

**Local Public Finance: A Glossary**

Harini Venkatesh

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## **Abstract**

This paper, "Local Public Finance: A Glossary," is a part of the research generated for a project on the Fiscal Impacts of Planning, currently being developed by the Lincoln Institute of Land Policy. The long term goals of this project are to create a network of faculty interested in this topic; increase the exposure of graduate planning students to the practical importance of understanding the fiscal impacts of planning and development; support junior faculty in their development of new courses; provide useful course materials (e.g., articles, case examples, etc.); stimulate research and writing in this area, and extend the training to practicing planners

This paper is also an attempt at contributing towards a broader goal of disseminating information on basic concepts and principles of public finance in general and local public finance in particular. In an attempt to bridge the gap between the theory and practice of public finance, resources used for this paper come from both the academic and practical worlds, including publications of local government bodies in the United States and overseas. The targeted audience for this paper would include students in planning programs, faculty trying to develop courses on local finance and practicing planners.

### **About the Author**

**Harini Venkatesh** is a project associate at the Lincoln Institute of Land Policy's Department of Economic and Community Development. Harini is working on projects including The City, Land and The University Program and The Community Land Trust Academy. Her interests include affordable housing, informal sector land and labor markets, municipal finance and institutional economics. She is a graduate from the Department of Urban Studies and Planning, Massachusetts Institute of Technology and has a master's degree in economics from the University of Cambridge, (UK). She has interned with Tellus Institute in Boston, and has been a consultant to the Ministry of Urban Development in India.

Lincoln Institute of Land Policy  
113 Brattle Street  
Cambridge, MA 02138  
Phone: 617-661-3016, ext. 130  
E-mail: [hvenkatesh@lincolninst.edu](mailto:hvenkatesh@lincolninst.edu)

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# **Local Public Finance: A Glossary**

## **Introduction**

Successful planning and implementation of a project in any sector, depends amongst other factors, perhaps most crucially, on understanding and analyzing its financial implications. Public finance is that field of economics that studies government activities and alternative means of financing government expenditures. It is concerned with governments at all levels: federal, state and local. In recent times, urban and local public finance has emerged as a separate sub-field. This is perhaps not surprising given the size of local government spending as a proportion of Gross Domestic Product in the United States. As of the year 1996, state and local government spending accounted for over 16 percent of the Gross Domestic Product (GDP) of the United States. This marked a 500 percent increase in state and local government expenditures in real dollar terms since 1960 (Garret; Leatherman, 2000). Across the world, the share of local public finance as a proportion of GDP is only likely to increase given the international trend towards decentralization, including financial decentralization for local governments. Not the least because of its growing magnitude then, a sound knowledge of basic concepts and principles in local public finance becomes an asset to any planner and public administrator operating at sub-state levels of the government.

On the premise that practicing planners, particularly those working in local government settings, need information on municipal finance, the Lincoln Institute of Land Policy (Lincoln Institute) is developing a new project on the Fiscal Impacts of Planning. The long term goal of this project, currently in its third year of operation, is to create a network of faculty interested in this topic; increase the exposure of graduate planning students to the practical importance of understanding the fiscal impacts of planning and development; support junior faculty in their development of new courses; provide useful course materials (e.g., articles, case examples, etc.); stimulate research and writing in this area, and extend the training to practicing planners

The following paper, "Local Public Finance: A Glossary", is both, a part of the above project and a part of the broader goal to disseminate information on basic concepts and principles of public finance in general and local public finance in particular. In an attempt to bridge the gap between the theory and practice of public finance, resources used for this paper come from both the academic and practical worlds, including publications of local government bodies in the United States and overseas. The targeted audience for this paper would include students in planning programs, faculty trying to develop courses on local finance and practicing planners. It should however be noted that legal definitions of some of the terms in this glossary may vary significantly from state to state.

So as to create an updated and comprehensive resource of local finance, this paper will remain a paper-in-the-making. The most current editions of the paper will be found on our website: [www.lincolnst.edu](http://www.lincolnst.edu).

## Glossary of Terms

**A batement:** a reduction or decrease in taxable value that results in a reduction of taxes after an assessment and levy

**Ability to pay principle:** states that taxes should be distributed among tax payers in relation to their financial capacities

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

**Accrued interest:** the amount of interest that has accumulated on the bond since the date of the last interest payment, and in the sale of a bond, the amount accrued up to but not including the date of delivery

**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

**Adjusted gross income:** an income concept defined by tax law—consists of taxable sources of income (net of specific adjustments) received by individuals. It includes wages and salaries, income from rent, self employment earnings, dividends, interest, pension benefit payments, net gains from the sale of assets, and other types of income not expressly exempt from taxation

**Adjustments:** modifications in the reported value of a variable, such as sale price

**Ad valorem tax:** a tax based on the value of a property

**Ag preserve credit:** a program available to qualified agricultural properties, which provides annual property tax credits

**Agency fund:** this is a type of fiduciary fund used to retain money 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 forwarded to the federal government, health care provider, and so forth (See fiduciary funds)

**Allocation function:** comprehends the actions of governments that change the deployment of resources from the allocation the market would otherwise produce

**Amortization:** the gradual repayment of an obligation over time and in accordance with a pre-determined payment schedule

**Appraisal:** (1) the act of estimating the money value of property. (2) The money value of property as estimated by an appraiser

**Appraisal methods:** the three methods of appraisal: cost approach, income approach and sales comparison approach (See cost approach, income approach and sales comparison approach)

**Appraisal ratio:** the ratio of the appraised value to an indicator of market value (See appraised value)

**Appraisal-Sale-Price Ratio:** the ratio of appraised value to the sale price of a property

**Appraise:** to make an estimate of value, particularly of the value of property

**Appraised value:** the estimate of value of a property before application of any fractional assessment ratio, partial exemption or other adjustments (See adjustments, partial exemption)

**Appraiser:** one who estimates the value of property

**Appropriation:** an authorization granted by a 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

**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

**Assessment:** (1) in general, the official act of determining the amount of tax base. (2) as applied to property tax, the official act of discovering, listing, and appraising property. (3) the value placed on property in the course of such act

**Assessment-acquisition-based:** one of a small number of non-market assessment valuation standards. A property is placed on the tax roll at its acquisition cost; usually only limited annual increases to that value are allowed until the next qualifying sale, as, for example, under California's Proposition 13 (See tax roll, Proposition 13)

**Assessment-arbitrary:** (1) assessment without consideration of such information as is reasonably available to the assessor. (2) assessment according to the "best knowledge and belief" of the assessor when a person fails to list property in accordance with law

**Assessment-area-based:** one of a small number or non-market assessment valuation standards. A property tax is placed on the tax roll at a value reflecting the land area or the surface area of an improvement (See improvement)

**Assessment date:** the date property tax liability is fixed. Assessors determine the physical status of taxable real and personal property, its ownership, fair cash value and usage classification as of that date

**Assessment district:** the administrative area in which the officer or public body responsible for making the original assessment has jurisdiction

**Assessment roll:** the basis on which property tax levy is allocated among the property owners in a jurisdiction. Synonyms include cadastre, list, grand list, abstract of ratables and rendition (See cadastre, rendition)

**Assessment Sale Ratio (ASR):** property assessed value divided by sales price. Expresses the relationship between the assessed value of a sold property and the most recent sales price of the property

**Assessed valuation:** a value assigned to real estate or other property by a government as the basis for levying taxes

**Assessment value:** percentage of the property's appraised value, which is simply the appraised value times the assessment rate

**Asymmetric information:** one party in a transaction has information that is not available to another

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

**Audit committee:** a committee appointed by or consisting of municipal officials with specific responsibility to review a community's independent audit of financial statements and to 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 areas of deficiency, if any, and presents recommendations for improvements in accounting procedures, internal controls and other matters.

