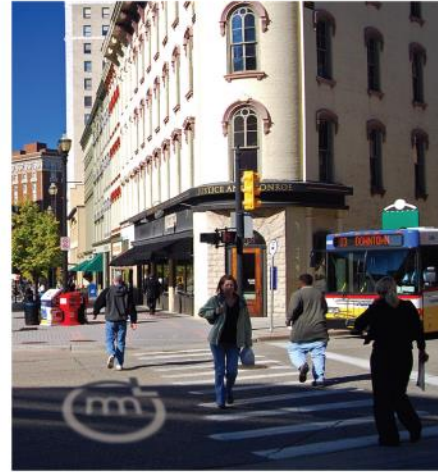


Municipal Finance for Non-Finance Municipal Officials



michigan municipal league
Better Communities. Better Michigan.



- Governmental Fund types
- Understanding Financial Statements
 - Balance Sheet
 - Income Statement
- Allowable expenses
- Municipal Budgeting
 - Setting tax rates
- Revenue Sources
 - Property Taxes
 - Revenue Sharing
- Long Range Planning Considerations
- Rate Setting

Governmental Funds

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

Proprietary Funds

- Enterprise Fund
- Internal Service Fund

Fiduciary Funds

- Pension and Trust Funds
- Agency Funds



Why is there a separate set of accounting standards for government versus business?

- They have different purposes, processes of generating revenues, stakeholders, budgetary obligations, and propensity for longevity.
- These differences require separate accounting and financial reporting standards in order to provide information to meet the needs of stakeholders to assess government accountability and to make political, social, and economic decisions.

Some of the most significant GASB standards that address differences in governmental and business financial reporting include:

- The measurement and recognition of certain types of revenues (for example, taxes and grants),
- Capital assets provide services to citizens rather than contribute to future cash flows,
- The use of fund accounting and budgetary reporting to meet public accountability needs,
- The use of accountability principles rather than equity control to define the financial reporting entity, and
- Treatment of pensions and other postemployment benefits to allocate cost of services equitably to applicable periods.



Statement 34 establishes financial reporting standards for state and local governments, and establishes that the basic financial statements and required supplementary information (RSI) for general purpose governments should consist of:

- Management's discussion and analysis (MD&A), and the basic financial statements which include: the Government-wide financial statements, Fund financial statements, Notes to the financial statements, and the Required supplementary information (RSI).



For governments there are two types of financial statements:

- Fund Based
 - Statement of Revenues, Expenditures and Changes in Fund Balance (income statement)
 - Balance Sheet

- Government Wide
 - Statement of Activities
 - Statement of Net Assets



-54-

City of Alpena

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2012

	General	Major Street	Local Street
REVENUES			
Taxes	\$ 4,101,779	\$ -	\$ -
Licenses and permits	163,870	-	-
State revenue	1,359,801	679,604	223,031
Federal revenue	23,813	-	-
Local grant revenue	778,347	-	-
Charges for services	2,171,389	3,199	130
Investment income and rents	35,470	1,719	1,382
Fines and forfeitures	20,251	-	-
Other	290,711	-	4,179
Total revenues	<u>8,945,431</u>	<u>684,522</u>	<u>228,722</u>
EXPENDITURES			
Current operations			
General government	1,933,590	-	-
Public safety	4,598,400	-	-
Public works	580,662	461,638	540,802
Recreation and culture	623,847	-	-
Debt service			
Principal retirement	5,373	-	-
Interest and fees	2,163	-	-
Total expenditures	<u>7,744,035</u>	<u>461,638</u>	<u>540,802</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>1,201,396</u>	<u>222,884</u>	<u>(312,080)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	60,000	275,000
Transfers out	(580,623)	(75,000)	-
Total other financing sources (uses)	<u>(580,623)</u>	<u>(15,000)</u>	<u>275,000</u>
NET CHANGE IN FUND BALANCES	620,773	207,884	(37,080)
FUND BALANCES, beginning of the year	<u>2,474,965</u>	<u>209,236</u>	<u>386,287</u>
FUND BALANCES, end of the year	<u>\$ 3,095,738</u>	<u>\$ 417,120</u>	<u>\$ 349,207</u>



City of Alpena

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2012

	General	Major Street	Local Street
ASSETS			
Pooled cash and investments	\$ 1,635,323	\$ 422,850	\$ 355,100
Cash and cash equivalents	1,364,484	-	-
Investments - at fair value	291,357	-	-
Receivables (net of allowance for for uncollectible accounts)	515,628	-	-
Taxes receivable	4,946	-	-
Special assessments receivable	93,343	3,199	390
Interest receivable	3,596	-	-
Due from other governmental units	38,422	4,887	-
Due from other funds	-	-	-
Total assets	\$ 3,947,099	\$ 430,936	\$ 355,490
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 147,760	\$ 8,465	\$ 3,909
Accrued payroll	94,351	2,152	1,984
Due to other funds	337,646	-	-
Due to component units	22,204	-	-
Deferred revenue	249,400	3,199	390
Total liabilities	851,361	13,816	6,283
Fund Balances			
Nonspendable:			
Perpetual lot care	-	-	-
Restricted for:			
Special revenue funds	-	217,120	349,207
Debt service	-	-	-
Capital projects	-	-	-
Committed for:			
Budget stabilization	5,000	-	-
Building inspection	50,068	-	-
Capital outlay	359,912	200,000	-
Unassigned	2,680,758	-	-
Total fund balances	3,095,738	417,120	349,207
Total liabilities and fund balances	\$ 3,947,099	\$ 430,936	\$ 355,490

City of Alpena

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs:				
Primary Government:				
Governmental activities:				
General government	\$ 3,230,508	\$ 1,869,049	\$ 69,436	\$ -
Public safety	4,792,773	1,519,167	778,537	9,475
Public works	2,785,725	44,027	902,635	-
Recreation and culture	968,657	41,808	-	151,054
Interest on long-term debt	87,962	-	-	-
Total governmental activities	<u>11,865,625</u>	<u>3,474,051</u>	<u>1,750,608</u>	<u>160,529</u>
Business-type activities:				
Sewage	2,156,398	2,209,450	-	-
Water	2,042,470	1,860,186	-	-
Total business-type activities	<u>4,198,868</u>	<u>4,069,636</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 16,064,493</u>	<u>\$ 7,543,687</u>	<u>\$ 1,750,608</u>	<u>\$ 160,529</u>
Component Units:				
Downtown Development Authority No.2	\$ 148,772	\$ -	\$ 2,350	\$ -
Downtown Development Authority No.5	19,487	-	-	-
Brownfield Redevelopment Authority	223,512	-	-	-
Economic Development Corporation	-	-	-	-
	<u>\$ 391,771</u>	<u>\$ -</u>	<u>\$ 2,350</u>	<u>\$ -</u>

General revenues:

