



6/30/2021

# Fund Reserve Report



City of Rawlins  
Finance Department  
521 West Cedar  
Rawlins, WY 82301

## **Introduction**

As the COVID 19 pandemic gripped the nation beginning in January 2020, the City of Rawlins fell behind on its annual financial audits leading to lack of financial information to make informed financial decisions. As of June 30, 2022 the City had not completed the Fiscal Year 2020 nor the Fiscal Year 2021 audits. This led to uncertainty in the amount of cash reserves being held and inconsistencies in intermediate and long-term planning. In essence, the City could not measure financial activities to know if goals were being met.

Currently, as the prior years audit are now complete, the City's financial position has taken shape. The need for long-term financial planning has taken on new meaning. Events have occurred that have increased cash reserves to the point that the City can give attention to a deteriorating water transmission line, aging building and utility infrastructure, and changing human capital (staffing) needs.

This report will discuss the current status of the City's cash reserves and fund balances, the importance of maintaining adequate fund balances, and the need for long-term planning.

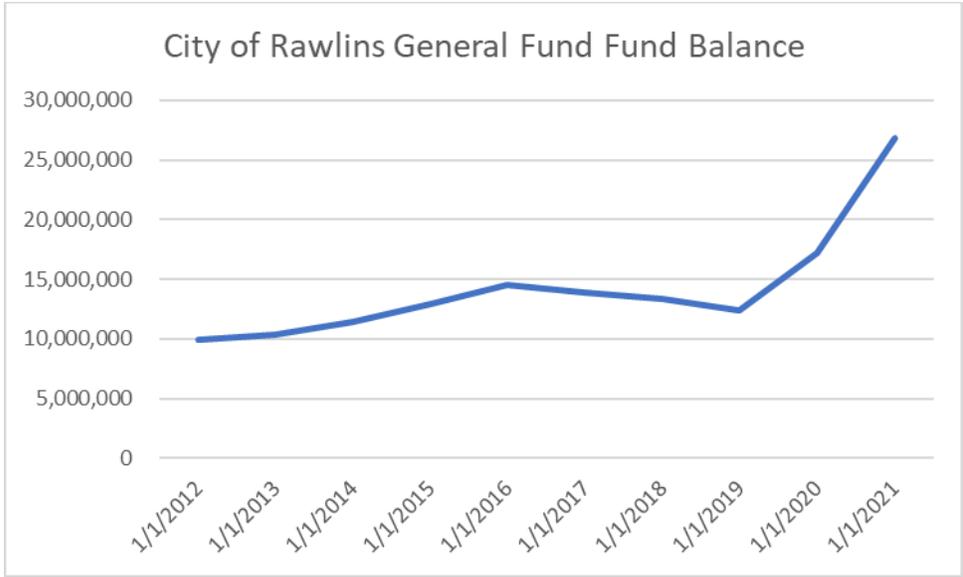
## **Fund Balance**

Fund balance is an accounting term to describe the difference between fund's assets and liabilities. It is intended to measure the financial resources that are currently available.

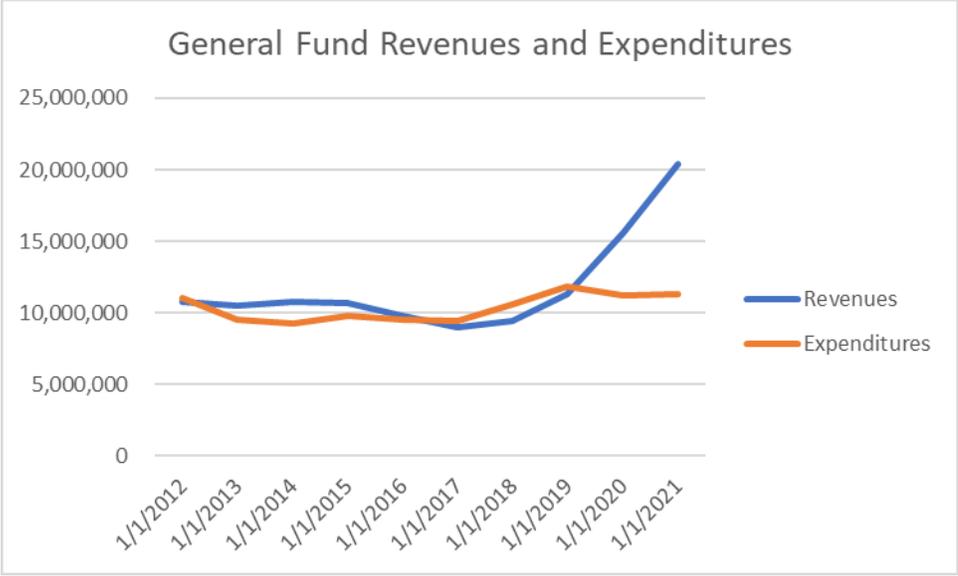
One of the primary reasons for establishing a policy for fund balance is to provide sufficient cash flow to meet operating needs. Local government revenues are often cyclical in nature. The City of Rawlins depends primarily on sale and use taxes as its major revenue sources. Collections of sales and use taxes are higher during the summer months than during the winter months. It would be difficult to meet our financial obligations year-round without maintaining a certain minimum fund balance that will be discussed later in this report. Wyoming also experiences the typical "boom and bust" cycles. Maintaining sufficient fund balance would ensure stability in times of uncertainty.

