



# FY2013 BUDGET PROJECTION

- GLOSSARY



Town and County of Nantucket  
16 Broad Street  
Nantucket, MA 02554



## TOWN & COUNTY OF NANTUCKET BUDGET DEVELOPMENT DEFINITIONS

### Abatement:

A reduction or elimination of a real or personal property tax, motor vehicle excise, a fee, charge, or special assessment imposed by a governmental unit. Granted only on application of the person seeking the abatement and only by the committing governmental unit.

### Accounting System:

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

### Appropriation:

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

### Assessed Valuation:

A value assigned to real estate or other property by a government as the basis for levying taxes. In Massachusetts, assessed valuation is based on the property's full and fair cash value as set by the Assessors.

### Audit:

An examination of a community's financial systems, procedures, and data by a certified public accountant (independent auditor), and a report on the fairness of financial statements and on local compliance with statutes and regulations. The audit serves as a valuable management tool for evaluating the fiscal performance of a community.

### Available Funds:

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

### Bond Rating:

A credit rating assigned to a municipality to help investors assess the future ability, legal obligation, and willingness of the municipality (bond issuer) to make timely debt service payments. Stated otherwise, a rating helps prospective investors determine the level of risk associated with a given fixed-income investment.

### Budget:

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

### Budget Message:

A statement that, among other things. Offers context by summarizing the main points of a budget, explains priorities, describes underlying policies that drive funding decisions, and otherwise justifies the expenditure plan and provides a vision for the future.

### Capital Budget:

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

### Capital Improvements Program:

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

### Capital Outlay:

The exchange of one asset (cash) for another (capital asset), with no ultimate effect on net assets. Also known as "pay as you go", it is the appropriation and use of available cash to fund a capital improvement, as opposed to incurring debt to cover the cost.

**Capital Projects Fund:**

Fund type used to account for financial resources to be used for the acquisition or construction of major capital facilities.

**Cash:**

Currency, coin, checks and banker's drafts on hand or on deposit with an official or agent designated as custodian of cash and bank deposits.

**Cherry Sheet:**

Named for the cherry colored paper on which they were originally printed, the Cherry Sheet is the official notification to cities, towns and regional school districts of the next fiscal year's state aid and assessments. The aid is in the form of distributions, which provide funds based on formulas and reimbursements that provide funds for costs incurred during a prior period for certain programs or services.

**Cherry Sheet Assessments:**

Estimates of annual charges to cover the cost of certain state and county programs.

**Cherry Sheet Off-set Items:**

Local aid 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 grant.

**Classification of the Tax Rate:**

Each year, the selectmen vote whether to exercise certain tax rate options. Those options include choosing a residential factor (MGL Ch 40 Section 56), and determining whether to offer an open space discount, a residential exemption (Ch 59 Section 5C), and/or a small commercial exemption (Ch 59 Section 5I) to property owners.

**Collective Bargaining:**

The process of negotiating workers' wages, hours, benefits, working conditions, etc., between an employer and some or all of its employees, who are represented by a recognized labor union. With the exception of school unions, funding of a collective bargaining agreement must be approved by Town Meeting.

**Consumer Price Index (CPI):**

The statistical measure of changes, if any, in the overall price level of consumer goods and services. The index is often called the "cost of living" index.

**Cost of Living Adjustment (COLA):**

It is often used in municipal contracts that provide for annual or periodic increases in salaries and wages for employees over the course of the contract. The amount of an increase is most often negotiated based on a community's ability to pay, but is sometimes tied to the annual change in a specified index, i.e., CPI.

**Cost-Benefit Analysis:**

A decision-making tool that allows a comparison of options based on the level of benefit derived and the cost to achieve the benefit from different alternatives.

**Debt Service:**

The repayment cost, usually stated in annual terms and based on an amortization schedule, of the principal and interest on any particular bond issue.

**Deficit:**

The excess of expenditures over revenues during an accounting period. Also refers to the excess of the liabilities of a fund over its assets.

**Designated Unreserved Fund Balance:**

A limitation on the use of all or part of the expendable balance in a governmental fund.

**Encumbrance:**

A reservation of funds to cover obligations arising from purchase orders, contracts, or salary commitments that is chargeable to , but not yet paid from a specific appropriation acct.

**Enterprise Funds:**

An enterprise fund, authorized by MGL Ch 44 Section 53 F1/2 is a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. It allows 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, if any. 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 chooses. Enterprise accounting also enables communities to reserve the "surplus" or net assets unrestricted generated by the operation of the enterprise rather than closing it out to the general fund at year-end. Services that may be treated as enterprises include, but are not limited to, water, sewer, hospital, and airport services. In Nantucket, the five enterprise funds are Airport, Solid Waste, Sewer, Wannacomet Water, and Siasconset Water.

