**Town of Princeton Commonwealth of Massachusetts**

**Selectboard Budget Report**

**Fiscal Year 2021 Annual Town Meeting**

**Thomas Prince School**

**Saturday, June 27, 2020 - 10:00 a.m.**

**Prepared by the Princeton Selectboard**

**Table of Contents**

[Message from the Selectboard 3](#_Toc40616304)

[Message from the Advisory Committee 4](#_Toc40616305)

[Selectboard Budget Report 4](#_Toc40616306)

[Introduction 4](#_Toc40616307)

[Budget Recommendations 4](#_Toc40616308)

[Revenue 9](#_Toc40616309)

[Revenue – Property Tax Data 10](#_Toc40616310)

[Free Cash 15](#_Toc40616311)

[Stabilization Fund Summary 15](#_Toc40616312)

[Stabilization Funds - Encumbered 16](#_Toc40616313)

[Debt Summary 17](#_Toc40616314)

[The importance of managing our debt level 17](#_Toc40616315)

[Five-Year Budget Forecast 19](#_Toc40616316)

[ANNUAL TOWN MEETING WARRANT 20](#_Toc40616317)

[Primer on Town Finances (simplified) 21](#_Toc40616318)

[Definitions of Interest: 21](#_Toc40616319)

# Message from the Selectboard

**This report is provided to voters ahead of the Annual Town Meeting to give you time to better understand the budget and the decisions that went into its preparation. This report is intended to serve as a policy document, a financial guide and a communications device to our residents. The report was created to help orient interested readers by providing a brief overview of the budget process, as well as an explanation of the organization of the budget itself. We hope you find this a useful tool as you better acquaint yourself with the latest financial and planning information for the Town. In the future, we intend to write this report in conjunction with the Advisory Committee.**

Please note we have included an appendix at the end with definitions of many of the terms used in this document.

**The goal** of the Selectboard in preparing this budget was to provide the same level of service as last year and to try to keep the overall operating budget increase under 3%. We started the process by asking all departments to provide a level-funded budget. If they needed to exceed that level of funding, we required justification. We also asked all departments to review their capital needs for the next five years. We asked departments that could do so to look into purchasing used versus new items and to explore leasing versus purchasing.

The Board knew going into the budgeting process that there were a few big-ticket items that were imminent. Road, bridge, and culvert repairs are on the Road Advisory Committee’s multi-year plan. The Selectboard still firmly believes that we will need to build a new public safety building and that we should be planning for that. We were also told early on that the proposed Wachusett Regional School District (WRSD) budget for Princeton was 4.66% higher than last year’s number.

**COVID-19** threw a giant wrench into budget preparation. We typically budget based on estimates from the State that come out in January. State numbers aren’t final until the State passes its budget. There is quite a bit of concern that the State’s revenues for FY20 and FY21 will be significantly decreased. We don’t know how that will affect Princeton. The State has provided little revenue guidance to the Town. If we don’t pass a budget at Town Meeting before June 30, we can operate on a 1/12th budget (we would be allowed to spend up to 1/12 of FY20’s annual budget each month). However, we must hold our Annual Town Meeting within 30 days of the Governor rescinding the State of Emergency. Given that we don’t know when that will be and how much notice we will get, the Selectboard decided it was better for the Town to pass a budget based on conservative revenue estimates than to operate on a 1/12th budget. However, we are requesting authorization to operate on a 1/12th budget though in case we can’t hold our meeting on June 27, we don’t get a quorum of voters, or the budget article fails to pass.

Why does the revenue estimate matter for Town Meeting? Throughout the meeting, voters will be asked to “raise and appropriate” funds for various purposes. The amount we need to raise through property taxes is higher if revenues are lower. The tax impact on the average single-family home we display in monetary articles will be based on our conservative (lower) revenue estimate.

