MUNICIPAL FINANCE GLOSSARY

DIVISION OF LOCAL SERVICES

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DLS
DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

Supporting a Commonwealth of Communities

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Common Municipal Finance Terms in Massachusetts

Abatement – A reduction or elimination of a real or personal property tax, motor vehicle excise, fee, charge, or special assessment imposed by a governmental unit. Granted only on application of the person seeking the abatement and only by the committing governmental unit.

Accelerated New Growth – A local option that allows a community to value and assess new growth (i.e., new construction or other physical additions to real property) occurring by June 30 for the fiscal year beginning July 1 (MGL c 59, § 2A(a)). Commonly referred to as Chapter 653, this local adoption statute enables the community to assess improved parcels closer to the start of the fiscal year, which ensures that the owners of the subject properties pay their fair share of the cost of government operations for the fiscal year beginning July 1 rather than a year later.

Agency Fund – A fund used to report resources held in a purely custodial capacity by a governmental unit. One of the four types of fiduciary funds, an agency fund generally involves only the receipt, temporary investment, and periodic transfer of money to fulfill legal obligations to individuals, private organizations, or other governments. For example, certain employee payroll withholdings typically accumulate in an agency fund until they are due and subsequently disbursed to the federal government, health insurance company, and so forth.

Amended New Growth – An additional amount of new growth added to a community's levy limit after the assessors have already calculated and reported new growth for a fiscal year. When the assessors discover inadvertently omitted properties that should have been credited as new growth, they may submit an Amended Tax Base Growth Report (Form LA-13A) to BLA before setting the tax rate for the next fiscal year. BLA will certify the amount of any additional tax base growth and notify BOA. BOA will then recalculate the community's levy limit and notify the assessors of the new base for the purpose of calculating the succeeding year's levy limit. (See **New Growth**)

Amortization – The gradual repayment of an obligation over time and in accordance with a predetermined payment schedule.

Anti-Aid Amendment – The amendment to the Massachusetts Constitution (Amend., Art. 18, as amended by Amend., Art. 46 and 103) that prohibits any appropriations or use of public property to benefit charities and nongovernmental entities.

Appellate Tax Board (ATB) – A board appointed by the governor to decide appeals of local decisions relating to property taxes, motor vehicle excises, state-owned land valuations, exemption eligibility, property classification, and equalized valuations.

Appropriation – An authorization granted by a town meeting, city council or other legislative body to expend money and incur obligations for specific public purposes. It is usually limited in amount and as to the time period within which it may be expended.

Arbitrage – As applied to municipal debt, the investment of tax-exempt bonds or note proceeds in higher yielding, taxable securities. Section 103 of the Internal Revenue Service (IRS) Code restricts this practice and requires that earnings beyond certain limits be rebated (paid) to the IRS.

Arm's-Length Sale – A transfer of property ownership between a willing seller not under compulsion to sell and a willing buyer not under compulsion to buy. The sale price is the amount of money, or its equivalent, that probably would be arrived at through fair negotiations taking into consideration the uses to which the property may be put and allowing a reasonable time for exposure to the market.

Assessed Valuation – A value assigned to real estate or other property by a government as the basis for levying taxes. In Massachusetts, assessed valuation is based on the property's full and fair cash value as set by the Assessors. (See **Full and Fair Cash Value**)

Assessment Date – The date property tax liability is fixed. In Massachusetts, property taxes are assessed as of the January 1 prior to the fiscal year. Assessors determine the physical status of taxable real and personal property, its ownership, fair cash value, and usage classification as of that date. By local option (MGL c. 59, § 2A), the physical status of real property on June 30 is deemed to be its condition on the previous January 1.

Assessment Sale Ratio (ASR) – A property's assessed value divided by its sales price. The ASR expresses the relationship between the assessed value of a sold property and its most recent sales price, and it is instrumental in the certification of municipal property values completed by BLA every five years.

Audit – An examination of a community's financial systems, procedures, and data by a certified public accountant (independent auditor) resulting in a report on the fairness of its financial statements and compliance with generally accepted accounting principles. The audit serves as a valuable management tool for evaluating a community's fiscal performance.

Audit Committee – A committee, typically appointed by the select board, mayor or city council, charged with specific responsibilities related to a community's independent audit, such as making procurement decisions, setting audit scope and directives, and overseeing corrective actions in response to management letter citations.

Audit Management Letter – A written communication to government officials, separate from and supplementary to the audit report. In it, the independent auditor comments on identified weaknesses in internal controls and presents recommendations to address them.

Audit Report – The key deliverable of an audit process, the audit report is prepared by an independent auditor and includes: (a) a statement of the audit's scope; (b) explanation of auditing procedures; (c) findings and opinions; (d) financial statements and schedules; and (e) supplementary comments, recommendations and statistical tables. The audit report is sometimes accompanied by a management letter.

Available Funds – Any of several budgetary funding sources drawn from the prior year-end balances in various types of reserve accounts. Examples include free cash, stabilization funds, overlay surplus, and water surplus. As a matter of sound practice, these nonrecurring revenues should only be used for unforeseen expenses, cash capital expenditures, and other one-time costs.

Balance Sheet – A statement that discloses the assets, liabilities, reserves, and equities of a fund or governmental unit as of a specified date.

Bank Qualified – Describes a bond or note issued by a municipality that issues $10,000,000 or less in bonds or notes in a calendar year. The bank that purchases this type of security receives a tax deduction (80% of the interest cost), which makes it a particularly attractive purchase.

Betterment (Special Assessment) – A special property tax assessed only to the owners of property that benefit from a public improvement (e.g., water, sewer, sidewalks, etc.) that has been constructed in their area. The city or town may assess the betterment to that area's property owners to reimburse it for all or part of the costs incurred to complete the project. Each property parcel receiving the benefit is assessed a proportionate share of the cost, which may be paid in full or apportioned over a period of up to 20 years. If spread over the years, the community adds one year's apportionment, along with one year's committed interest computed from October 1 to October 1, to the associated tax bills until the betterment has been paid.

BLA – Bureau of Local Assessment

Block Grant – A sum of federal money awarded by formula under very general guidelines that allow grantees broad latitude in spending activities.

BOA – Bureau of Accounts

Boat Excise – An amount levied on boats and ships in lieu of a personal property tax for the privilege of using the state's waterways (MGL c. 60B). It is assessed annually as of July 1 by the community in which the boat or ship is usually moored or docked.

Bond – A means to raise money through the issuance of debt. A bond issuer/borrower promises in writing to repay a specified sum of money, alternately referred to as face value, par value, or bond principal, to the buyer of the bond on a specified future date (maturity date), together with periodic interest at a specified rate. The term of a bond is always greater than one year. (See **Note**)

Bond and Interest Record (Bond Register) – 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 and all other pertinent information concerning the bond issue.

Bond Anticipation Note (BAN) – A short-term debt instrument used to generate cash for initial project costs with the expectation the debt will be replaced later by permanent bonding. Typically issued for a term of less than one year, a BAN may be reissued for up to 10 years, provided principal repayment begins after two years. (MGL c. 44, § 17).

Bond Authorization – The action by a city council or town meeting that authorizes the executive branch to raise money through the sale of bonds in a specific amount and for a specific purpose. Once authorized, the issuance is done by the treasurer upon the signature(s) of the mayor or the select board. (See **Bond Issue**)

Bond Counsel – An attorney or law firm engaged to review and submit an opinion on the legal aspects of a municipal bond or note issue.

Bond Issue – The actual sale of the entire, or portion of, the bond amount authorized by a town meeting or city council.

Bond Premium – The difference between the market price of a bond and its face value when the market price is higher. A premium occurs when the bond's stated interest rate is set higher than its true interest cost (the market rate). Premiums received at the time of sale must be used to pay project costs and reduce the amount borrowed by the same amount or be reserved for appropriation for purposes for which debt has or may be authorized for an equal or longer period than the original loan. Additions to the levy limit for a Proposition 2½ debt exclusion are restricted to the true interest cost incurred to finance the excluded project. If the premium is not used to pay project costs and reduce the amount of a debt-excluded borrowing, the annual debt exclusion must be adjusted to reflect the true interest rate.

