



## APPENDIX G: GLOSSARY OF TERMS

**Abatement** - A reduction or elimination of a levy imposed by a governmental unit, applicable to tax levies, motor vehicle excise, fees, charges, and special assessments.

**Accounting System** - The total structure of records and procedures which identify, record, classify, and report information on the financial position and operations of a governmental unit or any of its funds, balanced account groups, and organizational components.

**Accrued Interest** - In an original governmental bond sale, accrued interest is the amount of interest which has accumulated on the bonds from the day they are dated, up to but not including, the date of delivery (settlement date).

**Amortization** - The gradual elimination of an obligation, such as a bond, according to a specified schedule of times and amounts. The principal amount of a home mortgage, for example, is amortized by monthly payments.

**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 as to the time when it may be expended. Only a town meeting, council or the school committee can authorize money appropriated for one purpose to be used for another. Any amount which is appropriated may be encumbered (see Encumbrance). Any part of a "general" appropriation not spent or encumbered by June 30 automatically reverts to the undesignated fund balance which may result in Free Cash. If departments know of remaining unpaid bills at the close of the fiscal year and properly notify the accountant (Chapter 41, s 58), the departmental appropriation is encumbered to extend the general spending authorization until such time that the bill is paid or it is decided not to spend the funds. If these encumbrances are not acted on within a year, the accountant generally notifies the department and closes them out. A special warrant article/ appropriation, on the other

hand, may carry forward from year to year until it is expended or closed.

**Arbitrage** - As applied to municipal debt, the investment of tax exempt bond or note proceeds in taxable higher yielding securities. This practice is restricted under Section 103 of the Internal Revenue Service (IRS) Code, and (beyond certain limits) earnings are required to be rebated (paid) to the IRS.

**Arbitrage Certificate** - A certified statement requested by purchasers and law firms serving as bond counsel in Massachusetts that borrowing proceeds of a specified bond issue shall not be used for the purposes of arbitrage. See Arbitrage.

**Assessed Valuation** - A valuation set upon real estate or other property by a government as a basis for levying taxes. In Massachusetts, assessed valuation is based on "full and fair cash value," the amount a willing buyer would pay a willing seller on the open market. Assessors must collect, record, and analyze information about the physical characteristics of the property and the market in order to estimate the fair market value of all taxable properties in their communities.

**Audit** - An examination of systems, procedures and financial data by a certified accountant, reporting on the fairness of financial statements and compliance with statutes and regulations. (The audit is a valuable management tool for evaluating the fiscal performance of a community.)

**Audit Report** - The product of an audit prepared by an independent auditor. The report often includes: (a) a statement of the scope of the audit; (b) explanatory comments as to application of auditing procedures; (c) findings and opinions; (d) financial statements and schedules; and (e) statistical tables, supplementary comments, and recommendations.

**Authentication** - See Certification.

**Available Funds** - These are funds established through previous appropriations or results of favorable conditions. These may be appropriated to meet emergency or unforeseen expenses, large one-time or capital expenditures. Examples: Free Cash, Stabilization Fund, Overlay Surplus, Water Surplus, and enterprise retained earnings

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

**Basis of Accounting** - Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported on the financial statements. Basis of accounting is related to the timing of the measurements made, regardless of the measurement focus applied. All governmental funds and expendable trust and agency funds could be accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available, as net current assets, with the following guidelines: Property taxes, excise taxes, departmental and governmental receivables are recorded as revenue when received in cash, as well as amounts received during the first 60 days of the following fiscal year. Expenditures are generally recognized under the accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due. All proprietary funds and nonexpendable trust and pension trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

**Basis Price** - The price expressed in yield or net return to maturity on investment. A basis point equals 1/100th of 1%.

**Betterments (Special Assessments)** - Whenever a specific area of a community receives benefit from a public improvement (e.g., water, sewer, sidewalk, etc.), special property taxes may be assessed to reimburse the governmental entity for all or part of the costs it incurred. Each parcel receiving benefit from the improvement is assessed for its proportionate share of the cost of such improvements. The proportionate share may be paid in full or the property owner may request the assessors apportion the betterment over 20 years. Over the lifetime of the betterment, 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 written promise to pay a specified sum of money, called the face value (par value) or principal amount, at a specified date or dates in the future, called 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.

**Bond and Interest Record** - The permanent and complete record maintained by a treasurer for each bond issue. It shows the amount of interest and principal coming due each date, the bond and coupon numbers, and all other pertinent information concerning the bond issue. The term is synonymous with Bond Register.

**Bond Anticipation Note (BAN)** - Once borrowing for a specific project has been approved by two-thirds vote of town meeting or city council and prior to issuing long-term bonds, short-term notes may be issued to provide cash for initial project costs. BANs may be issued for a period not to exceed five years, but with a reduction of principal after two years (Chapter 44, s 17). The final maturity date of the project borrowing, beginning from the date the short-term note was issued, may not exceed the term specified by statute (Chapter 44, s 7 and 8). BANs are full faith and credit obligations.

