INTRODUCTION AND PURPOSE

The financial management policies of the Town of Chatham are derived from the Town’s adopted By-laws and Charter. The implementation of these policies is driven by our commitment to attain the following goals on a continual basis:

- To preserve our quality of life by providing and maintaining adequate financial resources necessary to sustain a high level of municipal services, and to respond promptly and thoughtfully to changes in the economy, the priorities of governmental and non-governmental organizations, and other changes that may affect our financial well-being;
- Maintain a stable tax levy commensurate with economic growth;
- Recruit top tier personnel;
- Promote a seamless flow of communication among and between staff, committees and boards;
- Preserve the Town’s AAA credit rating from Standard and Poor’s or achieve highest rating from other municipal rating agencies.

The financial management policies are intended to be used, and therefore, must be flexible enough to accommodate changing climate, social and economic conditions. It is appropriate for the Board of Selectmen to review these policies on an annual basis and make adjustments as required.
A. FINANCIAL MANAGEMENT

1. The Town will produce timely, quality financial reporting including clear financial statements and user-friendly annual budget documents.

2. The Town shall strive to retain an AAA bond 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 rate costs on the Town's debt issues. The Town will strive to maintain an AAA bond rating by practicing prudent financial management, strong budget control, good cash management and timely billing and collection.

3. These financial policies are predicated on a sound financial control system based on transparent budgeting, monthly financial reporting, and independent verification of the reporting. All financial transactions of the Town shall be recorded in the general ledger under the control of the Finance Director/Town Accountant. Annual financial statements shall be prepared in accordance with generally accepted accounting principles (GAAP) as outlined from time-to-time by the Government Accounting Standards Board. Independent reviewers shall audit the financial statements and issue recommendations to improve financial procedures and internal controls. Annual audits should generally be completed by the end of March in advance of the Town’s annual Continuing Disclosure filing requirement.

4. At the end of each fiscal year, all unexpended balances should be closed to Free Cash, unless encumbered or specifically required to be continued.

5. Financial forecasts estimate the Town’s revenues and expenditures in the current and ensuing five fiscal years. Forecasts are inherently imprecise and, therefore, should be updated regularly throughout the budgeting process as new information becomes available. The forecasts for the annual budget process shall begin with a preliminary forecast, which is used to make tentative decisions on budget instructions, borrowing expectations, and capital expenditures. Periodic and final forecasts, which are the basis for the Town Manager’s budget recommendations, will be updated and presented to the Board of Selectmen and Finance Committee throughout the annual budget process for any material changes, and made available to the public on the Town’s website.

6. The Operating Budget incorporates: a) an implicit definition of recommended activities and service levels; b) personnel costs at contracted or expected compensation levels; and, c) estimated non-personnel costs, miscellaneous expenses, and those capital expenses that are not meeting the thresholds for the Capital Improvement Plan or which are funded by borrowing. The Operating Budget takes into account prior four years of experience (actual prior year budgets and voted current budget), changing operating conditions, and general inflation expectations as it relates to the financial forecast.

7. The Town has established an annual budget reserve in accordance with the provisions of Massachusetts General Law, Ch.40 §6. This is typically referred to as the Finance Committee
Reserve Fund. This Reserve Fund shall be budgeted annually to provide for extraordinary or unforeseen expenditures that could not have been anticipated before Town Meeting, or to allow immediate expenditures of funds in the event of an emergency, and which cannot be deferred until the next scheduled Town Meeting. A Reserve Fund Transfer request requires the approval of the Finance Committee and Town Manager. Any unexpended balance at the end of the fiscal year will close to Free Cash.

8. Fund Balance, also known as Available Reserves or Available Funds, is the accumulation of each year’s actual surpluses and deficits. In accordance with the implementation of GASB 54, Fund Balance is classified into five categories; Nonspendable (inherently non-spending), Restricted (externally enforceable limitations on use), Committed (self-imposed limitations on use), Assigned (limitation resulting from intended use), and Unassigned (residual). The Town should maintain Unassigned Fund Balance at a level of at least ten percent (10%) to fifteen percent (15%) of Total Annual Expenditures.

9. When Unassigned Fund Balance exceeds 15% of Total Annual Expenditures, the Town Manager and BOS should recommend that Town Meeting apply such amounts in excess of 15% to items such as unfunded long-term liabilities – OPEB, capital expenditures, retirement of debt, or tax relief. Excess Unassigned Fund Balance will not be used to fund recurring operating budget items.

10. Long-term financial obligations and liabilities (contributory retirement, other post-employment benefits (OPEB), and other such obligations as the Town might incur from time to time) should be funded, at a minimum, as may be required by law, and also should be funded so as to manage such costs without compromising the operating budget and services.

11. From time to time, the Town experiences growth in its tax base that can provide increases to annual tax revenues. Since such 'new growth' is cyclical in nature and may slow down or stop as suddenly as it appears, the Town should be cautious in incorporating long-term growth assumptions into its financial forecasts and consequent expenditure growth.

12. New spending initiatives, departmental reorganizations, By-Law amendments, property purchases, gifts, and grants can have significant long-term impact on tax receipts and operating costs that may not be immediately apparent. Reasonable efforts should be made to identify such long-term costs for incorporation into future capital improvement plans and operating budgets.

13. Revenues from local receipts should go to the General Fund, unless Town Meeting decides to dedicate specific revenues to revolving funds or enterprise funds, or unless such revenues are required by statute to be dedicated to specific use(s). As with revenue from new growth, local receipts may be cyclical in nature, and the Town should exercise the same caution in incorporating related long-term revenue assumptions into future financial forecasts.
14. Projecting annual revenues should include a review of trends - a look back at five-year actual revenues received - and provide an accompanying forecast for the five-year average unless an expected increase or decrease is known at the time of the initial forecast presentation.

15. When projected annual revenues exceed the amounts required to fund the annual expenditures, consideration should be given to the following (in no priority order): increasing fund balance and other reserves, tax relief, debt reduction, acceleration of payments on other long-term obligations, advancement of deferred capital expenditures, funding OPEB obligations, restoring service reductions from prior years, and new initiatives. This policy is not intended to commit the Town to all or any of the foregoing.

16. Unused levy capacity (also known as excess levy capacity) is created when the amount of property taxes levied to taxpayers in a fiscal year is less than the levy limit allowed by law for the same fiscal year. Unused levy capacity reflects fiscal discipline, provides flexibility to address emergency requirements, and is viewed favorably by rating agencies and others. If the Town proposes using excess levy capacity, the reasons therefor, and any tax impact should be thoroughly explained to the voters.

B. OPERATING BUDGET POLICY

1. The annual budget should be prepared such that all current operating expenditures will be paid for with current operating revenue. The Town should not fund ongoing operating expenditures with non-recurring revenue sources, such as Free Cash or borrowing. Operating expenses shall be supported by ongoing recurring revenue sources, including property taxes, state aid, fees, and miscellaneous revenues.

2. Recurring revenues include property taxes, vehicle excise, fees for services, licenses and permits, fines and forfeits, interest earnings, state aid, and available funds.

3. Recurring expenses include salaries and wages, employee benefits, materials, supplies, contractual costs, and debt service for capital projects.

4. Revenue and expense estimates should be realistic, yet conservative, to minimize the potential shortfalls in the subsequent year's operating budget and corresponding impacts on Free Cash.

5. The operating budget shall be voted upon by function at the annual Town Meeting.

C. REVENUE POLICY

1. Whenever desirable, fees for municipal services shall be set to recover approximately 100% of the cost of the service.

2. Fees for all municipal services shall be reviewed on an annual basis.
3. Estimated receipts shall be monitored on a monthly basis.

4. **One-Time Revenue** - The Town will thoroughly analyze any one-time revenue sources before appropriation. One-time revenue sources may include, but not be limited to, items such as unusually high receipts, unanticipated state funds, legal settlements or payments for services provided by the Town. Such funds may also include land sales and may include a payment such as those received from Intermunicipal Agreements (IMA), or bilateral partnerships. These funds may be directed towards:
   
a. Debt Service;
b. Stabilization Fund;
c. OPEB Trust Fund; or
d. Capital Budget

At the recommendation of the Town Manager and Finance Director consideration may be given first to an obligation related to the source of funding.

5. **Recurring Revenue** - The Town will thoroughly analyze any new, recurring revenue sources before appropriation. New, recurring revenue sources include payments such as those received from operating cost off-sets from Intermunicipal Agreements (IMA)/bilateral partnerships, local receipts, or other permanent revenue sources such as a new or incremental tax or fee.

The net recurring revenue, after designated allocations, if any, shall first be considered toward meeting reserve level goals and capital needs before being utilized for funding general fund operating budget needs. Consideration may also be given to directing recurring revenues towards:

   a. Debt Service;
b. Stabilization Fund;
c. OPEB Trust Fund; or
d. Capital Budget

6. Balances in prior Town Meeting funding articles shall be reviewed annually and excess balances shall be closed out to free cash in a prompt and timely manner.

7. In order to maintain as low a tax rate as possible, debt drop-off, the increased debt capacity created as previously incurred debt is paid down, shall be utilized to fund the Capital Facility Plan.

8. Revenues will be monitored on a monthly basis. Quarterly reports will be available for the Board of Selectmen in hard copy or in electronic format.
D. EXPENSE POLICY

1. All efforts shall be made to identify and implement cost containment/reduction initiatives and operational efficiencies on an annual basis, subject to service levels provided for in the annual Town budget.

2. New spending initiatives, departmental reorganizations, By-Law amendments, property acquisitions, gifts, and grants – as well as State mandates—can have significant long-term impact on revenues and operating costs that may not be immediately apparent. Reasonable efforts will be made to identify such long-term costs for incorporation into future capital improvement plans and operating budgets.

3. The Town shall review staffing levels on an annual basis in order to respond to the needs of the organization and to plan for offsetting revenue sources and/or reorganization efforts. Requests for incremental staffing shall include detail of the service deficiency the department hopes/needs to correct through the addition of such incremental staffing.

4. Purchase orders shall be submitted to the accounting office for operating expenses incurred over $2,500. If the amount is subject to procurement, all bid documents must be submitted with the Purchase order.

5. The Town Manager shall serve as the chief procurement officer and be responsible for the purchase of all supplies, materials and equipment and approve the award of all contracts for all Town departments.

6. Expenses will be monitored on a monthly basis. Quarterly reports will be available for the Board of Selectmen in hard copy or electronic format.

E. RESERVE POLICY

The establishment and maintenance of adequate financial reserves provides the Town with financial flexibility and security, and sufficient liquidity to pay Town operating expenses without short-term borrowing and contributes to maintaining a high credit rating. Levels of reserve fund balance and unassigned fund balance in the general fund are monitored by credit rating agencies in evaluating creditworthiness which impacts the Town’s credit rating and consequently, its long-term borrowing cost. To provide for adequate levels of reserves to protect the Town’s financial condition over the long term, including unforeseen or emergency needs, or exposure to climate change, the Town has adopted the following prudent financial goals for funding and maintaining reserves:
1. Assigned/Unassigned Fund Balance/Stabilization Fund – It shall be the goal of the Town to maintain a level of assigned/unassigned fund balance including unrestricted stabilization fund balance, as defined in the Town’s audited financial statements, equivalent to between 10% and 15% of annual general fund expenditures.

   A. Stabilization Fund – The Town shall maintain a Stabilization Fund as established under the provisions of MGL Chapter 40, Section 5B.

      i. It shall be the goal of the Town to achieve and maintain a balance in the Stabilization Fund equivalent to between 3% and 5% of the Town’s general fund operating budget, net of debt service.

      ii. The use of the Stabilization Fund shall be restricted to non-recurring and/or capital expenditures. Non-recurring expenditures may include, but not limited to capital improvements, capital equipment, settlement of litigation, extraordinary snow and ice removal, natural disasters, or other stated emergency expenses and related debt service. Reserves will not be used to fund recurring budget items.

      iii. The Town may, with Town Meeting approval, use the Stabilization Fund as an “internal bank” to borrow from itself for capital projects, in lieu of issuing short term bond anticipation notes, but not over fiscal year end.

      iv. It shall be the goal of the Town to replenish any amount appropriated from the Stabilization Fund in the prior fiscal year in the subsequent fiscal year(s); within three years maximum.

   B. Free Cash – Free Cash shall be used primarily as outlay for non-recurring and/or capital expenditures. It shall be the goal of the Town to achieve and maintain an annual certification of Free Cash in the amount of 3% to 5% of the Town’s general fund operating budget. Free cash in excess of goal amount should be used to:

      i. Fund non-recurring, unforeseen expenditures, such as unusually high snow and ice costs;
      ii. Provide funding for capital projects;
      iii. Build stabilization reserves to goal targets;
      iv. OPEB Trust

2. Overlay Reserve – Established per MGL Chapter 59, Section 25, the Overlay Reserve is used as a reserve, under the direction of the Board of Assessors (BOA), to fund property tax exemptions and abatements resulting from adjustments in valuation. The Finance Director shall annually request in writing for the Board of Assessors to submit the balance in the Overlay account in excess of the amount remaining to be collected or abated as certified by the Board of Assessors as the “Overlay Surplus.” Either upon the BOA initiative or within ten days of the request of the
Finance Director, the Board of Assessors shall vote to certify the amount to be transferred to the Overlay Surplus Reserve Fund and must notify the Finance Director in writing of their certification. The declared excess of each fiscal year transferred to a reserve fund may be appropriated for any lawful purpose. The Town may appropriate any such Overlay Surplus to fund the OPEB Trust Fund, Stabilization Fund, or Capital Improvement Plan (CIP) or any other legal purpose as recommended by the Town Manager and Finance Director. Any balance remaining in the Overlay Surplus Reserve Fund at the end of the fiscal year shall revert back to the General Fund toward the calculation of Free Cash.

F. UNFUNDED LIABILITIES POLICY

1. Pensions – Barnstable County Retirement Assessment is an annual assessment to the Town to be paid from operating funds.

2. Other Post-Employment Benefits (OPEB) – costs to provide health insurance for Town retirees and their spouses. The Government Accounting Standards Board (GASB) issued statements in 2004 - GASB 43, 45 with 74 & 75 issued in 2016 relating to balance sheet reporting requirements.

   a) While there is no legal requirement to fund the unfunded OPEB liability, the Town should strive to move toward fully funding the Annual Required Contribution (ARC), ultimately developing a plan and funding schedule that fully funds OPEB. The Town shall continue its practice of having an independent actuary prepare a biennial valuation report, as required by GASB.

   b) The Town established an OPEB Trust Fund in 2012. Trustees will continue to review investments and best practices, and make recommendations for funding the OPEB liability.