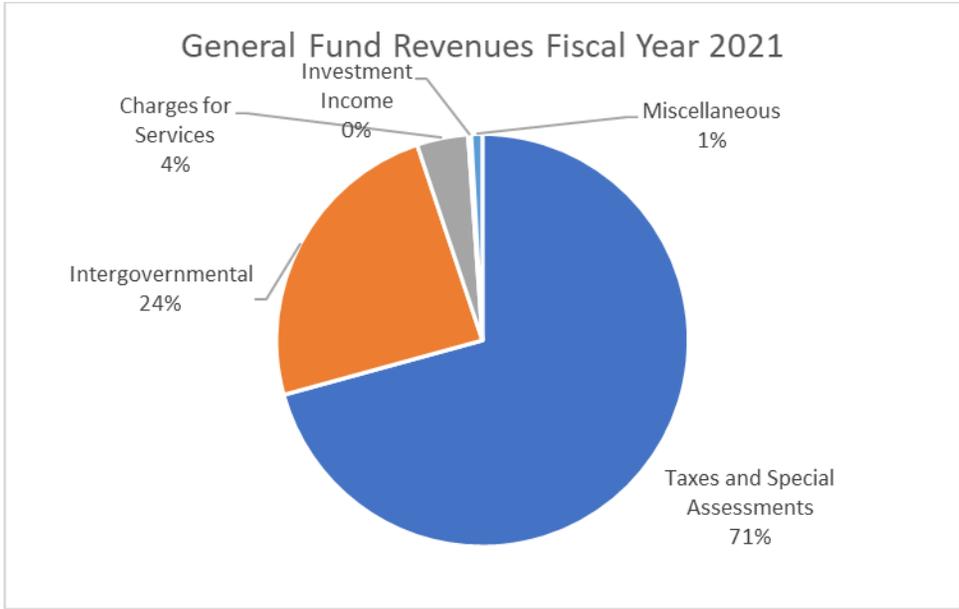
From fiscal year 2012 through fiscal year 2019 the City maintained fund balances between \$10M and \$15M. Beginning in fiscal year 2020 fund balances increased to approximately \$27M. This increase is the result of three items:

- Increase in sales tax from the sale of items used in green energy projects.
- Receipts of Impact Assistance funds to mitigate effects of the energy projects on the City of Rawlins.
- COVID 19 federal funding to alleviate the effects of COVID 19.



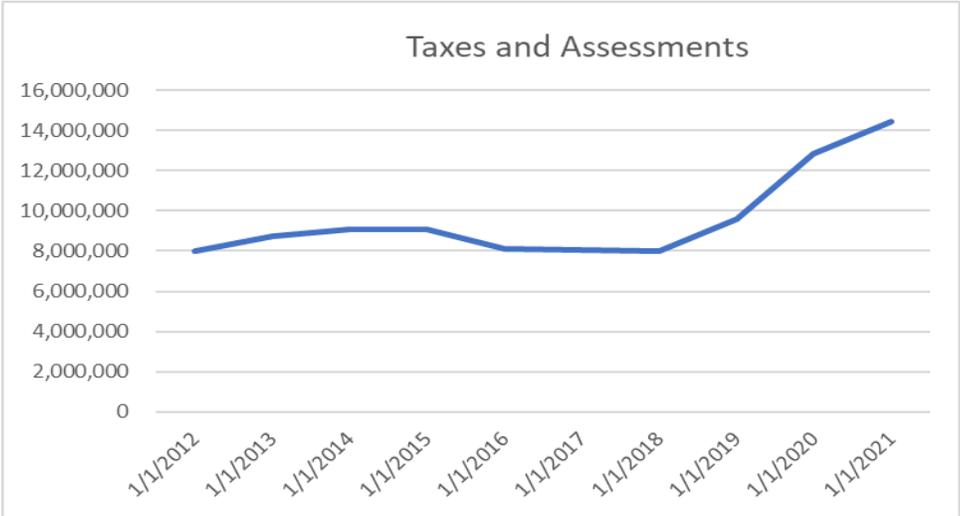
During this period of increased revenue the City maintained a consistent level of expenditures ranging from \$10M to approximately \$12M. This difference between revenues and expenditures increase cash reserves accordingly.





