Infrastructure Funding and Financing.

A Comprehensive, Long-Range Municipal Finance Plan.

THE MUNICIPAL BUDGET.

A large part of the focus of every city administration is preparation, adoption and implementation of the annual budget. The 5-year capital improvements budget receives a similar level of interest. Less attention is paid to the city's longer term comprehensive finance plan, say looking 30 to 50 years out.

FINANCIAL INDEPENDENCE.

An objective, probably not achievable, is the funding of all operational expenses from local, reliable, sustainable sources; and the funding of capital improvements from any residual local funds supplemented with state and federal funds, institutional grants and other non-local sources. The result is resiliency of operating funds that support necessary public goods and services, debt payments and trust fund allocations such as renewal and replacement funds.

The probability of achieving this independence is remote. However, the idea of relying on local, renewable funding sources for operations and other less reliable funding sources for capital items is a useful guide. An intimate knowledge of the geographic and business sources of local property tax, sales tax and fees is essential.

THE "SOURCES AND USES OF FUNDS".

A path through the maze of expenses and revenues in the municipal budget is the framework provided by looking at the sources and uses of funds.

The process requires both hemispheres of the brain…the logical expense side and the artful revenue side.

The left brain/right brain theory

Thinking In Words	Feelings Visualization
Sequencing	Imagination
Linear Thinking	Intuition
Mathematics	Rhythm
Facts	Holistic Thinking
Logic	Arts

Link: www.healthline.com/health/left-brain-vs-right-brain#left-brainright-brain-theory

CharacterTowns.org has taken the accounting term, *sources and uses of funds*, and contorted it for use in comprehensive long-range finance planning for municipalities. The term, sources and uses of funds, is ripe for application to the needs of municipal finance planning.

In professional accounting practice, the Certified Public Accounting [CPA] type, a sources and uses of funds statement has been described as a summary of a firm's changes in financial position from one period to another. It is now generally referred to as a *flow of funds statement* or *a statement of changes in financial position*. Since 1989, it has been replaced by the cash flow statement in US audited annual reports. Since the term has become passé to accountants, it is being absconded for use in the city planning context as a tool for comprehensive, long-range finance planning for municipalities.

The beauty of the term is that it says what it means. The statement provides estimates and forecasts of the city's sources of funds and its anticipated uses of funds. What an idea for a municipal budget process.

THE USES OF FUNDS.
The expense side of the ledger is the easiest. Logic drives the process to determine the essential public goods and services needed and wanted in the city. The process results can be debated, decided upon and then priced. The amount of money needed to fund city operations and capital items can be estimated for the coming year, the next five years and, progressively, for a longer period. Typical expenses in the city consist of immediate and long-term expenditures for:

- Land.
- Buildings.
- Infrastructure.
- Operations and Maintenance.
- Debt repayment.
- Renewal and replacement funds.
- Pension obligations.

THE SOURCES OF FUNDS.
The party gets interesting on the revenue side of the ledger. Finding, evaluating, projecting and exploiting sources of funding is an art. The right brain is fully engaged in the creative process of continuing to perfect traditional sources while exploring possibilities for new sources to supplement, and when necessary, to replace existing sources. Creativity is essential.

While the uses of funds are somewhat predictable, the sources of funds are more volatile. Sources like property taxes, gas taxes and federal/state funding are becoming less reliable.

TRADITIONAL SOURCES OF MUNICIPAL FUNDING.
General funds from cities and counties:

- General ad valorem tax revenues.
- Sales tax receipts.
- Land, buildings or other non-cash assets used to match grants or guarantee loans.
- Special district assessments and taxes:
  - business improvement districts,
  - municipal services taxing units [MSTUs],
  - tax increment revenues,
  - benefit-based assessments like MSBUs.
- Real Estate Transaction Fees:
  - residential,
  - commercial.
- User and Activity Fees:
  - transit, utility, drainage and parking,
  - public facility, park and recreation fees.
- Impact fees for transportation, parks, schools, solid waste and other facilities.
- State and federal improvement grant programs, e.g., FDOT, SHIP, CDBG or FMHA.
- Private equity, public-private partnerships.
- Non-Governmental Organization grants.

DEBT.
Established revenue streams can be used as the basis for borrowing funds with:

- General revenue bonds backed by the city's general fund, property tax or sales tax base.
- Revenue bonds backed by an income stream such as utility service fees.
- Public-private partnership [P3s] financing based on a city revenue stream.
- Short-term financial instruments with local banks for modest sums.
- Leveraged municipal assets, sometimes useful when city or other public assets are available as collateral.

"GRANTSMANSHIP".

Seeking and winning grant awards is a professional activity. Larger cities have professional staffs focused exclusively on seeking and winning grants. Small cities and towns can find partners at the regional level or in the private sector to assist with this activity.

