FINANCIAL HEALTH INDICATORS

Finance Department

City Council
October 1, 2019

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PURPOSE

1. Ability to perform a key mission to provide Financial Health Indicators to open dialogue and provide clear and useful information

2. Discussion of financial condition based on 3 basic questions and 10 measures to evaluate financial condition

3. Each question evaluates Riverside's services to its residents

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FINANCIAL POSITION
CAN CITY PAY ITS BILLS NOW?

FHI #1 Short-run Financial Position – Building up reserves which is useful in identifying deteriorating unassigned fund balance

FHI #2 Liquidity – Ability to Pay Expenses which is useful in identifying City's ability to pay bills on time
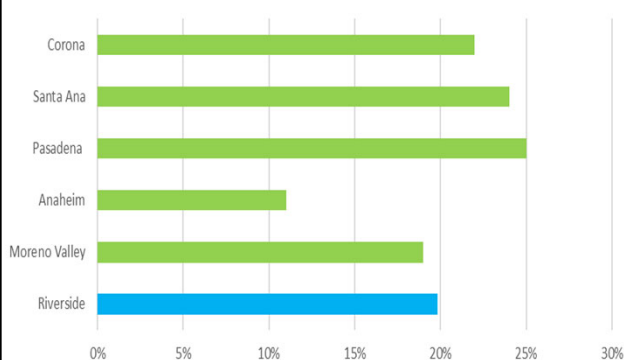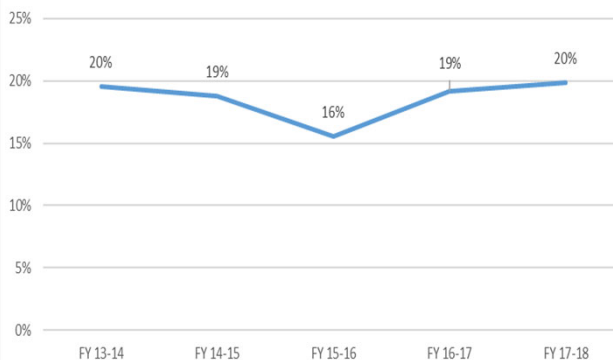
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FHI #1 GENERAL FUND RESERVE RATIO

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 #1 Comparison of General Fund Reserve Ratio (FY 2018)

City	Ratio
Corona	~22%
Santa Ana	~24%
Pasadena	~25%
Anaheim	~11%
Moreno Valley	~19%
Riverside	~20%

FHI #1 General Fund Reserve

| Year	Reserve
FY 13-14	20%
FY 14-15	19%
FY 15-16	16%
FY 16-17	19%
FY 17-18	20%

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FHI #2 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.

FHI #2 Comparison of Liquidity Ratio (FY2018)

FHI #2 Liquidity Ratio

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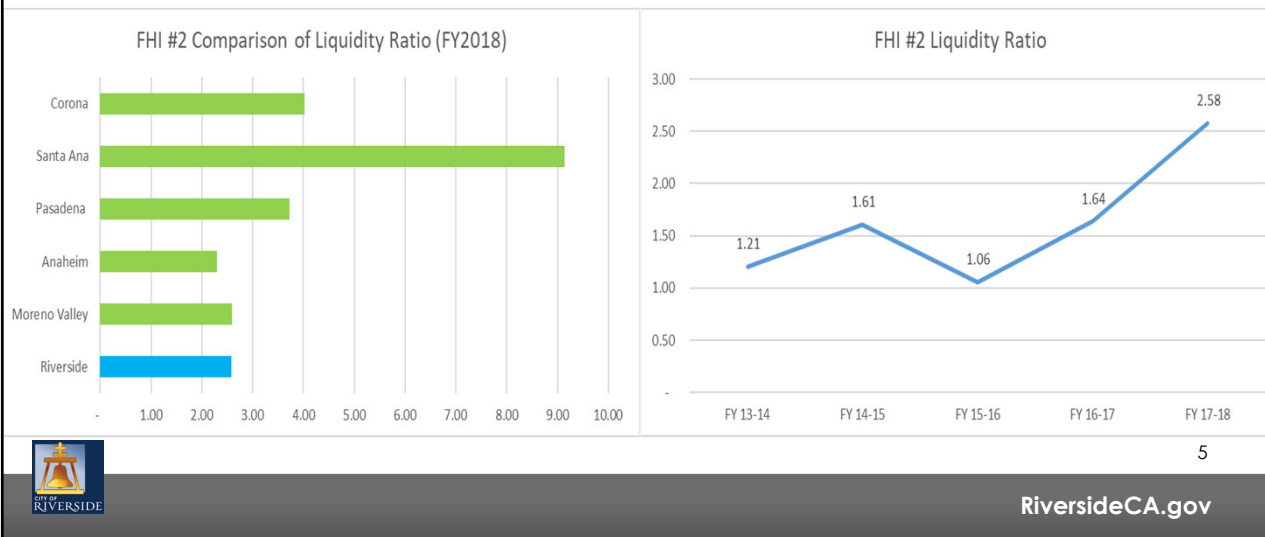
FINANCIAL PERFORMANCE
CAN THE CITY'S REVENUES COVER ITS EXPENSES?

