

## Basic Budget Terms

**Act 1 of Special Session 2006** – Imposes referendum requirements on all school districts. Repeals authority of Act 72 as well as Act 50. Limits tax increases along with limits on the implementation of new Act 511 taxes.

**Act 24 of 2001** – Allows districts to repeal their occupation assessment tax and replace the lost revenue with an increase in the earned income tax.

**Act 511 Taxes** – Revenue received from the flat and proportional assessments made in accordance with Act 511 of 1965 (Local Tax Enabling Act). School districts of the first class or first-class A are not empowered to levy taxes under the provisions of Act 511.

**Actual Instructional Expense (AIE)** – The net cost of instruction in a school district.

**Aid Ratio** – The result of the formula that reflects a district's wealth in relation to all other districts in the state.

**Appropriation** – An authorization granted by the board of education or voters to make expenditures and to incur obligations for specific purposes. An appropriation usually is limited in amount for the time covered by the approved budget.

**Assessed Valuation** – The official valuation of property for the purpose of taxation. The valuation is determined by the assessors of the district (see School Code).

**Audit** – An examination of records and documents to determine whether 1) transactions that are contemplated or were completed were appropriate; or 2) all transactions were recorded properly, completely and accurately.

**Average Daily Attendance (ADA)** – The total days of pupil attendance of a given school district during a reporting period, divided by the number of days school is in session during this period.

**Average Daily Membership (ADM)** – Aggregate number of school days represented by all pupils on the active roll divided by the number of days school is in session.

**Basic Instructional Subsidy (BIS)** – A payment that includes payment on account of instruction, payment on account of low-income families and payment on account of poverty.

**Basis Point** – An investment term related to interest earnings equal to 0.01%. The equivalent of \$1 earned on an investment of \$1,000,000 when it is invested for one year.

**Budget** – A complete financial forecast for a given time (usually one year) including both expenditures and receipt, based on an educational plan.

- **Final Budget** – Adopted pursuant to the provisions of Act 1, must be placed on public display and advertising notice. Last day to adopt is June 30.
- **Preliminary Budget** – Adopted pursuant to the provisions of Act 1, must be adopted at least 90 days prior to the primary election. Subject to public display and advertising notice. May be waived if the board chooses to keep tax increases under the “index.”

**Budget Calendar** – A guide for indicating budget preparation responsibilities and the dates for their accomplishment by individuals or groups.

**Budgetary Transfers** – Transfer of unencumbered funds or funds designated for one purpose to another part of the budget to be used for a different purpose, requiring approval by two-thirds of board members and allowed only during the last nine months of the fiscal year.

**Capital Outlay** – Expenditures for fixed assets or additions to fixed assets. They are expenditures for land, improvements to the grounds, construction of buildings, additions to or remodeling of existing buildings and initial or additional equipment.

**Capital Reserve Fund** – A special fund created for the purpose of constructing a school building project or projects under a long-term project program approved by the Department of Education.

**Cash Flow** – Matching of the receipt and disbursement of district funds. This is the basis of determining borrowing needs to meet operating expenditures. Also is the basis of determining the length of investment of excess cash.

**Chart of Accounts** – A list of all accounts used in an individual accounting system. An account is a descriptive heading under which are recorded similar financial transactions.

**Clean and Green Act** – Legislative authorization to provide special real property tax treatment to properties of 10 acres or more with no improvements. (Applies to farmland)

**Current Expenditures (Current Expend)** – Includes all general fund expenditures with reference to the functional classifications of: instruction (less tuition), support services and operation of non-instructional services.

**Debt Service** – Expenditures for the retirement or paying off of the principal amount of a debt and the interest on the amount.

**Employee Benefits** – A form of compensation in addition to salary for an employee. Such benefits include retirement benefits, Social Security, workers’ compensation, sick leave, life insurance, accident insurance, disability insurance, etc.

**Employment Cost Index (ECI)** – A measure of the change in the total cost of labor calculated by the U.S. Department of Labor, Bureau of Labor Statistics.

**Encumbrances** – Purchase orders, contracts and salary or other commitments that are chargeable to an appropriation and for which a part of the appropriation is reserved.

**Equalized Mills (EM)** – A measure of the local tax effort calculated by dividing the local taxes by the market value multiplied by 1,000.

**Equalized Subsidy for Basis Education (ESBE)** – Eliminated in the early 1990s, this formula was used for many years to determine the basic instructional subsidy.

**Farmstead Exclusion** – Originally defined in Act 50 of 1998 and incorporated into Act 72 of 2004 and by reference into Act 1 of 2006, the exclusion applies to the value of farm buildings used in commercial agricultural production.

**Fiscal Year** – School districts of the first class, first-class A and second class may, by majority vote, establish a fiscal year to coincide with the calendar year; all others shall begin July 1.

**Fringe Benefits** – See Employee Benefits.

**Full Valuation** – The current market value appraisal or estimate of what a property would sell for in a transaction between a willing buyer and a willing seller.

