

Glossary

Section 11

Town of Needham
Capital Improvement Plan
January 2014

GLOSSARY

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

Account - A classification of appropriation by type of expenditure.

Accounting Period – A period of time (e.g., one month, one year) where the Town determines its financial position and results of operations.

Accrual Basis - The basis of accounting under which transactions are recognized when they occur, regardless of the timing of related cash flows.

Actuarial - A person or methodology that makes determinations of required contributions to achieve future funding levels by addressing risk and time.

ADA - Americans with Disabilities Act

Athletic Facility Improvement Fund - This fund was created at the 2012 Annual Town Meeting. The purpose of this fund is to allow the Town to reserve funds for the renovation and reconstruction of the Town's athletic facilities, with particular emphasis on the turf fields installed at the Memorial Park and DeFazio Field.

American Reinvestment and Recovery Act - The American Recovery and Reinvestment Act of 2009, abbreviated ARRA or Federal Stimulus, is an economic stimulus package enacted by Congress in February 2009. The Act includes federal tax cuts, expansion of unemployment benefits and other social welfare provisions, and domestic spending in education, health care, and infrastructure, including the energy sector.

Appropriation – A legal authorization granted by Town Meeting to expend money and incur obligations for specific public purposes.

ARRA - See American Reinvestment and Recovery Act

Assessment – The official valuation of property for purposes of taxation.

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 funds, overlay surplus, and retained earnings.

Balanced Budget – A budget is balanced when planned funds or total revenues equal planned expenditures, that is, total outlays or disbursements, for a fiscal year.

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Betterment (Special Assessment) – Whenever part of a community benefits from a public improvement, or betterment (*e.g.*, water, sewer, sidewalks, etc.), special property taxes may be assessed to the property owners of that area to reimburse the governmental entity for all, or part, of the costs it incurred in completing 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.

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 (BAN) – 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 and/or from a cash payment and/or Town appropriation.

Capital Budget - A plan for capital expenditures for projects to be included during the first year of the capital improvement plan.

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 Facility Stabilization Fund - 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 Improvement Fund – This fund was created at the 2004 Annual Town Meeting. The purpose of this Fund is to allow the Town to reserve funds for 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 Improvement Plan (CIP) – A financial planning and management tool that identifies public facility and equipment requirements and schedules them for funding and implementation.

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

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design study related to an individual capital project.

Cash Basis - A basis of accounting under which transactions are recognized only when cash changes hands.

Chapter 90 – Massachusetts General Laws 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.

Cherry Sheet - Originally printed on a cherry-colored form, this document reflects all Commonwealth charges, distributions and reimbursements to a city or town as certified by the state Director of the Bureau of Accounts.

Collective Bargaining - The process of negotiations between the Town and bargaining units (unions) regarding the salary and fringe benefits of town employees.

Community Preservation Act (CPA) – Enacted as Massachusetts General Laws Chapter 44B in 2000, CPA permits cities and towns accepting its provisions to establish a restricted fund from which monies can be appropriated only for a) the acquisition, creation and preservation of open space; b) the acquisition, preservation, rehabilitation, and restoration of historic resources; and c) the acquisition, creation and preservation of land for recreational use; d) the creation, preservation and support of community housing; and e) the rehabilitation and restoration of open space, land for recreational use and community housing that is acquired or created using monies from the fund. The local program is funded by a local surcharge up to 3 percent on real property tax bills and funds from the state generated from registry of deeds fees. The voters of Needham approved a 2 percent surcharge effective July 1, 2005.

Community Preservation Fund - A special revenue fund established pursuant to Massachusetts General Laws Chapter 44B to receive all monies collected to support a community preservation program, including but not limited to, tax surcharge receipts, proceeds from borrowings, funds received from the Commonwealth, and proceeds from the sale of certain real estate.

Conservation Fund – The Town may appropriate money to a conservation fund. This money may be expended by the Conservation Commission for lawful conservation purposes as described in Massachusetts General Laws Chapter 40 Section 8C. 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 two-thirds vote of Town Meeting.