G. DEBT MANAGEMENT POLICY

1. Introduction

The use of long-term debt is a common and often necessary and appropriate way for a municipality to supplement fund balances and current appropriations in financing major infrastructure and equipment needs over a period of years. Great care and planning must be taken when incurring long-term debt to avoid placing a strain on future revenues.
2. Objective

Debt management policies provide written guidelines and restrictions that affect the amount and type of debt issued by a local government, the issuance process, and the management of a debt portfolio. It improves the quality of decisions, provides justification for the structure of debt issuance, and demonstrates a commitment to long-term financial planning. Adherence to a debt management policy signals to rating agencies and the capital markets that a government is well managed and will be able to meet its obligations in a timely manner.

3. Bond Rating

Chatham’s bond rating is important because it determines if the Town has any access to the debt market and the rate of interest it pays when selling bonds and notes. Other things being equal, the higher the bond rating, the lower the interest rate. See APPENDIX I for the current bond credit rating report and the rating agency’s rating criteria for Chatham.

4. Debt Guidelines

A. Debt Purpose:
   1. The Town may consider issuing debt for any purpose consistent with Massachusetts General Laws.
   2. Borrowing for capital improvements, in general, will be confined to those greater than $250,000 and with a useful life of five (5) or more years. In general, the Town will attempt to finance smaller purchases with operating or other revenues.
   3. The Town shall not issue debt to fund current or ongoing operations of the Town, except in the form of Revenue Anticipation Notes if applicable in compliance with Massachusetts laws and regulations.

B. Debt Amounts:
   1. The Town will keep total debt under 5% of Equalized Valuation (EQV) as last measured pursuant to MGL Chapter 44 Section 10.
   2. The Town will endeavor to keep total tax-supported debt service (i.e. net of debt exclusions and self-supporting debt) to 10% of total general fund revenues or less.
   3. The Town will ensure that enterprise/receipts reserved for appropriation (i.e. Water Fund) and community preservation receipts are sufficient to cover associated self-supporting debt. Enterprise fund rates will be adjusted accordingly.
   4. The Town will limit annual increases in any and all debt service to a level that will not materially jeopardize the Town’s credit rating.

C. Debt Structure:
   1. The Town will not structure bonds to exceed the maximum terms set by Massachusetts General Law Chapter 44 Sections 7 & 8. However, the Town may choose to borrow for periods less than the statutory limit.
2. Bonds will be paid back within a period not to exceed the expected useful life of the capital project or equipment.

D. Debt Issuance:
1. The Town will work closely with the Town’s financial advisor and bond counsel to ensure that all legal requirements are met and that the lowest possible interest rate can be obtained. This includes, but is not limited to, preparation of the official statement, preparation of all required documents and compliance with reporting requirements.
2. The Town will maintain good ongoing communications with bond rating agencies about its financial condition, and will exercise full disclosure on every financial report and bond prospectus.
3. The Town will strive to use competitive bidding whenever possible and negotiate sales of bonds only when competitive bidding is not feasible.

E. Debt Management:
1. Alternative Financing Strategies:
   a. The Town will continually pursue opportunities to acquire capital by means other than conventional borrowing; such as grants, federally subsidized loan programs, and low- or zero-interest loans from state agencies, such as the Massachusetts Clean Water Trust (MCWT) and any other appropriate state or federal financing program.
   b. The Town will assess the feasibility and appropriateness of funding its capital projects from existing free cash balances, stabilization, or special revenue funds before it considers bonding.
   c. The Town will consider if it is appropriate to establish user fees to cover some or all of the capital costs of enterprise-type services or activities to avoid imposing a burden on the property tax levy.
2. Debt Refunding:
   a. The Treasurer, relying on the advice of financial advisors and bond counsel will generally seek such refunding when the potential for interest savings is sufficient to offset the costs of doing so. Massachusetts General Law Chapter 44, Section 21A gives the Treasurer with the approval of the Town Manager the authority to issue refunding bonds in order to reduce interest costs.
   b. Refunding opportunities will be regularly reviewed and considered for their merits as they become available and compared to other alternative strategies.
3. Debt Residual Balance:
   a. Projected cash flow estimates will be required prior to borrowing to make sure that funds are available when needed.
   b. Post-Issuance Tax Compliance Procedures will be followed to ensure that previously issued bonds do not lose their tax-favored status and the Town does not need to pay any arbitrage rebate. See APPENDIX II for Post Issuance Compliance Policy.
   c. For those previously authorized bonded projects with residual balances, the Town Manager shall propose the reallocation of these balances for other capital projects in conformance with Massachusetts General Law Chapter 44, Section 20.
TOWN OF CHATHAM BUDGET AND FINANCIAL MANAGEMENT POLICIES

d. For those previously authorized projects funded with available revenue (tax levy or reserves), that have residual balances in excess of $5,000, the Town Manager shall propose the reallocation of these balances for other future capital projects in conformance with Massachusetts General Law Chapter 44 Section 33B. This practice will avoid abnormally inflating general fund surplus with one-time surplus.
e. For those previously authorized projects funded with available revenue (tax levy or reserves), with residual balances of less than $5,000, the Town Accountant shall be authorized to close these balances to the appropriate fund surplus.

5. Ethics

The Treasurer/Collector and Assistant Treasurer/Collector shall refrain from any personal activity that may conflict with the proper execution of the debt program or which could interfere with what is in the best interest of the Town. All such personal activity shall be in compliance with Massachusetts state ethics laws.

6. Reporting and Review Requirements

- The Statement of Indebtedness is a form listing all authorized debt and is required annually by the Bureau of Accounts (BOA) from each municipality. Chatham shall provide this account on an annual basis.
- Municipal debt information from all municipalities is summarized in the Debt/Financial Indicators section of the Databank Reports [http://www.mass.gov/dor/local-officials/](http://www.mass.gov/dor/local-officials/)
- Each bonding will require an Official Statement. The Treasurer will provide all necessary information to the Town’s financial advisor in order to complete the Official Statement.
- A debt model will be presented at Annual Town Meeting reflecting debt as of December 31st of preceding year. Annual debt service requirements are budgeted as part of the annual budget approval process.
- This policy will be reviewed at least annually.

7. Legal References

- Massachusetts General Law, Chapter 44, Section 7; Cities and towns; purposes for borrowing money within debt limit
- Massachusetts General Law, Chapter 44, Section 8; Cities and towns; purposes for borrowing money outside debt limit
- Massachusetts General Law, Chapter 44, Section 10; Debt limit
- Massachusetts General Law, Chapter 44, Section 20; Proceeds from sale of bonds; restrictions on use; disposition of premiums
- Massachusetts General Law, Chapter 44, Section 21A; Refunding bonds; issuance; present values
8. Definitions

**Bank Qualified Bond** – A bond that banks are allowed to deduct 80% of their carrying costs of the debt. This occurs when a municipality issues no more than $10 million dollars of new money - tax exempt debt (including lease purchases) in a calendar year.

**Continuing Disclosure** – Continuing disclosure annual filing requirements are made to comply with the Securities and Exchange Commission (SEC) Rule 15C2-12 in connection with commitments made at the time of debt issuance to provide updated disclosure information annually through the life of the bonds.

**Debt Limit** – the amount a city or town can borrow. The debt limit is set at 5% of the equalized valuation (EQV) pursuant to MGL Chapter 44 Section 10. The debt limit can be raised up to 10% with the approval of the Municipal Finance Oversight Board (MFOB)

**Direct Debt** – debt payable from general revenues including capital leases.

**Equalized Valuation (EQV)** – the full and fair cash value of all taxable property for a municipality reported by the commissioner of revenue to the general court.

**Municipal Finance Oversight Board (MFOB)** – is an entity authorized to oversee the issuance of certain debt by municipalities. It is made up of the attorney general, the state treasurer, the state auditor, and the director of accounts in the department of revenue or their designees.

**Net Direct Debt** – direct debt plus overlapping debt.

**Official Statement** – is a statement published by an issuer of a new municipal security describing itself and the issue. It communicates to the potential investor all the information reasonably necessary to make a prudent investment decision.

**Overlapping Debt** – debt shared with another municipality or entity.

**Self-supporting debt** – is general obligation debt which has a predetermined funding source. This includes enterprise debt that will be paid for by enterprise rates or fees, Community Preservation debt that will be paid for by community preservation receipts.
APPENDIX I– Bond Rating - S&P Analytical Rating Framework (Below) and Rating August 2016
[Attached]

Chatham’s bond rating analysts, Standard & Poor’s, looks at several factors in assigning a credit
rating including:

- Institutional Framework score assesses the legal and practical environment in which the
  local government operates. (10%)
- Economy score assesses both the health of the asset base relied upon to provide both
  current and future locally derived revenues as well as the likelihood of additional service
  demand resulting from economic deterioration. (30%)
- Management score assesses the impact of management conditions on the likelihood of
  repayment, which starts with the policies and practices of a local government. (20%)
- Financial Measures
  1. Liquidity score measures the availability of cash and cash equivalents to service both
     debt and other expenditures. (10%)
  2. Budgetary Performance score measures the current fiscal balance of the government,
     both from a general fund and total governmental funds perspective. (10%)
  3. Budgetary Flexibility score measures the degree to which the government can look to
     additional financial flexibility in times of stress. (10%)
- Debt & Contingent Liabilities score starts with two measures: total governmental funds debt
  service as a percentage of expenditures and net direct debt as a percentage of total
  governmental funds revenue. This includes unfunded pension and OPEB liabilities. (10%)

APPENDIX II - Post Issuance Tax Compliance Procedures for Tax-Exempt Obligations and
Other Tax-Benefited Obligations

APPENDIX III - Investment Policy Statement (Existing via the Treasurer/Collector as required
by Bartholomew & Co) - Includes Investment Reports provided on a quarterly basis

APPENDIX IV- MA Municipal Financial Terms Glossary
Local Government Analytical Rating Framework

Institutional Framework 10%

Economy 30%

Management 20%

Financial Measures
  - Liquidity 10%
  - Budgetary Performance 10%
  - Budgetary Flexibility 10%

Debt & Contingent Liabilities 10%

Indicative Rating

Positive Overriding Factors
- High income levels (1 or 2 notch adjustment)
- Sustained high fund balances (1 notch adjustment)

Negative Overriding Factors
- Weak liquidity (caps rating at A- or BB+)
- Weak management (caps rating at A or BBB-)
- Lack of willingness to pay obligations (caps rating at BBB- for leases and B for debt)
- Low market value per capita (1 notch adjustment)
- Large or chronic negative fund balances (caps rating at A+, A-, or BBB)
- Budgetary flexibility score of 5 (cap at A+)
- Low nominal fund balance (1 notch adjustment)
- Structural imbalance (caps rating at BBB+)

Final Rating

Source: Standard & Poor's Ratings Services.
Summary:
Chatham, Massachusetts; General Obligation

Primary Credit Analyst:
Christina Marin, Boston 617-530-8312; christina.marin@spglobal.com

Secondary Contact:
Anthony Polanco, Boston 617-530-8234; anthony.polanco@spglobal.com

Table Of Contents

Rationale
Outlook
Related Research
Summary:
Chatham, Massachusetts; General Obligation

Credit Profile

US$7.365 mil GO refunding bonds due 08/01/2028

| Long Term Rating     | AAA/ Stable | New
|----------------------|-------------|-----
| Chatham GO           |             |     
| Long Term Rating     | AAA/ Stable | Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to the Town of Chatham, Mass.' general obligation (GO) refunding bonds. S&P Global Ratings also affirmed its 'AAA' long-term rating on the town's GO debt outstanding. The outlook is stable.

The bonds are GOs of the town, for which it has pledged its full faith and credit, a portion of which is subject to Proposition 2 1/2 levy limits. Because Chatham is highly rated and has very strong flexibility under the cap, we do not consider the levy limit a credit negative. Bond proceeds will be used to refund 2005 and 2008 bonds for an estimated $646,000 in net present value savings.

We rate the town above the sovereign because we believe it can maintain better credit characteristics than the U.S. in a stress scenario, based on its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. The rating above the sovereign is based on our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect).

In our opinion, our rating on Chatham reflects the town's:

- Very strong economy, with market value per capita of $1.0 million and projected per capita effective buying income at 170% of the national level;
- Strong management, with "good" financial policies and practices under our financial management assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund but a slight operating deficit at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 18% of operating expenditures;
- Very strong liquidity, with total government available cash at 33.5% of total governmental fund expenditures and 2.1x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 16.3% of expenditures and net direct debt that is 256.1% of total governmental fund revenue, but low overall net debt at less than 3% of market value; and
- Strong institutional framework score.
Very strong economy
We consider Chatham's economy very strong. The town, with an estimated population of 5,988, is located in Barnstable County. The town has a projected per capita effective buying income of 170% of the national level and per capita market value of $1.0 million. Overall, the town's market value grew by 4.3% over the past year to $6.2 billion in 2016. The county unemployment rate was 6.3% in 2015.

Chatham is about 90 miles south of Boston, at the elbow of Cape Cod. The town contains beachfront property on both the ocean and the bay and is primarily an affluent summer resort and second-home community. Chatham's population multiplies in the summer to approximately 30,000. Due to its 67 miles of coastline and desirable location, Chatham continues to experience high-end residential waterfront development. While selling prices for individual residential properties did decrease in the recession, total market value has remained high.

Looking ahead, based on our regional forecasts, we expect the regional economy to remain stable, but with lower growth compared with that of the nation. Still, recent data indicate that the region's median home prices will continue to improve, and that housing starts will remain positive. This is important because Chatham, along with other local governments in the region, largely look to property taxes to meet rising expenditure demands.

Strong management
We view the town's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Highlights of management policies include a strong focus on financial and capital planning evidenced by its five-year, annually updated capital needs budget and 10-year facilities replacement plan. The town conducts financial forecasting to identify future revenue and expenditure trends and to complement the capital budget. In building the budget, Chatham does a trend analysis, looking back at five years of historical data. Budget assumptions are conservative and budget performance is monitored monthly. The town's reserve policy sets 5% as the minimum balance in the stabilization account with a mandate to replenish the account within five years if reserves track lower than 5%.

