APPENDIX B: GLOSSARY

THESE DEFINITIONS ARE BASED ON research by the Volcker Alliance and Municipal Market Analytics; the *Handbook of International Financial Terms*, by Peter Moles and Nicholas Terry (Oxford: Oxford University Press, 1997); and other explanatory documents published by the California Debt and Investment Advisory Commission, the Governmental Accounting Standards Board, Investopedia, Fitch Ratings, the Municipal Securities Rulemaking Board, the National Association of Attorneys General, the National Association of State Retirement Administrators, TransparentNH (New Hampshire's disclosure website), the New York State Division of the Budget, the Urban Institute, and the US Census Bureau, Social Security Administration, and Treasury.

Accrual budgeting A method of measuring a state or local government's performance and status by acknowledging the impact of revenues when they are earned and expenditures when they are incurred, regardless of when the funds are received in or exit a state's account. This method, sometimes referred to as "modified accrual" under generally accepted accounting principles (GAAP), is a more accurate way to measure a state's economic status than cash accounting, in which revenues are counted when they are anticipated and expenditures when they are paid. GAAP-based budgeting is not commonly deployed by state and local governments—New York City is the only large government to use it—primarily because it is more complicated and labor intensive than the traditional cash- or fund-accounting methods.

Actuarially determined contribution (ADC) Sometimes used interchangeably with actuarially required contribution (ARC). Both refer to the amount that a retirement system's actuaries have determined will adequately fund promised pension or other postemployment benefits (OPEB) accruing to current employees in a given year, as well as the cost of amortizing unfunded liabilities from past years.

Actuarially required contribution (ARC) See entry for Actuarially determined contribution.

All-funds budget This overarching budget category includes the total of all funds used by a state, including general, special revenue, and capital accounts.

Annual comprehensive financial report (ACFR) Formerly known as comprehensive annual financial report (CAFR). A report meeting recommendations of the Governmental Accounting Standards Board that includes a state or local government's audited financial statements for the fiscal year, as well as other information.

Asset sales A way of generating revenue by transferring ownership of public assets, such as buildings or highways, to another party, generally a private entity. Governments regularly dispose of surplus items or land to bring in cash. But the sale of larger assets, typically in a one-time action, to fund continuing expenditures can present a challenge to fiscal sustainability.

Balanced budget A budget in which receipts are equal to or greater than outlays in a fiscal period. While forty-nine states require balanced budgets by statute or constitutional provisions, there is no single definition of the term. Vermont, the only state without a formal balanced budget requirement, follows the example of its peers.

Bond A debt security, usually with an original maturity of more than one year.

Bond premium Any excess over par (or face) value that is paid to purchase a municipal bond when it is issued. Governments may use the proceeds of bond premiums to reduce public indebtedness or to help cover budget deficits.

Budget maneuvers One-time fiscal tactics used to create or maintain a balanced budget. They may include transferring special funds, reserves, or windfalls from legal settlements into the general fund; bringing a future year's revenue into the current period; or pushing the cost of current expenditures into the future.

Capital budget Generally distinct from a state or municipal operating budget, this document may include spending on land, buildings, structures, and equipment, often financed by issuing municipal bonds or other borrowings. A capital budget may also include some maintenance costs.

Capital spending Expenditures on land, buildings, roads, bridges, and other infrastructure, as well as purchases of the equipment necessary for construction or maintenance.

Cash accounting A common practice for state and local government budgets, it allows expenditures to be recognized when payments have been made. Similarly, cash accounting allows revenues to be recognized when they are anticipated. Most state and local budgets use cash accounting. Under cash accounting, for example, a large contract to buy computer equipment in one year might not be recorded until the following year, when the bill for the acquisition is finally paid.

Conduit A state or local government agency, such as the Dormitory Authority of the State of New York, with the power to issue debt on behalf of governments, universities, or nonprofit organizations, as well as to raise funds for its own use.

Debt service Also known as debt service requirement, this is the total amount necessary to pay interest and principal on outstanding bonds.

Deficit According to generally accepted accounting principles, this reflects expenses outstripping revenues at the end of the year. It is not to be confused with a shortfall, which represents shortages in revenue that accumulate during the year and may be eliminated by spending cuts, tax or fee hikes, or one-time actions to avoid a year-end deficit.

Expenditures Funds that a government appropriates or budgets to provide public services.

Fund accounting A public sector accounting approach that separates cash in the state treasury into the general fund, used for most services, and any special funds, such as those for hurricane relief or debt service. The division of all government money into separate funds is primarily intended to improve transparency.

