



## Section 6d: Municipal Financing

### Introduction

A community's fiscal condition can affect many aspects of how a town grows or regresses. The financial state of a city is determined using a variety of indicators, including long-term debt, municipal bond ratings, debt service, fund balance, expenditures and revenues. A town with a strong fiscal position has more latitude to be proactive when searching for solutions to issues and defining their development. Conversely, a community that is struggling is generally reactive and labors to address the problems facing the municipality.

### Fiscal Indicator Definitions

**DEBT SERVICE-** Debt service is the total of principal and interest paid annually on all municipality's long-term bonds and notes. It does not include debt payments made by Proprietary Fund types.

**EXPENDITURES-** Expenses incurred by the municipality.

**FUND BALANCE-** Total fund balance is the excess of fund assets and resources over fund liabilities. The total fund balance of the General Fund is made up of Designated Fund Balance (the portion of the fund balance that is intended for specific uses), the Reserved Fund Balance (the portion of the fund balance that is legally segregated for a specific future use and is not available for appropriation) and the Undesignated Fund Balance (the portion of the fund balance that is expendable and available).

**LONG-TERM DEBT-** Long-term debt includes long-term liabilities associated with governmental activities. Items included under long-term debt category includes bonds and notes for which the municipality has pledged its full faith and credit, capital lease obligations, and any other debt the town is responsible.

**MUNICIPAL BOND RATING-** A bond rating is an evaluation by credit-rating agencies of a municipality's credit risk. Bonds covered by municipal bond insurance are usually assigned a AAA rating. A municipality's bonds may be rated by more than one rating agency. The three major rating agencies are Moody's Investor Services, Standard and Poor's Corporation, and Fitch Incorporated.

**REVENUES-** Resources gained by the municipality. Typically, revenue is generated by user fees, licenses and permits, intergovernmental proceeds (funds received by a municipality from federal and state sources) and property taxes (money, including interest and lien fees, generated from real and personal property taxes). Total revenues are the revenues a municipality receives from all sources, as reported in the General Fund.

### Financial Statement

Based on the City of Lathrop's 2005 Annual Audit, the City is doing well fiscally. A conservative approach to spending (building cash reserves) by the city council, sound accounting practices, refinancing existing revenue bonds and a growing community has combined to make this happen. While

the first three of these are influenced internally, development within Lathrop is less directly managed by the city.

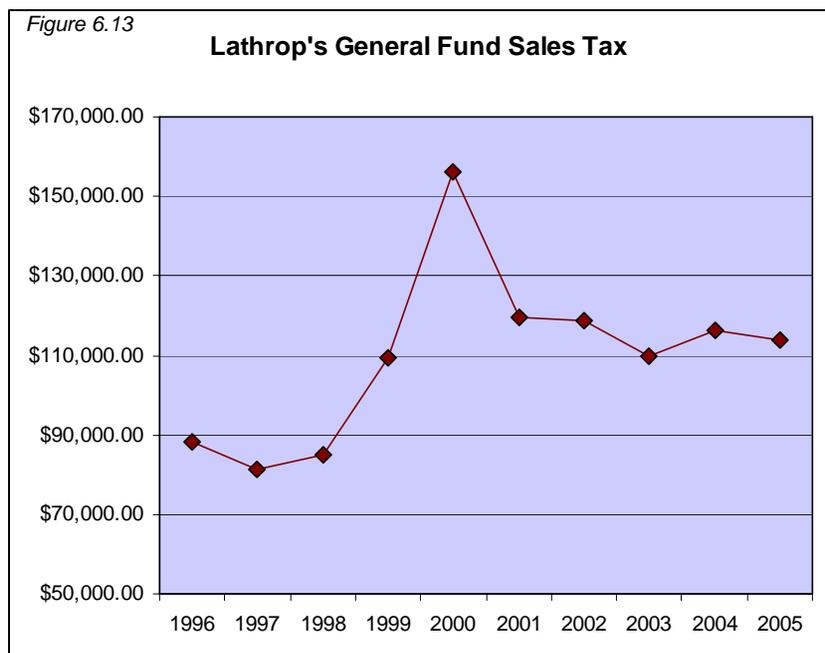
The City of Lathrop currently generates revenue through the following means:

**PROPERTY TAX-** Taxes are levied on real and personal property within the city of Lathrop. The combined tax rate per \$100 of assessed valuation is used to finance general government, park and recreation and debt service. The following is a summary of the combined tax rate as of 2004:

General Fund	\$0.5785
Special Revenue Fund (Parks and Recreation)	\$0.1522
Debt Service Fund	<u>\$0.4174</u>
Total	\$1.1481

The assessed valuation for 2004 was \$15,884,602 consisting of real estate (\$11,997,583) and personal property (\$3,887,019).

**SALES TAX-** A sales tax is a tax on consumption. It is normally a certain percentage that is added onto the price of a good or service that is purchased. The City of Lathrop has two such sales taxes that total 1½ percent. The first sales tax (one percent) generates revenue for the general fund. The second sales tax of one-half percent is dedicated for wastewater improvements. The latter tax was approved by voters in 2000.



**USER FEES-** A user fee is an assessment levied on a specific activity that is directly related to a particular government service, program, or action. Such fees are not levied on the general public. User fees are intended to be used solely to support that service, program, or activity, i.e. a swimming pool or municipal utilities. Lathrop's major user fees are water and sewer use fees.

As noted throughout this document, the city of Lathrop has sustained significant growth during the last decade. This growth affected Lathrop's General Fund Sales Tax revenue significantly. Figure 6.13 shows how this revenue stream has increased 29% since 1996 (\$88,306 to \$113,814 in 2005). Despite

slight drops from 1996 to 1998 and in 2003, the City's Sales Tax fund has continued to grow. The most unusual aspect is the spike that occurred in 2000 when the City took in \$156,060, a 42% increase over the previous year.

EXPENDITURES-The City's largest expenditures include Debt Service, General Governmental Activities, Public Safety, Streets and Parks and Recreation.