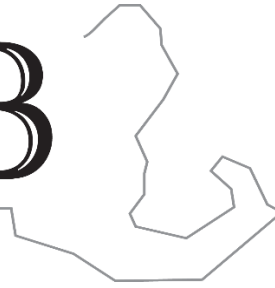




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Building Budget Resilience for Municipal Public Health Services

This memorandum is intended to provide guidance to municipal health departments, boards of health, and public health excellence collaboratives on strategies to create alternative, additional funding sources to maintain service levels in challenging fiscal times. The memorandum describes two such strategies – a Special Purpose Stabilization Fund and a Departmental Revolving Fund.

These options each involve unique rules and requirements that impact how revenues and spending are managed. The following sections explain account setup and management for department flexibility. As always, review any Town Meeting articles or City Council ordinances with your municipal attorney, as this may be required for inclusion in official warrants.

The primary difference between the two strategies is that a departmental revolving fund requires 100% of the fee/permit revenue to be deposited into the fund, while a special purpose stabilization fund requires at least 25% of the fee/permit revenue to be deposited into the fund, and in addition, other revenue sources may be deposited into the Special Purpose Stabilization Fund, including department surpluses. Without either a departmental revolving fund or a special purpose stabilization fund public health fee/ permit revenue is deposited into the municipality's General Fund as part of the total Local Receipts revenue source. Local receipts revenue helps fund all municipal departments.

Changing the revenue stream with either of these strategies will reduce the overall revenue estimate for a municipality. However, both strategies will also reduce overall expenditures. They will either be transferred to the departmental revolving fund, or alternatively, only a portion of the expenditures, will be

transferred 25% or more of fee/permit revenue leaving as much as 75% of the overall revenue in the General Fund for municipal department support.

Strategy 1: Creating a Special Purpose Stabilization Fund

A Special Purpose Stabilization Fund is a reserve into which monies may be appropriated and reserved for later appropriation for any lawful municipal purpose, in this case Public Health services. In the last three years the laws related to special purpose funds have changed, making it easier to move money to and from a special purpose stabilization fund.

A Public Health Stabilization Fund is a Special Purpose Stabilization Fund, distinct from a general-purpose Stabilization Fund. While it takes a two-thirds vote from the legislative body to create the fund, both depositing into and appropriating funds from the Special Purpose Stabilization fund require only a majority vote from your legislative body. The creation vote should explicitly state the fund's purpose; here, it is to establish a Public Health Stabilization Fund designed to support Public Health Services.

There are no limits on the yearly contributions or the total balance of the fund. The annual appropriations into the fund are uncapped, and there is no restriction on the amount of revenue allocated to it each year. The monies in the fund carry over from fiscal year to fiscal year; and the balance can continue to build until the money is needed.. The funds can only be used for the purpose defined at its creation. In addition, the municipality can also allocate any year-end health department surplus to the fund.

In summary, a Special Purpose Stabilization Fund differs in keyways from a Departmental Revolving Fund.

1. Establishing the fund needs approval from two-thirds of the voters, while allocating revenues to the fund only calls for a simple majority vote.
2. Fund expenditures need a simple majority vote by the municipal legislative body (Town Meeting or City Council).
3. At least 25% of fee revenue may be allocated to the fund, unlike revolving funds which require 100%.
4. The interest earned by this fund stays within the fund.
5. A municipality can allocate any year-end health department surplus to the fund.

Creating and Funding a Special Purpose Stabilization Fund

Dedicating a stream of revenue to a stabilization fund of any kind requires the municipality to accept the fourth paragraph of General Law Chapter 40 section 5B. 349 of the 351 municipalities have already accepted the fourth paragraph of Section 5B of MA General Law Chapter 40 and created Stabilization Funds, so you can proceed to establish a Public Health Stabilization Fund.

Designating Revenue Sources for the Fund

It is important to be clear what revenues/revenue types will be directed to the Public Health Stabilization Fund. These include but are not limited to fee and permit revenue, and administrative fees from other municipalities that participate in Shared Services agreements. Your municipality can make an annual deposit into the fund, for example from certified free cash, as part of a free cash policy. You can fund it, for example, with inspection fees or year-end departmental surplus funds. If you are dedicating a stream

of revenue, the language of the article/order must include the specific revenue source that is being directed to the Public Health Stabilization Fund. The article/order also includes a motion which must include the revenue specific language. An example is below in brown text.

