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

• The Fiduciary Role of Mayors and Councilmembers
• Roles of Key Staff

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

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

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

The Fiduciary Role of Mayors and Councilmembers
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
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
  - **Special Tax** - revenues must be used for a specific purpose.
    - 2/3 voter approval required for new or increased local tax
    - 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.

- **Rent**: 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*

<table>
<thead>
<tr>
<th></th>
<th>TAX-General</th>
<th>TAX-Parcel or Special (earmarked)</th>
<th>G.O.BOND (w/tax)</th>
<th>Fee / fine / rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>City / County</td>
<td>Majority voter approval</td>
<td>Two-thirds voter approval</td>
<td>Two-thirds voter approval</td>
<td>Majority of the governing board.*</td>
</tr>
<tr>
<td>Special District</td>
<td>n/a</td>
<td>Two-thirds voter approval</td>
<td>Two-thirds voter approval</td>
<td>Majority of the governing board.*</td>
</tr>
<tr>
<td>K-14 School</td>
<td>n/a</td>
<td>Two-thirds voter approval (parcel tax)</td>
<td>55% voter approval*</td>
<td>Majority of the governing board.*</td>
</tr>
<tr>
<td>State</td>
<td>For any law that will increase the taxes of any taxpayer, two-thirds of each house of the Legislature ...or approval of majority of statewide voters.</td>
<td>Statewide majority voter approval</td>
<td>Majority of each house.</td>
<td></td>
</tr>
</tbody>
</table>

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%**

- **Not Restricted 35%**
- **Utility Fees (Water, Sewer, Refuse, Elect, Gas, etc.) 28%**
- **Other Fees 12%**
- **Benefit Assessments 2%**
- **Federal Grants 5%**
- **State Grants 4%**
- **State/Fed Aid 4%**
- **Rents, penalties 5%**
- **Other 3%**
- **Franchises 2%**
- **TransOccTax 2%**
- **Other Tax 3%**
- **Utility User Tax 3%**
- **BusnLicTax 2%**
- **Fines & Forfeitures 1%**
- **Licenses & Permits <1%**
- **Devpt Fees & Permits 2%**
- **Investments, Rents, Royalties 1%**

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.
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-prop13 tax rates

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.
Where Your Sales Tax Goes

- For taxable sales in unincorporated areas, the local 1% rate goes to the county.

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>City*</td>
<td>1.00%</td>
</tr>
<tr>
<td>Co Transp</td>
<td>0.25%</td>
</tr>
<tr>
<td>Prop172</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>Total Base</td>
<td>7.25%</td>
</tr>
</tbody>
</table>

Sales Tax Collections

- as a percent of statewide personal income

Source: California State Board of Equalization (Sales Tax), CA Dept of Finance (Population), CA Dept of Industrial Relations (CPI)
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:
  o 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
  o 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 - April
Budget Development

April
Recommended Budget Made Available to the Public

May
Budget Workshop

June
Public Hearing and Budget Adoption

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

January 2nd Year
City Council Goal Setting 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
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.

Diagnosing Municipal Financial Health
Introducing:
The League of California Cities’ California Municipal Financial Health Diagnostic

Michael Coleman
Bad Brew in Troubled Cities

- Over-reliance on land development revenue
- Risky financing schemes
- Over-reliance on redevelopment revenues
- Fear & Denial
- Toxic relationships
- Unsustainable & Intractable decline in core revenues
- Ceding of management and policy choices to others
- Unsustainable & Intractable employee compensation especially public safety pension and retiree health care

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

City of

The California Municipal Fiscal Health Diagnostic
Financial Distress Checklist

<table>
<thead>
<tr>
<th>Measures</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 60 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

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

Proposition 13 (1978) nuts & bolts
Proposition 13 (1978) revenue impacts

57% reduction

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

Prop13 Impacts After "Bailout"

- Schools
- Counties
- Cities
- Special Districts

State General Fund

Cities, Counties, Special Districts

Property Tax

Schools
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, Counties, Special Districts
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

The State-Local Fiscal Relationship: A Rough Road

- Prop 13 Property Taxes 1978
- Prop 4 Spending Limits 1979
- Prop 172 Public Safety Sales Tax 1992
- ERAF (Educational Revenue Augmentation Fund) 1992
- Prop 218 Taxes, Fees, Assessments etc. 1996
- Prop 47 VLF must go to cities/counties 1986
- Prop 62 votes on taxes 1981-1983
- VLF “CarTax” cut & backfill 1999
- Prop 42 State Sales Tax to Transportation 2002
- Prop 57 Sales Tax “Triple Flip” 2004
- Prop 1A local $ protection 2004
- Redevelopment Property Tax Shifts 2008-2010
- Prop 26 Taxes, Regulatory Fee rules 2010
- Prop 47 VLF must go to cities/counties 2011
- SB2557 County Fees on Cities 1990
- Fiscal constraints 2007
- Creative Response 2008
- Fiscal road concept stolen from LAO
Milestones in Municipal Finance History

