



Franklin Regional
Council of Governments

Revenues and Resources

References and other information for
Select Boards and Finance Committees

2014

Session Two

The Franklin Regional Council of Governments
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TRAINER CONTACT INFORMATION

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PROPOSITION 2½

[MGL c. 59 § 21C](#)

[Levy Limits: A Primer on Proposition 2 1/2](#)

[Proposition 2 1/2 Ballot Questions](#)

[DLS Financial Calculators](#)

Debt Service calculator

Tax Impact Calculator

Override

Tax Base Increase: An override dollar amount represents an increase in the levy limit and tax dollars that might be raised. As a permanent addition to the tax base, it increases 2 ½ percent each year.

Order of Approvals: A successful Override requires a vote by a majority of the Selectmen to place the question on the town-wide ballot; approval by a majority of the town's voters; and, action by Town Meeting to allocate and appropriate the additional override dollars, by majority vote.

Only the Selectmen have the authority to place any question on the town-wide ballot. The form of an override question is specified in [MGL c. 59 § 21C](#). Town meeting approval is embedded in its willingness to approve a budget that requires more funding than is presently projected. A Town Meeting vote almost always takes place before the town wide vote, but need not.

Budget A – Budget B Format: A practical approach to Overrides is to present Town Meeting with two budget proposals in side by side columns. Budget A represents appropriations, in the town's customary format and detail, assuming no Override approval. Column B displays where the additional Override dollars would be allocated, ear-marked, if approved. And, Column A and B together represent a total budget

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contingent on the approval of the Override. Should the Override vote fail, the town's annual appropriation reverts to Column A alone. In this way, voters know precisely where override dollars are to go and avoid the need to call an additional meeting to appropriate override funds, particularly when July 1 fast approaches.

Specific vs. General Dollars: Overrides raise revenues for ongoing operations. In the year an override is approved, dollars are allocated to specific departments and purposes. In all subsequent years, the override dollars are not ear-marked, but are mixed-in with all other property tax dollars.

Underride

Tax base decrease: An underride represents a reduction in tax dollars to be raised by lowering the levy limit. It is a permanent adjustment but does not impact the normal 2½ percent levy limit increase each year.

Otherwise, comments in the override section above apply equally to underrides.

Debt Exclusion

Temporary Increase: Debt exclusion is a temporary increase in taxes raised to pay debt service on municipal bonds used to finance a capital project or purchase. When the term of the bond ends, debt service payments end and taxes are reduced.

Order of Approvals: Typically, Town Meeting approves, by two-thirds, an article proposing a capital project to be financed by bonds. Approval of the article is, however, subject to voter approval of a debt exclusion. There is no requirement that town meeting action precede or follow a town vote. In any case, only the Selectmen, by two-thirds, can place a ballot question before the voters, with or without Town Meeting approval.

Form: When the project proposal is placed before Town Meeting, the article (or motion) must specify a dollar amount, description of the project and a funding source, e.g., borrowing. It would also include contingency language.

The question placed before the voters must describe the project in language reasonable similar as in the article, but include not dollar amount. The form the question must take is presented [MGL c. 59 § 21C](#). A majority vote is required for approval.

Construction Costs Inflation: Oftentimes construction costs increase between the time a debt exclusion is approved and project groundbreaking. Town meeting is still required to authorize the additional bonding needed to cover the project cost increase. However,

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a second town-wide debt exclusion vote is not necessary. Instead, state law allows for the expansion of the debt exclusion, within limits, on application to DLS.

Capital Expenditure Outlay Exclusion (Capital Exclusion)

One Year Increase: A capital outlay exclusion is a mechanism to fund a major purchase through a one-year only increase in property taxes.

Approvals: The Board of Selectmen can place a capital outlay exclusion on the ballot by two-thirds vote. A majority in favor approves the question. Town meeting by majority vote, would need to approve the appropriation to fund the purchase.

The benefit of a capital exclusion is by making a purchase with a dollar outlay, the town avoids the interest costs that attaches to borrowing.

Stabilization Fund Override

[MGL C. 40 §5B](#)

[MGL c. 59 21C \(g\)](#)

[DLS IGR 04-201](#)

Tax Base Impact: Once the override is approved, the town is permitted to raise additional tax dollars ear-marked for a special purpose stabilization fund, which can be set up to finance any lawful purpose. The dollar amount authorized increases each year by 2½ percent and that money, as well as investment income, stays with the fund.

