

The California Municipal Financial Health Diagnostic

November 2014 Revision



<u>Contents</u>	<u>page</u>
	(click to hyperlink to worksheet)
Introduction	2
Financial Distress Checklist	4
Financial Health Indicators	
Summary	5
Indicators	6
Data Gathering Worksheets	14
Notes to the Analyst	18

The **California Municipal Financial Health Diagnostic** has been developed by Michael Coleman with substantial contributions from Andy Belknap, Robert Leland, Dave Millican, Mary Bradley, Ron Bates, Bob Biery, Brent Mason, Max Neiman, and Chris McKenzie among many others. Jeremy Goldberg's assistance in testing draft versions of the tool was invaluable.

How Are We Doing?

Using the California Municipal Financial Health Diagnostic to Evaluate Your City's Financial Health

California is gradually pulling out of the Great Recession. In addition to deep reductions in municipal revenue, local governments have been struggling with state take-aways of local funds, the dissolution of redevelopment agencies, and mounting costs of retiree pensions and benefits. The severity and combination of these financial impacts varies but in a few well-known instances, cities have had to seek the legal protections of Chapter 9 Bankruptcy to restructure their contractual obligations.

Grappling effectively with financial distress before it becomes a crisis first requires a shared understanding of the financial condition of the city. A critical component of the difficulties of the most financially distressed cities has been a lack of recognition and agreement among city leaders, staff and key interests (labor, retirees, creditors) regarding the city's financial condition and what must be done in order to achieve sustainability. Most financial crises can be managed without court or outside agency intervention if leaders, staff and key interests have the courage, competence, and collaborative attitudes to 1) recognize and agree upon the city's financial condition, and 2) implement the necessary changes to set the city on a sustainable financial course.

Defining Municipal Financial Health

Government financial health may be viewed in four related financial contexts: 1) cash solvency - the ability to meet immediate financial obligations – generally over the next 30 or 60 days (accounts payable, payroll); 2) budgetary solvency - the ability to meet all financial obligations during a budget year; 3) long-run solvency – the ability to meet all financial obligations into the future; and 4) service-level solvency – the ability to provide the desired level of services for the general health and welfare of a community.^[1] In the context of today's difficult financial climate, we are primarily concerned with the ability of the city to meet its financial commitments now and into the future (cash, budgetary, and long-run solvency). A more expansive evaluation of financial condition would examine the community's economic environment and ability to meet the service level desires of the community (service-level solvency).

A government is in **financial distress** if it has a continuing imbalance between its level of financial commitments and its available financial resources over time. If revenues and spending are not brought into balance, **financial distress** can progress into financial crisis, when the government is unable to meet its financial obligations.

Determining Municipal Financial Health

Many municipal financial health monitoring systems have been devised over the last several decades. Each approach consists of a series of financial indicators or measures that address a municipality's ability to meet the needs of its constituents. The International City Management Association's (ICMA) venerable Financial Trend Monitoring System (FTMS) consists of some 42 financial measures including factors assessing the economic environment of the community, the finances of the jurisdiction, and its managerial practices and legislative policies.^[2] Building on the FTMS and various other systems and policies developed by academics and governments, this tool distills the most essential indicators assessing financial health with a pragmatic focus on an agency's level of financial distress heading into financial crisis.

This **California Municipal Financial Health Diagnostic** is primarily concerned with the ability of the city to meet its financial commitments now and into the future (cash, budgetary, and long-run solvency). In contrast to many other financial health monitoring systems, this tool looks at recent past and near future financial measures and indicators to provide an assessment of the local government's level of financial distress and tendency toward financial crisis.

The **California Municipal Fiscal Health Diagnostic** is focused first and foremost on the general fund, but may also be applied to other funds. It focuses on the city's operating position, going beyond reported finances to focus on recurring revenues and expenditures (by distinguishing temporary non-recurring revenues and expenditures) and taking into account any unbudgeted but real current costs of services. The tool includes an evaluation of unsustainable or risky budget practices that indicate a municipality in distress and tending toward crisis.