Property taxes, levied for general purposes

Property taxes, levied for debt service

State shared revenues - unrestricted

Investment earnings

Total general revenues

Change in net assets

Net assets - beginning of the year

Net assets - end of the year



STATEMENT OF NET ASSETS

June 30, 2012

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Pooled cash and investments	\$ 4,691,132	\$ 1,539,902	\$ 6,231,034	\$ 32,927
Cash and cash equivalents	2,338,833	-	2,338,833	263,392
Investments - at fair value	806,426	930,342	1,736,768	-
Receivables (net of allowance for uncollectible accounts)	693,696	960,273	1,653,969	99
Due from primary government	-	-	-	22,204
Inventories	262,640	-	262,640	-
Noncurrent assets:				
Capital assets not being depreciated	3,124,183	119,302	3,243,485	95,786
Capital assets, net of accumulated depreciation	23,073,314	27,490,381	50,563,695	67,626
Total assets	34,990,224	31,040,200	66,030,424	482,034
LIABILITIES				
Accounts payable	169,878	156,734	326,612	48
Accrued payroll	100,454	398	100,852	689
Accrued interest payable	21,266	46,076	67,342	97
Due to component units	22,204	-	22,204	-
Noncurrent liabilities				
Due within one year				
Compensated absences	73,153	-	73,153	-
Bonds and loans	131,290	615,000	746,290	5,038
Due in more than one year				
Compensated absences	243,316	-	243,316	-
Bonds and loans	1,643,810	8,008,819	9,652,629	11,317
Net OPEB obligation	1,394,081	-	1,394,081	-
Total liabilities	3,799,452	8,827,027	12,626,479	17,189
NET ASSETS				
Invested in capital assets, net of related debt	24,422,397	18,985,864	43,408,261	147,057
Restricted for:				
Inventories	262,640	-	262,640	-
Perpetual lot care	887,971	-	887,971	-
Streets and highways	769,916	-	769,916	-
Debt service	17,653	846,586	864,239	-
Capital projects	1,366,400	400,000	1,766,400	-
Budget stabilization	5,000	-	5,000	-
Building inspection	50,068	-	50,068	-
Unrestricted	3,408,727	1,980,723	5,389,450	317,788
Total net assets	\$ 31,190,772	\$ 22,213,173	\$ 53,403,945	\$ 464,845

See accompanying notes to financial statements.

Limits on Expenditures

- Except as otherwise provided in this constitution, no city or village shall have the power to loan its credit for any private purpose or, except as provided by law, for any public purpose.
- The credit of the state shall not be granted to, nor in aid of any person, association or corporation, public or private, except as authorized in the constitution.
- Local governments have no inherent powers and possess only those limited powers which are expressly conferred upon them by the State Constitution or State statutes or which are necessarily implied therefrom.
- Local units of government derive their powers of taxation from the legislature and such power cannot be exercised except in pursuance of express statutory authority.
- Provisions specified in a local unit's Charter or Ordinance must be followed when those procedures are more restrictive than the general statute.

Is this allowable?

- Contributions to churches, veterans, non-profit organizations.
- Payment of funeral expenses for a person injured on government property.
- Donations to a private ambulance or EMS service not under contract with the governmental unit.
- Donations, including use of property or equipment to Little League, Scouts, Big Brothers/Sisters.
- Donations to community organizations.
- Expenses for private road construction or maintenance.
- Office refreshments, picnics.
- Presents to officials and employees or retirement recognition events.
- Flowers to the sick or departed.
- Mileage of officials and employees to and from their residence to the city, township or village hall, county building or meeting rooms.

Definition of a Municipal Budget

- A budget is a plan of financial operation for a given period of time. It includes an estimate of proposed expenditures coupled with the proposed means of financing them.
- The budget should be seen as a document that is generated during the planning phase. Ultimately, when adopted this is the financial plan of the municipality.
- In the State of Michigan, all General and Special Revenue Funds are required by law to be budgeted annually.

Governmental Funds

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

Proprietary Funds

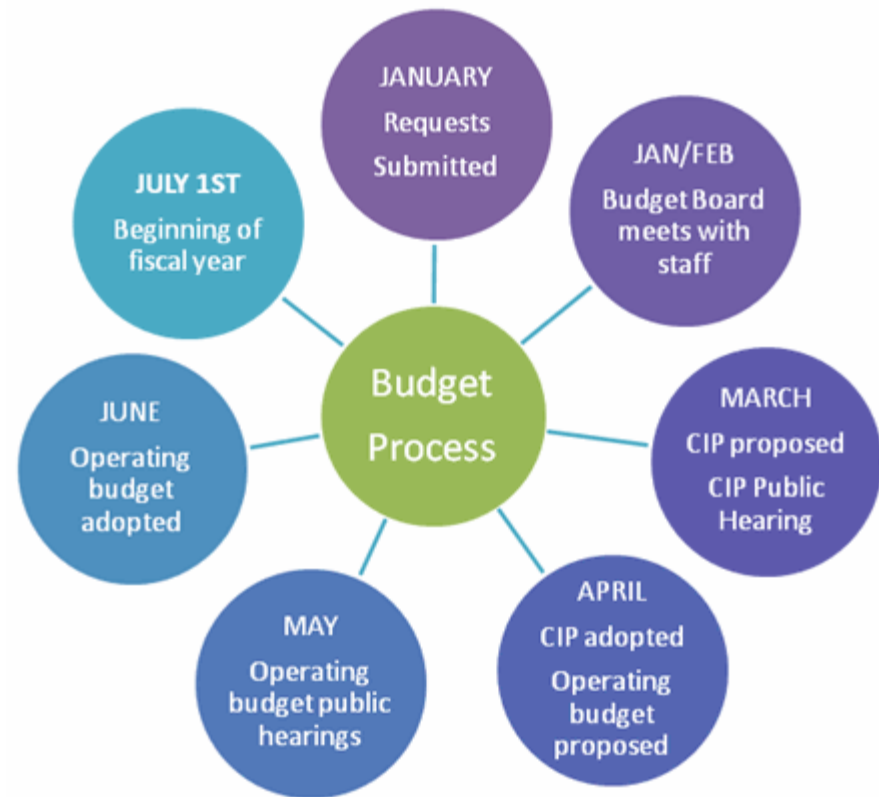
- Enterprise Fund
- Internal Service Fund

Fiduciary Funds

- Pension and Trust Funds
- Agency Funds

Stages of a Municipal Budget

- The annual budget process involves the following three phases:
 - Preparation
 - Adoption
 - Execution



Required Data to be included in the Budget:

- Prior year actual revenues & expenditures;
- Current year estimated revenues & expenditures;
- Upcoming year proposed revenues & expenditures;
- Beginning and ending fund balance for each year;
 - Ending fund balance must be positive
- An estimate of the amounts needed for deficiency, contingent, or emergency purposes;
- Other data relating to fiscal conditions that may be useful in considering the financial needs of the local unit.



City/Village in Michigan General Fund Sample 2012-2013 Budget

DESCRIPTION	2010/11 ACTUAL	2011/12 ESTIMATED ACTUAL	2012/13 PROPOSED BUDGET
Revenue:			
Property Taxes	\$2,420,000	\$2,500,000	\$2,550,000
Licenses and Fees	53,335	54,120	55,202
Other	148,500	149,200	152,184
Total Revenue	<u>\$ 2,621,835</u>	<u>\$ 2,703,320</u>	<u>\$ 2,757,386</u>
Expenditures:			
Trustees	\$ 41,593	\$ 42,900	\$ 43,758
Supervisor	153,507	155,600	160,268
Finance	153,510	154,605	156,151
Police	1,254,000	1,291,620	1,317,452
Other General Expenses	303,400	307,500	316,725
Total Expenditures	<u>\$ 1,906,010</u>	<u>\$ 1,952,225</u>	<u>\$ 1,994,354</u>
Budgeted Net Revenue (Expenditures)	<u>\$ 715,825</u>	<u>\$ 751,095</u>	<u>\$ 763,032</u>
Fund Balance at June 30, 2011 (Audited)			\$4,378,200
Estimated Change in Fund Balance at June 30, 2012			751,095
Fund Balance at June 30, 2012			<u>\$ 5,129,295</u>
Estimated Change in Fund Balance at June 30, 2013			763,032
Estimated Fund Balance at June 30, 2013			<u>\$5,892,327</u>

Legal Requirements for a Budget

- An annual budget is required by Public Act 2 of 1968, as amended. Public Act 2 differentiates between the budget document and the General Appropriations Act.
- P.A. 621 of 1978 requires that a budget appropriation must be in place before a governmental unit can commit to spending money.
- The budget document is the informational package that is put together by the Chief Administrative Officer for the governing body.
- The resolution adopting it is referred to as the “General Appropriations Act (GAA).”



