Overview

- Financial Administration: Your Role as Council Member
- Ins and Outs of City Funds: Taxes and Major Revenues
- The Budget and Budget Process
- Financial Reporting and Auditing
- Diagnosing Financial Health
- State-Local Relationship, Milestones
- Pensions and OPEBs
- Financial Policies
- Top Tips
Financial Administration and Your Fiduciary Role

Christina Turner

The Fiduciary Role of Mayors and Councilmembers

Roles of Key Staff

Financial Administration and Your Fiduciary Role

Oversight
- Budget Review/Approval
- Public Contracts
- Labor Relations

Sound financial policies
- Setting parameters
- Ensure long- and short-term financial awareness

Fiscal & Service Impacts of Decisions
- Setting precedents and unintended consequences

Sound financial policies
- Setting parameters
- Ensure long- and short-term financial awareness

Fiscal & Service Impacts of Decisions
- Setting precedents and unintended consequences
Roles of Key Staff

City Manager
- Budget Preparation
- $ Recommendations
- Fiscal Policy Recommendations
- Year-round Admin.

Finance
- Systems Admin.
- Reporting of Expenses and Revenues
- Auditing
- Comprehensive Annual Financial Report (CAFR)

Dept. Heads / Staff
- Budget proposals
- Tracking and reporting

Public Procurement

- Not designed to achieve speed, rather provide a fair and competitive process
- Locally adopted ordinances or policies for supplies and services
- State law provides public works project requirements

- Council should avoid:
  - Vouching for business
  - Receipt of gifts from would-be vendor
  - Campaign contributions from would-be vendors
  - Gift of public funds

- Council should:
  - Establish purchasing ordinance/policy
  - Direct administrative staff to carry out the process
  - Approve final agreements
Example: Morgan Hill

<table>
<thead>
<tr>
<th>Amount</th>
<th>Method</th>
<th>Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,000 or less</td>
<td>Informal Bid</td>
<td>City Manager → Department Heads</td>
</tr>
<tr>
<td>$10,000 to $25,000</td>
<td>Informal Bid</td>
<td>City Manager → Purchasing Officer (Finance Director)</td>
</tr>
<tr>
<td>$25,000 to $60,000</td>
<td>Competitive Bid</td>
<td>City Manager</td>
</tr>
<tr>
<td>$60,000 or more</td>
<td>Competitive Bid</td>
<td>City Council</td>
</tr>
</tbody>
</table>

Council Oversight: Quarterly report on all contracts approved within City Manager authority, with amount, purpose, and contractor

The Ins and Outs of City Funds

- Taxes, Fees
- and the rest
- Local Property Taxes
- Local Sales Taxes

Michael Coleman
Cities Vary … and so do their finances

✓ Geography: proximity, climate, terrain, access
✓ Community Character / Vision: Land use
✓ Size – urban / rural
✓ Governance / service responsibilities
   full-service city - vs.- not full service

❖ Statewide generalizations often mask trends among sub-groups

The Mechanics of Government Revenue

Who pays? visitors, residents, businesses, etc.

What rate / base?
$per gallon, % per price, depreciated value, etc.

How’s it allocated?
situs; pooled/population, etc.

What is the $ used for? general, water, roads, parks etc.

Who decides?
- Statewide voters / Constitution
- State law / Legislature
- Local voters
- Local law / City Council

Who collects? & enforces payment?
Taxes

✓ Charges which pay for public services and facilities that provide general benefits. No need for a direct relationship between a taxpayer’s benefit and the tax paid.
✓ Cities may impose any tax not otherwise prohibited by state law. (Gov Code § 37100.5)
✓ The state has reserved a number of taxes for its own purposes including:
  - cigarette taxes, alcohol taxes, personal income taxes.
✓ General & Special
  - **General Tax** - revenues may be used for any purpose.
    - Majority voter approval required for new or increased local tax charge.
  - **Special Tax** - revenues must be used for a specific purpose.
    - 2/3 voter approval required for new or increased local tax charge.
    - Parcel tax - requires 2/3 vote.

