GOVERNMENT OF DUBAI

دائرة المالية
Department of Finance

GLOSSARY
OF
PUBLIC FINANCE

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Abstract:

Public Finance is that part of finance which deals with the allocation of resources subjected to the budget constraint of the government or public entities. It is that branch of economics which identifies and appraises the means and effects of the policies of the government. Public sector finance tries to examine the effects and consequences of different types of taxation and expenditures on the economic agents (individuals, institutions, organizations, etc.) of the society and ultimately on the entire economy. Public finance also analyzes the effectiveness of the policies aimed at certain objectives and consequently to the development of procedures and techniques for increasing the effectiveness of the policy. Public finance is a field of economics concerned with paying for collective or governmental activities, and with the administration and design of those activities. The field is often divided into questions of what the government or collective organizations should do or are doing, and questions of how to pay for those activities. The broader term, public economics, and the narrower term, government finance, are also often used. There are many concepts which are not very clear in their meanings and often need some clarification. This work presents a brief glossary of the terms used in Public Finance.

Abatement: a reduction or decrease in taxable value that results in a reduction of taxes after an assessment and levy. A reduction in or official pardon from a tax, debt or any other payment obligation. Abatement is sometimes included in a contract, for example abatement of rent in the event that a building is destroyed by fire, flood or other accident. Generally reduction of or exemption from taxes is granted by a government for a specified period, usually to encourage certain activities such as investment in capital equipment.

Ability to Pay Principle: states that taxes should be distributed among tax payers in relation to their financial capacities. The ability to pay principle is the widely held view that the amount of taxes someone pays should increase as their income increases. The ability-to-pay principle is the only reasonable way to finance the provision of public goods such as national defense, public health, and environmental quality. This is one of two taxation principles. The other is the benefit principle, which states taxes should be based on the benefits received. This principle also makes a great deal of sense, especially for the provision of public goods that are consumed by all. If everyone benefits from public goods, without exclusion, then everyone should pay. However, not everyone can pay, so those who can afford to pay need to bear the burden. Fair and equitable application of the ability-to-pay principle also entails that those with the same income pay the same taxes and those with different incomes pay different taxes. These are termed horizontal equity and vertical equity, respectively.

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.

Accounting system in Public Finance is defined as organized set of manual and computerized accounting methods, procedures, and controls established to gather, record, classify, analyze, summarize, interpret, and present accurate and timely financial data for management decisions.

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. Interest that is due on a bond or other fixed income security since the last interest payment was made. This often occurs for bonds purchased on the secondary market, since bonds usually pay interest every six months, but the interest is accrued by the bondholders on a day-to-day basis. When a bond is sold, the buyer pays the seller the market price plus the accrued interest, for which the buyer will be reimbursed when the issuer pays next pays interest. Accrued interest is calculated on a 30-day month/360-day year for corporate bonds and municipal bonds, and on actual-calendar-days for Government bonds. Income bonds and bonds in default trade without accrued interest. When calculating accrued interest on a bond that is being sold, it is conventional to consider the time period from the most recent payment up to, but not including, the date on which the bond sale is settled.

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[1] 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. The processes of engaging in advance refunding involves issuing new bonds that are used to repay the outstanding balance on older bonds before the call dates for the older bonds arrive. Because the basic principle of advance refunding involves issuing new bonds to pay off outstanding bonds, there has to be some degree of security for the issuer. This is accomplished by using the proceeds from the new issue to invest in government securities, effectively placing the proceeds in escrow. The newer bonds are purchased at a rate that is lower than the longer-maturing bond that it pays off. The interest that is generated off the new bonds is used to pay for the long-maturity bond before the first call date arrives. In essence, this process is a means of pre-refunding the older bond.

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. Income (including wages, interest, capital gains, income from retirement accounts, alimony paid to you) adjusted downward by specific deductions (including contributions to deductible retirement accounts, alimony paid *by* you); but *not* including standard and itemized deductions. Adjusted gross income is sometimes called net income. This is because AGI is the net amount of income that is taxed after tax credits and payments are factored in.

Adjustments: modifications in the reported value of a variable, such as sale price. An adjustment in Public Finance is defined as adoption of new fiscal and monetary policies by a government to adjust the national economy to the current and anticipated conditions in the world economy. The objective is to

[1] Escrow is a way of transferring or exchanging property and/or money using a neutral third party. In many jurisdictions, escrow agents constitute a distinct profession with its own training and accreditation requirements. In other jurisdictions, such as Canada, escrow functions may be performed by attorneys

correct the balance of payments imbalance by transferring labor and capital from uncompetitive sectors of the national economy to the ones that can compete in the global market place.

Ad Valorem Tax :(in Latin: to the value added) - a tax based on the value (or assessed value) of property. Ad valorem tax can also be levied on imported items. It is more common than a specific duty, a tax based on the quantity of an item regardless of price and it is a tax based on the quantity of an item, such as cents per kilogram, regardless of price. General Obligation debts are secured by an Ad Valorem Tax. An *ad valorem* tax is typically imposed at the time of a transaction (a sales tax or value-added tax [VAT]), but it may be imposed on an annual basis (real or personal property tax). Property ad valorem taxes are the major source of revenue for state and municipal governments. In the case of municipal property taxes, property owners have their property assessed on a periodic basis by a public tax assessor. The assessed value of the property is then used to compute an annual tax, which is levied on the owner by his or her municipality. Ad valorem taxes are incurred through ownership of an asset, in contrast to transactional taxes, such as sales taxes, which are incurred only at the time of transaction.

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. In governmental accounting, the agency fund consists of resources retained by the governmental unit as an agent for another governmental unit.

