

**UNDERSTANDING  
YOUR  
TREASURY  
AND  
FINANCE  
DEPARTMENTS**

by Mary Turner  
with Vince Amado, Richard Loomis,  
Marc Puckett, Kelley Williams

(insert picture) This booklet is dedicated to our dear friend, Vince Amado.

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The first and second editions of this booklet were prepared by ad hoc committees of the CMTA. Mary Turner, City of Anaheim, authored the first edition of this booklet in 1991. Vince Amado, City of Rocklin chaired the ad hoc committee that prepared the second edition of this document in 2007. Other members of this committee included, Marc Puckett, City of Costa Mesa, Richard Loomis, City of Pinole, and Kelley Williams, City of Arcadia. I am grateful to each of these individuals for their contributions in ensuring that this publication continues to be relevant for current and future elected officials in understanding their agency's Treasury and Finance departments.

My deepest appreciation is expressed to Vince Amado for initiating the second revision of this booklet. Vince passed away in December 2007. He served as Treasurer for the City of Rocklin for 24 years. Vince achieved many accomplishments while serving on the CMTA Board. Known for his upbeat pleasant demeanor and endearing smile, Vince's energy and spirit touched the lives of many. We will truly miss him and his significant contributions to this association.

Christine Vuletich, CCMT  
President, California Municipal Treasurers Association 2007-2008

## About the Author

Mary Turner completed a municipal treasury career that spanned 31 years and included service to the Cities of Anaheim and Fullerton, California as City Treasurer. In 1990, while working for Anaheim, Mary received the Certification of Excellence Award for the City's Investment Policy Statement from the Municipal Treasurers Association of the United States and Canada. In that year, Anaheim was the only city in California to receive the Certification of Excellence Award.

Mary was appointed to serve as a member of the Local Agency Investment Advisory Board for the State of California Treasurer's Office from 1989 to 1991. She also served as President of the California Municipal Treasurers Association from 1979 to 1980 and as President of the Municipal Treasurers Association of the United States and Canada from 1988 to 1989.

She was honored in 1985 as a recipient of the MTAUS&C Dr. Jackson R.E. Phillips Award, a prestigious honor signifying excellence in municipal treasury management.

For many years after her retirement, Mary continued to serve at the local, state and national levels in consulting and lecturing capacities in the field of treasury management.

## **Introduction**

Most elected Public Officials are probably not economists or financial experts and have no intention of becoming accountants. Even so, they share the same basic concerns about public finance matters — making sound financial decisions for their agency, maintaining appropriate financial planning practices, and ensuring the prudent investment of idle cash held in the agency’s coffers within the dictates of its investment policy and based upon the **SLY** rule; safety first, then liquidity and then yield.

Those tasks are becoming more difficult and much more important to local Government agencies these days. Some agencies are fortunate, with revenues sources that outpace the growth in expenditures, and are likely to do so for years to come while others are facing the stark reality of financial emergencies.

Most agencies’ financial picture falls somewhere in-between these two extremes and their budget situation looks something more like this:

- Revenues are not growing fast enough to keep pace with expenditures due to the effects of failed voter initiatives to maintain or increase revenues, recessionary economic times, population shifts and/or economic shifts in business or industry.
- Expenditures continue to grow, even during a recession due to inflationary pressures, public pressures for increased or improved service delivery, un-funded mandates from the State and Federal governments such as treatment of storm water run-off and NPDES reporting, transfer of services from the State and Federal government to local agencies, and implementation of accounting pronouncements requiring pre-funding of post-employment benefits costs.
- Each year, balancing the budget looks more like an exercise in futility than financial planning.
- The community and investors are taking an even more skeptical view of proposed bond issues.
- The prudent investment of idle funds has become increasingly important and vital to the maintenance of creditability in the Treasurer’s portfolio management particularly in light of the recent meltdown in the financial markets and collapse of respected investment banking institutions.

In short, local government’s margin of financial flexibility has been trimmed significantly. The need to manage the community’s financial resources prudently has never been more important. As has been demonstrated throughout the state, poor financial decisions can severely impact the effectiveness of service delivery and can have significant long-term implications.