**Estimated Receipts:**

A term that typically refers to anticipated local revenues listed on page three of the Tax Recapitulation Sheet. Projections of local revenues are often based on the previous years receipts and represent funding sources necessary to support a community's annual budget.

**Expenditure:**

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

**Expense:**

An identified cost incurred to accomplish a particular goal.

**Fiscal Year (FY):**

Since 1974, the Commonwealth and municipalities have operated on a budget cycle that begins July 1 and ends on June 30. The designation of the fiscal year is that of the calendar year in which the fiscal year ends. Since 1976, the federal government fiscal year has begun on October 1 and ended September 30.

**Foundation Budget:**

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

**Free Cash:**

Remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown on the tax recapitulation sheet, and unspent amounts in budget line items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30, which is submitted by the community's auditor, accountant, or comptroller. **Important: Free cash is not available for appropriation until certified by the Director of Accounts.**

**Fund:**

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

**Fund Balance:**

The difference between assets and liabilities reported in a governmental fund. Also known as fund equity.

**Generally Accepted Accounting Principals (GAAP):**

Uniform minimum standards and guidelines for financial accounting and reporting that serve to achieve some level of standardization.

**Government Accounting Standards Board:**

The ultimate authoritative accounting and financial reporting standard-setting body for state and local governments.

**Government Accounting Standards Board (GASB 34):**

A major pronouncement of the Government Accounting Standards board that establishes new criteria on the form and content of government financial statements. GASB 34 requires a report on overall financial health, not just on individual funds. It requires more complete information on the cost of delivering services and value estimates on public infrastructure assets, such as bridges, road, sewers, etc. It also requires the presentation of a narrative statement analyzing the governments financial performance, trends, and prospects for the future.

**GASB 45:**

This is another Governmental Accounting Standards Board major pronouncement that each public entity account for and report other postemployment benefits (OPEB) in its accounting statements. Through actuarial analysis municipalities must identify the true costs of the OPEB earned by employees over their estimated years of actual service.

**General Fund:**

The fund used to account for most financial resources and activities governed by the normal town meeting appropriation process.

**General Fund Subsidy:**

Most often used in the context of enterprise funds. When the revenue generated by rates, or user fees, is insufficient to cover the cost to provide the particular service, general fund money is used to close the gap in the form of a subsidy. The subsidy may or may not be recovered by the general fund in subsequent years.

**Governmental Funds:**

Funds generally used to account for tax-supported activities. There are five different types of governmental funds: the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds.

**Health Insurance Trust Fund:**

The Town of Nantucket is self-insured for health insurance, which means bills associated with employee health care are paid directly to medical

providers pursuant to an agreement with Blue Cross Blue Shield. The Health Insurance Trust Fund is a separate fund used to account for employee health benefits. Employer and employee health insurance payments are paid into the Fund, which is used to pay the costs related to employee health benefits. The Fund may only be used to pay health insurance costs.

#### Health Insurance Draw Down:

The use of the fund balance in the Health Insurance Trust Fund to temporarily pay monthly health insurance costs for Town, School, and Enterprise Fund employees. This allows general funds currently allocated to pay municipal health insurance costs to be reallocated to offset revenue shortfalls.

#### Indirect Cost:

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

#### Level funded budget:

A "level funded" budget appropriates the same amount of money as the prior year to each municipal department and is tantamount to a budget cut. Even under level funding, increases in mandated costs and other fixed expenses must be covered, usually at the expense of the general government operating budget.

#### Levy:

The amount a community raises through the property tax. The levy can be any amount up to the levy limit, which is re-established every year in accordance with Proposition 2 1/2 provisions.

#### Levy Limit:

A levy limit is one of two types of levy (tax) restrictions imposed by MGL Ch. 59 Section 21c (Proposition 2 1/2). It states that the real and personal property taxes imposed by a city or town may only grow each year by 2 1/2 percent of the prior year's levy limit, plus new growth and other overrides or exclusions. The levy limit can exceed the levy ceiling only if the community passes a capital expenditures exclusion, debt exclusion, or special exclusion.

#### Line Item Budget:

A budget that separates spending into categories, or greater detail, such as supplies, equipment,

maintenance, or salaries as opposed to a program budget.

#### Local Receipts:

Locally generated revenues, other than real estate and personal property taxes. Examples include motor vehicle excise, boat excise, investment income, hotel / motel tax, rentals, licenses, permits, and charges.

