



Informational Guideline Release

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GUIDELINES FOR THE APPLICATION
OF
SCHOOL BUILDING ASSISTANCE GRANTS

(G. L. Ch. 70B and Chapter 208 of the Acts of 2004)

This Informational Guideline Release provides guidance for local officials on the accounting treatment and expenditure of grants from the Massachusetts School Building Authority.

Topical Index Key:

Accounting Policies and Procedures
Borrowing
Schools

Distribution:

Mayors/Selectmen
City/Town Managers
Finance Directors
Finance Committees
Municipal/Regional School Treasurers
Municipal/Regional School Superintendents
Accountants/Auditors
Regional School Business Managers
City Solicitors/Town Counsels

GUIDELINES FOR THE APPLICATION
OF
SCHOOL BUILDING ASSISTANCE GRANTS

(G. L. Ch. 70B and Chapter 208 of the Acts of 2004)

SUMMARY:

These guidelines were developed after consultation with the Massachusetts School Building Authority (MSBA) to provide guidance to local officials on the accounting treatment and expenditure of school building assistance grants.

In 2004, the MSBA was created to administer a new grant program to assist cities, towns and regional school districts with their school construction and renovation projects. G.L. Ch. 70B; St. 2004, c. 208. The MSBA is authorized to borrow to fund these grants, with a portion of the state's sales tax revenue dedicated to funding repayment of that debt. Under the former school building assistance program, cities, towns and districts borrowed the entire project cost and received annual payments from the state in order to offset their budgeted debt service expenses. Chapter 645 of the Acts of 1948, as amended. Under the new grant program, the MSBA will make distributions representing the state's share during the construction of an approved project and pay retained amounts after completion of a project audit. G.L. Ch. 70B. Cities, towns and districts will issue permanent debt for their shares and their financing costs will not be eligible for funding from the MSBA. As the transition to the new program is being made, the MSBA is making lump sum or ongoing grant payments to cities, towns and districts with projects that were previously approved by the Board of Education under the former program but were waiting for funding. The timing of these grant payments is dependent on whether the recipient has issued temporary or permanent debt for the project.

In order to ensure compliance with the purpose of the school building assistance program, it is essential that cities, towns and regional school districts apply all monies received from the MSBA only to pay approved project costs. By law, grants made to municipalities and districts are ordinarily accounted for separately and spent without appropriation solely for the purposes of the grant. See G.L. Ch. 44, §§6A, 53A and 53B. Therefore, municipalities and regional school districts that are recipients of school building assistance grants must generally apply funds disbursed by the MSBA to pay project costs or to reduce the amount of permanent debt issued to finance project costs. Grant payments for transitional projects may not be used as budgetary revenues, except to the extent that the grants reimburse for costs already funded in the recipient's current or prior year's budgets.

These guidelines prescribe uniform accounting standards for monies received by cities, towns and districts from the MSBA. G.L. Ch. 44, §38. See also G.L. Ch. 44, §43. They explain the accounting treatment and expenditure of grant proceeds based on the timing of the MSBA disbursements. They also provide general guidance for future votes to authorize borrowing for school building projects under G.L. Ch. 70B.

GUIDELINES:

I. TREATMENT OF MSBA PAYMENTS

A. Pre-MSBA Reimbursements

Municipalities and districts that were receiving scheduled annual reimbursements for school building projects before the MSBA was created will continue to treat reimbursements in the same manner as when they were included on the Cherry Sheet. The municipality or district will appropriate the full amount of the debt service cost and treat the annual reimbursement now coming from the MSBA as general fund revenue. The scheduled reimbursement will be shown on the tax rate recapitulation form on page 2, under "Estimated Receipts - State", line III-a.2.

B. MSBA Grants

Grants from the MSBA for transitional or new Ch. 70B school building projects are to be segregated and spent **without appropriation** to pay project costs or debt depending on the timing of the disbursements.

