

## GLOSSARY OF BUDGET TERMS

The following are definitions for common terms found in budget summary statements, as well as an explanation of financial terms found in this budget document.

**ACCOUNT.** A chronological record of public funds showing receipts, disbursements, and the balance.

**ACCRUAL BASIS** of accounting is used in proprietary (enterprise and internal service) funds. Under it, transactions are recognized when they occur. Revenues are recognized when earned and expenses are recognized when incurred. “When” cash is received or distributed is not a determining factor.

**AD VALOREM.** A tax imposed on the value of property.

**ADOPTED BUDGET.** The financial plan adopted by the City Council which forms the basis for appropriations.

**ANNEXATION.** The incorporation of land into an existing city with a resulting change in the boundaries of that city.

**APPROPRIATION.** An authorization made by the City Council that permits officials to incur obligations against and to make expenditures of governmental resources.

**ARBITRAGE.** The investment of bond proceeds at a higher yield than the coupon rate being paid on the bonds.

**ASSESS.** To establish an official property value for taxation purposes.

**ASSESSED VALUATION.** The estimated value placed upon real and personal property by the County Assessor as the basis for levying property taxes.

**B.A.R.S.** The State of Washington prescribed Budgeting, Accounting, and Reporting System manual for which compliance is required for all governmental entities in the State of Washington.

**BASIS OF ACCOUNTING.** A term used to refer to when revenues, expenditures, expenses, and transfers – and the related assets and liabilities – are recognized in the accounts and reported on the

financial statements. It relates to the timing of the measurements made, regardless of the nature of the measurement, on either the cash or accrual method.

**BASIS OF BUDGETING.** The City’s governmental functions and accounting systems are organized and controlled on a fund basis. The accounts within the funds are maintained on a modified accrual basis for governmental, expendable trust, and agency funds. Revenues are recognized when measurable and available as current assets. Expenditures are generally recognized when the related services or goods are received and the liability is incurred. Proprietary funds are accounted for on the full accrual basis of accounting.

**BASIS POINTS.** A basis point refers to the measure of the yield to maturity of an investment calculated to four decimal places. A basis point is 1/100<sup>th</sup> of 1 percent (.01 percent).

**BENCHMARK.** A quantifiable performance level used to assess the extent to which program objectives are being obtained.

**BENEFITS.** Employer contributions paid by the City as part of the conditions of employment. Examples include health/dental insurance, state public employees retirement system, city retirement system, and employment security.

**BOND (Debt Instrument).** A written promise to pay (debt) a specified sum of money (called principal or face value) at a specified future date (called the maturity date) along with periodic interest paid at a specified percentage of the principal (interest rate). Bonds are typically used for long-term debt to pay for specific capital expenditures.

**BUDGET.** A plan of financial operation embodying an estimate of expenditures for a given period and the proposed means of financing them (revenue estimates). The term is also sometimes used to denote the officially approved expenditure ceilings under which the City and its departments operate.

**BUDGET AMENDMENT.** A change to a budget adopted in accordance with State law. A budget may be amended to increase expenditures/expenses at the fund level by ordinance without public notice or public hearing requirements, when unanticipated revenues occur or emergencies exist (RCW 35A.33.080 and 35A.33.120). The City Manager is authorized to make budget amendments between organizations of the same fund, as long as there is no change in the total budget for that fund.

**BUDGET CALENDAR.** The schedule of key dates or milestones which the City follows in the preparation and adoption of the budget.

**BUDGET GUIDELINES.** The City's guidelines with respect to revenue, debt, budget, and organization management as these relate to the City's ongoing ability to provide services, programs, and capital investment.

**BUDGET MESSAGE.** A message prepared by the City Manager explaining the annual proposed budget, articulating the strategies and budget packages to achieve the City's goals, and identifying budget impacts and changes.

**BUDGET PROCESS.** The process of translating planning and programming decisions into specific financial plans.

**C.D.B.G.** Community Development Block Grant.

**CAPITAL.** Expenditures made to acquire, reconstruct, or construct major fixed or capital assets. A fixed asset is a tangible object of long-term character which will continue to be held or used, such as land, buildings, machinery, furniture, and other equipment. A capital asset must exceed \$5,000 in cost and have an expected useful life expectancy of at least 3 years. For purposes of this definition, a "fixed asset" includes a group of items purchased together that will be used "for a single purpose" and could not be used effectively by themselves.