THREE CITIES WITH VOTER-APPROVED DEBT.

The City of Ocoee.

The City with a population 46,000 recently adopted a downtown redevelopment plan to direct a $44 million infrastructure improvement project approved by the electorate. Other small cities in Florida have successfully passed referendums for parks, transportation and environmental projects.

Chicago Infrastructure Trust.

Chicago, a gigantic city with few parallels to small cities, has established a program that is instructive. The useful idea is that a trust fund has been established to seek out all sources of funding and use them holistically to fund the City's plan. Silos between funding sources seem to have been eliminated and a variety of creative funding sources and approaches has resulted. The article and link are posted in this edition of CharacterTowns.org.

RENEWATLANTATSPLOST.

The transportation special purpose local option sales tax [TSPLOST] proves to point out that a precisely specified improvement program complemented with extensive public discussion can win the vote. Voters approved $250 million to support a general obligation bond issue for infrastructure. The article and link are posted in this edition of CharacterTowns.org.

NON-TRADITIONAL SOURCES.

Over the years, several programs have appeared that entice private investment in communities and specifically downtowns.

Brownfield Designations.

Chapter 97-277 amends Section 376.84(1) Florida Statutes to read:

"(1)Financial incentives and local incentives for redevelopment may include, but not be limited to a wide range of provisions that relieve property developers in properly designated brownfield areas of many permitting and fee obligations including impact fees."

While the elimination of taxes and fees for development in brownfield areas does not produce direct revenue for the city, it enables development that would not otherwise have occurred. The resulting property taxes, sales taxes, employee incomes and subsequent consumer expenditures inures great benefit to the city, financial and otherwise.

New Markets Tax Credits.

The New Markets Tax Credit (NMTC) was established in 2000. Congress authorizes the amount of credit authority, which is then allocated to qualified applications by the Treasury Department. Since 2003, the program has parceled out credits worth nearly $20 billion. The NMTC has supported over 4,800 projects in all 50 states, the District of Columbia, and Puerto Rico. Some 41 percent of US census tracts qualify for NMTC investments.

The credit expired at the end of 2014, but Congress extended the credit retroactively to 2015 and through 2019. The Urban Institute has prepared its 2013 evaluation of the first years of the New Markets program.

Opportunity Zones.

Opportunity Zones are a new community development program established by Congress in the Tax Cuts and Jobs Act of 2017 to encourage long-term investments in low-income urban and rural communities nationwide. The Opportunity Zones program provides a tax incentive for investors to re-invest their unrealized capital gains into Opportunity Funds that are dedicated to investing into Opportunity Zones designated by the chief executives of every U.S. state and territory.

Agencies, accountancies, law firms and others are exploring the application of this new program on investments in low income urban and rural areas.

Community Reinvestment Act.

Commercial banks have an obligation to invest or facilitate investment in American communities. According to the Office of the Comptroller of the Currency website: "The Community Reinvestment Act (CRA) was enacted in 1977 to prevent redlining and to encourage banks and savings associations (collectively, banks) to help meet the credit needs of all segments of their communities, including low- and moderate-income neighborhoods and individuals. The CRA extended and clarified the long-standing expectation that banks will serve the convenience and needs of their local communities.

"CRA is designed to encourage banks to help rebuild and revitalize communities through sound lending and good business judgment that benefits the banks and the communities they serve.

"Neither the CRA nor its implementing regulations prescribe ratios or benchmarks regulators must use in the evaluation or application processes." Since there are no benchmarks, banks cannot be criticized for not meeting community needs or goals; however, in general, the commercial bank CRAs are under-performing community assets. Link: https://www.occ.treas.gov/topics/community.../fact-sheet-cra-reinvestment-act.pdf

Crowdsourcing.

Much has been said and written about crowdsourcing. A great source of funding in the right circumstances. Opportunities for small investors to participate in public projects are both a source of money and a source of pride.

Philanthropy.

Giving is an under-appreciated activity. Philanthropy funds many programs and facilities. The cost to the public is usually a name on a building. The nurturing of current and potential philanthropists in the city is an important art of the city's Finance Plan.

A COMPREHENSIVE, LONG-RANGE PLAN FOR A MUNICIPALITY.

The Idea of "Pro forma".

From a professional accounting perspective, ***pro forma***, is a meaningful concept. It is a Latin term that means "for the sake of form" or "as a matter of form". It is a method of calculating financial results using certain projections or presumptions. Pro forma financials are not computed using standard generally accepted accounting principles (GAAP) and usually leave out one-time expenses that are not part of normal company operations, such as restructuring costs following a capital project.