- The General Appropriations Act (GAA) represents the legal authority for local officials to provide the level of services agreed upon by the governing body.
- A GAA is required for any General Fund and any Special Revenue Funds; it would violate P.A. 2 to commit the local unit to purchase goods or services from general fund resources, or from any special revenue fund, unless there is a budget in place with an appropriation that covers the expenditure.
- This is not the ultimate approval for any specific purchase. Individual purchases are subject to the local unit's purchasing policies (approval of prices, amounts, vendors, etc.).



The GAA should also include:

- Property tax levy
- Estimated revenues and authorized appropriations “in conformance” with the Uniform Chart of Accounts
- Specific roles, responsibilities and powers of elected and appointed officials
- Detailed schedule of the adoption AND the amendment process
- Legal level of control
- Prescribed consequences for violation of the GAA



Who?

- Legislative Body
- Chief Admin Officer
- Finance Director/Department
- Department Heads/Directors



What kind of data can/should be reported?

- Balance Sheet
- Revenue vs. budget
- Expenditures vs. budget
- Special items
 - Good news
 - Bad news
 - Actions needed
 - Actions taken
 - Unexpected items



Sample Budget Report - Annual Basis
For the six months ended sometime

City/Village in Michigan
General Fund

	Annual Budget	YTD	Variance	Explanation of Variance
Revenue:				
Property taxes	\$2,500,000	\$2,230,000	\$ (270,000)	Taxes collected early in the year
Interest	75,000	30,000	(45,000)	Interest rate low on fixed income
Other	25,000	13,000	(12,000)	
Total Revenue	\$2,600,000	\$ 2,273,000	\$ (327,000)	
Expenditures:				
Legislative	75,000	38,000	37,000	
Clerk	80,000	52,000	28,000	November election
Treasurer	85,000	42,000	43,000	
Public safety	1,670,000	1,020,000	650,000	Purchased new police cars
Public works	500,000	242,000	258,000	Expenses higher in winter
Other	200,000	102,000	98,000	
Total Expenditures	2,610,000	1,496,000	1,114,000	
Net revenue (expenditures)	\$ (10,000)	\$ 777,000	\$ 787,000	
Fund balance - Beginning	500,000	500,000	500,000	
Fund balance - Ending	\$ 490,000	\$ 1,277,000	\$1,287,000	



Sample Budget Report - Prorated Basis
For the six months ended sometime

City/Village in Michigan
General Fund

	<u>Annual Budget</u>	<u>Prorated Budget</u>	<u>YTD</u>	<u>Variance</u>	<u>Explanation of Variance</u>
Revenue:					
Property taxes	\$ 2,500,000	\$ 1,250,000	\$ 2,230,000	\$ 980,000	Taxes collected early in the year
Interest	75,000	37,500	30,000	(7,500)	Interest rate low on fixed income
Other	25,000	12,500	13,000	500	
Total Revenue	\$ 2,600,000	\$ 1,300,000	\$ 2,273,000	\$ 973,000	
Expenditures:					
Legislative	75,000	37,500	38,000	(500)	
Clerk	80,000	40,000	52,000	(12,000)	November election
Treasurer	85,000	42,500	42,000	500	
Public safety	1,670,000	835,000	1,020,000	(185,000)	Purchased new police cars
Public works	500,000	250,000	242,000	8,000	Expenses higher in winter
Other	200,000	100,000	102,000	(2,000)	
Total Expenditures	2,610,000	1,305,000	1,496,000	(191,000)	
Net revenue (expenditures)	\$ (10,000)	\$ (5,000)	\$ 777,000	\$ 782,000	
Fund balance - Beginning	500,000	500,000	500,000	500,000	
Fund balance - Ending	<u>\$ 490,000</u>	<u>\$ 495,000</u>	<u>\$ 1,277,000</u>	<u>\$ 1,282,000</u>	



Sample Budget Report - Percentage Basis
For the six months ended sometime

City/Village in Michigan
General Fund

	Annual Budget	YTD	% of Budget Used	Explanation of Variance
Revenue:				
Property taxes	\$2,500,000	\$2,230,000	89%	Taxes collected early in the year
Interest	75,000	30,000	40%	Interest rate low on fixed income
Other	25,000	13,000	52%	
Total Revenue	\$2,600,000	\$ 2,273,000	87%	
Expenditures:				
Legislative	75,000	38,000	51%	
Clerk	80,000	52,000	65%	November election
Treasurer	85,000	42,000	49%	
Public safety	1,670,000	1,020,000	61%	Purchased new police cars
Public works	500,000	242,000	48%	Expenses higher in winter
Other	200,000	102,000	51%	
Total Expenditures	2,610,000	1,496,000	57%	
Net revenue (expenditures)	\$ (10,000)	\$ 777,000		
Fund balance - Beginning	500,000	500,000		
Fund balance - Ending	\$ 490,000	\$ 1,277,000		



Sample Budget Report - Annual and Percentage Basis
For the six months ended sometime

City/Village in Michigan
General Fund

	<u>Annual Budget</u>	<u>YTD</u>	<u>Variance</u>	<u>% of Budget Used</u>	<u>Explanation of Variance</u>
Revenue:					
Property taxes	\$2,500,000	\$2,230,000	\$ (270,000)	89%	Taxes collected early in the year
Interest	75,000	30,000	(45,000)	40%	Interest rate low on fixed income
Other	25,000	13,000	(12,000)	52%	
Total Revenue	\$2,600,000	\$ 2,273,000	\$ (327,000)	87%	
Expenditures:					
Legislative	75,000	38,000	37,000	51%	
Clerk	80,000	52,000	28,000	65%	November election
Treasurer	85,000	42,000	43,000	49%	
Public safety	1,670,000	1,020,000	650,000	61%	Purchased new police cars
Public works	500,000	242,000	258,000	48%	Expenses higher in winter
Other	200,000	102,000	98,000	51%	
Total Expenditures	2,610,000	1,496,000	1,114,000	57%	
Net revenue (expenditures)	\$ (10,000)	\$ 777,000	\$ 787,000		
Fund balance - Beginning	500,000	500,000	500,000		
Fund balance - Ending	\$ 490,000	\$ 1,277,000	\$1,287,000		

What is a Fund Balance Policy?

What are the goals of the community?

