

Glossary

This glossary includes definitions of terms used in the budget document, and other terms necessary for an understanding of the budget and budgeting process.¹

Account Code – A system of numbering or otherwise designating accounts, entries, invoices or vouchers, etc. in such a manner that the symbol/code used quickly reveals certain required information.

Accounting System - The total structure of records and procedures that identify, record, classify, and report information on the financial position and operations of a governmental unit or any of its funds, account groups, and organizational components.

Adequate Yearly Progress (AYP) – A measurement defined by the United States federal No Child Left Behind Act that allows the U.S. Department of Education to determine how every public school and school district in the county is performing academically according to results in standardized yearly tests.

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

Available Funds - Balances in the various fund types that represent non-recurring revenue sources. As a matter of sound practice, they are frequently appropriated to meet unforeseen expenses, for capital expenditures or other onetime costs. Examples of available funds include free cash, stabilization fund, overlay surplus, water surplus, and enterprise retained earnings.

Balanced Budget – A budget where revenues equal expenditures.

Base Aid - A component of Chapter 70 state aid to a municipality for education costs. Districts are guaranteed a certain base amount of aid that is increased annually by new increments in the following categories.

Baseline Budget – The component of next fiscal year's expenditure request that reflects the continuation of current-year, appropriated expenses.

Base Budget Request – The component of next fiscal year's expenditure request that represents the additional funds needed to provide the same level of service to the schools, as existed in the current year, including the current school programs, staffing levels, class sizes, and services. The FY09 Base Budget includes: a) the total FY08 budget appropriation (net of turnover savings), b) statutory or regulatory mandates, c) personnel step, longevity and collective bargaining increases (including cost of living), d) increases under other existing contracts, e) significant inflationary or enrollment increases (inflationary increase in the cost of student supplies, additional teachers needed to maintain student-teacher ratios, etc.); and f) other items considered necessary and recommended by the Superintendent.

¹ Most definitions verbatim from Massachusetts Department of Revenue, Municipal Finance Glossary. Online resource: <http://www.mass.gov/?pageID=dorsubtopic&L=5&L0=Home&L1=Local+Officials&L2=Municipal+Data+and+Financial+Management&L3=Municipal+Knowledge+Base&L4=Municipal+Finance+Glossary&sid=Ador>. Other definitions: School Finance Office.

Basis of Accounting – Describes when transactions are recognized for purposes of financial reporting.

Basis of Budgeting – The form of accounting used to describe revenues and expenditures in the budget document.

Bond – A written promise to pay a specified sum of money called the face value or principal amount together with periodic interest, at a specific rate, over a specific period of time. Bonds for school purpose

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

Budget Calendar – A schedule of key dates, which the government follows in the preparation and adoption of the budget.

Budget Message (or Budget Transmittal Letter) - A statement that, among other things, offers context by summarizing the main points of a budget, explains priorities, describes underlying policies that drive funding decisions, and otherwise justifies the expenditure plan and provides a vision for the future.

Capital Assets - All tangible property used in the operation of government which is not easily converted into cash, and has an initial useful life extending beyond a 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 a minimum initial cost.

Capital Budget -An appropriation or spending plan that uses borrowing or direct outlay for capital or fixed asset improvements. Among other information, a capital budget should identify the method of financing each recommended expenditure, i.e., tax levy, rates, and identify those items that were not recommended.

Capital Exclusion – A temporary increase in the tax levy to fund a capital project or make a capital acquisition. Exclusions require 2/3 vote of the entire Board of Selectmen and a majority vote in a Town-wide election. The exclusion is added to the tax levy only during the year in which the project is being funded and may increase the tax levy above the levy ceiling.

Capital Expenditures/ Improvements - Items generally found in the capital budget such as construction or major repairs to municipal buildings. The fees for architects, engineers, lawyers, and other professional services, plus the cost of financing advance planning, may be included in addition to the cost of materials and installation/construction. In Needham, capital improvements are defined as: the acquisition, construction, renovation, betterment or improvement, involving land, public buildings and facilities; water and sewer system laterals, mains and appurtenances; and equipment or vehicles; provided the total cost is \$25,000 or more, and the improvement will have a useful life of five years or more, or any planning, feasibility, engineering or design study, in preparation for such capital expenditures.

Capital Improvements Program - A blueprint, for planning a community's capital expenditures that comprises an annual capital budget and a five-year capital program. It coordinates community planning, fiscal capacity and physical development. While all of the community's needs should be identified in the program, there is a set of criteria that prioritizes the expenditures.

Capital Project – A 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.

