



Municipal Finance 101

Today's Session

Core Concepts of Municipal Finance:

Fund
Accounting

Primary Public
Finance
Documents

Finance
Calendar &
Schedule of
Tasks

Common
Revenue
Sources &
Expenditures

Financial
Policies & Best
Practices

Financing
Methods

Fund Accounting: What is it?

- Method of segregating financial resources into categories
 - ✓ Identifies both the source & use of funds
 - ✓ Emphasizes accountability vs. profitability
- Revenues & expenditures held, tracked in separate funds
 - ✓ Governmental funds
 - ✓ Proprietary funds
 - ✓ Fiduciary funds

Fund Accounting: Fund Types

Governmental Funds (account for activities largely supported by taxes, grants, other similar sources)

- General
- Special revenue
- Debt service
- Capital project
- Permanent

Proprietary Funds (account for activities that receive primary support from user fees & charges)

- Enterprise
 - ✓ Utilities
 - ✓ Liquor
 - ✓ Golf course
 - ✓ Arena
- Internal Service
 - ✓ Information technology
 - ✓ Facilities
 - ✓ Fleet
 - ✓ Risk management

Fund Accounting: Fund Types, Continued...

- Fiduciary Funds (account for assets held in trustee capacity)
 - ✓ Trust Funds
 - Pension & OBEP
 - Investments
 - Private purpose
 - ✓ Custodial Funds
 - Fees collected for other government agencies



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KEY PUBLIC FINANCE DOCUMENTS

Annual Comprehensive Financial Report

Independent
Auditors' Report

Management
Discussion &
Analysis (MD&A)

Government-Wide
Financial
Statements –
Modified vs. Full
Accrual

Balance
Sheet/Statement
of Net Position

Statement of
Revenues,
Expenditures &
Changes in Fund
Balance

Statement of Cash
Flows: Proprietary
Funds Only

Notes to Financial
Statements

Required
Supplementary
Information

Statistical Section

Budget



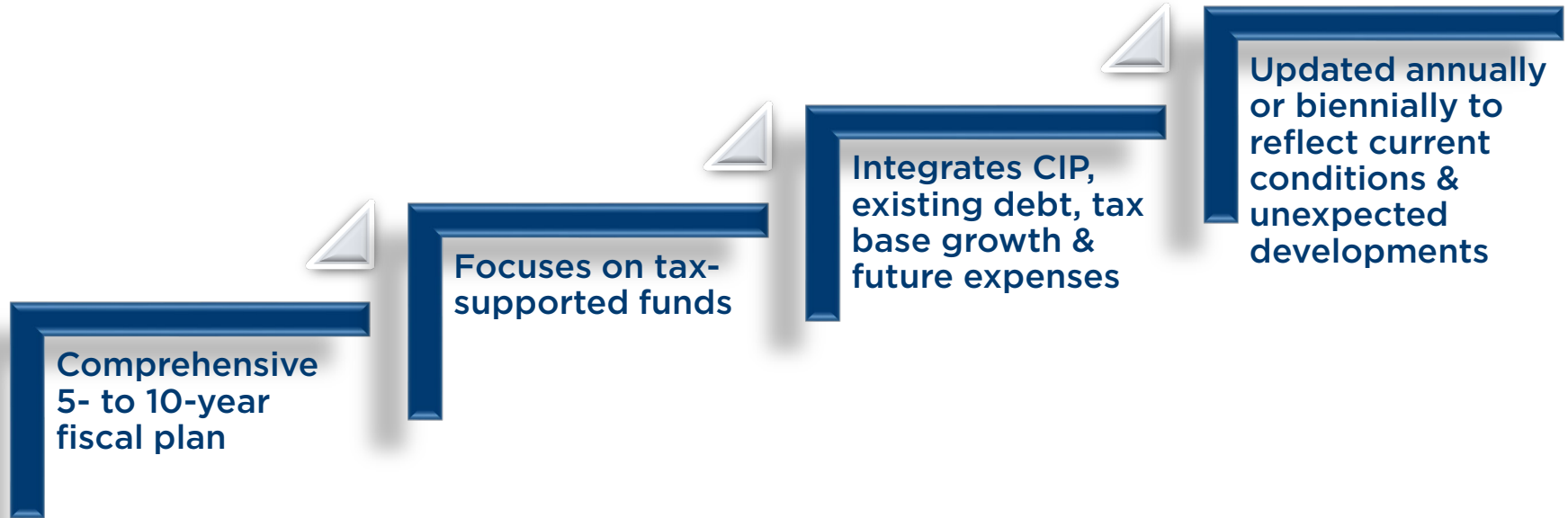
Typical Budget Process



Capital Improvement Plan (CIP)

- 5- to 10-year plan to identify capital projects & equipment purchases
- Updated annually or biennially to reprioritize & adjust costs
- Provides planning schedule
- Identifies funding sources (tax, fees, debt, etc.)
- Communicates Council priorities to the public
- Informs capital budgeting process

Long-Range Financial Plan



Long-Range Financial Plan, Continued...