- Public Safety
- Recreation
- Roads
- New services
- Status Quo
- Survival

Formula for property taxes

- Taxable Value times Millage Rate
- Sounds simple – right?
 - Headlee
 - Prop A

Personal Property Taxes are changing

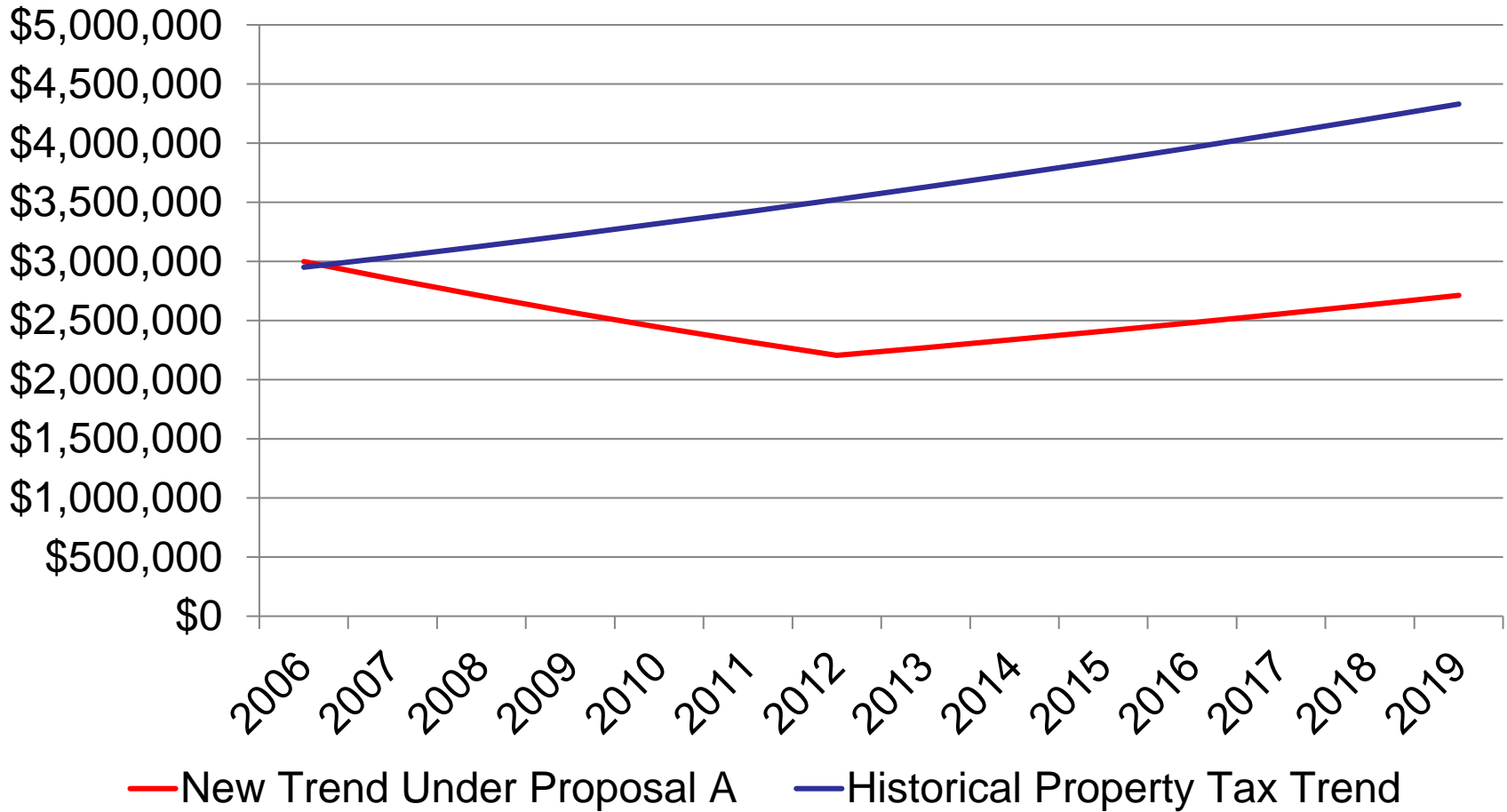
- Reimbursement Distributions
- Dynamic being implemented
- Possible future changes

Millage Rate Considerations

- Headlee Rollback
- Value declines due to COVID
- Expiring Millage's
- New Millage's?
 - Additional operating millage's
 - Other millage authorized in State statutes
 - Voted debt
- Are you levying at your Headlee maximum?
- Headlee override – requires a vote of the people

New Property Tax Reality

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Two components to Revenue Sharing

- Constitutional
- Statutory

Revenue Sharing resources

- https://www.michigan.gov/treasury/0,4679,7-121-1751_2197_58826---,00.html

Estimated payments

- <https://treas-secure.state.mi.us/apps/findrevshareinfo.asp>

Required Documents/Reporting

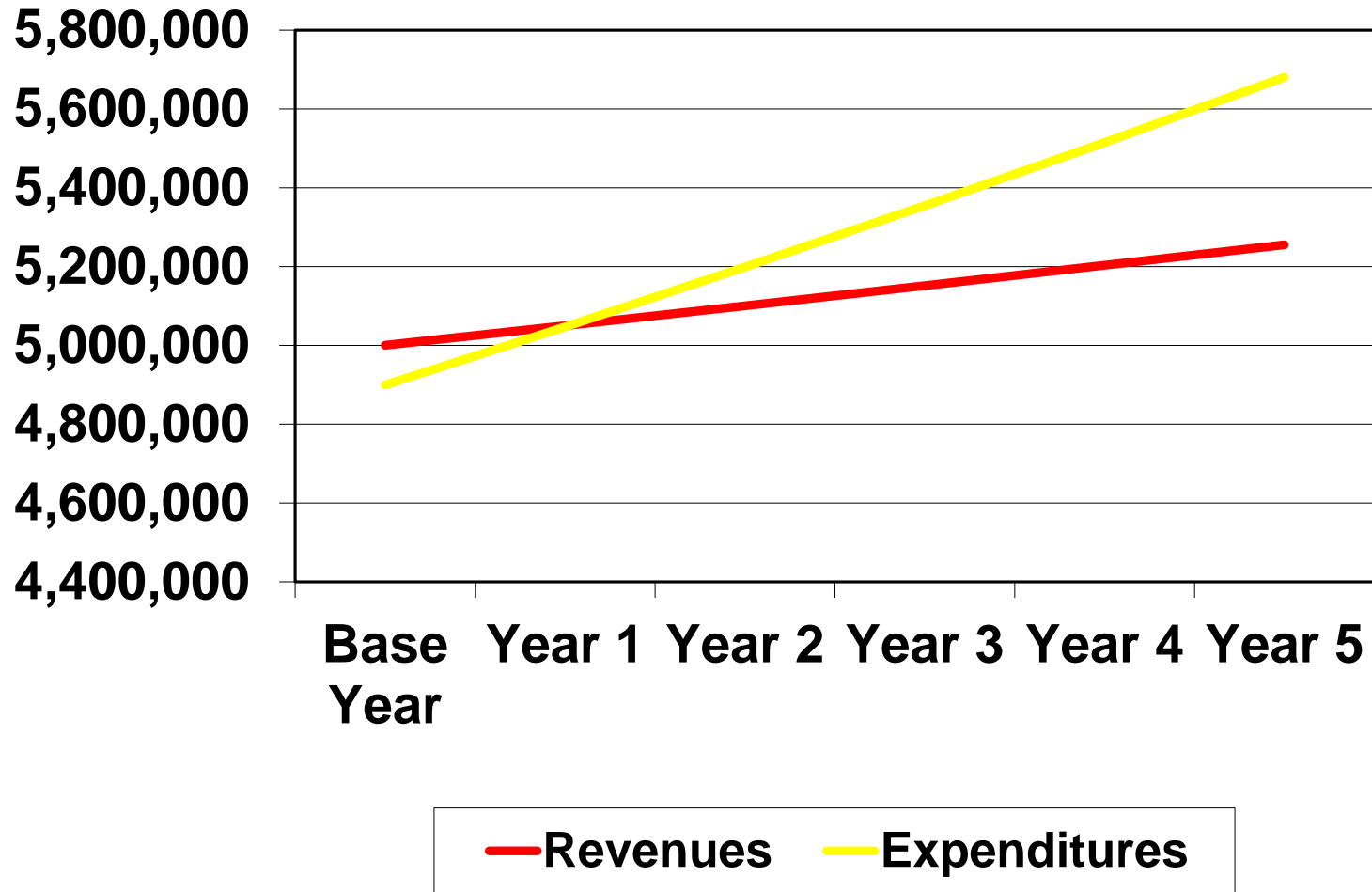
- City, Village, and Township Revenue Sharing and County Incentive Program Certification (form 4886)
- Citizen's Guide
- Performance Dashboard
- Debt Service Report (all funds)
- Projected Budget Report (minimum General Fund)



