

# Common Municipal Finance Terms

**Abatement:** A complete or partial cancellation of a real or personal property tax, motor vehicle excise tax, fee, charge, or special assessment imposed by a governmental unit. Abatements are granted by the committing authority, e.g. Board of Assessors in the case of taxes.

**Appropriation:** An authorization granted by a legislative body to make expenditures and to incur obligations for specific purposes. An appropriation is usually limited in amount and the time when it can be expended.

**Assessments:** Amounts the State automatically deducts from Local Aid to cover the cost of certain State and county programs. These include the MBTA, Essex Regional Emergency Communications Centers, Mosquito Control, and others. Assessments are shown on the Cherry Sheet.

**Assessed Valuation:** The value placed upon a particular property by the Board of Assessors for the purpose of apportioning the town's tax levy among individual property owners equitably and in accordance with the legal requirement that property be assessed at "full and fair cash value". Assessed Valuations are certified periodically by the Commonwealth's Commissioner of Revenue.

**Audit:** An examination of a community's financial systems, procedures, and data by a certified public accountant, along with a report on the fairness of financial statements and on local compliance with statutes and regulations.

**Balance Sheet:** A statement that discloses the assets, liabilities, reserves and equities of a fund or government unit at a specified date.

**Budget:** See *Omnibus or Operating Budget*

**Capital Budget:** A plan of proposed capital outlays for a fiscal year and the means of financing them. Capital items are those items costing \$5,000 or more and having a useful life of five or more years.

**Capital Exclusion:** A vote to exclude from the levy limit the cost of a capital project. This exclusion only affects the levy limit for the year in which the project was undertaken.

**Chapter 70:** Chapter 70 is the statute that describes the school funding formula and education aid distributed by the State.

**Chapter 90:** Funds distributed to cities and towns to fund highway projects. C. 90 is based on a formula consisting of road local mileage, local employment level, and population estimates.

**Cherry Sheet:** The official notification to cities, towns, and regional school districts of the next fiscal year's State aid and assessments. The name comes from the cherry colored paper on which they used to be printed.

**Classification of the Tax Rate:** The annual action by the Board of Selectmen to exercise certain tax rate options, including establishing a residential factor and determining certain discounts and exemptions. A single rate taxes all classes of property at the same rate.

**Debt Exclusion:** A vote to exclude from the levy limit the costs of debt service for capital projects. This exclusion remains in effect for the life of the debt; once the debt (principal and interest) is paid off the

excluded amount is removed from the tax rate.

**Debt Service:** Payment of interest and principal related to debt.

**Encumbrance:** Obligations such as purchase orders and contracts which are chargeable to an appropriation and for which a part of the appropriation is reserved to be paid in the next fiscal year.

**Enterprise Fund:** A standalone fund with its own assets, liabilities, fund balance, revenues and expenses in which a municipal service is operated as a business unit. Costs of the service are primarily recovered from user charges and may be supplemented by general revenues.

**Equalized Valuation (EQV):** The determination of the full and fair cash value of all property in the Commonwealth as determined by the Commissioner of Revenue biennially. EQV is used as a factor in certain aid distributions.

**Excess and Deficiency:** Also called the "surplus revenue" account, this is the amount by which cash, accounts receivable, and other assets exceed a regional school district's liabilities and reserves as certified by the Director of Accounts. The calculation is based on a year-end balance sheet which is submitted to the Department of Revenue by the district's auditor, accountant, or comptroller as of June 30. The regional school committee must apply certified amounts exceeding five percent of the district's prior year operating and capital costs to reduce the assessment on member cities and towns.

**Excess Levy Capacity:** The difference between a community's Levy and its Levy Limit. This is an additional amount the community could, but chooses not to, levy.

**Expenditure:** The spending of money by the town and schools for the programs or projects within the approved budget.

**FTE:** A full-time equivalent employee based on a 40-hour work week. May be one or more employees, but the total weekly hours equal 40.

**Fiscal Year (FY):** A 12-month period, beginning July 1 and ending June 30, to which the annual budget applies and at the end of which a governmental unit determines its financial position and the results of its operations. The number of the fiscal year is that of the calendar year in which it ends; for example, FY17 is the fiscal year which begins July 1, 2016 and ends June 30, 2017.

**Foundation Budget:** The spending target under the Education Reform Act of 1993 for each school district as the level necessary to provide an adequate education for all students.

**Free Cash:** Certified as of each July 1 by the State, this is the portion of Undesignated Fund Balance available for appropriation. It is not cash per se, but rather is the total of cash and receivables less current liabilities and earmarked reserves, reduced also by reserves for uncollected taxes. It is made up of Turn Backs (unexpended appropriations), revenues that came in higher than budgeted, and Free Cash carried forward from the prior fiscal year.