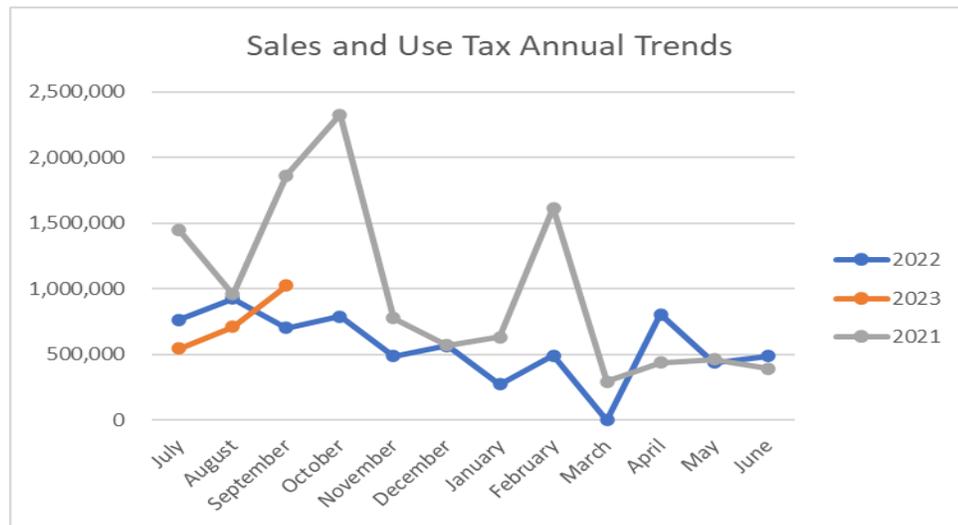
**Taxes and Special Assessments**

The graph above depicts the various sources of revenue for the General Fund. Taxes and Special Assessments make up 71% of the General Fund revenues. Changes in consumer spending led to fluctuations in the amount of sales taxes collected. In time of economic downturn, taxes and special assessments declined leading to lower levels of revenue to operate the City.