Due to this increasingly critical need for prudent financial decisions, competent, professional Finance and Treasury Departments are more and more important to elected officials and the communities that they represent. Information generated within the Finance and Treasury department is vital in assisting the Mayor and City Council Members in management and policy decisions.

This booklet has been developed by the California Municipal Treasurers Association to assist elected officials in gaining a greater **understanding of your Treasury and Finance Departments**. It is important that elected officials and other decision makers be able to understand and fully profit from

all that government financial reporting has to offer. This booklet has been published to assist elected officials work more effectively with financial professionals employed by their agencies, and to gain insight into many of the basic concepts behind sound fiscal policies for managing municipal finances.

## **THE TREASURY SECTION**

## **PURPOSE AND AUTHORIZATION**

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In some general law cities, the City Treasurer is one of the Officers in whom the governance of the City is vested along with the Mayor and the City Council Members, the City Manager, the City Clerk, the Police Chief, and the Fire Chief. In general law cities, the office of City Treasurer is an elective office with a four year term, unless otherwise specified in either the general incorporation of the city or as a result of a vote by the electorate whereby the office of the City Treasurer was made appointive (usually by the City Manager confirmed by City Council). In those agencies where the Treasurer is appointed by the City Manager, the Treasurer commonly also serves as the Finance Director.

## **RESPONSIBILITIES OF THE CITY TREASURER**

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The duties of the City Treasurer in California general law cities are set forth in the State of California Government Code. For the most part, the Treasurers or those discharging the treasury function in chartered cities will generally perform the same types of duties as City Treasurers in general law cities. These duties include the receipt and safekeeping of all money coming into the Treasury, to comply with all laws governing depositing and securing those funds coming into the public trust, to pay out funds on checks/warrants signed only by those legally authorized persons and to submit monthly written Treasurers reports accounting for the receipts, disbursements and balances in the City Treasury to the City Council and other interested parties.

In addition, the City Treasurer is required to perform such other duties relating to the collection of taxes, permits and license fees as required by City Ordinance. Also, the government code vests to the position of City Treasurer the authority to select the general depository bank and the determination of maintaining appropriate cash-flows to meet the liquidity needs of the organization. Further, through annual adoption of the City's investment policy, the Mayor and City Council Members may delegate (preferably by Council Resolution) to the Treasurer the authority to invest public monies in securities as set forth in the Government Code (Sections 53601, et al).

In the absence of the Mayor and Council Members' direction as to the responsibilities for the investment of public funds, the State of California Government Code is clear that this statutory authority is vested in and the responsibility of the Mayor and Council Members, and further, shall only be delegated to the Office of the Treasurer.

## **TREASURY MANAGEMENT**

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In some cities, the City Treasurer and the City Finance Department are independent of each other. While in other cities, the Finance Director also holds the title of City Treasurer. Regardless of whether the collection, custody and the disbursement of municipal funds are the direct responsibility of the Finance Director or the City Treasurer, the duties as referenced above are consistent and applicable. Successful management of the Treasury function should; ensure the appropriate use of technology for the efficient handling of cash management duties, that vital financial policies are implemented, and that a continuous commitment is made to proper organization, facilities, support staffing, training, and compensation for financial professionals involved in the cash management function. It has been said

that a strong financial professional is worth their weight in gold. That “gold” can be measured in the Treasurer’s efficient management of the cash handling and investment function.

## **REVENUE (CASH) COLLECTION**

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Proper Cash Handling Procedures are an essential element of the internal accounting control structure. The Treasurer must ensure that all city revenues are collected, receipted and deposited in a timely and orderly manner, preferably the day of receipt for large dollar items. This function includes supervision of local tax collections, such as business license taxes, coordinating with County, State and Federal Offices through whom local revenues flow, and the collection of fees for services and regulatory functions. Strong revenue collection policies and practices are the first key in development of a good cash and investment program.

## **CASH MANAGEMENT**

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Recognizing that investment income can be a major revenue source, the cash handling operations should be designed to facilitate efficient cash flow. A fundamental tenant of prudent public cash management dictates that investment returns are subordinate to safekeeping the cash and maintaining the cash flow requirements needed by the organization. Some local agencies have experienced substantial losses when cash managers have deviated from these basic tenants; safety first, then liquidity, then yield. Scheduling the timing of key expenditures and revenues, accelerating the collection of revenues where possible and maximizing cash flow through various portfolio management techniques is critical to the proper handling of the cash management function. Budgetary actions that adversely affect and impair cash flows should be reconsidered.