Fees and the Rest

Any levy, charge or exaction of any kind imposed by a California government, is a tax except:

- **User Fees and Assessments**: for a privilege/benefit, service/product
  - Planning permits, development fees, parking permits, user fees, copying fees, recreation classes, etc.
- **Regulatory Fees**: regulation, permits, inspections
  - Permits for regulated commercial activities (e.g., dance hall, bingo, card room, check cashing, taxicab, peddlers, catering trucks, massage parlor, firearm dealers, etc.); fire, health, environmental, safety permits; police background checks; pet licenses; bicycle licenses.
- **Rents**: charge for entrance, use or rental of government property
  - Facility/room rental fees, room rental fees, equipment rental fees, on and off-street parking, tolls, franchise, park entrance, museum admission, zoo admission, tipping fees, golf green fees, etc.
- **Penalties** for illegal activity, fines and forfeitures, etc.
  - Parking fines, late payment fees, interest charges and other charges for violation of the law.
- **A payment that is not imposed** by government
  - Includes payments made pursuant to a voluntary contract or other agreement that are not otherwise “imposed” by a government’s power to coerce.
Taxes and Fees/etc.
Approval Requirements
(California Constitution)

| Source: CaliforniaCityFinance.com computations from data from California State Controller (revenues). Does not include data from the following cities that failed to report: Beaumont, Hawthorne, Imperial, La Habra, Lindsay, Placerville, Stockton, Taft, and Westmorland. |
California City Revenues

- **Property Tax**: 13%
- **Sales Tax**: 7%
- **BusnLicTax**: 2%
- **Utility User Tax**: 3%
- **TransOccTax**: 2%
- **Other Tax**: 3%
- **Franchises**: 2%
- **State&Fed**: 1%
- **Other**: 3%

**Benefit Assessments**: 2%
**Special Taxes**: 4%
**State Grants**: 4%
**Federal Grants**: 5%
**Investments, Rents, Royalties**: 1%
**Licenses & Permits**: <1%
**Devpt Fees & Permits**: 2%
**Fines & Forfeitures**: 1%
**Utility Fees**: (Water, Sewer, Refuse, Elect, Gas, etc.) 28%
**Other Fees**: 12%

**Not Restricted**: 35%

Source: CaliforniaCityFinance.com computations from data from California State Controller (revenues). Does not include data from the following cities that failed to report: Beaumont, Hawthorne, Imperial, La Habra, Lindsay, Placerville, Stockton, Taft, and Westmorland.

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Discretionary Revenues and Spending

**Typical Full Service City**

- **Property Tax**
- **Sales & Use Tax**
- **Franchises**
- **Utility User Tax**
- **BusnLic Tax**
- **Hotel Tax**
- **Other**

**Fire**
**Police**
**Parks&Rec**
**Library**
**Streets**
**Planning**
**Other**

Source: Coleman Advisory Services computations from State Controller reports
Property Tax

✓ An ad valorem tax imposed on real property and tangible personal property
✓ Maximum 1% rate (Article XIII A) of assessed value, plus voter approved rates to fund debt
✓ Assessed value capped at 1975-76 base year plus CPI or 2%/year, whichever is less
✓ Property that declines in value is reassessed to the lower market value.
✓ Reassessed to current full value upon change in ownership (with certain exemptions)
✓ Allocation: shared among cities, counties and school districts according to state law.

Where Your Property Tax Goes

Shares Vary!
✓ Non-Full service cities: portion of city shares go to special districts (e.g. fire)
✓ Pre-prop 13 tax rates

City 21%
County 27%
Local Schools 45%
Special Districts 7%

Typical homeowner in a full service city not in a redevelopment area.
Includes Property Tax in-lieu of VLF.

Source: Coleman Advisory Services computations from Board of Equalization and State Controller data.
Sales and Use Tax

✔ **Sales Tax**: imposed on the total retail price of any tangible personal property

✔ **Use Tax**: imposed on the purchaser for transactions in which the sales tax is not collected.

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**Where Your Sales Tax Goes**

<table>
<thead>
<tr>
<th>City*</th>
<th>1.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co Transp</td>
<td>0.25</td>
</tr>
<tr>
<td>Prop 172</td>
<td>0.50</td>
</tr>
<tr>
<td>Co Realign</td>
<td>1.5625</td>
</tr>
<tr>
<td>State GF</td>
<td>3.9375</td>
</tr>
<tr>
<td><strong>Total Base</strong></td>
<td><strong>7.25%</strong></td>
</tr>
</tbody>
</table>

* For taxable sales in unincorporated areas, the local 1% rate goes to the county.
Sales Tax Collections

- Revenues per capita inflation adjusted

Budgets and Budget Processes

- What is a budget?
- What is in a budget?
- What is a “fund?”
- Capital Improvement Program (CIP)
- Budget process
What **is** a Budget?