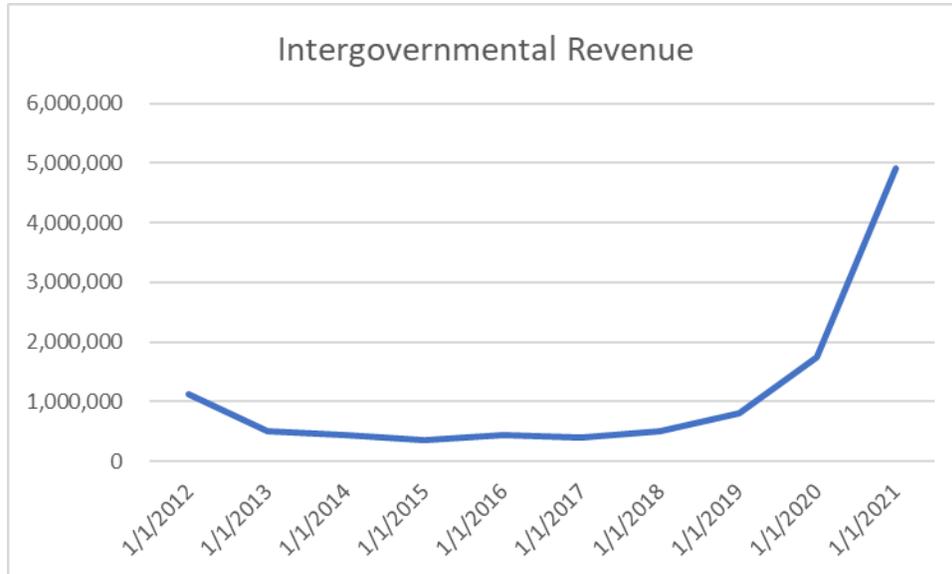
Taxes and Assessments	Fiscal Year				Percent Year Change		
	6/30/2022	6/30/2021	6/30/2020	6/30/2019	2022	2021	2021
Cigarette Tax	43,670	45,905	47,645	51,192	-4.87%	-3.79%	-5.12%
Sales Tax	6,667,105	11,237,654	9,383,432	6,080,749	-40.67%	16.50%	-68.55%
Gas Tax	412,786	403,685	432,795	425,881	2.25%	-7.21%	2.20%
State Supplemental	547,636	702,836	780,469	757,773	-22.08%	-11.05%	-28.34%
Mineral Royalty	297,225	306,630	311,058	319,138	-3.07%	-1.44%	-3.16%
Severance	295,926	342,235	343,489	343,489	-13.53%	-0.37%	-15.65%
Franchise Taxes	669,636	690,711	661,269	762,283	-3.05%	4.26%	-3.15%
Property Tax	546,985	404,968	543,249	474,132	35.07%	-34.15%	25.96%
Motor Vehicle Tax	288,147	268,001	315,759	340,048	7.52%	-17.82%	6.99%
Lodgers Tax	36,339	24,839	31,885	35,826	46.30%	-28.37%	31.65%
<b>Total</b>	<b>9,805,454</b>	<b>14,427,463</b>	<b>12,851,050</b>	<b>9,590,511</b>	<b>-32.04%</b>	<b>10.93%</b>	<b>-47.14%</b>

Below is a graph showing the sales and use tax collections from fiscal year 2021 through September 2022. The spikes in fiscal year 2021 are due to impact assistance projects including wind farm projects.



## Intergovernmental Revenue

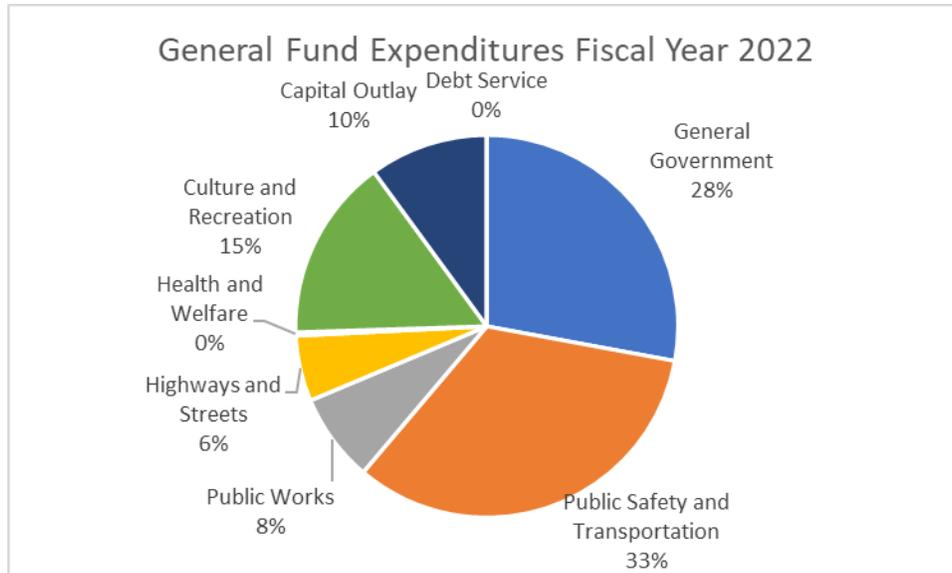
Intergovernmental revenues make up approximately 24% of the general fund revenue for fiscal year 2021. Intergovernmental revenue is funding received from another government either in the form of a grant or as reimbursement for costs incurred. Beginning in fiscal year 2020 the City began receiving Impact Assistance Funds from the State of Wyoming. These revenues were intended to mitigate the effects on the City of Rawlins from large projects in Carbon County.