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. When used in the context of a home purchase, amortization is the process by which your loan principal decreases over the life of your loan. With each mortgage payment that you make, a portion of your payment is applied towards reducing your principal and another portion of your payment is applied towards paying the interest on the loan. An Amortization table shows this ratio of principal and interest and demonstrates how your loan's principal amount decreases over time. The process of paying off a loan through specifically structured periodic payments is known as amortization. Amortized loans are different from other loans due to the way the amount and the structure of each payment is determined

Annualization - The practice of adjusting spending totals to determine the annual costs of programs that were funded for only a portion of the previous year. For example, the annualized cost of a program that cost AED 500,000 for six months of operation is AED 1,000,000. Generally annualization is twelve-month projection of income (countable income plus pension benefits) from the date of entitlement to pension, or from the effective date of change in income.

Appraisal Methods: the three methods of appraisal: cost approach, income approach and sales comparison approach (See cost approach, income approach and sales comparison approach). Project appraisal is a generic term that refers to the process of assessing, in a structured way, the case for proceeding with a project or proposal. In short, project appraisal is the effort of calculating a project's viability. It often involves comparing various options, using economic appraisal or some other decision analysis technique.

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. Authorization by the Legislature to spend money from the state treasury for purposes established in law. An appropriation bill or running bill is a legislative motion (bill) which authorizes the government to spend money. It is a bill that sets money aside for specific spending. In most democracies, approval of the legislature is necessary for the government to spend money.

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. A transaction in which the buyers and sellers of a product act independently and have no relationship to each other. The concept of an arm's length transaction is to ensure that both parties in the deal are acting in their own self interest and are not subject to any pressure or duress from the other party. The concept of an arm's length transaction commonly comes into play in the real estate market. When determining the fair market value of a piece of property, the price for the property must be obtained through a potential buyer and seller operating through an arm's length transaction, otherwise, the agreed-upon price will likely differ from the actual fair market value of the property.

Asset: Anything of monetary value that is owned by a person. Assets include real property, personal property, and enforceable claims against others (including bank accounts, stocks, mutual funds, and so on). An 'asset' in economic theory is an output good which can only be partially consumed or input as a factor of production (like a cement mixer) which can only be partially used up in production.

Assessment: (1) in general, the officials 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.

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.

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 rolls: 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.

Assessment Sale Ratio (ASR): property assessed value divided by sales price. ASR 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. Information Asymmetry can lead to two main problems:

1. Adverse selection- immoral behavior that takes advantage of asymmetric information ***before*** a transaction. For example, a person who is not be in optimal health may be more inclined to purchase life insurance than someone who feels fine.

2. Moral Hazard- immoral behavior that takes advantage of asymmetric information ***after*** a transaction. For example, if someone has fire insurance they may be more likely to commit arson to reap the benefits of the insurance.

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. Audit report 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 onetime costs.

Base - Usually calculated from the most recent amount spent by an agency for a program, the base is the agency's current spending level with adjustments made for costs not likely to recur. The base is determined from information in legislative tracking spreadsheets and Language in appropriations bills.

Base Adjustments - Adjustments to the base budget allowed by the Executive Branch in the Governor's budget recommendations. "Technical" base adjustments are those that make adjustments to a base to conform to legislative directions. "Policy" or "Current Service Level" base adjustments allow the Governor to recognize certain cost adjustments (such as salary increases or lease cost increases) as part of the budget base rather than as a change request.

Base year: In the construction of an index, the year from which the weights assigned to the different components of the index is drawn. It is conventional to set the value of an index in its base year equal to 100. The year for which prices are used for expressing and weighting data at constant prices; a reference year against which other years are measured.

Balanced Budget - The requirement imposed on the state's general fund biennial budget that revenues must be greater than or equal to expenditures. The constitution authorizes borrowing for cash flow purposes within a biennium only.

Balanced Budget Incidence: computes the combined effects of levying taxes and government spending financed by those taxes. There can be a change in public expenditures involving a change in the level of resource transfer; and this may be accompanied by such change in tax function so as to bring in the necessary finances. These changes in distribution transfers are regarded as balanced budget incidence.

Balance Sheet: a statement that discloses the assets, liabilities, reserves, and equities of a fund or governmental unit at a specified date. A financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time. These three balance sheet segments give investors an idea as to what the company owns and owes, as well as the amount invested by the shareholders.

The balance sheet must follow the following formula:

Assets = Liabilities + Shareholders' Equity

Each of the three segments of the balance sheet will have many accounts within it that document the value of each. Accounts such as cash, inventory and property are on the asset side of the balance sheet, while on the liability side there are accounts such as accounts payable or long-term debt. The exact accounts on a balance sheet will differ by company and by industry, as there is no one set template that accurately accommodates for the differences between different types of businesses.

Before-Tax-Cash-Flow: amount of income remaining after deducting for operating expenses and debt service but before income tax on operations is deducted. The amount of money generated by an investment after collection of all revenues and payment of all bills, but without any deductions for depreciation or other noncash items, and before calculation of income tax consequences. An important figure in analyzing any investment, because properties with high depreciation expenses may show tax losses but positive cash flows. In the alternative, a property that requires expensive financing for acquisition or operation may show good net income figures for accounting and tax purposes, but have a negative cash flow requiring the owner to supplement the property with money from other sources.

Benefits Principle (or Benefits-Received Principle): taxation based on distribution of benefits: a taxation principle stating that those who benefit more from a product or service should pay more taxes on the product or service than those who benefit less Taxation concept that those who benefit more from government expenditure should pay more taxes to support such expenditure. 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.

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 pubic 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 assessment.

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 that one year.

A debt instrument issued for a period of more than one year with the purpose of raising capital by borrowing. The Federal government, states, cities, corporations, and many other types of institutions sell bonds. Generally, a bond is a promise to repay the principal along with interest (coupons) on a specified date (maturity). Some bonds do not pay interest, but all bonds require a repayment of principal. When an investor buys a bond, he/she becomes a creditor of the issuer. However, the buyer does not gain any kind of ownership rights to the issuer, unlike in the case of equities. On the hand, a bond holder has a greater claim on an issuer's income than a shareholder in the case of financial distress (this is true for all creditors). Bonds are often divided into different categories based on tax status, credit quality, issuer type, maturity and secured/unsecured (and there are several other ways to classify bonds as well). A bond might be sold at above or below par (the amount paid out at maturity), but the market price will approach par value as the bond approaches maturity. A riskier bond has to provide a higher payout to compensate for that additional risk. Some bonds are tax-exempt, and these are typically issued by municipal or state governments, whose interest payments are not subject to federal income tax, and sometimes also state or local income tax.