- **What:** A financial plan projecting revenues and expenditures for a defined period of time (usually 1-2 years)
- **Types:** Operating and Capital

Your budget should:
- Reflect the community’s priorities
- Good estimates of revenues/expenses by Fund
- Anchored to Long Term Forecasts (~5 years)
- Provide actual revenue/expense history to gauge accuracy of forecasts!

What **is in** a Budget?

- A **summary or discussion** of revenues, expenses, and current economic conditions
- History of **actual** revenues and expenses
- Projected **revenues by type/source**
- Estimates of proposed **expenditures by function** (typically by Department)
- Separate budgets for each and every Fund
- Capital Budget – tied to CIP
What is a “Fund”?

• A **fund** is a self-balancing set of accounts for all financial transactions of specific activities.

• Most agency budgets include the following types of separate **“funds”**:
  - General Fund
  - Enterprise Fund(s)
  - Special Revenue Fund(s)
  - Capital Project Fund(s)
  - Others: debt service, trust, agency, internal service, special assessment

Budget Alternatives

**Terms:**

• Typical: One Fiscal Year (July 1 – June 30)
• Biennial Budget (two fiscal years)

**Types:**

• Operating
• Capital

**Budget Formats:**

• Line Item
• Performance
• Program
• Zero Based
Capital Improvement Program (CIP)

- For infrastructure or capital investment
- Revenues come from a variety of sources:
  - Impact fees, restricted taxes, grants, enterprise operations
- Subject to State Law—bidding process and prevailing wages
- Capital Improvement Program should look forward five years, preferably 10

CIP – Policy & Guidelines

**Policy:**
- Statement of plans for capital projects
- Specific goals:
  - e.g., PCI for roads
- Use of resources

**Guidelines:**
- Preserve an existing asset?
- Mitigate health or safety problem?
- Mandated by State or Feds?
- Contribute to City’s economic health?
- Available funding for capital plus ongoing operations & maintenance?
Budget Process

- A budget takes months to prepare
- Performance standards or measures help ensure investment meets desired outcomes
- Your budget calendar and review process should be meaningful
- Your process should allow for needed input at the appropriate times
- Each agency does it differently!

Biennial Budget Process

January
1st Year
City Council Goal Setting Workshop

February - June
In-depth Budget Review Process
Mid-Cycle Update (Yr. 2)
Budget Adjustments, as needed

February - April
Budget Development

April
Recommended Budget Made Available to the Public

January
2nd Year
City Council Goal Setting Workshop

June
Public Hearing and Budget Adoption

May
Budget Workshop
Financial Reporting and Auditing

Christina Turner

- The Comprehensive Annual Financial Report (CAFR)
- Letter of Transmittal
- Independent Auditor’s Report
- Management Discussion and Analysis
- Financial Statements and Notes
- Supplementary and Statistical Information

Comprehensive Annual Financial Report (The CAFR)

Letter of Transmittal

Independent Auditor’s Report

Management Discussion and Analysis

Basic Financial Statements and Note Disclosures

Supplementary Information and Statistical Section
Management’s Discussion and Analysis (MD&A)

• Narrative overview of Basic Financial Statements
  o Explains components
  o Highlights year-over-year changes
  o Analysis of individual funds

• What to look for:
  o Changes in net position
    • Capital assets vs. unrestricted net position
    • Underlying reasons...One-time occurrences or a trend?
  o Changes in fund balance
    • The change itself is less important than the explanation
  o Analysis of the General Fund

Basic Financial Statements

Government-wide
This is the agency-wide roll-up

Governmental Funds
• General Fund
• Special revenue funds e.g., impact fee funds

Proprietary Funds
• Enterprise funds e.g., utilities, etc.

