REVENUE AND APPROPRIATION DEFICITS
February 2020

Field visits with municipal finance officials have revealed certain misconceptions about what constitutes a "budget deficit." The term is often used when projected revenues are lower than anticipated expenditures at the start of the budget process. However, because municipal budgets must be in balance, policymakers must close this gap before the start of the fiscal year. After the tax rate is set, appropriation and revenue deficits can arise during the fiscal year and must be addressed before the following year's tax rate can be approved.

An **appropriation deficit** is an excess of expenditures at any point in a fiscal year over the legally authorized amount approved by the local appropriating authority for the same period.

With four spending exceptions (court judgments, snow and ice costs, overlay, and emergencies threatening public health or safety), a city or town department may not over-expend its appropriation under M.G.L. c. 44, § 31. Unless corrected prior to year-end through transfer or appropriation of unexpended reserves, all appropriation deficits must be raised on the tax rate recapitulation sheet (tax recap) for the ensuing fiscal year. The amount of a legal appropriation deficit (court judgments, snow and ice costs, overlay, and emergencies threatening public health or safety) is credited back to fund balance so that the expenditure will not negatively affect free cash for the ensuing fiscal year. However, all Illegal appropriation deficits, notwithstanding that they are "raised on the tax rate," will continue to negatively affect free cash for the ensuing fiscal year.

A **revenue deficit** is the amount by which actual revenues at year-end fall short of projected revenues and are thereby insufficient to cover actual expenditures (not including appropriation deficits).

A revenue deficit must also be raised on the tax recap for the following year but will not affect a community's free cash calculation.

It is useful to remember that in determining revenue deficits, municipalities can regard the current year's net real and personal property taxes as 100 percent collectible. This effectively narrows the source of a revenue deficit to state aid or local receipt categories.

With either deficit type, town accountants and city auditors should monitor expenditures and revenue trends during the fiscal year to identify potential problems. Appropriation deficits can often be correct through transfer or appropriation. An identified revenue deficit usually requires a corresponding midyear spending reduction. However, it is not possible to fully quantify a revenue deficit until after the fiscal year closes and a balance sheet is prepared.

In addition to monitoring revenues and expenditures throughout the year, these are other methods to avoid or remedy deficits:

- Under M.G.L. c. 41, § 56, the accountant or auditor should disallow any departmental payment request when the appropriation balance in the line item to be charged is insufficient to cover the invoice amount. The timely exercise of this authority when processing warrants will prevent appropriation deficits.

- A town meeting or city council may approve midyear line-item transfers or appropriate from reserve balances. In either case, the executive branch must originate the request.

- Under M.G.L. c. 44, § 33B, a board of selectmen (with the finance committee's agreement) or a city council may approve the transfer of appropriations between line items during the last two months of the fiscal year or the first 15 days of the ensuing fiscal year, provided that the appropriations are not taken from the school department or municipal light plant.

- Under M.G.L. c. 40, § 5A and M.G.L. c. 40, § 6, a city council or town finance committee may vote to transfer from the reserve fund an amount to fund extraordinary or unforeseen expenses.