

Bulletin

BUL-2020-05

An Act to Address Challenges Faced by Municipalities and State Authorities Resulting From COVID-19

TO: Local Officials
FROM: Mary Jane Handy, Director of Accounts
DATE: May 2020
SUBJECT: **Amortization of FY2020 Deficit Resulting From COVID-19 Emergency**

This Bulletin provides guidance to local officials regarding the amortization of its FY2020 deficit resulting from the COVID-19 emergency as authorized by section 7 of [An Act to Address Challenges Faced by Municipalities and State Authorities Resulting From COVID-19, Chapter 53 of the Acts of 2020](#), (the Act). This section provides an option for cities, towns and special purpose districts to amortize their FY2020 COVID-19 emergency expenditure account deficit and certain FY2020 revenue deficits over the next three fiscal years in equal installments or more rapidly. The commissioner of revenue will implement section 7 through the director of the Bureau of Accounts of the Division of Local Services (director).

This option is exercised by the adoption of a deficit amortization schedule prior to setting the city's, town's or special purpose district's fiscal year 2021 tax rate. The amortization schedule must be adopted in a town by the board of selectmen; in a city, by the council, with the mayor's approval when required by law; and in a municipality having a town council form of government, by the town council. In a special purpose district, the deficit amortization schedule is adopted by the prudential committee or commissioners.

Amortization of the FY2020 COVID-19 emergency expenditures account deficit includes only those expenditures given prior authority by the director of accounts to spend in excess of appropriation under [G.L. c. 44, § 31](#) (see [Bulletin FY2020-01](#)), calculated and recorded in accordance with this guidance.

Amortization of FY2020 revenue deficits includes deficits calculated and recorded in accordance with this guidance.

For cities, towns and special purpose districts not authorizing an amortization, the FY2020 COVID-19 emergency expenditure account deficit, any FY2020 General Fund revenue deficit and any enterprise fund revenue shortfall must be fully raised or otherwise funded on the FY2021 Tax Rate Recap.

I. COVID-19 Emergency Expenditures

A. Determining Amount of Emergency Expenditures Deficit

As stated in [Bulletin 2020-01](#), after receiving the director's authority for emergency deficit spending, the local accounting officer was advised to (1) establish a COVID-19 emergency account to charge expenditures or (2) charge such expenditures to any applicable existing account(s). If option (2) was chosen, by fiscal year end, the director's authorized amounts were to be transferred to a COVID-19 emergency account unless a balance remains in the account(s) as of June 30 and such a transfer may be deemed unnecessary. As a result, all cities, towns and districts authorized to deficit spend for the emergency must have established a COVID-19 emergency account by fiscal year end.

The director will allow a transfer of anticipated reimbursement from the federal government or otherwise for qualifying emergency expenditures incurred into the account to offset the deficit expenditures. As a result, amortization is needed only for the net FY2020 deficit. The account should be reported as a special revenue fund on the June 30, 2020 balance sheet. The director may require an adjustment to this amount once a more definitive reimbursement amount has been determined.

After final reimbursements are received, any remaining deficit in this account must be raised or otherwise funded on the next Tax Rate Recap unless the deficit is to be amortized under section 7. If the final reimbursement occurs during the amortization time period, the city, town or special purpose district may adjust the remaining deficit to be amortized.

The director will not reduce free cash as a result of the deficit being amortized in this special account if properly recorded.

Separate accounts are recommended for COVID-19 emergency assistance revenues for certain reimbursement or upfront amounts restricted for specific expenditure.

B. Amortizing the Deficit

The total amount of the net expenditure deficit may be amortized either in three equal installments from FY2021 to FY2023, or in more rapid installments. The decision to amortize must be made by the local authority described above before setting the FY2021 tax rate. Installments may be reported on the Tax Rate Recap as either an appropriation on page 4 or under Other Amount to be Raised on page 2.

If amortizing in three equal installments, simply divide the net expenditure deficit by "3." If amortizing more rapidly, the FY2021 and FY2022 installments must be greater than the amount of the equal installments. The exception is when the installments for FY2022 or FY2023 is the final one.

In order for the director of accounts to authorize amortization of the FY2020 COVID-19 emergency expenditure deficit account, the community or special purpose district is required to complete and submit the Gateway COVID-19 Emergency Expenditure Amortization Schedule found under the "Misc Forms" Module. (See Sample Calculation of Emergency Expenditure Amortization at the end of this Bulletin.)

