UNDERSTANDING YOUR FINANCIAL OVERSIGHT RESPONSIBILITIES

Martie Simpson, CPA - Executive Director - GFOAT

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GFOAT Mission Statement

Promoting Excellence in Government Finance

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What is Our Agenda Today?

- Fund Basics
- Budgeting Basics
- Capital Budget Basics
- Tax Rates
- Key Financial Policies
- Financial Process
- Funding Sources

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Fund Basics:

What are Funds?
What are the types of Funds?

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Funds and Fund Balance

- City finances are organized on the basis of Funds – based on function and purpose
- Each Fund is a separate, self-contained set of accounts, assets, liabilities, revenues and expenditures
- Smaller cities can operate with only one fund
- Each fund must operate as a separate entity

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Fund Types

- Governmental
- Enterprise Funds/Business-Type Funds
- Trust and Agency Funds
- Component Units

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General Fund

- Used to account for all financial resources except those required to be accounted for in another fund.
- Resources are generated by property and other taxes, franchise fees, fines, licenses and fees for services.
- Operating expenditures support the service provided by the following functional areas:
  - General Government
  - Public Safety
  - Public Works
  - Community Services
- Maintain a fund balance of no less than 45 days of working capital. – smaller cities 90 days.

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Special Revenue Funds

- Special Revenue Funds – account for the accumulation and disbursement of restricted resources.

Economic Development Incentive	Criminal Investigation	Grant	Public Access Channel	Public Safety Communications (911 reserve fund)
Municipal Court Technology	Memorial Library	Seized Assets	Libraries	Animal Shelter Donations

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Debt Service Fund

- A fund used to account for the monies set aside for the payment of interest and principal to holders of the City's general obligation and revenue bonds, the sale of which finances long-term capital improvements, such as facilities, streets and drainage, parks and water/wastewater systems.
- When the tax rate is set the debt service is to be paid back first

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Internal Service Funds

- Account for the financing of goods or services provided by one department for another.

Equipment Maintenance Fund (includes the Equipment Replacement Fund)	**Risk Management**	**Municipal Warehouse**	**Technology Services**

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Capital Projects Funds

- Account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary type funds). These are typically bond proceeds and restricted other than the Capital Maintenance Fund.

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Enterprise Funds

- Account for operations that are financed and operated in a manner similar to private business – where the intent of the City is that costs of providing the goods or services to the general public on a continuing basis will be financed or recovered through user charges.

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Trust & Agency Funds

- Agency funds are restricted in how funds can be expended.
  - Developer's escrow is monies received from developers that must be returned to them once a project is completed.
  - Unclaimed property must be held for the rightful owners.
- Trust funds are held in trust for the benefit of employees.
  - Other Post-Employment Benefits
  - Retirement Security Plan

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Component Units

Consideration to be classified as a component unit

- Organization is legally separate
- City appoints a voting majority of the organizations board
- City is able to impose its will
- Organization has the potential to impose a financial burden on the City
- There is a fiscal dependency by the organization on the city

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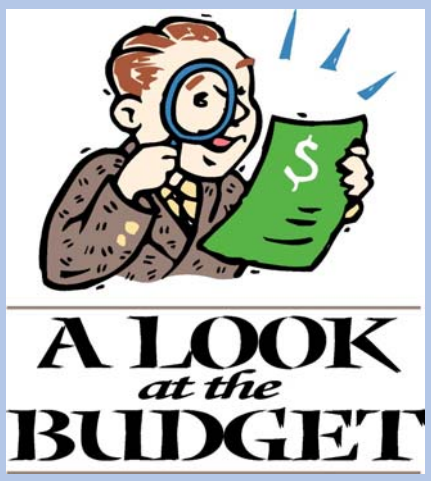

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Why Budget?

- It's the Law
- Hearings and Notices
- Inspection
- Authorized by Ordinance

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What is a Balanced Budget?

- Balanced Budget
  Beginning Balance + Revenues
  >= Expenditures
  - Required by charter or state law

- Structurally Balanced Budget
  Revenues = Expenditures
  - No use of fund balance to pay for expenses

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Results of Good Budgeting Practices

- Good budgeting results in a number of positive financial outcomes
  - Balanced Budgets
  - Positive Budget Variances
  - Positive Fund Balances
  - Improved Bond Ratings
  - Avoidance of Enterprise Fund Subsidies/Transfers
  - Stable Finances

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Why Develop a CIP?

"If You Fail to Plan, You Plan to Fail"

Benjamin Franklin

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Capital Improvements Overview

What is a CIP?