Important Note: Articles or Orders establishing a special purpose stabilization fund must be passed before the start of the fiscal year in which the fund and revenue dedication will take effect. For instance, to create a Special Purpose Stabilization Fund for fiscal year 2027, these articles/orders should be passed at the 2026 Annual Town Meeting or any special town meeting concluding before June 30, 2026.

Appropriating Monies from the Fund

A Public Health Special Purpose Stabilization fund is an additional revenue source with which to fund Public Health activities in addition to the General Fund. Once you create the fund and either appropriate monies into it and/or dedicate a revenue stream to it, those funds can be appropriated for expenditure by a majority vote of the legislative body. You cannot appropriate more than the balance of the fund at the time of appropriation.

Here is an example: The Public Health Special Purpose Stabilization Fund is fueled by a \$50,000 free cash appropriation and 25% of annual fee revenue which you expect to be another \$40,000 during the year for a total of \$90,000. During the fiscal year, the departmental expenditures increase by \$70,000 over the annual budget and you want to appropriate the additional funds in October to keep those high demand programs going. However, you only have \$10,000 of the fee revenue collected by October. In this case, you have only \$60,000 to appropriate at that time.

Remember, you are not posting budgeted expenditures out of the Special Purpose Stabilization Fund. It is a revenue fund from which you are adding to your regular annual budget. So, for example, if your General Fund appropriation is reduced and services will be cut, you can appropriate a sum of money to reduce or avoid service cuts.

Managing the Special Purpose Stabilization Fund

When creating and managing a Special Service Stabilization Fund, plan for the long term and start early to build its balance. The fund's earnings remain within the fund; unlike departmental revolving funds whose interest is directed to the General Fund. You can grow the fund through interest-bearing accounts, certificates of deposit, or modest investments for larger balances.

It is important to manage appropriations from the fund with a long-term perspective. Departments should develop a policy or strategy that outlines the circumstances under which reserves will be used. While this type of fund does not offer the same spending flexibility as a revolving account, appropriations can be made throughout the fiscal year whenever the legislative body convenes. For example, a City Council typically meets every week, whereas a Town Meeting is usually held at least twice annually—once for voting on the budget during the Annual Meeting, and again in the fall to address final year-end issues or zoning matters.

Important Note: If you do appropriate a sum of money from the Special Purpose Stabilization Fund, you should include language in the appropriation, that if there are unspent funds at the end of the year they return to the Special Purpose Stabilization Fund and then re-appropriate them there. This can be accomplished via a year end surplus appropriation into the fund.

Below is a draft Town Meeting Article or City Council Order for use at the Annual or Special Town Meeting, or City Council Meeting. It is set to begin in fiscal year 2027, but the start date can be amended as needed.

ARTICLE/ORDER: To see if the city/town will dedicate all or a percentage, which may not be less than 25 percent, of the Public Health fee and permit revenue to the Public Health Stabilization Fund established under Massachusetts General Laws Chapter 40, Section 5B, effective for fiscal year 2027 beginning on July 1, 2026, or take any other action relative thereto.

MOTION: Moved/ordered that the city/town/district dedicate ____ % of the Public Health fee and permit revenue to the Public Health Stabilization Fund established under Massachusetts General Laws Chapter 40, Section 5B, effective for the fiscal year 2027 beginning on July 1, 2026. In addition, any year end surplus from the Department of Public Health appropriation is also eligible to be deposited into the fund.

Strategy 2: Creating and Funding a Departmental Revolving Fund

A Department revolving fund is a special fund that permits a community to set aside certain fees or other revenues to pay, without appropriation, for the cost of those department programs and activities from which the fees are generated. Fines and penalties are not generally counted as revolving fund revenue since they deter negative behavior rather than recover expenses like user fees. An exception to this rule is that tobacco control fines are allowed to be retained in the Tobacco Control Revolving Fund revolving fund as that activity has an enforcement function for which the fine revenue is used. In general, public health activities should be charged as fees even when that activity is a follow up to an infraction or a finding. It is best practice to avoid the use of the word “fine.”

Revenue that can be directed to a revolving fund are user fees, activity fees, or any type of fee that an entity pays to participate in a Public Health program. This includes inspection, license, and permit fees. The town meeting article or city ordinance establishing the revolving fund must specify which program receipts (permits/fees) can be deposited into the fund.