Order of Approvals: Year one implementation first requires approval of Town Meeting by a 2/3s vote. Then a majority of town voters must approve the measure. In Year two and in all subsequent years, the override continues if approved by the Selectmen only, in a 2/3s vote.

Selectmen's Authority: Each year the Selectmen can choose to raise tax dollars:

-in the same amount as the prior year;

-in the prior year amount plus 2½ percent as permitted by law. The Selectmen cannot otherwise increase the originally approved amount;

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-in a lower amount. If so, subsequent years must remain at the lower amount, plus 2 ½ percent, or the amount can be further reduced by the Selectmen;

-or the Selectmen can defer the override, that is, raise no money for the special purpose stabilization fund. In this case, they can choose to resume it in a future year at the last level imposed.

Change of Purpose: To change the fund purpose, Selectmen must vote, by 2/3s, to place the question on the ballot and a majority of voters must approve it.

In practice, a stabilization fund override is a long-term planning and funding tool. In addition, any funds appropriated, routinely or as needed, for purposes of the stabilization fund would be discontinued or diverted to increase the special purpose stabilization fund balance.

Special Exclusions

[Levy Limits: A Primer on Proposition 2½](#)

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For a few limited capital purposes, a community may assess taxes above the amount of its levy limit or levy ceiling without voter approval. Otherwise, special debt and capital outlay expenditure exclusions are like voter approved exclusions. The amount of the special exclusion is only added to the levy limit or ceiling for a temporary period of time, and does not become part of the base upon which the levy limit is calculated for future years.

One special debt exclusion allows a community to add water and sewer project debt service costs to its levy limit or levy ceiling for the life of the debt, as long as it reduces water and sewer rates by the same amount. The water and sewer debt exclusion is adopted by a majority vote of the community's selectmen, or town or city council (with the mayor's approval if required by law) and may include all or part of existing and subsequently authorized water and sewer debt or just the residential share of that debt.

Another special debt or capital outlay expenditure exclusion applies if a community has a program to assist home-owners to repair or replace faulty septic systems, remove underground fuel storage tanks or remove dangerous levels of lead paint in order to meet public health and safety code requirements. Under the program, the board of health and the homeowner agree that the board may contract with third parties to perform the work, and the home-owner will repay the community for all project costs. Homeowners may make the repayment by having a portion of the repair costs, with interest, added to their property tax bills for up to 20 years. The

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community may automatically add to its levy limit or levy ceiling the amount appropriated, or the amount of the debt service costs on any borrowing for the program.

Maximum Allowable Levy

Levy Limit Calculation Form

THE COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF REVENUE
FISCAL 2015 TAX LEVY LIMITATION FOR
CITY/TOWN/DISTRICT
FOR BUDGET PLANNING PURPOSES

I. TO CALCULATE THE FY2014 LEVY LIMIT

- A. FY2013 Levy Limit _____
- A1. ADD Amended FY2013 Growth _____
- B. ADD (IA + IA1) X 2.5% _____
- C. ADD FY2014 New Growth _____
- C1. ADD FY2014 New Growth Adjustment _____
- D. ADD FY2014 Override _____
- E. FY2014 Subtotal _____

- F. FY2014 Levy Ceiling \$

I. \$ -
FY2014 Levy Limit

II. TO CALCULATE THE FY2015 LEVY LIMIT

- A. FY2014 Levy Limit from I. _____
- A1. ADD Amended FY2014 Growth _____
- B. ADD (IIA + IIA1) X 2.5% _____
- C. ADD FY2015 New Growth _____
- C1. ADD FY2015 New Growth Adjustment _____
- D. ADD FY2015 Override _____
- E. FY2015 Subtotal _____

- F. FY2015 Levy Ceiling \$

II. \$ -
FY2015 Levy Limit

**III. TO CALCULATE THE FY2015
MAXIMUM ALLOWABLE LEVY**

- A. FY2015 Levy Limit from II. _____
- B. FY2015 Debt Exclusion(s) _____
- C. FY2015 Capital Expenditure Exclusion(s) _____
- D. FY2015 Stabilization Fund Override _____
- E. FY2015 Other Adjustment _____
- F. FY2015 Water / Sewer _____

- G. FY2015 Maximum Allowable Levy \$

SPECIAL REVENUE FUNDS

[Statutory Treatment of Municipal Revenues](#)

GENERAL FUND REVENUES

A fundamental principle of municipal finance in Massachusetts is that all revenue, received or collected from any source and by any department, belongs to a common pool referred to as the general fund. As such, it is unrestricted and available for expenditure for any lawful purpose after appropriation by town meeting, a town council or city council. (M.G.L. Ch. 44 Sec. 53). Included is real and personal property taxes, excises, special assessments and betterments, unrestricted local aid, investment and rental income, voluntary and statutory payments in lieu of taxes and other local receipts not expressly dedicated by statute.

