

MAJOR CLASSIFICATION CHANGES IN U.S. CENSUS BUREAU STATISTICS ON GOVERNMENT FINANCES AND EMPLOYMENT SINCE 1902

Note: This document contains excerpts from two U.S. Census Bureau publications on government finances. One describes data development changes between 1902 and 1982; the other lists the most recent major classification revisions, which took effect with 1988 data. Completing the document is a brief list of other significant classification changes between 1983 and 2005.

1902 to 1982 Data Developments:

Source: Excerpt from text of Historical Statistics on Governmental Finances and Employment (CG82(6) -4, issued January 1985).

Census statistics on governmental finances, as initially published, have been broadly comparable within, but not directly among, the following three periods: pre1937, 1937 to 1950, and 1951 and subsequent years. Following are a few highlights on major classification differences among these several periods.

Pre-1937--From early in the 20th century up to 1937, the basic conceptual and classification framework for Bureau reporting on State and local government finances remained virtually unchanged, although there were differences, as noted [elsewhere in this report], in the scope and detail of the several censuses of "wealth, debt, and taxation." Throughout this period, a broad definition was applied to governmental debt (and, in fact, the concept then included noninterestbearing warrants, which has not been the case since 1937).

As now, an effort was made to deal comprehensively with all revenue (then termed "revenue receipts") and all expenditure (then termed "cost payments") of governments. Much of the functional classification pattern then in use resembled that which currently applies. However, there was typically much less functional detail provided in the periodic censuses of that era than in more recent censuses; on the other hand, the annual "financial statistics of cities" of that period gave considerably more detailed information on current expenditure for various functions and activities than in the current annual series.

*1937 to 1950*¹--Beginning in 1937 and more fully in 1941, new emphasis was placed upon the separate identification of intergovernmental transactions, and upon the separate and distinctive treatment of data for various major financial sectors, which were respectively designated "general government," "enterprises,"

¹ A more detailed description of the classification pattern of this period appears in the introduction to a report issued in June 1948 (and now out of print), entitled *Historical Review of State and Local Government Finances*.

and "trust and sinking funds." Although these designations resemble certain concepts, which apply today..., they were not identical in nature and application.

During the period 1937 to 1950, the concept of "enterprises" was defined to include not only government-operated liquor stores and the four types of local government operations now reported as "local utilities" (water, electric, gas, and transit systems), but also various other "business-type" activities of local governments and States, including, for example, toll highways, airports, and "commercial activities" of State universities. Furthermore, it was intended that financial data for "enterprises" be reported in terms of commercial accounting concepts, rather than on a basis consistent with other governmental revenue and expenditure amounts.

The classification structure also contemplated a completely separate set of revenue and expenditure amounts for "trust and sinking funds." Reportable transactions of the "general government" sector, then, were defined to include "net contributions" to and from the activities and funds making up the other sectors. Most of the State-local finance data published in the period from 1937 to 1950 were for "general government" finances, including relations of this sector with the other two major sectors, without corresponding detail on their operations as such.

There were two aspects of the 1941-50 classification pattern which had so much effect upon "general government" amounts that they deserve special mention: (1) The Census Bu-

reau concept of "taxes" then extended to collections of State unemployment compensation "taxes." Such collections were thus counted as general revenue, with a corresponding amount being recorded as "general expenditure for contributions to trust funds;" (2) the term "general expenditure" was defined to include provision for retirement of general debt (i.e., "nonenterprise" debt), which in turn consisted of the sum of any direct redemption of such debt plus payments into sinking funds for this purpose. In the reporting structure, which has applied since 1951, the concept of "expenditure" does not include any amounts paid or set aside for debt retirement [other than interest payments, ed.].

*1951 and later years--*While the present classification system is structured to provide distinctive amounts of revenue and expenditure for several major sectors, and to subclassify debt between "general" and "local utility" components, these categories are defined to omit intra-governmental transactions, and thus to permit the direct summation of aggregates for each government as a whole. The present concepts of intergovernmental revenue and intergovernmental expenditure are also somewhat broader than those applied during the 1940's in that they include payments for contractual services, and thus are not limited to "fiscal aid" provided in the form of grants or shared taxes.

Another change initiated in 1951 is one of emphasis and form of presentation rather than of basic concept. This involves dealing primarily with functions rather than with character categories in reporting general ex-

penditure data. In publications of earlier periods, although functional detail was generally provided for current expenditure amounts (i.e., for "operation and maintenance" up to 1937, and thereafter for "operation"), capital outlay amounts were often reported without such a breakdown or in far less detail. In contrast, most Census Bureau publications of the past 32 years (like this present report) have reported comprehensive figures on expenditure for various functions, including both current and capital outlay amounts.

A major change in classification for 1976-77 (and subsequent years) is

the elimination of the separate categories of "equipment" and "land and existing structures" within the capital outlay area. Capital outlay was recast to include only "construction" and "other capital outlay," with the latter including the purchase of all land, existing structures, and equipment. The distinction between "equipment" and "land and existing structures" will continue to be shown only for statistics pertaining to State governments and other selected large units.

1988 Classification Revisions:

Source: Appendix B from the report, Government Finances in 1987-1988 (GF-88-5, issued January 1990).

