



ISSUES IN MUNICIPAL FINANCES

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- A. The Enabling Environment for Local Government Autonomy**
- B. Management of Municipal Financial Resources**
- C. Trends in Municipal Finances**
- D. Performance of Municipalities in Raising Revenues**
- E. Municipal Borrowing**



A. THE ENABLING ENVIRONMENT FOR LOCAL GOVERNMENT AUTONOMY

o A.1. Enabling environment for municipal responsibilities

1. Is there an explicit/formal assignment of municipal service responsibilities? If so, what services are the municipalities responsible for providing?

2. Does the municipality have exclusive responsibility for providing these services or is the responsibility shared with higher-level governments? In the cases of shared responsibility, is there clarity in the respective roles of different levels of government?



A. THE ENABLING ENVIRONMENT FOR LOCAL GOVERNMENT AUTONOMY

o A.2 Intergovernmental transfer mechanism

1. What transfers does the law provide for the municipality to receive? If so, which level of government provides these transfers?
2. Is the money transferred directly to the municipality? How predictable and reliable are the disbursements?
3. How empowered or constrained is the municipality in deciding how to spend those transfers? In other words, do the transfers come with conditions or are they unconditional grants?



A. THE ENABLING ENVIRONMENT FOR LOCAL GOVERNMENT AUTONOMY

o A.3. Enabling environment for municipal revenues

1. What taxes, if any, is the municipality legally authorized to levy?
2. What is the municipality's tax autonomy? Does the municipality have the authority to determine the rates of tax? What about the tax bases?
3. Are the municipalities authorized to administer taxes?
4. Have regulatory structures been established to set utility tariffs, user charges, and rates for other revenue sources?



A. THE ENABLING ENVIRONMENT FOR LOCAL GOVERNMENT AUTONOMY

o A.4. Enabling environment for municipal borrowing

1. Are municipalities legally authorized to borrow? If not, is it feasible to change this situation?
2. Are there legal limitations on the amount or purpose of municipal borrowing?
3. Are municipalities restricted to borrowing from particular sources?
4. Do central government policies and procedures encourage or discourage municipalities from borrowing?
5. Is there an established procedure within municipalities for approving borrowing decisions?
6. Is there a creditworthiness rating scale in place?



B. MANAGEMENT OF MUNICIPAL FINANCIAL RESOURCES

1. Are the municipality's budget, summary accounts, and financial reports made available to the public on a regular basis? Are these accounts and reports regularly made available to other levels of government?
2. Have standards for municipal accounting and financial reporting been established?
3. Does the municipality have a financial management and reporting system that enables it to establish meaningful expenditure budgets and revenue projections as well as monitor actual budgetary commitments, expenditures, and revenue collections?
4. Are the municipality's accounts and financial reports audited on a regular basis?



C. TRENDS IN MUNICIPAL FINANCES

o C.1 Municipal revenue trends

1. For all the taxes that the municipality is legally authorized to levy and collect, how do actual collections compare to total municipal recurrent revenue?
2. For all fees and user charges (including utility tariffs if applicable) that the municipality is legally authorized to levy and collect, how do actual collections compare to total municipal revenue?
3. What percentage of the municipality's total revenue comes from property taxes?
4. What percentage of the municipality's annual budget comes from transfers from another level of government?



C. TRENDS IN MUNICIPAL FINANCES

o C.2 Trends in financial operating positions of municipalities

1. What is the trend in the municipality's budgets? Are they in surplus or deficit?
2. Does the municipality fund recurrent (operating) expenditures through borrowing?
3. What percentage of total municipal expenditure is for capital expenditures?

o C.3 Trends in municipal debt

1. What is the total debt outstanding? How many times has the municipality borrowed, and for what purposes?
2. How does total debt service (repayments of principal and interest) compare to total revenue? How does total debt service compare to total expenditure?
3. What has been the trend in the creditworthiness rating (if available)?



D. PERFORMANCE OF MUNICIPALITIES IN RAISING REVENUES

o D.1 Trends in revenue collections

1. For all taxes that the municipality is legally authorized to levy and collect, how do actual collections compare to: a) the amount billed, and b) the amount that could be billed if the tax base data were up to date and the municipality could determine its own tax rates?
2. For all fees and user charges (including utility tariffs) that the municipality is legally authorized to levy and collect, how do actual collections compare to the amount billed, and the amount that could be billed if the municipality could determine its own rate structure for fees and user charges?
3. What percentage of the municipality's annual budget is funded by transfers from another level of government? What is the difference, if any, between the amount of transfer payments the municipality is entitled to by law and the actual amount of transfer payments received? If there is a difference, what is the reason?
4. What percentage of the municipality's annual budget is discretionary spending (i.e. not mandated by laws, regulations or contracts)?