**Bond Authorization** - See Debt Authorization.

**Bonds Authorized and Unissued** - Bonds which a government has been authorized to sell but has not yet done so. Issuance at this point is only contingent upon action by the treasurer and mayor or selectmen.

**Bond Buyer** - A daily trade paper containing current and historical information of interest to the municipal bond business.

**Bond Counsel** - An attorney or law firm engaged to review and submit an opinion upon legal aspects of a municipal bond or note issue.

**Bond Discount** - The excess of the face value of a bond over the price for which it is acquired or sold. An example is a \$1,000 bond which is sold for \$990. The discount equals \$10.

**Bond Issue** - Generally, the sale of a certain number of bonds at one time by a governmental unit.

**Bonds Payable** - The face value of bonds issued and unpaid.

**Bond Premium** - The excess of the price at which a bond is acquired or sold over its face value. An example is a \$1,000 bond which sells for \$1,010. The premium equals \$10.

**Broker** - Acts as an intermediary between dealers in obtaining and matching bids offers. Their fee for consummating a transaction is charged to the seller.

**Budget** - A plan of financial operation embodying an estimate of proposed revenues and expenditures for a given period and the proposed means of financing them. A budget may be "preliminary" - the financial plan presented to the Town Meeting, or "final" - the plan approved by that body. The budget should be separated into basic units, either by department, program or service. The format is important because by classifying by service or department, the budget is clearly defined and more easily understood by both local officials and Town Meeting.

**Budget Message** - A statement by the town's policymakers summarizing the plans and policies contained in the budget report, including an explanation of the principal budget items, an outline of the municipality's experience during the past year and its financial status at the time of the message, and recommendations regarding financial policy for the coming fiscal year.

**Budget Unit** - A department to which the town meeting appropriates funds.

**Capital Budget** - An annual appropriation or spending plan for capital expenditures (tangible assets or projects that cost at least \$25,000 and have a useful life of at least five years). This budget should recommend the method of financing for each item recommended and identify those items which are recommended to be deferred due to scarce resources.

**Capital Expenditures/Improvements** - These are items generally found in the capital budget such as construction, acquisitions, site development, major repairs or replacement to capital facilities and public ways and overhead costs. The fees for architects, engineers, lawyers, and other professional services plus the cost of financing, advance planning may be included.

**Capital Improvements Program** - A comprehensive schedule for planning a community's capital expenditures. It coordinates community planning, fiscal capacity and physical development. While all of the community's needs should be

identified in the program, there should also be a set of criteria which prioritizes the expenditures. The capital program is a plan for capital expenditures that extends five years beyond the capital budget and is updated yearly.

**Capital Outlay Expenditure Exclusion** - A vote by a community at an election to exclude payments for a single year capital project from the levy limit. The exclusion is limited to one year and may temporarily increase the levy above the levy ceiling.

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

**Cash Management** - The process of managing monies of a local government in order to insure maximum cash availability and maximum yield on short-term investment of idle cash.

**Cemetery Perpetual Care** - These funds are donated by individuals for the care of grave sites. According to Chapter 114, s 25, funds from this account must be invested and spent as directed by perpetual care agreements. If no agreements exist, interest (but not principal) may be used as directed by the cemetery commissioners for the purpose of maintaining cemeteries.

**Certification** - The action of a bank or trust company (or DOR's Bureau of Accounts for State House Notes) in certifying the genuineness of the municipal signatures and seal on a bond issue. The certifying agency may also supervise the printing of bonds and otherwise safeguard their preparation against fraud, counterfeiting, or over-issue. Also known as Authentication.

**Certificate of Deposit (CD)** - A bank deposit evidenced by a negotiable or non-negotiable instrument which provides on its face that the amount of such deposit plus a specified interest payable to the bearer or to any specified person on a certain date specified in the instrument, at the expiration of a certain specified time, or upon notice in writing.

**Cherry Sheet** - Named for the cherry colored paper on which it was originally printed, the Cherry Sheet is the official notification from the Commissioner of Revenue of the next fiscal year's state aid and assessments to communities and regional school districts. State aid to municipalities and regional school districts consists of two major types — dis-

tributions and reimbursements. Distributions provide funds based on formulas while reimbursements provide funds for costs incurred during a prior period for certain programs or services. In addition, communities may receive “offset items” which must be spent on specific programs. Cherry Sheet Assessments are advanced estimates of state assessments and charges and county tax assessments. Local assessors are required to use these figures in setting the local tax rate. (Because these figures are estimates, it should be noted that based on filing requirement and/or actual data information the final aid or assessment may differ.)

