

WORDS from the ADVISORY BOARD

Appropriation -- An authorization granted by a town meeting, city council or other legislative body to expend money and incur obligations for specific public purposes. An appropriation is usually limited in amount and as to the time period within which it may be expended. (See Encumbrance, Line-Item Transfer, Free Cash)

Available Funds -- Balances in the various fund types that represent non-recurring revenue sources. As a matter of sound practice, they are frequently appropriated to meet unforeseen expenses, for capital expenditures or other onetime costs. Examples of available funds include free cash, stabilization fund, overlay surplus, water surplus, and enterprise retained earnings. Encumbrances do not count as available funds.

Balance Sheet -- A statement that discloses the assets, liabilities, reserves, and net assets of a fund or governmental unit at a specified date.

BAN -- Bond Anticipation Note—Once borrowing for a specific project has been approved by two-thirds vote of town meeting and prior to issuing long-term bonds, short term notes may be issued to provide cash for initial project costs. BAN's may be issued for a period not to exceed five years, but with a reduction of principal after two years.

Betterments (Special Assessments) --

Whenever part of a community benefits from a public improvement, or betterment (*e.g.*, water, sewer, sidewalks, etc.), special property taxes may be assessed to the property owners of that area to reimburse the governmental entity for all, or part, of the costs it incurred in completing the project. Each property parcel receiving the benefit is assessed a proportionate share of the cost which may be paid in full, or apportioned over a period of up to 20 years. In this case, one year's apportionment along with one year's committed interest computed from October 1 to October 1 is added to the tax bill until the betterment has been paid.

Bond -- A means to raise money through the issuance of debt. A bond issuer/borrower promises in writing to repay a specified sum of money, alternately referred to as face value, par value or bond principal, to the buyer of the bond on a specified future date (maturity date), together with periodic interest at a specified rate. The term of a bond is always greater than one year. (See Note).

Bond Rating (Municipal) – A credit rating assigned to a municipality to help investors assess the future ability, legal obligation, and willingness of the municipality (bond issuer) to make timely debt service payments. Stated otherwise, a rating helps prospective investors determine the level of risk associated with a given fixed-income investment. Rating agencies such as Moody's and Standard and Poor use rating systems which designate a letter or a combination of letters and numerals where AAA is the highest rating and C1 is a very low rating.

Budget -- A financial plan for allocating resources to support particular services, purposes and functions over a specified period of time as well as the proposed means of financing them.

Capital Assets -- All tangible property used in the operation of government which is not easily converted into cash, and has an initial useful life extending beyond a single financial reporting period. Capital assets include land and land improvements; infrastructure such as roads, bridges, water and sewer lines;

easements; buildings and building improvements; vehicles, machinery and equipment. Communities typically define capital assets in terms of a minimum useful life and a minimum initial cost. (See Fixed Asset).

Capital Budget -- An appropriation or spending plan that uses borrowing or direct outlay for capital or fixed asset improvements. Among other information, a capital budget should identify the method of financing each recommended expenditure, i.e., tax levy, rates, and identify those items that were not recommended. (See Capital Asset, Fixed Asset).

Capital Improvements Program -- A blueprint, for planning a community's capital expenditures that comprises an annual capital budget and a five-year capital program. It coordinates community planning, fiscal capacity and physical development. While all of the community's needs should be identified in the program, there is a set of criteria that prioritizes the expenditures.

Capital Outlay -- The exchange of one asset (cash) for another (capital asset), with no ultimate effect on net assets. Also known as "pay as you go," it is the appropriation and use of available cash to fund a capital improvement, as opposed to incurring debt to cover the cost.

Cash -- Currency, coin, checks and bankers' drafts on hand or on deposit with an official or agent designated as custodian of cash and bank deposits.

Chapter 70 School Aid -- Chapter 70 refers to the school funding formula created under the Education Reform Act of 1993 by which state aid is distributed through the Cherry Sheet to help establish educational equity among municipal and regional school districts.

Chapter 90 Highway Funds -- State funds derived from periodic transportation bond authorizations and apportioned to communities for highway projects based on a formula under the provisions of MGL Ch. 90 §34. The Chapter 90 formula comprises three variables: local road mileage (58.33 percent) as certified by the Massachusetts Highway Department (MHD), local employment level (20.83 percent) derived the Department of Employment and Training (DET), and population estimates (20.83 percent) from the US Census Bureau. Local highway projects are approved in advance, then later on the submission of certified expenditure reports to MHD, communities receive cost reimbursements to the limit of the grant. Under the formula, communities with a larger number of road miles receive proportionately more aid than those with fewer road miles.