FHI #3 Net Asset Growth – 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 Operating Margin – Reliance on General Tax dollars which indicates the degree to which City relies on taxes rather than fees for services or other revenues

FHI #5 Own Source Revenues – Reliance on Grants and Aid where the less reliant City is on Grants the more independent its financial condition

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FHI #3 GROWTH IN NET POSITION

Revenues from the City's programs ideally should cover the expenses that the City incurs for those programs—otherwise, the City will have to make ends meet by dipping into reserves, and it won't be able to save money for projects. A **higher ratio** indicates that annual costs are adequately financed and the financial health is improving.

FHI #3 Comparison of Growth in Net Position (FY2018)
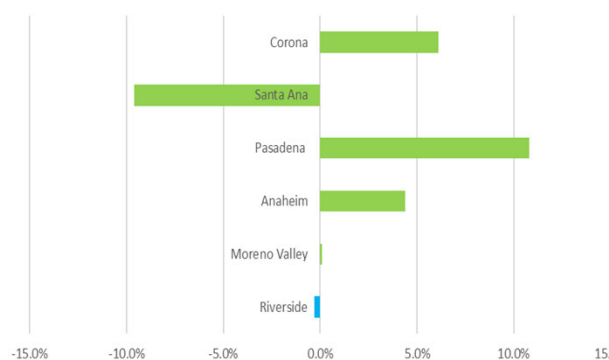
FHI #3 Growth in Net Position
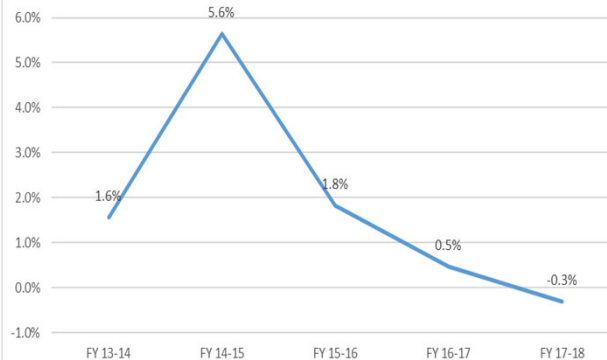
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FHI #4 OPERATING MARGIN

The City collects revenues from fees, charges, fines, and grants to support some of its programs. Some programs however, such as public safety, are funded by general tax dollars. This measure shows the extent to which basic government services were supported by general tax dollars. A lower ratio indicates that the City's services were supported through service fees and required less general taxpayer support. For this measure, a **lower ratio** indicates more independent financial condition.

