

Needham Finance Committee Glossary and Term Sheet

Appropriation - An authorization by a legislative body to make expenditures and incur obligations for specific purposes.

Budget Process - In the fall of each year, the Town Manager requests each department manager to submit a budget showing proposed expenditures and highlighting all changes from the prior year's budget. All spending requests are reviewed by the Town Manager with the department managers and one or more liaisons from the Finance Committee. There are two main components to the operating budget requests:

Base Budget - level staffing and level services are included in the base budget request.

New Positions or Services - new positions or services must be submitted using a separate request form called a DSR4. The Finance Committee holds a series of hearings with the department managers.

In late January, the Town Manager submits a proposed budget to the Finance Committee for review.

At the same time, the School Superintendent reviews spending requests from staff and makes a budget recommendation to the School Committee. The School Committee votes on the budget proposal which is then considered by the Finance Committee. The operating budget includes a single line for the Needham Public Schools as State law allows Town Meeting to establish only a total appropriation for the public schools. The School Committee has the sole authority to determine the expenditures within the total appropriation.

In late February, the Finance Committee makes its own operating budget recommendation and then submits a draft budget to the Town Manager.

In March, the Finance Committee votes a final recommended operating budget that is included in the warrant for review and approval at the Annual Town Meeting. Funds approved by Town Meeting may only be expended for matters covered by the respective line items in the operating budget.

Capital Expenditures - The Town defines capital items as items that cost at least \$25,000 and have a useful life of more than five years. This typically includes real property acquisitions, construction, capital asset improvements, long-life capital equipment, or major maintenance/repair that is beyond normal operating expenditure. Items that do not meet the Town's definition of capital, such as police cruisers and certain technology needs, may be funded in the operating budget.

Each year, after receiving input from the Assistant Town Managers and department managers, and consulting with the Select Board, the Town Manager submits a detailed Capital Improvement Plan (CIP) which includes recommended capital expenditures for the next five years. The CIP includes planned funding sources, including cash and debt service requirements:

When borrowing for capital items, the Town is guided by the following debt service policies for funding capital spending:

3% Rule - The Town will allocate or reserve three percent (3%) of projected General Fund revenue (e.g., property taxes less debt exclusions, state aid, and local receipts) for debt service;

10% Rule - The Town will strive to limit total debt service, including debt exclusions and self-supporting debt, to ten percent (10%) of gross revenues; and

Debt Rule: Debt is not used to fund ongoing operating expenses, and will only be issued for capital improvements greater than \$250,000 with a useful life of 5 years or more.

When using cash for capital items, it is referred to as ***Cash Capital***.

Community Preservation Act (CPA) - A law enacted in 2000 to allow Massachusetts cities and towns to access state funds from the Community Preservation Trust Fund for local preservation projects. Needham opted into the program in 2004. A 2% tax surcharge is assessed and placed into CPA reserve funds. As a participant, Needham receives an annual distribution from the state's CP Trust Fund, which varies based on the amount appropriated by the state legislature and the number of cities and towns participating. For the first few years of the program, the state matched 100% of the town-raised funds, thereby doubling the annual contribution to the CPA reserves. The state match has generally decreased over the years, and the state contributed an additional 39% on the Needham's CPA funds raised in FY 2022. Proposed CPA-funded projects are reviewed by the Needham Community Preservation Committee and presented to Town Meeting for approval. CPA funds can be used to preserve open space, protect historic resources, create and

maintain affordable housing, and provide for certain outdoor recreational facilities.

Debt Service - The amount of money paid in principal and interest on outstanding debt incurred by the Town.

Enterprise Fund - A municipal fund which allows for a separate accounting mechanism whereby the town can demonstrate the portion of costs that are supported by user charges or fees and which portion is supported by the tax levy. The law allows enterprise funds to be established, "for a utility, health care, recreational or transportation facility." A community may not establish enterprise funds for normal government operations or services such as public safety or inspectional services. Needham has two enterprise funds: water and sewer. If an enterprise fund generates more revenue than charges the surplus can be carried forward as "retained earnings" to be used in future years for operating and capital expenditures.

Free Cash - Free Cash is the term that covers unspent funds from the prior year. The principal source for Free Cash is excess revenue above what was budgeted plus unspent funds from departmental budgets. This amount is reviewed at the end of each fiscal year by the State and once certified is available as Free Cash in the following fiscal year. Free Cash can be used for any purpose such as supporting the operating budget, capital needs or a reserve. Because Free Cash amounts can fluctuate substantially year to year, our Town policy limits the amount of Free Cash that can be used to fund the operating budget to the lesser of: (a) two percent (2%) of the final adjusted budget, or (b) the actual return from the prior year. Any funds not used for the operating budget will typically be used for non-recurring expenses such as Cash Capital.

General Fund - The General Fund is used to account for most financial resources and activities governed by the normal Town Meeting appropriation process. (This contrasts with special funds such as revolving funds that may only be established by statute and contain revenues that are earmarked for specific purposes).

Minuteman School Assessment - Needham is a member of the nine-town Minuteman School district which runs the public regional vocational/technical high school located in Lincoln. The Minuteman School assessment is Needham's annual share of the district's capital and operating costs which are apportioned among all member towns in accordance with the district agreement. The assessment fluctuates each year based on the total annual budget and the Town's enrollment in the Minuteman School. Needham is deeply committed to providing a high quality vocational/technical option for its secondary school students.

