

Citizen Financial Review Task Force (CFRTF) Finance 101

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Agenda

- *Basics of Fund Accounting*
- *Different Bases of Accounting*
- *Revenue Sources and Uses*



Fund Accounting

What is Fund Accounting?

Fund accounting is the activity of analyzing, recording, summarizing, reporting, and interpreting the financial transactions of governments.

What is a Fund?

A fund segregates the monies of the entity according to legal or purpose restrictions.

Why Fund Accounting?

- Fund accounting is the way governments track revenues with purpose restrictions against the expenditures made for those purposes.
- Fund accounting makes it easier to identify which monies are available for specific purposes.



Fund Accounting (cont.)

Types of Funds

Governmental Funds

- Definition: Funds that account for the accumulation and spending of resources that provide the public with day-to-day operating services such as safety services, leisure time activities and highway maintenance.
- Types of Governmental Funds:

Fund Type	Description
General Fund	The operating fund of the government, used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the government for any purpose provided it is disbursed or transferred in accordance with Ohio law.
Special Revenue Funds	Used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.
Debt Service Funds	Used to account for financial resources that are restricted, committed, or assigned to expenditure for principal and interest.
Capital Project Funds	Used to account for financial resources that are restricted, committed, or assigned to expenditure for the acquisition or construction of capital facilities and/or other capital assets.



Fund Accounting (cont.)

Types of Funds (cont.)

Proprietary Funds

- Definition: Funds that focus on the determination of operating income, financial position and cash flows.
- Types of Proprietary Funds:

Fund Type	Description
Enterprise Funds	Used to account for any activity for which a fee is charged to external users for goods or services.
Internal Service Funds	Used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost reimbursement basis.

Fiduciary Funds

- Definition: Funds used to report assets held in a trustee capacity for others and cannot be used to support the government's own programs.
- City on has Agency Funds, which are purely custodial in nature.



Basis of Accounting

ACCOUNTING BASIS	DESCRIPTION	REPORTING EXAMPLE
Cash Basis (<i>check book accounting</i>)	<ul style="list-style-type: none">Revenues are recognized when received.Expenditures are recognized when they are paid out.Fund Balance = Cash and Investments	Daily accounting and reporting.
Budgetary Basis	<ul style="list-style-type: none">Revenues are recognized when received.“Budgetary” expenditures include <i>only</i> expenditures against the current year budget <i>plus</i> outstanding encumbrances (purchase orders).Fund Balance = Unencumbered Cash and Investments	<ul style="list-style-type: none">Municipal Program of Services (Budget Book)Budgetary Statements in CAFR
GAAP Basis - Accrual Basis - Modified Accrual Basis	<ul style="list-style-type: none">Financial reporting similar to businesses. Balance Sheet reports Capital Assets and Debt and Other Long-Term Liabilities.Governmental financial reporting that essentially adds a full balance sheet with receivables, payables, etc. Does not report Capital Assets and Debt and Other Long-Term Liabilities.Fund Balance = Assets – Liabilities	CAFR – Audited Financial Statements



Revenue Sources and Uses

Revenue Types

- General Operating Revenues
 - Income tax (unless mandated elsewhere)
 - Property tax (property tax is also used for capital & debt)
 - Other General Revenues
 - Local Government Fund
 - Investment earnings (unless mandated elsewhere)
 - Charges for Services (unless mandated elsewhere)
 - Cable TV franchise fees
 - Fines and forfeitures
- Restricted Revenues
 - Gas Tax and Motor Vehicle License Fees
- Business Operating Revenues
 - Water, Sewer, Stormwater Fees
 - Solid Waste Fees
 - Swimming Pool Fees



Revenue Sources and Uses (cont.)

Income Tax Revenues

History

- The income tax rate was raised to 2% in 1983.
- In 1990 a ballot issue failed 60%/40% to raise the income tax to 2.25%.
- In 1996, a ballot issue failed 50.5%/49.5% to raise the income tax to 2.2% for 5 years for CIP.
- In 2014, a ballot issue passed to raise the income tax to 2.5%, with the additional .5% dedicated to City Infrastructure (effective January 1, 2015)

Basics

- Income Tax Rate: 2.5%.
- Applies to earned income and business net profits (tracked internally by three components: withholdings remitted by employers, filing by individuals, business net profits). Investment and retirement income is not taxable per ORC 718 and City Ordinance.
- Income tax is paid and remains where earned (i.e. UA Resident works in Columbus, income tax paid and remains with Columbus).
- Full credit (100%) given for taxes paid in other communities up to the 2.5% rate.
- Any increase in income tax rate or decrease in credit percentage requires a vote of the people.