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: are funds given states by the federal government to run programs within defined guidelines. Block grants are generally specific grants in categories that are very loosely or broadly defined. These are mainly funds that are not allocated to a specific category and are more flexibly distributed. The grant seeker applies directly to state for these funds, and state sets up procedures for their disbursement.

Budget: Annual estimation of the revenues and expenditure of a government is defined as government budget. In general, a budget is a plan for allocating resources to support particular services, purposes and functions over a specified period of time. The plan or authorization for revenues and expenditures in a fixed period of time. While planning a budget can occur at any time, for many businesses, planning a budget is an annual task, where the past year's budget is reviewed and budget projections are made for the next three or even five years.

"Off-budget" - Non-General Fund revenues and expenditures, pass-through funds, certain dedicated monies, intergovernmental revenues and inter-fund transfers.

"On budget" - Part of the General Fund. Supplemental Budget – Refers to either (1) the

budget considered in even-numbered years or (2) changes to the original budget documents submitted by the Governor (usually based on revised estimates of forecasted revenues and expenditures).

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) has been considered.

Budget Reserve or Reserve - State law establishes a Budget Reserve separate from the Cash Flow Account. The Reserve is like a savings account and serves as a hedge against an unforeseen economic downturn. Reserve funds may be spent in the event expenditures are forecast to exceed revenues, but only after consultation with the Legislative Advisory Commission.

Balance Of Payments: A country's financial position vis-à-vis other countries of the world, made up of its current account and capital account (or capital movement) over a given period of time. The current account covers the balance of imports and exports and the capital account covers the difference between the capital that the country has invested in other countries, and the capital invested by other countries in it.

Balance Of Trade: The difference between a country's exports and imports over a given period of time. Exports and imports come in two kinds: visible products and goods, and invisible services. The country`s invisible earnings from financial services are an important part of its international trade and help to offset deficits on the visible side.

Bankruptcy: A situation where an individual is incapable of settling his/her debts and has been served a bankruptcy order by a court. The petition can either be filed by the individual concerned or by his/her creditors. An inquiry into the debtor's affairs is made by the official receiver and the debtor's assets are realised and distributed among creditors. Personal pension assets are not included under the bankrupt's distributable assets for petitions made after May 29th 2000, unless the bankrupt has deliberately put assets into a personal pension specifically to avoid paying creditors. Money in occupational pension schemes is also excluded. The equivalent process for companies is 'liquidation'.

Budget Account: Include the payment of such items as mortgage, utilities, telephone and other similar items. Annual expenditure for each item is divided by 12 and paid into the account monthly. The bills are then paid from the budget account as they become due.

Capital Allowance: A tax allowance that takes account of the depreciation of certain types of business assets such as plant and machinery and motor vehicles.

Balanced Investment Strategy: Portfolio management strategy where assets are allocated with the aim of avoiding excessive risk by diversifying the investment across different asset classes, including ones whose performance is not correlated.

Barter: An exchange of products or services between individuals without the involvement of money.

BBS, Biennial Budget System - The information system used by the Department of Finance to prepare the budget documents, and by the executive and legislative branches of government to keep track of appropriations.

Business Cycle: More or less regular swings or wave-like fluctuations in the pace of a country's economic growth, well above and well below the long-term trend in the growth rate of total production; the ups and downs of overall business activity, as evidenced by surges and declines in GNP and GDP, unemployment rates, and the general price level; the boom-and-bust pattern of recession (or depression) and recovery. In older economic literature (and still today in British usage) the term "trade cycle" is often used as a synonym for "business cycle."

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. Cash or goods used to generate income either by investing in a business or a different income property. The net worth of a business; that is, the amount by which its assets exceed its liabilities. The money, property, and other valuables which collectively represent the wealth of an individual or business.

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.

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.

Capitalized value: the value of a property estimated by the income approach to value.

Cartel: A formal organization set up by a group of firms that produce and sell the same product for the purpose of exacting and sharing monopolistic rents. The intended purpose of a cartel is to reap monopoly profits by artificially restricting output and thus driving the price above the level that would prevail if they remained in competition with one another. This they normally accomplish by agreeing on a relatively high common asking price for their product that none of the member firms will be permitted underbid, but sometimes the member firms may simply agree to divide the market geographically and grant each other local monopolies without necessarily enforcing a uniform price structure.

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 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.

Cash Flow Account - State spending is not constant across the fiscal year, but rather has peaks and valleys based on patterns of receipts and expenditures. A *Cash Flow Account* (separate from the Budget Reserve) is established, in an amount specified by law, to avoid short term borrowing during cash low points.

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. Grants can support housing, transportation, insurance benefits for children and other projects that are deemed appropriate. Categorical grants can provide funding for food stamp programs, Medicare, health and human services and transportation, housing and urban development. Some funding opportunities may restrict how the grant monies may be spent. If there are spending restrictions, it is important to abide carefully so as not to have funding removed from your project. States compete for funding and the federal government chooses projects based on merit. Other grants, such as block grants, give more latitude in how states spend grant funds.

Certification: verification of authenticity. Certification can refer to the action of a bank, trust company, or department of revenue's accounts in the issuance of State 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 nonnegotiable 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.

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.

Competition: Competition is one of the most important concepts in economics, yet when examined closely, it turns out to be one of the most elusive concepts to nail down in practice. A market in some particular good or service is said by economists to be "competitive" if a substantial number of buyers and sellers trade in the good or service independently and thus no single buyer or seller is so "weighty" in the marketplace as to significantly influence the going price of the good or service by his/her individual decisions about how many units he personally will buy or sell.