Although Chatham is currently in compliance, the balance in the stabilization account is exactly 5%. We also note that the town has a basic debt management policy, which stipulates that all new debt must be issued through a debt exclusion, requiring voter approval.

Strong budgetary performance
Chatham's budgetary performance is strong in our opinion. The town had surplus operating results in the general fund of 2.8% of expenditures, but a slight deficit result across all governmental funds of 0.6% in fiscal 2015. General fund operating results of the town have been stable over the past three years, with a result of 4.7% in 2014 and a result of 3.0% in 2013.

In our analysis of budgetary performance, we net out $3.5 million in one-time capital spent from bond proceeds for wastewater purposes. We also account for recurring transfers from the general fund to the water fund. The surplus in 2015 is a result of strong collections and turnbacks of $473,000.

For fiscal 2016, management expects similar results with unspent expenditures totaling $485,000 and revenue coming
in higher than budget. The 2017 budget includes expenditure increases relating to rising health insurance costs and the addition of a firefighter.

We expect operating performance to remain strong and in line with performance in years past. Through careful planning and prudent budgetary practices, we believe Chatham officials are well-prepared to manage increasing fixed costs associated with long-term liabilities, leading to stable operations in the future.

We also believe Chatham maintains a stable and predictable revenue profile that is largely independent from state or federal funds. On the whole, the town benefits from its high property tax base, which makes up more than 76% of total revenues. In addition, it maintains one of the lowest tax rates in the commonwealth, which again reflects the strong level of property wealth relative to the costs of services the town provides. Tax collections have historically remained strong despite the large number of second-home properties. Current collections have averaged 99% in the past five years. State aid represents a limited share of the town’s general fund revenue, at 10%, which we view as a credit strength given the ongoing risk of state aid reductions.

**Very strong budgetary flexibility**

Chatham’s budgetary flexibility is very strong. In our view, with an available fund balance in fiscal 2015 of 18% of operating expenditures, or $6.7 million.

The town has continued to increase available reserves in the past three fiscal years, leading to improved budgetary flexibility and, according to management, it does not plan to spend down reserves. Management projects fiscal 2016 will close with another surplus that would raise available reserves further. We anticipate Chatham will maintain reserves at very strong levels over the next several years as credit conditions are stable and the town is careful in planning its capital outlay spending. The town has additional flexibility in unused levy capacity, which was $1.985 million in 2016.

**Very strong liquidity**

In our opinion, Chatham’s liquidity is very strong, with total government available cash at 33.5% of total governmental fund expenditures and 2.1x governmental debt service in 2015. In our view, the town has strong access to external liquidity if necessary.

Our opinion is that liquidity will remain very strong because there is no significant deterioration of cash balances planned or anticipated. Furthermore, we note Chatham does not have any contingent liquidity risk from financial instruments with payment provisions that change on the occurrence of certain events.

**Weak debt and contingent liability profile**

In our view, Chatham’s debt and contingent liability profile is weak. Total governmental fund debt service is 16.3% of total governmental fund expenditures, and net direct debt is 238% of total governmental fund revenue. Overall net debt is low at 1.9% of market value, which is in our view a positive credit factor.

Following this issue, Chatham will have roughly $111.8 million of total direct debt outstanding. Of that amount, $28.7 million is related to short-term financing through the Massachusetts Clean Water Trust.

Chatham’s debt profile is elevated based on debt issued under its wastewater management plan. As with all
communities on Cape Cod, Chatham was facing pressure from the state and the Environmental Protection Agency to replace existing private septic systems with a public wastewater system to reduce nitrogen levels in the ecosystem. In 2009, the town embarked on a $210 million plan to install sewer lines throughout the community and expand its treatment plan. Chatham frontloaded much of the debt to take advantage of financing options under recent economic stimulus packages. In the future, the town plans to issue $10 million-$15 million every two years until the project is complete in 2040. All of the debt for the wastewater project is being done through debt exclusions, which requires a majority vote of Chatham residents.

Other capital needs are limited as the town has recently completed updates on all of its major public buildings.

Chatham’s combined required pension and actual other postemployment benefits (OPEB) contributions totaled 6.2% of total governmental fund expenditures in 2015. Of that amount, 4.1% represented required contributions to pension obligations, and 2.1% represented OPEB payments.

For pensions, the town participates in the Barnstable County Retirement System, a cost-sharing, multi-employer defined-benefit pension plan, which is 60% of the total pension liability. Chatham's proportionate share is $18.67 million, or 41% of expenditures. While pension costs are manageable, due to the county retirement system's below-average funded ratio, we believe this will likely remain a growing cost over the next few years. An additional long-term credit consideration is the town's long-term OPEB liabilities. As per the most recent information available, the town's OPEB unfunded actuarial accrued liability was $16.7 million. Chatham recently established a trust to help defray costs associated with rising OPEB expenses. The trust currently has a balance of $573,000.

**Strong institutional framework**
The institutional framework score for Massachusetts municipalities is strong.

**Outlook**
The stable outlook reflects our expectation that Chatham will likely maintain strong reserves. In our view, the town's extremely strong, highly desirable, and diverse property tax base lends stability to property tax revenue, which is its main revenue source. In addition, we expect the town's debt service payments as a percent of general fund expenditures to remain moderate and the overall net debt burden to remain low relative to the market value. For these reasons, we do not expect to change the rating within the two-year parameter of the outlook. Over time, credit factors that could lead toward a negative rating action would be sustained operating deficits and a weaker financial position.

**Related Research**
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 2015 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors,
have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.
Copyright © 2016 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/ourratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.
Town of Chatham, Massachusetts
Post-Issuance Tax Compliance Procedures
For Tax-Exempt Obligations and Other Tax-Benefited Obligations

I. Introduction

These post-issuance compliance procedures of the Town of Chatham, Massachusetts (the "Town") are designed to provide for the effective management of the Town’s post bond issuance compliance program for tax-exempt and other tax-benefited bonds in a manner consistent with state and federal laws applicable to such obligations.

II. Post-Issuance Tax Compliance

The Treasurer of the Town shall be the primary bond compliance officer responsible for each issuance by the Town of tax-exempt (or otherwise tax-benefited) bonds, notes, financing leases, or other obligations (herein, collectively referred to as "bonds"). All information related to each bond issue and the facilities, equipment and other assets financed by such issue shall be maintained by or on behalf of the Treasurer and the actions taken under subsections A through C of this Section II shall be taken by or on behalf of the Treasurer by the Treasurer or such other officers or employees of the Town as appropriate, including but not limited to, the Treasurer and the Town Auditor.

A. Tax Certificate and Continuing Education

1. Tax Certificate - A Tax Certificate is prepared for each issuance of Bonds. Immediately upon issuing any bonds, the Treasurer, in conjunction with the Town’s bond counsel and financial advisor, shall review the Tax Certificate and make notes regarding specific compliance issues for such bond issue on the Post-Issuance Compliance Notes form at Exhibit A. The Tax Certificate and Notes shall clearly define the roles and responsibilities relating to the ongoing compliance activities for each bond issue and will identify specific compliance requirements.

2. Continuing Education - The Treasurer will actively seek out advice of bond counsel on any matters that appear to raise ongoing compliance concerns and may attend or participate in seminars, teleconferences, etc. sponsored by organizations such as the Massachusetts Collector-Treasurer Association and the Massachusetts Government Finance Officers Association that address compliance issues and developments in the public finance bond arena. In addition, national organizations such as the Securities Industry and Financial Markets Association (SIFMA) and the National Association of Bond Lawyers (NABL) offer numerous training opportunities and materials which may be useful to the Treasurer.

B. Tax-Exempt Bonds Compliance Monitoring

1. Restrictions against Private Use – The Treasurer will continuously monitor the expenditure of bond proceeds and the use of facilities or equipment financed or refinanced with bonds to ensure compliance with Section 141 of the Internal Revenue Code (the “Code”) which generally establishes limitations on the use of bond-financed facilities by non-state or local governmental entities, such as individuals using bond-financed assets on a basis other than as a member of the general public, corporations and the federal government and its agencies and instrumentalities.
a. Use of Bond Proceeds – the Treasurer will monitor and maintain records with respect to expenditures to ensure that bond proceeds are being used on capital expenditures for governmental purposes in accordance with the bond documents and document the allocation of all bond proceeds. Such monitoring is required not only for tax-exempt bonds, but also for tax credit bonds.

b. Use of the Bond-Financed Facility or Equipment

i. Equipment assets financed with bonds will be listed in a schedule for each bond issue, which schedule may be included in the Tax Certificate. Equipment assets generally are not to be disposed of prior to the earlier of (a) the date the bonds and all subsequent refundings of such bonds are fully paid, or (b) the end of the useful life of such equipment. The Treasurer will maintain the list of all bond-financed equipment for each bond issue, together with the equipment’s expected useful life.

ii. Constructed or acquired assets financed with bonds – in order to ensure that assets constructed or acquired using bond proceeds, such as infrastructure assets, are not leased, sold or disposed of prior to the end of the term of the bonds and of all subsequent refundings of such bonds:

- Any asset constructed or acquired with bond proceeds shall be flagged in the Town’s records, and
- These projects will be monitored by the Treasurer.

iii. If there is any proposal to change the use of a bond-financed facility from a governmental purpose to a use in which a private entity may have the use or benefit of such a facility on a basis that is different from the rest of the general public, the Treasurer will consult with bond counsel prior to the occurrence of the proposed change in use.

2. Qualification for Initial Temporary Periods and Compliance with Restrictions against Hedge Bonds

a. Expectations as to Expenditure of “New Money” Bond Proceeds

i. In order to qualify under the arbitrage rules for an initial temporary period of 3 years for “new money” issues during which bond proceeds can be invested without regard to yield (but potentially subject to rebate), the Town must reasonably expect to spend at least 85% of “spendable proceeds” by the end of the temporary period. In general under Code Section 149, in order to avoid classification of an issue of bonds as “hedge bonds,” the Town must both (x) reasonably expect to spend 85% of the “spendable proceeds” of the bond issue within the 3 year period beginning on the date the bonds are issued and (y) invest not more than 50% of the proceeds of the issue in investments having a substantially guaranteed yield for 4 years or more. These expectations have been documented for the Town’s outstanding bond issues in the tax certificates executed in connection with each bond issue.

ii. If, for any reason, the Town’s expectations concerning the period over which the bond proceeds are to be expended change from what was documented in the applicable tax certificate, the Treasurer will consult with bond counsel.
b. **Project Draw Schedule Compliance Monitoring** – While there are unspent proceeds of a bond issue, the Treasurer will compare and analyze the original anticipated project draw schedule and the actual expenditure payouts and reimbursements on each bond-financed project on an annual or more frequent basis. The purpose of this analysis is to determine the variances from the original expected draw schedule for each project and to document the reasons for these variances to provide a continual record on the spending progress of each bond-financed project. Factors relevant to the analysis include unexpected delays in the project timelines, extreme weather, contract time extensions due to unexpected events, supplemental agreements and any other factor with a potential to impact the progress or completion of the projects. Generally, there should be no effect on the tax-exempt status of the bonds under either the temporary period rules or the hedge bond rules if the actual disbursements do not meet the original project draw schedule, unless circumstances surrounding the actual events cast doubt on the reasonableness of the stated expectations on the issuance date. Therefore, it is important for the Treasurer to update the progress of each project at least annually, and consult with bond counsel as to any variance from the original schedule.

c. **Bond Proceeds Expenditure Schedule Compliance Monitoring** – While there are unspent proceeds of bonds, the Treasurer will compare and analyze the bond proceeds expenditure schedule and the actual investment earnings on each project on an annual or more frequent basis. The purpose of this analysis is to determine any variances from the expected expenditure schedule and to document the reasons for these variances.

3. **Arbitrage Rebate Compliance**

   a. Bonds may lose their tax-favored status, retroactive to the date of issuance, if they do not comply with the arbitrage restrictions of section 148 of the Code. Two general sets of requirements under the Code must be applied in order to determine whether governmental bonds are arbitrage bonds: the yield restriction requirements of section 148(a) and the rebate requirements of section 148(f).

   b. **Yield Restriction Requirements.** The yield restriction requirements provide, in general terms, that gross proceeds of a bond issue may not be invested in investments earning a yield higher than the yield of the bond issue, except for investments (i) during one of the temporary periods permitted under the regulations (including the initial three year temporary period described above), (ii) in a reasonably required reserve or replacement fund or (iii) in an amount not in excess of the lesser of 5% of the sale proceeds of the issue or $100,000 (the “minor portion”). Under limited circumstances, the yield on investments subject to yield restriction can be reduced through payments to the IRS known as “yield reduction payments.” The Tax Certificate will identify those funds and accounts associated with a particular issue of bonds known, as of the date of issuance, to be subject to yield restriction.

   c. **Rebate Requirements**

      i. If, consistent with the yield restriction requirements, amounts treated as bond proceeds are permitted to be invested at a yield in excess of the yield on the bonds (pursuant to one of the exceptions to yield restriction referred to above), rebate payments may be required to be made to the U. S. Treasury. Under the applicable regulations, the aggregate rebate amount is the excess of the future value of all the receipts from bond funded investments over the future value of all the payments to acquire such investments. The future value is computed as
of the computation date using the bond yield as the interest factor. At least 90% of the rebate amount calculated for the first computation period must be paid no later than 60 days after the end of the first computation period. The amount of rebate payments required for subsequent computation periods (other than the final period) is that amount which, when added to the future value of prior rebate payments, equals at least 90% of the rebate amount. For the final computation period, 100% of the calculated amount must be paid. Rebate exceptions and expectations are documented for each bond issue in the tax certificate executed at the time of such bond issue.

ii. While there are unspent proceeds of bonds, the Town will engage an experienced independent rebate analyst to annually calculate any rebate that may result for that year and annually provide a rebate report to the Treasurer. Bond counsel can assist with referrals to qualified rebate analysts.

d. Timing of Rebate Payments

The Treasurer will work with the rebate analyst to ensure the proper calculation and payment of any rebate payment and/or yield-reduction payment at the required time:

i. First installment due no later than 60 days after the end of the fifth anniversary of each bond issuance;

ii. Succeeding installments at least every five years;

iii. Final installment no later than 60 days after retirement of last bond in the issue.¹

4. Refunding Requirements

a. Refunded Projects. The Treasurer will maintain records of all bond financed assets for each bond issue, including assets originally financed with a refunded bond issue.

b. Yield Restriction. The Treasurer will work with its financial advisor and bond counsel to maintain records of allocation of bond proceeds for current and advance refundings of prior bond issues to ensure that such bond proceeds are expended as set forth in the applicable tax certificate executed at the time the refunding bonds are issued. Any yield restricted escrows will be monitored for ongoing compliance.

