

# A Beginner's Budget Glossary

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The following definitions are not the final word on budgetary language, but an attempt to provide some form of working definition for budget committee members and to suggest there are many ways to view a budget.

**Abatement:** A complete or partial adjustment of a property tax assessment of a particular property by a government. Large corporations as well as individual tax payers seek them.

**Appropriation:** An authorization granted by a legislative body (town meeting or council) to make expenditures and to incur obligations for specific purposes. An appropriation is usually limited in amount and the period in which it may be expended.

**Budget:** A plan of financial operations embodying an estimate of proposed expenditures for a given period and the proposed means of financing them. A budget may be preliminary - the financial plan presented to the town meeting, or final - the plan approved by the body.

**Budget Message:** Statement summarizing the plans, policies contained in the budget report, including an explanation of the principal budget items, an outline of the municipalities experience during the past year and its financial status at the time of the message.

**Capitol Budget:** The budget for capitol items. Each town must decide for itself what it considers a capitol item. Some define them by their cost; a desk might be funded out of the capitol budget.

**General Fund:** The operating fund or the general purpose fund. It is used to account for all financial resources except those required to be accounted for in such other funds.

**Gross Budget:** Budgeting for all revenues/expenditures. On the revenue side it includes property taxes as well as non-property tax revenues. On the expenditures side it includes budgeting for all expenditures. A gross budget consists of revenue and expenditure budget which must balance.

**Line-Item Budget:** a highly detailed budget. Often adopted with the idea of greater control over expenditures. It gets its name for the fact that it expresses each kind and quantity of expenditures and revenues as a single item on one line of the budget. The format has been criticized for being too rigid as it poses difficulties in adapting to changing conditions that may develop during the fiscal year. It is in contrast to the program and performance budgets which are more flexible in that they budget by program and performance budgets which are more flexible in that they budget by program rather than by the individual components of the program.

**Operating Budget:** Usually defined as the entire town budget, exclusive of the capitol improvement budget. It is budgeting for the day-to-day operations; it excludes such things as capitol items, it includes debt service.

**Overlay:** The amount raised in excess of appropriations and other charges in order to avoid fractions in the tax rate. The amount is set by state law, which says it cannot exceed more than 5 percent of the original assessment. See 36 M.R.S.A. §710. Overlay is like any other revenue and must be appropriated by the municipal legislative body in order to be expended for any purpose.

**Program Budgeting:** Budgeting for the delivery of a particular program. The focus is on the purpose of the program and its outcome rather than the components of the program. It pays less attention to the specific spending items of the program and more on its expected output. They allow for more flexibility.

**Reserve Fund Balance:** This is also known as the designated or dedicated fund balance. It includes those portions of the fund balance that are not appropriable for expenditure or that are legally segregated for future specific use. There are many kinds of dedicated funds, like the capitol improvement fund.

**Surplus:** A generic term referring to anything dealing with equity. It is a term that is often misunderstood and misused. Basically it is the same as the undesignated fund balance. It is primarily used for emergencies. The rule of thumb is to make sure that surplus contains at least eight percent of the total budget or the amount equal to one months operating expenses or one-twelfth. The optimum is ten percent. Surplus revenues generally build up as result of unexpected balances and the excess of receipts from sources other than taxation.

**Zero based budget:** Building your budget from a zero base and not basing it on previous years budgets. Starting all over again. Clean the slate. It is the opposite of incremental budgeting.