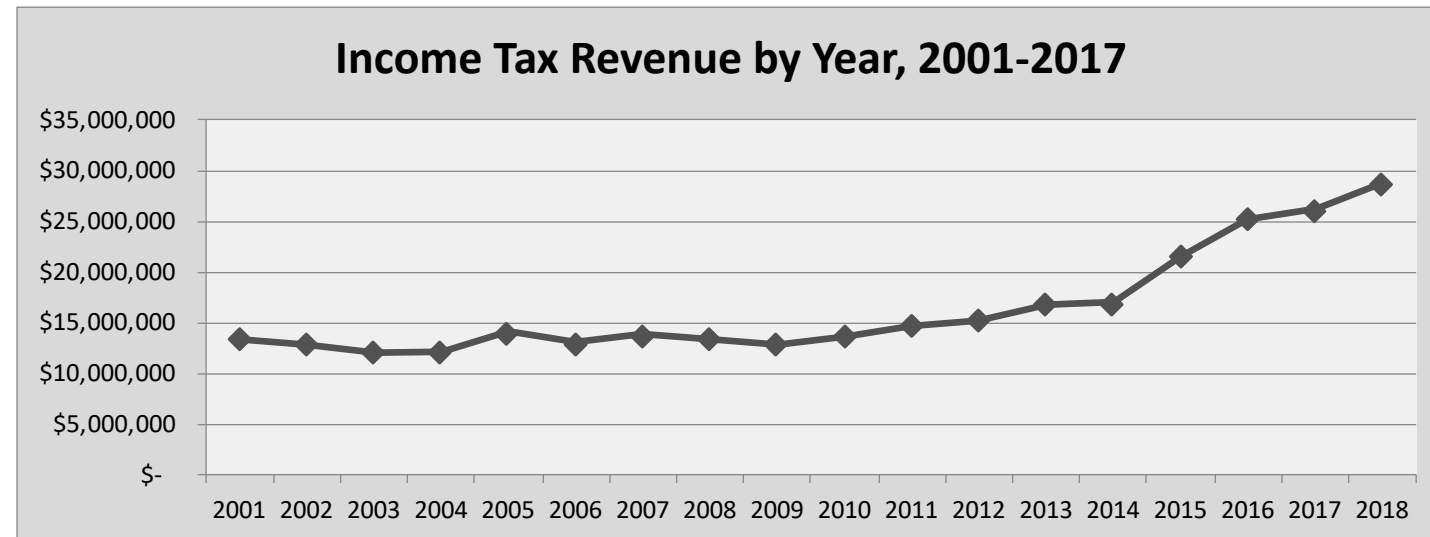


Revenue Sources and Uses (cont.)

Income Tax Revenues (cont.)

Accounting

- Largest revenue source: approximately 48% of total revenue and 55% of General Fund revenue.
- Fund Distribution:
 - 2015 and beyond: 72% to General Fund, 28% to Capital Asset Management Fund for capital-related debt and infrastructure payments.
 - Prior to 2015: 86.7% to General Fund, 13.3% to Capital Asset Management Fund for capital-related debt and infrastructure payments.



Revenue Sources and Uses (cont.)

Property Tax Revenues

Basics

- Mill = Property tax is measured in mills. A mill means 1/1,000. Therefore, each mill generates \$1 of taxes for every \$1,000 of a property's assessed value.
- Two different ways property tax levies can be implemented:
 - Unvoted millage (inside millage) is approved by the county budget commission, but cannot exceed 10 mills for any taxpayer.
 - Voted millage (outside millage) is approved by popular vote.
- County appraisals every 6 years with update 3 years following appraisal. Last 6 year appraisal finalized for tax year 2017 (Note: taxes are one-year behind, thus 2017 tax year is distributed to the City in 2018)
- Homestead Provision - Allows qualifying low-income senior citizens and permanently and totally disabled Ohioans, to reduce their property tax bills by exempting up to \$25,000 of the market value of their homes.
- Rollback Provision - Requires each county auditor to reduce property taxes, for all qualifying levies, by a 10 percent Non-Business Credit and a 2.5 percent Owner Occupancy credit. Local governments are fully reimbursed from the state general revenue fund for these tax reductions.
 - As of November 2013, any levy that is not a renewal will no longer be subject to these rollbacks. The state has lifted these rollbacks for all new and replacement levies.
 - Current expiring Bond Levy cannot be renewed. Thus, any new levy would not be subject to the rollback provision.
 - Options would be: (1) a new "bond levy" tied to a bond issuance to build infrastructure; or (2) a new special levy that would have to go back to the voters every five year.