FHI #4 Comparison of Operating Margin (FY 2018)
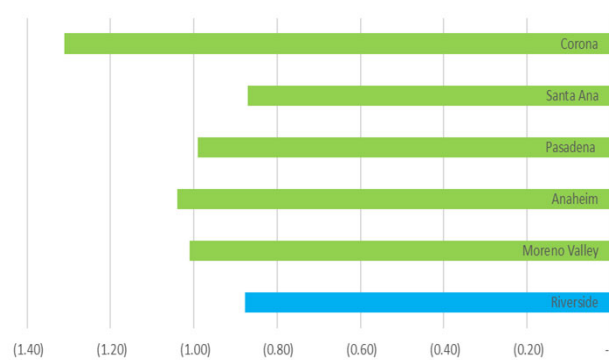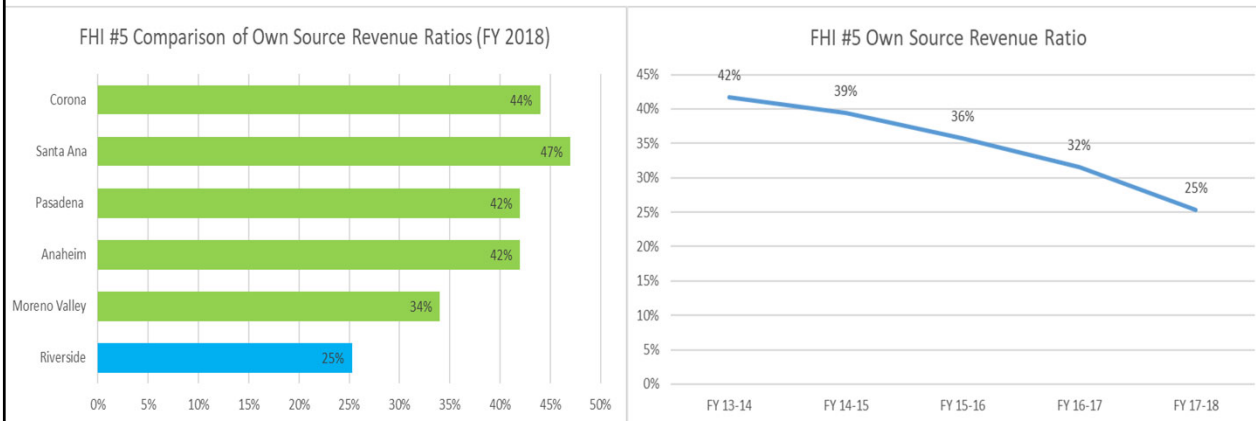
FHI #4 Operating Margin
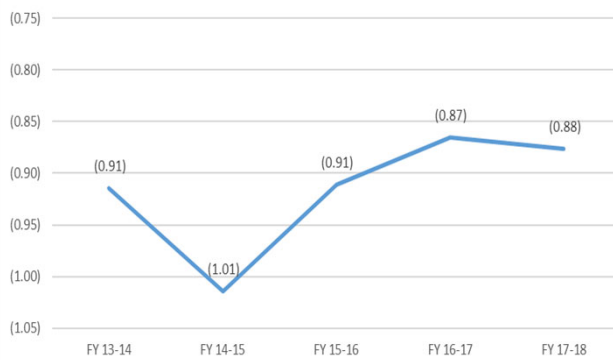
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FHI #5 OWN SOURCE REVENUE RATIO

A lower ratio shows that the City had a larger portion of its revenues coming from its own sources, namely fees, charges, and taxes. For this measure, a **lower ratio** indicates more independent financial condition.

FHI #5 Comparison of Own Source Revenue Ratios (FY 2018)

- Corona: 44%
- Santa Ana: 47%
- Pasadena: 42%
- Anaheim: 42%
- Moreno Valley: 34%
- Riverside: 25%

FHI #5 Own Source Revenue Ratio
- FY 13-14: 42%
- FY 14-15: 39%
- FY 15-16: 36%
- FY 16-17: 32%
- FY 17-18: 25%