Unique Aspects of California Municipal Finance

California local governments' tax and revenue raising choices are strictly limited. Property tax is the single most important source of general purpose revenue for most cities, counties and many special districts. Yet local governments have no authority over the property tax base, rate or allocation. Other tax increases require voter approval. Over the last several decades since Proposition 13 (1978), the state has shifted property tax revenues, vehicle license taxes, and eliminated virtually all state aid and grants to cities. But in response, the voters have approved several constitutional measures preventing additional actions. For cities, most remaining general fund revenues are essentially no longer vulnerable to additional state takeaways.^[3] Consequently, unlike municipalities in other states or in California in previous times, assessing the fiscal health of California municipalities has little to do with the amount or proportion of intergovernmental revenues (which, in any case, is minimal for nearly all cities and special districts).^[4]

The **California Municipal Financial Health Diagnostic** consists of:

1. **The Financial Distress Checklist.** A thirteen point list of key indicators to assess the near term financial health of your city's general fund and other operations. The checklist is intended for use by policy makers and community members to ask the important questions and get the necessary answers. Also with this list is **"Warning Signs – Indications of Crisis"**: Five indications that your city is in financial crisis.
2. **The Financial Health Indicators.** Linked to the thirteen point Financial Distress Checklist, the Financial Health Indicators provide more detailed formulas and methods for determining financial condition and will need to be completed by a team of qualified financial analysts.

[1] Justice, Jonathan and Scorsone, Eric. "Measuring and Predicting Local Government Fiscal Stress" in Levine, Helisse; Justice, Jonathan; Scorsone, Eric. Handbook of Local Government Fiscal Health. Jones and Bartlett Learning, Burlington, MA 2012.

[2] Groves, Sanford M. and Valente, Maureen Godsey. Revised Nollenburg, Karl. Evaluating Financial Condition: A Handbook for Local Government, 4th edition. International City/County Manager Association (ICMA), USA, 2003.

[3] The continuing impacts of the dissolution of Redevelopment Agencies notwithstanding. These impacts should be taken into account as appropriate in these financial health measures.

[4] For more information, see Multari, Coleman, Hampian and Statler, *Guide to Local Government Finance in California*, Solano Press Books, 2012.

Questions, comments, improvements? Michael Coleman 530-758-3952 coleman@munwest.com
CaliforniaCityFinance.com, The California Local Government Finance Almanac

City of

The California Municipal Financial Health Diagnostic Financial Distress Checklist

Measures	1. The city has recurring general fund operating deficits.	
	2. General fund reserves are decreasing over multiple consecutive years.	
	3. General fund current liabilities (including short-term debt and accounts payable within 60 days) are increasing. Cash and short-term investments are decreasing.	
	4. General fund fixed costs, salaries and benefits are increasing over multiple years at a rate faster than recurring revenue growth.	
	5. The general fund is subsidizing other enterprises or special funds.	
Practices and Conditions	6. 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.)	
	7. The general fund budget has been balanced repeatedly with reserves, selling assets, deferring asset maintenance.	
	8. The general fund budget has been balanced repeatedly with short-term borrowing, internal borrowing or transfers from special funds.	
	9. General fund pension liabilities, post-employment or other non-salary benefits have been repeatedly deferred or costs have not been determined, disclosed or actuarially funded.	
	10. General fund debt service payments have been "backloaded" into future years.	
	11. Ongoing general fund operating costs are being funded with temporary development revenues.	
	12. Financial Reports are not being filed on time. (CAFR, Annual Audit, State Controller's Financial Transactions Report)	
	13. Public service levels are far below standards needed in this community.	
<i>For detailed indicators related to these points see the Financial Health Indicators.</i>		

WARNING SIGNS Indications of Crisis

- ☐ Failure to pay an undisputed claim from a creditor within 90 days past claim date.
- ☐ Failure to forward income taxes withheld or Social Security contributions for over 30 days past the due date.
- ☐ Failure to make *required* pension fund contributions on time.
- ☐ Missing a payroll for 7 days.
- ☐ General fund available unrestricted balance for the end of the current fiscal year will be negative.

