

TML CITY FINANCIAL SERVICES

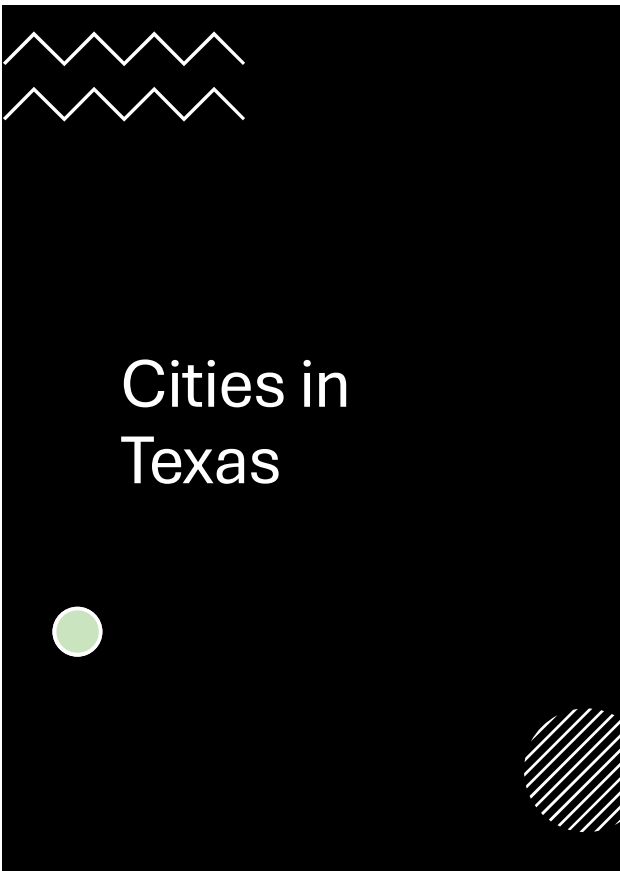
OCTOBER 29, 2025

FINANCIAL BOOT CAMP: CORE SKILLS FOR SMALL CITIES

Introductions

- Martie Simpson,
 - TML Assistant Director of City Financial Services
- Keith Dagen
 - TML Wrangler





There are over 1,200 cities in Texas



State statutes govern the formation of cities – key legislation is found in the Local Government Code but rules for cities are found in multiple state codes (Government, Utility, Tax, etc.)



<https://statutes.capitol.texas.gov/>



Two main types of cities – general law and home-rule

General Law Cities



At incorporation, have at least 200 residents, be less than 10,000 in population and be less than 9 square miles in size



May be incorporated as a town rather than a city



Three types – A, B or C, generally with same powers but differing sizes of governing body



Mayor is the Chief Executive unless a City Administrator is hired



General law cities are limited to the authority in state statutes

Home-Rule Cities

- As general law cities get bigger, they can choose to adopt the home-rule form of government
- Must have at least 5,000 population and citizens must approve a home-rule charter through an election
- Home-rule cities have the authority given to them by their charter as long as it does not conflict with state statutes (broader powers than general law)

City Governance

Mayor-Council

- Mayor is chief executive with powers defined by local charter or ordinances
- Mayor or council sets meeting agendas
- Default for general law cities
- For home-rule cities, also called strong mayor

Council-Manager

- A full-time city manager is the chief executive, and the mayor is the ceremonial head
- City manager has broad administrative authority
- Option for general law cities
- Most common organization for home-rule cities

Governing Documents



Charter (for home-rule cities) – document voted on by citizens giving authority and limitations for governance



Ordinances – adopted by the city council and usually incorporated into a reference document called the Code of Ordinances

* May require multiple “readings” and votes prior to passage



Resolutions – adopted by the city council and generally represent more administrative actions



Your council might adopt an ordinance authorizing a fee and then a resolution setting the value of the fee