**CAPITAL BUDGET.** A plan of proposed capital expenditures and the means of financing them. The capital budget is enacted as part of the Adopted Budget, which includes both operating and capital outlays.

**CAPITAL EXPENDITURES.** Expenditures that result in the acquisition or construction of fixed assets.

**CAPITAL FACILITIES PLAN.** A capital facilities plan includes an inventory of existing

facilities, a forecast of future needs, proposed locations, capacities for new or expanded facilities, and a financing plan. The financing plan outlines the costs, revenues, and time schedules for each capital improvement project. In compliance with the Growth Management Act legislation within the State of Washington, the City is preparing such a plan.

**CAPITAL IMPROVEMENT PROGRAM.** A plan for capital expenditures to be incurred each year over a period of five or more future years setting forth each capital project, identifying the expected beginning and ending date for each project, the amount to be expended in each year, and the method of financing those expenditures.

**CAPITAL OUTLAY.** A budget category for items having a value of \$1,000 or more and having a useful economic lifetime of more than one year.

**CARRYOVERS.** Carryovers result from timing of project completion. The final expenditures need to be rebudgeted to provide an appropriation from one fiscal year to the next in order to accomplish the purpose for which the funds were originally budgeted. Carryovers generally involve projects rather than line item expenditures.

**CASH BASIS OF ACCOUNTING.** The method of accounting that records revenues only when they are actually received and expenditures only when cash is paid.

**CASH MANAGEMENT.** The process of managing monies for the City to ensure operating cash availability and safe investment of idle cash.

**CERTIFICATES OF PARTICIPATION.** A certificate of participation represents a divided share of a lease that is assigned or marketed to investors. These debt instruments typically represent general obligation debt but can also be issued by enterprises.

**CITY DEPARTMENT.** A major administrative and financial division of resources and responsibilities within the City organization. Departments include: 1) City Council, 2) City Manager, 3) City Attorney, 4) Community Services, 5) Planning and Community Development, and 6) Public Works.

**COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR).** The official annual financial report of the City prepared in conformity with GAAP. The annual report is audited by The State Auditor's Office.

**CONSUMER PRICE INDEX (CPI).** A statistical description of price levels provided by the U.S. Department of Labor. The index is used as a measure of the increase in the cost of living, i.e., economic inflation.

**CONTINGENCY.** A budgetary reserve set aside for emergencies or unforeseen expenditures for which no other budget exists.

**COUNCIL GOALS.** Statements of direction, purpose, or intent based on the needs of the community, generally to be completed within a specified time period.

**COUNCILMANIC BONDS.** Councilmanic bonds refer to bonds issued with the approval of the Council, as opposed to voted bonds, which must be approved by vote of the public. Councilmanic bonds must not exceed 1.5% of the assessed valuation.

**CUSTOMER.** The recipient of a product or service provided by the City. Internal customers are usually City departments, employees, or officials who receive products or services provided by another City Department. External customers are usually citizens, neighborhoods, community organizations, businesses, or other public entities who receive products or services provided by a City Department.

**DEBT SERVICE.** Payment of interest and repayment of principal to holders of the City's debt instruments.

**DEBT SERVICE FUND.** A fund to account for payment of principal and interest on general obligation and other City-issued debt.

**DEPARTMENT MISSION.** Objectives that address each of the department's major activities, but are not broader than the department's scope of work. These objectives relate back to Council goals or its vision and strategies.

**DEPRECIATION.** (1) Expiration in the service of life of capital assets attributable to wear and tear, deterioration, action of the physical elements, inadequacy, or obsolescence. (2) That portion of the cost of a capital asset, which is charged as an expense during a particular period.

**DIVISION MISSION.** Objectives that address each of the division's major activities, but that are not broader than the division's scope of work. These objectives relate back to either the Department Mission, to Council goals, or Council's vision and strategies.

**ENCUMBRANCES.** Obligations in the form of purchase orders or contracts that are chargeable to an appropriation and for which a part of the appropriation is reserved. Obligations cease to be encumbrances when paid or when the appropriation expires at the end of the fiscal year.