Part 1. Classification Change Effective for the 1988 Annual Survey of Government Finances

Effective with the fiscal year 1988 survey, certain classification changes affected both the presentation of data in this report series and the nature of the data themselves. The chart below lists the major changes and some of their effects.

| Fiscal year 1988 classification change | Table (s) affected | Effects on publication and data |
|---|---------------------------|---|
| Intergovernmental payments to counties, municipalities, and townships have been combined into a single amount | 13 | Detail on payments to these types of local governments no longer exist |
| Payments for capital leases (e.g., lease purchase agreements) are treated as Capital Outlay expenditure. Previously, they were Current Operations expenditure. | 1, 2, 10, 12, 15 | Change in expenditure from <i>Current Operation to Capital Outlay</i> . (See also note below on Construction Data Improvement). |
| Expenditure for Solid Waste Management (formerly called <i>Sanitation Other than Sewerage</i>) is now reported for State governments. In the past, it was included in Other and Unallocable | 1, 2 | New category available for State government created corresponding decrease in <i>Other and Unallocable</i> function. |
| <i>Cash and Security Holdings</i> detail by type of holding (e.g., cash and deposits, Federal securities, etc.) is no longer reported, with the exception of employee retirement system assets. | 1, 17, 28, 31, 34 | Debt for functions such as <i>Highway, Hospitals, and Sewerage</i> are now included in the <i>Other and Unallocable</i> function category or, in some cases, in the new <i>Public Debt for Private Purposes</i> . The meaning of the <i>Other and Unallocable</i> debt category has been altered substantially. |
| Date on long-term indebtedness by function have been consolidated into eight function categories: -Four utility functions--Water, Electric, Gas and Transit | 1, 17, 28, 31, 34 | The meaning of the <i>Other and Unallocable</i> debt category has been altered substantially. It now not only includes debt categories that no longer exist, but also excludes industrial development debt and the like categorized as |

| Fiscal year 1988 classification change | Table (s) affected | Effects on publication and data |
|--|--------------------------|---|
| -Elementary and Secondary Education -Higher and Other Education -Public Debt for Private Purposes (new category) -Other and Unallocable debt | | <i>Private Debt for Public Purposes.</i> Both education debt categories might show the effects of reclassifying student education loan debt. |
| Establishment of the <i>Public Debt and Private Purposes</i> debt category created the following changes in revenues and cash and securities data: | | |
| <ul style="list-style-type: none"> ▪ Sinking fund assets (offsets to long-term debt) include an amount equal to <i>Public Debt for Private Purposes</i>. In the past, this treatment applied only to mortgage revenue bonds. | 1, 3, 16, 18, 28, 31, 34 | Significant increases occurred in offsets to long-term debt. <i>Net Long-Term Debt Outstanding</i> , a calculation using these offsets, therefore declined sharply. |
| <ul style="list-style-type: none"> ▪ <i>Interest Earnings</i> now includes amounts received and used to pay interest on all <i>Public Debt for Private Purposes</i>. Previously, these receipts were classified in three different revenue categories: for mortgage revenue bonds, they were included as <i>Interest Earnings</i>; for industrial development bonds, they were included as <i>Rents</i>; and in a few instances where insufficient information was available, they were included as unspecified <i>Miscellaneous General Revenue</i>. | 1, 3, 4, 7 | Interest Earnings increases, showing a shift from Rents and other Miscellaneous General Revenues. |
| The <i>Full Faith and Credit Debt</i> category no longer distinguishes between general obligation debt and debt payable | 16 | The remaining details separates long-term debt outstanding between <i>Full-Faith and Credit</i> or <i>Nonguaranteed</i> only, with no fur- |

| Fiscal year 1988 classification change | Table (s) affected | Effects on publication and data |
|---|---------------------------|--|
| initially from specified non-tax revenue | | ther sub-categorization |

Editor's Postscript

Listed below are some of the major classification changes since the release of the publication from which this document was excerpted (other than those that took effect with 1988 survey data, described above):

1986--Beginning with this year's employment survey, full-time equivalent employment was computed using a new formula based on hours worked by part-time employees. Previously, a payroll-based formula was used. Note that full-time equivalent data were not published in the 1985 survey.

1987--The annual employment survey reported Federal and state library employees separately for first time. Previously, they were included in "Other and Unallocable."

1995--Last employment survey to use the October reference period.

1997--First employment survey to use the new March reference period.

In the employee-retirement survey, "foreign and international securities" were separately identified as an investment category. Previously, they had been included in a residual cash and securities category.

2001--In the annual employment survey, elementary and secondary education data for seven categories of non-instructional employees were combined under one "All Other" non-instructional category.

2002--Effective with this census of governments, a major change was made in employee-retirement system

classifications regarding how certain assets were valued. Specifically, corporate stocks, corporate bonds, and international securities were re-defined to reflect market value at the close of the fiscal period, instead of "book" value (cost).

Previously, data on both "book" and market value were collected. Although standard tabular presentation showed these assets at their book value, the public-use data files included both variables.

Users should exercise caution when comparing cash and securities holdings of employee-retirement systems data from fiscal year 2002 to those of earlier years.

Also, related to the above, the employee-retirement survey changed its treatment of "earnings on investments." This data item now includes changes (plus or minus) in both realized and unrealized gains. Previously, only realized gains were reported.

Because of the latter revision, for the first time in the history of the finance survey, employee-retirement earnings can be negative, with a concomitant effect on total employee-retirement revenue as well as any other variable that includes this item (total insurance trust revenue, total revenue, etc.). Note that general revenue is unaffected by the change

A major redesign to the government finance classifications will become effective with the 2004-05 survey year. The classification system was modified to address numerous internal inconsistencies that yielded statistical estimates that violated new

OMB guidelines on Federal statistical programs.

ument below.