The California Municipal Financial Health Diagnostic Financial Health Indicators - Summary

In order to adequately address the thirteen points of the **Financial Distress Checklist**, you will need to determine the **Financial Health Indicators**. Use the **Indicators worksheets** to make these determinations. In those worksheets you will find seven quantitative measures to calculate for the current and two prior fiscal years (the first indicator includes three measures). You will also need to project these measures for the next three years. In addition, there are eight other indicators which evaluate current and recent financial policy, practices and conditions. The **Data Gathering worksheet** might be helpful in gathering the information you will need to complete the Indicators worksheets. Rate each indicator based on your determinations. The ratings input in the indicators worksheets will be summarized automatically in the **Summary** table below and in the **Financial Distress Checklist**.

City of

The California Municipal Financial Health Diagnostic Financial Health Indicators - Summary		
Indicator	Rating	
1. Net Operating deficit / surplus		
2. Fund balance		
3. Liquidity		
4. Fixed costs & labor costs		
5. General fund subsidies of other funds		
6. Constraints on budgetary discretion		
7. Balancing the budget with temporary funds		
8. Balancing the budget with borrowing		
9. Balancing the budget by deferring employee compensation costs		
10. Balancing the budget with backloaded debt service payments		
11. Funding operating costs with non-recurring development revenues		
12. Timeliness and accuracy of financial reports		
13. Service level solvency		

© 2014 CaliforniaCityfinance.com

The California Municipal Financial Health Diagnostic: Financial Health Indicators

City of _____

The California Municipal Financial Health Diagnostic: Financial Health Indicators

Operating Deficit/Surplus

The simplest measure of annual operating deficit/surplus is the difference between total revenues and total spending. General fund operating deficits may be an indication that the government's financial condition is unsustainably out of balance and that corrections to bring the finances into a sustainable condition are not occurring. Though an operating deficit in any one year may not be a cause for concern (because, for example, reserves or one-time remedies might be available to cover the difference), frequent and increasing deficits may indicate that the governments activities are not sustainable within the revenues available over time.

Taken as a percentage of total revenues, the city's operating deficit/surplus tells us very plainly if current resources in the fund are sufficient to cover current expenditures. The data to compute this measure should be readily available in the financial statements (comprehensive annual financial reports) of the city. This is measure 1a below.

But a budget can be balanced and an ongoing structural problem masked if a deficit is covered by temporary solutions, such as non-recurring revenues like limited-term grants, land sale income, or transfers from other funds. This approach cannot be relied upon in the long-run (over multiple years). Measure 1b takes a step further than 1a by taking these temporary revenues out of the equation to see how much worse the revenue shortfall becomes at current spending levels.

Still, this may not show the whole picture. If certain current financial obligations are being delayed and not budgeted, then the financial position shown in measure 1b is still incomplete. Measure 1c takes into account "unbudgeted current liabilities" such as Other Post-Employment Benefits (OPEB); unbudgeted earned leave cash-out liabilities; maintenance and replacement costs of vehicles, technology, buildings, streets, and other properties and infrastructure. For the purpose of determining long run solvency, Measure 1c is the best indicator of a city's true fiscal operating position because it reflects the level of spending actually needed to sustain your current level of service over time. If these deferred costs are significant, then your fiscal imbalance may be much worse than you thought. If you cannot find sufficient information to determine these unbudgeted liabilities, that, in itself, is reason for substantial concern (See indicator # 9).

1a Gross Annual Deficit/Surplus - unadjusted, using all general fund revenues and expenditures					
Formula gross annual deficit/surplus as a percent of revenues = $\frac{\left(\text{gross current revenues} \right) - \left(\text{gross current expenditures} \right)}{\text{gross current revenues}}$			For comparison purposes		
1b Net Operating Deficit/Surplus – sustainable, omitting non-recurring revenues					
Formula net operating deficit/surplus as a percent of revenues = $\frac{\left(\text{net operating revenues} \right) - \left(\text{temporary revenues} \right) - \left(\text{net operating expenditures} \right)}{\text{net operating revenues}}$			Negative Indicator • Recurring AND static or increasing deficit over consecutive years.		For comparison purposes

