Finance Committee Memorandum

City of Arts & Innovation

TO:	**FINANCE COMMITTEE MEMBERS**	**DATE: MAY 13, 2026**
FROM:	**FINANCE DEPARTMENT**	**WARDS: ALL**
SUBJECT:	**ASSESSING CITY'S FINANCIAL HEALTH THROUGH THE USE OF FINANCIAL HEALTH INDICATORS TO MAINTAIN FISCAL RESPONSIBILITY**	

ISSUE:

Receive and provide input on the use of Financial Health Indicators to assess and manage the overall fiscal health of the City and maintain fiscal responsibility.

RECOMMENDATION:

That the Finance Committee receive, provide input on, and recommend that the City Council receive and file the Financial Health Indicators discussed herein.

BACKGROUND:

To uphold the City's commitment to fiscal responsibility and transparency, Financial Health Indicators (FHIs) are calculated annually to provide a standardized snapshot of the City's overall financial condition in comparison to similar and neighboring cities.

A city's financial health is evaluated through a combination of measures rather than a single metric, reflecting the complexity of municipal finance. The City prepares numerous financial and budgetary reports annually and monitors key indicators in alignment with industry best practices.

The Finance Department also engages regularly with the three major credit rating agencies to help maintain strong credit ratings, supporting the City's ability to finance projects in a cost-effective manner. These independent evaluations assess the City's creditworthiness and individual bond levels. Fitch Ratings has affirmed the City's Issuer Default Rating at AA, with related debt ratings ranging from AA- to AA, and a "Stable" outlook, citing the "City's strong financial management policies and practices, sound reserve levels, and its ability to mitigate medium-term economic issues." S&P Global Ratings has assigned and affirmed ratings between AA- and AA across the City's obligations, also maintaining a Stable outlook based on expectations of continued healthy reserve levels. Moody's Investor Service has assigned an Aa3 issuer credit profile rating.

This report explores one perspective on how to measure the City's financial condition using FHIs, which can help identify early signs of fiscal stress and support a proactive approach to fiscal monitoring. FHIs do not assign an overall grade to the City's financial condition but instead examine 11 aspects of the City's finances as of the end of fiscal year 2024-25, including five-year trends and comparisons to similar California jurisdictions. Where available, industry benchmarks are included to further inform the analysis. The primary purpose of the FHIs is to highlight trends, identify potential areas of fiscal pressure, benchmark performance against peer cities, and provide data to support long-term strategic decision-making.

The comparison cities were selected based on their similarity in size and characteristics to the City of Riverside and were drawn from the Market Basket recommendations presented by Human Resources to the City Council on October 1, 2019. Comparative data used for this analysis is derived from each City's Annual Comprehensive Financial Report (ACFR), which is produced annually. One component of the comparative data is per capita income. According to the United States Census Bureau, the per capita income, based on 2020-2024 survey data and adjusted to 2024 dollars, was: $34,896 for the City of Riverside, $38,100 for the City of Anaheim, $56,287 for the City of Burbank, $49,653 for the City of Glendale, $32,506 for the City of Ontario, and $65,304 for the City of Pasadena.

This report is intended for the City's government leaders, decision-makers, residents, businesses, and taxpayers. It provides financial context for how financial trends over the last five years have impacted City services and infrastructure. It also simplifies the detailed information contained in the City's ACFR, offering a clear picture of how the City's financial health compares to that of its peers.

DISCUSSION:

Sound fiscal health is imperative to ensure the effective operation of the City. It is critical that the City continuously assesses its financial condition and fiscal health. On a quarterly basis, staff provides a report on the financial condition of the City which contains valuable information on the current and future state of City finances. Regular analysis can highlight potential fiscal problems and provide information necessary for timely corrective action. By taking action to address weaknesses and strengthen fiscal health, the City can better ensure that resources are available to fund the level and quality of services expected by its citizens.

The FHIs discussed below are an additional tool that can help identify whether the City will have the ability to meet its financial commitments now, and into the future, and can be useful in determining signs of fiscal stress. The FHIs are based on information derived from the City's Annual Comprehensive Financial Report (ACFR).

These financial health indicators are designed to open a dialogue and provide clear and useful information about the City's financial condition. While there is no standard benchmark for each of these financial health indicators, staff have identified the potential impacts of higher or lower ratios as well as how the City compares to similar California jurisdictions in the same general economic environment. Staff has centered the discussion of financial condition on three (3) basic questions and 11 measures to evaluate financial condition. At the core of each question is an evaluation of the City's ability to provide services to the residents of Riverside.

FINANCIAL POSITION - Can the City Pay its Bills Now?

The City's financial position is strong if it has plenty of cash and other liquid resources available. Without those resources, it will have to borrow money, delay payments, or liquidate some of its other assets, all of which carry significant financial costs.

FHI #1 General Fund Reserve Ratio

What it means: This indicator identifies changes (increases or decreases) in General Fund reserves from the prior year to the current year and is useful in identifying any deterioration in the City's fund balance reserves.

Why it is important: A declining fund balance reserve can be a sign of fiscal stress. This indicator is important in identifying a trend of a deteriorating fund balance reserves 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

What it means: This indicator identifies changes (increases or decreases) in available cash and is useful in identifying the City's ability to pay bills on time by measuring readily available cash, such as unrestricted cash and investments.

Why it is important: A negative ratio may indicate a 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. A **higher ratio** suggests a greater capacity for paying off short-term obligations.

