

I: Appendices



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APPENDIX A

FINANCIAL POLICIES AND OBJECTIVES

**TOWN OF CHELMSFORD
FINANCIAL MANAGEMENT POLICIES AND OBJECTIVES**

OVERVIEW

It is the policy of the Town of Chelmsford that financial management be conducted with the objectives of providing municipal service in an efficient, effective and consistent manner that aligns with public policy goals as set forth by the Board of Selectmen.

To help ensure the Town's financial stewardship, an established program of managing the Town's finances becomes essential. To this end, the Board of Selectmen seeks policies and procedures that are financially prudent and in the Town's best economic interest. The Board of Selectmen promulgates these Financial Policies consistent with its responsibilities in the Chelmsford Home Rule Charter.

In adherence to this policy, the Town shall pursue the following objectives:

- to set forth operational principles that minimize the cost of government to the extent consistent with services desired by the public and that minimize financial risk;
- to continue effective financial management within the Town that conforms to generally accepted accounting principles;
- to simplify, clarify and modernize the financial systems of the Town as the need occurs;
- to provide increased public confidence in public financial management;
- to protect and enhance the Town's credit rating and prevent default on any municipal debts;
- and to provide safeguards to ensure the quality and integrity of the financial systems.

In order to obtain the above objectives, the Board of Selectmen adopts the following policies:

A. ACCOUNTING, AUDITING AND FINANCIAL PLANNING

1. The Town will utilize accounting practices that conform to generally accepted accounting principles (GAAP) as set forth by the Government Accounting Standards Board (GASB). The Town will comply with GASB Statement 34 by Fiscal Year 03 and continue to track, report and depreciate capital assets as required.
2. An annual audit will be performed by an independent public accounting firm.
3. A Management Letter, a by-product of an annual audit, shall be provided by the independent public accounting firm no later than March 1. Additional findings and recommendations may be communicated in a separate letter to be provided no later than April 1.

4. A five-year financial forecast shall be prepared annually by the Town Manager in accordance with the Charter, Section 6-4, projecting revenues and expenditures for all operating funds. This forecast shall be used as a planning tool in developing the following year's operating budget and capital improvements plan.

B. GENERAL FUND

1. Current revenues will be sufficient to support current expenditures.
2. Debt will not be used to fund current operating expenditures.
3. Reserves, such as the Stabilization Fund, should be maintained between 5 and 10 percent of general operating revenues. Reserves shall be used to provide for temporary financing for unanticipated or unforeseen extraordinary needs of an emergency nature; for example, costs related to a natural disaster or calamity, an unexpected liability created by Federal or State legislation, immediate public safety or health needs, revenue shortfalls, opportunities to achieve long-term cost savings, or planned capital investments and related debt service. Reserves will not be used to fund recurring budget items.

Funds shall be allocated from Reserves only after an analysis and utilization plan has been prepared by the Town Manager and presented to the Board of Selectmen. The analysis shall provide sufficient evidence to establish that the remaining balance is adequate to offset potential downturns in revenue sources and provide a sufficient cash balance for daily financial needs. The analysis and utilization plan shall strive to maintain net non-exempt debt at 3 percent of the tax levy, deducting for project reimbursements such as the School Building Assistance funds from the State.

Funds shall be allocated each year in the budget process to replace any use of Reserves funds during the preceding fiscal year to maintain the balance of the Reserves between 5 and 10 percent of budgeted expenditures.

The amount the Town has in its Reserves balance plays a major role in the Town's bond rating. A sudden decline in Reserves may be temporary or a planned event but a constant decline or reduction below the 5 percent floor may indicate a problem in meeting current expenditures and revenue targets, subsidizing the current operating budget, planned capital investments, or utilizing reserves for purposes not planned.

4. Free Cash in excess of the goal reserve amount should be used for non-recurring emergency expenditures or appropriated to a Stabilization Fund for future capital projects and equipment purchases or used to provide property tax relief.

5. The year-to-year increase of actual revenue from the levy of the ad valorem (property) tax shall generally not exceed 2.5 percent (Proposition 2 ½):
 - a) excluding the value gained through new construction;
 - b) excluding expenditure increases funded outside the tax limit cap
6. Property values shall be re-appraised or re-certified every year.
7. The Tax Collector shall follow an aggressive policy of collecting property tax revenues. An average collection rate of at least 95 percent of current levy shall be maintained.
8. Charges for service and other revenue shall be examined annually and adjusted as deemed necessary to respond to changes in cost of service.
9. An adequate level of maintenance and replacement will be funded by at least 5 percent of the general fund operation budget each year to insure that all capital facilities and equipment are properly maintained as needed and tied to proper repair and maintenance procedures.
10. The Town will avoid budgetary procedures that balance current expenditures at the expense of meeting future year's expenses, such as delaying expenditures until the next fiscal year or rolling over short-term debt.

C. GENERAL OBLIGATION DEBT

1. The requirements for debt financing shall be an expenditure of at least \$25,000 and a useful life in excess of five (5) years.
2. The term of long-term debt generally shall not exceed the expected useful life of the capital asset being financed and, in no case, shall it exceed twenty years. Long-term debt should not be incurred without a clear identification of its financing sources.
3. The ratio of Net Debt (Total outstanding Town of Chelmsford General Obligation debt less reimbursements) to Total Assessed Valuation shall not exceed 1.5 percent. This excludes debt of overlapping jurisdictions.
4. The General Fund Non-exempt Debt Service shall not exceed 10 percent of General Fund Revenues.
5. Excess appropriated bond issues shall remain in the Capital Projects Fund at the end of a project completion until appropriated out by Town Meeting vote. The recaptured funds shall only be used to 1) make bulk principal paydowns against general bond debt or 2) pay down the principal on any bond issue at the time of refinancing or 3) to fund new capital projects.

6. Betterments will be assessed on all capital projects where applicable (e.g., sewer, sidewalks, etc.).
7. The Town will attempt to maintain a long-term debt schedule so that at least 50 percent of outstanding principal will be paid within ten years.

D. OFFSET RECEIPTS AND ENTERPRISE FUNDS IN GENERAL

1. The Town shall establish and maintain offset receipts and enterprise funds pursuant to MGL Chapter 40, Section 39 and Chapter 44, Section 53, respectively, wherever possible in order to ensure annual operation and maintenance needs are met and such services are financed in an equitable manner.
2. The term of debt for offset receipts and enterprise funds generally shall not exceed the useful life of the asset and in no case shall the term exceed thirty years.
3. Short-term debt, including tax-exempt commercial paper, shall be used when authorized for interim financing of capital projects. The term of short-term debt shall not exceed five years. Total short-term debt shall generally not exceed 10 percent of outstanding long-term debt.
4. Ongoing routine, preventive maintenance should be funded on a pay-as-you go basis.
5. All offset receipts and enterprise funds shall maintain a working capital reserve, defined as Cash and Investment Pool Equity in Current Assets, which is equivalent to 30 days of budgeted operations and Maintenance expense.
6. Rates for offset receipts and enterprise funds shall be designed to generate sufficient revenues to support the full cost (direct and indirect) of operations and debt and provide debt service coverage, if applicable, and to ensure adequate and appropriate levels of working capital. Fees should be reviewed annually in relation to the cost of providing the service.

E. GIFTS AND GRANTS

1. All grants shall be managed to comply with the laws, regulations and guidance of the grantor and all gifts and donations shall be managed and expended according to the wishes and instructions of the donor.
2. All gifts and grants shall be evaluated for suitability and consistency to Town policies. They shall also be formally accepted by both the Town Manager and the Board of Selectmen.

F. TRUST FUND MANAGEMENT

It is the policy of the Town of Chelmsford that trust fund management be consistent with the legal requirements, including Town ordinances, and spirit of each respective trust document and, to the maximum extent possible, realize the purpose the trusts were intended to achieve.

Trust fund management will be conducted with the primary objectives of:

- a) Conformance to each trust document's specified purpose, legal requirements, and administrative guidelines;
- b) Adherence to the Town of Chelmsford General Ordinance providing for the Administration of Town trusts;
- c) Preservation of capital;
- d) Maintenance of security of trust funds and investments;
- e) Maximization of total return for each trust fund;
- f) Efficient disbursement of funds on an equitable basis; and
- g) Effective collection of all due monies.

APPENDIX B

FIVE YEAR FINANCIAL SUMMARY PROJECTIONS

STABILIZATION FUND PLAN

AND

DEBT MANAGEMENT

**Town of Chelmsford
Five-Year Financial Forecast
FY2015 – 2019
Assumptions**

The following revenue assumptions were used in the development of the forecast:

Revenues

1. **Property Tax:**
 - a. Tax up to levy capacity
 - b. New Growth estimated at \$1.0M for FY15-19.
 - c. Excluded debt declines during FY15-19 per existing schedule.

2. **State Aid:**
 - a. State Aid estimates assume Unrestricted General Government Aid increases \$100K annually for FY15 - FY19.
 - b. Chapter 70 is projected to increase \$128K for FY15-19. This may be subject to change depending on future State revenue collection trends and Legislative action.
 - c. Charter School Tuition reimbursements increase 2% annually for FY15 – FY19.

3. **Available Funds:**
 - a. Assumes no draw on the Stabilization Fund in order to maintain reserves between 5.0% -10.0% of Operating Budget.
 - b. Sewer Fees Offset in accordance with actual cost of covering Indirect Costs.
 - c. Childcare Revolving Fund reimbursement increases 5.0% annually to cover cost of employee benefits.
 - d. Center School Construction Reimbursement of \$379K continues through 2016.

4. **Local Receipts:**
 - a. Motor Vehicle Excise is projected to increase 2.5% for FY15 –FY19.
 - b. Permits increase by \$25K during FY15-19.
 - c. Assume a 2% increase for other line items.

5. **Sewer Enterprise Revenue:**
 - a. Fees set in an amount to cover both direct and indirect expenses.

Expenditures

The following expenditure assumptions were used in the development of the forecast.

