



Informational Guideline Release

Bureau of Accounts
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Supersedes Prior IGRs on Municipal and District Borrowings, including IGR 10-101, IGR 04-101, IGR 92-105, IGR 91-102 and IGR 17-21; Bulletin 2013-01B and Inconsistent Prior Written Statements

BORROWING

(G.L. c. 44, §§ 1, 3, 4, 6, 6A, 7, 8, 9, 10, 16, 17, 19, 20, 21A, 28, 28A, 38, 53, 53A and 55; G.L. c. 44A; G.L. c. 70B, § 6; G.L. c. 71, §§ 14D and 16; and Chapter 74 §§ 1 and 2 of the Acts of 1945)

This Informational Guideline Release (IGR) informs city, town and district treasurers and other officials about borrowing purposes and debt issuance procedures, including changes made by the Municipal Modernization Act and by An Act Relative to Immediate COVID-19 Recovery Needs.

Questions should be referred to the Bureau of Accounts Public Finance Section.

Topical Index Key:

Borrowing

Distribution:

Municipal/District/Regional School Treasurers/
Accountants/Auditors
Selectboard/Mayors
City/Town Managers/Administrators
Finance Directors
Finance Committees
City/Town Councils
City Solicitors/Town Counsels

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Supersedes Prior IGRs on Municipal and District Borrowings, including IGR 10-101, IGR 04-101, IGR 92-105, IGR 91-102 and IGR 17-21; Bulletin 2013-01B and Inconsistent Prior Written Statements

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(G.L. c. 44, §§ 1, 3, 4, 6, 6A, 7, 8, 9, 10, 16, 17, 19, 20, 21A, 28, 28A, 38, 53, 53A and 55; G.L. c. 44A; G.L. c. 70B, § 6; G.L. c. 71, §§ 14D and 16; and Chapter 74 §§ 1 and 2 of the Acts of 1945)

SUMMARY:

These guidelines explain the authorization and issuance of debt by cities, towns, improvement districts and regional school districts, including amendments made by the Municipal Modernization Act (MMA) in city, town and district borrowing procedures, effective November 7, 2016, and by An Act Relative to Immediate COVID-19 Recovery Needs (COVID-19 Recovery Act), effective December 13, 2021. [St. 2016, c. 218, §§ 61-68, 178, 180, 234 and 235](#), [St. 2021, c. 102 § 20](#).

The MMA makes changes to the purposes for which cities, towns and improvement districts may borrow inside and outside their debt limits, as well as the terms for those loans. [G.L. c. 44, § 7](#) and [8](#). It amends [G.L. c. 44, § 7](#), which authorizes borrowings inside the debt limit of [G.L. c. 44, § 10](#), by updating and consolidating 34 borrowing purposes into 11 purposes. The amended Clause 1 authorizes cities, towns and districts to borrow for a broad range of purposes, including the acquisition of interests in land, acquisition of capital assets and the undertaking of various capital projects, provided the interest in land, the asset or the project has a useful life of at least five years. Cities, towns and districts may now also borrow to pay court judgments for a term of more than one year with the approval of the Municipal Finance Oversight Board (MFOB). [G.L. c. 44, § 7\(3\)](#). In addition, the MMA added a new borrowing purpose for the costs of temporary repairs to private ways open to the public under [G.L. c. 40, § 6N](#). [G.L. c. 44, § 7\(5\)](#). It also eliminated the requirement that borrowings in connection with federally funded public works projects be approved by the Governor. They will now be approved by the MFOB. St. 1945, §§ 1 and 2.

The MMA also updated and consolidated the borrowing purposes contained in [G.L. c. 44, § 8](#), which authorizes borrowings outside the debt limit of [G.L. c. 44, § 10](#). Under amended Clauses 8 and 8A, a city or town that does not have a municipal light plant may now borrow to construct a municipally owned telecommunication or broadband system.

For a listing of the changes to the borrowing purposes under [G.L. c. 44, § 7](#) and [8](#), please see the [“Borrowing Purposes Table Before and After the Municipal Modernization Act”](#) issued by the Bureau of Accounts.

The MMA did not change the debt limit established in [G.L. c. 44, § 10](#) for city, town and district borrowings. However, it amended or eliminated limits on debt authorized for many particular purposes, particularly for outside debt limit borrowing purposes under [G.L. c. 44, § 8](#).

Cities, towns and districts may now issue temporary loans (bond anticipation notes or BANs) in advance of permanent loans and renew them for up to 10 years. Previously, the notes could be renewed for five years. However, principal payments must still be made after the second year. If the principal is not fully paid in 10 years, the treasurer must issue the permanent debt. [G.L. c. 44, § 17](#).

Premiums, net of issuance costs, received as a result of the issuance of bonds, are no longer treated as general fund revenue. The net premium must either be: (1) used to pay project costs and to reduce the amount of the borrowing authorization by the same amount; or (2) reserved for appropriation for capital projects for which a loan has been or may be authorized. [G.L. c. 44, § 20](#). The COVID-19 Recovery Act removed the requirement that each premium reserved for capital purposes be appropriated for a purpose for which the city, town or district could borrow for an equal or greater term than the original borrowing. Additionally, borrowing authorizations no longer need to expressly provide for the application of premium to project costs in the vote of the legislative body.

The COVID-19 Recovery Act also now allows premiums, net of issuance costs, received as a result of the issuance of bonds, in the amount of \$50,000 or less, to alternatively be applied to the payment of any debt service with the approval of the chief executive officer. Additionally, premiums, net of issuance costs, received on **notes** sold on or after December 13, 2021, must now be applied to the first payment of interest on the notes.

If the amount of bond proceeds remaining after a project is completed is \$50,000 or less, the surplus proceeds may be applied to the payment of debt service with the approval of the chief executive officer. [G.L. c. 44, § 20](#).

Cities, towns and districts may also borrow in advance of federal grants as well as state grants under [G.L. c. 44, § 6A](#). The grant must be for a purpose for which a city, town or district can borrow for five years or more.