**Cherry Sheet Offset Items** - Local aid accounts which may be spent without appropriation in the budget, but which must be spent for specific municipal and regional school district programs. Current offset items include Racial Equality Grants, School Lunch Grants, and Public Libraries Grants.

**Classification of Real Property** - Assessors are required to classify all real property according to use into one of four classes: Residential, Open Space, Commercial, and Industrial. Having classified its real properties, local officials are permitted to determine locally, within limitations established by statute and the Commissioner of Revenue, what percentage of the tax burden is to be borne by each class of real property and by personal property owners (see Classification of the Tax Rate).

**Classification of the Tax Rate** - In accordance with Chapter 40, s 56, the selectmen vote to determine the tax rate options. Based on the residential factor adopted (see Residential Factor), any community may set as many as three different tax rates for: residential property; open space; and commercial, industrial and personal property.

**Collective Bargaining** - The negotiations between an employer and union representative regarding wages, hours, and working conditions.

**Conservation Fund** - This fund may be expended for lawful conservation purposes as described in Chapter 40, s 8C. This fund may also be expended for damages related to the taking of land by eminent domain provided that such taking has first been approved by a two-thirds vote of city council or town meeting.

**Consumer Price Index** - The statistical measure of changes in the overall price level of consumer goods and services based on prices of goods and services purchased by urban

wage earners and clerical workers, including families and single persons. The index is often called the “cost-of-living index.”

**Cost-Benefit Analysis** - An analytical approach to solving problems of choice. First, different ways to achieve an objective are identified. Then an alternative is chosen to produce the required benefits at the lowest cost or greatest benefits for a given cost.

**Contingent Debt** - Debt which is not in the first instance payable as a direct obligation of the governmental unit, but has been guaranteed by a pledge of its faith and credit. (An industrial revenue bond guaranteed by a municipality would constitute contingent debt.)

**Contingent Liabilities** - Items which may become liabilities as a result of conditions undetermined at a given date, such as guarantees, pending lawsuits, judgments under appeal, unsettled disputed claims, unfilled purchase orders, and uncompleted contracts.

**Crosswalk** - A clear path linking separate considerations, such as a crosswalk between a line-item and program budget. For example, all department appropriations are set up the same way. However, because of the programmatic and reporting responsibilities a school department has to the Department of Education (DOE), a school department generally has a very detailed set of line-items by program. Expenditures must be tracked for DOE’s purposes yet easily communicated to the town accountant. Therefore, a crosswalk is established from the infinitesimal school detail to the larger picture of the town’s appropriation.

**Current Yield** - The coupon rate or percent of the annual interest divided by the market price of a bond.

**CUSIP** - This stands for the Standard Securities Classification System developed by the Committee on Uniform Security Identification Procedures of the American Bankers Association. CUSIP provides a unique number for each new security issued.

**Debt Authorization** - Formal approval to incur debt by municipal officials, in accordance with procedures stated in Chapter 44, specifically s 1, 2, 3, 4a and 6-15.

**Debt Burden** - The level of debt of an issuer, usually as compared to a measure of value (debt as a percentage of assessed

value, debt per capital, etc.). Sometimes debt burden is used in referring to debt service costs as a percentage of the annual budget.

**Debt Exclusion** - This is a vote by a municipality at an election to exclude debt service payments for a particular capital project from the levy limit. The amount necessary to cover the annual debt service payment is added to the levy limit for the life of the debt only. A debt exclusion may temporarily increase the levy above the levy ceiling. Also see School Building Assistance Program.

**Debt Limit** - The maximum amount of debt which a municipality may have authorized for qualified purposes under state and self-imposed ceilings.

**Debt Service** - The cost (usually stated in annual terms) of the principal retirement and interest of any particular issue.

**Default** - Failure to pay principal or interest when due.

**Direct Debt** - Debt which a municipality has incurred in its own name, as opposed to overlapping debt.

**Effective Interest Rate** - For a municipal borrower, the net cost of borrowing (expressed as an interest rate) after costs associated with a loan is accumulated and added to the nominal interest rate.

**Encumbrance** - Obligations in the form of purchase orders, contract, or salary commitments which are chargeable to an appropriation and for which a part of the appropriation is reserved.

**Enterprise Funds** - An accounting mechanism which 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. 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 so 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 at year end. According to Chapter 44 s 53F, the services that may be treated as enterprises include, but are not limited to, water, sewer, hospital, and airport services.

**Equalized Valuations (EQVs)** - The determination of the

full and fair cash value of all property in the Commonwealth which is subject to local taxation. EQVs have historically been used as variables in distributing certain state aid accounts, and for determining county assessments and certain other costs. The Commissioner of Revenue, in accordance with Chapter 58 s 10C, is charged with the responsibility of biannually determining an equalized valuation for each town and city in the Commonwealth.

