



Municipal Finance 101

The Building Blocks of Local Government Finance

Today's Session

Core Concepts of Municipal Finance:

Public
Purpose Law

Fund
Accounting

Budgeting &
Financial
Performance

Funding
Sources &
Uses

Investment
Management

Financial
Policies &
Practices

Financing
Methods



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PUBLIC PURPOSE EXPENDITURES

Public vs. Private Sector

Activity	Private Sector	Public Sector
Accounting Accrual Method	Full	Full, Modified
Budget Development Process	No Standard	Prescribed Process
Expenditures & Expenses	Few Restrictions	Requires Public Purpose
Reports & Transparency	Limited	Significant

Public Purpose Expenditures

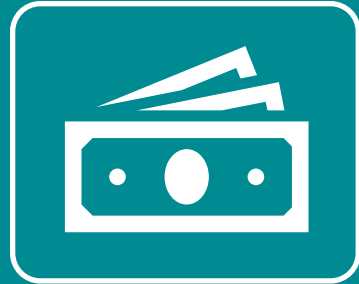
Questions & Answers		Expenditure <u>NOT</u> Authorized	Expenditure Authorized
1. Does a statute or charter provision specifically or implicitly authorize the expenditure?	YES		X
	NO	X	
2. Does the expenditure benefit the community as a whole?	YES		X
	NO	X	
3. Is the expenditure directly related to the functions of government?	YES		X
	NO	X	
4. Does the expenditure have as its primary objective the benefit of a private interest?	YES	X	
	NO		X



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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 versus profitability



Revenues & expenditures tracked in separate funds

- Governmental funds
- Proprietary funds
- Fiduciary funds

Fund Accounting: Fund Types

Governmental Funds

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

Proprietary Funds

- Enterprise
 - ✓ Utilities
 - ✓ Golf course/arena
- Internal Services
 - ✓ IT
 - ✓ Fleet & facilities
 - ✓ Risk management

Fiduciary Funds

- Trust Funds
 - ✓ Pension & OPEB
 - ✓ Investments
 - ✓ Private purpose
- Custodial Funds

Measurement Focus & Basis of Accounting

Governmental Funds

- Current Financial Resources Measurement Focus
- Modified Accrual Basis

Proprietary & Fiduciary Funds

- Economic Resources Measurement Focus
- Accrual Basis



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KEY FINANCIAL DOCUMENTS

What is a Budget?

- An Annual Budget may be defined in several ways:
 - ✓ **Requirement...** defined by Minnesota State Statutes
 - ✓ **Process...** to incorporate needs & wants
 - ✓ **Plan...** to set goals & priorities for the foreseeable future
 - ✓ **Timeline...** usually, a 12-month period
 - ✓ **Tool...** for accountability & to gauge success
 - ✓ **Values statement...** to identify & guide activities



Good budget documents weave these definitions together!

