FINANCIAL HEALTH INDICATORS

Finance Department

Budget Engagement Commission
August 12, 2021

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1

PURPOSE

- Ability to perform a key mission to provide Financial Health Indicators to open dialogue and provide clear and useful information
- Discussion of financial condition based on 3 basic questions and 10 measures to evaluate financial condition
- Each question evaluates Riverside's services to its residents

2

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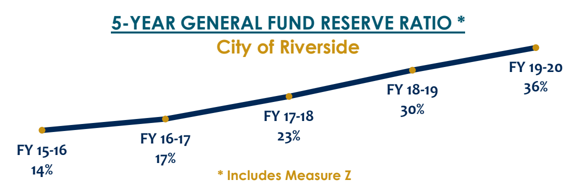
2

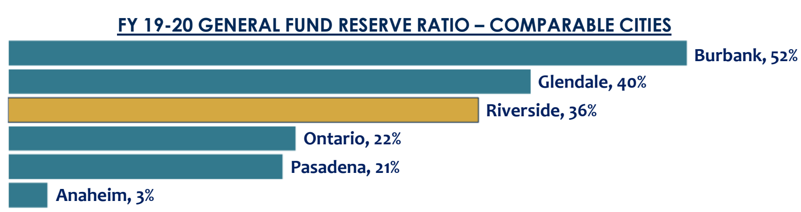
FINANCIAL POSITION
CAN THE CITY PAY ITS BILLS NOW

- **FHI #1 General Fund Reserve Ratio** – Building up reserves which is useful in identifying deteriorating unassigned fund balance.
- **FHI #2 General Fund Liquidity Ratio** – Ability to pay expenses which is useful in identifying City's ability to pay bills on time.

FHI #1 GENERAL FUND RESERVE RATIO

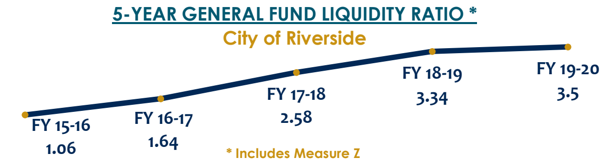
A declining unassigned fund balance can be a sign of fiscal stress. This indicator is important in identifying a trend of a deteriorating unassigned fund balance as well as how rapidly it is deteriorating. A **higher ratio** suggests larger reserves for dealing with unexpected resource needs in the long run.

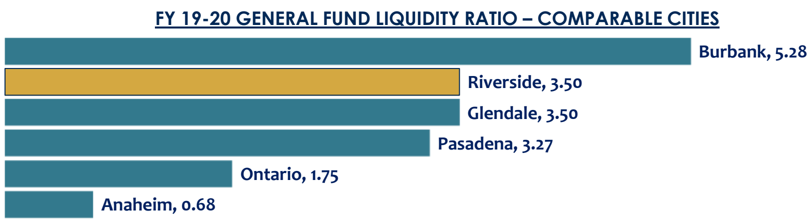




FHI #2 GENERAL FUND LIQUIDITY RATIO

A declining ratio indicates that the City does not have sufficient cash available to meet its current obligations as they come due. This indicator is important in identifying a trend of deteriorating cash as well as how rapidly it is deteriorating. Ideally, a **higher ratio** suggests a greater capacity for paying off short-term obligations.





5

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5

FINANCIAL PERFORMANCE CAN THE CITY' S REVENUES COVER ITS EXPENSES?

- **FHI # 3 General Government Growth in Net Position Ratio** – Change in Net Assets where a growth in net position indicates City can pay its expenses with its revenue and generate a small cushion.
- **FHI # 4 General Government Operating Margin Ratio** – City services are more self-sufficient through charges, fees, and grants.
- **FHI # 5 General Government Own Source Revenue Ratio** – Reliance on tax dollars and the less reliant the City is on intergovernmental aid.

6

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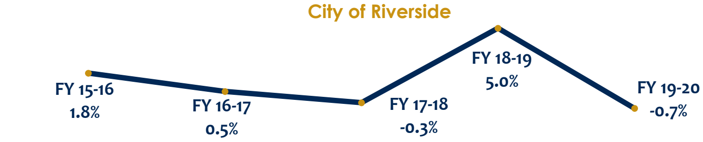
6

FHI #3 GENERAL GOVERNMENT GROWTH IN NET POSITION RATIO

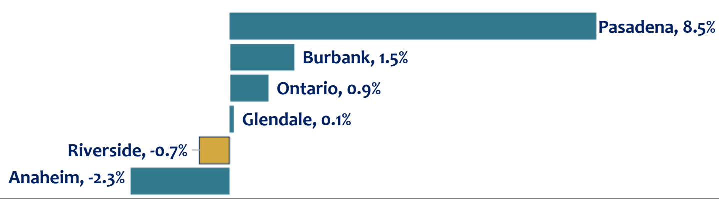
Revenues from programs ideally should cover the expenses that are incurred for those programs, otherwise reserves may need to be used to meet the needs. A **higher ratio** suggests annual costs are adequately financed and the financial condition is improving.