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

**Available funds:** balances in the various fund types that represent non-recurring revenue sources. As a matter of sound practice, they are frequently appropriated to meet unforeseen expenses, for capital expenditures or other one time costs

**Average tax rate:** is simply a measure of an individual's tax liability as a percentage of his income

**Balanced budget incidence:** computes the combined effects of levying taxes and government spending financed by those taxes

**Balance sheet:** a statement that discloses the assets, liabilities, reserves, and equities of a fund or governmental unit at a specified date

**Before-Tax-Cash-Flow:** amount of income remaining after deducting for operating expenses and debt service but before income tax on operations is deducted (See operating expenses, debt service)

**Benefits principle (or Benefits-Received Principle):** this independent normative principle states that the beneficiaries of a particular government-spending program should have to pay for it

**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 the property owners of that area to reimburse the governmental entity for all, or part, of the costs it incurred in completing the project. Note: Sidewalks, curbing, sewers and highways are sometimes referred to as betterments but the term "improvements" is preferred (See improvements)

**Board of Appeals:** a public body (other than a court) charged with the duty of hearing and deciding appeals taken by taxpayers or tax districts on assessments established by public officers or bodies other than the courts

**Board of Review:** a public body (other than a court) having jurisdiction over one or more assessment districts charged with the duty of examining the assessment roll or rolls and empowered on appeal or on its own initiative to revise individual assessments (See assessment districts, assessment roll)

**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

**Bond buyer:** a daily trade paper containing current and historical information of interest to the municipal bond business

**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

**Bond Anticipation Note (BAN):** short-term debt instrument used to generate cash for initial project costs and with the expectation that the debt will be replaced later by permanent bonding. Typically issued for a term of less than one year, BANs may be re-issued for up to five years, provided principal repayment begins after two years

**Bond authorization:** the action of a legislative body 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 selectmen

**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

**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 a portion of, the bond amount authorized by a town meeting or city council

**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 and Poor use rating systems, which designate a letter or a combination of letters and numerals where AAA is the highest rating and C1 is a very low rating

**Borrowings:** funds obtained from repayable sources, including loans secured by the government from financial institutions and other sources, both internal and external, to finance development projects and/or budget support

**Block grants:** specific grants in categories that are very loosely or broadly defined

**Brownfield:** an industrial or commercial site that is abandoned or underused because it suffers from real or perceived continuing contamination

**Budget:** a plan for allocating resources to support particular services, purposes and functions over a specified period of time

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

**Budgetary incidence:** method of evaluating tax incidence that compares the incidence of a tax only after the revenue benefits of the tax (such as income transfers, educational benefits) have been considered

**Bundle of rights:** six basic rights associated with private ownership of property: right to use; sell; rent or lease; enter or leave; give away; and refuse to do any of these

**Cadastre:** a term commonly used in Europe to indicate an official register or inventory of all lands and/or buildings, giving the area, location, owner and either the value or estimated gross or net yield of each

**Capital:** a stock of wealth other than land

**Capital assets:** all tangible property used in the operation of government which is not easily converted into cash, and 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 a minimum initial cost

**Capital asset pricing model:** a method of measuring the long-term cost of capital for a particular stock

**Capital expenditure:** cash investments to acquire or improve an asset that will have a life of more than one year; as distinguished from cash outflows for expense items normally considered as part of the current operations

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

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

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

**Capital outlay expenditure:** a temporary increase in the tax rate to fund a capital project or make a capital acquisition

**Capital project funds:** general funds allocated for major capital projects are accounted for in these funds

**Capital revenue:** proceeds from the sale of fixed or capital assets, such as land, building, machinery, stocks and intangibles, including receipts of unrequited transfers for capital purposes from non-governmental sources

**Capitalization:** the process by which a stream of taxes becomes incorporated into the price of an asset

**Capitalization of income:** the act of determining the present value of anticipated income, especially when anticipated income is assumed to be equal to past income from the same source (See present value)

**Capitalization of taxes:** the act of determining the present value of anticipated taxes on a property and adjusting the value of the property accordingly

**Capitalization rate:** any rate used to convert an estimate of future income to an estimate of market value; the ratio of net operating income to market value (See market value, net operating income)

**Capitalized value:** the value of a property estimated by the income approach to value (See income approach)

**Cash:** Currency, coin, checks and bankers' drafts on hand or on deposit with an official or agent designated as custodian of cash and bank deposits

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

**Cash budget:** aggregate of revenues, borrowings and disbursements of the national government showing a cash deficit or surplus. It reflects the actual deposits and withdrawals of cash by the national government agencies to the Bureau of the Treasury

**Cash discount:** a discount of a billed amount if paid within a specified period

**Cash-Equivalent-Sale Price:** an indicator of market value that is a refinement over the raw sale price, in that the effects of unusual financing arrangements and extraneous transfers of personal property have been removed (See personal property)

**Cash flow:** amount of money left after subtracting operating expenses and debt service from rents collected (See operating expenses, debt service)

**Cash flow analysis:** a study of the anticipated movement of cash into or out of an investment

**Cash management:** the process of monitoring the ebb and flow of a money in an out of municipal accounts to ensure cash availability to pay bills and to facilitate decisions on the need for short-term borrowing and investment of idle cash

**Cash receipts:** any money received by a municipality or its departments whether by cash, check or electronic transfer

**Categorical grant:** a type of intergovernmental payment, which is characterized by extensive restrictions on the uses to which the funds may be "spent" by the recipient government

**Certification:** verification of authenticity. Can refer to the action of a bank, trust company, or Department of Revenue's Bureau of Accounts (BOA) in the issuance of State House Notes, to confirm the genuineness of the municipal signatures and seal on bond issues