In summary, the redesign made all finance codes valid for all types of governments (although definitional restrictions remained in place as applicable). Among the major classification changes associated with this redesign were:

- 1. A reduction in debt categories that eliminated distinctions between government sectors, the first time such distinctions were not present in Census Bureau finance statistics. The only two remaining debt categories were "debt for public purposes" and "debt for private purposes."*
- 2. A major expansion of tax categories applicable to local governments.*
- 3. Finance statistics for major local governments no longer will be compiled in the same detail as they are for state governments. Instead. All local governments will use the same classification system, which contains less detail than for state governments.*

For more information about these changes, see Appendix 1 in the revised classification manual, available on-line here:

[2006 Classification Manual](#)

This appendix has been excerpted in its entirety and included in this doc-

**EXCERPT FROM 2006 GOVERNMENT FINANCE AND
EMPLOYMENT CLASSIFICATION MANUAL
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APPENDIX 1. Modifications Effective with this Edition of the Classification Manual

This edition of the *Government Finance and Employment Classification Manual* became effective with the 2005 surveys of government finance and public employment. This edition represents a major change in the structure of the *Classification Manual* itself, compared to the previous edition (1988). This edition also contains several significant revisions to the classification system, especially for the statistical programs covering government finances. This appendix consolidates these revisions for ease of reference and offers explanations for them.

Appendix 1.1 Revisions to Presentation and Format

This edition of the *Classification Manual* contains four major modifications to the presentation of the statistical classification categories. First, it is separated into distinct parts for the two major survey areas of government finance and public employment. Second, the surveys covering the finances of public employee retirement systems were presented separately in Chapter 8, within Part 2 (Government Finances). Third, a number of classification topics about government organization were added to Part 1, Chapter 1. Fourth, this edition contains the full array of detailed tables showing the validity (applicability) of every classification code and coding option, for both the government finance and public employment surveys. Each of these modifications is described below.

Appendix 1.1.1 Separate Explanations of Government Finance and Public Employment

This edition of the *Classification Manual* separated the definitions and categories applicable to the two major surveys – government finance and public employment. Thus, Part 2 (chapters 3 through 10) contains classification details about the government finance surveys, while Part 3 (chapters 11 and 12) covers the public employment survey. Some classification topics are repeated in both parts, but from a different perspective that applies to either finance or employment statistics.

Similarly, all “functional” categories are described twice, once in Chapter 5 pertaining to government expenditure and once in Chapter 12 pertaining to public employment. There are two differences between functional categories for government finance versus public employment. First, there are significant differences in the number of functional categories used in the two survey areas, with more functional categories applying to the government finance survey than to public employment. Second, there are subtle differences in some definitions for functional categories that are used in both surveys. For example, the functional category *Highways* (code 44) in the public employment survey area includes measures of employees engaged in toll highway activity, which is not the case for government finance statistics. As a result, Governments Division statisticians decided that classification systems used in the two survey areas should be presented separately.

Appendix 1.1.2 Separate Presentation of Classification Categories for Public Employee Retirement Systems

Chapter 8 of this edition is dedicated to the classification categories used for financial statistics on public employee retirement systems. Previous editions of this document did not present this topic separately.

Governments Division statisticians thought this separate presentation would be useful for two reasons. First, the topic is extremely important. Public employee retirement systems comprise a major financial activity for governments. The financial assets of these systems represent the majority of government cash and security holdings nationwide and the finances of these systems have profound implications for the long-term fiscal condition of state and local governments.

Second, the major movements that occurred in the financial markets since the 1988 edition of this *Classification Manual* attest to the importance of accurate statistics on this aspect of government activity. The 1990s saw tremendous growth in the value of equities and most retirement systems invested heavily in them. The 2000-01 recession had a profound impact on the value of these investments. Both factors influenced the method by which retirement systems (and governments in general) assigned values to their assets, and especially their equity holdings. The latter was greatly influenced by the government-wide effort to standardize reporting and accounting practices, as best exemplified by the rising importance of the Governmental Accounting Standards Board, GASB (as noted in several places throughout this edition).

Consequently, Chapter 8 contains a separate description of the classification system used for public employee retirement systems. Additional information about revisions to the classification system for this government activity are noted below in Appendix 1.5.

Appendix 1.1.3 Introduction of Government Organization Topics

The third modification to the presentation used for this edition of the *Classification Manual* was the introduction of topics pertaining to government organization and structure. These are found in Chapter 1, The Basic Unit of Reporting – The Government Entity. Specific information added included an explanation of statistical aggregation and tabulation methodology, an explanation of the Governments Integrated Directory, and explanations of the following government reference coding applications:

- Government Unit Code (including historical coding patterns)
- Government Function Codes
- Government Activity Codes
- School Level Codes

Most of the coding topics are “internal” to the processing methodologies used by the Governments Division. As such, these topics might be of little use to outside users of this *Classification Manual*. Nevertheless, the addition of these topics will assist analysts in understanding the overall classification system and how statistics are processed within the system. Prior to this edition, these topics could be found primarily in documents internal to the Governments Division.

Appendix 1.1.4 Addition of Valid Code Tables

Appendix 2 contains all of the “valid codes tables” for the two survey areas of government finance and public employment. These tables are extremely useful reference tools for the statisticians and analysts involved in the Census Bureau surveys on government finance and employment. They represent code validity by level and type of government. In this sense, they convey the statistical categories for which data can be reported (or can exist). Prior to this edition, these tables were summarized in the *Classification Manual*, but with the precise parameters contained only in documents internal to Governments Division processing.

These tables will be maintained and updated in the on-line version of this *Classification Manual*. Changes generally are very limited from one survey year to the next, but even a single change can impact processing for an individual unit of government, for estimation, and for tabulation. Hence the inclusion of these detailed, but necessary, tables is an important component. The tables are presented in each chapter, but also are repeated in Appendix 2 for ease of reference.