5-YEAR GENERAL GOVERNMENT GROWTH IN NET POSITION RATIO

City of Riverside



FY 19-20 GENERAL GOVERNMENT GROWTH IN NET POSITION RATIO – COMPARABLE CITIES



7

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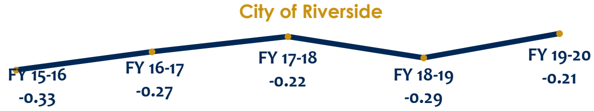
7

FHI #4 GENERAL GOVERNMENT OPERATING MARGIN RATIO

A city charges for services and may receive grants and aid from other governments (e.g., Federal and State). For this ratio, a **lower ratio** suggests basic government services are more self-sufficient through charges, fees, and grants.

5-YEAR GENERAL GOVERNMENT OPERATING MARGIN RATIO

City of Riverside



FY 19-20 GENERAL GOVERNMENT OPERATING MARGIN RATIO – COMPARABLE CITIES

8

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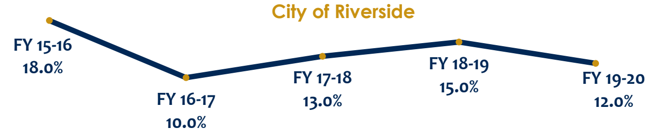
8

FHI #5 GENERAL GOVERNMENT OWN SOURCE REVENUE RATIO

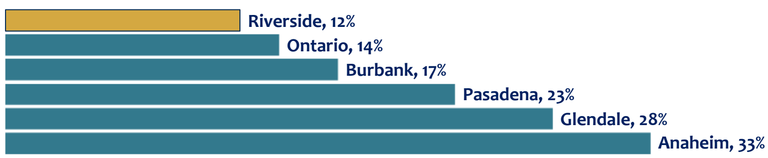
Revenues from grants are used to support some city functions. Other functions, such as public safety, are funded by general tax dollars. This ratio shows the extent to which government revenues were supported by general tax dollars. A **lower ratio** suggests the City is not heavily reliant on intergovernmental aid and more reliant on tax dollars and charges for services.

5-YEAR GENERAL GOVERNMENT OWN SOURCE REVENUE RATIO

City of Riverside



FY 19-20 GENERAL GOVERNMENT OWN SOURCE REVENUE RATIO – COMPARABLE CITIES



LONG-TERM SOLVENCY
CAN THE CITY PAY ITS BILLS IN THE FUTURE?

- **FHI # 6 General Government Near-Term Solvency Ratio** – Ability to pay obligations with annual revenues where fewer number of years of annual revenue needed to pay City obligations the better its financial condition.

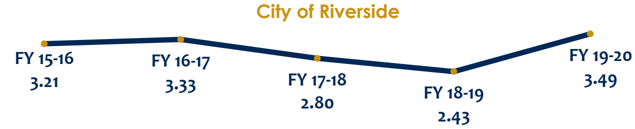
- **FHI # 7 General Government Debt Burden per Resident** – Amount borrowed per resident where lower debt per capita results in smaller debt burden on taxpayers and a greater capacity for borrowing, if needed.

FHI #6 GENERAL GOVERNMENT NEAR-TERM SOLVENCY RATIO

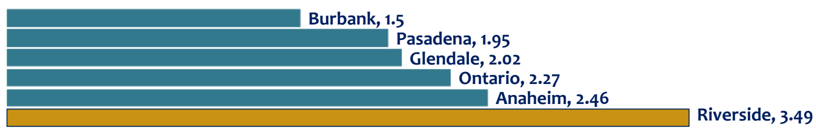
A lower ratio demonstrates a City's ability to pay a larger portion of its debts with annual revenues. For this measure, a **lower ratio** indicates better financial condition.

5-YEAR GENERAL GOVERNMENT NEAR-TERM SOLVENCY RATIO

City of Riverside



FY 19-20 GENERAL GOVERNMENT NEAR-TERM SOLVENCY RATIO – COMPARABLE CITIES

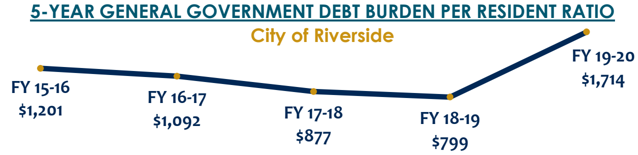


FHI #7 GENERAL GOVERNMENT DEBT BURDEN PER RESIDENT RATIO

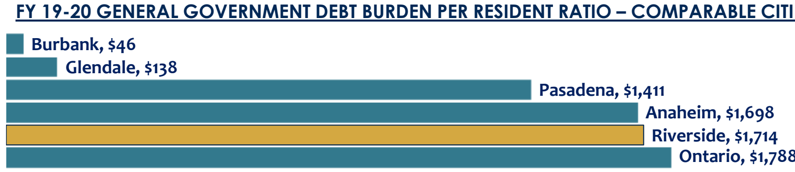
Lower debts per capita result in a smaller debt burden on taxpayers and a greater capacity for a city to borrow money if it needs it. For this measure, a **lower ratio** indicates better financial condition. In FY 2019/20, the increase in the debt burden ratio is directly attributable to the issuance of a Pension Obligation Bond. The issuance of the bond resulted in a reclassification of the existing CalPERS unfunded pension liability to debt and resulted in an estimated savings of $175 million over the life of the debt.