C. Record Retention

1. Section 6001 of the Code provides the general rule for the proper retention of records for federal tax purposes. The IRS regularly advises taxpayers to maintain sufficient records to support their tax deductions, credits and exclusions. In the case of a tax-exempt bond transaction, the primary taxpayers are the bondholders. In the case of other tax benefited bonds, such as “build America bonds” or “recovery zone economic development bonds”, the Town will be treated as the taxpayer. In order to ensure the continued exclusion of interest to such bondholders, it is important that the Town retain sufficient records to support such exclusion.

¹ Generally, rebate payments must be paid not later than 60 days after retirement of the last bond in the issue.
2. In General

   a. All records associated with any bond issue shall be stored electronically or in hard copy form at the Town’s offices or at another location conveniently accessible to the Town.

   b. The Treasurer will ensure that the Town provides for appropriate storage of these records.

   c. If storing documents electronically, the Town shall conform with Rev. Proc. 97-22, 1997-1 C.B. 652 (as the same may be amended, supplemented or superseded), which provides guidance on maintaining books and records by using an electronic storage system. Bond counsel can furnish a copy of this Revenue Procedure if needed.

3. Bonds - The Town shall maintain the bond record as defined in this section for the longer of the life of the bonds plus 6 years or the life of refunding bonds (or series of refunding bonds) which refunded the bonds plus 6 years. The bond record shall include the following documents:

   a. Pre-Issuance Documents

      i. Guaranteed Investment Contracts ("GICs") and Investments (other than Treasury's State and Local Government Series Securities, "SLGs") – if applicable, the Treasurer shall retain all documentation regarding the procurement of each GIC or other investment acquired on or before the date of bond issuance, including as applicable the request for bids, bid sheets, documentation of procurement method (i.e., competitive vs. negotiated), etc. If investments other than SLGs are used for a defeasance escrow, the documentation should include an explanation of the reason for the purchase of open market securities and documentation establishing the fair value of the securities and compliance with safe harbor bidding rules. If SLGs are purchased, a copy of the final subscription shall be maintained.

      ii. Project Draw Schedule – the Treasurer shall retain all documentation and calculations relating to the draw schedule used to meet the “reasonable expectations” test and use of proceeds tests (including copies of contracts with general and sub-contractors or summaries thereof).

      iii. Issue Sizing – the Treasurer shall maintain a copy of all financial advisor’s or underwriter’s structuring information.

      iv. Bond Insurance – if procured by the Town, the Treasurer shall maintain a copy of insurance quotes and calculations supporting the cost benefit of bond insurance, if any.

      v. Costs of Issuance documentation – the Treasurer shall retain all invoices, payments and certificates related to costs of issuance of the bonds.

   b. Issuance Documents

      i. The Treasurer shall retain the bound bond transcript delivered from bond counsel.

   c. Post-Issuance Documents

      i. Post-Issuance Guaranteed Investment Contracts and Investments (Other than SLGs) – the Treasurer shall retain all documentation regarding the procurement of any GIC or other investment acquired after bond issuance, including as applicable
the request for bids, bid sheets, documentation of procurement method (i.e., competitive vs. negotiated), etc. If investments other than SLGs are used for a defeasance escrow, the documentation should include an explanation of the reason for the purchase of open market securities and documentation establishing the fair value of the securities and compliance with safe harbor bidding rules.

ii. **Records of Investments**— shall be retained by the Treasurer.

iii. **Investment Activity Statements**—shall be retained by the Treasurer.

iv. **Records of Expenditures**— the Treasurer shall maintain or shall cause to be maintained all invoices, etc. relating to equipment purchases and constructed or acquired projects, either electronically or in hard copy.

v. **Records of Compliance**
   - **Qualification for Initial Temporary Periods and Compliance with Restrictions Against Hedge Bond Documentation**— the Treasurer shall prepare the annual analysis described in Section II(B)(2) above and maintain these records.
   - **Arbitrage Rebate Reports**— may be prepared by the Treasurer or a third party as described in section II (B)(3) of this document and retained by the Treasurer.
   - **Returns and Payment**— shall be prepared at the direction of the Treasurer and filed as described in Section II(B)(3) of this document.
   - **Contracts under which any bond proceeds are spent (consulting engineering, acquisition, construction, etc.)**— the Treasurer shall obtain copies of these contracts and retain them for the bond record.

d. **General**
   i. **Audited Financial Statements**— the Treasurer will maintain copies of the Town’s annual audited Financial Statements.
   ii. **Reports of any prior IRS Examinations**— the Treasurer will maintain copies of any written materials pertaining to any IRS examination of the Town’s bonds.

III. Voluntarily Correcting Failures to Comply with Post-Issuance Compliance Activities

If, in the effort to exercise due diligence in complying with applicable federal tax laws, a potential violation is discovered, the Town may address the violation through the applicable method listed below. The Town should work with its bond counsel to determine the appropriate way to proceed.

A. **Taking remedial actions as described in Section 141 of the Internal Revenue Code**

B. **Utilizing the Voluntary Closing Agreement Program (VCAP)**— Section 7.2.3 of the Internal Revenue Manual establishes the voluntary closing agreement program for tax-exempt bonds (TEB VCAP) whereby issuers of tax-exempt bonds can resolve violations of the Internal Revenue Code through closing agreements with the Internal Revenue Service.

IV. Post Issuance Tax Compliance Procedures Review

The Treasurer shall review these procedures at least annually, and implement revisions or updates as deemed appropriate, in consultation with bond counsel.
**Exhibit A**

**POST ISSUANCE COMPLIANCE NOTES**

[Name of Bonds]

<table>
<thead>
<tr>
<th>Transaction Parties</th>
<th>Overall Responsible Party for Debt Management Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bond Counsel</td>
</tr>
<tr>
<td></td>
<td>Paying Agent</td>
</tr>
<tr>
<td></td>
<td>Rebate Specialist</td>
</tr>
<tr>
<td></td>
<td>Other</td>
</tr>
</tbody>
</table>

America 17003476.1
TOWN OF CHATHAM
INVESTMENT POLICY STATEMENT

The primary purpose of this Investment Policy Statement (IPS) is to provide a clear understanding regarding the Town of Chatham (the “Town”) Long Term Funds and, General Fund objectives, goals, risk tolerance, and investment guidelines established for the investment of town funds.

I. The Investment of General Funds, Special Revenue Funds, Enterprise Funds, and Capital Projects Funds

A. Scope

This section of the IPS applies only to short term operating funds such as general funds, special revenue funds, enterprise funds, bond proceeds and capital project funds. A separate Contributory Retirement Board, either local or county, is responsible for the investment of the pension funds.

B. Investment Instruments

Note: Public investments in Massachusetts are not protected through provisions in State law.

The Treasurer may invest in the following instruments:

- Massachusetts State pooled fund: Unlimited amounts (Pool is liquid) The Massachusetts Municipal Depository Trust (MMDT), an investment pool for state, local, county and other independent governmental authorities, is under the auspices of the State Treasurer. It invests in Bankers Acceptances, Commercial Paper of high quality, Bank Certificates of Deposit, Repurchase agreements (Repos), and U. S. Treasury Obligations. It has Federal Deposit Insurance Corporation (F.D.I.C.) pass-through insurance on the CD's up to the standard limits and takes delivery on the Repos and Treasuries. Under Government Accounting Standards Board Regulation (GASB III), it is not considered an uncollateralized product.
- U. S. Treasuries that will be held to maturity: Unlimited amounts (Up to one-year maturity from date of purchase)
- U.S. Agency obligations that will be held to maturity. Unlimited amounts (Up to one-year maturity from date of purchase)
- Bank accounts or Certificates of Deposit (“CDs”) (Up to three years’ maturities from the date of purchase) which are fully collateralized through a third-party agreement: Unlimited Amounts
- Bank accounts and CDs (Up to three years’ maturities from the date of purchase) insured by F.D.I.C. up to the coverage limit. All bank accounts and CDs in one institution are considered in the aggregate for the insurance coverage limit. In some cases, Banking Institutions carry additional insurance, Depository Insurance Fund (D.I.F.): Contact banking representative for amounts of coverage.
- Unsecured bank deposits of any kind such as other checking, savings, money market, or Certificates of Deposit accounts at Banks that do not fit the above categories. These investments are subject to the following limitations: No more than 5% of an institution’s assets and no more than 25% of a municipality’s cash may be comprised of unsecured bank deposits. This percentage may be increased for not more than 30 days during times of heavy collection or in anticipation of large payments that will be made by the entity in the near future. For example, these payments may be for such items as debt service payment or regional school assessments. Their credit worthiness will be tracked by Veribane, or other bank credit worthiness
reporting systems. They will be diversified as much as possible. CDs will be purchased for no more than one year and will be reviewed frequently.

- Money Market Mutual Funds that are registered with the Securities and Exchange Commission that have received the highest possible rating from at least one nationally recognized statistical rating organization and as otherwise referenced in the Massachusetts General Law Chapter 44 Section 55.

C. Diversification

Diversification should be interpreted in two ways: in terms of maturity as well as instrument type and issuer. The diversification concept should include prohibition against over concentration of maturities, as well as concentration in a specific institution. Except for U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or agencies, and State pools (MMDI), no more than 25% of the Town's investments shall be invested in a single financial institution.

D. Authorization

The Treasurer has authority to invest entity funds, subject to the statutes of the Commonwealth Massachusetts General Law Chapter 44 Section 55, 55A, & 55B.

E. Restrictions

Chapter 44, Section 55 set forth several restrictions that the Treasurer must be aware of when making investment selections.

- A Treasurer shall not at any one time have on deposit in a bank or trust company an amount exceeding 60% of the capital and surplus of such bank or trust company, or banking company, unless satisfactory security is given to it by such bank or trust company, or banking company for such excess.
- The treasurer shall not make a deposit in any bank, trust company or banking company with which he is, or for any time during the three years immediately preceding the date of any such deposit was, associated as an officer or employee.
- All securities shall have a maturity from date of purchase of one year or less, with the exception of bank certificates of deposits that have a three-year limit from the date of purchase.
- Purchases under an agreement with a trust company, national bank or Banking Company to repurchase at not less than original purchase price of said securities on a fixed date shall not exceed ninety days.

F. Legal References

Massachusetts General Law Chapter 44, Section 55
Massachusetts General Law Chapter 44, Section 55A
Massachusetts General Law Chapter 44; Section 55B
II. The Investment of Long Term Funds

A. Scope

This section of the IPS applies only to funds that are designated as long term, i.e. trust funds, stabilization funds, cemetery perpetual care, Town preservation act and other funds the town may have set aside for long term use.

All accounts will be maintained separately receiving their proportionate interest and any realized and unrealized gains or losses. The account may be established as a pooled investment portfolio unless otherwise stated. Any additional accounts will be maintained in this same manner.

B. Authority

Massachusetts General Law Chapter 44, section 54 pertains to the investment of Trust Funds, Chapter 40 Section 5B pertains to the investment of Stabilization Funds and, Chapter 44B section 7 pertains to the investments of Town Preservation Funds. All trust funds shall fall under the control of the entity’s Treasurer unless otherwise provided or directed by the donor.

If the trust fund results from a gift, grant or bequest from a private donor, and the private donor specifies how the trust shall be invested; the trust fund shall be invested in accordance with the terms of the gift, grant or bequest. If there is a conflict between such donor terms and this Section II, the donor terms shall govern, subject to the general principles of prudence set forth in the Policy.

C. Investment Instruments

M.G.L. Chapter 44 section 54 states that money should be deposited into savings bank, trust companies incorporated under the laws of the Commonwealth, banking companies incorporated under the laws of the Commonwealth which are members of the Federal Deposit Insurance Corporation, or national banks, or invested in participation units in a combined investment fund under section thirty-eight A of chapter twenty-nine, or in a paid-up shares and accounts of and in co-operative banks, or in shares of savings and loan associations or in share or savings deposits of federal savings and loan associations doing business in the commonwealth.

Additionally, the Town may invest such funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the commonwealth; provided, that not more than fifteen percent (15%) of any such trust funds shall be invested in bank stocks and insurance company stocks, nor shall more than one and one-half percent (1 1/2%) of such funds be invested in the stock of any one bank or insurance company.

The Treasurer may invest in the following instruments:

- U. S. Treasuries that may be sold prior to maturity: Unlimited amounts (With no limit to the length of maturity from date of purchase)
- U.S. Agency obligations that may be sold prior to maturity. Unlimited amounts (With no limit to the length of maturity from date of purchase)
• Bank accounts or Certificates of Deposit ("CDs") Unlimited amounts (With no limit to the length of maturity from date of purchase), which is fully collateralized through a third-party agreement:
• Bank accounts and CDs (With no limit to the length of maturity from date of purchase) fully insured by F.D.I.C. and in some cases also Depository Insurance Fund of Massachusetts (D.I.F.): All bank accounts and CDs in one institution are considered in the aggregate to receive the insurance coverage limit.
• Unsecured bank deposits of any kind such as other checking, savings, money market, or Certificates of Deposit accounts at Banks that do not fit the above categories. These investments are subject to the following limitations: These investments will be limited to no more than 5% of an institution's assets and no more than 25% of a municipality's cash. This percentage may be increased for not more than 30 days during times of heavy collection or in anticipation of large payments that will be made by the Town in the near future. These payments maybe for such items as debt service payment or regional school assessments. Their credit worthiness will be tracked by Veribanc, or other bank credit worthiness reporting systems. They will be diversified as much as possible. CDs will be purchased with no limit to the length of maturity from the date of purchase and will be reviewed frequently.
• Common and preferred stock that are listed in the List of Legal Investments.
• Investment Funds that are listed in the List of Legal Investments.
• All other items not separately identified here that are listed in the List of Legal Investments.