Municipalities can only segregate money for specific purposes if authorized to do so by another general law or special act. Cities and towns cannot unilaterally decide to hold, earmark or set aside funds to finance a particular project or purchase, even if it intends to spend through an appropriation later.

Anticipated general fund revenues for the fiscal year may be appropriated as the tax levy (raise and appropriate) until the tax rate is set. Collections during the year above the estimates used to set the rate are not ordinarily available for appropriation until after the close of the fiscal year and certification by the DOR Director of Accounts as part of the municipality's undesignated fund balance (free cash).

SPECIAL REVENUE FUNDS

Particular revenues segregated from the general fund into a separate fund and earmarked for expenditure for specified purposes by statute. Special revenue funds are classified based on the availability of the funds for expenditure and need for a prior appropriation. Special revenue funds include annual revenue funds, receipts reserved for appropriation and revolving funds. They also include gifts and grants from governmental entities and private individuals and organizations. Special revenue funds must be established by statute.

Annual Revenue Funds (Estimated Receipts)

Annual revenue streams segregated from the general fund into a separate fund to separately budget and account for services that generate, or for purposes supported by, those revenues. Includes enterprise funds for services financed and delivered in a manner similar to private enterprises in order to account for all costs, direct or indirect, of providing the goods or services.

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Enterprise Funds (Utility, Health Care, Recreational, Transportation Facility)	c. 44, § 53F½
Community Preservation	c. 44B
Fund Light Plant Receipts (Appropriated by Light Plant Board)	c. 164, § 57

Receipts Reserved for Appropriation (Actual Collections)

Receipts from a specific revenue source segregated from general fund into a separate fund and earmarked for appropriation for specified purposes by statute. Appropriations are limited to actual collections on hand and available.

Ambulance Receipts	c. 40, § 5F
Waterways Improvement Fund	c. 608, §§ 2(i) & 4 c. 40, § 5G
Sale of Real Estate	c. 44, § 63
Dog Fees	c. 140, § 147A c. 140, § 172

Revolving Funds (Actual Collections)

Receipts from a specific revenue source segregated from general fund into a separate fund and earmarked for expenditure without appropriation for specified purposes by statute to support the activity, program or service that generated the receipts. Typically authorized for programs or services with expenses that (1) fluctuate with demand and (2) can be matched with the fees, charges or other revenues collected during the year. The board or officer operating the program is usually given spending authority, but can only spend from actual collections on hand and available.

Arts Lottery Council Monies	c. 10, § 58
School Rental Receipts	c. 40, § 3
Parks and Recreation Fees	c. 44, § 530
Departmental Revolving Fund	c. 44, § 53EY2
Outside Consultants Revolving (Planning/Zoning/Health/Conservation)	c. 44, § 53G
Student Athletic and Activities	c. 71, § 47

Trust and Agency Funds

Fiduciary funds segregated from the general fund to account for assets held in a trustee capacity or as an agent for individuals, private organizations, other governmental units, etc. These include expendable trust funds, non-expendable trust funds, pension trust funds and agency funds.

Examples of Trust Funds are:

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Scholarship Fund	c. 60, § 3C
Local Education Fund	c. 60, § 3C
Cemetery Perpetual Care Fund	c. 114, § 25

Examples of Agency Funds are:

Police Outside Detail Fund	c. 44, § 53C
Student Activity Agency Account	c. 71, § 47
Sporting License Receipts	c. 131, § 18

Appropriated Special Purpose Funds

Statutory funds to account for allocation of general revenues by the appropriating authority to particular purposes.

Reserve Fund	c. 40, § 5A (cities) c. 40, § 6 (towns)
Stabilization Fund (unrestricted)	c. 40, § 5B
Pension Reserve Fund	c. 40, § 5D
Unemployment Compensation Fund	c. 40, § 5E
Conservation Fund	c. 40, § 8C
Overlay (annual accounts)	c. 59, § 25
Overlay Surplus (balances)	c. 59, § 25

Enterprise Revenues

Water Surplus	c. 41, § 69B
Landfill/Trash Collection Charges	c. 44, § 28C(f)
Landfill Closure Reserve	c. 44, § 28C (f)
Enterprise Funds	c. 44, § 53FYz
Electric Light Receipts	c. 164, § 57

