

Financial Management in Municipal Government A Top 10 Primer

Gregory S. Allison
William C. Rivenbark
UNC School of Government



www.sog.unc.edu

Purpose of Presentation

- To present the top 10 subject areas of financial management in municipal government that every council member should know.
- To discuss common financial dilemmas faced by council members in municipal government.



1) The Local Government Budget & Fiscal Control Act

- State legislation that contains the fiscal requirements in which local officials must follow in regard to the multiple aspects of public budgeting and financial management (Chapter 159).



1) The Local Government Budget & Fiscal Control Act

- Examples of fiscal requirements include:
 - Each local government shall appoint a budget officer.
 - Unless otherwise directed, the budget officer shall submit a proposed balanced budget to the governing board.
 - In each year of a revaluation, the budget officer shall include a revenue-neutral tax rate in the budget for comparison purposes.



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2) Budget Preparation and Enactment

- The statutory budget calendar is budget requests to budget officer by April 30; proposed budget to governing board no later than June 1; and adopted budget ordinance on or before July 1.
- Municipalities are required by law to adopt a balanced budget ordinance, where the sum of estimated net revenues plus appropriated fund balance equals appropriations.



3) Revenues

- It is recommended that council members understand the mechanics of major revenue sources and receive periodic updates on budget-to-actual variances.
- Property and sales taxes represent two major revenue sources in municipal government.



3) Revenues

- Property tax
 - Valuation is county responsibility and is established by January 1 for the following fiscal year.
 - Tax levy = (assessed value / 100) x tax rate.
 - The estimated percentage of collection for property taxes, which cannot exceed the current collection percentage, is multiplied by the tax levy to determine the revenue estimate for balancing the budget.



3) Revenues

- Sales tax
 - County levy that is collected by state.
 - All counties levy a 2.0 percent sales tax – 1.5 percent is returned to county on point of delivery and 0.5 percent on per capita basis.
 - County shares with municipalities based on per capita or ad valorem formula.



4) Fund Balance

- Fund balance available for appropriation equals cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts.

4) Fund Balance

- Reasons for fund balance:
 - Working capital
 - Emergencies
 - Source of capital financing
 - Bond rating
 - Balancing the budget

4) Fund Balance

- Municipalities carry significant general fund balances.
 - 10 percent to 25 percent of expenditures for large municipalities.
 - 30 percent or more of expenditures for small and medium municipalities.

4) Fund Balance

- Local governments should adopt by resolution a fund balance policy that clearly states its percentage threshold.
- Local Government Commission (LGC) recommends that fund balance should be at least 8 percent of general fund expenditures.



5) Local Government Commission

- The LGC, which is a division of the Department of State Treasurer, provides state oversight of North Carolina local finance.

5) Local Government Commission

- Roles of LGC include:
 - Approves and sells local government debt.
 - Regulates local financial management.
 - Can take over local unit in financial trouble.
 - Sends out memos, warning letters, etc.
 - Provides assistance to local governments.

6) Appropriations

- Major areas of appropriation in municipal government are public safety (police & fire), solid waste, transportation, parks & recreation, and general administration.

6) Appropriations

- Budgets are more than a financial plan for the coming fiscal year. They are strategic plans for organizational direction and performance plans for service efficiency and effectiveness.
- Budget calendars are commonly expanded to accommodate long-term goals and performance objectives.



7) Capital Planning

- Local governments often use a separate process, known as capital budgeting, for acquiring major capital assets.
- When the capital budget includes a multi-year forecast (5 years) of capital needs, it becomes a capital improvement program.
- Predetermined criteria are commonly used to make decisions regarding capital asset (mandate, public safety, etc.)

8) Capital Financing

- Pay-as-you-go financing.
 - Annual budget
 - Fund balance
 - Capital reserve fund (G.S. 159-18)

8) Capital Financing

- General obligation bonds: secured by taxing power and requires voter referendum. Commonly used for major infrastructure projects.
- Revenue bonds: secured by net revenues of self-supporting enterprise and commonly used for water and sewer projects.

8) Capital Financing

- Project development bonds: secured by the revenues generated from the tax increment created from public and private development in a project development financing district.
- Installment purchase financing: secured by property financed and commonly used for expensive equipment.



9) Fund Accounting

- Local governments in North Carolina are required by statute to follow generally accepted accounting principles (GAAP).
- GAAP requires the use of fund accounting.
- Each fund is a separate fiscal and accounting entity, with its own self-balancing accounts.

9) Fund Accounting

- Three broad categories of funds
 - Governmental (general fund, special revenue fund, debt service fund, capital projects fund, and permanent fund).
 - Proprietary (enterprise fund and internal service fund).
 - Fiduciary (pension trust fund, investment trust fund, private-purpose trust fund, and agency fund).

10) Financial Reporting and Annual Audit

- Local governments are required to prepare Basic Financial Statements.
 - Management's discussion & analysis
 - Government-wide financial statements
 - Fund financial statements
 - Note disclosures
- Some local government prepare a comprehensive annual financial report (CAFR)

10) Financial Reporting and Annual Audit

- An annual audit of a local government's financial statements is required by law.
 - Performed by an independent CPA
 - Should be completed by October 31
- Financial statements are the responsibility of management.



10) Financial Reporting and Annual Audit

- Purpose of an audit is to ensure that financial statements report the financial position of a local government in accordance with GAAP.

Common Financial Dilemmas in Municipal Government

- a) A municipality is considering a monthly fee on solid waste removal to avoid a property tax increase. Would you support this initiative?
- b) The budget officer has balanced the proposed budget by appropriating fund balance. What questions would you ask before approving the budget?

Common Financial Dilemmas in Municipal Government

- c) The proposed budget contains an interfund transfer from the water and sewer fund (enterprise) to the general fund. Is this legal and appropriate?
- d) Your municipality receives an unqualified audit opinion. However, it also receives an extensive management letter. Should you be concerned and what is your role as a council member?

