

FINANCIAL CONDITION ANALYSIS

- ▶ City of Newton
- ▶ Fiscal Year 2015-2016



FINANCIAL CONDITION ANALYSIS

▶ Management Tool

- Helps local governments communicate complex financial information in an easy to understand format
 - Utilizes a Dashboard format to present trend data
 - Evaluates financial condition against benchmark peers
 - Analysis is based on Government-wide and Fund level Reporting

FINANCIAL CONDITION ANALYSIS

▶ Assessment tool

- Introduced in July 2010
- Developed by the UNC School of Government
- Implemented by the Department of State Treasurer
 - To provide a systematic, but manageable, approach to financial condition analysis in local government

FINANCIAL CONDITION ANALYSIS

- ▶ This report graphically represents financial data from the City's Comprehensive Annual Financial Reports for the past five years. The graphs compare the City's financial data to that of its peer group to provide a better understanding of the overall financial condition of the City.
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BENCHMARK GROUP

- ▶ **Lincolnton** – pop. 10,612
 - *County Seat, Lincoln County*
- ▶ **Morganton** – pop. 16,918
 - *County Seat, Burke County*
- ▶ **Clayton** – pop. 18,734
 - *Johnston County*
- ▶ **Albemarle** – pop. 15,979
 - *County Seat, Stanly County*
- ▶ **Kings Mountain** – pop. 10,667
 - *Cleveland County*

FINANCIAL CONDITION INDICATORS

Resource Flow (Operations)

- Total Margin
- Financial Performance
- Self-Sufficiency
- Financing Obligation

Resource Stock (Balance Sheet)

- Liquidity
 - Solvency
 - Leverage
 - Capital
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FINANCIAL CONDITION INDICATORS

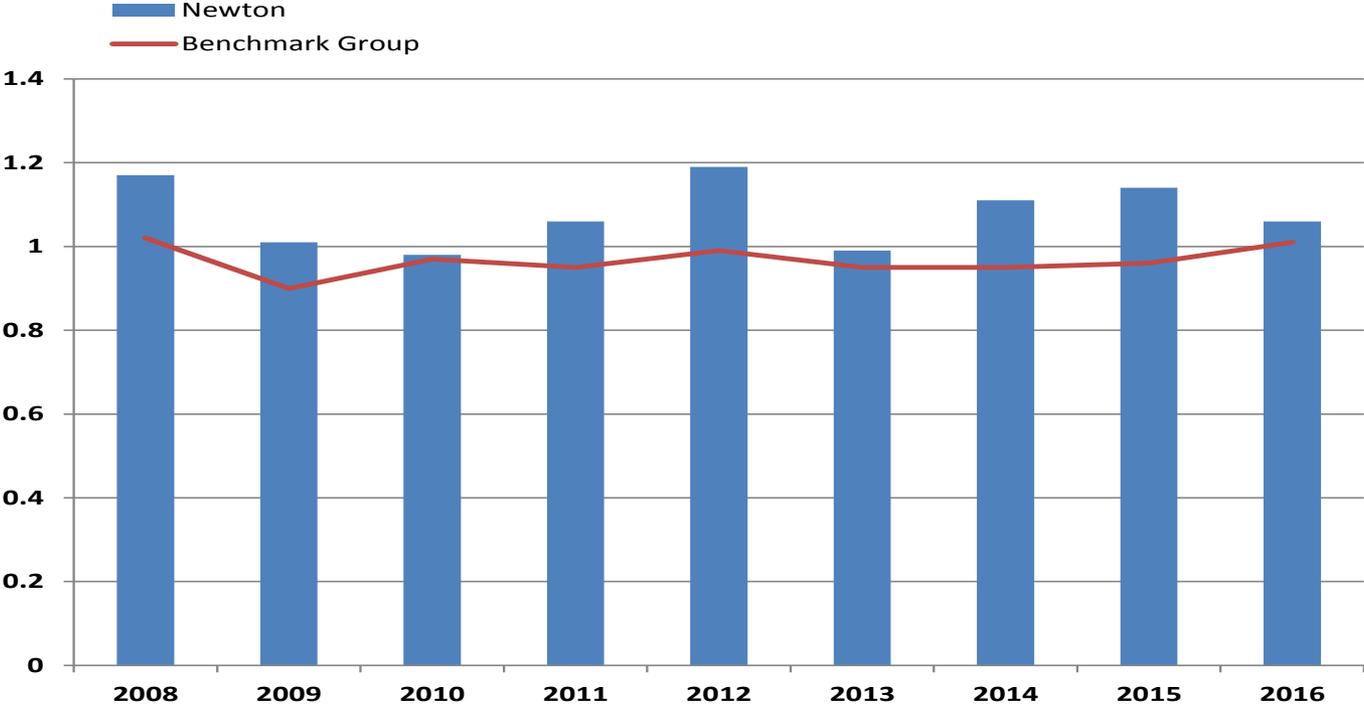
RESOURCE FLOW (OPERATIONS)

TOTAL MARGIN RATIO

Ratio of revenue to expenditures

(Ability to live within financial means)

General Fund



Newton =1.06, Benchmark =1.01

A ratio of 1.0 or higher indicates the City has lived within its financial means while not building up excess reserves.

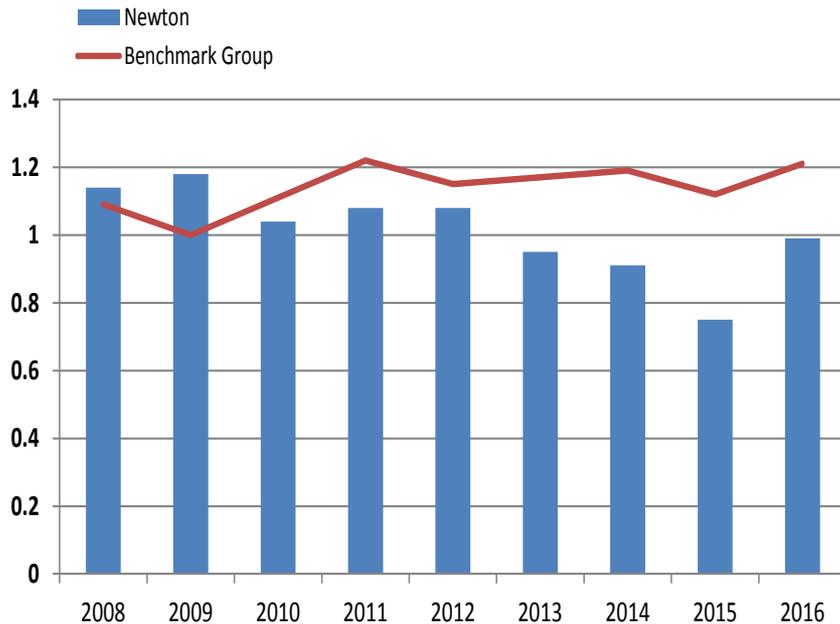
Note: FY 2012 and FY 2015 reflects \$1.2 million and \$281,785, respectively, from Sue Jones Estate