D. PERFORMANCE OF MUNICIPALITIES IN RAISING REVENUES

o D.2 Municipal transfer mechanism

1. What type of transfers does the municipality receive? Equalization grants, conditional grants, capital grants? Are equalization grants generally equalizing?
2. Do conditional grants jeopardize local autonomy? Do they overburden administrative capacity?
3. Do higher level governments provide loan transfers to municipalities?
4. How is the divisible pool of transfers to municipalities determined? Is there an opportunity for increasing the amount in the divisible pool?
5. What is the allocation mechanism of the divisible pool among municipalities? If by formula, is this mechanism used de facto? If ad hoc, how much do allocations fluctuate from year to year?



D. PERFORMANCE OF MUNICIPALITIES IN RAISING REVENUES

o D.3 Municipal taxes

1. What type of property taxes does the municipality levy? Tax on annual or rental value of the property/capital value of land and improvement/site value of land?
2. What is the extent of coverage of the property tax?
3. What is the rate structure of the property tax? How often is it updated?
4. Is there a record system of landownership in place?
5. Is there an assessment system in place? Are there professionally-trained assessors?
6. Is there a decent collections system in place? Is there a high level of uncollected taxes?
7. How do collection costs compare to collected revenue?
8. Is there evidence of corruption in property tax administration?
9. What other taxes does the municipality levy? And what is the trend in revenue collections for these taxes?
10. Is the tax rate and tax base regularly reviewed (assuming the municipality has the authority to change them)?
11. Are these taxes administered efficiently (assuming the municipality is responsible for administering these taxes)?
12. Is there potential for revenue mobilization through these taxes?



D. PERFORMANCE OF MUNICIPALITIES IN RAISING REVENUES

o D.4 Regarding user charges and fees

1. Are services delivered on a cost recovery basis? That is, do revenues cover or exceed expenditures?
2. Are municipal services affordable to poor households? Are all households equally charged for services? If not, does it differ by household income/by region?
3. Are tariffs/charges/rates established on an objective and professional basis?
4. Are the regulator's tariff/charge/rate decisions subject to veto by political leaders at the municipality level or elsewhere?
5. Are tariff/charge/rate decisions adequately enforced and implemented?
6. If there are no regulatory structures, how are tariffs/charges/rates established?
7. To what extent are user fees being collected from customers? Is there a high level of uncollected fees and charges?



E. MUNICIPAL BORROWING

o E.1 Constraints on the authority of municipalities to borrow

1. Have the municipalities reached their legal borrowing limits, if any?
2. Are the legal borrowing limits established appropriately?
3. Is it prudent to consider relaxing the borrowing limits either selectively or across the board?
4. Are the sources of municipal debt financing constraining municipal borrowing, and if so, what are the reasons for this?
5. Are the sources of municipality debt financing owned or controlled by the government, private sector, or both?
6. Do the sources of municipality debt financing operate in a transparent and financially sound manner (e.g. are they politically independent and profitable)?
7. Is there any competition among the sources of municipality debt financing?
8. Where do the sources of municipality debt financing obtain their funding for loans and for operating expenses (e.g. central government, multilateral development banks and international development agencies, capital market, operating income)?



E. MUNICIPAL BORROWING

o E.1 Constraints on the authority of municipalities to borrow

9. Do Municipalities have authority to borrow in foreign currency? If so, how is the foreign exchange risk managed?
10. Is central government willing to consider relaxing the restriction on sources of municipality debt financing?
11. What are the specific policies and procedures that cause the most problem for municipality, and why do they exist?
12. Are the problematic policies and procedures applied transparently and equitably to all Municipalities?
13. Is central government willing to consider revising their policies and procedures to make them less problematic? If so, under what circumstances?
14. If there are no standard procedures for authorizing a borrowing, is the municipality willing to establish such procedures?
15. If standard procedures exist, are they transparent and applied rigorously in all cases?
16. If standard procedures exist, do they afford local residents the opportunity to affect the decision to borrow?