Why Develop a Capital Plan

Community Input

The Budget Connection

What is a CIP?

- Capital Improvement Project: Construction, Major Maintenance and Improvement Projects. Includes Infrastructure Upgrades and Replacement
- Capital Improvement Plan: A 5 to 10 Year Plan
  - Update Annually – Not "One and Done"
  - Approved by Council
  - Future Capital Improvement Projects

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Why Develop a Capital Plan

- Inform Your Citizens of what Projects are Planned
- Provides Certainty for the Future
- Aides in Outreach and Construction Coordination
- Prioritizes Capital Construction & Maintenance
- Helps Forecast /Coordinate Long-term Needs
- Ensures Infrastructure is Maintained & Upgraded
- Provides a Plan for Funding
- Maintain High Bond Ratings
- Allows Time to Plan for Large Projects

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Community Input

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The Budget Connection – How do These Projects Fit

- Funds Identified for Initial Construction
- Annual Budgets Must Include Operating and Maintenance Costs
- Inflation Should be Factored in to the Equation
- Set Aside Contingency Funds
- Internal Service Funds Used to Set Aside Funds for Future Purchases
- Long Term Forecasting Included in the Annual Budget Process

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Capital Maintenance Program

- Deferred Maintenance Increases Future Capital Costs
- On-going Capital Maintenance is Included in Operating Budget
- Internal Service Funds - “Lease” Equipment to Departments
  - Lease Fees Fund Capital Repairs and Replacement

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Tax Rate

ALL TAXING UNITS MUST **PROPOSE** A TAX RATE

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Tax Rate

- Property Tax Rates Have Two Components:
  - Interest & Sinking (I&S)/Debt Service Tax Rate – Debt Service Fund
  - Maintenance & Operations (M&O) Tax Rate – General Fund

What is Truth-in-Taxation

- Texas Constitution
- Makes Taxpayers Aware of Rate Proposals
- Can Limit Tax Increases

A Brief Review of the Process

- Appraisal District Provides Value
- Governing Body Drafts Budgets
- Tax Assessor Calculates Rates, May Publish Notices
- Governing Body Proposes Rate/Holds Hearings
- Governing Body Adopts Tax Rate
- Tax Assessor Mails Bills

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No-New-Revenue Tax Rate Calculation

Prior Year's Taxes	÷	Current Value of Property Taxed in the Prior Year	X	$100	=	No-New-Revenue Tax Rate

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No-New-Revenue Tax Rate M&O

NO-NEW-REVENUE TAX RATE	-	DEBT RATE	=	NO-NEW-REVENUE MAINTENANCE & OPERATIONS RATE

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Voter Approval - Tax Rate

NO-NEW-REVENUE MAINTENANCE & OPERATIONS RATE	X 1.035	+ CURRENT DEBT RATE	+ UNUSED INCREMENT	=	VOTER-APPROVAL-TAX RATE

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Unused Increment Rate

- A new component in the voter-approval rate formula
- The 3-year rolling sum of the difference between the adopted tax rate and the voter-approval tax rate
- The city can "bank" unused amounts for up to three years

De Minimis Rate – Cities Less than 30,000 in Population

No-New-Revenue Maintenance and Operations Rate	+	The Rate Applied to Current Value That Will Impose a Rate Equal to $500,000	+	Current Debt Service

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Notice of Tax Rate – Form 50-212

1. No-new revenue tax rate
2. Voter-approval rate
3. Explanation of how they were calculated
4. Unencumbered fund balance
5. Current year debt service
6. Must be posted on the website
7. Does not have to be in the newspaper
8. Post when you deliver the proposed budget

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Set Proposed Rate (Not to Exceed Rate)

1. Take a record vote
2. Regular or Special City Council Meeting
3. The governing body can adopt a rate at or below this rate
4. Cannot exceed the rate approved at this meeting

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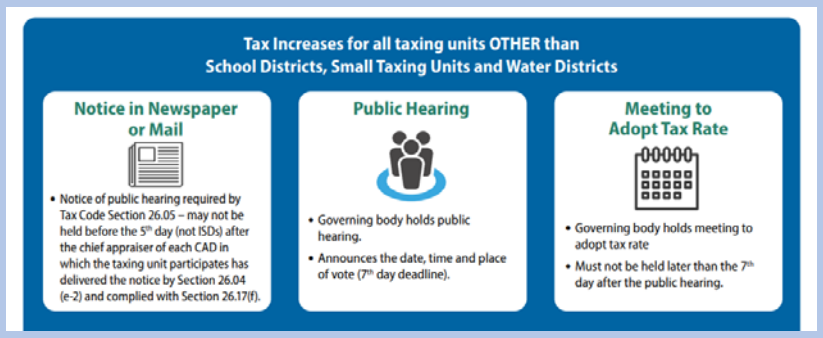

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Small Taxing Units

Tax Code Section 26.052

- Small taxing unit tax rate of .50 cents or less raising $500,000 or less.
- Small notice in newspaper but also post on website homepage.

