

Michigan Government Finance Officers Association

Introduction to Public Finance

Half Day Seminar on Introduction to Governmental Finance
12:30 PM to 4:30 PM

	<u>Suggested Time</u>
Introduction & summary of program	12:30-12:35
Budgeting	12:35-1:15
<i>Fund Balance</i>	
<i>Property Taxes</i>	
<i>State Shared Revenues</i>	
BREAK	1:15-1:30
Financial Reporting/Audit	1:30-2:15
Investments	2:15-3:00
BREAK	3:00-3:15
Capital Planning/Debt Financing	3:15-4:25
Questions & wrap up	4:25-4:30

{Introduction to Government Finance}

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About the speakers



Aaron Sarver, CPA, MANAGER

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Aaron is a manager with Plante Moran's audit practice, and has over 5 years of experience in the firm's governmental attestation practice, primarily serving local governmental units. Aaron has experience in the areas of governmental accounting and auditing, including governmental pension plans and municipalities participating in multi-employer pension systems, and federal grant accounting and auditing. Additionally, he serves on our firm's learning team in developing learning content and facilitating at numerous internal and external firm-sponsored trainings.



Kyle Vieth, CPA, MANAGER

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Kyle is a Manager with Plante Moran's governmental team serving local governments, including counties, cities, townships, and special districts/authorities such as regional transit authorities and other enterprise fund activities. His experience includes audit engagements including those with single audits and financial statements that are submitted to the GFOA's Certificate of Achievement for Excellence in Financial Reporting program. Kyle has over 5 years of experience in public accounting and is a frequent presenter on governmental issues.

Topics to Discuss

- ✎ Budgeting
- ✎ Fund Balance
- ✎ Property Taxes
- ✎ State Shared Revenue / CVTRS
- ✎ Financial Reporting/Compliance

Budgeting

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Budgeting

Definition of a budget

- ✎ A budget is a plan of financial operations embodying an estimate of proposed expenditures for a given period of time and the proposed means of financing them.
- ✎ In the State of Michigan, all General and Special Revenue Funds are required by law to be budgeted annually.

Budgeting

Budget mission

- ✎ The mission of the budget process is to help decision makers make informed choices about the provision of services and capital assets and to promote stakeholder participation in the process.
- ✎ In one sense, the “budget document” is the package of information that the governing body reads to educate and inform itself so that it may give the legal approval to management to incur expenditures during any given fiscal year.

Budgeting

Importance of the budget

✎ The budget is the most important financial planning tool that the governing body has. This is where you shape the financial direction that your local unit is going in.

Consider:

✎ How does activity fit in with the local unit's overall goals and objectives?

✎ Is this level of service sustainable over a long run (based on financial forecasts, or multiple year budgets)?

Budgeting

Legal requirements for a budget

✎ P.A. 621 of 1978 requires a budget appropriation to be in place before a governmental unit may commit to spending money.

Budgeting

Budget document vs. General Appropriation Act legal requirements

✎ An annual budget is required by Public Act 2 of 1968, as amended. Public Act 2 differentiates between the budget document and the General Appropriations Act. The budget document is the informational package that is put together by the Chief Administrative Officer in order for the governing body to pass the resolution approving spending for the upcoming year. This resolution is referred to as the “General Appropriations Act.”

Budgeting

Budget monitoring

How can reports be structured?

Executive summary

✎ Revenue/Expenditures vs. budget

- 📅 Annual budget

- 📅 Prorated budget

- 📅 Percentage comparison

- 📅 Incremental budget

Budgeting

What does it mean to have a balanced budget?

- ✎ A budget is considered to be balanced if the projected ending fund balance is positive.
- ✎ In any one year it may be appropriate for expenditures to exceed revenue.
- ✎ Budget deficit.

Budgeting

What can I do to improve or protect my local unit's financial health?

Nearly every community that is in excellent financial health today has one thing in common:

✎ In addition to the required budget process, your local unit should perform a two- to five-year look into the future. This can be done via:

- 📅 A multi-year budget; or
- 📅 A financial projection.

Multi-Year Budgeting

The process of producing DETAILED revenue estimates and expenditure authorizations across a number of fiscal years.

✎ Most commonly a biennial basis

Adoption, monitoring, amending, and reporting over a multi-year period.

✎ Not simply a forecast or benchmark in the out-years, an actual appropriation

Multi-Year Budgeting

- ✎ Budget issues and problems are not limited to a single fiscal year, they trend over several years. Use of multi-year budgeting allows a unit to capture and deal with those trends.
- ✎ Multi-year budgeting also provides some basis of continuity.
 - 📅 With appropriations planned for at least two years, managers and employees can, collectively and individually, make and implement plans knowing that they at least have a couple of years of support.
- ✎ Finally, multi-year budgeting builds a discipline of concentrating on long-term fiscal views rather than an annual review.

Fund Balance



What Is Fund Balance?

Accounting 101 tells us that we have:

- ✎ Assets (things we own) (including deferred outflows of resources); and
- ✎ Liabilities (amounts we owe others) (including deferred inflows of resources);
 - 🏠 The difference between assets and liabilities is equity. In the governmental funds, this equity is called fund balance.
- ✎ Since governmental funds generally report only assets that are available (cash or will be cash within 30-60 days), and only report liabilities that are current claims, the resulting fund balance represents amounts available to be spent.



Is Fund Balance Available To Be Spent As Our Governing Body Sees Fit?

Maybe – but not necessarily

✎ Fund balance is reported based on how constrained it is; the categories are:

- 🏠 Nonspendable (not in spendable form)
- 🏠 Restricted (external legal restrictions)
- 🏠 Committed (internally – by formal action)
- 🏠 Assigned (internally; less formally)
- 🏠 Unassigned

The governing body always has the authority to re-commit or re-assign fund balances.

How Much Fund Balance Should My Local Unit Have?


There is not a single answer to that question, so let's start with some concepts:

- ✎ **Zero is not an option.** You need some level of fund balance for cash flow purposes, and some level for responses to emergencies.
- ✎ There is an appropriate range of fund balance, because it is possible to have too little, but it is also possible to have too much.
- ✎ The right amount is dependent on several factors, which we will detail on the next slide:



Fund Balance Factors


RISK TOLERANCE

 (If you can tolerate some risk that you will not have enough, then you can live with less.)

KNOWN UPCOMING SPENDING

 (Is the local unit saving for a large purchase?)

TAX YEAR DIFFERENT THAN FISCAL YEAR

 (Property taxes are generally the single largest revenue source, but sometimes tax revenue comes in at the end of the year, rather than at the beginning; those local units need cash to make it to the next tax collection.)

Fund Balance Factors

- ✎ As the size of your budget grows larger, so does the required minimum level of fund balance — but not linearly.
- ✎ So a larger government requires a larger fund balance, but not as a “percentage of the budgeted expenditures” – that percentage target would be smaller.
- ✎ Before considering individual risk, upcoming spending, or tax year differences, most use the guidelines on the next slide.

Fund Balance Factors

- ✎ Most governments should be in the 10–20% range (fund balance as a percent of expenditures).
- ✎ A very small government might have a 20–25% target.
- ✎ A very large government might have 5–10% as a target.
- The GFOA (Government Finance Officers Association) in its best practices document, suggests two months' worth – 16.7%, as a minimum; the State of Michigan used to have a “Fiscal Stress” scoring for local governments that used 13% as a minimum.

Property Taxes



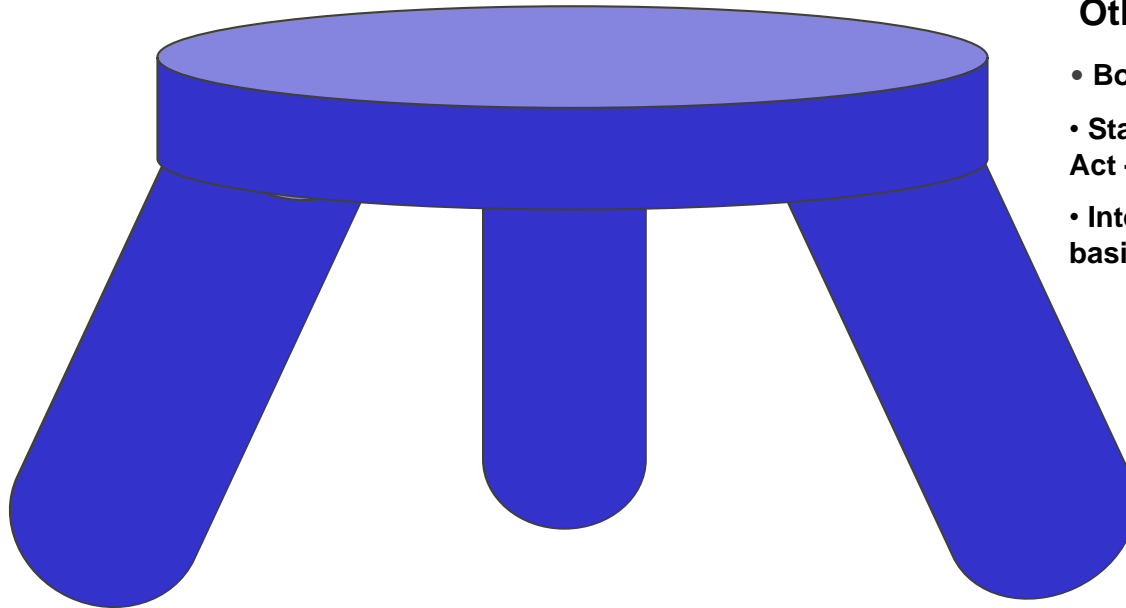
Revenue Challenges — “Three-Legged Stool”

Property Taxes

- No more rollups
- Treatment of transfers (“uncapped values” / “popup”)
- Taxable Value / State Equalized Value disparity
- WPW Acquisition Co. v. City of Troy
- Impact of foreclosures
- Personal property

Other Revenue

- Bolt Case
- State Construction Code Act – most are in a deficit
- Interest earnings are basically non-existent



State Shared Revenue

- For 10 years through FY 15/16, almost \$7.5 billion cumulative reduction statewide
- Statutory revenue sharing eliminated and replaced with the Economic Vitality Incentive Program – Communities must meet requirements to obtain funding
- Competing priorities in State financial situation

Property Tax Overview

The Property Tax Equation:

$$\text{Taxable Value} \times \text{Millage Rate} = \text{Property Tax Bill}$$

What Is Taxable Value?

Taxable value (TV) does not mean what your home is worth – it is derived from a complex formula resulting from a series of legislative changes in the 1990s, most notably Proposal A.

How Can the Tax Base Increase?

- ✎ For properties that transferred ownership during the year, the TV is “uncapped” – it is reset to be 50% of the true cash value – but BEWARE, this is not a windfall because the millage rate may now have to be reduced due to Headlee.
- ✎ For properties that construct additions, these additions also come in at 50% of true cash value.
- ✎ So, for an existing community, the only way to increase the tax base by meaningful amounts is by having new construction.

Tax Base

Process for appealing assessments

- ✎ TV is established December 31
- ✎ Taxpayer can appeal valuation at Board of Review (March & July)
 - 🏠 Board is comprised of members of the community
 - 🏠 Board can increase, decrease, or leave value unchanged
- ✎ Assessment disputes can also be heard by the Michigan Tax Tribunal
 - 🏠 The Michigan Tax Tribunal is an administrative tax court. As the State's tax court, the Tribunal has authority over assessment disputes relating to both property and non-property tax matters. To resolve those disputes, the Tribunal conducts hearings and renders written decisions based on the evidence submitted by all parties.

Tax Base

The impact of the recent real estate market decline has been significant:

- ✎ For many properties, TV was significantly below assessed value.
- ✎ In 2007, when the market started declining, this difference acted as a cushion for local units. TV continued to go up (by inflation).
- ✎ By 2010, many individual properties had declined so far that the capped values had to be reduced – this is when TV started to decline rapidly.
- ✎ Current industry trends are seeing TV increases limited by inflation.

Taxpayer Confusion with Michigan's Property Tax System

- While other sectors see some recovery, governments will not experience windfall from increases in property values, unless there is significant new development
- Why?
 - Annual increases are limited to the lesser of inflation or 5%

Personal Property Tax

Personal Property Tax

- In August 2014, Michigan voters overwhelmingly approved Proposal 1. As a result, personal property taxes were reduced in two respects:
 - Small taxpayers with total personal property within a taxing unit valued at less than \$80,000 will be able to sign an affidavit exempting this personal property from taxation. This exemption began with the 2014 tax billings.
 - Personal property used in a manufacturing process that is purchased after December 31, 2012 will be exempt. This exemption will begin in the 2016 tax billings.

Personal Property Tax

✎ The legislation is generally intended to fully reimburse local units of government for revenue losses that result from this exempt property. The changes include creation of a new Local Community Stabilization Authority (LCSA) that will receive money from two sources:

- Use tax: the legislation includes specific amounts of the use tax that will be diverted from the State's General Fund to the new LCSA; and
- Essential Services Assessment: Manufacturers will pay a “local community essential services assessment” to the LCSA based on the value of their exempt manufacturing property. The rate is set at 2.4 mills for a property's first five years; then 1.25 mills for the next five; then 0.9 mills thereafter.