TOTAL MARGIN RATIO

Ratio of revenue to expenses

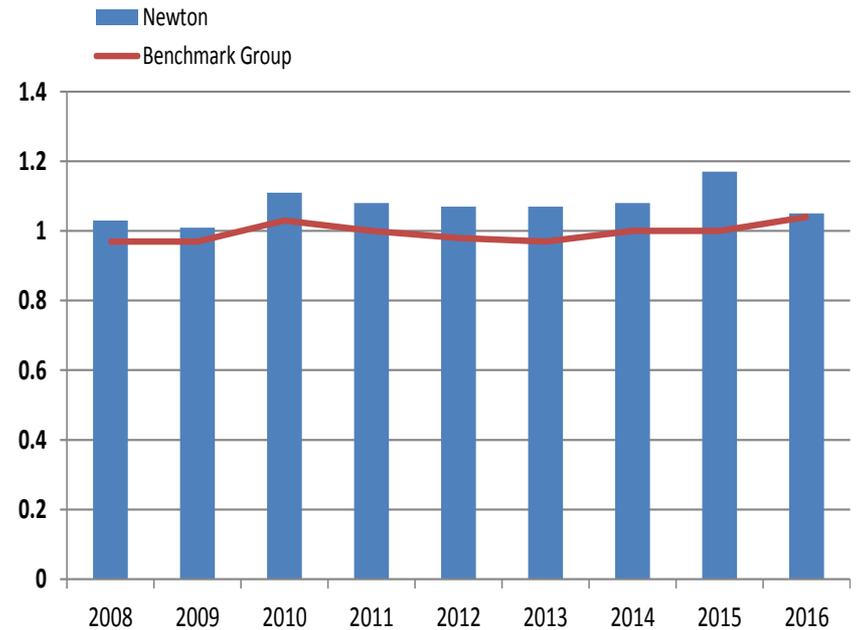
(Ability to live within financial means)

Water & Wastewater Fund



Newton = 0.99, Benchmark = 1.21

Electric Fund



Newton = 1.05, Benchmark = 1.04

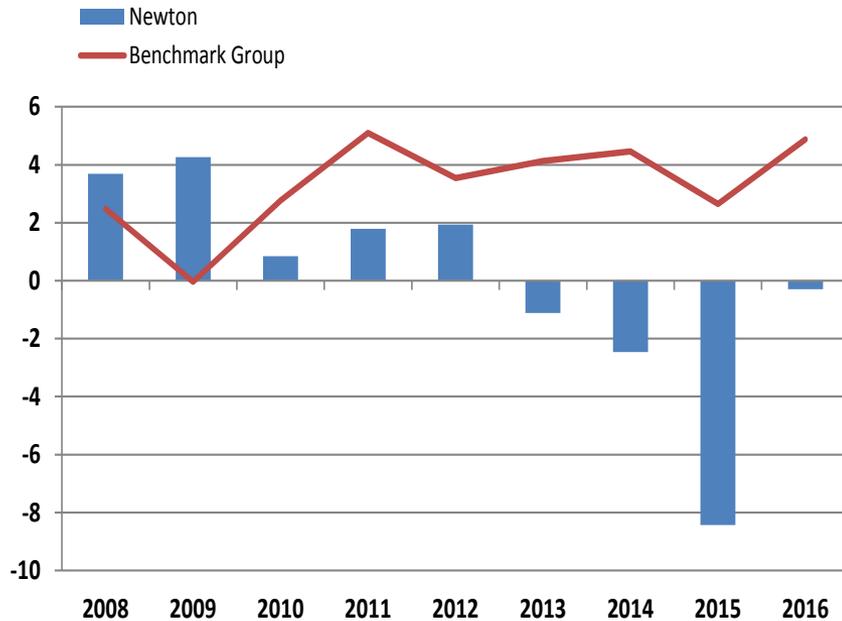
A ratio higher than one indicates the City has lived within its means while not building up excess reserves.

Notes: FY 2015 reflects \$2 million transfer from Water/Wastewater Fund to Electric Fund for AMI Project

PERCENT CHANGE IN NET POSITION

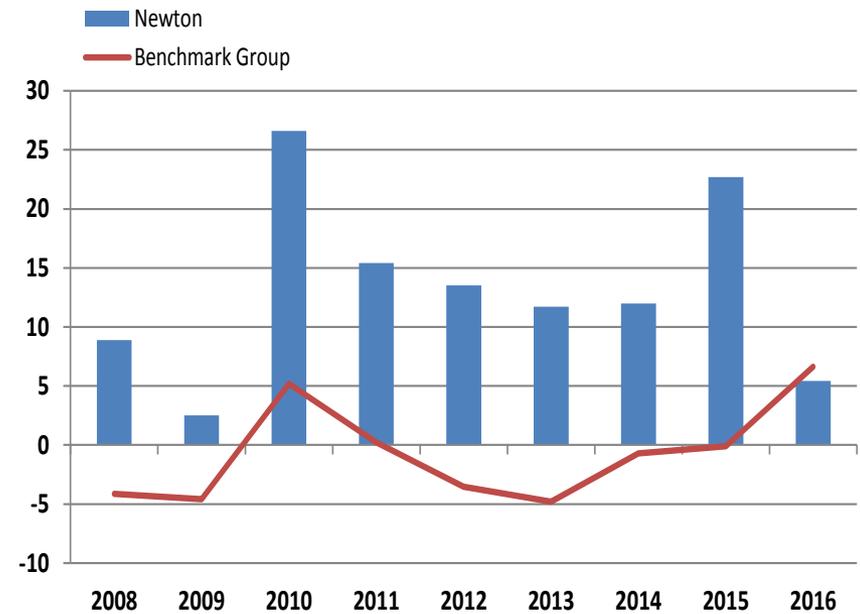
Change in net position compared to beginning net position

Water & Wastewater Fund



Newton = -0.29, Benchmark = -4.88

Electric Fund



Newton = 5.43, Benchmark = 6.63

A positive percent change indicates the financial position improved; however, a negative percent change indicates the net position of the fund decreased.