1. For General Government Personnel in FY15 – FY19: Includes step increases for eligible employees and 2.0% COLA.
2. General Government Expenses are projected at 2.0% per year overall, unless specified below.
3. **Public Education** exceptions include:
 - a. Total School cost projections for personnel and expenses are based on the School Department's most recent five-year forecast.
 - b. Nashoba Assessment increase for FY15 reflects the enrollment of 17 additional Chelmsford students.
4. **Municipal Administration** exceptions include:
 - a. 3% increase per year in legal expenses;
 - b. Additional cost of national elections in odd years;
5. **Public Works** exceptions include:
 - a. 2.5% increase in Snow & Ice expenses per year to be reflective of program costs.
 - b. 2.5% increase for FY15-FY19 to reflect solid waste disposal program costs.
 - c. Streetlighting decreases \$50K for FY15 to reflect decreased energy costs to operate new LED fixtures installed through the Energy Management Contract.
6. **Benefits and Insurance** exceptions include:
 - a. General Liability increase reflects revised building valuations for FY15. Workers Compensation costs have been increased by 5% per year.
 - b. Middlesex Retirement assessment for FY15 reflects latest actuarial valuation dated 1/1/2012 and increase 4.5% annually from FY16 – FY19. Projections reflect the adoption of a 2035 funding schedule.
 - c. Medicare tax has been increased by 4% per year.
 - d. Health Insurance assumes annual increases of 5.0% for FY16 –FY19.
7. **Debt Service** includes:
 - a. Principal and interest payments according to existing schedules.
 - b. Excluded debt declines FY15 – FY19 per schedule for outstanding debt.
 - c. Assumes continuation of our annual \$3.0M Capital Improvement Program.
8. **State Assessments & Overlay** include:
 - a. Charter School Assessment increases 10% annually.

Five Year Financial Forecast

4/23/2014

	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>
REVENUE					
Local Taxes					
Base Factor	\$78,644,500	\$81,610,613	\$84,650,878	\$87,767,150	\$90,961,329
2 1/2% Increase	\$1,966,113	\$2,040,265	\$2,116,272	\$2,194,179	\$2,274,033
New Growth	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Override	\$0	\$0	\$0	\$0	\$0
Excluded Debt	<u>\$5,072,375</u>	<u>\$4,740,740</u>	<u>\$4,656,578</u>	<u>\$4,577,078</u>	<u>\$4,518,705</u>
Max. Allowable Levy	\$86,682,988	\$89,391,618	\$92,423,728	\$95,538,407	\$98,754,067
Levy Used	\$86,682,988	\$89,391,618	\$92,423,728	\$95,538,407	\$98,754,067
State Aid					
Chapter 70	\$10,346,618	\$10,474,618	\$10,602,618	\$10,730,618	\$10,858,618
Lunch Program-Offset	\$12,503	\$12,753	\$13,008	\$13,268	\$13,534
School Choice-Offset	\$217,272	\$220,000	\$220,000	\$220,000	\$220,000
Charter Tuition Reimbursements	\$167,236	\$170,581	\$173,992	\$177,472	\$181,022
Libraries-Offset	\$39,384	\$40,172	\$40,975	\$41,795	\$42,631
Veterans Benefits	\$138,897	\$138,897	\$138,897	\$138,897	\$138,897
General Municipal Aid (Lottery)	\$4,516,342	\$4,616,342	\$4,716,342	\$4,816,342	\$4,916,342
Exemption Reimbursement	\$209,402	\$219,872	\$230,866	\$242,409	\$254,529
State Land-PILOT	<u>\$6,563</u>	<u>\$6,694</u>	<u>\$6,828</u>	<u>\$6,965</u>	<u>\$7,104</u>
Sub-Total	\$15,654,217	\$15,899,929	\$16,143,526	\$16,387,766	\$16,632,676
Available Funds					
Wetland Protection Act	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000
Sewer User Fees-Offset	\$520,853	\$539,083	\$557,951	\$577,479	\$597,691
Sewer Betterments	\$2,417,249	\$2,409,166	\$2,401,036	\$2,392,857	\$2,377,726
Childcare Revolving Fund Benefits	\$130,158	\$136,666	\$143,499	\$150,674	\$158,208
Free Cash	\$559,474				
School Construction	\$379,215	\$379,214	\$0	\$0	\$0
Sub-Total	\$4,012,949	\$3,470,129	\$3,108,486	\$3,127,010	\$3,139,625
Local Receipts					
Motor Vehicle Excise	\$4,250,000	\$4,356,250	\$4,465,156	\$4,576,785	\$4,691,205
Meals Tax (.75%)	\$525,000	\$535,500	\$546,210	\$557,134	\$568,277
Interest on Taxes	\$375,000	\$375,000	\$375,000	\$375,000	\$375,000
Departmental Fees	\$330,000	\$336,600	\$343,332	\$350,199	\$357,203
Rental Income	\$65,000	\$65,000	\$65,000	\$65,000	\$65,000
Dept. Revenue- Schools	\$200	\$200	\$200	\$200	\$200
Dept. Revenue- Cemetery	\$120,000	\$122,400	\$124,848	\$127,345	\$129,892
Dept. Revenue- Other	\$225,000	\$229,500	\$234,090	\$238,772	\$243,547
Alcoholic Licenses	\$95,000	\$96,900	\$98,838	\$100,815	\$102,831
Other Licenses	\$80,000	\$81,600	\$83,232	\$84,897	\$86,595
Permits	\$600,000	\$625,000	\$650,000	\$675,000	\$700,000
Fines and Forfeits	\$215,000	\$219,300	\$223,686	\$228,160	\$232,723
Interest on Investments	\$260,000	\$265,200	\$270,504	\$275,914	\$281,432
Miscellaneous, Recurring	\$293,075	\$298,937	\$304,915	\$311,014	\$317,234
Hotel Tax	\$495,000	\$504,900	\$514,998	\$525,298	\$535,804
Medicare Part D Reimbursement	\$0	\$0	\$0	\$0	\$0
Miscellaneous, Non-Recurring	\$438,725	\$447,500	\$456,449	\$465,578	\$474,890
LRTA	\$33,000	\$32,000	\$32,000	\$32,000	\$32,000
Sub-Total	\$8,400,000	\$8,591,786	\$8,788,459	\$8,989,110	\$9,193,832
TOTAL	\$114,750,153	\$117,353,461	\$120,464,199	\$124,042,292	\$127,720,200

Five Year Financial Forecast

4/23/2014

<u>EXPENDITURES</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>
MUNICIPAL ADMINISTRATION					
<u>Personnel Costs</u>					
Executive Office					
Selectmen	\$68,209	\$70,937	\$73,775	\$76,726	\$79,795
Town Manager	\$243,379	\$253,114	\$263,239	\$273,768	\$284,719
Human Resources	\$90,110	\$93,714	\$97,463	\$101,361	\$105,416
Finance Office					
Treasurer/Collector	\$271,334	\$282,187	\$293,475	\$305,214	\$317,422
Info. Technology	\$91,992	\$95,672	\$99,499	\$103,478	\$107,618
Assessors	\$261,480	\$271,939	\$282,817	\$294,129	\$305,895
Accounting	\$256,720	\$266,989	\$277,668	\$288,775	\$300,326
Town Clerk					
Town Clerk	\$226,054	\$235,096	\$244,500	\$254,280	\$264,451
Registrars	\$4,000	\$4,160	\$4,326	\$4,499	\$4,679
Administrative Support	\$2,950	\$3,068	\$3,191	\$3,318	\$3,451
Planning and Development					
Community Development	\$90,691	\$94,319	\$98,091	\$102,015	\$106,096
Historic District	\$1,500	\$1,560	\$1,622	\$1,687	\$1,755
Comm. On Disabilities	\$0	\$0	\$0	\$0	\$0
Conservation	\$48,174	\$50,101	\$52,105	\$54,189	\$56,357
Board of Appeals	\$0	\$0	\$0	\$0	\$0
Planning Board	\$51,685	\$53,752	\$55,902	\$58,139	\$60,464
<u>Expenses</u>					
Executive Office					
Selectmen	\$11,425	\$11,654	\$11,887	\$12,124	\$12,367
Town Manager	\$27,200	\$28,424	\$29,703	\$31,040	\$32,437
Human Resources	\$3,000	\$3,060	\$3,121	\$3,184	\$3,247
Annual Report	\$3,000	\$3,060	\$3,121	\$3,184	\$3,247
Finance Office					
Treasurer/Collector	\$221,500	\$225,930	\$230,449	\$235,058	\$239,759
Info. Technology	\$254,600	\$259,692	\$264,886	\$270,184	\$275,587
Assessors	\$144,450	\$147,339	\$150,286	\$153,291	\$156,357
Accounting	\$64,770	\$66,065	\$77,387	\$78,934	\$90,513
Town Clerk					
Town Clerk	\$19,950	\$20,349	\$20,756	\$21,171	\$21,595
Registrars	\$0	\$0	\$0	\$0	\$0
Elections	\$104,000	\$40,000	\$72,000	\$45,000	\$45,001
Administrative Support					
Moderator/FinCom/Constable	\$825	\$842	\$858	\$875	\$893
Legal Services	\$195,000	\$200,850	\$206,876	\$213,082	\$219,474
Planning and Development					
Community Development	\$21,050	\$21,471	\$21,900	\$22,338	\$22,785
NMCOG	\$9,449	\$9,638	\$9,831	\$10,027	\$10,228
Board of Appeals	\$2,250	\$2,295	\$2,341	\$2,388	\$2,435
Historic District	\$95	\$97	\$99	\$101	\$103
Comm. On Disabilities	\$275	\$281	\$286	\$292	\$298
Conservation	\$2,815	\$2,871	\$2,929	\$2,987	\$3,047
Planning Board	<u>\$3,325</u>	<u>\$3,392</u>	<u>\$3,459</u>	<u>\$3,529</u>	<u>\$3,599</u>
Sub-Total	\$2,797,257	\$2,823,918	\$2,959,847	\$3,030,369	\$3,141,416