Cash Basis of Accounting - A method of accounting that recognizes revenues when they are received, and expenditures when they are paid.

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.

Chapter 766 - Special Education (SPED federal requirement to provide a free and appropriate public education to students with disabilities in the least restrictive environment. This often means creating programs to retain students 'in-district,' whenever possible;

Cherry Sheets - 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 or services.

Cost of Living Adjustment - Reference to language in municipal contracts that provide for annual or periodic increases in salaries and wages for employees over the course of the contract. The amount of an increase is most often negotiated based on a community's ability to pay, but is sometimes tied to the annual change in a specified index, i.e., consumer price index (CPI).

Consumer Price Index (CPI) - The statistical measure of changes, if any, in the overall price level of consumer goods and services. The index is often called the "cost-of-living index."

Cost Center – An accounting organizational unit, which includes expenditures related to specific activity or program.

Debt Exclusion - A temporary increase in the Town's levy limit (and possibly the levy ceiling) to exclude the payment of debt from the limits of Proposition 2 ½. The debt service is 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, and a majority vote by the voters for passage.

Debt Exclusion Offset - Other funds that are used to reduce the amount of the debt paid by the tax levy. An example is a bond premium, which is the difference between the market price of a bond and its face value. A premium will occur when the bond's stated interest rate is set higher than the true interest cost (the market rate). Additions to the levy limit for debt exclusion are restricted to the true interest cost incurred to finance the excluded project. Premiums received at the time of sale must be offset against the stated interest cost in computing the debt exclusion. If receipt of the premium and the payment of interest at maturity of an excluded debt occur in different fiscal years, reservation of the premium for future year's debt service is required at the end of the fiscal year when the premium was received.

Debt Limit - The maximum amount of debt that a municipality may authorize for qualified purposes under state law. Under MGL Ch. 44 §10, debt limits are set at 5 percent of EQV for a city and 5 percent of EQV for a town. By petition to the Municipal Oversight Board, cities and towns can receive approval to increase their debt limit to 5 and 10 percent of EQV, respectively.

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.

Department – The basic organizational unit of government, which is functionally unique its delivery of services.

Department of Education (DOE) – The former name of the Massachusetts Department of Elementary and Secondary Education (DESE.)

Department of Elementary and Secondary Education (DESE) – The new name of the entity formerly called Department of Education (DOE.)

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.

Education Reform Act of 1993 - State law that authorized the seven-year, Ch. 70 funding program for education and that established spending targets for school districts as a means to remedy educational inequities. Scheduled to end by FY00, 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.

Equalized Valuations (EQV) - The determination of an estimate of the full and fair cash value of all property in the Commonwealth as of a certain taxable date. EQVs have historically been used as a variable in distributing some state aid accounts and for determining county assessments and other costs. The Commissioner of Revenue, in accordance with MGL Ch. 58 §10C, is charged with the responsibility of biannually determining an equalized valuation for each city and town in the Commonwealth.

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

Fiscal Year – An accounting year, i.e., when the books for the year are opened and closed. Since 1974, the Commonwealth and municipalities have 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. For example, the 2000 fiscal year is July 1, 1999 to June 30, 2000. Since 1976, the federal government fiscal year has begun October 1 and ended September 30.

Foundation Aid - A component of Chapter 70 state aid provided to a municipality for public education. Foundation aid is based on a municipality's foundation gap that is defined as the difference between what a community can contribute (based on ability to pay) and the total amount of the foundation budget.

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

Free Cash - Remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown 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 balance sheet as of June 30, which is submitted by the community's auditor, accountant, or comptroller. Important: free cash is not available for appropriation until certified by the Director of Accounts.

Fringe Benefits – Expenditures for job-related costs provided to employees as part of their compensation. Fringe benefit costs include employer's portion of FICA, Medicare, retirement, group insurance (health, dental and life), unemployment, worker's compensation and tuition assistance.

Full-Time Equivalent (FTE) Position – This represents the number of full-time positions in a given area. A 1.0 FTE position is a position, which is full-time, and a 0.5 FTE position is a half-time position. In Needham Public Schools, a 1.0 FTE position works 35 hours per week or more.

Function – A group of related activities aimed at accomplishing a major service or 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.

Fund Accounting - Organizing the financial records of a municipality into multiple, segregated locations for money. A fund is a distinct entity within the municipal government in which financial resources and activity (assets, liabilities, fund balances, revenues, and expenditures) are accounted for independently in accordance with specific regulations, restrictions or limitations. Examples of funds include the general fund and enterprise funds. Communities whose accounting records are organized according to the Uniform Municipal Accounting System (UMAS) use multiple funds.