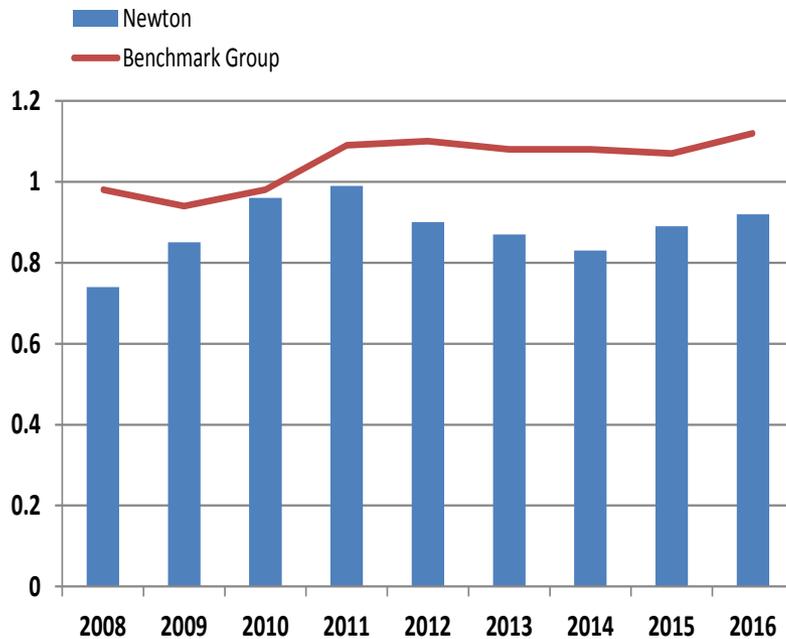
Note: The City's Water/Wastewater Fund unrestricted net position ("Fund Balance") has increased \$1.9 million since FY 2012.

CHARGE TO EXPENSE RATIO

Charges for services compared to total expenses

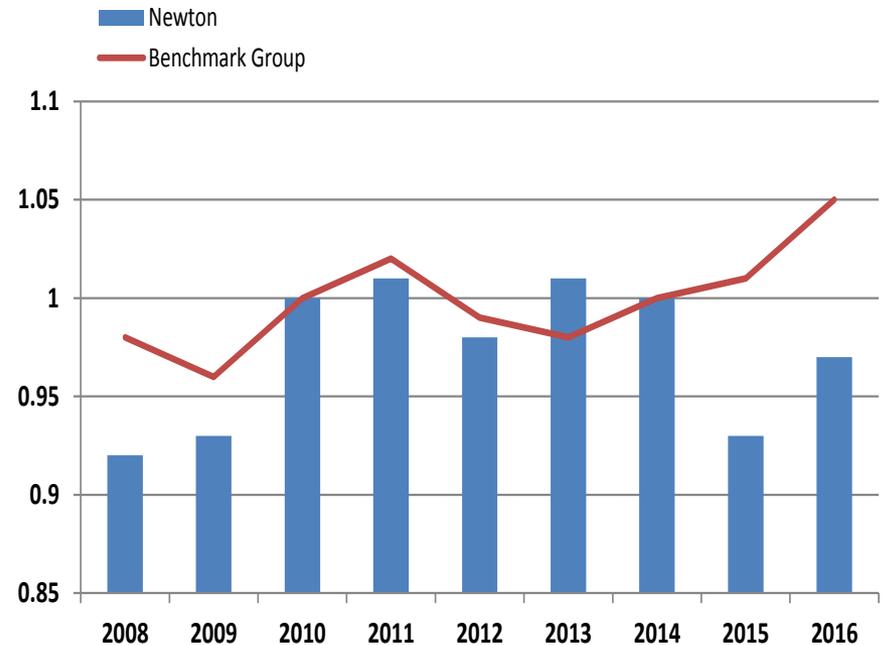
(Self Sufficiency - charges are sufficient to cover expenses)

Water & Wastewater Fund



Newton =0.92, Benchmark =1.12

Electric Fund



Newton =0.97, Benchmark =1.05

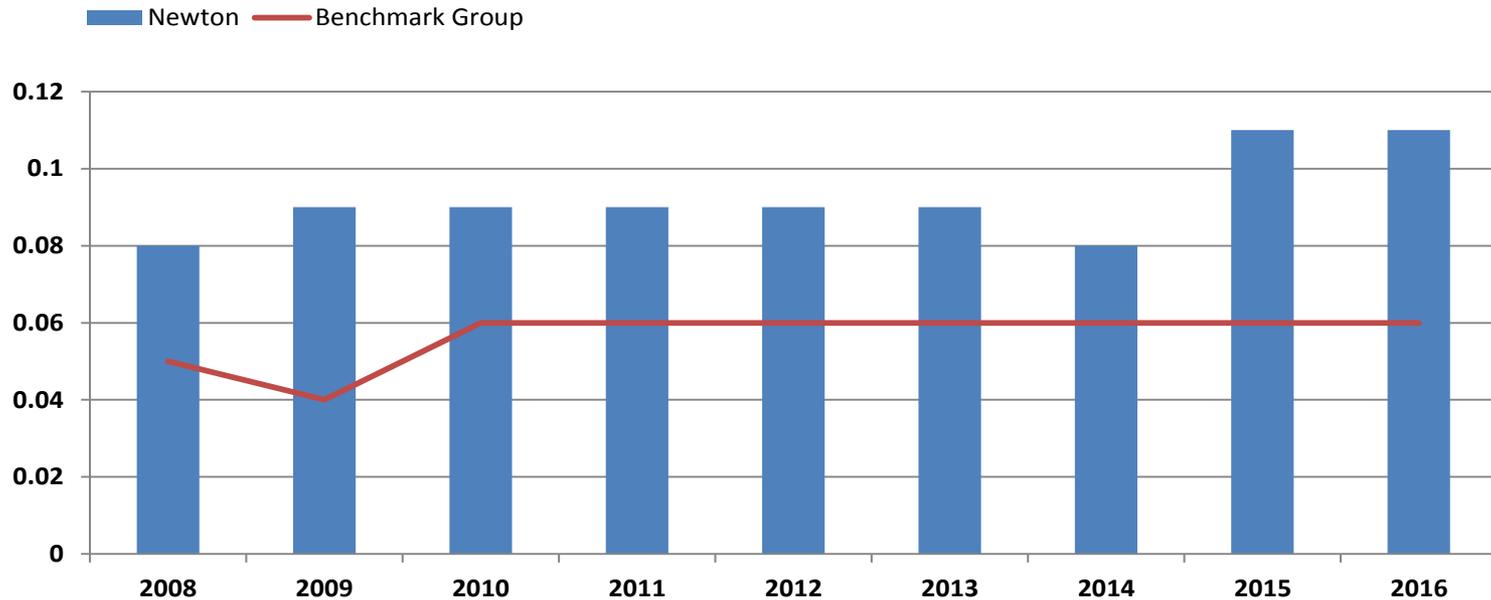
The City's peers are able to cover a larger portion of expenses in both the Water/Wastewater and Electric Funds indicating that their services are more fully self-supporting.