Besides lowering our revenue estimates, the Selectboard also voted to reduce the amount we budget for the Wachusett Regional School District. Though the District asked for a 4.66% increase for Princeton (4.48% overall), neither the Selectboard nor the Advisory Committee support this increase and we expect some of the other towns in the District will not vote in favor of the requested increase. At least four of the five WRSD towns must vote to approve the WRSD budget or a new budget must be created by WRSD and voted on by all towns that didn’t pass the original budget proposal. Princeton’s school enrollment is no longer decreasing and offsetting the District increase. The Selectboard voted to include a 3.5% increase in the budget for the WRSD. If the final approved budget for the District is higher than this, we will need to hold a Special Town Meeting to appropriate more funds. If it is lower, unspent funds will end up in free cash for next fiscal year. The District is reworking their budget for potential shortfalls in state allocations and is planning to operate on a 1/12 budget if two or more of the District’s towns don’t pass the pre-COVID 19 assessments.

Based on input from the group working on election and Town Meeting safety, we decided to try to focus only on essential articles and to defer other articles for a meeting either later in the year or next year. In addition, given our revenue and other uncertainties, we also decided to postpone most capital requests for a later time. Our plan is to transfer most of our free cash into the general stabilization (or “rainy day”) fund. As Sean Cronin from the Department of Revenue said, “Remember that rainy day fund? It’s pouring!” When we have a better handle on revenues, we may hold a Special Town Meeting to address some of the capital projects. At that time, voters can decide by a 2/3rd margin to transfer money out of the general stabilization fund for other projects. The following capital projects were targeted for FY21 but were deferred: a new police cruiser for the Chief (hers is 11 years old), a new salt barn for the Highway Department (existing one is beyond repair), a used front-end loader for the Highway Department, and repaving the Thomas Prince School’s parking lots.

**PROCESS**: The initial draft budget came from the Financial Team (Town Administrator, Accountant, Treasurer, Assessor) and was based on departmental requests. It was reviewed, discussed, and refined over many months by the Selectboard, Advisory Committee, and Financial Team. The Financial Team worked to ensure that departments had what they needed, that the estimates for capital requests were good, and that figures for stabilization, free cash, and local receipts were as good as possible. The Selectboard worked to make sure that important Town priorities were funded, that capital requests made sense and were timed correctly, and that the budget increase would be reasonable. The Advisory Committee worked to make sure that all the numbers made sense, that capital requests were adequately reviewed and sufficient work went into getting estimates. They also looked carefully to make sure that decisions made for FY21 would not put the Town in a bad position for future years. We are all pleased to say that the multi-team approach to budgeting this year was very productive and helpful.

CHALLENGES: There are some parts of the budget that increased more than we would have liked. For example, there is a significant increase in State-mandated training for the police and we the Town just signed a new 3-year contract with the police union. Police salaries went up because of the new contract which affects pay, overtime, shift-differentials, longevity, and other pay-related items for full-time and part-time officers. That line item also went up because of the need for more backfilling of shifts (for example, when an officer is in training, his shift must be filled).

# Selectboard Budget Report

## Introduction

The following is the recommended budget proposal for the Town of Princeton from the Selectboard for FY21. The operating budget for the Town is presented in one article on the Annual Town Meeting Warrant (article 5). The remaining FY21 budget is comprised of additional articles that cover capital expenditures and requests for special services by the Town. Each year Town Meeting reviews the proposed budget and adopts it by voting to appropriate funds for each warrant article.

## Budget Recommendations

The current budget recommendation is a responsible balanced budget that is within the 2 ½ plus growth guidelines of Proposition 2 ½. That law says that the tax rate cannot be higher than $25.00 per $1,000 of valuation and that the property tax levy limit (see definition in appendix) cannot be increased more than 2 1/2% over the prior years’ levy limit, with certain exceptions for new growth or through overrides and exclusions as adopted by the voters.

