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Highly Recommended: Financial Reserves

Financial Management Resource Bureau

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The DLS [Financial Management Resource Bureau](#) (formerly the Technical Assistance Bureau) has offered financial management advice to municipalities across the state for over 30 years. To share this guidance more broadly, we thought it would be helpful to highlight some of our more useful, timely, or interesting recommendations for the benefit of City & Town readers.

By the Numbers

City & Town provides updates on the progress of the tax rate and certification season while also allowing you to follow the tax rate setting process in real time. Thanks to our Municipal Databank staff, this public information is available 24/7 by [clicking here](#).

Preliminary Certifications Approved: 45

Final Certification: 35 (of 70 total)

LA4 (Assessed Values) Approved: 247 (268 submitted)

LA13 (New Growth) Approved: 245 (265 submitted)

Tax Rates Approved: 63

Balance Sheets Approved: 180

Total Aggregate Free Cash Approved: \$1,189,900,128

Cities and towns should manage reserves based on sound formal policies governing their funding, use, and replenishment. Over the last two years, communities have followed conservative budgeting practices, delayed capital investment, and seen an influx of federal assistance which has resulted in historically high reserve levels.

Therefore, as we enter this next season of municipal budgeting and financial planning, and with anticipation gaining for an economic downturn, it is more important than ever for local officials to review and update their strategy on building and expending reserves.

When well-planned, a community can use its reserves to protect from the usual unevenness in revenue and expenditure patterns that occur with changes in economic conditions, finance emergencies and other unforeseen needs, accrue money for specific future purposes, or in limited instances, serve as revenue sources for the annual budget. It is important that communities maintain financial flexibility to ensure they are in a position to react and respond to financial challenges without incurring significant financial stress. In

Important Dates & Information

DLS Introduces Foundations in Municipal Finance for the

New Official Online Training

DLS recently published a new online training entitled, [Foundations in Municipal Finance for the New Official](#). The new series of virtual training modules covers key concepts important to new local officials or those who seek a better understanding of municipal finance, outlines the budget process in both practical and policy terms, highlights best practices for sound financial management, and explains how each municipal official's role contributes to the overall financial health of a community.

We recommend starting with the Introduction and continuing with the Summer, Fall, Winter and Spring modules following the fiscal year calendar. We hope you enjoy [Foundations in Municipal Finance for the New Official](#).

Latest Issue of *Buy the Way* Now Available

Don't miss Issue #18 of [Buy the Way](#), the official magazine of the Operational Services Division (OSD).

Qualifications of Assessors IGR

The Division of Local Services (DLS) Municipal Finance Law Bureau (MFLB) has issued a new Informational Guidelines Release (IGR). IGR 2022-15 establishes the minimum qualification standards assessors must meet to qualify to perform the duties of their office.

[IGR-2022-15 – QUALIFICATIONS OF ASSESSORS](#)

To access IGRs, LFOs and Bulletins, please visit this [webpage](#).

Balance Sheet and Tax Rate Recap Gateway Processes Instructional Videos Now Available

As the end of the calendar year approaches, please watch our new step-by-step videos that walk through the processes for submitting your community's balance sheet and tax rate recapitulation for DLS review.

Balance Sheet Checklist - As of July 1st, 2022, the revised balance sheet checklist is now a DLS Gateway form that must be completed as part of the Bureau of Accounts free cash certification review process.

all cases, reserves should be used to fund unanticipated or one-time costs rather than to regularly fund operating expenses unless provisions are made to replenish the reserves. The following reserve types are available to communities to support financial stability.

- Annual Reserve Funds – Cities, under [M.G.L. c. 40, §5A](#) and towns provided by [M.G.L. c. 40, §6](#) establish reserve funds appropriated as part of the annual budget, to provide for extraordinary or unforeseen expenditures. The purpose of this reserve is to meet unexpected increases in departmental operational costs, such as legal fees, major equipment repairs, and unanticipated increases in service costs. The amount of appropriation reflects a financial management decision. During difficult economic periods, a higher reserve can meet the expectation of more frequent transfer requests from departments that struggle with lean budgets. During periods of revenue growth when departments are given more spending latitude, the likelihood of fewer requests justifies a lower reserve balance. Given the diverse range of financial conditions among communities, there is no consensus best practice on an appropriate reserve fund size, either in absolute dollars or as a percentage of the total budget. Historical practice can serve as a guide if reserve fund transfers have been tightly managed under consistent rules.
- General Stabilization Funds – Communities establish general stabilization funds ([M.G.L. c. 40, §5B](#)) as reserve accounts to provide emergency funds for use in a major or significant event, such as natural disaster, an uninsured loss, damage to a capital asset, or prolonged decrease in revenue. Although a general stabilization fund may be appropriated for any lawful purpose, withdrawals should be limited to mitigating emergencies or other unanticipated events that cannot be supported by current general fund appropriations. A community's target balance for a general stabilization fund varies by budget, experience, and other available reserves. A recommended goal is typically in the

This instructional [video](#) walks through how to complete the twenty questions that appear on the newly formatted balance sheet checklist.