DEBT SERVICE RATIO

Debt service compared to total expenditures

(Financing Obligation - Service flexibility in relation to debt service committed)

General Fund



Newton =0.11, Benchmark =0.06

The City is somewhat more reliant on debt than its peer group indicating more resources are committed to financial obligations.

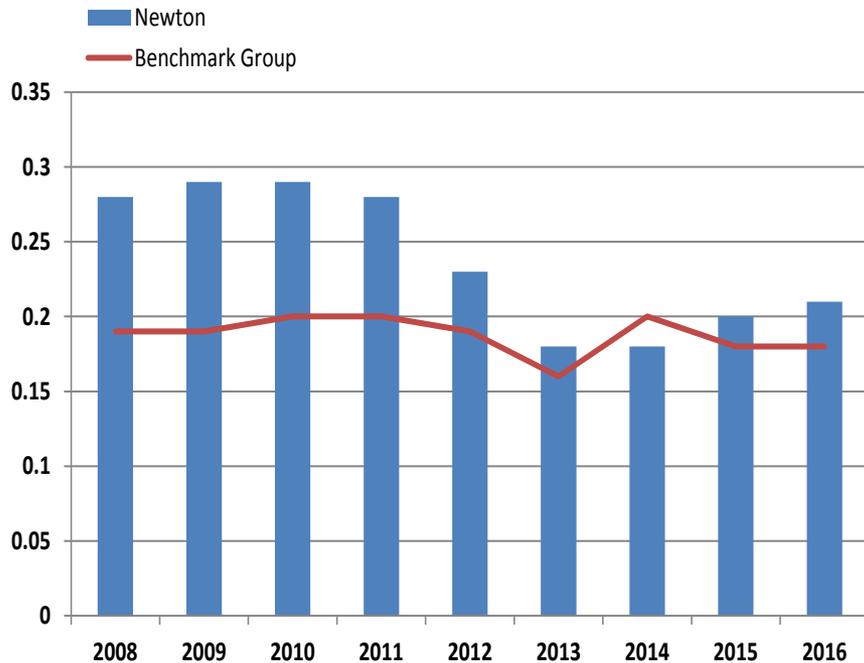
Note: The debt increase in FY 2015 reflects the debt service payment associated with the new Fire Headquarters which was financed in FY 2014.

DEBT SERVICE RATIO

Debt service compared to total expenses

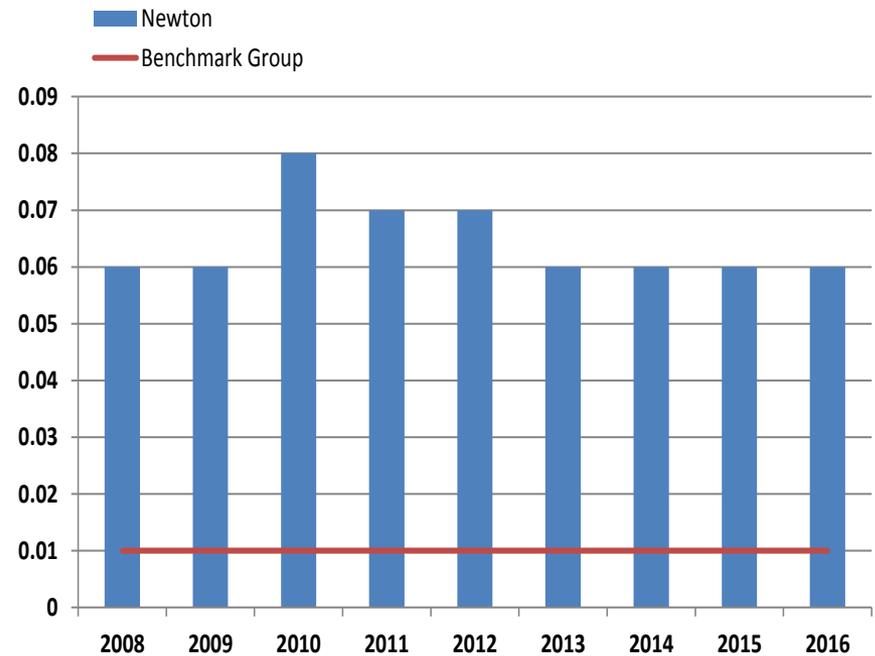
(Financing Obligation - service flexibility in relation to debt service committed)

Water & Wastewater Fund



Newton =0.21, Benchmark =0.18

Electric Fund



Newton =0.06, Benchmark =0.01

The City is more reliant on debt than its peers within the Electric Fund, indicating more resources are committed to required debt service obligations and limiting our resources for operations. The Water/Wastewater Fund is comparable with its peers.

Note: The Water/Wastewater graph is indicative of the strides towards financial stability within this fund.



