

# Government 101: City Finance

November 17, 2016



# City Finance



# Part 1

## FINANCIAL PLANNING

What do we need?  
How will we pay for it?



# Why plan?

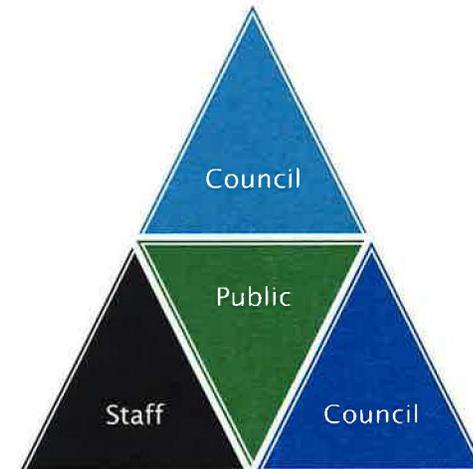
There is not enough money to do everything “we” want to do.

- ▶ Focuses attention on priorities & goals.
- ▶ Provides for organized growth & development
- ▶ Promotes efficient operations.
- ▶ Helps distribute costs over time.
- ▶ Enhances opportunities for grants.



# How are plans created?

- ▶ Start with the last plan.
- ▶ Add staff perspective of changes.
- ▶ Add council perspective of changes.
- ▶ Add public perspective of changes.
- ▶ Finalize council perspective of changes and adopt the plan.



# Types of City Financial Plans

- ▶ City Wide 20 Year Comprehensive Plan
  - What is our vision of the future and how do we plan to get there?
  - Includes such things as zoning (what activities occur where in the city) & capital needs
- ▶ Various Department's Master Plans
- ▶ 6 Year Capital Plan
- ▶ 5 Year Financial Forecast
- ▶ 1 Year Operating & Capital Budgets
- ▶ Debt capacity analysis



# Part 2

## BUDGETING –

Capital Budget  
Operating Budget



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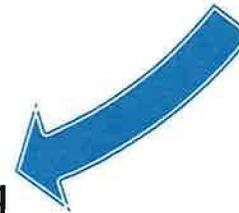
Internal  
Controls &  
Audit



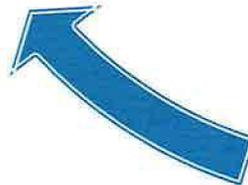
Financial  
Planning



Budgeting



Accounting



Monitor &  
Reporting



# What is the difference between “Plans” & “Budgets” ?

- ▶ Plans help provide priority and direction.
- ▶ Budgets provide legal authority and limits.
- ▶ Capital & Debt spending are authorized for the life of the project /debt (many years).
- ▶ Other Operating spending is authorized for one year at a time.



# Capital (Projects) Budget – Spending

- ▶ Comes from 1st year of 6 Year Capital Plan
- ▶ Generally projects greater than \$20,000 and which often take more than one year to finish.
  - New roads, traffic signals, trails, etc.
  - Docks, parking lots, storm water pipes, etc.
  - Buildings, park playgrounds, etc.
- ▶ Items which cost >\$5,000 and are not a repair (e.g. vehicles) are included in the Operating Budget.



# Capital (Projects) Budget – Funding

- ▶ Capital Budgets include “real” funding.
  - Grants
  - Debt
  - Dedicated Capital Revenue Sources
    - Real Estate Excise Tax (REET 1 & REET 2)
    - Park Levy
    - In-Lieu Fees (Traffic, Park, etc.)
    - Impact Fees (Traffic, Park, etc.)
- ▶ Capital revenue sources are generally restricted to capital purposes and therefore can't be used for operating costs.



# Operating Budget– Revenues

- ▶ Taxes
- ▶ Licenses & Permits
- ▶ Fees & Charges
- ▶ Grants
- ▶ State Shared Revenues
- ▶ Interest, Rents, Miscellaneous
- ▶ Debt Proceeds



# Operating Budget – Spending

- ▶ What services does the city provide?
  - City Council vision, policies and priorities
  - Municipal Court
  - Police Patrol, Detectives, CSO, SRO, Animal Control
  - Code Enforcement
  - Legal, Prosecutor, Indigent Defense
  - Planning, Building, Permitting, Licensing
  - Streets, Signals, Signs, Lights, Guardrails, Sidewalks
  - Parks, Recreation, Camps, Sr. Activities, Human Services
  - Public Art, Concerts, Festival Support
  - Marina
  - Surface Water Management
  - City Management
  - Centralized Departmental Support Services



