

# Financial Management 101: Financial Responsibilities and City Revenues

Mayor and Council Members Academy  
League of California Cities  
January 19, 2012

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## The Ins and Outs of City Funds

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### The Ins & Outs of City Funds

## Cities Vary and so do their finances

- Geography: proximity, climate, terrain, access
- Community Character / Vision: Land use  
Bedroom? Industrial? Tourist? Rural? etc.
- Size - urban / rural
- Governance - full service / not
- ❖ Statewide generalizations often mask trends  
among sub-groups

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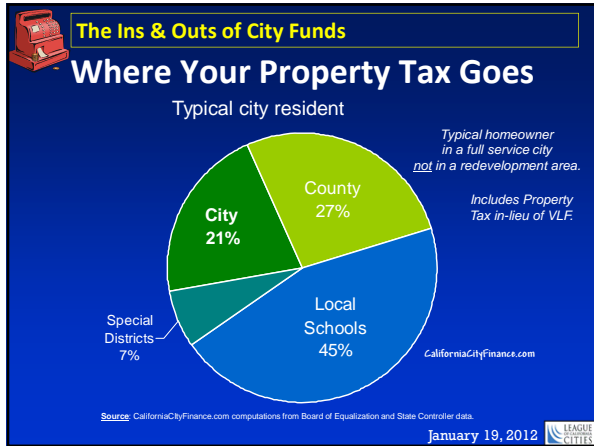
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## The Vehicle License Fee: The Former Car Property Tax

- ✓ 1935 Statewide uniform VLF adopted replacing local property tax on motor vehicles
- ✓ 1948-2004 tax rate is 2%
- ✓ 1998 VLF "offset" (effectively a tax cut) begins Includes "trigger" to put rate back up if state finds it cannot afford the backfill to cities and counties.
- ✓ 2003 Gov. Gray Davis pulls the trigger sending VLF from 0.65% back up to 2%
- ✓ Nov 2003. Recall. Schwarzenegger returns VLF to 0.65%, punching \$4 billion cost into the budget
- ✓ 2004 VLF – Property Tax swap. Backfill and trigger eliminated. Property tax protected by Prop1A (Nov '04).

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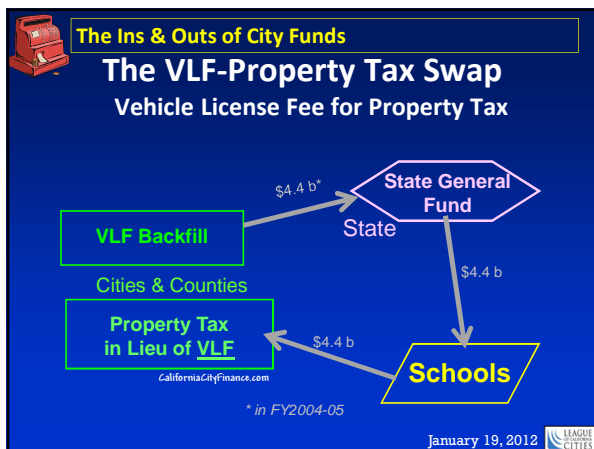
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### The Ins & Outs of City Funds

## 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.

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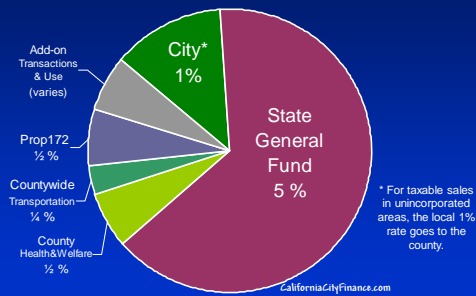
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### The Ins & Outs of City Funds

## Where Your Sales Tax Goes



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### The Ins & Outs of City Funds

## Other Locally Adopted Revenues

- ✓ **Fees**
  - A charge imposed on an individual for a service or facility provided directly to that individual.
    - User Fees
    - Regulatory Fees
    - Property Related Fees
    - Development Fees
- ✓ **Assessments**
- ✓ **Licenses and Permits**
- ✓ **Franchises**
- ✓ **Rents, Royalties & Concessions**
- ✓ **Fines, Forfeitures & Penalties**

**Fees**

- Cities have the authority to impose fees under the police powers given to cities in Calif. constitution.
- A fee may not exceed the estimated reasonable cost for which the fee is charged.
- Specific limits and procedures in the state constitution and state law for fee & rate adoption.

