



# TML

## **FORTUNE OR FOLLY: MUNICIPAL FINANCE BASICS FOR THE SUPERSTITIOUS**

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# AGENDA FOR DISCUSSION

Fund  
basics

Annual  
budgets

Property  
taxes

Bonds

Policies

Tips





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# DIFFERENT COLORED MONEY

# FUNDS AND FUND TYPE

- City finances are organized by fund based upon function and purpose
- Each fund is a separate, self-contained set of accounts, assets, liabilities, revenues and expenditures
- Each fund operates as a separate entity
- Smaller cities can operate with only one fund while larger entities may have hundreds



# FUNDS AND FUND TYPE

**Governmental  
Funds**

**Enterprise and  
Proprietary  
Fund**

**Trust and  
Agency Funds**

**Component  
Units**





# GENERAL FUND

- Accounts for all financial resources except those required to be reported in a different fund
- Resources are generated by property and other taxes, franchise fees, fines, licenses and fees for services
- Expenditures are for those services that are typically provided by government:
  - Police and fire protection
  - Street maintenance
  - Parks and recreation
  - General and administrative



# DEBT SERVICE FUND

- Accounts for the payment of interest and principal to the holders of tax-supported bonds, the sale of which finances long-term capital improvements such as facilities, streets, and parks
- Revenue is derived from property taxes



# **CAPITAL PROJECTS FUND**

- **Accounts for financial resources to be used for the acquisition or construction of capital facilities, infrastructure, and equipment**
- **Resources are typically obtained from bond proceeds**
- **The use of this money is limited to the purpose for which the bonds were issued**



# SPECIAL REVENUE FUNDS

- These funds account for the accumulation and disbursement of restricted resources

**Economic  
Development  
Incentive**

**Hotel  
Occupancy  
Tax**

**Grants**

**Public Access  
Channel**

**Municipal  
Court  
Technology**

**Memorial  
Library**

**Seized Assets**

**Animal Shelter  
Donations**



# ENTERPRISE FUNDS

- These funds operate in a manner that is similar to private business – where the intent is to recover all of the cost of operations, including depreciation, through user charges

**Utilities**

**Trash**

**Golf  
Course**

**Convention  
and  
Tourism**



# INTERNAL SERVICE FUNDS

- These funds account for the financing of goods or services provided by one department for another

**Information  
Technology**

**Municipal  
Warehouse**

**Equipment  
or Building  
Maintenance**

**Risk  
Management**



# TRUST AND AGENCY FUNDS

- Trust funds are held for the benefit of employees
  - Other post-employment benefits
  - Retirement security plan
- Agency funds are held for the benefit of others
  - Escrow money received from developers that must be returned to them once a project is completed.
  - Unclaimed property must be held for the rightful owners



# COMPONENT UNITS

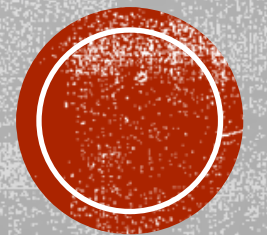
- Organization is legally separate, but...
- City appoints a voting majority of the organization's board
- Organization has the potential to impose a financial burden on the City
- There is fiscal dependency by the organization on the city



# Budget



**DON'T BREAK THE BANK**



# WHY PREPARE A BUDGET?



**It's the Law!**



**It Controls Spending**



**It Determines Tax  
Rate**



**It Provides  
Accountability**



# WHO IS IN CHARGE?



- The Mayor of a municipality serves as the budget officer of the municipality
- In a city manager form of government, the City Manager is the budget officer
- The budget officer shall prepare the municipal budget





# BUDGET TYPE

- Several exist
  - Incremental budget
  - Zero-based budget
  - Program or service-specific budget
- There is no wrong way
- Size doesn't matter
- Pick the appropriate one for your organization

# WHAT IS A BALANCED BUDGET?

## Structurally Balanced Budget

- Recurring Revenues  $\geq$  Recurring Expenditures

## Mathematically Balanced Budget

- Beginning Reserves Plus Revenues  $\geq$  Expenditures



# WHAT MUST BE INCLUDED IN BUDGET?

- Itemized comparison between expenditures in the proposed budget and in the preceding year
- The estimated amount of money for each project or expenditure
- Line items for newspaper notices and lobbying, if any
- A financial statement that shows:
  - Outstanding obligations
  - Cash on hand in each fund
  - All funds received during preceding year
  - All funds available for ensuing year
  - Estimated revenue available to cover proposed budget
  - Estimated tax rate needed to cover proposed budget





# BUDGET ACCURACY

- Budgets do not have to be 100% accurate
- The tolerance for inaccuracy depends upon a variety of things
  - Reserve levels within each fund
  - Governing body's acceptance of "errors"
  - Amendment process

# STEPS TOWARD BUDGET ADOPTION

## Proposed Budget

- Filed with city secretary at least 30 days before adoption
- Posted on website

## Budget Hearing

- At least 15 days after filed and before the date of tax levy
- Hearing notice in paper between 10 and 30 days before hearing
- Action taken at end of hearing

## Budget Adoption

- Adopt after budget hearing but before tax rate adoption
- Separate ratification vote if more property tax revenue



# BUDGET MONITORING

- A vital responsibility of elected officials is monitoring performance against the adopted annual budget
- The governing body should receive budget-to-actual comparisons at least quarterly throughout the year
  - Compare current year budget to current actual and to previous-year actual
  - Note any large variances from budget
- An annual financial report should be completed timely and audited