Generally accepted accounting principles (GAAP) Guidelines set forth by the Governmental Accounting Standards Board to guide preparation of annual reports for governments. The guidelines reflect professional auditing standards established by the American Institute of Certified Public Accountants. Governmental entities are not required by law to follow GAAP accounting, but credit rating agencies may consider any lack of GAAP methods in their assessments of credit quality.

General fund A state or local fund composed of revenues accruing from taxes, fees, interest earnings, and other sources that is usually used for the general operation of government. The fund may exclude capital expenditures. General fund receipts typically exclude federal grants; tuition at state colleges; or special-purpose levies, such as motor fuel taxes earmarked for highway maintenance.

General obligation (GO) bond A municipal security backed by a pledge of a government's full faith and credit and taxing power. The term typically refers to a bond issued by a state or local government that is payable from general funds, although the precise source of and priority of payment for GO bonds may vary from issuer to issuer, depending on applicable state or local law. Issuance typically requires voter approval. GO bonds issued by localities are often—and sometimes solely—payable from the issuer's real or personal property tax revenues, while GO securities issued by states are frequently payable from appropriations by the legislature.

Governmental Accounting Standards Board (GASB) The body that establishes accounting and financial reporting standards for US state and local governments that follow generally accepted accounting principles.

Infrastructure maintenance liability The amount a state will need to provide to keep roads, bridges, and buildings in good working order. Although states and municipalities show the value of accumulated depreciation of assets in their annual reports, budget documents, or documents published by controllers or independent government agencies, the scope and method of calculating the data can differ widely.

Issuer A state or local government, territory, political subdivision, governmental agency, or authority that borrows using municipal securities.

Legacy costs The present value of unfunded liabilities for future public employee pension and other (OPEB), including health care. Some experts include the estimated cost of deferred infrastructure maintenance liabilities. Not fully funding government services delivered in a particular year represents a shift of obligations from current residents, who have already received the services, to future generations.

Medicaid Health care program for low-income families and individuals jointly financed by the federal and state governments, although with varying percentages of support from the two.

Modified accrual basis accounting A method of accounting that recognizes revenues in the accounting period in which they become available and measurable.

Moral obligation bond A municipal bond that, in addition to its primary source of security, is backed by a nonbinding covenant. The covenant typically stipulates that any amount necessary to make up a deficiency in debt service will be included in the budget recommendation made to the governing body, which may then appropriate funds to make up the shortfall. However, the governing body is not legally obligated to make such an appropriation.

Multiyear revenue and expenditure forecasts Estimates of the amounts expected to be brought in or spent that extend beyond the current fiscal year or biennium. The Volcker Alliance recommends at least three full years of such forecasts to qualify for designation as a multiyear forecast.

Municipal debt medians Statistics published annually by credit rating agencies that facilitate comparisons of tax-supported bond debt issued by states and localities.

Municipal bonds Debt obligations used by states, cities, counties, and other government entities, primarily for capital expenses such as schools, highways, hospitals, and prisons. Proceeds of municipal bonds may also be used to cover revenue shortfalls or reduce pension underfunding. Interest on most municipal bonds is exempt from federal taxes and often from state taxes, although governments may also issue taxable debt.

Municipal Securities Rulemaking Board (MSRB) A self-regulatory organization created under the Securities Acts Amendments of 1975, the MSRB promulgates rules that protect investors in municipal bonds largely through oversight of US broker-dealers and banks. The board provides prices on municipal bond trades and issuers' financial disclosures on its EMMA website.

Net pension liability Defined by the GASB as the difference between the total pension liability (the present value of projected payments to employees based on their years of service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to employees upon retirement, current retirees, and beneficiaries. The net liability is also known as the unfunded pension liability, although the latter's value may differ. For this report, the Volcker Alliance has used each state's proportionate share of any state retirement systems' aggregate net liability. This excludes net liabilities that are the direct responsibility of other governments, such as cities, school districts, and counties, that are covered by state pensions but do not receive state funds to pay for annual contributions.

Net OPEB liability Defined by the GASB as the portion of the present value of projected benefit payments that will be provided to current active and inactive employees and that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

Note A short-term obligation of an issuer to repay a specified principal amount on a certain date, together with interest at a stated rate, typically payable from a defined source of anticipated revenues. Notes usually mature in a year or less, although notes of longer maturities are also issued.

Obligor A party having a financial obligation to pay all or part of the debt service on municipal securities. According to the MSRB, an obligor is often the issuer but may be a conduit borrower.

One-time expenditures Expenses that are nonrecurring and generally appear in only one budget.

One-time revenues Nonrecurring receipts, which should not be used to pay for ongoing expenditures such as pay raises or new programs.