## Intergovernmental Subventions

- Highway User Tax
- Law Enforcement Grants (COPS)
- CDBG
- VLF\*

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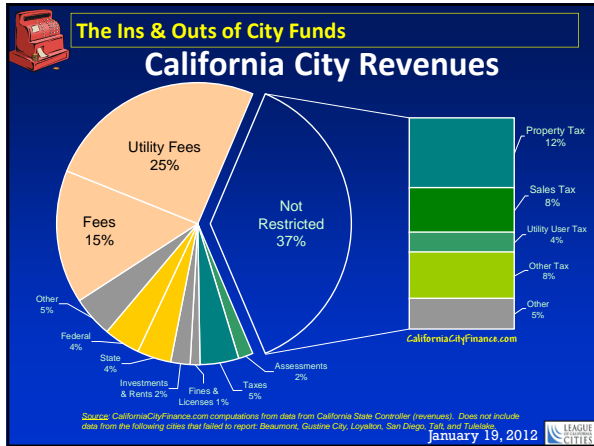
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**The Ins & Outs of City Funds**

**Types of Funds**

*Where the money comes from determines how it can be spent*

- ✓ **General Fund** is used to account for money which is not required legally or by sound financial management to be accounted for in another fund.
- ✓ **Enterprise Funds** are used to account for self supporting activities which provide services on a user-charge basis. Examples: water, garbage, parking, golf, marina.
- ✓ **Special Revenue Funds** are used to account for activities paid for by taxes or other designated revenue sources which have specific limitations on use according to law. Example: gas tax.
- ✓ **Other Funds:** Internal Service Funds, Trust Funds, Reserve Funds

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**The Ins & Outs of City Funds**

**California City Spending**

**Where City Funds Go ...**

- ✓ **Personnel / Human Resources**
  - Salaries / wages
  - Health Benefits
  - Retirement Benefits
  - Other Post Employment Benefits
- ✓ **Non-Personnel**
  - Supplies / Materials / Equipment
  - Contract Services
- ✓ **Capital / Debt**

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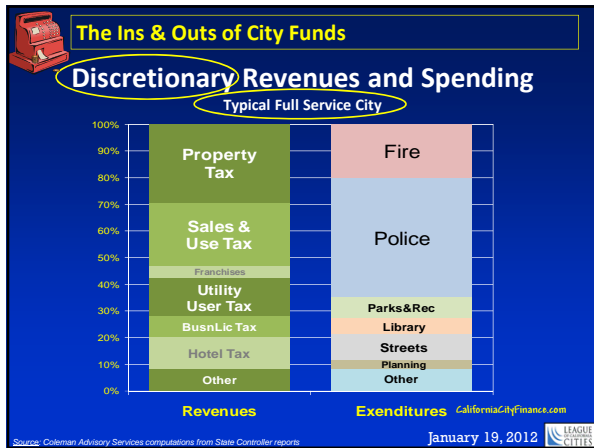
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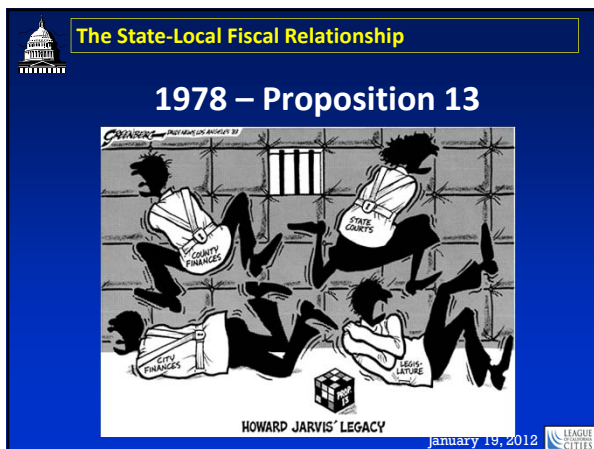
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**The State-Local Fiscal Relationship**

### Proposition 13 - nuts & bolts

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**

January 19, 2012 LEAGUE OF CALIFORNIA CITIES

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**The State-Local Fiscal Relationship**

### Proposition 13 Winners

Category	Percentage
Homeowners	24%
Schools	33%
Counties	24%
Cities	19%

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**The State-Local Fiscal Relationship**

### The AB8 (1979) Bailout

Shifting Local Property Tax to Cushion Impacts of Prop13

**Initial Prop13 Impacts** (Millions of Dollars in 1979-80)

Category	Impact (Millions)
Schools	~3.5
Counties	~2.5
Cities	~1.0
Special Districts	~0.5

Flow: State General Fund → Schools → Property Tax → Cities, Counties, Special Districts

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## The State-Local Fiscal Relationship

### Local Revenue Protection: Prop1A('04), Prop1A('06), Prop22('10)

Constitutional Protection for:

1. Property taxes: cities, counties, special districts  
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. Redevelopment Tax Increment - may not be diverted for other purposes
6. Prohibitions against unfunded state mandates strengthened

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## Your Fiduciary Responsibilities

### Part I: Budgeting & Financial Planning

The City Budget  
 The Budget Process  
 Other Considerations  
 Financial Planning / Long-Range Forecasts

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## Your Fiduciary Responsibilities

### The City Budget

- Represents jurisdiction's legal spending authority
- Organizational workplan expressed in dollars and staffing levels
- The budget and financial plan allocates limited available resources to the provisions of programs, services and projects consistent with community priorities, without adversely impacting future Councils' ability to do the same.