The California Municipal Financial Health Diagnostic: Financial Health Indicators

City of

1c Net True Operating Deficit/Surplus - complete, adding unbudgeted general fund liabilities					
					Q1
Formula $\text{net true operating deficit/surplus as a percent of revenues} = \frac{\left(\text{net operating revenues} \right) - \left(\text{temporary revenues} \right) - \left(\text{net operating expenditures} \right) - \left(\text{unbudgeted current liabilities} \right)}{\text{net operating revenues}}$			Score: Warning-Red: Persistent & increasing deficits over consecutive years. 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. Good-Green: not an issue of concern.		<input type="radio"/> <input type="radio"/> <input type="radio"/>
Definitions <p>Gross current revenues. See CAFR Statement of Revenues and Expenditures “total revenues.”</p> <p>Gross current expenditures. See CAFR Statement of Revenues and Expenditures “total expenditures”</p> <p>Net operating revenues. Net operating revenues equals gross revenues and transfers in, minus revenues restricted to capital improvements minus revenues legally restricted to special purposes. Transfers related to non-operating activities should be excluded.</p> <p>Temporary revenues. Temporary revenues include any non-recurring revenues that derive from short-term activities and cannot be relied upon in the long-run (over multiple years). This might include revenues from land sales, one-time transfers from other funds, limited-term grants, court settlements or major donations. You might also consider excluding receipt of construction-related revenues from a given project that are significantly in excess of an “average” year, if this represents a level of revenue unlikely to be repeated. Back taxes and late payments do not have to be omitted because they just make up for what was not received in a prior year.</p> <p>Net operating expenditures. Net operating expenditures equals total expenditures (after credits/reimbursements) and transfers out, minus capital improvement expenditures (or transfers out for capital purposes), minus expenditures of revenues legally restricted to special purposes.</p> <p>Unbudgeted current liabilities. The amortized costs of long-term general fund liabilities not already included in “net operating expenditures.” This includes amounts not budgeted or expended that “should be” in order to pay the current year portion of liabilities. Examples: unbudgeted actuarially required contributions (ARC) to Other Post-Employment Benefits (OPEB) or pension systems; unbudgeted earned leave cash-out liabilities; maintenance and replacement costs of vehicles, technology, buildings, streets, and other properties and infrastructure. If there is insufficient information to determine these unbudgeted liabilities, that, in itself, is reason for substantial concern (See indicator #9).</p>					

The California Municipal Financial Health Diagnostic: Financial Health Indicators

City of _____

Fund Balance

A positive fund balance, or reserves, is important for any government to withstand financial risk over time. Unanticipated fluctuations in revenues may occur from economic impacts or state take-ways. "Financial reserves" are important to meet unforeseen revenue shortfalls or expenditure overages. But reserves cannot be relied upon to cover financial shortfalls that are more than temporary. An unplanned decline in unreserved fund balances as a percentage of operating revenues over time suggests the government is less able to withstand financial emergencies.

The right level of fund balance varies depending on many factors including levels of risk and revenue volatility but, generally speaking, dropping below 8% may be cause for concern. The Government Finance Officers Association recommends maintaining a 5-15% reserve.

