Principles of Municipal Finance
City Council Workshop - February 28, 2025

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Overview of Municipal Finance

- The GASB (Governmental Accounting Standards Board) establishes accounting and financial reporting standards for U.S. state and local governments that follow generally accepted accounting principles (GAAP).
- The City of Folsom's municipal code sets Budgeting, Accounting and Fiscal Procedures in Chapter 3.02

Overview of Municipal Finance

- The City maintains a set of Financial Policies, approved by the City Council.

- Government Finance Officers Association (GFOA) represents public finance officials throughout the United States and Canada, publish best practices, advisories and other resources to advance excellence in public finances.

GFOA's Guide to Government Finance

- Financial policies, management and operations
- Planning and budgeting
- Capital improvements and economic development
- Accounting, auditing and financial reporting
- Treasury, debt and investment management
- Retirement and benefit plans

Financial Policies, Management and Operations

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Elected Officials should:

- Adopt sound long-term financial policies
- Promote competent, professional financial management
- Review structure and organization
- Schedule regular financial study sessions and conduct new-member orientation briefings
- Require up-to-date financial systems
- Provide financial information and reports online

Planning and Budgeting

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Elected Officials should:

- Start with a long-term financial plan. Link long-term and strategic planning with the annual budget
- Concentrate on long-term financial sustainability
- Use the budget as a policy document
- Use the budget to communicate effectively
- Encourage public involvement and transparent decision making
- Pay careful attention to revenues

Planning and Budgeting, continued

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<u>Elected Officials should:</u>

- Monitor the budget
- Align budgets and financial reporting
- Establish a fund balance policy. Maintain and deploy fund balances wisely
- Encourage performance targets and measures as management tools

City Fund Types

Appropriations by Fund Type – FY 2024/25

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Fund Type	FY 25 Adopted Budget
General Fund	$117,069,047
Enterprise Funds	54,116,756
Special Revenue Funds	11,936,049
Debt Service Funds	11,683,847
Capital Project Funds	7,114,733
Internal Service Funds	23,924,211
Fiduciary Funds	21,371,666
Total	**$247,216,309**

Fund Type Descriptions

- **Enterprise Funds:** Account for the activity of the city's water, wastewater and solid waste utility funds.
- **Special Revenue Funds:** Account for specific revenue sources that are legally restricted for a specific purpose. (Gas Tax, Lighting and Landscape Districts, Affordable Housing)
- **Debt Service Funds:** Account for the accumulation of resources that are legally restricted for the payment of long-term debt obligations.
- **Capital Project Funds:** Account for financial resources which are used for long-term major capital projects financed primarily from developer impact fees.
- **Internal Service Funds**: Account for the financing of goods and services by one department to others within the government on a cost reimbursement basis. (Risk management, Employee leave)
- **Fiduciary Funds:** Established to hold money in trust for various purposes (OPEB, Redevelopment Successor Agency, Assessment Districts)

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General Fund Revenue

General Fund Revenue

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	FY 24-25 Budgeted	% of Total
Property Tax	$44,658,430	39%
Sales Tax	29,075,767	25%
Transient Occupancy Tax	2,500,000	2%
Charges for Services	13,994,978	12%
Licenses, Permits & VLF	14,418,031	13%
Transfers In	6,107,155	5%
All other	4,577,087	4%
Total Revenue	**$115,331,448**	**100%**

Revenue Types

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- **Property Tax**
- **Sales Tax**
- **Transient Occupancy Tax (TOT):** % charged on all hotel stays in the City of Folsom
- **Charges for Services:** Engineering fees, plan and map checks, administrative fees, fire services, recreation programs

Revenue Types

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- **Licenses, Permits & VLF:** Business license certificates, building permits, encroachment, fire and other permits and Vehicle License Fees
- **Transfers In:** Allocates departmental costs incurred by the General Fund to all funds that receive benefit from services that the General Fund departments provide
- **All other:** Grants, reimbursements, third party recoveries, donations, gifts, sale of publications, misc.

Budget Process

Budget Preparation

- Per the City's municipal code, an annual budget shall be prepared by the City Manager, with the assistance of the Finance Director. The budget shall be presented to the City Council on or before the first working day of the last month of each fiscal year (June 1).

- The GFOA's recommendation is that the budget be prepared, presented and administered by the chief executive. The governing body should focus its attention on policy issues, as excessive review of details may preclude thoughtful study of broader policy issues that rightfully should dominate public policy debate.

Budget Principles

- The City's municipal code and financial polices require the City Manager to propose a balanced budget, which means proposed expenditures cannot exceed estimated revenues.

- GFOA's best practices recommend that the operating budget be developed with a sharp focus on long-term solvency. Long-term financial commitments to continuing outlays should be avoided unless sustained revenue growth is assured.

Budget Principles

- The City’s financial polices require that one-time revenues only be used for one-time expenditures
- GFOA’s best practices recommend that nonrecurring revenues and resources should not be used to finance continuing operations.