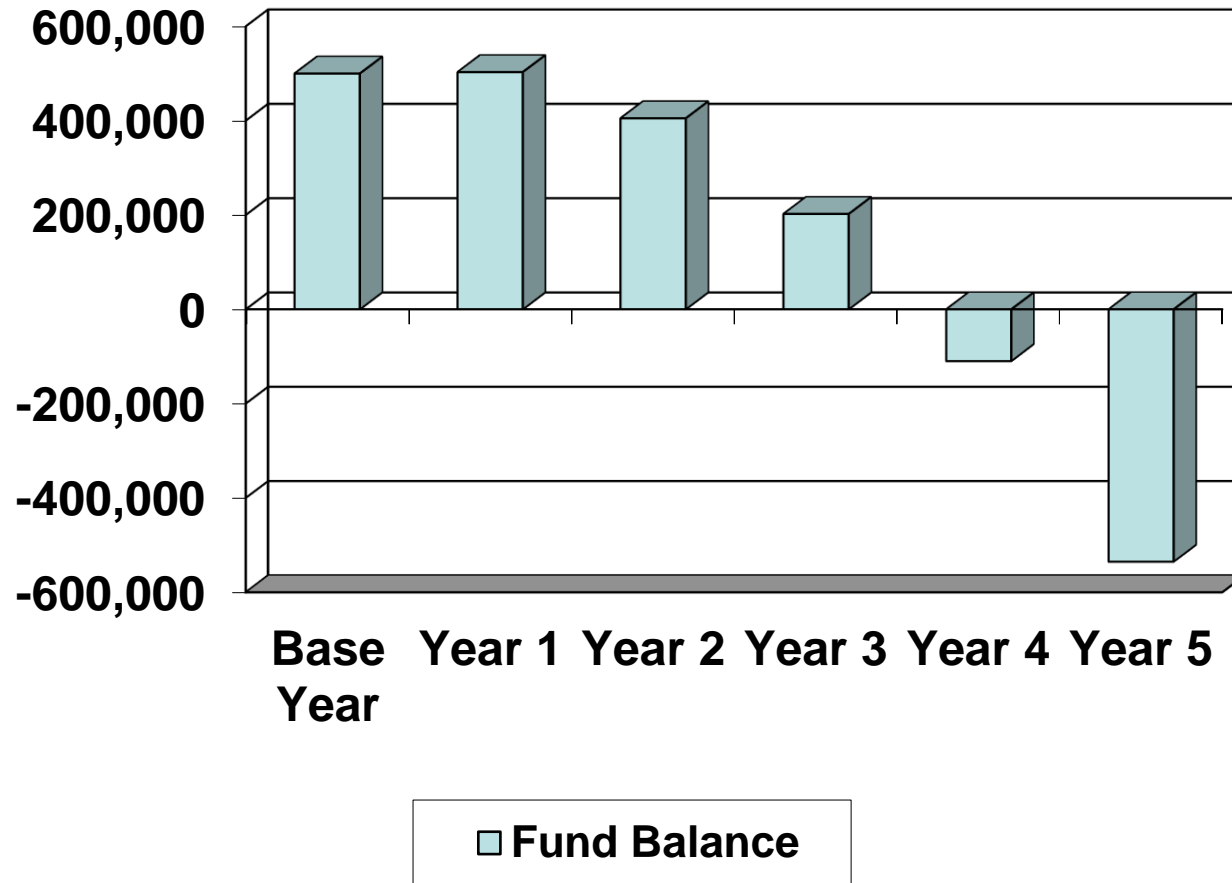
Assumptions

- \$5,000,000 general fund budget
- Revenue increasing at 1% per year
- Expenditures increasing at 3% per year
- Fund balance is \$500,000