Five Year Financial Forecast

4/23/2014

	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>
PUBLIC EDUCATION					
Chelmsford Public Schools	\$50,000,000	\$51,850,000	\$53,625,000	\$55,395,000	\$57,185,000
Nashoba Technical H.S.	\$2,568,811	\$2,697,252	\$2,832,114	\$2,973,720	\$3,122,406
Out of District Tuition	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Sub-Total	\$52,568,811	\$54,547,252	\$56,457,114	\$58,368,720	\$60,307,406
 PUBLIC SAFETY					
<u>Personnel Costs</u>					
Police Department	\$5,284,819	\$5,496,212	\$5,716,060	\$5,944,703	\$6,182,491
Animal Control	\$50,378	\$52,393	\$54,489	\$56,668	\$58,935
Fire Department	\$4,903,157	\$5,099,283	\$5,303,255	\$5,515,385	\$5,736,000
Animal Inspector	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Inspections	\$261,879	\$272,354	\$283,248	\$294,578	\$306,361
<u>Expenses</u>					
Police Department	\$764,520	\$779,810	\$795,407	\$811,315	\$827,541
Animal Control	\$9,550	\$9,741	\$9,936	\$10,135	\$10,337
Fire Department	\$340,392	\$347,200	\$354,144	\$361,227	\$368,451
Emergency Management	\$3,100	\$3,162	\$3,225	\$3,290	\$3,356
Animal Inspector	\$380	\$388	\$395	\$403	\$411
Inspections	<u>\$29,200</u>	<u>\$30,514</u>	<u>\$31,887</u>	<u>\$33,322</u>	<u>\$34,822</u>
Sub-Total	\$11,648,375	\$12,092,057	\$12,553,046	\$13,032,025	\$13,529,705
 PUBLIC WORKS					
<u>Personnel Costs</u>					
DPW					
Engineer/Administration	\$388,718	\$404,267	\$420,437	\$437,255	\$454,745
Solid Waste	\$21,046	\$21,888	\$22,763	\$23,674	\$24,621
Highway	\$1,229,806	\$1,278,998	\$1,330,158	\$1,383,364	\$1,438,699
Snow and Ice	\$315,000	\$322,875	\$330,947	\$339,221	\$347,701
Parks	\$63,772	\$66,323	\$68,976	\$71,735	\$74,604
Public Buildings	\$22,089	\$22,973	\$23,891	\$24,847	\$25,841
Facilities	\$742,510	\$772,210	\$803,099	\$835,223	\$868,632
Cemetery	\$266,585	\$277,248	\$288,338	\$299,872	\$311,867
<u>Expenses</u>					
DPW					
Engineer/Administration	\$18,100	\$18,462	\$18,831	\$19,208	\$19,592
Public Trees	\$67,000	\$68,340	\$69,707	\$71,101	\$72,523
Streetlighting	\$102,000	\$104,040	\$106,121	\$108,243	\$110,408
Solid Waste	\$2,338,889	\$2,397,361	\$2,457,295	\$2,518,728	\$2,581,696
Highway	\$704,400	\$718,488	\$732,858	\$747,515	\$762,465
Snow and Ice	\$828,500	\$849,213	\$870,443	\$892,204	\$914,509
Parks	\$14,700	\$14,994	\$15,294	\$15,600	\$15,912
Public Buildings	\$168,900	\$172,278	\$175,724	\$179,238	\$182,823
Facilities	\$557,485	\$568,635	\$580,007	\$591,608	\$603,440
Cemetery	<u>\$51,639</u>	<u>\$52,672</u>	<u>\$53,725</u>	<u>\$54,800</u>	<u>\$55,896</u>
Sub-Total	\$7,901,139	\$8,131,264	\$8,368,615	\$8,613,434	\$8,865,973

Five Year Financial Forecast

4/23/2014

	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>
COMMUNITY SERVICES					
<u>Personnel Costs</u>					
Human Services					
Veterans	\$62,869	\$65,384	\$67,999	\$70,719	\$73,548
Council on Aging	\$241,788	\$251,460	\$261,518	\$271,979	\$282,858
Community Enrichment					
Recreation	\$0	\$0	\$0	\$0	\$0
Historical Commission	\$650	\$676	\$703	\$731	\$760
Board of Health	\$284,691	\$296,079	\$307,922	\$320,239	\$333,048
Library	\$1,337,161	\$1,390,647	\$1,446,273	\$1,504,124	\$1,564,289
<u>Expenses</u>					
Human Services					
Veterans	\$183,700	\$187,374	\$191,121	\$194,944	\$198,843
Council on Aging	\$153,950	\$157,029	\$160,170	\$163,373	\$166,640
Community Enrichment					
Recreation	\$25,000	\$26,125	\$27,301	\$28,529	\$29,813
Cultural Council	\$2,350	\$2,397	\$2,445	\$2,494	\$2,544
Public Celebrations	\$2,800	\$2,856	\$2,913	\$2,971	\$3,031
Historical Commission	\$1,400	\$1,428	\$1,457	\$1,486	\$1,515
Board of Health	\$21,650	\$22,083	\$22,525	\$22,975	\$23,435
Library	<u>\$440,820</u>	<u>\$449,636</u>	<u>\$458,629</u>	<u>\$467,802</u>	<u>\$477,158</u>
Sub-Total	\$2,758,829	\$2,853,174	\$2,950,975	\$3,052,366	\$3,157,482
BENEFITS & INSURANCE					
<u>Insurance</u>					
Buildings/Auto/ Liability	\$325,000	\$341,250	\$358,313	\$376,228	\$395,040
Workers Compensation	\$210,000	\$220,500	\$231,525	\$243,101	\$255,256
<u>Employee Benefits</u>					
Middlesex Retirement	\$6,483,706	\$6,775,473	\$7,080,369	\$7,398,986	\$7,731,940
Unemployment	\$150,000	\$153,000	\$156,060	\$159,181	\$162,365
Medicare Tax	\$757,000	\$787,280	\$818,771	\$851,522	\$885,583
Health Insurance	\$9,800,000	\$10,290,000	\$10,804,500	\$11,344,725	\$11,911,961.25
IOD- Retirees	\$25,000	\$25,500	\$26,010	\$26,530	\$27,061
IOD Insurance	\$100,000	\$102,500	\$105,063	\$107,689	\$110,381
OPEB Liability Trust	<u>\$1,000,000</u>	<u>\$1,000,000</u>	<u>\$1,000,000</u>	<u>\$1,000,000</u>	<u>\$1,000,000</u>
Sub-Total	\$18,850,706	\$19,695,503	\$20,580,610	\$21,507,963	\$22,479,587

Five Year Financial Forecast

4/23/2014

	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>
DEBT SERVICE					
Excluded Debt	\$5,072,375	\$4,740,740	\$4,656,578	\$4,577,078	\$4,518,705
Betterment Funded	\$2,417,249	\$2,409,166	\$2,401,036	\$2,392,857	\$2,377,726
Non-Excluded Debt	<u>\$7,062,170</u>	<u>\$7,079,726</u>	<u>\$7,218,609</u>	<u>\$7,220,972</u>	<u>\$6,467,890</u>
Sub-Total	\$14,551,794	\$14,229,632	\$14,276,223	\$14,190,907	\$13,364,321
STATE ASSESSMENTS & OVERLAY					
Assessments					
Special Education					
State & Transportation Authorities	\$343,263	\$360,426	\$378,447	\$397,370	\$417,238
Charter School & School Choice	\$1,460,820	\$1,606,902	\$1,767,592	\$1,944,351	\$2,138,787
Cherry Sheet Offsets	\$269,159	\$272,925	\$273,983	\$275,063	\$276,164
Prior Year Deficit- Snow & Ice					
Other					
Prior Year Deficit- Tax Title					
Overlay	<u>\$1,200,000</u>	<u>\$1,200,000</u>	<u>\$1,200,000</u>	<u>\$1,200,000</u>	<u>\$1,200,000</u>
Sub-Total	\$3,273,242	\$3,440,253	\$3,620,023	\$3,816,784	\$4,032,189
WARRANT ARTICLES					
Prior Year Unpaid Bills					
Reserve Fund	\$400,000	\$400,000	\$400,000	\$400,000	\$400,000
Collective Bargaining Settlements					
E-Rate Reimbursement					
Out of Dist. Tuition					
Misc. Financial Warrant Articles					
Sub-Total	<u>\$400,000</u>	<u>\$400,000</u>	<u>\$400,000</u>	<u>\$400,000</u>	<u>\$400,000</u>
Total Expenditures	\$114,750,153	\$118,213,052	\$122,166,454	\$126,012,567	\$129,278,079