Fund Balance - The difference between assets and liabilities reported in a governmental fund. Also known as fund equity. (See also Unreserved Fund Balance)

General Fund - The fund used to account for most financial resources and activities governed by the normal town meeting/city council appropriation process.

Generally Accepted Accounting Principles (GAAP) - Uniform minimum standards and guidelines for financial accounting and reporting that serve to achieve some level of standardization.

Goal – A statement of broad direction, purpose or intent, based on the needs of the community. A goal is general and timeless.

House 1 (Governor's Budget Proposal) - Designation given to the Governor's annual budget request, which is submitted to the House of Representatives by the fourth Wednesday of January. Except that a newly elected governor has eight weeks from the day he/she takes office to submit a budget. The budget is designated House 1 in the first year of the two-year legislative session and House 1A in the second year.

Hourly Employee – An employee who is paid on an hourly basis.

Indirect Cost - Costs of a service not reflected in the operating budget of the entity providing the service. An example of an indirect cost of providing water service would be the value of time spent by non-water department employees processing water bills. A determination of these costs is necessary to analyze the total cost of service delivery. The matter of indirect costs arises most often in the context of enterprise funds.

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 Proposition 2½ provisions.

Levy Limit - A levy limit is one of two types of levy (tax) restrictions imposed by MGL Ch. 59 §21C (Proposition 2 1/2.) It states that the real and personal property taxes imposed by a city or town may only grow each year by 2.5 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.

Levy Ceiling - A levy ceiling is one of two types of levy (tax) restrictions imposed by MGL Ch. 59 §21C (Proposition 2 1/2.) It states that, in any year, the real and personal property taxes imposed may not exceed 2½ 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.

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

Line Item Transfer - The reallocation of a budget appropriation between two line-items within an expenditure category (i.e., 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. Whether or not line-item transfers are permitted depends on how the budget is presented (i.e., format) and what level of budget detail town meeting believes it is approving.

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 annually by the "Cherry Sheets." Most Cherry Sheet aid programs are considered general fund revenues and may be spent for any purpose, subject to appropriation.

Local Appropriating Authority - In a town, the town meeting has the power to appropriate funds, including the authorization of debt. In a city, the city council has the power.

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

Minimum Aid - A component of Chapter 70 state aid provided to a municipality for public education. If a school district is not receiving at least \$150 per pupil in foundation aid, the district receives minimum aid such that the combination of minimum and foundation aid totals at least \$150 per pupil.

Minimum 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).

Modified Accrual Basis of Accounting/Budgeting - A method of accounting that recognizes revenues in the accounting period in which they become available and measurable. Expenditures are recorded when a liability is incurred.

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, the change in selected unrestricted state aid categories, and the 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 Education (DOE) (Education Reform Act of 1993)

Net School Spending Requirement - Sum of a school district's minimum local contribution and the Chapter 70 aid received in a given fiscal year (FY). Municipalities and regional school districts must appropriate funds sufficient to the net school-spending requirement. In addition to the NSS requirement funds need to be appropriated to support costs of student transportation, fixed assets, long term debt service, and other costs not part of the NSS.

Section 126 of Chapter 194 of the Acts of 1998 limits the net school-spending requirement for regional vocational districts to 150 percent of the foundation budget. When the net school-spending requirement exceeds 150 percent of the foundation budget, the required local contributions of the member towns are reduced proportionately. Any reduction is applied to any below foundation districts to which the municipality belongs.

No Child Left Behind (NCLB) Act (Federal Elementary and Secondary Education Act) - Federal requirement to have all students become proficient on state testing by 2014 by making Adequate Yearly Progress (AYP) toward yearly performance goals

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

Object Code - A classification of expenditures that is used for coding any department disbursement, such as "personal services," "expenses," or "capital outlay".

Objective – Something to be accomplished in specific, well-defined and measurable terms, and that is achievable within a specific time frame

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.

Performance Budget - A budget that stresses output both in terms of economy and efficiency.

Personal Property Tax - Movable items not permanently affixed to, or part of the real estate. It is assessed separately from real estate to certain businesses, public utilities, and owners of homes that are not their primary residences.

Prior Year Encumbrances – Obligations from previous fiscal years in the form of purchase orders, which are chargeable to an appropriation, and for which a part of the appropriation is reserved. They cease to be an encumbrance when the obligation is paid or terminated.

Program Budget - A budget that relates expenditures to the programs they fund. The emphasis of a program budget is on output.