Bond Rating (Municipal) – A grade that a credit rating agency, such as Moody's or Standard & Poor's, assigns to a municipality (as a bond issuer) to help investors assess its ability and willingness to make timely debt service payments. The rating helps prospective investors determine the level of risk associated with a given fixed-income investment. In the alphanumeric scales used by the rating agencies, AAA represents the highest rating, while a rating such as C1 is at the lower end.

Bonds Authorized and Unissued – The balance of a bond authorization not yet sold. Upon the completion or abandonment of a project, any remaining balance of authorized and unissued bonds may not be used for other purposes but must be rescinded by town meeting or the city council to be removed from the community's books.

Bureau of Accounts (BOA) – The bureau within the Division of Local Services charged to oversee the financial management of cities and towns, with specific duties that include reviewing required annual financial reports, approving tax rates, certifying free cash, and managing the State House Notes program.

Bureau of Local Assessment (BLA) – The bureau within the Division of Local Services charged to regulate, oversee, and provide technical assistance to municipalities in the areas of real and personal property valuation and classification. As a primary responsibility, BLA reviews and recertifies each municipality's property values once every five years to ensure they are at full and fair market value.

Bylaw - A law that is drafted and adopted locally by a town or district in Massachusetts. In a town, a bylaw is enacted by a majority vote of town meeting followed by an affirmative review of the bylaw by the MA Attorney General's Office. A town bylaw is the equivalent of a city ordinance.

Capital Asset – Any tangible property used in the operation of government that is not easily converted into cash and that has an initial useful life extending beyond a single financial reporting period. Capital assets include land and land improvements; infrastructure, such as roads, bridges, water and sewer lines; easements; buildings and building improvements; vehicles, machinery and equipment. Communities typically define capital assets in terms of a minimum useful life and minimum initial cost.

Capital Budget – A set of appropriations within an annual budget that is dedicated to investing in long-term assets. The appropriations within a capital budget are presented to town meeting or city council in an article(s) or resolution(s) separate from the article/resolution for the overall general fund budget. (See **Operating Budget**).

Capital Improvement Plan (CIP) – An annually reviewed and updated compilation of a community's current and proposed capital projects, planned out by fiscal year. The first year of the CIP is the capital budget for the current or forthcoming fiscal year, and the plan should then have projections of ongoing and future projects, associated expenditures, and potential revenue sources for the next two to four fiscal years, at minimum. Additions to the plan should comply with the community's established capital criteria (cost and useful life) and inclusion evaluation procedures (i.e., a prioritization scheme based on urgency, state mandates, replacement schedule, community master plan, etc.).

Capital Outlay Expenditure Exclusion (Capital Exclusion) – A temporary (one-year) increase in the tax levy to fund a capital project or capital acquisition. Such an exclusion requires a two-thirds vote of the select board or city council (sometimes with the mayor's approval) and majority vote in a communitywide referendum. The exclusion is added to the tax levy only during the year in which the project is being funded, and it may increase the tax levy above the levy ceiling.

Cashbook – A book of original entry that a treasurer is required to maintain for the purposes of recording municipal receipts, adjustments to balances, deposits to municipal accounts, and disbursements through warrants.

Categorical Grant – A type of intergovernmental payment that is characterized by extensive restrictions on the uses to which the funds may be "spent" by the recipient government.

Central Valuation – The assessment of values to certain types of personal property located within and across the state's cities and towns that is completed "centrally" by BLA on an annual basis. BLA has responsibility for determining full and fair cash valuations for the pipelines of gas companies and for the electricity-conducting pipes, wires and equipment of telephone companies.

Chapter 70 School Aid – Aid from the state distributed through the Cherry Sheet to cities, towns, and regional school districts under the provisions of Chapter 70. (See **Cherry Sheet**)

Chapter 90 Highway Funds – State funds distributed to communities for highway projects and derived from periodic transportation bond authorizations (MGL c. 90, § 34).

Chapter Land – A parcel of land classified, valued, and taxed as either forest (MGL c. 61), agricultural/horticultural (61A), or recreational (61B). Such land is valued at its current use rather than its full and fair cash value. The commercial property tax rate is applicable for land defined under these chapters, unless the community adopts a local option provision under the respective chapter to apply the open space rate. (See **Rollback Taxes**)

Charter – A document that establishes and defines a municipality's structure and may create local offices; distribute powers, duties, and responsibilities among local offices; and define certain procedures to be followed. A home rule charter is established according to procedures outlined in MGL. c. 43B and involves a local charter commission. Alternatively, on the petition of a municipality, the state legislature may enact a special act that has the same effect as a home rule charter.

Cherry Sheet – The official notification to cities, towns, and regional school districts of the next fiscal year's state aid and assessments. It is named for the cherry-colored paper on which it was originally printed.

Cherry Sheet Assessment – One of various estimated annual charges reported to a community on the Cherry Sheet. Each assessment is calculated to cover the cost of a certain state or county program provided to the community.

Cherry Sheet Offset Item – A type of local aid that may be spent without appropriation in the budget but which must be spent for a specific program of the municipality or regional school district. Current offset items include school choice receiving tuition and public library grants. (See **Offset Receipts**)

Classification of Real Property – The process by which assessors designate each parcel of real property in the community based on its use. All real property must be classified into one of four classes: residential, open space, commercial, and industrial. (See **Classification of the Tax Rate** and **Residential Factor**)

Classification of the Tax Rate – An annual responsibility of a select board or city council to vote whether to exercise certain tax rate options. The votes are done at a public hearing held for the purpose. The tax rate options include choosing a residential factor (MGL c. 40, § 56) and determining whether to offer an open space discount (c. 40, § 56), a residential exemption (c. 59, § 5C), and/or a small commercial exemption (c. 59, § 5I) to property owners. (See **Residential Factor**)

Code of Ethics – The statute (MGL c. 286A) that sets forth provisions and requirements pertaining to the standards of behavior and conduct to which all public officials and employees are held. (See **State Ethics Commission**)

Collective Bargaining – The process of negotiating workers' wages, hours, benefits, working conditions, etc., between an employer and those of its employees who are represented by a recognized labor union.

Commitment – An original record that establishes the liabilities assessed to individual taxpayers. For example, the assessors' commitment of real estate taxes fixes the amount the collector will bill and collect from property owners.

Community Preservation Act (CPA) – A local acceptance statute (MGL c. 44B) that permits the establishment of a restricted fund from which monies can be appropriated for these purposes only: a) to acquire, create and preserve open space; b) to acquire, preserve, rehabilitate and restore historic resources; c) to acquire, create, preserve, rehabilitate and restore land for recreational use; d) to acquire, create, preserve and support community housing; e) to rehabilitate and restore open space or community housing that is acquired or created using monies from the fund; and (f) to fund a municipal affordable housing trust. Acceptance requires town meeting or city council approval or a citizen petition, together with referendum approval by majority vote. The program is funded by a local surcharge of up to 3 percent on real property tax bills and matching state dollars generated from Registry of Deeds fees.

Community Preservation Fund – A special revenue fund established pursuant to MGL c. 44B to receive all monies collected to support a CPA program, including but not limited to, tax surcharge receipts, proceeds from borrowings, funds received from the state, and proceeds from the sale of certain real estate.

Computer-Assisted Mass Appraisal (CAMA) System – An automated system for maintaining property data, valuing property, and ensuring tax equity through uniform valuations.

Conservation Fund – A fund that may be created by a city or town that has established a conservation commission under MGL c. 40, § 8C, the money from which may be expended by the commission for lawful conservation purposes as described in the statute. The money may also be expended by the conservation commission for damages arising from an eminent domain taking, provided that the taking was approved by a two-thirds vote of city council or town meeting.

Contingent Appropriation – An appropriation that authorizes spending for a particular purpose only if subsequently approved in a voter referendum. Under MGL c. 59, § 21C (m), towns may make an appropriation from the tax levy, available funds, or borrowing contingent on the subsequent passage of a Proposition 2½ override or exclusion question for the same purpose. If initially approved at an annual town meeting, voter approval of the contingent appropriation must occur by September 15. If it occurred at any other town meeting, the referendum vote must occur within 90 days after that town meeting dissolved. The question may be placed before the voters at more than one election, but if the appropriation is not approved by the applicable deadline, it is null and void. If the contingent appropriation is funded through property taxes, DLS cannot approve the tax rate until the related override or exclusion question is resolved or the deadline passes, whichever occurs first.