#### Maintenance Budget:

A no-growth budget that continues appropriations for programs and services at their current year levels. The actual appropriation to maintain programs and services may still increase due to inflation or other factors. (*TON: No-growth meaning, "A budget that provides appropriations for programs and services at their current levels; it does not provide funding for new services or programs"*)

#### Minimum Required Local Contribution:

The minimum that the city or town must appropriate from property taxes and other local revenues for the support of schools.

#### Municipal budget:

Municipal refers to any state or subordinate governmental unit. In the case of the Town of Nantucket, Municipal Budget refers to all the operations including Town, School, and Enterprise Funds (Airport, Solid Waste, Sewer, Wannacomet Water, and Siasconset Water). In Nantucket, the Town & School's operations are funded by general funds. Enterprise Fund operations are funded by revenue generated from fees and charges assessed for services provided by the enterprise fund departments.

#### Nantucket Water Commission:

A three member elected commission which oversees the functions of the Wannacomet Water Company, which is an enterprise fund of the Town of Nantucket.

#### Net School Spending:

School budget and municipal budget amounts attributable to education excluding long term debt service, student transportation, school lunches and certain other specified school expenditures. A community's NSS funding must equal or exceed the NSS Requirement established annually by the Department of Education (DOE).

#### New Growth:

The additional tax revenue generated by new construction, renovations and other increases in the property tax base during a calendar year. It does not include value increases caused by normal market forces or by revaluations. New

growth is calculated by multiplying the assessed value associated with new construction, renovations and other increases by the prior year tax rate. The additional tax revenue is then incorporated into the calculation of the next years levy limit. For example, new growth for FY07 is based on new construction, etc. that occurred between January and December 2005. In the fall of 2006, when new growth is being determined to set the FY07 levy limit, the FY06 tax rate is used in the calculation.

**Offset Receipts:**

A local option that allows estimated receipts of a particular department to be earmarked for use of the department and appropriated to offset its annual operating budget. If accepted, MGL Ch 44 Section 53E limits the amount of offset receipts appropriated to no more than the actual receipts collected for the prior fiscal year. The Director of Accounts must approve use of a higher amount before appropriation. Actual collections greater than the amount appropriated close to the general fund at year end. If actual collections are less, the deficit must be raised in the next year's tax rate.

**Operating Budget:**

A plan of proposed expenditures for personnel, supplies, and other expenses for the coming fiscal year.

**Other Amounts to be raised:**

Amounts not appropriated but raised through taxation. Generally, these are locally generated expenditures (overlay, teacher pay deferrals, deficits) as well as state, county, and other special district charges.

**Other Post Employment Benefits (OPEB):**

Employees of state and local governments may be compensated in a variety of forms in exchange for their services. In addition to a salary, many employees earn benefits over their years of service that will not be received until after their employment with the government ends. The most common type of these postemployment benefits is a pension. Postemployment benefits other than pensions generally take the form of health insurance and dental, vision, prescription, or other healthcare benefits provided to eligible retirees, including in some cases their beneficiaries. They may also include some type of life insurance. As a group, these are referred to as OPEB.

**Overlay:**

An account established annually to fund anticipated property tax abatements, exemptions, and uncollected taxes in that year. The overlay release need not be funded by the normal

appropriation process, but rather is raised on the tax rate recapitulation sheet.

**Override:**

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

**Performance budget:**

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

**Program budget:**

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

**Proposition 2 ½:**

A state law enacted in 1980, Proposition 2 ½ regulates local property tax administration and limits the amount of revenue a city or town may raise from local property taxes each year to fund municipal operations.

**Raise and Appropriate:**

A phrase used to identify a funding source for an expenditure or expenditures, which refers to money generated by the tax levy or other local receipts.

**Receipts:**

Money collected by and within the control of a community from any source and for any purpose.

**Receipts Reserved for Appropriation:**

Proceeds that are earmarked by law and placed in separate accounts for appropriation for particular purposes. For example, parking meter proceeds may be appropriated to offset certain expenses for parking meters and the regulation of parking and other traffic activities.

**Recurring Revenue Source:**

A source of money used to support municipal expenditures, which by its nature can be relied upon, at some level, in future years.

**Reserve Fund:**

An amount set aside annually within the budget of a town (not to exceed 5% of the tax levy for the preceding year) to provide a funding source for extraordinary or unforeseen expenditures. In a town, the Finance Committee can authorize transfers from this fund for "unforeseen and extraordinary" expenditures. Other uses of the fund require budgetary transfers by town meeting.