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

Confederation: A form of government in which the major geographical subdivisions of the country have their own governmental organizations that retain numerous independent rights of policy-making and decision that may not be overridden by the central government, and in which the central government's rights of policy-making and decision are severely restricted. The distinction between a federation and a confederation is not always easy to make, but generally speaking, confederations assign much more limited powers to the central government than do federations -- typically only national defense and foreign relations, plus a few other minor functions. One practical criterion often used as the key to distinguishing federations from confederations is that in the latter the central government does not have direct taxing or enforcement authority over individual citizens but rather must depend upon the regional governments to provide its revenues and give effect to its laws governing individuals.

Contract: A legally binding agreement between two or more competent parties fixing the precise terms and details for a voluntary exchange of goods or services over which the contracting parties possess property rights.

Corporation: Also referred to as **Limited Liability Corporation**. A type of legal entity provided for in the laws of most modern economically developed countries that two or more investors may agree to create for the purpose of combining some of their resources and going into business together. Corporations have the status of "artificial legal persons" and thus may own property, make contracts, be held responsible for committing crimes or torts, initiate court actions such as lawsuits, and so on. In the United States, businesses organized as limited liability corporations must indicate their status as such by including the word "Incorporated" ("Inc.") in the name of the firm. In other countries, the same purpose is served by using the equivalent abbreviations "Ltd." (Limited) or "S.A." (Anonymous Society) at the end of the company's name. It is today by far the most widespread and successful form of ownership of business property in all advanced capitalist countries.

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.

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

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 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 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. CBA is a process of quantifying costs and benefits of a decision, program, or project (over a certain period), and those of its alternatives (within the same period), in order to have a single scale of comparison for unbiased evaluation. Unlike the present value (PV) method of investment appraisal, CBA estimates the net present value (NPV) of the decision by discounting the investment and returns. Though employed mainly in financial, a CBA is not limited to monetary considerations only. It often includes those environmental and social costs and benefits that can be reasonably quantified.

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.

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.

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. A net loss in social welfare that results because the benefit generated by an action differs from the foregone opportunity cost. This is usually the combination of lost consumer surplus and lost producer surplus, and indicates of the inefficiency of a situation. Deadweight loss is commonly illustrated by a market diagram if the quantity of output produced results in a demand price that exceeds the supply price. Deadweight loss can result from government actions (taxes, price controls) or from market failures (externalities, market control)

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. In general, debt burden is the cost of servicing a debt, i.e. the interest payments payable on a loan.

Debt capitalization rate: debt component of an overall direct capitalization rate. Computed by dividing annual interest rate payments by the market value of debt.

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.

Deed: a document which, when executed and delivered conveys an interest in or legal title to a property.

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.

Deflation: The opposite of inflation -- that is, a sustained fall over time in the general level of prices, normally measured by the annual percentage increases or decreases of a weighted index of prices of some large and representative sample of goods and services (both consumers' goods and producers' goods) regularly traded in the particular economy under consideration. Just as very large scale inflations are normally the result of large percentage increases in the money stock; large-scale deflations are normally the consequence of substantial reductions in the available money stock.

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.

Depression (Recession): A cyclical period of serious decline in the national economy, characterized by temporarily decreased levels of business activity across most economic sectors, and consequently by decline in GDP, relatively higher levels of unemployment, rising numbers of business bankruptcies and (at least in the most severe instances) a falling general price level (deflation). A general business slump of somewhat less severity and shorter duration is typically referred to as a *recession*. There is no precise dividing line that is generally recognized by economists to distinguish a recession from a depression, and incumbent policy-makers since World War II have almost always resisted describing their contemporaneous economic situation as a depression, preferring the milder sounding term "recession." The term "recession" has largely replaced the older and more emotion-laden term "depression" in most economic literature as well, except in referring to such catastrophic slumps of the past as "The Great Depression" of the 1930s.

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.

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.

Discounted cash flow analysis: a yield capitalization method used to calculate the present value of anticipated future cash flows.

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.

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 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. In general, effective tax rate is the actual income tax paid divided by net taxable income before taxes, expressed as a percentage. For individual income taxes, the effective tax rate is typically expressed as the ratio of taxes to adjusted gross income. For corporate income taxes, it is the ratio of taxes to book profits. For some purposes--such as calculating an overall tax rate on all income sources--an effective tax rate is computed on a base that includes the untaxed portion of Social Security benefits, interest on tax-exempt bonds, and similar items. The effective tax rate is a useful measure because the tax code's various exemptions, credits, deductions, and tax rates make actual ratios of taxes to income very different from statutory tax rates.

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. Situation in which (with the given state of technology) it is impossible to generate a larger welfare total from the available resources. In other words, the situation where some people cannot be made better-off by reallocating the resources or goods, without making others worse-off. Also called allocative efficiency, it indicates that a "just the right balance between pain and gain" has been achieved. **Technological efficiency** occurs when it is not possible to increase output without increasing inputs. **Economic efficiency** occurs when the cost of producing a given output is as low as possible. A key point to understand is the idea that economic efficiency occurs "when the cost of producing a given output is as low as possible".

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.

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. Funds that provide money for services to the general public through programs that are expected to recover their full costs, primarily through user charges.

Earmark - To dedicate or designate a revenue stream for a specific purpose or expenditure.

Encumbrance - Commitment of money to meet an obligation that is expected to be incurred to pay for goods or services received by the state, or to pay a grant. *Encumbrance* is the accounting control device that agencies use to reserve portions of their allotments for expenditures that will soon be incurred. Agencies must encumber money before they can spend it, providing a system to keep track of outstanding obligations. 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.

Accounting: contingent liability, contract, purchases order, payroll commitment, tax payable, or legal penalty that is chargeable to an appropriation account. It ceases to be an encumbrance when paid-out or when the actual liability amount is determined and recorded as an expense.