The procedure for issuing refunding bonds under [G.L. c. 44, § 21A](#) has been streamlined in cities. City councils may now authorize the issuance of refunding bonds at one meeting and the authorization is effective upon passage and is not subject to any publication or referendum requirements, regardless of any contrary provisions in the city charter, an ordinance or a city council rule. Additionally, refunding bonds may now be issued when the value of the principal and interest payments due on the refunding bonds is greater than the value of the principal and interest payments due on the bonds to be refunded if the mayor, selectboard or prudential committee determines that the issuance of refunding bonds is reasonable and necessary to maintain the tax-exempt status of the outstanding bonds or notes.

These guidelines are in effect. They supersede all or part of any prior Informational Guideline Releases (IGR); Bulletins and written statements that provide inconsistent guidance about municipal or district borrowing terms or purposes, debt service payment schedules,

issuance procedures and state oversight of local borrowings, including the publication of schedules for establishing maximum terms based on the useful life of the asset being financed.

The following guidance remains in effect:

<u>Guidance</u>	<u>Remains In Effect</u>
Bureau of Accounts IGR 08-102, Guidelines for the Application of School Building Assistance Grants (June 2008)	All
Bureau of Accounts IGR 02-101, Proposition 2½ Debt Exclusions (March 2002)	All

GUIDELINES:

I. STATE APPROVALS AND OVERSIGHT

A. Director of Accounts

1. Monitor Debt Levels

The Director of Accounts (Director) monitors city, town and district compliance with state debt limits. [G.L. c. 44, § 28](#).

A city, town or district clerk must send a copy of the vote authorizing the debt by the municipal or district legislative body to the Director within 48 hours after the vote becomes effective. In a town or district, a copy of the Form DA-82 must be included when the authorization is less than \$500,000. City clerks are not required to submit Form DA-82.

In addition, a city, town or district treasurer must submit a Statement of Indebtedness at the end of each fiscal year to report all debt authorized, issued, retired and outstanding.

2. Asset Useful Life Guidelines

The Director of Accounts may prescribe, and from time to time revise, guidelines ([Director’s Guidelines](#)) that establish the maximum term that (a) cities, towns and improvement districts may borrow to finance certain capital projects under [G.L. c. 44, § 7](#), (inside debt limit) and [G.L. c. 44, § 8](#), (outside debt limit); (b) cities, towns and regional schools may borrow under [G.L. c. 70B, § 6\(d\)](#) (Massachusetts School Building Authority approved school construction project) and (c) regional schools may borrow under [G.L. c. 71, § 16\(d\) or \(n\)](#). The maximum term established by the Director is based on the useful life of the asset and cannot exceed 30 years.

The [Director’s Guidelines](#) include (a) all borrowing purposes authorized by those statutes; (b) their maximum statutory terms; and (c) their maximum terms, if any,

established by the [Director's Guidelines](#). The guidelines are published on the [DLS website](#) and take effect on the date shown.

The term established in the [Director's Guidelines](#) is the maximum borrowing term allowed by law for that purpose and may be used for debt issued on or after their effective date. Officials in municipalities and districts that want the flexibility to borrow for that term should consult with bond and municipal counsel to ensure that borrowing authorizations are voted in a manner that will so permit. Officials may also consult with their financial advisors to ensure that the term of a borrowing is consistent with the financial needs of the community.

B. Municipal Finance Oversight Board

The Municipal Finance Oversight Board (MFOB) approves certain city, town or regional school district borrowings. The MFOB is a four-member board comprised of the State Auditor, Attorney General, State Treasurer, and Director, or their designees. [G.L. c. 44A, § 1](#).

The MFOB approves the issuance of city, town or regional school district general obligation bonds designated as “qualified bonds.” [G.L. c. 44A](#). The state treasurer pays the debt service on qualified bonds directly from the municipality's or regional school district's local aid. Bonds issued through the program use the Commonwealth's bond rating, which generally results in lower interest rates on debt issuances than might otherwise be possible if paid by local appropriations. Information on applying for approval of qualified bonds is found on the [State Auditor's website](#).

The MFOB also authorizes borrowings for emergency and other particular purposes as listed in the [Director's Guidelines](#); borrowings public works projects receiving federal grants and city or town borrowings that exceed the municipality's debt limit. See Section II-A-1 below.

C. Other State Agencies

Borrowings for particular purposes may require approval of a state agency, as listed in [Director's Guidelines](#).

II. BORROWING PURPOSES AND TERMS

A. City, Town and Improvement District Loans

Cities, towns and improvement districts may borrow for the purposes and periods specified in [G.L. c. 44, § 7](#) and [G.L. c. 44, § 8](#).

An improvement district is a fire, water, sewer, water pollution abatement, refuse disposal, light or improvement district established under general law or special act. [G.L. c. 44, § 1](#). An improvement district may borrow for the purposes specified in [G.L. c. 44, § 7](#) and [G.L. c. 44, § 8](#) that are consistent with the purposes for which it is established and may spend monies. [G.L. c. 44, § 9](#).

The total amount of debt a city or town may have authorized at any time is five percent of its equalized valuation. [G.L. c. 44, § 10](#).

1. Debt Limits

Cities, towns and districts are limited in the total amount of debt they may have authorized at any time. [G.L. c. 44, § 10](#).

The total debt authorized by a city, town or district is limited to five percent of its equalized valuation. A city, town or district can authorize debt up to an additional five percent of its equalized valuation with approval of the MFOB. That approval allows the city, town or district to authorize a particular borrowing that would otherwise result in the municipality or district exceeding its debt limit. It does not authorize a general increase in the debt limit of the municipality or district.

The equalized valuation of the district is based on the same percentage of the equalized valuation of the city or town where it is located as the percentage the taxable valuation of the district was to the taxable valuation of the city or town in the previous fiscal year. If the district includes property within two or more towns, it is the total of that amount for each city or town.