Personal Property Tax

- ✎ Beginning for 2016, all local taxing units are reimbursed for operating and debt millage, based on their personal property exemption loss, calculated by subtracting the current year taxable value of commercial personal and industrial personal property from the total 2013 taxable value of commercial personal and industrial personal property.
- ✎ Payments are being made, but there's still a level of uncertainty

Millage Rates

- ✎ All millages require specific legal authority to levy.
- ✎ Counties, school districts, and townships receive the authority for their operating millages from the state Constitution, via the “15 mill county allocation” (generally township receive the minimum of 1 mill).
- ✎ Cities and villages receive their legal authority via the charter; cities may be up to 20 mills, and village 10. Charter townships created by a vote of the residents receive a 5 mill operating millage.
- ✎ There are several laws allowing additional authority, but generally total taxes levied on an individual property must be within a 50 mill limit.

Additional Millage Authority

- ✎ Additional operating millages voted in by residents, for up to 20 years per election.
- ✎ Debt millages, where the issuance of the debt was voted on by residents.
- ✎ Retirement millage where the residents have approved Act 345.
- ✎ Cities and villages may levy up to 3 mills for rubbish collection (PA 298 of 1917).

Additional Millage Authority

Some “less common” millage authorities:

- ✎ 1 mill to operate a library under Act 164.
- ✎ \$50,000 for publicity/economic development (PA 359 of 1925).
- ✎ Act 33 of 1951 allows townships (and cities or villages with population below 15,000) to levy a special assessment as a millage for police, fire, or EMS.
- ✎ May assess a 1% property tax administration fee.
- ✎ Create a separate authority with its own voter approved millage for library, pool, parks & recreation, refuse, fire, etc.

The Headlee Amendment Impact on Millage Authority

- ✎ The 1978 Headlee Amendment serves to limit millage rates.
- ✎ It requires the maximum authorized millage rate to be rolled back when TV of existing properties increases faster than inflation.
 - If you were levying less than the maximum, it does not reduce taxes, it reduces your ability to levy more. Millage capacity is an important concept to understand.
 - Some millages do not have a maximum (debt, P&F retirement) – so Headlee does not apply.
 - The legislature modified the law in 1995 so that it may not roll millages up, when TV fails to increase by inflation.

State Shared Revenue

TWO-PARTS:

Constitutional








- Constitutionally guaranteed
- 15% of the original 4% sales tax
- Cities, villages, townships
- Strictly per-capita basis

Statutory/CVTRS

- Eligible to receive 100% of its eligible payment, according to Section 952 of 2014 PA 252.
- Populations less than 4,500
 - 📊 78.51044% of the local unit's FY 2010 statutory payment
- Populations greater than 7,500
 - 📊 Population Payment equal to local unit's population x \$2.64659
- In between populations will receive the greater of the previous two examples.

Statutory Revenue Sharing

 To qualify

-  Provide to Treasury by December 1 or the first day of the payment month:
 -  Certification of Accountability and Transparency
 -  Citizen's Guide
 -  Performance Dashboard
 -  Debt Service Report
 -  Projected Budget Report
-  Make the documents mentioned above available to the public

Measuring Michigan's Performance

Michigan's dashboards were implemented by **Governor Rick Snyder** to provide a quick assessment of the state's performance in key areas including: economic strength; health and education; value for money government; quality of life; and public safety. To view the dashboards click below.



MiDashboard



Education



Health and Wellness



Infrastructure



Talent Dashboard



Public Safety Dashboard



Energy & Environment
Dashboard



Financial Health
Dashboard



Seniors Dashboard



Share Your Ideas

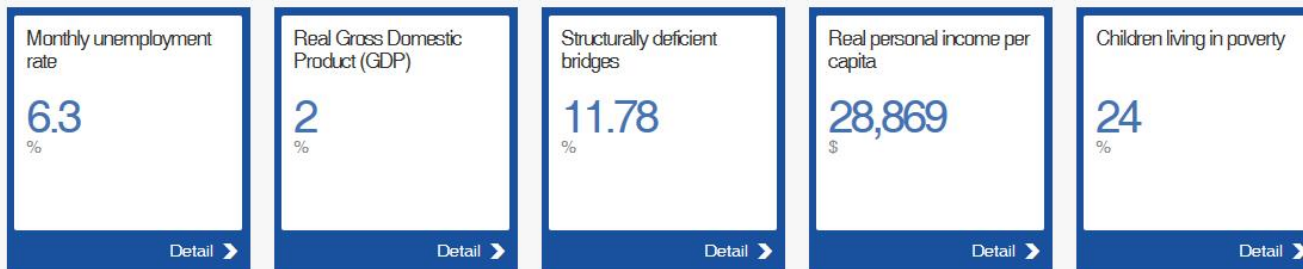
Michigan Dashboard

Download Spreadsheet Version of Michigan Dashboard

*We are continuously measuring these critical indicators of Michigan's health. The thumbs indicate the direction of change from the previous time period.

Performance Key: Thumbs up=Improving, Arrows=Slight change, Thumbs down=Declining

Economic Strength



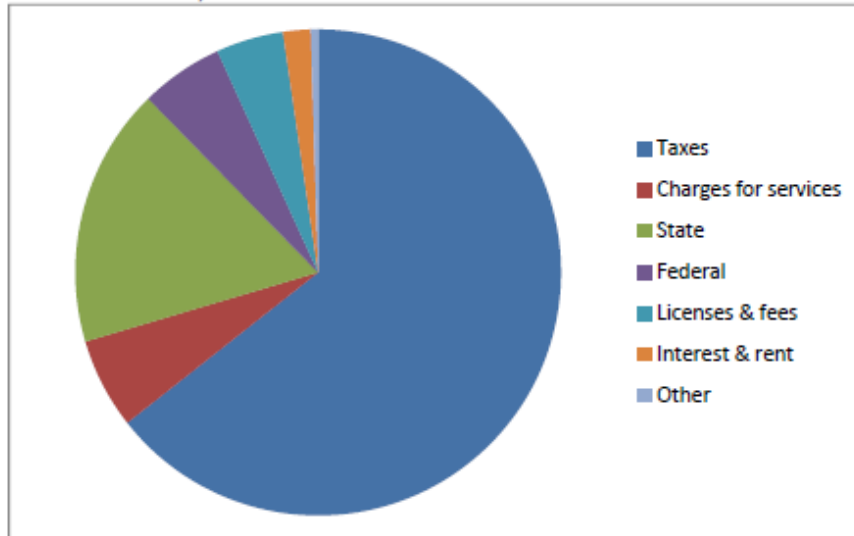
Health & Education



Example Citizens Guide

REVENUES

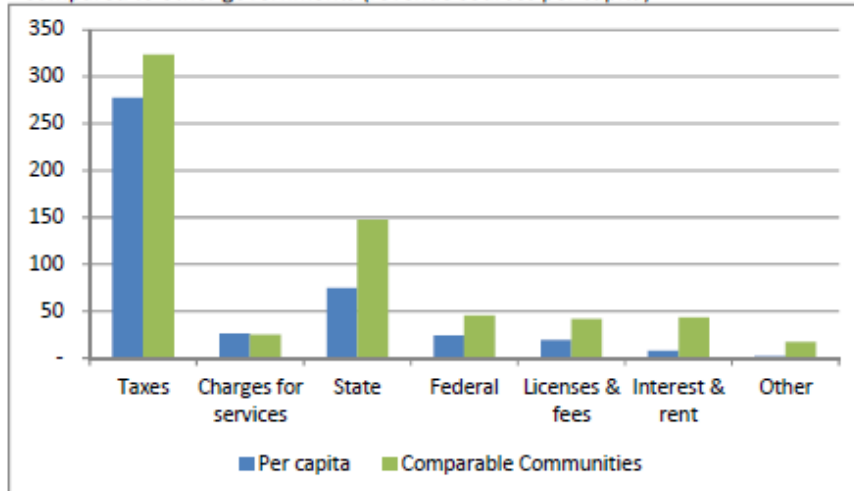
Where our money comes from



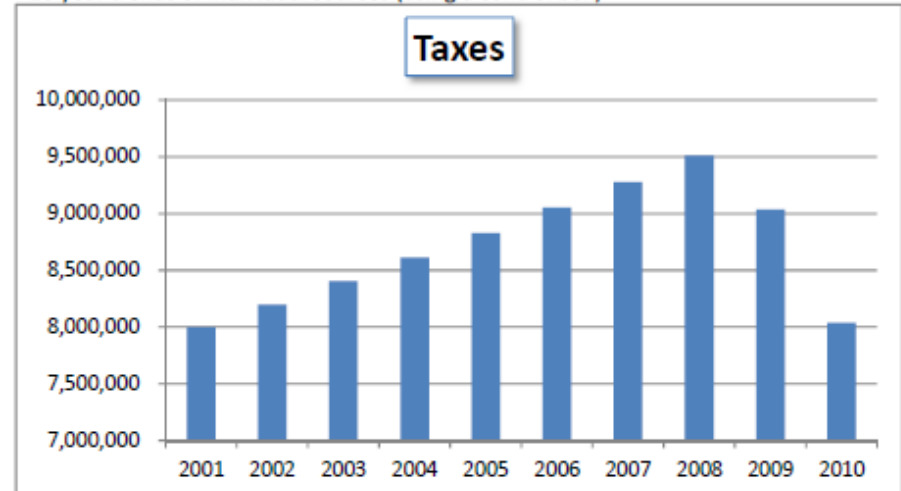
Compared to the prior year

	2009	2010	% change	10-year Trend
Taxes	9,034,000	8,040,000	-11%	
Charges for services	731,000	749,000	2%	
State	2,437,000	2,157,000	-11%	
Federal	670,000	687,000	3%	
Licenses & fees	548,000	562,000	3%	
Interest & rent	352,000	229,000	-35%	
Other	58,000	59,000	2%	

Compared to other governments (revenue sources per capita)

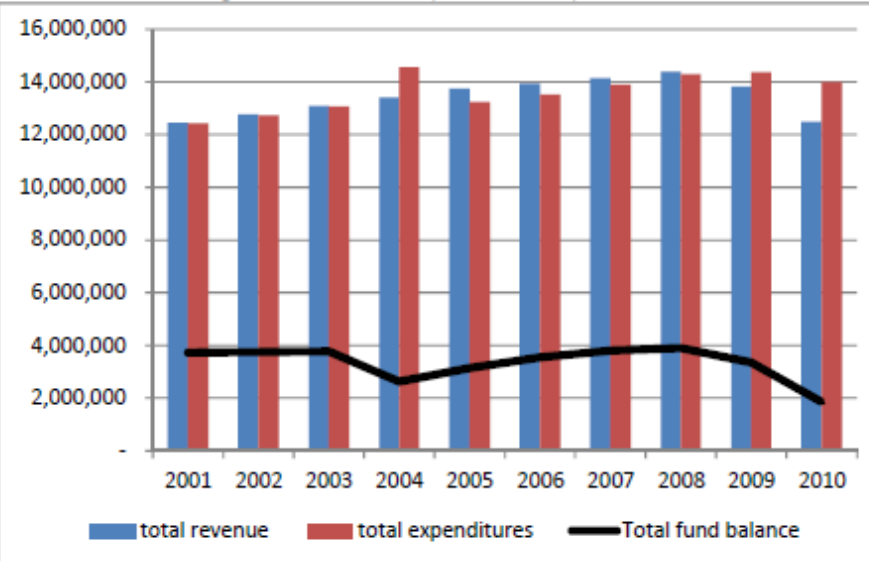


10 year trends of individual sources (using a control box)



Example Citizens Guide

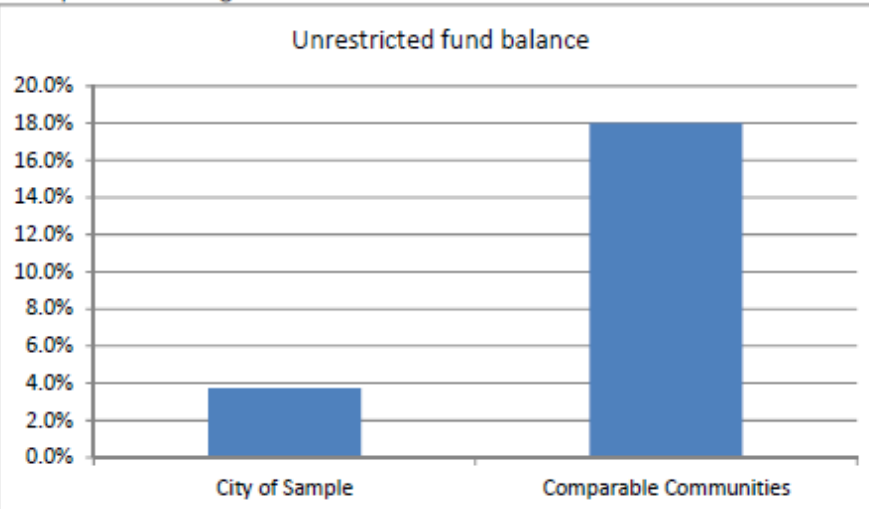
How have we managed our resources (fund balance)?