**Estimated Receipts** - Estimates of state and local miscellaneous receipts based on previous year's receipts deducted by the Assessors from gross amount to be raised by taxation.

**Excess And Deficiency** - Also called the "surplus revenue" account, this is the amount by which cash, accounts receivable and other assets exceed the liabilities and reserves.

**Excess Levy Capacity** - The difference between the levy limit and the amount of real and personal property taxes actually levied in a given year. Annually, the board of selectmen or council must be informed of excess levying capacity and evidence of such acknowledgment must be submitted to DOR when setting the tax rate.

**Exemptions** - Upon approval of an application to the Board of Assessors, these are full or partial discharges from the obligation to pay a property tax by statute on particular categories of property or persons. Examples include hospitals, schools, houses of worship, and cultural institutions that are of benefit to the community. In addition, exemptions may be granted for qualified veterans, blind individuals, surviving spouses, persons over 70 years of age, and certain financial hardships.

**Expenditure** - The spending of money by the town, or city, for programs within the approved budget.

**Federal Aid Anticipation Note (FAAN)** - A short-term loan issued to be paid off at the time of receipt of a federal grant. FAANs are full faith and credit obligations.

**Fiduciary Funds** - Fiduciary funds account for assets held by the municipality in a trustee capacity or as an agent for individuals, private organizations, other governments, and other funds. These include expendable trust, nonexpendable trust, pension trust, and agency funds. Nonexpendable trust and pension trust funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Expendable trust funds are accounted for in essentially

the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**Financial Advisor** - An individual or institution which assists municipalities in the issuance of tax exempt bonds and notes. This function in Massachusetts is performed either by the public Finance Department of a commercial bank or a non-bank advisor.

**Fiscal Year** - The Commonwealth, state and municipalities (as of 1974) operate on a fiscal year which begins on July 1 and ends on June 30. The number of the fiscal year is that of the calendar year in which the fiscal year ends; e.g., the 2015 fiscal year, July 1, 2014 to June 30, 2015, usually written as FY15. This, however, no longer coincides with the fiscal year followed by the federal government, for beginning in 1976 the federal fiscal year was changed to begin on October 1 and end on September 30.

**Fixed Costs** - These are costs which are legally or contractually mandated. (Examples: retirement, FICA/Social Security, insurances, debt service or interest.)

**Float** - The amount of money making up the difference between the bank balance for a local government's account and its book balance at the end of the day. The primary factor creating float is clearing time on checks and deposits. Delays in receiving deposit and withdrawal information also influence float.

**Foundation Budget** - The target set for each school district defining the spending level necessary to provide an adequate education for all students. The Foundation Budget is comprised of both local effort and state aid.

**Free Cash** - (Also Budgetary Fund Balance) Funds remaining from the operations of the previous fiscal year which are certified by DOR's Director of Accounts as available for appropriation. Remaining funds include unexpended free cash from the previous year, receipts in excess of estimates shown on the tax recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount of remaining funds which can be certified as free cash. The calculation of free cash is made based on the balance sheet, which is submitted by the community's Auditor, Accountant, or Comptroller. Typically, a community will attempt to maintain a free cash balance of between 3 and 5 percent of its total budget as a hedge against

unforeseen expenditures, to insure there will be an adequate reserve to prevent sharp fluctuations in the tax rate, and to prevent expensive short-term borrowing. (Maintenance of an adequate free cash level is not a luxury but a necessary component of sound local fiscal management. Credit rating agencies and other members of the financial community expect municipalities to maintain free cash reserves; judgments regarding a community's fiscal stability are made, in part, on the basis of free cash.) Also see Available Funds.

**Full Faith and Credit** - A legal pledge of the general taxing powers for the payment of governmental obligations. Bonds carrying such pledges are usually referred to as general obligation or full faith and credit bonds.

**Fund** - an accounting entity with a self balancing set of accounts which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

**Fund Accounting** - Organizing the financial records of a municipality into multiple funds. A fund is a distinct entity within the municipal government in which financial resources and activity (assets, liabilities, fund balances, revenues, and expenditures) are accounted for independently in accordance with specific regulations, restrictions or limitations. Examples of funds include the General Fund and Enterprise Funds. Communities whose accounting records are organized according to the Uniform Municipal Accounting System use multiple funds.

**General Fund** - This non-earmarked fund is used to account for most financial resources and activity governed by the normal Town Meeting/City Council appropriation process.

**General Obligation Bonds** - Bonds issued by a municipality which are backed by the full faith and credit of its taxing authority.

**Governing Body** - The board, committee, commissioners or other legislative body of a governmental unit including the school committee of a municipality.

**Indirect Cost** - Costs of a service not reflected in the service's operating budget. A determination of these costs is necessary to analyze the total cost of service delivery. (An example of an indirect cost of providing water service would be health insurance costs for water employees.)

