

Brief Glossary of Financial Management Terms

Note: The following glossary is designed to help non-finance experts understand some of the terminology used in public agency financial management. Public agency financial management frequently involves terms that are unfamiliar to non-experts, the definitions of which also involve other unfamiliar terms. The definitions and explanations offered below sometimes sacrifice technical accuracy in order to promote a general understanding of what a term means.

The Institute for Local Government encourages those that wish absolute technical accuracy to consult additional sources.

Accounting Standards

Generally accepted accounting principles (sometimes referred to by the acronym GAAP) published by the Governmental Accounting Standards Board (sometimes referred to by the acronym GASB) that guide local and state agencies' recording and reporting of financial information. The standards establish such guidelines as when transactions are recognized and annual financial report content.

Accrual Basis Accounting

An accounting method in which revenues (or income) are entered into the accounting system when they are payable (even though the money may not have been received yet), and expenses are recognized when the commitment to pay is made (even though no payment may have occurred yet). *Compare with Cash Basis Accounting.*

Bond

An interest-bearing promise to repay a specified sum of money borrowed (known as the principal amount) by a specified date. *See also "General Obligation Bonds."*

CalTRUST

A joint powers authority created by public agencies to provide a safe and convenient method for public agencies to pool their assets for investment purposes.

Capital Budget

A spending plan for improvements to or acquisition of land, facilities, and infrastructure. The capital budget balances revenues and expenditures, specifies the sources of revenues, and lists each project or acquisition.

Capital Improvement Program (CIP)

The section in the agency's budget for capital improvement projects, such as street or park improvements, building construction, and various kinds of major facility maintenance.

Capital Outlay	Spending that results in the acquisition of or addition to the agency's land, buildings, equipment, machinery, vehicles, and the like to provide services to the community (sometimes these are referred to as "fixed assets"). .
Cash Basis Accounting	An accounting method in which revenues are entered into the agency's accounting system when the cash is received and spending is entered into the system when the agency makes a payment. To comply with generally accepted accounting principles, local agencies must use accrual basis accounting, rather than cash basis. <i>Compare with "Accrual Basis of Accounting."</i>
Construction / Development Tax	A tax imposed on development and/or the availability or use of public agency services. <i>See also "Development Impact Fees."</i>
Contingency	In budgets, an amount that is set aside to meet unforeseen circumstances.
Debt Financing	Issuing bonds and other kinds of debt instruments to finance agency activities in service to the public.
Debt Service	Annual principal and interest payments an agency owes on money that it has borrowed.
Debt Service Funds	One or more funds in an agency accounting system established to track payments made to repay principal and interest on debt.
Development Impact Fees	Amounts charged in connection with land development to pay for facilities or services that will be needed to serve the new development that are tied to the proportionate costs of providing those facilities or services to that development.
Enterprise Fund	A separate fund used to account for services supported primarily by service charges. An example would be a solid waste fund supported by charges solid waste service receivers pay.
Entitlement Program	A benefit program in which funding is allocated according to eligibility criteria. All persons or agencies must meet the criteria specified by federal or state laws in order to receive the benefit.
Estimated Revenue	The amount of revenue the agency expects receive during a fiscal year.