**Certificate of Deposit (CD):** a bank deposit evidenced by a negotiable or non-negotiable instrument that provides on its face that the amount of such deposit, plus a specified interest, is payable to the bearer or to any specified person on a certain date specified in the instrument, at the expiration of a certain specified time, or upon notice in writing

**Circuit breakers:** property tax relief targeted to specific groups of tax payers where the credit/rebate usually applies to property taxes that exceed some specific percentage of a tax payer's income

**Classification:** the class that a type of property is assigned. A property's classification is based upon the existing use of the property

**Class rate:** statutory percentage applied to the taxable market value of a parcel based on the parcel's classification. Class rates are uniform throughout the state

**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 its 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

**Classified property tax:** different types or classes of property are assessed according to different assessment ratio rules, so that the effective rate varies for different types of properties

**Commitment:** an authorization to collect taxes, fees or other charges due to a municipality. For example, the assessors' commitment of real estate taxes authorizes the collector to pursue and receive payment from property owners

**Comparative sales approach:** method of assessing market values of properties which uses data from actual sales and property characteristics to estimate values for properties that are not sold

**Computer Assisted Mass Appraisal (CAMA):** an automated system for maintaining property data, valuing property, notifying owners, and ensuring tax equity through uniform valuations

**Connection fees:** charges that allow cost recovery of the cost to tie new development into existing infrastructure network

**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 a 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

**Consumer Price Index (CPI):** the statistical measure of changes, if any, in the overall price level of consumer goods and services. The index is often called the "cost-of-living index."

**Consumer surplus:** is the amount by which the sum that individuals would have been willing to pay for a good exceeds the sum they actually have to pay

**Consumption tax:** a tax on the value of all goods and services consumed within period of time.

**Community district facilities:** are separate public agencies created by cities to finance certain public facilities and services. The public facilities however must directly serve the district.

**Correspondence principle:** a result coined by Wallace Oates where the size of government corresponds to the area of benefit from the goods it provides

**Cost approach:** method of assessing market values of properties which bases the value on historic cost adjusted for depreciation and construction cost changes

**Cost of capital:** the opportunity cost of capital

**Cost index:** an index showing the variations in construction costs over time; sometimes, by extension, a set of similar numbers showing the relative cost of construction in different geographical areas

**Cost trend factor:** a factor derived from a cost index used to estimate the contemporary cost of something based on its historical cost

**Cost of Living Adjustment (COLA):** reference to language in municipal contracts that provide for annual or periodic increases in salaries and wages for employees over the course of the contract. The amount of an increase is most often negotiated based on a community's ability to pay, but is sometimes tied to the annual change in a specified index, i.e., consumer price index (CPI)

**Cost-Benefit Analysis:** a decision-making tool that allows a comparison of options based on the level of benefit derived and the cost to achieve the benefit from different alternatives

**Coupon rate:** is the rate of return specified on the face of a debt instrument (such as a bond) as opposed to the actual return (See effective yield)

**Current operating expenses:** amount budgeted for the purchase of goods and services for the conduct of normal government operations within the budget year. It includes goods and services that will be used or consumed during the budget year

**Current refunding of debt:** when the proceeds of the refunding debt are applied immediately to redeem the old debt. That is, the maturity date on the old debt coincides with the issuance date of the new borrowing obligation

**Current surplus:** excess of revenues over expenditures

**Deadweight loss:** a loss of welfare above and beyond the tax revenues collected. The price distortions caused by the imposition of a tax discourage transactions that would have otherwise taken place in its absence. Some of the welfare attributable to these transactions is recaptured in the form of tax revenue, but not all of it and this is the loss to society known as deadweight loss

**Debt authorization:** formal approval by a two-thirds vote of town meeting or city council to incur debt

**Debt burden:** the amount of debt carried by an issuer usually expressed as a measure of value (i.e., 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 capitalization rate:** debt component of an overall direct capitalization rate. Computed by dividing annual interest rate payments by the market value of debt (See market value)

**Debt rate:** interest rate on borrowed money

**Debt limit:** the maximum amount of debt that a municipality may authorize for qualified purposes under state law

**Debt policy:** part of an overall capital financing policy that provides evidence of a commitment to meet infrastructure needs through a planned program of future financing. Debt policies should be submitted to elected officials for consideration and approval

**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:** used to account for funds accumulated to pay the principal and interest on the general long-term debts of the local government

**Declaration:** a term occasionally used to designate a property list filed by a taxpayer

**Dedications:** are facilities constructed and/or donated to a city.

**Deed:** a document which, when executed and delivered conveys an interest in or legal title to a property (See title)

**Deed tax:** a deed by which title to real property, sold to discharge delinquent taxes is transferred by a tax collector or other authorized officer of the law to the purchaser at a tax sale

**Deferral:** a deferral program simply delays the time by which the property tax, or a portion of it, has to be paid

**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 letter:** notice to a delinquent taxpayer of overdue taxes typically mailed soon after the thirty day, or otherwise determined, payment period has ended

**Depreciation:** loss of value in an object relative to its original cost, whatever the cause of the loss in value

**Designated unreserved fund balance:** a limitation on the use of all or part of the expendable balance in a governmental fund

**Differential incidence:** method of evaluating tax incidence that compares the incidence of one tax to that of another tax that raises the same amount of revenues

**Discounted cash flow analysis:** a yield capitalization method used to calculate the present value of anticipated future cash flows (See yield capitalization, cash flows, present value)

**Discounting:** the process of estimating the present value of an anticipated item of income or expense by determining the amount of money which if presently invested and allowed to accumulate at compound interest, will actually equal the expected item of income or expense at the time when it becomes due

**Discount rate:** the rate of return on investment; the rate an investor requires to discount future income to its present value. The discount rate is made up of an interest rate and an equity yield rate (See present value, equity yield rate)

**Disparity reduction aid:** a general purpose aid program designed to assist in the equalization of local tax rates

**Distribution function:** relates to the influence of government on the distribution of income and wealth among individuals

**Earnings:** a general term embracing revenue, profit or net income

**Earnings-Price-Ratio (E/P):** the ratio of earnings per share available to common stockholders of a specific company for an accounting period to the market price per share of the common stock of that company. The reciprocal of the E/P ratio is the price-earnings ratio (P/E). The E/P ratio is a direct capitalization rate for equity and not a yield rate (See equity, yield rate)

**Easement:** A right held by one person to use the land of another for a specific purpose, such as access to other property

**Effective gross income:** the potential gross rent, less vacancy and collection loss plus miscellaneous income (See potential gross rent, vacancy and collection loss)

**Effective tax rate:** the actual tax rate applicable to a particular situation, which usually differs from the rate levied by statute. For instance with the personal income tax, the effective tax rate is the proportion of total income paid, which may be different from the statutory rate after all adjustments to income have been made

**Effective yield:** the actual return on an investment rather than the yield anticipated or promised when the investment is made

**Efficiency:** an economy is efficient if it is not possible to make at least one person better off without making someone else worse off

**Eminent domain:** the power of a government to take property for public purposes. Frequently used to obtain real property that cannot be purchased from owners in a voluntary transaction. Property owner receives fair compensation (market value at the time of the taking) as determined through court proceedings.