FINANCIAL CONDITION INDICATORS

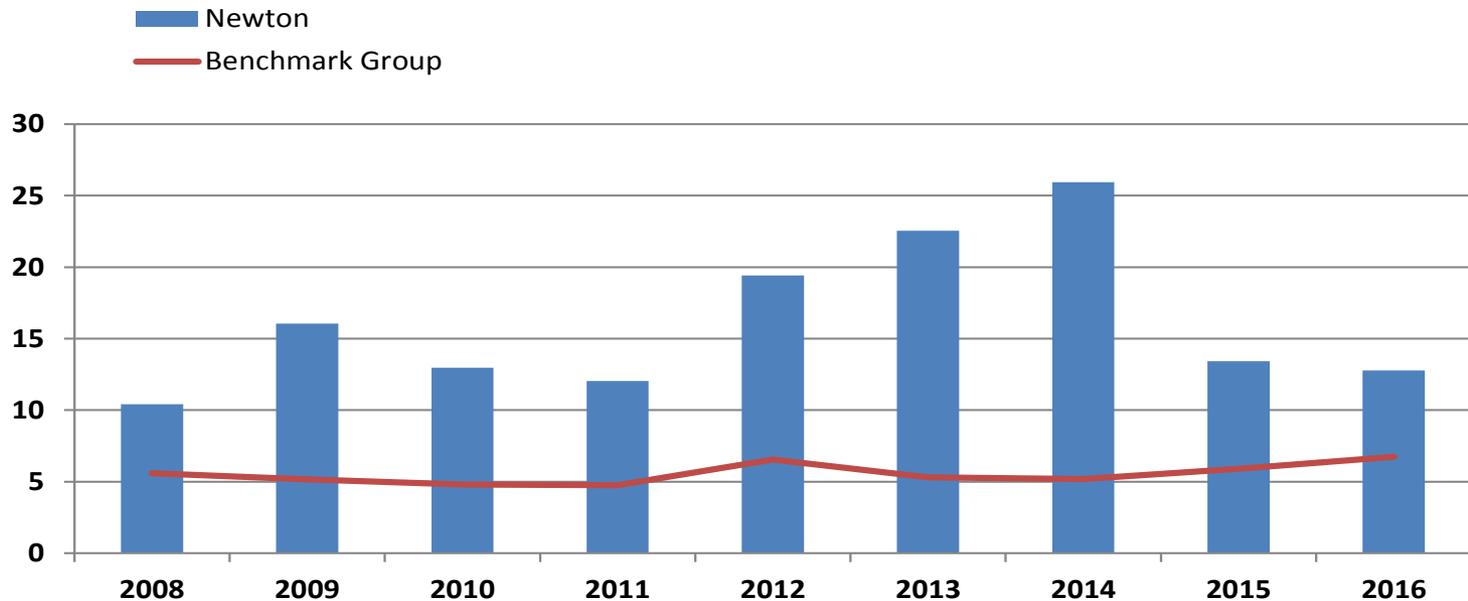
RESOURCE STOCK (BALANCE SHEET)

QUICK RATIO

Cash and investments compared to current liabilities

(Liquidity - ability to address short-term obligations)

General Fund



Newton =12.79, Benchmark =6.74

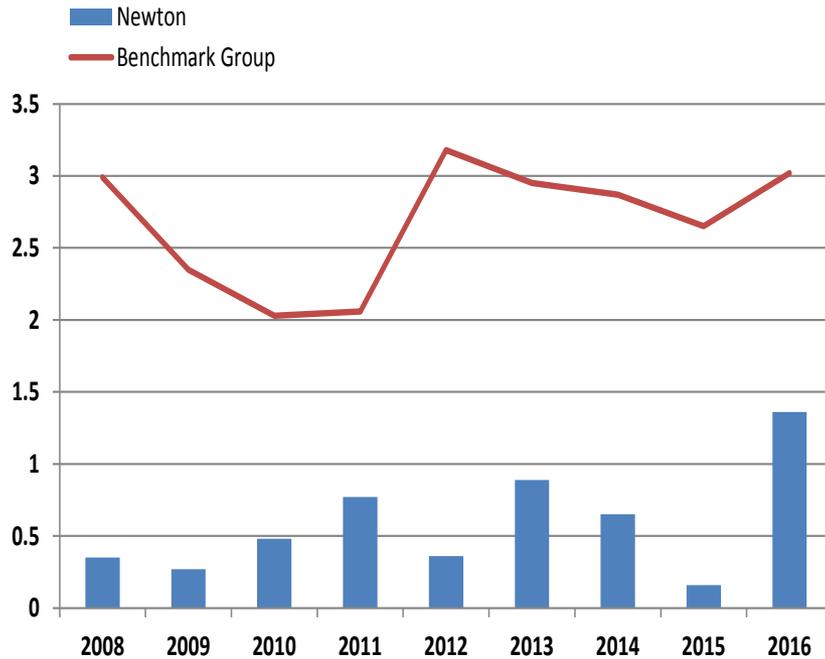
The higher the quick ratio, the better the City's liquidity position and the ability to address short-term obligations.

QUICK RATIO

Cash and investments compared to current liabilities

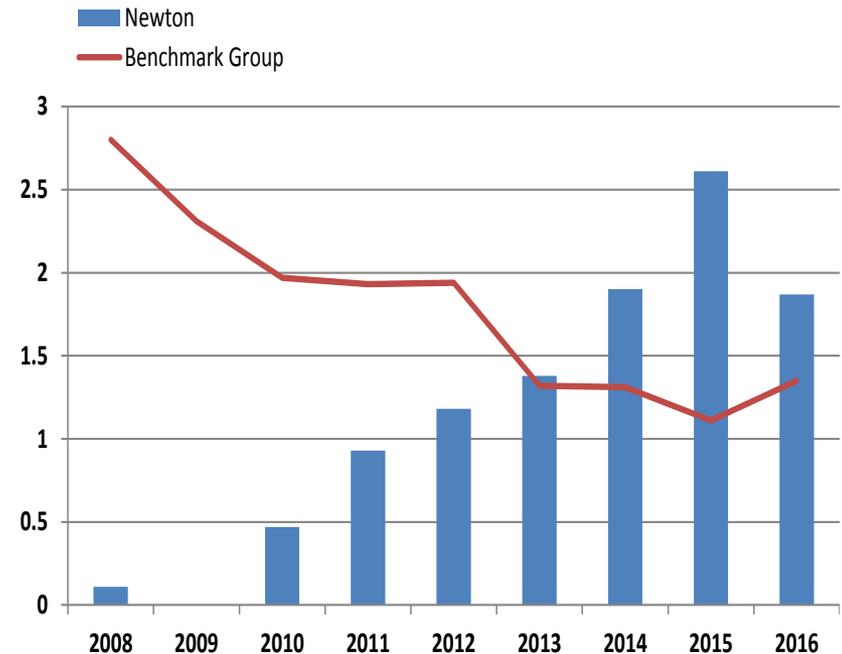
(Liquidity - ability to address short-term obligations)

Water & Wastewater Fund



Newton = 1.36, Benchmark = 3.02

Electric Fund



Newton = 1.87, Benchmark = 1.35

The higher the quick ratio, the better the City's liquidity position and the ability to address short-term obligations.
A quick ratio of 1.36 or 1.87 means that the City has \$1.36 or \$1.87 of liquid assets available to cover each \$1 of current liabilities.

