



Municipal Finance 101

Today's Session

Core Concepts of Municipal Finance:

Public
Purpose Law

Fund
Accounting

Key Financial
Documents

Finance
Calendar

Funding
Sources &
Uses

Investments

Financial
Policies & Best
Practices

Financing
Methods



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PUBLIC PURPOSE EXPENDITURES

Private vs. Public Sector

Activity	Private Sector	Public Sector
Accounting Accrual Method	Full	Modified
Budgeting Process	No Standard	Prescribed Process
Expenditures	Few Restrictions	Requires Public Purpose



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FUND ACCOUNTING

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)

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

Fund Accounting: Fund Types, Continued...

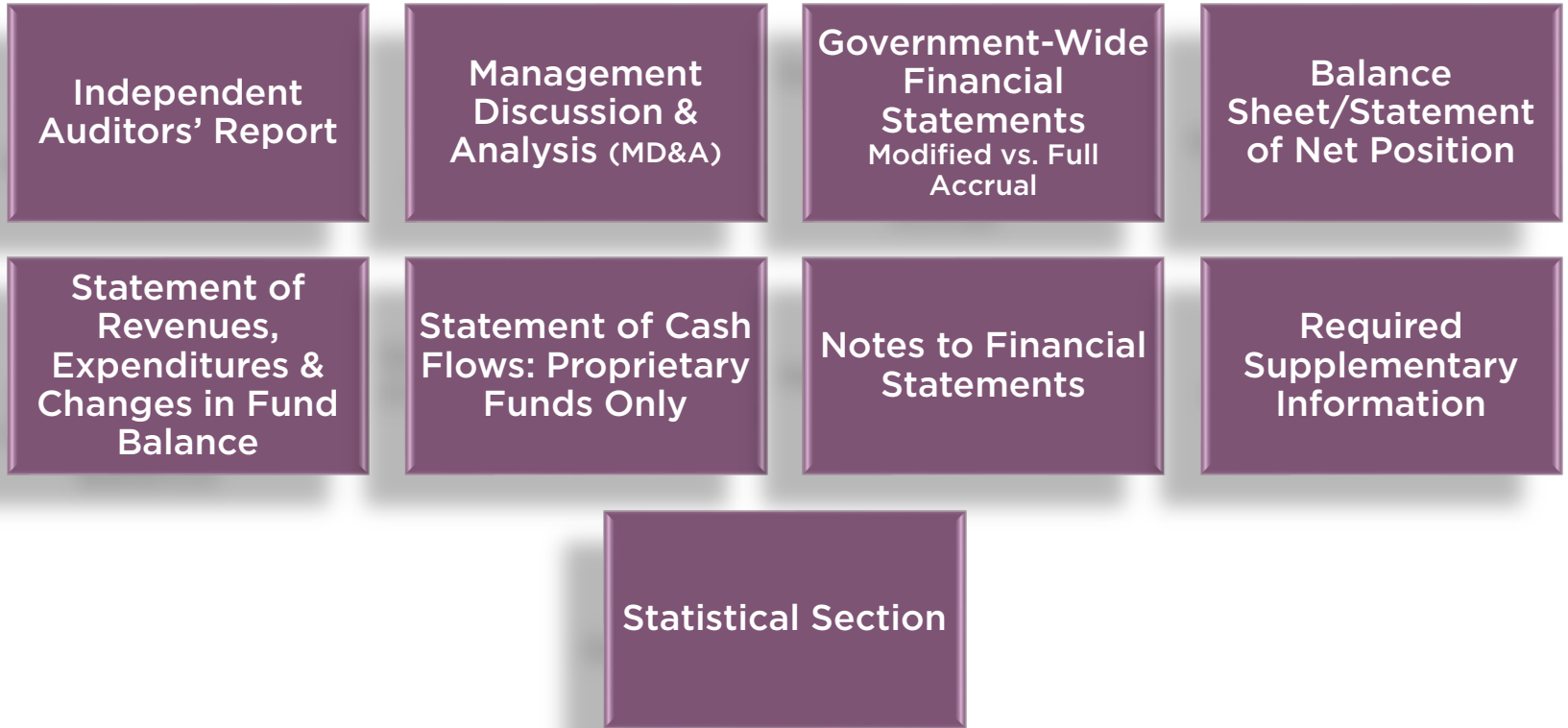
- Fiduciary Funds (account for assets held in trustee capacity)
 - ✓ Trust Funds
 - Pension & OPEB
 - Investments
 - Private purpose
 - ✓ Custodial Funds
 - Fees collected for other government agencies