2. Inside Debt Limit Borrowings

a. Borrowing Purposes

Cities, towns and districts may borrow within their debt limits under [G.L. c. 44, § 10](#) for the purposes authorized by [G.L. c. 44, § 7](#), including the following:

- (1) A broad range of capital purposes and projects, including the acquisition of interests in land, capital assets and equipment and the financing of the following projects: the landscaping, alteration, remediation, rehabilitation or improvement of public land; the dredging, improvement, restoration, preservation or remediation of public waterways, lakes or ponds; and the construction, reconstruction, rehabilitation, improvement, alteration, remodeling, enlargement, demolition, removal or extraordinary repair of public buildings, facilities, assets, works or infrastructure. The interest in land, asset or equipment acquired or the municipal project undertaken must have a useful life of at least five years. [G.L. c. 44, § 7\(1\)](#).

These borrowings may include (i) the costs of original equipment and furnishings; (ii) eminent domain taking damages under [G.L. c. 79](#) resulting from an acquisition or project; and (iii) the cost of engineering, architectural or other services for feasibility studies, plans or specifications required as part of an acquisition or project.

Under this clause, cities, towns and districts may borrow to finance the following stand-alone projects: demolition of municipal buildings; removal of leaking underground oil storage tanks and remediation of municipal land damaged by an oil leak so long as the project has a useful life of at least five years.

- (2) Payment of final judgments for a period of one year, or a longer period of time approved by the MFOB. [G.L. c. 44, § 7\(3\)](#). In determining whether to approve a longer borrowing period, the MFOB must consider the ability of the city or town to provide other essential public services and pay, when due, the principal and interest on its debts. MFOB may also consider other factors that it deems necessary or advisable. See Section I-B.

b. Borrowing Term

The maximum term for borrowings authorized under [G.L. c. 44, § 7](#) cannot exceed 30 years and is either:

- (1) The number of years determined by the Director to be the “Authorized Maximum Term Based on Useful Life” for the purpose under the [Director's Guidelines](#); or
- (2) If no term is established in the [Director's Guidelines](#), the number of years stated for the borrowing purpose.

See Section I-A-2 above.

3. Outside Debt Limit Borrowings

a. Borrowing Purposes

Cities, towns and districts may borrow outside their debt limits under [G.L. c. 44, § 10](#) for the purposes authorized by [G.L. c. 44, § 8](#).

b. Borrowing Term

The maximum term for borrowings under [G.L. c. 44, § 8](#) is either:

- (1) The number of years stated for the borrowing purpose; or
- (2) If longer, the number of years determined by the Director to be the “Authorized Maximum Term Based on Useful Life” for the purpose under the [Director's Guidelines](#). See Section I-A-2 above.

4. Borrowing Authorizations and Issuances

a. Authorization

Debt under [G.L. c. 44, §§ 7 and 8](#) must be authorized by cities, towns and districts by a two-thirds vote of the legislative body. The legislative body is town meeting, town council, city council, board of aldermen or other body with the power to approve budgets, authorize debt and adopt by-laws or ordinances.

In a town or district, debt must be authorized by a two-thirds vote of the town or district meeting members present and voting. In a town, if not a unanimous vote, the vote must be a counted two-thirds vote. However, a two-thirds vote may be declared by the moderator if authorized by by-law or vote. [G. L. c. 39, § 15.](#)

Municipal, district or bond counsel should be consulted when preparing town and district warrant articles to appropriate monies for a purpose or project for which debt could be issued to determine whether they include borrowing as a possible financing source for the appropriation.

In a city, debt recommended by the mayor as the financing source for a particular purpose or project must be authorized by a two-thirds vote of all members of the city council, with mayor's approval if required by charter.

The legislative body may vote to authorize debt for a shorter period of time than the maximum term allowed by law for the purpose. In that case, the term authorized by the legislative body is the maximum term allowed for the borrowing.

b. Issuance

The municipal or district treasurer prepares and issues the bonds or notes for the authorized debt. The treasurer is charged with knowledge of applicable state and federal tax and disclosure laws and regulations and may consult with municipal, district or bond counsel and financial advisors to ensure all legal requirements are met.

Bonds or notes issued for authorized debt must be signed by the treasurer and countersigned by the mayor in a city unless the charter otherwise provides, in a town by a majority of its selectboard and in a district, by a majority of the prudential committee or commissioners, and by any other officers, boards or commissioners of a city, town or district whose counter-signatures are required by law. [G.L. c. 44, § 16.](#)

5. Borrowing Authorization Rescission or Reduction

Cities, towns and districts may rescind or reduce borrowing authorizations only to the extent that no liabilities have been incurred or no third-party rights have vested by issuing debt or executing contracts for the project. Rescission or reduction votes are approved by majority vote of the legislative body unless otherwise provided by charter, bylaw, ordinance or otherwise. *Adams v. Townsend Schoolhouse Committee*, 245 Mass. 543 (1923). Municipal, district or

bond counsel should be consulted about warrant articles and legislative body votes to rescind or reduce a borrowing authorization.

B. Regional School District Loans

Regional school districts may authorize loans for the purposes specified in [G.L. c. 71, § 16\(d\)](#). The maximum term is 30 years or the number of years stated in the [Director's Guidelines](#) if shorter.

Regional school district debt is authorized by a majority vote of the regional school district committee. [G.L. c. 71, § 16\(d\)](#). Within seven days of the vote, the district must notify the selectboard or mayor of the member cities and towns and may not issue the debt unless no member city or town disapproves the borrowing by majority vote of its legislative body within 60 days of the vote.

However, a regional school district agreement may provide that debt is authorized by a majority vote of the regional school committee together with approval of a majority of the registered voters in the district at an election called for the purpose by the regional school committee. [G.L. c. 71, § 14D](#); [G.L. c. 71, § 16\(n\)](#). In addition, for any particular borrowing, a two-thirds vote of the regional school district committee may require that the borrowing be approved by district voters at an election, instead of the legislative bodies of the member cities and towns. [G.L. c. 71, § 14D](#).