Real estate: Charge, claim, liability, or regulation which is attached to and is binding upon a property. It may affect the clarity of a good title (see clear title) or may diminish the value of property, but may not prevent transfer of title. An encumbrance can take several forms: mortgages, claims by other parties, court judgments, pending legal action, unpaid taxes, restrictive deed or loan covenants, easement rights of the neighbors, or zoning ordinances.

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. An equalized valuation (EQVs) is 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, equity is synonym for tax fairness. The ability-to-pay principle has two additional criteria. It also seems "fair" and equitable that those with the same ability to pay should pay the same taxes and those with different abilities should pay different taxes. More specifically these are termed horizontal equity and vertical equity.

Horizontal Equity: This tax equity principle states that people with the same ability to pay taxes should pay the same amount of taxes. Vertical Equity: This tax equity principle states that people with a different ability to pay taxes should pay a different amount of taxes.

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.

Excess Levy Capacity: the difference between the levy limit and the amount of real and personal property taxes actually levied in a given year. a community may choose to set its levy at any amount below or equal to its levy limit. When a community sets its levy below the limit, the difference between the levy and the levy limit is commonly referred to as excess levy capacity. This is an additional amount the community could, but chose not to, levy.

Levy Limit – Levy = Excess Levy Capacity

The concept of excess levy capacity is not a part of the Proposition 2½ law, as are the levy limit and levy ceiling. However, excess levy capacity is an important factor in municipal finance, and local officials should understand this concept.

Exemption: A deduction allowed by tax law from adjusted gross income. Exemption is the amount that taxpayers can claim for themselves, their spouses, and eligible dependents. There are two types of exemptions-personal and dependency. Each exemption reduces the income subject to tax. The exemption amount is a set amount that changes from year to year.

Exemption is also defined as 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. A situation in which the private costs or benefits to the producers or purchasers of a good or service differs from the total social costs or benefits entailed in its production and consumption. An externality exists whenever one individual's actions affect the well-being of another individual -- whether for the better or for the worse -- in ways that need not be paid for according to the existing definition of property rights in the society. An "external diseconomy," "external cost" or "negative externality" results when part of the cost of producing a good or service is born by a firm or household other than the producer or purchaser. An "external economy," "external benefit," or "positive externality" results when part of the benefit of producing or consuming a good or service accrues to a firm or household other than that which produces or purchases it. Example: If one neighbor decides to repaint his house and spruce up his yard so he can get a better price when selling it, he also at the same time is slightly improving the market value of other houses in the neighborhood, creating a "positive externality" benefitting his neighbors. On the other hand, another neighbor who is a grade-A slob and lets the external appearance of his house run down creates a "negative externality" by depressing the attractiveness and thus the market value of the whole neighborhood. For example, the production of energy in a nuclear power plant benefits the owners of the power plant, but creates externalities in the form of radioactive waste for the environment and its inhabitants.

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.

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.

Fiscal Policy: That part of government policy which is concerned with raising revenue through taxation and with deciding on the amounts and purposes of government spending. Keynesian economic theorists believe that government can, and should, regulate the overall pace of activity in the national economy through fiscal policy, principally by deliberately having government borrow to spend more than it takes in (running a budget deficit) to increase total demand for goods and services in times of high unemployment and economic slowdown (the deficit being created either by cutting taxes or by increasing spending or both). Similarly, Keynesian theorists would advocate having government spend less than it takes in (running a budget surplus) to cool down the national economy when too great an expansion of total demand has pushed production to its physical limits and threatens to bring on excessive inflation.

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 inter-fund activities when they occur, regardless of the timing of related cash flows.

Fund: an accounting entity with a self balancing set of an account 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.

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 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.

Government bonds are bonds issued by a government in its own currency. A government is always able to print more of its own currency with which to pay debt in its own currency. Government bonds are the debt obligations of a national government, or another government entity. In the United States, the term generally refers to U.S. government bonds, such as treasury bonds and treasury notes. However, there are other government bonds, including municipal bonds (issued by cities and states) and foreign sovereign debt (the government bonds of other countries).

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

Home 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. In a tax system horizontal equity means that people of similar means are taxed similarly.

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.

Impact: 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*.

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.

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 the entire 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)

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).

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.

Investment: All income expended by firms or government agencies on capital goods for use in their productive activities. Thus aggregate investment in a national economy is the total amount of spending in order to maintain or increase the stock of physical goods not intended for immediate consumption by the purchasing entity but rather for use in producing other kinds of goods or services to be delivered to others. (Note that the economist's sense of the term is somewhat narrower than the general population's use of the term; in that the economist would exclude the purchase of purely financial paper assets like bonds or shares of stock from coverage by the term "investment.") All forms of investment thus require prior saving from income, but not all savings are for the purpose of investment.

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 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.

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. A curve which supposes that for a given economy there is an optimal income tax level to maximize tax revenues. If the income tax level is set below this level, raising taxes will increase tax revenue. And if the income tax level is set above this level, then lowering taxes will increase tax revenue. Although the theory claims that there is a single maximum and that the further you move in either direction from this point the lower the revenues will be, in reality this is only an approximation. Laffer curve is graphical representation of a conceptual relationship between marginal tax rates and total tax collections. Named after the US economics professor Arthur Laffer who proposed that lower taxes encourage additional output (supply) and thus increase aggregate income. Laffer curve is used by the supporters of supply side economics to back their claim that low income tax policies spur non-inflationary growth by encouraging new investment.

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. Equilibrium under a tax describes the situation in which individuals pay for the provision of a public good according to their marginal benefits. Lindahl taxes are sometimes known as benefit taxes.

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.

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 individuals earns. But a head tax of AED 500 independent of earnings is a lump sum tax). A lump-sum tax is a tax that is a fixed amount no matter what the change in circumstance of the taxed entity. (A lump-sum subsidy or lump-sum redistribution is defined similarly). A tax of a fixed amount that has to be paid by everyone regardless of the level of his or her income. These are considered efficient taxes because they do not influence a person's decision on how much to work.

