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**To: Chief Fiscal Officers**

**From: Division of Local Government and School Accountability**

**Subject: Accounting for Deficiency Notes**

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**Please provide copies of this bulletin to others who may need this information.**

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Chapter 386 of the Laws of 2010 added Section 29.20 to the Local Finance Law (LFL) to allow for municipalities, school districts or district corporations to issue deficiency notes. Deficiency notes may be issued during a fiscal year to finance a deficiency in any fund or funds arising from revenues being less than the amount estimated in the budget for that fiscal year. The deficiency notes may not exceed five percent of the amount of that same year's annual budget.

### **Issuance, Renewal, Maturity and Redemption of Deficiency Notes**

An entity must adopt a "deficiency note resolution" that complies with provisions outlined in LFL Section 40.10 in order for a deficiency note to be issued or renewed. Deficiency notes may be renewed, but the notes, including any renewals, generally must mature no later than the close of the fiscal year following the fiscal year in which they were issued. However, they may mature no later than the close of the second fiscal year after the fiscal year in which they were issued, if the notes were authorized and issued after the adoption of the budget for the fiscal year following the year in which they were issued. For example, if a town adopts its year 2 budget in November of year 1, then issues a deficiency note in December of year 1, the deficiency note, including renewals, may mature no later than the close of year 3. Deficiency notes may be redeemed out of any revenues that are legally available in the fiscal year in which they mature.

### **Use of Funds**

The proceeds received from the issuance of deficiency notes are only to be used to finance a deficiency in a fund or funds arising from revenues being less than the amount estimated in the budget. If all of the proceeds of the deficiency notes are not expended for this purpose, any remaining proceeds must be used for the payment of the principal and

interest on the deficiency notes. In determining whether any proceeds of the notes remain unexpended at the close of the fiscal year, proceeds other than the proceeds of the deficiency notes are deemed to have been expended prior to the proceeds of the deficiency notes. Therefore, any moneys unexpended at the close of the fiscal year within the fund or funds, up to the amount of the notes, are deemed unexpended note proceeds and must be used to pay the principal and interest on the deficiency notes.

## Reporting and Monitoring Requirements

If deficiency notes are renewed, or are issued in two or more successive years, the entity must comply with additional reporting and monitoring requirements. Those requirements consist of preparing quarterly budget reports, submitting preliminary/tentative budgets to the Office of the State Comptroller (OSC) for review and recommendations,<sup>1</sup> preparing three-year financial plans and notifying OSC prior to the issuance of most debt.<sup>2</sup> The entity must comply with these requirements for three years beginning with the fiscal year in which the deficiency notes were renewed, or for three years beginning with each second successive year in which they were issued.

## New Account Codes

The following account codes are added to the accounting system:

### General Ledger Account Codes

225 Cash from Deficiency Note

624 Deficiency Notes Payable

### Expenditure Account Codes

9755.0 Deficiency Notes

9755.7 Deficiency Notes - Interest

## Sample Journal Entries

1a. To record authorization of deficiency note (if associated estimated revenue has not been reduced):

| Account                    | Sub-account | Debit | Credit |
|----------------------------|-------------|-------|--------|
| 530 Obligations Authorized |             | XXX   |        |
| 510 Estimated Revenues     |             |       | XXX    |
| Subsidiary Account         | XXX         |       |        |

<sup>1</sup> In the case of school districts, the proposed budget is also submitted to the Commissioner of Education for review and recommendations.

<sup>2</sup> See LFL Section 10.10(c),(d),(e),(f) for the specific requirements.

- 1b. To record authorization of deficiency note (if associated estimated revenue and corresponding appropriation have already been reduced):

| Account                                                                 | Sub-account | Debit | Credit |
|-------------------------------------------------------------------------|-------------|-------|--------|
| 530 Obligations Authorized<br>960 Appropriations<br>Subsidiary Accounts | XXX         | XXX   | XXX    |

2. To record issuance of deficiency note:

| Account                                                       | Sub-account | Debit | Credit |
|---------------------------------------------------------------|-------------|-------|--------|
| 225 Cash from Deficiency Note<br>624 Deficiency Notes Payable |             | XXX   | XXX    |

3. To record payment of deficiency note in subsequent year from unexpended balances of amounts borrowed and from other current resources (the resources required to make the principal payments on deficiency notes will be provided through the budgetary process by recording the required amount in account 962 Budgetary Provisions for Other Purposes, not 960 Appropriations):

| Account                                                                                                                             | Sub-account | Debit      | Credit     |
|-------------------------------------------------------------------------------------------------------------------------------------|-------------|------------|------------|
| 522 Expenditures<br>9755.7 Deficiency Notes - Interest<br>624 Deficiency Notes Payable<br>200 Cash<br>225 Cash from Deficiency Note | XXX         | XXX<br>XXX | XXX<br>XXX |

### Additional Information

If you have questions pertaining to the accounting requirements for deficiency notes, please contact the State Comptroller's regional office that serves your local government. A listing of regional offices is available through the following link:

<http://www.osc.state.ny.us/localgov/contact.htm>