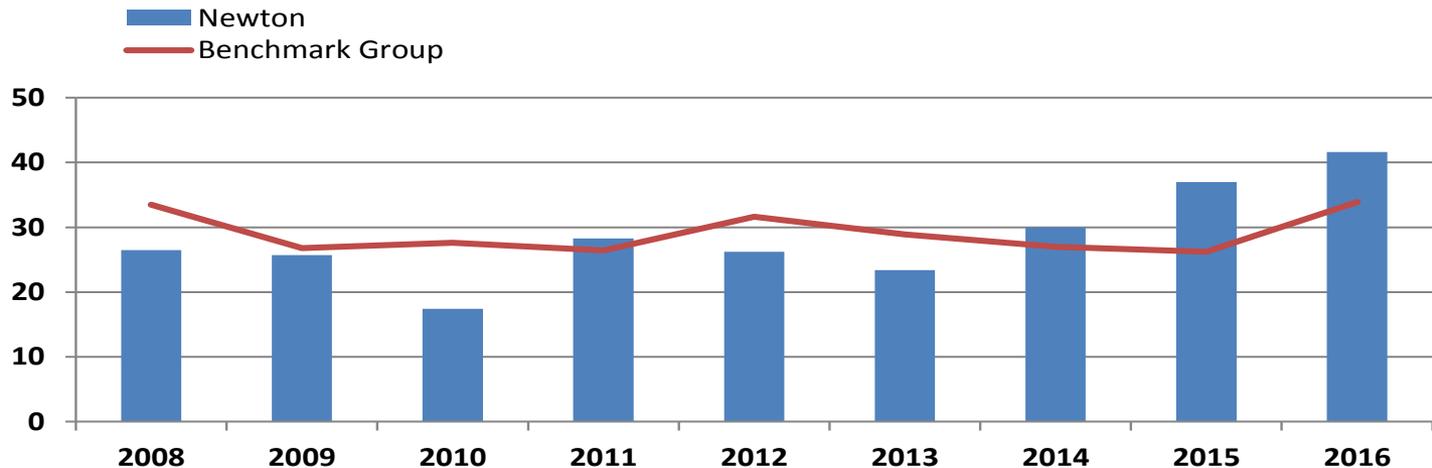
Note: FY 2015 reflects \$2 million transfer from Water/Wastewater Fund to Electric Fund for AMI Project

FUND BALANCE

Fund balance as a percentage of expenditures

(Solvency - ability to address long-term obligations)

General Fund



Newton =41.6, Benchmark =33.9

The City's unassigned (unrestricted) fund balance has increased slightly above its peer group the past several fiscal years. This is mainly attributable to a change in State law for registered motor vehicles.