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Notice of Public Hearing or Meeting

1. **Must be posted if the taxing unit proposes a tax rate that:**
   1. **Exceeds the no-new-revenue tax rate and the voter-approval tax rate**
   2. **Exceeds the no-new-revenue tax rate and is less than or equal to the voter-approval rate**
   3. **Is less than or equal to the no-new-revenue tax rate and exceeds the voter-approval tax rate**

1. Must be published in the newspaper or mailed to each property owner
2. Must be posted on the website

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Publish Notice

If a taxing unit proposes a tax rate that is less than or equal to the no-new-revenue tax rate and the voter-approval tax rate, the taxing unit must provide notice of a public meeting [18].

The Comptroller's office provides model forms that include the required statutory language.

- Form 50-873- Notice of Public Hearing on Tax Increase (PDF), used if the *proposed tax rate exceeds the no-new-revenue tax rate and the voter-approval tax rate*
- Form 50-874- Notice of Public Hearing on Tax Increase (PDF), used if the *proposed tax rate is greater than the voter-approval tax rate and the de minimis rate*
- Form 50-875 – Notice of Public Hearing on Tax Increase (PDF) , used if the *proposed tax rate exceeds the no-new-revenue tax rate and the voter-approval tax rate but does not exceed the de minimis rate*
- Form 50-876 – Notice of Public Hearing on Tax Increase (PDF) , used if the *proposed tax rate exceeds the no-new-revenue tax rate but does not exceed the voter-approval tax rate*
- Form 50-877 – Notice of Public Hearing on Tax Increase (PDF) , used if the *proposed tax rate does not exceed the no-new-revenue tax rate but exceeds the voter-approval tax rate*
- Form 50-878 – Notice of Public Hearing on Tax Increase (PDF) , used if the *proposed tax rate exceeds the no-new-revenue tax rate and the voter-approval tax rate, and de minimis rate exceeds the voter-approval tax rate*
- Form 50-879 – Notice of Public Hearing on Tax Increase (PDF) , used if the *proposed tax rate does not exceed the no-new-revenue tax rate or the de minimis rate but exceeds the voter-approval tax rate*
- Form 50-880 – Notice of Public Hearing on Tax Increase (PDF) , used if the *proposed tax rate does not exceed the no-new-revenue tax rate but exceeds the voter-approval tax rate and the de minimis rate exceeds the voter-approval rate*
- Form 50-887 – Notice of Public Hearing on Tax Increase (PDF) , used *if the proposed tax rate exceeds the voter-approval tax rate but not the no-new-revenue tax rate and de minimis rate exceeds the voter-approval rate*

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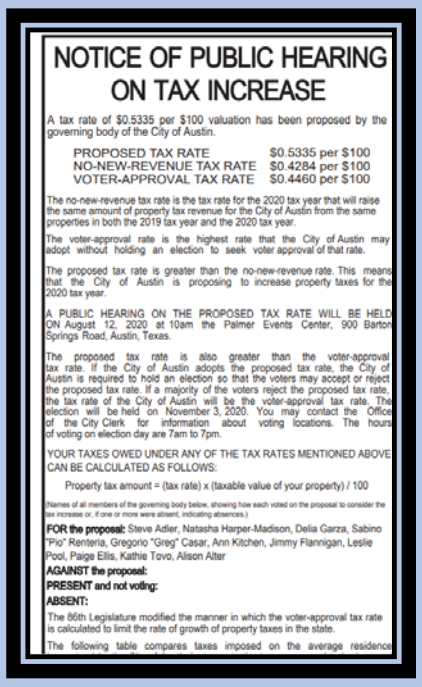
Publish Notice



NOTICE OF PUBLIC HEARING ON TAX INCREASE

A tax rate of $0.5335 per $100 valuation has been proposed by the governing body of the City of Austin.