**Function** – Budgetary term used to describe the major purpose and the end an appropriation is to accomplish.

**Functional Budget** – A budget that uses the format of the line item or traditional budget to group proposed expenditures first according to general activities or actions performed. The major functional categories are: administration, instruction, pupil personnel services, pupil transportation services, health services, operation and maintenance of plant, etc. Within such functions, there are additional line items for various expenditures.

**Fund** – A fiscal and accounting entity for recording resources, liabilities and equity.

**General Fund** – The principal fund of a school district; includes all operations not required to be recorded in other funds, such as school lunch, capital reserves, activity funds, etc.

**Generally Accepted Accounting Principles** – Accounting standards designed for use by local government units.

**Homestead Exclusion** – Originally defined in Act 50 of 1998, now incorporated into Act 1 of 2006 by reference, the value of owner occupied residential property to be excluded from real property taxation.

**Index** – A calculation by PDE using the SAWW and ECI. The calculation may be modified for poorer school districts. This is the maximum increase permitted for school districts.

**Interest Earnings** – The amount of money earned by investing excess cash.

**Investment** – The deposit of excess cash for the purpose of earning interest. Permitted types of investments are enumerated by the School Code.

**Line-Item or Traditional Budget** – A budget that groups proposed expenditures according to certain categories known as the “object” of expenditure. On each line of the budget, the expenses are listed the way they are paid out: salaries on one line, supplies on another line, utilities on another line. Thus, salaries are one object, and supplies another.

**Local Economic Revitalization Tax Abatement Act (LERTA)** – A program based on local choice intended to promote economic growth in real property by excluding improvements from taxation for a period of not more than 10 years.

**Market Value (MV)** – The value of taxable real property within a school district as determined by the State Tax Equalization Board.

**Market Value Aid Ratio (MVAR)** – A fraction used to calculate the state’s share of instructional costs.

**Market Value-Personal Income Aid Ratio (MV-PIAR)** – A factor used to determine the state’s share of instructional costs.

**Millage** – The fixed rate of real estate taxes on assessed property value.

**Object** – The article to be purchased or the service to be obtained to carry out the function with which it is associated.

**Operation of Plant** – Expenditures necessary to keep the buildings and grounds and equipment open and ready for use – “housekeeping” costs.

**Per capita Tax** – A flat rate tax levied upon each adult resident of the taxing school district.

**Personal Income Aid Ratio** – A fraction used to determine the market value personal income aid ratio.

**Program Budget** – A program is a plan of activities or procedures designed to accomplish a set of related objectives. A program budget groups all the proposed expenditures for each individual program; then within each program, expenditures are listed according to function and object. A program budget includes the delineation or definition of the purpose or objectives of a particular program – that is, what that program is expected to accomplish. The dollar amounts budgeted are considered in relation to achieving a desired and agreed-to purpose.

Program budgeting differs from line-item budgeting in that it focuses on the purposes of the district and the particular program and activity. It is a variation from the concept of functional budgeting because in the latter, the budget amounts requested are merely an itemization of the dollars required to continue a given activity or to install a new one. Moreover, a functional budget does not link program costs to program results.

**Proposed Budget** – A tentative budget subject to public hearings, examination, or comment. When the district is fiscally dependent on another municipal body, such as the town or city council, for its funds, the proposed budget sometimes is called the “budget request.”

**Public Utility Realty Tax Act (PURTA)** – Any property subject to regulation by the Public Utility Commission pays an equivalent tax to the Pennsylvania Department of Revenue, which then is distributed to local taxing jurisdictions.

**Referendum** – Vote taken by the electorate for approval or rejection of proposed or passed legislation.

**Reserve Fund** – An amount set aside to cover an obligation duly authorized and incurred.

**Statewide Average Weekly Wage (SAWW)** – The average weekly wage established by the Pennsylvania Department of Labor and Industry for calculating workers’ compensation payments.

**Tax Increment Financing (TIF)** – An economic development program designed to promote economic growth by using the increased tax value of property improvement to pay for infrastructure improvements.

**Tax Levy** – The total dollar amount to be raised by tax.

**Tax Rate/Mill** – The tax levy divided by the total taxable assessed value of the district, usually stated as dollars per thousand or per hundred of assessed value.

**Total Expenditures (Total Expend)** – Includes all general fund expenditures cited under current expenditures plus facilities acquisition and other financing uses (less prior years’ receipts and fund transfers).

**Weighted Average Daily Membership (ADM)** – The assignment of weight by grade level to the average daily membership. The current weighting is half-time kindergarten at 0.5, full-time kindergarten at 1.0, elementary grades (grades 1-6) at 1.0, and secondary grades (grades 7-12) at 1.36

**Zero Base Budgeting** – A method of budgeting, that requires each person requesting funds in a budget to develop “decision packages” and to rank them in priority order.