Fiduciary Funds
• Trust funds e.g., redevelopment dissolution funds, etc.
Introducing:
The League of California Cities’
California Municipal
Financial Health Diagnostic

Michael Coleman

Diagnosing Municipal Financial Health

Bad Brew in Troubled Cities

Over-reliance on land development revenue

Risky financing schemes

Unsustainable & Intractable employee compensation especially public safety pension and retiree health care

Unsustainable decline in core revenues

Ceding of management and policy choices to others

Fear & Denial

Toxic relationships
You Need the Financial Health Diagnostic

- **Validate** areas in which your city is fiscally healthy
- **Identify problems**, areas to improve
- **Act to remedy** problems before they get worse or unmanageable
- **Avoid being blind-sided** by problems
- **Add credibility** to your fiscal evaluation
- **Help others** (labor associations, taxpayers and other interested parties) **understand** your financial position

Our Approach

**California Municipal Financial Health Diagnostic:**

- Get to the **primary indicators** - useful & essential
  - Leave out extraneous / secondary
  - Add in overlooked & underappreciated factors
- Drill down to the **real numbers**
- Allow for nuance / clarification / differences
  - Reduce invalid conclusions and comparisons
- Constructive, thoughtful approach
The California Municipal Financial Health Diagnostic

Diagnosing Financial Health

City of [City Name]
Financial Distress Checklist

<table>
<thead>
<tr>
<th>Measure</th>
<th>Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The city has recurring general fund operating deficits.</td>
<td></td>
</tr>
<tr>
<td>2. General fund reserves are decreasing over multiple consecutive years.</td>
<td></td>
</tr>
<tr>
<td>3. General fund current liabilities (including short-term debt and accounts payable within 90 days) are increasing. Cash and short-term investments are decreasing.</td>
<td></td>
</tr>
<tr>
<td>4. General fund fixed costs, salaries and benefits are increasing over multiple years at a rate faster than recurring revenue growth.</td>
<td></td>
</tr>
<tr>
<td>5. The general fund is subsidizing other enterprises or special funds.</td>
<td></td>
</tr>
<tr>
<td>6. The city council’s authority to make changes is constrained by charter, contract, or law. (e.g. binding arbitration, minimum spending, minimum staffing or compensation formulas, etc.)</td>
<td></td>
</tr>
<tr>
<td>7. The general fund budget has been balanced repeatedly with reserves, selling assets, deferring asset maintenance.</td>
<td></td>
</tr>
<tr>
<td>8. The general fund budget has been balanced repeatedly with short-term borrowing, internal borrowing or transfers from special funds.</td>
<td></td>
</tr>
<tr>
<td>9. General fund pension liabilities, post-employment or other non-salary benefits have been repeatedly deferred or costs have not been determined, disclosed or actuarily funded.</td>
<td></td>
</tr>
<tr>
<td>10. General fund debt service payments have been “backloaded” into future years.</td>
<td></td>
</tr>
<tr>
<td>11. Ongoing general fund operating costs are being funded with temporary development revenues.</td>
<td></td>
</tr>
<tr>
<td>12. Financial Reports are not being filed on time. (CAFR, Annual Audit, State Controller’s Financial Transactions Report)</td>
<td></td>
</tr>
<tr>
<td>13. Public service levels are far below standards needed in this community.</td>
<td></td>
</tr>
</tbody>
</table>

For detailed indicators related to these points see the Financial Health Indicators

Milestones in Municipal Finance: A Brief History

Michael Coleman

- Plans versus Policies
- Topics for Financial Policies
- Policy versus Practice: Make ‘em Work
- Policies and Financial Ratings
**Proposition 13 (1978) nuts & bolts**

1. **One percent rate cap.** Property tax rates capped at 1% of full market value
2. **Assessment rollback** of property values for tax purposes to 1975-76 levels
3. **Assessment growth capped** at 2% of property value (or CPI)
   - reassessment at full market value only upon change of ownership
4. **Special taxes** (local) require 2/3 voter approval
5. **State tax increases require 2/3 vote of Legislature**
6. **Authority for allocating property tax revenues transferred to the state**

**Milestones in Municipal Finance History**

- **K-14 Schools**
- **City**
- **County**
- **Special Districts**

57% reduction

-57%
The AB8 (1979) Bailout
Shifting Local Property Tax to Cushion Impacts of Prop13

Prop13 Impacts After "Bailout"
Billions/year in 1978-79

- Schools
- Counties
- Cities
- Special Districts

State General Fund

Cities, Counties, Special Districts

Property Tax

Proposition 13 (1978) revenue impacts

The AB8 “Bailout”:
State legislature
- increased non-school shares,
- reduced school shares,
- paid more state general fund to schools.