PROPOSED TAX RATE	$0.5335 per $100
NO-NEW-REVENUE TAX RATE	$0.4284 per $100
VOTER-APPROVAL TAX RATE	$0.4460 per $100

The no-new-revenue tax rate is the tax rate for the 2020 tax year that will raise the same amount of property tax revenue for the City of Austin from the same properties in both the 2019 tax year and the 2020 tax year.

The voter-approval rate is the highest rate that the City of Austin may adopt without holding an election to seek voter approval of that rate.

The proposed tax rate is greater than the no-new-revenue rate. This means that the City of Austin is proposing to increase property taxes for the 2020 tax year.

A PUBLIC HEARING ON THE PROPOSED TAX RATE WILL BE HELD ON August 12, 2020 at 10am the Palmer Events Center, 900 Barton Springs Road, Austin, Texas.

The proposed tax rate is also greater than the voter-approval tax rate. If the City of Austin adopts the proposed tax rate, the City of Austin is required to hold an election so that the voters may accept or reject the proposed tax rate. If a majority of the voters reject the proposed tax rate, the tax rate of the City of Austin will be the voter-approval tax rate. The election will be held on November 3, 2020. You may contact the Office of the City Clerk for information about voting locations. The hours of voting on election day are 7am to 7pm.

YOUR TAXES OWED UNDER ANY OF THE TAX RATES MENTIONED ABOVE CAN BE CALCULATED AS FOLLOWS:

Property tax amount = (tax rate) x (taxable value of your property) / 100

(Names of all members of the governing body below, showing how each voted on the proposal to consider the tax increase or, if one or more were absent, indicating absences.)

FOR the proposal: Steve Adler, Natasha Harper-Madison, Delia Garza, Sabino "Pio" Renteria, Gregorio "Greg" Casar, Ann Kitchen, Jimmy Flannigan, Leslie Pool, Paige Ellis, Kathie Tovo, Alison Alter

AGAINST the proposal:

PRESENT and not voting:

ABSENT:

The 86th Legislature modified the manner in which the voter-approval tax rate is calculated to limit the rate of growth of property taxes in the state.

The following table compares taxes imposed on the average residence

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Hold a Public Hearing

1. **Held after the required notice is published to give taxpayers the opportunity to express their views**
2. **Small taxing units have no public hearing requirement**
3. **A quorum of the governing body must be present**
4. **Must be open to the public**

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Adopt a Tax Rate

1. Must adopt before September 30th or the 60th day after receiving the certified roll
2. Must hold an election on the next uniform election date if adopted rate exceeds the VAR
3. Rate must be adopted no later than the 71st day before the election date

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Hold Automatic Elections, If Necessary

1. Must order election no later than the 78th day before the election
2. If the proposition fails, the taxing unit may not adopt a rate that exceeds the VAR

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What adopted tax rates trigger an election or petition

ADOPTED TAX RATE IS:

BELOW voter-approval tax rate	No election required
ABOVE voter-approval tax rate but **BELOW** de minimis rate	Voters may petition for an election*
ABOVE voter-approval tax rate; Taxing unit does not calculate a de minimis rate	Election required**
ABOVE voter-approval tax rate and **ABOVE** the de minimis rate	Election required

* The election trigger in a municipality with a population of less that 30,000 that does not meet the definition of a special taxing unit may differ. See Tax Code Secs. 26.063 and 26.075 for details on when voters may petition for an election.

** See Water Code Secs. 49.23601, 49.23602, and 49.23603 for details on election requirements for water districts.

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Truth-In-Taxation Important Dates

Truth-in-Taxation Important Dates

Date	Activity
April 1[1]	Chief appraisers send notices of appraised value on single family residences by this date or as soon thereafter as practicable.
April 30[2]	Chief appraisers prepare and certify the estimate of the taxable value of property in counties, cities and school districts to tax assessors.
May 1[3]	Chief appraisers send notices of appraised value on all other property by this date or as soon thereafter as practicable.
July 20[4]	Appraisal review boards approve the appraisal records. This date may extend to Aug. 30 for certain larger counties.
July 25[5]	Chief appraisers certify the approved appraisal roll to the taxing units.
Aug. 7[6]	Certain taxing units publish notice of no-new-revenue and voter-approval tax rates by this date or as soon thereafter as practicable.
August – September[7]	Taxing units adopt their budgets according to their fiscal years. School districts must publish a *Notice of Public Meeting to Discuss Budget and Proposed Tax Rate* 10 to 30 days before the public meeting date. (School districts with a July 1 fiscal year adopt budgets in June and follow a different schedule). Most taxing units adopt a tax rate after adopting their budgets.
Before Sept. 30[8]	Taxing units other than water districts must adopt their tax rate before this date or 60 days after receiving the appraisal roll, whichever date is later. The governing body must adopt a tax rate that exceeds the voter-approval tax rate no later than the 71st day before the next uniform election date that occurs in November of that year.
Oct. 1[9]	Tax assessors prepare and mail tax bills by this date or as soon thereafter as practicable.