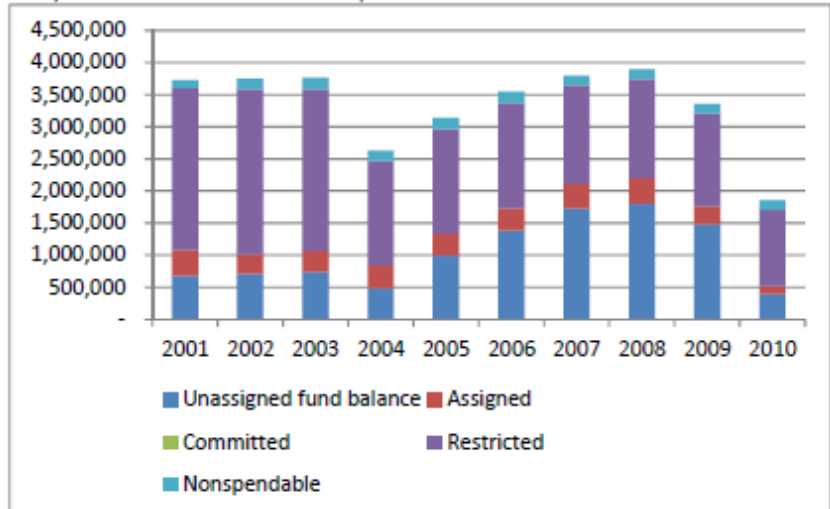
Compared to the prior year

	2009	2010	% change
Revenue	13,830,000	12,483,000	-10%
Expenditures	14,370,000	13,987,000	-3%
Surplus (shortfall)	(540,000)	(1,504,000)	179%
Fund balance, by component:			
Nonspendable	151,000	141,000	-7%
Restricted	1,440,000	1,190,000	-17%
Committed	-	-	n/a
Assigned	280,000	120,000	-57%
Unassigned	1,484,000	400,000	-73%
total fund balance	3,355,000	1,851,000	-45%

Compared to other governments



10 year trends of individual components



Financial Reporting/Compliance

Governmental Accounting

Comment

✎ While a private business enterprise can be viewed as a single economic entity with one group of assets, liabilities, and equity accounts that are normally reflected in a single set of financial statements, a governmental unit normally has several entities or funds, each of which has its own assets, liabilities, and fund equities.

What Is a Fund?

- ✎ In the private sector, sometimes separate companies are set up for legal liability purposes, or tax purposes; in the public sector, separate activities are accounted for in separate funds, in order to show accountability.
 - A specific revenue may be legally restricted, so it is reported in a separate fund to demonstrate that the revenue was spent only for the intended purpose;
 - Any unspent amounts (in governmental funds) will then be reported as “restricted, committed, or assigned.”



What Is the “General Fund?”

- ✎ Individual funds are created because of laws, grant requirements, or the desires of the governing body.
- ✎ All activity that has not been assigned to a specific individual fund is then accounted for in the General Fund.
- 🏠 As a result, most people find the General Fund to be the most important fund. That is the fund that contains uncommitted resources that may be used for general purposes.

Funds Other Than the General Fund

- ✎ What kinds of funds would we have, other than the General Fund?
- ✎ Funds are normally created to show accountability (to show how specific revenue is being spent); sometimes they are created to pay for goods or services in advance (internal service funds and capital project funds).

Types of Funds



Different fund types that a government may have:

Governmental Funds	<ul style="list-style-type: none">• General fund• Special revenue funds• Debt service funds• Capital project funds *• Permanent funds
Proprietary Funds	<ul style="list-style-type: none">• Enterprise funds• Internal service funds *
Fiduciary Funds	<ul style="list-style-type: none">• Trust funds (pension and other employee benefit, investment, private purpose)• Agency funds

** Capital projects and internal service funds have a somewhat higher potential for resources that could be available for general unrestricted spending; the specific funds would need to be evaluated.*

Primary Objectives of Governmental Financial Statements

 To answer questions:

-  Fund-based statements answer the question “What did you do with the money we gave you?”
-  Government-wide statements are intended to also answer the question “Did this year’s taxpayers pay the full cost of the services you delivered this year?” (or did we pass the obligation on to our grandchildren?)

Who Are the Users of Governmental Financial Statements

- ✎ Taxpayers
- ✎ State Treasurer/Oversight Bodies
- ✎ Administrative/Finance
- ✎ Rating Agencies
- ✎ Intergovernmental Grantors
- ✎ Investors/Creditors
- ✎ Employees (and their unions)

What to Look for in Your Financial Statements

Auditor's opinion

-  Unmodified (“clean”) opinion

-  Modified opinion

Fund balance or fund equity of various funds – fund-based statements

Comparison of actual revenues, expenditures, and fund balance with budgeted amounts for major funds

What to Look for in Your Financial Statements

- ✎ How is our municipality doing financially?
- ✎ How did we do compared to what we planned to do?
- ✎ Should water and sewer rates be adjusted?
(Do revenues cover expenditures?)
- ✎ Do certain funds require subsidies from other funds to exist?
- ✎ Is there any over-reliance upon any one revenue source?

Audit Requirements

What is an audit?

- ✎ An audit is the set of procedures that a CPA goes through to enable her or him to express an opinion that the governmental unit's financial statements are fairly stated (as opposed to a "certification" that the accounting records are "accurate").
- ✎ In light of the cost-benefit relationship, it involves looking at a sample of transactions and documentation, as opposed to examining each transaction or document throughout the year.
- ✎ State of Michigan requires governmental entities to submit an audit (Public Act 2) within six months of year end.

Audit Requirements

In all instances, an audit must include:

- ✎ A review of the governmental unit's internal controls, in sufficient detail, to enable the auditor to gain an understanding of internal controls in place sufficient to plan the audit (but not necessarily sufficient to conclude on the overall effectiveness of internal controls).
- ✎ An evaluation of the risk of fraud in the governmental unit, with follow up on areas considered to be higher than normal risk.

Other Reports

Federal awards report (“single audit report”)

- ✎ Discloses extent to which there are deficiencies in internal control or instances of noncompliance with federal regulations
 - 📁 Separately issued reports on component units, funds, etc.

Other Reports

Auditor's letter of comments and recommendations (“management letter”)

- ✎ Identifies areas for improvement
- ✎ Updates elected officials on current events in municipal industry

Thank you

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Public Finance: Investment Basics

March 2, 2020

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PFM Asset Management LLC's Experience in Michigan

1987

PFM (via predecessor firm) began investing in Michigan under P.A. 20

Independent fiduciary

40 years of public sector experience

200+ investment professionals

24 CFA charterholders

\$153.1 billion in total assets

\$6.2 billion in total assets for Michigan entities



MICHIGAN

\$6.2B

ASSETS UNDER
MANAGEMENT AND
ADVISEMENT



PUBLIC ENTITIES

133



Where Are We Going Today?

- ◆ GFOA Best Practices
- ◆ Public Act 20 – Breakdown
- ◆ Allowable Investments
- ◆ Investment Reporting
- ◆ Cash Flow Segmentation
- ◆ Investment Basics
- ◆ Appendix



Investment Objectives

- ◆ **Safety**
 - Protect principal
- ◆ **Liquidity**
 - Provide necessary liquidity to cover both ongoing and unexpected cash needs
- ◆ **Return**
 - Provide necessary yield recognizing need for safety and liquidity, and subject to restrictions specified by the state statutes and the local governing body
- ◆ **Compliance with legal restrictions / regulations**
- ◆ **Flexibility**
- ◆ **Stability (limited volatility)**
- ◆ **Simplicity**





GFOA Best Practice

Investment Program for Public Funds

Governments have a [fiduciary responsibility](#) in managing their funds, including the ongoing management and monitoring of investment activity. Developing a public funds investment program is essential to effective financial management, and it sets the foundation for creating protocols and internal controls, constructing and managing the portfolio, navigating changing economic conditions, and communicating information to stakeholders. While different types and sizes of governments require differing levels of complexity in their investment programs, all governments need to recognize their fiduciary responsibility. Having an established public funds investment program provides the structure to effectively set policy, make decisions, and [safeguard a government's financial assets](#).

Reference: Government Finance Officer Association Best Practice – January 2017



GFOA Investment Program Best Practice

GFOA recommends all governments establish a public funds investment program by completing the following steps:

- ◆ Develop an investment leadership team
- ◆ Identify the funds being invested and their cash flow
- ◆ Review all applicable laws and regulations
- ◆ Establish a risk profile
- ◆ Determine the portfolio management team
- ◆ Create an [investment policy](#)¹

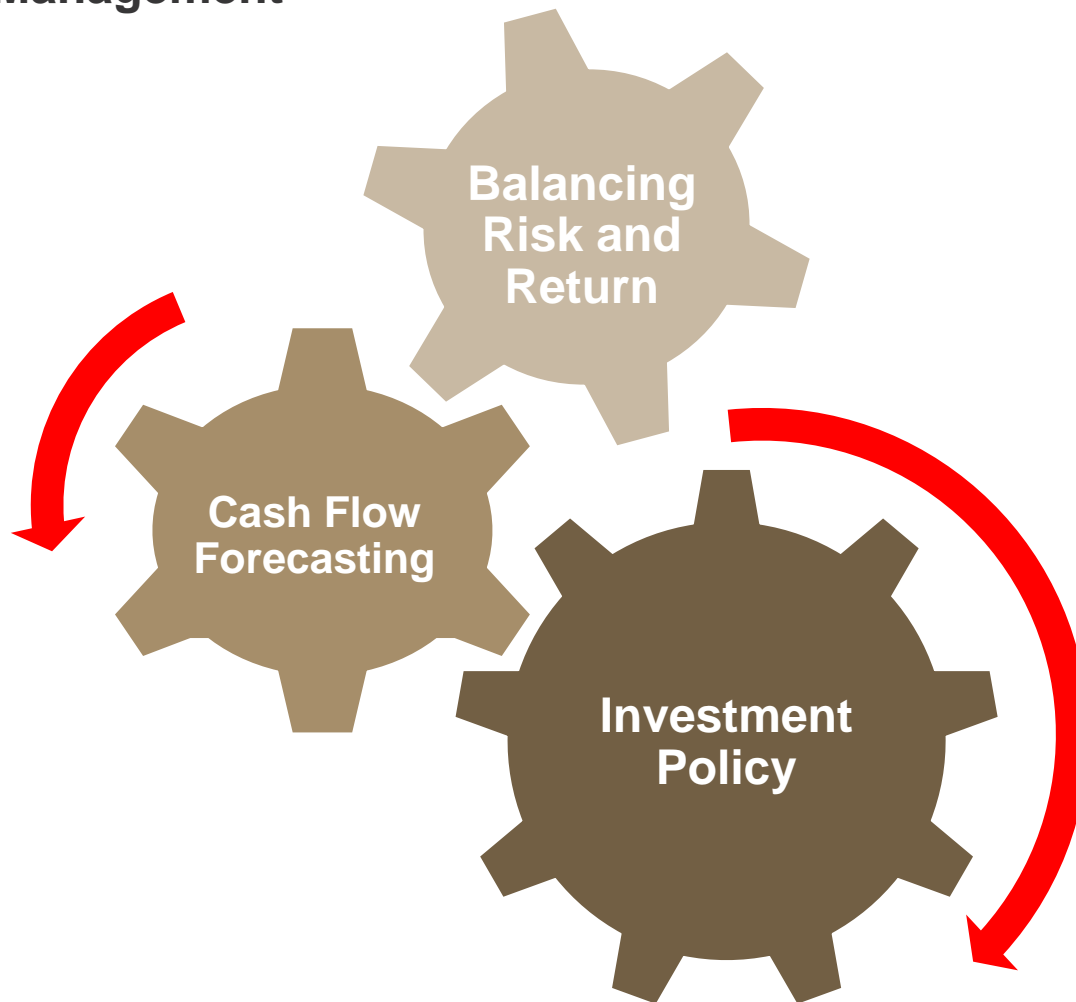
Reference: Government Finance Officers Association Best Practice – January 2017



Public Act 20 – Breakdown



Investment Management





P.A. 20 Breakdown

■ Investment of Surplus Funds of Political Subdivisions (Excerpt) Act 20 of 1943

- Section 129.91: Helps define the box that Treasurers are allowed to invest in
- Section 129.95: Requires the approval of an investment policy and minimum requirements
- Section 129.96: Requires brokers to receive a copy of the investment policy and sign an agreement to comply with the policy AND
- Requires quarterly reporting to the governing body (*note: does not stipulate what exactly to include in the report*)



Allowable Investments



Allowable Bank Accounts and FDIC Coverage

- ◆ P.A. 20 allows for deposits into checking, NOW, savings, money market, CDs, and CDARS



Bank Account Type	In State <i>(bank is located in the same state as the public entity)</i>	Out of State <i>(bank is located outside of the state of the public entity)</i>
Demand Deposit <i>Including NIBTA and Interest Bearing Transaction Account</i>	\$250,000	Not separated
Time & Savings <i>Including Negotiable Order of Withdrawal (NOW) and Money Market accounts</i>	\$250,000	Not separated
Total	\$500,000	\$250,000

Note: public entities are not allowed to invest in banks that do not have a physical place of deposit in the state of Michigan



P.A. 20 Allowable Investments

Sector	Maximum Maturity	Minimum Credit
U.S. Treasuries	No Limit	N/A
Federal Agencies	No Limit	N/A
Obligations of the State of Michigan	No Limit	Rated investment grade by at least one rating service
Commercial Paper	270 days	(A-1, A-2 / P-1, P-2) Rated in the two highest classifications by not less than two standard rating services
Certificates of Deposit (including CDARS)	No Limit	N/A
Repurchase Agreements*	No Limit	N/A
Bankers' Acceptances	No Limit	N/A
Mutual Funds**	No Limit	N/A
Investment Pools**	No Limit	N/A

* Agreements must be collateralized with bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

** Mutual funds and investment pools must be composed entirely of investment vehicles that are legal for direct investment by a public corporation.