Annual Budget

Most important annual task for elected officials

- Setting policy on what's important and where to spend

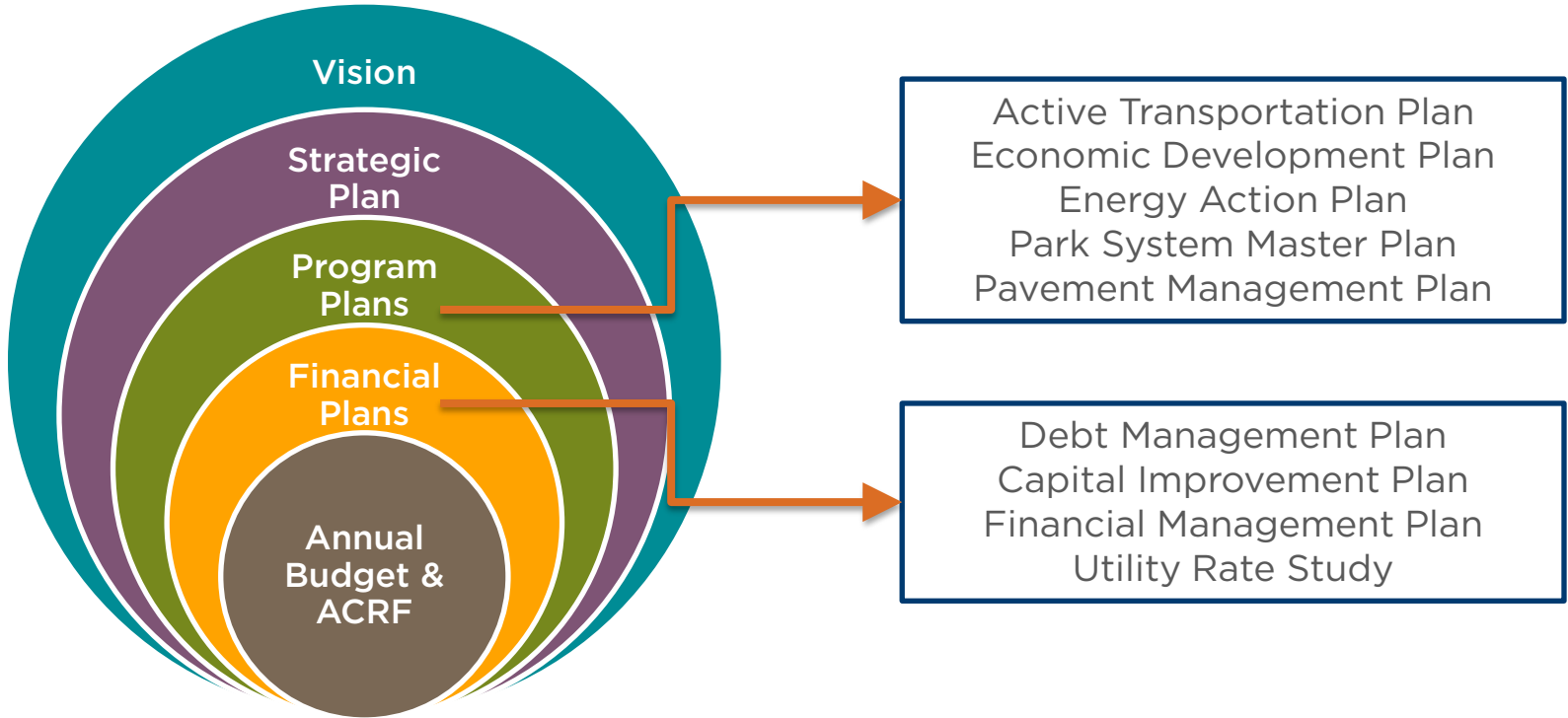
Every organization pays for things differently

- Comparing with neighbors not always fair

More services & amenities tend to create greater costs

- Efficiencies alone will not save the bottom line

Planning & Budget Development Hierarchy



Annual Budget Calendar: General

January-March

Goal Setting &
Budget
Direction



April-June

Staff
Preparation &
Review



July-December

City Council
Work Sessions &
Regular
Meetings

Develop & Refine
Financial Management Plan

Develop & Refine Annual Budget
(including CIP costs)