Temporary Funds (Expire At Year's End)

Reserve Fund	c. 40, § 5A (cities) c. 40, § 6 (towns)
Free Cash (Must be certified by DOR)	c. 59, § 23
Enterprise Retained Earnings (Must be certified by DOR)	c. 44, § 53FYz c. 59, § 23
Overlay Surplus	c. 59, § 25

Revolving Funds (No Appropriation Needed)

Arts Lottery Council Monies	c. 10, § 58
School Rental Receipts	c.40, §3
Centennial Celebration	c. 40, § 5H
Performance Bond Forfeitures (Up to \$100,000 by local option)	c. 41, § 81U
Expedited Permitting Fees	c. 430, § 6(b)

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Special Detail Funds	c. 44, § 53C
Parks and Recreation Fund	c. 44, § 53D
Departmental Revolving Fund	c. 44, § 53E½
Energy Revolving Loan Fund	c. 44, § 53E¾
Outside Consultants Revolving Fund (Planning/Zoning/Health/Conservation)	c. 44, § 53G
Anniversary Celebration Fund	c. 44, § 53I
Affordable Housing Trust Fund	c. 44, § 55C
Educational TV Trust Fund	c. 71, § 13H
Culinary Arts Programs	c. 71, § 17A
School Day Care Receipts	c. 71, § 26C
Student Athletic and Activities	c. 71, § 47
Student Activity Agency	c. 71, § 47
Community Schools Programs	c. 71, § 71C
Adult Continuing Education	c. 71, § 71E
Use of School Property	c. 71, § 71E
Non-resident Students' Tuition	c. 71, § 71F
Vocational Education Programs	c. 74, § 14B
School Choice	c. 76, § 12B(0)
Law Enforcement Trust	c. 94C, § 47
Wetlands Protection Fund	c. 131, § 40
	St. 1997, c. 43, § 218
	St. 1998, c. 194, § 349
Multi-community Yard Waste Program	St. 1993, c. 179
School Bus Advertising Receipts	St. 2002, c. 184, § 197
Extended Election Polling Hours	St. 1983, c. 503
School Lunch Fund	St. 1948, c. 548

Other Special Purpose Funds (Held-Over From Year To Year)

Fingerprinting Fees (local portion)	c.6, § 172B½
Tax Credit Bond Proceeds	c. 44, § 21B
Self-Insurance Health Fund	c. 32B, § 3A
Other Post Employment Benefits (OPEB) Liability Trust Fund	c. 32B, § 20
Stabilization Fund	c. 40, § 5B
Pension Reserve Fund	c. 40, § 5D
Unemployment Compensation Fund	c. 40, § 5F
Ambulance Receipts Reserved	c. 40, § 5F
Beach and Pool Receipts Reserved	c. 40, § 5F
Golf Course Receipts Reserved	c. 40, § 5F
Skating Rink Receipts	c. 40, § 5F
Reserved Waterways Improvement Fund	c. 40, § 5G
	c. 60B, § 2(i)
Conservation Fund	c. 40, § 8C
Recycling Commission Fund	c. 40, § 8H
Building Insurance Fund	c. 40, § 13
Workmen's Compensation Fund	c. 40, § 13A
Parking Meter Fees	c. 40, § 22A
Off-street Parking Receipts	c. 40, §§ 22B & 22C
Commission on Disabilities Fund	c. 40, § 22G

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Compensated Absences	c. 41, § 31D
Bond Proceeds	c. 44, § 20
State Highway and Water Pollution Funds	c. 44, § 53
Insurance/Restitution Proceeds (Up to \$20,000)	c. 44, § 53
Lost School Books/Industrial Arts Supplies	c. 44, § 53
Grants and Gifts	c. 44, § 53A c. 71, § 37A
Sale of Real Estate Proceeds	c. 44, § 63
Community Preservation Fund	c. 44B, § 7
Overlay	c. 59, §§ 25 & 70A
Local Education Fund	c. 60, § 3C
Scholarship Fund	c. 60, § 3C
Low Income Seniors Disabled Tax Relief Fund	c. 60, § 3D
Wastewater Disposal Receipts	c. 83, § IG
Estimated Sewer Betterments	c. 83, § 15B
Bicyclist Traffic Fines Receipts Reserved	c. 85, § IIE
Non-Resident Student Motor Vehicle Registration	
Fines Receipts Reserved	c. 90, § 3½
Weight and Measure Fines Receipts Reserved	c. 98, § 29A
Educational/Instructional Materials Trust Fund	c. 71, § 20A
METCO Reimbursements	c. 76, § 12A
Cemetery Sale of Lots Fund	c. 114, § 15
Cemetery Perpetual Care Funds	c. 114, § 25
Spay and Neuter Deposits	c. 140, § 139A
Dog Fees	c. 140, § 147A c. 140, § 172
Building and Fire Code Enforcement	
Fines Receipts Reserved	c. 148A, § 5

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Revolving Funds

A place to set aside revenue received, through fees and charges, for providing and supporting a specific service or program. See DLS article on [Revolving Funds - Non-School Purposes](#).

