

The California Municipal Financial Health Diagnostic

May 2014 Revision



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The **California Municipal Fiscal 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.

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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 **Truckee**

General Fund

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

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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					
<u>2011-2012</u>	<u>2012-2013</u>	<u>current year 2013-2014</u>	<u>2014-2015 projected</u>	<u>2015-2016 projected</u>	<u>2016-17 projected</u>
1.15%	15.41%	14.16%	6.45%	6.59%	6.46%
<i>Formula</i> gross annual deficit/surplus as a percent of revenues = $\frac{\left(\begin{matrix} \text{gross current} \\ \text{revenues} \end{matrix} \right) - \left(\begin{matrix} \text{gross current} \\ \text{expenditures} \end{matrix} \right)}{\text{gross current revenues}}$				For comparison purposes	
1b Net Operating Deficit/Surplus – sustainable, omitting non-recurring revenues					
<u>2011-2012</u>	<u>2012-2013</u>	<u>current year 2013-2014</u>	<u>2014-2015 projected</u>	<u>2015-2016 projected</u>	<u>2016-17 projected</u>
15.06%	19.55%	21.52%	14.26%	10.49%	9.20%
<i>Formula</i> net operating deficit/surplus as a percent of revenues = $\frac{\left(\begin{matrix} \text{net operating} \\ \text{revenues} \end{matrix} \right) - \left(\begin{matrix} \text{temporary} \\ \text{revenues} \end{matrix} \right) - \left(\begin{matrix} \text{net operating} \\ \text{expenditures} \end{matrix} \right)}{\text{net operating revenues}}$				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 **Truckee**

General Fund

1c Net True Operating Deficit/Surplus - complete, adding unbudgeted general fund liabilities					
<u>2011-2012</u>	<u>2012-2013</u>	<u>current year 2013-2014</u>	<u>2014-2015 projected</u>	<u>2015-2016 projected</u>	<u>2016-17 projected</u>
15.06%	19.55%	21.52%	14.26%	10.49%	9.20%
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.		01 <input type="radio"/> <input type="radio"/> <input checked="" type="radio"/>

Definitions

Gross current revenues. See CAFR Statement of Revenues and Expenditures “total revenues.”

Gross current expenditures. See CAFR Statement of Revenues and Expenditures “total expenditures”

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.

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.

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.

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).

The California Municipal Financial Health Diagnostic: Financial Health Indicators

City of **Truckee**

General Fund

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					
<u>2011-2012</u>	<u>2012-2013</u>	<u>current year 2013-2014</u>	<u>2014-2015 projected</u>	<u>2015-2016 projected</u>	<u>2016-17 projected</u>
105.23%	115.32%	132.61%	111.62%	88.44%	82.81%

<p><i>Formula</i></p> $\text{Fund balance as a percent of expenditures} = \frac{\text{unreserved fund balance}}{\text{net operating expenditures}}$	<p>Score:</p> <p>Warning-Red: Persistently & substantially decreasing or is below 8%.</p> <p>Caution-Yellow: Has decreased but remains above 8% and there is a reasonable plan for stabilizing.</p> <p>Green - not concerning</p>
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Definitions

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.

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.

Fund Balance Components¹					
	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>
Total Fund Balance	x	x	x	x	x
Unrestricted Fund Balance			x	x	x
Unreserved Fund Balance (AKA "Balance available for assignment")				x	x

1. See Stephen J. Gauthier, "Governmental Accounting, Auditing, and Financial Reporting." (The "Blue Book") 2012 Government Finance Officers Association.



The California Municipal Financial Health Diagnostic: Financial Health Indicators

City of **Truckee**

General Fund

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					
2011-2012	2012-2013	current year 2013-2014	2014-2015 projected	2015-2016 projected	2016-17 projected
999.39%	1206.67%	1609.94%	1192.44%	998.39%	967.13%
Formula $\text{liquidity} = \frac{\text{cash and short term investments}}{\text{current liabilities}}$			Score: Warning-Red: Persistently & substantially decreasing. Caution-Yellow: Has decreased but there is a reasonable plan for stabilizing. Good-Green: not an issue of concern.		Q3 <input type="radio"/> <input type="radio"/> <input checked="" type="radio"/>
Definitions 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 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. 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.					