Develop & Refine Capital
Improvement Plan

Annual Budget Calendar: Deadlines

First (or Second) Meeting in December

By September 30

Adoption of
Proposed
Property Tax
Levy



After November 24

TNT Public
Meeting &
Budget
Presentation



Due 5 Working Days
after December 20

Adoption of
Budget & Final
Property Tax
Levy

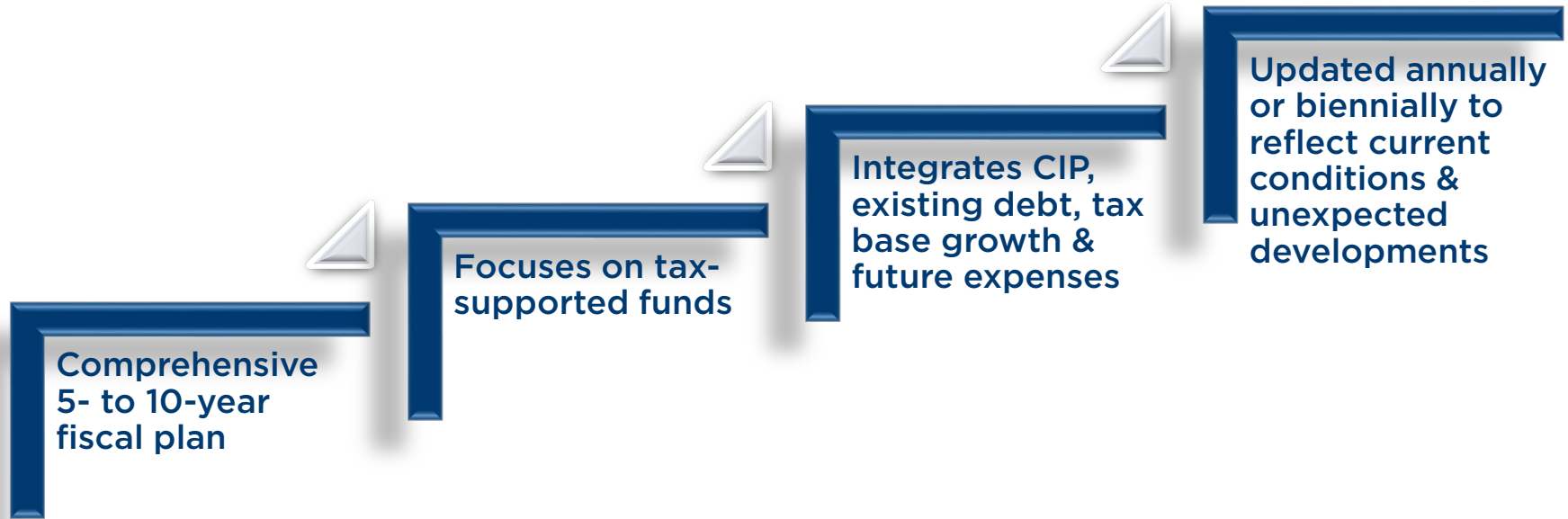
- Must be held after 6:00 p.m.
- Public must be allowed to speak

Capital Improvement Plan (CIP)