**Industrial Revenue Bond** - A bond used by a municipality or development corporation to acquire an industrial capacity to be leased to a private corporation; these are not general obligation bonds.

**Interest** - Compensation paid or to be paid for the use of money, including interest payable at periodic intervals or as discount at the time a loan is made.

**Interest Rate** - The interest payable, expressed as a percentage of the principal available for use during a specified period of time. It is always expressed in annual terms.

**Investments** - Securities and real estate held for the production of income in the form of interest, dividends, rentals, or lease payments. The term does not include fixed assets used in governmental operations.

**Judgment** - An amount to be paid or collected by a governmental unit as a result of a court decision, including a condemnation award in payment for private property taken for public use.

**Judgment Bonds** - Bonds issued to fund judgments.

**Land Fund** - A fund established in FY86 to which may be added an annual appropriation earmarked for the acquisition of land or debt service on designated land purchases.

**Law Enforcement Trust Fund** - A revolving fund established to account for a portion of the proceeds from the sale of property seized from illegal drug-related activities. Funds may be expended to defray certain qualified law enforcement costs as outlined in Chapter 94C, s 47. Funds from this account may be expended by the police chief without further appropriation.

**Legal Opinion** - An opinion, by an attorney or law firm that bonds have been legally issued by a public body, and that the bonds are exempt from federal income taxes and some Massachusetts taxes under existing laws, regulations and rulings.

**Levy Ceiling** - The maximum tax assessed on real and personal property may not exceed 2.5 percent of the total full and fair cash value of all taxable property (Chapter 59 s 21C). Property taxes levied may exceed this limit only if the community passes a capital outlay expenditure exclusion, a debt exclusion, or a special exclusion.

**Levy Limit** - The maximum amount a community can levy in a given year. The limit can grow each year by 2.5 percent of the prior year's levy limit (Chapter 59 s 21C (f,g,...k)) plus new growth and any overrides. 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 which focuses on inputs of categories of spending, such as supplies, equipment, maintenance, or salaries, as opposed to a program budget.

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

**Local Appropriating Authority** - In a town, the town meeting, which has the power to levy directly a property tax. In a city, the city council has the power.

**Local Receipts** - Locally generated revenues other than real and personal property taxes and excluding enterprise fund revenues. 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.

**Lock Box** - an effective case management system that reduces the float: payments are mailed to a post office box. The bank collects and processes these checks several times a day.

**Maturity** - The date upon which the principal of a bond becomes due and payable.

**Massachusetts Municipal Depository Trust** - Founded in 1977, it is an investment program in which municipalities may pool excess cash. It is under the supervision of the State Treasurer.

**Minimum Required Local Contribution** - The minimum that a town or city must appropriate from property taxes and other local revenues for the support of schools.

**Moody's Investment Services, Inc.** - One of the leading municipal bond rating agencies.

**Municipal(s)** - (As used in the bond trade) “Municipal” refers to any governmental unit below or subordinate to the state. “Municipals” (i.e., municipal bonds) include not only the bonds of all local subdivisions such as towns, cities, school districts, special districts, but also bonds of states and agencies of the state.

**Municipal Revenue Growth Factor** - An estimate of the percentage change in a municipality’s revenue growth for a fiscal year. It represents the combined percentage increase in the following revenue components: automatic 2 percent increase in the levy limit, estimated new growth, the change in selected unrestricted state aid categories, and the change in selected unrestricted local receipts.

**M.G.L. (or M.G.L.A.)** - Massachusetts General Laws, Annotated

**Municipal Finance Oversight Board** - A board authorized by Chapter 10 s 47 to review and approve applications by municipalities to exceed their statutory debt limit, define the term of borrowing for certain purposes, approve “emergency appropriations” under Chapter 44 S. 8 and designate issues of “Qualified Bonds” under Chapter 44a.

**Net School Spending (NSS)** - Includes both 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 Department of Education.

**New Growth** - The taxing capacity added by new construction and other increases in the property tax base. New growth is calculated by multiplying the value associated with new construction by the tax rate of the previous fiscal year. For example, FY15 new growth is determined by multiplying the value of new construction in calendar 2013 (as valued on January 1, 2014) by the FY14 tax rate. All increases in value that are not the result of revaluation or appreciation now qualify for inclusion in new growth figures.

**Nominal Interest Cost (NIC)** - The computed cost of a bond issue, used to compare competitive bids. The bidder with the lowest net interest cost is awarded the bond issue.

**Nominal Interest Rate** - The contractual interest rate shown on the face and in the body of the bond or on coupons attached to the bond.

**Note** - A short-term loan, typically of a year or less in maturity.

**Notice of Sale** - A detailed statement which is published to advertise the sale of municipal bonds by competitive bid.

