

Frequently Asked Questions
City of Laramie
Financial Outlook Report

1. What is the General Fund?

(Financial Outlook Report, Pages 2-8)

The General Fund is the primary operating fund of a government and it accounts for all activity not required to be accounted for in other funds. City services such as public safety, street maintenance, community services, police, fire, and general government activities are accounted for in the General Fund.

2. What are the primary General Fund revenue sources?

(Financial Outlook Report, Page 4)

The majority of services under the General Fund are paid for by sales and use tax revenues (4th and 5th cent) and supplementary state shared funding. For the 2015 budget, these revenue sources account for over 50% of General Fund revenue. This biennium (2015-2016), the state distributed \$105.0M in direct supplemental state revenue funding to cities and towns. The City of Laramie received approximately \$4.8M in funding for the biennium. \$1.5M of this funding is a hardship component which the City of Laramie receives based on the funding model.

The State Legislature kept the same distribution method used in the prior biennium (HB01, Section 325). Each municipality receives a base payment of \$10,000 (towns with population of less than 35 receive \$5,000). The remainder is based on a formula which distributes the remaining funds in proportion to population and a hardship component. Hardship assistance is distributed to counties, cities and towns based upon a history of low property tax/and or sales tax collections.

Other significant revenue sources include auto and property tax revenue, miscellaneous tax revenue (severance, gas and fuels, and cigarette), mineral royalties, and other inter-governmental revenue, such as grants. For the 2015 budget, these revenue sources account for about 33% of General Fund revenue.

The City of Laramie controls very few of its revenue sources: charges for services, licenses and permits, franchise fees, and some miscellaneous sources. Combined, these sources account for less than 15% of the City's revenues. Since the City has so little control over revenue, a conservative approach is taken during budget planning which includes adopting a biennium budget. This provides the City with forecasts necessary to take any action required.

In FY 2015, there was one-time revenue from the maturation of an investment held for the payoff of the Wyoming Territorial Park note. The investment matured for \$10 million, and funds were transferred to the General Fund to pay the debt.

3. What is the 4th Cent Sales & Use Tax and how is it allocated?

(Financial Outlook Report, Page 5)

The State of Wyoming levies a 4% sales tax upon all sales, purchases, and leases of tangible property sold or leased by persons engaged in the State. There is also a tax levied 4% upon the privilege of persons to use, store, or consume tangible personal property, purchased or leased.

The state allocates the levies for both Sales and Use Tax as follows:

- 69% of the state's tax goes to the state general fund, with 31% going back to local governments.
- Of the local government share, the state deducts a 1% administrative fee.
- Distribution is determined by computing the percentage that net sales and use taxes collected by vendors in each county (including cities and towns) bears to the total net sales collected from the state.
- The state pays a flat \$40,000 to each county annually. The county receives these monies in equal monthly installments and then the state distributes the remainder to each county in the proportion that the total population of the county bears to the total population of the state.
- The city portion is also based on the total population of the city to the total population of the county.

(Reference Wyoming Statute: W.S. 39-15-101 through 39-15-111, W.S. 39-16-101 through 39-16-111)

4. What is the 5th Cent Sales & Use Tax (local option) and how is it allocated?

(Financial Outlook Report, Page 6)

The 5th Cent Tax is levied on retail sales of tangible personal property, admissions and services, sales and storage, and upon use and consumption of tangible personal property. By statute, this tax must be imposed at a rate in increments of one-half percent (.5%), not to exceed a rate of two (2%) percent. This tax must be renewed by voters every four years. Albany County voters renewed the 1% General Purpose Excise Tax in 2010, and then again in 2014.

The Department of Revenue collects and disperses the monies, keeping 1% for an administration fee and distributing 99% to the City.

(Reference Wyoming Statute: W.S. 39-15-203)

5. We have a 6th cent specific purpose tax (1% SPT local option) in Albany County. Why don't I see it in General Fund revenue sources? How is this tax being managed?

The City is required to account for specific purpose tax collections and expenditures in a separate capital fund (the SPT Fund) because these dollars are restricted for capital purposes that the voters approved: planning, design, construction, and improvements to the City's water infrastructure, wastewater infrastructure, streets, solid waste disposal facilities, and maintenance of specific well head properties and protection of vulnerable properties noted in the Casper Aquifer protection plan.