Audits

Annual Audit

Local Government Code 103 requires all cities to have an annual audit

The audit must be performed by a licensed certified public accountant

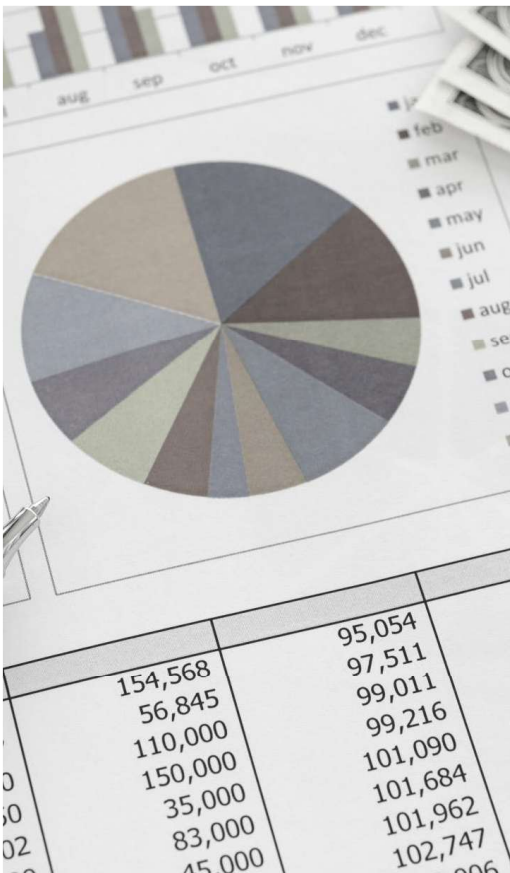
LGC 103 implies that a staff member can “audit” the city’s books but this conflicts with Occupancy Code 901 “Public Accountancy Act”, requiring any audit to be conducted by a CPA who is independent of the organization being audited

Annual Audit (continued)

The audit is required to be completed within 180 days of the fiscal year end (March 31 for September 30 year-ends)

If a government does not complete the audit, the Attorney General can find the city is non-compliant

A non-compliant city cannot adopt a tax rate above the no-new-revenue rate for the year declared non-compliant and any tax year that starts before compliance is achieved



Governmental Accounting

Governmental Accounting Overview

Governments have different needs and purposes than the private sector

Emphasis is on ongoing operations and near-term spending rather than a profit motive

Accountability for resources held by a government is a key to this reporting focus

Governmental Accounting Standards Board (“GASB”) provides authoritative guidance - <https://www.gasb.org/>

Fund Accounting

City finances are organized into funds based on function and purpose

Each fund is a separate, self-contained set of assets, liabilities, revenues and expenses

Each fund operates as a separate entity while being reported on as part of the whole government

Governments may have a single fund or hundreds of them based on the needs of the government

Fund Types

Governmental Funds

- General operations of the government
- Primary revenues are taxes or grants
- Residual of assets over liabilities is called fund balance

Proprietary Funds

- Used for activities that are supported by user fees and service charges
- Residual of assets over liabilities is called net position

Fiduciary Funds

- Used for resources held in a trustee or custodial capacity for outside parties and can't support the government's own operations
- Residual of assets over liabilities is called fiduciary net position
- Not common for cities

Fund Types (continued)

Governmental Funds

- General Fund
- Special Revenue funds
- Debt Service funds
- Capital Project funds
- Permanent funds

Proprietary Funds

- Enterprise funds
- Internal Service funds

Fiduciary Funds

- Private-purpose trusts, pension or employee benefit trusts, investment trusts, custodial funds

General Fund

Primary operating fund of the government

Used for all activities by default unless:

- Required to use another fund due to generally accepted accounting principles (“GAAP”)
- Legal requirements to use another fund
- Sound financial administration necessitates use of another fund

Most transactions are reported in the General Fund

A government can only report one General Fund

Special Revenue Funds

Account for resources that are restricted or committed for a specific purpose, other than debt service or capital projects

Restricted or committed resources must make up a substantial portion of revenues

Restricted = external legal limits (ex. hotel/motel taxes, grants)

Committed = self-imposed limitations by the governing body, not management (ex. golf funds, drainage funds)

Debt Service Funds

Account for resources accumulated for the repayment of principal and interest on long-term general debt

Primary revenues are property taxes and investment income

Capital Project Funds

Account for resources accumulated for major capital outlays

May include repair projects or outlays for new assets

Primary revenue source is bond proceeds

Permanent Funds

Account for resources that are legally restricted such that only the earnings from the fund, not the principal, can be used for the government's own purposes



Not as common for cities – examples include endowment funds or perpetual care funds for cemeteries