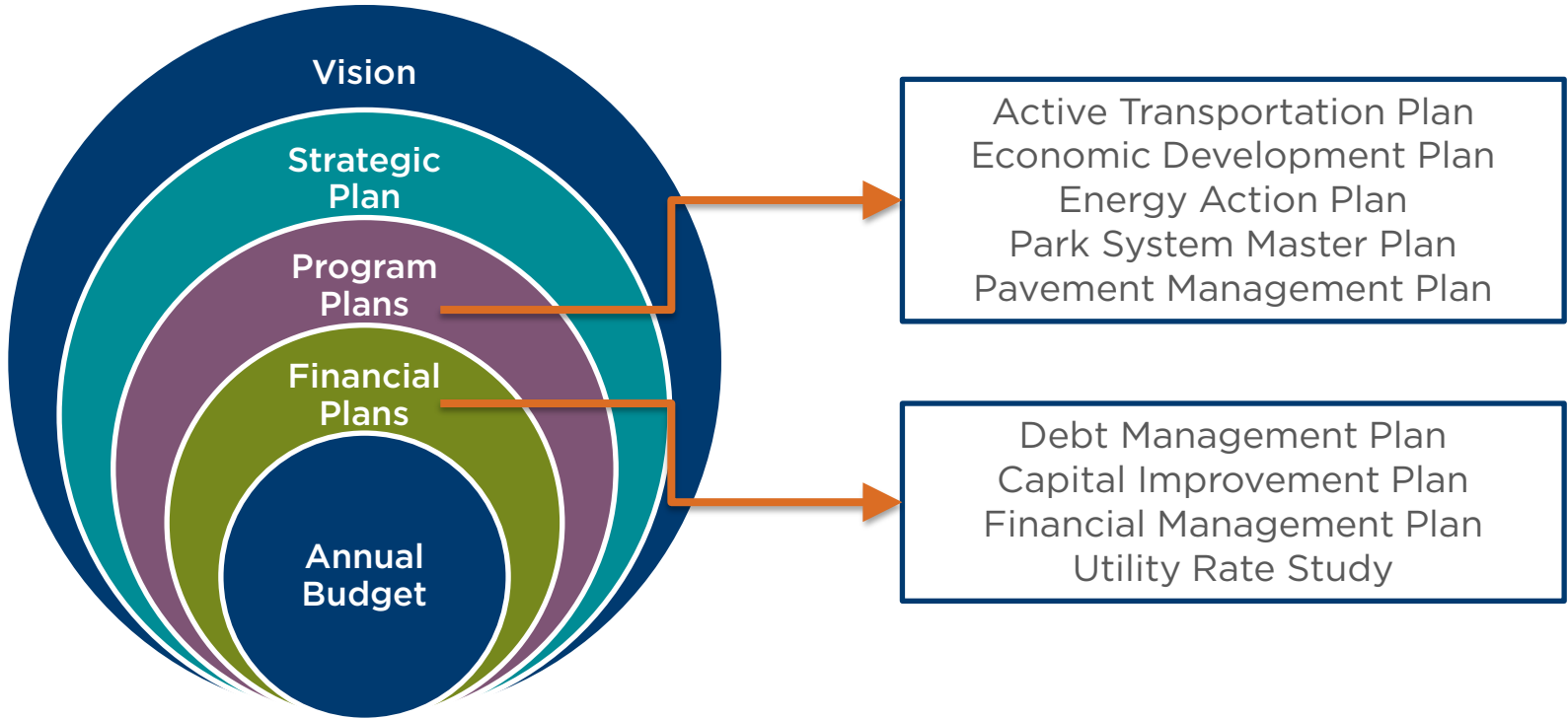
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KEY FINANCIAL DOCUMENTS