Contingent Debt – Debt that 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. The obligation to pay by the guarantor arises upon the default of the borrower. An industrial revenue bond guaranteed by a municipality would constitute contingent debt.

Contingent Liability – An item that may become a liability as the result of a condition undetermined at a given date, such as a guarantee, pending lawsuit, judgment under appeal, unsettled disputed claim, unfulfilled purchase order, or uncompleted contract.

Corporations Book (Corp Book) – An annual DLS publication that lists domestic and foreign corporations doing business in Massachusetts as of January 1 that are subject to a tax or excise under MGL Chapters 59 (local property tax), 60A (motor vehicle excise), or 63 (corporation excises). The Corp Book provides a resource for assessors to verify the taxable status of businesses located in their community.

Cost Approach – A method used to estimate the present market value of an existing property by calculating the current cost to rebuild it, then adjusting the cost downward for depreciation based on the property's actual age. Land is valued separately and added to the depreciated replacement cost.

Cyclical Inspection Program – A multiyear program implemented by local assessors to ensure that every property in the community receives a data inspection that complies with BLA's certification standards over a time period not to exceed 10 years. To accomplish this efficiently, as a matter of good practice, the assessors should make plans to complete inspections of 10 percent of the community's total parcels each year. (See **Measure and List**)

Data Collection – The process of inspecting real and personal property and recording its attributes, quality, and condition.

Debt Authorization – The formal approval by a two-thirds vote of town meeting or city council to incur debt, in accordance with procedures stated in MGL c. 44, §§ 1, 2, 3, 4a, 6-15.

Debt Exclusion – An action that a community takes, through a referendum vote, to temporarily increase the property tax levy beyond the annual levy limit imposed by Proposition 2½ for the purpose of raising the necessary funds to pay debt service costs for a particular project. With an approved a debt exclusion, a community calculates its annual levy limit under Proposition 2½, then adds the excluded debt service cost. The amount is added to the levy limit for the life of the debt only and may increase the levy above the levy ceiling.

Debt Limit – The maximum amount of debt a municipality may authorize for qualified purposes under state law. MGL c. 44, § 10 sets the debt limit at five percent of the community's EQV. By petition to the Municipal

Finance Oversight Board, a community can receive approval to increase its debt limit to 10 percent of EQV. In addition, the debt limit may be exceeded for: (1) projects to construct, reconstruct, equip, or furnish a school facility if the community voted to exclude the debt from the limits of Proposition 2½ and will not receive any financial assistance from the Massachusetts School Building Authority or (2) issuances that meet criteria laid out in the 24 exceptions listed under M.G.L. c. 44, § 8. (See **Equalized Valuation, Inside Debt, Outside Debt,** and **Municipal Finance Oversight Board**)

Debt Service – The repayment cost of the principal and interest on a specific bond issue, usually stated in annual terms and based on an amortization schedule,

Debt Service Fund – A governmental fund type used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. In Massachusetts, these are only allowed by special legislation.

Deferred Revenue – An amount that does not meet the criteria for revenue recognition. Also, an earned amount that is not yet available to liquidate the liability of a current period.

Deficit – The excess of expenditures over revenues during an accounting period. Also refers to the excess of the liabilities of a fund over its assets.

Deficit Bond – A long-term borrowing vehicle intended to fund operating deficits and available to cities and towns only through special legislation.

Demand Notice – A letter sent by the collector to a property owner demanding payment of a past-due tax or excise bill. For property tax bills, the collector is required to issue a demand before initiating a tax taking. (See **Tax Taking**)

Department of Elementary and Secondary Education (DESE) – The state department responsible for the support and oversight of public school districts in Massachusetts. In the context of municipal finance, DESE determines the amount of Chapter 70 aid distributed to local and regional school districts and also administers various grant programs. (See **Chapter 70** and **Grant**)

Deputy Collector – A vendor empowered to take enforcement and collection actions on behalf of a community's collector.

Designated Unreserved Fund Balance – A limitation on the use of all or part of the expendable balance in a governmental fund.

Director of Accounts – The DLS official responsible for supervising BOA and fulfilling numerous duties assigned to the position by statute. Some examples of these statutory duties can be found in the glossary definitions for Emergency Spending, Excess and Deficiency, Municipal Finance Oversight Board, and State House Note. (See **Bureau of Accounts**)

District Improvement Financing (DIF) – A program available to cities and towns under MGL c. 40Q to promote increased residential, commercial, and industrial activity by enabling the municipality to set aside the additional, new-growth-related taxes generated by properties within a specified development district for future public improvements and economic development in the district.

DLS – The Department of Revenue's Division of Local Services

Emergency Spending – An exception to the restriction on incurring liabilities otherwise laid out in MGL c. 44, § 31, which allows a community to incur a liability in excess of appropriation in the case of a major disaster that poses an immediate threat to the health or safety of people or property. Such liability may only be incurred following an emergency declaration by the Governor or a two-thirds vote of the city council or select board and the approval of the Director of Accounts.

Encumbrance – A reservation of funds to cover an obligation arising from a purchase order, contract, or salary commitment chargeable to, but not yet paid from, a specific appropriation account.

Enterprise Fund – Authorized by MGL c. 44, § 53F½, an enterprise fund is a separate accounting and financial reporting mechanism for a municipal service for which a fee is charged in exchange for goods or services. It allows a community to demonstrate to the public the portion of a service's total costs recovered through user charges and the portion subsidized by the tax levy, if any. With an enterprise fund, all costs of service delivery--direct, indirect, and capital--are identified. This allows the community to recover total service costs through user fees if it chooses. Enterprise accounting also enables communities to reserve the "surplus," or retained earnings, generated by the enterprise operation rather than closing this out to the general fund at year-end. Services that may be treated as enterprises include, but are not limited to, water, sewer, hospital, and airport services.

Equalized Valuation (EQV) – An estimate of the full and fair cash value of all property in the state as of a certain taxable date. Under MGL c. 58, § 10C, the Commissioner of Revenue is charged with the responsibility of biennially determining an equalized valuation for each city and town in the state. Relative EQVs have historically been used as a variable in distributing some state aid accounts and in determining county assessments and other costs.

Excess and Deficiency (E&D) – A reserve account of a regional school district, this is the amount by which cash, accounts receivable, and other assets exceed the district's liabilities and reserves as certified by the Director of Accounts. The calculation is based on a year-end balance sheet the district submits to DLS. Also called the "surplus revenue" account, E&D is not available for appropriation until certified by the Director of Accounts.

Excess Levy Capacity – The difference between the levy limit and the amount of real and personal property taxes that a community actually levies in a given year (i.e., the levy). Annually, a municipality must report an acknowledgment by the select board or city council of the calculated excess levy capacity before DLS may set a tax rate.

Exemption – A discharge, established by statute, from the obligation to pay all or a portion of a property tax or motor vehicle excise. The exemption is available to particular categories of property or persons upon the timely submission and approval of an application to the assessors. Properties exempt from taxation include hospitals, schools, houses of worship, and cultural institutions. Persons who may qualify for exemptions include disabled veterans, blind individuals, surviving spouses, and seniors.

Exemption Date – The date used by assessors to determine the status of qualifying factors related to exemption eligibility. In Massachusetts, all qualifying factors must be met as July 1.

Expenditure – An outlay of money made by a municipality to provide the programs and services within its approved budget.

Federal Aid Anticipation Note (FAAN) – A short-term debt instrument used to generate cash with the expectation that the debt will be paid from anticipated federal aid. As with a note, FAANs are typically issued for a term of less than one year and are full faith and credit obligations.

Fiduciary Fund – A repository of money held by a municipality in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and other funds. Examples of fiduciary funds include pension trust funds, investment trust funds, private-purpose trust funds, and agency funds.

Field Review Audit – A review of assessment valuation methods and supporting documentation conducted by BLA and performed as a prerequisite to a five-year certification of property values.