Albany County voters approved \$42 million in specific purpose tax projects in 2010, and the 1% tax remains in place until the non-bonded projects are fully funded and debt payments (made from tax collections) fully pay off the bonded debt. The City's portion of these projects totals \$22,550,550. As of June 30, 2015, \$15.21 million (67%) of the City's portion of the tax had been collected. The City bonded 95% of its projects, and the assets received from the sale of these bonds are held by a trustee and distributed to vendors at the request of the City.

(Reference Wyoming Statute: W.S. 39-15-204)

6. How much debt can the City carry?

The City is subject to debt margin limits related to general obligation bonds. These limits are based upon the City's assessed value (\$228,334,031 in June 30, 2015). The limits on the general obligation bonds related to general projects are 4% of the City's total assessed value. For wastewater projects financed by general obligation bonds, the debt limit is 8% of the City's total assessed value. Per Wyoming Statute, there is no debt limit for water projects financed by the general obligation bonds.

Other types of debt the City carries includes funding of loans at the State level for such programs as the Business Ready loans, Water Development Commission, and State Land and Investment Board. The City is authorized to do lease purchase options on equipment and other leasing needs.

The Specific Purpose tax projects debt are being paid through the 1% Specific Purpose Tax monthly collections. The debt associated with this bonding has a net interest rate of 2.32% with a total bonded debt obligation at FY 2015 of \$15.375M, excluding the debt issuance premium. The general fund obligation (Street and Landfill) has a current obligation of \$5.591M. Wastewater has a general obligation debt of \$4.091M and Water has \$5.693M. Payments (made by tax collections) made in FY 2015 totaled \$1,950,000.

7. What are the current types of General Fund debt and the terms associated with the debt?

(Financial Outlook Report, Page 7)

In the General Fund, there are various capital leases totaling \$0.814M with terms ranging from 3 years to 15 years and interest rates ranging from 0% to 4.25%. At the end of 2015, the major lease/purchase was the lease of Energy improvements with an outstanding obligation of \$587,600. General Fund annual debt payments (principal & interest) in FY 15 totaled \$10,165,588. These payments included the payoff of a loan in the amount of \$10.0M for the Wyoming Territorial Park note, which was paid with an investment of a zero coupon bond that matured in December 2014. The entire \$10.0M payment was made with proceeds from the zero coupon bond, and no additional City funds were used.

8. What are the types of enterprise fund debt and the terms associated with the debt?

(Financial Outlook Report, Pages 13, 15, 17)

- The Water Fund has *state loans* with terms ranging from 15 years to 30 years and interest rates ranging from 2.5% to 4.0%.
- The Water Fund has *refunding revenue water bond debt* with terms of 15 years with interest rates ranging from .54% to 4.50%.
- The Water Fund has *revenue bonds* with a term of 30 years and interest rate at 3.25%.
- The Water Fund has *leases* with terms ranging from 2 years to 15 years with interest rates ranging from 1.5% to 4.2%.
- The Wastewater Fund has *state loans* with terms ranging from 15 years to 20 years, all with the interest rate of 2.5%.
- The Wastewater Fund has a *lease* with a 15 year term and 4.2% interest rate.
- The Solid Waste Fund has *leases* with terms ranging from 3 years to 5 1/2 years and interest rates ranging from 1.51% to 2.975%.

The total debt obligation in the Enterprise funds at fiscal year-end 2015 was \$12.4M. The Water Fund had \$7.6M in obligations with total debt payments in FY 2015 of \$881,365. The Wastewater Fund had \$3.5M in obligations with total debt payments in FY 2015 of \$951,063. The Solid Waste Fund had capital lease obligations totaling \$1.3M with total debt payments in FY 2015 of \$361,353.

9. What determines how much the City can spend?

The budget that the City Council adopts is the City's legal spending authority. The budget is adopted within 24 hours of the required budget hearing, which is held for the public between the 2nd and 3rd Tuesday in June. Revenues are budgeted by source. Expenditures are budgeted by department and classification or, in the case of capital budgets, for specific items or projects.

The legal level of spending control is at the department level for operating expenditures and at the item or project level for capital expenditures. Budgets may be amended by the City Council through a public hearing process as defined by state statute. City management can transfer appropriations between line items or departments. A transfer does not result in a net budget increase.