**Encumbrance:** a reservation of funds to cover obligations arising from purchase orders, contracts, or salary commitments that are chargeable to, but not yet paid from, a specific appropriation account

**Enterprise funds:** is a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. It allows a community to demonstrate to the public the portion of total costs of a service that is recovered through user charges and the portion that is subsidized by the tax levy, if any. With an enterprise fund, all costs of service delivery-- direct, indirect, and capital costs-- are identified. This allows the community to recover total service costs through user fees if it chooses. Enterprise accounting also enables communities to reserve the "surplus" or

retained earnings generated by the operation of the enterprise rather than closing it out to the general fund at year-end. Services that may be treated as enterprises include, but are not limited to, water, sewer, hospital, and airport services

**Equalization:** the process by which an appropriate government body attempts to ensure that all property under its jurisdiction is assessed at the same level of assessment

**Equalized valuations (EQVs):** the determination of an estimate of the fair market value of all property as of a certain taxable date. EQVs have historically been used as a variable in distributing some state aid accounts and for determining county assessments and other costs

**Equity:** In assessments, the degree to which assessments bear a consistent relationship to market value. In popular usage, a synonym for tax fairness (See market value, horizontal equity, vertical equity)

**Equity yield rate:** the required rate of return on equity capital

**Escrow:** a written instrument that by its terms imparts a legal obligation but that is placed by the grantor in the hands of a third party, to be held by him or her until the occurrence or non-occurrence of a specified event, and then only to be delivered to the grantee and to take effect

**Estimated market value:** represents the assessor's estimate of the property's actual market value. Market value is defined as the most probable price that a well-informed buyer would pay a well-informed seller for a property without either party being unduly forced to buy or sell

**Estimated receipts:** a term that typically refers to anticipated local revenues. Projections of local revenues are often based on the previous year's receipts and represent funding sources necessary to support a community's annual budget

**Exactions:** are conditions or financial obligations imposed on developers to aid the local government in providing public services. Exactions can take several forms: impact fees levied on developers, financing of infrastructure improvements, and land donations. Typically, exactions provide funds for water and sewer lines, road construction, new schools and parks. The power to exact concessions from developers is part of local government's police power. If legitimate, exactions further a public interest

**Excess levy capacity:** the difference between the levy limit and the amount of real and personal property taxes actually levied in a given year

**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 veterans, blind individuals, surviving spouses, and persons over 70 years of age

**Externality:** a situation in which one person's behavior affects the welfare of another in a way that is not transmitted by market prices

**Expendable trust:** a fund, administered by the treasurer, from which both principle and interest can be expended for the purpose specified and agreed upon when the money was donated or transferred to the community

**Expenditure:** an outlay of money made by municipalities to provide the programs and services within their approved budget

**Extraordinary income:** collections derived from the repayment of loans and advances made by the government as well as from other non-recurring sources

**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 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 expendable trust, non-expendable trust, pension trust, and agency funds

**Financial statement:** a presentation of the assets and liabilities of a community as of a particular date and most often prepared after the close of the fiscal year

**Financing:** means by which a government provides financial resources to cover a budget deficit or allocated financial resources arising from a budget surplus

**Fiscalization of land use:** strategies that explicitly frame land use planning as a net revenue enhancing process

**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 that are legally or contractually mandated such as retirement, FICA/Social Security, insurance, debt service costs or interest on loans

**Fixed operating expenses:** those costs of doing business that do not vary with occupancy or output and that have to be paid whether the property is occupied or vacant

**Float:** the difference between the bank balance for a local government's account and its book balance at the end of the day. The primary factor creating float is clearing time on

checks and deposits. Delays in receiving deposit and withdrawal information also influence float

**Free cash -- (Also Budgetary Fund Balance):** remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown on the tax recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash

**Freeze:** a property-tax relief mechanism. A freeze can apply at any point in the calculation of the property tax-the base (assessed value), the rate or the tax amount itself

**Full accrual -- Basis of Accounting:** a method of accounting that recognizes the financial effect of transactions, events, and interfund activities when they occur, regardless of the timing of related cash flows

**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

**Fund accounting:** organizing the financial records of a municipality into multiple, segregated locations for money. A fund is a distinct entity within the municipal government in which financial resources and activity (assets, liabilities, fund balances, revenues, and expenditures) are accounted for independently in accordance with specific regulations, restrictions or limitations

**Fund balance:** the difference between assets and liabilities reported in a governmental fund. Also known as fund equity

**General fund:** the fund used to account for most financial resources and activities governed by the normal town meeting/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, are insufficient to cover the cost to provide the particular service, general fund money is used to close the gap in the form of a subsidy. The subsidy may or may not be recovered by the general fund in subsequent years

**General ledger:** the accountant's record of original entry, which is instrumental in forming a paper trail of all government financial activity

**Generally Accepted Accounting Principles (GAAP):** uniform minimum standards and guidelines for financial accounting and reporting that serve to achieve some level of standardization.

**GIS -- Geographical Information System:** a computerized mapping system and analytical tool that allows a community to raise information on a parcel, area or community wide basis. It also allows parcels to be identified and sorted on the basis of certain specified criteria. The system can integrate assessors' property data, water and sewer line networks, wetlands, floodplains and as well as other data

**Governing body:** a board, committee, commission, or other legislative body including the school committee of a municipality

**Governmental Accounting Standards Board (GASB):** the ultimate authoritative accounting and financial reporting standard-setting body for state and local governments

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

**Grant Anticipation Notes—(GANS):** short term, interest bearing notes issued by a government to raise capital to be repaid by grants proceeds which are anticipated at a later date. GANS allow the recipient of the grant to begin carrying out the purpose of the grant immediately

**General grants:** those made without use restrictions or with very loose restrictions

**General obligation bond:** pledge full faith and credit of the issuing government as security. This means that the issuing government must use funds from any available source to pay the interest and repay the principal to the investors

**Government bonds:** bonds that do not meet the criteria for industrial development bonds and/or private activity bonds. Government bonds are tax exempt

**Grants:** all non-repayable transfers received from other levels of government or from private individuals, or institutions including reparations and gifts given for particular projects or programs, or for general budget support

**Green Acres Land:** a real estate parcel of at least 10 acres, the owner of which is engaged in agricultural pursuits and otherwise qualifies for a deferment of assessment and taxes payable; intended to preserve farmland from the pressures of development

**H**ome rule: a rule by which cities and towns create, adopt, revise and amend local charters

**Homestead exemptions:** tax-relief method for houses where a specific amount of homestead value is exempted from taxation

