

## Town of Wareham

### Finance Committee

*For your reference and convenience, the following list is Glossary of Terms commonly used at Town Meeting*

**Article** - An item listed in the Town Meeting Warrant which must contain a sufficient description of what is proposed to be voted upon. Every action taken at the town meeting must be pursuant to some Article printed in the Warrant, and must be within the scope of such Article. The Warrant is issued by the Board of Selectmen, and must also state the time and place of the upcoming Town Meeting.

**Assessed Valuation** - A valuation set upon real property and personal property by the Board of Assessors as a basis for levying taxes.

**Available Funds** - Balances in the various fund types that represent non-recurring revenue sources. Our town's fiscal policy suggests that Available Funds be appropriated (used) to meet unforeseen expenses, for capital expenditures, or other one-time costs. Examples of Available Funds include Free Cash, Stabilization Funds, and Overlay Surplus.

**Capital Improvement Plan** – A blueprint for planning the town's capital expenditures that includes an annual capital budget and a five year capital program, which our Town Charter requires the Capital Planning Committee to update each year. Examples of items which are typically included in the Capital Improvement Plan are purchases or lease payments for town vehicles, municipal building renovations or construction, and investment in equipment which is intended to last for at least five years.

**Chapter 70 School Aid** – Chapter 70 refers to the school funding formula created under the Education Reform Act of 1993, by which the state aid portion of public education funding is distributed to cities and towns.

**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 amount granted to each town is paid in the form of reimbursements by the state after the town completes local work and submits certified expenditure reports to Mass Highway.

**Cherry Sheet** – A cherry-colored form issued by the State each year which lists all state and county charges required to be paid by the town, as well as all reimbursements and Local Aid to be paid to the town. Some reimbursements paid to the town are based on formulas which review how much the town spent on certain items during the previous fiscal year.

**Community Preservation Act (“CPA”)** – Enacted in 2000, MGL Ch. 44B permits towns accepting its provisions to establish a restricted fund from which monies can only be appropriated for the acquisition, creation and preservation of open space, historic resources, land for recreational use, community housing, and the rehabilitation and restoration of those town assets previously acquired or created using monies from the fund. Acceptance requires Town Meeting majority vote. Community Preservation is funded annually by a combination of 3% surcharge on the local real property tax levied on valuations of \$100,000 and above and a variable percentage state match using funds realized from deed registration fees.

**Debt Exclusion** - A town can vote to assess taxes in excess of its Levy Limit in order to borrow money and make annual loan payments. A Debt Exclusion for a town is similar to a mortgage for a home, with the exception that annual payments for Debt Exclusions usually decrease each year until the debt is completely paid. The additional amount approved for the payment of the annual loan payments (“Debt Service”) is added to the Levy Limit for the life of the debt only. Unlike Overrides, Debt Exclusions do not become part of the base upon which the Levy Limit is calculated for future years. A Debt Exclusion is typically used to pay for capital equipment purchases and municipal building construction/renovation projects. A Debt Exclusion must be approved by a 2/3 vote of the Selectmen to place the Debt Exclusion on a ballot, and then must be confirmed by a subsequent vote of registered voters at a ballot box election (majority vote required).

**Debt Service** – The repayment cost to be budgeted each year to make principal and interest payments due on the bonds owed by the town. It is similar to a homeowner’s budget for mortgage payments.

**Direct costs** - are those costs that can be identified specifically with a particular activity or department with a high degree of accuracy.

**Enterprise Funds** - Funds that are set up pursuant to MGL Chapter 44 §53F½ to collect fees paid by users to pay for certain self-sufficient programs. These funds account for all revenues and expenditures for services and allow surpluses to be used to reduce future fees for the services or to pay for future capital improvements for that service. Each fund has an independent budget. Losses are made up from the town's general fund.

**Estimated Receipts** – Funds expected to be received by the town in the coming fiscal year, but not including real estate taxes. Building permit fees, marriage license fees, and automobile and boat excise taxes are examples of items included in Estimated Receipts. See Local Revenues.