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 Social Benefit: gain to society from one small change. Incremental benefit of an activity as viewed by the society, and expressed as the sum of marginal external benefit and marginal private benefit. The marginal benefit of an activity, such as consumption of an additional unit of a good, where benefit here includes all positive effects on society as a whole, such as positive externalities, not just the benefit accruing to the consumer of the good.

Marginal Social Cost: loss to society from one small change. Incremental cost of an activity as viewed by the society, and expressed as the sum of marginal external cost and marginal private cost. The total cost to society as a whole for producing one further unit, or taking one further action, in an economy. This total cost of producing one extra unit of something is not simply the direct cost borne by the producer, but also must include the costs to the external environment and other stakeholders. While marginal social cost represents a powerful economic principle, it can rarely be expressed in tangible dollars. We know that there are costs incurred by certain acts of production, although their far-reaching effects make them difficult to quantify. The theory helps legislators and economists come up with a framework to "incentivize" companies to reduce the marginal social costs of their actions.

Marginal Tax Rate: measures the additional tax liability for every additional dollar in income. The amount of tax paid on an additional dollar of income. As income rises, so does the tax rate. The marginal tax rate is the rate on the last dollar of income earned. This is very different from the average tax rate, which is the total tax paid as a percentage of total income earned.

Market Failure: markets fail to allocate resources efficiently. An economy may be inefficient for 2 reasons—market power and nonexistence of markets. Market failure is a concept within economic theory wherein the allocation of goods and services by a free market is not efficient. That is, there exists another outcome where market participants' overall gains from the new outcome outweigh their losses (even if some participants lose under the new arrangement). Market failures can be viewed as scenarios where individuals' pursuit of pure self-interest leads to results that are not efficient – that can be improved upon from the societal point-of-view. Market failures are often associated with information, on-competitive markets, externalities or public goods. The existence of a market failure is often used as a justification for government intervention in a particular market.

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. Goods or services (such as education and vaccination) provided free for the benefit of the entire society by a government, because they would be under-provided if left to the market forces or private enterprise. A merit good has 2 characteristics

- People do not realize the true benefit. For example, people underestimate the benefit of education or vaccinations.
- Usually these goods have positive externalities.

Therefore in a free market there will be under consumption of merit goods.

Demerit goods have 2 characteristics:

1. People don't realize, or ignore the costs, of doing something e.g. smoking, drugs.
2. Usually these goods have negative externalities.

Therefore in a free market there will be over consumption of these goods. the government should intervene to reduce demand

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.

Monetary Policy: That part of the government's economic policy which tries to control the size of the total stock of money (and other highly liquid financial assets that are close substitutes for money) available in the national economy in order to achieve policy objectives that are often partly contradictory: controlling the rate of increase in the general price level (inflation), speeding up or slowing the overall rate of economic growth (mainly by affecting the interest rates that constitute such a large share of suppliers' costs for new investment but partly by influencing consumer demand through the availability of consumer credit and mortgage money), managing the level of unemployment (stimulating or retarding total demand for goods and services by manipulating the amount of money in the hands of consumers and investors), or influencing the exchange rates at which the national currency trades for other foreign currencies (mainly by pushing domestic interest rates above or below foreign interest rates in order to attract or discourage foreign savings from entering or leaving domestic financial markets). Monetary policy is said to be "easy," "loose," or "expansionary" when the quantity of money in circulation is being rapidly increased and short-term interest rates are thus being pushed down. Monetary policy is said to be "tight" or "contractionary" when the quantity of money available is being reduced (or else allowed to grow only at a slower rate than in the recent past) and short-term interest rates are thus being pushed to higher levels.

Money Stock: The money stock is the total amount of money available in a particular economy at a particular point in time. Since many different things may serve more or less well as money (or close money substitutes), and since several different sorts of things may be serving as money at the same time in any particular economy, precise definition and measurement of the money stock presents some serious practical problems for the policy maker who wishes to use manipulation of the growth (or contraction) of the money stock as a tool of economic policy.

The narrowest definition of the money stock in common use by the advanced industrial countries today ("M1") includes only the paper currency and coinage in circulation among the public plus the total balances instantly available to depositors in privately held checking accounts ("demand deposits" or "sight deposits") in the country's commercial banks and similar depository institutions (like savings and loans, credit unions, etc.). (A very large proportion of checking account money, of course, is simply created by the banks themselves as they extend loans to borrowers by simply crediting their borrowers' checking account balances with the amounts loaned). Travelers' checks are also included in M1 in some countries, including the US.

"M2," the next broadest measure of the money stock, adds on to the totals included in M1 the total amount of deposits in short-term savings accounts and small certificates of deposit. There are a number of still broader definitions of the money stock ("M3," "M4," "L," etc.) that go on to add in such only slightly less liquid money-like assets as checkable money market mutual funds, larger denomination bank certificates of deposit, credit card credit limits, pre-approved lines of credit, and so on.

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

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: exits 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 relent 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.

Non-Excludability: consumption of good is non-excludable when it is either very expensive or impossible to prevent anyone from consuming the good. In its purest form, non-excludability means that once a good has been created, it is impossible to prevent other people from gaining access to it (or more realistically, is extremely costly to do so).

While non-rivalry is an inherent feature of knowledge, it makes sense to think of non-excludability as more of a continuum, with the degree of excludability varying depending on a range of factors. These include:

- the observability of the knowledge (for example, the process for manufacturing a product may be more excludable than the design);
- the legal and regulatory environment;
- the state of technology; and
- the characteristics of both imitators and knowledge creators

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 contain 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 cause 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 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.

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.

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.

Present 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.

Price Controls: A form of government intervention in the economy in which a government agency uses its law-making power to regulate the prices at which otherwise voluntary private exchanges may take place. The government agency may attempt to fix and enforce the exact prices at which a particular good or service may be sold (as for example when state regulatory commissions fix the rates for electricity, gas or water to be sold by monopoly utility companies in particular geographic areas). Alternatively, the government agency may be content to set "ceiling prices" or "floor prices" for particular goods or services. Ceiling price controls set a maximum price that may be charged but do not prohibit transactions at lower prices below the ceiling price (for example, rent control). Floor price controls set a minimum price that may legally be charged but do not prohibit transactions at higher prices above the floor price (for example, minimum wage laws).

