

Introduction Glossary

LWVMA Fiscal Policy Update Committee (FPU) Fiscal Policy Update Committee is a Massachusetts State League Committee approved at the May 2005 biennial State League Convention to restudy/update fiscal policy positions, as these policies relate to local services. The impetus for the study came from the fiscal struggles that many Massachusetts municipalities have faced since the economic downturn of 2001, which resulted in deep cuts in aid to cities and towns. The committee has been meeting since May 2005 for “Pre- study” working sessions to learn about the myriad of topics that effect both local revenues and expenses. Reports on some of these meeting topics have appeared in *The Massachusetts Voter*. The focus is on the relationship between the State laws/ policies and local services. The committee is comprised of volunteers from numerous local Leagues and is open to all.

Assessments- charges made to a municipality for services provided by the State, e.g. School Choice, transportation, etc.

Bond- a written promise to pay a specified sum of money at a specified date (maturity date) with periodic interest at a specified rate.

“**Cherry Sheets**” documents sent to cities and towns after final state budget deliberations detailing the estimated revenue coming from state to municipality and the assessments that are deducted from that amount; originally printed on cherry pink paper. Cherry Sheets are available at the Mass Dept of Revenue, www.mass.gov/dls

Cherry Sheet Assessments- charges against local aid for state services that municipalities receive

Cherry Sheet Estimated Receipts - revenue coming from State to municipalities

Credit Rating/ Bond Rating (for Town)- a determination by an independent rating authority on the ability and willingness of an issuer of debt to make debt service payments in full and on time. Credit rating is provided by several companies including Moody’s Investment Service, Standard and Poor’s corporation, and Fitch Investors Service. To develop ratings on bonds, four areas are researched- economics, finance, debt and management. A good credit rating will get a lower interest rate for the municipality issuing the bonds. Moody’s ratings range from the highest Aaa down through Aa, A- 1, A, Baa- 1, Baa, Ba, B, Caa, Ca, C. Standard & Poor’s ratings include: AAA, AA, A , BBB, BB, B, CCC, CC, C, DDD, DD, and D.

Exemption – An exception, established by statute, from the obligation to pay all or a portion of a property tax. The exemption is available to particular categories of property or persons upon the submission and approval of an application to the assessors. Properties exempt from taxation include hospitals, schools, houses of worship, and cultural institutions. Persons who may qualify for exemptions include veterans, blind individuals, surviving spouses, and persons over 70 years of age.

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

Fiscal policy- pertaining to the laws or rules that control all aspects of the use of money.

Fiscal Year – State and municipal budget cycle beginning on July 1 and ending June 31. The date of the fiscal year is that of the calendar year in which the fiscal year ends. The federal government fiscal year begins October 1 and ends September 30.

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

Free Cash- Money that accumulates from preceding fiscal year from unexpected revenue, prior year's free cash, unspent budgetary funds, taxes collected from prior years; needs to be certified by state before it can be appropriated the following fiscal year; unrestricted in use.

General Fund - Expenditures- The fund used to account for most financial resources and activities governed by the normal town meeting/city council appropriation process, not including spending from special revenue, enterprise, capital projects, or trust funds.

Levy-(n) the amount of revenue a community raises through the property tax. The levy can be any amount up to the levy limit.

Local Aid (State Aid)- revenues distributed to municipalities from the State. The three major sources are Chapter 70 Education aid, Lottery Aid, and Additional Assistance. Gross local aid is aid prior to deductions are made for assessments. Net aid accounts for from 10 to 25% of the local budget revenue.

Local option taxes- a tax passed by the state legislature which individual communities may adopt by vote of town meeting (city council). The legislation sets forth limitations, reporting requirements and procedures for collecting the tax. Example: Community Preservation Act.

Local Receipts- locally generated revenues, second to Property taxes in amount, including motor vehicle excise tax, local option taxes (taxes on hotel room, jet fuels, Community Preservation Act) fines, licenses and permits, charges for services such as water, sewer and waste collection, departmental revenues, and investment income. Outside of hotel/motel and motor vehicle excise taxes, it is user fees, licenses and permits that constitute most local receipts. Local receipts often account for as much as 20 percent of a town's estimated revenues.

Motor Vehicle Excise tax- an annual tax assessed to owners of motor vehicles registered to an address within the municipality-- cars, trucks, motorcycles, or trailers-- based on vehicle valuation that depreciates over time. It is set by statute at \$ 25 per \$1000. Owner registration and billing information is maintained by the State Registry of Motor Vehicles and is made available to a city or town.

“Other Available Funds”- includes free cash and stabilization funds that a municipality may use in support of annual budget;

“Other” Expenditure Category– Human services (i.e. health, mental health, COA, Veteran benefits)
Culture and Recreation (i.e. Library, Park and Recreation)

Property Tax- the total amount a municipality raises by placing a levy (tax) on real and personal property

Proposition 2 ½- a Massachusetts law passed in 1980 which limits the total amount of a community's tax levy to 2 ½% of total property assessments and limits annual increase in the levy to 2 ½% of the prior year's levy plus estimated taxes on new development (new growth).

“Public Safety” Expenditure Category- Police, fire, building commissioner, animal inspector, dog officer

“Public Works” Expenditure Category- Highway, Engineering, Waste Collection, Drains, Cemetery, Tree

Revenue - money that is a source of income; the annual or periodical yield of taxes, excise, customs, duties, rents etc. which a nation, state , or municipality collects for public use.

Stabilization Fund- a “rainy day ” fund set aside by a municipality after approval by voters; a majority of town meeting required to appropriate into the fund but 2/3 required vote to appropriate from the fund; may

be used for any legitimate municipal purpose; in 2003 legislation passed allowing creating of stabilization fund for a specific purpose.

Tax- exempt property- property that is not subject to taxation.

Tax Rate- The amount of property tax paid per unit, such as \$10.51 per \$1000 assessed value of taxable property.

User Charges/Fees – A municipal funding source where payment is collected from the user of a service to help defray the cost of providing the service. While a user fee cannot be a way of instituting a “hidden tax,” state law allows towns to establish user fees to recover all of the direct and indirect costs of providing a service.

Introduction References, Graphs, Further Reading

1. **Municipal Financial Data 35th Edition** *Mass Taxpayers Foundation Report, Nov 2005*
<http://www.masstaxpayers.org/data/pdf/reports/mtf35t~1.pdf>
2. **“Revenue Sharing and the Future of the Massachusetts Economy”** *Barry Bluestone, Alan Clayton-Matthews, David Soule MMA and Center for Urban and Regional Policy, Northeastern University, Jan 2006*
<http://www.curp.neu.edu/publications/reports.htm#mmarevenue>
3. **“Local services, local aid, common challenges”** *by Phineas Blaxandall, Rappaport Institute, November 2005*
http://www.ksg.harvard.edu/rappaport/downloads/policybriefs/brief_finance.pdf
4. **Local Communities at Risk: Revisiting the fiscal partnership between the Commonwealth and cities and towns”,** *From Municipal Finance Taskforce, MAPC, Sept 2005 Hamill Report*
<http://www.ksg.harvard.edu/rappaport/downloads/metromayors/presentation.ppt>
5. **Finance Committee Handbook**, Association of Town Finance Committees 2006