**ENTERPRISE FUND.** A fund type used to account for operations that are financed or operated in a manner similar to private business enterprise where the intent of the governing body is that costs of providing goods and services be recovered primarily through user charges.

**EXPENDITURES/EXPENSES.** Where accounts are kept on the modified accrual basis (expenditures) or accrual basis (expenses) of accounting, the cost of goods received or services rendered whether cash payments have been made or not. Where accounts are kept on a cash basis, expenditures are recognized only when the cash payments for the above purposes are made.

**FIDUCIARY FUNDS.** The City uses fiduciary funds to assist in accounting for assets held under trust or agency agreements. These funds include 1) agency funds that account for resources where the City acts solely as an agent in collecting and dispensing monies, and 2) expendable trust funds that account for resources where the City acts as a formal or informal trustee for restricted fund users. For agency funds, no fund balance is maintained and no appropriations are necessary. These funds are accounted for on a modified accrual basis. The City's Deferred Compensation Fund is an agency fund that accounts for monies withheld from employees under deferred compensation plans and the fund's earnings and investments.

Trust funds may be expendable and use modified accrual accounting for a specific project or service, or they may be non-expendable and use an accrued basis of accounting to focus on the ongoing retention of earnings. The City's trust fund is expendable and accounts primarily for the City of University Place Retirement Plan and donations for a specific purpose.

**FISCAL YEAR.** A 12-month period to which the annual operating budget applies. At the end of the period, the City determines its financial position and the results of its operations. The Fiscal Year is January 1 through December 31 for local governments in Washington.

**FULL FAITH AND CREDIT.** A pledge of the general taxing power for the repayment of the debt obligation (typically used in reference to bonds).

**FUND.** An independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives. See the Budget by Fund section for specific fund category purposes and descriptions.

**FUND BALANCE.** The excess of an entity's assets over its liabilities. A negative fund balance is sometimes called a deficit. An undesignated fund balance reflects historical receipts less historical expenditures in non-proprietary funds. Since all designated and reserved resources have been removed or deducted in arriving at the year-end undesignated fund balance, this value is available for budgetary appropriation.

**FTE, Full-Time Equivalent.** The ratio of a position in comparison to the amount of time a regular, full-time employee normally works in a year. A full-time employee (1.00 FTE) is paid for 2,080 hours a year. Positions budgeted to work less than full-time are expressed as a percent of full-time. For example, a .5 FTE budgeted position will work 1,040 hours.

**GAAP, Generally Accepted Accounting Principles.** Uniform minimum standards and guidelines for financial accounting and reporting. They govern the form and content of the financial statements of the City.

**GASB, Governmental Accounting Standards Board.** The authoritative accounting and financial standard setting body for governmental entities.

**GENERAL FUND.** This fund accounts for the financial operations of the City, which are not accounted for in any other fund. Principal sources of revenue are property taxes, franchise fees, state shared revenues, licenses, permits, and charges for services. Primary expenditures in the General Fund are made for police and fire protection, building development and planning, parks, and City Council.

**GENERAL OBLIGATION.** Bonds for which the full faith and credit of the insuring government are pledged for bonds payment.

**GIS, Geographical Information System.** A mapping application currently being accessed through Pierce County, this application can be used for site plan review, counter support, citizen education and notification, environmental analysis, land use inventories, to produce presentation maps and maps for public distribution and as a tool to aid in decision making regarding CIP projects, creating a street maintenance program, and to inventory and maintain storm drainage systems and other public improvements.

**GOAL.** A long-range statement of broad direction, purpose, or intent, based on the needs of the community.

**GRANT.** A cash award given for a specified purpose. The two major forms of Federal and State grants are block, and discretionary or categorical. Block grants are awarded primarily to general purpose governments, are distributed to them according to formulas established in the law, and can be used for any locally determined activities that fall within the functional purpose of the grant as stated in the law. Discretionary or categorical grants can be used only for a specific purpose and usually are limited to narrowly defined projects or activities.

