

Building Financial Strength with the California Municipal Financial Health Diagnostic

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Difficulties in Assessing Municipal Financial Health



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



Our Approach



California Municipal Financial Health Diagnostic:

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



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 community.	





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					
2010-11	2011-12	2012-13	2013-14	2017-18	2018-19
-9.83%	-6.54%	-2.03%	-2.62%	-3.67%	-3.80%
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.		



Improvements in the 2016 Revision



- **Capital Asset Condition Indicator:** change in net value of capital assets. *Are you keeping up with infrastructure maintenance and replacement?*
- **Special Fund / Program analysis component** intended to assist in identifying the financial sustainability of a particular program or special fund – especially fee and intergovernmental aid based programs and isolate net support(cost) general fund cost.
- **Financial policy indicators.** Do you have a policy on:
 - ✓ Use of temporary funds
 - ✓ Reserves and fund balance
 - ✓ Short term borrowing
 - ✓ Inter-fund transfers
 - ✓ Payment of employee compensation costs
 - ✓ Pay-as-you-go financing
 - ✓ Debt management / affordability
 - ✓ Long range financial planning