Appendix 1.2 Revisions to Public Employment Statistical Classifications

One significant change to methodology took effect since the last edition of this *Classification Manual* was released. This change involved the base reporting period for measuring employment and payrolls, which was changed from October to March. This change became effective with the 1997 Census of Governments. As a result, there was no Annual Survey of Public Employment for 1996 (which would have covered the October 1996 employment and payroll statistics).

There were no major changes to the public employment classification system for this edition of the *Classification Manual*. The number of functional categories used to classify employment and payroll statistics, as well as their definitions, remained unchanged from 1988 through the release of this edition.

One minor clarification was introduced for function code 37, Own Hospitals - Veterans. This function applies to Federal Government statistics only. The clarification was that this function would include employees and payrolls for clinic and outpatient medical care. Most Veterans Affairs facilities now offer such services and distinguishing them from inpatient care is virtually impossible.

Appendix 1.3 Summary of Revisions to Government Finance Classifications

This edition of the *Classification Manual* reflects three areas of change that were applied to the statistical program for government finances. The first consisted of general changes in definitions and processing that were applied post-1988. These are the normal types of changes made to any statistical program, and for this program they reflect the need to keep up-to-date with financial reporting practices of governments, as well as changes to government structure and organization among the states and for the Federal Government. The second area consisted of major changes to the statistical reporting used in the surveys of public employee retirement systems. Most of these were effective with the 2002 Census of Governments, although some additional modifications have taken place since. The third area consisted of the 2005 redesign of the government finance statistical program, which resulted in major changes to the internal applicability of finance variables (codes) by level and type of government, and to the elimination of several classification categories.

These revisions are explained in the following sections, Appendices 1.4 through 1.6.

Appendix 1.4 Revisions to Definitions

- Revenue: Taxes on public utilities (*Public Utilities*, codes T15 and T27) – the definition was expanded to reflect the taxation of cellular telephone and internet service providers.
- Revenue: *Individual Income Tax and Corporate Net Income Tax* (codes T40 and T41) – the reference to historical data for *Individual Income Taxes*, code T40, was expanded to note that the category includes combined individual and corporation income taxes

where proceeds could not be separated in older, historical data.

- Revenue: *Miscellaneous* (code U99) – the definition was modified to reflect the exclusion of earnings from dividends, for state governments. The latter was added to the classification system as a separate category for state governments, effective 2005.
- Expenditure: *Miscellaneous Commercial Activities* (code *03) – the definition was clarified by noting specific exclusion of those activities that qualify for classification as a social insurance trust system.
- Expenditure: *Elementary and Secondary Education* (code *12) – the definition was expanded to cover charter schools that have been classified as “governmental” (public) by the Census Bureau.
- Expenditure: *Public Utilities, Water Supply* (codes *91) – the definition was expanded to include desalinization plants.
- Expenditure: *Public Utilities, Gas Supply* (codes *93) – the definition was expanded to include liquefied petroleum gas terminals.
- Cash and Security Holdings: The definition for Lotteries cash and securities holdings was clarified to be more explicit about excluding prize monies held pending disbursement.
- Cash and Security Holdings: Valuation – the definition of all cash and security holdings was modified to reflect that assets are to be reported at market value. This methodology was effective with the 2002 Census of Governments for selected assets of public employee retirement systems (as explained in Appendix 1.5 following), and effective with the 2005 government finance surveys for all other types of cash and security holdings.
- Social Insurance Trusts, *Federal Veterans’ Life Insurance* – the references in the definition were updated to reflect name changes and additional programs.
- Exhibit codes CGE and CGR – these were added to the *Classification Manual* for the first time. They had been added to the classification system for the 1999 survey year. The categories were re-titled as follows: CGR became *Tobacco Lawsuit Settlement - Receipts*, and CGE became *Tobacco Lawsuit Settlement - Expenses*.

Appendix 1.5 Revisions to Classification Categories and Codes for Statistics on Public Employee Retirement Systems

Most of these changes were effective with the 2002 Census of Governments. They were made after research and consultation with participating respondents (the retirement systems themselves), as well as major users (the Bureau of Economic Analysis and the Federal Reserve Board).

- Market Value of Cash and Security Holdings – The method for measuring the value of certain cash and security holdings was modified. Effective 2002, the following assets were to be reported at market value only, as carried on the books of the reporting systems. Note that some of the codes were changed, since newly defined categories were significantly different in definition from the previous categories.

Total Corporate Bonds (code Z77), consisting of:
Corporate Bonds, Federally-Sponsored Agencies (code Z62)
Corporate Bonds, Other (code Z63)
Corporate Stocks (code Z78)
Foreign and International Securities (code Z70)

Prior to 2002, these categories were reported at book value only (the cost of the asset when it was purchased). The appropriate codes used prior to 2002 (but eliminated and replaced by the codes above) are noted below:

Corporate Stocks (code X41)
Corporate Bonds (code X40)
Federally-Sponsored Agency Securities (code Z67)

Foreign and International Securities were reported in the category for Other Securities (exhibit code Z69 and also included in regular code X44) from 1997 to 2002. Prior to 1997, these were reported (at book value) at exhibit code Z83.

- Governments Division added a separate category for *State Government – Other Dividends* (code U21). These are treated differently from interest earnings in many economic accounts, and hence there was a need to identify them separately.
- Two little-used categories of public employee retirement system transactions were eliminated effective 2002:

Z97 - Receipts for Transmittal to Federal Social Security System
Z92 - Amounts Transmitted to Federal Social Security System

- *Earnings on Investments* (code X08) underwent significant changes, reflecting both definition and methodology. This ensured internal consistency in the annual surveys, at both the unit level (the individual retirement system) and for any tabulations.