The Benefits:

Helps staff identify
& plan for financial
limitations

Sets parameters for
next budget cycle

Offers mechanism
to set goals &
evaluate enterprises

Helps stabilize
property tax levies

Gives Council
comfort that City
can afford capital
investments

Demonstrates
multi-year planning
with focus on
financial stability to
rating agencies

Primary Communication Vehicles

Short-Term Financial Health

Internal documents

Fund-based statements

Budget

Long-Term Financial Health

Government-wide financial statements

Capital Improvement Plan (CIP)

Long-range financial plan



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MUNICIPAL FINANCE CALENDAR

The Schedule of Tasks



Jan - Mar

- State Budget Report
- Lobbying Report
- County Outstanding Indebtedness Report
- Budget Publication
- Audit Prep: preliminary fieldwork

Apr - June

- Audit Fieldwork
- ACFR
- Popular Annual Financial Report (PAFR) - *optional*
- Budget and/or CIP Development
- Municipal Fee & Expense Report
- State Auditor Reporting

Jul - Sept

- Tax Increment Finance (TIF) Reporting
- Preliminary Budget Prep
- Preliminary Levy

Oct - Dec

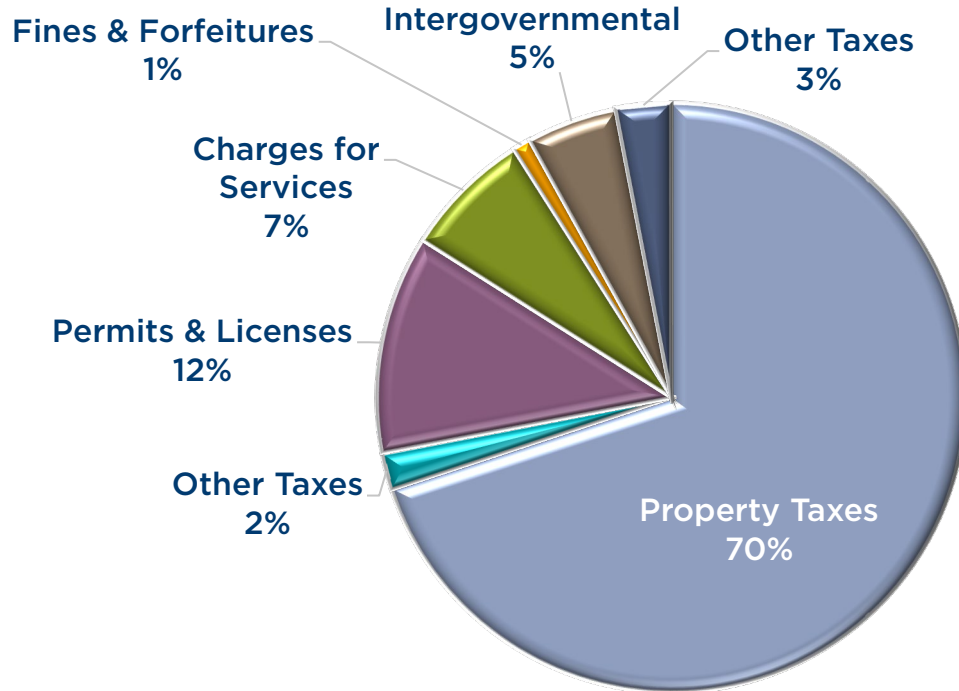
- Final Levy
- Utility Rates & Fee Schedule
- Unclaimed Property Reporting
- Certification Process