As a general rule, the procedures and requirements found in [G.L. c. 44, §§ 16-28](#) apply to regional school district borrowings, except the countersigning of bonds and notes under [G.L. c. 44, § 16](#) and countersigning, approval of notes and certificates of the clerk under [G.L. c. 44, § 24](#). [G.L. c. 44, § 28A](#).

For information on the treatment of bond premiums and surplus bond proceeds when regional school district debt for a project has been excluded by a city or town under [G. L. c. 59, § 21C\(k\)](#), see IGR 22-01, *Premiums and Surplus Proceeds for Proposition 2½ Excluded Debt*.

C. School Construction Loans

The maximum term for a loan issued by a city, town or regional school district under [G.L. c. 70B, § 6\(d\)](#) for a school construction project that has been approved by the Massachusetts School Building Authority (MSBA) is 25 years, or the term stated in the [Director's Guidelines](#), if longer. Debt incurred by a city or town for MSBA approved school construction projects is outside its debt limit. See [IGR 08-102, Guidelines for the Application of School Building Assistance Grants](#), for more information.

D. Other Loans

The maximum term for a loan issued by a city, town, improvement district or regional school district for a borrowing purpose authorized by general law or a special act other than those specified in Section II-A, B and C above is the number of years specified in that statute. The [Director's Guidelines](#) do not apply to those other loans.

III. PERMANENT DEBT

Repayment of municipal and district permanent serial loans must be arranged in order that the combined principal and interest paid annually is as equal as possible (level debt service payments) or the principal is paid down more rapidly. [G.L. c. 44, § 19](#).

The first annual payment must be made no later than the end of the next complete fiscal year beginning after the issuance of the bonds or notes and the final payment must be made no later than June 30 of the fiscal year in which such bonds or notes would otherwise have been payable. Notes payable on demand are prohibited.

IV. TEMPORARY DEBT

A. Bond Anticipation Notes

1. Issuance and Renewal

Once a city, town or district has voted to authorize debt for a project, it may issue temporary debt in anticipation of issuing the permanent, long-term debt. [G.L. c. 44, § 17](#). Temporary debt may be issued by the officers authorized to issue the permanent debt. See Section II-A-4-b above for the officers who are authorized to issue permanent debt.

Bond anticipation notes (BANS) may be issued or renewed for up to two years from the date of issue of the original temporary loan without payment of principal unless another period is authorized by another general law or a special act.

BANs may be renewed for up to 10 years from the date of issue of the original temporary loan, but principal payments are required in the third and subsequent years until the permanent debt is issued or the loan is paid in full. Each principal payment must be at least equal to the minimum payment that would have been required if the original temporary loan (BAN) had been converted to a serial loan, i.e., a payment of the principal payment under a level principal schedule for the number of years remaining.

The maximum borrowing term for the project is not extended by issuing temporary debt, i.e., the final loan payment must still be made within the maximum term allowed by law, or the legislative body vote if less.

EXAMPLE 1

The legislative body has voted to authorize a borrowing of \$100,000 under [G.L. c. 44, § 7\(1\)](#) for 20 years to finance a municipal waterway dredging project. The maximum term for the borrowing cannot exceed 30 years and will either be the maximum useful life established for the purpose in the [Director's Guidelines](#) or the number of years stated for the borrowing purpose in [G.L. c. 44, § 7\(1\)](#) if no other term is established in the guidelines. See Section II-A-2-b above. In this example, the project has a maximum useful life under the [Director's Guidelines](#) of 30 years.

BANs may be issued in advance of the permanent borrowing for up to 10 years as follows:

Amount of BAN Issued	Issue Date	Maturity Date	After 2 years Principal Payable = Amount Equivalent to Principal Payment on 18-year Serial Loan (\$100,000/18 = \$5555.56)	Principal Balance Due
\$100,000	1/1/2016	1/1/2017	0	
\$100,000	1/1/2017	1/1/2018	0	
\$100,000	1/1/2018	1/1/2019	\$5556	\$94,444
\$94,444	1/1/2019	1/1/2020	\$5556	\$88,888
\$88,889	1/1/2020	1/1/2021	\$5556	\$83,332
\$83,333	1/1/2021	1/1/2022	\$5556	\$77,776
\$77,778	1/1/2022	1/1/2023	\$5556	\$72,220
\$72,222	1/1/2023	1/1/2024	\$5556	\$66,664
\$66,667	1/1/2025	1/1/2026	\$5556	\$61,108
\$61,111	1/1/2026	1/1/2027	\$5556	\$55,552

After the 10 years, there will be a \$55,552 principal balance. Permanent debt must be issued to finance the remaining unpaid \$55,552. Because the original borrowing term was 20 years, the permanent debt must now be issued for a period not to exceed 10 years. Officials may consult with their financial advisors to ensure that the issuance of BANs is consistent with the financial needs of the community.

EXAMPLE 2

The legislative body has voted to authorize a borrowing of \$100,000 under [G.L. c. 44, § 7\(1\)](#) for five years to finance the purchase of three pickup trucks. The maximum term for the borrowing cannot exceed 30 years and will either be the maximum useful life established for the purpose in the [Director's Guidelines](#) or the number of years stated for the borrowing purpose in [G.L. c. 44, § 7\(1\)](#) if no other term is established in the guidelines. See Section II-A-2-b above. In this example, each truck has a useful life of five years as determined by the CEO and a unit cost of at least \$5,000 each under the [Director's Guidelines](#) and the legislative body has voted to authorize the borrowing for a period not to exceed five years.

