

MUNICIPAL FINANCE TERMS

Audit - An examination of a district's financial systems, procedures, and data by a certified public accounting (independent auditor), and a report on the fairness of financial statements and on local compliance with statutes and regulations. The audit serves as a valuable management tool for evaluating the fiscal performance of a district.

Budget - A plan for allocating resources to support particular services, purposes and functions over a specified period of time.

Chapter 70 School Funds - Chapter 70 refers to the school funding formula created under the Education Reform Act of 1993 by which state aid is distributed through the Cherry Sheet to help establish educational equity among municipal and regional school districts.

Cherry Sheet - Named for the cherry colored paper on which they were originally printed, the Cherry Sheet is the official notification to cities, towns and regional school districts of the next fiscal year's state aid and assessments. The aid is in the form of distributions, which provide funds based on formulas and reimbursements that provide funds for costs incurred during a prior period for certain programs and services.

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

Debt Exclusion - An action taken by a community through a referendum vote to raise the funds necessary to pay debt service costs for a particular project from the property tax levy, but outside the limits under Prop 2 ½. By approving a debt exclusion, a community calculates its annual levy limit under Proposition 2 ½, then adds the excluded debt service costs. 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 Service – The repayment cost, usually stated in annual terms and based on an amortization schedule of the principal and interest on any particular bond issue.

Deficit - The excess of expenditures over revenues during an accounting period.

Education Reform Act of 1993 – State law that authorized the seven-year, Ch. 70 funding program for education that established spending targets for school districts as a means to remedy educational inequities. Scheduled to end in FY '00, the program has been extended, pending agreement on further reforms.

Encumbrance – A reservation of funds to cover obligations arising from purchase orders, contracts, or salary commitments that is chargeable to, but not yet paid from, a specific appropriation account.

Excess & Deficiency (E & D) – Also called the “surplus revenue” account, this is the amount by which cash, accounts receivable, and other assets exceed a regional school district’s liabilities and reserves as certified by the Director of Accounts. The calculation is based on a year-end balance sheet, which is submitted to DOR by the district’s auditor, accountant or comptroller as of June 30. The regional school committee must apply certified amounts exceeding five percent of the district’s prior year operating and capital costs to reduce the assessment on member cities and towns. (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 actually levied in a given year. Annually, the board of selectmen or city council must be informed of excess levy capacity and their acknowledgement must be submitted to DOR when setting the tax rate.

Expenditure – An outlay of money made by municipalities to provide the programs and services within their approved budget.

Fiscal Year - Since 1974, Massachusetts has operated on a budget cycle that begins July 1 and ends June 30. The designation of the fiscal year is that of the calendar year in which the fiscal year ends. Since 1976, the federal government fiscal year has begun on October 1 and ended on September 30.

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

Foundation Budget - The spending target imposed by the Education Reform Act of 1993 for each school district as the level necessary to provide an adequate education for all students. The Commonwealth defines and calculates an adequate funding level for each district, given the specific grades, programs, and demographic characteristics of its students. It then determines how much of that “foundation budget” should be paid for by each city and town’s property tax, based upon the relative wealth of the community. The remainder is funded by Chapter 70 aid.

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

Levy Ceiling - A levy ceiling is a tax restriction imposed by Prop 2 ½. It states that, in any one year, the real and personal property taxes imposed may not exceed 2 ½ percent of the total full and fair cash value of all taxable property. Property taxes levied may exceed this limit only if the community passes a capital exclusion, a debt exclusion, or a special exclusion.

Levy Limit - A levy limit is a tax restriction imposed by Prop 2 ½. It states that the real and personal property taxes imposed by a city or town may only grow each year by 2 ½ percent of the prior year’s levy limit, plus new growth and any overrides or exclusions. The levy limit can exceed the levy ceiling only if the community passes a capital expenditure exclusion, debt exclusion, or special exclusion.

Line-Item Transfer – The reallocation of a budget appropriation between two line items with an expenditure category (e.g., salaries, expenses). Employed as a management tool, line item transfer authority allows department heads to move money to where a need arises for a similar purpose and without altering the bottom line.

Local Aid - Revenue allocated by the Commonwealth to cities, towns, and regional school districts. Estimates of local aid are transmitted to cities, towns, and districts annual by the “Cherry Sheets”.

Local Receipts - Locally generated revenues, other than real and personal property taxes. Examples include motor vehicle excise, investment income, fees, rentals and charges. Annual estimates of local receipts are shown on the tax rate recapitulation sheet.

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

Municipal Revenue Growth Factor (MRGF) – An estimate of the percentage change in a municipality’s revenue growth for the fiscal year. It represents the combined percentage increase in the following revenue components: automatic 2 ½ percent increase in the levy limit, estimated new growth, the change in selected unrestricted state aid categories, and the change in selected unrestricted local receipts (Education Reform Act of 1993)

Net School Spending - School budget and municipal budget amounts attributable to education, excluding long-term debt service, student transportation, school lunches and certain other specified school expenditures. A community’s net school spending funding must equal or exceed the net school spending requirement established annually by the DESE (Department of Elementary and Secondary Education).

New Growth – The additional tax revenue generated by new construction, renovations and other increase in the property tax base during a calendar year. It does not include value increases caused by normal market forces or by revaluations. New growth is calculated by multiplying the assessed value associated with new construction, renovations and other increases by the prior year tax rate. The additional tax revenue is then incorporated into the calculation of the next year’s levy limit.

Net School Spending Requirement - Sum of a school district’s minimum local contribution and the Chapter 70 aid received in a given fiscal year. Besides the requirement, funds need to be appropriated to support costs such as student transportation, fixed assets, long-term debt service, etc.

Non-Foundation Budget – Expenses not included in the Minimum Required Local Contribution such as student transportation costs, long-term debt, and fixed asset leases/purchases.

Operating Budget – A plan of proposed expenditures for personnel, supplies, and other expenses for the coming fiscal year.

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 ceiling and its levy limit. It is the maximum amount by which a community may override its levy limit.

Purchase Order – An official document or form authorizing the purchase of products and services.

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

Receipts – Money collected by and within the control of a community from any source and for any purpose.

Receivables – An expectation of payment of an amount.

Revolving Fund – Allows a community to raise revenues from a specific service and use those revenues without appropriation to support the service. These funds are not returned to the general fund at the end of the fiscal year.

Stabilization Fund – A fund designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose.

Unfunded Mandate – A requirement imposed by law, regulation or order without underlying financial support, thereby resulting in direct or indirect costs to the body made responsible for its implementation.

User Fees – Fees paid for direct receipt of a public service by the user or beneficiary of the service.

ABBREVIATIONS

DOR – Department of Revenue

DESE – Department of Elementary and Secondary Education

SFSF – State Fiscal Stabilization Funds – Funds made available in the form of a grant to districts
– particularly those that had Chapter 70 aid reduced.

PSV – Pupil Services (Special Education)

CO – Central Office

DIS or DIST – District

CHS – Chester

LITT – Littleville

GMS – Gateway Middle School

GJHS – Gateway Junior High School

GHS – Gateway High School

PARA – Paraprofessional

ITIN – Itinerant (traveling)

Gateway Account Structure

XXXX-XX-XXXX-XX-XXX-X

XXXX = Fund

XX = Cost Center

XXXX = Function

XX = Department Code

XXX = Object

X = Program Code