue sources capped by state law, others set locally
- Fees cannot be set at levels to earn a “profit”

	FY1
1. Motor Vehicle Excise	6,525,000
2a. Meals Excise	1,000,000
2b. Room Excise	150,000
2c. Other Excise	0
2d. Cannabis Excise	75,000
3. Penalties/Interest on Taxes and Excises	0
4. Payment In Lieu of Taxes	136,000
5. Charges for Services-Water	0
6. Charges for Services-Sewer	0
7. Charges for Services-Hospital	0
8. Charges for Services-Solid Waste Fees	0
9. Other Charges for Services	1,956,454
10. Fees	0
11. Rentals	0
12. Dept. Revenue-Schools	0
13. Dept. Revenue-Libraries	0
14. Dept. Revenue-Cemeteries	157,247
15. Dept. Revenue-Recreation	0
16. Other Departmental Revenue	671,669
17. Licenses/Permits	1,162,500
18. Special Assessments	23,252
19. Fines and Forfeits	294,527
20. Investment Income	573,750
21. Medicaid Reimbursement	430,000
22. Misc. Recurring	25,000
23. Misc. Non-Recurring	0
TOTAL	13,180,400

Other Available Funds

- These are basically transfers from certain other funding sources
- “Receipts Reserved for Appropriation” accounted for here (proceeds earmarked by law and placed in separate accounts for appropriation for particular purposes)
- Two key sources of revenue in this category are Free Cash and Stabilization Fund

	<u>FY1</u>
Free Cash	250,000
Stabilization Fund	250,000
Enterprise Fund Overhead Reimb.	231,628
Cemetery Funds	50,000
School Grant Benefit Reimb.	197,485
TOTAL	979,113

- Free Cash is the unrestricted funds, as of July 1, from operations of the previous FY based on the balance sheet as of June 30 available for appropriation by the legislative body
 - Includes actual receipts in excess of estimates and unspent amounts in budget line items for the year just ending, plus unexpended Free Cash from the previous year
 - Offset by property tax receivables and certain deficits, so can be a negative number
- Free Cash is not a “budget surplus”; it is a culmination of multiple years’ operating results
- Stabilization Fund (“rainy day fund”) can be used for any lawful purpose via a 2/3’s vote of the legislative body

General Fund Expenditures

- Normally approx. 70% - 80% of a municipal budget consists of personnel costs, wages and benefits
- Local government is a service industry and it takes people to deliver the services:
 - Police officers
 - Firefighters
 - Teachers
- In MA, with some exceptions, public employees who work at least 20 hrs/wk are eligible for health insurance
- Employees also enrolled in a defined benefit pension system



Departmental Expenditures

- ❑ Largest departments normally are school, police, fire and DPW
- ❑ Finance
- ❑ Planning/Economic Development
- ❑ Library
- ❑ Recreation
- ❑ Health/Human Services
- ❑ Departmental budgets normally consist of at least 3 expenditure types:
 - Personnel
 - Services/Supplies
 - Capital outlay
- ❑ Contractual increases (e.g., step increases)
- ❑ New wage increases per CBA's



Reserves

Two types:

- Annual budget reserve – appropriated for “extraordinary or unforeseen expenditures”
 - Any balance closes out at the end of the FY

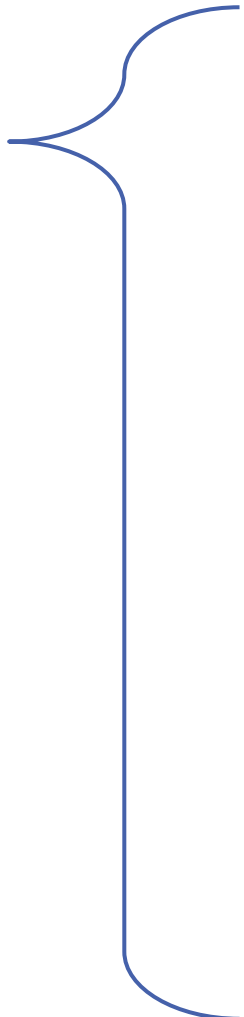
- Stabilization Fund – appropriated to set aside monies for future spending purposes
 - Any balance as of 6/30 remains in the fund

 - Two types:
 - General – the “Rainy Day Fund”

 - Special Purpose – monies dedicated for specific purposes (e.g., capital, facility maintenance, public safety equipment); can only be used for the specific purpose the legislative body voted

Non-Departmental Expenditures

- Employee Benefits
- Debt Service
- Pay-Go Capital
- General Insurance
- Non-Appropriated Expenses
 - State Assessments
 - Overlay



	<u>FY1</u>
Health Insurance	13,195,152
Pensions	12,191,910
OPEB's	400,000
Medicare	1,310,000
Life Insurance	35,000
Worker's Comp	395,000
Unem	35,000
PubSaf IOD	280,000
Other	100,000
TOTAL	27,942,062