Contingent Appropriation – An appropriation that authorizes spending for a particular purpose only if subsequently approved in a voter referendum. Under Massachusetts General Laws Chapter 59 Section 21C (m), towns may make appropriations from the tax levy, available funds or borrowing, contingent upon 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 certain date after the Town Meeting dissolves. The question may be placed before the voters at more than one election, but if not approved by the applicable deadline, the appropriation is null and void.

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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 2½. 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. The debt exclusion question requires a majority vote by 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 gross or net debt that is legally permitted under State Law.

Debt Policy – Part of an overall capital financing policy that provides evidence of a commitment to meet infrastructure needs through a planned program of future financing. The Town of Needham has debt policies that have been developed in consultation with the Finance Committee and reviewed and approved by the Board of Selectmen.

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

Department - A service providing entity of the town government.

Division - A budgeted sub-unit of a department.

Encumbrance – The setting aside of funds to meet known obligations.

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.

Expenditure Account Code - An expenditure classification according to the type of item purchased or service obtained, for example, regular compensation, energy expense, communications, educational supplies, and vehicle equipment.

Fiscal Year - The twelve-month financial period used by the Town beginning July 1 and ending June 30 of the following calendar year. The Town's fiscal year is numbered according to the year in which it ends.

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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.

Formula Grant – Federal funding for which the allocation methodology is strictly determined in federal statute or regulation, and for which a government agency prepares a single application and receives subsequent years' allocation without re-application.

Free Cash – Free cash is the amount of the General Fund unassigned fund balance that may be used as a source to fund appropriations. The Massachusetts Department of Revenue certifies the amount of "free cash" resulting from closing the financial books as of June 30, the end of the fiscal year. Free cash may only be used after the certification process by the Department of Revenue is complete. For example, the July 1, 2012 certified amount may be used to fund supplemental appropriations voted during fiscal year 2013, or applied as a revenue source to support the fiscal 2014 appropriations that may be voted in the spring of 2013.

Fringe Benefits – Employee-related costs other than salary, e.g., insurance and retirement costs.

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.

Full-time Equivalent Position (FTE) - A concept used to group together part-time positions into full-time units.

Fund - An independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources with all related liabilities, obligations, reserves, and equities that are segregated for specific activities or objectives. Among the fund types used by the Town are General, Special Revenue, Capital Projects, Trust, and Enterprise.

FY - Fiscal Year

GASB – This refers to the Governmental Accounting Standards Board which is currently the source of generally accepted accounting principles (GAAP) used by state and local governments in the United States. It is a private, non-governmental organization. The GASB has issued Statements, Interpretations, Technical Bulletins, and Concept Statements defining GAAP for state and local governments since 1984.

GASB 34 –GASB Statement Number 34 set new GAAP requirements for reporting major capital assets, including infrastructure such as roads, bridges, water and sewer facilities, and dams. The Town of Needham has implemented the Governmental Accounting Standards Board's (GASB) Statement Number 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, financial reporting model. This standard changed the entire reporting process for local governments, requiring new entity-wide financial statements, in addition to the current fund statements and other additional reports such as Management Discussion and Analysis.

GASB 45 – The Town of Needham's financial statements are required to implement Governmental Accounting Standards Board (GASB) Statement Number 45 for other post employment benefits (OPEBs) including health care, life insurance, and other non-

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pension benefits offered to retirees. This new standard addresses how local governments should account for and report their costs related to post employment health care and other non-pension benefits, such as the Town's retiree health benefit. Historically, the Town's cost was funded on a pay-as-you-go basis. GASB 45 requires that the Town accrue the cost of the retiree health insurance and other post employment benefits during the period of employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of post employment benefits and the financial impact on the Town. This funding methodology mirrors the funding approach used for pension/retirement benefits. The Town has established Fund and annually appropriates the required contribution based on updated reports. The Fund will allow the Town to capture long-term investment returns and make progress towards reducing the unfunded liability.