Although [G.L. c. 44, § 17](#) authorizes the issuance and renewal of BANs for up to 10 years, the period of the borrowing cannot exceed the maximum legal borrowing term for the purpose, or a lesser term established by the legislative body vote. Here, the legislative body vote authorized a five-year borrowing term. As a result, the municipality may issue BANs in advance of the permanent borrowing under [G.L. c. 44, § 17](#) for up to five years as follows:

Amount of BAN Issued	Issue Date	Maturity Date	After 2 years Principal Payable = Amount Equivalent to Principal Payment on 3-year Serial Loan ($\$100,000/3 = \$33,334$)	Principal Balance Due
\$100,000	1/1/2016	1/1/2017	0	
\$100,000	1/1/2017	1/1/2018	0	
\$100,000	1/1/2018	1/1/2019	\$33,334	\$66,666
\$66,000	1/1/2019	1/1/2020	\$33,334	\$33,332
\$33,000	1/1/2020	1/1/2021	\$33,332	0

After the five years, the principal balance will be paid in full. Permanent debt will not issue. Officials may consult with their financial advisors to ensure that the issuance of BANs are consistent with the financial needs of the community.

2. Temporary Debt Proceeds

When received, the BAN proceeds are used to pay project costs. If there are proceeds remaining when the permanent serial loan is issued, they may be applied to payment of the BAN.

For example, if a major portion of a construction project was bonded before completion of the entire project to take advantage of favorable interest rates, the bond proceeds would be applied to reduce the BAN, but a balance of the BAN would remain to cover the remaining expenditures in the project. However, if the serial loan is issued after the final project costs are known and those costs are less than the amount for which the BAN was issued, the serial loan may only be issued for the amount of the project costs.

B. Revenue Anticipation Notes

Cities, towns and districts may borrow during a fiscal year in anticipation of the revenue for the fiscal year. [G.L. c. 44, § 4.](#)

For cities and towns, the amount borrowed cannot exceed the total of (1) the tax levy of the preceding fiscal year, (2) the net amount collected for motor vehicle and trailer excise during the preceding fiscal year and (3) the payments during the preceding fiscal year by the commonwealth in lieu of taxes for property taken by it for institutions. For districts, the amount borrowed cannot exceed the receipts from taxes, rates and services for the preceding fiscal year.

Revenue anticipation notes (RANs) may be authorized and issued by the treasurer of the city, town or district, with the approval of the officer, committee, board or other body required by law to countersign such notes. See Section II-A-4-b above. No legislative body vote is required. The notes must be paid not later than one year from their dates. Borrowings for less than one year may be renewed under [G.L. c. 44, § 17](#) as long as the total term does not exceed one year.

The total amount of RANs issued cannot exceed the amount reasonably required to ensure sufficient cash-flow to the city, town or district. In a town or district, the amount must be approved by the Director or by counsel. RANs may not be issued as long as revenue cash is invested, except for revenue cash that can only be used for purposes other than current operating expenses. [G.L. c. 44, § 55.](#)

C. Borrowing in Anticipation of State and Federal Grants

A city, town or district may borrow in anticipation of grants to be received from the federal government, the commonwealth, or any federal or state agency or department. The grant must be: (1) for a purpose for which debt may be incurred for a period of five years or more and (2) agreed to by the grantor of the funds. The purpose of the borrowing in anticipation of the grant is to provide cash to meet the expenses being financed by the grant. [G.L. c. 44, § 6A.](#)

If a grant is not for a purpose for which a city, town or district may borrow for five or more years, for example a grant to fund training of personnel, the city, town or district cannot borrow in anticipation of the grant under [G.L. c. 44, § 6A.](#) However, if the grant will fund multiple purposes, including one for which city, town or district may borrow for five or more years, then the city, town or district may borrow an amount up to the amount of grant proceeds allocable to that purpose. For example, if a \$150,000 grant provides \$50,000 in funding for the training of personnel and \$100,000 in funding for the acquisition of capital equipment with a useful life of at least five years (a borrowing purpose for five years or more under [G.L. c. 44, § 7\(1\)](#)), then a borrowing could be made in the amount of the \$100,000 in grant funding allocable to the acquisition of the equipment.

Notes may be issued by the treasurer in anticipation of such state or federal grants: (1) in a city with the approval of the official whose approval is required by the city charter in the borrowing of money; (2) in a town with the approval of the selectboard; and (3) in a district with the approval of the prudential committee or commissioners.

The term of grant anticipation notes cannot exceed two years. However, the notes may be refunded from time to time if the accounting officer certifies in writing that the city, town or district remains entitled to receive from the grant an amount at least equal to the amount of the refunding loan. When received, the grant proceeds are applied to the discharge of the loan without further appropriation.

When the loan matures, if the city, town or district is no longer entitled to receive an amount sufficient to pay the loan, the loan must be paid from other funds to the extent it can no longer be refunded. In that case, the accounting officer must report the payment to the assessors who must raise it in the next annual tax rate, unless the city, town or district has otherwise funded it. [G.L. c. 59, § 23.](#)

D. Borrowing in Anticipation of Grants for Highway Construction

A city or town may borrow in anticipation of funds to be received from a grant of the commonwealth or county for payment of land damages, expenses of altering a grade crossing, highway construction or the installation of traffic control and similar devices.

[G.L. c. 44, § 6](#). However, the borrowing requires approval by majority vote of the municipality's legislative body. The grant must have been agreed upon by the grantor or the sums allotted for the payments or reimbursements under the grant have been certified as available by the commissioner of highways or county commissioners, as appropriate. Upon approval, notes may be issued for a period not exceeding two years. The grant proceeds are applied to the discharge of the loan, without further appropriation. Notes issued under [G.L. c. 44, § 6](#) may not be renewed or paid by the issue of new notes, except as provided in [G.L. c. 44, § 17](#). See Section III-A above.

V. PREMIUMS AND ACCRUED INTEREST

A. Premiums Received on Bonds or Notes Sold before November 7, 2016

Premiums (net of issuance costs paid from the premium) and accrued interest received on bonds or notes authorized and sold before November 7, 2016 are general fund revenue that may not be spent without appropriation. [G.L. c. 44, § 53](#).

If voters approved a Proposition 2½ debt exclusion for the particular borrowing under [G.L. c. 59, § 21C\(k\)](#), the amount excluded must be adjusted to reflect the true interest cost of the borrowing. [G.L. c. 44, § 20](#). Therefore, general fund premiums received for debt excluded borrowings must either be: (1) reserved for appropriation to offset interest paid in future years for the loan; or (2) appropriated to pay project costs and reduce the amount of the borrowing. For more information on treatment of premiums for excluded debt see IGR 22-01, *Premiums and Surplus Proceeds for Proposition 2½ Excluded Debt*.