Finance Control Board – A board comprised of state and local officials that is created by special legislation with a charge to oversee the financial management of a municipality, especially one that has received deficit borrowing authorization or state loans to finance operating deficits. (See **Fiscal Stability Officer**)

Financial Advisor – An individual or institution that assists municipalities in the issuance of tax-exempt bonds and notes. The public finance department of a commercial bank or a non-bank advisor usually provides this service.

Financial Disclosure Law – The statute (MGL c. 268B) that requires certain individuals, officials, and candidates for elected office to file statements of financial interests with the State Ethics Commission.

Financial Statement – A presentation of the assets and liabilities of a community as of a particular date, most often after the close of the fiscal year.

Fiscal Stability Officer -- A position created by special legislation and appointed by the Secretary of Administration and Finance to oversee the financial management of a municipality, especially one that may have received deficit borrowing authorization or state loans to finance operating deficits. This appointment is the alternative to a finance control board. (See **Finance Control Board**)

Fiscal Year (FY) – The 12-month period used for budgeting, accounting, and tax reporting purposes. The Commonwealth and municipalities operate on a fiscal year that begins July 1 and ends June 30, while the federal government's fiscal year starts October 1 and ends September 30. In each case, the designation of a particular fiscal year (e.g., FY2025) derives from the calendar year in which it ends.

Five-year Certification – A compliance standard that requires local assessors to submit the community's property values to BLA every five years for its review and certification that they represent full and fair cash values. Refer to MGL c. 40, § 56 and c. 59, § 2A(c). (See **Revaluation** and **Interim-year Valuation Adjustment**)

Fixed Asset – A long-lived, tangible asset, such as a building, equipment or land, obtained or controlled as a result of a past transaction or circumstance.

Fixed Cost – A cost legally or contractually mandated, such as retirement, FICA/Social Security, insurance, debt service, or interest on loans.

Foundation Budget – The spending target imposed by DESE for each school district as the level necessary to provide an adequate education for all students. (See **Department of Elementary and Secondary Education**)

Free Cash – The remaining, unrestricted funds from operations of the previous fiscal year, including unexpended free cash from the previous year, actual receipts in excess of revenue estimated 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 June 30 balance sheet, which is submitted to BOA by the community's auditor, accountant, or comptroller. Free cash is not available for appropriation until certified by the Director of Accounts. (See **Available Funds**)

Full and Fair Cash Value – As defined by the Massachusetts Supreme Judicial Court, this is the "fair market value, which is the price an owner willing but not under compulsion to sell ought to receive from one willing but not under compulsion to buy. It means the highest price that a normal purchaser not under peculiar compulsion will pay at the time and cannot exceed the sum that the owner after reasonable effort could obtain for his property. A valuation limited to what the property is worth to the purchaser is not market value. The fair cash value is the value the property would have on January 1 of any taxable year in the hands of any owner, including the present owner." (Boston Gas Co. v. Assessors of Boston, 334 Mass. 549, 566 (1956))

Full Faith and Credit Obligation – A pledge of the general taxing powers for the payment of governmental obligations. A bond carrying such a pledge is usually referred to as general obligation or full-faith-and-credit bond.

Full Measure and List – A data collection procedure completed by assessors to ensure a property record is kept up to date. An assessor measures the exterior(s) of the structure(s) on a parcel of property and relists the parcel information in the assessors' records with any changes in condition since the last inspection. To comply with BLA's certification standards, at least once every 10 years, assessors should complete a full measure and list for every property in the community and also inspect the interior of each property or demonstrate a determined effort to do so. (See **Cyclical Inspection Program**)

Fund – An accounting entity with a self-balancing set of accounts that is segregated for the purpose of carrying on identified activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations. Within a fund, financial resources and related activities (assets, liabilities, fund balances, revenues, and expenditures) are accounted for independently. Examples of funds include the general fund and enterprise funds.

Fund Accounting – A method of accounting that organizes financial records into multiple, segregated locations for money. An example of fund accounting is the Uniform Municipal Accounting System (UMAS), which is used by the majority of communities in Massachusetts.

Fund Balance – The difference between assets and liabilities reported in a governmental fund. Also known as fund equity.

General Fund – The fund used to account for all of a community's financial resources except those that are authorized to be in another fund based on a statutory provision (such as an enterprise fund or revolving fund) or a special act.

General Fund Subsidy – Money from the general fund that pays a portion of the cost to provide a fee-for-service program, most often an enterprise fund program, when the revenue generated by the program's rates or user fees is inadequate to support its operations.

General Ledger (GL) – The accountant's record of original entry, the general ledger is a set of numbered accounts used to track financial transactions and prepare financial reports. Each account is a distinct record summarizing each type of asset, liability, equity, revenue and expense. A chart of accounts lists all the accounts in the GL.

General Obligation Bond – A bond issued by a municipality that is backed by the full faith and credit of its taxing authority.

Governmental Accounting Standards Board (GASB) – An independent organization considered to be the most authoritative entity for setting standards of accounting and financial reporting for state and local governments.

Governmental External Investment Pool – An arrangement by which multiple, legally separate entities commingle money to invest in a shared investment portfolio. The pool can be sponsored by an individual government, jointly by multiple governments, or by a nongovernmental entity. An example is the Massachusetts Municipal Depository Trust.

Governmental Fund – Any of the five types of funds generally used to account for tax-supported activities. The five types of governmental funds are: general, special revenue, capital project, debt service, and permanent.

Grant – A sum of money provided by a government or private organization to an individual, organization, or government entity. Most, but not all, grants require the potential recipients to apply for them and meet specified criteria. In most, but not all, cases the grantee's use of the grant funds must comply with stringently defined spending purposes and procedures. (See **Block Grant** and **Categorical Grant**)

Grant Anticipation Note (GAN) – A short-term, interest-bearing note issued by a government to raise capital to be repaid by grant proceeds anticipated at a later date. A GAN allows the grant recipient to begin carrying out the purpose of the grant immediately.

Home Rule – The power of municipalities to regulate their affairs by bylaws/ordinances or home rule charters subject to certain limitations.

Income Approach – A method to estimate a property's value by converting its anticipated net rental revenue into an indication of market value. It is used to value commercial/industrial properties and apartment buildings, which are normally bought and sold based on their income-producing capabilities.

Indirect Cost – A service cost not reflected in the operating budget of the entity providing the service. Indirect costs arise most often in the context of enterprise funds. For example, an indirect cost of providing water service would be the value of time spent processing water bills by employees who do not work in the water department. Determining the total cost of service delivery requires an analysis of all indirect costs.

Informational Guideline Release (IGR) – An ad hoc DLS publication that outlines a policy or administrative procedure or that provides a law update related to municipal finance.

Inside Debt – Municipal debt incurred for purposes enumerated in MGL c. 44, § 7 and within the community's debt limit, which is an amount no higher than five percent of the community's equalized valuation. Because this type of borrowing is below the debt limit, it is referred to as inside debt. (See **Debt Limit** and **Outside Debt**)

Interest – Compensation paid or to be paid for the use of money, including amounts payable at periodic intervals or discounted at the time a loan is made. In the case of municipal bonds, interest payments accrue on a day-to-day basis but are paid every six months.

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.

Interim-year Valuation Adjustment – An analysis, and associated report, completed by a local assessing department in four out of every five years to ensure that assessed values reflect year-to-year changes in market values. At five-year intervals, BLA reviews and certifies that the properties in an individual community have been assessed at full and fair cash (or "market") value. In the years between these BLA revaluations, the community must review market conditions and property value trends and report any consequent valuation adjustments to BLA. (See **Five-year Certification**)

Internal Service Fund – A municipal accounting fund used to accumulate the cost of central services, such as data processing, printing, postage, and motor pool. Costs or charges to an internal service fund are then allocated to other departments or funds within the governmental unit.

Investment – Security or 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.

Joint Labor Management Committee (JLMC) – A committee appointed by the governor, composed of union and nonunion members, and charged to mediate police officer or firefighter collective bargaining disputes with municipalities when negotiations reach an impasse. The JLMC only enters a collective bargaining process when petitioned to do so by either party or by both parties acing jointly.

