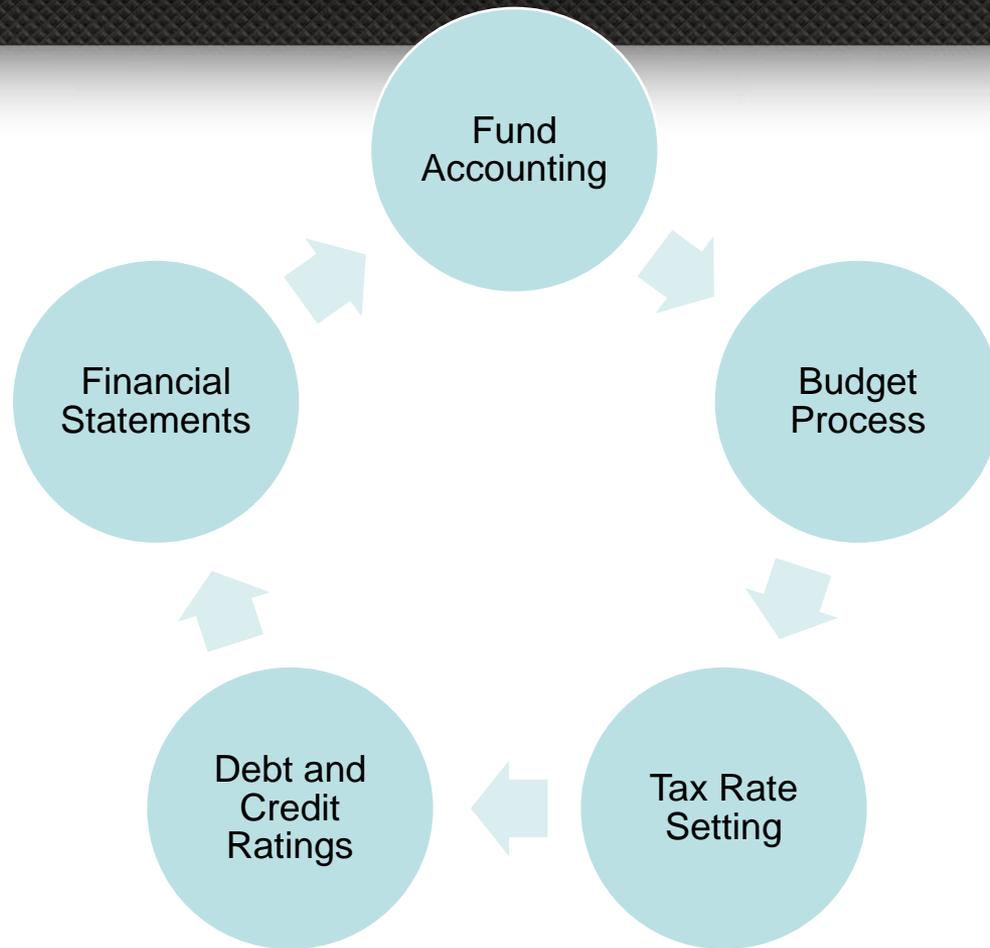




Municipal Finance 101

Understanding Municipal Finance



Fund Accounting



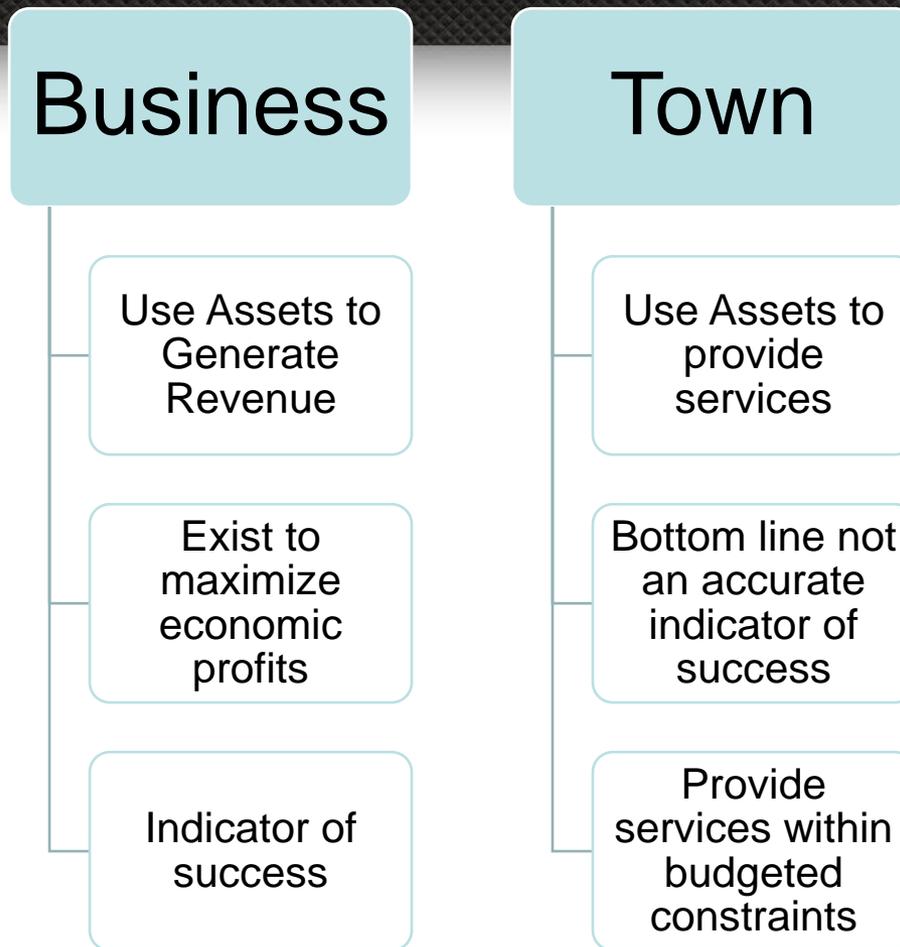
Governmental
Accounting,
Auditing, and
Financial
Reporting

“How much money did we make?”

VS

“How did we spend the money?”

Municipal vs Business Finances





Fund Accounting

What is Fund Accounting? Why is it used, and what makes it different from other financial accounting models?

“...A tool for organizing and presenting data about financial resources that highlights the fact that certain resources have been ‘segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations.’ For state and local governments, that tool is fund accounting.”

-Gauthier, Stephen J. Governmental Accounting, Auditing and Financial Reporting. Chicago, IL: Government Finance Officers Association, 2012. 16. Print



What is Fund Accounting?

Municipal Finance is organized and reported on the basis of funds

- A fund is used to separately identify activities
- Fund accounting allows for accountability
- Some funds are established by law
- Other funds are created at the discretion of the Town
- In the private sector, sometimes separate companies are set up for legal, liability or tax purposes, in the public sector separate activities are accounted for in separate funds.

Types of Funds

Governmental Funds

- General Fund
- Special Revenue Funds
- Capital Project Funds

Proprietary Funds

- Enterprise Funds

Fiduciary Funds

- Trust Funds
- Agency Funds



"Hey, we're government accountants.
These numbers aren't supposed to add up."



What is the “General Fund?”