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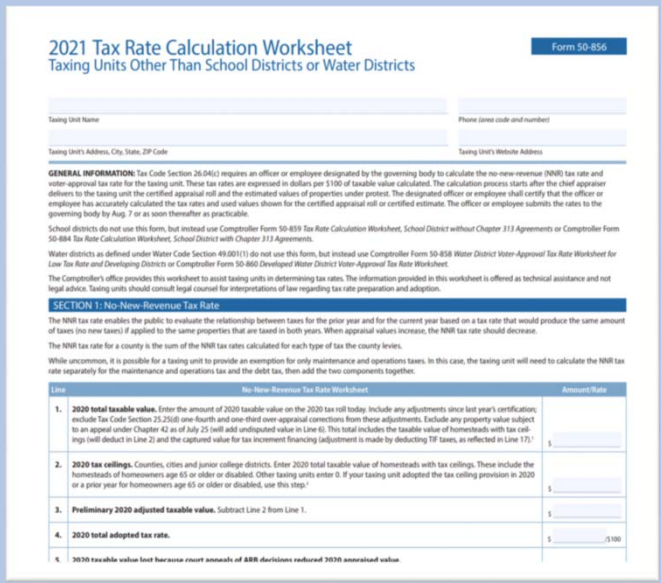

2021 Tax Rate Calculation Worksheet
Taxing Units Other Than School Districts or Water Districts

Form 50-856

Taxing Unit Name

Phone (area code and number)

Taxing Unit's Address, City, State, ZIP Code

Taxing Unit's Website Address

GENERAL INFORMATION: Tax Code Section 26.04(c) requires an officer or employee designated by the governing body to calculate the no-new-revenue (NNR) tax rate and voter-approval tax rate for the taxing unit. These tax rates are expressed in dollars per $100 of taxable value calculated. The calculation process starts after the chief appraiser delivers to the taxing unit the certified appraisal roll and the estimated values of properties under protest. The designated officer or employee shall certify that the officer or employee has accurately calculated the tax rates and used values shown for the certified appraisal roll or certified estimate. The officer or employee submits the rates to the governing body by Aug. 7 or as soon thereafter as practicable.

School districts do not use this form, but instead use Comptroller Form 50-859 *Tax Rate Calculation Worksheet, School District without Chapter 313 Agreements* or Comptroller Form 50-884 *Tax Rate Calculation Worksheet, School District with Chapter 313 Agreements*.

Water districts as defined under Water Code Section 49.001(1) do not use this form, but instead use Comptroller Form 50-858 *Water District Voter-Approval Tax Rate Worksheet for Low Tax Rate and Developing Districts* or Comptroller Form 50-860 *Developed Water District Voter-Approval Tax Rate Worksheet*.

The Comptroller's office provides this worksheet to assist taxing units in determining tax rates. The information provided in this worksheet is offered as technical assistance and not legal advice. Taxing units should consult legal counsel for interpretations of law regarding tax rate preparation and adoption.

SECTION 1: No-New-Revenue Tax Rate

The NNR tax rate enables the public to evaluate the relationship between taxes for the prior year and for the current year based on a tax rate that would produce the same amount of taxes (no new taxes) if applied to the same properties that are taxed in both years. When appraisal values increase, the NNR tax rate should decrease.

The NNR tax rate for a county is the sum of the NNR tax rates calculated for each type of tax the county levies.

While uncommon, it is possible for a taxing unit to provide an exemption for only maintenance and operations taxes. In this case, the taxing unit will need to calculate the NNR tax rate separately for the maintenance and operations tax and the debt tax, then add the two components together.