10. What is the City's Bond Rating?

The City earned an AA rating on its GO bonds from Standard and Poor's (S&P). The S & P rating on its refunding water bonds was increased in July 2015 from an A+ rating to an AA rating. Per the agency's rating definitions, an obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong. An 'A' rating has a strong capacity to meet financial commitments, but is somewhat susceptible to adverse economic conditions and changes in circumstances. The ratings rank from a 'D' to 'AAA', with 'AAA' being the highest rating. The plus (+) sign is used to show relative standing within the major rating category.

11. What is Depreciation? How does the City manage it? *(Financial Outlook Report, Pages 7, 13, 15, 17)*

Depreciation is a non-cash expense that reduces the value of an asset as a result of wear and tear, age, or obsolescence and recognizes the expense for an asset over its useful life (rather than all at once when the asset is purchased). Most assets are depreciable because they lose their value over time and must be replaced. Land and related items are not depreciable.

The City recognizes depreciation in all funds in accordance with the accrual accounting requirements for Government-Wide statements required for the Comprehensive Annual Financial Report (CAFR). However, the City is also statutorily required to recognize depreciation in its utility rate structure (§15-7-407) so that income generated by rates is sufficient to fund future replacements.

In the Financial Outlook Report the depreciation is stated as a "memo" only number and is not included in the report of actual expenditures. This allows the reader to compare how much the City is funding in capital and equipment related to the depreciated number.

12. What are Fund Balance and Net Assets? *(Financial Outlook Report, Pages 8, 10, 14, 16, 18)*

Fund balance or *net assets* is comparable to equity for private businesses and represents net position. The sum of these accounts is a residual value, meaning it represents the difference between the assets and liabilities on an entity's balance sheet. *Fund balance* is the term used for governmental funds, while *Net Assets* is used when referring to Enterprise Fund net position.

In technical terms, *fund balance* is the term used in external governmental financial reporting for statements prepared on the modified accrual basis of accounting and the current financial resources measurement focus. *Net Position* is the term used in external governmental financial reporting for statements prepared on the accrual basis of accounting and the economic resources measurement focus.

The value of *net position* does not represent the net position of an entity in a cash value – net position is driven by the associated assets and liabilities on the balance sheet. For example, Government-Wide and Enterprise Fund statements for the City of Laramie are prepared using accrual accounting and an economic resources measurement focus. These conventions require recognition of assets at historical cost on the balance sheet. The value of a street at \$1 million on the balance sheet increases both the value of total assets and net assets, assuming no offsetting debt. It is unlikely that the City would sell a street (e.g. convert the asset to cash) but

the City's net position is driven up by the recognition of this asset. Financial statement users should be careful to interpret net assets as a function of the value of all the assets and liabilities on the balance sheet – not just those that are readily convertible to cash.

The value of *fund balance* comes closer to representing a governmental entity's "true" residual value because the focus is on currently available resources. For external reporting, only governmental funds are reported this way. For purposes of this financial outlook, Enterprise funds have also been prepared using this approach so that users can see net position in terms of currently available resources and be able to better assess the resources at the City's disposal.

13. What do the different components of fund balance and net assets mean?

(Financial Outlook Report, Pages 8, 14, 16, 18)

The components of fund balance and net assets presented in the financial outlook represent different uses of available resources and are categorized by the level of the restriction. In the CAFR, these categories are presented for governmental fund basis statements, but not for enterprise fund statements. The classifications of net resources are defined as follows:

- Nonspendable: Cannot be spent due to form or because they must be maintained intact
- Restricted: Externally enforceable limitations exist for the use of these resources
- Committed: Self-imposed limitations exist that were enacted at the highest level of decision making
- Assigned: Limitations exist that result from internally assigning resources for an intended use
- Unassigned: Remaining resources after all other categories are accounted for

14. What is a Modified Balance Sheet?

(Financial Outlook Report, Pages 8, 14, 16, 18)

In preparing the financial outlook, all statements are presented using the current financial resources measurement focus for internal reporting purposes. The aim of this approach is to report current inflows, outflows, and balances of expendable financial resources. The balance sheets for the Enterprise Funds have been modified to this measurement focus from that required for CAFR reporting, but the General Fund and Recreation Center amounts are presented the same as the CAFR fund statements.

The modified balance sheet also presents the same breakout for Net Assets in Enterprise Funds as is required for governmental fund basis reporting on the CAFR. The categories represent net assets or fund balance to be used in some way by the City at that point in time.