The recommended operating budget (article 5) for FY21 is $10,655,668.64, an increase of 375,942.30

(3.66%) over the FY20 operating budget. The increase is due to several factors which include:

* Public safety is up because of new union contract for police, increased police equipment costs, increased mandated police training, and a new contract with the Fire Chief.
* Schools are up because of the budgeted WRSD increase, increase in number of Monty Tech students (with a higher cost per student than at WRSD), and an out-of-district vocational school placement. The Town will be required to pay the full cost of that placement, $60,000, which includes transportation.
* Human Services is up because of another veteran in Town. Note that the State reimburses the Town for this but there is a one-year delay.
* Culture and Recreation is down even though Library is up, based mostly on cutbacks to Parks and Recreation. Until the Town comes up with a viable plan for Parks and Recreation, the Board decided to not replace Director Hollie Lucht, to no longer run the after-school programming, and to spend less at Krashes Field by no longer maintaining the upper soccer field to its current state. In addition, we will be relying more heavily on the DPW for field maintenance.
* Our Insurance number is up due, in part, to the Selectboard and Advisory Committee’s decision to budget for a likely increase in property coverage when our buildings are inspected. The replacement value for some of our buildings, in particular Bagg Hall and the Goodnow Library, is assumed to be very low.
* We have allocated $12,000 for COVID-related expenses this year. Though much of that will hopefully be reimbursed by FEMA and MEMA, including a line in the budget gives us room to operate until an eventual reimbursement.
* We included a placeholder of $15,000 in the IT budget for online permitting. The first year’s cost includes startup costs and annual licensing fees. We are looking at several options for permitting software that can handle building, electrical, plumbing, brush burning, and Board of Health permits. Though we might be able to fund part of this through a grant, we are including the amount in the budget just in case.

The chart above shows the breakdown of the operating budget by department for FY21.

If all articles in the warrant are passed, this is the estimated impact on your tax bill in FY21:

|  |  |
| --- | --- |
| **Assessed Value** | **Tax Impact** |
| 384,442 – Average Single Family Residence | 269.11 |
|  |  |
| 250,000 | 175.00 |
| 350,000 | 245.00 |
| 450,000 | 315.00 |
| 550,000 | 385.00 |
| 650,000 | 455.00 |
| 750,000 | 525.00 |
| 850,000 | 595.00 |
| 950,000 | 665.00 |
| 1,050,000 | 735.00 |
| 1,150,000 | 805.00 |
| 1,250,000 | 875.00 |

Please note that the above chart is based on Division of Local Services data and assume revenues are level from the previous year. If revenues are lower, the tax impact will increase.

**Summary of Warrant Articles**

Below is a summary of the articles to be voted on at Town Meeting (both monetary and non-monetary).

Article 3 is for the annual operating budget and includes all operating departments, including the schools. The Operating budget is mainly funded through Raise and Appropriate (real estate taxes); the remainder, $384,294, is funded through transfers from free cash and stabilization. **The impact of approving this article on the taxes of the average home in Princeton ($384,442) is expected to be $269.**

Articles 4 and 5 are customary money articles. These are articles that are on the warrant every year. The Cemetery Revolving Fund increased from $4,000 to $8,000 to better reflect the money received through burials. Aside from that, there were no other changes. **These articles have no impact on your real estate taxes.**

Article 6 is another money article that is always on the warrant. It allows us to transfer free cash into our general stabilization (or rainy day) fund. This Stabilization fund is a State-mandated fund that is used to offset irregularities in revenues. As mentioned earlier in the report, the Selectboard is deferring most capital projects and is setting aside our free cash for later. At a future Town Meeting, we can vote to transfer money out of Stabilization for another purpose but it will require a 2/3rd majority. **This article has no impact on your real estate taxes.**

Article 7 transfers from free cash to our Infrastructure Stabilization Fund. We are working to build up that balance to help offset the cost of a new Public Safety Building. Though the funds are not restricted to a Public Safety building, they are restricted to Infrastructure. **This article has no impact on your real estate taxes.**

Article 8 transfers $60,000 from free cash to pay for design and construction documents for the repair of the Goodnow Library clock tower. Inspection of the Tower by Chris Conway uncovered damage that needs to be repaired. The Library Trustees funded the preliminary design work by Jones Whitsett Architects. The remaining documents are needed to search for grants and to pay to repair the Tower in a timely fashion. **This article has no impact on your real estate taxes.**