## **INVESTMENT POLICY STATEMENT**

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In California, the legislative body of a local agency serves as a trustee and, thereby, bears a “fiduciary” responsibility for the proper investment of public funds made by the agency. While the legislative body may delegate the authority to invest the agency’s funds to a treasurer for a period of one year, the legislative body continues to act as fiduciary.

The State Government Code Section 53646 requires that a Treasurer must annually render to the legislative body (Mayor and City Council Members) a statement of investment policy. It also states that the Treasurer shall provide to the legislative body not less than quarterly a Treasurer’s report on all investment transactions for the period and all securities which have a maturity greater than one year. This report must include the type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments and moneys held by the local agency, and shall additionally include a description of any of the local agency’s funds, or investments that are under the management of contracted parties, including lending programs. The report must also include a current market value as of the date of the report, and must include the source of this same valuation. The report must also state whether the portfolio is in compliance with the statement of investment policy, or manner in which the portfolio is not in compliance. The legislative body may elect to require that the report be submitted on a monthly basis instead of quarterly.

The State Government Code Section 53601 also requires that the Mayor and City Council Members' prior approval for purchase of any investments with a maturity of 5 years or greater (at time of purchase). This authority can be added to the Treasurer's investment statement, however if included, the Mayor and City Council Members must approve the Treasurer's statement at least 3 months prior to investment in the longer term security.

In 1995, the State Legislature imposed mandatory investment reporting on a quarterly basis, setting forth specific and uniform reporting guidelines for all local agencies. This reporting process remained in place until the 2005 State legislative session, at which time due to budget constraints, mandatory investment reports were suspended so that the State could avoid payment of reimbursements to local agencies for un-funded mandate claims filed under SB90. However, in recognition of the public interest served by public access to the investment information, the State encourages local agencies to continue the established practice of requiring quarterly investment reporting to its legislative body.

The California Municipal Treasurer's Association, the California Society of Municipal Finance Officers, and the County Treasurers and Tax Collectors have developed a very informative booklet entitled "**Investment Policy Information.**" This document has been included in the California Municipal Treasurer's Association's "**Treasurer's Handbook**" which every Treasurer should have as a ready reference guide on their desk to assist in developing prudent investment portfolio management practices. This documentation should also be made available to the City Attorney for reference to the legal duties associated with the Office of City Treasurer. Additionally, the California Debt and Investment Advisory Commission (CDIAC) publishes a book entitled "**Local Agency Investment Guidelines**" which is also an important reference tool for every Treasurer. In addition, CDIAC publishes several helpful and informative booklets, which address the investment oversight concerns of local elected officials.

It is important for the local agencies' legislative body to be well versed on these and other statutory duties relating to oversight of the treasury management function. Several public agencies have lost hundreds of millions of dollars due to lack of effective oversight of the investment of public funds, which had a dramatic impact on their financial stability. These losses may have been detected and possibly prevented if prudent investment policy guidelines and periodic reporting procedures to the governing bodies were in place.

# THE FINANCE SECTION

## PURPOSE AND AUTHORIZATION

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The Finance Department represents a unified, integrated financial center with responsibility for financial matters affecting all departments and activities of the City. Centralizing the finance functions of Controller, Purchasing Agent, Accounts Receivable, Accounts Payable, General Ledger and Payroll, creates cost efficiencies and increases the professionalism of staff. In some agencies, other functions are included within the Finance Department such as Treasury Management, Computer Information Services, Facilities Management, Central Services (stockroom/printing/duplicating/mail distribution and collection) and Risk Management.

General Law Cities in California have broad authority to establish a Finance Department and assign appropriate functions. The financial duties assigned by the State of California Government Code to the City Clerk are generally transferred to the Director of Finance at the discretion of the Mayor and City Council Members and/or the City Manager. A Charter City must adhere to the city charter if the financial responsibility is set forth in the Charter or, in the absence of direction in the Charter, the Charter Cities would be required to follow the State of California Government Code Sections and in either case, the California State Constitution.