D. Standards of Care

The standard of prudence to be used by the Treasurer shall be the "Prudent Person" standard and shall be applied in the context of managing an overall portfolio. The Treasurer acting in accordance with written procedures and this IPS, and exercising reasonable due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided the purchases and sale of securities is carried out in accordance with the terms of this IPS and the associated Massachusetts General Laws.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs; not for speculation, but for investment considering the probable safety of their capital as well as the probable income to be derived.

In addition, this section would also apply to M.G.L. Chapter 44 Section 55A which refers to the liability of the Treasurer for losses due to bankruptcy.

E. Diversification

Diversification should be interpreted in two ways: in terms of maturity as well as instrument type and issuer. The diversification concept should include prohibition against over concentration of maturities, as well as concentration in a specific institution, except for U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or agencies.

F. Legal References

Massachusetts General Law Chapter 40, Section 5B
Massachusetts General Law Chapter 44, Section 54
Massachusetts General Law Chapter 44, Section 55A
Massachusetts General Law Chapter 44, Section 55B
Massachusetts General Law Chapter 44B, Section 7
Trust Funds may be co-mingled and invested in any instruments allowed by the Commonwealth of Massachusetts list of Legal Investments Legal issued by the Banking Commissioner each July. Each trust fund must be accounted for separately. Chapter 44 Section 54 sets forth that Treasurers may invest in instruments that are legal for savings banks. This list of investments is included in the Commonwealth of Massachusetts List of Legal Investments, Chapter 167 Section 15A.

III. General Provisions

A. Objective

Massachusetts General Laws, Chapter 44, section 55B requires the Entity's Treasurer to invest all public funds except those required to be kept uninvested for purposes of immediate distribution.

This section also requires that invested funds are to be placed at the highest possible rate of interest reasonably available, considering the acceptable levels of safety, liquidity and yield. Therefore, these guidelines are intended to further the objective of securing the highest reasonable return available that is consistent with safety of principal while meeting the daily cash requirements for the operation of the entity's business.

- Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to preserve capital through the mitigation of credit risk and interest rate risk. These risks shall be mitigated by the diversification and prudent selection of investment instruments, and choice of depository. Credit risk is the risk of loss due to the failure of the security issuer or backer. Interest rate risk is the risk that the market value of the security will fall due to changes in general interest rates.
- Liquidity is the next most important objective. The overall investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the treasurer shall attempt to carry out investment activities in a manner that provides for meeting unusual or unexpected cash demands without requiring the liquidation of investments that could result in forfeiture of accrued interest earnings, and loss of principal in some cases.
- Yield is the third, and last, objective. Investments shall be undertaken to achieve a fair market average rate of return, taking into account safety and liquidity constraints as well as all legal requirements.

B. Risk Tolerance

- Credit Risk

"Credit risk" is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The Town will manage credit risk several ways. There will be no limit to the amount of United States Treasury and United States Government Agency obligations. In regard to other investments, the Town will only purchase investment grade securities with a high concentration in securities rated A or better. The Town may invest in the Massachusetts Municipal Depository Trust (MMDT) with no limit to the amount of funds placed in the fund. The Town may place funds in banking institutions as stated in Section C of this IPS.
• Custodial Risk

The “custodial credit risk” for deposits is the risk that, in the event of the failure of a depository financial institution, a municipality will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a municipality will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The Town will review the financial institution’s financial statements and the background of the Advisor. The intent of this qualification is to limit the Town’s exposure to only those institutions with a proven financial strength, Capital adequacy of the firm, and overall affirmative reputation in the municipal industry. Further, all securities not held directly by the Town, will be held in the Town’s name and tax identification number by a third-party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security.

• Concentration of Credit Risk

“Concentration of credit risk” is the risk of loss attributed to the magnitude of a government’s investment in a single issuer.

The Town will minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

• Interest Rate Risk

“Interest rate risk” is the risk that changes in interest rates will adversely affect the fair value of an investment.

The Town will manage interest rate risk by managing duration in the account.

• Foreign Currency Risk

“Foreign currency risk” is the risk that changes in foreign monetary exchange rates will adversely affect the fair value of an investment or a deposit.

The Town will limit investment in any instrument exposed to foreign currency risk.

C. Ethics

The Treasurer (and Assistant Treasurer) shall refrain from any personal activity that may conflict with the proper execution of the investment program or which could impair or appear to impair ability to make impartial investment decisions. Said individuals shall disclose to the Finance Director any material financial interest in financial institutions that do business with the Town. They shall also disclose any large personal financial investment positions or loans that could be related to the performance of the Town’s investments.
D. Relationship with Financial Institutions

Financial institutions should be selected first and foremost about their financial soundness and stability. The Town may subscribe to the Veribanc Rating Service to evaluate the banking institutions with which it chooses to establish relationships. Brokers should be recognized, reputable dealers and members of the Financial Industry Regulatory Authority (FINRA).

In instances where the Town does not purchase the Veribanc Rating Service, the Treasurer should request the banking institution's Veribanc rating from all the banking institutions that are working with the Town on a quarterly basis.

When using the Veribanc Rating Service the Treasurer may invest in such banks that show a green rating in a quarter. If a rating is yellow the Treasurer should contact the appropriate banking institution and request in writing an explanation of the change in rating and the expected time table for it to be changed to green. If for a second quarter such rating is not green, the Treasurer should consider removing all funds that are not collateralized, or carries some form of depositor's insurance. If a rating moves to red, all money should be immediately collateralized or covered by some form of depositor's insurance or be removed from the banking institution.

The Treasurer shall require any brokerage houses and broker/dealers wishing to do business with the municipality to supply the following information to the Treasurer on an annual basis:

- Annual Financial statements
- If acting as a Registered Investment Advisor, copy of their most recent Form ADV Part II report
- Errors & Omissions insurance amounting to, at a minimum, the total fair market value of the Trust Fund Portfolio
- A statement that the Advisor has read the municipality's IPS and will comply with it on an annual basis
- Annual review all advisors through www.finra.org; Broker Check

E. Reporting Requirements

On a quarterly basis, a report containing the following information will be prepared by the Treasurer and distributed to the Finance Director, as appropriate. The quarterly report will include the following information, as a minimum requirement:

- A listing of the individual accounts and individual securities held at the end of the reporting period.
- A listing of the short-term investment portfolio by security type and maturity to ensure compliance with the diversification and maturity guidelines established in the "Diversification" section of this IPS.
- A summary of the income earned monthly and year-to-date basis shall be reported.
- The Treasurer shall include in the report a brief statement of general market and economic conditions and other factors that may affect the entity’s cash position.
- The report should demonstrate the degree of compliance with the tenets set forth in the IPS.
I, Sharon Drown, Treasurer of the Town of Chatham have reviewed this IPS and will manage the Town's funds under my control in accordance with this IPS.

Sharon Drown
Treasurer's Signature

Sharon Drown
Treasurer's Printed Name

9/28/2017
Date
Abatement – A reduction or elimination of a real or personal property tax, motor vehicle excise, 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.

Accelerated New Growth – MGL c 59 § 2A(a) is a local option statute that allows a community to value and assess new growth (i.e., new construction or other physical additions to real property) occurring by June 30 for the fiscal year beginning July 1. This local adoption law, commonly referred to as Chapter 653, allows the community to assess improved parcels, which ensures the property owner pays his fair share of the cost of government operations for the fiscal year beginning July 1 rather than a year later.

Advance Refunding of Debt – This occurs when new debt is issued to replace or redeem old debt before the maturity or call date of the old debt. Under these circumstances, the proceeds of the new debt must be placed in escrow and used to pay interest on old, outstanding debt as it becomes due and to pay the principal on the old debt, either as it matures or at an earlier call date. (See Refunding of Debt, Current Refunding of Debt)

Agency Fund – One of the four types of fiduciary funds. It is used to report resources in a purely custodial capacity by a governmental unit. Agency funds generally involve only the receipt, temporary investment, and periodic transfer of money to fulfill legal obligations to individuals, private organizations, or other governments. For example, certain employee payroll withholdings typically accumulate in an agency fund until due and subsequently forwarded to the federal government, health care provider, and so forth.

Amended New Growth – When the assessors discover inadvertently omitted properties that would have been new growth, they may submit an Amended Tax Base Growth Report (Form LA-13A) to BLA before setting the tax rate for the next fiscal year. BLA will certify the amount of any additional tax base growth and notify BOA. BOA will then recalculate the community’s levy limit and notify the assessors of the new base for the purposes of calculating the succeeding year’s levy limit.

Amortization – The gradual repayment of an obligation over time and in accordance with a predetermined payment schedule.

Appellate Tax Board (ATB) – Appointed by the governor, the ATB has jurisdiction to decide appeals from local decisions relating to property taxes, motor vehicle excises, state-owned land valuations, exemption eligibility, property classification, and equalized valuations.

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.

Arbitrage – As applied to municipal debt, the investment of tax-exempt bonds or note proceeds in higher yielding, taxable securities. Section 103 of the Internal Revenue Service (IRS) Code restricts this practice and requires (beyond certain limits) that earnings be rebated (paid) to the IRS.

Arm’s Length Sale – A transfer of property ownership between a willing seller not under compulsion to sell and a willing buyer not under compulsion to buy. The sale price is the amount of money, or its equivalent, that probably would be arrived at through fair negotiations taking into consideration the uses to which the property may be put and allowing a reasonable time for exposure to the market.

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. (See Ad Valorem; Full And Fair Cash Value)
Assessment Date – The date property tax liability is fixed. In Massachusetts, property taxes are assessed as of the January 1 prior to the fiscal year. Assessors determine the physical status of taxable real and personal property, its ownership, fair cash value, and usage classification as of that date. By local option (MGL c. 59 § 2D), the physical status of real property on June 30 is deemed to be its condition on the previous January 1.

Assessment Sale Ratio (ASR) – Property assessed value divided by sales price. Expresses the relationship between the assessed value of a sold property and its most recent sales price. The ASR is instrumental in BLA’s certification of municipal property values completed every five years.

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

Audit Committee – A committee appointed by the select board, mayor, or city council with specific responsibility to review a community’s independent audit of financial statements and address all issues relating to it, as well as those outlined in the accompanying management letter.

Audit Management Letter – An independent auditor’s written communication to government officials, separate from the community’s audit. It generally identifies deficient areas, if any, and presents recommendations for improving accounting procedures and other internal controls.

Audit Report – Prepared by an independent auditor, an audit report includes: (a) a statement of the audit’s scope; (b) explanatory comments as to the application of auditing procedures; (c) findings and opinions; (d) financial statements and schedules; and (e) supplementary comments, recommendations and statistical tables. It is very often accompanied by a management letter.

Available Funds – Balances in the various fund types that represent nonrecurring revenue sources. As a matter of sound practice, they are frequently appropriated for unforeseen expenses, capital expenditures, or other one-time costs. Examples of available funds include free cash, stabilization funds, overlay surplus, water surplus, and retained earnings.

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

Bank Qualified – When a municipality issues $10,000,000 or less in bonds or notes in a calendar year, these issuances are designated as “bank qualified.” The bank that purchases the security receives a tax deduction (80% of the interest cost) for this type of purchase. This deduction makes bank qualified bonds and notes attractive purchases.

Betterments (Special Assessments) – Whenever part of a community benefits from a public improvement or betterment (e.g., water, sewer, sidewalks, etc.), special property taxes may be assessed to that area’s property owners to reimburse the governmental entity for all or part of the costs it incurred to complete the project. Each property parcel receiving the benefit is assessed a proportionate share of the cost, which may be paid in full or apportioned over a period of up to 20 years. If spread over the years, the community adds one year’s apportionment along with one year’s committed interest computed from October 1 to October 1 to the associated tax bills until the betterment has been paid.

BLA – Bureau of Local Assessment

Block Grant – A federal grant of money awarded by formula under very general guidelines that allow grantees broad latitude in spending activities.

BOA – Bureau of Accounts

Boat Excise – In accordance with MGL c. 60B, this is an amount levied on boats and ships in lieu of a personal property tax for the privilege of using the
state's waterways. Assessed annually as of July 1, the excise is paid to the community where the boat or ship is usually moored or docked.

**Bond** — A means to raise money through the issuance of debt. A bond issuer/borrower promises in writing to repay a specified sum of money, alternately referred to as face value, par value or bond principal, to the buyer of the bond on a specified future date (maturity date), together with periodic interest at a specified rate. The term of a bond is always greater than one year. (See Note)

**Bond and Interest Record (Bond Register)** — 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 and all other pertinent information concerning the bond issue. (See Debt Statement)

**Bond Anticipation Note (BAN)** — Short-term debt instrument used to generate cash for initial project costs with the expectation the debt will be replaced later by permanent bonding. Typically issued for a term of less than one year, BANs may be reissued for up to 10 years, provided principal repayment begins after two years (MGL c. 44 § 17).

**Bond Authorization** — The action of town meeting or a city council authorizing the executive branch to raise money through the sale of bonds in a specific amount and for a specific purpose. Once authorized, issuance is by the treasurer upon the signature of the mayor or the board of selectmen. (See Bond Issue)

**Bond Counsel** — An attorney or law firm engaged to review and submit an opinion on the legal aspects of a municipal bond or note issue.

**Bond Issue** — The actual sale of the entire, or portion of, the bond amount authorized by a town meeting or city council.

**Bond Premium** — The difference between the market price of a bond and its face value (when the market price is higher). A premium occurs when the bond's stated interest rate is set higher than its true interest cost (the market rate). Premiums received at the time of sale must be used to pay project costs and reduce the amount borrowed by the same amount or be reserved for appropriation for purposes for which debt has or may be authorized for an equal or longer period than the original loan. Additions to the levy limit for a Proposition 2 1/2 debt exclusion are restricted to the true interest cost incurred to finance the excluded project. If the premium is not used to pay project costs and reduce the amount of a debt-excluded borrowing, the annual debt exclusion must be adjusted to reflect the true interest rate.

**Bond Rating (Municipal)** — 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. Rating agencies, such as Moody's and Standard & Poor's, use rating systems that designate a letter or a combination of letters and numerals, where AAA is the highest rating and C1 is very low.

**Bonds Authorized and Unissued** — Balance of a bond authorization not yet sold. Upon completion or abandonment of a project, any remaining balance of authorized and unissued bonds may not be used for other purposes but must be rescinded by town meeting or the city council to be removed from community's books.