**Objective** - Precise statement of expected output.

**Objects of Expenditures** - A classification of expenditures that is used for coding any department disbursement, such as “personal services”, “expenses”, or “capital outlay”.

**Official Statement** - A document containing information about a prospective bond issue or a note issue which contains information about the issue and the issuer, and is intended for the potential investor. The Official Statement is sometimes published with the Notice of Sale. It is sometimes called an Offering Circular or Prospectus.

**Offset Receipts** - Includes certain education programs and the aid to public libraries program which are designated on the Cherry Sheet as offset items. These amounts can be spent without appropriation but must be spent only for these specific programs.

**Operating Budget** - The plan of proposed expenditures for personnel, supplies, and other expenses for the coming fiscal year.

**Other Amounts to be Raised** - The amounts raised through taxation, but which are not appropriations items. Generally, these are locally generated expenditures (e.g., overlay, teacher pay deferral, deficits) as well as state, county and other special district charges. Because these must be funded in the annual budget, special consideration should be given to them when finalizing the budget recommendations to Town Meeting. (See Tax Recapitulation.)

**Overlapping Debt** - The share of regional school district and/or other regional agency debt which is allocable to and payable by a municipality as part of the fees or assessment from the regional entity.

**Overlay** - (Overlay Reserve or Reserve for Abatements and Exemptions) An account established annually to fund anticipated property tax abatements and exemptions 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 and statutory exemptions 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 (See Overlay). Within ten days of a written request by the chief executive officer of a town or city, 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; i.e., 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 to no higher than the levy ceiling. The override question on the election ballot must state a purpose for the override and the dollar amount. (See Underride.)

**Override Capacity** - The difference between a community's levy ceiling and its levy limit. It is the maximum amount by which a community may override its levy limit.

**Par Value** - The face amount of a bond, e.g., \$ 1,000 or \$5,000.

**Parking Meter Receipts Reserved for Appropriation** - This fund allows a community to charge for parking and to reserve these proceeds in a separate account. In accordance with Chapter 40 s 22A, the proceeds may be used to offset certain expenses for the acquisition, installation, maintenance and operation of parking meters and the regulation of parking and other traffic activities.

**Paying Agent** - A bank or other institution which acts as the agent for a municipality in making bond interest and principal payments.

**Performance Budget** - A budget which stresses output both in terms of economy and efficiency.

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

**Premium** - The amount by which the price exceeds the principal amount of a bond or par value.

**Price Index** - A statistical measure of change in overall prices. There are different indices, but they all compare the change in cost of a certain "bundle" of goods and services over a given period of time.

**Principal** - The face amount of a bond, exclusive of accrued interest.

**Productivity** - The ratio of outputs to inputs, or the amount of output per unit of input. Unit A is more productive than unit B if (1) it uses less resources but has the same output, or (2) it uses the same resources and has a greater output.

**Program** - A combination of activities to accomplish an end.

**Program Budget** - A budget which relates expenditures to the programs they fund. The emphasis of a program budget is on output.

**Property Tax Levy** - The amount a community can raise through the property tax. The levy can be any amount up to the levy limit plus exclusions.

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

**Ratings** - Designations used by credit rating services to give relative indications of quality. Moody's ratings range from the highest Aaa down through Aa, A- 1, A, Baa- 1, Baa, Ba, B, Caa, Ca, C. Standard & Poor's ratings include: AAA, AA, A, BBB, BB, B, CCC, CC, C, DDD, DD, and D.

**Refunding** - System by which an issue is redeemed by a new bond issue under conditions generally more favorable to the issuer.

**Registered Bond** - A bond whose owner is registered with the issuer or its agents, either as to both principal and interest or principal only.

**Repurchase Agreement (Repo)** - An agreement whereby a local government transfers cash to a financial institution, and the financial institution transfers securities to the local government and promises to repay the cash plus interest in exchange for the same securities within a given number of days.

**Reserve for Abatements and Exemptions** - See Overlay.

**Reserve Fund** - An amount set aside annually within the budget of a town (not to exceed 5 percent of the tax levy for the preceding year) or city (not to exceed 3 percent of the tax levy for the preceding year) to provide a funding source for extraordinary and unforeseen expenditures. In a town, the Finance Committee can authorize transfers from this fund for “extraordinary and unforeseen” expenditures. Other uses of the fund require budgetary transfers by Town Meeting. In a city, transfers from this fund may be voted by the City Council upon recommendation of the Mayor.

**Residential Factor** - Adopted by a community annually, this governs the percentage of the tax levy to be paid by property owners. If local officials choose a low residential factor, (for example the statutory minimum set by the Commissioner of Revenue) residential property owners will pay a proportionately lower share of the total levy (split or multi-tax rate). A residential factor of “1” will result in the taxation of all property at the same rate (single tax rate).