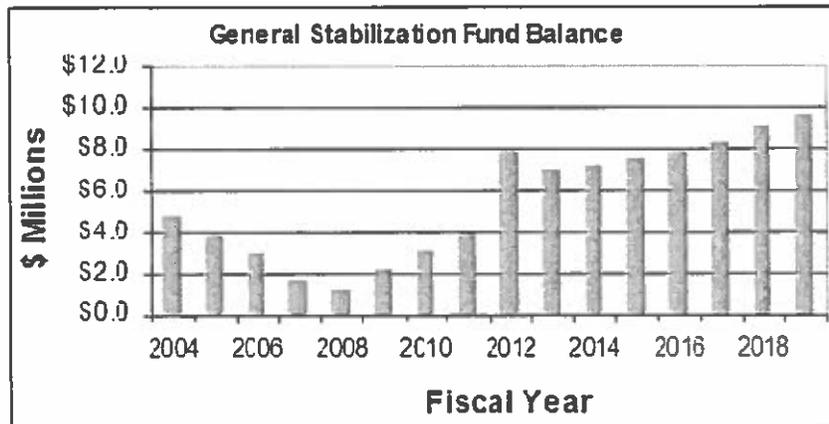
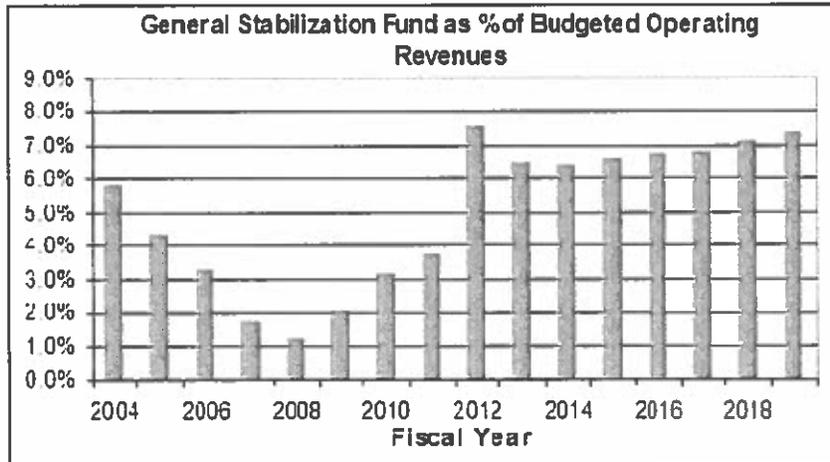
Summary General Fund					
Revenues-Total	\$114,750,153	\$117,353,461	\$120,464,199	\$124,042,292	\$127,720,200
Expenditures-Total	<u>\$114,750,153</u>	<u>\$118,213,052</u>	<u>\$122,166,454</u>	<u>\$126,012,567</u>	<u>\$129,278,079</u>
Balance	\$0	-\$859,591	-\$1,702,255	-\$1,970,275	-\$1,557,879
Exp. Percent Incr. Over PY	3.58%	3.02%	3.34%	3.15%	2.59%

Summary Sewer Enterprise Fund					
Sewer User Fee Revenue	\$3,983,856	\$4,080,765	\$4,180,302	\$4,282,546	\$4,387,580
Personnel					
Expenses	\$861,597	\$896,061	\$931,903	\$969,179	\$1,007,947
Sewer Expenditure-Totals	<u>\$3,983,856</u>	<u>\$4,080,765</u>	<u>\$4,180,302</u>	<u>\$4,282,546</u>	<u>\$4,387,580</u>
Balance	\$0	\$0	\$0	\$0	\$0
Exp. Percent Incr. Over PY	1.23%	2.43%	2.44%	2.45%	2.45%

GENERAL STABILIZATION FUND PLAN

Fiscal Year	Transfer Out	Transfer In	Interest	Fund Balance	% Budgeted Operating Revenues
2004	\$2,300,000	\$0	\$150,138	\$4,841,748	5.8%
2005	\$2,000,000	\$1,000,000	\$19,337	\$3,861,085	4.4%
2006	\$2,000,000	\$1,000,000	\$120,591	\$2,981,676	3.3%
2007	\$1,900,000	\$468,864	\$144,873	\$1,695,413	1.8%
2008	\$1,795,896	\$1,210,179	\$153,127	\$1,252,823	1.2%
2009	\$1,469,541	\$2,212,005	\$155,427	\$2,150,714	2.0%
2010	\$361,111	\$1,245,184	\$95,057	\$3,129,844	3.2%
2011		\$676,791	\$33,635	\$3,840,271	3.8%
2012		\$3,957,862	\$166,545	\$7,964,678	7.6%
2013	\$1,500,000	\$535,323	\$19,631	\$7,019,632	6.5%
*2014			\$140,393	\$7,160,024	6.4%
*2015		\$250,000	\$146,534	\$7,556,558	6.6%
*2016		\$250,000	\$154,464	\$7,961,023	6.7%
*2017		\$250,000	\$162,554	\$8,373,576	6.8%
*2018		\$500,000	\$174,138	\$9,047,715	7.1%
*2019		\$500,000	\$187,621	\$9,735,336	7.4%

Projected years assume annual transfers in from free cash upon availability, operating budget increases based on 5-Year Financial Forecast projections and 2.0% investment earnings. FY14 Fund Balance is projected.



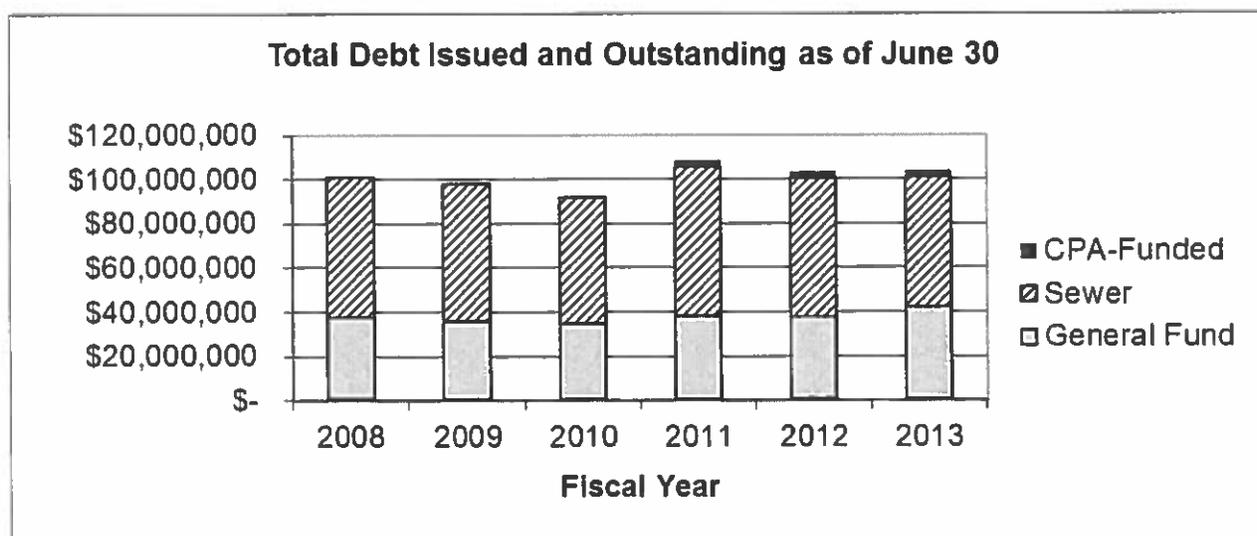
DEBT MANAGEMENT

Prudent use of debt financing is an important part of the Town's overall fiscal planning. The primary objective of any debt management approach is to borrow at the least cost over the term of repayment of the debt. Attainment of this objective requires clear positions regarding for what purpose to borrow, when to schedule debt-financed projects and how long to extend the repayment.

A rapid repayment schedule ensures cost savings to the community and seeks to avoid strapping future generations with large debt loads. Debt is typically retired in five to ten years, depending on the expected useful life of the capital asset being financed. However, new and renovated building projects and the sewer project are planned to have a twenty year repayment term.

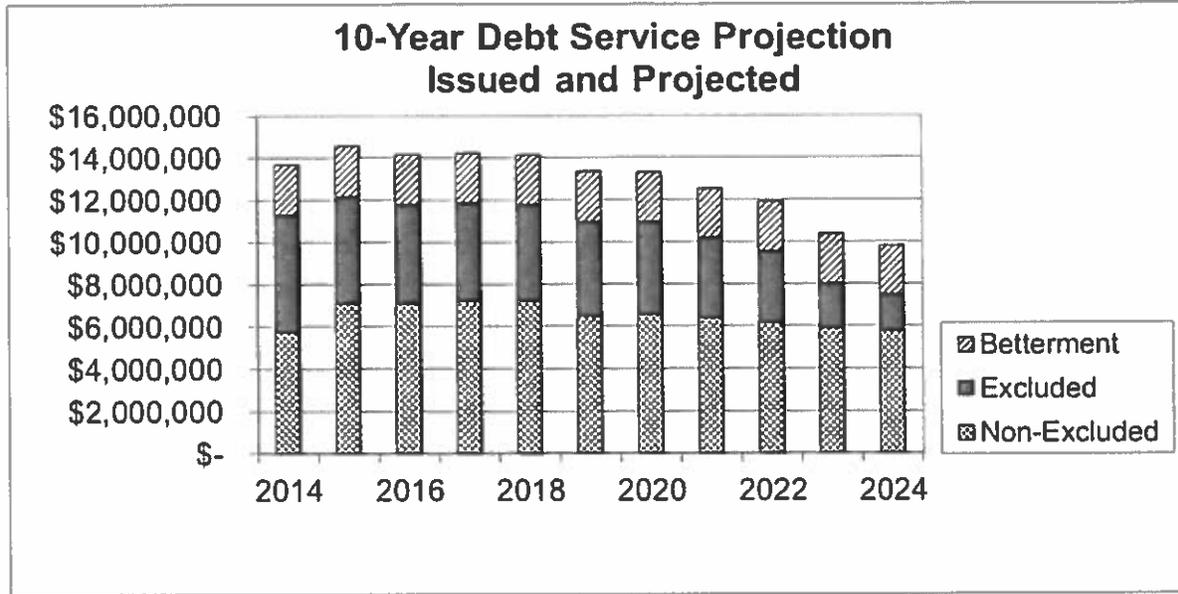
All debt is issued as general obligation debt. This means that the full faith and credit of the Town is pledged to the bondholder. Debt issued on behalf of the Town's sewer construction project approved prior to 2003 is exempt from Proposition 2 ½ as is debt issued on behalf of the public works facility renovation and secondary school construction and renovation projects. Sewer construction debt approved since 2003 is paid with sewer betterment revenue. Repayment of all other issued debt must be funded within the levy limit.

Standard & Poor's upgraded the Town's credit rating to an unprecedented AA+ with a Stable Outlook at our last review in January 2014. Analysts noted that the improvement reflected sustained improvement in the Town's financial position and performance as well as strong financial management practices. As with a personal credit rating, the Town's credit rating is a statement of its overall fiscal health as a government and as a community. The benefit of a strong credit rating is realized in lower interest costs on the Town's long-term bond issues.