- **Cities**
  - Net Loss: $940 million
- **Counties**
  - Net Loss: $2,780 million
- **Special Districts**
  - $590 million
- **Redevelopment Agencies**
  - $350 million

State General Fund

- Reduced general fund support

Cities, Counties, Special Districts

Property Tax

Schools

Local Revenue Protection: Prop1A (‘04), Prop1A (‘06), Prop22 (‘10)

**Constitutional Protection for:**

1. **Property taxes: cities, counties, special districts**
   - Protection includes Property Tax in lieu of VLF (VLF swap)
   - May reallocate among cities, counties, special districts with a 2/3 vote of both houses

2. **Local sales tax rate, method of allocation**
   - Exception: interstate compact or federal law

3. **VLF 0.65% rate to cities and counties … unless replaced**
   - VLF may not be diverted to reimburse a state mandate

4. **Transportation Funds to locals – no taking, delay or borrowing**

5. **Prohibitions against unfunded state mandates strengthened**

6. **Redevelopment Tax Increment - may not be diverted for other purposes**
Milestones in Municipal Finance History

Fiscal constraints
Creative Response

The State-Local Fiscal Relationship: A Rough Road

Prop 13 Property Taxes
1978
AB8/ SB154 “Bailout”

Prop 4 Spending Limits
1979

Prop 218 Taxes, Fees, Assessments etc.
1999

Prop 124 State Sales Tax to Transportation
2002

Prop 57 Sales Tax “Triple Flip”
2004

State Budget Trouble: City&County VLF Taken, Many State Subventions Repealed
1981-1983

1984 Prop 47 VLF must go to cities/counties

Prop 1D local $ protection
2004

Prop 1A VLF-Property Tax Swap
2008-2010

Redevelopment Property Tax Shifts

Prop 22 Local $ Protection 2010

2008 Redevelopment RIP Realignment

State Fiscal retrenchment, revenue & cost shifts
Local revenue protection, constitutional limits

Prop 26 Taxes, Regulatory Fee rules

Prop 47 State Sales Tax to Transportation
2011

SB89 VLF shift to law enforcement grants

Prop 57 Sales Tax “Triple Flip”
1999

Prop 218 Taxes, Fees, Assessments etc.
1999

Prop 126 Property Taxes
1990

Prop 47 State Sales Tax to Transportation
2000

Prop 22 Local $ Protection 2010

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SB89 VLF shift to law enforcement grants

Fiscal road concept stolen from LAO
Pensions and Other Post-Employment Benefits (OPEB)

- Pension Funding
- Employer Contribution Rates
- What Happened?
- GASB changes
- Other Post Employment Benefits (OPEB)

Retirement Plans

1. Defined Contribution
   - Employees (and/or employers) contribute a fixed amount or a percentage of pay in an account that is intended to fund retirement

2. Defined Benefit
   - Employee benefits are computed using a formula that considers several factors, such as length of employment and salary history
Pension Funding

Defined Benefit Plans are funded from:

1. Contributions from employers
   • Variable based on a variety of factors
2. Contributions from employees
   • Fixed based on pension formula
3. CalPERS investment earnings

Employer Contribution

Two components

- Normal cost
  • Annual cost of future benefit for current employees
  • Expressed as a percentage of pay
- Payment on unfunded accrued liability (UAL)
  • Required when plan liabilities exceed plan assets
  • Expressed as a dollar amount
Many factors cause the employer rate to change, including...

- CalPERS investment earnings
- Benefit changes
  - Formula changes applied retroactively
- Changes in actuarial assumptions
  - Economic, such as the rate of investment return
  - Demographic, such as mortality rates
  - Other experience
    - Pay increases exceeding assumptions

Actuarial Valuation Reports

- Take into account participant data (active, transferred/terminated, retired and beneficiaries) and changes in assumptions
- Provide a snapshot in time of the Plan’s assets and liabilities (usually as of June 30th) and funded status
- Determines the required contributions for upcoming fiscal year
- Highlight changes from previous year’s valuations
- Risk analysis
Employer Contribution (Cont’d)

For the City of Morgan Hill Misc. Plan (Does not reflect cost-share)