1978
Prop 4
Spending Limits

1979

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

1986
Prop 47
VLF must go to cities/counties

1990
SB 2557
County Fees on Cities

1992
Prop 172
Public Safety Sales Tax

1996
ERAF
(Educational Revenue Augmentation Fund)

1999
VLF “CarTax” cut & backfill

2000
Prop 57
Sales Tax “Triple Flip” VLF-Property Tax Swap

2001
Prop 1A
Local $ Protection

2002
Redevelopment Property Tax Shifts

2008-2010
Prop 62 votes on taxes

2011
Redevelopment Realignment

SB 89 VLF shift to law enforcement grants

State Fiscal retrenchment, revenue & cost shifts
Local revenue protection, constitutional limits
Fiscal road concept stolen from LAO

Pensions and Other Post-Employment Benefits (OPEB)

Christina Turner

- 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

Employer Contribution (Cont’d)

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

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></td>
<td>2020-21</td>
<td>2021-22</td>
</tr>
<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>11.20%</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>
<th>Fiscal Year</th>
<th>Fiscal Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2020-21</td>
<td>2021-22</td>
</tr>
<tr>
<td>Total Normal Cost</td>
<td>$3,152,977</td>
<td>$3,216,501</td>
</tr>
<tr>
<td>Employee Contribution¹</td>
<td>1,263,950</td>
<td>1,311,434</td>
</tr>
<tr>
<td>Employer Normal Cost²</td>
<td>1,889,027</td>
<td>1,905,067</td>
</tr>
<tr>
<td>Unfunded Liability Contribution</td>
<td>2,378,253</td>
<td>2,638,791</td>
</tr>
<tr>
<td>% of Projected Payroll (Illustrative only)</td>
<td>14.131%</td>
<td>15.51%</td>
</tr>
<tr>
<td>Estimated Total Employer Contribution</td>
<td>$4,267,280</td>
<td>$4,543,858</td>
</tr>
<tr>
<td>% of Projected Payroll (Illustrative only)</td>
<td>25.355%</td>
<td>26.71%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Plan’s Funded Status</th>
<th>June 30, 2018</th>
<th>June 30, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Present Value of Projected Benefits</td>
<td>$133,941,708</td>
<td>$139,506,605</td>
</tr>
<tr>
<td>2. Entry Age Normal Accrued Liability</td>
<td>110,626,266</td>
<td>116,248,571</td>
</tr>
<tr>
<td>4. Unfunded Accrued Liability (UAL) [(2) – (3)]</td>
<td>$31,426,207</td>
<td>$31,527,312</td>
</tr>
<tr>
<td>5. Funded Ratio [(3) / (2)]</td>
<td>71.6%</td>
<td>72.9%</td>
</tr>
</tbody>
</table>
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

--- | --- | --- | --- | --- | --- | --- | ---
Safety (police, fire) plans | 30% | 35% | 40% | 45% | 50% | 55% | 60%
Miscellaneous plans | 15% | 20% | 25% | 30% | 35% | 40% | 45%
Contribution Rates

<table>
<thead>
<tr>
<th>Year</th>
<th>Safety</th>
<th>Miscellaneous</th>
</tr>
</thead>
<tbody>
<tr>
<td>13-14</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>14-15</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>15-16</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>16-17</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>17-18</td>
<td>40%</td>
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<td>18-19</td>
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<tr>
<td>22-23</td>
<td>90%</td>
<td>90%</td>
</tr>
<tr>
<td>23-24</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>24-25</td>
<td>110%</td>
<td>110%</td>
</tr>
</tbody>
</table>

*Includes employee sharing

Response

- Some cities implemented new tiers (different retirement formulas)
- Public Employees’ Pension Reform Act (PEPRA)
  - Required new tiers for new employees
- Pension obligation bonds- not recommended
- Section 115 Trusts
  - 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
  - Difference between Actuarial Required Contribution (ARC) and actual contribution on balance sheet
  - No requirement to fund, but creates visibility
- GASB 75 (effective fiscal year 2017-18)
  - Similar to GASB 68 for pensions
  - 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

Christina Turner

• 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

Plans versus Policies

• Plans can change over time
  (like … as soon as the ink is dry)

• Policies, however,…
  o Act as your “north star,” guiding your actions
  o Make tough decisions easier by formalizing values and procedures before a crisis hits
  o You could decide to do something else
  o 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.

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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
## Methods of Financing

<table>
<thead>
<tr>
<th>Methods</th>
<th>Pros</th>
<th>Cons</th>
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<tbody>
<tr>
<td>Pay-as-you-go</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>• Inflation risk</td>
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<td></td>
<td>• Avoid risk of default</td>
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<tr>
<td>Debt Financing (Bonds)</td>
<td>• Infrastructure is delivered when needed</td>
<td>• Potentially high borrowing rate</td>
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<tr>
<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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<tr>
<td></td>
<td>• Beneficiaries pay for projects</td>
<td></td>
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<tr>
<td>Public Private Partnerships (P3)</td>
<td>• Risk transfer</td>
<td>• Loss of operational control</td>
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<td>• External funding</td>
<td>• Changes in scope or performance standards</td>
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<tr>
<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></td>
<td>• Accelerated project delivery</td>
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</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

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**Top Tips**

Michael Coleman
Top Tips for Financial Management

1. Obtain **key documents:**
   - Annual Operating Budget
   - Capital Improvement Program
   - Comprehensive Annual Financial Report (CAFR)
   - Long Range Financial Plan
   - Interim Financial Reports
   - Investment Reports

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.

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

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