Debt

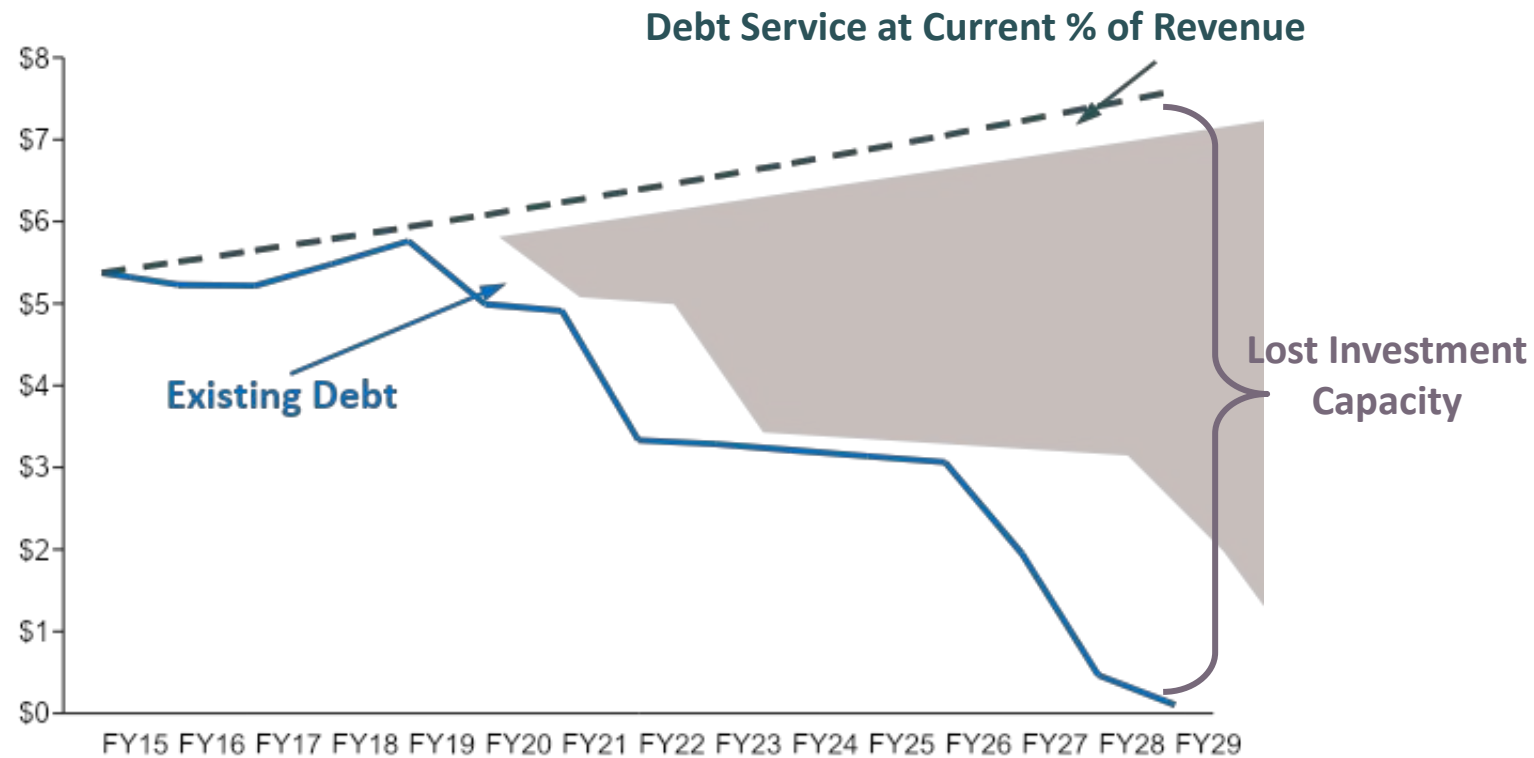
- Debt management is a critical function for local finance managers
- Municipalities must maintain its infrastructure
 - Schools, public safety facilities, other municipal buildings
 - Parks, playgrounds, other open spaces
 - Water, sewer systems
 - Streets, sidewalks, bridges, culverts
 - Information Technology
 - Heavy equipment (e.g., fire trucks, DPW trucks)
- Mismanaging debt can cripple a municipality's finances

Primary Types of Debt

- Long-Term Debt
 - General Obligation (GO) Bonds
 - Revenue Bonds
 - Federal Rural Development Loan
 - Federal Community Facilities Loan
- Short-Term Debt
 - Bond Anticipation Notes (BAN)
 - Tax Anticipation Notes (TAN)
 - Revenue Anticipation Notes (RAN)
 - Grant Anticipation Notes (GAN)