9

Article 10 authorizes the Town to transfer approximately $78k from the Town Hall Annex Repair Account to the Public Safety Building Repair Account . $18k is needed to install a generator we received a few years ago from a grant into the police/fire station. Also, issues uncovered during the installation of the exhaust evacuation system have pushed the cost up past what was previously allocated. **This article has no impact on your real estate taxes.**

11**re will be noon your real estate taxes because all debt service payments will come out of the yearly appropriation we make for roads ($350,000 recently).**

Article 12 authorizes the Town to borrow an additional $100,000 to cover unexpected costs and have funds available in case of future unexpected issues with the Bagg Hall Stabilization project. This amount would be added to the $1.2 million authorized in May 2017. **The impact of this borrowing on a $350,000 house in FY21 will be almost zero but in subsequent years will be approximately $?? per year for ?? years.**

Article 13 is a non-money article which authorizes the Town to adopt the Massachusetts Stretch Energy Code (which only applies to new construction, not renovation or additions, for residential applications). Adopting the Stretch Code is one of five required steps to becoming a Green Community. As a Green Community, we will have access to grants that we wouldn’t otherwise. Please note that the Environmental Action Committee has information here and here and here. **This article has no impact on your real estate taxes.**

Article 14 is non-monetary in nature and relates to updates to the Town’s zoning laws, in particular to clarification of non-conforming structures. JOHN M WRITING SUMMARY. **This article has no impact on your real estate taxes**

Article 15 is non-monetary in nature and relates to adopting a by-law section that allows the Town to collect a performance bond in connection with some Licenses, Permits & Approvals so that we can ensure that required work is completed. **This article has no impact on your real estate taxes.**

## Revenue

The sources of revenue for the Town of Princeton are Property Taxes, Local Receipts, Other Sources (certified free cash and stabilization funds), and State Aid. Local Receipts include Payment in Lieu of Taxes (PILOT), Excise Taxes, Licenses/Permits, Fees and Fines/Penalties.

The State has cautioned towns to not rely on State Aid estimates that were issued earlier in the year because revenue projections they relied upon are expected to be significantly lowered. In addition, the State has higher than expected expenses due to COVID-19. The Selectboard, working closely with the Advisory Committee and the Financial Team, chose to reduce the estimated cherry sheet receipts by 20%, an 18.6% reduction from FY20. Local Receipts have also been quite conservatively estimated (down 7.5% from FY20).

The following graph below shows Local Receipts and State Aid. Note that FY20 numbers are projected and FY21 are estimates by the Selectboard, Advisory Committee, and Financial Team. These estimates are deliberately very conservative.

## Revenue – Property Tax Data

The following graph shows the Total Property Tax Levied compared to the Maximum Levy Limit for Princeton since FY11. This illustrates what many consider the Town’s ability to pay. Though voters may not agree that they want their taxes to go up, per Proposition 2 ½ we have the ability to pay more because we can tax more.

The current (FY20) tax rate is **$15.85** per $1,000 of valuation. This is based upon the valuation of all property in Town for FY20 of $559,323,387**.** Both the valuations and the tax rate will change in the fall for FY21.The valuations are completed sometime in November and the tax rate is set at the end of November or first week of December. Any increase of $100,000 in spending will increase the tax rate by approximately $0.10 per $1,000 of assessed value.

