

Glossary of Terms Commonly Used in Municipal Finance

Abatement: A complete or partial cancellation of a levy imposed by a governmental unit; applicable to tax levies and special assessments.

Accrual Basis: In the context of accounting, practice in which expenses and income are accounted for as they are earned or incurred, whether or not they have been received or paid.

Actuarial Accrued Liability (AAL): Generally represents the portion of the present value of fully projected benefits attributable to service credit earned (or accrued) as of the valuation date.

Actuarial Value of Assets (AVA): The value of a pension plan investments and other property used by the actuary for the purpose of an actuarial valuation (sometimes referred to as valuation assets). Actuaries often select an asset valuation method that smoothes the effects of short-term volatility in the market value of assets.

Actuarially Determined Contribution (ADC): The employer's periodic required contributions, expressed as a dollar amount or a percentage of covered plan compensation.

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 may be expended. Only a vote of Town Meeting or the School Committee can authorize money appropriated for one purpose to be used for another. Any amount which is appropriated may be encumbered. Any part of the general appropriation not spent or encumbered by June 30 automatically reverts to surplus. A specific or particular appropriation is carried forward from year to year until spent for the designated purpose or transferred by Town Meeting vote to another account.

Assessed Valuation: The value placed upon a particular property by the local 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," certified periodically by the Commonwealth's Commissioner of Revenue (no less frequently than once every three years).

Audit: Work done by accountants in examining financial reports, reviewing compliance with applicable laws and regulations, reviewing efficiency and economy of operations, and reviewing effectiveness in achieving program results. A basic audit examines only the financial reports and legal compliance. An external audit is directed primarily toward the expression of an opinion as to the fairness of the financial statements and submission of a management letter. An auditor must be independent of the executive branch of government. A state auditor, private Certified Public Accountant, or public accountant, or elected auditor meets this test.

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

Balanced Budget: A plan of financial operation in which the estimate of proposed expenditures for a given period is less than or equal to the proposed means of financing these expenditures (from various sources of funds or revenues).

Budget: A plan of financial operation embodying an estimate of proposed expenditures for a given period (usually a 12- month period referred to as the Fiscal Year, or FY) 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).

Capital Budget: A plan of proposed capital outlays, and the means of financing them for the current fiscal period. It is usually a part of the current budget but may also be a multi-year plan.

Capital Improvement: A major, non-recurring expenditure involving one of the following:

- a. Real Property - Includes the purchase or lease of land, existing buildings and appurtenant structures, and fixtures attached to land and buildings.
- b. Equipment - Includes the replacement or addition of major items of equipment with a life expectancy of at least two years and a cost of at least \$5,000. Similar items can be bundled together.
- c. Projects - Include activities such as the following:
 1. Construction of new buildings or facilities (including architectural, engineering, and related fees).
 2. Improvements or major repairs (costing \$5,000 or more) of existing buildings or facilities, aside from routine maintenance.
 3. Studies or other activities (costing \$5,000 or more) that either relate to future “brick and mortar” projects or are a part of a multi-year program of infrastructure improvements.
 4. An annual sum available for routine building improvements, renovations, or repairs.

Cherry Sheet: An annual statement received from the Massachusetts Department of Revenue (DOR) detailing estimated receipts for the next fiscal year from the various state aid accounts, and estimated state and county government charges payable by the Town and included by the local Assessors in setting the tax rate. The actual receipts and charges may vary from the estimates.

Classification: The division of property valuations by type of property. There are five classes: Residential, Open Space, Commercial, Industrial, and Personal. The Select Board may set as many as three different tax rates (within limits set forth in state law): for residences, for business and personal, and for open space.

Cooling Degree Days: Are a measure of how much (in degrees), and for how long (in days), outside air temperature was higher than a specific base temperature. They are used for calculations relating to the energy consumption required to cool buildings.

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

Depreciation: A non-cash expense (also known as non-cash charge) that provides a source of available funds. Amount allocated during the period to amortize the cost of acquiring long-term assets over the useful life of the assets. This is an accounting expense not a real expense that demands cash.

Encumbrance: Obligations such as purchase orders, contracts, or salary commitments that are chargeable to an appropriation, and for which a part of the appropriation is reserved.

Enterprise Fund: A fiscal entity with a self-balancing set of accounts that is utilized to account for a governmental service when it is the intent to recover the total cost of service, including depreciation, primarily through user charges imposed on the consumers of the service. Examples in Concord include electricity provided by the Concord Municipal Light Plant, and Water and Sewer services provided by the Department of Public Works.