Intergovernmental	Fiscal Year				Percent Year Change		
	6/30/2022	6/30/2021	6/30/2020	6/30/2019	2022	2021	2021
911 Surcharge	81,184	78,008	77,352	73,982	4.07%	0.84%	3.91%
Animal Shelter Fees	7,991	9,899	7,399	11,084	-19.27%	25.26%	-23.88%
Municipal Judge	142,053	134,367	130,351	150,850	5.72%	2.99%	5.41%
Advocate Grant	56,190	56,222	73,597	75,977	-0.06%	-30.90%	-0.06%
Resource Officer	75,000	75,000	75,000	0	0.00%	0.00%	0.00%
Wildland Fire Reimbursement		3,517	46,361	63,710	-100.00%	-1218.03%	0.00%
FAÇADE			28,911	0	0.00%	0.00%	0.00%
DUI Grants	1,929	13,717	20,384	0	-85.94%	-48.60%	-610.99%
Crime Victims	4,520	5,799	3,634	3,720	-22.05%	37.33%	-28.29%
Cultural Trust			10,000	0	0.00%	0.00%	0.00%
Impact Assistance	357,167	2,085,783	1,258,549	397,924	-82.88%	39.66%	-483.98%
COVID Grant	737,980	2,447,858			-69.85%	100.00%	-231.70%
Other	18,429	9,370	20,478	22,767	96.68%	-118.55%	49.16%
	1,482,443	4,919,539	1,752,016	800,014	-69.87%	64.39%	-231.85%

## COVID 19 assistance (CARES)

During fiscal year 2021 the City received approximately \$2.5M in COVID 19 related federal assistance passed through the State of Wyoming. These funds were intended to support salaries and benefits for first responders, technology, and sanitizing, cleaning, PPE and other equipment purchases. Many of these reimbursed costs were included in the fiscal year 2021 budget. Therefore, costs that were reimbursed and not purchased through current year revenue resulted in addition amounts being included in cash reserves.



## Fund Balance Discussion

When considering the amount of Cash Reserves to hold several items should be considered:

- Is the organization dependent on cyclical or volatile revenue sources?
- Do the enterprise funds (utilities) have debt service requirements?
- Are the enterprise funds (utilities) dependent upon a small number of customers that represent a large portion of the cash flow?
- Does the organization have a buffer against economic downturns?
- Will lenders, credit agencies, and others be evaluating our fund balance levels?
- If the fund balance/reserves are currently insufficient, how will we accumulate the desired amount of reserves, and how long will that take?

**City of Rawlins General Fund Reserves**

Fund Balances	6/30/2021	6/30/2020	6/30/2019	6/30/2018
Nonspendable	717,256	619,102	665,876	1,095,070
Restricted				
Committed	1,609,837	1,031,972	763,167	574,735
Assigned	12,610,388	8,083,781	5,854,417	4,772,190
Unassigned	11,893,131	7,464,680	5,066,122	6,883,971
<b>Total Fund Balances</b>	<b>26,830,612</b>	<b>17,199,535</b>	<b>12,349,582</b>	<b>13,325,966</b>

**Definitions**

Non-spendable – The non-spendable fund balance classification includes amounts that cannot be spent because they are either (1) not in spendable form (2) legally or contractually required to be maintained intact.

Restricted – The restricted fund balance classification includes amounts that are (1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.

Committed – The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority, i.e. State of Wyoming or Granting Federal Agency.

Assigned – The assigned fund balance classification includes amounts constrained by the government’s intent (City Council) to be used for specific purposes but are neither restricted nor committed.

Unassigned – The unassigned fund balance classification is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

General Fund Assigned Fund Balances as of June 30, 2021	
Emergency Reserve	4,000,000
Dangerous Building	491,209
Impact Assistance	3,924,693
Other	4,194,487
<b>Total</b>	<b>12,610,388</b>

## Emergency Reserves

The area to consider in determining sufficient fund reserves is to ensure that the City has sufficient cash flow to meet daily financial needs.

Currently, the City has an emergency reserve in the General Fund of \$4M. This represents 27.74% of the General Fund for the fiscal year 2023 expenditure budget. (\$4M reserve / \$14.9M expenditure budget). Typically, organizations set emergency reserves closer to 50% of the annual expenditure budget. For the City of Rawlins this would be close to \$7.2M which would represent a \$3.2M increase.