- The chief operating fund of the Town
- Contains uncommitted resources that may be used for general purposes
- Contains all activity that has not been assigned to a specific individual fund
- Accounts for general municipal operations (e.g. public safety, public works, parks and recreation)



Types of Special Revenue Funds

- Federal, State and Local Grant Funds – legal restrictions
- Gift Funds – local acceptance
- Receipts Reserved for Appropriation – established at Town Meeting
- Revolving Funds – established and authorized annually at Town Meeting



What is a Revolving Fund?

Revolving funds are described by the Department of Revenue as “A revolving fund separately accounts for specific revenues and earmarks them for expenditure by a board or officer without appropriation for particular purposes to support the activity, program or service that generated the revenues. Typically, revolving funds are authorized by state law for programs or services with expenses that:

- 1) fluctuate with demand and
- 2) can be matched with the fees, charges or other revenues collected during the year”.



Revolving Funds

- Created under G.L. c.44 § 53E1/2 and authorized by vote at various town meetings
- Categorized as departmental revolving funds
- Spending authorizations voted annually by legislative body
- Can be authorized for any department except water, sewer and hospital or cable access
- Can be used for capital and debt service expenditures if the expenses are in connection with the program or activity generating the revenue and authorized by by-law or ordinance
- The Town of Harwich currently has 12 Revolving Funds