As noted in Chapter 8, the definition was modified to read as follows:

Regular Code X08 Earnings on Investments

Definition: Total earnings on investments, net of losses, as summed from all the earnings codes defined below. Includes interest earnings, dividends, recorded profits on investment transactions (minus any recorded losses), rentals; and other earnings on investments. Includes unrealized gains (and losses), as reported for accounting purposes.

Excludes: Rental of property owned by a retirement system and leased to its parent government, and amortization of discounts (nonrevenues).

Special Considerations:

1. This is a calculated statistic. It is the sum of the following six exhibit codes.
 - +Z71 Interest Earnings
 - +Z72 Dividend Earnings
 - +Z73 Other Investment Earnings
 - +Z96 Gains on Investments, (Realized and Unrealized)
 - Z91 Losses on Investments (Realized and Unrealized)
 - +Z98 Rentals from State Government

2. For Census Bureau Regular Statistics on government finance, Z98 is excluded from calculation of code X08, *Earnings on Investments*. Such receipts reflect an intragovernmental transactions and thus cannot be included as “revenue” for a government.

3. Previous *Classification Manuals* separated earnings on investments between interest income (code X08) and other types of investment earnings (X09). However, in practice this distinction was not made on the survey schedules themselves. Consequently, these two codes were consolidated effective with fiscal year 1990 data.

The primary change was that earnings on investments came to reflect both realized and unrealized gains/losses, owing to the change in definition for those two categories. Prior to 2002, the definition noted only realized gains and realized losses (X14).

- *Losses on the Sale of Investments* (code Z91) and *Gains on the Sale of Investments* (code Z96) variables were both moved to revenue codes. Only one is used, depending on whether the system experienced gains or losses. In either case, the amount is netted from the revenue code X08, *Earnings on Investments*, as noted above. More importantly, the title of these categories had to be changed to reflect the post-2002 methodology used to establish their value. That methodology called for measuring both realized gains/losses and unrealized gains/losses. Realized gains/losses applied to investments that were disposed of (sold) during the fiscal year. For all other investments, the change in market value, or the unrealized gains/losses, and this became a reported amount as well and was combined with the realized gains/losses. The new category was titled *Net Gains or Losses on Investments*.
- New exhibit codes for benefit payments were added. These were added effective 2005 and represent a subset of the code X11, which was re-titled to be *Total Benefit Payments*.

Z13 *Retirement Benefits*

Z14 *Disability Benefits*

Z15 *Survivor Benefits*

Z16 *Other Benefits*

Many of the coding changes for public employee retirement systems are summarized in Appendix Table 1.2.

Appendix 1.6 Revisions from the 2005 Redesign of the Government Finance Program

The 2005 redesign of the government finance program resulted in many revisions to coding applicability. The primary purpose of the redesign was to bring the annual survey into compliance with new and stricter statistical standards for Federal government sample surveys. The statistical standards impacted data collection and estimation methodology. In summary, the resulting methodological changes resulted in many classification categories being added to the local government component of the survey. Prior to 2005, many categories had been restricted to Federal and state governments only, or to “large local governments” (as defined by the Governments Division). As such, estimates of U.S. totals of government finances for these classification categories did not represent true aggregates, reflecting the financial transactions of all levels of government.

There were three other objectives for the 2005 redesign.

1. To simplify the variable set being collected, with the goals of reducing processing time and redesigning the survey data collection instruments (print and electronic).
2. To revise the variables set as needed so that it reflected current government sector financial reporting standards and practices.
3. To update and clarify the definitions, which had been in place since 1988.

The sections that follow (Appendix 1.6.1 to Appendix 1.6.7) explain the revisions emanating from the 2005 redesign.

Appendix 1.6.1 Changes to Object Codes for Expenditure Statistics

There were two major changes to the object coding used for government finance expenditure statistics. These are explained below.

Appendix 1.6.1.1 Assistance and Subsidies. Effective with this edition of the *Classification Manual*, the object code for all “assistance and subsidies” expenditures was changed from “E” and “I” to “J.” This was made to avoid duplication in the use of object codes “I” and “E.” Prior to this change:

- Object code “I” represented two types of expenditures – interest on debt for all three levels of government, plus assistance and subsidies for Federal Government expenditure statistics. However, since “I89” was the code for interest on general debt, the pre-2005 Federal Government object code for “Other and Unallocable, Assistance and Subsidies” was “J89.”
- Object code “E” represented either current operations or assistance and subsidies, for state and local government expenditure statistics. The distinction between the two types of expenditures was based on the function code only, which was confusing and unique within the overall classification system.

Using the “J” object code to represent “assistance and subsidies” for all levels and types of governments was a major simplification to the classification system. However, it is noted that the Governments Division has not applied this object code change to historical publications and data files. Hence all pre-2005 statistics will contain the object code of “I” for Federal Government assistance and subsidies (for all functions except *89, where J89 was used), and the use of object code “E” for state and local government assistance and subsidies. See Chapter 5 for additional information.

Appendix 1.6.1.2 Elimination of Selected Intergovernmental Object Codes

Two intergovernmental object codes were eliminated from the classification system, effective with the 2005 surveys on government finance. Both were eliminated for the same reasons, namely the increasing difficulty of obtaining the data and the need to simplify the overall classification system. The latter also involved a case of limited applicability for these two codes, which had been restricted to state governments only.

