

Diagnosing Your City's Fiscal Health



Michael Coleman
League Fiscal Policy Advisor
CaliforniaCityFinance.com

Bad Brew in Troubled Cities



Four Views of Municipal Financial Health



1. **cash solvency** – ability to meet immediate financial obligations; i.e. over next 30 or 60 days (accts payable, payroll).
2. **budgetary solvency** – ability to meet all financial obligations during a budget year.
3. **long-run solvency** – ability to meet all financial obligations into the future.
4. **service-level solvency** – ability to provide the desired level of services for the general health and welfare of the community.

CaliforniaCityFinance.com



3



Difficulties in Assessing Municipal Financial Health

- Published data are not complete or timely.
- Comparisons are often false.
- Do we know what the numbers mean? Are they enough to draw conclusions?
 - Requires analysis, forecasting, context, legal
 - ◆ *it's not just an accounting or statistical exercise*
 - ◆ *history doesn't tell you enough about the future*

CaliforniaCityFinance.com



4



Our Approach: Constructive, Valid

- ❖ Get to the primary indicators - useful, essential
 - ✓ Leave out extraneous / secondary
 - ✓ Add in overlooked & under-appreciated factors
- ❖ Drill down to the real numbers
- ❖ Allow for nuance / clarification / differences
 - ✓ Reduce invalid conclusions and comparisons



The California Municipal Financial Health Diagnostic

City of Sampleville		General Fund - Discretionary
The California Municipal Financial Health Diagnostic		
Financial Distress Checklist		
Measures	1. The city has recurring general fund operating deficits. General revenues are insufficient to meet the net general revenue demand of programs.	
	2. Reserves are decreasing over multiple consecutive years.	
	3. The city is not keeping pace with the aging of its capital assets.	
	4. Current liabilities (including short-term debt and accounts payable within 60 days) are increasing. Cash and short-term investments are decreasing.	
	5. Fixed costs, salaries and benefits are increasing over multiple years at a rate faster than reasonably expected revenue growth.	
	6. The general fund is subsidizing other enterprises or special funds unsustainably or in excess of adopted policy.	
Practices and Conditions	7. The city council's authority to make changes is constrained by charter, contract, or law. (e.g. binding arbitration, minimum spending, minimum staffing or compensation formulas, etc.)	
	8. The fund budget has been balanced repeatedly with reserves, selling assets, deferring asset maintenance.	
	9. The fund budget has been balanced repeatedly with short-term borrowing, internal borrowing or transfers from special funds.	
	10. Pension liabilities, post-employment or other non-salary benefits have been repeatedly deferred or costs have not been determined, disclosed or actuarially funded.	
	11. Debt service payments have been "backloaded" into future years.	
	12. Ongoing operating costs are being funded with temporary revenues (e.g., from development, etc.)	
	13. Financial Reports are not being filed on time. (CAFR, Annual Audit, State Controller's Financial Transactions Report)	
	14. Public service levels are far below standards needed in this area.	

The California Municipal Financial Health Diagnostic



1. Recurring Deficits?

Are the government's activities sustainable over time within the revenues available?

1c Net True Operating Deficit/Surplus - complete, adding unbudgeted general fund liabilities					
2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-9.83%	-6.54%	-2.03%	-2.62%	-3.67%	-3.80%
Formula			Score:		
$\text{net true operating deficit/surplus as a percent of revenues} = \frac{\left(\text{net operating revenues} - \left[\text{temporary revenues} - \left(\text{net operating expenditures} - \left(\text{unbudgeted current liabilities} \right) \right) \right]}{\text{net operating revenues}}$			Warning-Red: Persistent & increasing deficits over consecutive years. <input type="radio"/>		
			Caution-Yellow: Deficits are infrequent or relatively marginal compared to fund balance (see #2 below) and/or there is a reasonable plan for bringing revenues and spending into balance. <input checked="" type="radio"/>		
			Good-Green: not an issue of concern. <input type="radio"/>		

The California Municipal Financial Health Diagnostic



Measures: Future Trends

1. Financial Structure: Revenues v Expenditures
2. Reserves
3. Capital Asset Condition
4. Short-term liabilities and assets
5. Fixed Costs
6. Subsidies of other funds

Practices and Conditions

7. Council's authority to act
8. Over-reliance on one-time solutions
9. Over-reliance on borrowing
10. Excessive unfunded liabilities
11. Backloaded debt-service
12. Over-reliance on one-time revenues
13. Timeliness of financial reporting
14. Public service levels

Essential Element of Financial Strength: Financial Policies



Essential Element of Financial Strength: Multi-Year Budget Forecasting

Financial

- ✓ Improves understanding of major revenue and expense budget drivers
- ✓ Identifies structural budget issues

Strategic

- ✓ Promotes long-term view
- ✓ Informs policy decisions e.g. impact on reserves, budget sustainability



You Need a Financial Health Diagnostic

- **Validate** areas in which your city is *fiscally healthy*
- **Identify problems**, areas to *improve*
- **Add credibility** to your fiscal evaluation
- **Avoid being blind-sided** by problems
- **Help others** (labor associations, taxpayers and other interested parties) **understand** your financial position
- **Act to remedy** problems *before* they get worse or unmanageable