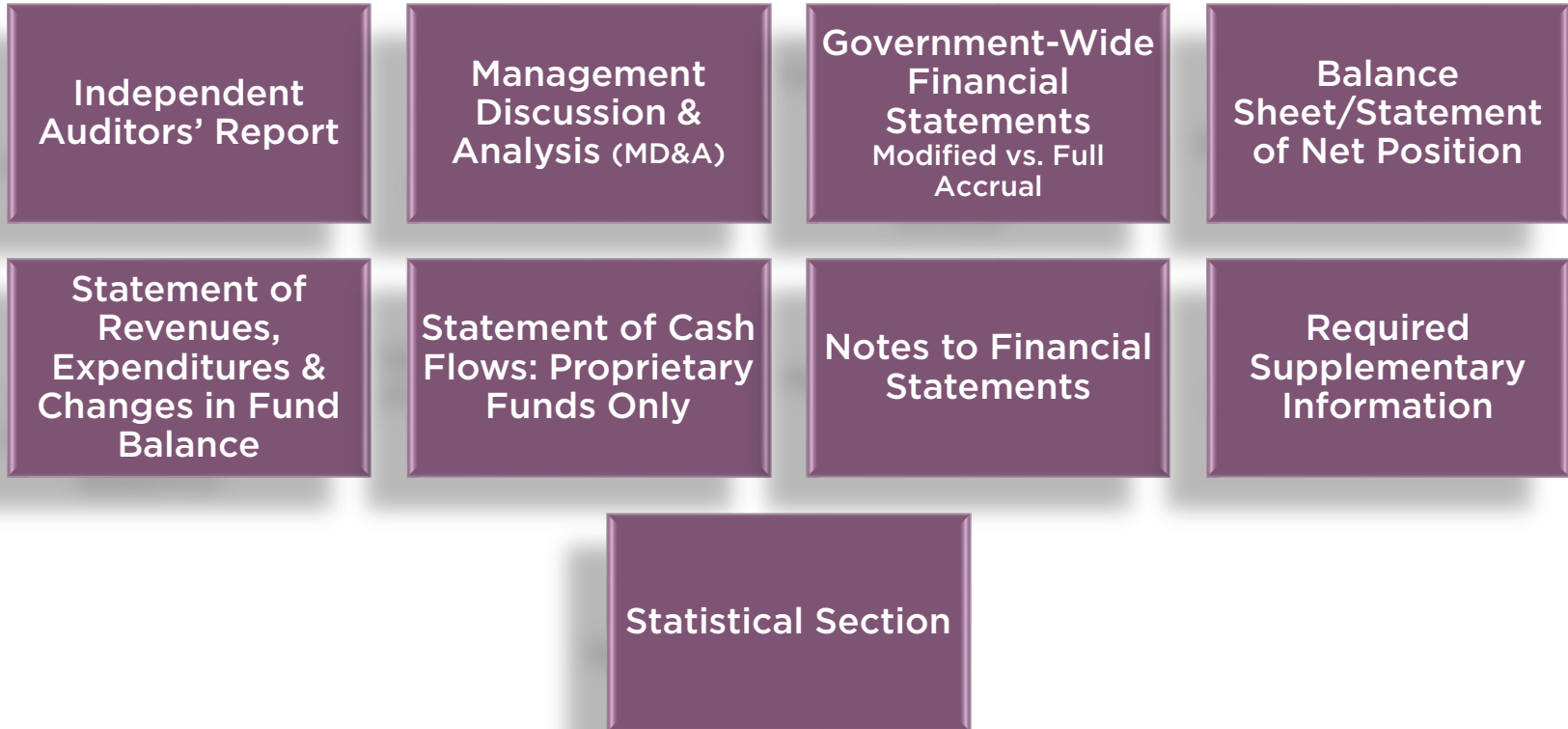
- Five to 10-year plan to identify capital projects & equipment purchases
 - ✓ Updated annually or biennially to reprioritize & adjust costs
 - ✓ Provides planning schedule
 - ✓ Identifies funding sources (tax, fees, debt, etc.)
 - ✓ Communicates governing body priorities to the public
- Informs the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



Financial Management Plan (FMP)



Annual Comprehensive Financial Report (ACFR)



State Auditor Reporting

< 2,500 Residents

- Minnesota Statutes, Section 471.698
- Detailed Statement of Financial Affairs
- May still need an audit if certain thresholds met

