

## Finance Planning for Local Governments.

### Finance Planning.

Planning the finances of a local government is a sophisticated exercise requiring the skills of an accountant as well as the vision of a public administrator. The “finance plan” envisioned here is not the annual budget, not even the five-year capital plan. The finance plan is both long-term and comprehensive.

- **Long-term means decades.** At least twenty years, better thirty.
  - Think of the life of most physical infrastructure; it is at least thirty years when well planned, constructed and maintained. In many cases, some infrastructure systems last a century.
  - Think of municipal bonds. Even though they are re-financed occasionally, their face-value term is usually thirty years. There is currently talk of one-hundred year bonds.
  - It seems to make sense to give more than passing attention to these long-term financial obligations even though the political life of elected officials is much shorter.
- **Comprehensive means comprehensive.** All service and facility revenues and expenses need to be included in the finance plan. A complete analysis of all sources and uses of funds ensures that everything is on the table, including deferred maintenance and reserve funds. Once the complete balance sheet and income statement is available, planning can begin.

### Uses of Funds.

Determining the uses of funds is the easier part of the process. The city, its residents and businesses need what they need to maintain a lifestyle that fits within their means.

- Visioning sessions that are transparent, inclusive and continuing establish the expectations of the community. Tempering wants and desires with fiscal reality is part of the process.
- The efficient use of available funds is the constant job of management.

### Sources of Funds.

This is where the fun starts. There are historic precedents, traditional sources, debt and scads of legal, political and legislative limitations, preemptions and caps, all real. The trick seems to be to mix the variety of sources, internal and external, in a way that recognizes the limitations and reveals new combinations and applications that increase the amount of funds available now and in the future.

- **General government** taxes, fees, assessments and exactions form the base of local revenues.

## Finance Planning for Local Governments.

- **Taxes** associated with general purpose and special purpose governmental units have been a traditional source of local government revenue. General government taxes arise from ad valorem property taxes, sales taxes, gas taxes, intangible taxes and an assortment of smaller sources. Raising property, sales and gas taxes has generally been rebuked by the community despite obvious needs and negligible impacts on individuals.
- **Fees and assessments** are more fertile ground for enactment.
  - In most cases, they do not require legislative authorization. They can be enacted by a majority vote of the authorized elective body, e.g., city council.
  - Fees and assessments also provide a more obvious use of the money. The funds do not descend into the general fund that knows no direct accountability. The funds are usually directed at a specific service or facility. People see what they are funding.
- **Exactions** are funds or improvements associated with private physical development.
  - Neighborhood developers build sidewalks and typically dedicate them to the city for maintenance. Other more significant facilities are sometimes required, and they are sometimes contested as a “taking” or inappropriate exaction.
  - Impact fees are used to enable developers to pay into a designated fund rather than construct a facility. This works well when the developer is only partially responsible for a needed facility; the developer’s impact fee is the fair share of the total need.
- **Special districts** offer another approach to planning, implementing and funding special services or facilities. A special district, usually enabled by state legislation, is generally a specific geographic area of the city that has a special need. Downtown redevelopment, neighborhood streetlighting and isolated flood improvements are examples. These are usually dependent districts under the control of the host general purpose government.
  - **Community development districts [CDDs] and business improvement districts [BIDs]** usually add to the tax revenue flow with milage rates above the general-purpose rates.
  - **Community redevelopment districts [CRAs]** redistribute existing tax revenues by diverting a portion of the defined district’s property taxes into a trust fund for use only within the district.
- **State and federal government grants and loans** contribute to the mix. Many grant programs require a local cash or in-kind match. Loans, even with favorable terms, need to be repaid from some local revenue source.

## Finance Planning for Local Governments.

- **Enterprise funds** exist as another way to provide specific services and facilities with a directly related funding system; think water and sewer systems that are independent activities that charge fees to cover their costs. A municipal electric system is a great source of money for the city with enough money going to the utility to cover costs and the balance reverting to the host city's general fund. These are also under the control of the host general purpose government but their purpose is clear and their operations are dependent on the revenues they raise, i.e., the rates they charge customers.
- **Philanthropy** is an underappreciated source of revenue for local communities. Monies may flow through the city's system, or the monies may go to charitable organizations and institutions that build and maintain facilities for the public that enhance the community's quality of life.
- **Privatization of public services and facilities.** Private business is funding charter schools, usually supported with public funds. Private businesses are building toll roads. Private governments are emerging in residential communities with gates and private streets, assessments and regulations all beyond the control of the host local government.

There you have the pallet of revenue sources available to every city. The art of the system comes from using each source to its maximum legal and political extent while mixing and matching sources, leveraging sources with partner funds from state, federal, private or institutional sources and using debt financing to create a long-term, comprehensive finance system that can sustain the city in perpetuity. Define the service/facility unit big enough for two reasons: first, so the revenue generating parts of the system can support the non-revenue generating parts of the system. Second, so the revenue part of the system can encourage proper and sustainable behavior.

**A masterful management of public monies** is to rise above the specific program designations associated with many funding sources. Use revenue-generating sources to support allied and closely related services and facilities that do not easily generate revenue.

- **Parking** is a great example. Parking, especially downtown, offer two opportunities. First, use parking revenues to fund alternative travel modes like transit and bike/ped systems. Second, consider private parking spaces as commercial property and tax them as such. Excess spaces for peak periods will be more carefully scrutinized once they are subject to commercial property tax rates.
- **Stormwater management** is another great example. First, the public acceptance of privately built retention ponds for public maintenance in perpetuity should stop without a commiserate funding arrangement. Private property runoff should be considered a

## Finance Planning for Local Governments.

private property problem. The acceptance of private drainage flows into public systems along public rights-of-ways could be accompanied by a compensating fee on the private development creating the runoff rather than putting the cost burden on general government. When private users must pay the true cost of disposing of their stormwater, innovative site development standards like low-impact-development [LID] and wetland preservation may become more popular.

Second, once that fees for the maintenance of private stormwater systems are raised to the level that actually covers the full cost, funds may be available to support the entire system of ponds, conveyance systems, along with the uplands, wetlands and water bodies that are integral parts of the city's holistic water management system.

### **Directly relate the costs with the users of public services and facilities.**

The philosophies like zero-based budgeting, full cost accounting, user pays and similar approaches apply the true cost of service to those causing the need for service. Put the financial burden where it belongs. In smaller, slower growing communities, the more accommodating methods of shifting private costs to taxpayers had time to self-correct and avoid any financial disparities or malfunctions. In a fast-growing urban environment, costs and causes have to be directly connected in order to create a fiscally responsible, sustainable and equitable system of public facility and service management.