Budget Revenue Estimates

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- The City’s financial policies require that revenue estimates be monitored on a monthly basis to identify any potential trends that would significantly impact revenues sources
- City staff consults with outside experts to determine Sales Tax and Property Tax revenue estimates

Budget Revenue Estimates

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GFOA recommendations:

- Revenue estimates should be based on reasonable expectations and conservative estimates are appropriate.
- “Optimistic” revenue projections usually precede a financial crisis. Inflating revenue estimates to avoid cutting expenditures only defers and aggravates the fiscal imbalance. To continue operations, recuring expenditures requires matching revenue sources.

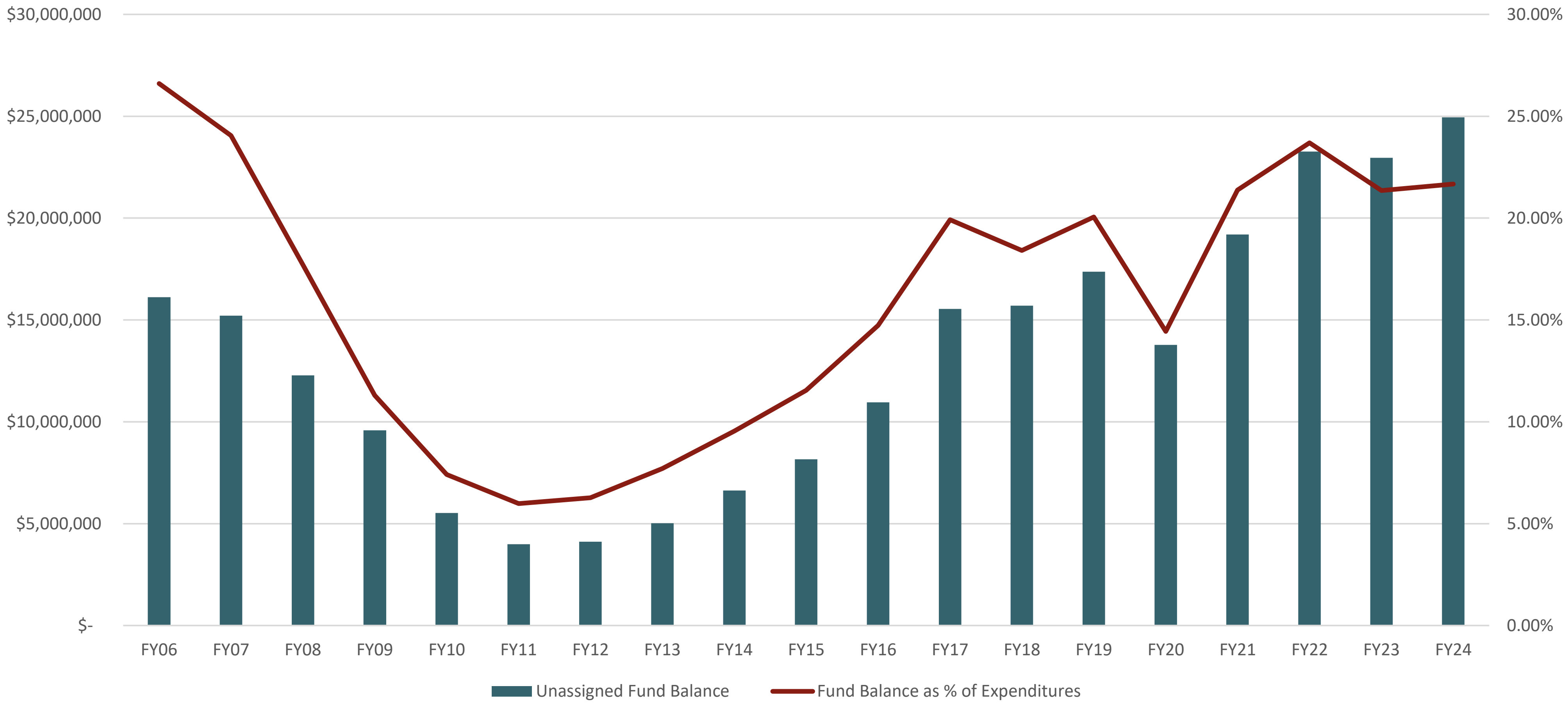
Budget Contingency Requirement

- The City's Financial Polices require that a General Fund contingency of 1% of total budgeted departmental expenditures be budgeted annually

- This may be used to provide for unanticipated or unforeseen needs that arise during the year

- Any unspent contingency budget rolls into unassigned fund balance at the end of the fiscal year to maintain the required unassigned fund balance % as a percentage of expenditures

General Fund Unassigned Fund Balance



Budget Requirements for Fixed Asset Replacement Policy

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- The City's financial polices require that equipment and buildings be maintained at reasonable levels to avoid service disruptions, achieve maximum useful life, and to ensure safety of employees and the public
- The City's financial polices require that maintenance and replacement funding be allocated each year consistent with this policy
- The City's municipal code requires that a Building/ Equipment Fund (currently the Capital Fund) and a Computer Fund be operated with adequate reserves to meet emergencies and to replace the depreciable fixed assets of the fund as they wear out or in reasonable anticipation of their failure