Found below are the average (mean, not median) “Single-Family Home” tax bills, and the percentage of home value these tax bills represent. Note the Average Home Value is calculated by taking the total assessed value for all single-family homes and dividing it by the number of single-family homes. In FY19, the mean single-family value in Princeton was $379k while the median value was $353k.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Municipality** | **Population (2018)** | **Average Single- Family Value (FY20)** | **Residential (and commercial and industrial) Tax Rate** | Average Single- Family Tax Bill | % of Tax Levy that is Residential |
| Holden | 19163 | 346,538 | 17.00 | 5891 | 94.32 |
| Hubbardston | 4787 | 278,987 | 14.82 | 4135 | 93.46 |
| Paxton | 4963 | 336,075 | 19.73 | 6631 | 95.40 |
| Princeton | 3478 | 384,442 | 15.85 | 6093 | 95.83 |
| Rutland | 8846 | 298,534 | 17.61 | 5257 | 93.92 |
| Sterling | 8190 | 363,364 | 16.81 | 6108 | 87.25 |
| Westminster | 7884 | 290,751 | 17.55 | 5103 | 86.23 |

The following chart illustrates the average single-family home values in the Town of Princeton over the past ten years. Home values remained relatively stable between FY11 and FY17. There has been a 24% increase since then.

The following chart illustrates the average single-family tax bill for the Town of Princeton over the past ten years. The average single-family tax bill is $1,254 more than it was in FY11 or approximately 26% higher. This is a 2.6% increase compounded annually..

The Population Chart below illustrates the population growth from FY10 to FY18. The population in FY10 was 3,413 compared to 3,470 in FY15 (an increase of 57). After falling in FY16, growth averaged 0.5% for the next two years.

The source for all the Levy, Property Tax and Population Data information is from the <http://www.mass.gov/dor/local-officials/>website.

**Capital Planning**

Princeton does not have a Capital Planning Committee. A five-year capital plan was developed in conjunction with the Collins Center for the FY20 budget. This budget cycle, the Town Administrator, Selectboard, and Advisory Committee met with department heads starting in approximately November to discuss their capital needs for FY21-FY25. Much work was done to ensure the cost estimates and timeframes were accurate.

Given the lack of clarity with respect to State Aid and expected shortfalls in other Revenue categories because of the economic impacts of COVID-19, the team decided to delay most capital expenditures.

Rather than discussing the FY21 Capital Improvement Plan (CIP) and the 5-year CIP forecast in this report, we will defer that discussion until a later date. However, some aspects of capital planning, in particular looking at free cash, stabilization accounts, and debt are still relevant.

Please note that smaller items that might have been considered capital in the past were included in the operating budget this year.

|  |
| --- |
| Free CashThe certified free cash for FY20 was approximately $340,000 dollars. This is lower than in prior years. One contributing factor is that FY20’s budget started with level funding as opposed to level service as in earlier years. This, and tighter fiscal controls, have brought the budget more in line with actual spending.Stabilization Fund SummaryPart of the CIP is funded from Stabilization Funds. Maintaining adequate stabilization fund levels is important to the financial stability of the Town. The Advisory Committee is working on defining minimum levels for each stabilization fund as part of their financial policies document. As the five-year CIP is revised and funding sources are identified, the stabilization fund levels will be monitored. Adjustments to the five-year CIP and/or funding sources may be required if future Stabilization Fund levels drop too low. The chart below illustrates the stabilization fund levels from FY15 to FY20 (amount includes the General, Infrastructure, and Septic Stabilization Funds). The significant drop in the Infrastructure Stabilization Fund between FY18 and FY19 was because voters transferred $500,000 from Infrastructure Stabilization for a new public safety building in May of 2018. The remainder of the cost of the building was to be borrowed. Although the borrowing passed at Town Meeting, it failed at the ballot. In May of 2019, voters transferred $130,000 from Free Cash to Infrastructure Stabilization and voted to raise and appropriate $100,000 for Infrastructure Stabilization.  |

## Debt Summary

A comprehensive CIP involves a strategy that includes a debt management plan. The debt management plan should be developed to meet the financing needs of the Town in a cost-effective manner, taking into account Town priorities, as well as legal, financial, and structural considerations.

Please recall that the only warrant articles dealing with new borrowing are Article 9, borrowing for large road infrastructure projects, and Article ??, increased borrowing for Bagg Hall Stabilization. This increased debt shows up on our debt forecast.