Maintain a Steady Balance of Capital Investment

- Because of critical nature and large financial obligation, municipalities should re-use debt service runoff
 - Don't use it for "operating budget relief"
 - Maintain debt service as a constant percent of revenue
- Lack of reinvestment leads to lost capacity



Non-Appropriated

	<u>FY1</u>
□ Assessments – charges to pay for services provided by other governmental entities (e.g., state, county)	State Assessments 2,974,303
	Mosquito Control 91,829
	Air Pollution Dist. 14,059
	RMV 73,440
	MBTA 900
□ Overlay – account to fund anticipated abatements and exemptions of committed real and personal property taxes.	Regional Transit 762,839
	SPED 10,148
	School Choice Sending 268,575
	Charter Sch Sending 1,752,513
□ Offset Aid – under State Aid, funds are provided for public libraries. Those funds are spent without appropriation, but need to account for the expense	Overlay 870,064
	Offset Aid 68,084
	TOTAL 3,912,451

Balanced Budget / Deficits

- **A municipality must pass a balanced budget**
 - DLS responsible for ensuring that occurs

- **A municipal department cannot exceed its budget (incl Schools)**
 - Must either use reserve funds to close the deficit or transfer from other areas of the budget where a surplus is projected
 - One exception: Snow & Ice budget
 - that deficit must either be solved by the end of the FY or “raised” as part of the ensuing FY’s budget

- **A municipality cannot end the year in a deficit**
 - Steps must be taken toward end of the FY to bring the budget into balance
 - Reduce spending or appropriate from available funds (e.g., Free Cash, Stabilization Fund)
 - If it can’t close the deficit, it must “raise” the deficit as part of the ensuing FY’s budget

CPA, Enterprise, and Other Non-General Funds

Community Preservation Act (CPA)

- Permits cities and towns to assess a surcharge of up to 3% on the property tax bill to fund three distinct purposes:
 - Historic Resources – acquisition, preservation and restoration
 - Open Space – acquisition and preservation
 - Affordable Housing – creation and support
- State revenues match some of the locally-generated revenue

Enterprise Funds

- Established for their business-type services (e.g., water, sewer, trash disposal, ambulance services, skating rinks)
- Revenues and expenditures are segregated into a separate fund with its own financial statements
- A community may choose to recover total costs through user charges

Other Non-General Funds

- Revolving Funds, Grant, and Gift Funds

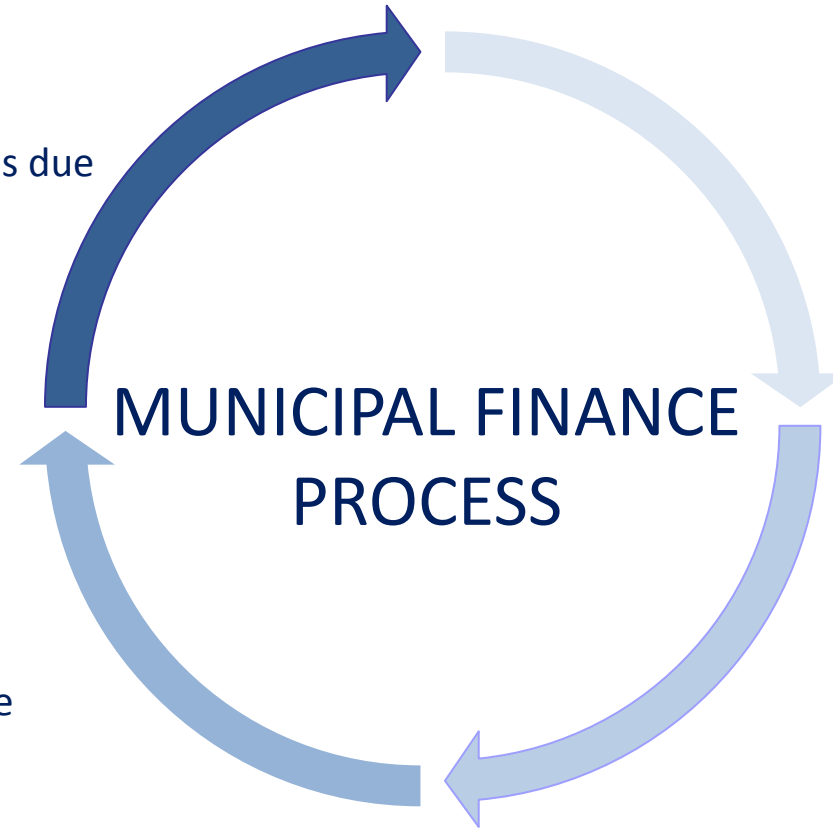
Local Government Budgeting

April – June

Prepare articles and motions
Annual town meeting
Town clerk certifies appropriations
2nd semi-annual and 4th quarter bills due
Assessors make preliminary tax commitments
State aid/assessments finalized
Fiscal year ends

January - March

Governor's budget released
Property valuation assessment date
3rd quarter bills due
Quarterly bill abatements due
Finalize budget and capital plan