Investment Policy Requirements

◆ Section 129.95 Investment policy; adoption by governing body.

- a) A statement of the purpose, scope, and objectives of the policy, including safety, diversification, liquidity, and return on investment.
- b) A delegation of authority to make investments.
- c) A list of authorized investment instruments. Note: If a mutual fund, indicate whether intention is to maintain a net asset value of \$1.00 per share or variable NAV.
- d) A statement concerning safekeeping, custody, and prudence.

Recommendation: Keep it Simple and Aligned with P.A. 20



Advisor / Broker Relations

◆ Section 129.96

- 1) ...a financial intermediary, broker, or dealer shall be provided with a copy of the public corporation's investment policy and shall do both of the following
 - a) Acknowledge receipt of the investment policy.
 - b) Agree to comply with the terms of the investment policy regarding the buying or selling of investment securities.
- 2) Adoption date of Section 1
- 3) The investment officer shall provide **quarterly a written report** to the governing body concerning the investment of the funds.



Investment Reporting



What to Report

■ If “S L Y” is your edict for investing, why not disclose this in your report:

- Safety – Credit Ratings
- Liquidity – Maturity Distribution
- Yield – Return (Total Return or Yield to Maturity)

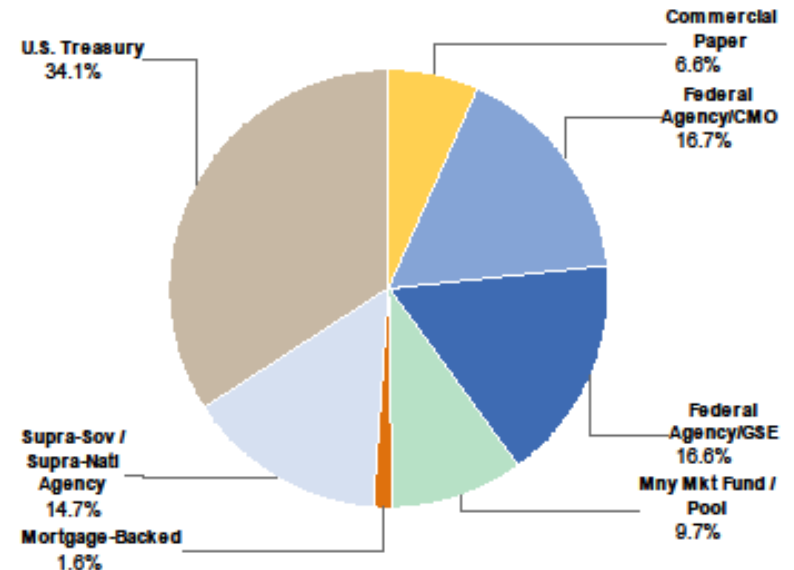
Recommendation: Keep it Simple (a picture is worth a thousand words)



Sector Allocation

Sector Allocation
As of December 31, 2019

Sector	Market Value (\$)	% of Portfolio
U.S. Treasury	7,965,309	34.1%
Federal Agency/CMO	3,895,696	16.7%
Federal Agency/GSE	3,887,971	16.6%
Supra-Sov / Supra-Natl Agency	3,444,204	14.7%
Mny Mkt Fund / Pool	2,261,706	9.7%
Commercial Paper	1,547,013	6.6%
Mortgage-Backed	376,661	1.6%
Total	\$23,378,560	100.0%



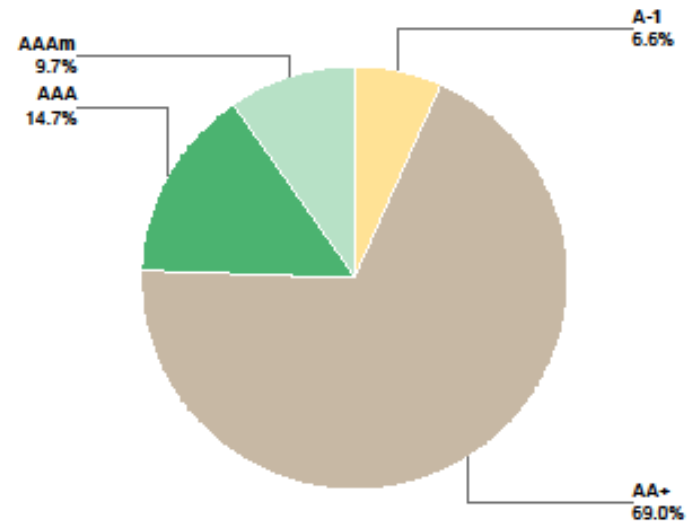


Credit Quality

Credit Quality

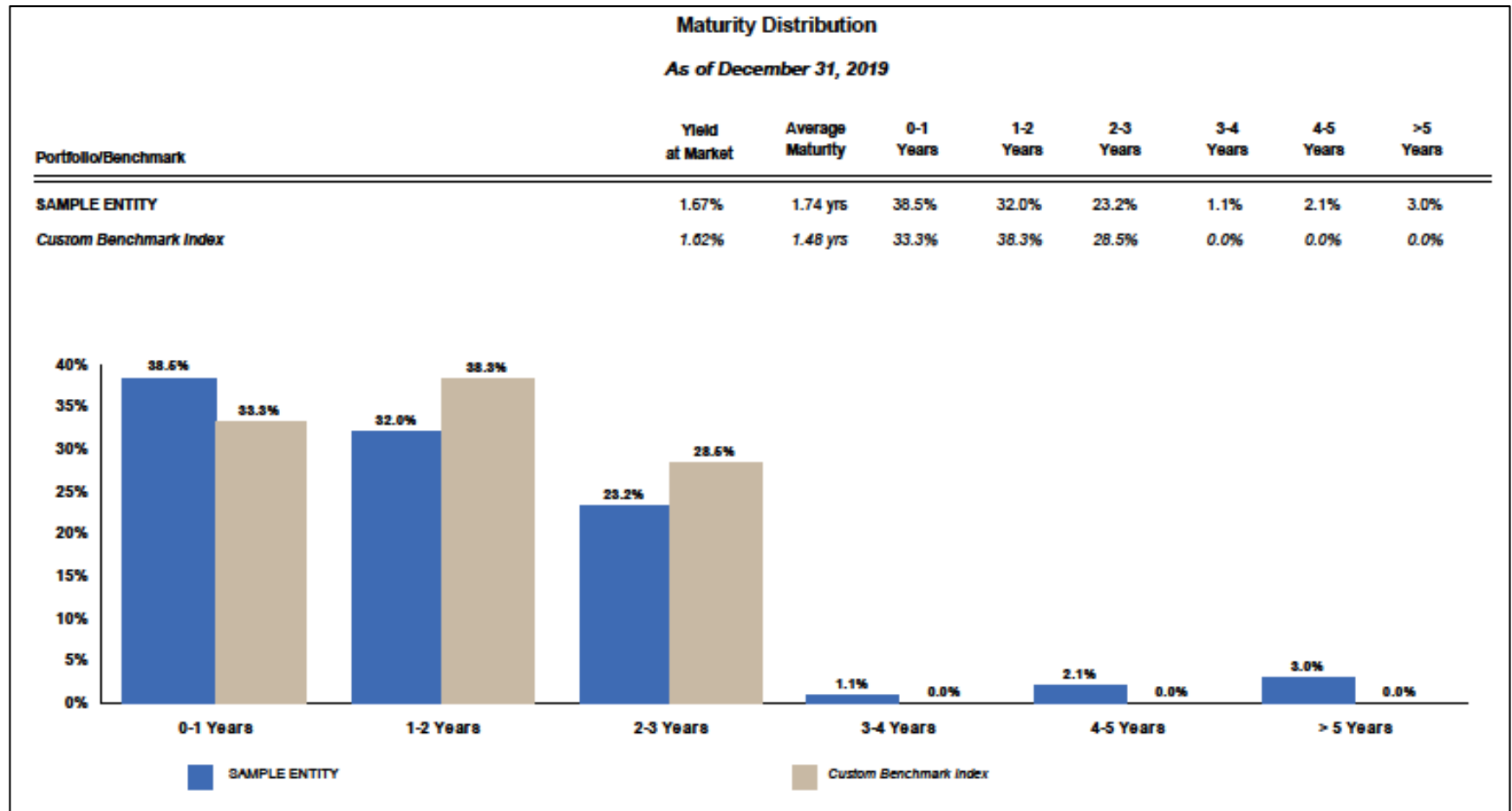
As of December 31, 2019

S&P Rating	Market Value (\$)	% of Portfolio
AA+	\$16,125,638	69.0%
AAA	\$3,444,204	14.7%
AAAm	\$2,261,706	9.7%
A-1	\$1,547,013	6.6%
Totals	\$23,378,560	100.0%





Maturity Distribution

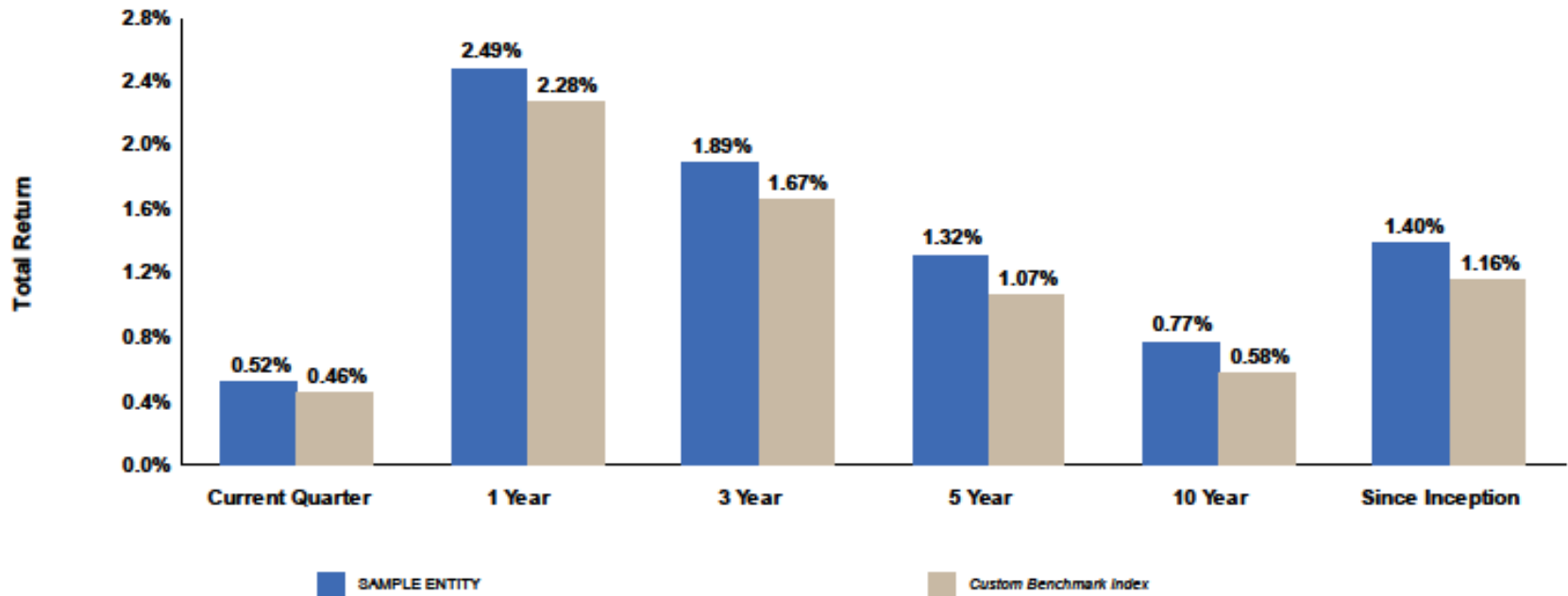




Total Returns

Portfolio Performance (Total Return)

Portfolio/Benchmark	Effective Duration	Current Quarter	1 Year	Annualized Return			Since Inception (06/30/06) **
				3 Year	5 Year	10 Year	
SAMPLE ENTITY	0.15	0.52%	2.49%	1.89%	1.32%	0.77%	1.40%
<i>Custom Benchmark Index</i>	0.15	0.46%	2.28%	1.67%	1.07%	0.58%	1.16%
Difference		0.06%	0.21%	0.22%	0.25%	0.19%	0.24%





Cash Flow Segmentation



Knowing Your Cash Flows

- ◆ Understanding your liquidity needs is vital
 - There are opportunity costs to excess and insufficient liquidity
- ◆ Cash flow analyses can increase earnings potential
- ◆ Historical analysis
 - Stability of municipality
 - Reliability of historical data
- ◆ Projections
 - Taxable values
 - Programs
 - Outsourcing
 - Payroll cycle
 - Pension / OPEB

1.80	\$	29.60	\$	138.73	\$	38.11
22.40	\$	56.00	\$	68.40	\$	22.08
32.10	\$	56.60	\$	42.33	\$	17.48
35.40	\$	62.00	\$	34.23	\$	19.32
37.40	\$	47.50	\$	37.08	\$	31.06
35.00	\$	75.00	\$	57.76	\$	56.81
30.30	\$	73.00	\$	88.63	\$	63.71
29.60	\$	73.00	\$	82	\$	28.75
16.80	\$	37.50	\$		\$	
\$ 240.80		\$ 509.00		\$ 388.11		
				\$ 93.52		
				\$ 139.73		
				\$ 115.00		
				\$ 110.73		