## RESPONSIBILITIES OF THE FINANCE DEPARTMENT

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**Legal Responsibilities:** The Finance Department is required to maintain certain financial records and to prepare financial reports. Although the statutory duties may vary in individual cases, there must be a complete set of accounting records for all functions and activities performed by the governmental unit, with responsibility for such records and accountability generally assigned to the Finance Director. These records must reflect compliance with legal requirements, and be in accordance with generally acceptable government accounting standards. These reporting standards are established by the Government Accounting Standards Board (GASB), which is recognized as the accounting rule making body for governmental accounting throughout the United States.

**Governmental Accounting:** This broad term generally defines the type of accounting used to account for financial transactions by a governmental entity. Performance of governmental accounting functions and proper maintenance of the entity's accounting records is one of the most basic functions of the Finance Department. Through the application of generally accepted accounting principles (GAAP) and implementation of reporting standards promulgated by GASB, the Finance department should develop the appropriate financial policies and systems of internal control to ensure the proper performance of its governmental accounting duties.

The Finance Director is the Chief Financial Officer for the City. As such, the Finance Director must have centralized supervision and control of all accounting and financial records of the governmental unit. By utilizing these accounting and financial records, the Finance Director is also responsible for the timely issuance of all financial reports to the legislative body and other interested parties.

In addition to maintaining financial records in conformity with GAAP, GASB and in compliance with State and Federal Laws, the department's purpose is to provide the Mayor and City Council Members, the City Manager and Department Heads with financial information on a timely and meaningful basis to facilitate effective financial decision-making and efficient utilization of public resources.

***Analysis and Interpretation:*** The analysis and interpretation of financial and economic data is inherent in the Finance and the Treasurer's functions. However, further responsibility must be assumed by the Finance Director in the preparation of evaluations and reports that are timely, meaningful, and assist other departments, the City Manager and Mayor and Council in making practical financial decisions.

The reports must be written in layman's terms, easily understandable to the non-financial user, and useful in the financial decision making process of other departments, the City Manager and the Mayor and City Council. The Finance Director must work closely with other departments, the City Manager and Mayor and City Council to adequately fulfill this reporting function and determine what is wanted and helpful.

***The Budget:*** The adopted operating and capital improvement budget is the City's financial plan of operation for the next fiscal year. It is the City's principal policy document that defines how services are to be delivered and policies carried out for the next fiscal year. The budget is usually considered to be the City's single most important policy execution document. In order for the budget to accurately reflect the policies and the priorities of the Mayor and City Council Members and the Community, there must be agreement prior to the development and adoption of a budget on what service levels that the City wants to and/or should provide. Then, based on those adopted policies and priorities, the Mayor and City Council Members can give staff the basic guidance necessary in order to prepare the budget for Mayor and City Council Members consideration.

In most cities, the Finance Department assists the City Manager with preparation of the City's budget. The budget document is a statement of the plan to allocate the available financial resources among the desired levels of service delivery expressed by City Council and the Community.

The budget will typically reflect base-line services provided by the City for many years. Each year, those base-line services are adjusted and new services added or eliminated based upon the changing priorities of City Council and the Community. After it is adopted, revenue and expenditure estimates included in the budget are a benchmark against which actual revenues and expenditures are periodically measured to determine the City's budgetary performance throughout the fiscal year.

***Budget Preparation and Administration:*** Generally, the Finance Director is the most important staff member to effective budget preparation and expenditure controls. The depth of involvement and responsibilities will vary from City to City, but minimally, the Finance Director will be responsible for furnishing previous expenditure records, revenue projections and for exercising day-to-day expenditure controls. The Finance Director is also responsible for reviewing the budget preparation procedures and recommending any improvements from time-to-time as may be appropriate.

The Finance Department must also issue timely monthly financial reports to other departments, the City Manager and the Mayor and City Council Members to assist in the monitoring of budgetary performance, compliance and implementation of the financial plan.

**Auditing:** The Finance Director should develop and maintain a proper internal auditing control structure. These controls, based on proper accounting procedures, should provide the appropriate level of internal controls necessary to manage municipal assets in such a manner as to prevent fraud, misuse, misapplication, or manipulation of City funds.