Tax Rate Recap, Page 3 Support Form - As of July 1st, 2022, the new Gateway tax rate recap page 3 support form must be completed and submitted as part of the Bureau of Accounts tax rate recap approval process.

This [video](#) provides detailed instruction on how to complete the four tabs associated with the new page 3 support form. Prior to starting the page 3 support form, please input the actual and estimated local receipt figures on page 3 of the tax rate recap. Once these figures have been entered and saved, the page 3 support form will automatically populate based on the numbers entered in the tax rate.

If you have questions or need additional information, please contact your [Bureau of Accounts field representative](#).

IGR Regarding the Borrowing Amount of an Approved Prop 2½ Debt Service Exclusion

The Division of Local Services (DLS) Municipal Finance Law Bureau (MFLB) has issued a new Informational Guidelines Release (IGR). IGR 2022-14 explains the policies of the Commissioner of Revenue regarding the borrowing amount covered by an approved Proposition 2½ debt service exclusion. It also includes new procedures and forms to be used by cities and towns with approved debt exclusions for obtaining a determination about the inclusion of cost increases. [IGR-2022-14 – PROPOSITION 2½ DEBT EXCLUSIONS](#)

To access IGRs, LFOs and Bulletins, please visit this [webpage](#).

Overview of Municipal Debt Training Video

DLS has added a new informational [video](#) on municipal debt to the [Municipal Finance Training and Resource Center](#) and our [YouTube page](#). The video provides a brief overview of municipal debt, how it's authorized, and the roles local officials and others play in the issuance process. The training video also highlights a number of DLS resources available to help municipal staff better understand municipal debt.

five to seven percent of the current operating budget range.

- **Special Purpose Stabilization Funds** – A community can create special purpose stabilization funds and designate specific allowable expenses. The most common special purpose stabilization fund is for funding capital related project, equipment, and maintenance. Other special purpose funds include vehicle replacement, technology upgrades, and road maintenance. Target balances should be defined based on the specific purpose and expenditures; however, these reserves may be supported by dedicating a particular fee, charge, or other receipt to provide a consistent funding source. Click [here](#) for more information on stabilization funds.
- **Free Cash** – Free cash is the remaining, unrestricted funds from operations of the previous fiscal year, including unexpended free cash from the prior year, or simply the available fund balance in the general fund as of June 30. Because free cash is based on the annual financial operations as certified by the Bureau of Accounts, the amount of certified free cash cannot be known with certainty during the fiscal year. Therefore, we recommend that as much as practicable, communities limit their use of free cash to funding one-time expenditures (e.g., capital projects, snow and ice deficits, or emergencies), or use it to fund other reserves. Further, we recommend defining a target balance for free cash certification as a percentage of the general fund budget, such as five to seven percent, and striving to keep a targeted year-end unappropriated free cash balance to fund the next certification.
- **Other Continuing Balance Accounts** – State statute allows communities to establish accounts that protect against financial consequences of certain risks and liabilities. These include the account for allowance for abatements and exemptions, known as the overlay, and accounts for future expenses for unemployment compensation, workers' compensation, compensated absences, and retirement.

These include our existing municipal debt videos like the [Deeper Dive into Municipal Debt playlist](#). You can also review [informational guideline releases](#) and access our [debt service calculator](#) as a guide to project debt service payments. These and other municipal debt-related resources are all available on the [debt and borrowing section](#) of our training page.

Pandemic Flexibility Provisions Extended

On July 16th, 2022, Ch. 107 of the Acts of 2022 was signed into law, extending certain pandemic-related policy measures. This bill authorized the continuation of remote meetings and public access under the Open Meeting Law and other remote meeting provisions (including for Massachusetts nonprofit corporations and Massachusetts public companies) until March 31, 2023. [Click here to view the law.](#)

For additional related information and resources, please see the [DLS COVID-19 Resources and Guidance for Municipal Officials page](#).