Sample Cash Flow

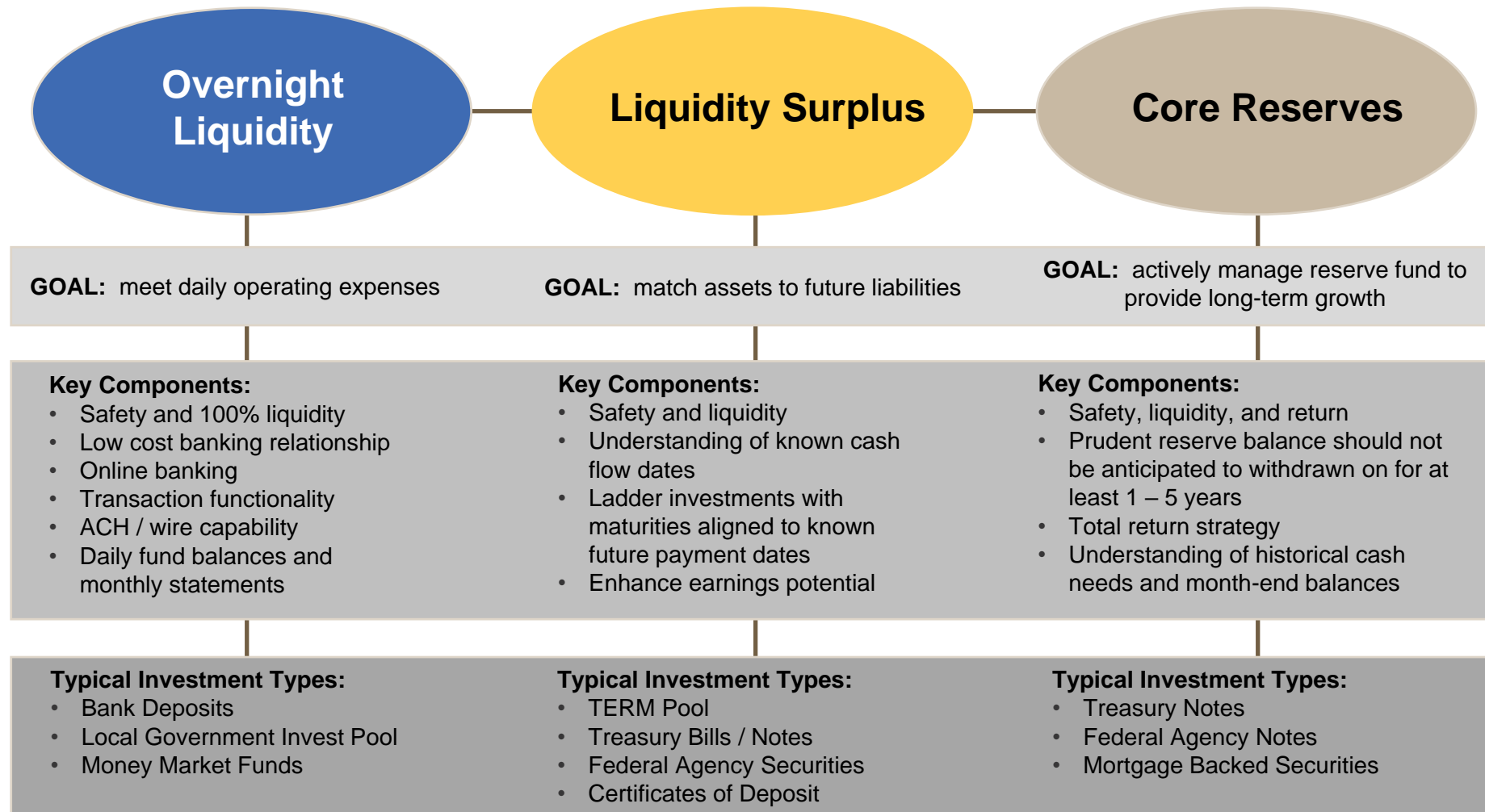
◆ Cash flows are a necessity for a strong cash management program

- The more defined the cash flows, the more optimally funds can be invested

	A	B	C	D	E	F	G	H	I	J	K	L	M
1		January	February	March	April	May	June	July	August	September	October	November	December
2	Beginning Balance	\$ 25,000,000	\$ 28,050,000	\$ 26,600,000	\$ 26,150,000	\$ 25,700,000	\$ 25,250,000	\$ 18,300,000	\$ 16,850,000	\$ 16,400,000	\$ 15,950,000	\$ 15,500,000	\$ 15,050,000
3													
4	Inflows												
5	Property Tax	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000
6	Grants	\$ 10,000,000											
7	State Revenue Sharing	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000
8	Revenue	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
9	Total Inflows	\$ 19,500,000	\$ 9,500,000	\$ 9,500,000	\$ 9,500,000	\$ 9,500,000	\$ 9,500,000	\$ 9,500,000	\$ 9,500,000	\$ 9,500,000	\$ 9,500,000	\$ 9,500,000	\$ 9,500,000
10													
11	Disbursements												
12	Payroll	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000
13	Accounts Payable	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000
14	Capital Outlay												
15	Debt Service	\$ 4,000,000	\$ 1,000,000				\$ 4,000,000	\$ 1,000,000					
16	Total Disbursements	\$ 14,000,000	\$ 11,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 14,000,000	\$ 11,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000
17													
18	Net Cash Flows	\$ 5,500,000	\$ (1,500,000)	\$ (500,000)	\$ (500,000)	\$ (500,000)	\$ (4,500,000)	\$ (1,500,000)	\$ (500,000)	\$ (500,000)	\$ (500,000)	\$ (500,000)	\$ (500,000)
19													
20	Investments												
21	Investment Purchase	\$ (2,500,000)					\$ (2,500,000)						
22	Investment Interest/Maturity	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
23	Net Investments	\$ (2,450,000)	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ (2,450,000)	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
24													
25	Ending Balance	\$ 28,050,000	\$ 26,600,000	\$ 26,150,000	\$ 25,700,000	\$ 25,250,000	\$ 18,300,000	\$ 16,850,000	\$ 16,400,000	\$ 15,950,000	\$ 15,500,000	\$ 15,050,000	\$ 14,600,000
26													



The Basics of a Cash Management Program

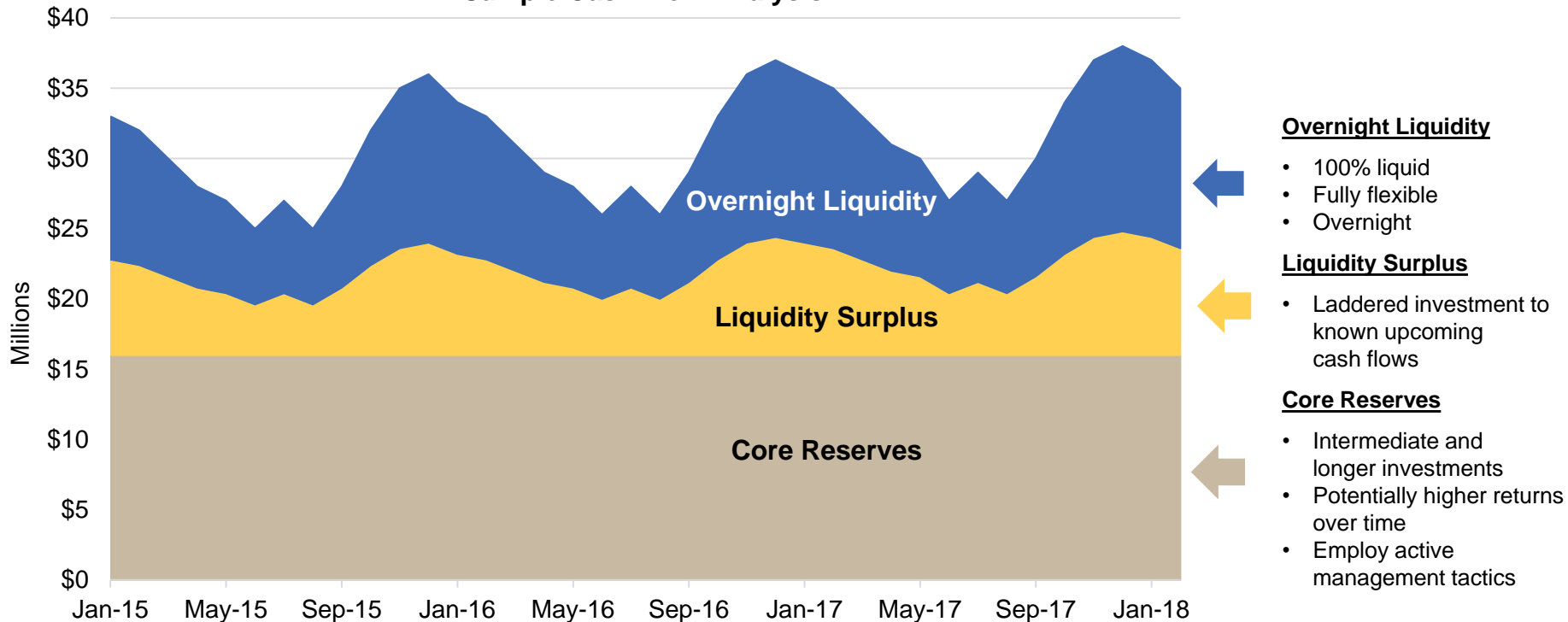




Cash Flow Analysis Leads to Prudent Investment Decisions

- Excess liquidity in an investment management program can be an opportunity cost
- Detailed cash flow analysis may help prudently define fund balances that can be invested in intermediate – to longer-term investments at potentially higher yields

Sample Cash Flow Analysis



Note: For illustrative purposes only.



Investment Basics



Investment Basics

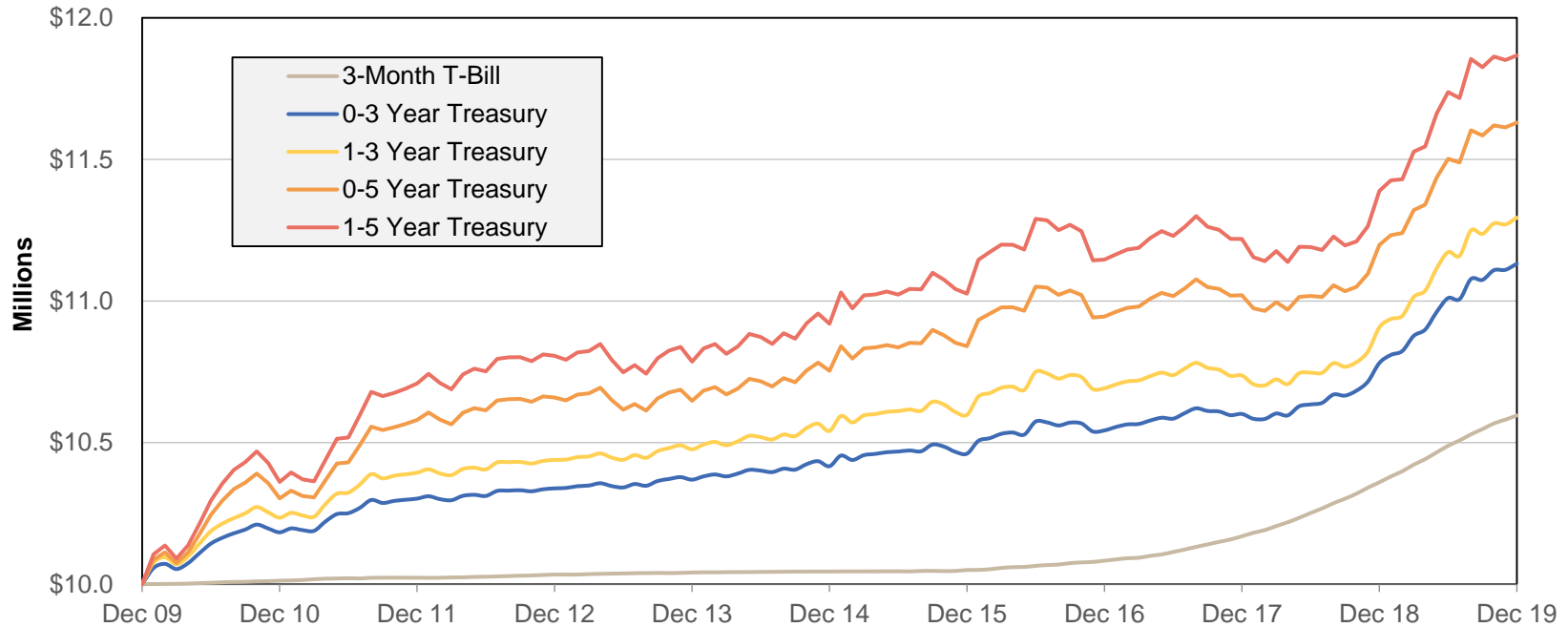
- ◆ Investment policy is a reflection of your risk parameters and controls
- ◆ Control risks – credit risk, interest rate risk, market risk
- ◆ Understanding your cash flows before investing
 - Historical analysis is helpful, but projections are key
 - Depending on the size of the portfolio, may want to segment into short / long-term
- ◆ Historically, yield curve provides higher earnings longer-term
 - Avoid timing market (need to get it right 2x – in and out); consistent investing
 - Long-term investing provides highest likelihood of higher returns
 - The longer you invest, the greater the volatility (unrealized gains / losses)
- ◆ Measure and report
 - Measure your earnings / total return (considers earnings and market movements)
 - Report results against a market benchmark (i.e., 1 – 3 year Treasury) on a quarterly basis