If you are dedicating fee revenue into a revolving fund, *100% of the fee revenue must be dedicated to the fund*. You cannot dedicate a portion of the fee or fee revenue to the fund (different from a special purpose stabilization fund).

The Town Meeting Article or City Council Ordinance must specify allowable expenditures from the revolving fund. If the fund covers personnel costs, it must also cover associated fringe costs. If a portion of the personnel costs are paid from the fund, then the same ratio should be assigned to the fringe costs paid from the fund. For example, if 50% of a position is paid from the revolving fund, then 50% of the fringe is paid from the fund.

A Department revolving fund is created by a simple majority vote at Town Meeting or City Council. Its annual spending limit must be approved each year, typically at the Annual Town Meeting. Once established, no further action is needed except for reauthorizing spending limits, which can be done collectively if there are multiple funds.

If your Health Department or Board of Health does not currently have a revolving fund, it is necessary to establish one via a Town Meeting article for towns or by passing an Ordinance in cities. When creating a new Public Health Revolving Fund, ensure that the description remains broad to cover both revenue sources and expenditures, incorporating all departmental activities anticipated to be supported by these

revenues. Revenues and expenditures must be aligned; for instance, if inspection fees are part of the revenue stream, then inspection-related activities and their associated expenses must be authorized as expenditures. Likewise, if vaccine clinic spending is planned, corresponding vaccine revenue should be included in the revenue stream. Multiple public health-related revenues and expenditures may be consolidated, provided that each revenue source and its related expenditures are included. It is important to note that vaccine revenues cannot be used to cover inspection expenses and vice versa.

If you currently possess an authorized revolving account—such as one designated for vaccine or nursing activities including clinic operations, nursing expenses, and vaccine revenues—you may choose to amend this existing account to incorporate additional planned revenues and activities, rather than establish a new fund. Modifying the fund's purpose and reallocating associated revenues and expenditures will require approval by Town Meeting or City Council.

Important Note: Include all fee types as revenue sources and account for all related expenditures for activities generating those fees. This means not only payroll and operating costs but also benefits, centralized maintenance, unemployment and workers comp insurance, centralized training, and rent for space—whether paid to external parties or the Town/City.

If your municipality participates in a Shared Services Arrangement and wants to use local municipal funding to support or expand shared services the host community/fiscal agent should have a Public Health Revolving Fund. The language of the fund should mention the payments from members of the Shared Services group as part of the revenue stream for that revolving fund. It should also include the expected types of Shared Services expenditures in the list of expenditure types. This includes fringe expenses and personnel support expenditures such as unemployment, which may not be something the host Public Health Department would pay out of their own local budget but could be an expenditure of the Shared Services agreement.

Two examples of a Town Meeting Article/City Council Order are provided below: one as a single fund; and one as a chart of multiple funds. If you are creating a new Health Department/Board of Health Revolving Fund as a single fund, without involving other Department revolving funds, the first example is the easiest form to use. Again, the article/order and the motion should be reviewed by your municipal attorney to ensure compliance with your particular municipal format; it is frequently a requirement for your municipal attorney to all proposed articles/orders in order to be included in the warrant for the meeting.

Draft a Town Meeting/City Council Article/Order:

ARTICLE/ORDER. To see if the town/city will vote to amend the general by- laws/ordinances of the town/city by adding a new section to establish and authorize revolving funds for use by certain town/city departments, boards, committees, agencies or officers under Massachusetts General Laws Chapter 44, § 53E½, or take any other action relative thereto. *(Majority vote to adopt or amend general by-law/ordinance).*

VOTED: To amend the general by-laws/ordinances of the town/city by adding the following new section:

HEALTH DEPARTMENT/BOARD OF HEALTH REVOLVING FUND

1. Purpose. This by-law/ordinance establishes and authorizes revolving funds for use by the town/city Health Department and or Board of Health in connection with the operation of programs or activities that generate fees, charges, or other receipts to support all or some of the expenses of those programs or

activities. These revolving funds are established under and governed by General Laws Chapter 44, § 53E½.