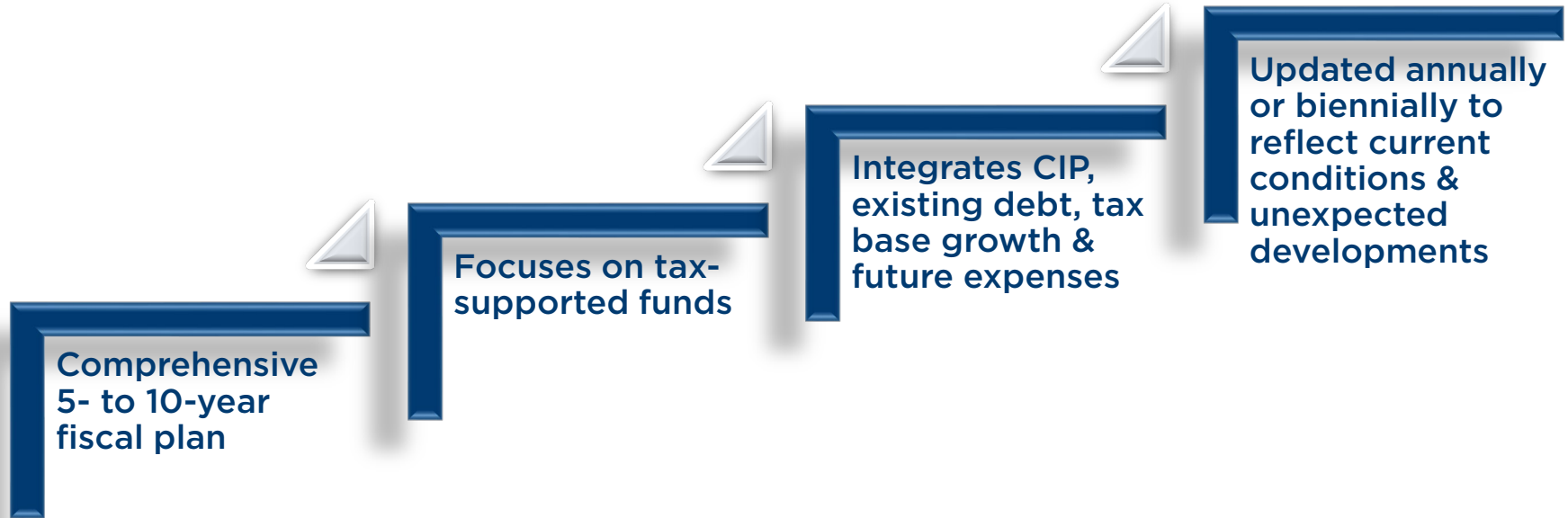
Annual Comprehensive Financial Report



Planning & Budget Development Hierarchy



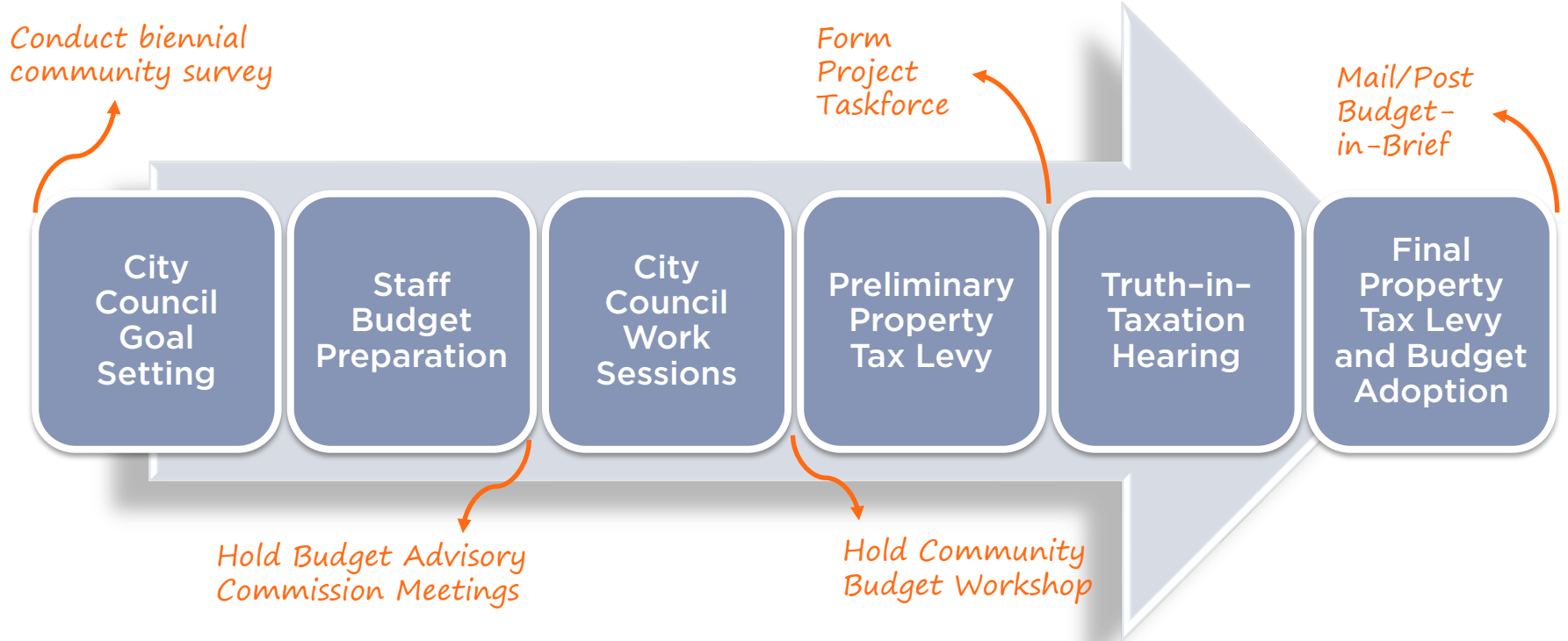
Financial Management Plan



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 governing body priorities to the public
- Informs capital budgeting process

Budget Process - City



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)