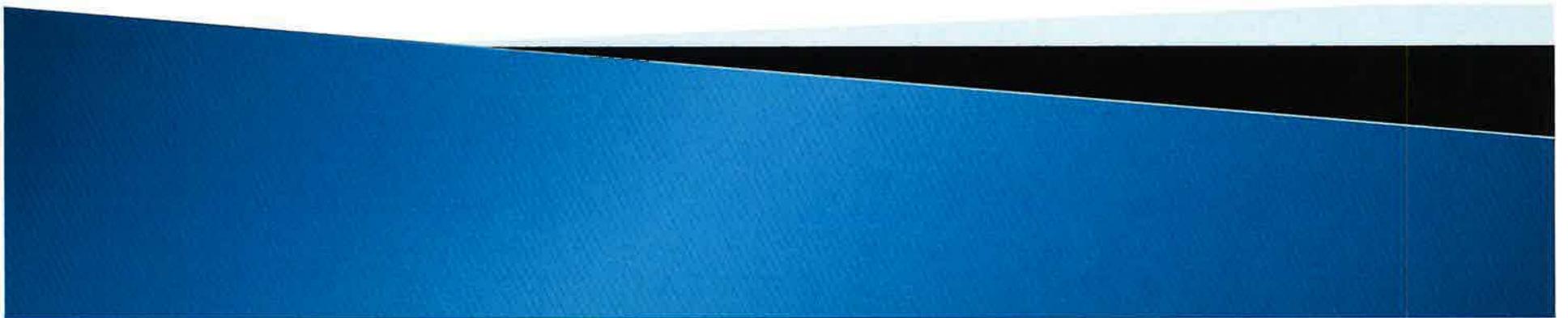
# Budget Calendar & Process

- ▶ 6 Year Capital Plan – Adopted July
- ▶ Finance “Baseline” Budget July 15<sup>th</sup>
- ▶ “Department Requests” July 22<sup>nd</sup>
- ▶ City Manager Initial August 4<sup>th</sup>
- ▶ City Council Budget Retreat August 13<sup>th</sup>
- ▶ Citizen Advisory Committee Sept 15<sup>th</sup>
- ▶ Public Hearing City Mgr. Prelim Budget Oct 20<sup>th</sup>
- ▶ Public Hearing – 2017 Capital & Operating Nov 10<sup>th</sup>
- ▶ 2017 Property Tax Levy Nov 10<sup>th</sup>
- ▶ Continue public input and/or adopt by Dec 31<sup>st</sup>



# Part 3

**ACCOUNTING – Keeping track of money received and money spent.**



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# Restrictions and Control.

- ▶ Revenues are often restricted:
  - Fees are in exchange for services
    - sometimes not enough to pay for full cost
  - Taxes are sometimes restricted by purpose (MVFT, REET, etc.); sometimes not (property, sales, utility).
  - Grants & donations are specific to the award.
  - Debt proceeds restricted by debt agreement.



# “Fund” Accounting & Fund Types

- ▶ “Fund” is like its own business with its own bank account and its own revenues and expenses.
  
- ▶ A Fund is sometimes created to control cash for restricted purposes.
  - General Fund
  - Special Revenue Funds (Street, Paving, Drug, Redondo, TBD, etc.)
  - Debt Service Funds
  - Capital Funds
  - Enterprise Funds (Marina & SWM)
  - Internal Service Funds (Insurance, Fleet, Facilities, Unemployment, etc.)



# Accounting Systems

- ▶ Approximately 18 different cashiering points (7 locations) to balance daily.
  
  - ▶ 36 different accounting funds and 3,615 active accounts.
    - 2,100 different spending accounts.
    - 647 different revenue accounts.
    - 868 different balance sheet accounts.
  
  - Vendor Payables & Employee Payroll Systems.
  - Receivable, LID, Parks & Marina Billing Systems.
  - Capital Asset, Debt, Investment Systems.
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# Part 4