FINANCIAL PERFORMANCE - Can the City's Revenues Cover its Expenses?

The City not only needs to pay its bills promptly but also ensure that the revenue it brings in regularly is adequate to cover its annual expenses. Missing this mark can adversely affect service levels and the City's credit rating, which is important for existing loan covenants and any future potential debt financing.

FHI #3 General Government Growth in Net Position Ratio

What it means: A growth in net position indicates that the City can pay its expenses with its revenue and is able to establish appropriate reserves for future allocation.

Why it is important: Ideally, revenues from the City's programs should cover the expenses incurred for those programs; otherwise, reserves may be required to cover the excess costs. A **higher ratio** suggests that annual costs are adequately funded, and an increasing ratio indicates an improving financial condition.

FHI #4 General Government Operating Margin Ratio

What it means: The City funds certain programs via grants and intergovernmental aid from other government agencies (e.g. Federal and State) and also charges for services that are offered to its residents. This measurement illustrates how much of the City's program expenditures are funded by charges, fees, and grants rather than general tax dollars.

Why it is important: The City charges for services and may receive grants and aid from other governments (e.g. Federal and State). A **higher ratio** suggests that basic government services are more self-sufficient through charges, fees, and grants, and are less reliant on general tax dollars to fund program expenditures.

FHI #5 General Government Own Source Revenue Ratio

What it means: The City receives grants and intergovernmental aid from other government agencies, such as the state and federal governments. While the City welcomes grants and aid to support City services, being less reliant on these sources makes the City more financially autonomous.

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

LONG TERM SOLVENCY – Can the City Pay its Bills in the Future?

A city will have bills in the future, and its current financial condition will influence its ability to pay them. For the long-term future, a city needs to ensure that its revenue sources can cover long-term spending needs and provide services to a growing and changing population.

FHI #6 General Government Near-Term Solvency Ratio

What it means: The City has both short-term and long-term obligations that must be paid in the future. The fewer number of years of annual revenue needed to pay the City's obligations, the stronger the City's financial condition.

Why it is important: This ratio demonstrates a city's ability to pay a larger portion of its debts with annual revenues. A **lower ratio** indicates a stronger financial condition.

FHI #7 General Government Debt, Pension Liability, and OPEB Burden per Resident Ratio

What it means: The City issues debt for a variety of reasons and pays for employees' pensions, including other post-employment benefits (OPEB). A low debt per capita indicates a stronger financial position.

Why it is important: Lower debts, pension liability, and other post-employment benefits (OPEB) per capita result in a smaller debt burden on taxpayers. A **lower ratio** indicates a stronger financial condition.

FHI #8 Governmental Funds Coverage Ratio

What it means: If a large portion of the City's expenses go toward paying debt principal and interest, it indicates that the City has less capacity to spend money on services and capital improvements.

Why it is important: The City has principal and interest payments on debt. The lower the amount of these payments compared to all its other expenditures, the stronger its financial condition. A **lower ratio** indicates a stronger financial condition.

FHI #9 Enterprise Funds Coverage Ratio

What it means: This measure compares the annual interest expense owed on debts to the ongoing operating revenues from which that expense will be paid. This is similar to a small business owner ensuring that the interest payments on the mortgage for their office aren't too large compared to the revenues they bring in each year.

Why it is important: Just as a city's governmental services need to pay their debts (e.g., bonds) in the long term, its Enterprise Funds need to do so as well. The City's Enterprise Funds include Electric, Water, Sewer, Airport, Refuse, Special Transportation, Public Parking, and Civic Entertainment Funds. A **higher ratio** indicates a stronger financial condition.

FHI #10 General Government Capital Asset Value Ratio

What it means: This ratio assesses changes in the value of a city's assets over time. A negative ratio indicates that a city's capital assets decreased in value, suggesting that the depreciation of capital assets exceeded the value of capital assets added. This highlights the potential need for renovation or replacement of aging assets.

Why it is important: Capital assets include land, buildings, vehicles, and public infrastructure. Most of the City's capital assets decrease in value over time due to depreciation. A declining ratio means that the overall value of a city's assets decreased over the year, indicating some assets may need to be renovated or replaced. A **higher ratio** indicates a stronger financial condition.

FHI #11 Enterprise Funds Capital Asset Age Ratio

What it means: This ratio indicates the percentage of Enterprise Funds capital assets that have been depreciated.

Why it is important: Depreciable capital assets include buildings, vehicles, and public infrastructure. These assets are depreciated over their useful life as they age, resulting in a reduction in their value. A **lower ratio** indicates Enterprise Funds' capital assets are newer and may not require as much replacement and/or maintenance costs compared to older capital assets.

A resource allocation indicator has been included to provide a better understanding of how the City is allocating its resources and is for informational purposes only.

Informational Indicator: General Fund Public Safety Costs Ratio

What it means: This ratio compares the total costs of General Fund public safety, which includes police and fire, to total General Fund expenditures and transfers out. A **higher ratio** indicates more funds are dedicated to public safety.

Financial health is more than a grade; it is about whether a local government has sufficient resources to deliver the services its residents expect. The FHIs described herein are designed to explain certain measures of financial condition and contribute to an ongoing conversation about financial health and service delivery in the City.

FISCAL IMPACT:

There is no fiscal impact associated with this report.

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Attachments:

1. Financial Health Indicators 5-Year Trend and Comparable Cities
2. Presentation