General Departmental Revolving Fund

[MGL c. 44 § 53E 1/2](#)

A revolving fund can only be established where a program or service is provided. A revolving fund is particularly useful when program activity or service requests are unpredictable. For this reason, a specific dollar appropriation in a budget line item may not prove accurate. Resident participation must be voluntary, that is, residents must have a choice whether to participate and pay the fees or charges. Fees or charges must reflect the incremental cost to provide the program or service.

Town Meeting must create the revolving fund and re-authorize it annually. The warrant article must:

identify the program or purposes for which the funds are to be expended

identify the departmental receipts to be credited to revolving fund

specify the board, department or officials authorized to expend from the revolving fund

place a limit on the total dollar amount that can be expended during the fiscal year.

-the authorized amount cannot exceed one percent of the prior year tax levy

-authorized amounts for all revolving funds cannot exceed 10 percent of the prior year levy

As a convenience, multiple revolving funds under 53E½ can be combined in one warrant article as a chart and approved on a single Town Meeting vote. Any of them can still be amended, stricken or removed for a separate vote.

Expenditures:

are made without further appropriation

are limited to then current fund balance, or to the total authorized annual expenditure

must go through vendor and payroll warrant process

can cover wages and /salaries of full-time employees, but if so, must also pay benefits

Reversion

If the revolving fund is not re-authorized, the fund balance at year-end closes to surplus revenue and potentially to free cash, unless it is transferred to another revolving fund by Town Meeting. If total fees at any time exceed the authorized expenditure limit, expenditures are still restricted to the authorized amount. The remaining balance rolls over to the next fiscal year.

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[Revolving Funds for Non-School Departmental Programs](#) – Summary Chart

Anniversary Celebrations
Arts & Lottery Council
Law Enforcement Trust
Millennium/Centennial Celebration
Multi-Community Yard Waste
Outside Consultants
Performance Bond Defaults
Parks and Recreation
Special Details
Wetlands Protection

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Receipt Reserved for Appropriation Funds

Receipt reserved funds are repositories for proceeds that are earmarked by law and directed to accounts, separate from the General Fund, for appropriation for particular purposes. Statutes authorize receipt reserved funds for the following purposes.

Ambulance	c. 40 § 5F
Parking meters	c. 40 § 22A through 22C
Sale of real estate	c. 44 § 63
Waterways improvemetn fund	c. 60B §4 and c. 40 § 5G
Sale of cemetary lots	c. 114 § 15
Wetlands Protection	c. 131 § 40
Insurance reimbursement > \$20,000	c. 44 § 53
Bicyclist traffic fines receipts reserved	c. 85 § 11E
Building and fire code enforcement fines	c. 148A § 5
Civil motor vehicle registration fines	c. 90 § 3½(c)
Recreation facilities	c. 40 § 5F
Landfill closure reserve	c. 44 § 28C(f)
Spay and neuter deposits	c. 140 § 139A
Wastewater disposal receipts	c. 83 §1G
Weight and measure fines	c. 98 § 29A

Rules:

Year-end balances remain with the fund.

Town Meeting can direct all or some of the receipts to be reserved.

Funds must be appropriated.

Funds must be received before they can be appropriated. If a new fund, town “fronts” year one funds – then receipts accumulate and are available for appropriation the following year.

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Fees

[DLS article on User Fees](#)

There is a three-prong test for setting user fees and charges set out in Emerson College v. Boston, 391 Mass. 415 (1984). Excerpts below:

1. A fee must be charged for a particular service which benefits the party paying the fee in a manner not shared by other members of society. In other words, a fee may not be charged for general services that are mandatory or supplied to the public at large, such as core education and police protection.
2. A fee must be paid by choice, that is, the person paying the fee must have the option of not utilizing the service, thereby avoiding the charge. It follows that a service can be withheld from individuals who refuse to pay.
3. A fee must be collected not to raise revenues, per se, but to compensate the governmental entity for its expenses in providing the services. This has been interpreted to mean that a fee cannot exceed the cost to provide the service that is provided.

