



TO: Local Officials in Last Mile Communities
FROM: Sean R. Cronin, Senior Deputy Commissioner of Local Services
DATE: September 2017
SUBJECT: Last Mile Broadband Project Financial Guidance

This memo provides budgeting, accounting and auditing guidance to local officials in those towns that have elected to build, own and operate municipal broadband networks and will not be using a cable or other private sector company to provide a “Last Mile Broadband” solution. In implementing this solution, the towns will spend property tax, debt proceeds and other available financial resources to design, build and operate their municipal broadband networks. The Division of Local Services (DLS) is providing this guidance because of its role in overseeing municipal taxes and finances.

Organization and Purpose of DLS Guidance

The purpose of this memo is to provide general budgeting, accounting and auditing guidance related to the design, construction and operation of the broadband network. It addresses, first, issues relating to the design and construction of the broadband system. It then addresses issues relating to the operation of the system.

DLS is issuing this guidance for towns to follow even though they may have voted to form a municipal light plant (MLP) to operate their broadband systems. Under state law, a MLP may operate broadband and other telecommunications services in addition to electric and gas utility services. However, it does not prohibit a municipality from using a different department or other organizational structure to provide those services. As you know, most MLPs were formed to provide electric and gas service and have been operating those networks for many years. These MLPs operate on a self-supporting basis and would likely have the ability to add municipal broadband services to their operations if their city or town wanted to do so. In addition, state and local oversight of their operations is well-established in state law.

However, the Department of Public Utilities (DPU) has concluded that it does not have regulatory oversight of broadband-only MLPs and therefore, there is uncertainty about what extent, if any, [G.L. c. 164](#), which governs the manufacture and sale of gas and electricity generally, applies to a broadband-only MLP. Certain sections of [G.L. c. 164](#) apply to DPU oversight of MLPs formed to provide gas and electric service, including DPU approval of certain depreciation rates. In addition, the DPU’s chart of accounts was designed for MLPs providing those services. However, DPU has determined that it cannot approve those rates for broadband-only MLPs and that its regulation of those MLPs would be inconsistent with other statutes that do not relate to DPU’s jurisdiction. As a result, any advice the DPU could provide would be based on its expertise in accounting for electric and gas MLPs and would not be relevant to broadband-only MLPs.

Supporting a Commonwealth of Communities

In addition, and in contrast to the situation with well established gas and electric MLPs that are self-supporting, going concerns, towns with recently formed broadband-only MLPs will be using property taxes, debt and other financial resources to pay for the design and construction of the new network. As a result, they must comply with many budgeting and reporting requirements that apply to other town capital projects generally. For example, towns where voters have approved a tax increase under a Proposition 2½ debt exclusion to pay those expenses must report the amount excluded to the DLS each year in order to set their tax rates. [G.L. c. 59, §§ 21C](#) and [21D](#). In addition, towns must report debt authorized for the network to DLS and ensure that debt service on issued debt is reported and funded in their tax rates. [G.L. c. 44, § 28](#); [G.L. c. 59, § 23](#).

We expect accounting officers and other town officials will have additional questions specific to their town's operating model. The DLS Bureau of Accounts (BOA) field representative for your town is available to answer those questions and provide other accounting and financial assistance as explained in the memo.

Accounting for Design and Construction of Broadband System

A capital project account on the ledger of the town must be used to account for revenues and expenses related to the town's design and construction of the broadband project, regardless of how the system is operated upon completion.

Debt Authorization

The town may incur debt for telecommunication system infrastructure under [G.L. c. 44, § 8\(8\)](#). Borrowing requires a two-thirds vote of the town's legislative body. The debt is a general obligation of the town. Towns planning to finance the project with debt should consult with a financial advisor and bond counsel.

Towns that begin borrowing during fiscal year 2018 should monitor the capital project account as the year-end approaches. It is important the town borrow when cash flow dictates. If a deficit in the capital project account is expected, the town should plan to issue debt before 6/30/2018 in an amount sufficient to at least cover the projected year-end deficit.

Please consult with the BOA's debt section as well as your financial advisor regarding this borrowing. The town's free cash certification will be reduced by the amount of any deficit in the capital project fund not covered by a borrowing.

Accounting for Design and Construction

All revenues and expenses associated with the design and construction of the project are recorded in a capital project account. Revenues recorded in the account may include direct grants from the Massachusetts Broadband Institute (MBI) or the Executive Office of Housing and Economic Development (EOHED) and the proceeds of any town borrowing. MBI or EOHED will disburse the grant funds directly to the town, and these funds must be recorded as revenue in the capital project account. User fees, premiums on borrowing and investment income are not reported as revenue in the capital project fund. Also, debt service payments are not reported as expenditures in the capital project fund.

When the broadband build is complete, the capital project account must be closed.

If the accounting officer needs assistance in establishing a capital project account, the officer may contact your town's BOA field representative for guidance. Also, Chapter 11, "Capital Project Funds," of the [Uniform Massachusetts Accounting System \(UMAS\) Manual](#), which begins on page 183, provides detailed accounting journal entries for the project, related grant revenues and borrowing proceeds.

Bill Payment

The project manager will submit bills for payment to the community on an agreed upon schedule. All bills must be processed using the same process as other town bills. Unless otherwise provided by the town's charter, the bills would be approved by the board or officer in charge of the project and authorized to spend appropriated, borrowed or other funds available to pay project expenses. The approved bills would then be forwarded to the accounting officer, who will review them and if approved, will place them on a treasury warrant for review and approval of the selectboard.