5-Year Revenue and Expenditure Projections



Projected Fund Balance

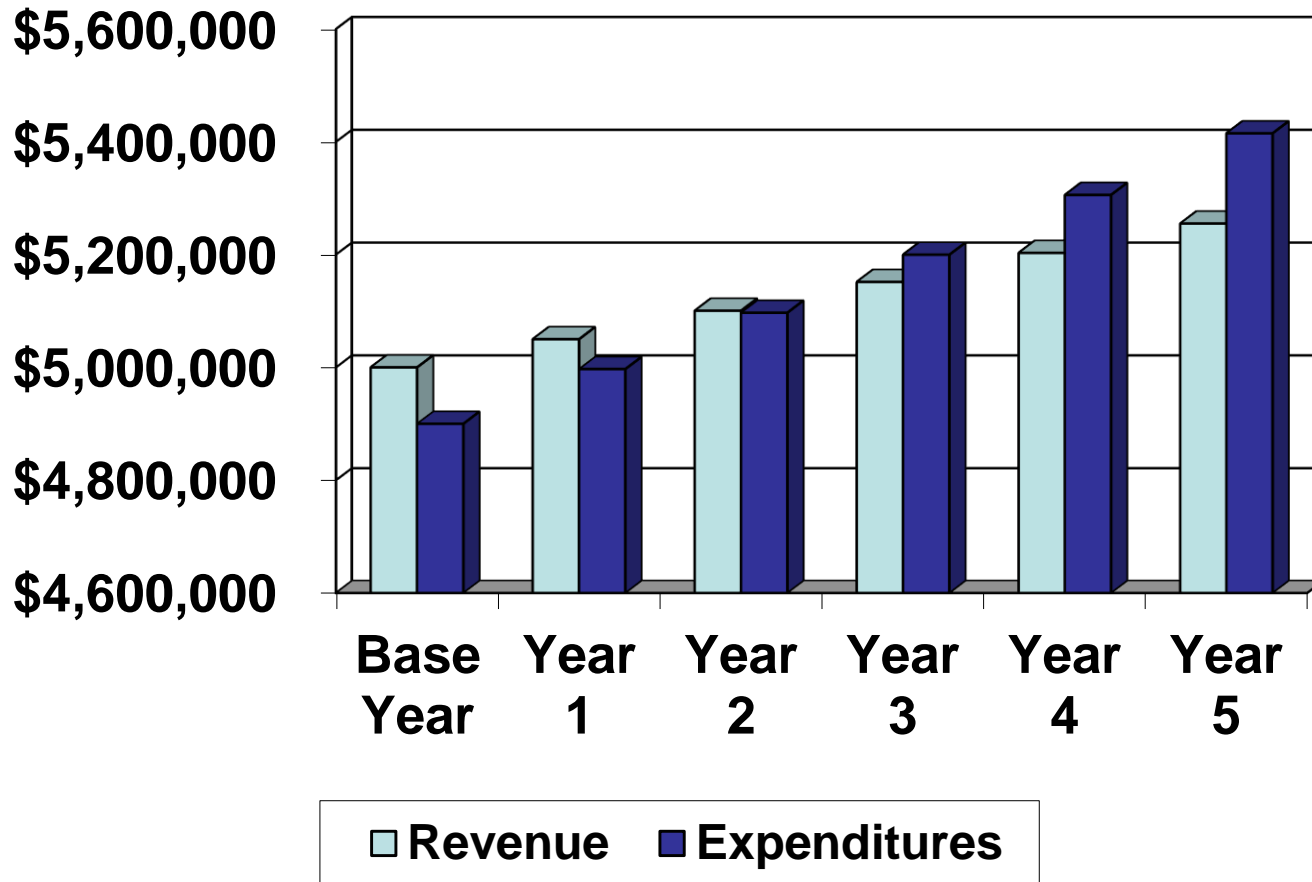


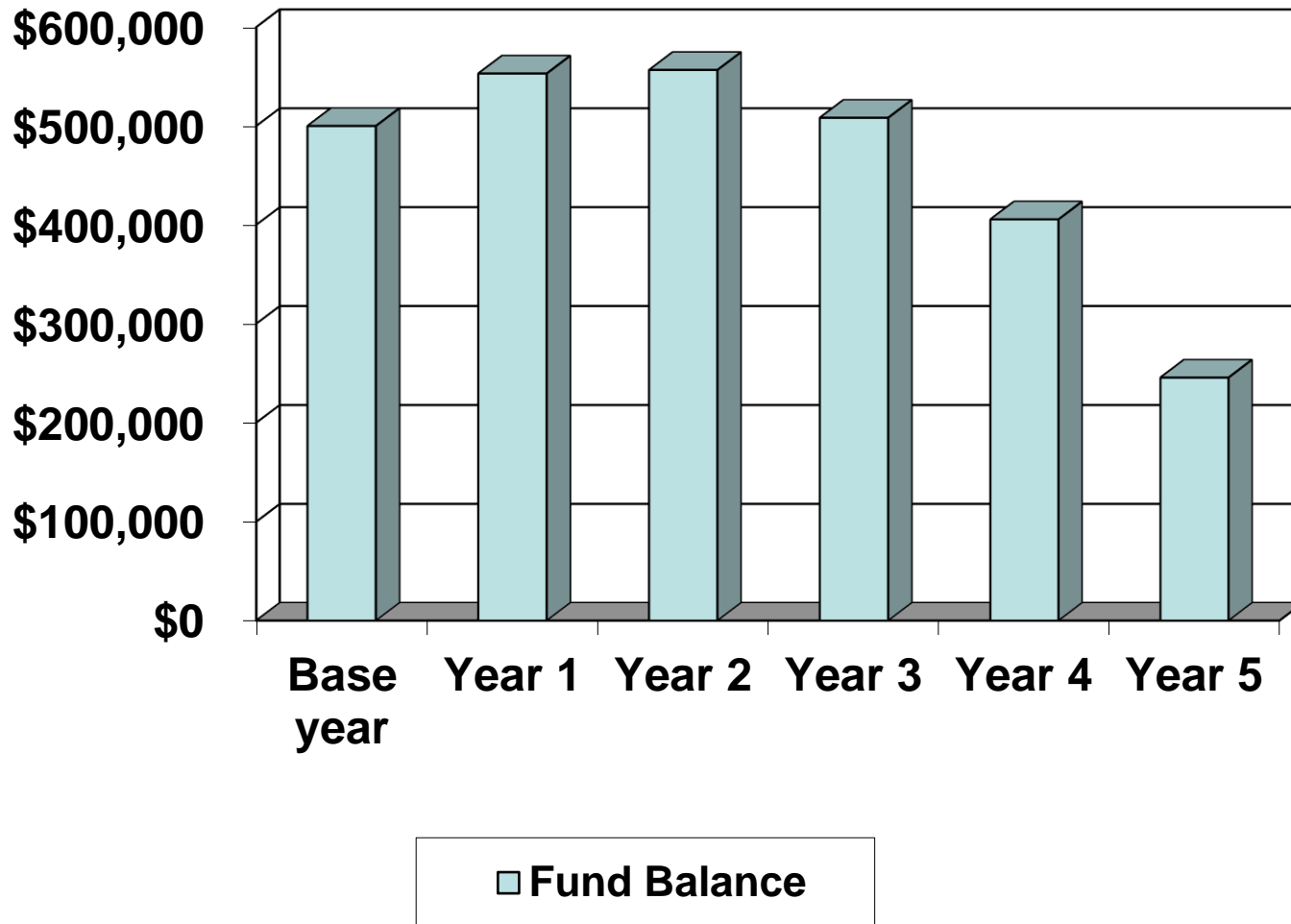


By anticipating the problem we can take manageable bites of the problem.

- Assume that after allowing for a 3% inflationary increase, we reduce the budget by \$50,000 per year which is 1% or less each year.

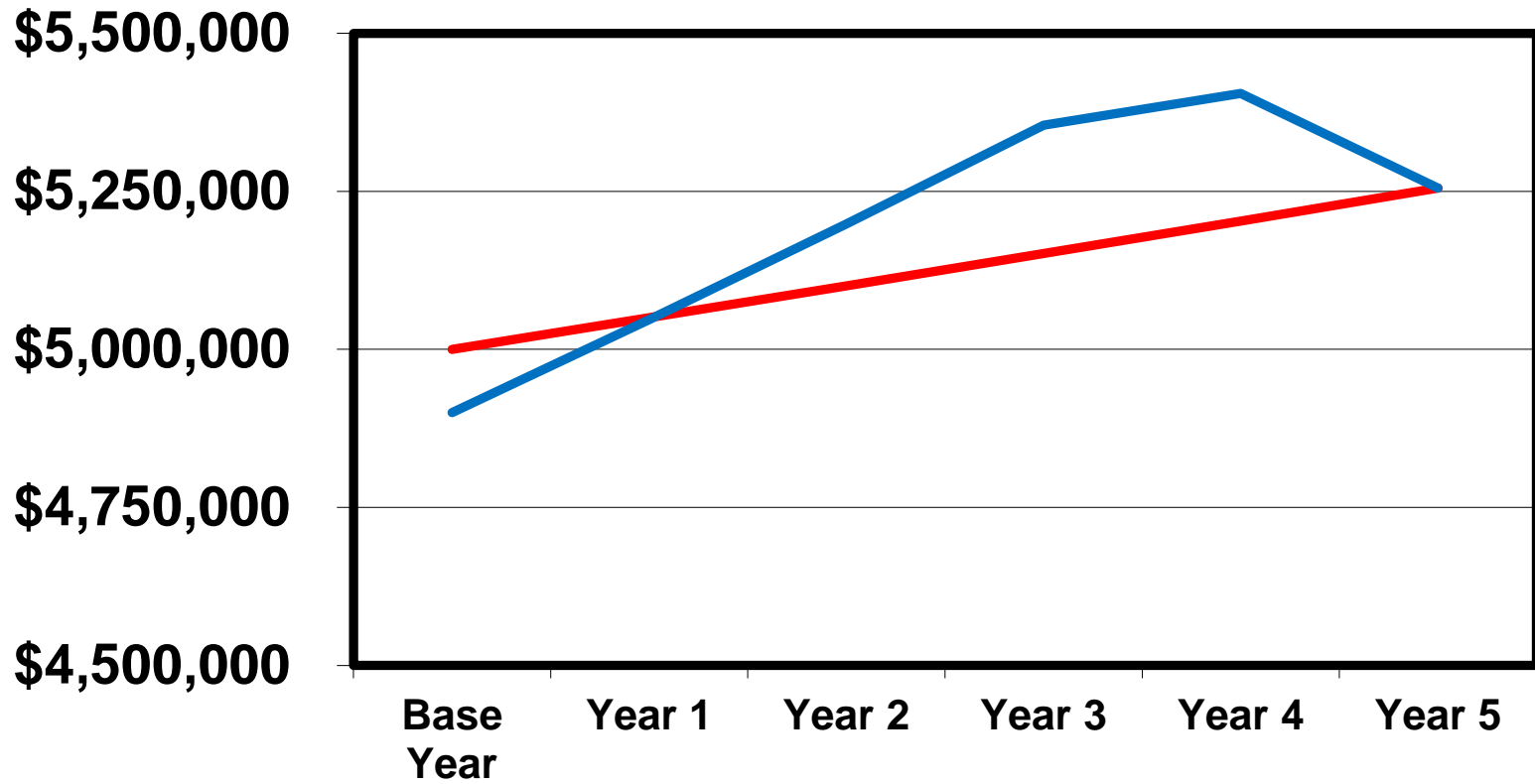
Planned Adjustment of Revenues and Expenditures