Opportunity Cost Considerations of Extending Duration

Growth of \$100 Million Sample Portfolio

December 31, 2009 – December 31, 2019



10 Years Ended December 31, 2019				
Bank of America Merrill Lynch Treasury Index	Duration (years)	Annualized Total Return	Cumulative Value of \$10 Million	Quarters With Negative Return
3-Month T-Bill	0.23	0.58%	\$10,596,193	0 out of 40
0 – 3 Year Treasury	1.44	1.08%	\$11,131,791	7 out of 40
1 – 3 Year Treasury	1.87	1.22%	\$11,294,416	8 out of 40
0 – 5 Year Treasury	2.15	1.52%	\$11,629,877	10 out of 40
1 – 5 Year Treasury	2.61	1.73%	\$11,867,342	10 out of 40



Helpful Hints

- ◆ Remember “S L Y” – Safety, Liquidity, and Yield (in that order)
- ◆ Safeguarding of assets – safety comes first
 - No award for higher earnings, but public flogging for loss
 - Calculate your credit exposure (uninsured portion)
 - If uninsured or not backed by the U.S., then you need to do credit analysis on the bank
 - Take steps to mitigate risk through informed investing
- ◆ Historically, yield curve provides higher earnings longer-term
 - Avoid timing market by consistently investing
- ◆ Cash flow analysis is fundamental to managing public funds
 - Whether you are borrowing or investing, you need to know ebbs and flows of funds
- ◆ If you can't explain it, don't buy it. Ask questions and use GFOA / MMTA



Further Resources

- ◆ Deposit insurance coverage and banks under supervisory watch
www.fdic.gov
- ◆ Public Act 20 of 1943
[http://www.legislature.mi.gov/\(S\(cp3julfaetb1wk2ojol0bv45\)\)/documents/mcl/pdf/mcl-Act-20-of-1943.pdf](http://www.legislature.mi.gov/(S(cp3julfaetb1wk2ojol0bv45))/documents/mcl/pdf/mcl-Act-20-of-1943.pdf)
- ◆ Broker License Check – Financial Industry Regulatory Authority
<http://brokercheck.finra.org/>
- ◆ GFOA Best Practices – Treasury and Investment Management
<http://www.gfoa.org/financial-policy-examples-investments>
- ◆ APTUSC investment policy certification program
<https://www.aptusc.org/investment-policy-certification>

Questions?



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Appendix



Security Types – U.S. Treasury Securities

- The Treasury Department issues debt to meet budgetary needs in the form of U.S.

Treasury securities:

- Highest credit rating (full faith and credit of the U.S. government)
- Most marketable security – provides for liquidity
- Fixed rate and term
- Non-callable

Description	Maturities	Interest Payments
U.S. Treasury Bills	Short-term 4, 13, or 26 weeks	Issued at discount – buy for less than par; at maturity receive full par
U.S. Treasury Notes	Intermediate-term 1 to 10 years	Paid semi-annually; priced at current market
U.S. Treasury Bonds	Long-term 10 years or more	Paid Semi-annually; priced at current market



Security Types – Agency Securities

- Public Act 20 allows for investments in securities issued or guaranteed by agencies or instrumentalities of the U.S.
- Variety of debt instruments including bullets, callables, fixed, variable, etc.

Federal Agency / GSE	Short Name	Government Backing / Rating
Government National Mortgage Corporation	Ginnie Mae GNMA	Full faith and credit of the U.S. government
Federal Home Loan Mortgage Corporation	Freddie Mac FHLMC	Implicit backing of the U.S. government, temporarily explicit backing, AAA rating
Federal National Mortgage Association	Fannie Mae FNMA	Implicit backing of the U.S. government, temporarily explicit backing, AAA rating
Federal Home Loan Bank	FHLB	Implicit backing of the U.S. government, temporarily explicit backing, AAA rating

** Ratings by Moody's and Fitch.*



Security Types – Commercial Paper

- ◆ Public Act 20 allows for investment in:
- ◆ Commercial Paper (CP) rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
 - Commercial paper is defined as short-term, unsecured notes used to finance corporations' operations or current assets.
 - CP can be issued from 1 to 270 days (usually less than 90 days)
 - CP is issued at a discount (similar to T-Bills)
 - Although CP is short-term – critical assessment is credit risk
 - Must be in two highest grades of commercial paper as determined by at least two rating agencies
 - ✓ A-1/A-2 = Standard and Poor's highest rating
 - ✓ P-1/P-2 = Moody's highest rating



Credit Rating Scale

Moody's		Standard & Poor's		Fitch		Definitions
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	
Aaa		AAA		AAA		Prime Maximum Safety
Aa1		AA+		AA+	F-1	High Grade, High Quality
Aa2		AA	A-1+	AA		
Aa3	Prime-1	AA-		AA-		
A1		A+		A+		Upper Medium Grade
A2		A	A-1+	A	F-2	
A3		A-	A-2	A-		
Baa1	Prime-2	BBB+		BBB+		Lower Medium Grade
Baa2		BBB		BBB	F-3	
Baa3	Prime-3	BBB-	A-3	BBB-		
Ba1		BB+		BB+		Non Investment Grade
Ba2		BB	B	BB	B	Speculative
Ba3		BB-		BB-		
B1		B+		B+		
B2		B		B		Highly Speculative
B3	Not Prime	B-		B-	C	
Caa1		CCC+	C	CCC		Substantial Risk
Caa2		CCC+		-		In Poor Standing
Caa3		CCC-		-		
Ca		-		-		Extremely Speculative
C		-		-		May be in Default
-		-		DDD		Default
-		-		DD	D	
-		D	D	D		



Glossary of Bank Terms

- **ACH** – Growing in use; settlement 1-2 days after origination
- **Average Ledger Balance** - The net sum of the daily positive and negative ledger balances for the month, divided by the number of days in the month; the balance of the last preceding business day is used for weekends and holidays
- **Check** – Used for most corporate and consumer bill payments
- **Collected Balance** – Ledger balance less float.
- **Depository Bank** – Bank which accepts an item for deposit
- **Drawee Bank** – Bank on which check is drawn
- **Excess Earnings Allowance** – Difference between the earnings credit allowance and the balance-based service charges
- **Float** – The dollar amount of deposited items that have been given immediate, provisional credit but are in the process of collection from drawee banks; this is also called uncollected funds
- **Ledger Balance** – End of day balance after all accounting entries (debits and credits) have posted to your account
- **On-us item** – Check deposited to same bank on which it was drawn
- **Payor** – Party who issues the check
- **Payee** – Party to whom check is payable
- **Payment Cards** – Credit, debit, purchasing, and smart cards
- **Provisional Credit** – Payee receives ledger credit when the check is deposited
- **Reserve Requirement** – The portion of the DDA balances that must be set aside by the bank to meet reserve requirements; this amount is not available to offset services charges, and is calculated by multiplying the average positive collected balance by the current reserve requirement rate
- **Return item** – Check the drawee bank rejects and returns
- **Settlement Date** – When the analysis billing period is greater than one month, this represents the day for which the analysis billing cycle will be complete.
- **Wires** – Primarily used in LARGE \$ payments - immediate funds



Capital Planning

MiGFOA

Introduction to Public Finance

March 2, 2020

PFM Financial Advisors LLC

555 Briarwood Circle, Ste 333
Ann Arbor, MI 48108

www.pfm.com
734-994-9700



What is a Capital Improvement Plan (CIP)?

◆ Multi-year plan for capital infrastructure investment

- Typically covers a 6 year period
- Should be updated annually

◆ Examples of Capital Improvements:

- Police/ Fire Stations & Equipment
- Libraries
- Park & Rec Facilities
- Streets & Sidewalks
- Water & Sewer lines
- DPW Equipment
- Courthouse / Jails
- Building Additions
- Swimming pools
- Disposal Site & Equipment





Why Have a Capital Improvement Plan?

- ◆ Required by Michigan Planning Enabling Act
- ◆ To aid the annual budget process
 - CIP will identify funding needs years in advance
- ◆ To prioritize capital needs
 - Facilitates wise use of limited resources
- ◆ To gather community input
 - Secures support for expenditure plans
- ◆ To protect community finances
 - Allows the municipality to be proactive
 - Provides for long range financial planning and management
 - Credit (rating) considerations





Example of the Capital Improvement Plan Process

1. Identify process and roles
2. Kickoff meeting
3. Department heads complete project application forms
4. Policy group reviews all of the project application forms
5. Administrative team ranks projects and drafts the CIP
6. Planning Commission reviews and presents the CIP to the Governing body
7. Planning Commission incorporates final feedback into the CIP
8. Planning Commission adopts the CIP
9. Governing body adopts the CIP
10. Governing body incorporates the CIP into the budget





Capital Improvement Plan Participants

◆ Project Lead

- One person should be identified as the project lead, responsible for:
 - Organizing the different department heads
 - Mediating conflicts
 - Organizing the draft CIP



◆ Policy Group

- Typically made up of department heads that are relevant to the CIP
 - Dir. of Planning and Development
 - Recreation Director
 - Municipal Treasurer
 - Municipal Clerk
 - Director of Public Services
 - Police / Fire Chief (if a part of CIP)
 - Governing Body Representative
 - Planning Commission Representative(s)



Capital Improvement Plan Participants (cont.)

◆ Administrative Team

- Final scoring of the project requests
- Developing the CIP to present to the Planning Commission
 - Manager / Supervisor
 - Director of Community and Economic Development
 - Director of Finance

◆ Planning Commission

- Adopts the CIP
 - Should be involved in the entire process
 - Fully understands the value and process of the CIP

◆ Governing Body

- Adopts the CIP after the Planning Commission
- Incorporates the CIP when adopting the budget





Capital Needs Assessment

- ◆ Identify future needs by receiving capital needs requests
 - Should be completed annually by department heads
 - Cost estimates
 - Description of project
 - Link to community's strategic goal
 - Proposed funding source
 - Their priority of project
 - Potential capital return
 - Location
 - Get engineering and architectural assessments when needed
- ◆ Identify expenditure timing
 - When to replace or repair





FY2014-15 CAPITAL BUDGET ITEM REQUEST

Priority No. _____

This form must be completed for each new capital equipment item, vehicle or project requested for FY2013-14. The purpose of this form is to fully describe and justify the new item and to explain the new or improved service that will be provided if approved. Include total cost and suggested source of funds. Please complete the Replacement Item Request form for all replacement capital item requests.

Department: # Capital Item: Snow Plow Account No. # Quantity: 1 Useful Life: 10 yrs. Cost: \$75,000	Source of Funds: General Fund Circle One: Equipment <u>Vehicle</u> Project
<u>Description and function of new capital item:</u> 	<u>Explain new or improved service that will result from acquisition of new item:</u>
<u>Is the acquisition of this new item consistent with the City's Strategic Plan? (Yes or No (circle one)).</u> <u>Is the acquisition of this new item consistent with the City's Comprehensive Plan? (Yes or No (circle one)).</u> <u>Provide explanation.</u>	<u>How will any current services be affected or changed, if approved? What will happen if this item is not approved?</u> Unable to clear roads
<u>What will be the Operating Budget impact? (Personnel, Supplies, Other)</u> None. This is a replacement item.	



CIP Planning Process

- ◆ Administration team to determine which projects / capital improvements are needed
- ◆ Prioritize projects
 - Each community will create its own ranking criteria, sample criteria could include:
 - Public health, safety and welfare
 - Complying with local, state or federal laws
 - Remediates an existing or projected deficiency
 - Reduces future expenditures
 - Protects natural resources
 - Supports the local economy
 - Delivers level of service requested by the community





CIP Planning Process

◆ Link projects to funding source(s)

Sample Local Resources

- Current revenues / fees
- General / reserve funds
- Bond proceeds
 - (General Obligation / Revenue)
- Existing or voted millages
- Special assessment revenues
- Tax increment financing
- Weight and gas tax
- Developer contributions

Sample State and Federal Resources

- State revolving loan funds
- MDOT / County Road Commission
- Michigan Dept. Environmental Quality
- U.S. Dept. of Agriculture

◆ Prepare multi year CIP document



**FISCAL YEAR 2013-19 CAPITAL BUDGET RECOMMENDATION
SUMMARY OF CAPITAL OUTLAY EXPENDITURES BY YEAR**

DESCRIPTION	FY2012-13	FY2013-14	REQUESTS				
	BUDGET	RECOMMEND	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
TOTAL ADMINISTRATION	\$10,000	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL FINANCE DEPARTMENT	\$0	\$0	\$10,000	\$0	\$0	\$0	\$0
TOTAL CITY HALL	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL CEMETERY	\$12,000	\$139,000	\$80,000	\$46,000	\$74,000	\$30,000	\$74,000
TOTAL POLICE DEPARTMENT	\$11,500	\$21,800	\$16,745	\$25,000	\$20,000	\$25,000	\$25,000
TOTAL FIRE DEPARTMENT	\$30,000	\$38,000	\$30,700	\$22,000	\$13,300	\$7,000	\$257,000
TOTAL DEPARTMENT OF PUBLIC WORKS	\$12,000	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL STREETLIGHTING	\$0	\$500,000	\$0	\$0	\$0	\$0	\$0
TOTAL PARKS & RECREATION	\$32,700	\$31,300	\$39,500	\$893,700	\$27,800	\$23,000	\$14,000
TOTAL PARKS & FORESTRY DEPARTMENT	\$106,500	\$180,500	\$268,500	\$272,500	\$305,000	\$238,000	\$179,500
TOTAL ADRIAN PUBLIC LIBRARY	\$40,000	\$36,500	\$39,000	\$5,000	\$30,000	\$15,000	\$10,000
TOTAL OTHER PROJECTS	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL GENERAL FUND	\$254,700	\$947,100	\$464,445	\$1,264,200	\$470,100	\$338,000	\$559,500