Generally Accepted Accounting Principles (GAAP) - The basic principles of accounting and reporting applicable to state and local governments, including the use of the modified accrual or accrual basis of accounting, as appropriate, for measuring financial position and operating results. These principles must be observed to provide a basis of comparison for governmental units.

General Fund - The fund into which the general (non-earmarked) revenues of the municipality are deposited and from which money is appropriated to pay the general expenses of the municipality.

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.

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 2½.

Mandate - A requirement from a higher level of government that a lower level government perform a task in a particular way or in conformance with a particular standard.

Massachusetts Water Pollution Abatement Trust (MWPAT) - A statewide revolving fund that commenced operations in 1990 to address necessary environmental actions outlined in the Federal Clean Water Act.

Massachusetts Water Resources Authority (MWRA) - The Massachusetts Water Resources Authority is a Massachusetts public authority established by an act of the Legislature in 1984 to provide wholesale water and sewer services to 2.5 million people in 61 metropolitan Boston communities. The Town of Needham disposes all wastewater through the MWRA system and purchases drinking water as needed from the MWRA during the year.

Modified Accrual Basis - The accrual basis of accounting adapted to the governmental fund type, wherein only current assets and

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current liabilities are generally reported on fund balance sheets and the fund operating statements present financial flow information. Revenues are recognized when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized when the related fund liability is incurred except for a few specific exceptions. All governmental funds and expendable trust funds are accounted for using the modified accrual basis of accounting.

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.

Official Statement - The municipal equivalent of a bond prospectus.

Operating Budget - A budget making appropriations for the ordinary maintenance or administration of activities for the fiscal year.

Operating Equipment - Equipment that has a life expectancy of more than one year and a value of less than \$25,000 dollars. Equipment with a useful life of five or more years and a value greater than \$25,000 dollars is capital equipment.

Overlay Surplus - Any balance in the overlay account of a given year in excess of the amount remaining to be collected or abated can be transferred into this account. At the end of each fiscal year, unused overlay surplus is "closed" out to fund balance, in other words, it becomes a part of Free Cash (see Undesignated Fund Balance).

Override - A permanent increase of the Town's levy limit (but not the levy ceiling) when a majority of voters in an 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.

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.

Performance Measure - An indicator of progress toward a goal or strategy. Measures can be defined for identifying output, work or service quality, efficiency, effectiveness, and productivity.

Proposition 2½ - That measure which limits municipal property taxes to 2½ 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 2½ percent each year, plus a factor for new growth. A municipality may exceed its levy limit in two ways: override or debt exclusion.

Provisional Capital – A capital request that is submitted by a department to identify a future need or obligation, but the department is not in the position to provide the necessary details so that the request can be evaluated.

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Reserve Fund - An amount set aside annually by a vote of Town Meeting to provide a funding source for extraordinary or unforeseen expenditures. Only the Finance Committee can authorize transfers from the reserve fund. Any balance remaining in the reserve fund at the end of the fiscal year is "closed" out to fund balance and ceases to be available.

Special Revenue Fund - Used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or sources for major capital projects) that are legally restricted to expenditures for specific purposes. A special revenue fund is accounted for in the same manner as a General Fund.

Stabilization Fund - Massachusetts General Laws Chapter 40, Section 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 by Town Meeting. The appropriation may be used for any lawful purpose.

Technology Infrastructure - The hardware and software that support information requirements, including computer workstations and associated software, network and communications equipment, and system-wide devices.

Town Meeting - Town Meeting is both an event and a governmental body. As an event, it is a gathering of a Town's representative Town Meeting Members (TMM), and is referred to as "the Town Meeting." As a governmental body, it is the legislative body for the Town of Needham, and is referred to simply as "Town Meeting."

Trust Funds - Funds held by the Town in a fiduciary role, to be expended for the purposes specified by the donor.

Uniform Procurement Act - Enacted in 1990, Massachusetts General Laws Chapter 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.

Warrant - The warrant lists a Town Meeting's time, place, and agenda. A warrant is also known as a warning. A Town Meeting's action is not valid unless the subject was listed on the warrant.