15. What are the Days of Operation Reserves?

(Financial Outlook Report, Pages 8, 14, 16, 18)

An operating reserve is the amount available to stabilize a government's finances by providing a cushion against future unexpected cash flow shortages, expenses, or losses. It is similar to an individual having a rainy day savings account. The City's reserve policy strives to have 3-6 months of the annual budget in unassigned fund balance or net assets.

Days of Operation Reserve is presented for each fund in the financial outlook. The calculation shows how many months the City could survive, based on the current annualized budget if all of its fund balance (net assets) commitments were realized. For example, the General Fund has 3.3 months of operation in reserves. If all the commitments on fund balance materialized today, the City could survive for 3.3 months on its unassigned reserves.

16. What are the Recreation Center's primary revenue sources?

(Financial Outlook Report, Page 10)

The Recreation Center's revenues are derived from memberships and user fees, grants, merchandise sales, interest from the recreation endowment, and from donations and recreation mill levy monies. The majority of revenue comes from charges for services (81% in FY 2015) and intergovernmental revenues (17% in FY 2015). Charges for services include memberships and user fees and merchandise sales. Intergovernmental revenues include the recreation mill and grants. Occasionally transfers are needed from the General Fund to cover a revenue shortfall, but the transfer amount is not included in the percent of Cost Recovery calculation.

17. What is the percent of Cost Recovery for the Recreation Center?

(Financial Outlook Report, Page 10)

Cost Recovery is a measure that quantifies the amount of expenses covered by revenues. In FY 2015, the Recreation Center's revenue covered 79% of its expenses.

18. What is an Enterprise Fund?

(Financial Outlook Report, Pages 11-18)

Enterprise funds are used to account for goods and services for which user fees and charges are paid in exchange transactions, similar to a private business. The City of Laramie provides water, wastewater, and solid waste services that are accounted for in enterprise funds. The focus in these funds is the determination of operating income, changes in net position, financial position, and cash flows.

19. What is the Enterprise Fund Net Cost Allocation?

(Financial Outlook Report, Page 4)

The City recognizes the net effect of the revenue due to its Enterprise Funds for water, sewer, and solid waste services used by the City general services and the expenses incurred centrally to support enterprise operations. Examples of administrative expenses charged to utility and solid waste operations include utility billing services and a proportionate share of accounting and payroll services, human resources services, and management services. In addition, the General Fund pays for services provided by Enterprise such as water, sewer and garbage collection at all related buildings and parks. The "net cost effect" of the revenue and expense activities is recognized as an exchange transaction or Fund transfer between the City's General Fund and its Enterprise Funds (Water & Wastewater and Solid Waste).

20. How does the City plan its budget for Enterprise Funds? *(Financial Outlook Report, Pages 11-18)*

In consultation with the Public Works Director, Utility and Solid Waste managers develop operational and capital budgets required to meet their needs. These needs are then vetted with the City Manager before being presented to the Council as the recommended budget. Through detailed budget analysis, including an update of the 10-year financial plan by staff and rate design by consultants, revenue requirements are determined and rate increases proposed to Council to support the recommended budget. The Council reviews the anticipated revenues and expenditures for the funds along with the rate increase. Through the process of three ordinance readings at Council meetings, plus a public hearing, new rates are implemented as necessary to properly maintain the integrity of the water, wastewater, and solid waste infrastructure.

21. Are the revenues in the Enterprise fund only user fees? *(Financial Outlook Report, Pages 13, 15, 17)*

As you can see on the Financial Outlook, user fees are the primary revenue source for the Enterprise funds. The other primary source is intergovernmental revenue, which consists primarily of grants and is used to pay for specific capital improvements. The City has been quite successful in its pursuit of grants, which has the direct impact of lessening the revenue requirement carried by user rates. In FY 2015, for example, 19% of Water Fund revenue and 19% of Wastewater Fund revenue was obtained through intergovernmental grants. In the FY 2015 budget, grants made up 61% of projected Water Fund revenue and 53% of projected Wastewater revenue. These amounts are not available for operating budgets, but they do provide much needed capital improvement resources.

22. How does the Financial Outlook Report differ from the Comprehensive Annual Financial Report (CAFR)?

The financial outlook is an internal report prepared by management to enhance financial understanding and disclosure whereas the Comprehensive Annual Financial Report (CAFR) is prepared to be in compliance with external financial reporting standards promulgated by the Governmental Accounting Standards Board.

For any additional questions not addressed herein, please contact:

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