B. Premiums Received on Bonds or Notes Sold on or after November 7, 2016 but Before December 13, 2021

1. Generally

Premiums (net of issuance costs) and accrued interest received on bonds or notes sold on or after November 7, 2016 must be used for project costs and to reduce the amount borrowed or reserved for appropriation for capital purposes. [G.L. c. 44, § 20](#).

a. Used for Project Costs and to Reduce the Amount of Borrowing

The premium can be used to pay project costs and reduce the amount of the borrowing authorization by the same amount when the borrowing vote authorizes it.

(1) Vote to Authorize Reduction in Borrowing

The authorization to reduce the amount of a borrowing by the amount of any net premium and accrued interest must be contained in a vote of the legislative body. It may be in the original bond authorization vote or an amendment of that authorization vote. Bond and municipal counsel should be consulted for language to use in bond authorization votes and to amend existing borrowing

authorizations in order to use net premiums and accrued interest to pay project costs and reduce the amount of the borrowing authorization by the same amount.

(2) Reservation of Right to Reduce Borrowing

Issuers of bonds or notes may reasonably anticipate when a premium will be offered for their bonds or notes at the time of sale. In these instances, the city, town or district should reserve the right at the time of sale to reduce the size of its bond or note issued by the amount of the premium received from the purchaser of the bonds or notes. The city, town or district would then use the premium, net of issuance costs, in addition to the borrowing proceeds to pay project costs.

b. Reserved for Appropriation for Other Capital Purposes

Net premiums not used to pay project costs and reduce the amount borrowed must be reserved for appropriation for capital projects for which a loan has been, or may be, authorized for an equal or longer period of time than the loan for which the premiums were received.

2. Restricted Funds

The net premiums and accrued interest received on bonds or notes sold regarding restricted funds, such as debt financed by an enterprise fund under [G.L. c. 44, § 53F½](#) or the community preservation fund under [G.L. c. 44B, § 11](#), remain subject to the relevant restrictions of the fund. Therefore, if the funds are not used to reduce the cost of the borrowing as described in Section V-B-1-a above, the funds must be reserved for appropriation for capital projects for which the restricted funds may be spent and for which a loan has been, or may be, authorized for an equal or longer period of time than the loan for which the premiums were received. If the debt is being financed with community preservation funds, a recommendation of the community preservation committee is required for any appropriation of the reserved premiums. [G.L. c. 44B, §§ 5\(b\)\(2\) and \(d\)](#) and [7](#).

3. Proposition 2½ Excluded Debt

Additions to the levy limit under a Proposition 2½ debt exclusion approved by voters for a particular borrowing under [G.L. c. 59, § 21C\(k\)](#) are limited to the true interest cost incurred to finance the excluded project. [G.L. c. 44, § 20](#). As a result, the net premiums and accrued interest received on bonds or notes that are the subject of an approved Proposition 2½ debt exclusion should be used to pay project costs and reduce the borrowing authorization as described in Section V-B-1-a above. The authorization to pay project costs and reduce the amount of the borrowing should be included in the original legislative body vote authorizing the loan but may also be included by an amendment of the loan authorization voted before the sale.

If the treasurer does not reduce the amount of the borrowing at the time of the sale, then the net premium and accrued interest must be reserved for appropriation for capital projects as described above in Section IV-B-1-b. In that case, the debt exclusion for the project may be subject to reduction. For more information on when a reduction to the excluded amount is required, see IGR 22-01, *Premiums and Surplus Proceeds for Proposition 2½ Excluded Debt*.

C. Premiums Received on Bonds or Notes Sold on or after December 13, 2021

1. Generally

Premiums (net of issuance costs) and accrued interest received on **bonds sold on or after** December 13, 2021 must be used for project costs and to reduce the amount borrowed or reserved for appropriation for capital purposes. [G.L. c. 44, § 20](#).

Premiums (net of issuance costs) and accrued interest received on **notes sold on or after** December 13, 2021 must be applied to the first payment of interest on the notes.

a. Used for Project Costs and to Reduce the Amount of Borrowing

The premium can be used to pay project costs and reduce the amount of the borrowing authorization by the same amount. Borrowing authorizations no longer need to expressly provide for the application of premium to project costs in the vote of the legislative body.

Issuers of bonds or notes may reasonably anticipate when a premium will be offered for their bonds or notes at the time of sale. In these instances, the city, town or district should reserve the right at the time of sale to reduce the size of its bond or note issued by the amount of the premium received from the purchaser of the bonds or notes. The city, town or district would then use the premium, net of issuance costs, in addition to the borrowing proceeds to pay project costs.

b. Reserved for Appropriation for Other Capital Purposes

Net premiums not used to pay project costs and reduce the amount borrowed must be reserved for appropriation for capital projects for which the city, town or district could authorize a borrowing. The previous requirement that each premium reserved for capital purposes be appropriated for a purpose for which the city, town or district could borrow for an equal or greater term than the original borrowing has been removed.

c. Premiums \$50,000 or Less

Premiums (net of issuance costs) and accrued interest received as a result of the issuance of bonds, in the amount of \$50,000 or less, can alternatively be applied to the payment of any debt service with the approval of the chief executive officer.

2. Restricted Funds

The net premiums and accrued interest received on bonds sold regarding restricted funds, such as debt financed by an enterprise fund under [G.L. c. 44, § 53F½](#) or the community preservation fund under [G.L. c. 44B, § 11](#), remain subject to the relevant restrictions of the fund. Therefore, if the funds are not used to reduce the cost of the borrowing as described above, the funds must be reserved for appropriation for capital projects for which the restricted funds may be spent and for which a loan has been, or may be, authorized. If the debt is being financed with community preservation funds, a recommendation of the community preservation committee is required for any appropriation of the reserved premiums. [G.L. c. 44B, §§ 5\(b\)\(2\) and \(d\)](#) and [7](#).