Object code “N” was eliminated. This represented intergovernmental expenditure payments to general purpose local governments (counties, municipalities, and townships) from state governments. Object code “R” also was eliminated. It represented intergovernmental expenditure payments from state governments to special district governments. In both cases, any payments previously code at “N” or “R” are reported at object code

“M,” effective with data for the 2005 surveys. For comparative purposes when using historical statistics, pre-2005 data under object codes “M” plus “N” plus “R” will compare to the data coded at M only, for 2005 and out years. The definition of object code M remains unchanged, however. It reflects intergovernmental payments to local governments not elsewhere classified, or “NEC.”

Appendix 1.6.1.3 Revisions to Object Code K

Object code K is a limited use code that represents expenditure of the purchase of equipment. It represents a subset of object code G – capital outlay other than construction. Prior to 2005, this object codes was used for statistics of the Federal and state governments, plus selected large local governments. The latter condition was corrected by the 2005 redesign, with the result that this code was removed from the valid code set for local governments. Effective 2005, object code K applies only to statistics for the Federal and state governments.

Appendix 1.6.2 Changes for Liquor and Lotteries

The 2005 redesign of the Census Bureau’s government finance statistics impacted the liquor stores and lottery classifications. Specifically, codes for lottery regular finance statistics were made valid for all local governments. Prior to 2005, no regular lottery statistics could be used for local governments, with the exception of Washington, DC. Lottery system exhibit statistics remained valid only for state governments and Washington, DC, however.

Regular statistics for liquor stores apply to state and local general purpose governments (some of which administered liquor store operations). Even with the 2005 redesign, however, exhibit and derived statistics for liquor store operations remained limited to state governments. The decision to retain this limitation was based on several factors. First, as of 2005 there were only 430 locally-administered liquor store operations. Secondly, the Census Bureau’s annual government finance sample survey is designed to yield statistical estimates for regular statistics only.¹ Since exhibit and derived statistics cause additional data collection and processing burdens but would not be tabulated for local governments (the sample-based portion of the Census Bureau’s annual survey of government finances), it was decided not to burden the small number of local governments involved for additional information on the survey questionnaires. Third, prior to the 2005 redesign, liquor store exhibits applied only to state governments, so the post 2005 classification system was left unchanged to maintain historical continuity.

Appendix 1.6.3 Revenue Classification Category Revisions

The revenue codes below were expanded to cover all local general purpose governments (types 1, 2, and 3), in addition to state governments, Washington, DC, and large cites and counties. In all cases, the codes do not apply to school district governments, by definition.

- Natural Resources, Intergovernmental Revenue from the Federal Government (code B59) – data were reported at B89 prior to 2005 (for most local general purpose governments).
- Airports, Intergovernmental Revenue from the Federal Government (code B01) –

¹ An exception exists for the annual survey of public employee retirement systems, which is sample based but does yield estimates of many exhibit statistics. However, none of the latter are used in the broader, annual survey of government finances covering parent governments and all their dependent agencies.

data were reported at B89 prior to 2005 (for most local general purpose governments).

The revenue codes below were expanded to cover all local governments. However, definitions restrict some applicability as noted, mostly for school districts, which cannot operate or provide the services.

- All tax revenue (codes T**) – without restriction.
- Current charges (various codes) – prior to 2005, a number of current charges categories applied only to state and general purpose local governments. Effective 2005, they became applicable to all local governments. This change affected the following “current charges” categories:
 - *Miscellaneous Commercial Activities*, code A03 (not valid for school districts)
 - *Higher Education Auxiliary Enterprises*, code A16 (previously state governments only)
 - *Other Higher Education Charges*, code A18
 - *Public Hospitals*, code A36
 - *Toll Highways*, code A45 (not valid for school districts)
 - *Other Natural Resources*, code A59 (not valid for school districts)
- *Miscellaneous Revenue, Special Assessments*, code U01 (prior to 2005, did not apply to school district governments)
- *Fines and Forfeits*, code U30 (prior to 2005, did not apply to all local governments)
- *Royalties*, code U41 (prior to 2005, did not apply to local governments)
- *Donations from Private Sources*, code U50 (prior to 2005, did not apply to local governments)
- *Net Lottery Revenue*, code U95, (prior to 2005, this did not apply to local governments – with exception for Washington, DC).

The revenue codes below were expanded to cover state governments.

- *Current Charges, Parking Facilities*, code A60 – data were reported at A89 prior to 2005.

The revenue codes below were eliminated altogether, effective 2005.

- *Current Charges, Agriculture*, code A54 – report at code A59 instead.
- *Intergovernmental Revenue from Federal Government, Agriculture*, code B54 – report at code B59 instead.

The revenue codes below were added as new to the classification system, effective 2005.

- *State Government – Other Dividends*, code U21 – this code applies to state governments only, for which dividends previously were reported at *Miscellaneous General Revenue, NEC*, code U99, except for public employee retirement systems, which had a separate code for this item (itself effective in 2002). Other social insurance

trust systems use a separate category for dividends, namely “earnings on investments.” Finally, it is noted that for local governments and their dependent agencies (except for public employee retirement systems) dividends continue to be classified at code U99.

The revenue codes below were consolidated, coverage was expanded, and the definition was modified.

- Sale of Property, Housing and Community Development, code U10, and *Sale of property, Other*, code U11 – code U10 was eliminated. All proceeds from the sale of sale of property are now reported at code U11 only. Also, code U11 was expanded to include school districts.

Other revenue code changes effective with 2005 are noted below.

- Revenue: Education charges (code A21) – the category was re-titled to *Federal and State Education Charges NEC*, to reflect its limited applicability by level of government.
- Current Charges, Forestry (code A56) – this was re-titled to *Federal and State Forestry* to reflect its limited applicability.