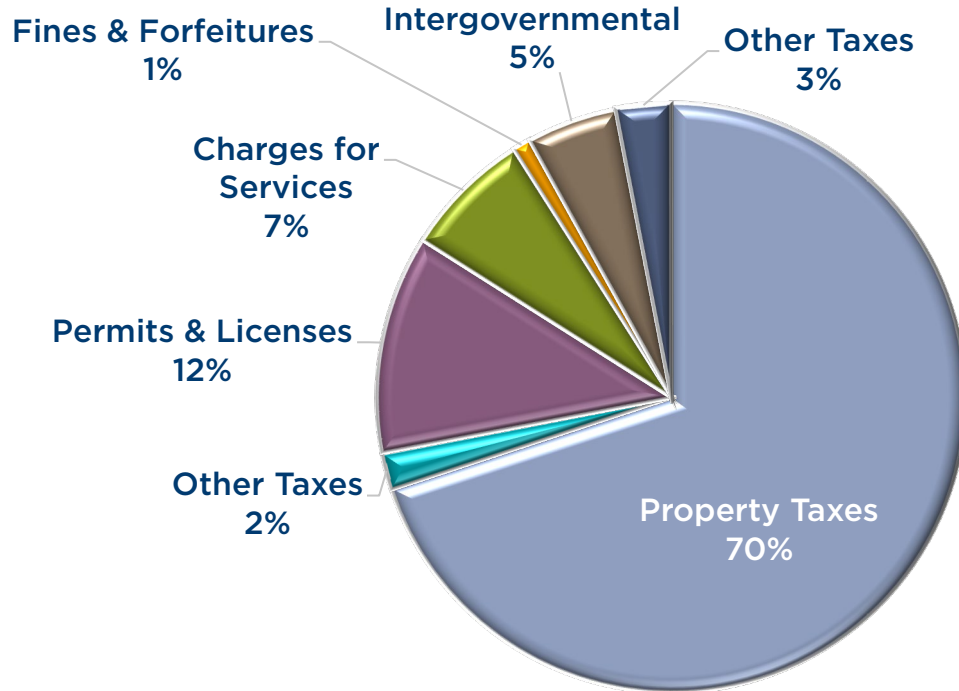
Long-range financial plan



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COMMON FUNDING SOURCES & USES

General Fund Revenue Sources



Other Fund Revenue Sources

Capital Fund

- Property taxes
- Bond proceeds
- Intergovernmental
- Park dedication fees
- Special assessments
- Other

Enterprise Fund

- Sales
- User fees
- Special Assessments
- Rentals

Property Tax Levy

- Certified by the governing body of the political subdivision
- Considered a general-purpose funding source
- Spread among eligible properties through a complex formula
- Often “reversed engineered” by the Finance Department

Estimated Expenditures	(-)	External Revenues	(-)	Internal Funding Sources	(=)	Property Tax Levy
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Remember, your jurisdiction only gets what it levies!

Property Tax Revenue: Want to Learn More?

Stop by the Minnesota
Property Tax Session today at
12:45 p.m.

OR

Check out the Virtual Property
Tax Session

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

Session Overview

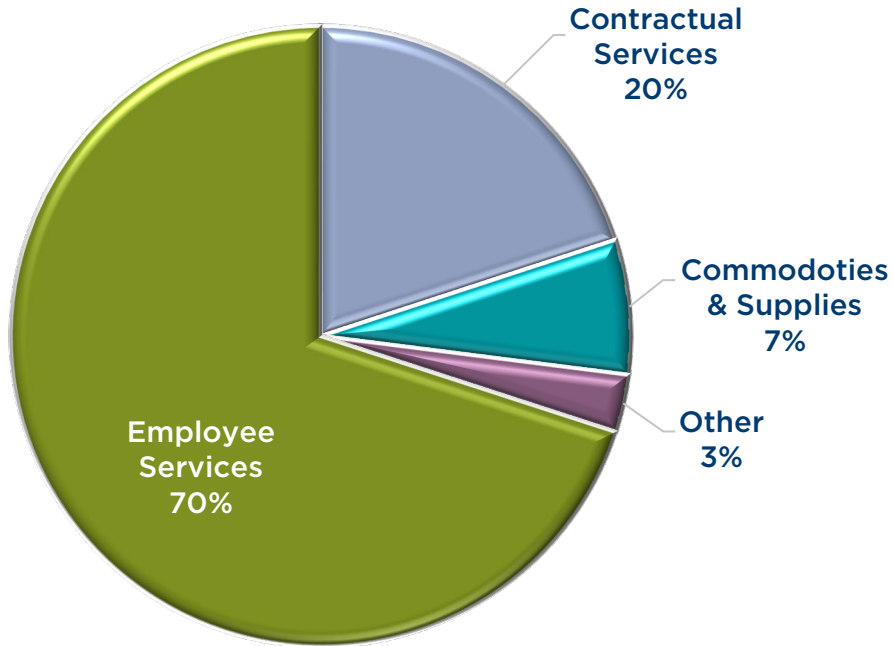
Minnesota Property Tax:

