

## **Millis Municipal Finance / Budget Glossary**

### **Appropriation**

An authorization granted by town meeting to expend money and incur obligations for specific purposes. An appropriation is usually limited in amount and the time period within which it may be expended.

### **Available Funds**

Balances in the various fund types that represent non-recurring revenue sources. Examples of available funds are free cash, stabilization fund, and overlay surplus.

### **Bond**

A written promise to pay a specified sum of money, called the face value or principal amount, at specified dates in the future, called the maturity date(s), together with periodic interest at a specified rate. The difference between notes (usually one year or two years in length) and a bond is that a bond runs for a longer period of time.

### **Bond Rating (Municipal)**

A credit rating assigned to a municipality to help investors assess the future ability, legal obligation, and willingness of the city or town to make timely debt service payments. A bond rating helps prospective investors determine the level of risk associated with a given fixed-income investment. Higher ratings usually mean lower interest rates are available to the town when it needs to borrow funds. The bond rating for the Town of Millis from Moody's is currently Aa3 (as of May, 2017), which matches the US city median.

### **Capital Assets**

All tangible property used in the operation of government which is not easily converted into cash and has an initial useful life extending beyond a year. Capital assets include land and land improvements, buildings and building improvements, machinery and equipment.

### **Chapter 70 School Funds**

Chapter 70 refers to the school funding formula created under the Education Reform Act of 1993 by which state aid is distributed to Massachusetts towns through the Cherry Sheet.

### **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 Chapter 90 formula comprises three variables: local road mileage (58.33 percent) as certified by the Massachusetts Highway Department (MHD), local employment level (20.83 percent) derived the Department of Employment and Training (DET), and population estimates (20.83 percent) from the US Census Bureau. Local highway projects are approved in advance. Later, on the submission of certified expenditure reports to MHD, communities receive cost reimbursements to the limit of the grant.

### **Cherry Sheet**

Named for the cherry colored paper on which they were originally printed, the Cherry Sheet is the official notification to cities, towns and regional school districts of the next fiscal year's state aid and assessments.

### **Collective Bargaining**

The process of negotiating workers' wages, hours, benefits, working conditions, etc., who are represented by a recognized labor union.

### **Debt Exclusion**

An action taken by a community through a referendum vote to raise the funds necessary to pay debt service costs for a particular project from property taxes above the limits under Prop 2 ½.

### **Deficit**

The excess of expenditures over revenues during an accounting period.

**Enterprise Funds**

A separate accounting and financial mechanism for municipal services for which a fee is charged for goods or services. Enterprise funds allow surpluses to be used to reduce fees for the services or to pay for capital improvements. Millis has two Enterprise Funds: Water and Sewer.

**ESBC**

The MSBA requires all districts in the funding pipeline for a new or renovated school to form a School Building Committee. Millis formed the Elementary School Building Committee (ESBC) on 7/29/14, which includes all member of the Permanent Building Committee, representatives from the School Committee, Board of Selectman, Finance Committee, school officials, and one community member with a building construction background.

**Fiscal Year**

Since 1974, Massachusetts has operated on a budget cycle that begins July 1 and ends June 30.

**Fixed Costs**

Costs that are legally or contractually mandated such as retirement, FICA/Social Security, insurance, and debt service costs.

**Foundation Budget**

The spending target imposed by the Education Reform Act of 1993 for each school district as the level necessary to provide an adequate education for all students.

**Free Cash**

Remaining, unrestricted funds from operations of the previous year. Unpaid property taxes reduce the amount that can be certified as free cash. Free cash is certified by the State Bureau of Accounts and is not available for appropriation until certified.

**Level Funded Budget**

A "level funded" budget appropriates the same amount of money to each municipal department from the prior year appropriation. This is tantamount to a budget cut because increases in mandated costs (health insurance, special education costs, previously negotiated salary raises for employees, etc.) and other fixed expenses must be covered, usually at the expense of the general government operating budget.

**Levy**

The amount a community raises through the property tax. The levy can be any amount up to the levy limit, which is re-established every year in accordance with Prop 2 ½ provisions.

**Local Aid**

Revenue allocated by the Commonwealth to cities, towns, and regional school districts.

**Local Receipts**

Locally generated revenues, other than real and personal property taxes. Examples include motor vehicle excise, investment income, fees, rentals and charges

**Minimum Local Contribution**

The minimum that a city or town must appropriate from property taxes for the support of schools.

**MS4**

The U.S. Environmental Protection Agency (EPA) and the Massachusetts Department of Environmental Protection (DEP) regulate how small **M**unicipal **S**eparate **S**torm **S**ewer **S**ystems (MS4s) obtain coverage under National Pollutant Discharge Elimination System (NPDES) general permits. The NPDES program controls water pollution by regulating sources that discharge pollutants to surface waters. These rules constitute an unfunded mandate from the federal and state government with which Millis is required to comply to "reduce the discharge of pollutants from the MS4 to the maximum extent practicable, to protect water

quality, and to satisfy the appropriate water quality requirements of the Clean Water Act,” referred to as the “MS4 permit standard”.