2 Fund Balance																																			
					Q2																														
Formula <div style="text-align: center; margin-top: 20px;"> Fund balance as a percent of expenditures = $\frac{\text{unreserved fund balance}}{\text{net operating expenditures}}$ </div>			Score: <div style="color: red; margin-top: 5px;"> Warning-Red: Persistently & substantially decreasing or is below 8%. </div> <div style="color: orange; margin-top: 5px;"> Caution-Yellow: Has decreased but remains above 8% and there is a reasonable plan for stabilizing. </div> <div style="color: green; margin-top: 5px;"> Green - not concerning </div>																																
Definitions <p>Unreserved fund balance is fund balance not reserved in accordance with state law, charter or contractual obligation. This includes total fund balance minus nonspendable, restricted or committed resources.</p> <p>Net operating expenditures. Net operating expenditures equals expenditures (after credits/reimbursements) and transfers out, minus capital improvement expenditures (or transfers out for capital purposes), minus expenditures of revenues legally restricted to special purposes.</p>																																			
<table border="1" style="margin: auto; border-collapse: collapse;"> <thead> <tr> <th colspan="6" style="text-align: center; color: #000080;">Fund Balance Components¹</th> </tr> <tr> <th></th> <th style="color: #000080;">Nonspendable</th> <th style="color: #000080;">Restricted</th> <th style="color: #000080;">Committed</th> <th style="color: #000080;">Assigned</th> <th style="color: #000080;">Unassigned</th> </tr> </thead> <tbody> <tr> <td>Total Fund Balance</td> <td style="text-align: center;">x</td> <td style="text-align: center;">x</td> <td style="text-align: center;">x</td> <td style="text-align: center;">x</td> <td style="text-align: center;">x</td> </tr> <tr> <td>Unrestricted Fund Balance</td> <td></td> <td></td> <td style="text-align: center;">x</td> <td style="text-align: center;">x</td> <td style="text-align: center;">x</td> </tr> <tr> <td>Unreserved Fund Balance (AKA "Balance available for assignment")</td> <td></td> <td></td> <td></td> <td style="text-align: center;">x</td> <td style="text-align: center;">x</td> </tr> </tbody> </table>						Fund Balance Components ¹							Nonspendable	Restricted	Committed	Assigned	Unassigned	Total Fund Balance	x	x	x	x	x	Unrestricted Fund Balance			x	x	x	Unreserved Fund Balance (AKA "Balance available for assignment")				x	x
Fund Balance Components ¹																																			
	Nonspendable	Restricted	Committed	Assigned	Unassigned																														
Total Fund Balance	x	x	x	x	x																														
Unrestricted Fund Balance			x	x	x																														
Unreserved Fund Balance (AKA "Balance available for assignment")				x	x																														
<small>1. See Stephen J. Gauthier, "Governmental Accounting, Auditing, and Financial Reporting." (The "Blue Book") 2012 Government Finance Officers Association.</small>																																			

The California Municipal Financial Health Diagnostic: Financial Health Indicators

City of _____

Liquidity

A decreasing amount of cash and short-term investments as a percentage of current liabilities suggests the government is less able to pay its short-term obligations. Increasing current liabilities at the end of the year as a percentage of net operating revenues indicates liquidity problems and/or deficit spending. Liquidity measures the amount of readily available financial resources relative to immediate financial commitments (current liabilities).

3 Liquidity					
					Q3
Formula <div style="text-align: center;"> liquidity = $\frac{\text{cash and short term investments}}{\text{current liabilities}}$ </div>			Score: <div style="color: red;">Warning-Red:</div> Persistently & substantially decreasing. <div style="color: orange;">Caution-Yellow:</div> Has decreased but there is a reasonable plan for stabilizing. <div style="color: green;">Good-Green:</div> not an issue of concern.		
Definitions <p>Current liabilities is the sum of all liabilities due at the end of the fiscal year including short-term debt, current portion of long-term debt, all accounts payable accrued</p> <p>IMPORTANT: Include</p> <ul style="list-style-type: none"> Advances and amounts due to other funds, including internal funds from pooled cash transactions or borrowing. Increases in debt service payments due to financings . <p>Cash and short-term investments includes cash on hand and in the bank as well as other assets that can easily be converted to cash.</p>					

The California Municipal Financial Health Diagnostic: Financial Health Indicators

City of _____

Fixed Costs and Budget Flexibility

Increasing fixed costs as a percentage of net operating expenditures may indicate an unsustainable financial structure where the government has limited ability to make necessary budget changes. Fixed does not mean static. Fixed costs may be changing over time but cannot be easily altered.

A major component of general fund spending is labor costs for salaries and benefits: often these costs are anything but fixed, as costs continue to escalate, but as long as the employees are on the payroll, these costs are unavoidable. This indicator computes the proportion of net annual operating expenses that these fixed and labor costs represent, to show the degree of flexibility the city has in making budget reductions. As with all these measures, compute this for general fund and other funds separately.