**Bulk Sale of Tax Receivables** — A community may make bulk assignments of its delinquent property tax receivables and liens to third parties (MGL c. 60 § 2C). DLS recommends municipal officers discuss whether to use this authority and what receivables would be assigned.

**Bureau of Accounts (BOA)** — A bureau within the Division of Local Services charged with overseeing municipal execution of financial management laws, rules and regulations.

**Bureau of Local Assessment (BLA)** — Bureau within the Division of Local Services charged with overseeing municipal execution of state laws, rules
and regulations involving real and personal property assessments. BLA is also responsible for determining equalized valuations and overseeing the valuation of state-owned land.

**Capital Asset** – Any tangible property used in the operation of government that is not easily converted into cash and that has an initial useful life extending beyond a single financial reporting period. Capital assets include land and land improvements; infrastructure, such as roads, bridges, water and sewer lines; easements; buildings and building improvements; vehicles, machinery and equipment. Communities typically define capital assets in terms of a minimum useful life and minimum initial cost.

**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 to finance each recommended expenditure (e.g., tax levy or rates) and identify those items that were not recommended.

**Capital Improvement Program** – A blueprint for planning a community’s capital expenditures that comprises an annual capital budget and a five-year capital plan. It coordinates community planning, fiscal capacity, and physical development. While all the community’s needs should be identified in the program, there is a set of criteria that prioritize 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 Outlay Expenditure Exclusion** – A temporary increase in the tax levy to fund a capital project or to make a capital acquisition. Such an exclusion requires a two-thirds vote of the selectmen or city council (sometimes with the mayor’s approval) and a majority vote in a communitywide referendum. The exclusion is added to the tax levy only during the year in which the project is being funded and may increase the tax levy above the levy ceiling.

**Cash Book** – A source book of original entry that a treasurer is required to maintain for the purpose of recording municipal receipts, adjustments to balances, deposits to municipal accounts, and disbursements through warrants.

**Categorical Grant** – A type of intergovernmental payment that is characterized by extensive restrictions on the uses to which the funds may be “spent” by the recipient government.

**Chapter 70 School Aid** – Chapter 70 refers to the school funding formula created under the Education Reform Act of 1993 by which state aid is distributed through the Cherry Sheet to help establish educational equity among municipal and regional school districts.

**Chapter 90 Highway Funds** – State funds derived from periodic transportation bond authorizations and apportioned to communities for highway projects (MGL c. 90 § 34). **Chapter Land** – Forest, agricultural/horticultural, and recreational lands classified, valued, and taxed according to MGL c. 61, 61A, and 61B. Land is valued at its current use rather than the full and fair cash value. The commercial property tax rate is applicable for land defined under these chapters, unless the community adopts a local option provision within each chapter to apply the open space rate.

**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 costs of certain state and county programs.
Cherry Sheet Offset 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 library grants. (See Offset Receipts)

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 the real property, local officials are permitted to determine locally, within limits 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.

Classification of the Tax Rate – Each year, the select board or city council vote whether to exercise certain tax rate options. Those options include choosing a residential factor (MGL c. 40 § 56), and determining whether to offer an open space discount, a residential exemption (c. 59, § 5C), and/or a small commercial exemption (c. 59, § 5I) to property owners.

Code of Ethics – The provisions and requirements of MGL c. 286A pertaining to the standards of behavior and conduct to which all public officials and employees are held. (See State Ethics Commission)

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.

Commitment – This establishes the liability for individual taxpayers. For example, the assessors’ commitment of real estate taxes fixes the amount the collector will bill and collect from property owners.

Community Preservation Act (CPA) – Enacted as MGL c. 44B in 2000, the CPA permits cities and towns accepting its provisions to establish a restricted fund from which monies can be appropriated only for a) the acquisition, creation and preservation of open space; b) the acquisition, preservation, rehabilitation, and restoration of historic resources; c) the acquisition, creation, preservation, rehabilitation, and restoration of land for recreational use; d) the acquisition, creation, preservation and support of community housing; e) the rehabilitation and restoration of open space or community housing that is acquired or created using monies from the fund; and (f) a municipal affordable housing trust. Acceptance requires town meeting or city council approval or a citizen petition, together with referendum approval by majority vote. The local program is funded by a local surcharge up to 3 percent on real property tax bills and matching dollars from the state generated from registry of deeds fees.

Community Preservation Fund – A special revenue fund established pursuant to MGL c. 44B to receive all monies collected to support a CPA program, including but not limited to, tax surcharge receipts, proceeds from borrowings, funds received from the state, and proceeds from the sale of certain real estate.

Computer Assisted Mass Appraisal (CAMA) System – An automated system for maintaining property data, valuing property, and ensuring tax equity through uniform valuations.

Conservation Fund – A city or town may appropriate money to a conservation fund, which may be expended by the conservation commission for lawful conservation purposes as described in MGL c. 40 § 8C. The money may also be expended by the conservation commission for damages arising from an eminent domain taking provided that the taking was approved by a two-thirds vote of city council or town meeting.

Contingent Appropriation – An appropriation that authorizes spending for a particular purpose only if subsequently approved in a voter referendum. Under MGL c. 59 § 21C (m), towns may make appropriations from the tax levy, available funds, or borrowing contingent on the subsequent passage of a Proposition 2½ override or exclusion question for
the same purpose. If initially approved at an annual town meeting, voter approval of the contingent appropriation must occur by September 15. Otherwise, the referendum vote must occur within 90 days after the town meeting dissolves. The question may be placed before the voters at more than one election, but if the appropriation is not approved by the applicable deadline, it is null and void. If contingent appropriations are funded through property taxes, DLS cannot approve the tax rate until the related override or exclusion question is resolved or the deadline passes, whichever occurs first.

**Contingent Debt** – Debt that is not in the first instance payable as a direct obligation of the governmental unit but has been guaranteed by a pledge of its faith and credit. The obligation to pay by the guarantor arises upon the default of the borrower. An industrial revenue bond guaranteed by a municipality would constitute contingent debt.

**Contingent Liabilities** – Items that may become liabilities as the result of conditions undetermined at a given date, such as guarantees, pending law suits, judgments under appeal, unsettled disputed claims, unfilled purchase orders, and uncompleted contracts.

**Corporations Book (the Corp Book)** – Annually updated and published by DLS, the Corp Book provides a listing of the domestic and foreign corporations doing business in Massachusetts as of January 1 that are subject to a tax or excise under MGL Chap. 59 (local property tax), 60A (motor vehicle excise), or 63 (corporation excises). The listing provides useful information to assessors about the taxable status of businesses located in their community.

**Cost Approach** – A method used to estimate the present market value of an existing property by calculating the current cost to rebuild it, then adjusting the cost downward for depreciation based on the property's actual age. Land is valued separately and added to the depreciated replacement cost.

**Current Refunding of Debt** – The process of immediately applying proceeds of refunding debt to redeem the old debt. That is, the maturity date on the old debt coincides with the issuance date of the new borrowing obligation. (See Refunding of Debt and Advance Refunding of Debt)

**Cyclical Inspection Program** – A cyclical reinspection program involves completing an interior and exterior inspection of all property over a multiyear period, not exceeding nine years.

**Data Collection** – Process of inspecting real and personal property and recording its attributes, quality, and condition.

**Debt Authorization** – Formal approval by a two-thirds vote of town meeting or city council to incur debt, in accordance with procedures stated in MGL c. 44 §§ 1, 2, 3, 4a, 6-15.

**Debt Burden** – The amount of debt carried by an issuer usually expressed as a measure of value (e.g., debt as a percentage of assessed value, debt per capita, etc.). Sometimes debt burden refers to debt service costs as a percentage of the total annual budget.

**Debt Exclusion** – An action taken by a community through a referendum vote to raise the funds necessary to pay debt service costs for a particular project from the property tax levy but outside of the limits under Proposition 2½. By approving a debt exclusion, a community calculates its annual levy limit under Proposition 2½, then adds the excluded debt service cost. The amount is added to the levy limit for the life of the debt only and may increase the levy above the levy ceiling.

**Debt Limit** – The maximum amount of debt a municipality may authorize for qualified purposes under state law. Under MGL c. 44 § 10, debt limits are set at 5 percent of EQV. By petition to the Municipal Finance Oversight Board, a community can receive approval to increase its debt limit to 10 percent of EQV.

**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.

Debt Service Fund – Governmental fund type used to account for the accumulation or resources for, and the payment of, general long-term debt principal and interest. In Massachusetts, these are only allowed by special legislation.

Debt Statement – A report that local treasurers are required to file with DLS showing the authorized and issued debt, retired debt, and interest paid by a community during the prior fiscal year, as well as authorized but unissued debt at year-end. Also known as the "Statement of Indebtedness."

Deferred Revenue – Amounts that do not meet the criteria for revenue recognition. Also, earned amounts that are not yet available to liquidate liabilities of a current period.

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.

Deficit Bonds – Long-term borrowing vehicle intended to fund operating deficits and available to cities and towns only through special legislation.

Demand Notice – When a tax bill becomes past due, the collector sends a demand notice requesting payment. The collector is required to issue a demand before initiating a tax taking.

Department of Elementary and Secondary Education (DESE) – State department providing resources to school administrators, teachers, students and parents in Massachusetts. The DESE Finance section deals with a wide range of school finance issues and takes a major role in determining state aid to municipalities for education via the Local Aid projects that make up the Cherry Sheet process.

Deputy Collector – A vendor empowered to take enforcement and collection actions on behalf of a community’s collector.

Designated Unreserved Fund Balance – A limitation on the use of all or part of the expendable balance in a governmental fund.

DLS – The Department of Revenue’s Division of Local Services

Emergency Spending – MGL c. 44 § 31 allows a community to spend in excess of appropriation in cases of major disasters that pose immediate threats to the health or safety of people or property, following an emergency declaration by the Governor or two-thirds vote of the council or select board and the approval of the Director of Accounts.

Encumbrance – A reservation of funds to cover an obligation arising from a purchase order, contract, or salary commitment chargeable to, but not yet paid from, a specific appropriation account.

Enterprise Fund – Authorized by MGL c. 44 § 53F½, an enterprise fund 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 a service’s total costs recovered through user charges and the portion subsidized by the tax levy, if any. With an enterprise fund, all costs of service delivery—direct, indirect, and capital—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 retained earnings, generated by the enterprise operation rather than closing this 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.

Equalized Valuations (EQVs) – An estimate of the full and fair cash value (FFCV) of all property in the state as of a certain taxable date. EQVs have historically been used as a variable in distributing some state aid accounts and in determining county assessments and other costs. The Commissioner of Revenue, in accordance with MGL c. 58 § 10C, is charged with the responsibility of biennially
determining an equalized valuation for each city and town in the state.

**Excess and Deficiency (E&D)** – Also called the "surplus revenue" account, this is the amount by which cash, accounts receivable, and other assets exceed a regional school district’s liabilities and reserves as certified by the Director of Accounts. The calculation is based on a year-end balance sheet submitted to DLS by the district’s auditor, accountant, or comptroller. E&D is not available for appropriation until certified by the Director of Accounts.

**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 select board or city council must be informed of excess levy capacity and their acknowledgment must be submitted to DLS when setting the tax rate.

**Exemption** – A discharge, 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 timely 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 disabled veterans, blind individuals, surviving spouses, and seniors.

**Exemption Date** – Real estate tax exemption status is determined as of July 1. All qualifying factors must be met as of that date.

**Expenditure** – An outlay of money made by a municipality to provide the programs and services within its approved budget.

**Federal Aid Anticipation Note (FAAN)** – Short-term debt instrument used to generate cash with the expectation that the debt will be paid from anticipated federal aid. As with a note, FAANs are typically issued for a term of less than one year and are full faith and credit obligations.

**Fiduciary Funds** – Repository of money held by a municipality in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and other funds. These include pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds.

**Field Review Audit** – A review of assessment valuation methods and support documentation by the BLA performed as a prerequisite to a five-year certification of property values.

**Finance Control Board** – A board created by special legislation and comprised of state officials to oversee the financial management of a community, which may have received deficit borrowing authorization or state loans to finance operating deficits.

**Financial Advisor** – An individual or institution that assists municipalities in the issuance of tax exempt bonds and notes. The public finance department of a commercial bank or a non-bank advisor usually provides this service.

**Financial Disclosure Law** – MGL c. 268B requires certain individuals, officials and candidates for elected office to file statements of financial interests with the State Ethics Commission.

**Financial Statement** – A presentation of the assets and liabilities of a community as of a particular date, most often after the close of the fiscal year.

**Fiscal Year (FY)** – Since 1974, the Commonwealth and municipalities have operated on a budget cycle that begins July 1 and ends June 30. Since 1976, the federal government fiscal year has begun on October 1 and ended September 30. In each case, the designation of the fiscal year is that of the calendar year in which the fiscal year ends.

**Fixed Assets** – Long-lived, tangible assets, such as buildings, equipment and land, obtained or controlled as a result of past transactions or circumstances.
Fixed Costs – Costs legally or contractually mandated, such as retirement, FICA/Social Security, insurance, debt service, or interest on loans.

Foundation Budget – The spending target imposed by DESE for each school district as the level necessary to provide an 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 estimated 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 June 30 balance sheet, which is submitted by the community’s auditor, accountant, or comptroller. Free cash is not available for appropriation until certified by the Director of Accounts. (See Available Funds)

Full and Fair Cash Value – The Massachusetts Supreme Judicial Court defines fair cash value as the “fair market value, which is the price an owner willing but not under compulsion to sell ought to receive from one willing but not under compulsion to buy. It means the highest price that a normal purchaser not under peculiar compulsion will pay at the time, and cannot exceed the sum that the owner after reasonable effort could obtain for his property. A valuation limited to what the property is worth to the purchaser is not market value. The fair cash value is the value the property would have on January 1 of any taxable year in the hands of any owner, including the present owner.” (Boston Gas Co. v. Assessors of Boston, 334 Mass. 549, 566 (1956))

Full Faith and Credit Obligations – A 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.

Full Measure and List – An inspection program completed by assessors to maintain up-to-date property records. Properties are literally measured and restated in the assessors’ records with any changes in condition since the last inspection. Also referred to as a cyclical inspection program, BLA recommends a full measure and list be completed once in every nine-year cycle.

Fund – An accounting entity with a self-balancing set of accounts that is segregated for the purpose of carrying on identified activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations. Within a fund, financial resources and activity (assets, liabilities, fund balances, revenues, and expenditures) are accounted for independently. Examples of funds include the general fund and enterprise funds.