<table>
<thead>
<tr>
<th>Normal Cost Contribution as a Percentage of Payroll</th>
<th>Fiscal Year</th>
<th>Fiscal Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Normal Cost</td>
<td>18.734%</td>
<td>18.91%</td>
</tr>
<tr>
<td>Employee Contribution¹</td>
<td>7.510%</td>
<td>7.71%</td>
</tr>
<tr>
<td>Employer Normal Cost²</td>
<td>11.224%</td>
<td>11.29%</td>
</tr>
<tr>
<td>Projected Annual Payroll for Contribution Year</td>
<td>$16,830,230</td>
<td>$17,009,522</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Estimated Employer Contributions Based On Projected Payroll</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Normal Cost</td>
</tr>
<tr>
<td>Employee Contribution¹</td>
</tr>
<tr>
<td>Employer Normal Cost²</td>
</tr>
<tr>
<td>% of Projected Payroll (illustrative only)</td>
</tr>
<tr>
<td>% of Projected Payroll (illustrative only)</td>
</tr>
<tr>
<td>Unfunded Liability Contribution</td>
</tr>
<tr>
<td>Estimated Total Employer Contribution (illustrative only)</td>
</tr>
</tbody>
</table>

Plan’s Funded Status

1. Present Value of Projected Benefits                       | $133,841,708 | $139,506,605 |
2. Entry Age Normal Accrued Liability                        | 110,626,266  | 116,248,571  |
4. Unfunded Accrued Liability (UAL) ([(2) – (3)]             | $31,410,600  | $31,557,912  |
5. Funded Ratio [(3) / (2)]                                   | 71.6%        | 72.9%        |

What Happened?

CalPERS Investment Returns

- Strong investment returns in the late 1990s created momentum for enhancing benefits
- But investment losses combined with more expensive benefits created significant unfunded liabilities
The Cost of Doing Business

CalPERS Payments on the Rise

Average Employer Contribution Payments

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety (police, fire) plans</td>
<td>0%</td>
<td>5%</td>
<td>10%</td>
<td>15%</td>
<td>20%</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>Miscellaneous plans</td>
<td>0%</td>
<td>5%</td>
<td>10%</td>
<td>15%</td>
<td>20%</td>
<td>25%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Contribution Rates

- Safety: 56.54%
- Miscellaneous: 25.36%

*Includes employee sharing*
Response

• Some cities implemented new tiers (different retirement formulas)
• Public Employees’ Pension Reform Act (PEPRA)
  o Required new tiers for new employees
• Pension obligation bonds- not recommended
• Section 115 Trusts
  o Can only be used for pension costs
• Cost Sharing: Employee sharing in employer contribution rate

Other Post-Employment Benefits (OPEB)

• Retiree benefits other than pension; can include life insurance, medical insurance, deferred compensation etc.
• Largely under-the-radar until GASB 45
  o Difference between Actuarial Required Contribution (ARC) and actual contribution on balance sheet
  o No requirement to fund, but creates visibility
• GASB 75 (effective fiscal year 2017-18)
  o Similar to GASB 68 for pensions
  o Liability needs to be portrayed in the financial statements (full accrual)
Other Post-Employment Benefits (OPEB) (cont’d)

- Significant liability for many cities
- Cost continuing to increase
  - More retirees
  - Retirees living longer
  - Increasing healthcare costs

Financial Policies: The Foundation of Fiscal Health

- Plans versus Policies
- Topics for Financial Policies
- Policy versus Practice: Make ‘em Work
- Policies and Financial Ratings
- The Importance of Evaluating Long Term Financial Health

Christina Turner
Plans versus Policies

- Plans can change over time (like ... as soon as the ink is dry)
- Policies, however,...
  - Act as your “north star,” guiding your actions
  - Make tough decisions easier by formalizing values and procedures before a crisis hits
  - You could decide to do something else
  - Bottom line... good policies always give you a starting point

Financial Policy Topics

- Balanced Budget
- User Fees & Cost Recovery
- Enterprise Funds: To subsidize or not?
- Fund Balance & Reserves
- Budget Amendments
- Budget Carryover
- Revenue Earmarking
- Capital Financing & Debt Management
- Financial Reporting
- Investments
- Purchasing, bidding, contracting
- Travel guidelines
- Credit Card Use
Formal Policies

Put financial policies in writing so that they:

- Can outlive the crisis ... or prepare you for one
- Promote stability and continuity
- Create efficiency through standardization
- Save you debt service costs
- Don’t rely on an individual to interpret best practices
- Help with your CAFR process and reduce audit findings

Crucial Point: Policy versus Practice

- Policy should include specific objective but not detailed steps in meeting that objective
- Make policy brief and concise.
  - Example: “User fees should be reviewed and adjusted at least annually to avoid sharp changes.”
- Include “how to” steps in administrative procedure, if necessary.
- Leave exact steps of review/adjustment to staff.
Long-Term Financial Planning

Combines financial forecasting with financial strategizing to identify future challenges and opportunities, fiscal imbalances, and strategies to secure financial sustainability.