# PROPERTY TAX RATE

# PROPERTY TAX PRINCIPLES

- Governed by Chapter 26 of the Tax Code
- Premised on concept of Truth in Taxation
  - Texas Constitution
  - Makes taxpayer aware of rate proposals
- Property tax rates have two components
  - Interest & sinking (I&S) or debt service tax rate
  - Maintenance & operations (M&O) tax rate



# TAX RATE TERMS TO KNOW

## No-new-revenue tax rate (NNR)

- Raises same amount of revenue from existing properties

## Voter-approval tax rate (VAR)

- $\text{NNR M\&O rate} \times 1.035$  plus debt rate plus unused increment rate

## Unused increment rate (UIR)

- Foregone revenue at VAR and adopted rate for three prior years

## De-minimis tax rate (DMR) for cities under 30,000 pop

- Rate that will generate an additional \$500,000 of new revenue



# TAX RATE ADOPTION PROCESS

Appraisal District provides preliminary values

Governing body drafts budgets

Property values are certified and designated officer calculates NNR and VAR tax rates

Governing body proposes rate to adopt and holds hearings

Governing body adopts tax rate



# TAX RATE ADOPTION TIMELINE

July 25

Chief Appraiser certifies the appraisal roll  
Designated officer calculates NNR and VAR tax rates

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August 7  
or as soon as  
practicable

Designated officer submits tax rates to City Council  
Governing body proposes a tax rate  
Notice of tax rates posted on website

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Public hearing  
notice + 5 days

If the proposed rate exceeds NNR, governing body must hold a public hearing at least five days after notice is given  
Only one hearing required, rate can be adopted at conclusion

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Late August  
or September 29

A rate that exceeds VAR must be adopted 78 days before election  
September 29 is last day to adopt if rate doesn't exceed VAR  
60 percent of governing body must vote in favor if exceeding NNR

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# WHEN DOES THE ADOPTED TAX RATE TRIGGER AN ELECTION OR PETITION?

BELOW voter-approval rate

- No election or petition required

ABOVE voter-approval rate but  
BELOW de minimis rate

- Voters may petition for an election

ABOVE voter-approval with no  
de minimis

- Election required

ABOVE voter-approval rate and  
ABOVE de minimis rate

- Election required





**HOW DO WE PAY FOR THIS STUFF?**

# LONG-TERM PLANNING



“If You Fail to Plan,  
You Plan to Fail”

*Benjamin  
Franklin*



# LONG-TERM PLANNING

- **Capital improvement project**
  - Construction projects
  - Major maintenance projects
  - Infrastructure upgrades and replacement
- **Capital improvement program**
  - Schedule of capital improvement projects to be done over the next five to ten years
  - Update annually – not “one and done”
  - Approved by City Council



# WHY DEVELOP A CAPITAL IMPROVEMENTS PROGRAM?

**Informs citizens of planned projects**

**Aids in outreach and construction coordination**

**Prioritizes capital construction & maintenance**

**Forecasts long-term needs**

**Ensures infrastructure is maintained**

**Provides a plan for funding**

**Maintain high bond ratings**

**Allows time to plan for large projects**



# MUNICIPAL DEBT

- Cities often issue bonds to pay for capital expenditures
- Debt is not a bad thing nor is it a good thing
  - It levels payments over time
  - Constituents who benefit are paying for it
  - It increases the overall cost of a project
- Once the project is approved, debt is simply one means for financing it



# **GENERAL OBLIGATION BONDS**

- Authorized by a vote of the citizens, individually or as a part of a bond program
- Secured by property taxes
- Considered when debt will have a significant impact on the tax rate or when the project is controversial/atypical
  - Parks, City Hall, Civic Center



# **CERTIFICATES OF OBLIGATION**

- Voter approval is not required but the use of proceeds is limited
- Secured by property taxes, revenue streams, or a combination of the two
- Considered when debt will minimally impact tax rates, the project is normal or customary, or an emergency need exists
  - Streets, fire equipment, roof repair



# REVENUE BONDS

- Voter approval is not required
- Proceeds must be used for the specific purpose of the bonds
- Secured by a revenue stream such as utilities or sales taxes
- Considered when revenue is sufficient to pay debt service
- Property tax rate is not affected
  - Water or sewer plant expansion

# THE RULES

# POLICIES GUIDE DECISIONS

## Financial Reserves

- Amount to be maintained
- Consequence of falling below minimum

## Debt Management

- Assets to be financed with debt
- Type of issue and process for issuance

## Asset Management

- Capitalization threshold
- Investment policy





WHAT DID YOU  
SAY?

# COMMUNICATING WITH FINANCE

- Obtain a basic understanding of your city's financial condition
  - Cash and reserve balances
  - Outstanding debt and annual debt service
  - Operating and capital budgets
- If you don't understand, please ask for an explanation



# COMMUNICATING WITH FINANCE

- Let me know what you need to make an informed decision
- Ask questions...before the council meeting
- Be prepared for “No”
- Financial information is boring!



# TECHNICAL RESOURCES



GFOAT – [www.gfoat.org](http://www.gfoat.org)



TML Series – [www.tml.org](http://www.tml.org)



GFOA – [www.gfoa.org](http://www.gfoa.org)