Expenditure	An amount paid for goods and services associated with the provision of public services, including payments for debt retirement and capital outlays.
Fee	A charge for the cost of providing a particular service. Public agency fees may not exceed the estimated reasonable cost of providing the particular service or facility for which the fee is charged, plus overhead.
Fines, Forfeitures and Penalties	Revenues received and/or bail monies forfeited upon when an individual is convicted of a misdemeanor or municipal infraction.
Full Faith and Credit	When a local agency uses debt financing, more specifically general obligation bonds, it makes a pledge to bondholders the agency will use all available funds to meet the agency's obligation to repay bondholders.
Full-Time Equivalent (FTE)/Staff Year	The number of hours per year that a full-time employee is expected to work. If there are two workers, each of whom works half that number of hours per year, the two workers together equal one full-time equivalent or one staff year.
Fund	A self-balancing set of accounts. For agencies with more complex budgets, accounting information is organized into funds, each with separate revenues, expenditures, and fund balances.
Fund Balance	Difference between the assets (revenues and other resources) and liabilities (amounts spent or committed to) of a particular fund.
General Fund	Fund used to account for all financial resources except those accounted for in another fund (for example, enterprise or grant funds). Usually, the general fund is the largest fund in a local agency.
General Obligation (G.O.) Bonds	A form of debt in which the agency pledges its "full faith and credit" to collect enough money each year to repay the amount borrowed plus interest.
General Tax	A tax imposed for general governmental purposes, the proceeds of which are deposited into the general fund. An agency must comply with certain procedural requirements to impose, increase or extend a general tax, including securing approval of the tax by majority vote of the electorate. <i>See also "special tax."</i>

Generally Accepted Accounting Principles (GAAP)	Uniform minimum standards used by state and local agencies for financial recording and reporting which have been established by the Governmental Accounting Standards Board (sometimes referred to by the acronym GASB).
Governmental Accounting Standards Board (GASB) –	The body that sets accounting standards for governmental entities at the state and local levels.
Grant	A payment of money from one entity to another for a specified purpose, activity or facility. Generally, grants do not have to be repaid by the recipient, as long as the recipient uses the funds for the promised purposes, activities or facilities.
Intergovernmental Revenue	Revenues from other public agencies in the form of grants, entitlements, shared revenues or payments in lieu of taxes.
Investment Earnings	Revenue earned from the investment of public funds.
Licenses and Permits	These represent the agency’s permission to engage in certain kinds of activities. Local agencies often charge fees designed to reimburse local agency for costs of regulating activities being licensed, such as licensing of animals, bicycles, etc.
Lien	A claim on assets, especially property, for the payment of taxes or utility service charges.
Liquidity	The ability to convert a security into cash promptly with minimum risk of principal.
Local Agency Investment Fund (LAIF)	A special investment fund in the state treasury into which local agencies may deposit money for investment.
Maintenance of Effort (MOE)	A requirement often imposed as a condition of receiving certain kinds of funding, that the agency maintain a certain level of spending. The goal of such requirement is to have the funding being provided increase the level of spending on the program (and conversely, avoid having the extra funding be used to replace existing spending).
Mandate	A state or federal requirement that local agencies perform a task in a particular way or perform a task to meet a particular standard, often without providing the revenues to do so.

One-Time Expenditures	A term used to differentiate routine, ongoing costs within a given budget from non-recurring costs that will not be repeated in future years. A capital expenditure can be a one-time expenditure (although an agency may need to evaluate whether the agency will incur maintenance or replacement costs. This category may also include single-year appropriations for special purposes.
Other Post Employment Benefits (OPEB)	A pension is a form of “post-employment benefit,” that is, a benefit an employee receives after their service to the agency ends. <i>Other</i> forms of such benefits can include health insurance and other health-related benefits provided to former employees.
Performance Measures	Indicators used in the budget to show items such as 1) the amount of work accomplished, 2) the efficiency with which tasks were completed, and 3) the effectiveness of a program. Such indicators can help the public understand what public agency spending accomplishes.
Portfolio	The collection of investments held by a local agency.
Prevailing Wage	The basic hourly rate paid on public works projects to a majority of workers engaged in a particular craft, classification or type of work within the locality and in the nearest labor market area (if a majority of such workers are paid at a single rate). Prevailing wage laws require all bidders to use the same wage rates when bidding on a public works project.
Principal	The original amount of a bond or debt (sometimes also referred to as “face” or “par value”), not including accrued interest.
Program Revenues	Income generated by programs and/or dedicated to offset the program’s costs.
Rating	Letters and numbers used by rating agencies to express their assessment of the likelihood of a bond or debt being repaid.
Rating Agencies	Firms that evaluate the likelihood bonds or debts will be repaid by assigning ratings to those bonds or debts. A bond rating is often the single most important factor affecting the interest cost on bonds. There are three major rating agencies for municipal bonds: Moody's Investors Service, Standard & Poor's, and Fitch Ratings.