**Horizontal equity:** tax evaluation criterion that requires that people in equal positions should be treated equally

**Horizontal tax overlapping:** instance where taxes are imposed on businesses and individuals in different taxing jurisdictions by the same level of government: for example, in different cities

**Horizontal equity:** in a tax system horizontal equity means that people of similar means are taxed similarly

**I**mpact: a reference to the person or persons who are required by statute to pay the tax, as opposed to the incidence of the tax, which refers to those ultimately bearing the burden of the tax. Someone who rents a dwelling may bear some of the *incidence* of the property tax although the landlord bears the *impact* (See incidence)

**Impact fees:** are charges assessed by local governments against new development projects that attempt to recover the cost incurred by government in providing the public facilities required to serve the new development. Impact fees are only used to fund facilities, such as roads, schools, and parks, that are directly associated with the new development

**Improvement:** buildings, other structures, and attachments or annexations to land that are intended to remain so attached or annexed, such as sidewalks, trees, tunnels, drains, sewers. Note: Sidewalks, curbing, sewers and highways are sometimes referred to as betterments but the term “improvements” is preferred (See betterments)

**Incidence:** a reference to the person or persons who ultimately bear the burden of the tax, are required by statute to pay it and who may pass some or all of the burden to someone else

**Income approach:** method of assessing market values of properties which measures value by the present value (sometimes called capitalized value) of the future net income expected to be generated by the property (See present value)

**Increasing returns to scale:** proportional change in all production inputs causes a greater than proportional change in output

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

**Industrial development bonds:** bonds in which more than 25 percent of the funds were used by a private firm or for which more than 25 percent of the debt service was to be paid from private business activity (See debt service)

**Intergovernmental grants:** sometimes called grant-in-aid, are transfers of funds from one government to another, most often from a higher-level government in the federal system to a set of lower level governments

**Intergovernmental revenues:** funds exchanged between levels of government, usually from the federal government to state governments or from state governments to local government

**Internal rate of return (IRR) method:** criteria used to determine feasibility of public projects. The internal rate of return is the rate, which brings the present value of the benefit flow into equality with the initial outlay. If the internal rate of return exceeds the community's discount rate (time preference rate), the project is economically feasible (See present value)

**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.

**Judgment:** an amount to be paid or collected by a governmental unit as a result of a court decision, including a condemnation award in payment for private property taken for public use

**Land:** in economics, the surface of the earth and all the natural resources and natural productive powers over which possession of the earth's surface gives man control. In law, a portion of the earth's surface, together with the earth below it, the space above it, and all things annexed thereto by nature or by man

**Land ratio:** the ratio of land to building area

**Laffer curve:** considers the inverse relationship between tax rates and tax bases and the impact of this relationship on tax revenues

**Land schedule:** a table, typically developed by assessors and revaluation consultants, which is used to arrive at consistent assessed values for land within defined neighborhoods. Based on an analysis of market sales, neighborhood prime site value, secondary site value, and so forth, are established within a computer program. As the property characteristics of other land parcels are entered, the computer program assigns a value based on the land schedule

**Levy:** the amount of money that a taxing district needs to raise through property taxes

**Lien:** an encumbrance against property for money, either voluntary or involuntary. All liens are encumbrances but all encumbrances are not liens (See encumbrance)

**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

**Lindhal equilibrium:** situation with charges or tax shares equal to marginal benefit shares

**Line-Item budget:** a budget that separates spending into categories, or greater detail, such as supplies, equipment, maintenance, or salaries, as opposed to a program budget

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

**Linkage fees:** a type of exaction for housing. They are used to collect money from new commercial and industrial development to provide affordable housing.

**Local acceptance statute:** a requirement placed within the language of a General Law that a community affirmatively accept the statute by town meeting or city council action before availing itself of the provisions of the particular law

**Local appropriating authority:** in a town, the town meeting has the power to appropriate funds, including the authorization of debt. In a city, the city council has the power

**Local expenditure limit:** limit on the maximum allowed level of expenditure, usually set as a maximum allowed annual percentage increase

**Local Government Aids (LGA):** dollars (in the form of general distribution aid) provided to cities for property tax relief

**Local public good:** a type of public good that can be simultaneously consumed in equal quantities by all, but only in a limited spatial area

**Local receipts:** locally generated revenues, other than real and personal property taxes

**Local revenue limit:** limit on tax revenue for a specific tax or overall—what is often called a levy limit in the case of local property tax

**Local tax rate:** rate applied to the tax capacity of a property to determine property tax due. Formerly known as tax capacity rate, and prior to that, mill rate

**Local tax rate limit:** oldest and most common form of local taxing limit is a maximum property tax rate, either for overall property taxes or only those for specific purposes

**Location tax:** consumption taxes based on the origin principle with tax based on the location of the sale

**Long-term debt:** community borrowing, or outstanding balance at any given time, involving loans with a maturity date of 12 months or more

**Lump sum tax:** a tax for which the individual's liability does not depend on how much the individual earns (for example: a 10% income tax is not a lump sum tax since it depends on how much the individual earns. But a head tax of \$500 independent of earnings is a lump sum tax)

**Maintenance budget:** a no-growth budget that continues appropriations for programs and services at their current year levels. The actual appropriation to maintain programs and services may still increase due to inflation or other factors

**Manufacturer's sales tax:** sales tax imposed only on the sale of a product by the manufacturer to the distributor, wholesaler or retailer

**Marginal cost:** the change in a firm's total cost per unit change in its output level

**Marginal revenue:** the change in a firm's total revenue per unit change in its sales level

**Marginal utility:** the change in the total utility to a consumer that results from a one-unit change in the consumption level of an item

**Marginal utility theory:** theory of consumer choice that says that consumers will maximize welfare by allocation of their budget such that the marginal utility per dollar is equalized across all purchased goods

**Marginal social benefit:** gain to society from one small change

**Marginal social cost:** loss to society from one small change

**Marginal tax rate:** measures the additional tax liability for every additional dollar in income

**Market failure:** markets fail to allocate resources efficiently. An economy may be inefficient for 2 reasons—market power and nonexistence of markets

**Market price:** the price a particular buyer and seller agree to in a particular transaction; the amount actually paid

**Market rate of return:** the typical return on an investment in a given type of property in a given market. It is distinct from the actual rate of return indicated by a property's income

**Market rent:** the rent currently prevailing in the market for properties comparable to the subject property. Market rent is capitalized into an estimate of value in the income approach

**Market value:** is the major focus of most real property appraisal assignments. Both economic and legal definitions of market value have been developed and refined. A current economic definition agreed upon by agencies that regulate federal financial institutions in the United States is:

The most probable price (in terms of money) which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

The buyer and seller are typically motivated;

Both parties are well informed or well advised, and acting in what they consider are their best interests;

A reasonable time is allowed for exposure in the open market;