Progressive Tax: A tax that tends to take a smaller percentage of the incomes of lower income citizens compared to the percentage it takes of the incomes of wealthier citizens. Example: an income tax with steeper rates for those in higher income brackets, or a special sales tax levied only on expensive "luxuries" like yachts or jewelry.

Property Rights: A property right is the exclusive authority to determine how and by whom a particular resource is used. More broadly, property rights may be seen as a bundle of separate and distinct rights over a particular good — including at least the right of personal use, the right to demand compensation as a prerequisite for its use by other people, and the right to transfer any or all of these rights to others (either permanently by sale or temporarily through some form of contractual arrangement). Property rights may be exercised by governments through their designated officials (public ownership or public property) as well as by private individuals and other sorts of non-governmental organizations (private property).

Public Goods: Also called collective goods. These are a very special class of goods which cannot practically be withheld from one individual consumer without withholding them from all (the "nonexcludability criterion") and for which the marginal cost of an additional person consuming them, once they have been produced, is zero (the "nonrivalrous consumption" criterion). The classic example of a nearly pure public good is national defense: you cannot defend the vulnerable border regions of a country from the ravages of foreign invaders without also simultaneously defending everyone else who lives within the borders. The inability of potential providers to exclude people who refuse to pay from nevertheless consuming and benefitting from an expensive public good usually means that very many of the consumers of the good will act as free riders and choose not to help pay for its provision. Consequently private production of the good or service may prove unprofitable, and the good or service thus may not be provided at all by the free market — even though everyone might concede they would be better off with some positive level of production of the good in question.

Actually, the public goods problem is not quite as hopeless as the simple version of the theory makes it sound. Various social arrangements have evolved to encourage the provision of public goods. The non-profit "third sector" of the economy devotes considerable effort to the provision of public goods financed by voluntary contributions that are motivated by appeals to people's "civic conscience" (or to their desire for the honors and respect that the community spontaneously accords to "public benefactors").

Public Sector: The part of an economy in which goods and services are produced and/or (re)distributed by government agencies.

Private Sector: The part of an economy in which goods and services are produced and distributed by individuals and organizations that are not part of the government.

Regressive Tax: A tax that tends to take a larger percentage of the incomes of lower income citizens than it takes from the incomes of higher income citizens. Examples: a poll tax, a flat percentage tax on only the first so many dollars of income (like the social security tax) or a sales tax on consumption items of common necessity (like groceries).

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 can be 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.

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

Public Good: a commodity that is non-rival 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: An 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.

The price paid (per unit of time) for the temporary use of a durable good (especially land and/or buildings) that the user does not own.

Abbreviated expression for the specialized economists' term *economic rent*, which refers to the amount of any payment to the owner of a factor of production (land, labor or capital) that is above and beyond the minimum payment that would have been necessary to motivate that owner not to transfer it to some other use. Thus the economic rent in a sales transaction would be the difference between the payment actually received and the second-best price the owner could otherwise be getting for using that factor of production in some other application.

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.

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.

Savings: All income of households (and firms) that is neither immediately spent on goods and services for final consumption nor taken by the government as taxes. Such savings may be held as balances in bank accounts or as cash on hand. Savings may be held for the purpose of subsequent investment or for some other purpose, such as accumulating sufficient funds for future consumption spending on big ticket items, maintaining an emergency reserve against the possibility of unpredicted consumption expenses, providing for post-retirement consumption spending, or even for the perverse psychological pleasures of hoarding.

Scarcity: A condition where there is less of something available than at least some people would like to have if they could have them at no cost to themselves. Note that this technical economic definition of "scarcity" differs greatly from the notion of scarcity as "unusual rarity" that predominates in most ordinary language. (For example, automobiles are not currently "scarce" in Los Angeles in the sense of being rare or unusual to see, but they are definitely "scarce" in the economic sense because many Angelinos would certainly take more of them if they were being given away for free.) Because the total quantity of goods and services that people would like to have always far exceeds the amount which available economic resources are capable of producing in all known human societies, people as individuals and/or as members of larger social units must constantly be making choices about which desires to satisfy first and which to leave less than fully satisfied for the time being. That is, they must constantly decide how best to allocate (apportion or distribute) the scarce resources available to them among the various alternative uses to which they can be put. Thus scarcity is the fundamental condition that gives rise to the patterns of choosing behavior whose study constitutes the main focus of the academic discipline of economics.

Seigniorage: Seigniorage is the net revenue derived from the issuing of currency. It arises from the difference between the face value of a coin or bank note and the cost of producing, distributing and eventually retiring it from circulation. Seigniorage is an important source of revenue for some national banks, although it provides a very small proportion of revenue for advanced industrial countries

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.

Sovereign Debt: Sovereign debt is the debt obligation of a foreign country. When another government wishes to borrow money, it will issue bonds like the United States does. In most cases, these bonds are considered riskier than U.S. government bonds, and have a higher yield. In fact, some countries are considered extremely risky, and have bond yields that are higher than those of American companies that are facing financial difficulty.

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.

Stabilization Function: involves the influence of the government on the overall level of economic activity.

Subsidy: In general, a special money payment by a government to one or more firms in a favored industry, usually for the purpose of enabling them to sell one or more of their products at a price below their costs of production (or at least at a price below the free market price). Subsidies are typically advocated either to promote more widespread consumption of some good or service deemed to be especially essential or meritorious by the government ("merit goods"), to boost the levels of production of goods whose manufacture or consumption involves sizable "positive externalities" or partake of the nature of "public goods," or sometimes simply to stave off bankruptcy and unemployment in a declining industry or segment of an industry whose owners and/or workers enjoy a lot of political influence.

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.

