

# **Newly Elected Officials Workshop**

## **Basics of Municipal Finance**

**(Good Financing Practices and The Annual Budget)**

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# Basics of Municipal Finance

## Situations that cities should always avoid

- Bankruptcy
- Corruption
- Pending litigation
- Legal/financial investigations
- Negative/deficit fund balances
- Downgraded credit ratings
- Layoffs



# Basics of Municipal Finance

## Situations that cities should always seek

- Increased revenue capacity to fund opportunities
- Upgraded credit rating
- Prosperity
- Positive outlook for city – (overall citizen satisfaction)
- City expansion – new development
- Economic stability

# Basics of Municipal Finance

To help place your City in some very good situations, you need to ask yourself this very important question:

**“What can I, as a City leader, do to help myself make good sound financial decisions for my City, that will have a positive affect on my City’s short-term and long-term financial well-being?”**

**\*\*\* Keep in mind that there are no “one-size fits all” answers to keeping every City financial stable. \*\*\***

# Basics of Municipal Finance

- Go talk to your City Management and Finance Director
  - Review the current Council Vision, Mission and Goals
  - Internal Controls (Checks and Balances)
  - Being Good Stewards of Public Funds
- Review your City's Financial Reports
- Bond Rating
- Bond Capacity

**“Understand how your City got where it is (through the good and bad)”**

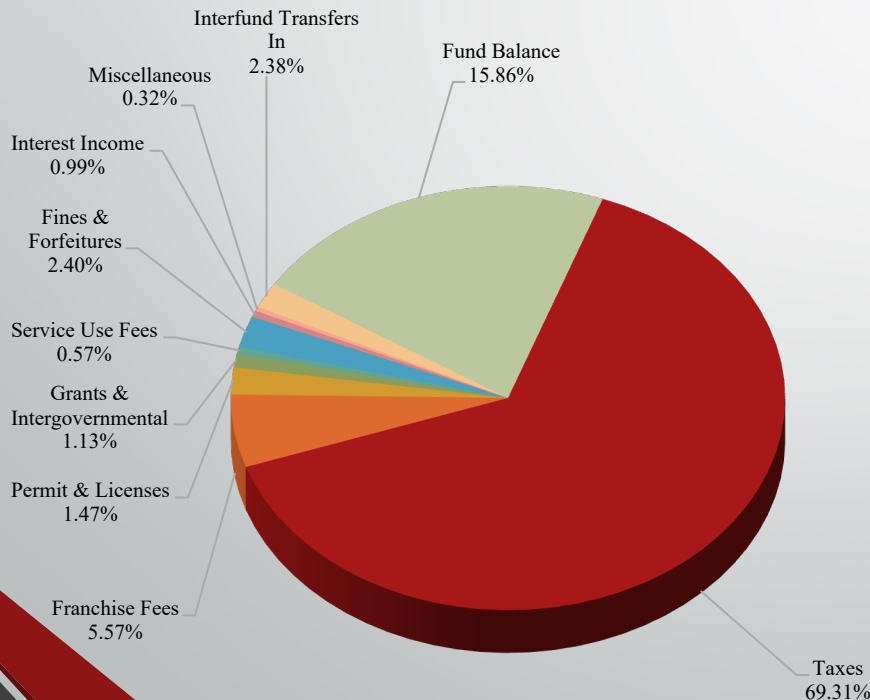


**Ask questions!!**

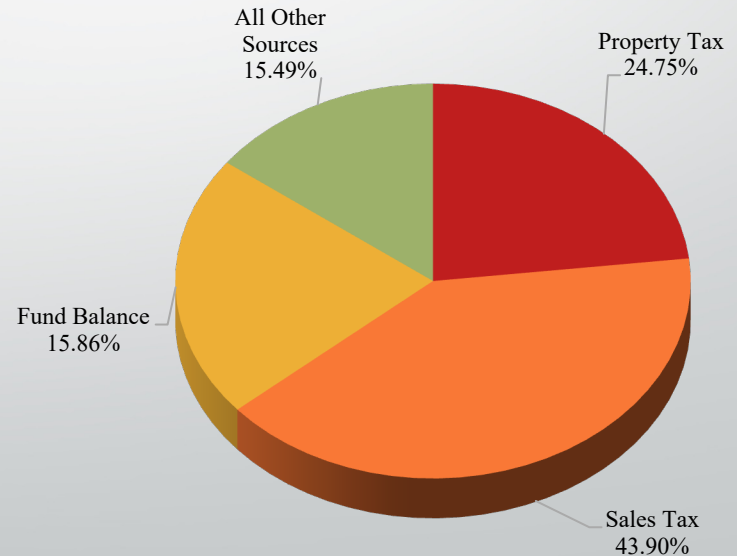
# Basics of Municipal Finance

Understand the City's revenue streams

## Sources of General Fund Revenue



## Sources of General Fund Revenue



# Basics of Municipal Finance

Are there underlying constraints on the City's major revenues streams?