2. Expenditure Limitations. The Health Department or Board of Health may incur liabilities against and spend monies from a revolving fund established and authorized by this by-law/ordinance without appropriation subject to the following limitations:

A. Fringe benefits of full-time employees whose salaries or wages are paid from the fund shall also be paid from the fund.

B. No liability shall be incurred in excess of the available balance of the fund.

C. The total amount spent during a fiscal year shall not exceed the amount authorized by town meeting/town/city council on or before July 1 of that fiscal year, or any increased amount of that authorization that is later approved during that fiscal year by the select board and finance committee/mayor and city council.

3. Interest. Interest earned on monies credited to a revolving fund established by this bylaw/ordinance shall be credited to the general fund.

4. Procedures and Reports. Except as provided in General Laws Chapter 44, § 53E½ and this by-law/ordinance, the laws, charter provisions, by-laws/ordinances, rules, regulations, policies or procedures that govern the receipt and custody of town/city monies and the expenditure and payment of town/city funds shall apply to the use of a revolving fund established and authorized by this by-law/ordinance. The town accountant/city auditor shall include a statement on the collections credited to each fund, the encumbrances and expenditures charged to the fund and the balance available for expenditure in the regular report the town accountant/city auditor provides the Public Health Department or Board of Health on appropriations made for its use.

5. Authorized Revolving Funds.

[FORMAT 1 – Separate subsections establishing the fund]

5.1 _____ Revolving Fund.

5.1.1 Fund Name. There shall be a separate fund called the _____ Revolving Fund authorized for use by the _____ Department/Board/Committee/Agency/Officer.

5.1.2 Revenues. The town accountant/city auditor shall establish the _____ Revolving Fund as a separate account and credit to the fund all of the *(Insert list of specific fees, charges or other receipts to be credited to the fund)* charged and received by the Department/Board/Committee/Agency/Officer in connection with _____ *(Insert Department program or activity generating the monies)*.

5.1.3 Purposes and Expenditures. During each fiscal year, the _____ Department Head/Board/Committee/Agency/Officer may incur liabilities against and spend monies from the _____ Revolving Fund for *(Insert list of types of program or activity expenses that may be charged to the fund)* in connection with _____ *(Insert Department program or activity generating the monies)*.
(Insert any program or activity expenses that may not be charged to the fund, i.e., will be funded through a regular budget appropriation, require prior approval or are subject to some other limitation or condition).

5.1.4 Other Requirements/Reports. *(Insert any specific reporting or other requirements the town/city wants to apply to this fund).*

5.1.5 Fiscal Years. The _____ Revolving Fund shall operate for fiscal years that begin on or after July 1, _____. *(Insert any sunset or termination provision that the town/city wants to apply to this fund).*

If the Health Department/Board has an Existing Revolving Fund

Existing revolving funds, like a Vaccine Revolving Fund, cannot be used to deposit fees intended for another designated revolving fund. Any changes to the current revolving fund must be approved through a Town Meeting article or City Council order, stating which new fees should be added and what new types of expenses can be paid from the fund. This can be extremely confusing both for the legislative body to understand and approve and for the Accounting Department to set up proper codes for accounting and reporting. If the Health Department or Board's current revolving fund does not already include general fees and expenditures, it is advisable to set up a new Department Revolving Fund.

Managing the Revolving Account

After the fund is established, it does not require annual re-authorization. The only aspect of the revolving fund that must be approved each fiscal year is the spending ceiling, as described earlier in item 2C of the draft article or order.

You should clearly specify which Health Department/Board fees or receipts will go into the revolving account, and identify authorized expenditure types (e.g., inspection costs, personnel, fringe benefits, office supplies, contracted services, equipment, medical supplies). You do not need to list vendors or amounts. Spending must not exceed available revenue; even if more income is expected, expenditures cannot surpass current funds.

The Health Department/ Board should review how the fund operates annually, including revenue flow, spending patterns, and the expenditure ceiling. The expenditure ceiling may be raised during the fiscal year with approval from designated city or town officials, but changes to types of expenditures or revenues require Town Meeting or City Council action.

Reference materials:

Division of Local Services Publications:

IGR 2021-23

IGR 2024-12

IGR 2017-13

Bulletin 2017-01B

Massachusetts General Laws:

MGL c. 40 ss5B

MGL c. 59 ss 21C(g)

Acts 2023 c. 77 ss8

Acts 2016 c 218 ss22

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