Revenue Sources and Uses (cont.)

Property Tax Revenues (cont.)

Current Taxes and Accounting

- General Operating levies can be used for any purpose.
- Pension, Capital, and Bond levies are restricted for those intended uses.
- .50 mills currently generates approximately \$959k (would service approximately \$13M of debt service over 20 years).

City of Upper Arlington Property Tax Levies		
<u>Tax Levy</u>	<u>Current Millage</u>	<u>Millage Type</u>
General Operating Levy	3.90	1.40 Inside / 2.50 Outside (Charter)
Police Pension Levy	0.30	Inside
Fire Pension Levy	0.30	Inside
Capital Improvement	0.50	Outside (Charter)
Police and Fire Pension (Voted)	0.97	Outside (Voted) – expires 2022
Bond Levy (Voted)	0.20	Outside (Voted) – expires 2019
Total	6.17	



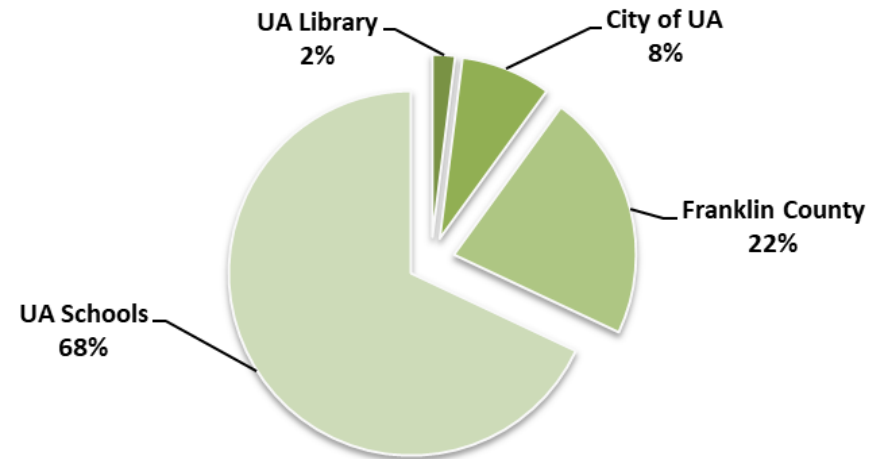
Revenue Sources and Uses (cont.)

Property Tax Revenues (cont.)

City-wide Property Tax

- Property Tax is largest income source for the UA School District.
- Total current millage for City of Upper Arlington – Upper Arlington Schools: 77.05 (Res); 90.45 (Bus)
- Inside millage (10 mills) has been exhausted; all new property tax increases requires a vote of the people.

Upper Arlington Property Tax Breakdown



Revenue Sources and Uses (cont.)

Property Tax Revenues (cont.)

Tax Increment Financing (TIF) – Payments in Lieu of Taxes

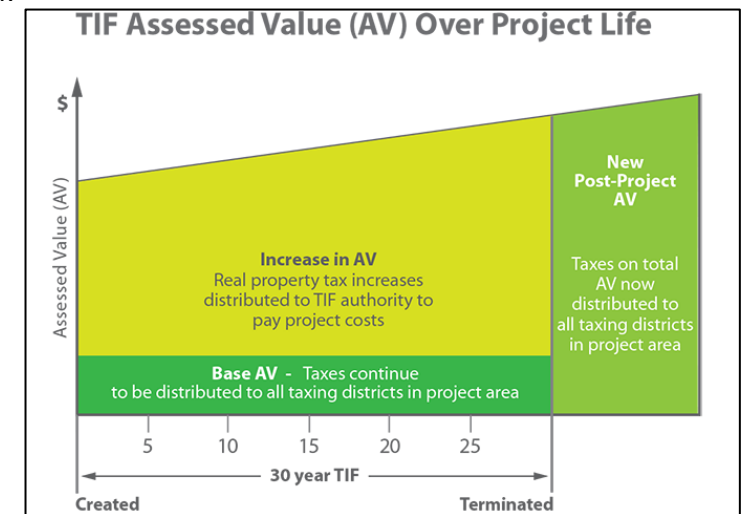
An economic development mechanism available to local governments in Ohio to finance public infrastructure improvements and, in certain circumstances, residential rehabilitation. Payments derived from the increased assessed value of any improvement to real property beyond the original value are directed towards a separate fund to finance the construction of public infrastructure defined within the TIF legislation.