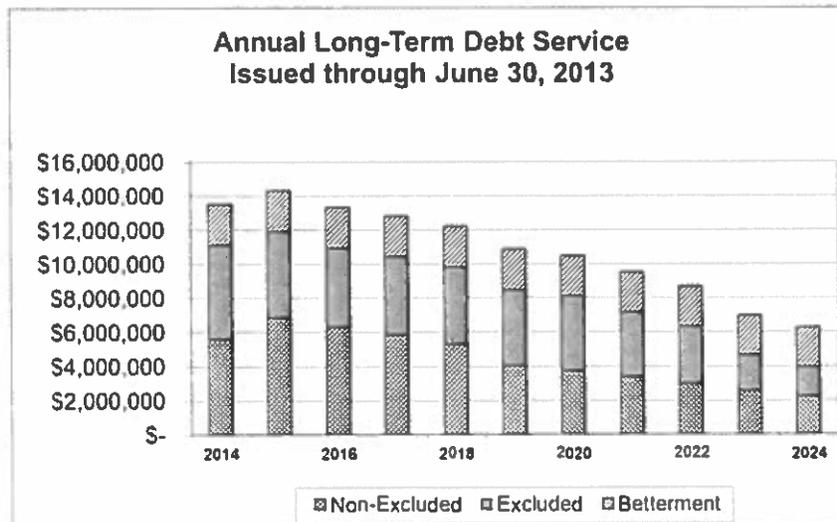


Total Outstanding Debt as of June 30						
Fiscal Year	2008	2009	2010	2011	2012	2013
CPA-Funded	\$ 750,000	\$ 600,000	\$ 450,000	\$ 3,100,000	\$ 2,670,000	\$ 3,025,000
General Fund	\$ 37,217,837	\$ 35,770,833	\$ 34,637,635	\$ 37,630,083	\$ 37,279,125	\$ 41,841,743
Sewer	\$ 63,566,175	\$ 62,147,174	\$ 57,156,852	\$ 67,946,337	\$ 63,129,059	\$ 58,885,337
Total	\$ 101,534,012	\$ 98,518,007	\$ 92,244,487	\$ 108,676,420	\$ 103,078,184	\$ 103,752,080

10-YEAR DEBT SERVICE PROJECTION



Fiscal Yr.	Non-Excluded	Excluded	Betterment Funded	Total
2014	\$ 5,719,903	\$ 5,540,862	\$ 2,414,898	\$ 13,675,663
2015	\$ 7,062,143	\$ 5,072,373	\$ 2,417,249	\$ 14,551,765
2016	\$ 7,079,726	\$ 4,682,825	\$ 2,409,166	\$ 14,171,717
2017	\$ 7,218,609	\$ 4,603,063	\$ 2,401,036	\$ 14,222,708
2018	\$ 7,220,972	\$ 4,519,763	\$ 2,392,857	\$ 14,133,592
2019	\$ 6,467,890	\$ 4,462,790	\$ 2,377,726	\$ 13,308,406
2020	\$ 6,522,968	\$ 4,381,096	\$ 2,367,746	\$ 13,271,810
2021	\$ 6,364,428	\$ 3,793,179	\$ 2,357,712	\$ 12,515,319
2022	\$ 6,155,735	\$ 3,363,678	\$ 2,347,627	\$ 11,867,040
2023	\$ 5,894,126	\$ 2,111,203	\$ 2,339,104	\$ 10,344,433
2024	\$ 5,751,570	\$ 1,710,937	\$ 2,330,297	\$ 9,792,804





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APPENDIX C

FUND BALANCES AND DESCRIPTIONS

Fund Descriptions

The financial operations of the Town are organized into funds and account groups, each of which is a separate fiscal and accounting entity. Every revenue received or expenditure made by the Town is accounted for through one of the funds or account groups listed below.

Governmental Funds

Most Town functions are financed through what are called governmental funds. There are three types of governmental funds maintained by the Town: the General Fund, Special Revenue Funds, and the Capital Projects Fund.

General Fund: The General Fund is the major operating fund of the Town government and it accounts for the vast majority of Town operations. The General Fund is supported by revenues from real estate & personal property taxes, state & federal aid, excise taxes, investment income, fines & forfeitures, and fees & charges. Most of the Town's departments including the Schools are supported in whole or in part by the General Fund.

Special Revenue Funds: Special Revenue Funds are used to account for those types of revenues that are legally restricted to being spent for a specific purpose (except expendable trusts, or major capital projects). These revenues must be accounted for separately from the General Fund for a variety of reasons, and do not necessarily follow the same fiscal year as the General Fund. The Town's Special Revenue Funds are grouped into five categories:

1. **Revolving Funds:** Revolving Funds allow the Town to raise revenues from a specific service and use those revenues to support the service without appropriation. Revolving Funds are established by statute or by-law and may require reauthorization each year at Town Meeting. The Town maintains approximately 21 different revolving funds for a number of purposes including Recreation Department Activities, Senior Center Programs, Health Department Immunization Programs, Cultural Council Programs, the Chelmsford Ice Skating Forum, School Department Athletics, and the School Lunch Program.
2. **Receipts Reserved for Appropriation:** are special revenues that are restricted to a specific use but also require appropriation by Town Meeting such as Sewer Betterment Fees, monies from the sale of Cemetery lots and graves, Conservation Wetland Protection fees, and the proceeds from the sale of Town property.
3. **School Grants:** accounts for approximately 38 specially financed education programs under grants received from the Federal or State government including professional development, smoking cessation, truancy prevention, SPED Early Childhood Development, Drug Free School Programs, and certain capital improvements.
4. **Other Intergovernmental Funds:** accounts for approximately 27 individual grants or monies received by the Town from Federal or State government. These include a variety of Community Policing Grants, Chapter 90 highway monies, State Election Grants, State Library Aid, and Council on Aging programs such as "meals-on-wheels."

5. **Other Special Revenue Funds:** account for miscellaneous special revenues often involving private donations for a specific purpose such as the Arts & Technology Education Fund, departmental gifts for police & fire, various COA programs, and Planning Board gifts from developers for infrastructure improvements related to proposed projects.

Capital Projects Fund: The Capital Projects Fund is used to account for monies used for the acquisition or construction of major capital facilities (buildings, roads, etc.) other than those financed by trust funds. The Town's Capital Projects Fund is funded primarily by the receipt of bond proceeds resulting from the Town's issuance of bonds for a specific project grants, but may also be derived from private sources, grants, or transfers from other Town funds.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the Town in a trustee capacity or as an agent for individuals, private organizations, and other governmental units. Fiduciary Funds include expendable trusts, non-expendable trusts, and agency funds.

1. **Expendable Trusts:** are used to account for monies received by the Town in a trustee capacity where both the principal and earnings of the fund may be expended. Examples include the Town Stabilization Fund and the Library Endowment Fund.
2. **Non-expendable Trusts:** are used to account for trusts where the principal must remain intact. Generally income earned on the non-expendable trust principal may be expended in accordance with the conditions of the trust. An example is the Cemetery Department's Perpetual Care Trust.
3. **Agency Funds:** are used to account for funds that are custodial in nature and do not involve the measurement of operations. Examples include the Town's deferred compensation plan as well as the self-insured Medical Trust that accounts for employee contributions and payments of medical claims.

Account Groups

The last category maintained by the Town is the General Long-term Debt Account group that accounts for the balances due on long-term debt that the Town has financed.

Basis of Accounting

The modified accrual basis of accounting is used by all governmental fund types, expendable trust funds and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Town considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due.

The accrual basis of accounting is utilized by non-expendable trust funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Budgeting

An annual budget is adopted for the Town's General Fund. Although legislative approval is required for certain capital projects and borrowing authorizations, annual budgets are not prepared for any other fund.

The Town's annual budget is adopted on a statutory basis that differs on some respects from generally accepted accounting principals (GAAP). The major differences between the budget and GAAP basis are that:

1. Budgeted revenues are recorded when cash is received, except for real estate and personal property taxes, which are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).
2. Encumbrances are treated as expenditures in the year the commitment is made. Also, certain appropriations, known as special articles, do not lapse and are treated as budgetary expenditures in the year they are authorized.

APPENDIX D

GLOSSARY OF TERMS

Glossary of Terms

Abatement: A reduction or elimination of a level imposed by a governmental unit applicable to tax levies, motor vehicle excise, fees, charges and special assessments.

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, balanced account groups or organizational components.

Accrued Interest: In an original governmental bond sale, accrued interest is the amount of interest that has accumulated on the bonds from the day they are dated up to, but not including, the date of delivery (settlement date).

Amortization: The gradual elimination of an obligation, such as a bond, according to a specified schedule of times and amounts. The principal amount of a home mortgage, for example, is amortized by monthly payments.

Appropriation: An authorization granted by a legislative body to make expenditures and to incur obligations for specific purposes. An appropriation is usually limited in amount and the time in which it may be expended. Only a town meeting, council or the school committee can authorize money appropriated for one purpose to be used for another. Any amount that is appropriated may be encumbered (see **Encumbrance**). Any part of an appropriation not spent or encumbered by June 30 automatically reverts to the undesignated fund balance that may result in free cash. If departments know of remaining unpaid bills at the close of the fiscal year and properly notify the accountant (C 41, s 58), the departmental appropriation is encumbered to extend the general spending authorization until such time that the bill is paid or it is decided not to spend the funds.

If these encumbrances are not acted on within a year, the accountant generally notifies the department and closes them out. A special warrant article/appropriation, however, may carry forward from year to year until spent for the designated purpose or until it is transferred by a town meeting vote to another account.

Arbitrage: As applied to municipal debt, the investment of tax-exempt bond or note proceeds in taxable higher yielding securities. This practice is restricted under Section 103 of the Internal Revenue Service (IRS) Code, and (beyond certain limits) earnings are required to be rebated (paid) to the IRS.