Land Court – The court that has exclusive jurisdiction to foreclose rights of redemption on a property in tax title.

Land of Low Value – A foreclosure procedure that is available as an alternative to a Land Court decree when the value of the subject property is lower than a threshold amount set annually by DLS (MGL c. 60, § 79). After 90 days from the date of a tax taking, the treasurer may work with the assessors to request a land of low value foreclosure affidavit from DLS.

Land Schedule – A table developed and used by assessors to arrive at consistent assessed values for land within defined neighborhoods.

Legal Opinion (re: debt issuance) – An opinion by an attorney or law firm that a bond has been legally issued by a public body, and, usually, that it is exempt from federal income taxes and some Massachusetts taxes under existing laws, regulations, and rulings.

Levy – The amount a community raises through the property tax. The levy can be any amount up to the levy limit, which is reestablished every year in accordance with Proposition 2½ provisions.

Levy Ceiling – The levy ceiling is one of two types of levy (tax) restrictions imposed by Proposition 2½ (MGL c. 59, § 21C), the other being the levy limit. In any year, the real and personal property taxes imposed by a city or town may not exceed 2½ percent of the total full and fair cash value of all its taxable property, and this calculated amount is the levy ceiling. Property taxes levied may exceed the levy ceiling only if the community passes a capital exclusion, debt exclusion, or special exclusion.

Levy Limit – One of two types of levy (tax) restrictions imposed by Proposition 2½ (MGL c. 59, § 21C), the other being the levy ceiling, this is the maximum amount of real and personal property taxes a city or town may levy in a given year. The levy limit increases each year by 2½ percent, plus new growth and any voter-approved exclusions or overrides. The levy limit can exceed the levy ceiling only if the community passes a capital expenditure exclusion, debt exclusion, or special exclusion .

Lien – A legal claim against real or personal property to protect the interest of a party (e.g., a city or town) to whom a debt is owed (e.g., taxes). In the case of real property, the lien in favor of a municipality automatically arises each January 1, but it must be secured through a tax taking. (See **Tax Taking**)

Lien Date – The date a lien arises on real property to protect the municipality's right to payment of taxes. A property tax lien arises by law on the January 1 assessment date. The lien is secured when the collector makes a tax taking and places the property in tax title. Unless the lien is secured, it expires if five years elapse from the January 1 assessment date and the property is transferred in the meantime. (See **Tax Taxing**)

Line-item Budget – A budget that stratifies spending into categories of greater detail, such as supplies, equipment, maintenance, or salaries, as opposed to a program budget.

Line-item Transfer – The reallocation of a budget appropriation from one line item to another within the same expenditure category (e.g., salaries, expenses). Employed as a management tool, line-item transfer authority allows a department head to move money where the need arises for a similar purpose without altering the bottom line. Whether or not line-item transfers are permitted depends on how the budget is presented (i.e., its format) and what level of budget detail town meeting approves.

Local Acceptance (Local Option Statute) - A statute in MGL, or a particular provision within a statute, that must be adopted by a majority vote of a city's or town's legislative body to go into effect in that municipality. The text of these statutes contains a phrase with the word accept (such as "if accepted") to indicate that it does not apply to all cities and towns in the state, only those that choose to formally accept, or adopt, the statute or the specified provision. Some local acceptance statutes further require the municipality to also adopt a related bylaw or ordinance to complete the statute's enactment. (See **Bylaw** and **Ordinance**)

Local Aid (State Aid) – Revenue that the state distributes monthly to cities, towns, and regional school districts according to annual estimates reported in the Cherry Sheets. Apart from Cherry Sheet offset items, these aid distributions are considered general fund revenues and may be spent for any purpose, subject to appropriation. (See **Cherry Sheet Offset Item**)

Local Receipts – A major category of municipal budget revenue that refers to locally generated revenues other than real and personal property taxes. Examples include motor vehicle excises, investment income, hotel/motel taxes, fees, rentals, and charges.

Long-term Debt – A community borrowing, or the outstanding balance at any given time, involving a loan(s) with a maturity date of 12 months or more. (See **Permanent Debt**)

Massachusetts Certified Public Purchasing Official (MCPPO) – A certification and designation program for public officials responsible for municipal procurements in Massachusetts. (See **Uniform Procurement Act**)

Massachusetts Municipal Depository Trust (MMDT) – An investment program, managed under the State Treasurer's Office, in which municipalities may pool excess cash for investment.

Massachusetts School Building Authority (MSBA) – A quasi-independent state agency that administers a program to partially reimburse cities, towns, and regional school districts for school construction costs at percentages that vary depending on the community's or district's wealth and the category of reimbursement.

Material Weakness – An audit term for a significant deficiency in a community's financial internal controls. It is a reportable condition of such magnitude as to potentially result in material misstatements of financial condition.

Maturity Date – The date that the principal of a bond becomes due and payable in full.

MGL – Massachusetts General Laws

Minimum Required Local Contribution – The minimum that a city or town must appropriate from property taxes and other local revenues for the support of schools (Education Reform Act of 1993).

Minimum Residential Factor (MRF) – A ratio set by the Commissioner of Revenue that establishes the allowable bounds for a community to shift the tax burden from the residential and open space classes of property to the commercial, industrial and personal property (CIP) classes. If the MRF would be less than .65, the community cannot make the maximum shift and must use a CIP factor of less than 1.50 percent. Under specified conditions, some communities may use a CIP factor of up to 1.75 percent. (See **Residential Factor**)

Motor Vehicle Excise – A locally imposed annual tax assessed to owners of motor vehicles registered to addresses within the community (MGL c. 60A). The excise rate is set by statute at $25.00 per $1,000 of vehicle value.

Multiple Regression – A technique for valuing real property that uses an equation generated through sales analysis to estimate the value of unsold properties.

Municipal Bond – A bond issued to any state or subordinate governmental unit. "Municipals" include not only the bonds of all political subdivisions, such as cities, towns, school districts, and special districts but also those of the state and agencies of the state.

Municipal Bond Insurance – An insurance policy that guarantees the interest and principal on a bond issue will be paid as scheduled. The municipal bond insurer will pay the debt even when a default was caused by an economic crisis or natural disaster.

Municipal Charges Lien – An amount that a community may add to a local property tax equal to the outstanding receivable for delinquent water (MGL c. 40, §§ 42A-F), sewer (MGL c. 83, §§ 16A-F), or trash (MGL c. 44, § 28C(f)) charges. A community may lien such amounts on the property tax provided the enabling legislation is accepted and a certificate of acceptance is on file at the Registry of Deeds. To lien any other unpaid local charge or fee, a community may adopt MGL c. 40, § 58 separately for each specific type. The lien is created by recording a listing of a particular type of charge or fee (by parcel of land and by name) at the Registry of Deeds.

Municipal Finance Oversight Board – The state board, consisting of the attorney general, state treasurer, state auditor, and director of accounts, that approves a local government's use of qualified bonds and certain other municipal borrowings and other actions.

Municipal Revenue Growth Factor (MRGF) – 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 2½ percent increase in the levy limit, estimated new growth, change in selected unrestricted state aid categories, and change in selected unrestricted local receipts (Education Reform Act of 1993).

Net School Spending (NSS) – 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 the Department of Elementary and Secondary Education (Education Reform Act of 1993).

New Growth – The additional dollar increase in a community's property tax levy limit, over and above the annual increase of 2.5%, that is generated by new construction, renovations and other increases in the property tax base during a calendar year but not including value increases caused by normal market forces or revaluations.

Nonrecurring Revenue Source – A one-time source of money available to a city or town. By its nature, a nonrecurring revenue source cannot be relied upon in future years, and therefore, such funds should not be used for operating or other expenses that continue from year to year.

Note – A short-term loan, typically with a maturity date of one year or less.

Official Statement – A document prepared for potential investors containing information about a prospective bond or note issue and the issuer. The official statement is typically published with the notice of sale and sometimes called an offering circular or prospectus.