July – September

Fiscal year begins
1st quarter bills due
Accountant closes books and submits balance sheet
Semi-annual tax rate approval

October - December

Begin budget/capital process
Assessor submits growth and values for approval (quarterly billing)
SB holds classification hearing
Set tax rate
1st semi-annual and 2nd quarter bills due

Local Government Budgeting

- Represents the intersection of all aspects of municipal finance
- Translates community needs and priorities into services
- Provides short- and long-term fiscal context to guide decision-making
- Derives from a transparent, deliberative process that informs the public
- Serves as a community's single most important policy statement
- Is more than simply matching revenues to expenditures

Roles & Responsibilities

- **Select Board/Council**
- **Finance Committee**
- **Town Manager/Administrator**
- **Finance Team (Accountant, Treasurer, Collector, Assessor)**
- **Department Heads**
- **Capital Committee**
- **Residents/Town Meeting**

Budget Process

- **Create Calendar**
- **Review and Update Financial Policies**
- **Update Forecast and Develop Preliminary Revenue Projections**
- **Establish Guidelines**
- **Issue Instructions and Materials**
- **Review and Revise Draft Budget**
- **Develop Comprehensive Budget Document**
- **Hold Public Hearings**
- **Adopt and Prepare Recommendations**

Budget Process

Month	Due By	Responsibility	Description
September	30-Sep	FD	Update capital planning inventory schedules (facilities, fleet, and equipment)
October	31-Oct	TA	Issue initial revenue projections to stakeholders
	31-Oct	TA	Update calendar for budget/capital plan deliverables for coming year
November	5-Nov	SchCom	Meet with member communities to begin preparing annual operating budget
	15-Nov	SB	Set reserve and capital expenditure goals for the new year
	15-Nov	Multiple	Budget kickoff meeting (SB to establish guidelines for the coming year)
	30-Nov	FinCom	Prepare budget worksheets and standard forms for new fiscal year
December	15-Dec	FinCom	Distribute worksheets and memo outlining instructions and guidelines for coming year
	15-Dec	CPC	Distribute memo, worksheets, inventory schedules, and current multiyear plan
	31-Dec	TA	Notify stakeholders of certified Free Cash
January	2-Jan	TA	Issue initial revenue projections to stakeholders
	2-Jan	TA	Distribute calendar of scheduled department head budget appointments
	15-Jan	TA/CPC	Distribute calendar of scheduled department head capital planning appointments
	20-Jan	Depts	Submit budget requests to Town Administrator
	31-Jan	TA/FD	Compile budget submissions
	31-Jan	Depts	Submit capital requests to CPC

