

# NWMC Elected Officials Institute

## Government Finance Primer

Scott Anderson - Barrington Village Manager

- Zero to 100 MPH**  
**Welcome to Your New Role!**
- Things to Learn Quickly**
- The Budget and the Role of Elected Officials.
  - How Do We Pay for This? Major Revenues and Financing.
  - Good Financial Stewardship and the Need for Long-Range Forecasting Tools.
  - Audit, Compliance and Policies.
  - Fund Accounting and the Confusing World of Governmental Accounting.

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## Zero to 100 MPH Welcome to Your New Role!

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#### Budget

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#### Budget Types

- Annual and Biennial
- Line Item/Program
- Zero Based
- Budget Officer vs  
Appropriations  
Model

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# BUDGETING

A DECISION-MAKING PROCESS IN WHICH MANAGEMENT DANGLES LESS-THAN-ADEQUATE RESOURCES OVER OUR HEADS TO SEE WHICH OF US BEGS MOST CONVINCINGLY.

# Annual Budget

Legally Required Planned Course of Action Over a Set Period of Time. The Budget is not Just a Management Tool.

## A Great Budget Will:

- Set Spending Controls.
- Clearly Communicate Board Priorities.
- Identify Notable Trends and/or Concerns.
- Report Progress on Goals/Initiatives.
- Be Timely.

## A Budget Shouldn't:

- Be out of Balance Operationally.
- Lack Accountability.
- Be Just a Big Book of Numbers.



## Budget Types

- Annual and Biennial.
- Line Item/Program/Zero Based.
- Budget Officer vs Appropriations Model.

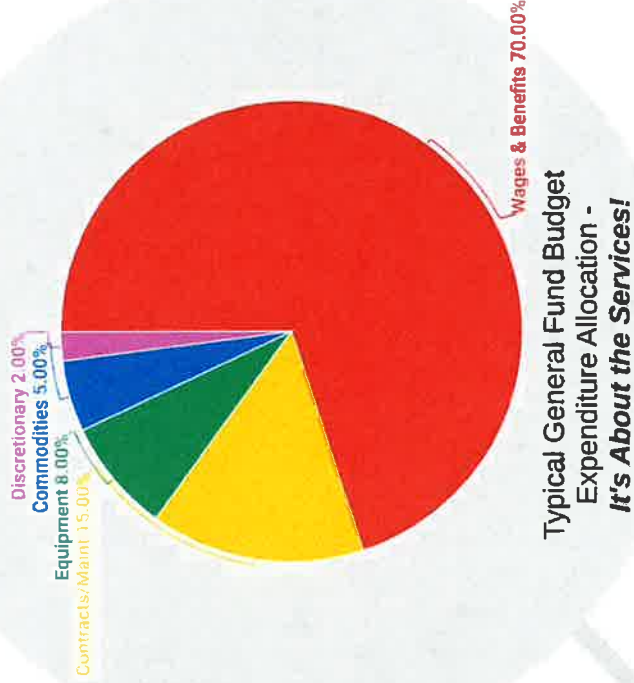
## The Budget is a Reflection of Board Priorities

The Budget Should Align with the Elected Board's Strategic Goals.

- Resource Commitment.
- Measure Outcomes to Determine Success.
- Annually Reassess Goals.

Role of the Elected Official

- Set Policy and Give Direction.
- Understand Limitations on Funding Before Making Commitments.
- Ask Questions!



Typical General Fund Budget Expenditure Allocation - *It's About the Services!*

# Major Revenues

## Inelastic (More Stable-Recession Resilient)

- Property Tax
- Utility Use Tax
- Telecom Tax
- User Fees - Water/Sewer

## Elastic (Less Stable-Economic Sensitive)

- Sales Tax
- Utility Use Tax
- Telecom Tax
- User Fees - Recreation
- Building Fees

Food & Beverage Tax -  
Can Be Both

# Property Taxes

Property Tax - Ad Valorem Tax

- Most Stable Source of Revenue.
- Great Source of Community Engagement.

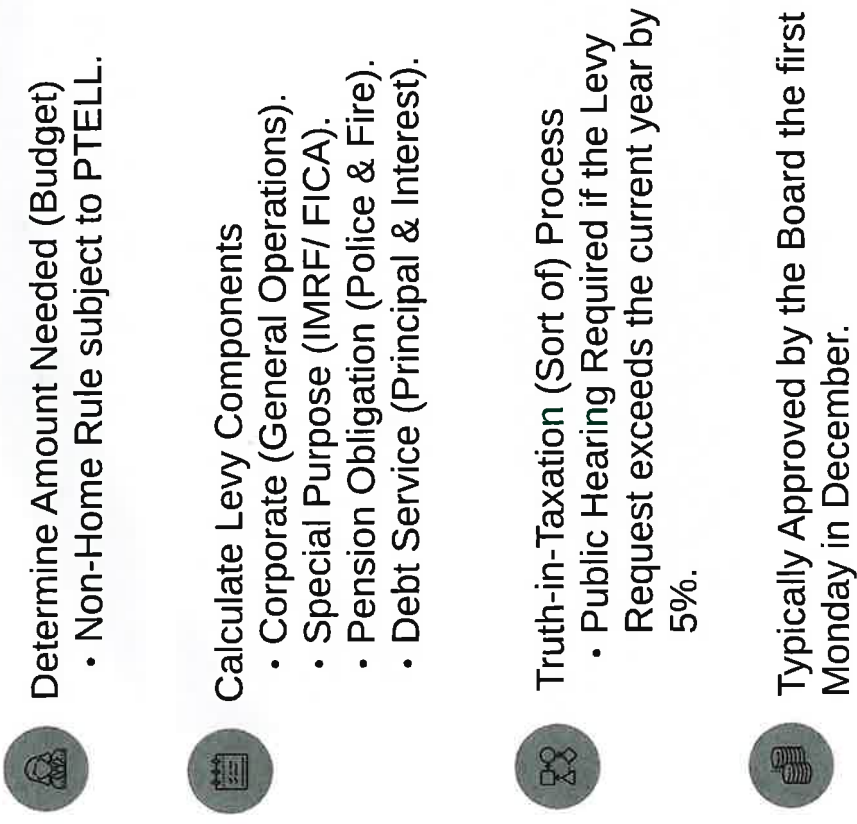
Equalized  
Assessed  
Value (EAV)

