

Glossary

Provided below are some of the most commonly used terms in capital planning and debt management.

APPROPRIATION – Action taken by Town Meeting to permit the Town to incur obligations against and to make expenditures of governmental resources.

ARBITRAGE – This refers to the difference between the tax-exempt interest rate paid by the Town and the interest rate at which the proceeds of the issue are invested. The Internal Revenue Code (IRC) contains specific regulations concerning the amount that the Town may earn from the investment of the tax-exempt proceeds and how such proceeds may be used.

BOND – A written promise to pay a specified sum of money (called the face value or principal amount) at a specified date or dates in the future (called the maturity date), together with periodic interest at a specified rate. The difference between a note and a bond is that the latter runs for a longer period of time and requires greater legal formality.

BOND ANTICIPATION NOTE – Short-term interest-bearing notes issued by a government in anticipation of bonds to be issued at a later date. Notes are retired from proceeds from the bond issue to which they are related (also referred to as a BAN).

CAPITAL BUDGET – This is the first year of a Capital Improvement Plan which has a plan of proposed expenditures for capital assets and the means of financing them. The capital budget is typically presented as one or more articles at Town Meeting and is enacted as part of the budget process.

CAPITAL IMPROVEMENT PLAN (CIP) – A plan for capital expenditures to be incurred each year over a fixed period of time and a management tool to identify public facility and equipment requirements and schedules them for funding and implementation.

CAPITAL EQUIPMENT & FACILITY IMPROVEMENT FUND (CIF) – This fund was created at the 2004 Annual Town Meeting. The purpose of this Fund is to allow the Town to reserve funds the acquisition of new equipment and/or the replacement of existing equipment (for which the Town may borrow money for a period of five years or more), and/or for building/facility improvements with a cost of less than \$250,000 (for which the Town may borrow money for a period of five years or more). Only general fund capital that has been recommended in the Capital Improvement Plan (CIP) is eligible for funding in this manner.

CAPITAL FACILITY FUND (CFF) – This fund was created at the 2007 Annual Town Meeting. The purpose of this fund is to allow the Town, to reserve funds for design, maintenance, renovation or reconstruction relating to the structural integrity, building envelope or MEP (mechanical, electrical, plumbing) systems of then existing capital

facilities. For this purpose, capital facility refers to any building or structure which is located on Town property and is under the jurisdiction of the Town Manager, including any Town owned building, structure, room, or space within a building, facility, park or plaza, open space, driveway, landscaped area, or other physical improvements under the administrative control of the Town.

CAPITAL PROJECT – Major, non-recurring expenditure involving one or more of the following: acquisition of land for a public purpose; construction of or addition to a facility such as a public building, water or sewer lines, play field, etc.; rehabilitation or repair of a building, facility, or equipment, provided the cost is \$25,000 or more and the improvement will have a useful life of five years or more; purchase of equipment costing \$25,000 or more, with a useful life of five years or more; and any planning, engineering, or design study related to an individual capital project.

CHAPTER 90 – Massachusetts General Laws (M.G.L.) Chapter 90, Section 34 authorizes the Commonwealth to allocate funds to municipalities, through the Transportation Bond Issue, for highway construction, preservation and improvement projects that create or extend the life of capital facilities; routine maintenance operations such as pothole filling and snow and ice removal are not covered. The formula for determining the Chapter 90 level of funding is based on a municipality's miles of public ways, population and level of employment. Municipalities receive Chapter 90 reimbursement only for pre-approved projects.

DEBT EXCLUSION – A *temporary* increase in a municipality's levy limit (and possibly the levy ceiling) when a municipality's voters elect to exclude the payment of particular debt service from the constraints of Proposition 2 1/2. The debt service is then added to the levy limit for the life of the debt only. To place a debt exclusion question on the ballot requires a 2/3 vote of the entire Board of Selectmen. A simple majority vote by the voters is required for passage.

DEBT LIMIT – The maximum amount of debt that the Town is legally permitted under State Law to have authorized.