## Funded Depreciation

Funded depreciation is the setting aside of cash in amounts equal to an organization's annual depreciation. The purpose of funded depreciation is to fund future purchases of capital assets with cash. For example, the City purchases a new truck valued at \$100,000 and records \$10,000 in annual depreciation expense over 10 years. Every year, the organization will set aside \$10,000 so that it will be able to buy another truck after 10 years.

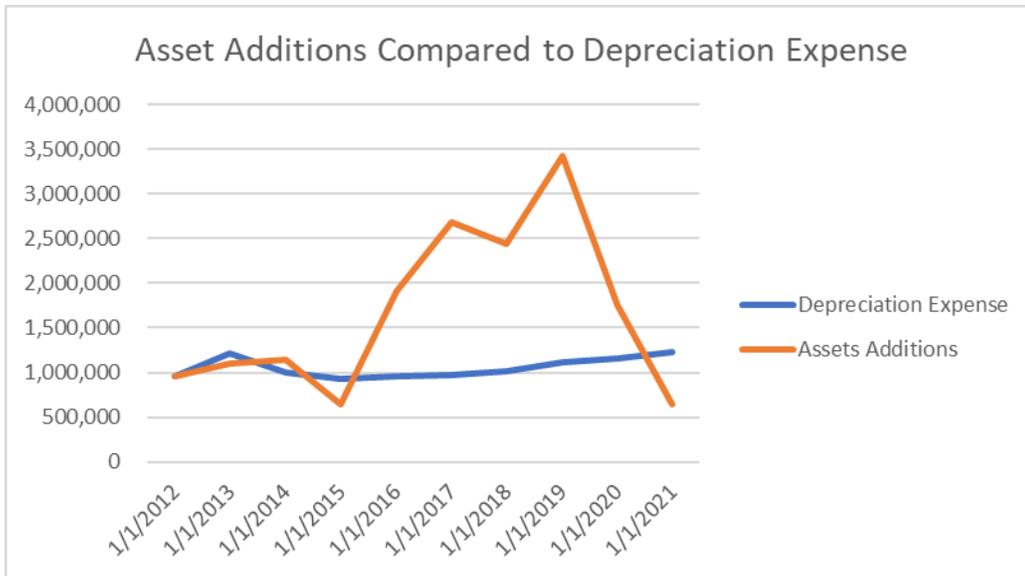
Currently, the City of Rawlins does not assign a portion of the General Fund reserves for Funded Depreciation. The funds for capital items are comingled with the operating budget and funds must be allocated out of current fiscal year revenues.

Under funded depreciation, funds for capital purchases are saved each year in the funded depreciation account and purchases are made when sufficient funds exist in the funded depreciation account.

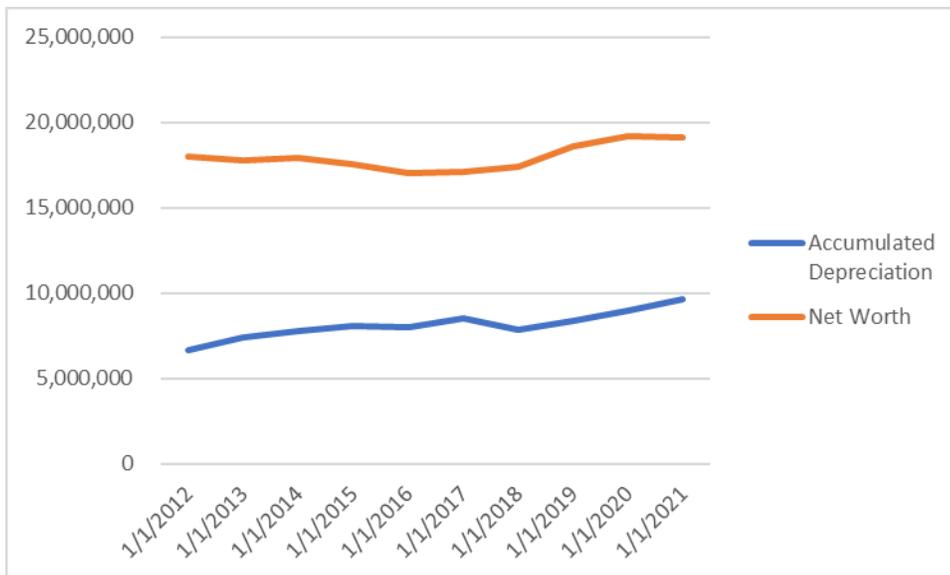
According to the fiscal year 2021 audit, depreciable assets in the general fund amount to \$34.9M and the associated accumulated depreciation totals \$18.8M. The aim of a funded depreciation system is to have in savings amounts equivalent the accumulated depreciation amount of \$18.8M. Each year as depreciation expense is recognized, a transfer of the same amounts should be transferred into the funded depreciation account.