**Financial Planning and Debt Administration:** The Finance Director should assist in the constant review and monitoring of current revenue policies and trends. The Finance Director should be alert to recognize the need for new revenue or the necessity to adjust revenue sources to meet changing conditions and to report the findings and recommendations to the appropriate department directors for their action. The Finance Director is responsible for the preparation and interpretation of financial data for short term plans and programs. The Finance Director should be prepared, when necessary, to accept the responsibility for determining the most appropriate method of borrowing funds and must insure that debt schedules are met, and that the credit rating of the municipality is maintained at the highest possible level.

**Purchasing:** The Purchasing function is most commonly under the supervision and control of the Finance Department although in some larger agencies, the Purchasing function may be a separate department. When the purchasing function is centralized within the Finance department, it generally creates increased uniformity in the purchasing practices and in many cases increased cost savings.

**Other Finance Department Functions:** Local conditions may dictate that various other functions, not as closely related to finance administration, may be made the responsibility of a Finance Department. Some of the more typical of these functions are Treasury Management, Computer Information Services, Facilities Management, Central Services (stockroom/printing/duplicating/mail distribution and collection), Risk Management, Telecommunications, Property Management, Inventory Management, and Risk Management or Real Estate.

In some cities, municipal enterprises operations, such as a public utility, convention center or stadium authority may retain accounting staff within the individual operating departments. In these instances, it is important that the enterprise accounting staff work closely with the City's Finance Department.

**The Annual Financial Report:** The City's Comprehensive Annual Financial Report (CAFR) is the best resource for ensuring that the revenues, expenditures, bonds, and grants authorized during the budget process were collected and spent in the manner approved by the legislative body. The CAFR can also provide a sound basis for future financial decisions.

The Government Accounting Standards Board (GASB) is constantly reviewing financial reporting standards and structure and presentation of the financial report itself with the intended purpose of improving the financial report for its intended audience. A city's basic financial statements are generally comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. A Comprehensive Annual Financial Report (CAFR) must also include Management's Discussion and Analysis (MD&A), required supplementary

information (RSI) and a statistical section. The CAFR format must comply with the format promulgated by the GASB. On a basic level, the report includes:

- Information on the basic expenditure and revenue categories for major and non-major revenues and financial reports comparing actual revenues and expenditures against estimates adopted in the budget to provide an indication of budgetary performance for the fiscal year.
- Information on revenues and expenditures organized into several different fund types for accounting purposes. The funds are segregated based upon organizational needs for tracking the financial activities or statutory requirements for financial reporting purposes (i.e., gas tax, bond funds, etc.). Segregation of the financial activities is often required because frequently many of the City revenues received are mandated for a specific use and cannot be used for any other purpose. Therefore, the financial statements are prepared for all funds utilized within the City's governmental accounting system. The types of information included in the financial statements for each fund is basically the same.

Although the GASB continues to modify the reporting format to simplify the presentation and require full disclosure of financial activities, the financial statements, by themselves, cannot always fully answer all questions about an agency's financial condition. Many times, the statements may only outline the financial indicators which may then form the basis for more in-depth questions to ask the Finance department staff. Financial statements are designed to accurately disclose information, both good as well as bad, about the financial condition of the City in an easily understandable format.

***The Audit:*** The annual financial audit is an examination of the City's accounting records and underlying financial systems and internal controls by an independent external auditor, who is a Certified Public Accountant (CPA), appointed by the agency's legislative body. The objective of the audit is to examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements to ensure that they are free of material misstatement. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

After completion of audit examination, the external auditor then issues an Independent Auditor's Report in which the auditor renders an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the agency.

The auditor's opinion letter generally states the following:

- A brief description of the test procedures performed by the auditor and the period covered by the audit engagement.
- A statement as to whether the agency's financial statements are presented in conformity with generally accepted accounting principles.
- A statement as to whether the financial statements are presented fairly and free of material misstatement.
- A statement as to any qualification of the auditor's opinion.

The independent auditor's report will also typically reference a "management letter" issued to the agency's management. This report describes the scope of the auditor's testing of the internal control over financial reporting and compliance and the results of the testing. These "internal control recommendations" are then considered by management for implementation.

Generally, the best advice for elected officials that want a better understanding of the City's financial processes, operating budget or financial statements is to meet with members of the Finance department staff personally and ask for a brief overview of the work processes and documents. The relationship between the Finance staff and the Treasury staff is critical to the efficient operation of both work functions.