Offset Receipts – A local option that allows a particular department's estimated receipts to be earmarked for the department's use and appropriated to offset its annual operating budget. If accepted, MGL c. 44, § 53E limits the amount of offset receipts that may be appropriated to no more than the actual receipts collected for the prior fiscal year unless the Director of Accounts approves the use of a higher amount before the appropriation. Actual collections that are greater than the amount appropriated close to the general fund at year-end. If actual collections are less, the deficit must be raised in the next year's tax rate.

OPEB (Other Postemployment Benefits) – Refers to group insurance benefits that eligible public employees earn during their years of service to receive upon retirement. In Massachusetts, a municipality that has accepted a certain statute(s) (M.G.L. c. 32B, § 9A, § 9E, or § 10, for examples) has made the commitment to pay a certain percentage of the premium costs for group insurance plans for its eligible retirees.

OPEB Trust Fund – A fiduciary fund for depositing appropriations, gifts, grants and other monies for the benefit of retired employees and their dependents; paying the city/town's required contributions for the group health insurance benefits provided to retired employees and dependents; and reducing and eliminating the city/town's unfunded OPEB liability. This expendable trust's assets are held solely to meet the city/town's current and future OPEB liabilities. The fund is subject to appropriation and usually managed by the municipal treasurer as trustee or sometimes by a board of trustees. (See **OPEB**)

Open Meeting Law (OML) – The statutes, MGL c. 30A, § § 18 - 25, that set transparency standards for the meetings of public bodies. OML provides that, with certain exceptions, the meetings must be held in public, and it establishes requirements for the creation and maintenance of records related to the meetings. The oversight of OML compliance is a function of the MA Attorney General's Office.

Operating Budget -- The plan of expenditures for personnel, supplies, and other expenses for a fiscal year. In general, operating budget refers to the community's recurring costs, as opposed to items in the capital budget. Depending on the context, the phrase "total operating budget" can refer to the entire budget for a fiscal year, including all funds (general, enterprise, etc.) and appropriations for all costs, including recurring, capital, and one-time non-capital costs. (See **Capital Budget**).

Ordinance – A law that is drafted and adopted locally by a city in Massachusetts. An ordinance is enacted through a majority vote of the city council. A city ordinance is the equivalent of a town bylaw.

Other Amounts to be Raised (as detailed on the tax recap) – This is a section of the tax recap that lists amounts that are raised through taxation but not appropriated. A necessary part of the annual budget, in general, they fund locally generated expenditures (e.g., overlay, teacher pay deferrals, deficits), as well as state, county, and other special district charges. (See **Tax Rate Recapitulation Sheet**)

Outside Debt – Municipal borrowing for purposes enumerated in MGL c. 44, § 8. It is called outside debt because the borrowing is not restricted to the debt limit per c. 44, § 10. (See **Debt Limit** and **Inside Debt**)

Overlapping Debt – A community's proportionate share of the debt incurred by an overlapping government entity, such as a regional school district, regional transit authority, etc.

Overlay (Overlay Reserve, or Allowance for Abatements and Exemptions) – An account that is funded to provide an offset for anticipated property tax abatements and exemptions.

Overlay Deficit – A deficit that occurs when the total amount of the approved abatements and exemptions charged to the overlay during a fiscal year exceeds the account balance. An overlay deficit must be provided for in the next fiscal year.

Overlay Surplus – A reserve account that holds a transferred amount of overlay funds that have been deemed to exceed any remaining anticipated exemptions or abatements. Within 10 days of a written request by the community's chief executive officer, the assessors must provide a certification of the excess amount of overlay available to transfer, if any. Overlay surplus may be appropriated for any lawful purpose. 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 a 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.

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

Payment in Lieu of Taxes (PILOT) – An agreement between a municipality and an entity not subject to taxation, such as a charitable or educational organization, whereby the organization agrees to make a voluntary payment to the municipality. By law, a city or town must make such a payment to any other community in which it owns land used for public purposes.

Pension Cost – A measure of the periodic cost of an employer's participation in a defined benefit pension plan.

Pension Plan – An arrangement for the provision of pension benefits to employees upon their retirements. All assets accumulated are used to pay benefits (including refunds of member contributions) to plan members or beneficiaries, as defined by the plan's terms.

Pension Trust Fund – A fiduciary fund type used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans or defined contribution plans.

PERAC (Public Employee Retirement Administration Commission) – The state agency that oversees and directs the various retirement systems for public employees around the state and administers benefits for system members.

Permanent Debt – A community borrowing, or the outstanding balance at any given time, involving a loan(s) with a maturity date of 12 months or more (See **Long-term Debt**)

Permanent Fund – A fiduciary fund type used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs (that is, for the benefit of the government for its citizenry). An example is a cemetery perpetual care fund.

Personal Property – A movable item not permanently affixed to, or part of, a real estate parcel. It is assessed separately from real estate to certain businesses, public utilities, and owners of homes that are not their primary residences.

Preliminary Tax – The tax bill for the first two quarters of the fiscal year, sent by communities with annual preliminary billing systems or quarterly tax billing cycles. The tax bill is sent by July 1 and can generally be no greater than 50% of the amount due in the previous fiscal year.

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

Private-purpose Trust Fund – A fiduciary trust fund type used to report all trust arrangements (other than those properly reported in pension or investment trust funds) under which the principal and income benefits individuals, private organizations, or other governments. An example is a scholarship fund.

Pro Forma Recap Sheet – A version of the tax recap sheet that communities on semiannual tax billing cycles submit to DLS when seeking to send optional preliminary tax bills. It is typically done when a community is in a recertification year or has a valuation-related delay in setting the tax rate.

Proposition 2½ – The state law (MGL c. 59, § 21C) that regulates local property tax administration and limits the amount of revenue a municipality may raise from local property taxes each year to fund its operations.

Qualified Bond – A bond that has been qualified by the Municipal Finance Oversight Board (MFOB). Under this program unique to Massachusetts (c.44) a municipality with a marginal credit rating may submit a bond for qualification by the MFOB. The State Treasurer pays the debt service on a qualified bond directly from the community's local aid, which thereby reinforces the bond's security and improves its marketability. (See **Municipal Finance Oversight Board**)

Raise and Appropriate – A phrase used to identify the funding source of an expenditure as being one that is expected to be locally generated in the budgeted year, such as the tax levy or local receipts, as opposed to state aid or other available funds.

Real Property – Land, buildings, and the rights and benefits inherent in owning them.

Receipts Reserved for Appropriation – Refers to the receipts from a specific revenue source that are earmarked by law and placed in a separate account for appropriation for a particular purpose(s). For example, the boat excise revenue that is directed to a waterways improvement fund may be appropriated to offset expenses associated with improving waterways.

Receivable – An expectation of payment of an amount certain accruing to the benefit of a city or town.

Reconciliation of Cash – The process whereby the accountant or auditor and treasurer compare records to confirm available cash in community accounts.

Reconciliation of Receivables – The process whereby the accountant or auditor and collector compare records to confirm the amount of outstanding taxes and other accounts receivable.

Records Disposition Schedule – A table published by the Secretary of State's Records Management Division, pursuant to MGL c. 66, that itemizes the various types of official municipal records, specifies the retention time frame for each, and provides guidelines for proper retention and disposal.

Recurring Revenue Source – A source of money used to support municipal expenditures, which by its nature can be relied on, at some level, in future years. Examples include property taxes, state aid, and local receipts. (See **Nonrecurring Revenue Source**)

Refunding of Debt – A transaction whereby one bond issue is redeemed (or "refunded") and replaced by a new bond issue under conditions generally more favorable to the issuer. For a current refunding, the proceeds of the new debt immediately redeem the old debt; that is, the maturity date on the old debt coincides with the issuance date of the new borrowing. For an advance refunding, the proceeds of the new debt issuance must be placed in escrow and used to pay interest on the old, outstanding debt as it becomes due and pay the principal on the old debt, either as it matures or at an earlier call date.

Reserve Fund – An amount (not to exceed five percent of the tax levy for the preceding year) raised in a community's budget and set aside to provide a funding source for extraordinary or unforeseen expenditures. In a town, the finance committee can authorize transfers from this fund for expenditures it deems to be "extraordinary or unforeseen," but any other use of the fund requires a budgetary transfer by town meeting. In a city, transfers from this fund may be voted by the city council upon the mayor's recommendation.