Payment is made in terms of cash in United States dollar or in terms of financial arrangements comparable thereto;

The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale

**Mass appraisal:** use of standardized procedures for collecting data and appraising property to ensure that all properties within a municipality are valued uniformly and equitably

**Maturity date:** the date that the principal of a bond becomes due and payable in full

**Merit goods:** commodities that ought to be provided even if the members of society do not demand them

**Mill:** once the assessment value is determined, the final tax owed is determined by the mill levy. One *mill* is equal to 1/1000 of assessed value. The final property tax owed is computed by multiplying each \$1,000 in assessed value by the mill levy. Mill levies vary by city and county, but a range of 90 to 150 mills (\$90 to \$150 in tax for every \$1,000 in assessed value) is common

**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. Also referred to as foundation amount in some states

**Modified accrual basis of accounting:** a method of accounting that recognizes revenues in the accounting period in which they become available and measurable

**Monopoly:** is an extreme case of market power where there is only one firm in the market and all entry is blocked

**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. "Municipals" (*i.e.*, municipal bonds) include not only the bonds of all political subdivisions, such as cities, towns, school districts, special districts, but also bonds of the state and agencies of the state

**Multistage gross receipts tax:** sales tax levied on all sales or transactions, that is, at all stages of production

**Natural monopoly:** exists if the production of a good or service exhibits increasing returns to scale, so that the long run average cost continues to decrease as output increases (See increasing returns to scale)

**New Growth:** the additional tax revenue generated by new construction, renovations and other increases in the property tax base during a calendar year. It does not include value

increases caused by normal market forces or by revaluations. New growth is calculated by multiplying the assessed value associated with new construction, renovations and other increases by the prior year tax rate. The additional tax revenue is then incorporated into the calculation of the next year's levy limit. For example, new growth for FY03 is based on new construction, etc. that occurred between January and December, 2001. In the fall of 2002, when new growth is being estimated to set the FY03 levy limit, the FY02 tax rate is used in the calculation

**Net income:** the income expected from property after deductions of allowable expenses

**Net lending:** advances by the national government for the servicing of government guaranteed corporate debt during the year, net of repayments on such advances. Includes loans outlays or proceeds from program loans relented to government corporations

**Net operating income:** annual net income after operating expenses are subtracted from effective gross income (See effective gross income, operating expenses)

**Net present value (NPV) method:** criteria used to determine feasibility of public projects. The net present value is obtained by subtracting initial outlays from the gross present value of the benefits calculated by discounting at the community time preference rate. A project is acceptable if the net present value is positive

**Nominal tax rate:** the stated tax rate, which does not necessarily correspond to the effective tax rate (See effective tax rate)

**Non-excludability:** consumption of good is nonexcludable when it is either very expensive or impossible to prevent anyone from consuming the good

**Non-expendable trust:** a trust fund administered by the treasurer, from which principle, but not interest, can be expended for the purposes specified by the donor or agreed upon when the money was donated or transferred to the community

**Non-matching or lump-sum grant:** grant amount does not change as a recipient government changes its taxes or expenditures

**Non-recurring revenue source:** a one-time source of money available to a city or town. By its nature, a non-recurring revenue source cannot be relied upon in future years. 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

**Non guaranteed bond or revenue bond:** only revenues from a particular source are pledged to pay the interest and repay the principal to the investors

**Non-tax revenue:** revenue collected from sources other than compulsory tax levies. Includes those collected in exchange for direct services rendered by government agencies to the public, or those arising from the government's regulatory and investment activities

**Objects of expenditures:** a classification of expenditures that is used for coding any department disbursement, such as "personal services," "expenses," or "capital outlay"

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

**Omitted and revised values:** corrections, submitted by assessors, after the annual commitment is made to reverse unintentional or inadvertent mistakes that causes some owners not to be assessed or to be incorrectly assessed for the fiscal year

**Operating expenses:** expenses necessary to maintain the flow of income from a property. These expenses include the costs of property insurance, heat, water and other utilities repairs and maintenance; reserves for items such as heat, air-conditioning systems, water heater, built-in appliances, elevators, whose economic life will expire before that of the structure itself; management and other miscellaneous items necessary to operate and maintain property. Not considered operating expenses are depreciation charges, debt service, income taxes, capital improvements and personal and business expenses of the owner (See depreciation, debt service, capital improvements)

**Operating budget:** is a detailed operating plan, expressed in terms of estimated costs and achievements in relation to estimated revenues. It includes the estimates of: (1) the program, projects, services, and activities included in the operating plan; (2) the resources or revenues available for financing the operating plan; (3) the expenditure requirements of the operating plan

**Opportunity cost:** the principle that the cost of a resource for one use is the value of the resource in its best alternative use

**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

**Overnight repurchase agreement:** a contract between a financial institution and a community authorizing the financial institution to operate a sweep account on behalf of the municipality

**Ownership:** the rights to the use of property, to the exclusion of others

**Own-source revenue:** revenue a government raises by means of its own legislation or other action, as opposed to grants-in-aid or transfers from another government. State taxes are an own-source revenue for the state that collects them, as opposed to federal Medicaid reimbursements to the state.

**Pareto efficiency:** that allocation of resources at which the only way to make one person better off is to make another person worse off

**Partial exemptions:** the amount of otherwise-taxable assessed value removed from tax liability by constitutional and/or statutory action. Examples of partial exemptions are those that qualify for homesteads, veterans and senior citizens (See homesteads)

**Participatory budget:** a mechanism of local government, which brings local communities closer to the decision-making process around the public budget.

**Pareto improvement:** a reallocation of resources that makes one person better off without making anyone else worse off

**Payments in Lieu of Taxes:** an agreement between a municipality and an entity not subject to taxation, such as charitable or educational organizations, in which the payer 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

**Performance audit:** such audits examine the implicit assertion of management, that it is meeting its responsibilities efficiently and effectively. Performance audits typically focus on individual departments, agencies, activities, or functions within a government.

**Performance budget:** a budget that stresses output both in terms of economy and efficiency

**Permanent debt:** borrowing by a community typically involving a debt service amortization period of greater than one year (See amortization)

**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

**Plat:** a map intended to show the division of land into lots or parcels. Once the land is recorded with the county auditor, land included in the plat can then be legally described by reference to the plat

**Plat deferral:** a reduction in market value of a newly platted lot. One-third of the difference between the market value of the parcel before platting and the market value of the lot after platting is added in each of the three assessment years following the platting.

