

## APPENDIX E

### GLOSSARY OF TERMS USED IN TOWN FINANCE

#### *Appropriations*

Money can be appropriated from the tax levy only at the Annual Town Meeting or at a Special Town Meeting prior to the fixing of the tax rate. Money appropriated at a Special Town Meeting may be raised by borrowing or by transferring funds from available funds such as Free Cash. The Town Meeting may appropriate money for a specific purpose only when there is an article in the Warrant to cover the matter.

#### *Town Revenues*

While real estate taxes are the chief single source of income for the Town, there is revenue from many other sources. The Commonwealth allocates money to Wellesley for various programs, including school aid, school building assistance and highway programs, which it has raised by income and sales taxes and the lottery. The Federal Government makes available certain grant programs for school and public works programs. Wellesley collects a substantial amount of money from the motor vehicle excise tax (approximately \$5.5 million) and also collects fees for services of the various Town Departments as well as charges for various licenses and permits. In Wellesley, where we have municipally owned and operated light, water, and sewer services, the income and expenses of these enterprises are accounted for by the Town in separate "Enterprise" funds.

#### *Proposition 2½*

A statewide tax limitation law limits the property tax levy in cities and towns in the Commonwealth to 2½ % of the full and fair cash valuation of the taxable real estate and personal property in that city or town. The statute also places an annual growth cap of 2½ % on the increase in the total property tax levy, exclusive of growth resulting from new construction.

#### *Override*

A provision of Proposition 2½ that allows the voters to add funds on a permanent basis to the total tax levy, thus increasing the amount of taxes a community can raise. A majority vote from the voters is required for passage.

#### *Exclusions*

An EXCLUSION is a provision of Proposition 2½ that allows the voters to add funds on a **temporary** basis to the total tax levy. An EXCLUSION is usually a capital expenditure and increases the town's taxing capabilities for one year. A DEBT EXCLUSION increases the Town's taxing capabilities for as long as the debt is in service. It diminishes as the debt service diminishes over a specified number of years or until the debt is paid off. A majority vote from the voters is required for passage.

#### *Cherry Sheet*

The "Cherry Sheet" takes its name from the color of the paper on which it was once printed. It is issued annually to the Assessors by the Department of Revenue of the Commonwealth. It contains an estimate of the charges the Town will be required to pay

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for its share of the costs of operating certain programs of the Commonwealth, Norfolk County government, or metropolitan assessments. It also contains an estimate of the funds the Town will receive from the Commonwealth. The Assessors must use these estimates in computing the tax rate.

### *Free Cash*

Free cash is the unencumbered/unrestricted portion of the General Fund balance, after formal certification by the Department of Revenue, that is available for town meeting appropriation. Free cash is the cumulative total of all previous fiscal year operating results (revenues – expenditures), reduced by amounts already committed to some other purpose. Reserves (which include Free Cash and the Stabilization Funds) will be maintained in a range of 8 to 12% of Current Net Revenue in accord with the Financial Reserves Policy established by the Board of Selectmen.

### *Overlay*

The overlay is the sum of money, in excess of appropriations, which the Assessors add to the tax rate. It is used to cover abatements granted on real estate and personal property taxes and to avoid fractions in the tax rate.

### *Overlay Reserve*

After the tax accounts of any year have been settled, the remaining money in the overlay is transferred to the Overlay Reserve. The funds in the Overlay Reserve may be used by vote of Town Meeting.

### *Reserve Fund*

This fund is established by the voters at the Annual Town Meeting and may be composed of an appropriation not exceeding 5% of the tax levy. Transfers out of the Reserve Fund are within the exclusive control of the Advisory Committee and are for extraordinary or unforeseen expenditures that occur after Town Meeting approval of the Town budget and which cannot be accommodated within a department or committee's budget.

### *Stabilization Funds*

These Funds are special accounts created to provide reserves for different types of variable expenditures. These Funds help to even out the impact of capital projects or provide insurance against unexpected expenditures. Appropriations from these Funds can be made only by Town Meeting and with the approval of two-thirds of the members voting.

### *Tax Rate*

The formula for figuring the tax rate is:

Add:

1. All appropriations voted since the last tax rate was set.
2. Debt service not otherwise provided for.
3. An amount for overlay.
4. Estimates of charges or assessments of the Cherry Sheet.
5. Any other amounts required to be raised.

Subtract:

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1. Estimates of receipts in the Cherry Sheet.
2. Estimates of motor vehicle excise taxes and departmental receipts.
3. Amounts voted from Free Cash or other available funds.
4. Municipal Light Plant contribution.

Balance is the amount to be raised by the tax levy. Divide the answer by the total assessed value of real and personal property. That gives the amount necessary to raise \$1.00, which is multiplied by 1,000 to give the official tax rate per \$1,000 property valuation.

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