Appendix 1.6.4 Expenditure Classification Category Revisions

The revisions to expenditure codes in the 2005 redesign of the government finance program consisted primarily of expanding the categories to all levels and types of government. However, several categories that were not expanded were instead redefined, or re-titled, to limit them explicitly by level of government.

The expenditure codes below were expanded to cover all local governments, in theory. However, definitions restrict applicability as noted, mostly for school districts, which cannot operate or provide the services. Hence these codes are shown as invalid for school district governments in the valid codes tables for this edition of the *Classification Manual*.

- Miscellaneous commercial activities (E03, F03, and G03) – expanded to all local governments, although school districts do not perform the functions. Prior to 2005, this function applied only to local general purpose governments.
- Correctional institutions (E04, F04, G04, L04, M04) – expanded to all local governments, although school districts do not perform the functions. Prior to 2005, this function applied only to Federal and state governments. Also, object codes “M” and “L” were added for this function.
- Other corrections (E05, F05, G05, L05, M05) – expanded to include special district governments, in addition to state and local general purpose governments. School districts do not perform the function.
- Elementary and secondary education (L12) – expanded to include special district governments.
- Higher education auxiliary enterprises (E16, F16, G16) – expanded to all local governments, although special district governments do not perform the function, by definition. Prior to 2005, this function applied only to state governments.

- Toll highways (E45, F45, G45) – expanded to include special district governments, in addition to state and local general purpose governments. School districts do not perform the function.
- Police protection (E62, F62, G62, L62, M62) – expanded to include special district governments, in addition to state and local general purpose governments. School districts do not perform the function, although consideration is being given to expanding the applicability to schools for the future.

The expenditure codes below were expanded to include state governments.

- Parking facilities (E60, F60, G60, K60, M60) – prior to 2005, these codes were for local governments only. State expenditure, if any, was reported at function code 89.

The expenditure codes below were consolidated and redefined.

- Own hospitals (code *36) and Other hospitals (code *38) – expenditure function 38 was eliminated and all transactions consolidated into function 36, which was redefined and re-titled to reflect “Hospitals” rather than “Own hospitals.” Furthermore, the newly redefined function became valid for all types of local governments. As a result, new codes L36 and M36 were created, and the following codes eliminated: E38, F38, G38, K38, L38, and M38.
- Veterans’ bonuses (code *84) and Other veterans services (code *85) – expenditure function *84 is eliminated and combined with expenditure function *85, which is now titled *Federal and State Veterans Services*. Note that this function also is limited in applicability to Federal and state governments only. Code E84 is eliminated and code J85 is added, effectively replacing E84.

The expenditure codes below were eliminated altogether, effective 2005.

- Private transit subsidies (E47) – expenditures, if any, now are reported at functions 89 or 94. This code previously applied to state and local governments. The associated exhibit code of Z61 (subsidies transferred to own transit system) also was eliminated.
- Other agriculture (E54, I54, F54, G54, K54, L54, M54) – this function applied to Federal and state governments only. Expenditures, if any, are to be reported at function code 59, *Other Natural Resources*.

The expenditure codes below are redefined or re-titled only.

- Fish and game (codes E55, F55, G55, K55, M55) – the title of this function was changed to *State Fish and Game* to reflect its limited applicability.
- *State government scholarships and Other Subsidies (Education)*, code J19 – the title of this function was changed to reflect its restricted applicability to state governments only.
- Other Education (codes E21, F21, G21, K21, J21, L21, M21) – the title of this function was changed to reflect its limited applicability to the Federal and state gov-

ernments only. The new title is *Federal and State Other Education*.

- Fire protection (codes E24, F24, G24, and M24) – the title of this function was changed to reflect its limited applicability, for local governments only. The new title is *Local Fire Protection*.
- Other Health (codes E32, F32, G32, K32, J32, L32, M32) – the title of this function was changed to *Health*. Also, health inspections related to agricultural products were added to this function. Previously, they were reported at function code 54, Agriculture, which was eliminated effective 2005.
- Forestry (codes E56, F56, G56, K56, J56, L56, M56) – this function was changed to reflect its limited applicability to Federal and state governments only. The new title is *Federal and State Forestry*.

Other expenditure code changes effective with 2005 are noted below.

- *Public Welfare, Federal Categorical Assistance Programs* (code *67) – this code was changed from E67 to J67, owing to the previously explained modification to the object code for assistance and subsidies.
- *Public Welfare, Other Cash Assistance Programs* (code *68) – this code was changed from E68 to J68, owing to the previously explained modification to the object code for assistance and subsidies.
- *Public Welfare, Vendor Payments for Medical Care* (code S74) – object code “S” was added as valid for this function to reflect payments to the Federal Government under Medicare Part D.
- *Total Capital Outlay* (exhibit code V98) – this category was added to the *Classification Manual* for the first time.

Appendix 1.6.5 Debt Classification Category Revisions

This edition of the *Classification Manual* contains significant revisions to the classification system used for government debt statistics. In keeping with the theme of the 2005 redesign, these revisions enhanced internal consistency in statistical categories and simplified the classification categories across levels and types of governments. Overall, the number of categories used to classify state and local government regular debt statistics was reduced from 66 to 8, with many of the former categories combined into broader groupings.

The 2005 revisions resulted in two changes to the classification system for government debt statistics that was in place from 1988 through 2004. First, the number of categories used in classifying the “purpose” of state and local government long-term debt (the functional activity the debt supported) was reduced from 8 to 2. The previous edition of this *Classification Manual* had debt categories that utilized the basic concept of “government sectors” described in Chapter 2, in combination with the functional concepts used for government expenditure statistics. The following categories of “purpose” were recognized:

| | |
|---------------|------------------------------------|
| General Debt: | Elementary and Secondary Education |
| | Higher and Other Education |
| | Public Debt for Private Purposes |

All Other Debt, N.E.C.