The following Table shows the current five-year debt projections: (updated on 2/20/19). The information is broken out to show the date of vote, debt excluded vs non-debt excluded, amount and mature date of the projects.

**Table 3**

**Debt Summary - 5 year projection**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Start Date** | **End Date** | **Original Principal** | **FY21** | **FY22** | **FY23** | **FY24** | **FY25** |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  | New Approvals which have not yet been borrowed. These are estimates. |
|  |  |  |  |  | Placeholder Only. |
|  |  |  |  |  |  |  |  |  |
| **Bagg Hall Stabilization** |  |  |  | 24,000 | 144,000 | 141,600 | 139,200 | 136,800 |
| **Public Safety Facility 3.0%** | 7/1/22 | 7/1/52 | 14,000,000 |  | 714,270 | 714,270 | 714,270 | 714,270 |
| **PFAS Remediation** | 4/1/20 | 4/1/25 | 1,000,000 | 100,000 | 120,000 | 118,000 | 116,000 | 114,000 |
| **Anticipated Roadwork 3.0%** | 7/15/20 | 7/15/36 | 800,000 | 5,000 | 79,000 | 91,200 | 90,080 | 88,960 |
| **Broadband Make Ready** | 3/17/17 | 3/15/27 | 1,000,000 | 121,300 | 118,300 | 115,300 | 112,300 | 109,300 |
| **Fire Trucks** | 12/7/18 | 12/1/22 | 480,000 | 130,500 | 126,300 | 122,100 |  |  |
| **Green Repair at TPS** | 10/28/14 | 10/15/24 | 1,105,000 | 119,900 | 117,700 | 115,500 | 113,300 | 111,100 |
| **Other** |  |  |  | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 |
|  |  |  |  |  |  |  |  |  |
| **Total Town Only** |  |  |  | **525,700** | **1,444,570** | **1,442,970** | **1,310,150** | **1,299,430** |

Bagg Hall Stabilization has been paid for so far with Bond Anticipation Notes (BANs). When the project is complete, the full amount will be borrowed and the BANs will be paid off.

Public Safety Facility is on the horizon and will be expensive. We wanted to show this as a placeholder so that we know it is coming and we plan accordingly.

PFAS Remediation funds have not been borrowed and we have not taken out any BANs yet.

## The importance of managing our debt level

The Advisory Committee is working on a debt policy to ensure that debt is managed within sustainable levels based upon annual revenues. DLS (the Massachusetts Division of Local Services) recommends that a town’s debt service level be at no more than 5%-7% of its operating budget. Call this the Debt Service Factor (DSF).

There are several reasons why it is important to carefully manage the Town’s debt:

* Moody’s Investor Services, a debt rating company, looks at the magnitude of a town’s debt obligations relative to: 1) its resources (using property tax base as the proxy), and 2) its operations (using operating revenues as a proxy). They indicate that one of Princeton’s credit strengths is its low debt. A material increase in the debt burden could lead to a downgrade in our bond rating, and therefore an increase in our cost of borrowing.
* Additional debt can translate into an increase in our tax rates and therefore an increase in our real estate tax bills.
* Taking on too much debt (having too large a debt service payment) can squeeze out other parts of our town budget. For example, a town might need to cut back on services (hours at the library, amount of plowing/sanding/pothole repair, number of employee hours) or might find it harder and harder to pay for schools.
* Projecting debt/financials into the future allows the town to phase its borrowing in a way that maximizes return to the town and minimizes sudden shocks to the taxpayer.

## Five-Year Budget Forecast

Though the Selectboard and Advisory Committee understand the value of creating and looking at a 5-year budget forecast, we find ourselves ill-equipped to forecast at this point. It is relatively simple to make an assumption about the rate at which our operating budget grows. The tricky part is to fold the 5-year CIP with its funding decisions into the forecast. The forecast is particularly helpful when trying to determine the longer-term impact of debt or lease-fund capital purchases. It is less necessary when trying to determine whether to support the operating budget or not. As mentioned earlier, we have removed those capital items from the warrant this spring.