II. Revenue Deficits

A. Determining Amount of Revenue Deficit

General Fund Revenue Deficit To calculate a General Fund revenue deficit, please see the information contained in this [link](#). An example of how to calculate a General Fund revenue deficit is as follows:

A local government finalizes its budget for the fiscal year as follows:

Total Non-Property Tax Revenues \$100,000
Total Appropriations \$100,000

At the end of the fiscal year, it is determined that the local government received \$90,000 in non-property tax revenues and will turn back \$5,000 in unspent appropriations. There is a revenue deficit of \$5,000.

	Budget	Actual	Favorable (Unfavorable)
Revenue	\$100,000	\$90,000	(\$10,000)
Expenditures	\$100,000	\$95,000	\$5,000
<u>Revenue Deficit</u>			(\$5,000)

Enterprise Fund Revenue Deficit For an enterprise fund, the director closes a revenue shortfall (FY2020 budgeted amounts reported on the FY2020 Tax Rate Recap, Schedule A-2, in excess of FY2020 actual revenue received as of June 30, 2020) to enterprise fund balance and a retained earnings deficit is shown on the next Tax Rate Recap. The director may allow by local decision an alternative calculation for a revenue shortfall net of any appropriation or other close-outs, as the revenue deficit to be amortized.

The deficit in this fund may be provided for by enterprise fund revenues, enterprise fund retained earnings or by a subsidy from another fund (i.e. the General Fund).

B. Amortizing the Revenue Deficit

A revenue deficit will be amortized using the same procedure as amortizing the COVID-19 emergency expenditures deficit, as applicable. For this process, see Section I above.

During the amortization period, the director will not reduce free cash or retained earnings due to the amortized deficits if properly recorded.

In order for the director to authorize amortization of the FY2020 General Fund revenue deficit and/or FY2020 enterprise fund retained earnings shortfall, the city, town or special purpose district is required to complete and submit the Gateway COVID-19 Revenue Deficit form found under the "Misc Forms" Module. (See Sample Calculation of Revenue Deficit Amortization at the end of this Bulletin.)

C. Accounting for the Revenue Deficit

If a revenue deficit is calculated per II A above, record the following entry in the General Fund and/or enterprise fund as applicable:

DEBIT Fund Balance Designated for Authorized Revenue Deficit Amortization

CREDIT Undesignated Fund Balance

The entry is reversed as annual installments are raised.

**Sample COVID-19 Revenue Deficit Amortization Schedule
Section 7 of Chapter 53 of the Acts of 2020**

City/Town/District

**General Fund Revenue Deficit
as of 6-30-2020**

\$XX,XXX,XXX,XXX

Total Enterprise Fund(s) Shortfall

\$XX,XXX,XXX,XXX

\$XX,XXX,XXX,XXX

**In FY2021, you must provide for a
minimum of one-third (1/3) of these
deficits as of 6-30-2020**

We have adopted the following amortization schedule:

FY2021	\$XX,XXX,XXX,XXX
FY2022	\$XX,XXX,XXX,XXX
FY2023	\$XX,XXX,XXX,XXX

Amortization Tracking Schedule

	Special Revenue Fund - Balance Sheet Net Deficit as of 6-30	Less Reimbursements to Offset Deficit	Less Appropriations to Offset Deficit	Other Amount Raised on Recap page 2 to Offset Deficit	Deficit Amount Deferred
FY2021	\$1,200,000	0	0	\$400,000	\$800,000
FY2022	\$800,000	0	0	\$400,000	\$400,000
FY2023	\$400,000	0	0	\$400,000	\$0

	Enterprise #1 (name)	Enterprise #2 (name)	Enterprise #3 (name)	Enterprise #4 (name)	Enterprise #5 (name)
Enterprise Fund FY2020 Revenue Shortfall	\$600,000	\$900,000			
FY2021 Appropriations or Raised on Recap	\$200,000	\$300,000			
Shortfall Amount Deferred	\$400,000	\$600,000			
FY2022 Appropriations or Raised on Recap	\$200,000	\$400,000			
Shortfall Amount Deferred	\$200,000	\$200,000			
FY2023 Appropriations or Raised on Recap	\$200,000	\$200,000			
Deferral Complete	\$0	\$0	\$0	\$0	\$0

A city, town or district may amortize over FY2021 – FY2023, inclusive, in equal installments or more rapidly, the amount of its FY2020 revenue deficit in the General Fund or enterprise fund revenue shortfall as per guidelines and instructions issued by the director of accounts. The local appropriating authority as defined in G.L. c. 59, § 21C and a special purpose district’s prudential committee or commissioners, shall adopt a deficit amortization schedule before setting the city’s, town’s or district’s FY2021 tax rate.