<p><b>Revenue Deficit:</b> The amount by which actual revenues at year end fall short of projected revenues and are insufficient to fund the amount appropriated. In such a case and unless otherwise funded, the revenue deficit must be raised in the following years tax rate.</p> <p><b>Revolving Fund:</b> Allows a community to raise revenues from a specific service and use those revenues without appropriation to support the eservice. For departmental revolving funds, MGL Ch 44 Section 53E1/2 stipulates that teacher funds 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 ten percent of the amount raised by taxation by the city or town in the most recent fiscal year, and no more than one percent of the amount raised by taxation may be administered by a single fund. Wages or salaries for full-time employees may be paid from the revolving fund only if the fund is also charged for all associated fringe benefits.</p> <p><b>Siasconset Water Commission:</b> A three member elected commission which oversees the functions of the Siasconset Water Department, which is an enterprise fund of the Town of Nantucket.</p> <p><b>Special Revenue Fund:</b> Funds, established by statute only, containing revenues that are earmarked for and restricted to expenditures for specific purposes.</p> <p><b>Stabilization Fund:</b> A fund designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose (MGL Ch 40 Section 5B). Communities may establish one or more stabilization funds for different purposes and may appropriate into them in any year an amount not to exceed ten percent of the prior years tax levy. The total of all stabilization fund balances shall not exceed ten percent of the community's equalized value, and any interest shall be added to and become a part of the funds. A two-thirds vote of town meeting is required to establish, amend the purpose of, or appropriate money into or from the stabilization fund.</p> <p><b>Tax Rate:</b> The amount of property tax stated in terms of a unit of the municipal tax base; for example,</p>	<p>\$14.80 per \$1,000 of assessed valuation of taxable real and personal property.</p> <p><b>Tax Rate Recapitulation Sheet (Recap Sheet):</b> A document submitted by a town to the DOR in order to set a property tax rate. The recap sheet shows all estimated revenues and actual appropriations that affect the property tax rate. The recap sheet should be submitted to the DOR by September 1.</p> <p><b>Undesignated Fund Balance:</b> Monies in the various government funds as of June 30 that are neither encumbered nor reserved, and are therefore available for expenditures once certified as part of free cash.</p> <p><b>Unfunded Mandate:</b> A requirement imposed by law, regulation or order without underlying financial support, thereby resulting in direct or indirect costs to the body made responsible for its implementation.</p> <p><b>Uniform Municipal Accounting System:</b> UMAS succeeds the so-called Statutory System (STAT) and is regarded as the professional standard for municipal accounting in Massachusetts. As a uniform system for local governments, it conforms to the Generally Accepted accounting Principals (GAAP), offers increased consistency in reporting and record keeping, as well as enhanced comparability of date among cities and towns.</p> <p><b>Unreserved Fund Balance:</b> 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 corporate 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.</p> <p><b>Waterways Improvement Fund:</b> An account into which fifty percent of boat excise tax and mooring fees imposed under MGL Ch 91 Section 10A receipts are deposited. Use of these proceeds is limited to certain waterway expenses as outlined in MGL Ch 40 section 5G.</p> <p><b>Zero Based Budget:</b> A budget building technique where each department begins at zero and adds the cost of essential programs up to an established funding limit. Each year the process begins again at zero prompting close scrutiny and prioritization of costs annually.</p>
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Source: Excerpts from Municipal Finance Glossary, Massachusetts Department of Revenue, May 2008. Retrieved on August 14, 2008 from: <http://www.mass.gov/Ador/docs/dls/publ/misc/dlsmfgl.pdf>

**Town & County of Nantucket Specific:**

Article 8:

The article in the Annual Town Meeting warrant that consists of the general fund operating budget. The operating budget includes Town & School salaries, expenses, insurance, and retirement budgets.

Article 10:

The article in the Town warrant that consists of capital budget requests for the fiscal year for both the Town & School departments.

Expense Increase Request (EIR):

A form submitted by Town and School departments to the Town Manager and Superintendent of Schools to request funding in excess of current budget levels.

Ferry Embarkation Fees:

A levy applied to ferry passenger tickets for trips to the Island.

Projection:

A figure that is formulated by using a series of assumptions applied to future years based upon known actual data. Within the Municipal budget reports, projections are represented in italics. Once the figure has been approved by the governing body, it is converted to an upright figure.

School Budget

The School budget is the portion of the Municipal budget that is spent on school department salaries, expenses, insurance, and capital.

Town Budget

The Town budget is the portion of the Municipal budget that is spend on Town department salaries, expenses, insurance, and capital.