Utility Debt: Water Supply Systems
 Electric Power Systems
 Natural Gas Supply Systems
 Public Mass Transit Systems

Effective with 2005 surveys, these categories were consolidated, with only two categories remaining. These were:

Public Debt for Private Purposes
Debt for Unspecified Public Purposes

The second classification change was that the distinct categories used to classify “character” of long-term debt were eliminated. Prior to the 2004-05 survey year, the Census Bureau statistics on government debt also included the following additional classification category:

- *By character of long-term debt.* Long-term debt is classified as either backed by the full-faith and credit of the government or as nonguaranteed.

Effective with the 2005 surveys, however, Census Bureau statistics no longer distinguish between debt that was “guaranteed” (such as by the taxing power of the issuing government) and nonguaranteed (such as revenue bonds).

In summary, these changes meant that the Census Bureau statistics on government debt went from a four way classification system to a three way classification system.

| <u>By Length of Term Outstanding:</u> | <u>By Type:</u> | <u>By Purpose of Debt:</u> |
|---------------------------------------|-----------------|---|
| - Short-term | - Beginning | - Public Debt For Private Purpose |
| - Long-term | - Issued | - Public Debt, Unspecified Public Purpose |
| | - Retired | |
| | - Outstanding | |

The following pre-2005 debt codes thus were eliminated:

19A, 19B, 19C, 19D, 19H, 19X, 21A, 21B, 21C, 21D, 21F, 21G, 21X, 24A, 24B, 24C, 24D, 24F, 24G, 24X, 29A, 29B, 29C, 29D, 29F, 29G, 29X, 31A, 31B, 31C, 31D, 31F, 31G, 31X, 34A, 34B, 34C, 34D, 34F, 34G, 34X, 39A, 39B, 39C, 39D, 39F, 39G, 39X, 41A, 41B, 41C, 41D, 41F, 41G, 41X, 44A, 44B, 44C, 44D, 44F, 44G, 44X

Effective with the 2005 survey year, debt codes consisted of the following:

- 19T, 24T, 34T, and 44T were retained, and had the same meaning as previously.
- 19U, 29U, 39U, and 49U will be used for all other debt. It was necessary to create these new codes (using the “U” designation as opposed to the previous “X” designation for all other debt) so that historical data comparisons would not be misleading.

Table 6.2 in Chapter 6 shows the history of classification changes for debt categories for the three time periods – current (effective 2005), 1988 to 2004, and pre-1988.

The 2005 redesign did not result in any major shifts in the levels and trends of government

debt statistics reported by the Census Bureau. Nor did the 2005 redesign create any need for historical revisions to the time series for government debt statistics. Since the changes in this edition of the *Classification Manual* represent consolidations of debt categories, all aggregates in the historical data are consistent, in terms of coverage and concept, with statistics from earlier years.

Appendix 1.6.6 Cash and Security Classification Changes – Market Value

There were no changes to the statistical classification categories for reporting cash and security holdings, based on the 2005 redesign of the government finance program. The changes to cash and security holdings categories for public employee retirement systems, effective 2002, were explained previously in Appendix 1.5.

The 2005 redesign of the government finance program did include a major change in definition for all cash and security holdings, however. The definition for all of the categories was modified to reflect market value of holdings. This change was made to maintain consistency with current accounting practices used by governments.

This major change in how the Census Bureau “valued” cash and security holdings was based largely on the evolution of governmental accounting practices. As a direct result of GASB guidelines, described earlier in this *Classification Manual*, most governments and the associated government accounting industry converted to market valuation for official financial reports. The definition of market value for purpose of the Census Bureau’s government finance classification system, is noted in Chapter 7 and repeated here (see Section 7.2.2):

Market value of cash and security holdings is defined in two ways, depending on the type of asset. For cash and cash-based short-term investments such as certificates of deposit, the valuation is based on current dollar value of the holdings. For all other security holdings, market value is the amount that a government can reasonably expect to receive for an investment in a current sale between a willing buyer and willing seller (other than in a force or liquidation sale). This definition is essentially the same as found in GASB statement 25. In both cases, the measure is taken as of the close of the government’s fiscal year. Market value also is referred to as “fair value” in many accounting references.

As noted earlier in this Appendix, the market value concept had been applied to several categories of cash and security holdings for public employee retirement systems, effective with the 2002 Census of Governments. Those categories included corporate stocks (code Z78), corporate bonds (codes Z77, Z62, and Z63), and foreign and international securities (code Z70). The decision to value all assets at market value applied the same methodology to the remaining categories.

Appendix Table 1.1, *Pre 2005 Basis of Measurement for Cash and Security Holdings*, summarizes how cash and security holdings were measured in Census Bureau surveys.

Appendix 1.7 Coverage Changes for Washington, DC

One final result of the 2005 redesign involved coverage for Washington, DC. As noted throughout this *Classification Manual*, Washington, DC is classified as a municipality for purposes of Census Bureau surveys on government finance and public employment. However, prior to 2005, many of the more detailed classification categories that were used for state governments also were used for Washington, DC. As a result of the 2005 redesign, Governments Division decided to retain the status of Washington, DC as a local (municipal) government for statistical purposes.

Most of the statistical codes that apply to state governments only (such as the K object codes) were deemed to be invalid for Washington, DC. See Sections 3.13 and 11.5 for additional information.