Since the City has not set aside any amounts for replacing capital assets, a beginning point would be to fund a lesser percentage and look to the future for opportunities to fully fund the account.

Percent Funded	Amount to Fund
25.00%	4,700,933
33.00%	6,205,232
50.00%	9,401,866
66.00%	12,410,463
75.00%	14,102,799
90.00%	16,923,359



The above graph shows the inconsistencies in asset purchases compared to depreciation. The goal in funded depreciation is to have asset additions mirror depreciation expense. When asset additions are significantly higher than depreciation expense the organization is either adding to its capital inventory or attempting to updating obsolete inventory.



**Organizational needs for immediate expenditure of Cash Reserves**

Considering the increase in general fund cash reserves, the City has many needs in which cash reserves could be used to bolster the City’s efforts to maintain and improve its infrastructure. Despite the City’s

best efforts in past years, the City's infrastructure is in dire need of attention. Below is a list of the most pressing items:

- Replacement of SCADA system
- Restart of the Water Pretreatment Plant
- Building Maintenance
- Technology replacements
- Compliance Pay to Employees

The current SCADA system dates to the mid 1980's. Recent failures in the system have led to inaccurate tank level readings which led to water system failures including alarm failures. The cost to replace the SCADA system is approximately \$2.0M. The City has allocated \$200,000 in impact assistance funds toward the design of a new system. The City has also applied for a CDBG grant for \$1M to supplement the replacement costs. The \$1.8M to replace the SCADA system is currently not budgeted nor included in the recently performed water rate study.

Estimates on the capital portion of the pretreatment plant startup project are currently at \$1M. This is not included in the budget nor the water rate study.

The City has three buildings that are need of repair. They include City Hall, Police Department and Fire Station 1. These repairs are the result of insufficient prior maintenance. Repairs include HVAC systems and infrastructure needs. Funds for these repairs were not included in the current year budget. Estimates for these repairs total \$2M.

Due to cash reserves and prior budgetary concerns, the City has not maintained the rotation of technology devices. Currently, many departments are experiencing slow processing and aging equipment.

In fiscal year 2022 the City Council authorized compliance pay for City of Rawlins employees. These payments were not included in the current year budget. Funds from these disbursements would need to come out cash reserves. Compliance Pay was estimated at \$71,400 in fiscal year 2021.

### **Unfreezing of Capital Asset budget**

As the fiscal year 2023 budget was being considered the decision was made to freeze capital asset purchases until prior years audits were complete and cash reserves could be calculated. The unfreezing of these asset purchases would not affect prior cash reserves since the funds for these purchases were included in fiscal year 2023 revenues. However, if cash reserves were determined to be insufficient, they could be increased by holding the freeze on asset purchases and allowing the current year funds for capital assets to roll into cash reserves thereby increasing cash reserves.

### **Conclusion**

In conclusion, with the fiscal year 2020 and fiscal year 2021 audits complete, the general fund reserves can be analyzed, and strategy put in place to maximize the City's financial position. Due to one-time

sources of revenue the City has been able to build up fund reserves to the point that the City can fund future equipment purchases, increase emergency reserves, invest in improving infrastructure, and unfreeze current year capital.

Reallocation of Unassigned Fund Balance	
Unassigned Fund Balance	11,893,131
Increase in Emergency Reserves	3,200,000
Funded Depreciation	4,700,933
Infrastructure - SCADA and Pretreatment	2,800,000
Building Maitneance	500,000
Technology Replacements	50,000
	<u>642,198</u>

General Fund Assigned Fund Balances as of June 30, 2021	
Emergency Reserve (50%)	7,200,000
Dangerous Building	491,209
Impact Assistance	3,924,693
Funded Depreciation (25%)	4,700,933
Other	4,194,487
Total	<u>20,511,321</u>

Fund Balances Reallocated	6/30/2021
Nonspendable	717,256
Restricted	
Committed	1,609,837
Assigned	20,511,321
Unassigned	<u>642,198</u>
Total Fund Balances	23,480,612