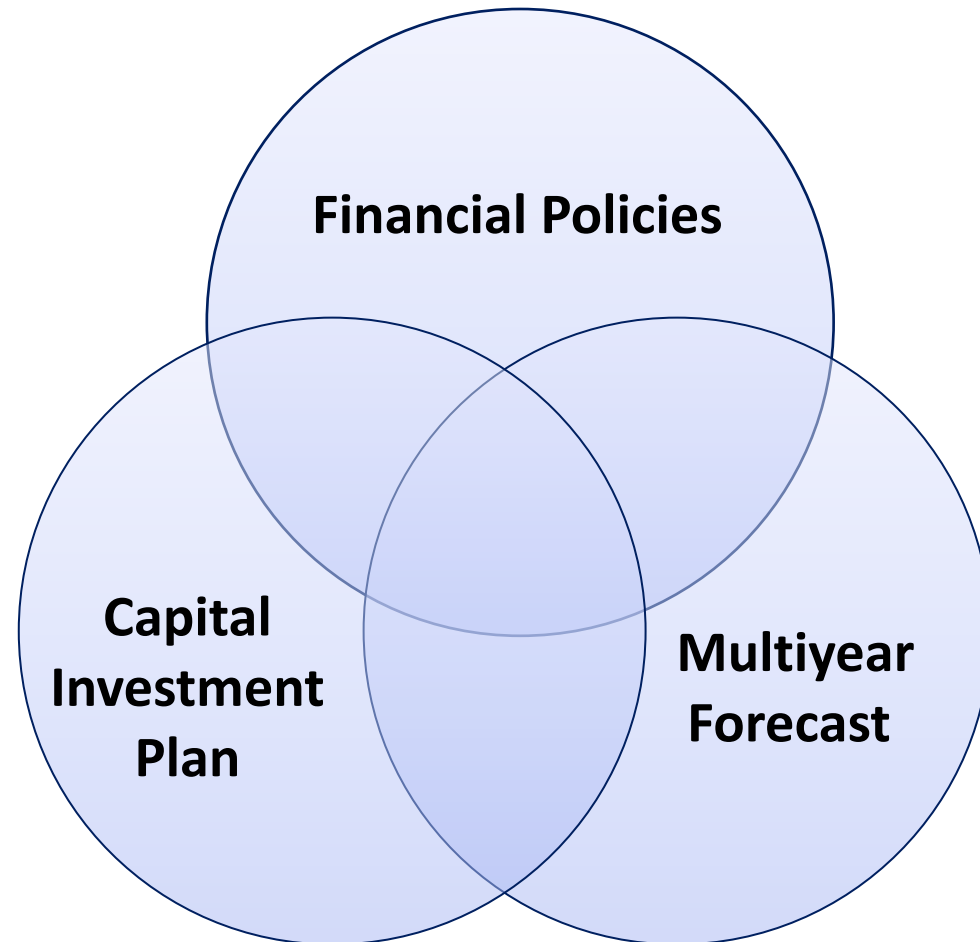
SAMPLE
Budget/Capital Calendar

SB = Select Board
 TA = Town Administrator
 FD = Finance Director/Town Accountant

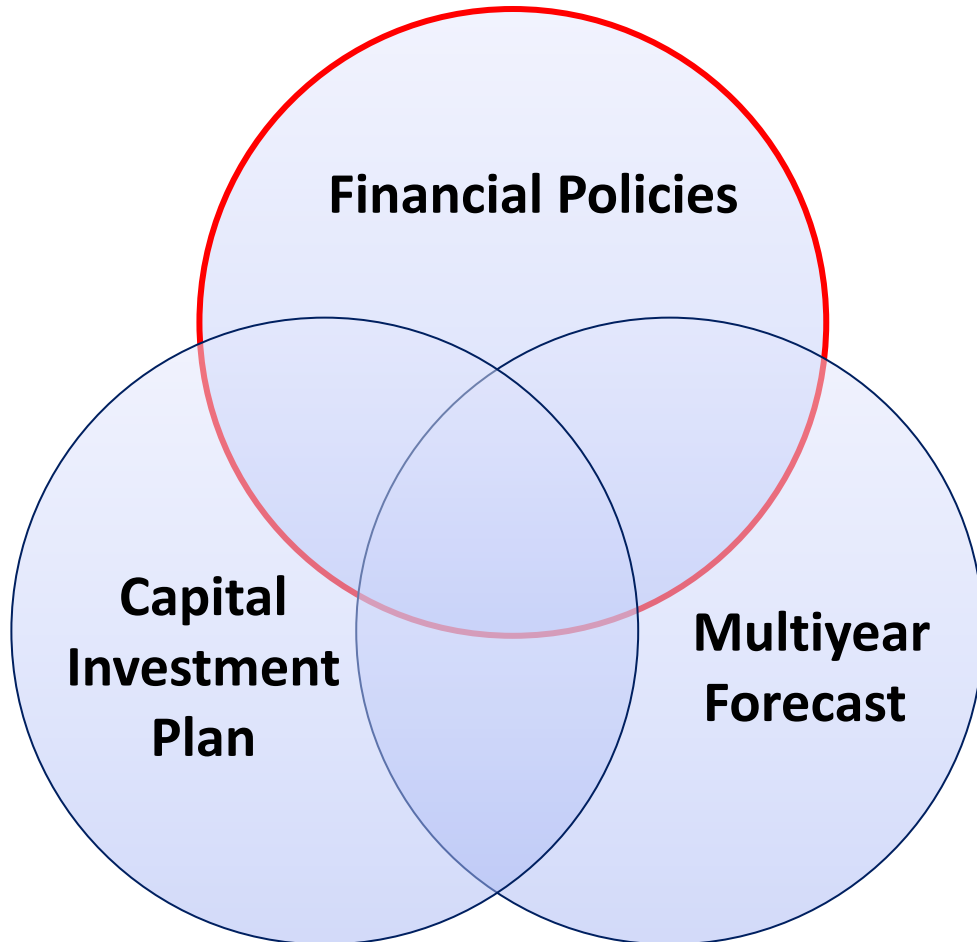
FinCom = Finance Committee
 CPC = Capital Planning Committee
 SchCom = School Committee

Month	Due By	Responsibility	Description
February	1-Feb	TA	Issue updated revenue projections to stakeholders
	Feb 1 - 15	TA	Meet with department heads, boards, and committees to review budget requests
	Feb 1 - 15	TA	Meet with department heads, boards, and committees to review capital requests
	15-Feb	TA	Issue consolidated capital package to CPC for review
	28-Feb	SB	Request Board of Assessors to declare overlay surplus
March	1-Mar	TA	Issue final revenue projections to stakeholders
	1-Mar	SchCom	Operating budget is prepared and presented to the town
	1-Mar	TA	Present draft budget and capital recommendations to SB, FinCom, and CPC
	Mar 1 - 15	FinCom	Meet with department heads, boards, and committees to review budget requests
	Mar 1 - 15	CPC	Meet with department heads, boards, and committees to review capital requests
	15-Mar	TA	Prepare and distribute draft ATM warrant to SB and FinCom
April	1-Apr	SchCom	Adopt operating budget and issue town assessments
	1-Apr	CPC	Finalize capital outlay, narratives for current year, and 5-year plan
	10-Apr	TA	Distribute draft warrant to SB and FinCom for article recommendations and votes
	15-Apr	CPC	Present multiyear capital plan and current year capital outlay to SB and FinCom
	15-Apr	FinCom	Vote on warrant article recommendations
	15-Apr	FinCom	Finalize budget recommendations and distribute final draft
	30-Apr	FinCom	Present final budget recommendations to SB
	30-Apr	TA	Finalized ATM articles for printing
May	1-May	SB	Post ATM warrant and meeting notification
	May		Annual Town Meeting