Why?
- Respond to a financial crisis
- Bring financial perspective to planning
- Stimulate long-term thinking
- Stimulate “big picture” thinking
- Address a particular issue or proposal
- Impose discipline
- Demonstrate good fiscal management to all stakeholders

Capital Financing

- Methods of Financing
- Types of Bonds

Christina Turner
# Methods of Financing

<table>
<thead>
<tr>
<th>Methods</th>
<th>Pros</th>
<th>Cons</th>
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<tbody>
<tr>
<td><strong>Pay-as-you-go</strong></td>
<td>• Future funds are not tied up in servicing debt payments</td>
<td>• Long wait time for new infrastructure</td>
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<td></td>
<td>• Interest savings put to other projects</td>
<td>• Large projects may exhaust agency’s entire budget</td>
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<td></td>
<td>• Greater budget transparency</td>
<td>• Avoid risk of default</td>
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<tr>
<td></td>
<td>• Avoid risk of default</td>
<td>• Inflation risk</td>
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<tr>
<td><strong>Debt Financing (Bonds)</strong></td>
<td>• Infrastructure is delivered when needed</td>
<td>• Potentially high borrowing rate</td>
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<td></td>
<td>• Spreads cost over useful life of asset</td>
<td>• Debt payments limit future budget flexibility</td>
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<tr>
<td></td>
<td>• Increases capacity to invest</td>
<td>• Generations forced to service debt requirements</td>
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<td></td>
<td>• Beneficiaries pay for projects</td>
<td></td>
</tr>
<tr>
<td><strong>Public Private Partnerships (P3)</strong></td>
<td>• Risk transfer</td>
<td>• Loss of operational control</td>
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<td></td>
<td>• External funding</td>
<td>• Changes in scope or performance standards</td>
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<td></td>
<td>• Lower operating costs, and higher revenues</td>
<td>• Non-transferable risks (changes in laws, 3rd party governmental agencies etc.)</td>
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<td>• Improved user experience</td>
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<td>• Accelerated project delivery</td>
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</tbody>
</table>

# Types of Municipal Bonds

- **General obligation bonds**
  - IOU issued by governmental entity to finance large projects
  - Backed by property tax revenue, to repay bonds over 20–30-year period
  - Can increase property tax to repay but requires 2/3rd voter approval
  - Generally done to acquire or improve real property
  - Example: parks, roads, school facilities etc.

- **Revenue bonds**
  - Issued to acquire, construct or expand public projects
  - Backed by fees or charges and paid from income generated by the facility or related service
  - Example: Water/Wastewater infrastructure financing
Top Tips for Financial Management

1. Obtain **key documents:**
   - Annual Operating Budget
   - Capital Improvement Program
   - Comprehensive Annual Financial Report (CAFR)
   
2. Develop and Use **Financial Policies.**

3. Know the difference between a “one-time” solution versus a “defer” solution versus a “sustainable” solution
   - One-time solutions fix a current problem, but not an on-going one.
   - Deferrals “put-off” a problem by fixing a one time problem but create as much or more added costs in future years.
   - A sustainable solution fixes an on-going budget problem now and into the future.
Top Tips for Financial Management

4. **Ask hard questions** about programs:
   1) What is the purpose of this program? Why is it needed?
   2) What are the specific intended outcomes of this program?
   3) What are the measurable objectives?
   4) What are the cost components: personnel, contracts, supplies, equipment, etc.?
   5) How will the costs of this program change in the future?
   6) What are the alternative service delivery approaches?
   7) Where will the money come from to pay for this?
   8) What are the consequences of not doing this program?

5. **Avoid unsustainable budget practices** including:
   - Exhaust the reserves
   - Freeze vacant positions
   - Make across the board cuts
   - Defer equipment purchases
   - Defer essential maintenance
   - Long-term formula driven spending
   - Defer pension or capital funding contributions
   - Eliminate training
   - Borrow from other funds
   - Ignore the small cuts

Resources

- Government Finance Officers Association GFOA.com
- The California Municipal Finance Almanac www.CaliforniaCityFinance.com