In addition, many times there are a multitude of training opportunities available through statewide professional organizations such as CMTA and their local divisions. These training opportunities are a cost effective means to enrich understanding of Finance and Treasury Management functions.

### **THE FINANCE FUNCTION IN SMALL AGENCIES**

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In some small cities, the Finance "Department" may be staffed by only one person, perhaps not even on a full-time basis. Typically, the operations of a smaller city are much less complex in comparison to business activities of larger cities. However, staff at smaller agencies are many times required to be "generalists" knowledgeable about all aspects of financial operations rather than "specialists" in specific disciplines that may be found at larger agencies. Nevertheless, many of the same financial management principles and responsibilities still apply such as the legal responsibilities, accounting, auditing, cash management, financial forecasting and budget development responsibilities. Staff at smaller agencies need to be even more diligent to ensure that they are performing their fiduciary responsibilities and properly accounting for all public funds received into the public trust.

It is important for the legislative body to ensure that the financial functions in small agencies, be organized and structured in a manner appropriate for the organization and that financial activities are performed in a timely and accurate manner. Financial reports should be issued at regular intervals on an interim basis to increase transparency within the financial operations. Further, responsible staff members need to keep abreast of the many legislative or regulatory changes that may occur and any litigation which may impact the organization and affect the City's financial position. One of the most valuable services performed by the Chief Financial Officer of any organization is to alert the legislative body in a timely manner of impending financial difficulties and propose corrective action or adjustments that may be appropriate to address the financial condition.

## EVALUATING TREASURY AND FINANCIAL MANAGEMENT

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When the office of the City Treasurer and Finance Director are organizationally independent of one another, the same criteria should be used to evaluate the efficiency and effectiveness of both offices. One criterion for consideration in evaluating the operations of both offices should always be the level of cooperation and communication that exists between the staff personnel of each office. Many times, there is no greater barrier to success than a failure to communicate.

Since there is no uniform set of criteria that can be applied to easily measure the operational effectiveness of each work function, some suggested performance indicators are provided below for consideration:

- Usefulness of financial reports and other analysis supplied by the Department.
- Ability to supply additional financial information requested by the Mayor and City Council, City Manager, or other departments in a timely manner.
- Accuracy of revenue and expenditure estimates included in the budget or other forecasts.
- Whether the independent external auditor has issued a “clean” opinion.
- The City’s credit ratings and comments made about the strength of financial management in the rating analyst’s ratings analysis.
- The City’s investment performance compared to agreed-upon benchmarks.

## THE FUTURE OF TREASURY AND FINANCIAL MANAGEMENT

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Ongoing economic pressures continue to push financial issues for local agencies and Finance personnel from the wings to center stage alongside the City Manager, Mayor and City Council. With the stability of local finances, rather than programs and services, continuing to be a dominant concern for policy makers at the local level, there will continue to be a focus on organization efficiency and effectiveness. All departments need to continually review and renew methods of service delivery to stay on the cutting edge, but not the “bleeding edge” of technological improvements.

***Increased Complexity of the State – Local Fiscal Relationship.*** With the adoption of major changes to the State – Local fiscal relationship following the enactment of ERAF III, the “triple-flip” and Proposition 1A, traditional roles and relationships for local legislative officials and those officials charged with fiscal administrative duties have been drastically altered. With the increased complexity and interdependence of State and Local finances, it often will take some time for a newly elected official to understand the interdependence of the State-Local fiscal relationship.

Considering some of the fiscal limitations in local government financial management that are unique to California and their near term importance to local government’s fiscal health, perhaps the most sage advice for all newly elected officials is never hesitate to insist that your Financial Administrators take whatever time may be necessary to answer questions regarding safeguarding local revenue sources.

***Creative Financing of Municipal Services.*** Increasing restrictions on local financial resources have forced local agencies to become even more creative in financing programs and services. Contracting out services to the private sector has not proven to be the “magic pill” to cure the loss of local

revenues to the State. Many agencies have taken a “market basket” approach to financing local services by contracting out those services where it is efficient to do so, seeking out non-traditional joint powers agreement to provide some services utilizing a regional approach, putting in place or increasing user fees on other services, eliminating services that are not cost-effective or affordable for the community, putting “general” tax revenue initiatives on the ballot, and reducing staff.