Budget Process – Essential Concepts



Budget Process – Financial Policies



Financial Planning Policies

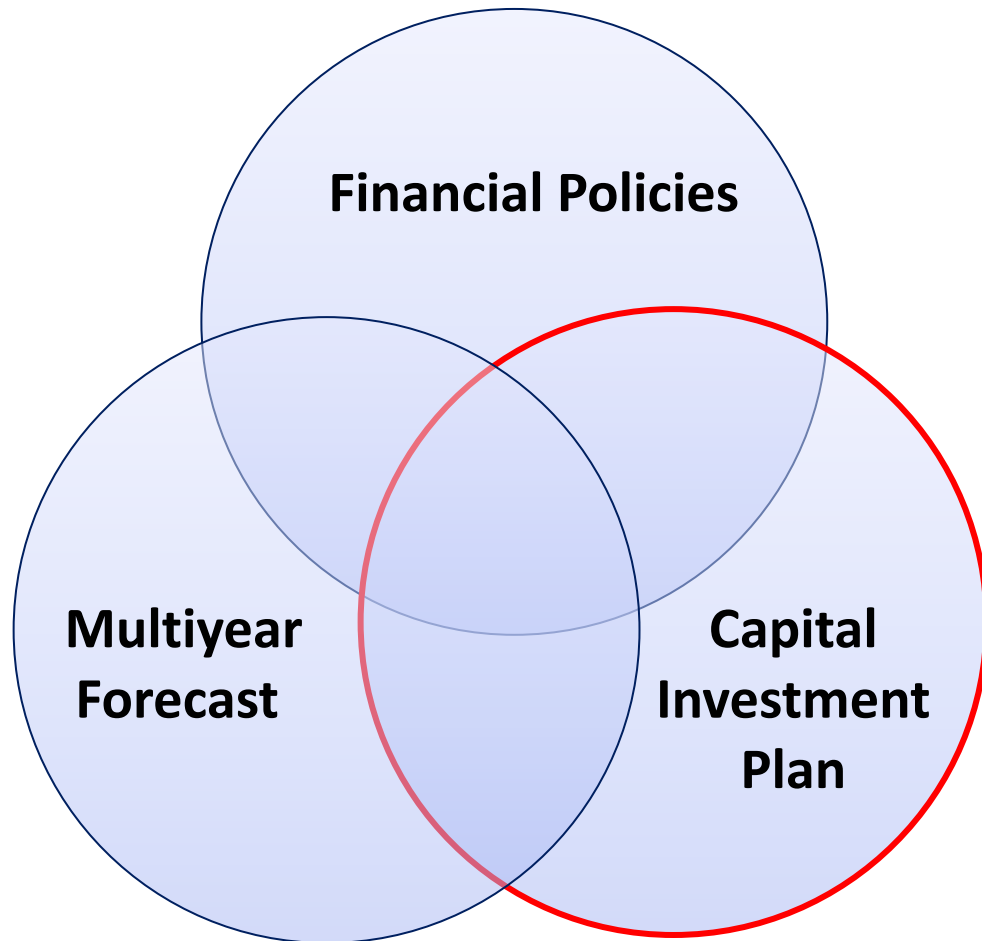
- Annual Budget Process
- Capital Planning
- Debt Management
- Financial Reserves

Financial Operation Policies

- Disbursements
- Reconciliation
- Revenue Handling
- Tax Enforcement

Example policy manuals are available under the Financial Management Resource Bureau section of [website](#)

Budget Process – Capital Investment Plan



Blueprint for planning capital expenditures

- Identifies needs and goals
- Necessary for long-term financial planning
- Defined, planned, and socialized