> 2,500 Residents

- Minnesota Statutes, Section 471.697
- ACFR

Primary Communication Vehicles

Short-Term Financial Health

- Internal Documents
- Fund- or Department-Based Reports
- Annual Budget

Long-Term Financial Health

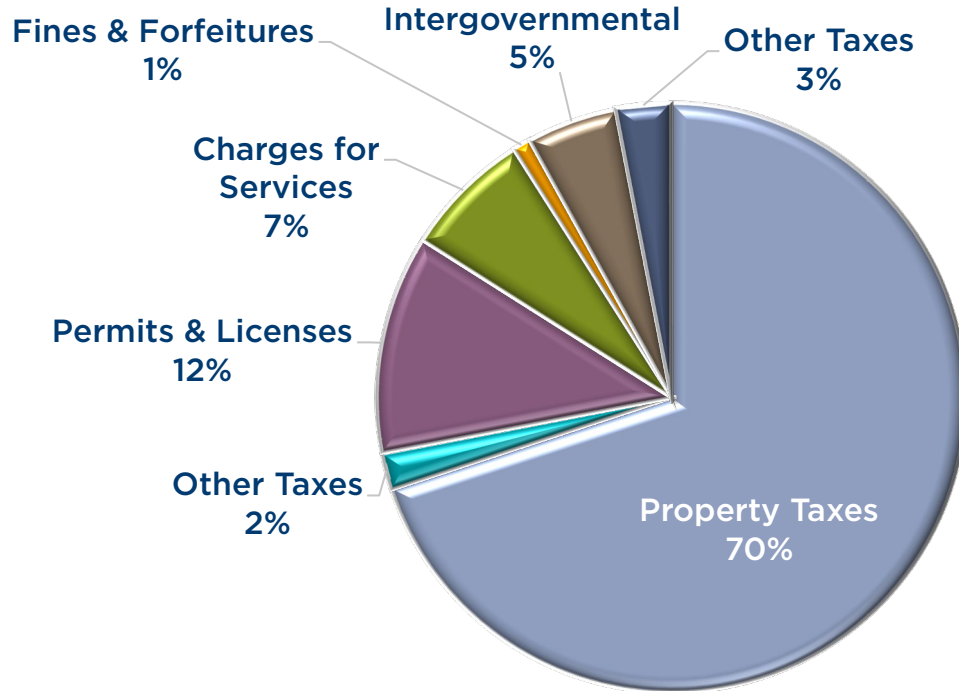
- ACFR
- CIP
- FMP



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COMMON FUNDING SOURCES & USES

General Fund Revenue Sources



Other Fund Revenue Sources

Capital Funds

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

Enterprise Funds

- Sales
- User fees
- Special Assessments
- Rentals

Property Taxes



Before We Move On...

For our discussion today, we are excluding certain areas of the property tax system

Referendum
Market
Values &
Levies

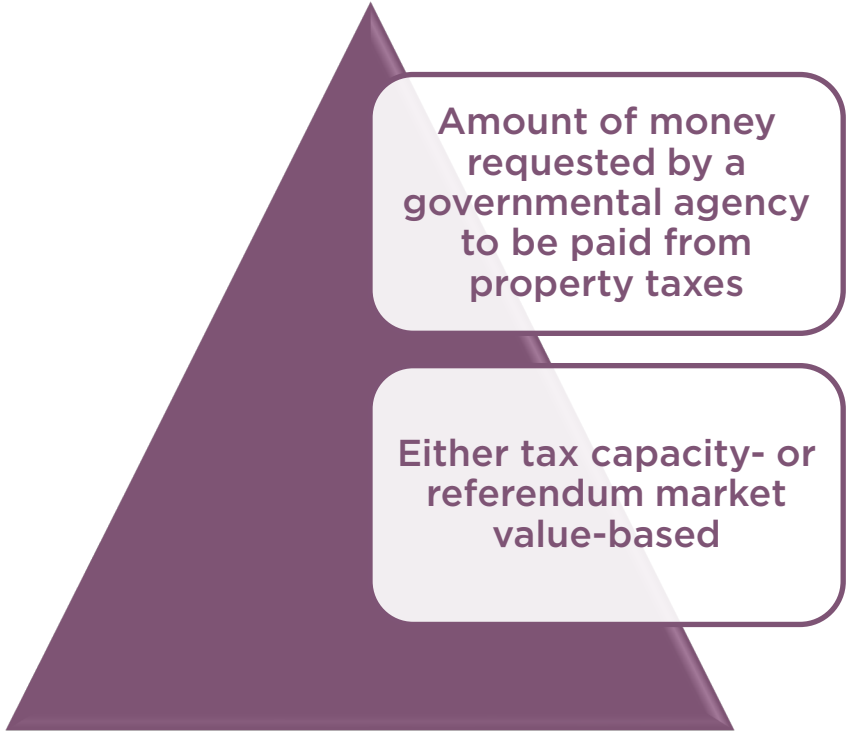
Fiscal
Disparities

Taconite
Assistance
Area

Disparity
Reduction
Aid

State
General Tax

Wait... What's a Property Tax Levy?



Amount of money requested by a governmental agency to be paid from property taxes

Either tax capacity- or referendum market value-based

- General property taxes may be used for any allowable public purpose
- Some property taxes may only be used for specific activities
 - ✓ Special property taxes
 - ✓ Debt services taxes
 - ✓ Tax increments
 - ✓ Tax abatements

Your Property Tax: Who Determines It?

State Legislature

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

Taxing Jurisdictions

- Determines levy amount
- Conducts Truth-in-Taxation Hearing



City or County Assessor

- Assess property value
- Assigns property class

Property Owners

- Accepts or appeals valuation
- Applies for property tax relief programs
- Pays the property tax

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!