Hence, taxes are calculated on a lower market value during the first three years following the initial platting or until construction begins, whichever comes first

**Poll tax:** a capital tax levied equally on every adult in the community

**Potential gross income:** the sum of potential gross rent and miscellaneous income that is the income from rent and other sources that a property could generate with normal management, before allowing for vacancies, collection losses and normal operating expenses (See potential gross rent, operating expenses)

**Potential gross rent:** the total rent a property would produce if 100 percent occupied at market rent (See market rent)

**Prevent value:** of a future amount of money is the maximum amount you would be willing to pay today for the right to receive the money in the future

**Principal:** the face amount of a bond, exclusive of accrued interest

**Private-activity bonds:** bonds where more than 10 percent of the bond funds are used by a private business or individual and if more than 10 percent of the principal or interest is secured by payments from a private business or individual

**Producer surplus:** is the amount of income individuals receive in excess of what they would require to supply a given number of units of factors of production

**Progressive taxation:** the burden of taxation increases with income, meaning higher income individuals spend a greater percentage of their income on the tax than lower income individuals

**Property:** an aggregate of things or rights to things. These rights are protected by law. There are two basic types of property: real and personal.

*Real property:* consists of the interests, benefits and rights inherent in the ownership of land plus anything permanently attached to the land or legally defined as immovable; the bundle of rights with which ownership of real estate is endowed. To the extent that “real estate” commonly includes land and any permanent improvements, the two terms are sometimes understood to have the same meaning. Also called “realty”

*Personal property:* consists of every kind of property; movable without damage to itself or the real estate subdivided into tangible and intangible. Also called personalty

**Property tax:** generally, a tax levied on both real and personal property; the amount of the tax is dependent on the value and the class of the property. The actual tax will be dependent upon the levies, tax base and state aids

**Property tax levy:** the amount of taxes required to be raised in a jurisdiction by a government body with taxing authority

**Property tax credits or rebates:** state-government financed credit or rebate for property taxes paid to local governments

**Proposition 13:** constitutional amendment in the state of California that limits growth of property taxes. The amendment sets assessed values of each property equal to market value in 1976 and limits the annual growth from that value to no more than 2 percent, except when a property is sold or added to by new construction. When a property is sold, it is reassessed at the current market value and any newly constructed portions of a property are similarly assessed at current value

**Proportional taxation:** the burden of taxation remains the same over all levels of income

**Public good:** a commodity that is nonrival in consumption—the fact that one person consumes it does not prevent anyone else from doing so as well

**Purchase order:** an official document or form authorizing the purchase of products and services

**Raise and Appropriate:** A phrase used to identify a funding source for an expenditure or expenditures which refers to money generated by the tax levy, or other local receipt

**Ramsay's rule of optimal taxation:** produces the conditions set forth by (Ramsey, 1927), who argued that the excess burden of taxation will be minimized by setting the ratio of tax rates inversely proportional to price elasticities of demand for both products

**Real property:** land, buildings and the rights and benefits inherent in owning them

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

**Receivables:** A expectation of payment of an amount certain accruing to the benefit of a city or town

**Reconciliation of cash:** Periodic process where the accountant and treasurer compare records to confirm available cash in community accounts. DOR requires an annual

reconciliation of cash without variances to be submitted with as balance sheet as a prerequisite to certifying a community's free cash.

**Reconciliation of receivables:** periodic process where the accountant and collector compare records to confirm amount of taxes outstanding. DOR requires an annual reconciliation of receivables without variances to be submitted with a balance sheet as a prerequisite to certifying a community's free cash.

**Recurring revenue source:** a source of money used to support municipal expenditures which by its nature can be relied upon, at some level, in future years

**Regressive taxation:** the burden of taxation decreases with income, that is, higher income individuals spend a smaller percentage of their income on the tax than lower income individuals

**Refunding of debt:** transaction where one bond issue is redeemed and replaced by a new bond issue under conditions generally more favorable to the issuer

**Rent:** in economics, the payment received by an owner of something being bought or rented in excess of the minimum amount for which he or she would have sold or rented it.

**Rendition:** term used synonymously with declaration (See declaration)

**Repurchase Agreement (Repo):** an agreement whereby a local government transfers cash to a financial institution, and the financial institution transfers securities to the local government and promises to repay the cash plus interest in exchange for the same securities within a given number of days

**Requisition:** form used by the requesting department when ordering products and services from external vendors. This document generates a purchase order (See purchase order)

**Reserve fund:** an amount set aside annually within the budget of a city or town to provide a funding source for extraordinary or unforeseen expenditures

**Residential exemption:** an option that allows a community to grant an exemption to owner occupied residential properties of up to 20 percent of property's assessed value. In effect, the exemption shifts a portion of the tax burden, within the residential class, away from lower valued, single-family homes to multi-family properties, apartment buildings and non-resident property owners.

**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 therefore pay proportionately lower share of the total levy

**Retail sales tax:** sales tax levied on final sale of goods and services for private consumption

**Retained earnings:** an equity account reflecting the accumulated earnings of an enterprise fund that may be used to fund capital improvements, to reimburse the general fund for prior year subsidies, to reduce user charges and to provide for enterprise revenue deficits (operating loss)

**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 will depend on the assessors' analysis and consideration of many factors, including, but not limited to, the status of the existing valuation system, the results of an in-depth sales ratio study, and the accuracy of existing property record information. Every three years, assessors must submit property values to the DOR for certification. Assessors must also maintain current 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 his property

**Revenue:** a cash inflow which does not increase the liability of the government

**Revenue deficit:** the amount by which actual revenues at year-end fall short of projected revenues and are insufficient to fund the amount appropriated. In such a case and unless otherwise funded, the revenue deficit must be raised in the following year's tax rate

**Short-term debt:** outstanding balance, at any given time, on amounts borrowed with a maturity date of 12 months or less

**Single audit act:** for any community, which expends \$300,000 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 where a community may exempt up to 10 percent of the value of Class Three, Commercial parcels. 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 ten persons

**Special assessment exemption:** full discharge from the payment of betterments and special exemptions granted only to government properties occupied for public purposes

**Special purpose fund:** money set-aside by appropriation for specific purposes authorized by statute only. Money remains in the fund from year-to-year, but unlike special revenue fund balances, can be diverted to other uses by vote of the appropriating authority.

**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.

**Special tax bonds:** are bonds that can be financed through several means including a parcel tax, or increases to such General Fund taxes as the Transient Occupancy Tax (TOT) and Utility Users Tax (UUT).

**Stabilization function:** involves the influence of the government on the overall level of economic activity

**Surcharge:** an incremental increase in a particular, already existing charge, that is, an amount added to a tax, a fee, a fine or penalty

**Surety bond:** a performance bond that protects the municipality against any financial loss arising from a breach of public trust by an employee who collects money on behalf of the community

**Surplus revenue:** the amount by which cash, accounts receivable, and other assets exceed liabilities and reserves.

**Sweep account:** a municipal bank account from which the host financial institution electronically transfers all or part of the balance over a specified threshold to a temporary investment elsewhere for the benefit of a higher, overnight investment return. At the end of the overnight investment period, the funds are returned to the municipal account and are available for use.