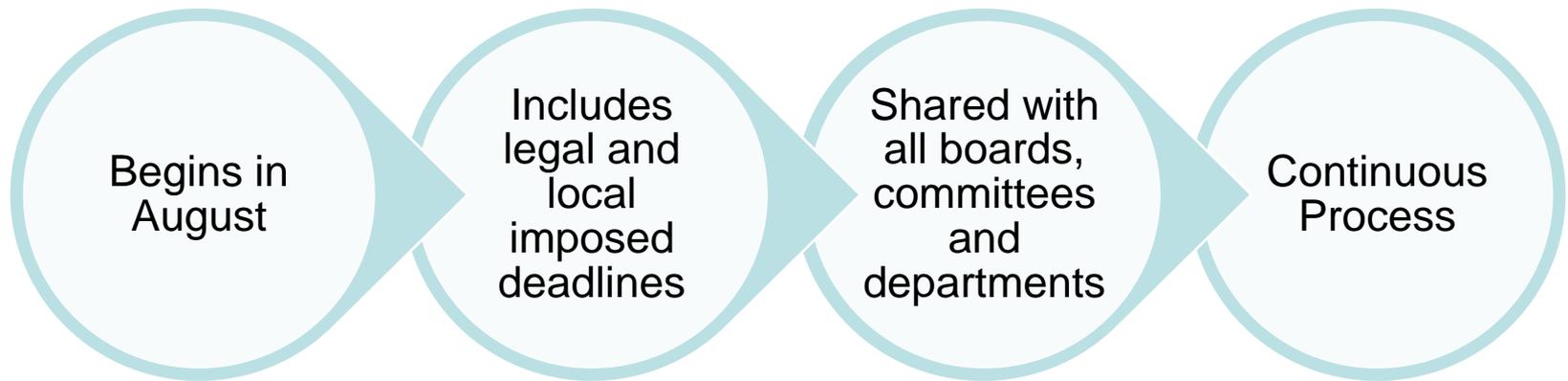
Budget Process

Six Defined Steps

- Planning
- Budgetary Guidelines
- Department Budgets
- Review
- Presentation at Town Meeting
- Monitor



Budget Timeline





Annual Budget

- Town Administrator submits budget document to BOS on or before 2nd Tuesday in February
- The Budget Document identifies
 - The Town's Service Priorities
 - How Much will be spent for services
 - How it will meet the goals of objectives of each department
 - Strategic and forward thinking



Annual Budget

- The foundation on which all other elements of municipal finance are built
- Includes operating budgets for the General, Enterprise and Community Preservation Funds
- Appropriations are not a forecast of the amount the town expects to spend; with limited exception, it is the maximum amount that management is allowed to spend.
- The Town Administrator's budget document is available on the town's website – [FY 20 Proposed Budget](#)

Importance of the budget

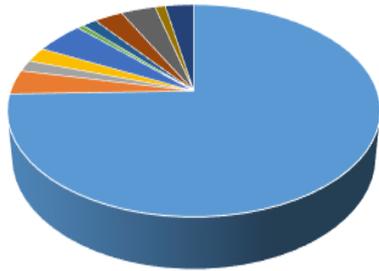
The budget is the most important financial planning tool that the governing body has. This is where you shape the financial direction of the town.

Consider:

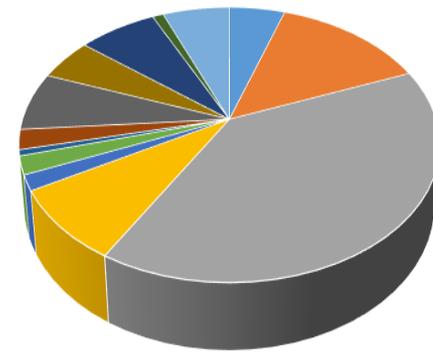
- ✓ How do the activities/programs fit in with the town's overall goals and objectives?
- ✓ Is the level of service sustainable over the long run (based on financial forecast)?



What are the major revenue sources and major expenditures



- Real Estate & Personal Property Taxes
- Excise Tax
- Hotel/Motel & Meals
- Ambulance
- Waste Disposal
- Beach, Recreation & Youth
- Harbors & Landings
- Golf Operations
- Other Local Receipts
- State Aid
- Transfers from other funds



- General Government
- Public Safety
- Education
- Public Works
- Human Services
- Culture & Recreation
- Harbors
- Golf
- Debt
- Assessments
- Health Insurance
- General Insurance
- Water Enterprise



What is Proposition 2 ½?