Residential Exemption – A local option that enables a municipality to grant an exemption to residential property owners who occupy the subject property as their principal residence. The exemption reduces, by the adopted percentage (not to exceed 35 percent of the average assessed value of all residential class properties), the taxable valuation of the parcel. Granting this exemption raises the residential tax rate and shifts the residential tax burden from moderately valued homes to apartments, summer homes, and higher valued homes.

Residential Factor – A ratio, annually adopted by a community, that governs the percentage of the tax levy to be paid by property owners. A residential factor of “1” (i.e., a 1:1 ratio) will result in the taxation of all property at the same rate (also known as a single tax rate). A factor of less than one (known as a split tax rate) increases the proportional share of the levy assessed to commercial, industrial and personal property and thereby lowers the share assessed to residential property owners. (See **Minimum Residential Factor**)

Retained Earnings – A reserve within an enterprise fund that represents the fund's excess earnings versus expenditures. Similar to free cash, a community may only appropriate retained earnings after the total amount has been certified by BOA. Retained earnings may be used to reimburse the general fund for prior-year subsidies, reduce user charges, or offset enterprise revenue deficits (operating losses). (See **Enterprise Fund**)

Revaluation – A comprehensive program completed by assessors at five-year intervals to ensure the community’s property valuation is appropriately adjusted to accurately reflect up-to-date market conditions. The revaluation program corresponds with the five-year certification of values by BLA. The assessors of each community are responsible for developing a reasonable and realistic program to achieve the fair cash valuation of property in accordance with constitutional and statutory requirements. The nature and extent of that program depend on the assessors’ analyses and consideration of many factors, including, but not limited to, the status of the existing valuation system, results of an in-depth sales ratio study, and accuracy of existing property record information. Every five years, assessors must submit property values to DLS for certification. Assessors must also maintain fair cash values in the years between certifications so that each taxpayer in the community pays their share of the cost of local government in proportion to the value of property they own. (See **Five-year Certification** and **Interim-year Valuation Adjustment**)

Revenue Anticipation Borrowing – A temporary note issued by a city, town, or district in anticipation of taxes or other revenues. 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 excises in the prior year, and payments made by the state in lieu of taxes in the prior year. Per MGL c. 44, § 4, the borrower must pay the note within one year of the date of issue. (See **Revenue Anticipation Note**)

Revenue Anticipation Note (RAN) – A short-term loan issued in anticipation of revenues, such as tax collections and state aid. RANs are full faith and credit obligations. (See **Revenue Anticipation Borrowing, Bond Anticipation Note**, and **Tax Anticipation Note**)

Revenue Bond – A bond payable from and secured solely by specific revenues and thereby not a full faith and credit obligation.

Revenue Deficit – The amount by which actual revenues at year-end fall short of projected revenues and appropriation turnbacks and are insufficient to fund the amount appropriated. Unless otherwise funded, a revenue deficit must be raised in the following year's tax rate.

Revolving Fund – A fund that allows a community to raise revenues that directly flow from the provision of a specific service (such as user fees) and use those revenues without appropriation to support that service.

Rollback Taxes – Back taxes that become due when land valued, assessed and taxed under MGL c. 61, 61A or 61B no longer qualifies as actively devoted to the purpose specified in the chapter. (See **Chapter Land**)

Sale of Cemetery Lots Fund – A fund established to account for proceeds of the sale of cemetery lots. The proceeds may only be appropriated to pay for the cost of the land, its care and improvement or the enlargement of the cemetery under provisions of MGL c. 114, § 15.

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

Sales Comparison Approach – A method of estimating the value of property by comparing verified data about similar properties that have recently sold or are offered for sale on the open market and adjusting for differences from the subject, or unsold, property.

Schedule A – A statement of revenues, other financing sources, expenditures by category, changes in fund balance, and certain balance sheet account data prepared annually by the accountant or auditor at the end of the fiscal year and submitted to BOA. This report is based on the fund account numbers and classifications contained in the UMAS manual.

Short-term Debt – The outstanding balance, at any given time, on amounts borrowed with maturity dates of 12 months or less. (See **Note** and **Temporary Debt**)

Single Audit Act – A federal law applicable to any community that expends $750,000 or more per year in federal grant awards, this act establishes audit guidelines that reduce to only one the number of annual audits to be completed to satisfy the requirements of the various federal agencies from which grants have been received. (See **Grant**)

Small Commercial Exemption – A property tax classification option that allows a community to exempt up to 10 percent of the value of a Class Three, commercial parcel whose assessed valuation is less than $1 million and whose occupying business employs no more than 10 people annually. In effect, the option shifts the tax burden from parcels occupied by small businesses to those occupied by other commercial and industrial taxpayers.

Special Act – A piece of legislation adopted by the MA legislature as a Session Law and not codified as part of the MA General Laws. It typically concerns matters that only affect an individual or a particular city or town.

Special Assessment – (See **Betterment**)

Special Assessment Exemption – A full discharge from the payment of a betterment or special assessment that may only be granted to a government property that is occupied for public purposes.

Special Exclusion – An exception to the Proposition 2½ levy limit or levy ceiling that does not require voter approval and is applicable to only two special capital purposes: 1) water and sewer project debt service costs that reduce the water and sewer rates by the same amount; and 2) a program to assist homeowners to repair or replace faulty septic systems, remove underground fuel storage tanks, or remove 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 apportioned over a period of time not to exceed 20 years (similar to a betterment).

Special Purpose Appropriation – A budget appropriation having a spending purpose whose time of completion may extend beyond a single fiscal year. In most cases, special purpose appropriations are for capital projects, and they are presented to town meeting or city council in articles or resolutions that are separate from the annual operating budget. At year-end, if the fulfillment of the appropriation's purpose is still pending, its balance is not transferred to the general fund (or other applicable fund, such as an enterprise fund), but instead it becomes a carry-forward account in the new fiscal year's general ledger.

Special Revenue Fund – Any of various types of funds, established by statute only, that contain revenues earmarked for and restricted to expenditures for specific purposes. Examples of special revenue funds include receipts reserved for appropriation, revolving funds, grants from governmental entities, and gifts from private individuals or organizations.

Stabilization Fund – A reserve fund designed to accumulate amounts for emergency expenditures, temporary periods of revenue contraction, capital needs, and other future spending purposes, although it may be appropriated for any lawful purpose (MGL c. 40, § 5B). A community may establish a general stabilization fund, as well as one or more special purpose stabilization funds, and may appropriate any amounts into them. To create or amend the purpose of a stabilization fund requires a two-thirds vote of town meeting or city council, but only a majority vote of the same is necessary to appropriate money into the fund. Town meeting or city council must vote by two-thirds to appropriate from a general stabilization fund but only by a majority for a special purpose fund.

State Aid – See Local Aid.

State Aid Anticipation Note (SAAN) – A short-term loan issued in anticipation of a state grant or aid (MGL c. 44, § 6A).

State Ethics Commission – The state agency established to foster integrity in government and promote public trust. The Commission enforces the Code of Ethics statute and the Financial Disclosure Law. (See **Code of Ethics**)

State House Note – A debt instrument for cities, towns, counties, and districts certified by the Director of Accounts. Payable annually, these notes are usually limited to maturities of five years and principal amounts of $2,250,000. They are particularly attractive to smaller communities because the certification fees are low, they require neither full disclosure nor official statements, and they are issued in a short period of time.

State Receivership – (See **Finance Control Board** and **Fiscal Stability Officer**)

Statement of Indebtedness – An annual report that municipal treasurers are required to file with DLS that summarizes the community's debt condition at year-end, including items such as debt issued and outstanding, debt service paid, and authorized debt not yet issued.

Subsequents – This term refers to the taxes that continue to be annually assessed on a tax title property and that are outstanding, along with any applicable costs and accrued interest. For each year after the property was taken in tax title, the collector must certify these unpaid amounts to the treasurer, and they become part of the balance that the property owner must pay in order to redeem a tax title. (See **Tax Taking**, **Tax Title**, and **Tax Title Redemption**)

Supplemental Tax Assessments on New Construction – A provision under MGL c. 59, § 2D that allows a community to make pro rata assessments on the value of improvements that are greater than 50 percent of the billed value, excluding the land value, when an occupancy permit is issued after January 1. This provision allows a community to issue a bill (back to the date of occupancy between January 1 - June 30) for the current fiscal year on qualifying property improvements, resulting in additional general revenue. These improvements would be included in the subsequent year's new growth calculation.