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Trust & Agency Funds

This is one of four types of fiduciary funds. It is used to report resources in a purely custodial capacity by a governmental unit. Agency funds generally involve only the receipt, temporary investment, and periodic transfer of money to fulfill legal obligations to individuals, private organizations, or other governments.

For example, certain employee payroll withholdings typically accumulate in an agency fund until due and forwarded to the federal government, health care provider, and so forth. Also, resident payments to a water district are typically received by the town collector and held in an agency account until transferred to the water district.

(Excerpted from the DLS [Municipal Finance Glossary](#))

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Gift Accounts

[MGL c. 44 § 53A](#)

Gifts of money or other assets, to the town and to town departments are held in separate accounts until expended in accordance with the wishes of the donor.

Gifts to the town in general must be accepted by Town Meeting which would also vote to appropriate the funds for the enumerated purposes. Because the gift is a general, town meeting needs to determine which officer can best carry out the wishes of the donor, and then grant spending authority to that person.

Gifts directly to a specific officer or department of the town may be expended by that person or department with approval of the Selectmen, without further appropriation.

In both instances, payments must pass through the vendor warrant process.

Gifts of real estate always require acceptance by Town Meeting.

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Enterprise Funds

[MGL c. 44 § 53F 1/2](#)

The following information is drawn from the DLS [Enterprise Fund Manual](#). See also [DLS Information Guideline Release 08-101](#).

An enterprise fund is a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Total direct, indirect, and capital costs are identified as is the revenue necessary to cover those costs. An enterprise fund is intended to be a fully self-supporting, free-standing operation whose finances are separate from the General Fund.

An enterprise fund does not establish a new department; it does not allow a department to operate under procedures different from all other departments; it does not alter reporting relationships.

Enterprise funds may only be established, "for a utility, health care, recreational or transportation facility" including:

- Public utilities – water, sewer, trash disposal operations;
- Health care – ambulance service, nursing homes;
- Recreation – skating rinks, pools, golf courses; and

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- Transportation – airports, dock and wharf facilities

Revenues – originate from rates and other user charges directly related to services received. Enterprise revenue can only be expended for enterprise purposes. User rates are not subject to Proposition 2½ limitations.

Indirect costs – a cost to the enterprise that accounts for the time employees in other town departments spend on enterprise business. For instance, the collector receives water payments from residents, which are ultimately credited to the enterprise account. However, the collector should not direct bill the enterprise fund. The reimbursements should be accounted for through inter-fund transfers.

Budgeting – The operating budget of a department functioning under an enterprise accounting system is still appropriated in the town annual line-item budget. To offset the costs, enterprise revenues are accounted for in the town's overall revenue projections.

Enterprise budgeting is “expense driven.” Department head projects the full annual cost to provide the particular service, including debt service, and then sets or adjusts rates and other recurring revenue sources to cover those costs.

General Fund Subsidy – the town may appropriate money in the annual town (General Fund) budget to support the enterprise operation. If viewed as a “loan,” the town may receive reimbursement.

Retained earnings – year-end surplus revenue which, like free cash, must be certified by DLS before it can be expended. Requires Town Meeting appropriation approval. Retained earnings may be used to reimburse the General Fund, but only for capital costs and only within two years.

RESERVES

FinCom Reserve

Chapter 40 § 6 – Town Reserve Fund

To provide for extraordinary or unforeseen expenditures, a town may at an annual or special town meeting appropriate or transfer a sum or sums not exceeding in the aggregate five per cent of the levy of the fiscal year preceding the fiscal year for which the fund, to be known as the reserve fund, is established. No direct drafts against this fund shall be made, but transfers from the fund may from time to time be voted by the finance or appropriation committee of the town, in towns having such a committee, and in other towns by the selectmen; and the town accountant in towns having such an official, and in other towns the auditor or board of auditors, shall make such transfers accordingly.

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FinCom Reserve – Transfer Request Form – Town of Colrain

Request For Transfer From The Reserve Fund
(To be submitted in triplicate)

Date.....

Finance Committee
Town of Colrain, Massachusetts

Committee Members:

Request is hereby made for the following transfer from the Reserve Fund in accordance with Chapter 40, Section 6, of the Massachusetts General Laws:

1. Amount Requested: \$.....
2. To be transferred to:
(Give name of appropriation)
3. Present balance in said appropriation: \$.....
4. The amount requested will be used for (give specific purpose):

5. This expenditure is extraordinary and/or unforeseen for the following reasons:

.....
Office or Department Head

Action of Advisory Committee

Date of Meeting Number Present and Voting
Transfer voted in the sum of \$..... Transfer disapproved

.....
Chairman, Advisory Committee

Request must be made and transfer voted before
Any expenditure in excess of appropriation is incurred.