**Finance Committee (“FinCom”)** – A committee of 9 volunteer residents who are appointed by the Appointing Authority (Town Moderator, Chairman of the Selectmen, Chairman of the Finance Committee) to review and make recommendations for each budget line item and each Article that has financial impact in the Town Meeting Warrant. The FinCom also manages and controls the Reserve Fund.

**Fiscal Year (“FY”)** – The budget cycle period from July 1 of one year through June 30 of the next year. The Fiscal Year refers to the year in which it ends (FY15 is July 1, 2014 to June 30, 2015).

**Fixed Costs** – Costs that are legally or contractually mandated; such as retirement, FICA/Social Security, the town’s liability insurance, or Debt Service.

**Free Cash** - 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, 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.

(Additional from MA Department of Revenue)

DOR recommends that communities understand the role free cash plays in sustaining a strong credit rating and encourages the adoption of policies on its use. Under sound financial policies, a community would strive to generate free cash in an amount equal to 3-to-5 percent of its annual budget. Free cash would not be depleted in any year, so that the following year's calculation would begin with a positive balance. Conservative revenue projections and departmental appropriations would be orchestrated to produce excess income and departmental turn backs. As a non-recurring revenue source, a prudent use of free cash would be to fund one-time expenditures, a capital purpose or to replenish other reserves. If projected as a revenue source to support the ensuing year's operations, the amount used would be restricted to a percentage of total free cash. However, DOR also recommends that free cash not be available to supplement current year departmental operations. By eliminating the expectation of additional resources later in the fiscal year to back-fill budgets, department heads will produce more accurate and realistic annual appropriation requests.

<http://www.mass.gov/dor/docs/dls/mdmstuf/technical-assistance/best-practices/freecash.pdf>

**General Fund** – The fund used to account for most financial resources and activities governed by the normal town meeting appropriation process.

**Indirect Costs** - Indirect costs are those for activities or services that benefit more than one department or area. A cost or expense that is not directly traceable to a department, service, or activity. As a result indirect costs and expenses are often allocated by formula or other method.

**Level Funded Budget** – A budget for a certain department(s) or town service(s) which provides the same total dollar amount as last year’s budget. Since costs usually rise each year (fuel, salaries, supplies), a Level Funded Budget typically results in reduced services to residents because the same budget amount must pay for the rising costs, which will require reductions in work hours, staffing or other department services in order to balance the budget.

**Level Service Budget** – A budget for a certain department(s) or town service(s) which provides increased funding which is sufficient only to provide for the same level of services as last year’s level of services. No new employees or expanded services are funded for the coming Fiscal Year.

**Levy Limit** – The maximum amount that any town can collect (or levy) in a given fiscal year through the real estate tax and personal property tax. The Levy Limit can grow by 2½% of the prior year’s Levy Limit, plus New Growth and any voter-approved Overrides or Debt Exclusions.

**Local Aid** – Revenue allocated and paid by the State to our town. Some Local Aid is unrestricted (the town votes how to spend it), and other types of Local Aid are restricted to education uses, highway/street maintenance, and the like.

**Local Revenues** – Locally generated revenues which do not include real estate taxes or personal property taxes. Examples include motor vehicle excise taxes, investment income, permit fees paid to the town, etc.

**New Growth** – Additional tax revenue expected to be collected by the town in the coming fiscal year due to taxes being assessed to new construction projects (commercial and residential) and other increases in the property tax base (home renovations, building upgrades or additions, etc.). New growth is calculated by multiplying the value associated with the new construction by the tax rate of the previous year.