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

FHI #6 Near-Term Solvency – 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 Debt Burden – Amount Borrowed per Resident where lower debt per capita results in smaller debt burden on taxpayers and a greater capacity for borrowing if needed
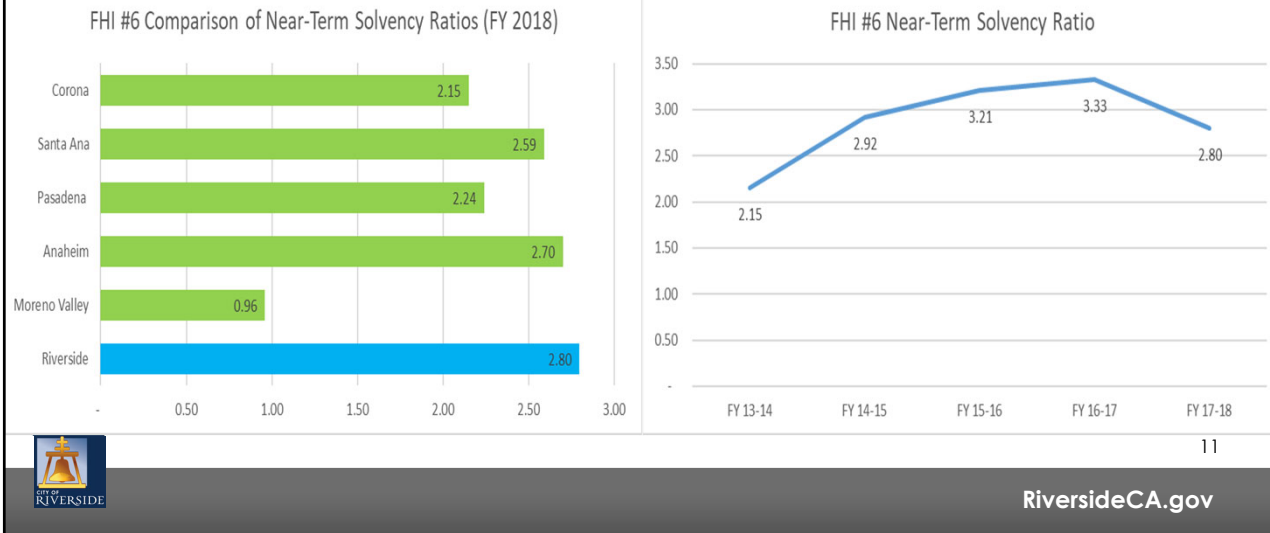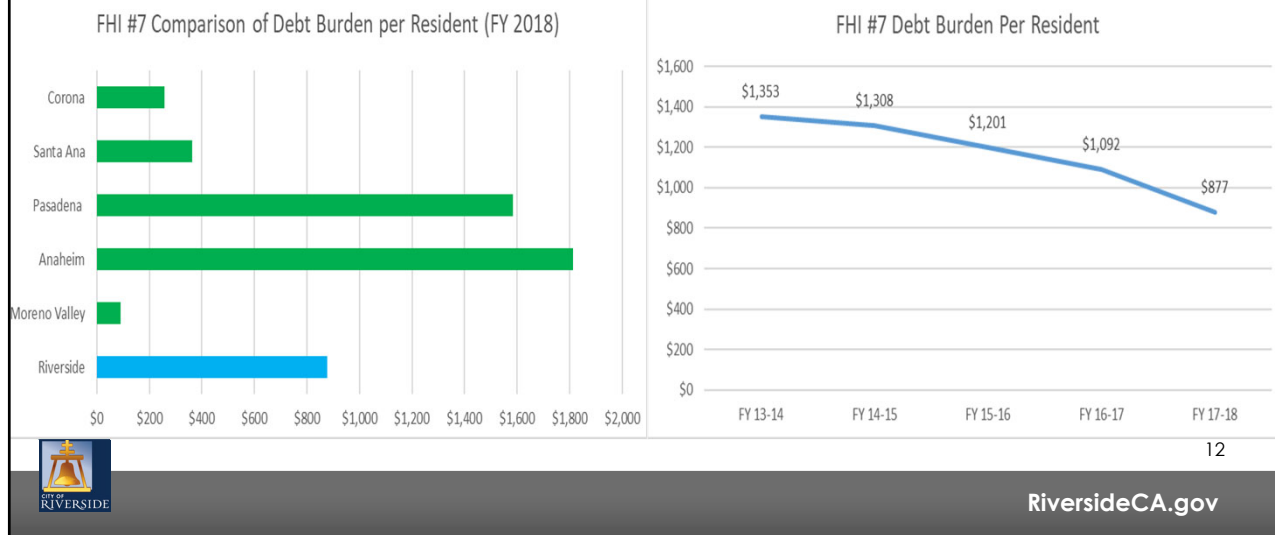
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FHI #6 NEAR-TERM SOLVENCY RATIO

A lower ratio shows that the City is able to pay a larger portion of its debts with annual revenues.
For this measure, a **lower ratio** indicates better financial condition.

