

Finding Fiscal Fitness: Introducing the California County Financial Health Diagnostic

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Difficulties in Assessing Local Gov't 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~~ County 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



Financial Health Indicators - Summary Checklist

	Indicator	Rating
Measures	1. Net Operating deficit / surplus. There are no recurring general fund operating deficits. General revenues are sufficient to meet the net general revenue demand of programs.	
	2. Fund balance. Reserves are sufficient over multiple consecutive years and in compliance with adopted policy.	
	3. Capital Asset Condition. The county is keeping pace with the aging of its capital assets.	
	4. Liquidity. Cash and short-term investments are sufficient to cover current liabilities (including short-term debt and accounts payable within 60 days).	
	5. Fixed costs & labor costs. Fixed costs (including debt service and other contractual obligations), salaries and benefits are stable or decreasing over multiple years relative to reasonably expected revenue growth.	
	6. General fund subsidies of other funds. Any general fund subsidies other enterprises or special funds are sustainable and in compliance with adopted policy.	
	7. Constraints on budgetary discretion. The board of supervisors' authority to make budget changes is not excessively constrained by charter, contract, or law.	
	8. Balancing the budget with temporary funds. The use of reserves, selling assets, deferring asset maintenance to balance the general fund has been limited, prudent and in compliance with adopted policy.	





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1. Recurring Deficits?

1A) Net General Revenue Demand

$$\text{Net General Revenue Demand} = \left(\text{general fund expenditures and transfers out} \right) - \left(\text{one-time expenditures of general purpose revenue} \right) - \left(\text{department revenues} \right)$$

1B) Net County Cost – omitting non-recurring revenues

$$\text{Net County Cost percent of general purpose revenues} = \frac{\left(\text{Ongoing general purpose revenues} \right) - \left(\text{Net general revenue demand} \right)}{\text{Ongoing general purpose revenues}}$$

1C) Net True County Cost

$$\text{Net County Cost percent of general purpose revenues} = \frac{\left(\text{Ongoing general purpose revenues} \right) - \left(\text{Net general revenue demand} \right) - \left(\text{Unbudgeted current liabilities} \right)}{\text{Ongoing general purpose revenues}}$$



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County of

Data Gathering Worksheet

General Fund - Discretionary

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)
			2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Salaries, wages and benefits	financial system / staff analysis							
Services and supplies								
Other								
Transfers out								
a Gross General Fund - Discretionary expenditures & transfers out		1	-	-	-	-	-	-
b One-time expenditures including capital project expenditures		1						
c Net operating expenditures	line "a" minus line "b"	1, 2, 5, 6	-	-	-	-	-	-
Net operating expenditures. Net operating expenditures equals gross expenditures minus capital improvement expenditures minus expenditures of revenues legally restricted to special purposes.								
d Department revenues	financial system / staff analysis	1						
Department revenues. Revenues restricted to specific programs.								
e Net general revenue demand	line "c" minus line "d"	1	-	-	-	-	-	-
f General purpose revenues	Staff analysis							
General purpose revenues. Discretionary taxes including property taxes (other than voter approved debt service), property transfer tax, general sales and use tax, business license tax, transient occupancy tax, utility users tax, construction tax, and other discretionary taxes; franchises; fines, forfeitures and penalties; investment earnings; rents, concessions, royalties; homeowners property tax relief reimbursement; non-restricted state and federal grants; and non-restricted transfers in.								





The California County Financial Health Diagnostic

County of _____ General Fund - Discretionary						
The California County Financial Health Diagnostic: Financial Health Indicators						
1A Net General Revenue Demand						
2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	
-	-	-	-	-	-	
percent change =>						
Formula Net General Revenue Demand = $\left(\begin{matrix} \text{general fund expenditures} \\ \text{and transfers out} \end{matrix} \right) - \left(\begin{matrix} \text{one-time} \\ \text{expenditures of} \\ \text{general purpose} \\ \text{revenue} \end{matrix} \right) - \left(\begin{matrix} \text{department} \\ \text{revenues} \end{matrix} \right)$					For comparison purposes	
1B Net County Cost - Deficit/Surplus - omitting non-recurring revenues						
2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	
Formula net county cost percent of general purpose revenues = $\frac{\left(\begin{matrix} \text{on-going general} \\ \text{purpose revenues} \end{matrix} \right) - \left(\begin{matrix} \text{net general} \\ \text{revenue demand} \end{matrix} \right)}{\text{on-going general purpose revenues}}$					Negative Indicator • Recurring and static or increasing negative values	For comparison purposes
1C Net True County Cost - Deficit/Surplus - complete, adding unbudgeted general fund liabilities						
2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	
Formula net true county cost percent of general purpose revenues = $\frac{\left(\begin{matrix} \text{on-going general} \\ \text{purpose revenues} \end{matrix} \right) - \left(\begin{matrix} \text{net general} \\ \text{revenue demand} \end{matrix} \right) - \left(\begin{matrix} \text{unbudgeted} \\ \text{current liabilities} \end{matrix} \right)}{\text{on-going general purpose revenues}}$					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"/>



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County of _____ General Fund - Discretionary				
Net True County Cost - Deficit/Surplus - complete, adding unbudgeted general fund liabilities				
2015-16	2016-17	2017-18	2018-19	2019-20
-6.54%	-2.03%	-2.62%	-3.67%	-3.80%
Formula $\frac{\left(\begin{matrix} \text{on-going general} \\ \text{purpose revenues} \end{matrix} \right) - \left(\begin{matrix} \text{net general} \\ \text{revenue demand} \end{matrix} \right) - \left(\begin{matrix} \text{unbudgeted} \\ \text{current liabilities} \end{matrix} \right)}{\text{on-going general purpose revenues}}$				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 checked="" type="radio"/> <input type="radio"/>





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Financial Health Indicators - Summary Checklist

Indicator	Rating
4. Net Operating Profit/Revenue. The use of reserves, selling assets, deferring asset maintenance to balance the general fund has been limited, prudent and in compliance with adopted policy.	
7. Constraints on budgetary discretion. The board of supervisors' authority to make budget changes is not excessively constrained by charter, contract, or law.	
8. Balancing the budget with temporary funds. The use of reserves, selling assets, deferring asset maintenance to balance the general fund has been limited, prudent and in compliance with adopted policy.	
9. Balancing the budget with borrowing. The use of short-term borrowing, internal borrowing or transfers from special funds to balance the general fund has been limited, prudent and in compliance with adopted policy.	
10. Balancing the budget by deferring employee compensation costs. Pension liabilities and other non-salary benefits have been determined, disclosed and actuarially funded in compliance with adopted policy.	
11. Balancing the budget with backloaded debt service payments. Debt service payments have not been "backloaded" into future years.	
12. Funding operating costs with non-recurring revenues. Ongoing operating costs are being funded with ongoing rather than temporary revenues (e.g., from development, etc.)	
13. Timeliness and accuracy of financial reports. Financial Reports are being filed on time. (CAFR, Annual Audit, State Controller's Financial Transactions Report)	
14. Service level solvency. Public service levels meet the standards and needs in this community.	

Practices and Conditions



You Need the Financial Health Diagnostic



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