GENERAL FUND SOURCES OF FUNDS:

GENERAL PROPERTY TAX (ONE MILL)	\$138,950	\$375,700	\$368,200	\$364,500	\$364,500	\$368,200	\$371,900
NOTE/ BOND PROCEEDS	0	0	0	0	0	0	0
LESS: GENERAL OBLIGATION DEBT RETIREME	0	0	0	0	0	0	0
GRANTS	70,250	19,200	0	0	0	0	0
DOWNTOWN INFRASTRUCTURE GRANT - STRE	0	385,000	0	0	0	0	0
CONSUMERS ENERGY SAVINGS REIMB PRG-ST	0	50,000	0	0	0	0	0
DRUG-FORFEITURE FUNDS	12,000	12,500	10,920	12,500	12,500	12,500	12,500
PRIVATE DONATIONS-LIBRARY	8,000	36,500	15,000	0	5,000	0	0
PRIVATE DONATIONS-POLICE	5,000	5,000	5,000	5,000	5,000	5,000	5,000
PRIVATE DONATIONS-PARKS	12,500	0	0	0	0	0	0
PUBLIC CONTRIBUTIONS - PARKS	0	0	0	0	0	0	0
PIOTTER CENTER RENT - SWIGERT ESTATE	0	12,500	12,500	12,500	12,500	12,500	12,500
INSURANCE CLAIMS	0	28,000	0	0	0	0	0
TRANSFER FROM PERPETUAL CARE FUND	0	50,000	0	25,000	0	0	0
GENERAL FUND - PRIOR YEAR SURPLUS (Des.)	0	50,000	0	0	0	0	0
SALE OF ASSETS	8,000	0	0	0	0	0	0
CAPITAL IMPROVEMENT PROGRAM - PRIOR YE	0	0	77,300	24,475	0	0	60,200
ALTERNATIVE FUNDING SOURCES	0	0	0	820,225	70,800	0	97,400
TOTAL SOURCES OF FUNDS	\$254,700	\$1,024,400	\$488,920	\$1,264,200	\$470,100	\$398,200	\$559,500

GENERAL FUND - CIP CARRY-FORWARD - GAIN/	\$0	\$77,300	\$24,475	\$0	\$0	\$60,200	\$0
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CIP Planning Implementation

- ◆ Planning Commission presents CIP to governing body
 - Always at public meeting
- ◆ Revise CIP with received comments, if necessary
- ◆ Planning Commission adopts CIP
- ◆ Board / Council adopts final CIP
- ◆ Integrate the CIP in the annual budgeting process





Capital Improvement Plan Challenges

- ◆ If a CIP process has been well-established, reviewing, updating and resulting proposed changes will likely face resistance among participants
- ◆ Plan steps should be completed on an annual basis
- ◆ Plan steps normally take up to 4 months
- ◆ Finding a balance between the community's needs and limited resources
- ◆ Deciding on the correct level of public participation

CHALLENGE ACCEPTED





Questions?



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Disclosures

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DEBT FINANCING

MICHIGAN GOVERNMENT FINANCE OFFICERS ASSOCIATION INTRODUCTION TO PUBLIC FINANCE

March 4, 2020

JEFF ARONOFF

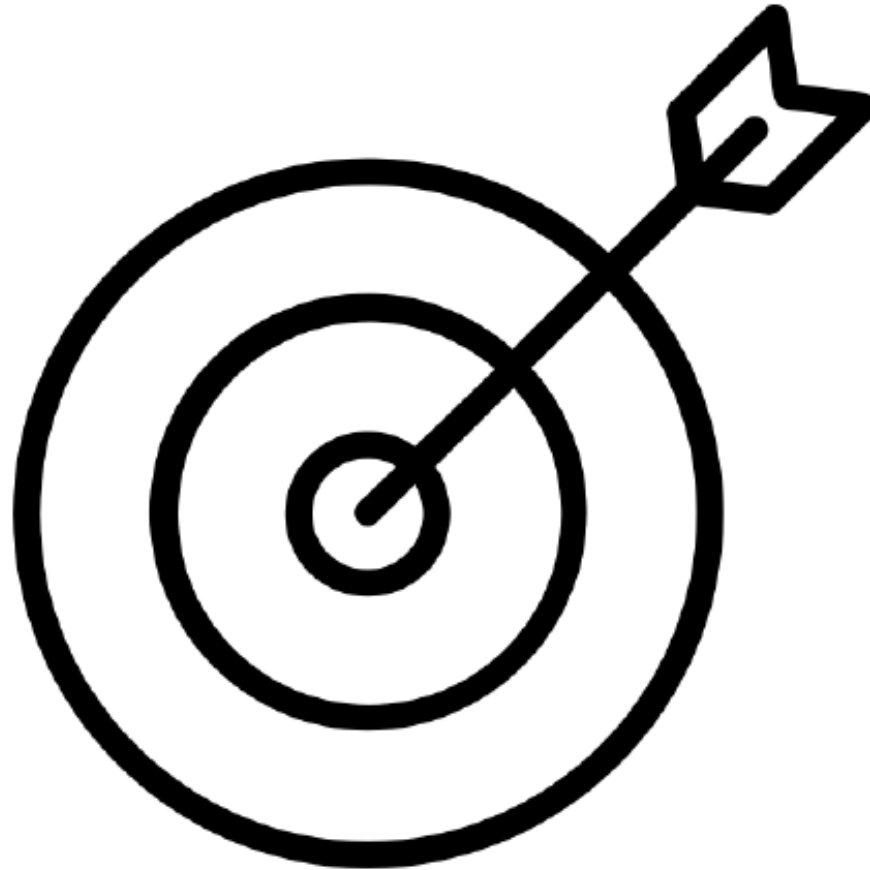
MILLER, CANFIELD, PADDOCK AND STONE, P.L.C.

OUTLINE

- **CORE CONCEPTS**
- **THE DEBT TOOLBOX**
- **THE TEAM**
- **THE BOND SALE**
- **FEDERAL CONCERNS**
- **QUESTIONS AND ANSWERS**



CORE CONCEPTS



CORE CONCEPTS

CAN WE JUST BORROW MONEY FROM THE BANK?

Dillon's Rule

- A municipality may only exercise those powers expressly granted, necessarily implied, or which are essential — not simply convenient, but indispensable.

Revised Municipal Finance Act, Public Act 34 of 2001

- “[a] municipality shall not issue a municipal security except in accordance with this act.”
- “Security” means “an evidence of debt such as a ...contract, obligation...or other similar instrument issued by a municipality, which pledges payment of the debt by the municipality from an identified source of revenue.”

CORE CONCEPTS

HOW DOES A MUNICIPALITY BORROW MONEY?

Two primary vehicles in Michigan

- Municipal Bonds
- Installment Purchase Agreements



CORE CONCEPTS

CAN WE BORROW MONEY WITHOUT AN ELECTION?

YES - several statutes authorize the issuance of bonds after a notice and referendum process.

- Municipality adopts Resolution of Intent to Issue Bonds.
- Notice to Electors is published in the local newspaper as a $\frac{1}{4}$ page advertisement.
- Referendum period expires 45 days after publication.
- Municipality may issue bonds unless petitions signed by 10% of registered voters is filed within the 45-day period.

CORE CONCEPTS

SO, WHY CAN'T WE JUST BORROW THE MONEY?

One word answer...

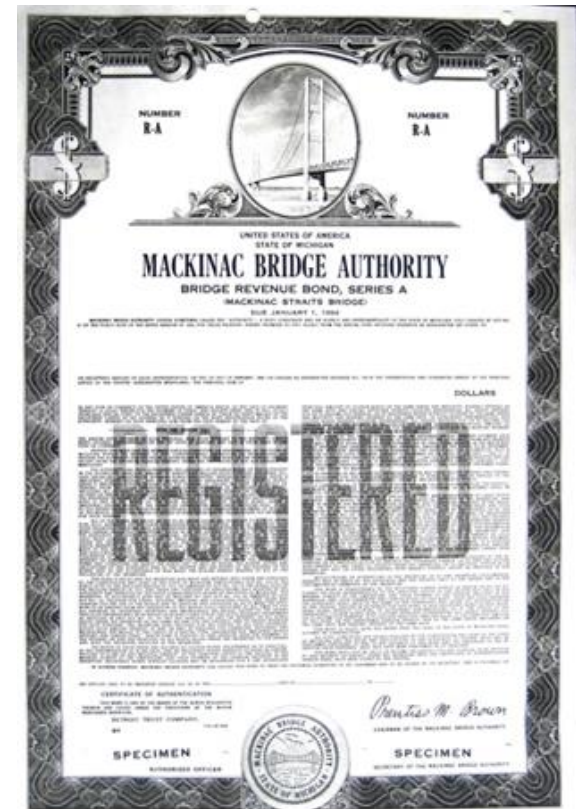
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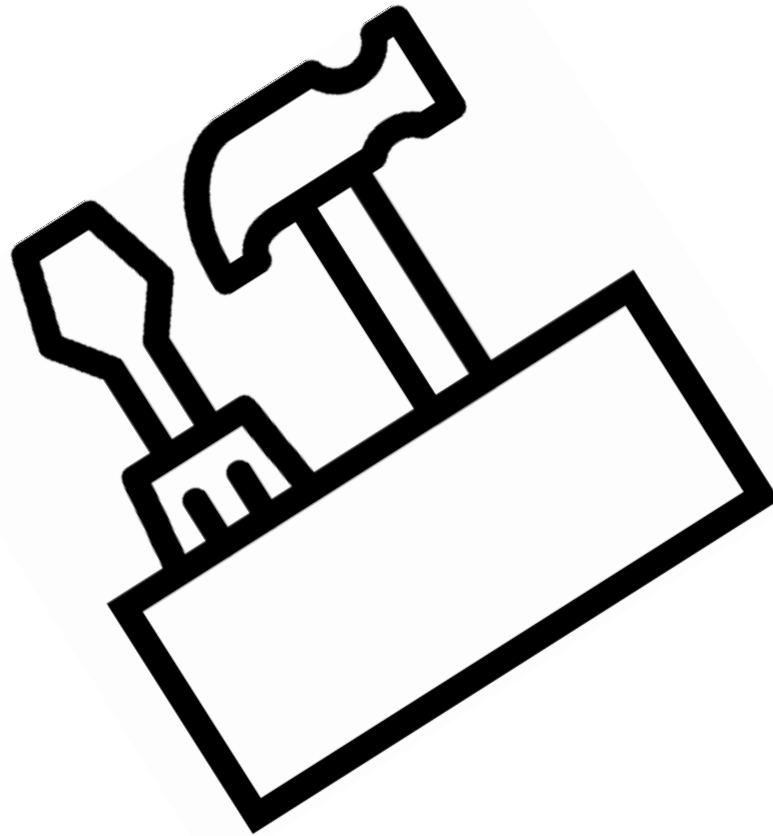
CORE CONCEPTS

WHAT IS A MUNICIPAL BOND?

- A written promise to pay
- Issued by a state or local government
- Typically repaid over a period of 1 to 40 years
- May be tax-exempt to investors for certain public projects



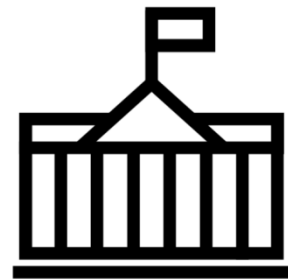
THE DEBT TOOLBOX



THE DEBT TOOLBOX

DIFFERENT TOOLS FOR DIFFERENT NEEDS

- Voted Unlimited Tax General Obligation Bonds
- Capital Improvement Bonds (Limited Tax)
- Revenue System Bonds
- Special Assessment Bonds
- Contract (County-issued) Bonds
- Installment Purchase Agreements



THE DEBT TOOLBOX

UNLIMITED TAX GENERAL OBLIGATION BONDS

- Voter approved
- Levy debt millage at rate necessary to pay principal and interest on the bonds
- Issued to finance city/township hall, library, fire station or other public buildings or improvements



THE DEBT TOOLBOX

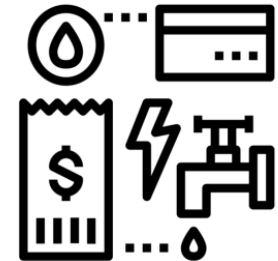
CAPITAL IMPROVEMENT BONDS

- **Public Act 34 of 2001**
- **Finance cost of any capital improvement item**
- **Limited tax**
 - **Cannot increase taxes above maximum rate**
 - **Payable from any sources**
 - **Notice and referendum period**
- **Debt Limit: 5% of municipality's SEV**

THE DEBT TOOLBOX

REVENUE BONDS

- Public Act 94 of 1933 – Revenue Bond Act
- Issued to finance self-supporting public improvement
 - Water and sewer systems
 - Garbage and refuse disposal facilities
 - Electric and gas utilities
 - Cable television systems
- Principal and interest is paid from system revenues
- Generally not considered a debt of the municipality's general fund
- Rates and charges must be set at an amount sufficient to pay at least 100% of operations, maintenance and debt service