FHI #6 Comparison of Near-Term Solvency Ratios (FY 2018)

City	Ratio
Corona	2.15
Santa Ana	2.59
Pasadena	2.24
Anaheim	2.70
Moreno Valley	0.96
Riverside	2.80

FHI #6 Near-Term Solvency Ratio

	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
	2.15	2.92	3.21	3.33	2.80

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FHI #7 DEBT BURDEN PER RESIDENT

Lower debts per capita result in a smaller debt burden on taxpayers and a greater capacity for the city to borrow money if it needs it. For this measure, a **lower ratio** indicates better financial condition.

FHI #7 Comparison of Debt Burden per Resident (FY 2018)

FHI #7 Debt Burden Per Resident

	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
	$1,353	$1,308	$1,201	$1,092	$877

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LONG TERM SOLVENCY- CONTINUED

FHI #8 Coverage 1 – Ability of Governmental Funds to Make Bond Payments a Larger portion of expenses used for debt which means the City is less able to spend money on services and capital improvements

FHI #9 Coverage 2 – Availability of Resources for Business-Type Activities to Make Bond Payments similar to FHI #8 but for Enterprise Funds

FHI #10 Capital Asset Condition – Change in Value of Capital Assets where if City doesn't replace or renovate its capital assets, value over time decreases
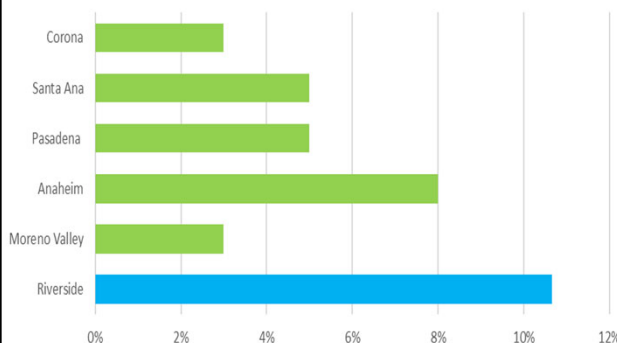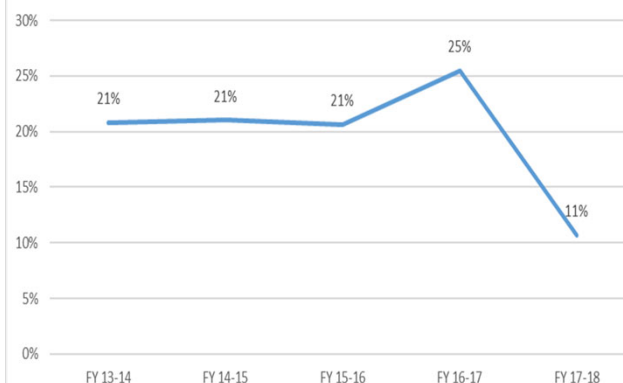
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FHI #8 GENERAL GOVERNMENT COVERAGE RATIO

A city has debts 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.

FHI #8 Comparison of General Government Coverage Ratios (FY 2018)

City	Ratio
Corona	~3%
Santa Ana	~5%
Pasadena	~5%
Anaheim	~8%
Moreno Valley	~3%
Riverside	~10.5%

FHI #8 General Government Coverage Ratio

| Year	Ratio
FY 13-14	21%
FY 14-15	21%
FY 15-16	21%
FY 16-17	25%
FY 17-18	11%

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FHI #9 ENTERPRISE COVERAGE RATIO

Just like the City's governmental services need to pay their debts (i.e., bonds) in the long term, the City's *business-type activities* need to do so as well. The City's business-type activities include the Public Utilities and Wastewater Treatment System, and the Parking System. For this measure, a **higher ratio** indicates better financial condition.

