A City’s Fiscal Status: A Strategic Analysis

1. General Approach
   1. Review the current economic, political and social, environment in which the city operates
   2. Identify and assess the impact of key factors likely to affect the city’s economic, political and social environment in the next five years
   3. Assess the city’s current status as revealed in its comprehensive annual financial report (taking into account the city’s reporting practices and policies)
   4. Forecast the city’s fiscal status for the next five years taking into account the previously identified environmental changes and the city’s likely response to them
2. Current state of, and trends in, the government’s operating environment
   1. Population
      1. Age of population
      2. Income level
      3. Educational and skill level
      4. Other relevant demographic factors
   2. Economic conditions
      1. Wealth and income of citizenry (e.g. per capita net worth and income)
      2. Major industries (and stability)
      3. Unemployment rates
      4. Value of property per capita
      5. Sales tax base
      6. Elasticity of revenues
   3. Political climate
      1. Overall citizen satisfaction with government
      2. “Liberal” or “conservative” citizen view as to role of government
      3. Relations with state government and other local governments (e.g. those of surrounding and overlapping entities)
      4. Citizen expectations
   4. Social conditions
      1. Crime rates
      2. Other measures of social well-being
3. Changes likely to affect the government’s operating environment – and especially its finances – in the next five years
   1. Demographics and geographical boundaries
      1. Impact on infrastructure
         1. highways and streets
         2. utilities
      2. Impact on operating revenues
      3. Impact on operating expenses
   2. Nature and scope of government services to be performed
   3. Nature and scope of enterprise activities carried out (e.g. future of electric utility)
   4. Political climate (e.g. impact of annexing suburban MUDs)
   5. Form and organization of government (e.g. possibility of single member election districts)
   6. Political attitudes and intergovernmental relationships
      1. Changing views toward the role of government
      2. Relations with legislature
      3. Extent of state and federal assistance
      4. Additional costs imposed on overlapping governments (e.g. school district)
   7. Technology (i.e. changes that will affect the government both directly (such as increased use of computers) and indirectly (such as interactive TV, means of transmitting electricity)
   8. Social changes (e.g. changes in family structure resulting in need for more government facilities to provide care for elderly)
   9. Commerce and industry
      1. Major employers (including stability and likelihood of relocating)
      2. Impact on revenues (e.g. property taxes) and expenditures (e.g. infrastructure improvements)
   10. Wealth and income of population
   11. Other economic changes (e.g. those affecting the electric power and health care industries)
4. Insight into city’s financial condition as revealed by accounting and reporting practices
   1. Overall quality of disclosure
   2. Auditor’s opinion
   3. GFOA certificate
   4. Letter of transmittal
   5. Key accounting policies
      1. Reporting entity
      2. Number, type and character of (reason for) funds
      3. Revenue and expenditure recognition
      4. Accounting changes
   6. Budget- and accounting-related fiscal policies
      1. “One shots”
      2. Unusual budget-balancing transactions (interfund transfers)
      3. Changes in budget-related practices (such as delaying payments or speeding up tax collections)
      4. Use of “off the balance sheet” debt (e.g. leases, long-term contracts) and of revenue debt
      5. Use of long-term debt to finance operating expenditures
      6. Increased use of short-term debt to cover temporary cash shortages
5. Financial analysis
   1. Fiscal capacity and effort
      1. Revenues from own sources/median family income
      2. Revenue from own sources/total appraised value of property
      3. Total sales current subject to tax/total retail sales
      4. Sales and property tax rates
   2. Trends in fund balance
   3. Trends in mix of revenues and expenditures and reasons for trends
   4. Trends in stability of revenues
      1. Intergovernmental revenues/total operating revenues
      2. Property tax revenues/total operating revenues
      3. Restricted revenues/total operating revenues
      4. One-time revenues/total operating revenues
      5. Uncollected property taxes
   5. Trends in spending patterns
      1. Number of employees per capita
      2. Nondiscretionary expenditures/total expenditures
      3. Percentage breakdown of total expenditure by function
   6. Trends in liquidity
      1. Adequacy of fund balance – unreserved fund balance/operating revenues
      2. Adequacy of working capital – cash, short-term investments and receivables/current liabilities
   7. Trends in burden of debt
      1. Debt margin
      2. Debt service as a percentage of total general fund and debt service expenditures
      3. Debt per capita
      4. Debt as a percentage of taxable property
      5. Maturity structure
   8. Trends in pension and other postemployment benefits
      1. Unfunded pension obligation
         1. pension assets compared to actuarial liabilities
         2. unfunded liabilities compared to values of property, annual payroll
      2. Percent of actuarial required contribution actually made
   9. Bond ratings
   10. Trends in amounts of new borrowing
   11. Overlapping debt
   12. Trends in capital expenditures
       1. By type
       2. By geographic area
       3. Reasons behind trends
       4. Commitments and planned expenditures per CIP
6. Fiscal forecasts
   1. Overview of how trends and exogenous variables will affect key fiscal indicators in the next five years (taking into account how city will likely respond to them)
   2. Pro forma financial statements of general and other key funds
7. Summary and Conclusion –
   1. Will the city have the financial wherewithal to provide the services expected of it in the next years?
   2. What are the key risks and uncertainties facing the city that might impair the ability of the city to provide these services?
      1. How can the city best manage these risks?
      2. What should be the key concerns of city managers, especially those directly concerned with finances?