Amount  
Requested  
(Levy)

Tax  
Rate

$$\text{EAV/Levy} = \text{Tax Rate}$$

## Building a Levy





**Many Taxpayers Blame  
Municipal Elected Officials For  
Large Property Tax Bills,  
but...**



**Most Municipalities Only Represent 15% or  
less of the entire property tax bill....**

## Building a Levy



Determine Amount Needed (Budget)  
• Non-Home Rule subject to PTELL.



Calculate Levy Components  
• Corporate (General Operations).  
• Special Purpose (IMRF/ FICA).  
• Pension Obligation (Police & Fire).  
• Debt Service (Principal & Interest).



Truth-in-Taxation (Sort of) Process  
• Public Hearing Required if the Levy Request exceeds the current year by 5%.



Typically Approved by the Board the first Monday in December.

Tax Levy Realities

# Types of Debt

## **General Obligation Bond (GO Bond)**

- Backed by the Ability to Levy a Property Tax.
- No Referendum or Limit (Home Rule).

## **Alternate Revenue Bonds**

- Revenue is Pledged to Meet Obligations (1.25X)
- Ability to use Property Tax as the Backup.

## **Revenue Bonds**

- Issued for Revenue-Producing Undertakings.

## **Special Service Area Bonds / TIF Bonds**

## Long Range Financial Stewardship

It is hard to make meaningful short term financial decisions (annual budget) without understanding what is on the horizon.

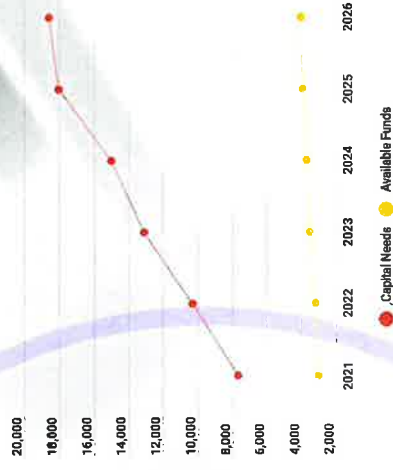


## Capital Improvement Plan (CIP)

- Five Year Snapshot of Infrastructure Needs.
- Fight Through the Sticker Shock!
- Reductions in Capital Spending are Not Cuts - they are Deferrals.

## Five Year General Fund Forecast

- Five Year Forecast of the Main Operating Fund.
- Goal is to Identify Trends and have Time to Develop Strategies.





**Audit,  
Compliance,  
Policies and Other  
Things that Go  
Bump in the Night**

**Compliance  
& Policies**

**Governance**

## **Comprehensive Annual Finance Report**

### **What it is...**

- An attestation as to the accuracy of financial reporting. Opinions are equal unqualified, qualified or no opinion.
- A process to test policies and procedures to ensure controls are in place to minimize the opportunity for bad things...(theft, fraud, etc.)

### **Who is it for...**

- All interested stakeholders including bond holders, residents, and most importantly - the elected board.
- Engage in the process! If you question something ask the auditor to clarify or investigate.

### **What it isn't...**

- An Auditor's opinion about the financial condition of the municipality. Only the accuracy.
- A guarantee that there are not bad things happening

## **Typical Policies**

### **Fund Balance/Reserves**

- Sets a Minimum to be Set Aside in Reserves.
- Establishes When it is Appropriate to Draw Down the Balance.

### **Procurement**

- Sets Spending Authority and Requirements for Bidding.
- Provides Rules for Procurement Card Use.

### **Investment**

- Defines How Funds Can be Invested.
- Limits the Aggregation of Funds with One Investor.
- Focus of all Investments (excluding Pension Funds) on Preservation of Capital and Liquidity.



## **Governmental Accounting**

### **Fund Accounting**

- A Fund is a Accounting Entity with a Self Balancing Set of Accounts.

### **Fund Types**

- Governmental - General Fund
- Enterprise - Similar to Private Sector
- Fiduciary



### **Terminology**

- Governmental Accounting Standards Board (GASB) sets the Rules
- Depending on the Fund - Reserves are Fund Balance or Net Assets.
- Costs are either Expenditures or Expenses.

Property Tax Cycle

Debt & Long Term Borrowing

Important Financial Planning Tools



Long Range Financial Stewardship

Major Revenues

Property Taxes

Budget Details

Annual Budget



Audit, Compliance, Policies and Other Things that Go Bump in the Night

Audit

Compliance & Policies

Governmental Accounting

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