FHI #9 Comparison of Enterprise Coverage Ratios (FY 2018)
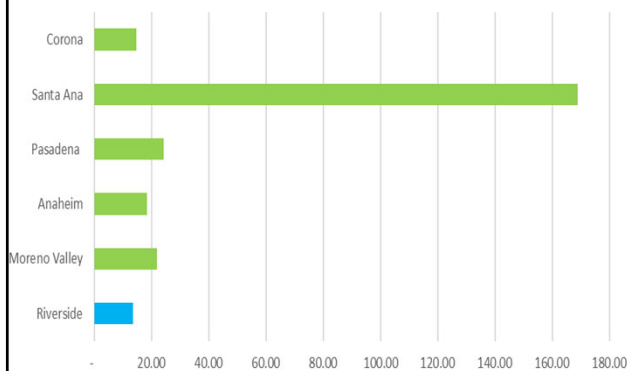
FHI #9 Enterprise Fund Coverage Ratio

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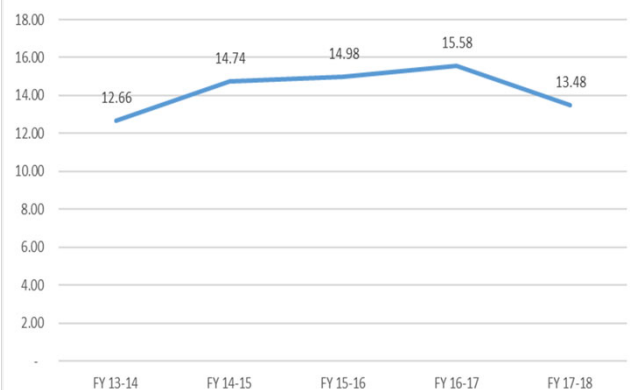
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FHI #10 CAPITAL ASSET VALUE RATIO

The negative ratio indicates that the City's assets decreased in value—that is, the value at the end of the year was less than the value at the beginning of the year. This indicates that the depreciation of capital assets was greater than the value of capital assets added, and that some capital assets may need to be renovated or replaced. The City needs to make sure that as these *capital assets* age, it is renovating or replacing them. For this measure, a **higher ratio** indicates better financial condition.

FH #10 Comparison of Capital Asset Value Ratio (FY 2018)

FHI #10 Capital Asset Value Ratio

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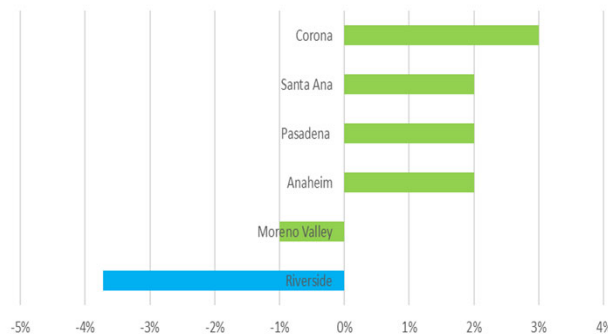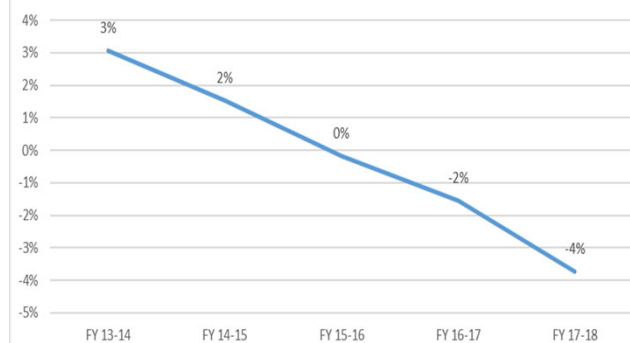
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RECOMMENDATIONS

That the City Council:

1. Receive and provide input on the Financial Health Indicators discussed herein; and

2. Direct staff as to recommended strategies and next steps.

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