Essentially, a pro forma financial statement can exclude anything a company believes obscures the accuracy of its financial outlook and can be a useful piece of information to help assess a company's future prospects.

In the more straight-forward sense, a ***pro forma*** statement is a projection or forecast of financial results based on known and unknown factors, assumptions aplenty. Projections for shorter periods are more likely to be accurate than forecasts for longer horizons. The city's annual budget is based on anticipated revenues and specifically desired programs and projects. Likewise, the 5-Year Capital Budget is based on equipment and project needs with projected costs and budgets along with anticipated sources of revenue to cover the capital costs over the period. So far, so good.

Long-Range.
Now, consider that municipal bonds have a payout period of decades, say 30 years. The life of a capital project such as a city hall, a roadway or a municipal park has an expected life of twenty to fifty or more years. The point being, some thought needs to be given to the sources and uses of city funds for more than five years. A long-range finance plan that is comprehensive in scope may extend 50 years into the future.

The assumptions will be sketchy and the accuracy of the forecasts is guaranteed to be wanting, but, as General Eisenhower said, "plans are worthless, but planning is essential". The value of going through the exercise of evaluating the future viability of current costs and revenues through comprehensive, long-range finance planning is as much about the process as it is about the results.

Comprehensive.
The financial planning process for the city includes the full range of anticipated expenses and searches out a wide range of revenue sources. Comprehensiveness is critical. No stone can be unturned in the search for revenue. And, no expenses can be off-budget. For the comprehensive finance plan to be useful, everything must be on the table.

The Process is the Product.
Such a process also harkens the "scenario" planning process as practiced by Peter Schwartz among others. In essence, several distinct scenarios are created, after much thought, each based on a set of assumptions. As the future unfolds, the scenarios are monitored and the ones with unfulfilled assumptions are discards and the rest are revised as necessary using then current data. The winnowing process proceeds, the extending time horizon keeps the process meaningful and the ever-refreshed process becomes the product.

THE COMPREHENSIVE, LONG-RANGE FINANCE PLAN BASED ON THE CITY'S PRO FORMA SOURCES AND USES PROCESS.

The annual drill undertaken by every city to plan the city's financial sustainability has three elements:

1. **The Annual Budget.**
2. **The Five-Year Capital Plan.**
3. **The Comprehensive, Long-Range Finance Plan.**

A STRATEGIC SIDE-KICK.

An important municipal activity designed to improve the city's financial situation is economic development; the retention, expansion and recruitment of businesses with well-paying jobs.

The use of capital projects and perhaps tax and fee incentives play a role in business development. The provision of infrastructure and community quality of life are directly related to business retention and recruitment.

Balancing the give and take of this process is an artform practiced, for better or worse, by every city. The city plays a role and provides benefits to business; but, business must do more than provide well-paying jobs. It must be a good corporate citizen, participate in community events and invest in building the city consistent with the community's vision. A quid pro quo.

CONCLUSIONS.

The goal is to anticipate future sources and uses of funds. While the uses of funds can be programmed, the sources of funds are more volatile. Property taxes are being capped; gas taxes will shrink as electric vehicles become more prevalent. Federal and state funding programs are always whimsical, especially in the current atmosphere of "pre-emptions". Securing reliable long-term sources of funding for municipal operating and capital budgets is the challenge. Consider:

1. **Comprehensive, Long-Range thinking is important.** Many cities have existed for over a hundred years; and, most cities are expected to exist for another hundred. Taking the long view of all city services and facilities can better sustain the city through cycles and surprising circumstances.

2. **Layering** many sources of funding and financing is the creative talent needed in a financial officer and a city manager. **There is rarely a single source of funding for everything or forever.** Mixing, matching and leveraging assets while phasing out dependence on declining sources and finding new sources is a constant process. A long view helps anticipate these changes.

3. **Traditional sources** of funds produce revenues; maximize their use. Some sources are steady and reliable, others are diminishing or "capped", such as property taxes in Florida. Gas taxes are unreliable in the future with improved automobile efficiencies and electric vehicles.

   Locally established fees and the growth of special districts are growing as a percent of budgets having yet to be pre-empted by higher levels of government or the voters.

4. **Non-traditional sources** of revenue, even one-time sources are important. Economic development produces indirect revenues for cities by building the tax and fee base. Decades ago, nurturing the tax base was a primary function of city government usurped in recent decades by the focus on management of growth.

   Interest in the city's tax and employment base is being re-kindled by the economic and legislative constraints placed on traditional sources of funds.

   a. **Grantsmanship is a learned skill.**
   b. **Philanthropists come around slowly; patience and understanding objectives are important.**

5. **Creativity** is essential to layer different programs, match funds and leverage assets to replace declining traditional revenue sources. Combining bureaucrats, capitalists, philanthropists and small investors is a productive talent.