3. Proposition 2½ Excluded Debt

Net premiums and accrued interest received on bonds that are the subject of an approved Proposition 2½ debt exclusion must be used to pay project costs and reduce the borrowing authorization, as described above. The authorization to pay project costs and reduce the amount of the borrowing no longer must be included in the original legislative body vote authorizing the loan. The net premium and accrued interest cannot be reserved for appropriation for capital projects.

Regional school districts that receive premiums on borrowings for which any member has approved a debt exclusion must also use this alternative. It will reduce the amount borrowed and adjust member assessments to reflect the true interest cost associated with the project.

For information on when a reduction to the excluded amount is required, see IGR 22-01, *Premiums and Surplus Proceeds for Proposition 2½ Excluded Debt*.

VI. REFUNDING BONDS

The refunding of bonds is analogous to refinancing a home mortgage to take advantage of lower rates. New debt is issued in the form of refunding bonds, and the proceeds are used to retire the outstanding debt, i.e., the refunded bonds. Bonds must be callable in order for a city, town or district to issue refunding bonds.

The city council of a city, selectboard of a town and prudential committee or commissioners of a district may authorize refunding bonds or notes for the purpose of paying or refunding all or part of a bond or note issuance.

In a city, a vote of the city council authorizing and providing for the issuance of refunding bonds or notes (1) may be introduced and given final passage at one meeting of the city council and (2) is not subject to any publication requirement or referendum provision and is effective upon passage. This procedure applies regardless of any general or special law, city charter, city ordinance or city council rule or order to the contrary.

The term of the refund borrowing must be within the original term authorized for the bonds or notes to be refunded. In addition, refunding bonds may only be issued if the value of the principal and interest payments due on the refunding bonds is less than or equal to the present value of the principal and interest payments due on the bonds to be refunded, unless the mayor or city manager in a city, selectboard of a town or prudential committee of a district determines the issuance of refunding bonds is reasonable and necessary to maintain the tax-exempt status of the outstanding bonds or notes.

The first annual payment of principal on refunding bonds or notes cannot be later than the last day of the fiscal year in which any of the bonds or notes being refunded would otherwise have been payable. Annual payments on refunding bonds must be arranged in order that the combined principal and interest paid annually is as equal as possible (level debt service payments) or the principal is paid down more rapidly. [G.L. c. 44, § 19](#). See Section III above. However, any annual payment made earlier than the date on which the first annual payment is required may be in any amount.

Refunding bonds and notes are subject to the same debt limits, if any, as the bonds or notes refunded by them. Once the refunding bonds or notes are issued, the bonds or notes refunded are no longer counted against those debt limits.

VII. ADVANCES MADE IN ANTICIPATION OF PROCEEDS (INTERFUND BORROWING)

Treasurers of cities, towns and districts that have authorized debt, or have an approved grant agreement with the federal government or the commonwealth, a county, a municipality or a state or municipal agency or instrumentality, may use an advance from available unrestricted funds to pay expenses of the borrowing or grant purpose before debt is issued or the grant is received. [G.L. c. 44, §§ 20A](#) and [53A](#). Advances are subject to guidelines issued by the Director. [G.L. c. 44, §§ 20A](#) and [38](#).

A. Approvals Required for Spending in Anticipation of Grant Proceeds

Spending in anticipation of the receipt of grant proceeds for educational purposes must be authorized by the school committee. For any other grant, spending in anticipation of the receipt of grant proceeds must be authorized in a city by the city council and mayor or city manager, in towns by the selectboard, and in districts by the prudential committee or commissioners. [G.L. c. 44, § 53A](#).

B. Advance Procedures

Treasurers may use the advance procedure with the approval of the same officer or officers required to countersign a debt instrument. [G.L. c. 44, § 16](#). See Section II-A-4-b above.

The treasurer must complete an "[Advance of Funds in Lieu of Borrowing](#)" form to document each advance. The form must be signed by the approving official or board and a copy submitted to the accounting officer and the Bureau of Accounts Public Finance Section within 48 hours of approval of the advance. When the advance is repaid, the accounting officer must complete the appropriate section on the form related to the repayment of the advance and submit a copy to the Bureau of Accounts by June 30. The form should be maintained as part of the financial records of the city, town or district.

C. Advance Sources

Advances may be made from the general fund. Advances may not be made from a restricted fund, including trust funds, municipal insurance fund established under [G.L. c. 40, §§ 13, 13A or 13C](#), community preservation fund under [G.L. c. 44B](#) and enterprise fund under [G.L. c. 44, § 53F½](#). An advance may be made from a stabilization fund established under [G. L. c. 40, § 5B](#). However, the balance of the stabilization fund available for appropriation is reduced by the amount of the advance. Before recommending any advance, the treasurer and accountant should ensure that no restrictions apply to any fund from which the advance is to be made.

D. Advance Limits

Advances in anticipation of borrowing cannot exceed the amount of the debt authorization. Advances in anticipation of the receipt of grant funds cannot exceed the amount of the approved grant.

The total amount of all advances outstanding at any time during the fiscal year is limited to the unappropriated balance of the certified free cash or stabilization fund of the city, town or district, or one percent of the annual operating budget, whichever is greater. The Director may approve an exception to these limits upon a written request by the treasurer.

E. Advance Repayment

By June 1 of each year, the treasurer and accountant must review all outstanding advances.

1. Advances in Anticipation of Borrowing

If the treasurer does not expect to sell the bonds or notes and receive the proceeds for the borrowing by the end of the fiscal year, the treasurer should issue BANs under [G.L. c. 44, § 17](#) and repay the advance to the general fund or the source from which the advance was made by June 30. No advance may be carried as a receivable of the general fund at year end. The community's free cash will be reduced by the amount of any advances outstanding on June 30.