- M.G.L. Ch. 59 Sec. 21C
 - Passed by Massachusetts voters – Nov 1980
 - Limits the amount of property taxes to be raised or levied each year
 - Places restrictions on the annual property tax levy
 - Harwich cannot levy in excess of 2.5% of the value of all taxable real and personal property – Levy Ceiling
 - The levy limit increases each year due to two factors
 - 2.5% over the prior fiscal year valuation and
 - Increase in valuation not as a result of a revaluation “new growth”

Two other ways to increase the Levy Limit

- Proposition 2 ½ also provides for the ability to levy more in taxes than otherwise permitted – Overrides and Exclusions
 - An override increases the Levy Limit and becomes part of the base for calculating the limit in future years
 - permanent increase
 - An exclusion raises additional taxes to fund capital projects
 - Two types of exclusion options – debt and capital
 - Does not become part of the base in the future – temporary increase

Sample Levy for Harwich

Town of Harwich Raise & Appropriate	FY 18 Actual	FY 19 Budget	FY 20 Budget
BASE LEVY LIMIT	\$ 41,283,806	\$ 42,683,458	\$ 44,144,163
PLUS 2.5% LEVY	1,033,372	1,067,086	1,103,604
PLUS GROWTH	366,280	393,619	300,000
GEN. OVERRIDE/EXCESS LEVY	-	-	392,081
SUBTOTAL	42,683,458	44,144,163	45,939,848
CAPITAL EXCLUSION/ FIRE DEPT	420,000	-	-
EXCLUDED DEBT(DE-1)	1,816,989	3,337,870	4,650,352
MRSD HS Debt Service	1,635,757	1,611,912	1,658,018
CCRTHS			908,892
CAPE COD COMMISSION	<u>217,944</u>	<u>211,604</u>	<u>203,498</u>
TAX LEVY LIMIT	<u>\$ 46,774,148</u>	<u>\$ 49,305,550</u>	<u>\$ 53,360,608</u>
Levy increase	\$ 3,018,129	\$ 4,305,422	\$ 6,586,460
Overlay (Abatements- Real Estate Taxes)	\$ 460,000	\$ 460,000	\$ 460,000
Overlay Surplus	100,000	100,000	100,000



Tax Rate Setting Process

- 1) Project Levy Limit for next fiscal year
- 2) Will an override/exclusion be included?
- 3) Estimate total revenues
- 4) Adopt and implement the budget
- 5) Determine assessed valuations
- 6) BOS hold public hearing on property tax classification
- 7) Prepare tax rate
- 8) Assess and collect property taxes
- 9) Administer property tax abatements/exemptions

Issuing Debt – Municipal Bonds

The town issues debt for many reasons:

Capital Plan

- Wastewater Projects
- Fire Station #2
- Roadway Maintenance

Also

Major equipment and vehicle purchases
Major infrastructure improvements and
maintenance





Issuing Debt

When the town borrows money or “issues debt” that simply means that the town sells municipal bonds.

- Bonds are instruments in which an investor loans money to an entity which borrows the funds for a defined period of time.
- The issuer (Harwich) agrees to pay back the principal plus an amount of interest over a period of time, typically 10 – 25 years.

Credit Rating

Harwich's credit rating is very similar to a consumer credit score: the higher your credit score (or credit rating for the local government), the lower the interest you will pay.



CREDIT
SCORE





Credit Rating (S&P)

AAA – An obligation rated “AAA” has the highest rating assigned by Standard & Poor’s. The obligor’s capacity to meet its financial commitment on the obligation is extremely strong.

AA

An obligation rated “AA” differs from the highest-rated obligations only to a small degree. The obligor’s capacity to meet its financial commitment on the obligation is very strong.

A

An obligation rated “A” is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher categories. However the capacity to meet financial commitments is still strong.

BBB, BB, B, CCC, CC and C

These obligations are regarded as adequate to significant speculative characteristics, the highest level of speculation resides with a credit rating of C