DLS Links:

[COVID-19 Resources and Guidance for Municipal Officials](#)

[Events & Training Calendar](#)

[Municipal Finance Training and Resource Center](#)

[Local Officials Directory](#)

[Municipal Databank](#)

[Informational Guideline Releases \(IGRs\)](#)

[Bulletins](#)

[Tools and Financial Calculators](#)



These accounts are not closed at the end of the fiscal year and should be funded and routinely monitored to ensure that the reserves are adequate but not overfunded.

We consistently recommend that communities review and update all financial policies at the beginning of the budget season. Specifically to reserve funds, confirm the policies:

- Establish target balances for the stabilization fund, annual free cash, and other reserves, either as a total dollar amount or as a percentage of the annual budget. It will set a schedule of annual appropriations (e.g., to stabilization) or limitations on use (e.g., of free cash) designed to gradually reach and sustain the target balances over time.
- Direct the use of all or portions of free cash as a funding source for stabilization or as an outlay for one-time capital projects. It can also direct the use of revenue from a specific, recurring income source (e.g., rental income) for a special purpose stabilization fund.
- Restrict the use of unexpected, nonrecurring revenue, or surplus revenue, to one-time costs.
- Restrict the use of stabilization funds to nonrecurring expenditures and only in amounts above a certain dollar threshold. Set similar guidelines on the use of free cash.
- Measure performance to policy statements and determine remedies for noncompliance.

More information on reserve funds and financial planning can be found on our website in [Municipal Finance Best Practices Training and Resources webpage](#).

Data Highlight: Reserve Funds

Data Analytics and Resource Bureau

Municipal Reserve Funds are primarily made up of Free Cash



(remaining unrestricted funds from the previous fiscal year), stabilization funds (funds set aside for emergencies, future capital, and other lawful spending) and the Overlay Reserve (funds held to cover property tax abatement and exemptions).

Data resources for these reserve funds can be found on the [Municipal Finance Trend Dashboard Page](#). **Category One - Operating Position displays** trends in certified free cash, stabilization fund balances, overlay reserves, general fund unassigned fund balances, self-insured health insurance trust fund balances and uncollected real estate taxes. For a direct report link, see the [Category One Dashboard](#). For a map of all 351 municipalities, visit the [Municipal Finance Snapshot Dashboard](#).

FY2023 Community Preservation State Match Distributed

Lisa Krzywicki - Data Analytics and Resource Deputy Bureau Chief

On November 15th, the Data Analytics and Resource Bureau (DARB) distributed the FY2023 state match from the Community Preservation Trust Fund. The balance available for the state match this year was \$73,977,647.

The trust fund receives revenues from surcharges on documents filed at the Registry of Deeds. When there are insufficient funds to match 100% of the surcharge collected, the Community Preservation Act (CPA) authorizes three levels to the state match. The first round allocates 80% of the fund balance to provide all eligible communities with a base match. The remaining balance is allocated in two additional rounds called the equity distribution and surplus distribution. The additional rounds are only paid to communities that have adopted the CPA at 3%. Of the 187 communities eligible this year, 75 have a 3% CPA surcharge rate and will receive allocations from all three rounds. In addition, a community adopting a lower percentage could be eligible for the second and third round if two conditions are met:

- The CPA was approved by the voters as a “blended” version
- The community appropriates additional local dollars to bring the match up to 3%

The five communities with approved “blended” CPA are Boston, Littleton, Malden, Salem and Somerville. In FY2022, however, none of these communities appropriated additional revenue to the local CPA fund. Therefore, they are ineligible for the second and third round distributions.

In FY2023, the base match equals 30.32% of the local surcharge committed (net of abatements and exemptions). In the first round, \$59,182,124 will be paid to all communities. 75 communities will receive distributions from rounds two and three amounting to \$4,870,665 and \$2,893,862, respectively. The total state match in FY2023 is \$66,946,651. Of the 187 communities receiving a state match in FY2023, 112 will only receive the base match of 30.32%, 11 of them received 100%, 25 received a state match of 50% or higher and the remaining 39 received less than a 50% state match.

The Governor recently approved Chapter 268 of the Acts of 2022, which includes language in section 258 that sends an amount of up to \$20 million in state surplus revenues into the Community Preservation Trust Fund. DLS will provide more information about an additional state match payment after the state comptroller has made this transfer to the trust.

The current and historical state match calculation and distribution breakdown by round and additional information on CPA are available on the [DLS website](#). Contact DARB with any questions by email at databank@dor.state.ma.us.

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Contact *City & Town* with questions, comments and feedback by emailing us at cityandtown@dor.state.ma.us. To view previous editions, please [click here](#).

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