Surety Bond – A performance bond that protects a municipality against financial loss arising from a breach of public trust by an employee who collects money on its behalf.

Surplus Revenue – The amount by which cash, accounts receivable, and other assets exceed liabilities and reserves.

Tailing – An amount of unclaimed municipal funds in the custody of a municipality that is retained, collectively with other tailings, in a repository (referred to as a tailings account) until eventual disposition (MGL c. 200A). Tailing examples include unclaimed tax refunds, uncashed payroll checks, and vendor payments yet to clear.

Tax Anticipation Note (TAN) – A short-term note issued to provide cash to cover operating expenses in anticipation of tax proceeds.

Tax Deferral – The provision under MGL c. 59, § 5(41A) that allows property owners who are age 65 or older and meet certain income and other requirements to defer all or part of their property taxes. Interest on the deferred taxes accrues at eight percent annually, unless the municipality adopts a lower rate. The payment of deferred taxes and accrued interest is due when the property is sold or the property owner passes away, unless a surviving spouse continues the deferral.

Tax Increment Financing Exemption (TIF) – A property tax exemption negotiated between a community and a private developer, typically implemented over a period up to 20 years, and intended to encourage industrial/commercial development (MGL c. 59, § 5(51)).

Tax Map – A map or series of maps used by assessors to determine the location of properties, indicate the size and shape of each parcel, and show their relation to features that affect value. Tax maps also provide a complete inventory of all land parcels and thus help to minimize the problems of omitted parcels and duplicate listings. Also referred to as assessors' maps.

Tax Possession – A former tax title property that has become a municipally owned property as the result of a foreclosure through Land Court or land of low value procedures. In the latter case, the municipality must hold an auction prior to it becoming a tax possession.

Tax Rate – The amount of property tax stated in terms of a unit of the municipal tax base, such as $14.80 per $1,000 of assessed valuation of taxable real and personal property.

Tax Rate Recapitulation (Tax Recap) – A multipart online form that a city or town submits to DLS to set a property tax rate. The tax recap shows all the estimated revenues and actual appropriations that affect the property tax rate. It should be submitted to DLS by September 1 (in order to issue the first-half semiannual property tax bills before October 1) or by December 1 (to issue actual tax bills on or before December 31 in a quarterly community or a semiannual community issuing annual preliminary tax bills).

Tax Title – A limited property ownership that a city, town or third party can get to collect outstanding real estate taxes or water/sewer bills. A tax title is typically held by a municipality after a tax taking although the municipality may assign (i.e., give or sell) a tax title to a third party. That third party cannot take possession of the property unless and until it completes a foreclosure in Land Court. (See **Tax Taking**).

Tax Taking – A collection procedure that secures a municipality's lien on real property and protects its right to payment of overdue property taxes. The city or town must record an "instrument of taking" at the Registry of Deeds, and with the completion of the tax taking, the community then has a tax title. Without a tax taking, the lien on a property expires if five years elapse from the January 1 assessment date and the property has been transferred to another owner. (See **Tax Title**)

Tax Title Foreclosure – A procedure initiated by a city or town treasurer in Land Court, or through the land of low value process, to obtain legal title to real property already in tax title and on which property taxes are overdue. The treasurer must wait at least six months from the date of a tax taking to initiate Land Court foreclosure proceedings (MGL c. 60, § 65). (See **Land Court** and **Land of Low Value**)

Tax Title Redemption – The process by which a property owner removes a tax title by recording a certificate of redemption at the Land Court. The municipal treasurer provides the property owner with the certificate after all taxes, interest, fees, charges, and other costs owed on a tax title property have been paid. The taxpayer's right to redeem terminates when the treasurer receives a Land Court decree or land of low value affidavit, records the affidavit, and holds an auction. (See **Tax Title**)

Temporary Debt – Borrowing by a community in the form of a note and for a term of one year or less. (See **Short-term Debt**)

Trust Fund – In general, a fund for money donated or transferred to a municipality with specific instructions on its use. As custodian of trust funds, the treasurer invests and expends such funds as stipulated by trust agreements, as directed by the commissioners of trust funds, or by town meeting. A trust fund's principal and interest may be used if it was established as an expendable trust. For a nonexpendable trust fund, only the interest (not the principal) may be expended as directed.

Turnback – An unexpended and unencumbered balance in a departmental line item at year-end, which is transferred to the general fund. Appropriation turnbacks are a common contributor to the certification of free cash in the subsequent fiscal year. (See **Free Cash**)

Turnover – The transfer from a municipal department to the treasurer of a received payment or batch of payments or the formal report by an authorized department of the payments received by the department and deposited to a bank account controlled by the treasurer. The document that provides the details of the payments, and accompanies the delivery of cash and checks to the treasurer's office, is variously called the schedule of departmental payments to the treasurer, turnover form, or AD 9/10 forms. MGL c. 41, § 54 requires the department to provide the city auditor or town accountant with a duplicate of every turnover form.

Uncollected Funds – Recently deposited checks that are 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.

Underride – A vote by a community to permanently decrease the tax levy limit. It is the exact opposite of an override.

Undesignated Fund Balance – The sum of monies in the general fund accounts as of June 30 that are neither encumbered nor reserved and are therefore available for expenditure once certified as part of free cash. (See **Designated Unreserved Fund Balance**)

Unfunded OPEB Liability – This is the difference between the dollar value assigned to the retirement-related benefits (other than pensions) already earned by a municipality's employees and retirees and the assets the local government will have on hand to meet those obligations when payable. (See **OPEB** and **OPEB Trust Fund**)

Unfunded Pension Liability – This is the difference between the dollar value assigned to the pensions already earned by a municipality's employees and retirees and the assets the local retirement system will have on hand to meet those obligations when payable. The total amount of this liability is redetermined every three years and driven by assumptions about the interest rates at which the retirement system's assets will grow and projections of future cost of living adjustments for active employees and retirees in the retirement system. (See **Pension Plan** and **Pension Trust Fund**)

Uniform Municipal Accounting System (UMAS) – The professional standard for municipal accounting in Massachusetts, which succeeded the statutory accounting system (STAT). As a uniform system for local governments, UMAS conforms to generally accepted accounting principles (GAAP), offers increased consistency in reporting and recordkeeping, and enhances the comparability of data among cities and towns. (See **Fund Accounting**)

Uniform Procurement Act – The statute, MGL c. 30B, that establishes uniform procedures for local government to use when contracting for supplies, equipment, services, and real estate.

Unreserved Fund Balance (Surplus Revenue Account) – The amount by which cash, accounts receivable, and other assets exceeds liabilities and restricted reserves. It is akin to a "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**)

Valuation – The legal requirement that a community's assessed value on property must reflect its market, or full and fair, cash value.

Warrant – An authorization for an action. For example, a town meeting warrant establishes the matters that may be acted on by that town meeting. A treasury warrant authorizes the treasurer to pay specific bills. The assessors' warrant authorizes the tax collector to collect taxes in the amounts and from the persons listed.

Water Surplus – A reserve account associated with a water department operating under MGL c. 41, § 69B, it receives a year-end transfer of any unspent water appropriations or revenues in excess of estimated water receipts. 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 receipts from boat excises and mooring fees imposed under MGL c. 91, § 10A are deposited. Appropriation of these proceeds is limited to certain waterway expenses outlined in MGL c. 40, § 5G.

Work-off Tax Abatement – A reduction in an outstanding property tax liability that is based on a dollar value assigned to volunteer hours worked by a property owner in service to a municipality. Through local acceptance of the related statute, cities and towns in Massachusetts may offer this abatement program only to eligible senior (MGL c. 59, § 5K) and veteran (c. 59, § 5N) property owners. Program volunteers cannot receive credit for their work at an hourly rate higher than the state's minimum wage, and the maximum abatement amounts that may be earned in a fiscal year are $2,000 for seniors and $1,500 for veterans.