Line	No-New-Revenue Tax Rate Worksheet	Amount/Rate
1.	**2020 total taxable value.** Enter the amount of 2020 taxable value on the 2020 tax roll today. Include any adjustments since last year's certification; exclude Tax Code Section 25.25(d) one-fourth and one-third over-appraisal corrections from these adjustments. Exclude any property value subject to an appeal under Chapter 42 as of July 25 (will add undisputed value in Line 6). This total includes the taxable value of homesteads with tax ceilings (will deduct in Line 2) and the captured value for tax increment financing (adjustment is made by deducting TIF taxes, as reflected in Line 17).[1]	$
2.	**2020 tax ceilings.** Counties, cities and junior college districts. Enter 2020 total taxable value of homesteads with tax ceilings. These include the homesteads of homeowners age 65 or older or disabled. Other taxing units enter 0. If your taxing unit adopted the tax ceiling provision in 2020 or a prior year for homeowners age 65 or older or disabled, use this step.[2]	$
3.	**Preliminary 2020 adjusted taxable value.** Subtract Line 2 from Line 1.	$
4.	**2020 total adopted tax rate.**	$ /$100
5.	**2020 taxable value lost because court appeals of ARB decisions reduced 2020 appraised value.**	

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What Are the Most Common Policies?

- Budget
- Revenues/Expenditures
- Fund Balance/Reserves
- Accounting, Auditing and Financial Reporting
- Internal Control
- Asset Management
- Debt Management

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Financial Reserves

- Fund Balance Policy – 25-30%
  - Rainy Day Fund for Unexpected Emergency
  - 90 Day Reserve in General Fund
    - 30 Days = "Emergency" Funds
      - Offset Sudden Tax Increase
      - Replenished Next Budget Cycle
    - 60 Days = Long-term Reserves

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Other Policies

- Capital Improvements and Maintenance
- Debt Management
- Investment
- Grants
- Economic Development
- Risk Management

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Asset Management Policies

- Investment Policy
  - Reviewed Annually by Council
  - Confirms to Legal Requirements
    - Governed by PFIA
    - Required Training
    - Adopted Policies
    - Regular Reporting - Quarterly
- Fixed Assets
  - Capitalization Criteria - $5,000
  - GASB 34 Requirements

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Debt Management

- Use of Debt Financing
  - Future Use Against Future Payment
  - Long-Life Capital Assets
- Affordability Targets
  - Debt Per Capita
  - Debt as a Percent of Taxable Value
  - Debt Service Payments as % of Current Revenues
  - Debt Tax Rates as Percent of Total Tax Rate
- Sale Process
  - Competitive vs. Negotiated
- Full and Continuing Disclosure

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Types of Debt

- General Obligation
  - Tax Supported and Voter Approved
- Certificates of Obligation
  - Tax Supported
  - Issued by Council after Notice Process
- Revenue Bonds
  - Repaid through Rates
- Self-Supporting Debt
  - Tax Debt PAID FROM OTHER SOURCES
    - Internal Borrowings
      - Between Funds Within the City

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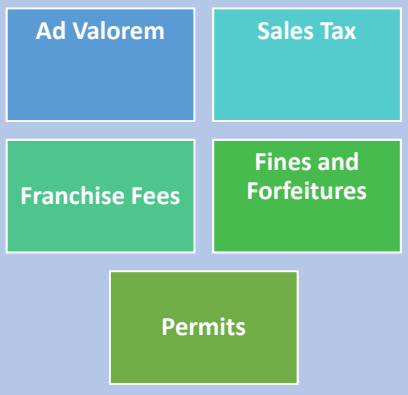
Forms of Revenue (General Fund)



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Forms of Revenue (Non-General Fund)

- Water & Sewer Fund
- Solid Waste Fund
- Municipal Drainage Fund
- Convention and Tourism Fund
- Recreation Fund
- Golf Course

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Other Funding Alternatives

- Provides Guidelines on Alternative Funding for New Projects
- Grants
  - Documents Grant Funding Process with Council
- Use of Reserve Funds
  - Used for Debt Management Purposes
- Developer Contributions
  - Links to Development Regulations
- Leases
- Impact Fees

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Internal Controls

- Deterrents
  - Stop it Before it Starts
- Detection Controls
  - If Can't Stop it, Detect it Early
- Actively Pursue
- Acknowledge Risks that Arise from Staff Cuts
- Internal Control Program / Audits
- Written Policies Reviewed Annually

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Dixon, Illinois

- Rita Crundwell – Treasurer/Comptroller
- 1990 – Set Up Secret Reserve Sewer Capital Development Account
- Embezzled $53.7 M
- Fictitious Invoices for Capital Projects
- Dixon Budget
  - GF - $9 M
  - All Funds - $23 M
- Arrested April 17, 2012

Technical Resources

- GFOA – www.gfoa.org — Best Practices Elected Officials Guide Series
- TML Series – www.tml.org
- GFOAT - www.gfoat.org — Finance Forum
- National Council on State and Local Budgeting (NACSLB) Publications

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