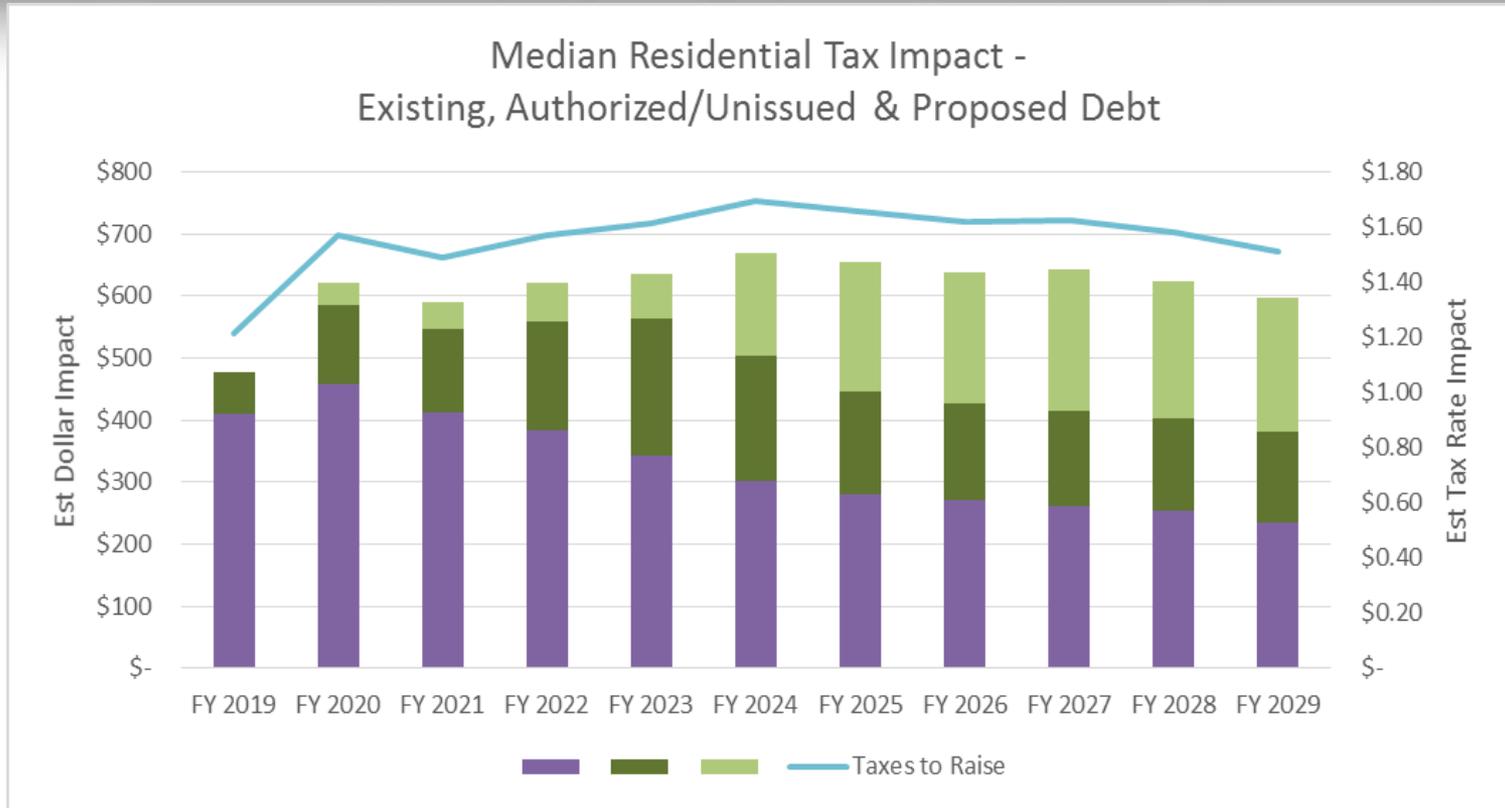
Harwich Results

STANDARD & POOR'S

- Very Strong Economy – 30%
- Strong Management – 20%
- Strong Budget Performance – 10%
- Very Strong Budget Flexibility – 10%
- Very Strong Liquidity – 10%
- Very Strong Debt and Contingent Liability Position – 10%
- Strong Institutional Framework – 10%



What is the Town's Debt Load?



Managing the Town's Finances

- The Town's financial reports are compiled to answer three basic questions:
 - Where did the funds come from?
 - What activities did we spend the funds on this year?
 - Do we have enough funds to meet our obligations in the next year (what do we have left)? What is the Town's Fund Balance?
 - Fund Balance is the measure of financial health of each individual fund.

On an annual basis the Town prepares a Comprehensive Annual Financial Report (CAFR), the most recent CAFR is located on the town's website, [FY 18 CAFR](#)

- Reports the Town's financial activities from the preceding fiscal year and is presented in GAAP (Generally Accepted Accounting Principals) format.



The Audit Process

- The audit firm is chosen through a Request for Proposal process.
- The audit firm is approved by the Board of Selectmen for anywhere between 2 – 5 years. Once the contract is completed the RFP process is repeated.
- What happens during the Town's annual audit? How long does it take? Who is involved?
- In April – May the audit firm begins interim fieldwork
- At Fiscal Year End, Finance Department staff compile different schedules used by the audit firm. This process takes approximately 60 days to complete
- Final audited financial statements are required to be completed by the audit firm by December 31st



What is Free Cash?

- Funds that are available for Appropriation
- Generated when actual revenue collections are in excess of estimates, when expenditures are less than appropriations or both
- Must be certified by the Department of Revenue annually
- Cannot be appropriated until certified
- May be used for any lawful purpose or locally imposed restrictions
- Certification expires on June 30, the end of the fiscal year





Thank you!

Q & A

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