Benefits of a capital investment planning

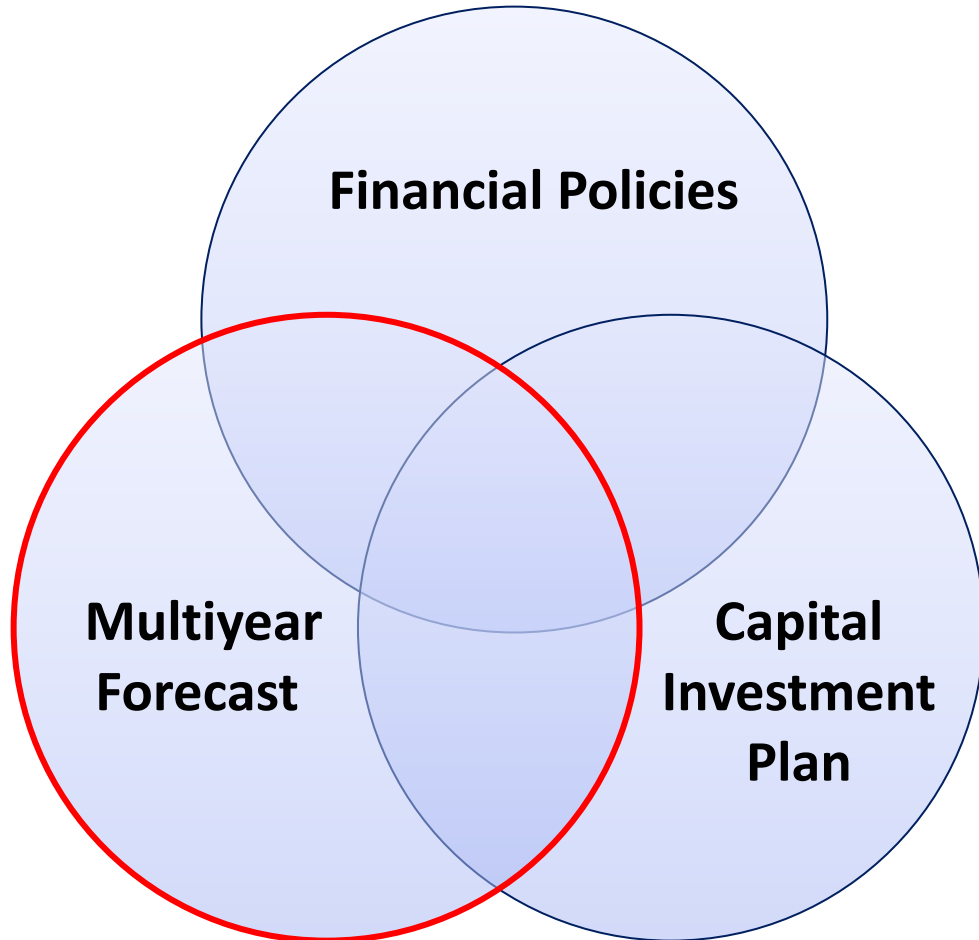
- Predictably of expenses over multiple years
- Reduces risk of unexpected and emergency costs
- Builds confidence in government is operating efficiently and effectively

Municipal Financial Tools and Templates

section of website includes:

- [Sample Budget/Capital Calendar](#)
- [Sample Capital Projects Request Form](#)
- [Sample Capital Planning Policy](#)

Budget Process – Multiyear Forecast



Serves as a planning and policymaking tool that projects revenues and expenditures over a multiyear period

- **Captures annual, data-driven snapshots of the financial condition based on assumptions and policy decisions**
- **Provides financial information to the community and relevant boards and committees**
- **Offers long-term insight on the effects of budget and capital financing strategies**

A Forecasting Template is available in Municipal Finance Financial Tools and Templates section of our [website](#)

Budget Process – Budget Document

- Table of Contents
- Budget Message and Budget Summary
- Budget Calendar and Process
- Organizational Chart
- Overview of Revenues and Expenditures
- Revenues Sources
- Projected Changes in Fund Balance
- Departmental Budget Sections
- Capital Investment Section
- Debt Summary
- Financial Policies
- Town-wide Strategic Goals
- Influencing Factors
- Long-Range Financial Forecast
- Department Goals and Objective
- Performance Measures
- Community Profile
- Pictures
- Glossary



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**Town of Danvers
Massachusetts**