As we mentioned earlier, we don’t know what to expect for revenues in FY21 or, probably, beyond. We also are taking a wait and see approach with some of our spending. Rather that presenting you with a forecast in which we don’t have a high level of confidence, we defer the forecast until the 2021 Annual Town Meeting.

# ANNUAL TOWN MEETING WARRANT

WORCESTER, SS.

To either of the Constables of the TOWN OF WESTMINSTER in the County of Worcester, GREETINGS:

# Primer on Town Finances (simplified)

The town takes in money from various sources, mainly real estate and excise tax revenue, local aid, payments in lieu of taxes, local receipts, and grants.

The town pays its bills out of those proceeds and by borrowing.

The Selectboard, in conjunction with the Town Administrator and the Advisory Committee, proposes a budget for the following year. This budget is approved or amended by citizens at Town Meeting. From that budget, it determines how much funding must come from real estate taxes, and that number is distributed across the total assessed real estate value, EQV, in the Town to determine the tax rate ($/thousand in property value) needed to fund the operations of the Town for the fiscal year. They must pay attention to not exceed either the Proposition 2 ½ Levy Limit or the Proposition 2 ½ Levy Ceiling when setting the budget.

At town meeting, the town can vote to pay bills out of Free Cash, the Stabilization Fund, the Reserve Fund, through a debt exclusion, or with a Proposition 2 ½ override. Note that an override is not needed if taxes are under the Levy Limit. Taxes can be raised any amount (even more than 2 ½%) if taxes are below the Levy Limit and the increase does not exceed the Levy Limit (with voter approval, of course).

## Definitions of Interest:

Debt Burden: The amount of debt carried by the town. Sometimes refers to debt service costs as a percentage of the total annual budget.

Debt Exclusion: An action taken by the voters to raise the funds necessary to pay debt service costs for a particular project from the property tax levy, but outside the limits under Proposition 2 ½. The amount is only added to the levy limit for the life of the debt and may increase the levy above the levy ceiling.

Debt Limit: The maximum amount of debt that a town may authorize for qualified purchases under state law. This is set at 5% of EQV but town may get permission to go to 10%.

Debt Service: The repayment cost, based on an amortization schedule, of the principal and interest on any particular bond issue.

EQV (equalized valuations): The determination of the full and fair cash value of all property in the Commonwealth that is subject to local taxes. The state Commissioner of Revenue determines the town’s EQV bi-annually.

Excess Levy Capacity: The difference between the levy limit and the amount of real and personal property taxes actually levied in a given year.

Free Cash: Money, raised through taxation and unexpended from various town accounts, surplus revenues, prior year’s free cash, or outstanding property taxes.  Typically, free cash is used for special purchases, put into the Stabilization Fund, or used to reduce property taxes. As often noted, Free Cash is not free.

Full and Fair Cash Value: This has been defined by the MA Supreme Judicial Court at length. For this document, it is defined as the fair market value of all the real and personal property in the town.

Levy Ceiling: Proposition 2 ½ states that, in any year, the real and personal property taxes imposed may not exceed 2 ½ percent of the total full and fair cash value of all taxable property.

Levy Limit: Proposition 2 ½ also states that real and personal property taxes imposed by the town may only grow each year by 2 ½ percent of the prior year’s levy limit, plus new growth and any overrides or exclusions. The levy limit can exceed the levy ceiling only if the community passes a capital expenditure exclusion, debt exclusion, or special exclusion.

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 revaluations.

Reserve Fund: An amount set aside annually within the budget (not to exceed 5 percent of the tax levy for the preceding year) to provide a funding source for extraordinary or unforeseen expenditures.

Stabilization Fund: A fund designed to accumulate amounts for capital and other future spending purposes, although the money may be appropriated for any lawful purpose. Towns may appropriate into a stabilization fund in any year an amount not to exceed ten percent of the prior year’s tax levy.

Tax Levy: The amount of money raised by real estate and property taxes.