Enterprise Funds

Account for activities that operate like a business

Permitted to use if a fee is charged to external users, even if only partial cost recovery

Required to use when debt is backed solely by fees or charges, there is a legal requirement to fully recover costs or a management intent to fully recover costs

Internal Service Funds

Account for goods or services provided to other departments of the city on a cost-reimbursement basis

Should be managed to break-even over time

Examples are fleet funds, warehouses, or self-insurance funds

Measurement Focus

Proprietary Funds use the Economic Resources focus

- All assets, liabilities and deferred inflows/outflows recorded
- Increases in net financial position are revenues or gains
- Decreases in net financial position are expenses or losses

Governmental Funds use the Current Financial Resources focus

- Only record assets, liabilities and deferred inflows/outflows relevant to near-term liquidity
- Increases in net financial position are revenues or other financing sources
- Decreases in net financial position are expenditures or other financing uses

Income Statement Impact

Item	Economic resources?	Current financial resources?
Issuance of long-term debt	No	Yes
Repayment of the principal of long-term debt	No	Yes
Capital outlay	No	Yes
Depreciation/amortization	Yes	No

Proprietary Funds

Governmental Funds

Basis of Accounting

Modified Accrual (Governmental Funds)

- Recognize revenue if it is available to make payments soon after year-end (usually 30 days)
- Recognize expenditures if payment is normally made during the reporting period or soon after year-end
- Practical Impact – transactions are recorded on a cash basis and then year-end journal entries are made to convert to modified accrual

Full Accrual (Proprietary Funds)

- Recognize revenue when earned and measurable
- Recognize expense when the liability is incurred
- Practical Impact – most governments book on a cash basis and then convert to accrual at year-end (utility billings usually accrual year-round)

The New Financial Statement

“Assets + Deferred Outflows
of Resources”

Minus “Liabilities + Deferred
Inflows of Resources”

Equal = “Net Position or
Fund Balance”

Categories of Fund Balance

Fund Balance can be categorized in
several ways:

Nonspendable

Restricted

Committed

Assigned

Unassigned

Each category should be disclosed by
purpose, such as Committed to Public
Safety or Committed to Parks

Categories of Fund Balance (cont.)

Nonspendable	Restricted	Committed
<ul style="list-style-type: none">• Can't be readily converted to cash• Items such as prepaid insurance, inventory, endowment principal	<ul style="list-style-type: none">• Externally enforceable limits on purpose fund can be spent for• Includes items limited by creditors, grantors, enabling legislation	<ul style="list-style-type: none">• Limited by an action of the City Council that can only be rescinded by a similar action no later than the end of the reporting period• Budget adoption is not enough to commit funds since a budget lapses over time

Categories of Fund Balance (cont.)

Assigned	Unassigned
<ul style="list-style-type: none">• Does not require City Council action (management intent)• Includes encumbrances that roll over to a new year	<ul style="list-style-type: none">• Residual balances of a fund• Only the General Fund can have a positive balance• A deficit in any fund is shown as a negative unassigned balance

Categories of Net Position

Three categories

- Net Investment in Capital Assets
- Restricted
- Unrestricted

Net Position is not broken out by purpose, just by category

Restricted and Unrestricted are like the governmental Restricted and Unassigned categories

- Restricted – narrower than the purpose of the proprietary fund (debt service)
- Unrestricted – what's left, any proprietary fund can report



Banking and Collateral



Banking and Collateral

- Local Government Code 105 governs selection of your municipal depository (bank)
- Must use a bank within your community unless your council adopts a written policy allowing for banks outside of your community to compete for your business
- Total depository contract cannot exceed five years

Collateralization of Funds

Banks must be willing to collateralize your funds

FDIC insurance covers accounts up to \$250,000 per ownership category, not by account. Ownership is usually delineated by Tax ID number, so confirm status of your component units, EDC's, etc.