What are the advantages of TIFs?

One key benefit of TIFs is the projects being assisted continue to be responsible for making payment equivalent to all of the required property taxes. Instead of property taxes, however, the property owner makes “payments in lieu of taxes”, which equal the property taxes that would have been collected had a TIF not been in place. The revenue from the payments in lieu of taxes is used by municipalities to provide the public infrastructure improvements needed by these new development projects, thus benefiting the TIF area.

How do TIFs differ from tax abatements?

As compared to another economic development tool utilized by many municipalities, tax abatements, TIFs are not a forgiveness of the normal real estate tax payment obligation. When an abatement is granted some or all of the property taxes are abated, meaning the property owners pay a lessor, or no property taxes for a specified time period.



Revenue Sources and Uses (cont.)

Other General Operating Revenues

Basics and Accounting

- General revenue sources are used to support operations
- Local Government Fund – Once \$2.5M; now approximately \$1M
- Investment Earnings – All allocated to the General Fund unless mandated by outside parties of City Ordinance (i.e. Street Maintenance and Repair Fund, Law Enforcement Fund, Bonded Improvement Fund)
- Charges for Services – Include charges for parks programs, EMS billing, development related items (permits, contractor registrations, etc.)



Revenue Sources and Uses (cont.)

Restricted Revenues

Basics and Accounting

- Restricted revenue is revenue legislatively restricted by government outside City. (County, State or Federal).
- Types of Restricted Revenue:
 - Gas Tax and Motor Vehicle License Fees
 - Law Enforcement Seizure Receipts
 - Various Mayor's Court Fees
 - Hotel Tax – UA Visitor's Bureau portion



Gas Tax and Motor Vehicle License Tax

- Shared revenues by the State.
- Restricted for street maintenance and repair.
- Gas Tax – based on number of vehicles registered in the City (currently produces approximately \$1.8M in revenue).
 - Recently passed HB62 authorized additional 10.5cpg gas and 19cpg diesel tax – estimated \$735k increase beginning in 2020.
- Motor Vehicle License Tax – \$21.80 per vehicle (currently produces approximately \$450k in revenue).
 - Additional \$5 retained by the County for repair of certain streets that cross jurisdictions (currently produces approximately \$145k in revenue).
 - Recently passed HB62 allows municipalities to enact an additional \$5 tax. *CFRTF recommendation?*



Revenue Sources and Uses (cont.)

Business Operations Revenues

Basics and Accounting

- Revenue is restricted for related purpose (i.e. water surcharge has to be used for water-related expense)

Water/Sewer Surcharge(s) and Stormwater Fee

- Dedicated for operations maintenance of the water, sewer, and storm water systems.
- Due to revenue structure and lack of large users, funds can only pay for a portion of the debt issued for related capital projects.
- Water Surcharge – 15% surcharge on usage effective January 1, 2019.
 - Revenue to UA increases with increases to Columbus usage fees.
 - City of Columbus maintains waterline breaks for additional fee.
- Sewer Surcharge – 23% surcharge on usage effective January 1, 2019.
 - Revenue to UA increase with increase to Columbus usage fees.
 - UA maintains waterline breaks for additional fee.
- Stormwater Fee – residential rate \$45/year; multi-family properties fee based on “Equivalent Runoff Units”.



Revenue Sources and Uses (cont.)

Business Operations Revenues (cont.)

Solid Waste Fee

- Dedicated for operation of the contracted solid waste program.
- New revenue structure implemented on January 1, 2018 with change to cart service.
(base fee of \$227/year)
- Offer senior discount (\$21/year) and premium service for an additional fee (\$387/year)
- Fee set to cover cost of operations.

Swimming Pool Fees

- Dedicated for operation of the operation and maintenance of the City's three (3) swimming pools.
- Fees set to cover operations, regular maintenance, and occasional capital equipment/improvements.



DISCUSSION AND QUESTIONS

