

Memo

To: Roseville Finance Commission
From: Michelle Pietrick, Finance Director
Date: January 10, 2023
Re: Item #5: Review Government Budget and Financial Processes

Background

As we start the year, I thought it would be useful to review government budget and financial processes.

The city has 15 reporting funds in the Annual Comprehensive Financial Report (ACFR), several funds get rolled up into the individual columns. The city uses individual funds for tracking revenues and expenditures that may be restricted and are not comingled with other funds.

General Fund

The General fund is the main operating fund of the city. The main sources of revenue in this fund are property taxes, Intergovernmental revenues (State Aids and other grants) License and permits, Charges for services and other minor revenues. These revenues support the general city functions of General Government (City Council, Administration & Human Resources, Elections, Finance, City Attorney, general insurance and central services); Public Safety (Police and Fire); and Public Works (PW Administration, Streets, Central Garage, Building Maintenance, and Street Light operations).

Special Revenue Funds

The City has several special revenue funds where the revenues are restricted to specific functions. These funds may have property tax support (Recreation) but generally have other sources of revenue-namely intergovernmental revenue and charges for services. Recreation, ARPA and Community Development were the major special revenue funds in 2021. The ARPA and Community Development funds are restricted to only those expenditures allowed under those programs. Other minor special revenue funds are reported in the other governmental funds column in the ACFR. These funds are for Information Technology, Communications, License Center, Charitable Gambling and the EDA.

Debt Service Funds

The City has Debt Service funds that accounts for property taxes levied and principal and interest paid on the city's outstanding bond issues.

Capital Project Funds

The City has three major capital projects funds, which are a compilation of other capital funds that the city uses to track various projects.

- The Revolving Improvements fund summarizes all revenues and expenditures for the Park Dedication fund; the Vehicle and Equipment funds (Police, Fire, Parks & Rec, Public Works, Finance, Admin, Central Services); the Street Light Replacement fund, Pathway Maintenance fund, Building Improvement fund, Park Improvement fund, Boulevard Landscaping, and 2719

Lexington fund. Revenues and reserves in these funds can only be used for capital expenditures. These funds will grow reserves over time which are then expended for specific projects as outlined in the Capital Improvement Program.

- The Economic Increments Construction fund accounts for all Tax Increment Financing Activity of the city. These funds are legally restricted and can only be used for public expenditures within a specific tax increment district.
- The Street Construction fund accounts for the pavement management program including both property tax and municipal state aid funded street projects.

Proprietary Funds

The City also has five proprietary funds which operate similar to individual enterprises. The source of revenue is user charges. The revenues generated are expected to cover operations and generally capital projects as well. These funds are the Sanitary Sewer, Water, Storm Drainage, Solid Waste Recycling and Golf Course. Unlike the governmental funds (General, Special Revenue, Debt, and Capital) these funds are accounted for using the full accrual methodology, which is why you will see Capital Assets, Bond Payments and Depreciation expenses within these funds. These funds do budget transfers out to the General Fund to cover the costs for space and administrative services received from the General Fund departments.

The city's financial books are not closed until March of the following year. This allows time for posting back the expenses incurred in 2022 but not billed until 2023. Payroll expenses for time worked in 2022 but paid in 2023 are also posted back to the 2022 expenses. Utility bills are issued quarterly for each of our three districts, so the 2/3 of the January 31 bills get recorded back to 2022 as revenue and 1/3 of the February bills are recorded back to 2022 as this is when the water was used. These accruals are normal and are done to properly match revenues and expenditures. There are certain other year end entries that we make to insure the accuracy of the financial statements including market value adjustments for investments, other post-employment benefit liabilities, and pension liabilities that we are required to record based on government accounting standards. The last entry that is made is based on the excess cash reserves analysis which goes to the City Council in March and the Finance Commission in April. The audit reports and ACFR are presented to the Council and Finance Commission in May-June and are submitted to the Government Finance Officers Association (GFOA) by June 30th each year. The city has received the GFOA Certificate of Achievement for Excellence in Financial Reporting for 43 consecutive years.