Example - Having ten bank accounts with your depository at \$240,000 each (\$2,400,000 total) means \$2,150,000 is not insured

Collateral requirements are covered under Government Code 2257

Bank Reconciliations

Should be done monthly for all bank accounts

Most important internal control – auditors cannot give an opinion without completed bank recs

Should be done within the next month, preferably within five working days of month-end

Getting behind will cripple the integrity of your financial reporting

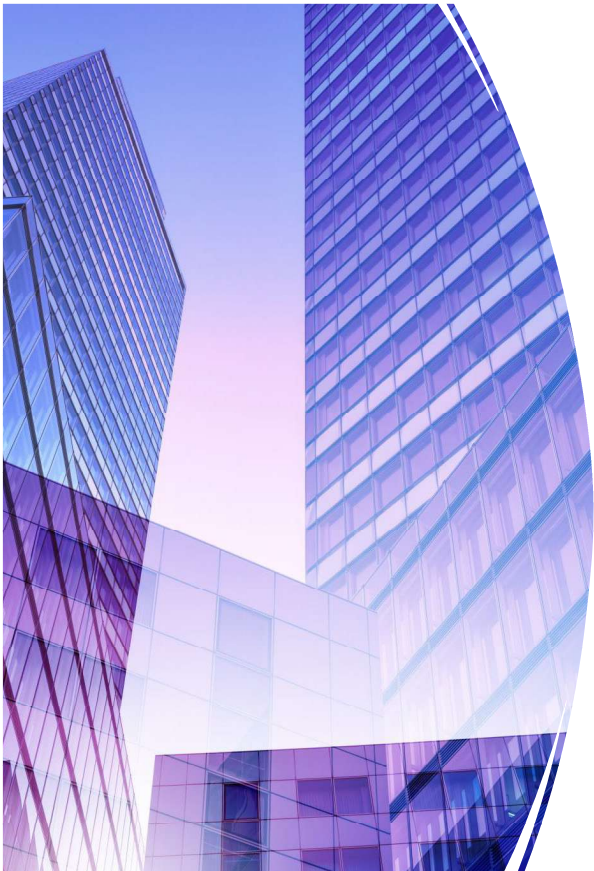
Investments





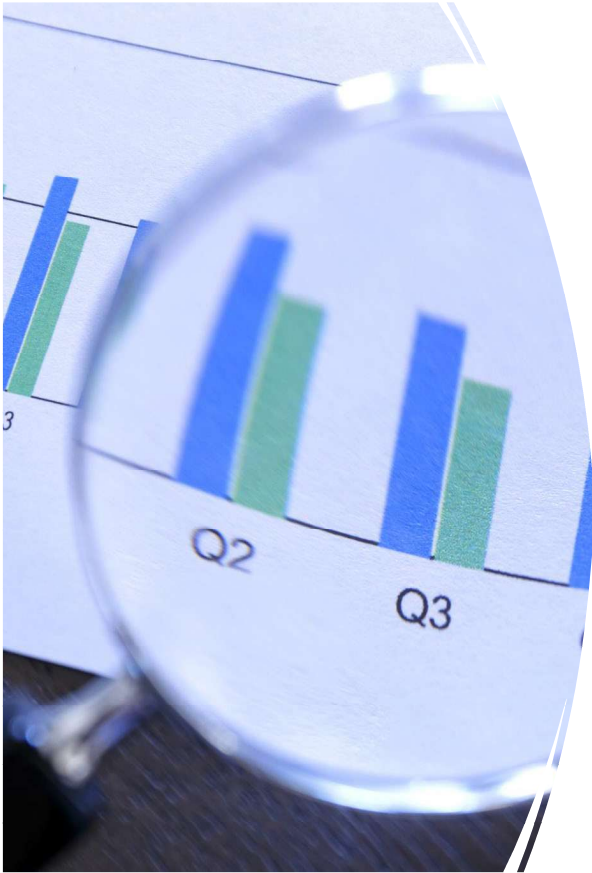
Investing Your Excess Bank Funds

- Investment authority is governed by Government Code 2256, also known as the Public Funds Investment Act (“PFIA”)
- Before you can invest your funds, you must adopt a written investment policy and at least one investment official must attend training on the requirements of PFIA
- All local governments are required to follow PFIA even if they have no investments beyond their depository account



Investment Policy Basics

- Must be written and annually approved by your city council
- Emphasize safety of principal and liquidity
- Designate investment officials and address their capabilities
- Address authorized investments, yield and maturity restrictions, portfolio diversification



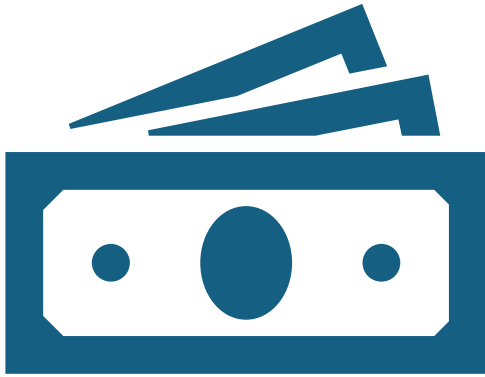
Investment Policy Basics (cont.)

