Public Finance:
A Primer for Non-Financial Officials and Managers

TML Annual Conference –Austin, TX
October, 2016
Martie Simpson, CPA
Karen Rhodes-Whitley, RTA/C, CPM
What is our Agenda today?

• Key Financial Policies
• Fund Basics
• Budgeting Basics
• Policy Review
• Conclusion
What are the most Common Policies?

• Budget
• Revenues/Expenditures
• Fund Balance/Reserves
• Accounting, Auditing and Financial Reporting
• Internal Control
• Asset Management
Other Policies

• Capital Improvements and Maintenance
• Debt Management
• Investment
• Grants
• Economic Development
• Risk Management
Why have a Financial Policy?

• Provides “fiscal discipline”

• Achieve and maintain long-range stable and positive financial condition

• Provide guidelines for day-to-day planning and operations of City’s financial management
Fiscal Responsibility

• Integrity
• Stewardship
• Planning
• Accountability
• Credibility
Stewardship

• Position of Trust
• Safeguarding Community Assets
• Preservation of Community Resources
  • Property
  • Lives
  • Life style
Credibility

- Full Disclosure
- Easy to lose - Hard to regain
- Short term role – Council terms
- Long term impact
Budget Process Policies

- Operating plan – 1 to 2 years
- Capital plan – 1 to 5 years
- Links to long-term, comprehensive plan
  - Budget based on performance and outcomes
- Preparation and adoption
- Assigns control and accountability of funds
  - Transfers between funds/departments
  - Budget Amendment process
Revenue Management

• Conservative revenue projection philosophy
• User-based fees and service charges
  • Cost of service
• Property Tax Revenues/Tax Rate
  • Relation to effective rate and rollback rate
  • Portion allocated to Operations vs. Debt
• Administrative Services Charges
  • Transfers between Funds
Expenditure Policies

• Current Funding Basis
  • On-going revenue fund on-going expenses
  • Excess revenue funds 1-time expense
• Purchasing Policy - follows state law
• Prompt payment to vendors
Capital Improvement Program

• Preparation - update 5-Year CIP schedule
  • Citizen involvement
  • At least 5 years forward
  • Identifies plan for funding
  • Includes estimated operational impacts
• Funding must be identified prior to CIP contract being approved
Capital Maintenance Program

- Deferred maintenance increases future capital costs
- On-going capital maintenance is included in operating budget
- Internal Service Funds - “lease” equipment to departments
  - Lease fees fund capital repairs and replacement
Accounting & Financial Reporting

• Provide quarterly/monthly reports to Council
• Outside audit annually of all City accounts
  • Accountable directly to City Council
• Prepare (CAFR)
  • Follow GFOA standards and best practices
Asset Management

• Investment Policy
  • Reviewed annually by Council
  • Confirms to legal requirements
    • Governed by PFIA
  • Required Training
  • Adopted policies
  • Regular reporting - Quarterly

• Fixed Assets
  • Capitalization criteria - $5,000
  • GASB 34 requirements
Debt Management

• Use of Debt Financing
  • Future use against future payment
  • Long-life capital assets
• Affordability Targets
  • Debt per capita
  • Debt as a percent of taxable value
  • Debt service payments as % of current revenues
  • Debt tax rates as percent of total tax rate
• Sale Process
  • Competitive vs. Negotiated
• Full and Continuing Disclosure
Types of Debt

- General Obligation
  - Tax supported and voter approved
- Certificates of Obligation
  - Tax supported
  - Issued by Council after notice process
- Revenue Bonds
  - Repaid through rates
- Self-supporting debt
  - Tax debt PAID FROM OTHER SOURCES
    - Internal borrowings
      - Between Funds within the City
Debt Coverage

- Refers to the number of times the debt service payment would be covered by excess operating revenues, net of operating expense

- Determined by bond covenants
Other Funding Alternatives

• Provides guidelines on alternative funding for new projects
• Grants
  • Documents grant funding process with Council
• Use of Reserve Funds
  • Used for debt management purposes
• Developer Contributions
  • Links to development regulations
• Leases
• Impact Fees
Internal Controls

• Deterrents
  • Stop it Before it Starts
• Detection Controls
  • If Can’t Stop it, Detect it Early
• Actively pursue
• Acknowledge Risks that Arise from Staff Cuts
• Internal Control program / audits
• Written policies reviewed annually
Financial Reserves

• Fund Balance Policy – 25-30%
  • Rainy day fund for unexpected emergency
  • 90 day reserve in General Fund
    • 30 days = “Emergency” Funds
      • Offset sudden tax increase
      • Replenished next budget cycle
    • 60 days = Long-term reserves
• Type A Sales Tax
  • Cities located in counties with less than 500K population
  • Board of Directors – 5
  • Statute does not list requirements
• Type B Sales Tax
  • All cities are eligible
  • Board of Directors – 7
  • Must be residents of the City
Economic Development

• Require cities to establish a corporation to administer the fund

• Must file Articles of Incorporation

• Combined Local Sales Tax cannot exceed 2%
City of New Braunfels Results

• Conservative revenue projections result in excess ending fund balance
• Sales tax revenues dominate property tax
• Upgraded to a AA Bond rating – Standard & Poor’s
• 2nd Fastest growing city in the Country
• Over 10% growth in permit revenues – past three fiscal years
• Over 1,000 new home starts for the past two years
Questions