**General Fund:** The fund into which the general (non-earmarked) revenues of the town are deposited and from which money is appropriated to pay expenses.

**General Obligation Bonds:** Bonds issued by the Town that are backed by the full faith and credit of its taxing authority.

**Level-Service Budget:** A budget that describes the funding required for maintaining current levels of service or activity, plus cost increases for contractual and mandated obligations. It brings previously-approved programs forward at existing levels of service.

**Levy or Property Tax Levy:** The revenue a community can raise through real and personal property taxes.

**Levy Ceiling:** The maximum amount of property taxes a community can levy. The Levy Ceiling is equal to 2 ½ percent of the total full and fair cash values of all taxable real and personal property in the community.

**Levy Limit:** The maximum the levy can be in a given year. It is equal to the previous year's levy limit times 2 ½% plus new growth and amounts authorized by overrides. The Levy Limit is determined annually by the Massachusetts Department of Revenue.

**Local Aid:** Revenue allocated by the State to cities, towns, and regional school districts. Local Aid is distributed by the Cherry Sheets.

**Local Receipts:** Locally generated revenues, other than real and personal property taxes. Examples include motor vehicle excise, hotel/motel/meals excise, permit fees, rentals, and charges.

**New Growth:** The additional value of new development and other growth in the tax base that is not the result of revaluation. New growth is calculated by multiplying the increases in assessed valuation by the tax rate.

**Omnibus or Operating Budget:** A plan for allocating resources to support particular services, purposes, and functions over a specified period of time. The Omnibus Budget is the spending plan for a particular fiscal year.

**Other Post-Employment Benefits (OPEB):** The set of benefits, other than pensions, that government employees earn while actively working, but do not receive until they retire. The most significant is health insurance for retirees, their spouses, and in some cases their beneficiaries.

**Overlay:** The amount raised from the property tax levy in excess of appropriations and other charges. It is used to cover property tax abatements and exemptions granted locally or on appeal, and cannot exceed an amount deemed reasonable by the Commissioner of Revenue.

**Override:** A vote to increase the amount of property tax revenue in excess of the automatic 2 ½ percent allowed under Proposition 2 ½. An override permanently raises the Levy Limit unless later reversed.

**Personnel Services:** The cost of salaries, wages and related employment benefits.

**Payment in Lieu of Taxes (PILOT):** An agreement between a municipality and an entity not subject to taxation, such as a charitable or educational organization, in which the payer agrees to make a voluntary payment to the municipality.

**Proposition 2 ½:** A State law, enacted by citizen initiative petition in 1980, that regulates local property tax administration and limits the amount of revenue – the levy – a city or town may raise from local property taxes each year.

**Purchased Services:** The cost of services that are provided by a vendor.

**Property Tax:** The amount produced by multiplying the assessed valuation of property by the tax rate. The tax rate is expressed per thousand dollars of assessed valuation.

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

**Reserve Fund:** A fund appropriated each year that may be used by vote of the Finance Committee for "extraordinary or unforeseen expenditures."

**Revolving Fund:** Those funds that may be used for special uses. For example, Recreation fees may be paid into a revolving fund and expenditures made without further appropriation. Revolving funds are established by State law and Town bylaw. Spending limits of revolving funds must be annually reauthorized by Town Meeting.

**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 §SB). Stabilization Funds may be established for different purposes and interest generated by such funds is added to and becomes part of the Stabilization Fund. A two-thirds vote of Town Meeting is required to establish, amend the purpose of, or appropriate money out of a Stabilization Fund.

**Tax Title:** A collection procedure that secures a city's or town's lien on real property and protects the municipality's right to payment of overdue property taxes. The lien expires if five years elapse from the January 1 assessment date and the property has been transferred to another owner. If amounts remain outstanding on the property after issuing a demand for overdue property taxes and after publishing a notice of tax taking, the Collector may take the property for the city or town. After properly recording the instrument of taking, the Collector transfers responsibility for collecting overdue amounts to the Treasurer. After six months, the Treasurer may initiate foreclosure proceedings.

**Turn Back:** Unexpended funds from a prior fiscal year's operating budget which are returned to the Town and which ultimately revert to Free Cash.

**Unclassified:** Expenditure items that are not within a particular department's budget. Examples include regional pension assessments, insurances, unemployment, and others.

**Underride:** A vote to decrease the levy limit under Proposition 2 ½. An underride permanently reduces the Levy Limit unless later reversed.

**Warrant:** A list of items to be acted on by Town Meeting.

**Warrant Article:** Each of the individual items listed in a warrant for action by a Town Meeting.