- Document investment strategies that are suitable for your city
- Provide a time frame for providing quarterly investment reports to your city council
- Require an annual review of the policy and investment matters by an investment committee



PFIA Training

- All investment officials must get 10 hours of training within 12 months of assuming their duties
- Attend 8 hours of training every two years after receiving the initial training
- Training must be from an independent source, not someone you invest with
- If you only invest in certificates of deposit or interest-bearing bank accounts, you don't have to take the 8-hour update training but must take the initial training



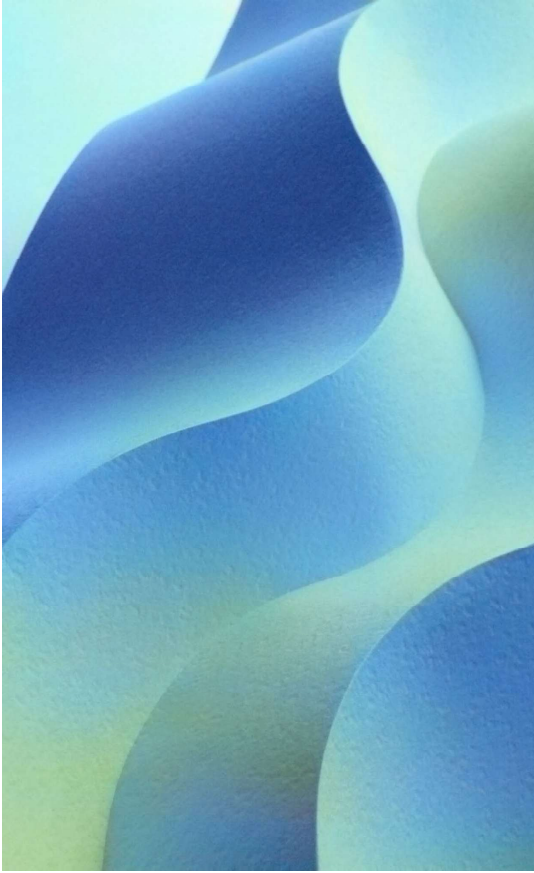
Debt Basics

Debt Overview

Local governments have limited authority to issue debt for public purposes to finance capital improvements

Local governments can issue anticipation notes or commercial paper to help with short-term financing needs

Local governments **can not** issue debt to finance budget shortfalls or for ongoing operations



Debt Overview (cont.)

Debt is not a bad thing nor is it a good thing – it is a financing tool

Debt increases the cost of a project due to interest payments, but paying for something today may save money in the long-run due to inflationary costs

Debt can spread out the cost of capital improvements so that multiple generations who benefit also pay for a portion of the improvement

General Obligation Bonds ("GO's")

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

General Obligation Bonds (mechanics)

- Once a GO is successfully voted on, the city council can issue the bonds with no additional notices

Certificates of obligation ("CO's")

- Voter approval is not required but the use of proceeds is limited
- Secured by property taxes and a limited pledge of a second revenue stream
- Consider using when debt will minimally impact tax rates, the project is normal or customary, or an emergency need exists
 - Streets, fire equipment, roof repair, waterline replacement



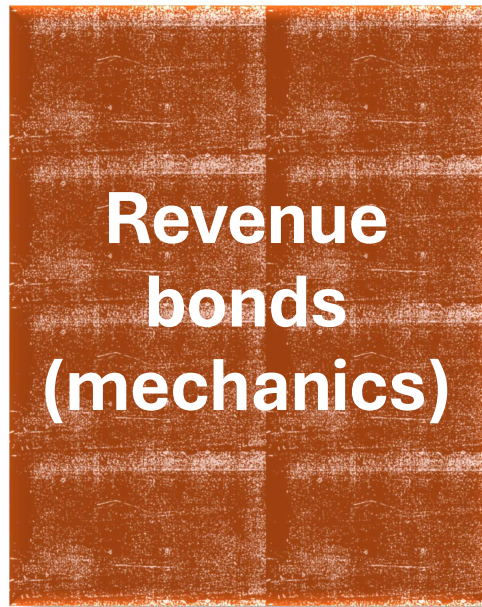
Certificates of obligation (mechanics)