Fund Accounting – Organizing the financial records of a municipality into multiple, segregated locations for money. Communities whose accounts are organized according to the Uniform Municipal Accounting System (UMAS) use multiple funds.

Fund Balance – The difference between assets and liabilities reported in a governmental fund. Also known as fund equity. General Fund – The fund used to account for most financial resources and activities governed by the normal town meeting or city council 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 a 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.

General Ledger (GL) – The accountant’s record of original entry, a general ledger is a set of numbered accounts used to track financial transactions and prepare financial reports. Each account is a distinct record summarizing each type of asset, liability, equity, revenue, and expense. A chart of accounts lists all the accounts in the general ledger.
General Obligation Bonds – Bonds issued by a municipality that are backed by the full faith and credit of its taxing authority.

Government Finance Officers Association (GFOA) – A nationwide association of public finance professionals.

Governmental Accounting Standards Board (GASB) – The ultimate authoritative accounting and financial reporting standard-setting body for state and local governments.

Governmental External Investment Pool – An arrangement that commingles money of multiple, legally separate entities and invests in an investment portfolio on the participants' behalf. A pool can be sponsored by an individual government, jointly by multiple governments, or by a nongovernmental entity. An example is the Massachusetts Municipal Depository Trust.

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

Grant Anticipation Notes (GAN) – Short-term, interest-bearing notes issued by a government to raise capital to be repaid by grant proceeds anticipated at a later date. GANs allow the recipient of the grant to begin carrying out the purpose of the grant immediately.

Home Rule – Refers to the power of municipalities to regulate their affairs by bylaws/ordinances or home rule charters subject to certain limitations.

Home Rule Charter – An alternative, under MGL c. 43B, to create a charter commission by which cities and towns may create, adopt, revise and amend local charters.

Income Approach – A method of estimating property value by converting anticipated net rental revenue generated by the property into an indication of market value. Used primarily to value commercial/industrial properties and apartment buildings, which are normally bought and sold on the basis of their income producing capabilities.

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

Informational Guideline Release (IGR) – Provided on the DLS website, IGRs are DLS publications that outline a policy or administrative procedure or that provide a law update related to municipal finance.

Inside Debt – Municipal debt incurred for purposes enumerated in MGL c. 44, § 7 and within the community's debt limit, which is an amount no higher than five percent of the community's equalized valuation. Because this type of borrowing is below the debt limit, it is referred to as inside debt. (See Outside Debt)

Interest – Compensation paid or to be paid for the use of money, including amounts payable at periodic intervals or discounted at the time a loan is made. In the case of municipal bonds, interest payments accrue on a day-to-day basis but are paid every six months.

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.

Interim-year Valuation Adjustment – State law requires that local assessed values reflect market value every year. Every five years, BLA reviews and certifies that an individual community's assessed values meet this standard. In between these five-year revaluations, a community must complete an annual analysis to determine whether an interim-year value adjustment is warranted and report the results to BLA. Depending on market conditions and property value trends, adjustments
may increase or decrease values or leave them unchanged.

**Internal Service Fund** – A municipal accounting fund used to accumulate the cost of central services, such as data processing, printing, postage, and motor pool. Costs or charges to an internal service fund are then allocated to other departments or funds within the governmental unit.

**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.

**Joint Labor Management Committee (JLMC)** – The JLMC’s purpose is to mediate police officer or fire fighter collective bargaining disputes with municipalities when negotiations reach impasses. The JLMC only enters a collective bargaining process when petitioned to do so by either party or by both parties acting jointly.

**Land Court** – Established in 1898, the Land Court has the exclusive jurisdiction to foreclose rights of redemption on a property in tax title.

**Land of Low Value (MGL c. 60 § 79)** – After 90 days from the date of a tax taking, the treasurer may work with the assessors to pursue a land of low value foreclosure through DLS, an alternative foreclosure procedure to seeking a Land Court decree. Annually, DLS publishes the maximum valuation of parcels qualifying for the land of low value foreclosure procedure.

**Land Schedule** – Typically developed by assessors and revaluation consultants, this is a table used to arrive at consistent assessed values for land within defined neighborhoods. **Legal Opinion (re: debt issuance)** – An opinion by an attorney or law firm that bonds have been legally issued by a public body, and, usually, that the bonds are exempt from federal income taxes and some Massachusetts taxes under existing laws, regulations, and rulings.

**Levy** – The amount a community raises through the property tax. The levy can be any amount up to the levy limit, which is reestablished every year in accordance with Proposition 2½ provisions.

**Levy Ceiling** – A levy ceiling is one of two types of levy (tax) restrictions imposed by MGL c. 59 § 21C (Proposition 2½). It states that, in any year, the real and personal property taxes imposed may not exceed 2½ percent of the total full and fair cash value of all taxable property. Property taxes levied may exceed this limit only if the community passes a capital exclusion, debt exclusion, or special exclusion.

**Levy Limit** – A levy limit is one of two types of levy (tax) restrictions imposed by MGL c. 59 § 21C (Proposition 2½). It states that the real and personal property taxes imposed by a city or town may only grow each year by 2½ 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.

**Lien** – A legal claim against real or personal property to protect the interest of a party (e.g., a city or town) to whom a debt is owed (e.g., taxes). In the case of real property, the lien in favor of a municipality automatically arises each January 1, but it must be secured through other action. **Lien Date** – The date a lien arises on real property to protect the municipality’s right to payment of taxes. Property tax liens arise by law on the January 1 assessment date. The lien is secured when the collector makes a tax taking and places the property in tax title. Unless the lien is secured, it expires if five years elapse from the January 1 assessment date and the property is transferred in the meantime. **Line-item Budget** – A budget that stratifies spending into categories of greater detail, such as supplies, equipment, maintenance, or salaries, as opposed to a program budget.

**Line-item Transfer** – The reallocation of a budget appropriation between two line items within an expenditure category (e.g., salaries, expenses).
Employed as a management tool, line-item transfer authority allows department heads to move money where a need arises for a similar purpose without altering the bottom line. Whether or not line-item transfers are permitted depends on how the budget is presented (i.e., its format) and what level of budget detail town meeting approves.

**Local Aid** – Revenue allocated by the state to cities, towns, and regional school districts. Estimates of local aid are transmitted to cities, towns, and districts annually by the Cherry Sheets. Most Cherry Sheet aid programs are considered general fund revenues and may be spent for any purpose, subject to appropriation.

**Local Receipts** – Locally generated revenues other than real and personal property taxes. Examples include motor vehicle excise, investment income, hotel/motel tax, fees, rentals, and charges.

**Long-term Debt** – Community borrowing, or outstanding balance at any given time, involving loans with a maturity date of 12 months or more. (See Permanent Debt)

**Massachusetts Certified Public Purchasing Official (MCPPO)** – A certification and designation program for public officials responsible for municipal procurements in Massachusetts. (See Uniform Procurement Act)

**Massachusetts Municipal Depository Trust (MMDT)** – An investment program, founded in 1977 under the supervision of the State Treasurer, in which municipalities may pool excess cash for investment.

**Massachusetts School Building Authority (MSBA)** – Administers the state program that reimburses cities, towns, and regional school districts varying percentages of their school construction costs depending on the community’s or district’s wealth and the category of reimbursement.

**Material Weakness** – An audit term for a significant deficiency in a community’s internal financial controls. It is a reportable condition (internal control weakness) of such magnitude as to potentially result in material misstatements of financial condition.

**Maturity Date** – The date that the principal of a bond becomes due and payable in full.

**MGL** – Massachusetts General Laws

**Minimum Required Local Contribution** – The minimum that a city or town must appropriate from property taxes and other local revenues for the support of schools (Education Reform Act of 1993).

**Minimum Residential Factor (MRF)** – Massachusetts law allows for a shift of the tax burden from the residential and open space classes of property to the commercial, industrial and personal property classes (CIP). The MRF, established by the Commissioner of Revenue, is used to make certain the tax burden shift complies with the law. If the MRF would be less than .65, the community cannot make the maximum shift and must use a CIP factor less than 1.50 percent. Under specified conditions, some communities may use a CIP factor of up to 1.75 percent.

**Motor Vehicle Excise** – A locally imposed annual tax assessed to owners of motor vehicles registered to addresses within the community (MGL c. 60A). The excise tax rate is set by statute at $25.00 per $1,000 of vehicle value.

**Multiple Regression** – A technique for valuing real property that uses an equation generated through sales analysis to estimate the value of unsold properties.

**Municipal(s)** (As used in the bond trade) - "Municipal" refers to any state or subordinate governmental unit. Municipal bonds (i.e., municipal bonds) include not only the bonds of all political subdivisions, such as cities, towns, school districts, and special districts but also bonds of the state and agencies of the state.

**Municipal Bond Insurance** – An insurance policy that guarantees the interest and principal on a bond issue will be paid as scheduled. The municipal bond insurer will pay the debt whether or not the default
was caused by an economic crisis or a natural disaster.

**Municipal Charges Lien** – For delinquent water (MGL c. 40 §§ 42A-F), sewer (MGL c. 83 §§ 16A-F), and trash (MGL c. 44 § 28C(f)) charges, a community may lien these amounts on the property tax, provided the enabling legislation is accepted and a certificate of acceptance is on file at the Registry of Deeds. For other unpaid local charges and fees, a community may adopt MGL c. 40 § 58 separately for each purpose in order to lien each upon the property tax. The lien is created by recording a listing of a particular type of charge or fee (by parcel of land and by name) at the Registry of Deeds.

**Municipal Finance Oversight Board** – This board (consisting of the attorney general, state treasurer, state auditor, and director of accounts) approves use of qualified bonds and certain other municipal borrowings and other actions.

**Municipal Revenue Growth Factor (MRGF)** – 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 2½ percent increase in the levy limit, estimated new growth, change in selected unrestricted state aid categories, and the change in selected unrestricted local receipts (Education Reform Act of 1993).

**Net School Spending (NSS)** – 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 Elementary and Secondary Education (Education Reform Act of 1993).

**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.

**Nonrecurring Revenue Source** – A one-time source of money available to a city or town. By its nature, a nonrecurring revenue source cannot be relied upon in future years, and therefore, such funds should not be used for operating or other expenses that continue from year to year. **Note** – A short-term loan, typically with a maturity date of a year or less.

**Official Statement** – A document prepared for potential investors containing information about a prospective bond or note issue and the issuer. The official statement is typically published with the notice of sale and sometimes called an offering circular or prospectus.

**Offset Receipts** – A local option that allows a particular department's estimated receipts to be earmarked for the department's use and appropriated to offset its annual operating budget. If accepted, MGL c. 44 § 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 any use of a higher amount before appropriation. Actual collections that are 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.

**OPEB (Other Postemployment Benefits)** – Many public employees earn benefits over their years of service that they do not receive until after their government employment ends. While pensions are the most common of these, other postemployment benefits generally include combinations of health, dental, vision, and life insurances. These are provided to eligible retirees and sometime to their beneficiaries, and as a group, are referred to as OPEB.

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

**Other Amounts to be Raised** (as detailed on the Tax Recap) – Amounts not appropriated but raised through taxation. Generally, these are locally
generated expenditures (e.g., overlay, teacher pay deferrals, deficits), as well as state, county, and other special district charges. Because they must be funded in the annual budget, special consideration should be given to them when finalizing budget recommendations to the city council or town meeting.

**Outside Debt** – Municipal borrowing for purposes enumerated in MGL c. 44, § 8. Since this debt is not measured against a community’s debt limit per c. 10, the borrowing is outside the debt limit and therefore referred to as outside debt. (See Inside Debt)

**Overlapping Debt** – A community’s proportionate share of the debt incurred by an overlapping government entity, such as a regional school district, regional transit authority, etc.

**Overlay (Overlay Reserve, or Allowance for Abatements and Exemptions)** – An account that funds anticipated property tax abatements, exemptions, and uncollected taxes. Additions to the overlay reserve need not be funded by the normal appropriation process but instead raised on the tax rate recapitulation sheet.

**Overlay Deficit** – A deficit that occurs when the abatements and statutory exemptions charged to the overlay during a fiscal year exceed the account balance. Overlay deficits must be provided for in the next fiscal year.

**Overlay Surplus** – Any balance in the overlay account in excess of the amount remaining to be collected or abated can be transferred to this account. Within 10 days of a written request by the community’s chief executive officer, the assessors must provide a certification of the excess amount of overlay available to transfer, if any. Overlay surplus may be appropriated for any lawful purpose. At the end of each fiscal year, unused overlay surplus is closed to surplus revenue; in other words, 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 no higher than the levy ceiling. The override question on the election ballot must state a purpose for the override and the dollar amount. **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.

**Payment in Lieu of Taxes (PILOT)** – An agreement between a municipality and an entity not subject to taxation, such as a charitable or educational organization, whereby the organization agrees to make a voluntary payment to the municipality. By law, a city or town must make such a payment to any other community in which it owns land used for public purposes.

**Pension (or other employee benefit) Trust Funds** – A fiduciary fund type used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit (OPEB) plans, or other employee benefit plans.

**Pension Cost** – A measure of the periodic cost of an employer’s participation in a defined benefit pension plan.

**Pension Plan** – An arrangement for the provision of pension benefits to employees upon their retirements. All assets accumulated are used to pay benefits (including refunds of member contributions) to plan members or beneficiaries, as defined by the plan’s terms.

**PERAC (Public Employee Retirement Administration)** – Oversees and directs the state retirement system and administers benefits for members.

**Permanent Debt** – Borrowing by a community typically involving a debt service amortization period of greater than one year. (See Long-term Debt)

**Permanent Funds** – A fiduciary fund type used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government’s programs (that is, for the benefit of
the government for its citizenry). An example is a cemetery perpetual care fund.

**Personal Property** – Movable items not permanently affixed to, or part of, the real estate. It is assessed separately from real estate to certain businesses, public utilities, and owners of homes that are not their primary residences.

**Preliminary Tax** – The tax bill for the first two quarters of the fiscal year, sent by communities on quarterly tax billing cycles or on annual preliminary billing systems. The tax bill is sent by July 1 and can generally be no greater than 50% of the amount due in the previous fiscal year.