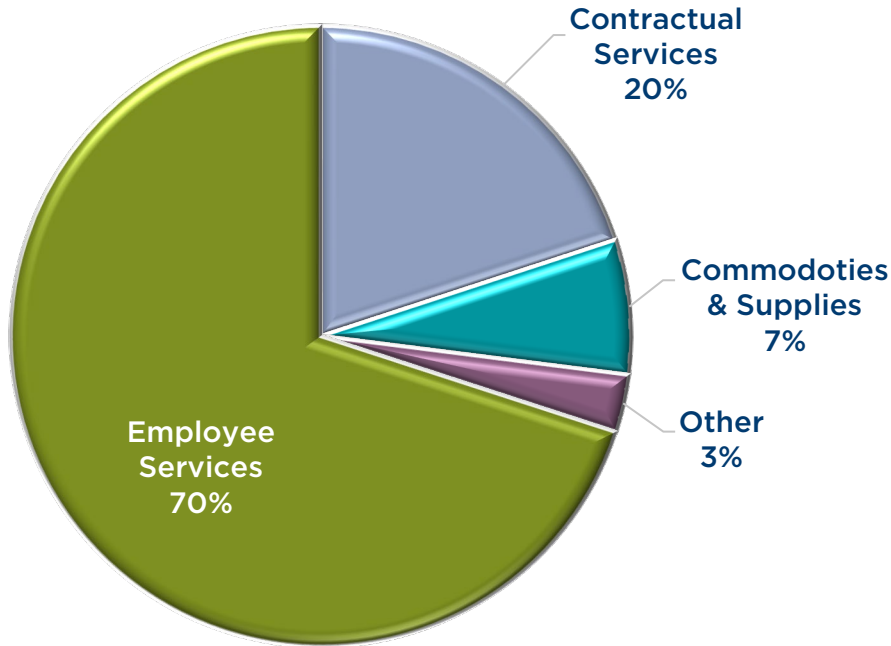
Property Tax Revenue: Basic Tax Rate Theory

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

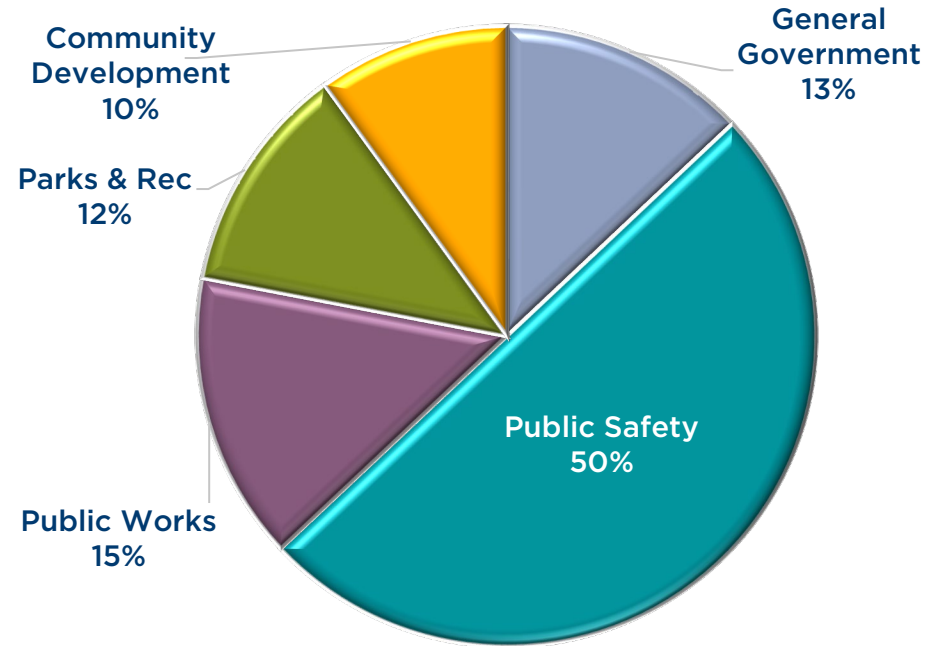
Term	Definition
Tax Levy	Amount certified to the County Auditor by the taxing authority
Tax Base	The sum of the values determined for each parcel & is the total tax base of the governing body
Tax Rate	Percentage applied to each individual parcel & generates local funds
Total Tax	Determined by tax rates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