Some cities find themselves using the general fund to subsidize golf course rates; water, sewer, transit, parking or other enterprise operations; or pay debt service or capital improvement costs that should arguably be paid by proprietary or special revenue funds. Often this is because user fees are not sufficiently high enough to be self-supporting. Sometimes it is because debt obligations were incurred that burdened the general fund with a pledge to support bonds if the intended repayment source (development fees, enterprise fund) proved inadequate. These subsidies limit budget flexibility if they are a significant portion of the general fund net operating expenditures and/or if the trend is increasing.

Constraints on the budgetary discretion of the city council include binding arbitration or required formulas or third party agreement to alter compensation, spending or minimum staffing. These legal constraints impair the city's ability to achieve solutions when in fiscal distress and may also accelerate cost increases over time.

Definitions

Salaries and wages are compensation paid directly to employees.

Benefits include costs for contributions to FICA, pension, life insurance, health insurance, etc. and current contributions to self-insurance funds.

Fixed costs are those costs over which the government has little control in the short run because of contractual agreements, charter restrictions, or state or federal law, other than those costs already included under salaries, wages or benefits. Non-labor fixed costs include debt service, retiree health payments, lease-purchase payments, utilities, contracted goods and services, etc.

Net operating expenditures. Net operating expenditures equals expenditures (after credits/reimbursements) and transfers out, minus capital improvement expenditures (or transfers out for capital purposes), minus expenditures of revenues legally restricted to special purposes.

Subsidy Expenditures / Transfers Out. Total of expenditures and transfers out to support enterprises or special funds.

4a Fixed Costs

--	--	--	--	--	--

Formula	Fixed costs as a percent of expenditures = $\frac{\text{fixed costs}}{\text{net operating expenditures}}$	For comparison purposes
----------------	---	-------------------------

4b Fixed Costs plus Labor Costs

--	--	--	--	--	--

Formula	Fixed costs and labor costs as a percent of expenditures = $\frac{\text{salaries} + \text{wages} + \text{benefits} + \text{fixed costs}}{\text{net operating expenditures}}$	Score: Warning-Red: Increasing or over 80%. Caution-Yellow: Has increased but is projected to stabilize or decline. Good-Green: not an issue of concern.	<div>Q4</div> <input type="radio"/> <input type="radio"/> <input type="radio"/>
----------------	--	---	---

The California Municipal Financial Health Diagnostic: Financial Health Indicators

City of

5 General fund subsidy of other funds						
					Q5	
Formula Subsidy costs as a percent of expenditures = $\frac{\text{Subsidy Expenditures and Subsidy Transfers Out}}{\text{net operating expenditures}}$			Score: Warning-Red: Increasing or over 5%. Caution-Yellow: Has increased but is projected to stabilize or decline. Good-Green: not an issue of concern.		<input type="radio"/> <input type="radio"/> <input type="radio"/>	
6 Constraints on Budgetary Discretion						
Do charter provisions or other legal commitments (contracts, court decisions/settlements) restrict the city council's authority? <ul style="list-style-type: none"> • Binding arbitration: required submission of a dispute to a third person whose decision is obligatory. • Formulas require minimum employee compensation, hiring or staffing levels, or spending levels or require the agreement of others. • General fund is pledged as support, or public facilities as security, for non-general fund debt. • Others: restrictions on contracting out, voter-approved tax expiring. 				Score: Warning-Red: Yes - restrictions. Caution-Yellow: Yes but minimal/workable. Green - no restrictions		Q6 <input type="radio"/> <input type="radio"/> <input type="radio"/>



The California Municipal Financial Health Diagnostic Data Gathering Worksheet

City of

This worksheet is a tool to 1) help the analyst find the figures and put them together, 2) more clearly define all of the data elements and terms – and tie them back to standard GASB elements etc. as much as possible.