- Sales Tax
  - Economy driven
  - Size of your commercial makeup
- Property taxes
  - Property value fluctuations
  - **Legislation changes**
  - Willingness or pressures to alter the tax rate.
  - Property Tax Exemptions
- Franchise Fees
  - **Legislative changes**
- Building Permits
  - Economy Driven
  - Buildout



# Basics of Municipal Finance

## Understand the makeup of the City's Funds

- General Fund
  - Typically is the biggest Fund
  - Where most City services are allocated from
    - Administration
    - Public Works, Streets, Parks, Recreation
    - Police, Fire, Animal Control, Communications
    - Planning, Zoning, Development Services, Permitting
  - Asset Replacement Fund
- But most cities have multiple funds
  - Debt Services Fund
  - Utility Funds/Enterprise Funds
  - Special Revenue Funds
  - Capital Project (Bond) Funds
- Each fund has its own set of restrictions and purposes





# Basics of Municipal Finance

## Understand the City's Reserves (Fund Balances)

- What are Reserve Funds
- Standard practice is "minimum" 4-6 months of operating expenditures in General Fund reserves.
  - Do not include capital expenditures or transfers out
  - This standard is for a typical city where property tax is probably the prevailing revenue source.
- Excess can be used as a funding source
  - Do I borrow or do I spend the reserves
  - Be cautious and selective when using.
  - Not recommended for funding recurring or long-term expenditures.
  - Should not be used for an extended period of time – Short term use.
- Must build back that capacity into current revenues.

# Basics of Municipal Finance

So let's talk Budget! What do you need to know?

- What it is that your city is involved with or doing already.
  - Core essential services
    - Examples (Police, Fire, Utilities, Infrastructure Maintenance, Administration ...)
  - The non-core essential services
    - Examples (Website, Park systems...)
  - The essential feel-good items
    - Examples (Movies-in-the-Park, Parades ...)



# Basics of Municipal Finance

What is the true makeup of your City.

- What type of City do you envision your City being?
  - Predominantly commercial
  - Predominantly residential
  - Quiet Bed & Breakfast feel
  - Types of lifestyles
  - Demographics (Aging vs. youthful)
- What do you want to attract to your city?
- What is the track record already in place on what it takes to do the City's core services
- What revenues do I have to cover recurring expenses
  - Personnel costs
  - Contractual obligations
  - Capital expenditures

# Basics of Municipal Finance

## Building a financial plan a.k.a. “The Budget”

- What your City can afford to do:
  - Support same levels of services to the citizens
  - Institute any new services
  - Hire new staff to support these new services
- Why answer all these questions?
  - Helps identify what direction the City should go to optimize it's greatest potential.
  - Helps identify what priorities the City should be focused on.
  - Ensures that your City's budget in aligned with the Vision, Mission and Goals of the **ENTIRE** City Council

# Basics of Municipal Finance

## Budget Facts...

- Definitely something that should not be taken lightly
  - Budgets become your fiscal plan for the year.
  - Created to support the Vision, Mission and Goals of the entire City Council
- Understand what is being presented to you
  - Utilize budget workshops as a means to understand the presented budget
- Make decisions that are well thought out
  - Fully understand the future impact of all decisions being made.
  - “Decide” within your means
- Keep your process at the 30,000 foot level (Policy level)
- Utilize a Budget Calendar to ensure all necessary steps are done.



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“Now let’s talk about money. Do we have any? How much would we like? Does anyone know where we can get some?”

# Basics of Municipal Finance

- **Very easy to come up with short-term projects, programs and services**
  - Many time they are done outside the normal budgeting process
    - Items gets placed on an agenda to seek approval
    - Finance personnel will have to find money somewhere in the budget
- **A little harder to grasp the long-term maintenance concept of these short-term decisions**
  - Willingness to maintain appropriate revenue base to fund the ongoing operations plus any new maintenance burdens place on revenue because of these short-term decisions
- **Keep the long-term in mind when making decisions**
  - Maintenance cost of new projects or programs
  - Willingness to defend decisions being made
  - Willingness to uphold decisions made by prior governing bodies.
    - To undo something usually cost the City some unnecessary expenses.



# Basics of Municipal Finance

## Quiz Time

Let's test what we've learned:

Your City just received a land donation of 20 acres for a park. You are tasked with developing this park land into something the City can be proud of.

What are some of the questions that need to be asked?

# Basics of Municipal Finance

## The Fiscal Impact of the Texas Legislature on Municipalities

**Be familiar with what goes on in Austin!**

- Unfunded Mandates
  - What are they and how do they affect municipalities
- Revenue Caps
  - What are they and how do they affect municipalities
  - Property Tax
- Revenue Constraints and Restrictions
  - Franchise Fees
  - Court Fees
- Ability to Issue Debt

# Basics of Municipal Finance

## Available Resources

- Your City Charter
- Texas Local Government Code
  - Chapter 102 – Municipal Budgets
- Texas Constitution
  - Article VIII, Section 21
- Texas Tax Code
  - Chapter 26
- State Comptroller of Public Accounts
- City Attorney's office
- Texas Municipal League

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