Debt Service Payments

The town is responsible for payment of the broadband debt service. An appropriation for the amount due and payable each year must be included in the town's annual budget and voted at town meeting. If not, the treasurer must pay any debt service from available cash and report the amount to the assessors. [G.L. c. 59, § 23](#). If the town does not fund the payment before the tax rate is set, the assessors must raise the amount in the next tax rate.

The town may need to appropriate for debt service payments before it receives any user revenues that might offset this expense and should consider that impact in developing its annual budgets.

Audit

The capital project account will be audited as part of the regular audit of the town. If the town is not required by the lender or federal grant requirements to have an audit, it should plan to have one based on best financial practice.

Accounting for Operation of Broadband System

This section explains how the town is to budget and account for the operating expenses and revenues of the broadband system. The town must use one of the following two funds to account for those expenses and revenues:

- Enterprise Fund
- General Fund.

Enterprise Fund

An enterprise fund allows communities to account separately for all financial activities associated with a broad range of municipal facilities and services. It establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is generally charged to users, such as water, sewer or other services. Revenues and expenses of the service are segregated into a fund that is accounted for separately from all other governmental activities. Similar to free cash for the general fund, retained earnings are calculated for an enterprise fund.

In order to utilize an enterprise fund, the town's legislative body must accept [G.L. c. 44, § 53F½](#). If local officials have questions about how to budget and account for the town's broadband system and service in an enterprise fund, the accounting officer should contact your town's BOA field representative for guidance. Additionally, please refer to the BOA's [Enterprise Fund Manual, Informational Guideline Release 08-101](#). This guide provides a detailed explanation of enterprise funds and the budgeting and accounting procedures for implementing them.

Anticipated expenses of the broadband enterprise are appropriated in the annual town budget and included in the enterprise fund appropriations reported on page 4 of the tax rate recapitulation (tax recap). All revenues expected to be received in connection with the system, such as user fees, are accounted for as enterprise fund revenues available to support the enterprise fund expenses, including debt service appropriated as part of the town's budget, on Schedule A-2 of the tax rate recap.

General Fund

If a town does not adopt an enterprise fund as explained above, the town must use its general fund to account for all revenues and expenditures. All anticipated expenses of the broadband system are appropriated in the annual town budget and included in the appropriations reported on page 4 of the tax recap. All revenues expected to be received in connection with the system, such as user fees, are accounted for as general fund revenues available to support the budget. They would be reported as a local estimated receipt on page 3 of the tax rate recap.

Tax Rate Reporting – Debt Service

Debt Exclusion: If the town voted a debt exclusion for the broadband debt, the town must:

1. Include an appropriation for the debt service in the annual budget and report this appropriation from raise and appropriate on page 4 of the tax rate recap.
2. Report any revenues expected from user fees or other sources that were planned to offset the costs of debt service as a local estimated receipt on page 3 of the tax rate recap.
3. Include the amount of the current year's debt service in column G of Form DE-1, submitted as part of the tax rate recap. Revenues received from user fees intended to offset debt service costs may be shown in column H "Reimbursements/Adjustments." See "Funding Through Other Revenues" in Section III-B of [Annual Levy Limit Instructions](#). The amount in column I of the DE-1 will show the net increase in the levy limit of the town.

If you have any questions about this while developing your budget, please contact your town's BOA field representative for guidance.

No Debt Exclusion: If the town did not vote a debt exclusion, the town must:

1. Include an appropriation for the debt service in the annual budget and report this appropriation from raise and appropriate on page 4 of the tax rate recap.
2. Report any revenues expected from user fees or other sources that were planned to offset the costs of debt service as a local estimated receipt on page 3 of the tax rate recap.

If you have any questions about this while developing your budget, please contact your town's BOA field representative for guidance.

Frequently Asked Questions

Who owns the assets of the broadband project?

As is true for all municipalities in which a MLP, of any kind, operates, the town owns all assets acquired through appropriation or borrowing for a broadband project.

Who authorizes debt?

All debt is authorized by the town's legislative body. This is true even if the town has chosen to form a broadband-only MLP. A MLP is a municipal department and has no legal or financial ability to borrow on its own.

Who must budget for the broadband debt service?

The debt issued for a broadband project is a general obligation borrowing of a town. As such, the town must appropriate funds in its annual budget so that the treasurer can ensure that the debt service is paid as it becomes due. Revenue anticipated in connection with the broadband service is included as a revenue estimate in the town budget and on the tax rate recap, which may off-set all or part of the debt service appropriation.

If the town voted a debt exclusion for the broadband project, must it be reported on the form DE-1 of the town?

Yes. The exclusion may be adjusted by any user fees or other revenues reported in the "Reimbursements/Adjustments" column on the DE-1. See [Annual Levy Limit Instructions](#).

How does a town establish an enterprise fund for its broadband system and service?

If the town chooses to use enterprise fund accounting rather than accounting for revenues and expenses in the general fund, the legislative body of the town must vote to accept an enterprise fund for the broadband system and service under [G.L. c. 44, § 53F½](#). Please consult the [Enterprise Fund Manual](#) for sample language for the vote and implementation recommendations.

Does it matter if the town's debt authorization or debt exclusion refers to a MLP and the town budgets and accounts for its broadband system and service in its general fund or an enterprise fund?

No. The purpose of the debt being issued by the town is to design and construct a broadband system, not to account for the revenues and expenses in a particular municipal fund.

If the town formed a MLP to operate a municipal broadband service, does it have to disband the MLP in order to follow the budgeting, accounting and auditing guidance in this memo?

No. Towns are to follow these guidelines since traditional MLP accounting is unsuitable due to significant differences in the regulation and financing of MLPs operating electric and gas service and those formed solely to offer broadband service.