Bulletin

2009-04B

FISCAL YEAR 2009 LOCAL AID CUTS

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

FROM: Gerard D. Perry, Director of Accounts

DATE: January 2009

SUBJECT: Addressing Budgetary Impact of FY09 Local Aid Reductions

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This *Bulletin* discusses the budgetary and financial implications of the reductions in Fiscal Year 2009 local aid made by the Governor in accordance with G.L. c. 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 at: http://www.mass.gov/Ador/docs/dls/mdmstuf/StateAid/fy099creductions.xls .

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 FY09 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 FY10. 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 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, 2009, the audited financial statements as of that date and the free cash certified as of July 1, 2009 and available for appropriation during FY10.

Cities and towns that have not yet set their FY09 actual or pro forma 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 FY09 Operating Appropriations

Cities and towns may cut departmental operating budgets and other annual appropriations made from the FY09 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 or bylaws 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 FY09 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 FY10.

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, general stabilization fund or other unrestricted available funds to cover FY09 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 FY09.

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 whether 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.

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 fund balance deficit that would otherwise have to be raised in FY10. Municipalities may also wish to consider reviewing their enterprise funds to determine whether any appropriate indirect costs for general fund expenditures can be captured.