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**Your Fiduciary Responsibilities**

**Adopting the Budget  
Council Actions Required**

- Formal Budget Adoption
  - Appropriations Ordinance / Resolutions
  - Legal Spending Limits
- Budget Implementation
  - Tax Rates
  - Master Fees / Rates
  - Update Policies / Procedures
- Prop 4 - Gann Appropriations Limits (Article XIII B)
- Legal Debt Limits (Article XVI)
- Capital Budget Consistency with General Plan

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**Your Fiduciary Responsibilities**


**Financial Planning**

What ?

- Process of projecting revenues and expenditures over a long-term period
- Process of aligning financial capacity with long-term service objectives

Why ?

- Tool for developing strategies to achieve long-term sustainability
- Engenders long-term perspective / strategic thinking
- Helps avoid financing challenges

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**Your Fiduciary Responsibilities**


**Financial Planning**

How ?

- Establish Time-Horizon – 5 to 10 years
- Scope – Identify all appropriate funds
- Content
  - Underlying economic conditions
  - Revenue and Expenditure Projections
  - Projected Reserve Levels
  - Affordability Analysis

When ?

- Maintain and Update - Quarterly / Semi-Annual

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**Your Fiduciary Responsibilities**

### Assessing Your Cities' Financial Health

- Operating Revenues (per capita) keeping up with inflation?
- Revenue sources keeping up with projected service demands?
- How volatile are revenues in relation to economic cycles?
- How vulnerable are City revenues to State/Federal actions?
- What portion of operating budget is fixed costs?
- What portion of operating revenues are restricted?
- Are one-time revenues being used for ongoing operations?
- Are user-charges covering service costs over time?
- Is city's debt structure reasonable?
- Level of unreserved fund balance as % of operating budget?

Source: *Western City*, November 2006

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## Your Fiduciary Responsibilities

### Part II

#### Financial Administration

Functions within Finance Dept.  
Policies / Procedures  
Audits

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**Your Fiduciary Responsibilities**

### Financial Administration

- Functions within a Typical Finance Department
  - Budget / Financial Planning - *Often in City Managers' Office*
  - Revenue Administration
  - Banking / Cash Management
  - Payroll
  - Purchasing
  - Accounts Payable
  - Accounting / Financial Reporting
  - Treasury / Investments
  - Capital Financing / Debt Administration

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## Your Fiduciary Responsibilities

### Financial Administration

- Importance of Sound Policies and Procedures
  - Internal Controls
  - Separation of Duties
  - Fraud Prevention
- The Role of Audits
  - Informal Internal Audits
  - Independent Outside Audit – Annual Financial Statements
  - Transportation Funding
  - Single-Audit / Federal Grants

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## Burning Issues in Municipal Finance

*"You Picked a Fine Time to Run for Office!"*

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## Burning Issues in Local Government Finance

1. Economic downturn – Local Fiscal Impacts
2. State Budget Meltdown
3. Unsustainable employee compensation levels – (i.e. Retirement Benefits, / OPEB)
4. Tax structures out of step with changing society:
  - sales tax, ▪ hotel tax, ▪ gas tax, ▪ utility user tax
5. Property Tax Fragmentation – Lack of local reallocation authority
6. Disconnect between service costs and revenues in urban development ("The fiscalization of land use")

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### Burning Issues in Local Government Finance

#### ***Sure Signs Things are NOT Going Well!***

- Depletion of reserves to balance budget
  - Expenditures exceeding revenues for two consecutive years, with the second year's deficit being larger
  - Operating expenditures exceeding revenues by more than five percent during the year
- Long-Term expenditure commitments without adequate cost controls
  - Escalating / "Auto-pilot" Labor contracts
  - Growing Unfunded Liabilities
- Increase in debt service as percentage of operating budget
  - Debt service exceeds 10 percent of current revenues
  - Outstanding short-term debt at the end of the fiscal year
- Inadequate or late financial reports
- Qualified auditor's opinions

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### Conclusion: Financial Management Today

- Fiscal Management Challenges Likely to Take Priority for many years
- Most all Policy Decisions and Council Actions have budgetary / financial planning implications
- Continuous Process - Plan > Monitor > Adjust
- On-going Learning
  - Community Economic Indicators
  - City Budget Details
  - State / Local Fiscal Reform - Vigilance & Advocacy

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### Resources

- League of California Cities
  - City Advocate Weekly
  - Regional Managers
  - League Alerts
  - Conferences / Seminars
- Institute for Local Government (ILG)
- Government Finance Officers' Association (GFOA)
- California State Municipal Finance Officers (CSMFO)
- California Municipal Treasurers' Association (CMTA)
- [www.CaliforniaCityFinance.com](http://www.CaliforniaCityFinance.com)

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