Assessed Valuation: A valuation set upon real estate or other property by a government as a basis for levying taxes. In Massachusetts assessed valuation is based on *full and fair cash value*, the amount a willing buyer would pay a willing seller on the open market. Assessors must collect, record and analyze information about the physical characteristics of the property and the market in order to estimate the fair market value of all taxable properties in their communities.

Audit: An examination of systems, procedures and financial data by a certified accountant, reporting on the fairness of financial statements and compliance with statutes and regulations. (Audits can be valuable management tools for evaluating the fiscal performance of communities.)

Audit Report: The product of an audit prepared by an independent auditor. The report often includes: (a) a statement of the scope of the audit; (b) explanatory comments as to application of auditing procedures; (c) findings and opinions; (d) financial statements and schedules; and (e) statistical tables, supplementary comments and recommendations.

Available Funds: These are funds established through previous appropriations or results of favorable conditions. These may be appropriated to meet emergency or unforeseen expenses, large one-time or capital expenditures. Examples: Free Cash, Stabilization Fund, Overlay Surplus, Water Surplus and enterprise retained earnings.

Balance Sheet: A statement that discloses the assets, liabilities, reserves and equities of a fund or governmental unit at a specified date.

Glossary of Terms

Basis of Accounting: Basis of accounting refers to when revenues and expenditures or expenses are recognized in accounts and reported on financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds and expendable trust and agency funds could be accounted for using the modified accrual basis of accounting. Under this method revenues are recognized when they become measurable and available as net current assets with the following guidelines:

Property taxes, excise taxes, departmental and governmental receivables are recorded as revenue when received in cash as are monies received during the first 60 days of the following fiscal year; and

Expenditures are generally recognized under the accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which is recognized when due.

All proprietary funds and nonexpendable trust and pension trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Betterments (Special Assessments): Whenever a specific area of a community receives benefit from a public improvement (e.g., water, sewer, sidewalk, etc.), special property taxes may be assessed to reimburse the governmental entity for all or part of the costs it incurred. Each parcel receiving benefit from the improvement is assessed for its proportionate share of the cost of such improvements. The proportionate share may be paid in full or the property owner may request that the assessors apportion the betterment over 20 years. Over the life of the betterment, one year's apportionment along with one year's committed interest computed from October 1 to October 1 is added to the tax bill until the betterment has been paid.

Bond: A written promise to pay a specified sum of money, call the face value (par value) or principal amount, at a specified date or dates in the future, called maturity date(s), 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.

Bond and Interest Record: The permanent and complete record maintained by a treasurer for each bond issue. It shows the amount of interest and principal coming due each date, the bond and coupon numbers, and all other pertinent information concerning the bond issue. The term is synonymous with Bond Register.

Bond Anticipation Note (BAN): Once borrowing for a specific project has been approved by two-thirds vote of town meeting or city council and prior to issuing long-term bonds, short-term notes may be issued to provide cash for initial project costs. BANs may be issued for a period not to exceed five years but with a reduction of principal after two years (Ch. 44, s 17). The final maturity date of the project borrowing, beginning from the date the short-term note was issued, may not exceed the term specified by statute (Ch. 44, s 7 and 8). BANs are full faith and credit obligations.

Bond Authorization: See Dept Authorization.

Bonds Authorized and Unissued: Bonds that a government has been authorized to sell but has not yet done so. Issuance at this point is only contingent upon action by the treasurer and mayor or selectmen.

Bond Issue: Generally, the sale of a certain number of bonds at one time by a governmental unit.

Budget: A plan of financial operation embodying an estimate of proposed revenues and expenditures for a given period and the proposed means of financing them. A budget may be *preliminary* (the financial plan presented to the town meeting) or *final* (the plan approved by that body). The budget should be separated into basic units, either by department, program or service. The format is important because by

Glossary of Terms

classifying by service or department, the budget is clearly defined and more easily understood by both local officials and town meeting.

Budget Message: A statement by the town's policymakers summarizing the plans and policies contained in the budget report, including an explanation of the principal budget items, an outline of the municipality's experience during the past year and its financial status at the time of the message, and recommendations regarding financial policy for the coming fiscal year.

Budget Unit: A department to which the town meeting appropriates funds.

Capital Budget: An annual appropriation or spending plan for capital expenditures (tangible assets or projects that cost at least \$25,000 and have a useful life of at least five years). This type of budget should recommend the method of financing for each item recommended and identify those items that are recommended to be deferred due to scarce resources.

Capital Expenditures/Improvements: These are items generally found in the capital budget such as construction, acquisitions, site development, major repairs or replacement to capital facilities and public ways and overhead costs. The fees for architects, engineers, lawyers, and other professional services, plus the cost of financing advance planning, may be included.

Capital Improvements Program: A comprehensive schedule for planning a community's capital expenditures. It coordinates community planning, fiscal capacity and physical development. While all of a community's needs should be identified in the program, there should also be a set of criteria that prioritizes expenditures. A capital program is a plan for capital expenditures that extends five years beyond the capital budget and is updated yearly.

Capital Outlay Expenditure Exclusion: A vote by a community at an election to exclude payments for a single year capital project from the levy limit. The exclusion is limited to one

year and may temporarily increase the levy above the levy ceiling.

Cash: Currency, coin, checks, postal and express money orders and bankers' drafts on hand or on deposit with an official or agent designated as custodian of cash and bank deposits.

Cash Management: The process of managing monies of a local government in order to ensure maximum cash availability and maximum yield on short-term investment of idle cash.

Cemetery Perpetual Care: These funds are donated by individuals for the care of grave sites. According to Ch. 114, s 25, funds from this account must be invested and spent as directed by perpetual care agreements. If no agreements exist, interest (but not principal) may be used as directed by the cemetery commissioners for the purpose of maintaining cemeteries.

Certification: The action of a bank or trust company (or DOR's Bureau of Accounts for State House Notes) in certifying the genuineness of the municipal signatures and seal on a bond issue. The certifying agency may also supervise the printing of bonds and otherwise safeguard their preparation against fraud, counterfeiting, or over-issue. Also known as Authentication.

Certificate of Deposit (CD): A bank deposit evidenced by a negotiable or non-negotiable instrument, which provides on its face that the amount of such deposit plus a specified interest payable to a bearer or to any specified person on a certain specified date, at the expiration of a certain specified time, or upon notice in writing.

Cherry Sheet: Named for the cherry colored paper on which it was originally printed, the Cherry Sheet is the official notification from the Commissioner of Revenue of the next fiscal year's state aid and assessments to communities and regional school districts. State aid to municipalities and regional school districts consists of two types: distributions and reimbursements. Distributions provide funds based on formulas, while reimbursements provide funds for costs incurred during a prior

Glossary of Terms

period for certain programs or services. In addition, communities may receive “offset items” that must be spent on specific programs. Cherry Sheet Assessments are advanced estimates of state assessments and charges and county tax assessments. Local assessors are required to use these figures in setting the local tax rate. (Because these figures are estimates, it should be noted that the final aid or assessment may differ based on filing requirement and/or actual data information.)

Cherry Sheet Offset Items: Local aid accounts that may be spent without appropriation in the budget but which must be spent for specific municipal and regional school district programs. Current offset items include racial equality grants, school lunch grants and public libraries grants.

Classification of Real Property: Assessors are required to classify all real property according to use into one of four classes: residential, open space, commercial, and industrial. Having classified its real properties, local officials are permitted to determine locally, within limitations established by statute and the Commissioner of Revenue, what percentage of the tax burden is to be borne by each class of real property and by personal property owners (see Classification of the Tax Rate).

Classification of the Tax Rate: In accordance with M.G.L. Ch. 40, s 56, the selectmen vote to determine the tax rate options. Based on the residential factor adopted (see **Residential Factor**), any community may set as many as three different tax rates for : residential property; open space; and commercial, industrial and personal property.

Collective Bargaining: The negotiations between an employer and union representative regarding wages, hours and working conditions.

Conservation Fund: This fund may be expended for lawful conservation purposes as described in Ch. 40, s 8C. This fund may also be expended for damages related to the taking of land by eminent domain, provided that such taking has first been approved by a two-thirds vote of city council or town meeting.

Consumer Price Index: The statistical measure of changes in the overall price level of consumer goods and services based on prices of goods and services purchased by urban wage earners and clerical workers, including families and single persons. The index is often called the “cost-of-living index.”

Cost-Benefit Analysis: An analytical approach to solving problems of choice. First, different ways to achieve an objective are identified. Then an alternative is chosen to produce the required benefits at the lowest cost or greatest benefits for a given cost.

Crosswalk: A clear path linking separate considerations, such as a crosswalk between a line item and program budget. For example, all department appropriations are set up the same way. However, because of the programmatic and reporting responsibilities a school department has to the Department of Education (DOE), a school department generally has a very detailed set of line items by program. Expenditures must be tracked for DOE purposes, yet must also be easily communicated to the town accountant. Therefore, a crosswalk is established from the infinitesimal school detail to the larger picture of the town’s appropriation.

Dept Authorization: Formal approval to incur debt by municipal officials, in accordance with procedures stated in M.G.L. Ch. 44, specifically 2 1, 2, 3, 4a and 6-15.

Debt Burden: The level of debt of an issuer, usually as compared to a measure of value (debt as a percentage of assessed value, debt per capital, etc.). Sometimes debt burden is used in referring to debt service costs as a percentage of the annual budget.

Debt Exclusion: This is a vote by a municipality at an election to exclude debt service payments for a particular capital project from the levy limit. The amount necessary to cover the annual debt service payment is added to the levy limit for the life of the debt only. A debt exclusion may temporarily increase the levy above the levy ceiling. (See School Building Assistance Program.)

Glossary of Terms

Debt Limit: The maximum amount of debt that a municipality may have authorized for qualified purposes under state and self-imposed ceilings.

Debt Service: The cost (usually stated in annual terms) of the principal retirement and interest of any particular issue.

Default: Failure to pay principal or interest when due.

