

## Glossary

Below are some of the most commonly used terms in budgeting, capital planning and debt management. It should be kept in mind that these terms are generic for the most part; some are specific to Massachusetts, none are particular to Weston. Where applicable, the relevant State statute is also cited.

### **BOND**

A written promise to pay a specified sum of money, called the face value or principal amount, at a specified date or dates in the future, called the maturity date(s), together with periodic interest at a specified rate. The difference between a note and a bond is that the latter runs for a longer period of time and requires greater legal formality.

### **BOND ANTICIPATION NOTE**

Short-term interest-bearing notes issued by a government in anticipation of bonds to be issued at a later date. The notes are retired from proceeds from the bond issue to which they are related. Also referred to as a BAN.

### **CAPITAL OUTLAY EXCLUSION           c. 59, §21C (i1/2)**

A Town may exclude from the levy limit, in one year, the amount raised for capital expenditures by a capital outlay question at a regular or special election.

### **CAPITAL IMPROVEMENT PLAN (CIP)**

Sometimes referred to as a capital improvement program, is a financial planning and management tool which: identifies public facility and equipment requirements; places these requirements in order of priority, and; schedules them for funding and implementation.

### **CAPITAL PROJECT**

Major non-recurring expenditure involving one or more of the following:

- acquisition of land for a public purpose,
- construction of or addition to a facility such as a public building, water or sewer lines, play field, etc.;
- rehabilitation or repair of a building, facility, or equipment; provided the cost is \$25,000 or more and the improvement will have a useful life of 5 years or more,
- purchase of equipment costing \$25,000 or more, with a useful life of 5 years or more - any planning, engineering or design study related to an individual capital project.

### **CHAPTER 90           c. 90, §34**

This law authorizes the Commonwealth to allocate funds to municipalities, through the Transportation Bond Issue, for highway construction, preservation and improvement projects that create or extend the life of capital facilities; routine maintenance operations such as pothole filling and snow and ice removal are not covered. The formula for determining the Chapter 90 level of funding is based on a municipality's miles of public ways, population and level of employment. Municipalities only receive Chapter 90 funds on pre-approved projects on a reimbursement basis.

**DEBT EXCLUSION c. 59, §21C(m) and (k)**

Results in a *temporary* increase in a municipality's levy limit (and possibly the levy ceiling) when a municipality's voters elect to exclude the payment of particular debt service from the constraints of Proposition 2 1/2. The debt service is then added to the levy limit for the life of the debt only. To place a debt exclusion question on the ballot requires a 2/3 vote of the entire Board of Selectmen. A simple majority vote by the voters is required for passage.

**DEBT LIMIT c. 44, §10**

The maximum amount of gross or net debt which is legally permitted under State Law.

**DEBT SERVICE**

The amount paid annually to cover the cost of *both* principal and interest on a debt issuance until its retirement.

**ENTERPRISE FUNDS c. 44, §53F1/2**

A municipal fund established for the operation of a municipal utility, health care, recreational, or transportation facility whereby the operations are fully funded by the fees associated with that enterprise vs. the tax levy. The "surplus" or retained earnings generated by the operation of the enterprise remain with the fund to offset future capital improvements, extraordinary maintenance expenses, or to reduce future fees and charges of the fund.

**FIXED ASSETS**

Assets of a long-term character which are intended to continue to be held or used, such as land, building, improvements other than buildings, machinery, and equipment.

**FREE CASH c. 59, §21D**

A type of reserve fund also known as unreserved fund balance. Free Cash can be appropriated by Town Meeting. Free Cash is the result of unexpended appropriations, revenues in excess of estimates and prior years' property tax collections. Free Cash is not available for appropriation until the amount has been certified by the Department of Revenue. This is done when the Town submits its balance sheet to the DOR.

For example, the July 1, 2011 certified amount may be used to fund supplemental appropriations voted during fiscal year 2012, or applied as a revenue source to support the fiscal 2013 budget voted in the Spring of 2012.