For the Fiscal Year Beginning

July 01, 2022

Christopher P. Morill

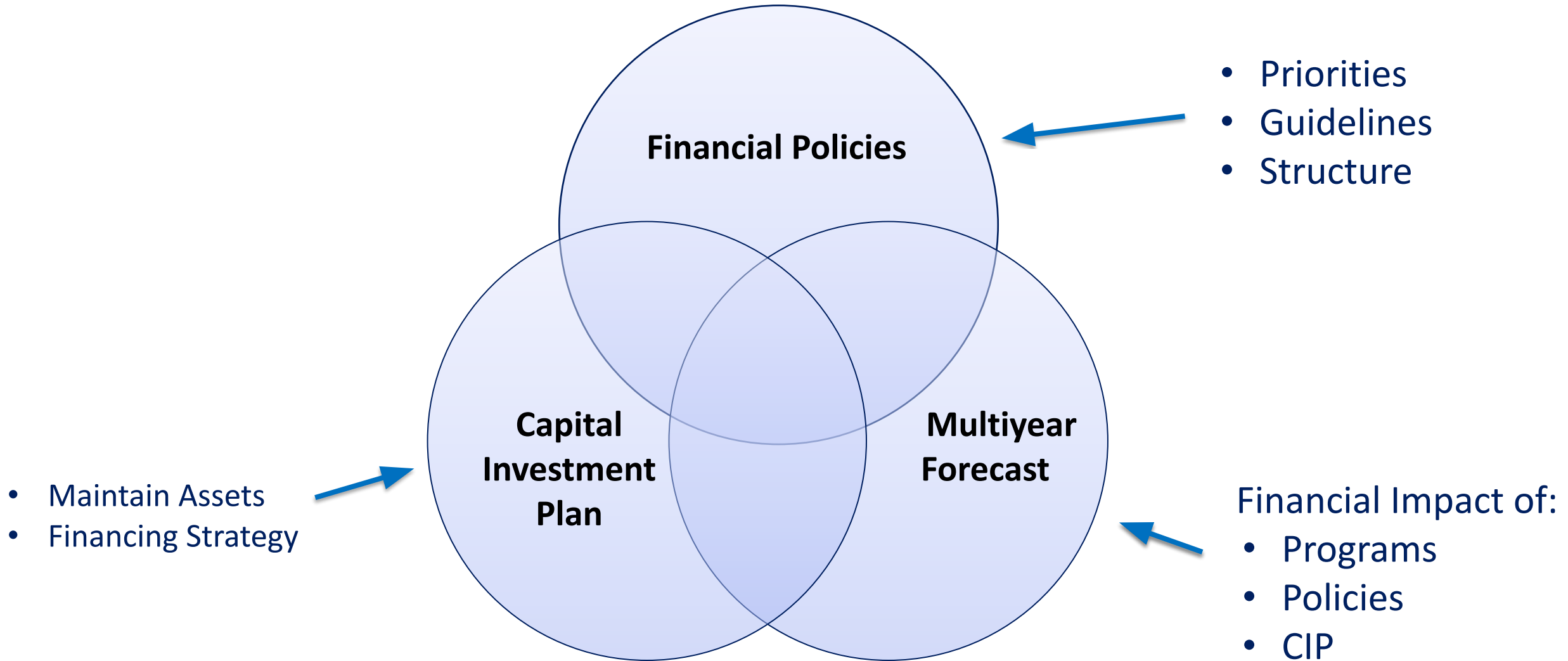
Executive Director

Budget Process – Monitoring

- Motions = GL entries
- Budget vs Actuals
 - Department Budgets
 - Capital Appropriations
- Keep accurate data
 - Basis for next year's budget



Budget Process – Summary

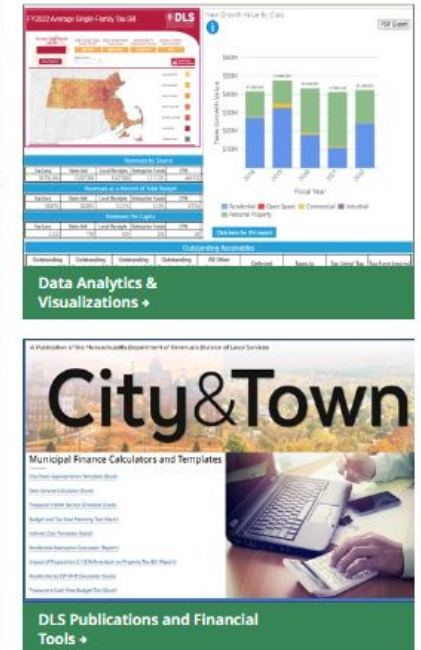
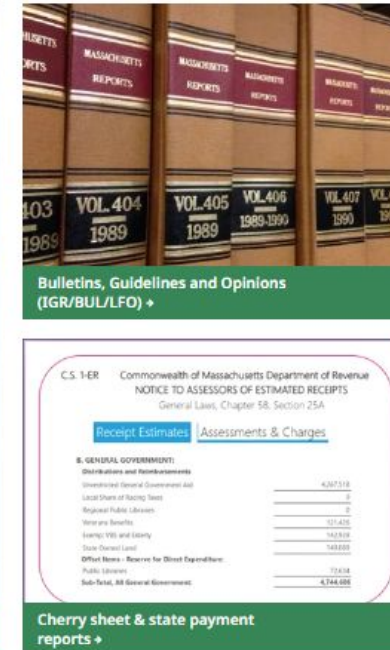


Municipal Governance Training and Resources

Best Practices & Other Resources

- [Municipal Governance YouTube Video](#)
- [Role and Responsibilities Overviews](#)
- [What is “Home Rule” Overview](#)
- [Community Comparison Report](#)
 - [Structure, Demographic & Financial data](#)

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Thank You!