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

**Private-purpose Trust Funds** – A fiduciary trust fund type used to report all trust arrangements (other than those property reported in pension trust funds or investment trust funds), under which the principal and income benefits individuals, private organizations, or other governments. An example is a scholarship fund.

**Pro Forma Recap Sheet** – The Tax Recap sheet that communities on semiannual tax billing cycles submit to DLS when seeking to send optional preliminary tax bills for the first half of the fiscal year. This is done either because a community is in a recertification year or has a valuation-related delay in setting the tax rate.

**Proposition 2½** – A state law enacted in 1980, Proposition 2½ 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.

**Purchase Order** – An official document or form authorizing the purchase of products and services.

**Qualified Bond** – A program unique to Massachusetts for municipalities with marginal credit ratings, in which the State Treasurer pays the debt service directly from a community's local aid, thereby reinforcing the security of the bond and improving its marketability. The Municipal Finance Oversight Board authorizes issuance of these bonds under c. 44A.

**Five-year Certification** – The Commissioner of Revenue, through BLA, is required to review local assessed values every five years to certify that they represent full and fair cash value. Refer to MGL c. 40 § 56 and c. 59 § 2A(c).

**Raise and Appropriate** – A phrase used to identify an expenditure's funding source as money generated by the tax levy or other local receipt.

**Real Property** – Land, buildings, and the rights and benefits inherent in owning them.

**Receipts Reserved for Appropriation** – Proceeds earmarked by law and placed in separate accounts for appropriation for particular purposes. For example, ambulance charges may be appropriated to offset expenses in providing ambulance services.

**Receivables** – An expectation of payment of an amount certain accruing to the benefit of a city or town.

**Reconciliation of Cash** – The process whereby the accountant and treasurer compare records to confirm available cash in community accounts.

**Reconciliation of Receivables** – The process whereby the accountant and collector compare records to confirm the amount of outstanding taxes.

**Records Disposition Schedule** – Published by the Secretary of State's Records Management Division and pursuant to MGL c. 66; these guidelines on municipal records inform local officials as to how long and in what form records must be maintained and identifies those that may be lawfully disposed.

**Recurring Revenue Source** – A source of money used to support municipal expenditures, which by its nature can be relied on, at some level, in future years. (See Nonrecurring Revenue Source)

**Refunding of Debt** – Transaction whereby one bond issue is redeemed and replaced by a new bond issue under conditions generally more
favorable to the issuer. (See Current and Advance Refunding of Debt)

Requisition – Form used by the requesting department when ordering products and services from external vendors. This document generates a purchase order.

Reserve Fund – An amount (not to exceed 5 percent of the tax levy for the preceding year) set aside annually within a community’s budget to provide a funding source for extraordinary or unforeseen expenditures. In a town, the finance committee can authorize transfers from this fund for “extraordinary or 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.

Residential Exemption – A municipality can grant a residential exemption of a dollar amount that cannot exceed 35 percent of the average assessed value of all residential class properties. The exemption reduces, by the adopted percentage, the taxable valuation of each residential parcel that is a taxpayer’s principal residence. Granting the exemption raises the residential tax rate and shifts the residential tax burden from moderately valued homes to apartments, summer homes, and higher valued homes.

Residential Factor – Adopted by a community annually, this governs the percentage of the tax levy to be paid by property owners. A residential factor of “1” will result in the taxation of all property at the same rate (single tax rate). Choosing a factor of less than one results in increasing the share of the levy raised by commercial, industrial and personal property. Residential property owners will thereby pay a proportionately lower share of the total levy. (See Minimum Residential Factor)

Retained Earnings – An equity account reflecting the accumulated earnings of an enterprise fund, which may be used to fund capital improvements, reimburse the general fund for prior-year subsidies, reduce user charges, or provide for enterprise revenue deficits (operating losses).

Revaluation – The assessors of each community are responsible for developing a reasonable and realistic program to achieve the fair cash valuation of property in accordance with constitutional and statutory requirements. The nature and extent of that program depends on the assessors’ analyses and consideration of many factors, including, but not limited to, the status of the existing valuation system, results of an in-depth sales ratio study, and accuracy of existing property record information. Every five years, assessors must submit property values to DLS for certification. Assessors must also maintain fair cash values in the years between certifications so that each taxpayer in the community pays his or her share of the cost of local government in proportion to the value of property they own. (See five-year Certification)

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 state in lieu of taxes in the prior year. According to MGL c. 44 § 4, cities, towns, 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. (See Tax Anticipation Notes, Bond Anticipation Notes)

Revenue Bond – A bond payable from and secured solely by specific revenues and thereby not a full faith and credit obligation.

Revenue Deficit – The amount by which actual revenues at year-end fall short of projected revenues and appropriation turnbacks and are insufficient to fund the amount appropriated. Unless
otherwise funded, a revenue deficit must be raised in the following year's tax rate.

**Revolving Fund** – A fund that allows a community to raise revenues from a specific service and use those revenues without appropriation to support the service.

**Rollback Taxes** – Back taxes that become due when land valued, assessed and taxed under MGL c. 61, 61A or 61B no longer qualifies as actively devoted to the purposes specified in each chapter.

**Sale of Cemetery Lots Fund** – A fund established to account for proceeds of the sale of cemetery lots. The proceeds may only be appropriated to pay for the cost of the land, its care and improvement or the enlargement of the cemetery under provisions of MGL c. 114 § 15.

**Sale of Real Estate Fund** – A fund established to account for the proceeds of the sale of municipal real estate other than proceeds acquired through tax title foreclosure. MGL c. 44 § 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 city or town is authorized to borrow for a period of five years or more.

**Sales Comparison Approach** – A method of estimating the value of property by comparing verified data about similar properties that have recently sold or are offered for sale on the open market and adjusting for differences from the subject, or unsold, property.

**Schedule A** – A statement of revenues, expenditures, and other financing sources, uses, changes in fund balance, and certain balance sheet account information prepared annually by the accountant or auditor at the end of the fiscal year. This report is based on the fund account numbers and classifications contained in the UMAS manual.

**Short-term Debt** – The outstanding balance, at any given time, on amounts borrowed with maturity dates of 12 months or less. (See Note)

**Single Audit Act** – For any community that spends $750,000 or more per year in federal grant awards, the Single Audit Act establishes audit guidelines that reduce to only one the number of annual audits to be completed to satisfy the requirements of the various federal agencies from which grants have been received.

**Small Commercial Exemption** – A property tax classification option that allows a community to exempt up to 10 percent of the value of a Class Three, commercial parcel. The parcel must be occupied by a small business and have an assessed valuation of less than $1 million. In effect, the option shifts the tax burden from parcels occupied by small businesses to those occupied by other commercial and industrial taxpayers. Eligible small businesses have an average annual employment of no more than 10 people.

**Special Assessment** – (See Betterments)

**Special Assessment Exemption** – Full discharge from the payment of betterments and special exemptions, granted only to government properties occupied for public purposes.

**Special Exclusion** – For a few limited capital purposes, a community may exceed its levy limit or levy ceiling without voter approval. Presently, there are two special expenditure exclusions: 1) water and sewer project debt service costs that reduce the water and sewer rates by the same amount; and 2) a program to assist homeowners to repair or replace faulty septic systems, remove underground fuel storage tanks, or remove 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 apportioned over a period of time, not to exceed 20 years (similar to betterments).

**Special Revenue Fund** – Funds, established by statute only, containing revenues that are earmarked for and restricted to expenditures for specific purposes. Special revenue funds include receipts reserved for appropriation, revolving funds,
grants from governmental entities, and gifts from private individuals or organizations.

**Stabilization Fund** – A fund designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose (MGL c. 40 § 5B). Communities may establish one or more stabilization funds for different purposes and may appropriate any amounts into them. A two-thirds vote of town meeting or city council is required to establish, amend the purpose of, or appropriate money from a stabilization fund. A majority vote of town meeting or city council is required to appropriate money into a stabilization fund.

**State Aid Anticipation Note (SAAN)** – A short-term loan issued in anticipation of a state grant or aid (MGL c. 44 § 6A).

**State Ethics Commission** – This state agency was established to foster integrity in government and promote public trust. The Commission enforces a code of ethics and the Financial Disclosure Law.

**State House Notes** – Debt instruments for cities, towns, counties, and districts certified by the Director of Accounts. Payable annually, they are usually limited to maturities of five years and principal amounts of $2,250,000. The notes are particularly attractive to smaller communities because certification fees are low, they require neither full disclosure nor official statements, and they are issued in a short period of time.

**State Receivership** – (See Finance Control Board)

**Supplemental Tax Assessments on New Construction** (MGL c. 59 § 2D) – A community may make pro rata assessments on the value of improvements that are greater than 50 percent of the billed value, excluding the land value, when an occupancy permit is issued after January 1 (MGL c. 59 § 2D). This provision allows a community to issue a bill (back to the date of occupancy between January 1 - June 30) for the current fiscal year on qualifying property improvements, resulting in additional general revenue. These improvements would be included in the subsequent year's new growth calculation.

**Surety Bond** – A performance bond that protects a municipality against financial loss arising from a breach of public trust by an employee who collects money on its behalf.

**Surplus Revenue** – The amount by which cash, accounts receivable, and other assets exceed liabilities and reserves.

**Tailings** – Unclaimed municipal funds in the custody of a municipality, which are retained in a repository (referred to as a tailings account) until eventual disposition (MGL c. 200A). Tailings include unclaimed tax refunds, uncashed payroll checks, vendor payments yet to clear, etc.

**Tax Anticipation Notes (TAN)** – A short-term note issued to provide cash to cover operating expenses in anticipation of tax proceeds.

**Tax Increment Financing Exemption (TIF)** – In accordance with MGL c. 59 § 5(51), a property tax exemption negotiated between a community and a private developer, typically implemented over a period up to 20 years, and intended to encourage industrial/commercial development.

**Tax Maps** – Used to determine the location of properties, indicate the size and shape of each parcel, and show their relation to features that affect value. Maps also provide a complete inventory of all land parcels, helping to minimize the problems of omitted parcels and duplication of listing. Also referred to as assessors’ maps.

**Tax Possession** – Once a tax title has been foreclosed in Land Court, the treasurer records the decree at the Registry of Deeds as a municipality owned property, which thus becomes a tax possession. For a property issued a Land of Low Value affidavit by DLS, the municipality must hold an auction prior to it becoming a tax possession.

**Tax Rate** – The amount of property tax stated in terms of a unit of the municipal tax base; for
example, $14.80 per $1,000 of assessed valuation of taxable real and personal property.

Tax Rate Recapitulation Sheet (the Tax Recap) – The document a city or town submits to DLS to set a property tax rate, the recap shows all estimated revenues and actual appropriations that affect the property tax rate. It should be submitted to DLS by September 1 (in order to issue the first-half semiannual property tax bills before October 1) or by December 1 (to issue actual tax bills on or before December 31 in a quarterly community or a semiannual community issuing annual preliminary tax bills).

Tax Title (or Tax Taking) – A collection procedure that secures a municipality’s lien on real property and protects its right to payment of overdue property taxes. Without a taking, the lien expires if five years elapse from the January 1 assessment date and the property has been transferred to another owner.

Tax Title Foreclosure – The procedure initiated by a city or town treasurer in Land Court, or through the land of low value process, to obtain legal title to real property already in tax title and on which property taxes are overdue. The treasurer must wait at least six months from the date of each taking to initiate Land Court foreclosure proceedings (MGL c. 60 § 65).

Tax Title Redemption – The payment by a property owner of all overdue taxes, fees, charges, other costs, and interest on real property that the municipality had placed in tax title. The taxpayer’s right to redeem terminates when the treasurer receives a Land Court decree or land of low value affidavit, records the affidavit, and holds an auction.

Temporary Debt – Borrowing by a community in the form of notes and for a term of one year or less. (See Short-term Debt)

Trust Fund – In general, a fund for money donated or transferred to a municipality with specific instructions on its use. As custodian of trust funds, the treasurer invests and expends such funds as stipulated by trust agreements, 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 nonexpendable trust funds, only interest (not principal) may be expended as directed.

Turnover Sheet – A form completed by municipal departments that accompanies the physical transfer of departmental revenues (or bank deposit slips reflecting revenues) to the treasurer.

Uncollected Funds – Recently deposited checks that are 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. It is the exact opposite of an override.

Undesignated Fund Balance – Monies in the various government funds as of June 30 that are neither encumbered nor reserved and are therefore available for expenditure once certified as part of free cash. (See Designated Fund Balance)

Unfunded OPEB Liability – This is the difference between the value assigned to the benefits (other than retirement) already earned by a municipality’s employees and the assets the local government will have on hand to meet these obligations. (See OPEB)

Unfunded Pension Liability – This is the difference between the value assigned to the retirement benefits already earned by a municipality’s employees and the assets the local retirement system will have on hand to meet these obligations. The dollar value of the unfunded pension liability is redetermined every three years and driven by assumptions about the interest rates at which a retirement system’s assets will grow and the rate of the pensioners’ future costs of living increases. (See Pension Plan)
Uniform Municipal Accounting System (UMAS) – UMAS succeeded the statutory accounting system (STAT) and is regarded as the professional standard for municipal accounting in Massachusetts. As a uniform system for local governments, it conforms to Generally Accepted Accounting Principles (GAAP), offers increased consistency in reporting and recordkeeping, and enhances the comparability of data among cities and towns.

Uniform Procurement Act – MGL c. 30B establishes uniform procedures for local government to use when contracting for supplies, equipment, services, and real estate.

Unreserved Fund Balance (Surplus Revenue Account) – 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. (See Free Cash)

Valuation – The legal requirement that a community’s assessed value on property must reflect its market, or full and fair, cash value.

Warrant – An authorization for an action. For example, a town meeting warrant establishes the matters that may be acted on by that town meeting. A treasury warrant authorizes the treasurer to pay specific bills. The assessors’ warrant authorizes the tax collector to collect taxes in the amounts and from the persons listed.

Water Surplus – For water departments operating under MGL c. 41 § 69B, any unspent water appropriations or revenues in excess of estimated water receipts close out to a water surplus account. Water surplus may be appropriated to fund water-related general and capital expenses or to reduce water rates.

Waterways Improvement Fund – An account into which 50 percent of the receipts from boat excises and mooring fees imposed under MGL c. 91 § 10A are deposited. Appropriation of these proceeds is limited to certain waterway expenses outlined in MGL c. 40 § 5G.