**Spatial externalities:** occur when the spatial distribution of the costs or benefits of government service is not confined to the jurisdiction boundaries of the providing government. Non residents either pay part of the costs or enjoy part of the benefits of a government's service

**Special assessments:** charges levied on owners of property to defray the costs of specific improvements such as paving, drainage, or irrigation facilities and apportioned according to the assumed benefits to the property affected

**Subsidy:** payment from the government that lowers the price or cost of some economic activity to individuals or businesses

**Sumptuary taxes:** excise taxes intended to change consumer behavior, reducing consumption of goods that create consumption externalities or those that are otherwise determined to be socially undesirable

**Tailings:** Unclaimed municipal funds, or a repository, referred to as a "tailings account," for the retention, until eventual disposition, of unclaimed funds in the custody of a municipality

**Tap fees:** typically known as connection fees, are exactions that are used to fund capital improvements

**Tax anticipation notes:** a short-term note issued to provide cash to cover operating expenses in anticipation of tax proceeds

**Tax effort:** is defined as taxes as a fraction of some measure of ability to pay

**Tax incidence:** refers to which individuals bear the burden of a tax *after* the economy has adjusted to changes caused by the taxes

**Tax increment financing (TIF):** a method of financing public investments and infrastructure improvements where property tax revenue generated by new construction in a designated area is deposited in a special fund and used to pay for public improvements within the same designated area. A more formal explanation of TIF is that new tax revenue generated by increased assessed value within the designated district resulting from direct and indirect real estate investment is captured by the TIF authority and used to pay for public development costs rather than to pay for general government services

**Tax maps:** used to determine the location of the property, indicate the size and shape of each parcel, and show its 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 mix:** combination of taxes and tax rates used by each state or local government

**Tax shifting:** instance when a tax levied on one person is shifted to another

**Tax title:** a collection procedure that secures a city or town's lien on real property and protects the municipality's right to payment of overdue property taxes. Otherwise, the lien expires if five years elapse from the January 1 assessment date and the property has been transferred to another owner. If amounts remain outstanding on the property after issuing a demand for overdue property taxes and after publishing a notice of tax taking, the collector may take the property for the city or town. After properly recording the instrument of taking, the collector transfers responsibility for collecting the overdue

amounts to the treasurer. After six months, the treasurer may initiate foreclosure proceedings

**Tax title foreclosure:** the procedure initiated in Land Court by a city or town treasurer to obtain legal title to real property already in tax title and on which property taxes are over due

**Tax title redemption:** the act of a property owner to pay overdue taxes, plus any fees, charges, other costs and interest, on real property which the community had placed in tax title to secure its lien. The taxpayer's right to redeem terminates when the treasurer files a petition to foreclose on the property in the Land Court

**Tax roll:** a list, usually published by a county, containing the descriptions of all parcels in the county, the names of the owners (or those receiving the tax bill), the assessed value and tax amount.

**Taxes on domestic goods and services:** taxes levied on the domestic production, sale or transfer, leasing, use or delivery of goods, and rendering of services

**Taxes on income and profit:** taxes imposed on all taxable income earned or received by a taxpayer whether an individual, partnership, or corporation, during a particular period of time, usually lasting one year.

**Taxes on international trade and transactions:** the sum of import and customs duties, and other international trade-related tax collections of the national government

**Temporary debt:** borrowing by a community in the form of notes and for a term of one year or less

**Title:** the union of all elements constituting proof of property ownership or the instrument that is evidence of ownership

**Transient Occupancy Tax (TOT):** taxes usually levied for occupying lodging in a hotel, motel, inn or tourist home

**Triennial certification:** the Commissioner of Revenue, through the Bureau of Local Assessment, is required to review local assessed values every three years and to certify that they represent full and fair cash value (FFCV)

**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

**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

**Turnover tax.** a tax, which has as its base the total value of sales at each level of production

**Two part pricing:** charging different prices for different quantities of a service

**Two-rate tax/split rate/graded property tax:** a property tax rate applied to the value of land and separate from the property tax rate applied to the value of the structure on that land. Henry George advocated a special version of a two-rate tax, arguing for zero tax on structures and high tax rates in land (high enough to generate necessary revenue)

**User fees:** are payments for the use of a publicly provided service, such as state parks, sewage and water services and toll roads

**Use tax:** also frequently referred to as “compensating use tax.” A tax generally levied at the same rate and on the same base as the sales tax on the use, consumption, or storage of goods and services in a state (and, where applicable, locality). A compensating use tax is required to be paid by customers who purchase goods outside the state and then bring them into the state for use, storage, etc. States are also beginning to levy use taxes on services that are obtained from out-of-state providers but consumed in state

**Uncollected funds:** recently deposited checks, 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. As such, it is the exact opposite of an override

**Undesignated fund balance:** monies in the various government funds as of June 30 which are neither encumbered nor reserved, and are therefore available for expenditure once certified as part of free cash

**Unfunded mandate:** a requirement imposed by law, regulation or order without underlying financial support, thereby resulting in direct or indirect costs to the body made responsible for its implementation

**Uniform Municipal Accounting System (UMAS):** UMAS succeeds the so-called Statutory System (STAT) and is regarded as the professional standard for municipal accounting in Massachusetts. As a uniform system for local governments, it conforms to Generally Accepted Accounting Principles (GAAP), offers increased consistency in

reporting and record keeping, as well as enhanced comparability of data among cities and towns

**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

**Utility Users Tax (UUT):** taxes that can be levied on such utilities as electricity, gas, water, and telephone.

**Vacancy and collection loss:** the amount of money deducted from potential annual gross income to reflect the effect of probable vacancy and turnover, or nonpayment of rent by tenants. Vacancy and collection loss is commonly expressed as a percentage of potential annual gross income and it should be based on market research not actual rental history of a property

**Vertical equity:** tax evaluation criterion that requires that taxes should distribute burdens fairly across people with different abilities to pay

**Vertical tax overlapping:** instance where two or more levels of the government use the same tax base: federal, state, and local governments, for example may all levy a tax on personal income

**Voucher:** a document or form authorizing the holder to redeem it for cash or credit in an amount certain.

**Welfare economics:** branch of economic theory concerned with the social desirability of alternative economic states. The theory is used to distinguish the circumstances under which markets can be expected to perform well from those under which markets fail to produce desirable results

**Yield capitalization:** any of the several methods used in the income approach to value

**Yield rate:** the return on investment applicable to a series of incomes that results in the present value of each.

**Yield to maturity (YTM):** the average rate of return in outstanding debt issues taking into consideration current price, interest payments and capital gains or losses at maturity of the issue

**Z**ero based budget: a budget building technique where each department begins at zero and adds the cost of essential programs up to an established funding limit. Each year the process begins again at zero prompting close scrutiny and prioritization of costs annually.

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