THE DEBT TOOLBOX

SPECIAL ASSESSMENT BONDS

- **Act 188 of 1954 –Township Public Improvements Act**
- **City Charter (Act 279 of 1909 - Home Rule City Act)**
- **Finances various public improvements supported by special assessments (roads, water, sewer, etc.)**
- **Principal and interest on the bonds is paid from annual special assessment collections**
- **Special assessment roll is pledged as security for the bonds**
- **Municipality may also pledge its full faith and credit as additional security**

THE DEBT TOOLBOX

COUNTY ISSUED BONDS

- **Public Act 342 of 1939**
 - Financing through a designated county agency: road commission, drain commissioner, board of public works
 - Water, sewer, garbage or rubbish collection and disposal facilities
 - Notice and 45-day referendum period required
- **Public Act 185 of 1957**
 - Financing through county board of public works
 - Water, sewer, refuse, lake or erosion improvements
 - No notice, referendum or election required

THE DEBT TOOLBOX

INSTALLMENT PURCHASE AGREEMENTS

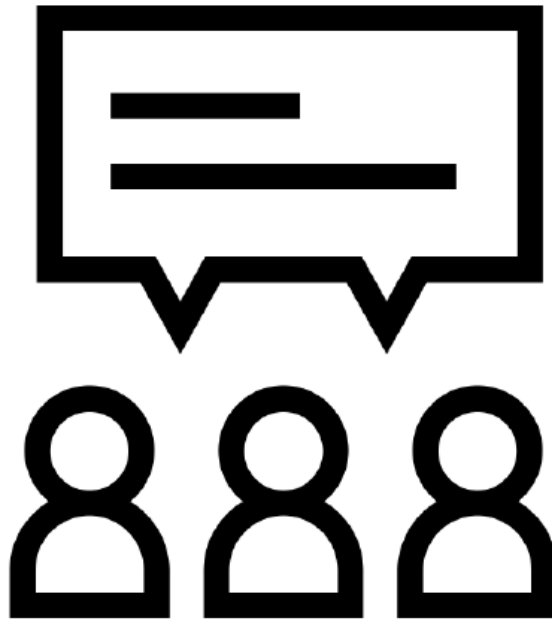
- Public Act 99 of 1933 – Purchase of Lands and Property for Public Purposes
- Financing Real or Personal Property
 - Real Property: Land or Buildings
 - Personal Property: Fire trucks, police cars, water meters, copy machines, or other equipment
- No notices or referendum required
- Maximum term of 15 years
- Debt limit: 1 ¼% of municipality's taxable value

THE DEBT TOOLBOX

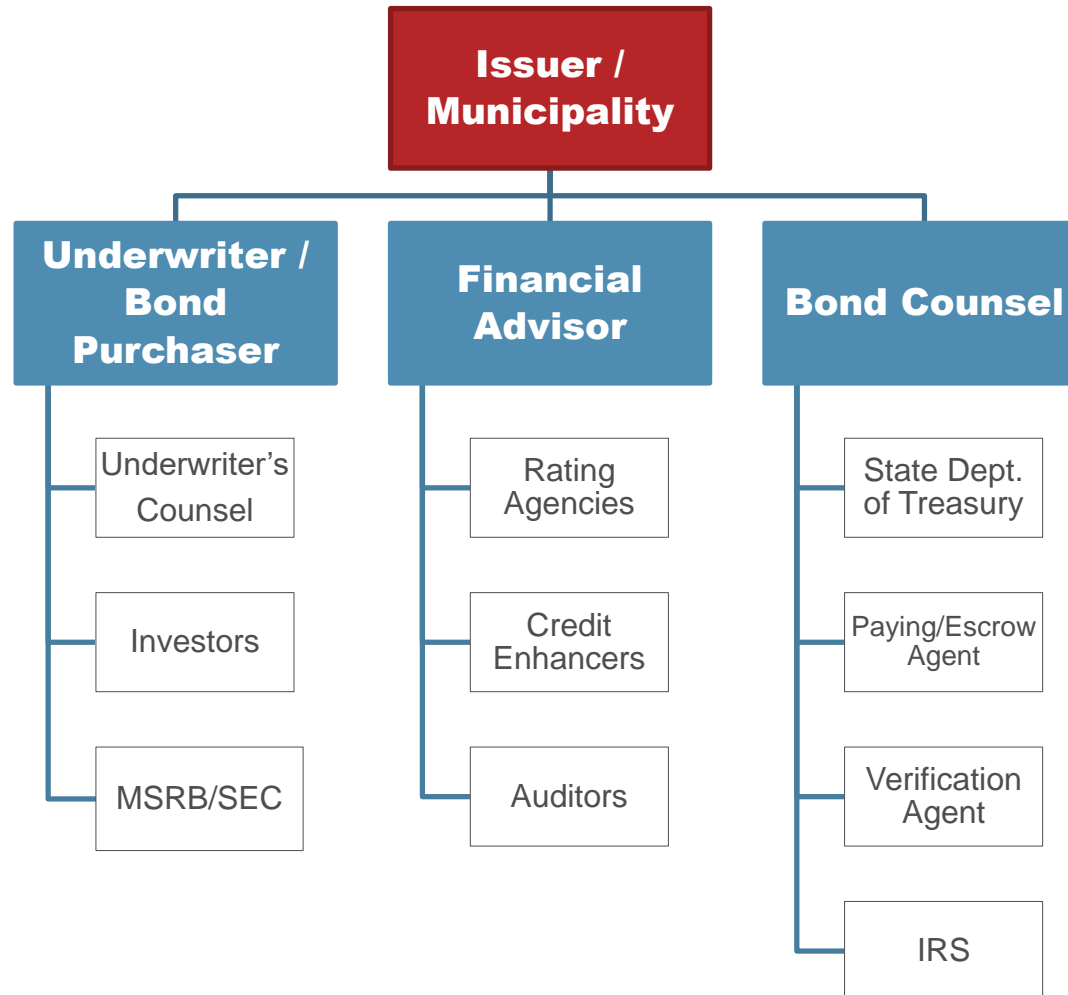
NEWER PRODUCT: TAX EXEMPT LEASE PURCHASE

- **Acts 119-123 of 2016**
- **Energy Conservation Improvements**
- **Municipality can pledge the financed assets**
- **Does not count as debt** 😊
- **Subject to annual appropriation**
- **Hazards**
 - **Underlying ESCo contract**
 - **ESCo/bank control of the process**
 - **Call your finance team!!**

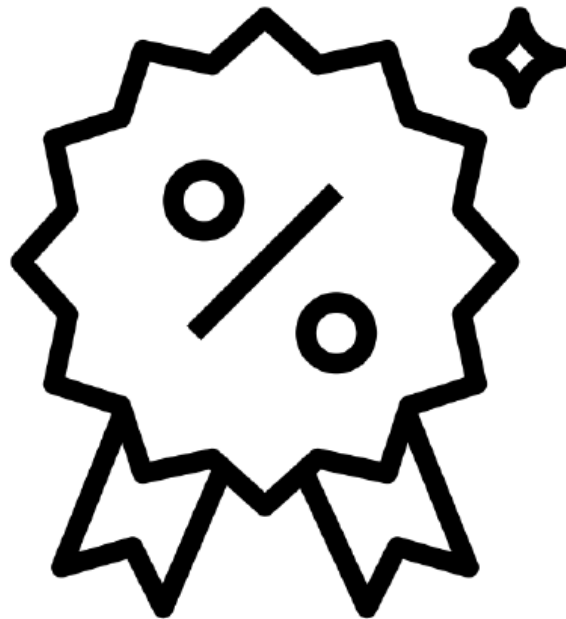
THE TEAM



THE TEAM



THE BOND SALE



THE BOND SALE

METHOD OF PUBLIC SALE



■ Competitive Sale

- Open to all bidders with lowest interest rate winning
- Subject to market conditions on sale date and time
- Official Statement and rating on issues over \$1M

■ Negotiated Sale

- Select broker that obtains market rates from orders from secondary market
- Allows for more discussion about issue prior to sale
- Flexibility on sale date and time if market conditions change

THE BOND SALE

DIRECT PLACEMENTS

- Request for Proposals
- Single institution purchases bonds for its own portfolio
 - Sophisticated investor (QIB, accredited)
 - “Big boy” letter
 - Restrictions on transfer
- Market affected by 2018 tax reform...coming back?
- Usually QTE bonds, tend to be shorter duration
- Still a negotiated sale for state law purposes
- Security and basic bond features are the same as traditional negotiated/competitive; same legal authority.



THE BOND SALE

PLACEMENT WITH FEDERAL OR STATE GOVERNMENT

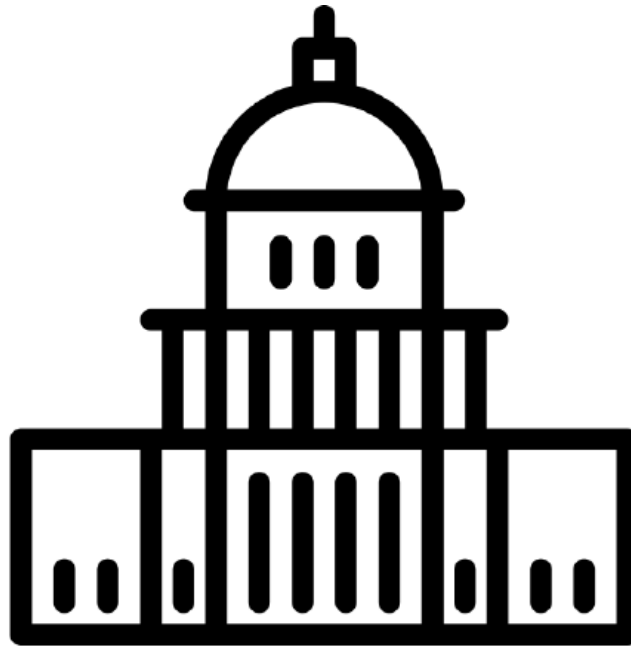
■ USDA Rural Development

- Federal lending/grant program for rural communities
- “Lender of last resort” concept
- Be mindful of “graduation”

■ DEQ/Michigan Finance Authority (SRF/DWRF/SQWIF)

- Coordination between engineering plan and finance plan is required
- Investment grade rating usually required
- Frequently revenue bond structure,
 - Can be junior lien
 - Can pledge distributable aid to enhance credit

FEDERAL CONCERNS



FEDERAL CONCERNS

SECURITIES ISSUES

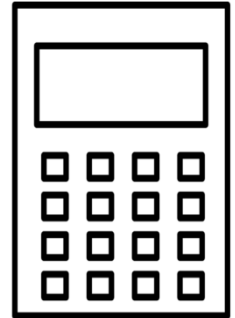
- The “Antifraud Rules” apply to every participant in all of the securities markets in this country
- During Issuance of Bonds
 - Preparation of Official Statement with financial information
- After Issuance of Bonds
 - Continuing Disclosure Undertaking
 - Annual Filings of Financial Audit and Updated Financial Information
 - Filing for Material Events
 - Changes effective February 27, 2019
- Securities and Exchange Commission Enforcement
 - Municipalities Continuing Disclosure Compliance Initiative

FEDERAL CONCERNS

TAX ISSUES

■ Arbitrage issues

- Earning more interest in the bank from your bond proceeds than the interest you are paying on the bonds
- Requirement to pay rebate every five years after date of issuance



■ Rebate Exceptions

- Under certain circumstances you may be able to keep the extra interest earned
- Small Issuer exception (issue less than \$5 million in a year)
- Six month exception (Spend 100% in 6 months)
- 18 month exception (15% in 6 months, 60% in 12 months, 100% in 18 months)
- 24 month exception (10%, 45%, 75% & 100% in 6, 12, 18 & 24 months)

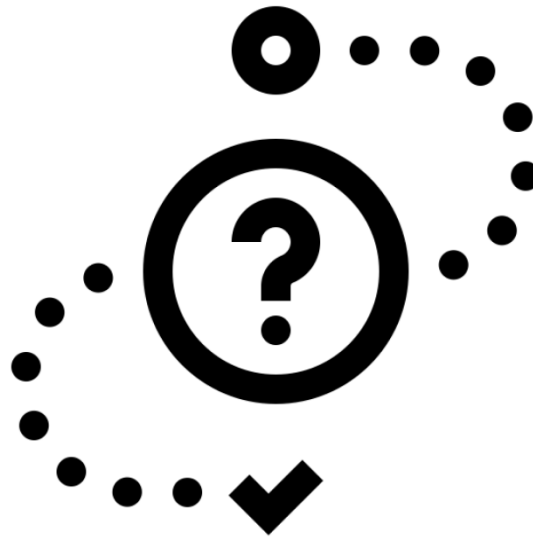
FEDERAL CONCERNS

TAX ISSUES-cont'd

■ Private Use/Change in Use

- The tax exemption on bonds depends upon the use of the assets that are bond-financed
- No private business use arrangement with private entity beyond permitted de minimus amount (e.g. ownership, leases, management contracts, other beneficial use arrangements)
- Private business use means use in a trade or business carried on by any person other than an exempt entity for its exempt purpose
- An exempt entity is any state or local governmental entity (501(c)(3) entities are not exempt entities)
- Exceptions
 - General Public Use
 - Short Term Use
 - Incidental Use
 - Safe Harbors – Management Contracts

QUESTIONS & ANSWERS



Thank you!

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