Cherry Sheets -- Named for the cherry colored paper on which they were originally printed, the Cherry Sheet is the official notification to cities, towns and regional school districts of the next fiscal year's state aid and assessments. The aid is in the form of distributions which provide funds based on formulas and reimbursements which provide funds for costs incurred during a prior period for certain programs or services.

Community Preservation Act (CPA) --Enacted as MGL Ch. 44B in 2000, the community preservation act permits cities and towns accepting its provisions to establish a restricted fund from which monies can only be appropriated for a) the acquisition, creation and preservation of open space; b) the acquisition and preservation of historic structures and landscapes; and c) the creation, acquisition and preservation of community housing. Acceptance requires town meeting or city council approval, together with referendum approval by majority vote. The local program is funded by a local surcharge up to 3 percent on real property tax bills and matching dollars from the state generated from registry of deeds fees. (See DOR IGR 00-209).

Debt Burden -- The amount of debt carried by an issuer usually expressed as a measure of value (i.e., debt as a percentage of assessed value, debt per capita, etc.). Sometimes debt burden refers to debt service costs as a percentage of the total annual budget.

Debt Exclusion -- An action taken by a community through a referendum vote to raise the funds necessary to pay debt service costs for a particular project from the property tax levy, but outside the limits under Proposition 2½. By approving a debt exclusion, a community calculates its annual levy limit under Proposition 2½, then adds the excluded debt service cost. The amount is added to the levy limit for the life of the debt only and may increase the levy above the levy ceiling.

Debt Limit -- The maximum amount of debt that a municipality may authorize for qualified purposes under state law. Under MGL Ch. 44 §10, debt limits are set at 2 ½ percent of EQV for a city and 5 percent of EQV for a town. By petition to the Emergency Finance Board, cities and towns can receive approval to increase their debt limit to 5 and 10 percent of EQV, respectively.

Debt Service -- The repayment cost, usually stated in annual terms and based on an amortization schedule, of the principal and interest on any particular bond issue.

Deficit -- The excess of expenditures over revenues during an accounting period. Also refers to the excess of the liabilities of a fund over its assets.

Education Reform Act of 1993 -- State law that authorized the seven-year, Ch. 70 funding program for education and that established spending targets for school districts as a means to remedy educational inequities. Scheduled to end by FY00, the program has been extended, pending agreement on further reforms.

Encumbrance -- A reservation of funds to cover obligations arising from purchase orders, contracts, or salary commitments that are chargeable to, but not yet paid from, a specific appropriation account.

Enterprise Accounts -- An enterprise fund, authorized by MGL Ch. 44 §53F½, is a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. It allows a community to demonstrate to the public the portion of total costs of a service that is recovered through user charges and the portion that is subsidized by the tax levy, if any. With an enterprise fund, all costs of service delivery--direct, indirect, and capital costs--are identified. This allows the community to recover total service costs through user fees if it chooses. Enterprise accounting also enables communities to reserve the "surplus" or retained earnings generated by the operation of the enterprise rather than closing it out to the general fund at year-end. Services that may be treated as enterprises include, but are not limited to, water, sewer, hospital, and airport services.

Expenditure -- An outlay of money made by municipalities to provide the programs and services within their approved budget.

Fiscal Year -- Cities and towns in Massachusetts operate on a fiscal year which begins July 1 and ends June 30. The number of the fiscal year is the calendar year when it ends.

Fixed Costs -- Costs that are legally or contractually mandated such as retirement, FICA/Social Security, insurance, debt service costs or interest on loans.

Free Cash -- (Also Budgetary Net Assets) Remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown on the tax recapitulation sheet (RECAP Sheet), and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30, which is submitted by the community's auditor, accountant, or comptroller. **Important:** free cash is not available for appropriation until certified by the Director of Accounts.

General Fund -- The fund used to account for most financial resources and activities governed by the normal town meeting/city council appropriation process.