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Finance Committee - DLS Opinion Letters

2007-316

After July 15, the finance committee cannot make any transfers from its reserve fund for the prior year that ended on June 30. It may use its current year reserve fund to cover prior year appropriation deficits (not unpaid bills) that must be funded in the current year provided if the expenses are extraordinary or unforeseen, ie, unexpected, unbudgeted or unintentional shortfalls and de minimis expenses that need to be addressed before the next scheduled town meeting. The cost of holding a special meeting for the sole purpose of financing an expense is a factor in determining whether it is de minimis.

2000-272

Nothing in municipal finance laws prohibits member of finance committee from being elected to school committee or requires the person to vacate the membership in the finance committee. Any opinion concerning ethics violations should be directed to the State Ethics Commission or town counsel. Local by-laws might also limit the number of committees a person can be on

97-168

In rejecting a request for a reserve fund transfer, a finance committee can't make a department spend from a line-item other than the one into which a transfer is sought.

97-57

A finance committee cannot authorize a "loan" from the reserve fund to a department for a purpose which is neither extraordinary nor unforeseen on the understanding that the department will seek a supplemental appropriation to replenish the reserve fund. The likelihood of such replenishment may be taken into account in deciding whether to approve transfer for a purpose that falls within scope of statutory purpose..

96113

The finance committee is responsible for considering, reporting, and making recommendations to town meeting on all municipal questions. It is not the responsibility of the finance committee to find the funding for all items passed at town meeting.

2010-110

If town meeting anticipates a need to make supplemental appropriations to fund salary increases under newly negotiated contracts, it may appropriate extra money into the fincom reserve fund with the intention of transferring it later to pay for the salary increases.

2012-110

The purpose of the fincom reserve is to provide an expeditious means of funding unanticipated expenditures caused by unforeseen or extraordinary circumstances after the budget is approved for the year, i.e, to provide for unexpected or unintentional shortfalls and de minimis expenses when some exigency exists that cannot await the next scheduled special or annual town meeting. G.L. c. 40, §6. Town meeting decides what the municipal departments' budgets should be for the year, and the fincom cannot use the reserve to substitute its judgment in that regard.

2011-784

Unless the town has a charter provision or by-law establishing a quorum and quantum of vote for the seven member finance committee, the case of Clark v. City Council of Waltham

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provides that generally a quorum is a majority of a board or committee and a majority of the quorum can act. In this case, since 1 spot is vacant and 2 prior year members have recently been reappointed, but have not yet been sworn in, 4 members would be required to make up a quorum and if only 4 showed up, 3 could vote affirmatively to act. It was not clear whether the two prior year members continued in office until sworn in for the next term, as nothing in the appointment laws for the fincom provided for a holdover.

2010-544

We know of no state statute or court case that would prohibit a town meeting from increasing the amount of an appropriation above the amount of the finance committee's recommendation (c.44 §32 has such a provision for a mayor's budget submission to a city council). There is an opinion of the Attorney General (5 Op AG. 519, March 30 1920) which invalidated a town meeting vote under a special article to borrow \$7,500 to repair a street under an article that mentioned an appropriation of \$3000.

2013-849

The board of selectmen or finance committee have no special authority to transfer funds to the OPEB account. Town meeting must appropriate funds to the account, or, in the limited case of Medicare Part D federal reimbursements, town meeting may vote to dedicate them to the OPEB fund, where they would be deposited upon receipt.

Free Cash

Origin - Free cash is regarded as a non-recurring revenue source available for appropriation only after it is certified by DOR based on the town's year end balance sheet. It is generated from unrestricted funds from prior year operations that primarily arise from actual receipts in excess of revenue estimates, unspent departmental appropriations and unexpended free cash from prior year. A useful observation is that free cash and local receipts are inversely related. See DOR B-1 form (below) used to certify free cash.

Offsets - The resulting unrestricted funds, however, are offset – that is, free cash is reduced – by real and personal property tax receivables and certain deficits. Among the most common are: appropriation deficits, revenue deficits, capital project fund deficits and police detail deficits.

There are also lawful deficits that do not impact free cash. Towns are permitted to incur deficits in the snow and ice account, overlay account and those caused by court judgement which typically have to be satisfied in the fiscal year they are imposed.