**FULL FAITH AND CREDIT**

A pledge of the general taxing power for the payment of debt obligations. Bonds carrying such pledges are referred to as general obligation bonds or full faith and credit bonds.

**GASB34**

An audit reporting standard that requires municipalities to:

1. report on the overall financial health of the governmental unit (Management Discussion and Analysis); and
2. include information about the Town's public infrastructure assets such as bridges, roads and storm sewers.

## **GENERAL OBLIGATION BONDS**

Bonds for the payment of which the full faith and credit of the issuing government are pledged.

## **INFRASTRUCTURE**

The Town's roads, bridges, buildings, land, water and drainage systems and natural resources.

## **LEVY LIMIT (also see Proposition 2 ½)**

Property tax levy limits, used in twenty-seven states, constrain the total amount of revenue that can be raised from the property tax. In Massachusetts, since FY1982, levy limits have been governed by the law known as Proposition 2 ½. This law can be found in Chapter 59, section 21C of the Massachusetts General Laws.

## **NOTE PAYABLE**

In general, an unconditional written promise signed by the Town to pay a certain sum in money on demand or at a fixed or determinable time either to the bearer or to the person designated therein.

## **OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Other post-employment benefits are a form of employee compensation (salaries and wages), which employees or their beneficiaries do not enjoy until after they have completed their active service. Examples of OPEB include health, life, disability, and long-term care insurance.

## **OPERATING BUDGET c. 39, §9**

The operating budget must be approved by Town Meeting by June 30<sup>th</sup>. The budget need not be balanced until the Town submits to the Department of Revenue its tax rate for certification.

## **OVERRIDE c. 59, §21C(g)**

Results in a *permanent* increase of a municipality's levy limit (but not the levy ceiling) when the majority of voters in a municipal election approve such an override. The override amount becomes part of the levy base when setting the next year's levy limit. To place an Override question on the ballot requires a majority vote of the Board of Selectmen. A simple majority by voters is required for passage.

## **PAY-AS-YOU-GO CAPITAL FINANCING**

A term used to describe the financial policy of a government which finances all of its capital outlays from current revenues rather than by borrowing. A government which pays for some improvements from current revenues and others by borrowing is said to be on a partial or modified pay-as-you-go basis.

## **PAY-AS-YOU-USE CAPITAL FINANCING**

A term used to describe the financial policy of a government which finances its capital outlays from borrowing proceeds and pays for capital assets over their useful life.

## **PROPOSITION 2 ½ c. 59, §21C(b)**

In Massachusetts, effective July 1, 1981, limits municipal property taxes to 2.5 percent of full and fair cash value (the levy ceiling); limits the amount of revenue a municipality can raise through property taxes (the levy limit), which increases by 2.5 percent each year, plus a factor

for new growth. A municipality may exceed its levy limit in two ways: by voting an override or debt exclusion.

**RESERVE FUND c. 40, §6**

Town Meeting may establish a Reserve Fund for use by the Finance Committee to provide for extraordinary and unforeseen expenditures.

**REVOLVING FUNDS c. 44, §53E1/2**

Town Meeting may establish revolving funds for certain services, allowed either by a specific statute (e.g., school department revolving funds) or under Chapter 44, section 53E1/2 (e.g., for general purposes). Revolving funds are typically used for fee based services.

**SCHOOL BUDGET c. 70, §8**

Town Meeting may only vote the bottom line budget for the school department.

**STABILIZATION FUND c. 40, §5B**

A Stabilization Fund is a reserve or “rainy day” fund. In Massachusetts, a municipality may appropriate annually to such fund. The aggregate amount in the fund shall not exceed ten percent of the equalized valuation of the municipality. The treasurer is the custodian of the fund and may invest the proceeds. The Stabilization Fund may be appropriated at a town meeting by a two-thirds vote. The appropriation may be used for any lawful purpose. **State law allows multiple Stabilization Funds, with each fund having a specific purpose (e.g., equipment replacement, building repairs).**

**UNRESERVED FUND BALANCE**

See Free Cash