- City council must pass a Notice of Intent resolution and then publish it in the newspaper two times
- First newspaper publication must be at least 45 days prior to actual issuance of the debt
- Citizens may petition to stop the sale
- Can't issue a CO to pay for an item that failed a GO election within the last three years



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
- Consider using when revenue is sufficient to pay debt service
- Property tax rate is not affected
- Example - Water or sewer plant expansion



Revenue bonds (mechanics)

- Revenue bonds require that your net revenue stream be able to cover the next year's debt payment by a fixed percentage (usually 1 to 1.5x coverage)
- Revenue bonds often require you to set aside a reserve equal to the highest annual debt service payment you will make – most cities issue extra debt for this
- Revenue bonds typically have higher interest costs than CO's
- These added costs have significantly reduced revenue bond issuance in recent years

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Property Tax

Property Tax Basics

Governed by Chapter 26 of the Texas Tax Code

- Every legislative session the rules change slightly to drastically

Premised on concept of Truth in Taxation

- Maximum transparency in levying a tax
- Maximum opportunities for public awareness and input
- Explicit brakes on amounts that cities can raise without formal elections

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 (in theory)

Voter-approval tax rate (VAR)

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

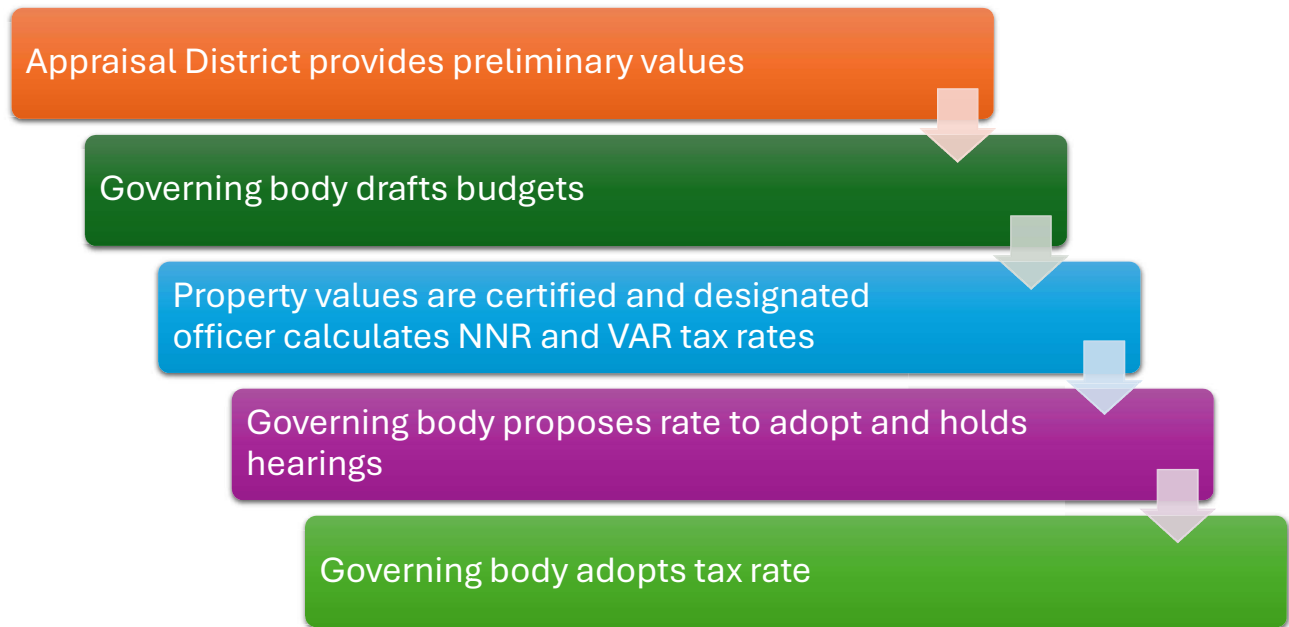
Unused increment rate (UIR)