### **MSBA**

The Massachusetts School Building Authority ("MSBA") is a quasi-independent government authority whose mission is to partner with Massachusetts communities to support the design and construction of public school facilities. The MSBA, which has a dedicated revenue stream of one penny of the state's 6.25-percent sales tax, collaborates with municipalities to equitably invest in finding the right-sized, most fiscally responsible and educationally appropriate solutions to create safe, sound, and sustainable learning environments.

### **Net School Spending**

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 net school spending must equal or exceed the requirement established annually by the DOE.

### **Non-Recurring Revenue Source**

A one-time source of money available to a city or town. By its nature, a non-recurring revenue source cannot be relied upon in future years. Therefore, such funds should not be used for operating or other expenses that continue from year-to-year.

### **OPEB (Other Postemployment Benefits)**

In addition to a salary, many town employees earn benefits over their years of service that will not be received until after their employment with the town ends. The most common type of these postemployment benefits is a pension. Postemployment benefits other than pensions generally take the form of medical insurance and other healthcare benefits provided to eligible retirees, including in some cases their beneficiaries. They may also include some type of life insurance. As a group, these are referred to as OPEB. Each public entity must account for and report OPEB in its accounting statements. Through actuarial analysis, municipalities must identify the true costs of the OPEB earned by employees over their estimated years of actual service.

### **OPEB Trust Fund**

Massachusetts law allows a city or town to set up a special trust fund, the OPEB (Other Post-Employment Benefits) Liability Trust Fund, to function like a pension fund for town employees. The OPEB Trust Fund in Millis is managed by the town Treasurer and this outstanding liability by the town is reviewed annually. Once money is deposited into the OPEB account, it cannot be withdrawn for any other purpose. Based on analysis by the state and other auditors, the OPEB Trust Fund in Millis is significantly underfunded on the order of \$30 million (in 2016). Therefore, we are funding OPEB requirements for retired town workers on an as-you-go basis each year.

### **Overlay**

An account established annually to fund anticipated tax abatements, exemptions and uncollected taxes. The overlay is not established by the normal appropriation process, but rather is raised on the tax recap sheet.

### **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. At the end of each fiscal year, unused overlay surplus is “closed” to surplus revenue; in other words, it becomes a part of free cash.

### **Override**

A vote by the community at an election to permanently increase the levy limit. An override vote may increase the levy limit no higher than the levy ceiling. The override question on the election ballot must state a purpose for the override and the dollar amount.

### **Prop 2½**

A state law enacted in 1980, Proposition 2½ limits the amount of revenue a city or town may raise from local property taxes each year to fund municipal operations.

- The amount raised by property taxes cannot exceed 2½% of the value of all taxable property in the town
- The tax rate cannot be higher than \$25.00 per \$1,000 of valuation
- The property tax levy limit cannot be increase more than the 2½% over the prior year's levy limit, plus new growth and any overrides or exclusions, unless an override is approved by voters.

### **Reserve Fund**

An amount set aside annually to provide a funding source for extraordinary or unforeseen expenditures. The Finance Committee can authorize transfers from the reserve fund.

### **Revolving Fund**

Allows a community to raise revenues from a specific service and use those revenues without appropriation to support the service. For departmental revolving funds, MGL Ch. 44 §53E½ 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 that 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 city or town in the most recent fiscal year, and no more than one percent of the amount raised by taxation may be administered by a single fund. Wages or salaries for full-time employees may be paid from the revolving fund only if the fund is also charged for all associated fringe benefits.

### **Recurring Revenue**

A source of money used to support town expenses, which can be relied upon, at some level, in future years.

### **Stabilization Fund**

A fund designed to accumulate amounts for capital and other future spending purposes, or for unforeseen and emergency purposes, although it may be appropriated for any lawful purpose. Millis' current Stabilization Fund Policy requires having at least 5% of General Fund Budget Expenditures in the Stabilization reserve as of June 30.

- If the Town does not meet the 5% goal, then funds shall be appropriated in subsequent Town Meetings to replenish the Stabilization Reserve to the 5% level. A minimum of \$50,000 per annual fall town meeting shall be appropriated to the Stabilization Reserve to reach the 5% goal.
- If the 5% goal is met, then a minimum of \$50,000 shall be appropriated to the OPEB Trust fund. If only a portion of the \$50,000 is needed for the Stabilization fund then the balance of the funds will be appropriated to the OPEB Trust fund.
- If use of the Stabilization Fund drops the fund balance below the 5% goal, then the town shall develop a funding schedule to re-attain the 5% goal within three years or less.

### **Surplus Revenue**

The total amount of cash, accounts receivable, and other assets that exceed liabilities and reserves.

### **Warrant**

An authorization for an action. A town meeting warrant establishes the matters that may be acted on by that town meeting.

*The Massachusetts Department of Revenue's expanded glossary can be found at <http://www.mass.gov/dor/docs/dls/publ/misc/dlsmfgl.pdf>*