Other postemployment benefits (OPEB) Future liabilities incurred by governmental entities for benefits other than pensions, principally health care, provided to retired workers.

Pension A retirement plan that may be described as defined benefit, defined contribution, or in some cases a combination of both. In a defined benefit plan, the pension benefit is set by a formula established through the plan. Benefits are structured as a lifetime annuity providing regular payments that may be adjusted periodically for inflation. Benefits are funded by employee and employer contributions and investment returns. The employer bears the investment risk; some states also offer constitutional protection of current or promised benefits. In a defined contribution plan, the employer's annual contribution is specified, and benefits are funded through a combination of employee and employer contributions and investment returns. The employee bears the investment risk. Many states have large pension funds that provide retirement benefits to state and local employees through discreet or blended programs. Blended programs sometimes lack the transparency to allow outside analysts to easily allocate assets and liabilities among participating governments.

Personal income tax (PIT) bond A type of revenue bond that is paid from all or a portion of collections of personal income taxes.

Pension bond A debt instrument whose proceeds are deposited into a pension fund and invested in long-term instruments in hopes of improving investment returns and plan funding. Pension bond issuers often use calculations of projected savings from the transaction to provide one or more short-term employer contribution holidays. This creates, in effect, a form of deficit financing for their operating funds.

Premium The amount by which the price paid for a security exceeds the security's par, or face value. When a municipal bond is sold at a premium at issuance, the government may use the proceeds of the premium to reduce debt or cover current expenditures.

Public debt Money owed by a government or an agency. This can take the form of municipal bonds to, for instance, pay for a new bridge or short-term notes or loans to smooth cash flow until expected tax receipts are collected.

Rainy day fund A fiscal reserve that governments can tap to balance the budget or respond to emergencies. Also known as budget stabilization fund or reserve fund.

Recurring expenditures Also known as continuous appropriations, these are expenses, such as legislative salaries, made annually under mandates set forth in statute or a state constitution. They continue without requiring further action, even if the actual amounts change.

Revenue bond A bond issued by a state, locality, or authority secured by a designated income stream, such as personal income or sales tax collections, tolls or other fees, or lease or rental revenue.

Revenue volatility Fluctuations in state revenues that recur in multiple years, often because of the nature of the tax system.

Revenues Funds that come mainly from tax collections, licensing fees, federal aid, fines, legal settlements, and returns on investment. In some cases, debt or upfront proceeds on financial transactions may be counted as revenue.

Sales tax bond A type of revenue bond that is paid from all or a portion of collections of state or local sales taxes.

Scoop and toss A method of gaining budgetary relief by using the proceeds of a new bond issue to pay off maturing bonds while shifting debt service expenses to future years.

Special revenue funds Funds constrained by statute or other restriction to a particular spending area, such as workers' compensation. These funds can be financed with tax dollars, grants from the federal government or other governmental entities, or gifts from individuals or private organizations.

Surplus Budgeted funds that remain at the end of the fiscal year or biennium. Surpluses typically occur when revenue collections are higher than anticipated or appropriations go unspent.

Title XII advances Also known as unemployment insurance trust fund loans, these are credits the US Department of Labor provides to state and territorial unemployment insurance trust funds under Title XII of the Social Security Act to support benefit payments and prevent insolvency. Advances totaled $54.3 billion as of July 30, 2021.

Tax expenditure reports Disclosures of budget revenues forgone by states through use of tax exemptions, credits, and abatements. The contents of tax expenditure reports and value of forgone revenues may differ from reporting of tax credits, exemptions, and abatements mandated by the Governmental Accounting Standards Board in ACFRs.

Tobacco bonds Four major US tobacco companies and a group of states and territories signed the Master Settlement Agreement in 1998 providing the plaintiffs with $246 billion over the first twenty-five years to compensate them for costs associated with smoking-related diseases. Many state and local governments have securitized the tobacco payments to raise cash for current expenditures via issuing bonds repaid from proceeds of the settlement. In some cases, repayment of tobacco bonds may be supported by governments' own revenues if corporate payments are insufficient to cover all debt service costs.

Transfers The shifting of money from one fund to another, usually the general fund, often driven by executive order or legislative action. Transfers are considered one-time revenue when they are used to subsidize the general fund from special funds in a single fiscal year.

Unemployment insurance trust funds Programs run by US states, territories, and the District of Columbia, in partnership with the federal government under the Social Security Act, to provide benefits to covered workers who are involuntarily unemployed. The federal government pays the cost of administering the programs, levies taxes on employers, and provides some extended benefits in times of high unemployment. State taxes on employers to help support trust funds vary among jurisdictions. Under Title XII, state and territorial trust funds may borrow from the US government or other lenders to prevent program insolvency.