- 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

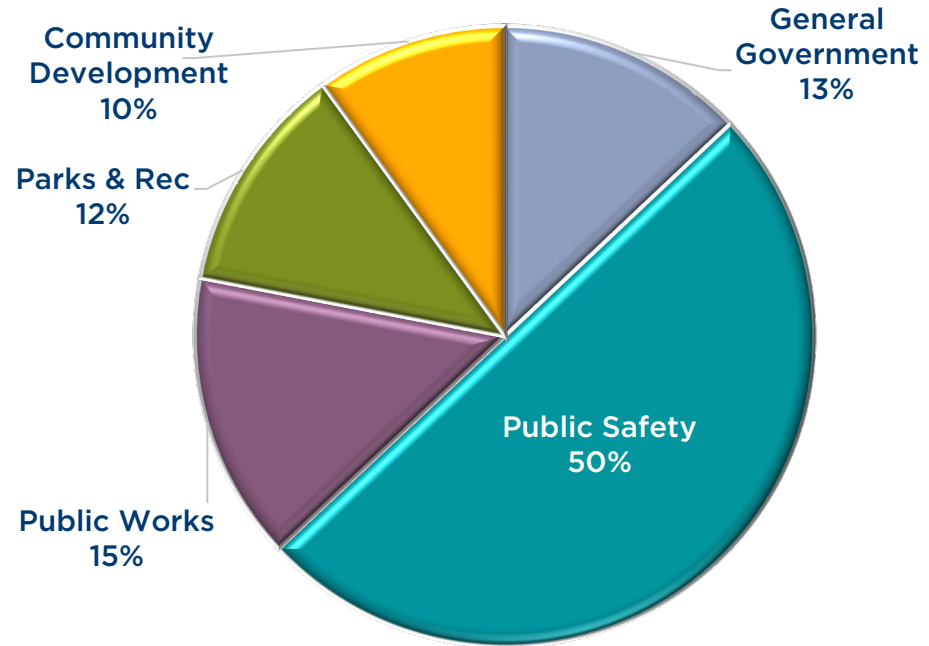
The image shows a 2022 Minnesota Property Tax Statement for a residential property. The document is titled 'MINNESOTA PROPERTY TAX STATEMENT 2022'. It includes a table of property taxes, a list of taxing jurisdictions, and a summary of the total amount due. Red boxes are drawn around various parts of the statement, including the 'PROPERTY TAX STATEMENT' title, the 'TOTAL AMOUNT DUE' section, and several individual taxing jurisdiction entries. The EHLERS logo is visible in the bottom left corner of the document.

General Fund Expenditures

BY TYPE...



BY FUNCTION...



Other Fund Expenditures

Capital Fund

- Professional services
- Construction
- Equipment
- Bond issuance costs

Enterprise Fund

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



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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

Professional Standards

- Public purpose requirements
- Professional ethics
- Conflicts of interest
- External auditor expectations

Budgeting & Planning

- Methods
- Roles & responsibilities
- Deliverables & timelines
- Amendment process

Treasury Management

- Cash & fund balance requirements
- Safety, liquidity & return
- Monitoring
- Forfeited assets

Procurement

- Expenditure authorization
- Requisitions, RFPs
- Vendor selection criteria
- Purchasing Card Use

Financial Policies, continued...

Debt Management

- Debt Management
- Conduit or Private Activity Bonds
- Post-issuance compliance
- Use of derivatives

Revenue & Collection

- Special assessments
- Public utility collections
- Fee schedule

Capital Asset Management

- Maintenance
- Repair
- Depreciation & replacement
- Surplus Property

Internal Controls

- Delegation of authority
- Segregation of duties
- Disbursement controls

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



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TREASURY & INVESTMENT MANAGEMENT

Treasury & Investment Management

Core financial
function

Building assets takes
years

Reliable income
source focused on
preserving principal

Liquidity for
operations & capital
projects

Appropriate risk
mitigation,
transparency &
continuity

Collateralization of
deposits

Investment Policy & Program

- Generally, an investment policy...
 - ✓ Establishes scope & objectives
 - ✓ Delegates authority to staff or a body
 - ✓ Establishes Standard of Care & limits liability for administrators
 - ✓ Guides the types of investments & diversification requirements
 - ✓ Imposes internal controls
 - ✓ Establishes benchmarks to evaluate risk & return



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FINANCING METHODS

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
5.00%



Debt Issuance

Long-term debt
Temporary financing

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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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


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


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



Your Presenters



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