

Municipal Finance: The Basics of Budgeting, Revenue Sources, Borrowing, Depositories, and Investments

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Overview

1. Municipal Budgeting
2. Municipal Revenue Sources: Where does the money come from?
3. Municipal Borrowing: Types of Municipal Debt
4. Municipal Depositories
5. Municipal Investments

Municipal Budgeting

- **Applicable Law**
 - Local Gov't Code, Chapter 102 (Uniform Budget Law)
 - Tax Code, Chapter 26 (relating to Property Taxes)
 - Applicable home rule charter provisions

- **Resources**
 - TML's *Budget and Taxation Deadlines*
 - Comptroller's *Budgeting Manual for Cities*

Municipal Budgeting

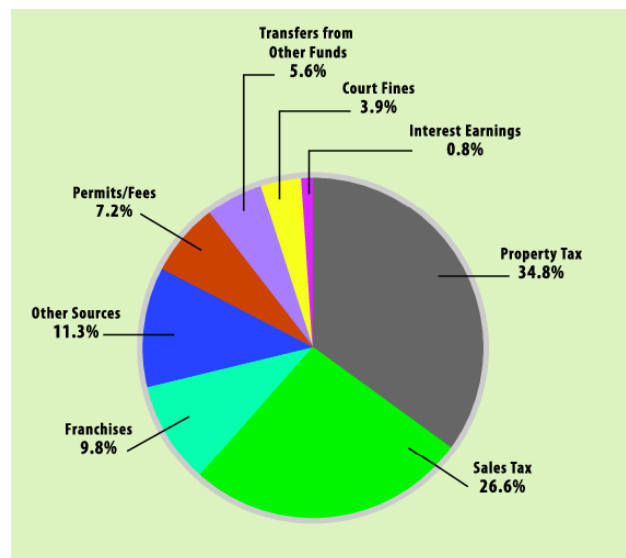
- Budget Officer
 - Mayor v. City Manager
 - Cannot reassign statutory duties of Mayor

- Statutory Elements of Budget
 - Itemize expenditures
 - Identify projects
 - Complete financial statement

Steps in the Municipal Budget Process

- Preparation of Proposed Budget
- Filing of Proposed Budget
- Proposed Budget Made Available to the Public
- Public Hearing (and Notices)
- Adoption of Budget
- Filing of Adopted Budget
- Posting Adopted Budget on Internet
- Budget Amendments

Where do municipal funds come from?



Resource: *Revenue Manual for Texas Cities*

Municipal Revenue: Property Taxes

- Also called “ad valorem taxes”
- Tax Code supersedes charter provisions
- Maximum tax rates
- Must levy taxes in accordance with budget
- Generally, must adopt taxes by September 29

Types of Property Tax Rates

- Effective Tax Rate
- Rollback Tax Rate
- Proposed Tax Rate
- Nominal Tax Rate (“actual rate” or “gross rate”)
 - Maintenance and Operations (M&O) Tax Rate
 - Debt Service Tax Rate
- Default Tax Rate

Municipal Revenue: Sales Tax

- Two Types
 - Sales Tax for General Revenue: set at 1%
 - Sales Tax for Dedicated Purposes: beyond the 1%
 - Sales Tax for Crime Control
 - Sales Tax for Economic Development
- “Two Percent” Cap
 - All local sales taxes combined cannot exceed 2%
 - City may have less than 1% for dedicated uses
 - City may switch one dedicated sales tax to another
- All city sales taxes require a local-option election

Other Sources of Municipal Revenue

- Franchise Fees
- User Fees
- Utility Fees
- Court Fines
- Interest Earnings
- Transfers from Other Funds
- Hotel Occupancy Taxes

Municipal Borrowing: Bonds

- City must have specific authority to issue bonds for a specific purpose
- Authority derived from:
 - **Statutes**
 - General authority: Tex. Gov't Code §1331.001
 - Additional Statutory Authority
 - **Home Rule Charter**
- Restrictions on use of funds
- Role of Attorney General: Gov't Code, Chapter 1202

Municipal Borrowing: Types of Debt

- General Obligation Debt
 - General Obligation Bonds
 - Time Warrants
 - Certificates of Obligation
- Revenue Bonds
- Lease-Purchase Agreements
- Anticipation Notes
- Judgment Bonds
- Tax Note
- Refunding Bonds

Municipal Borrowing: Key Questions

- What is the purpose for borrowing money?
- Who are the parties involved when a city borrows money?
- What are the various types of debt that may be issued by a city?
- What is the security for repayment of the debt?
- What are the procedures for issuing debt?

Municipal Depositories

- Statutes
 - Local Gov't Code, Chapters 105 and 131
 - Gov't Code, Chapter 2257
- Requirements:
 - City Council must designate financial institution that will serve as municipal depository
 - Institutions not located in city
 - Depository Services Agreement
 - Conflicts of Interest
 - Special Depository

Municipal Investments

- Public Funds Investment Act (“PFIA”) (Gov’t Code, Chapter 2256)
- Requirements:
 - City must comply with PFIA to invest public funds
 - Written investment policy
 - Include list of authorized investments
 - Only invest in authorized list
 - City official must complete training regarding PFIA

Questions?