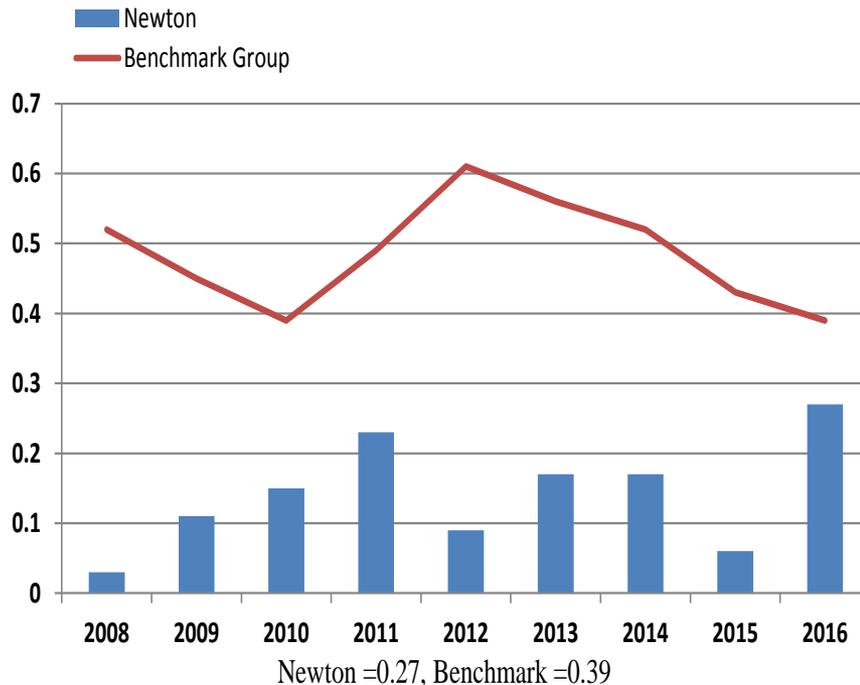
Note: Policy Benchmark 21%

Net Position Ratio

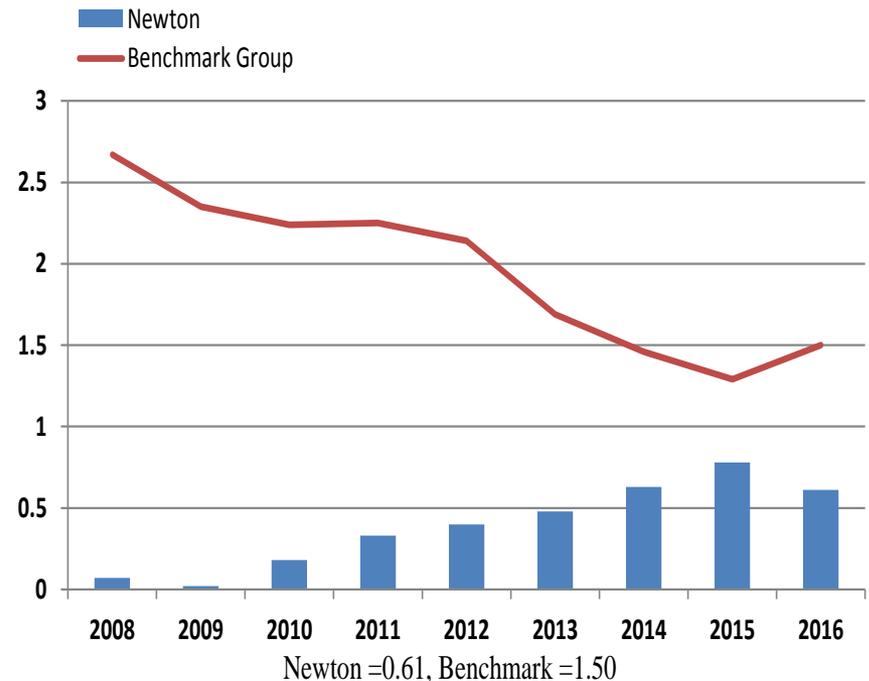
Ratio of net position (unrestricted) to total liabilities

(Solvency - ability to address long-term obligations)

Water & Wastewater Fund



Electric Fund



The City's net position (unrestricted) remains lower than its peer group which indicates the peer group is in a better position to meet long-term obligations than the City.

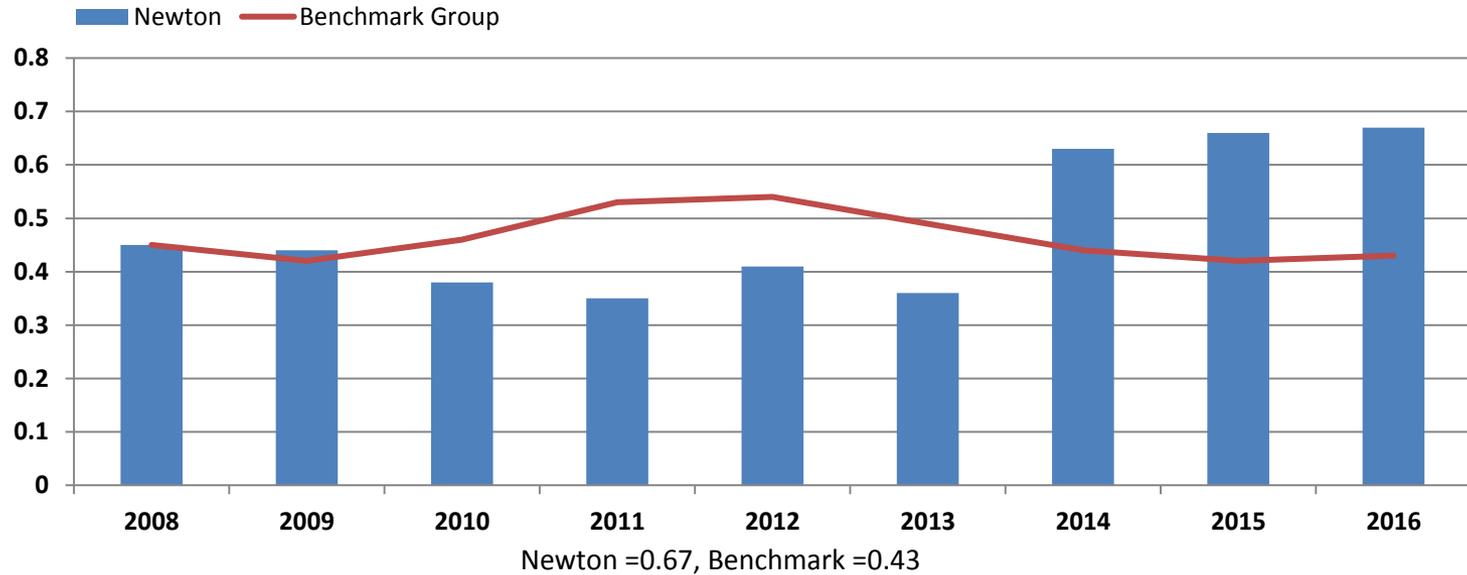
Note: FY 2015 Water/Wastewater Fund reflects the \$2 million transfer to the Electric Fund for the AMI Project

DEBT RATIO

Debt as a % of assessed value

(Leverage - extent government relies on tax supported debt)

General Fund



The City has become more reliant on debt that is supported by tax revenues than its peer group.

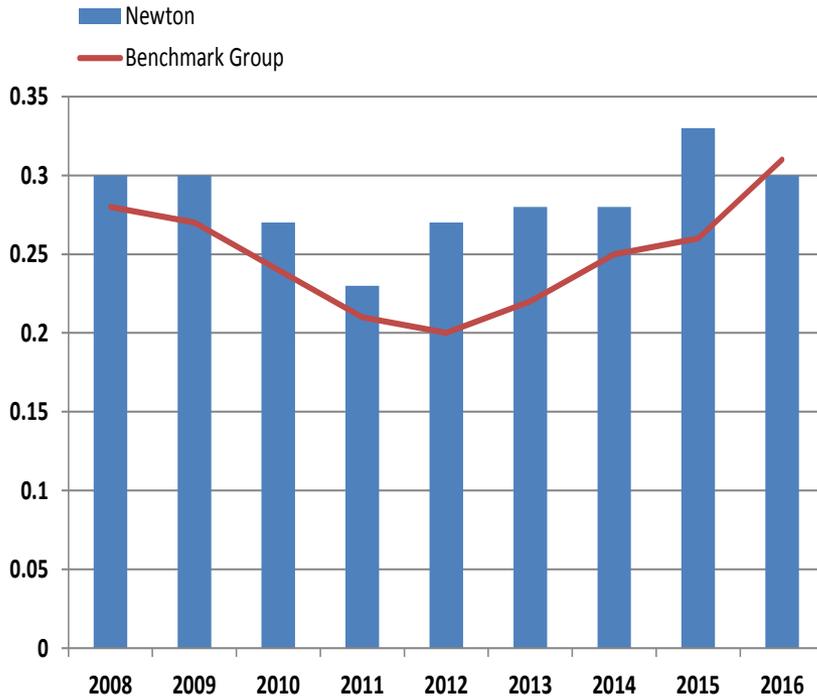
Note: The increase in FY 2014 is due to the debt associated with the new Fire Headquarters.