**GROWTH MANAGEMENT.** Legislation enacted in 1990 by the State Legislature requiring that all jurisdictions in the larger counties adopt new comprehensive plans by the end of 1993. This legislation was enacted due to enormous growth experienced in the State and a lack of uniform guidance for related development. This Act further specified that all plans conform to a broad set of guidelines of both the parent county and neighboring jurisdictions. Eight specific elements, including concurrency, are required to be included in every comprehensive plan. Concurrency requires that infrastructure be available at the same time as new development.

**IMPACT FEES.** Fees charged to developers to cover, in whole or in part, the anticipated cost of improvements borne by the City that will be necessary as a result of the development.

**INPUT.** A resource, monetary or non-monetary, that is used in delivering a program or service, such as hours of labor and numbers of bricks.

**INTERFUND SERVICES.** Payments for services rendered made by one City department or fund to another. Internal Service Fund billings are included in this category. However, these billings also include equity transfers to internal service funds in support of “first time” asset acquisitions. See Internal Service Charge.

**INTERFUND TRANSFERS.** Contributions from one City fund to another in support of activities of the receiving fund. Loans are not included.

**INTERGOVERNMENT.** Services purchased from other government agencies, normally including types of services that only government agencies provide.

**INTERNAL SERVICE CHARGE.** A charge from an Internal Service Fund to an operating fund to recover the cost of service or overhead.

**INTERNAL SERVICE FUNDS.** These funds are used to account for services provided by City Departments to other City Departments for which they pay an internal service charge.

**LABOR.** Internal and contracted personnel

**LEVEL OF SERVICE.** Used generally to define the existing services, programs, and facilities provided by the government for its citizens. Level of service in any given activity may be increased, decreased, or remain the same, depending on the needs, alternatives, and available resources.

**LEVY.** The total amount of taxes or special assessments imposed by the City.

**LID, Local Improvement District.** A local improvement district is composed of properties benefiting from a specific capital improvement project, such as a sewer line extension.

**LINE ITEM.** An expenditure description at the most detailed level. Objects of expenditure are broken down into specific items, such as printing.

**MAINTENANCE.** The act of keeping capital assets in a state of good repair. It includes preventative maintenance, normal periodic repairs, replacement of parts or structural components, and other activities needed to maintain the asset so that it continues to provide normal services and achieves its optimum life.

**MISSION.** A short description of the scope and purpose of a City Department. It specifies what the Department’s business is.

**MODIFIED ACCRUAL BASIS** of accounting is used in governmental fund types (general, special revenue, debt service, and capital project funds). Under it, revenues and other financial resource increments are recognized when they become both measurable and available to finance expenditures of the current period. Expenditures are generally recognized when they are incurred (bring forth a liability).

**NET INTEREST COST.** This is the traditional method of calculating bids for new issues of municipal (NIC) securities. It is computed as either: (a) Dollar Cost: total scheduled coupon payments + bid discount (- bid premium), or (b) Interest Rate: total scheduled coupon payments + bid discount (- bid premium) divided by bond year dollars. Bond year dollars is the sum of the number of years each bond in an issue is scheduled to be outstanding multiplied by its par value.

**OBJECT OF EXPENDITURE.** See “Object.”

**OBJECT.** As used in expenditure classification, this term applies to the type of item purchased or the service obtained (as distinguished from the results obtained from expenditures). Examples are personnel services, supplies, and services and charges.

**OPERATING REVENUES.** Those revenues received within the present fiscal year.

**ORDINANCE.** The method by which the appropriation of the budget is enacted into law by the Council per authority of the State statutes.

**OUTPUT.** A quantifiable product made or activity undertaken to achieve a desired result, such as miles of roads swept.

**PERS,** The Public Employees Retirement System. A State of Washington-defined benefit pension plan to which both employee and employer contribute.

**PERFORMANCE INDICATOR.** A quantifiable performance level used to assess the extent to which program objectives are being obtained.

**PLAN.** A list of actions that management expects to take. A plan is a basis for allocating the organization’s resources to deal with opportunities and problems present in the environment.

**PROGRAM.** A group of related activities to accomplish a major service or core business function for which the City is responsible. A program is typically part of a division within a department.