**Retained Earnings** - An equity account reflecting the accumulated earnings of an enterprise fund which may be used to fund capital improvements, to reimburse the general fund for prior year subsidies, to reduce user charges and for enterprise revenue deficits (operating loss).

**Revaluation (or recertification of property values)** - The Assessors of each community are responsible to develop a reasonable and realistic program to achieve a fair cash valuation of property in accordance with constitutional and statutory requirements. The nature and extent of that program will depend on the Assessors’ analysis and consideration of many factors, including, but not limited to, the status of the existing valuation system, the results of an in-depth sales ratio study, the location and style of properties, and the accuracy of existing property record information. Every three years, Assessors must submit property values to the state Department of Revenue for certification. Assessors must also maintain these values in the years between certifications. This is done so that each property taxpayer in the community pays his or her share of the cost of local government - no more or less - in proportion to the amount of money the property is worth.

**Revenue Anticipation Borrowing** - Cities, towns and districts may issue temporary notes in anticipation of taxes (TANs) or other revenue (RANs). The amount of this type of borrowing is limited to the total of the prior year’s tax levy, the net amount collected in motor vehicle and trailer excise

in the prior year and payments made by the Commonwealth in lieu of taxes in the prior year. According to c 44 s 4, towns, cities and districts may borrow for up to one year in anticipation of such revenue.

**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.

**Revenue Bond** - A bond payable from and secured solely by specific revenues and thereby not full faith and credit obligations.

**Revolving Fund** - Allows a community to raise revenues from a specific service and use those revenues to support the service without appropriation. For departmental revolving funds, c 44 s 53E stipulates that each fund must be reauthorized each year at annual town meeting or by city council action, and that a limit on the total amount which 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 town or city in the most recent fiscal year, and no more than one percent of the amount raised by taxation may be administered by a single department or board. No revolving fund expenditures shall be made for the purpose of paying any wages or salaries for full-time employees. Revolving funds for other programs as provided by statute are still allowed, and a departmental revolving fund may be implemented in addition to or in conjunction with other existing statutory revolving funds, provided that the departmental revolving fund does not conflict with provisions of other revolving funds.

**Sale of Cemetery Lots Fund** - This fund is established to account for proceeds of the sale of cemetery lots. The proceeds must be used to offset certain expenses of the Cemetery Department under provisions of Chapter 114 s 43C.

**Sale of Real Estate Fund** - This fund is established to account for the proceeds of the sale of municipal real estate other than proceeds acquired through tax title foreclosure. c 44 s 63 states that such proceeds shall be applied first to the retirement of debt on the property sold. In the absence of such debt, funds may generally be used for purposes for which the town or city is authorized to borrow for a period of five years or more.

**Scale** - The underwriter’s re-offering prices expressed in yields for each maturity of a serial issue.

**School Building Assistance Program** - Established in 1948 and frequently revised by statutory amendments, this program of the Commonwealth provides grants for local and regional school construction projects. The SBA program is administered by the Massachusetts School Building Authority in the State Treasurer's Office. If a community votes a debt exclusion to fund a school construction project, the amount of SBA funds received towards any school construction debt must be deducted before determining the net school debt exclusion.

**Security** - For Massachusetts municipalities, bonds or notes evidencing a legal debt on the part of the issuer.

**Serial Bond** - A bond of an issue which has maturities scheduled annually over a period of years.

**Sinking Fund** - Amounts required to be set aside to either purchase bonds in the open market or call bonds so that term bonds will be retired at maturity. These are no longer legal in Massachusetts.

**Special Assessment Bonds** - These bonds are payable from the proceeds of special assessments. If, in addition to the assessments, the full faith and credit of the governmental unit are pledged, they are known as "general obligation special assessment bonds."

**Special Assessments** - See Betterments.

**Special Exclusion** - For a few limited capital purposes, a community may assess taxes above the amount of its levy limit or levy ceiling without voter approval. Otherwise, special debt and capital outlay exclusions are like voter approved exclusions. Presently, there are two special exclusion exclusions: 1) water and sewer project debt service costs which reduce the water and sewer rates by the same amount; and 2) a program to assist homeowners with the repair or replace faulty septic systems, the removal of underground fuel storage tanks, or removal of dangerous levels of lead paint to meet public health and safety code requirements. In the second special exclusion, homeowners repay the municipality for the cost plus interest added apportioned over a period of time not to exceed 20 years similar to betterments.

**Spread** - The difference between the average re-offering price and the bid price on a bond issue. The amount of spread is determined by a combination of market risk, expenses and estimated selling compensation required. It is the gross profit

to the underwriters.

**Stabilization Fund** - An account from which amounts may be appropriated for any lawful purpose. Prior to FY92, use of the Stabilization Fund was restricted to purposes for which towns and cities could legally borrow. Revisions to Chapter 40 s 5B removed this restriction and amounts from the Stabilization Fund can now be appropriated for any legal purpose. Towns 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 director of accounts. The aggregate of the Stabilization Fund shall not exceed ten percent of the town'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.