The California Municipal Financial Health Diagnostic: Financial Health Indicators

City of **Truckee**

General Fund

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.					
4 Fixed Costs plus Labor Costs					
<u>2011-2012</u>	<u>2012-2013</u>	<u>current year 2013-2014</u>	<u>2014-2015 projected</u>	<u>2015-2016 projected</u>	<u>2016-17 projected</u>
72.49%	72.57%	77.28%	77.66%	74.84%	74.65%
Formula					Q4
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.
					<input type="radio"/> <input type="radio"/> <input checked="" type="radio"/>

The California Municipal Financial Health Diagnostic: Financial Health Indicators

City of **Truckee**

General Fund

5 General fund subsidy of other funds						
<u>2011-2012</u>	<u>2012-2013</u>	<u>current year 2013-2014</u>	<u>2014-2015 projected</u>	<u>2015-2016 projected</u>	<u>2016-17 projected</u>	
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
Formula Subsidy costs as a percent of expenditures = $\frac{\text{Subsidy Expenditures and Susidy Transfers Out}}{\text{net operating expenditures}}$			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.		Q5 <input type="radio"/> <input type="radio"/> <input checked="" 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 checked="" type="radio"/>

The California Municipal Financial Health Diagnostic: Financial Health Indicators

City of **Truckee**

General Fund

Financial Practices

A city's financial and budgetary management practices may indicate the degree of financial distress. Practices that should be rarely used include solving budgetary imbalances with temporary revenues or cuts (such as furloughs), internal borrowing from special funds beyond budget years (i.e. for more than cash flow), deferring pension or other employee costs, and backloaded debt service schedules. Financial trouble is also strongly correlated with a local government's failure to file financial reports on time.

7 Balancing the budget with temporary funds				Q7
Has the general fund (budget or financial year close) been balanced with reserves • selling assets • deferring asset maintenance or operating costs ?	2011-2012 ✓ no	2012-2013 ✓ no	2013-2014 ✓ CurrentYear no	Score: Warning-Red: Yes, multiple years. Caution-Yellow: Yes but minimal/workable. Good-Green: No. Not a concern.
	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	
8 Balancing the budget with borrowing				Q8
Has the general fund (budget or financial year close) been balanced with short-term borrowing, • internal borrowing (including transfers that must be repaid), • amounts owed to other funds from pooled cash ?	2011-2012 ✓ no	2012-2013 ✓ no	2013-2014 ✓ CurrentYear no	Score: Warning-Red: Yes, multiple instances. Caution-Yellow: Yes but minimal/workable. Good-Green: No. Not a concern.
	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	
9 Balancing the budget by deferring employee compensation costs				Q9
Has the general fund been balanced by deferring payments for or not paying the current actuarially determined costs of ... • pension, other post-employment benefit liabilities (e.g., compensated absences, deferred comp, retiree medical, etc.) • risk programs (e.g., workers comp and liability funds, etc.) • pension obligation bonds which presume overly optimistic payroll growth?	2011-2012 ✓ no	2012-2013 ✓ no	2013-2014 ✓ CurrentYear no	Score: Warning-Red: Yes, multiple years. Caution-Yellow: Yes but minimal/workable. Good-Green: No. Not a concern.
	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	
10 Balancing the budget with backloaded debt service				Q10
Have general fund debt payment schedules been backloaded (e.g., capital appreciation bonds or other financings with deferred/increasing payment schedules over time)?	2011-2012 ✓ no	2012-2013 ✓ no	2013-2014 ✓ CurrentYear no	Score: Warning-Red: Yes. Caution-Yellow: Yes but minimal/workable. Good-Green: No. Not a concern.
	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	

The California Municipal Financial Health Diagnostic: Financial Health Indicators