Direct Debt: Debt a municipality has incurred in its own name as opposed to overlapping debt.

Effective Interest Rate: For a municipal borrower, the net cost of borrowing (expressed as an interest rate) after costs associated with a loan is accumulated and added to the nominal interest rate.

Encumbrance: Obligations in the form of purchase orders, contract or salary commitments that are chargeable to an appropriation and for which a part of the appropriation is reserved.

Enterprise Funds: An accounting mechanism allowing a community to demonstrate to the public the portion of total costs of a service that is recovered through user charges and the portion that is subsidized by the tax levy. With an enterprise fund all costs of service delivery—direct, indirect and capital costs—are identified. This allows the community to recover total service costs through user fees if it so chooses. Enterprise accounting also enables communities to reserve the “surplus” or retained earnings generated by the operation of the enterprise rather than closing it out at yearend. According to Ch. 44 s 53F the services that may be treated as enterprises include, but are not limited to, water, sewer, hospital and airport services.

Equalized Valuations (EQVs): The determination of the full and fair cash value of all property in the commonwealth that is subject to local taxation. EQVs have historically been used as variables in distributing certain state aid accounts and for determining county assessments and certain other costs. The Commissioner of Revenue, in accordance with M.G.L. Ch. 58 s 10C, is charged with the

responsibility of bi-annually determining an equalized valuation for each town and city in the Commonwealth.

Estimated Receipts: Estimates of state and local miscellaneous receipts based on previous year’s receipts deducted by the assessors from gross amount to be raised by taxation.

Excess and Deficiency: Also called the “surplus revenue” account, this is the amount by which cash, accounts receivable and other assets exceed the liabilities and reserves.

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 council must be informed of excess levying capacity and evidence of such acknowledgment must be submitted to DOR when setting the tax rate.

Exemptions: Upon approval of an application to the board of assessors, these are full or partial discharges from the obligation to pay a property tax by statute on particular categories of property or persons. Examples include hospitals, schools, houses of worship and cultural institutions that are of benefit to the community. In addition, exemptions may be granted for qualified veterans, persons over 70 years of age and certain financial hardships.

Expenditure: The spending of money by municipalities for programs within their approved budgets.

Fiduciary Funds: Fiduciary funds account for assets held by the municipality in a trustee capacity or as an agent for individuals, private organizations, other governments and other funds. These include expendable trust, nonexpendable trust, pension trust and agency funds. Nonexpendable trust and pension trust funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of

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operations.

Fiscal Year: The Commonwealth and municipalities operate on a fiscal year that begins on July 1 and ends on June 30. The number of the fiscal year is that of the calendar year in which the fiscal year ends; e.g., the 2015 fiscal year, July 1, 2014, to June 30, 2015, is usually written as FY15. This, however, no longer coincides with the fiscal year followed by the federal government, which begins on October 1 and end on September 30.

Fixed Costs: These are costs that are legally or contractually mandated. (Examples: retirement, FICA/Social Security, insurances, debt service or interest.)

Float: The amount of money making up the difference between the bank balance for a local government's account and its book balance at the end of the day. The primary factor creating float is clearing time on checks and deposits. Delays in receiving deposit and withdrawal information also influence float.

Foundation Budget: The target set for each school district defining the spending level necessary to provide an adequate education for all students. The foundation budget is comprised of both local effort and state aid.

Free Cash: (Also Budgetary Fund Balance) Funds remaining from the operations of the previous fiscal year that are certified by DOR's director of accounts as available for appropriation. Remaining funds include unexpended free cash from the previous year, receipts in excess of estimates shown on the tax recapitulation sheet and unspent amounts in budget line items. Unpaid property taxes and certain deficits reduce the amount of remaining funds that can be certified as free cash.

The calculation of free cash is made based on the balance sheet, which is submitted by the community's auditor, accountant or comptroller. Typically, a community will attempt to maintain a free cash balance of between three and five percent of its total budget as a hedge against unforeseen expenditures, to ensure there will be an adequate reserve to prevent sharp fluctuations

in the tax rate, and to prevent expensive short-term borrowing. (Maintenance of an adequate free cash level is not a luxury but a necessary component of sound local fiscal management. Credit rating agencies and other members of the financial community expect municipalities to maintain free cash reserves; judgments regarding a community's fiscal stability are made, in part, on the basis of free cash.) Also see **Available Funds**.

Full Faith and Credit: A legal pledge of the general taxing powers for the payment of governmental obligations. Bonds carrying such pledges are usually referred to as general obligation or full faith and credit bonds.

Fund: An accounting entity with a self balancing set of accounts that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

Fund Accounting: Organizing the financial records of a municipality into multiple funds. 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 Massachusetts General Fund and enterprise funds. Communities whose accounting records are organized according to the Uniform Municipal Accounting System (UMAS) use multiple funds.

General Fund: This non-earmarked fund is used to account for most financial resources and activity governed by the normal town meeting/city council appropriation process.

General Obligation Bonds: Bonds issued by a municipality that are backed by the full faith and credit of its taxing authority.

Governing Body: The board, committee, commissioners or other legislative body of a governmental unit including the school committee of a municipality.

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Indirect Cost: Costs of a service not reflected in the service's operating budget. A determination of these costs is necessary to analyze the total cost of service delivery. (An example of an indirect cost of providing water service would be health insurance costs for water employees.)

Interest: Compensation paid or to be paid for the use of money, including interest payable at periodic intervals or as discount at the time a loan is made.

Interest Rate: The interest payable, expressed as a percentage of the principal available for use during a specified period of time. It is always expressed in annual terms.

Investments: Securities and real estate held for the production of income in the form of interest, dividends, rentals or lease payments. The term does not include fixed assets used in governmental operations.

Land Fund: A fund established in FY86 to which municipalities may add an annual appropriation earmarked for the acquisition of land or debt service on designated land purchases.

Law Enforcement Trust Fund: A revolving fund established to account for a portion of the proceeds from the sale of property seized from illegal drug-related activities. Funds may be expended to defray certain qualified law enforcement costs as outlined in Ch. 94C, s 47. Funds from this account may be expended by the police chief without further appropriation.

Levy Ceiling: The maximum tax assessed on real and personal property may not exceed 2 percent of the total full and fair cash value of all taxable property (M.G.L. Ch. 59 s 21C). Property taxes levied may exceed this limit only if the community passes a capital outlay expenditure exclusion, a debt exclusion or a special exclusion.

Levy Limit: The maximum amount a community can levy in a given year. The limit can grow each year by 2 percent of the prior year's levy limit (M.G.L. CH. 59 x 21C (f,g,k))

plus new growth and any overrides. The levy limit can exceed the levy ceiling only if the community passes a capital expenditure exclusion, debt exclusion or special exclusion.

Line Item Budget: A budget that focuses on inputs of categories of spending, such as supplies, equipment maintenance or salaries, as opposed to a program budget.

Local Aid: Revenue allocated by the Commonwealth to towns, cities and regional school districts. Estimates of local aid are transmitted to towns, cities and districts annually by the "Cherry Sheet." Most of the Cherry Sheet aid programs are considered revenues of the municipality's or regional school district's general fund and may be spent for any purpose subject, subject to appropriation.

Local Appropriation Authority: In a town, the town meeting has the power to levy directly a property tax. In a city, the city council has this power.

Local Receipts: Locally generated revenues other than real and personal property taxes and excluding enterprise fund revenues. 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.

Maturity: The date upon which the principal of a bond becomes due and payable.

Massachusetts Municipal Depository Trust: Founded in 1977 it is an investment program in which municipalities may pool excess cash. It is under the supervision of the state treasurer.

Minimum Required Local Contribution: The minimum that a town or city must appropriate from property taxes and other local revenues for the support of schools.

Moody's Investment Services, Inc.: One of the leading municipal bond rating agencies.

Municipal(s): (As used in the bond trade) "Municipal" refers to any governmental unit below or subordinate to the state. "Municipals"

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(i.e., municipal bonds) include not only the bonds of all local subdivisions such as towns, cities, school districts and special districts, but also bonds of states and agencies of the state.

Municipal Revenue Growth Factor: 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 2 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.

M.G.L. (or MGLA): Massachusetts General Laws, Annotated.

Net School Spending (NSS): Includes both 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.

New Growth: The taxing capacity added by new construction and other increases in the property tax base. New growth is calculated by multiplying the value associated with new construction by the tax rate of the previous fiscal year. For example, FY15 new growth is determined by multiplying the value of new construction in calendar 2013 (as valued on January 1, 2014) by the FY14 tax rate.

Note: A short-term loan, typically of a year or less in maturity.

Objects of Expenditures: A classification of expenditures that is used for coding any department disbursement, such as "personal services," "expenses," or "capital outlay."

Official Statement: A document containing information about a prospective bond issue or a note issue which contains information about the issue and the issuer and is intended for the potential investor. The official statement is sometimes published with the notice of sale. It

is sometimes called an offering circular or prospectus.

Offset Receipts: Includes certain education programs and the aid to public libraries program which are designated on the Cherry Sheet as offset items. These amounts can be spent without appropriation but must be spent only for these specific programs.

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

Other Amounts to be Raised: Amounts raised through taxation but which are not appropriations items. Generally, these are locally generated expenditures (e.g., overlay, teacher pay deferral, deficits) as well as state, county and other special district charges. Because these must be funded in the annual budget, special consideration should be given to them when finalizing the budget recommendations to town meeting. (See Tax Recapitulation).

Overlapping Debt: The share of regional school district and/or other regional agency debt which is allocable to and payable by a municipality as part of the fees or assessment from the regional entity.

Overlay: (Overlay Reserve or Reserve for Abatements and Exemptions) An Account established annually to fund anticipated property tax abatements and exemptions in that year. The overlay reserve is not established by the normal appropriation process, but rather is raised on the tax rate recapitulation sheet.

Overlay Deficit: A deficit that occurs when the amount of overlay raised in a given year is insufficient to cover abatements and statutory exemptions for that year. Overlay deficits must be provided for in the next fiscal year.