**Standard & Poor's Corporation** - One of the leading municipal bond rating agencies.

**State Aid Anticipation Note (SAAN)** - A short-term loan issued in anticipation of a state grant or aid.

**State House Notes** - Notes for towns, cities, counties and districts certified by the director of accounts. State House notes are generally less costly and easier to issue than conventional issues for borrowings. Therefore, these notes are more commonly used for temporary loans and smaller long-term issues.

**Surplus Revenue** - The amount by which cash, accounts receivable and other floating assets exceed the liabilities and reserves.

**Syndicate** - A group formed by one or more firms for the purpose of purchasing all or part of a new issue of municipal securities from an issuer, and making a sale thereof. See Underwriter.

**Tailings** - This fund is reserved for unclaimed checks written on city or town accounts. The procedures for retaining money from unclaimed checks are outlined in Chapter 200A, s 9A. Written notice must be filed with the clerk if these procedures are to be followed.

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

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

**Tax Title** - Collection procedure which secures a lien on real property and protects the municipality's right to payment of overdue property taxes. (Without following this procedure, the lien on real property expires if three years elapse from the October first following the assessment date, and the property is transferred. 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 the overdue amounts to the treasurer.)

**Term Bond** - Bonds the entire principal of which matures on one date. Massachusetts municipal general obligation bonds are required by law to be retired on a serial basis.

**Trust Fund** - In general, a fund held for the specific purpose stipulated by a trust agreement. The treasurer acts as custodian of trust funds and invests and expends such funds as stipulated by trust agreements or as directed by the commissioners of trust funds or by town meeting. Both principal and interest may be used if the trust is established as an expendable trust. For non-expendable trust funds, interest but not principal may be expended as directed.

**Uncollected Funds** - Recently deposited checks included in an account's balance but drawn on other banks and not yet credited by the Federal Reserve Bank or local clearinghouse to the bank cashing the checks. (These funds may not be loaned or used as part of the bank's reserves and they are not available for disbursement.)

**Override** - A vote by a community to permanently decrease the tax levy limit. As such, it is the exact opposite of Override.

**Underwriter** - For municipal debt issues, a commercial bank or securities dealer which purchases all or part of a new issue in order to sell the securities to investors. A group of under-

writers is called a syndicate.

**Unfunded Pension Liability** - Unfunded pension liability is the difference between the value assigned to the retirement benefits already deemed by a town's employees and the assets the town's retirement system will have on hand to meet these obligations. The dollar value of the unfunded pension liability 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.

**Uniform Municipal Accounting System (UMAS)** - A comprehensive and practical municipal accounting system that conforms to Generally Accepted Accounting Principles (GAAP) for local governments. UMAS is regarded by the Department of Revenue as the professional standard for modern municipal accounting in Massachusetts. (Among the benefits of conversion to UMAS are increased consistency in reporting and record keeping and enhanced comparability of data among cities and towns.)

**Unreserved Fund Balance** - Also referred to sometimes as the "surplus revenue account", this is the amount by which cash, accounts receivable, and other assets exceed liabilities and restricted reserves. It is akin to "stockholders' equity" account on a cooperate balance sheet. It is not, however, available for appropriation in full because a portion of the "assets listed as "accounts receivable" may be taxes receivable and uncollected. (See Free Cash).

**Valuation (100%)** - Requirement that the assessed valuation must be the same as the market value for all properties; 100 percent valuation may offer greater equity in the redistribution of state aid to cities and towns based upon local real estate values.

**Warrant** - A list of items to be acted on by Town Meeting. (A treasury warrant and the assessors' warrant authorize the treasurer to pay specific bills and the tax collector to collect taxes in the amount and from the persons listed, respectively.)

**Water Surplus** - For water departments operating under Chapter 41 s 69B, any revenues in excess of estimated water receipts or unspent water appropriations close to a water surplus account. Water surplus may be appropriated to fund water-related general and capital expenses or to reduce water rates.

**Waterways Improvement Fund** - An account into which 50

percent of the proceeds of the boat excise are deposited. Use of these proceeds is limited to certain waterway expenses as outlined in Chapter 40 s 5G.

**Wire Transfer** - A method of moving funds from one bank to another through the use of the bank wire system or Federal Reserve System, so that funds are in transit for a minimum period of time.

**Yield** - The net annual percentage of income derived from an investment. The yield of a bond reflects interest rate, length of time to maturity and write-off of premium or accrual of discount. (Also referred to as "yield to maturity".)

*This appendix was prepared by Donald Levitan and Meilida J. Ordway (representing her opinions and not necessarily those of the Department of Revenue) and updated by Allan Tosti.*