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: OSA recommends 35%–50% of operating revenues or no less than 5 months of subsequent year’s operating expenditures
- Ranges provide flexibility to respond to unforeseen expenditures and emergencies, while maintaining fiscal stability



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TREASURY & INVESTMENT MANAGEMENT

Treasury & Investment Management

Core financial
function

Building assets takes
years

Reliable income
source focused on
preserving principal

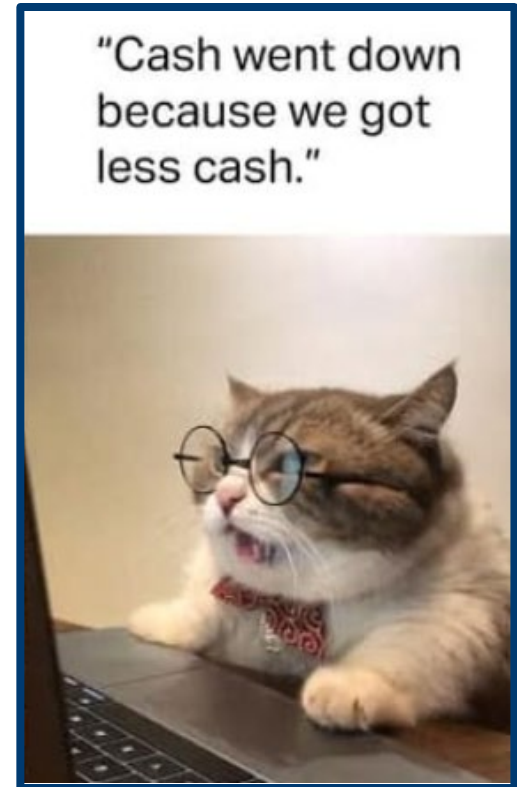
Liquidity for
operations & capital
projects

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



Cash & Fund Balances

One-time costs

Deferred maintenance & shorter-lived assets



Interfund Loans

Authorize properly

Compare borrowing options & available cash balances



Debt Issuance

Long-term bonds

Temporary financing
Leases

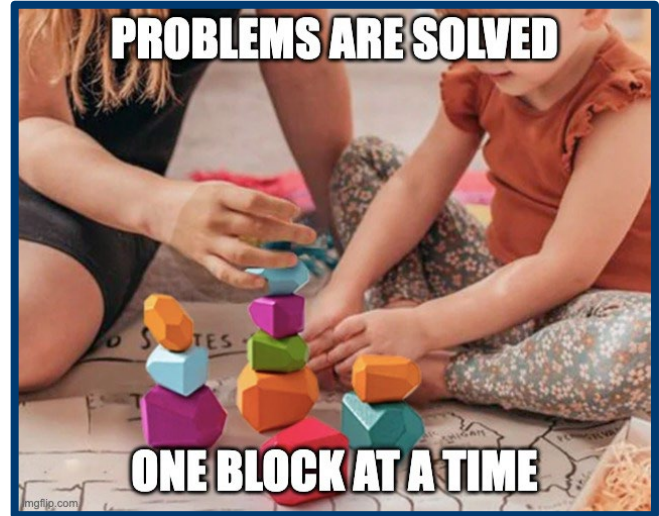
Funding Sources: Additional Detail, Continued...

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: full faith, credit pledge of unlimited taxing authority

Always Remember...

- Understand the fund & its rules before spending money
- Develop a plan; if not planned, it becomes harder to justify in the budget
- Use financial policies to make consistent decisions, not create unnecessary red tape
- Identify capital & long-term needs early to avoid reactive choices
- Document decisions clearly to support transparency & protect the organization





Download the Presentation



Your Presenters



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