New Growth - The increase in property value due to new development and other growth in the tax base that is **not** the result of revaluation.

Operating Expenses- Annual recurring costs associated with running the Town.

OPEB - Other Post-Employment Benefits, the projected costs for benefits other than pensions provided to eligible retirees, primarily health insurance.

Overlay Reserve - A portion of receipts from real estate and property taxes is set aside each year in a reserve fund for the purpose of paying out abatements and covering exemptions and uncollected taxes in that year. Prior to the end of the fiscal year, surplus overlay funds may be released by the assessors and made available for other uses. If there are funds remaining at the close of the year, it becomes part of Free Cash.

Overrides - Proposition 2½ is a Massachusetts statute that limits property tax levy increases to 2.5% annually. Overrides are voter approved exceptions to the limitations on additions to the tax levy. There are three types of overrides:

Capital Exclusion - A capital exclusion allows the Town to fund a cash capital project with taxes above the amount the Town can otherwise raise. This type of override is a temporary increase in the tax levy and is available only for the identified purpose.

Debt Exclusion (Debt Override) - A debt exclusion override allows the Town to fund projects that it otherwise would not be able to cover through its regular funding sources. This type of override is retired once the loan is fully paid off, typically 20-30 years.

Operational Override - Additions to the tax levy for non-capital needs. This type of override remains indefinitely.

Property Tax – The property tax rate is per \$1,000 of assessed value. Annual property tax increases consist of several components. Proposition 2½ limits the annual tax levy increase to 2.5%. Property values are required to be re-assessed every five years, and may be adjusted annually. Because all properties do not change in value uniformly (by the same percentage) relative to other properties in Town, the base rate for any particular property may change by more or less than 2.5%. Additionally, the tax bill may increase if new overrides are approved by the voters. However, the total tax levied may not exceed 2.5% of the total assessed value of all taxable real and personal property in the Town.

Reserve Fund - The Town may appropriate as part of the annual operating budget a Reserve Fund that provides funds for extraordinary or unforeseen expenses during that fiscal year. Only the Finance Committee can authorize transfers from the Reserve Fund. Unused funds become Free Cash for the following fiscal year.

Revenue - Funds used to cover the expenses in the operating and capital budgets. General funds come essentially from three revenue sources.

Tax Levy/Receipts - Funds raised from sources such as Residential and Commercial Real Estate and Property Taxes. Typically, about 80% of Needham’s total General Fund revenue.

State Aid – Funds received from the State, such as for schools and other state supported services such as the library or capital reimbursement for school projects from the MSBA. Typically, about 6-7% of Needham’s total General Fund revenue.

Local Receipts - Monies received from local sales and meals taxes, excise taxes, licensing and permitting fees, fines and penalties, departmental activities and services income. Typically, about 6-7% of Needham’s total General Fund revenue.

Revolving Fund - A fund for a service whose income comes from activity fees and can be used to finance its continuing operations from year to year. Some revolving funds require an annual town meeting vote to set the spending limit of the fund as required by state law. (Note: These funding limits are not appropriations.) Needham has several revolving funds which require an annual vote, such as: School Transportation Fund; Immunization Program Fund; Tree Replacement Fund; and Aging Services Program Fund. In any fiscal year, the limit on the amount that may be spent from a revolving fund may be increased with the approval of the Select Board and the Finance Committee. Other revolving funds may be established by a single vote of Town Meeting and upon approval carry forward year after year, such as the Park and Recreation Activities Fund.

Stabilization Funds - A stabilization fund is a special fund into which Funds may be appropriated and reserved for later appropriation for any lawful municipal purpose. State law allows the town to create one or more stabilization funds dedicated to different purposes. Funds accumulated in a stabilization fund carry forward from one fiscal year to the next. Interest earned from the investment of funds in the stabilization fund remains with that fund. Town Meeting, by majority vote, may appropriate into the fund, and by a two-thirds vote, appropriate from the fund. Needham has several stabilization funds, including:

Athletic Facility Improvement Fund - Can be used to design, construct, maintain or replace athletic facilities, including buildings, the pool, fields, field turf, etc.

Capital Facility Stabilization Fund - Can be used to design, maintain or renovate the structural integrity of town buildings or mechanical, electrical or plumbing systems.

Capital Improvement Fund - Can be used to for acquisition or replacement of equipment, or for facility improvements under \$250,000.

Debt Stabilization Fund - Used to set aside funds to smooth out the impact of debt payments, to allow the Town more debt capacity while remaining in compliance with the 3% debt service policy.

General Stabilization Fund- An emergency fund, designed to cushion impacts on the operating budget during extreme periods of reduced revenues or, perhaps, extraordinary operating expenses, such as an adverse litigation judgment.

Warrant and Warrant Articles - The warrant is notice of a Town Meeting’s time, place and agenda. The warrant articles provide notice of the specific items to be considered by Town Meeting. All appropriations are made at Town Meeting through financial warrant articles. An action by Town Meeting is not valid unless the subject was listed on the warrant.

Appropriations made through financial warrant articles (other than the operating budget) are carried forward from year to year until spent for the designated purpose, re-appropriated by Town Meeting for another use, or closed out to fund balance. Similarly, if Town Meeting authorizes an amount of debt that is higher than the borrowing needed for the specified purpose, the full amount of the authorized debt capacity remains in place until any unused portion is rescinded by Town Meeting.