**Non-Recurring Funds** – Money that the town expects to collect this year, but not next year. As an example, if the town plans to sell a piece of real estate this year, the money received from the sale would be Non-Recurring Funds. The fiscal policy of our town states that Non-Recurring Funds should not be relied upon to pay for expected recurring expenses. In other words, the policy suggests that the town should not hire an employee with funds from the sale of a parcel real estate this year because we wouldn’t be able to sell the same parcel again next year and receive additional sale proceeds to continue paying for the employee. Please also see and compare the definition of Recurring Funds.

**Overlay:** The Overlay is the amount used by the Assessors in excess of appropriations and other charges for the purpose of creating a fund to cover abatements granted and avoiding fractions.

**Override** – The ability of residents to increase the town’s Levy Limit by more than 2½% by voting to approve a higher Levy Limit. A majority vote by the Board of Selectmen is required to place an Override question on a ballot, and a majority vote by registered voters at a subsequent ballot box election is required to approve an Override. A Town Meeting vote to approve a town budget over the Levy Limit usually precedes the Selectmen’s vote, but such action by Town Meeting it is not required. An Override vote must specify the exact dollar amount requested and the specific purpose of the increased tax, and if approved, the amount will become a permanent increase in the Levy Limit.

**Raise and Appropriate** – A phrase used to mean that an item will be paid for by real estate taxes and other revenue sources (excise taxes, permit fees, local aid, etc.) to be collected by the town in the coming fiscal year.

**Recap Sheet** – Also called the Tax Rate Recapitulation Sheet, it is a document submitted by the town to the DOR in order to set each year’s property tax rate. The Recap Sheet shows all estimated revenues and actual appropriations that affect the property tax rate, and must be

submitted before December 1st of each year in order for the town to issue “actual tax bills” in the 3rd and 4th quarter of the fiscal year.

**Recurring Funds** – Money that the town expects to collect each and every year for the foreseeable future, although the exact amounts may vary. Real estate taxes, fees collected for local permits and licenses, and local aid money from the state are all examples of Recurring Funds. In accordance with our town’s fiscal policy, Recurring Funds are relied upon to pay for our annual Recurring Expenses, such as employee salaries, health insurance premiums, and electricity and heat for town buildings, etc. Please also see and compare the definition of Non-Recurring Funds.

**Reserve Fund** - A small fund established each year by the Annual Town Meeting. The money is controlled by the Finance Committee, which may authorize transfers at the end of each fiscal year to cover any extraordinary or unforeseen expenditures of the town. The fund may be composed of not more than 5% of the tax levy for the preceding year.

**Revolving Fund** – A fund established each year for certain town departments to allow those departments to collect fees for a specific service and use those fees/revenues to support the service without using tax dollars. Per MGL Ch. 44 §53E½, each Revolving Fund must be re-authorized each year at the Annual Town Meeting, as well as the limit on the total amount that may be spent from each fund.

**Stabilization Fund** - A special account created to provide a reserve for municipal purposes. It is typically considered as a town’s savings account or a “rainy day fund”, to be used to balance budget shortfalls in years when local revenues or state aid is low, or when unique or unexpected expenses arise, or for any other purpose that Town Meeting authorizes. To deposit or withdraw money from the Stabilization Fund, Town Meeting must approve the amount by a 2/3 vote.

**State Aid** – See **Cherry Sheet** definition.

**Structural Deficit** – describes an entity where the revenue generated is less than operating cost over an extended period..a structure that needs to be continually subsidized instead of supporting itself.

**Surplus Revenue** - The total amount of cash, accounts receivable, and other current assets that exceed liabilities and reserves. As a simple example, if we collected taxes, fees and local aid of \$100, but only spent \$90 on actual costs and expenses, our Surplus Revenue would be \$10.

**Town Meeting Warrant** – The document which lists the Town Meeting’s date, location and list of Articles. The Warrant is available on the town’s website, and is posted at the Town Offices and post offices prior to each Town Meeting to provide voters with written notice about the matters to be voted upon at Town Meeting.

**Unfunded Mandate** – A requirement imposed and required by the state or federal government, but with no accompanying funds to cover any costs to be incurred by the town to comply.