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 (See Overlay). Within 10 days of a written request by the chief executive officer of a town or city, the assessors

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must provide a certification of the excess amount of overlay available to transfer. Overlay surplus may be appropriated for any lawful purpose. At the end of each fiscal year, unused overlay surplus is “closed” to surplus revenue, i.e., it becomes a part of free cash.

Override: A vote by a community at an election to permanently increase the levy limit. An override vote may increase the levy limit to no higher than the levy ceiling. The override question on the election ballot must state a purpose for the override and the dollar amount. (See Underride.)

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.

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

Personnel Services: The cost of salaries, wages and related employment benefits.

Price Index: A statistical measure of change in overall prices. There are different indices, but they all compare the change in cost of a certain “bundle” of goods and services over a given period of time.

Principal: The face amount of a bond, exclusive of accrued interest.

Program: A combination of activities to accomplish an end.

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

Property Tax Levy: The amount a community can raise through the property tax. The levy can be any amount up to the levy limit plus exclusions.

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

Ratings: Designations used by credit rating services to give relative indications of quality.

Moody’s ratings range from the highest Aaa down through Aa, A-1, A, Baa-1, Baa, Ba, B, Caa, Ca, C. Standard and Poor” ratings include: AAA, AA, A, BBB, BB, B, CCC, CC, C, DDD, DD, and D.

Refunding: System by which an issue is redeemed by a new bond issue under conditions generally more favorable to the issuer.

Registered Bond: A bond whose owner is registered with the issuer or its agents, either as to both principal and interest or principal only.

Reserve for Abatements and Exemptions: See Overlay.

Reserve Fund An amount set aside annually within the budget of a town (not to exceed five percent of the tax levy for the preceding year) or city (not to exceed three percent of the tax levy for the preceding year) to provide a funding source for extraordinary and unforeseen expenditures. In a town, the finance committee can authorize transfers from this fund for “extraordinary and unforeseen” expenditures. Other uses of the fund require budgetary transfers by town meeting. In a city, transfers from this fund may be voted by the city council upon recommendation of the mayor.

Revaluation (or re-certification of property values): The assessors of each community are responsible for developing a reasonable and realistic program to achieve a fair cash valuation of property in accordance with constitutional and statutory requirements. The nature and extent of that program will depend on the assessors’ analysis and consideration of many factors, including, but not limited to, the following: the status of the existing valuation system; the results of an in-depth sales ratio study; the location and style of properties; and the accuracy of existing property record information.

Every three years, assessors must submit property values to the state Department of Revenue for certification. Assessors must also maintain these values in the years between certifications. This is done so that each property taxpayer in the community pays his or her share

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of the cost of local government—no more or less—in proportion to the amount of money the property is worth.

Revenue Anticipation Borrowing: Cities, towns and districts may issue temporary notes in anticipation of taxes (TANs) or other revenue (RANs). The amount of this type of borrowing is limited to the total of the prior year's tax levy, the net amount collected in motor vehicle and trailer excise in the prior year and payments made by the Commonwealth in lieu of taxes in the prior year. According to Ch. 44 s 4, towns, cities and districts may borrow for up to one year in anticipation of such revenue.

Revenue Anticipation Note (RAN): A short-term loan issued to be paid off by revenues, such as tax collections and state aid. RANs are full faith and credit obligations.

Revenue Bond: A bond payable from and secured solely by specific revenues and thereby not full faith and credit obligations.

Revolving Fund: Allows a community to raise revenues from a specific service and use those revenues to support the service without appropriation. For departmental revolving funds, Ch. 44 s 53E stipulates that each fund must be reauthorized 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 10 percent of the amount raised by taxation by the town or city in the most recent fiscal year, and no more than one percent of the amount raised by taxation may be administered by a single department or board.

No revolving fund expenditures shall be made for the purpose of paying any wages or salaries for full-time employees. Revolving funds for other programs as provided by statute are still allowed, and a departmental revolving fund may be implemented in addition to or in conjunction with other existing statutory revolving funds, provided that the departmental revolving fund does not conflict with provisions of other revolving funds.

Sale of Cemetery Lots Fund: This fund is established to account for proceeds of the sale of cemetery lots. The proceeds must be used to offset certain expenses of the cemetery department under provisions of Ch. 114 s 43C.

Sale of Real Estate Fund: This fund is established to account for the proceeds of the sale of municipal real estate other than proceeds acquired through tax title foreclosure. Chapter 44 s 63 states that such proceeds shall be applied first to the retirement of debt on the property sold. In the absence of such debt, funds may generally be used for purposes for which the town or city is authorized to borrow for a period of five years or more.

School Building Assistance Program: This program provides state grants for local and regional school construction projects. The SBA program is administered by the Office of the State Treasurer. If a community votes a debt exclusion to fund a school construction project, the amount of SBA funds received towards any school construction debt must be deducted before determining the net school debt exclusion. For example, a town receives a \$10.0M SBA grant on one project. The debt service due on this project is \$25.0M; therefore the town's maximum debt exclusion to be raised for this project would be \$15.0M.

Security: For Massachusetts municipalities, bonds or notes evidencing a legal debt on the part of the issuer.

Serial Bond: A bond of an issue that has maturities scheduled annually over a period of years.

Special Assessment Bonds: These bonds are payable from the proceeds of special assessments. If, in addition to the assessments, the full faith and credit of the governmental unit are pledged, they are known as "general obligation special assessment bonds."

Special Assessments: See Betterments.

Special Exclusion: For a few limited capital purposes, a community may assess taxes above the amount of its levy limit or levy ceiling

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without voter approval. Otherwise, special debt and capital outlay exclusions are like voter approved exclusions. Presently, there are two special exclusions:

- Water and sewer project debt service costs that reduce the water and sewer rates by the same amount; and
- a program to assist homeowners to repair or replace faulty septic systems, removal of underground fuel storage tanks, or removal of dangerous levels of lead paint to meet public health and safety code requirements. In the second special exclusion, homeowners repay the municipality for the cost plus interest added apportioned over a period of time not to exceed 20 years similar to betterments.

Stabilization Fund: An account from which amounts may be appropriated for any lawful purpose. Prior to FY92, use of the stabilization fund was restricted to purposes for which towns and cities could legally borrow. Revisions to Ch. 40 s 5B removed this restriction, and amounts from the stabilization fund can now be appropriated for any legal purpose. Towns may appropriate into this fund in any year an amount not to exceed 10 percent of the prior year's tax levy or a larger amount with the approval of the emergency finance board. The aggregate of the stabilization fund shall not exceed ten percent of the town's equalized value, and any interest shall be added to and become a part of the fund.

A two-thirds vote of town meeting or city council is required to appropriate money from the stabilization fund.

Surplus Revenue: The amount by which cash, accounts receivable and other floating assets exceed the liabilities and reserves.

Tax Rate: The amount of tax stated in terms of a unit of the tax base; for example, \$18.98 per \$1,000 of assessed valuation of taxable property.

Tax Rate Recapitulation Sheet (also Recap Sheet): A document submitted by a town or city to the Department of Revenue in order to set a property tax rate. The recap sheet shows all estimated revenues and actual appropriations

that affect the property tax rate. (In order to issue the third quarter property tax bills before January 1, the recap sheet should be submitted to the Department of Revenue before December.

Tax Title: Collection procedures that secures a lien on real property and protects the municipality's right to payment of overdue property taxes. (Without following this procedure, the lien on real property expires if three years elapse from the October 1 following the assessment date, and the property is transferred. If amounts remain outstanding on the property after issuing a demand for overdue property taxes and after publishing a notice of tax taking, the collector may take the property for the city or town. After property recording the instrument of taking, the collector transfers responsibility for collecting the overdue amounts to the treasurer.)

Term Bond: Bonds for which the entire principal matures on one date. Massachusetts municipal general obligation bonds are required by law to be retired on a serial basis.

Trust Fund: In general, a fund held for the specific purpose stipulated by a trust agreement. The treasurer acts as custodian of trust funds and invests and expends such funds as stipulated by trust agreements or as directed by the commissioners of trust funds or by town meeting. Both principal and interest may be used if the trust is established as an expendable trust. For non-expendable trust funds, interest but not principal may be expended as directed.

Uncollected Funds: Recently deposited checks included in an account's balance but drawn on other banks and not yet credited by the Federal Reserve Bank or local clearinghouse to the bank cashing the checks. (These funds may not be loaned or used as part of the bank's reserves and they are not available for disbursement.)

Underride: A vote by a community to permanently decrease the tax levy limit. As such, it is the opposite of an override.

Uniform Municipal Accounting System (UMAS): A comprehensive and practical municipal accounting system that conforms to

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Generally Accepted Accounting Principles (GAAP) for local governments. UMAS is regarded by the Department of Revenue as the professional standard for modern municipal accounting in Massachusetts. (Among the benefits of conversion to UMAS are increased consistency in reporting and record keeping and enhanced comparability of date among cities and towns.)

Unreserved Fund Balance: also referred to as the “surplus revenue account,” this is the amount by which cash, accounts receivable, and other assets exceed liabilities and restricted reserves. It is akin to a “stockholders’ equity” account on a cooperate balance sheet. It is not, however, available for appropriation in full because a portion of the assets listed as “accounts receivable” may be taxes receivable and uncollected. (see **Free Cash.**)

Valuation (100 Percent) Requirement that the assessed valuation must be the same as the market value for all properties; 100 percent valuation may offer greater equity in the redistribution of state aid to cities and towns based upon local real estate values.

Warrant: A list of items to be acted on by town meeting. (A treasury warrant and the assessors’ warrant authorize the treasurer to pay specific bills and the tax collector to collect taxes in the amount and from the persons listed, respectively.)

Yield: The net annual percentage of income derived from an investment. The yield of a bond reflects interest rate, length of time to maturity and write-off of premium or accrual of discount. (Also referred to as “yield to maturity.”)