**PROGRAM ACTIVITY.** A broad function or a group of similar or related services/activities, having a common purpose.

**PROJECTIONS.** Estimates of outlay, receipts, or other amounts that extend several years into the future. Projections generally are intended to indicate the budgetary implications of continuing or proposing programs and policy for an indefinite period of time.

**PROPOSED BUDGET.** The budget proposed by the City Manager to the City Council for review and approval.

**PROPRIETARY FUNDS.** Recipients of goods or services pay directly to these funds. Revenues are recorded at the time services are provided, and all expenses incurred in earning the revenues are recorded in the same period. As a result, there is a direct cause and effect relationship between revenue and expenses in these funds.

**RATINGS.** In the context of bonds, normally an evaluation of credit-worthiness performed by an independent rating service.

**REFUNDING.** The redemption of an obligation on or before its maturity in order to reduce the fixed interest charge, or to reduce the amount of fixed payment.

**RESERVE.** An account used to indicate that a portion of fund equity is legally restricted for a specific purpose.

**RESIDUAL EQUITY TRANSFER.** Nonrecurring or nonroutine transfers of equity between funds.

**RESOURCES.** Total dollars available for appropriations including estimated revenues, fund transfers, and beginning fund balances.

**RETAINED EARNINGS.** An equity account reflecting the accumulated earnings of a proprietary (internal service or enterprise) fund. In this budget document, the balance derived excludes asset depreciation expenditures. When depreciation is charged to user organizations, as in internal service funds, the cash balance remaining (ending retained earnings) therefore represents the asset replacement reserve being accumulated.

**REVENUE.** Income received by the City in support of a program or services to the community. It includes such items as property taxes, fees, user charges, grants, fines and forfeits, interest income, and miscellaneous revenue. See Operating Revenue.

**REVENUE ESTIMATE.** A formal estimate of how much revenue will be earned from a specific revenue source for some future period - typically a future fiscal year.

**SALARIES AND WAGES.** Amounts paid for personnel services rendered by employees in accordance with rates, hours, terms, and conditions authorized by law or stated in employment contracts. This category also includes overtime, temporary help, and car allowances.

**SELF-INSURED.** The retention of a risk of loss arising out of the ownership of property or some other cause, instead of transferring that risk to an independent third party through the purchase of an insurance policy. It is accompanied by the setting aside of assets to fund any related losses. The City currently is not self-insured.

**SERVICES AND CHARGES.** Services acquired from and fees/payments made to vendors. These include printing, professional services, travel and training, communications, public utility services, repair/maintenance, and insurance premiums.

**SPECIAL REVENUE FUNDS.** These funds account for revenue derived from specific tax or other earmarked revenue sources which are legally restricted to finance particular functions or activities.

**STATE SHARED REVENUE.** Revenues received from the State of Washington from sources like the liquor tax, and MVET.

**STRATEGY.** An approach to using resources within the constraints of the environment in order to achieve a set of goals. An organization formulates a strategy based on the environment, and states the goals, objectives, and how it is going to meet the objectives through tactics to guide its core business functions.

**SUPPLIES.** Items used to deliver services, such as office supplies, short-lived minor equipment with no material value, periodicals, and books and generic computer software.

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**TAX.** Compulsory charge levied by a government to finance services performed for the common benefit.

**TAX LEVY.** Total amount of ad valorem tax certified by the City.

**TAX RATE.** The amount of tax stated in terms of units per \$1,000 of assessed value of taxable property. The tax rate is the result of dividing the tax levied by the assessed value of the taxing district.

**TIC:** True Interest Cost. The rate necessary to discount the amounts payable on the respective principal and interest maturity dates to the purchase price received for bonds. TIC computations consider the time value of money.

**UNAPPROPRIATED ENDING FUND BALANCE.** An amount set aside in the budget to be used as a cash carryover to the next year's budget to provide needed cash flow until other money is received. No expenditures can be made from the Unappropriated Ending Fund Balance during the fiscal year in which it is budgeted.

**UNDERWRITER.** An individual or organization that assumes a risk for a fee (premium or commission).

**USER FEES.** The payment of a fee for direct receipt of a public service by the person benefiting from the service.

**VISION.** An objective that lies outside the range of planning. It describes an organization's most desirable future state.

**WORKLOAD MEASURE.** A tracking indicator that shows the amount of work performed by the division.