- Foregone revenue where adopted rate revenue was less than VAR revenue for three prior years, total revenue foregone is converted to a UIR based on current year values

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

- Rate that will generate an additional \$500,000 of new revenue (“fire truck” exception)

Tax rate adoption process



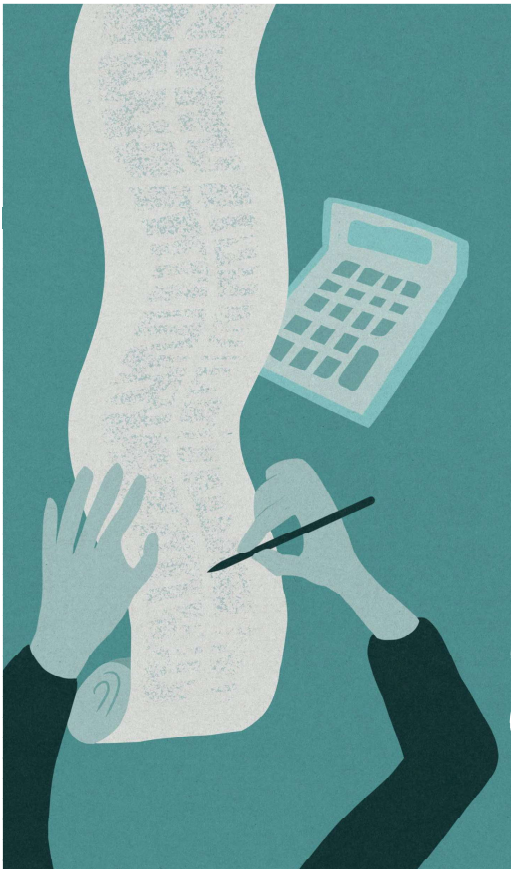
Tax rate adoption timeline

July 25	Chief Appraiser certifies the appraisal roll Designated officer calculates NNR and VAR tax rates
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
Public hearing notice + 5 days	If the proposed rate exceeds NNR, governing body must hold a public hearing at <u>least five days</u> after notice is given Only one hearing required, rate can be adopted at conclusion
Late August or September 30	A rate that exceeds VAR must be adopted 71 days before election September 30 is last day to adopt if rate doesn't exceed VAR* 60 percent of governing body must vote in favor if exceeding NNR

* Or 60 days after receipt of certified tax values, whichever is later

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



Municipal Budgets

Why Prepare a Budget?

It's required by law (Local Government Code 102)

It sets the City Council's policy and provides accountability to them

It gives the authority for and control of spending

It determines the tax rate and fee revenues needed for operations

What Must Be Included in the Budget? (Local Govt Code 102)

- 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 spending on 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
- Anything else your charter requires



Budget Adoption (Local Government Code 102)

Proposed Budget

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

Budget Hearing

- At least 15 days after the budget is filed and before the date the tax levy is made
- 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 than prior year



Purchasing
Fundamentals

Purchasing Fundamentals

State statutes govern how local governments can purchase items (Local Government Code 252 and others)

The procurement process should be open, fair and transparent

Emphasis on giving a chance to historically underutilized businesses (“HUB” vendors”)

Purchasing Fundamentals (cont.)

With limited exceptions, before entering a contract for goods or services requiring a total expenditure of \$100,000, a city must use a formal, competitive procurement process as outlined in state statutes

Amounts below \$100,000 are subject to the city’s Purchasing policy, Charter or Ordinances, subject to some state rules

Some city policies require competitive procurement at lower levels; in that case, the city limits prevail

A city policy can’t be less restrictive than state law



Historically Underutilized Businesses

- For purchases between \$3,000 and \$100,000, a city must contact at least two HUB vendors within the county
- A vendor is only a HUB vendor if it is on the Comptroller's Centralized Master Bidders List - <https://mycpa.cpa.state.tx.us/tpasscmbsearch/tpasscmbsearch.do>
- If there are more than two HUB vendors in the county, a city can rotate opportunities