Budget Processes

The budget process starts with the analysis of cash reserves from the most recent audit, specifically the excess cash reserves. The 2021 audited reserves were used in the 2023 Capital Improvement Plan and in the 2023 City Budget. A city budget is a financial plan that is a snapshot in time of city activities and services supported by discrete city funds for the coming year. Roseville starts the process very early compared with other cities, this allows for more refinement along the way.

Capital Improvement Plan - We start with the Capital Improvement Plan (CIP) which is a 20 year plan which helps identify not only the capital expenditures for the coming budget year but also helps identify whether future revenues increase will be needed. The capitalization threshold is \$10,000, some departments have items below this amount listed in their equipment funds. Capital projects can be large in nature and/or infrequent expenditures. The City funds their various general government CIP funds through property tax levy, municipal state aid (for streets), other intergovernmental revenues and

strategic use of reserves. The annual surplus (deficit) shown by fund demonstrates how we try to build reserves to then pay for a specific large project or piece of equipment. The City has taken the position that it would prefer to utilize cash reserves rather than issuance of debt to pay for the majority of capital projects. Occasionally, the projects are too large or the fund has insufficient reserves, so then the City will look to issue bonds which provides the cash to pay for the project which is then repaid over time – time period being less than the useful life of the asset. This reflects good financial planning and prudence in balancing borrowing versus using cash to pay from projects.

City staff start developing the CIP in March each year and starting with the 2022 CIP, staff were instructed to start factoring in inflation to their costs, for those items that are large and subject to fluctuation. Example of this would be vehicles. What a police car or plow truck cost five years ago is not what we are currently paying for those vehicles. The preliminary CIP projects and estimates are submitted by mid-April at which time the City Manager and Finance Director review and discuss whether there are available resources, or if additional tax levies will be needed or if some projects may need to be deferred. The City Manager and Finance Director discuss alternatives with the department heads for their input prior to finalization of the preliminary CIP. The draft CIP is reviewed by the Finance Commission in June and July and by the City Council in July. The first year of the 2023-2042 CIP was included in the 2023 City budget for each fund. There may continue to be refinements and deferment of projects in the CIP as the budget year continues.

Annual Operating Budget - The operating budget starts internally in April and Department Requested budgets are submitted in early May. The Finance Director prepares the various summarization reports for the City Manager to review. The City Manager reviews the requested budget and meets with the Department Heads in June to understand the priorities and also to start determining what he can or can't support moving forward, specifically looking at the total property tax levy impacts. The City Manager continues refining the budget until he arrives at his recommended budget which he presents to the City Council in August and the Finance Commission also receives this in August. One of the impacts that we historically present is the impact to the median valued residential property. Historically we received all of the data that we need to perform these calculations from Ramsey County by mid-August. The past two years, the County has struggled to meet these dates. The Ramsey County cities are trying to encourage the County to get this data released earlier in August. For 2024, we may not be able to present this impact in August.

The Finance Commission receives the City Manager Recommended Budget and Tax Levy in August and has the opportunity to establish a recommendation to the City Council in September prior to the City Council taking action on the Recommended Budget. The Commission has opportunity to make recommendations on the CIP in July, August or September. The City Council must approve a preliminary budget and property tax levy no later than September 30 of each year, as required by statute. The final budget and levy can go down, but can't increase from the preliminary levy, except in the rare occurrence of debt issuance.

After the Preliminary budget and tax levy are set in September, work continues on refinements to the budget and utility rates and other fees are looked at for setting the next year's rates. In the case of the Water, Sanitary Sewer and Storm Water funds, the Utility Rate study increases have been factored in. In many cases, increases in fees have already been programmed into the budgets approved in September. This is the opportunity to refine and finalize those fees. The Finance Commission reviews the utility

rates in October. The PWET Commission also review these rates in October. Recommendations from both Commissions go to the City Council in November when they review the proposed rates.

The City holds a final budget hearing for citizen input at the last meeting in November. Citizen input is solicited throughout the summer and fall months as well. The final Budget, tax levies, utility rates and fee schedule go to the City Council in December for final approval.

While this is not a step by step instruction of the budget process, it is designed to help educate those interested in understanding how governmental budgeting and financial processes work. Questions are welcome and encouraged.

Staff Recommendation

No recommendation, this is an educational item.

Requested Commission Action

No action needed as this is an educational item.

Prepared by: Michelle Pietrick, Finance Director
Attachments: none