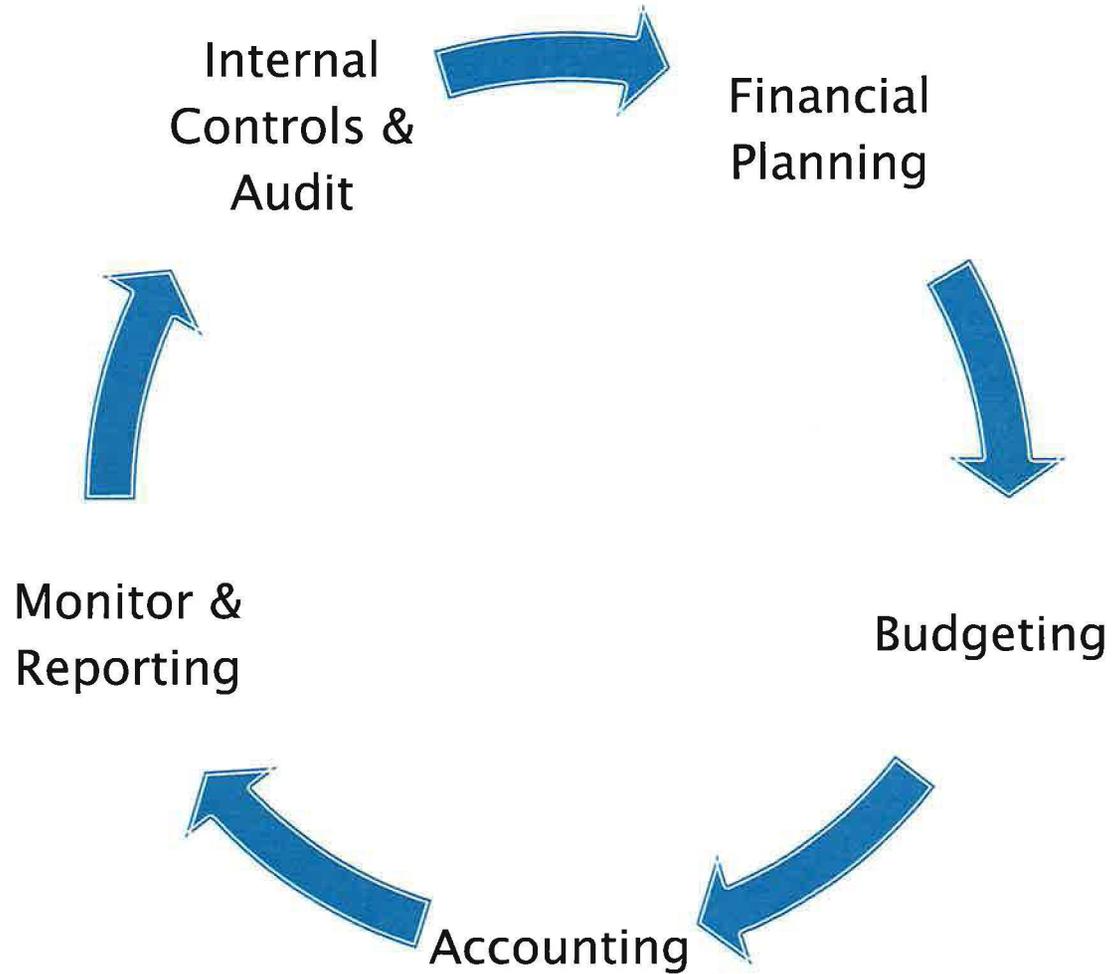
**REPORTING -**

**The story in numbers**

**(according to the rules)...**



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# The Great “GASB” ...

## Governmental Accounting Standards Board

- ▶ Sets the standards for financial reporting.
- ▶ Goal of standard setting is financial statement consistency, comparability and accountability.
- ▶ First standard set in 1984
  - 82 Standards – which keep changing
    - GASB 82 amends GASB 67,68 and 73.
- ▶ GASB’s intent is to review standards every 10 years.



# Reporting Stakeholders-

## Who cares?

- ▶ Financial Statement Users
  - The Public has a right to know
  - Creditors (i.e. debt borrowing)
  - Management
- ▶ Accounting Scholars & Standard Setters
- ▶ Financial Statement Preparers
- ▶ Auditors



# Financial Statements Focus

- ▶ Generally used to tell what happened in the past.
  - Verifiable
  - Cost effective
  - More consistent
  
- ▶ What's not prescribed:
  - Financial Forecasts
  - Budget Reports
  - Performance Reports



# Part 5

## **Audits & Internal Controls–**

How to make sure the rules are followed  
and Public resources are protected.



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# Audits –

- ▶ Can we believe the numbers in the Financial Statements?
  - “Reasonable assurance”
  - “Statements are not materially misleading”
- ▶ We pay them; why not “absolute assurance”?
  - Test basis
  - Cost prohibitive to audit every transaction.
  - Reliance on “Internal Controls”
  - Costs about \$53K –\$55K each year.



# Audits –

- ▶ Performed by the State Auditor's Office
- ▶ City has 3 audits each year:
  - Financial Statement Audit
  - Combined Federal Grant Audit
  - Accountability Audit
- ▶ Generally on-site March to July
- ▶ Transportation Benefit District – Last one
  - About \$5,500 every 3 years.



# Internal Controls...

- ▶ The structure management puts into place to provide reasonable assurance it will meet its basic objectives.
  - Operations are run both *efficiently & effectively*
  - Financial Reporting
  - Stewardship of public resources
  - Legal Compliance – Laws, contracts, policies, etc.
- ▶ MANAGEMENT is responsible for creating and following internal controls (not auditors).
- ▶ COUNCIL is responsible for ensuring management carries out its internal control responsibilities.



# Inherent limits on Internal Controls

- ▶ Cost/benefits
- ▶ Management override
- ▶ Collusion



# Internal Control Structure: Five Elements

- ▶ **Control Environment**
    - Management is knowledgeable
    - Management is committed
    - Management communicates
  - ▶ **Risk Assessment of internal & external risks**
    - Inherent Risk
      - Change
      - Complexity
      - Cash Receipts
      - History of Prior Problems
      - History of lack of response to prior noted deficiencies
  - ▶ **Control Activities**
    - Prevent
    - Detect and alert
  - ▶ **Information and communication**
  - ▶ **Monitoring**
- 

# City Financial Management – Takes the **WHOLE TEAM**