Tariff: A tax imposed on goods imported from outside the country that is not imposed on similar goods from within the country. Import tariffs may be levied on an *ad valorem* basis, i.e., as a certain percentage of the estimated market value of the imported item; or on a "specific" basis, i.e., as a fixed dollar amount per unit imported. Import tariffs (or "duties") may be imposed mainly for the purpose of raising revenues because they are relatively cheap and easy taxes for a small or poorly organized government to collect, but more usually in developed industrial societies they represent a tiny fraction of revenues and are imposed primarily for other reasons of economic policy. "Protective" tariffs allow domestic producers of the good in question an artificial competitive advantage over their foreign competitors (largely at the expense of domestic consumers of these products) by making it impossible for the foreign producer to sell his goods as cheaply as he otherwise would -- thus allowing favored domestic producers to enjoy higher prices, a bigger market share, and bigger profits.

Tax, Taxation: A compulsory transfer of money (or occasionally of goods or services) from private individuals, institutions or groups to the state. The amount and timing of the levy exacted from the individual taxpayer may be determined on the basis of any of a very large number of factors, but historically the most common sorts of tax have been levied based on the wealth or the income or some other characteristic of the particular taxpayer at a given time ("direct taxes" like income tax, social security tax, real property tax, estate tax, poll tax, business or professional license fees) or as some form of compulsory surcharge on one or more types of private trade or other voluntary transactions ("indirect taxes" like general sales taxes, specialized excise taxes, import tariffs, marriage licenses, and so on). In addition to the obvious function of raising revenue to finance government purchases of goods and services or income transfer programs, taxation may also be used deliberately as a policy instrument by which government seeks to influence the behavior of various segments of the citizenry by raising the costs of choosing to engage in the kinds of behavior on which taxes are imposed -- the classic examples being "sin" taxes to discourage consumption of tobacco and alcohol or protective import tariffs imposed to discourage the purchase of foreign-made products. (Of course, all forms of taxation will have an impact on the incentives facing the citizenry and thus will affect their behavior -- but frequently these non-revenue effects will not have been analyzed in advance and therefore do not represent deliberate policy. Legislators are rather regularly astonished by the unexpected -- and often negative -- secondary effects of their enactments, such as cigarette tax increases in New York producing diminished revenues due to increases in smuggling of cheap untaxed cigarettes, or newly imposed luxury taxes on yachts meant to soak the rich creating mass blue-collar unemployment in the boat-building industry due to greatly diminished sales.)

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.

Tax: Corporate Income Tax

Corporate taxes are paid by establishments based on their profits, or net income. Corporate taxes have been a subject of debate for many years; economists claim that only "people" are the entities that should be liable for taxes, and not corporations. On the other hand, the government insists that corporations have the ability to pay taxes (independently), so they should.

Payroll Tax:

Aside from the income taxes, employers routinely withhold payroll taxes from wages and salaries. The collections are used mainly for insurance programs for the elderly, poor, disabled, and unemployed people.

Consumption Tax:

Consumption tax is imposed on sales of goods or services. It falls into four general categories; general sales taxes, excise taxes, value-added taxes, and tariffs.

- General tax is levied on a wide array of goods and, sometimes, services.
- Governments impose excise taxes only for specific types of goods or services.
- VAT adds a percentage to the price of goods and services. Then, the sellers pay the government the VAT they have collected.
- Tariffs, or customs duties, are taxes charged to imported or exported goods.

Estate, Inheritance, and Gift Taxes:

Estate tax includes everything a deceased person owned at the time of death—from money, proceeds, real estate, stocks, bonds, material possessions, to insurance policies—if there is no one to inherit from them. Oppositely, after an estate has been passed down, the inheritors will have to pay inheritance tax. Gift taxes occur after a transfer of property between living people.

Miscellaneous Taxes:

Regardless of income, or circumstances, a person may pay a head tax, which is also known as poll tax or lump-sum tax. However, most governments put an exception to poor people, as head taxes hit them the hardest.

Pollution tax is charged to an establishment that gives off air, water, or soil pollution.

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.

Transfer payment: A payment of money by the government to an individual that does not form part of an exchange but rather represents a gift without anything being received or required in return. Examples of transfer payments would include student scholarship grants, welfare checks, and social security benefits. Establishing programs providing for transfer payments from the budget to particular favored categories of the population represent one of the most direct ways in which a government may pursue policies of income redistribution.

Transfer of Development Rights (TDR): a land use regulatory tool under which development rights can be severed from a tract of land and sold in a market transaction. The parcel from which the rights are transferred is then permanently restricted as to future development, and the purchaser of the rights may assign them to a different parcel to gain additional density—for example, more residential units or more commercial floor area than would be allowed without the transferred rights. Usually, TDR programs designate sending areas from which rights may be transferred, and receiving areas to which the rights may be sent.

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).

Unemployment: A situation which exists when members of the labor force wish to work at the prevailing wage or salary rates for their skills, but cannot get a job. The concept thus refers to "involuntary" unemployment only, rather than the voluntary decision of someone to choose leisure (or productive activity outside the cash economy such as housewifery) rather than gainful employment at prevailing rates of pay.

Unemployment Rate: A measure of the extent of unemployment in the labor force at some particular time, expressed as a percentage of the total available labor force. Nearly all national governments now have some statistical agency or department charged with gathering the necessary data and estimating the unemployment rate at frequent intervals (monthly or quarterly) for the guidance of policy-makers. In broad terms the underlying concepts are pretty similar from one country to the next: the number of people classified as unemployed is to be divided by the number of people classified as being in the available labor force, with the result expressed in percentage terms.

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.

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.

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.

Welfare State: A state whose government devotes a very large proportion of its activities and expenditures to the direct provision of personal benefits to be consumed by qualifying individuals or families (as contrasted with such more traditional and less individually divisible government activities as national defense, law enforcement, controlling the money supply, economic regulation, maintaining transportation and communications nets, administering the public lands, etc.).

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.

Zero 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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