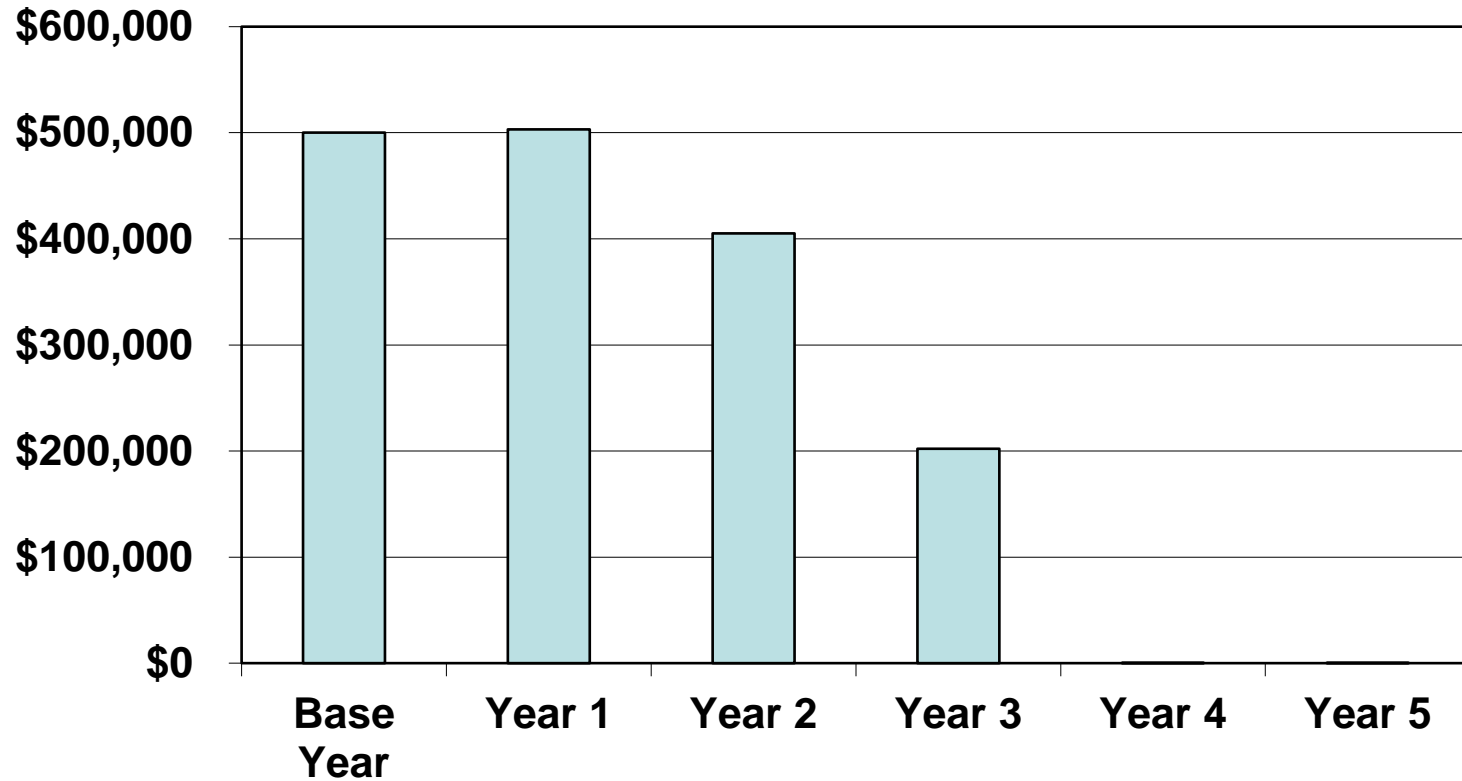


Assume that no action is taken except to prevent a deficit in any one year.