Target levels – Credit rating agencies and most financial advisors advocate free cash at 3-to-5 percent of the town's annual budget.

Use of Free Cash – Free cash can only function as a reserve if it is available during the fiscal year. Towns are best positioned if appropriation of free cash is deferred until the spring. At that

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time it can be used to fund capital purposes (direct dollar outlay), replenish reserves or for other one-time expenditures.

Many towns effectively use free cash, certified in the fall of one fiscal year, as a revenue source for the town's next year's budget. This approach and discipline has advantages:

- it sends a message to department heads that there should be no expectation of additional funds in the fall to supplement budgets;
- it encourages department heads to request, in the spring, an appropriation that will carry them through the entire upcoming fiscal year. Predictability and stability will then be enhanced;
- it means that free cash will actually be available during the fiscal year as a true reserve;

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BUREAU OF ACCOUNTS
SCHEDULE B-1
FREE CASH CERTIFICATION AND APPROPRIATION
CITY/TOWN/DISTRICT
City/Town/District

PART I

1. 7/1/2013 FREE CASH CERTIFICATION	\$	
ADD:		
2. FREE CASH UPDATE PART I		

TOTAL		0
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SUBTRACT FREE CASH APPROPRIATED FROM
THIS CERTIFICATION:

3. FY2014 RECAP		
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4. FY2015 RECAP		
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BALANCE OF UNAPPROPRIATED FREE CASH PART I	\$	0
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PART II

1. 7/1/2014 FREE CASH CERTIFICATION	\$	
ADD:		
2. FREE CASH UPDATE PART II		

TOTAL		0
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SUBTRACT FREE CASH APPROPRIATED FROM
THIS CERTIFICATION:

3. FY2015 RECAP		
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BALANCE OF UNAPPROPRIATED FREE CASH PART II	\$	0
--	----	---

Accounting Officer

Date

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General Stabilization Fund

[MGL c. 40 § 5B](#)

[DLS IGR 04-201](#)

- One time / Non-recurring revenue source.
- Requires 2/3s vote of Town Meeting to create.
- May be expended for any lawful purpose.
- Requires 2/3s vote of Town Meeting to appropriate to & from the fund.
- Recommended target balance: five percent of annual budget

Special Purpose Stabilization Fund

[MGL c. 40 § 5B](#)

[DLS IGR 04-201](#)

- 2/3s TM vote to create, appropriate to and appropriate from
- Non-recurring revenue source
- Can be set for any lawful purpose
- Planning tool
- Override funding option – See Exceptions to Limits in Proposition 2½ section for more detailed discussion.

Enterprise Fund Retained Earnings

Excerpted from the DLS [Enterprise Fund Manual](#).

Retained earnings are effectively “free cash” generated by the enterprise fund at year end. The availability of retained earnings requires: 1) submission of a balance sheet as of June 30 to DOR; and 2) certification by DOR of the funds that can be expended. Retained earnings can only be used for enterprise purposes and on appropriation by town meeting.

Retained earnings may be appropriated to:

1. fund direct costs of the enterprise for the current fiscal year;
2. fund capital projects or purchases;
2. fund costs appropriated in the General Fund operating budget and allocated to the enterprise for the current fiscal year;
3. reimburse the General or other fund for subsidized capital costs of the enterprise (the General Fund has a two fiscal year window to recover these costs).

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A town may establish a General or Special Purpose Stabilization Fund within an enterprise fund. Two-thirds Town Meeting votes are required.

A revolving fund may be created within an enterprise fund.

Overlay

When towns budget, they are allowed to assume that all real and personal property tax revenue will be collected and available to spend. For the most part, this happens over time but not entirely in the year the taxes are assessed. In contrast, budgeted local receipts are estimates and the town ultimately can only spend what it collects. An annual overlay reserve is funded to cover, or backfill, tax dollars not collected due to abatements, personal exemptions and delinquent taxpayers, whose accounts have not yet been moved from a receivable into a tax title status. Overlay is also reserved to cover the potential liability associated with pending appellate tax board cases.

If an overlay reserve is underestimated it can fall into deficit. On the other hand, there may be a reserve balance, which can be released as overlay surplus and available for appropriation.

Although the Board of Selectmen may request whether overlay surplus exists, it is entirely a decision of the Board of Assessors whether to make the determination and even if surplus exists whether to release it.

The town accountant should be able to also estimate if overlay balances remain by tracking the charges against the original overlay reserve amount.

END OF SESSION TWO