Grant Anticipation Notes -- (GANS) – Short term, interest-bearing notes issued by a government to raise capital to be repaid by grants proceeds which are anticipated at a later date. GANS allow the recipient of the grant to begin carrying out the purpose of the grant immediately.

Levy -- The amount a community raises through the property tax. The levy can be any amount up to the levy limit which is re-established every year in accordance with Proposition 2½ provisions.

Proposition 2 1/2 definitions

Levy Ceiling -- A levy ceiling is one of two types of levy (tax) restrictions imposed by MGL Ch. 59 §21C (Proposition 2½). It states that, in any year, the real and personal property taxes imposed may not exceed 2½ percent of the total full and fair cash value of all taxable property. Property taxes levied may exceed this limit only if the community passes a capital exclusion, a debt exclusion, or a special exclusion.

Levy Limit -- A levy limit is one of two types of levy (tax) restrictions imposed by MGL Ch. 59 §21C (Proposition 2½). It states that the real and personal property taxes imposed by a city or town may only grow each year by 2½ percent of the prior year's levy limit, plus new growth and any overrides or exclusions. The levy limit can exceed the levy ceiling only if the community passes a capital expenditure exclusion, debt exclusion, or special exclusion.

Line-Item Budget -- A budget that separates spending into categories, or greater detail, such as supplies, equipment, maintenance, or salaries, as opposed to a program budget.

Local Aid -- Revenue allocated by the Commonwealth to cities, towns, and regional school districts. Estimates of local aid are transmitted to cities, towns, and districts annually by the "Cherry Sheets." Most Cherry Sheet aid programs are considered general fund revenues and may be spent for any purpose, subject to appropriation.

Local Receipts -- Locally generated revenues, other than real and personal property taxes. Examples include motor vehicle excise, investment income, hotel/motel tax, fees, rentals, and charges. Annual estimates of local receipts are shown on the tax rate recapitulation sheet.

Long-Term Debt -- Community borrowing, or outstanding balance at any given time, involving loans with a maturity date of 12 months or more.

Minimum Required Local Contribution – The minimum that a city or town must appropriate from property taxes and other local revenues for the support of schools (Education Reform Act of 1993).

Net School Spending (NSS) -- School budget and municipal budget amounts attributable to education, excluding long-term debt service, student transportation, school lunches and certain other specified school expenditures. A community's NSS funding must equal or exceed the NSS Requirement established annually by the Department of Education (DOE) (Education Reform Act of 1993).

New Growth -- The additional tax revenue generated by new construction, renovations and other increases in the property tax base during a calendar year. It does not include value increases caused by normal market forces or by revaluations. New growth is calculated by multiplying the assessed value associated with new construction, renovations and other increases by the prior year tax rate. The additional tax revenue is then incorporated into the calculation of the next year's levy limit. For example, new growth for FY03 is based on new construction, etc. that occurred between January and December, 2001. In the fall of 2002, when new growth is being estimated to set the FY03 levy limit, the FY02 tax rate is used in the calculation.

Overlay -- (Overlay Reserve or Allowance for Abatements and Exemptions) An account established annually to fund anticipated property tax abatements, exemptions and uncollected taxes in that year. The overlay reserve is not established by the normal appropriation process, but rather is raised on the tax rate recapitulation sheet.

Overlay Deficit -- A deficit that occurs when the amount of overlay raised in a given year is insufficient to cover abatements, statutory exemptions, and uncollected taxes for that year. Overlay deficits must be provided for in the next fiscal year.

Overlay Surplus -- Any balance in the overlay account of a given year in excess of the amount remaining to be collected or abated can be transferred into this account. Within ten days of a written request by the chief executive officer of a city or town, the assessors must provide a certification of the excess amount of overlay available to transfer. Overlay surplus may be appropriated for any lawful purpose. At the end of each fiscal year, unused overlay surplus is "closed" to surplus revenue; in other words, it becomes a part of free cash.

Override -- A vote by a community at an election to permanently increase the levy limit. An override vote may increase the levy limit no higher than the levy ceiling. The override question on the election ballot must state a purpose for the override and the dollar amount.

Payments in Lieu of Taxes (PILOT) -- An agreement between a municipality and an entity not subject to taxation, such as charitable or educational organizations, in which the payer agrees to make a voluntary payment to the municipality. By law, a city or town must make such a payment to any other community in which it owns land used for public purposes.