— Revenues

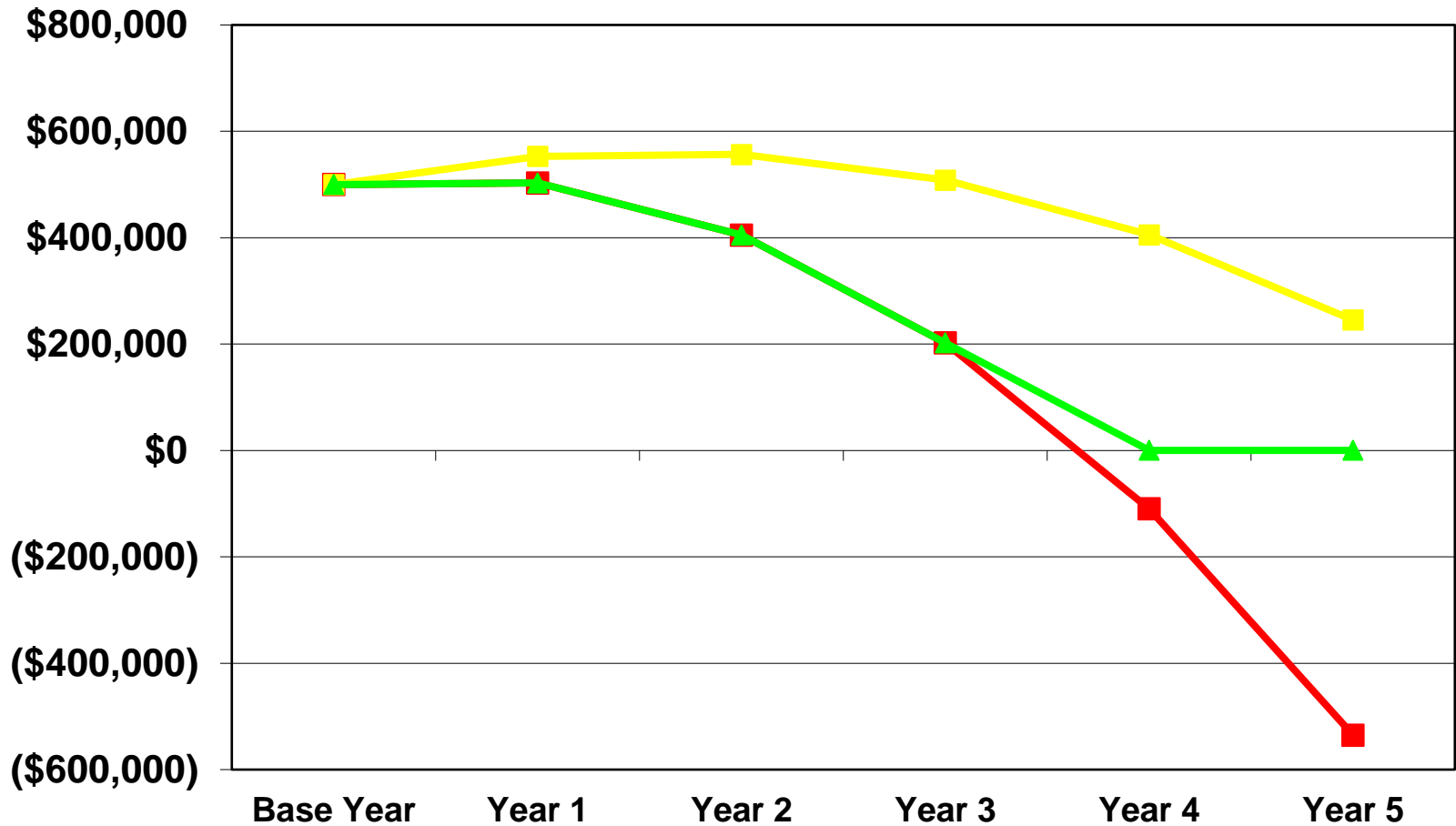
— Expenditures



□ Fund Balance

Fund Balance Comparison

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■ Do Nothing

■ Planned Approach

▲ Crisis Management

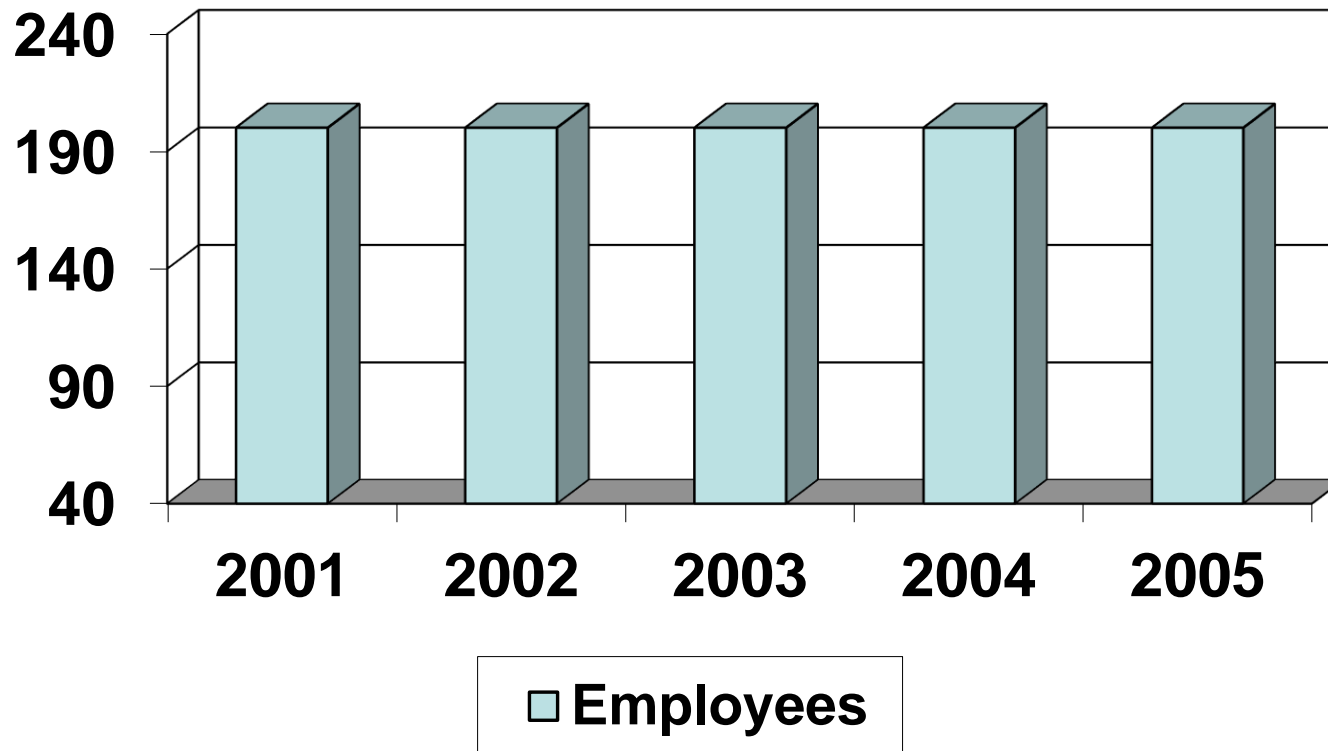


- Be realistic
- Avoid one time fixes
- Document assumptions
 - Population
 - Taxable value
 - Revenue sharing
 - Inflation
 - Contractual cost
 - Fringes
 - Capital cost

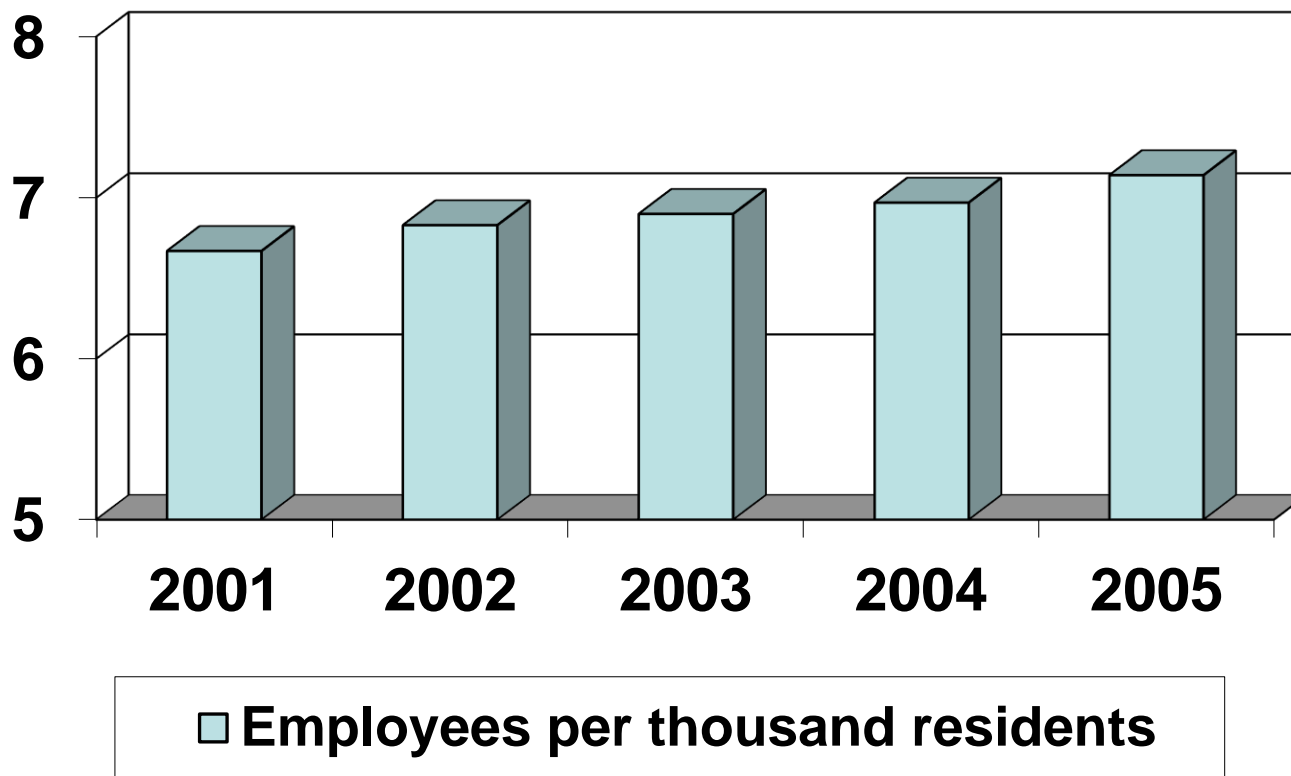


- Past trends may be an indicator of the future
- Use multiple trends to gauge the community's financial circumstance
 - Fund Balance
 - Staffing
 - Taxable value trends
 - Inflation

City X Full Time Employees



City X Employees per thousand Residents





- Establishing proper rates and charges is vital to protect your general fund and your community's well being.
 - When rates are set improperly or infrequently, the burden falls on the general fund
 - Typically under this scenario, the user of the service **DOES NOT** pay their fair share.

- Overview of Bolt v. City of Lansing
 - December 1998 Supreme Court Case
 - Declared Storm water Service Fee was a tax under the Headlee Amendment
 - Court established new tests for all fees
 - Must serve a regulatory purpose (as opposed to a revenue raising purpose)
 - Be proportionate to the necessary cost of the service (across customer classes and across time period benefited)
 - Be voluntary

Revenue Sources



General Fund

- Taxes
- Revenue Sharing
- Fees



Water & Sewer
Fund

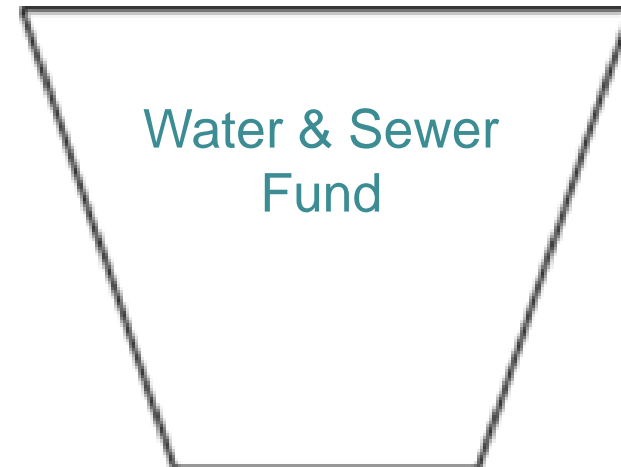
- User fees

Direct System Costs

- Commodity charges
- Meter reading
- Water and Sewer employees
- Equipment
- Vehicles
- Utilities
- Building & Depreciation
- Debt & Reserves

Indirect System Costs

- Accounting
- Treasury
- City Hall costs
- Elected Officials



- User fees

➤ Other Considerations

- Include **ALL** costs to the system
- Review & set rates annually
- Put the right costs in the right bucket
- Rates must bear a relationship to the cost of the service
- The model or system used to set rates must ensure that the amount charged is proportional to the amount consumed

Questions?