Program Improvement Request – The component of next fiscal year's expenditure request that additional funds for program enhancements and improved service to the students of the Needham Public Schools. The Program Improvement Budget is the budget mechanism the School Committee will use to invest in service and program improvements for the Needham Public Schools. The Program Improvement Budget is not a wish list; rather it reflects the need to grow and improve the schools in a way consistent with the mission, values, and goals of the Needham Public Schools and the high expectations of the Needham community.

Property Tax 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 Proposition 2½ provisions.

Proposition 2 1/2 - State law enacted in 1980 that regulates local property tax administration. Major provisions of this legislation are located in MGL Ch 59 - Assessment of Local Taxes § 21C and relate to the determination of a levy limit and levy ceiling for each town.

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

Purchase of Services - The cost of services that are provided by a vendor.

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

Recapitulation Tax Sheet - A document submitted by a city or town to the DOR in order to set a property tax rate. The recap sheet shows all estimated revenues and actual appropriations that affect the property tax rate. The recap sheet should be submitted to the DOR by September 1 (in order to issue the first-half semiannual property tax bills before October 1) or by December 1 (in order to issue the third quarterly property tax bills before January 1).

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 certain accruing to the benefit of a city or town.

Recurring Revenue Source - A source of money used to support municipal expenditures, which by its nature can be relied upon, at some level, in future years. (See Non-recurring Revenue Source)

Revenues - All monies received by a governmental unit from any source.

Revolving Fund - Allows a community to raise revenues from a specific service and use those revenues without appropriation to support the service. For departmental revolving funds, MGL Ch. 44 §53E½ stipulates that each fund must be re-authorized each year at annual town meeting or by city council action, and that a limit on the total amount that may be spent from each fund must be established at that time. The aggregate of all revolving funds may not exceed ten percent of the amount raised by taxation by the city or town in the most recent fiscal year, and no more than one percent of the amount raised by taxation may be administered by a single fund. Wages or salaries for full-time employees may be paid from the revolving fund only if the fund is also charged for all associated fringe benefits.

Section 504 and Americans with Disabilities Act - federal requirements to provide reasonable accommodations so that all people (students, faculty and community) can participate in activities in our schools, regardless of disability. These accommodations can include building modifications, specialized equipment, instructional or testing changes, or care from a nurse or other staff member.

Special Education - Special Education shall mean specially designed instruction to meet the unique needs of the eligible student or related services necessary to access the general curriculum and shall include the programs and services set forth in state and federal special education law.

Special Education Circuit Breaker - A funding program for special education costs, implemented by the legislature in FY04, to assist localities with increasing and volatile special education expenses. The program replaced the former "50/50" program which reimbursed school districts 50% of the costs for students in residential placements. Under the Circuit Breaker program, districts are reimbursed a percentage of individual student costs exceeding four times the foundation budget. For FY09, the statewide foundation budget per pupil is estimated to be \$9,295, so the circuit breaker threshold is \$37,180. The formula voted by the state legislature calls for districts to receive 75% of their costs exceeding \$37,180; however, because circuit breaker reimbursements are subject to appropriations, the budgeted percentage of reimbursement for FY09 is 72%. This program was changed in FY05 from a current-year 'circuit breaker' reimbursement program to a retroactive reimbursement program, where districts are reimbursed in FY09 for eligible students reported on FY'08 final claims.

Special Revenue Fund - Funds, established by statute only, containing revenues that are earmarked for and restricted to expenditures for specific purposes. Special revenue funds include receipts reserved for appropriation, revolving funds, and grants from governmental entities and gifts from private individuals or organizations.

Tax Rate - The amount of property tax stated in terms of a unit of the municipal tax base; for example, \$14.80 per \$1,000 of assessed valuation of taxable real and personal property. The FY07 tax rate in Needham was \$9.35 for residential property, and \$18.17 for commercial property.

Town Meeting - In a town, the town meeting has the power to appropriate funds, including the authorization of debt. In a city, the city council has the power.

Undesignated Fund Balance - Monies in the various government funds as of June 30 that are neither encumbered nor reserved, and are therefore available for expenditure once certified as part of free cash.

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.

Uniform Procurement Act - Enacted in 1990, MGL Ch. 30B establishes uniform procedures for local government to use when contracting for supplies, equipment, services and real estate. The act is implemented through the Office of the Inspector General.

Uniform Municipal Accounting System (UMAS) - UMAS succeeds the so-called Statutory System (STAT) and is regarded as the professional standard for municipal accounting in Massachusetts. As a uniform system for local governments, it conforms to Generally Accepted Accounting Principles (GAAP), offers increased consistency in reporting and record keeping, as well as enhanced comparability of data among cities and towns.

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 amount and from the persons listed, respectively.