Permanent Debt -- Borrowing by a community typically involving a debt service amortization period of greater than one year.

Raise and Appropriate -- A phrase used to identify a funding source for an expenditure or expenditures which refers to money generated by the tax levy, or other local receipt.

Reserve Fund -- An amount set aside annually within the budget of a city (not to exceed 3 percent of the tax levy for the preceding year) or town (not to exceed 5 percent of the tax levy for the preceding year) to

provide a funding source for extraordinary or unforeseen expenditures. In a town, the finance committee can authorize transfers from this fund for "extraordinary or unforeseen" expenditures. Other uses of the fund require budgetary transfers by town meeting.

Revenue Anticipation Note (RAN) -- A short term loan issued to be paid off by revenues, such as tax collections and state aid. RANS are full faith and credit obligations. (See Tax Anticipation Notes, Bond Anticipation Notes).

Revolving Fund -- Allows a community to raise revenues from a specific service and use those revenues without appropriation to support the service. For departmental revolving funds, MGL Ch. 44 §53E½ stipulates that each fund must be re-authorized each year at annual town meeting or by city council action, and that a limit on the total amount that may be spent from each fund must be established at that time. The aggregate of all revolving funds may not exceed ten percent of the amount raised by taxation by the city or town in the most recent fiscal year, and no more than one percent of the amount raised by taxation may be administered by a single fund. Wages or salaries for full-time employees may be paid from the revolving fund only if the fund is also charged for all associated fringe benefits.

Real Property – Land, buildings and the rights and benefits inherent in owning them.

Sale of Cemetery Lots Fund -- A fund established to account for proceeds of the sale of cemetery lots. The proceeds may only be appropriated to pay for the cost of the land, its care and improvement or the enlargement of the cemetery under provisions of MGL Ch. 114 §15.

School Building Assistance Program (SBA)-- Established in 1948 and frequently revised by statutory amendments, this state program reimburses cities, towns, and regional school districts varying percentages of their school construction costs depending on the wealth of the community or district and the category of reimbursement. The DOE administers the SBA program.

Sick Leave Buyback -- A community's obligation, under collective bargaining agreements or personnel board policies, to compensate retiring employees for the value of all, or a percentage of, sick time earned, but not used.

Stabilization Fund – A fund designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose. (MGL Ch. 40 §5B). Communities may appropriate into this fund in any year an amount not to exceed ten percent of the prior year's tax levy or a larger amount with the approval of the Emergency Finance Board. The aggregate of the stabilization fund shall not exceed ten percent of the community's equalized value, and any interest shall be added to and become a part of the fund. A two-thirds vote of town meeting or city council is required to appropriate money from the stabilization fund.

Tax Rate -- The amount of property tax stated in terms of a unit of the municipal tax base; for example, \$14.80 per \$1,000 of assessed valuation of taxable real and personal property.

Tax Rate Recapitulation Sheet (Recap Sheet)-- A document submitted by a city or town to the DOR in order to set a property tax rate. The recap sheet shows all estimated revenues and actual appropriations that affect the property tax rate. The recap sheet should be submitted to the DOR by September 1 (in order to issue the first half semiannual property tax bills before October 1) or by December 1 (in order to issue the third quarterly property tax bills before January 1).

Teachers' Pay Deferral -- Option available under the 1993 Education Reform Law allowing communities to defer further contributions to teachers retirement funds until 1997, after which the full obligation must be satisfied in no more than 15 years.

Unfunded Pension Liability – Unfunded pension liability is the difference between the value assigned to the retirement benefits already earned by a municipality's employees and the assets the local retirement system will have on hand to meet these obligations. The dollar value of the unfunded pension liability is re-determined every three years and is driven by assumptions about interest rates at which a retirement system's assets will grow and the rate of future costs of living increases to pensioners.

Warrant -- An authorization for an action. For example, a town meeting warrant establishes the matters that may be acted on by that town meeting. A treasury warrant authorizes the treasurer to pay specific bills. The assessors' warrant authorizes the tax collector to collect taxes in the amount and from the persons listed, respectively.

Waterways Improvement Fund -- Hull operates under a Special Act of the Legislature allowing 100% of boat excise to go to the account. In Hull's case, the funds go to the Harbormaster Enterprise fund instead.