Data Component		Source of Data	Use for Indicator	Year-2	PriorYr	CurrentYr (estimated)	Next Year (projected)	Year+2 (projected)	Year+3 (projected)
Year (e.g., 2013-14, etc.)									
a	Gross current revenues	CAFR* Statement of Revenues and Expenditures "total revenues"	1a						
b	Transfers in	CAFR* Statement of Revenues and Expenditures "total revenues"							
c	Revenues restricted to capital improvements (by law or contract)	Staff analysis							
d	Revenues legally restricted to special purposes	Staff analysis							
e	Net operating revenues	line "a" plus line "b" minus line "c" minus line "d"	1b, 1c	-	-	-	-	-	-
Net operating revenues. Net operating revenues equals gross revenues and transfers in, minus revenues restricted to capital improvements, minus revenues legally restricted to special purposes.									
f	Temporary revenues (other than those included in b or c)	Staff analysis	1b, 1c						
Temporary revenues. Temporary revenues include any non-recurring revenues that derive from short-term activities and cannot be relied upon in the long-run (over multiple years). This might include revenues from land sales, one-time transfers from other funds, limited-term grants, court settlements or major donations. Optionally, you might consider also excluding receipt of construction-related revenues from a given project that are significantly in excess of an "average" year, if this represents a level of revenue unlikely to be repeated. Back taxes and late payments do not have to be omitted because they just make up for what was not received in a prior year.									



The California Municipal Financial Health Diagnostic Data Gathering Worksheet

City of

This worksheet is a tool to 1) help the analyst find the figures and put them together, 2) more clearly define all of the data elements and terms – and tie them back to standard GASB elements etc. as much as possible.

Data Component		Source of Data	Use for Indicator	Year-2	PriorYr	CurrentYr (estimated)	Next Year (projected)	Year+2 (projected)	Year+3 (projected)
Year (e.g., 2013-14, etc.)									
g	Gross current expenditures	CAFR* Statement of Revenues and Expenditures "total expenditures"	1a						
h	Transfers out	CAFR* Statement of Revenues and Expenditures "total expenditures"							
i	Capital project expenditures	CAFR* Statement of Revenues and Expenditures "capital outlay"							
ia	Other one-time or temporary expenditures	Staff analysis							
j	Net operating expenditures	line "g" plus line "h" minus line "i" minus line "d"	1b, 1c, 2, 4, 5	-	-	-	-	-	-
Net operating expenditures. Net operating expenditures equals gross expenditures minus capital improvement expenditures minus expenditures of revenues legally restricted to special purposes.									
k	Unbudgeted current liabilities	Staff analysis	1c						
	Unbudgeted current liabilities. The amortized costs of long term general fund liabilities not already included in "net operating expenditures." This includes amounts not budgeted or expended that "should be" in order to pay the current year portion of liabilities. Examples: unbudgeted actuarially required contributions (ARC) to Other Post-Employment Benefits (OPEB) or pension systems; unbudgeted earned leave cash-out liabilities; maintenance and replacement costs of vehicles, technology, buildings, streets, and other properties and infrastructure.								



The California Municipal Financial Health Diagnostic Data Gathering Worksheet

City of

This worksheet is a tool to 1) help the analyst find the figures and put them together, 2) more clearly define all of the data elements and terms – and tie them back to standard GASB elements etc. as much as possible.

Data Component		Source of Data	Use for Indicator	Year-2	PriorYr	CurrentYr (estimated)	Next Year (projected)	Year+2 (projected)	Year+3 (projected)
Year (e.g., 2013-14, etc.)									
I	Total Fund Balance	CAFR* Balance Sheet	-						
m	Nonspendable, restricted and committed fund balance	CAFR* Balance Sheet	-						
n	Unreserved fund balance	line "I" minus line "m"	2	-	-	-	-	-	-
Unreserved fund balance is fund balance not reserved in accordance with state law, charter or contractual obligation. This includes total fund balance minus nonspendable, restricted or committed resources. Review "committed" fund balance for any amounts that could be considered available and unhindered by law or contract.									
o	Cash and short-term investments	CAFR* Balance Sheet	3						
Cash and short-term investments includes cash on hand and in the bank as well as other assets that can easily be converted to cash.									
p	Current liabilities	CAFR* Balance Sheet*	3						
*Current liabilities is the sum of all liabilities due at the end of the fiscal year including short-term debt, current portion of long-term debt, all accounts payable accrued liabilities and other current liabilities due to be paid within 60 days. IMPORTANT: Include <ul style="list-style-type: none"> Advances and amounts due to other funds, including internal funds from pooled cash transactions or borrowing. Increases in debt service payments due to financings. 									