***Cost Accounting.*** To support proper pricing decisions for user fees and to comply with accounting requirements of Proposition 218, the Mayor and City Council Members will need to know the actual cost of City programs and activities on an annual basis. The effort of tracking the cost of programs for which user fees are charged is becoming increasingly complex as more user fees are created to finance an even larger portion of the operating budget. The effort to track the direct and indirect cost relationships of programs funded through user fees is increasingly complex and requires the introduction of even more sophisticated methods of segregating these costs.

***Revenue and Expenditure Forecasting.*** The heightened need for increased accuracy of revenue estimates and expenditure projections due to increasing financial pressures on local agencies necessitates an ever increasing level of sophistication in financial forecasting methods. Where the use of a “historical trends” analysis was sufficient in the past, finance professionals must now also perform market comparison studies, analysis of consensus economic reports to examine market and demographic data, and financial “modeling.” The Treasury and Finance Department staffs are required to devote an increased level of staff time to these activities without additional staff. This increased staff time commitment necessitates that public finance professionals increase their skill set by continuing to enhance and improve their abilities through continuing professional education opportunities throughout their careers.

***Capital Financing.*** The increasing age of public infrastructure poses an almost insurmountable burden on local agencies. Insufficient resources are available to meet the growing need for infrastructure improvements. Reductions in available resources to dedicate to financing capital projects has jeopardized capital improvements and caused local agencies to delay infrastructure maintenance or replacement projects. A considerable amount of creative energy will be required of elected officials, managers and their financial staffs to provide solutions for the construction of needed capital improvements.

***Recognition of the Effects of Fiscal Policy.*** Mayor and City Council Members and other Public Policy Officials are becoming increasingly aware of the unintended effects of their fiscal policy decisions. The Finance Department staff and the City Manager must identify the inadvertent incentives and disincentives which the legislative body’s decisions have on resources and the cost of services as well as on the public’s decisions, such as whether to rent or buy a home, where to live, where to work, where to locate a commercial or industrial plant, how to commute, etc. Finance Department’s are increasingly asked to provide information regarding if or how the organizations’ fiscal policies support community goals.

***Effective (and Appropriate) Use of Technology.*** The demand for increased efficiencies of operation without additional staff resources necessitates increasing reliance on technological advances. Whether it be greater utilization of interactive websites to encourage self-sufficiency within the customer base, advances in on-line banking such as “Check 21,” or the creation of multiple firewalls to protect the

integrity of financial data on the server, the need for more sophisticated means of conducting financial transactions and tracking financial information will continue to evolve. Additional resources will need to be allocated to information system requirements to facilitate this continued improvement in financial management systems. Further, evolving financial systems will necessitate that Finance and Treasury personnel continue to enhance their technical abilities to utilize these new financial applications as they are implemented.

***Increased Public Involvement and Interest.*** The recent focus through statewide initiatives on local government finance has heightened the awareness and knowledge of the public about local finance issues. Even so, many members of the Community continue to want an ever higher level of service but don't want to pay higher taxes for it. This disconnect in the public's perception of how services are paid for creates an ever-increasing challenge for local elected officials, the City Manager, Treasury and Finance staffs to help educate the public about public finance and the cost of services.

## Financial Policy Questions to Consider

- Does your agency have written fiscal policies?
- Does your agency periodically prepare a long-term fiscal forecast?
- Do you have a clear understanding of your role in the budget process?
- Does your agency's budget show changes in its fiscal condition?
- Is your agency's budget balanced by sustainable revenue sources?
- How often do you receive financial reports?
- Do the financial reports provide meaningful information?
- How long has your external auditor been reviewing your agency's financial ledgers?
- Do you receive the audited annual financial report in a timely manner?
- Do you understand the agency's investment program?
- Do you receive and review investment reports in a timely manner?
- Do you understand the investment reports provided to you?
- Are your agency's investments diversified?
- Who is responsible for day-to-day oversight of your agency's investment portfolio?
- Does your agency have a multi-year capital improvement plan?
- Does your agency have clear capital financing and debt management policies?
- If your agency has a decentralized purchasing system, does it have clear organization-wide standards and guidelines?