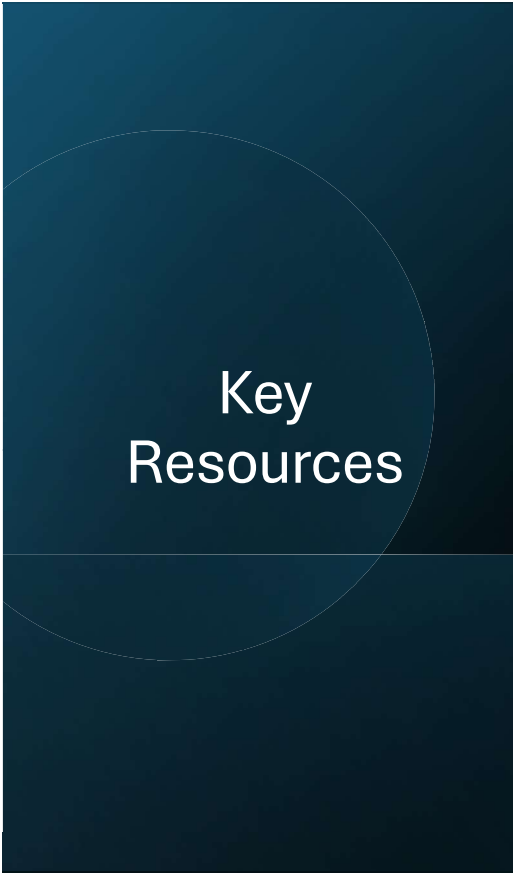
Ethics in Procurement

- City Council members, the city's chief executive and anyone involved in procurement must file a conflicts disclosure statement if they or family members (in certain situations) receive ongoing funds, gifts or are related to a vendor
- Vendors must file similar forms with the city
- The statement must be filed with the records administrator (usually the city secretary)
- Failure to file may result in a misdemeanor prosecution
- See Local Government Code 176

Ethics in Procurement (cont.)

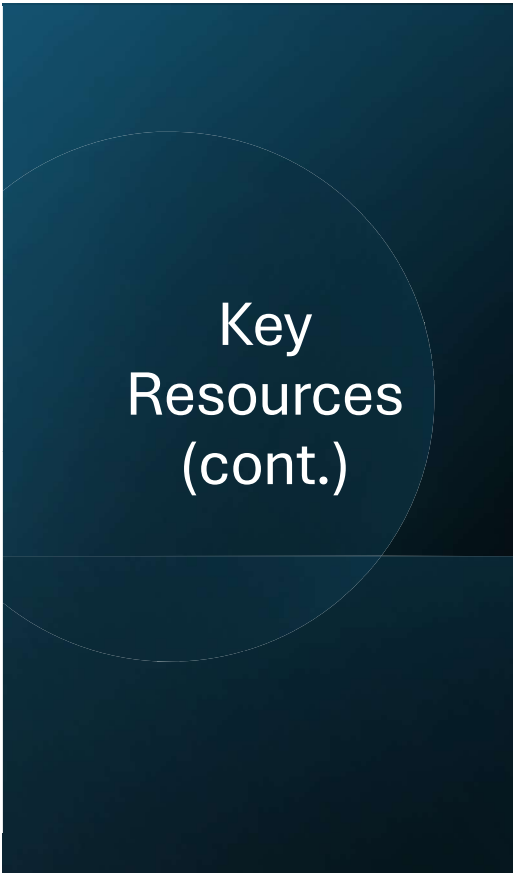
- City council members may not vote on or discuss a matter for which they have a conflict of interest
- See Local Government Code 171
- For more info see <https://www.tml.org/284/Ethics>

Resources



Key Resources

- **Texas Municipal League publications**
 - Economic Development Handbook
 - Texas Municipal Procurement Laws Made Easy
 - Types of Texas Cities
 - Website Posting Requirements for a City
- **Texas Municipal League trainings**
 - Public Funds Investment Act
 - Budget and Tax Rate Workshop
 - Boots, Budgets and Balance Sheets Workshop
 - December 9-10, Nacogdoches



Key Resources (cont.)

- **Government Finance Officers Association of Texas**
 - Spring and Fall Conferences
 - Budget Academy
 - Regional Meetings
- **TML City Financial Services**
 - Boot Camp – Wranglers dispatched to your community for hands-on training and support

Questions?