Data Gathering Worksheet

This worksheet is a tool to 1) help the analyst find the figures and put them together, 2) more clearly define all of the data elements and terms – and tie them back to standard GASB elements etc. as much as possible.

Data Component		Source of Data	Use for Indicator	Year-2	PriorYr	CurrentYr (estimated)	Next Year (projected)	Year+2 (projected)	Year+3 (projected)
Year (e.g., 2013-14, etc.)									
q	Salaries + wages + benefits	Staff analysis	4b						
Salaries and wages are compensation paid directly to employees. Benefits include costs for contributions to FICA, pension, life insurance, health insurance, etc. and current contributions to self-insurance funds.									
r	Debt service principal (long term debt only)	Staff analysis							
s	Debt service interest (long term and short term debt)	Staff analysis							
t	Expenditures for federal, state or court mandated activities	Staff analysis							
u	Pension payments	Staff analysis and CAFR							
v	Lease Purchase payments	Staff analysis and CAFR							
w	Other long term contracts	Staff analysis							
x	Other fixed costs	Staff analysis							
y	Fixed costs	Sum of r through x above	4a, 4b	-	-	-	-	-	-
Fixed costs are those costs over which the government has little control in the short run because of contractual agreements, charter restrictions, or state or federal law, other than those costs already included under salaries, wages or benefits. Fixed costs include debt service, retiree health payments, lease-purchase payments, utilities, contracted goods and services, etc. When it is unclear if certain costs are "fixed," consider a rule of thumb such as "can elected officials cut these costs by at least ten percent in one year."									
z	Subsidy Expenditures and Subsidy Transfers Out	Staff analysis based on CAFR Statement of Revenues and Expenditures	5						

The California Municipal Financial Health Diagnostic



Notes to the Analyst

Data Gathering. Most of the data necessary to complete the fields in the DataGathering worksheet for the “prior year” and “year-2” values can be obtained from your city’s annual financial statements, city budgets and debt schedules. However, certain measures will take some additional analysis and computation. For example, indicators “1b” and “1c” for operating deficit/surplus go beyond the simple difference between gross expenditures and gross revenues. You will need to adjust for revenues and related expenditures restricted to one-time (temporary) purposes or that are legally restricted to specific purposes. You will also need to take into account the amortized costs of all unbudgeted liabilities. Further, you will need to make forecasts of these ongoing net revenues, net expenditures and resulting balances in future years.

Forecasting. For the purpose of projecting future amounts and indicators in these worksheets, the financial analyst should assume:

- Current tax rates, allocations and laws. Do not presume your voters or the legislature will increase or otherwise alter the current tax base, rates or revenue allocations.
- Non-voter approved fees increase at levels consistent with existing city policy.
- Temporary and one-time grant revenues and related expenditures do not continue (see “net operating revenues” and “net operating expenditures.”)
- Employee compensation changes per current contract or policy including anticipated merit increases. For out-year costs, assume no further changes. Then, run an alternative scenario (sensitivity analysis) with reasonable assumptions about increases in future years. (i.e. cost of living adjustments at California CPI or 2%)
- Changes in staffing (including growth, turnover and vacancies) and other expenses necessary to maintain the current level of service.
- Changes in staffing and other expenses needed to maintain and operate any new facilities that are expected to be completed and operational.

The Financial Health Indicators should be completed for the general fund and, if desired, separately for each other proprietary or special revenue fund of concern.

*Questions, comments, improvements? Michael Coleman 530-758-3952 coleman@muniwest.com
CaliforniaCityFinance.com, The California Local Government Finance Almanac*