City of **Truckee**

General Fund

11 Funding operating costs with non-recurring development revenues				Q11
Has the general fund (budget or financial year close) been balanced relying on non-recurring development revenues to fund on-going operating costs or debt service other than work associated with development? (e.g., developer fees or taxes, sales taxes from construction, etc. funding other than building/planning staff)	<u>2011-2012</u> ✓	<u>2012-2013</u> ✓	<u>2013-2014</u> ✓ CurrentYear	Score: Warning-Red: Yes. Caution-Yellow: Yes but minimal/workable. Good-Green: No. Not a concern.
	no	no	no	
	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	
12 Timeliness and accuracy of financial reports				Q12
Have annual financial reports not been filed on time ? • Comprehensive Annual Financial Report (CAFR) • State Controller's Financial Transactions Report	<u>2011-2012</u> ✓	<u>2012-2013</u> ✓	<u>2013-2014</u> ✓ CurrentYear	Score: Warning-Red: Yes Not filed on time. Caution-Yellow: Yes but special circumstances. Green- No: filed correctly and on time.
	no	no	no	
	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	
13 Service level solvency				Q13
Are public service levels below standards in this community ? e.g., emergency response times, road condition, facility maintenance, etc.	<u>2011-2012</u> ✓	<u>2012-2013</u> ✓	<u>2013-2014</u> ✓ CurrentYear	Score: Warning-Red: Far below standards. Caution-Yellow: Below standards but will improve. Green- Service levels meet standards.
	no	no	no	
	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	



The California Municipal Financial Health Diagnostic
Data Gathering Worksheet

City of **Truckee**
General Fund

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.)				2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-17
a	Gross current revenues	CAFR* Statement of Revenues and Expenditures "total revenues"	1a	18,718,907	19,065,028	19,224,124	19,350,587	19,784,048	20,214,007
b	Transfers in	CAFR* Statement of Revenues and Expenditures "total revenues"		256,420	758,538	330,340	385,642	397,161	409,041
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	18,975,327	19,823,566	19,554,464	19,736,229	20,181,209	20,623,048
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.									
g	Gross current expenditures	CAFR* Statement of Revenues and Expenditures "total expenditures"	1a	18503360	16126778	16501239	18102406	18479649	18907213



The California Municipal Financial Health Diagnostic
Data Gathering Worksheet

City of **Truckee**
General Fund

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)
h	Transfers out	CAFR* Statement of Revenues and Expenditures "total expenditures"							
i	Capital project expenditures	CAFR* Statement of Revenues and Expenditures "capital outlay"		2,385,280	178,753	1,155,551	1,181,435	415,400	181,800
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	16,118,080	15,948,025	15,345,688	16,920,971	18,064,249	18,725,413
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		0	0	0	0	0
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.									
l	Total Fund Balance	CAFR* Balance Sheet	-	17,592,020	19,038,207	20,946,127	19,441,587	16,530,920	16,061,897
m	Nonspendable, restricted and committed fund balance	CAFR* Balance Sheet	-	630,267	647,309	595,792	555,000	555,000	555,000
n	Unreserved fund balance	line "l" minus line "m"	2	16,961,753	18,390,898	20,350,335	18,886,587	15,975,920	15,506,897
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.									



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<i>Data Component</i>	<i>Source of Data</i>	<i>Use for Indicator</i>	<u>Year-2</u>	<u>PriorYr</u>	<u>CurrentYr (estimated)</u>	<u>Next Year (projected)</u>	<u>Year+2 (projected)</u>	<u>Year+3 (projected)</u>
o Cash and short-term investments	CAFR* Balance Sheet	3	17,021,474	17,711,681	19,397,174	17,886,587	14,975,920	14,506,897
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	1,703,190	1,467,819	1,204,841	1,500,000	1,500,000	1,500,000
* 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. 								
q Salaries + wages + benefits	Staff analysis	4	9,552,277	9,512,031	9,718,495	10,572,348	10,864,911	11,210,459
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		290,000	300,000	305,000	315,000	320,000	335,000
s Debt service interest (long term and short term debt)	Staff analysis		442,192	431,015	422,432	413,167	403,078	392,103
t Expenditures for federal, state or court mandated activities	Staff analysis		-	-	-	-	-	-
u Pension payments	Staff analysis and CAFR		1,399,013	1,330,824	1,413,075	1,840,491	1,931,308	2,041,551
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	4	2,131,205	2,061,839	2,140,507	2,568,658	2,654,386	2,768,654
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."								



Data Gathering Worksheet

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<i>Data Component</i>	<i>Source of Data</i>	<i>Use for Indicator</i>	<u>Year-2</u>	<u>PriorYr</u>	<u>CurrentYr (estimated)</u>	<u>Next Year (projected)</u>	<u>Year+2 (projected)</u>	<u>Year+3 (projected)</u>
z Subsidy Expenditures and Subsidy Transfers Out	Staff analysis based on CAFR Statement of Revenues and Expenditures	5						

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
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