Realignment	Actions taken by the State of California in 1991 and 2011 to restructure the state-county fiscal relationship by making certain health, social service, criminal justice, and mental health service programs county responsibilities, and providing some funding to help pay for the new responsibilities.
Rents	Revenues received through the rental of public properties to private parties such as convention space and library facilities.
Reserve	Amounts set aside to provide a funding source for extraordinary or unforeseen expenses or revenue shortfalls. Sometimes also referred to as “fund balance(s)” to reflect multiple agency funds. <i>See also</i> definition of “fund.”
Revenue	Income received by the local agency. For more information on sources of county and city revenues, see Institute for Local Government, <i>Understanding the Basics of County and City Revenues</i> (2008), available at www.ca-ilg.org/revenueguide .
Revenue Bonds	A form of debt in which the agency pledges the income received from the operation of the facilities being financed with the debt to repay the amounts borrowed plus interest.
Salaries and Benefits	Salaries includes the compensation paid to full-time, part-time, temporary, and extra-help employees, including overtime, vacation pay, sick leave pay and any type of premium pay. Benefits include the agency's share of the costs for health, dental, life insurance, retirement, Social Security and Workers' Compensation.
Sales Tax	A tax imposed on the total retail price of merchandise sold by a retailer.
Secured Roll	A list containing all assessed property secured by land subject to local taxation
Securities	Pieces of paper (sometimes referred to as “instruments”) that represent financial value. Examples include bonds and stocks.
Service Charges	Amounts charged to cover the cost of providing services to individuals or companies.

Short-Term Financing Methods	Techniques used for many purposes, such as meeting anticipated cash flow deficits, interim financing of a project, and project implementation. Using these techniques involves issuance of short-term notes.
Special Revenue Fund	Funds used to account for proceeds from specific revenue sources that are legally restricted as to how the revenues may be spent. A special revenue fund must have a separate budget adopted annually.
Tax and Revenue Anticipation Notes (TRANS)	A short term loan that local agencies use to even out cash flow during the year. The loans take the form of a debt (“note”) that is secured by anticipated tax and other revenue collections.
Tax Base	The objects or transactions to which a tax is applied (for example parcels of property, retail sales, etc.). State law or local ordinances define the tax base and the objects or transactions exempted from taxation.
Tax Rate	The amount of tax applied to the tax base. The rate may flat, incremental or a percentage of the tax base, or any other reasonable method.
Total Appropriations and Total Revenues	The consolidation of all revenues and expenditures for all funds. The purpose is to report accurately the full amount of governmental revenues and expenditures for the budget period
Use Tax	A tax imposed on the use or storage of tangible personal property when sales tax is not paid. <i>See also “sales tax.”</i>
User Fee	Fees charged for the use of a public service or program. An example is fees charged to participants in recreation programs. User fees for property-related services are referred to as property-related fees.
Utility Rate	A category of user fee paid by the user of utility services.
Utility Users Tax	Tax imposed on the consumer (residential and/or commercial) of any combination of electric, gas, cable television, water, and telephone services.
Vehicle License Fee (VLF)	Annual registration fee imposed on vehicles.

Williamson Act and Open Space Subvention Officially known as the California Land Conservation Act of 1965, a law that allows local agencies to enter into contracts with private landowners to restrict specific parcels of land to agricultural or related open space use. In return, landowners receive property tax assessments which are much lower than normal because they are based upon farming and open space uses as opposed to full market value. The program contemplates local agencies receive an annual subvention of forgone property tax revenues from the state.

Yield The total amount of revenue an agency expects to receive from a tax, determined by multiplying the tax rate by the tax base. Also, the annual rate of return on an investment, expressed as a percentage of the investment.