Budget Requirements for Fixed Asset Replacement Policy

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- The City's financial polices further require that the budget provide sufficient funding for adequate maintenance, renovation and the orderly replacement of capital assets such as equipment, fleet, facilities and parks

- All capital assets shall be maintained at a level that protects capital investment and minimizes future maintenance and replacement costs

Budget Requirements for Fixed Asset Replacement Policy

GFOA recommendations:

- An important part of the capital planning process should be a determination of the amount of funding required each year to provide for orderly replacements without burdening the community with future debt loads
- Capital facilities inevitably age and become obsolete; Public officials should anticipate and provide for their replacement
- Public officials frequently are asked to promote new facilities when funds are not even budgeted to finance the maintenance and replacement of existing structures.

General Fund Expenses

- Employee labor and benefit costs, ongoing contracts, insurance costs, utility cost true-ups, etc. are added to the base budget to determine our new “as-is” expense total
- If the “as-is” expense total is less than the estimated revenues, the City Manager will prioritize department requests to recommend budget additions
- The budget must be balanced with revenues equal to expenditures

Historical Allocation (Pie Chart)

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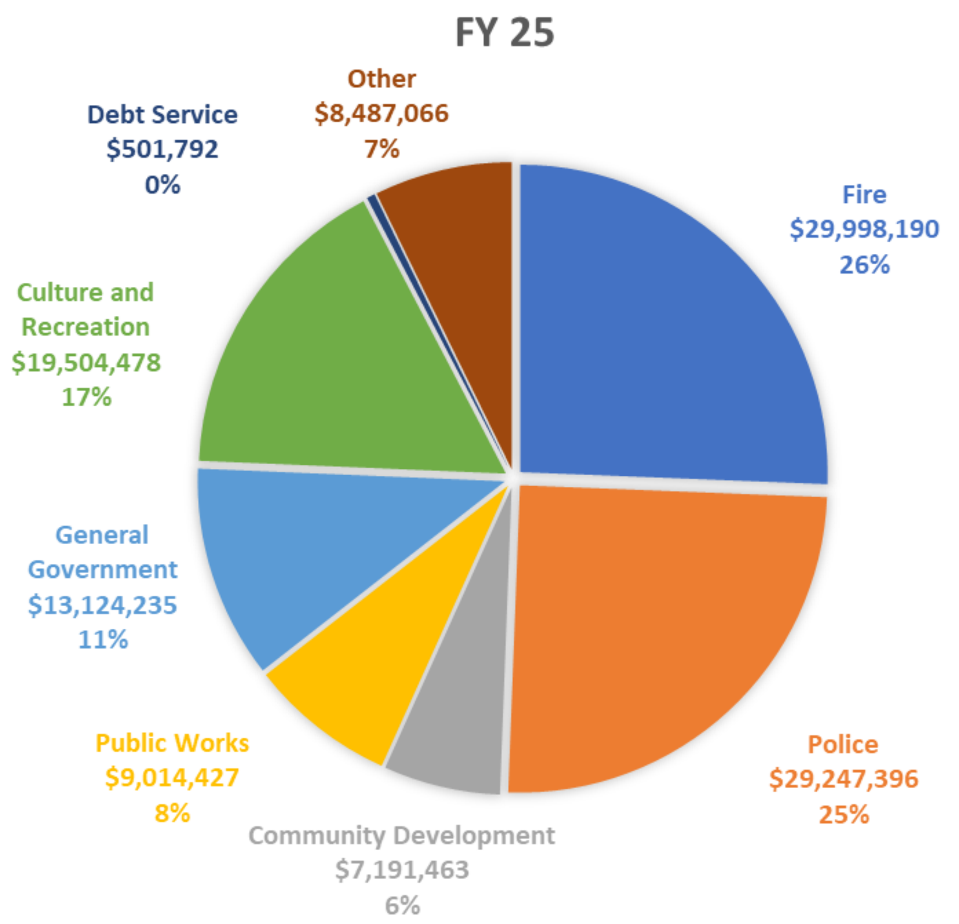

FY 2025/26 Budget Schedule

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May 27, 2025 - presentation of the proposed budget

June 10, 2025 - public hearing and first opportunity for budget adoption

- Per the City's municipal code, the budget must be adopted by the last working day of the fiscal year (June 30)
- If the City Council does not adopt the budget by June 30, the budget as proposed by the City Manager shall be deemed adopted

Communication of Financial Data

- Quarterly Financial Reports with Budget to Actual comparisons and year-end projections
- Annual Comprehensive Financial Report (ACFR) - audited by independent certified public accounting firm and submitted to the GFOA for consideration for the award for Excellence in Financial Reporting
- Annual Operating and Capital Budgets – Adopted by the City Council. Must adhere to the GFOA standards for the Distinguished Budget Presentation Award