DEBT SERVICE – The amount paid annually to cover the cost of *both* principal and interest on a debt issuance until its retirement.

ENTERPRISE FUND – A municipal fund established for the operation of a municipal utility, health care, recreational, or transportation facility whereby the operations are fully funded by the fees associated with that enterprise rather than by the tax levy. The "surplus" or retained earnings generated by the operation of the enterprise remain with the fund to offset future capital improvements, extraordinary maintenance expenses, or to reduce future fees and charges of the fund.

FIXED ASSETS – Assets of a long-term character, which are intended to continue to be held or used, such as land, building, and improvements other than buildings, machinery, and equipment.

FULL FAITH AND CREDIT – A pledge of the general taxing power for the payment of

debt obligations. Bonds carrying such pledges are referred to as general obligation bonds or full faith and credit bonds.

GENERAL OBLIGATION BONDS – Bonds for the payment of which the full faith and credit of the issuing government are pledged.

INFRASTRUCTURE – The underlying foundation or basic framework of an organization or system, e.g., roads, bridges, buildings, land, and natural resources.

INSURANCE LIABILITY FUND – Under Chapter 10 of the Acts of 2002, this fund was established to set aside funds for post-employment insurance liabilities. Post-employment benefits are part of the compensation for services rendered by employees, and the Town's obligations accrue during the life of an individual's employment. Beginning in FY08, the Town began appropriating for both the current retiree insurance obligations and the OPEB liability in a single budget line item in accordance with an actuarial schedule.

LEASE-PURCHASE AGREEMENTS – Contractual agreements which are termed "leases," but which in substance amount to purchase contracts in which the financing is provided by an outside party.

LEVY LIMIT – Property tax levy limits that constrain the total amount of revenue that can be raised from the property tax. In Massachusetts, the levy limit is governed by Proposition 2 1/2.

NOTE PAYABLE – In general, an unconditional written promise signed by the maker to pay a certain sum in money on demand or at a fixed or determinable time either to the bearer or to the person designated therein.

OVERRIDE – A *permanent* increase of a municipality's levy limit (but not the levy ceiling) when the majority of voters in a municipal election approve such an override. The override amount becomes part of the levy base when setting the next year's levy limit. To place an Override question on the ballot requires a majority vote of the Board of Selectmen. A simple majority by voters is required for passage.

PAY-AS-YOU-GO – A term used to describe the financial policy of a government which finances all of its capital outlay from current revenues rather than by borrowing. A government which pays for some improvements from current revenues and others by borrowing is said to be on a partial or modified pay-as-you-go basis.

PAY-AS-YOU-USE – A term used to describe the financial policy of a government which finances its capital outlays from borrowing proceeds and pays for capital assets over their useful life.

PROPOSITION 2 ½ -- That measure which limits municipal property taxes to 2.5 percent of the community's full and fair cash value (levy ceiling), and which limits the amount of revenue a municipality can raise through property taxes (levy limit) to 2.5 percent each year, plus a factor for new growth. A municipality may exceed its levy

limit in two ways: override or debt exclusion.

STABILIZATION FUND – M.G.L. Ch. 40, Sec. 5B allows a municipality to appropriate annually to such fund an amount to be raised in the preceding fiscal year; the aggregate amount in the fund shall not exceed ten percent of the equalized valuation of the municipality. The treasurer shall be custodian of the fund and may invest the proceeds legally; any interest earned shall remain with the fund. The Stabilization Fund may be appropriated in a town at a town meeting by two-thirds vote. The appropriation may be used for any lawful purpose.

UNRESERVED FUND BALANCE (ALSO CALLED FREE CASH) – A community's unrestricted available funds that may be used as a funding source for appropriations. Unreserved Fund Balance is generated when the actual operating results compare favorably with the budget. It can only be used after the certification process by the Department of Revenue is complete. For example, the July 1, 2005 certified amount may be used to fund supplemental appropriations voted during fiscal year 2006, or applied as a revenue source to support the fiscal 2007 budget voted in the spring of 2006.

OTM 01.08.08