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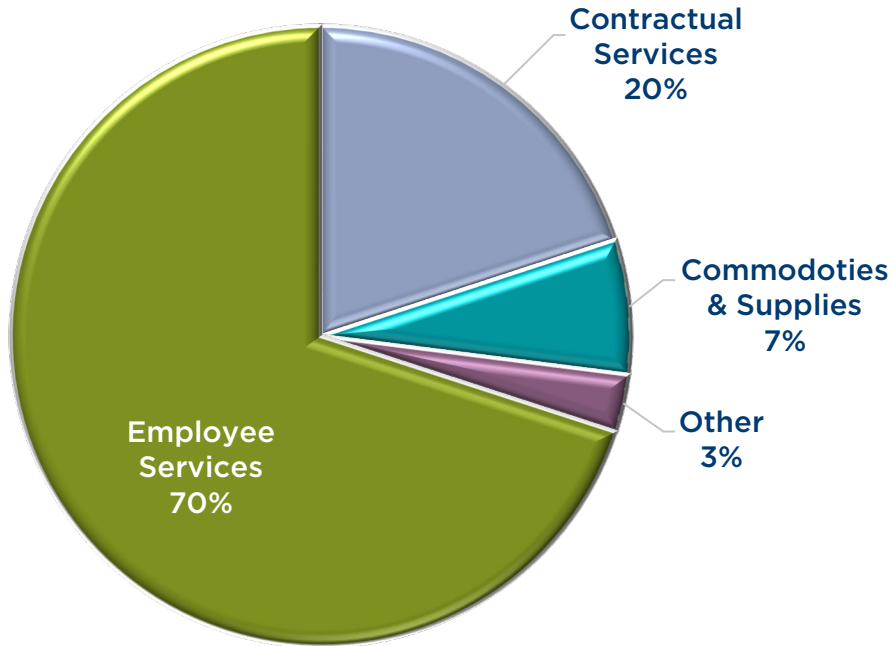
COMMON SOURCES OF REVENUES & EXPENDITURES

General Fund Revenue Sources

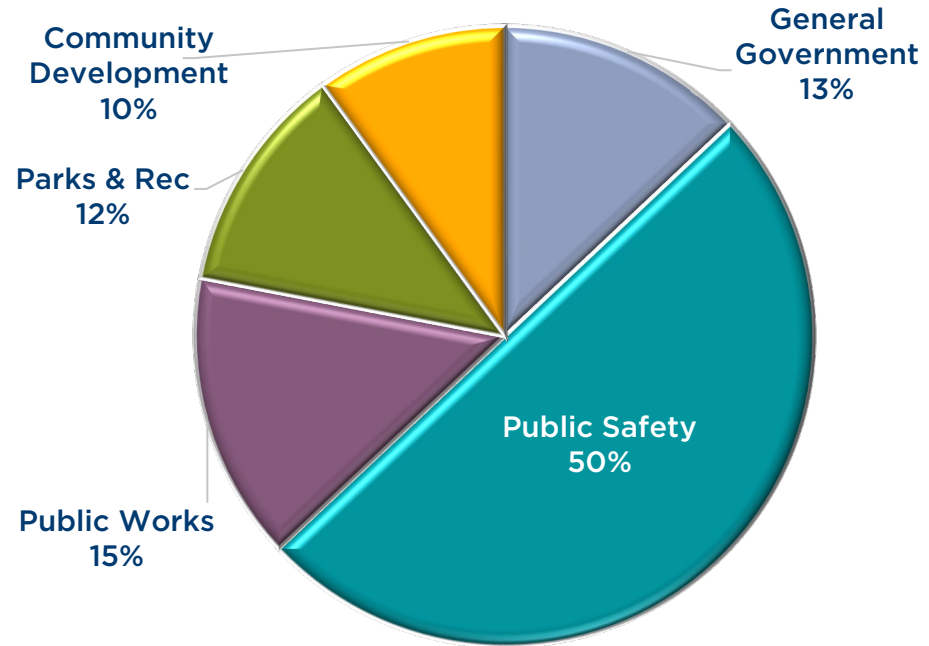


General Fund Expenditures

BY TYPE...



BY FUNCTION...



Other Fund Revenue Sources

Capital Fund

- Property taxes
- Bond proceeds
- Intergovernmental
- Park dedication fees
- Special assessments
- Other (sales & use tax, franchise fees, etc)

Enterprise Fund

- Sales
- User fees
- Rentals

Other Fund Expenditures

Capital Fund

- Professional services
- Construction
- Equipment
- Bond issuance costs

Enterprise Fund

- Inventory
- Employee services
- Contractual services
- Commodities & supplies
- Depreciation

Property Tax Revenue: What is it?