Equalized Valuation (EQV): The value of all property as determined by the Commissioner of Revenue biennially, using a standard of "full and fair value"; also referred to as EQV.

Expenditure: The spending of money by the Town for the programs or projects within the approved budget. Fiscal Year (FY): A 12-month period, commencing 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; FY2023 is the fiscal year which ends June 30, 2023.

Free Cash: Free cash refers to the amount of Fund Balance that is available for appropriation. It is certified each July 1 by the state. Because of the stringent way that the state makes these calculations, Free Cash more closely represents Cash (actual dollars held) than does Fund Balance, which includes a variety of receivables (i.e., cash due).

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

Fund Balance: The amount by which cash, accounts receivable, and other assets exceed liabilities and restricted reserves. It is akin to the stockholders' equity account on a corporate 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).

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.

Governmental Funds: Funds used to organize and separate the finances of various Town activities and objectives. Governmental Fund categories include: the General Fund; Enterprise Funds; Special Revenue Funds; and the Capital Projects Fund.

Heating Degree Days: Are a measure of how much (in degrees), and for how long (in days), outside air temperature was lower than a specific "base temperature" (or "balance point"). They are used for calculations relating to the energy consumption required to heat buildings. Kilowatt-hour (kWh): Kilowatt-hour is an energy unit (symbol kWh). One kilowatt-hour is defined as the energy consumed by power consumption of 1kW during 1 hour. The Town of Concord uses kWh to measure electric output for facilities.

Land Fund: A fund established by Town bylaw in FY1986 to which may be added an annual appropriation, gifts, and grants. The use of the fund is restricted to the acquisition of land, debt service on designated land purchases, and related costs, such as legal and appraisal fees.

Overlay: The amount raised from the property tax levy in excess of appropriations and other charges. It cannot exceed 5 percent of the levy and is used to cover abatements and exemptions granted locally or on appeal.

Overlay Surplus: The unused portions of overlay accounts from previous years; at the end of each fiscal year, this amount is computed from information provided by the Board of Assessors. Any sum so designated is transferred to, and becomes part of, the General Fund undesignated fund balance.

Override: A vote to increase the amount of property tax revenue that may be raised over the levy limit set by Proposition 2½.

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

Payment in lieu of Taxes (PILOT): made to compensate a local government for some or all of the tax revenue that it loses because of the nature of the ownership or use of a particular piece of real property. Usually it relates to the foregone property tax revenue.

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

Property Tax Levy: 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. For example: (based on \$14.76 tax rate)

House Value: \$700,000

Tax Rate: \$14.76 (which means \$14.76 per thousand \$ of valuation)

Levy Calculation: \$14.76 multiplied by \$700,000 divided by \$1,000.

Result, **Property Tax Levy:** \$10,332

Proposition 2½ (see below): A tax limitation measure passed by Massachusetts voters in 1980 that limits the growth of the total property tax levy to 2.5% per year. New construction values are added to this limit. Two provisions of Prop 2½, so-called, allow the Town to raise taxes above this tax levy limit, upon approval by a Town-wide vote: an operating override or a debt exclusion.

Public Employee Retirement Administration Commission (PERAC): A government agency that was created for and is dedicated to the oversight, guidance, monitoring, and regulation of the Massachusetts Public Pension Systems.

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

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

Revolving Fund: Those funds that may be used without **appropriation**, and that are established for special uses. Fees (such as for recreation) may be paid into a revolving fund. Revolving funds are established directly by state law or by Town bylaw consistent with state law.

Tax Levy: Total amount of dollars assessed in property taxes by the Town each **fiscal year**.

Therm: A unit of measure for heating energy. In Concord, this can be linked to facility natural gas output.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any of the **Actuarial Accrued Liability** over the **Actuarial Value of Assets**. In other words, the present value of benefits earned to date that are not covered by current plan assets.

Warrant: A list of items to be voted upon at Town Meeting.

Terms Associated with Proposition 2½

Excess Levy Capacity: The difference between the Town's maximum annual tax levy limit as established by Proposition 2½, and its actual **tax levy** for the current year. It is additional **tax levy** that a town could raise without asking voters for an override or debt exclusion.

Growth Revenue: The amount of property tax revenue that the Town can add to its allowable tax levy as a result of new construction, alterations, subdivision, or change of use of a parcel.

Primary Levy Limit, or Absolute Limit: 2.5 percent of certified full and fair cash value of taxable property.

Secondary Levy Limit, or Annual Levy Limit: Prior levy