E. MUNICIPAL BORROWING

o E.2 Municipal experience with borrowing and potential demand for credit

1. How many borrowings have been done and what are the characteristics of the borrowings (i.e. purpose, amount, source of financing, term, interest rate, current annual payment due)?
2. How does debt service on all borrowings compare to total revenue on an annual basis? How does total debt service compare to net revenue (revenue minus expenditure) on an annual basis?
3. How does the level of current liabilities compare to total operating revenue?
4. How does long-term debt compare to the assessed valuation of real property?
5. What is the level of contingent liabilities (i.e. numerous and weak municipally owned companies, large number of guarantees issued by municipalities, and un-funded pension liabilities)?
6. Is the municipality up to date on all of its repayment schedules? If not, why not?
7. If the municipality is up to date on its repayments, has it had to seek any external support to remain up to date? If so, what are the characteristics of the support (i.e. debt forgiveness, debt rescheduling, call upon guarantor, ad hoc revenue supplement) and how frequent has the support been?



E. MUNICIPAL BORROWING

o E.2 Municipal experience with borrowing and potential demand for credit

8. What are the descriptions of the projects (i.e. purpose and estimated cost)?
9. Are the projects related to a formal city development strategy (or similar long term vision of the future)?
10. Are the projects part of a formal capital investment plan. or similar document?
11. What stage of the project cycle has each of the projects reached (i.e. prefeasibility, feasibility, detailed engineering/costing, financial structuring, and negotiation of financing)?
12. Have the projects been developed with the participation of local stakeholders most directly affected?
13. Has the municipality identified a source of revenue for the repayment of the debt to be incurred in building each project? If not already identified, is there a potential source of revenue?
14. Has the municipality requested financing for the projects from any source? If so, which sources and what has been the response?
15. Is the cost of each project large enough to attract the interest of any of the sources of financing available to the municipality? If not, could the projects be pooled with other projects (including projects of other Municipalities) to make the financing attractive to investors?



E. MUNICIPAL BORROWING

o E.3. Enabling environment for municipal borrowing

1. If there is liquidity in the markets, are there any legal or regulatory constraints that prevent institutions (banks, investment companies, insurance companies, and pension funds) from investing in municipality debt instruments? What are the reasons for these constraints?
2. If there is no liquidity in the markets, what is the reason? Is this situation expected to change in the near term?
3. What types of long term investments are they currently making? What is their annual level of investment?
4. What is the minimum investment quality (credit rating) they are willing to accept into their portfolio? What other factors (e.g. term, liquidity, etc.) affect their investment decisions?
5. Are they willing to invest in municipality debt securities if they met their minimum investment quality standards, or are there other constraints to such investments? If there are other constraints, what are they and how could they be relaxed?
6. What is the trend in volume of lending by these specialized financial institutions over the past several years? Do they have a significant backlog of loan applications on which they have not yet decided?
7. What is the average time take to decide to approve or disapprove a municipality loan application?
8. Do any of these specialized financial institutions have policies that constrain the nature of municipality loans they make (e.g. loans only for certain purposes, maximum or minimum amounts, maximum or minimum term. etc.)?
9. Are these specialized financial institutions owned and operated by the private sector or the public sector?
10. Do these specialized financial institutions have access to capital at rates below market rates, and/or do they receive other subsidies that give them an advantage over other lenders in the market?



E. MUNICIPAL BORROWING

o E.3. Enabling environment for municipal borrowing

11. Do these specialized financial institutions operate in a transparent and financially sound manner (e.g. are they politically independent and profitable)?
12. Who regulates these specialized financial institutions, and are the regulators willing to consider reforms that would be necessary to make municipality lending a more competitive business?
13. To what extent do Municipalities currently make use of their services? If demand from Municipalities is currently low, what is the reason?
14. Are they in the private sector, public sector, or both?
15. Do they cover all of the kinds of services required or are there gaps? Are they limited to only certain subjects (e.g. water, electric power, etc.)?
16. Do they operate in a transparent and financially sound manner (e.g. are they politically independent and profitable)?
17. Do they have experience in rating Municipalities and their projects? If not, are they willing to develop such capacity in the country?
18. Do they provide ratings on a “national rating scale” or only on an international scale?
If not currently available, what would be required to establish a national rating scale?
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21. Do they cover all of the kinds of services required or are there gaps?
22. Do they operate in a transparent and financially sound manner (e.g. are they politically independent and profitable)?



THANK YOU