2. Advances in Anticipation of Grant Proceeds

If grant funds are not expected to be received by the close of the fiscal year after the fiscal year in which the grantor approved the agreement, then the treasurer

should issue grant anticipation notes under [G.L. c. 44, § 6A](#) if the grant is one for which notes may be issued and repay the advance to the general fund, or the source from which the advance was made, by June 30. No advance may be carried as a receivable of the general fund at the end of the fiscal year after the fiscal year in which the grantor approved the agreement.

Any advances outstanding at the close of the fiscal year after the fiscal year in which the grantor approved the agreement must be reported by the accounting officer, or treasurer if there is no accounting officer, to the assessors to be raised in the next tax rate, unless otherwise funded by the city, town or district.

VIII. SURPLUS BOND PROCEEDS

A. Completed Project

The proceeds remaining after a borrowing purpose, project or acquisition is completed are available funds for restricted purposes. [G. L. c. 44, § 20](#).

1. Surplus Proceeds of Any Amount

Surplus proceeds of any amount may be appropriated for any purpose for which the city, town or district may borrow for an equal or greater term than the term for which that loan was issued.

2. Surplus Proceeds of \$50,000 or Less

If the surplus on a loan is \$50,000, it may also be applied to the payment of any debt service with the approval of the chief executive officer. In a town, the chief executive officer is the selectboard, in a city, the mayor and, in a district, the prudential committee, if any, otherwise, the commissioners.

3. Determination of Surplus

The amount of surplus proceeds is the difference between the amount borrowed and the amount actually spent to complete each purpose for which the city, town or district has authorized debt. The amount of the surplus is determined at the time the purpose, project or acquisition is completed regardless of when the loan was authorized, the bonds or notes were sold or purpose completed.

Selling bonds or notes for multiple authorized purposes at the same time does not alter the purpose, term or amount of each loan.

For example, a treasurer sells multi-purpose bonds in the amount of \$22,300,000 for four projects for which the city, town or district has authorized debt of: \$100,000 (project 1), \$2,000,000 (project 2), \$20,000,000 (project 3) and \$200,000 (project 4). After project completion and payment of all expenses, \$750 of the proceeds remain for project 1, \$48,500 for project 2, \$48,000 for project 3 and \$50,001 for project 4. Therefore, at the conclusion of each of the four

projects, the available surpluses for projects 1, 2 and 3 may be applied to the payment of debt service on any loan with the approval of the chief executive officer. However, no part of the available surplus for project 4 may be applied to the payment of debt service. All of that \$50,001 can only be appropriated for any purpose for which a loan may be authorized for an equal or greater term than the term of the loan for project 4.

B. Additional Restrictions on Surplus Bond Proceeds

1. Restricted Funds

Surplus proceeds remaining after the completion of a project financed with restricted funds, such as an enterprise fund under [G.L. c. 44, § 53F½](#) or the community preservation fund under [G.L. c. 44B, § 11](#), remain subject to the relevant restrictions of the fund.

For example, if there are available surplus proceeds in any amount after the completion of an open space acquisition financed with community preservation funds, the surplus may be appropriated, upon the recommendation of the community preservation committee, for another community preservation purpose for which the city or town may borrow for an equal or greater term than the term for which that loan was issued. If the available surplus is \$50,000 or less, the surplus may be applied to the payment of debt service for another community preservation borrowing, upon the recommendation of the community preservation committee and the approval of the chief executive officer. [G.L. c. 44B, §§ 5\(b\)\(2\) and \(d\)](#) and [7](#).

2. Excluded Debt

Additions to the levy limit under a Proposition 2½ debt exclusion approved by voters for a particular borrowing under [G.L. c. 59, § 21C\(k\)](#) are limited to the true interest cost incurred to finance the excluded project. [G.L. c. 44, § 20](#). As a result, surplus bond proceeds after the completion of a project funded with bonds or notes that are the subject of an approved debt exclusion may be used as follows:

a. Surplus Proceeds of \$50,000 or less

Surplus proceeds of \$50,000 or less may, with the approval of the chief executive officer, be applied to the payment of any debt service.

b. Surplus Proceeds of Any Amount

Surplus proceeds of any amount may be appropriated for any purpose for which the city, town or district may borrow for an equal or greater term than the term for which that loan was issued. However, the amount of the debt exclusion for the project may be reduced when the debt excluded proceeds are appropriated for a project that is not also debt excluded. For more information on determining the reduction in the excluded amount, see [IGR 17-22](#).

C. Abandoned or Discontinued Project

The proceeds remaining after a borrowing purpose, project or acquisition is abandoned or discontinued may be appropriated for any purpose for which a loan may be authorized for an equal or longer period of time than that for which the original loan, including temporary debt, was issued. [G. L. c. 44, § 20](#). A city, town or district may abandon or discontinue a borrowing purpose, project or acquisition if no liability remains outstanding and unpaid by a two-thirds vote of all of the members of the city council or a two-thirds vote of the voters present and voting at an annual town or district meeting.

Unlike where the project has been completed and surplus proceeds remain, where the project is abandoned or discontinued, there is no option for the chief executive officer to approve the application of the remaining proceeds of \$50,000 or less to the payment of debt service.

If the abandoned or discontinued project was funded with restricted funds, such as an enterprise fund under [G.L. c. 44, § 53F½](#) or the community preservation fund under [G.L. c. 44B, § 11](#), the proceeds after abandonment or discontinuance remain subject to the relevant restrictions of the fund.

If the project was funded with bonds or notes that are subject to an approved Proposition 2 ½ debt exclusion under [G.L. c. 59, § 21C\(k\)](#), the proceeds remaining when the project is abandoned or discontinued may be appropriated for any purpose for which the city or town may borrow for an equal or greater term than the term for which that loan was issued. However, the amount of the debt exclusion for the project may be reduced when the debt excluded proceeds are appropriated for a project that is not also debt excluded. For more information about when a reduction to the excluded amount is required, see [IGR 17-22](#).

IX. ACCOUNTING STANDARDS

The accounting officer is to record all accounting entries related to borrowing that are necessary as shown in the Uniform Massachusetts Accounting System (UMAS) Manual.