General purpose funding source certified by each municipality's governing body



Spread among local property owners via complex annual formula

Property Tax Revenue: Who Determines It?

State Legislature

- Establishes property classes & class rates
- Determines levels of state aid
- Levies state business tax
- Sets levy limits

County Assessor

- Determines market value
- Assigns property class

Taxing Jurisdictions

- Determine levy amount (Overall budget & the portion to be raised through property taxes.)



Property Tax

Property Tax Revenue: Basic Tax Rate Theory

$$\text{Tax Rate} = \frac{\text{Funds to be raised by tax base (Tax Levy)}}{\text{Tax Base}}$$

Term	Definition
Tax Levy	Amount certified to the County Auditor by the taxing authority
Tax Base	The sum of the values determined for each parcel & is the total tax base of the governing body
Tax Rate	Percentage applied to each individual parcel & generates local funds
Total Tax	Determined by tax rates for all governing bodies times tax base(s) for that property. Total tax = sum of those calculations

Property Tax Revenue: The Basic Equation

The Definition:

The **Local Tax Rate** is the percentage of each jurisdiction's property tax levy amount divided by its net tax capacity.

The Math:

$$\text{Local Tax Rate} = \frac{\text{Gross Tax Levy} - \text{Fiscal Disparity Distribution}}{\text{Net Tax Capacity}} \text{ $$}$$

$$\text{Net Tax Capacity} = \begin{aligned} &\text{Tax Capacity of Real \& Personal Property} \\ &- \text{Captured Value of Tax Increment Districts} \\ &- \text{Fiscal Disparity Contribution Value} \\ &- \text{Powerline Value} \end{aligned}$$

Property Tax Revenue: Want to Learn More?

Check out our Virtual Property Tax Session!

Session Overview

Minnesota Property Tax:

- One of the most complex systems in the U.S.
- Most local officials understand some aspects, but not complete picture
- No need to be an expert, just increase understanding



2

<https://youtu.be/orstYWe-7mQ>

Other Revenue Sources



Bond Proceeds

- Restricted for the purpose debt was issued



Intergovernmental

- May carry external restriction or internal commitment



Park Dedication Fees

- Restricted for purchase & development or improvement of parks



Special Assessments

- Benefiting properties pay proportionate share of expenditure



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FINANCIAL POLICIES & BEST PRACTICES

Financial Polices: Why Are They Important?

Central to strategic, long-term approach to financial management

Promote stability & continuity

Support bond ratings

Help ensure compliance with statutory requirements

Financial Policies: Examples

Fund Balance & Cash Reserves

Majority of revenue received twice each year via property taxes

Unassigned funds: State Auditor recommends 35 - 50% of fund operating revenues or no less than 5 months of subsequent year's operating expenditures

Ranges provide flexibility, while maintaining fiscal responsibility

Financial Policies: Examples, Continued...

Debt Management (GFOA Best Practices)

Debt limits

Transaction structuring

Debt issuance

Post-issuance management

Use of derivatives

Financial Policies, Continued...

Budgeting & Planning

- Methods
- Roles & responsibilities
- Deliverables & timelines

Cash Management & Investing

- Safety, liquidity & return
- Permissible investments
- Monitoring

Procurement

- Requisitions, RFPs
- Vendor selection criteria
- Terms & conditions

Capital Asset Management

- Maintenance
- Repair
- Replacement

Internal Control Policies



Delegation of Authority

Segregation of Duties

Disbursement System Controls

Expenditure Authorization

Conflicts of Interest



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FINANCING METHODS

Funding Sources

- Tax Levy
- State Aid
- Grants
- Reserves/Fund Balance
- Interfund Loans
- Other
- Debt Issuance



Sources vary widely & carry different fiscal impacts.

Funding Sources: Additional Detail



Reserves/Fund Balance

Recurring outlays
Maintenance costs
Shorter-lived assets



Interfund Loans

Authorize properly
Compare borrowing
options & available cash
balances
Maximum interest rate is
4.00%



Other Sources

Short-term advances
Tax increment & abatement
User fees

Funding Sources: Additional Detail, Continued...

Debt Issuance

Debt repayment schedules can be tailored to meet fiscal objectives

Use of cash may be impractical or detrimental to financial health

Type of debt & repayment may be dictated by statute

General Obligation (G.O.) Bonds: Pledge of issuer's full faith, credit & unlimited taxing authority



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