5-YEAR GENERAL GOVERNMENT DEBT BURDEN PER RESIDENT RATIO

City of Riverside



FY 19-20 GENERAL GOVERNMENT DEBT BURDEN PER RESIDENT RATIO – COMPARABLE CITIES



LONG-TERM SOLVENCY- CONTINUED

- **FHI # 8 Governmental Funds Coverage Ratio** – Ability of Governmental Funds to make bond payments. A larger portion of expenses used for debt means the City is less able to spend money on services and capital improvements.
- **FHI # 9 Enterprise Funds Coverage Ratio** – Availability of resources for Enterprise Funds to make bond payments similar to FHI # 8 but for Enterprise Funds.
- **FHI # 10 General Government Capital Asset Value Ratio** – Change in value of capital assets where if City doesn't replace or renovate its capital assets, value over time decreases.

13

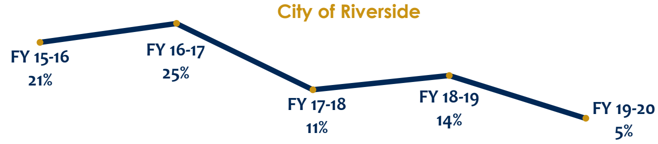
13

FHI #8 GOVERNMENTAL FUNDS COVERAGE RATIO

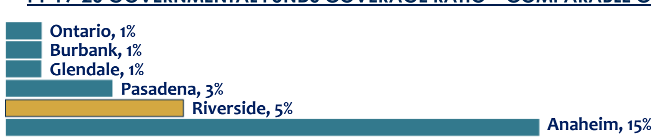
A city has principal and interest on debts to pay as well, and the lower the amount of these payments compared to all the other expenses it has, the better its financial condition. For this measure, a **lower ratio** indicates better financial condition.

5-YEAR GOVERNMENTAL FUNDS COVERAGE RATIO

City of Riverside



FY 19-20 GOVERNMENTAL FUNDS COVERAGE RATIO – COMPARABLE CITIES

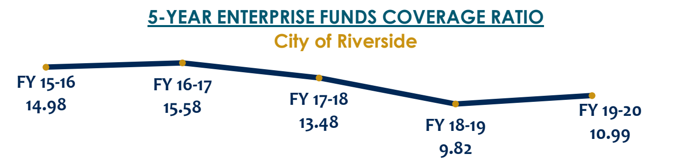


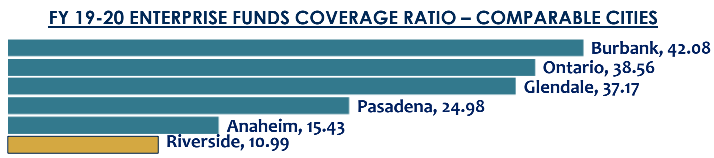
14

14

FHI #9 ENTERPRISE FUNDS COVERAGE RATIO

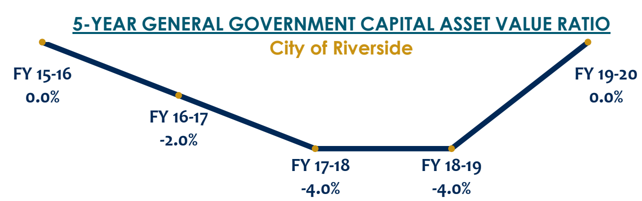
Just like a city's governmental services need to pay their debts (i.e., bonds) in the long-term, a city's enterprise funds need to do so as well. The City's Enterprise Funds include Electric, Water, Sewer, Airport, Refuse, Transportation, Public Parking, and Civic Entertainment Funds. For this measure, a **higher ratio** indicates better financial condition.

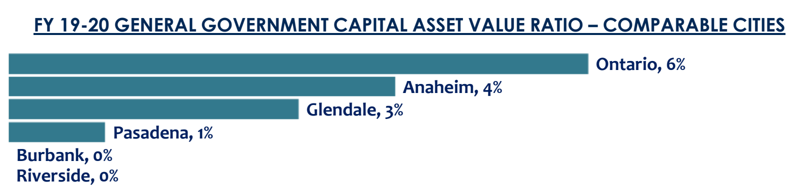




FHI #10 GENERAL GOVERNMENT CAPITAL ASSET VALUE RATIO

Capital assets include buildings, land, vehicles, and public infrastructure. A negative ratio means that the overall value of a city's assets decreased over the year and some assets may need to be renovated or replaced. For this measure, a **higher ratio** indicates better financial condition.





RECOMMENDATION

That the Budget Engagement Commission receive and provide input on the Financial Health Indicators discussed herein.

17

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17