1. Payments Received Before Permanent Debt Issued

a. Partial or Lump Sum Payments

Where the MSBA makes partial disbursements of a grant ("progress payments") to the municipality or district on a monthly or other schedule that allows the recipient to use the grant proceeds directly to make timely payments of bills for project costs, the payments should be so used, thereby reducing the amount of temporary financing the grant recipient will need.

If a recipient has used either internal borrowing under G.L. Ch. 44, §20A, or temporary debt to pay project costs, grant proceeds must be applied to pay off either the internal borrowing or temporary debt.

b. Payments with Interest Reimbursements

For transitional projects where the grant disbursement also includes a component to reimburse interest incurred for temporary debt, the recipient may use as a current budget revenue the amount of the grant that is included as a reimbursement of such interest costs only to the extent the costs have been included in the current or prior fiscal years' budgets. The balance of the grant must be used to pay off the bond anticipation notes when they come due.

EXAMPLE

A municipality receives a school building assistance grant for \$6,000,000 to reimburse part of total project costs of \$10,000,000. The grant includes \$400,000 of interest on outstanding bond anticipation notes that the municipality has raised in its tax rates while awaiting funding. The grant is reimbursing 60% of the project costs.

The municipality may use \$240,000 (60% of \$400,000) as general fund revenue and in that case, would report it on the tax rate recapitulation form, page 3, as a non-recurring local estimated receipt. The remaining \$5,760,000 of the grant must be used to pay off the bond anticipation notes when they come due.

2. Payments Received After Permanent Debt Issued

a. Annual Payments

When a recipient has issued permanent debt for the project costs, and the MSBA disburses the grant in scheduled annual payments over the remaining term of the recipient's debt, the annual payments are to be applied against the debt service, with only the unreimbursed portion of the debt service being appropriated and raised in the tax levy. For Fiscal Year 2007, if a municipality has already appropriated the full amount of the school project debt service in the tax levy and budgeted the MSBA reimbursement as general fund revenue, the payment may be reported on the tax rate recapitulation form as a local estimated non-recurring receipt.

b. Lump Sum Payments

If the grant is disbursed in whole or in part as a lump sum, whether after completion of an audit or otherwise, and the bonds are not retired or refunded, the grant must be reserved and applied over the remaining term of the bond issue to pay the same percentage of each annual principal payment on the recipient's debt for the project. Interest earned on the balance is general fund revenue. In these cases, bond counsel should be consulted to ensure that to the extent applicable, the reservation and investment of the grant proceeds are consistent with federal arbitrage regulations on tax-exempt borrowings.

For transitional projects where the lump sum disbursement includes principal, interest and other project costs already included in the recipient's current and prior years' budgets, a portion of the disbursement may be used as current budget revenue as explained in Section B-1-b above. The balance must be used to pay off the bonds as explained in this section unless the amount disbursed in a fiscal year is less than 0.25 percent of the gross amount of the city, town or regional school district budget for the prior fiscal year. In that case, the payment may be used as a local estimated receipt in the fiscal year it is received.

II. CHAPTER 70B BORROWING AUTHORIZATIONS

For grants being sought by cities, towns and regional school districts under the new G.L. Ch. 70B program for school construction and renovation projects after July 1, 2007, the MSBA will require that a separate vote be taken for each school project for which funding is sought and that each vote be in a specified format. Votes approving capital plans involving the construction or rehabilitation of several buildings under a single omnibus bond authorization will no longer be accepted.

Local appropriation votes will be taken after the proposed project has been reviewed by the MSBA and it enters into a Project Scope and Budget Agreement with the municipality or district. The agreement will set out various project details, including the total project cost, time line for construction, grant reimbursement rate, grant amount and local share. Bond counsel should be consulted about the specific form of any vote authorizing borrowing, but it should generally (1) identify the specific project, including the project site and scope as set forth in the agreement, (2) authorize borrowing for the total budgeted cost, and (3) provide that the amount authorized will be reduced by any grants made by the MSBA.