## Financial Warning Indicators

- Incomplete, inadequate or late investment, budget or financial reports.
- Depletion of reserves accounts to balance operating budgets.
- Increasing debt service appropriations as a percentage of the operating budget.
- Unpaid interfund loans at the end of a fiscal year.
- Operating reserves less than the established organizational reserve requirements or 15% (GFOA Guideline) of operating expenditures.
- Debt service appropriations in excess of 10% of current revenues.
- Operating expenditures in excess of sustainable revenues by more than 5%.
- Operating expenditures in excess of sustainable revenues for two consecutive budget years.

## **SELECTED RESOURCES AND REFERENCE MATERIALS**

Published by the League of California Cities (available for loan or purchase) 1400 K Street, Sacramento, CA 95814 (916) 442-8960

**A Public Investor's Guide to Money Market Instruments, 2<sup>nd</sup> edition**, (Chicago, IL. The Government Finance Officers Association, 1994)

**Local Agency Investment Guidelines: Update for 2008.** (Sacramento, CA. California Debt and Investment Advisory Commission, 2002)

**Cash Management for Small Governments**, (Chicago, IL. The Government Finance Officers Association, 1989)

**An Elected Official's Guide to Investing** (Chicago, IL. The Government Finance Officers Association, 1996)

**Investing Public Funds, 2<sup>nd</sup> edition**, (Chicago, IL. The Government Finance Officers Association, 1998)

**City Treasurer's Handbook** (California Municipal Treasurer's Association, 2002)

**California Municipal Revenue Sources Handbook**  
League of California Cities, 1987.

**Cost Accounting for California Cities**  
League of California Cities, 1981

**Revenue and Expenditure Forecasting Guidebook**  
League of California Cities, 1981

## **ADDITIONAL PUBLICATIONS**

Public officials seeking further information may find the following publications helpful. These may be obtained through the League's loan library.

### **An Elected Official's Guide to Government Finance**

By Girard Miller

Government Finance Officers Association, 1984

### **Understanding Public Investment Reporting**

#### **A Handbook for Local Elected Officials**

California Debt and Investment Advisory Commission (04-03)

### **Investment Portfolio Reporting Practices:**

#### **An Informational Guide**

California Debt and Investment Advisory Commission (04-5)

### **Local Agency Investment Guidelines: Update for 2008**

California Debt and Investment Advisory Commission

### **An Elected Officials Guide to Loan Finance**

By Girard Miller

Government Finance Officers Association, 1984

### **Evaluating Financial Conditions: A Handbook for Local Government**

By Sanford M. Groves and Maureen Godsey Valente

International City Management Association, 1986

### **Financing Infrastructure: Innovations at the Local Level**

National League of Cities, 1987

### **"Costing and Pricing Local Government Services"**

#### **Governmental Finance, Volume II, Number 1**

March 1982, Municipal Finance Officers Association

### **How to Understand Local Government Financial Statements**

#### **A Users Guide**

By Paul E. Glick

Government Finance Officers Association, 1986

### **Investing Public Funds, 2<sup>nd</sup> edition**

By Girard Miller

Government Finance Officers Association, 1998

## **ADDITIONAL PUBLICATIONS**

### **City Treasurers Handbook**

California Municipal Treasurers Association, Updated through 1990  
(Available through CMTA headquarters, League of California Cities.)

### **Investment Policy Information**

CMTA/CCTA/CSMFO, 1985, Updated 9/1989

### **Long Term Financial Planning: Creative Strategies for Local Government**

Edited by Jeffrey I. Chapman  
International City Management Association, 1987

### **Making Sense Out of Dollars: Economic Analysis for Local Government**

By Todd W. Areson and Susan S. Glickstein  
National League of Cities, 1979

### **Management Policies and Local Government Finance, Third Edition**

By Richard Aronson and Eli Schwartz  
International City Management Association, 1987

### **Money—How to Raise It and How to Spend It**

By Karen Kerns  
International City Management Association, 1977

### **Practical Financial Management: New Techniques for Local Government**

Edited by John Matzer, Jr.  
International City Management Association, 1984

### **Public/Private Partnership: Financing a Common Wealth**

Edited by Barbara Weiss  
Government Finance Research Center, 1985