DEBT RATIO

Ratio of long-term debt to total assets

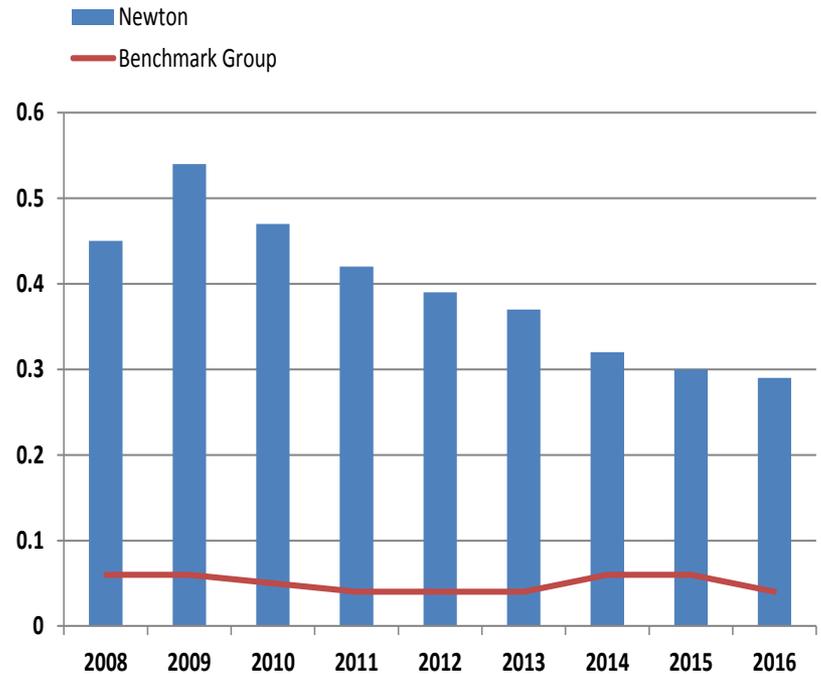
(Leverage - extent assets are financed with long-term debt)

Water & Wastewater Fund



Newton =0.30, Benchmark =0.31

Electric Fund



Newton =0.29, Benchmark =0.04

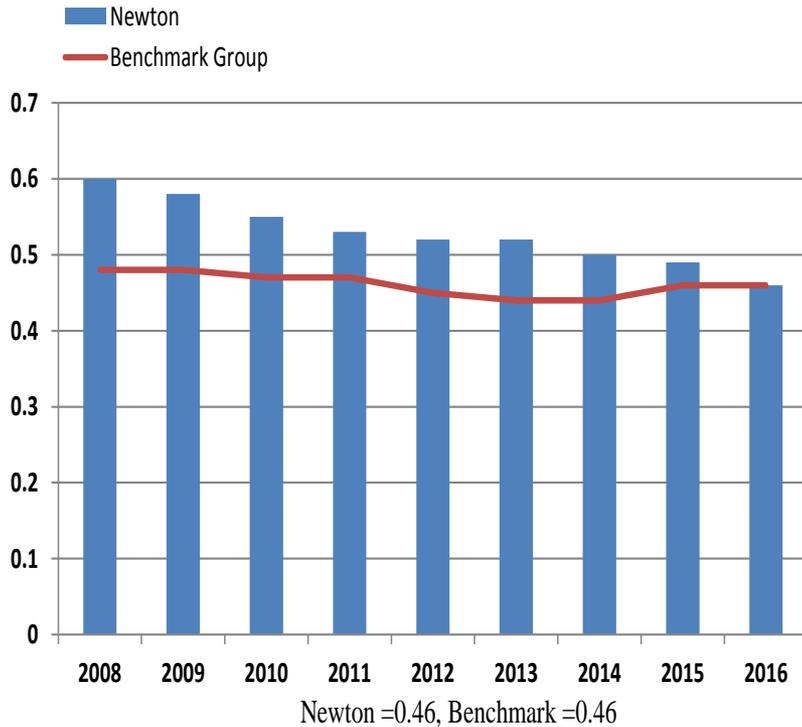
This ratio indicates that the City is more reliant on long-term debt for financing assets than the City's peer group within the Electric Fund while the Water/Wastewater Fund is comparable.

CAPITAL ASSET CONDITION RATIO

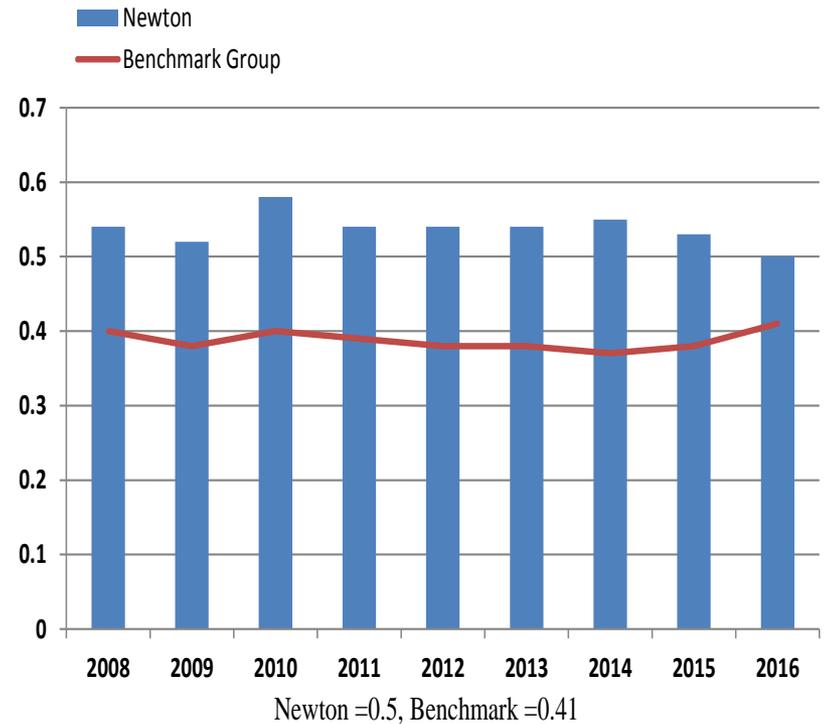
Accumulated depreciation divided by capital assets

(Capital - condition of capital assets)

Water & Wastewater Fund



Electric Fund



The capital assets of the Electric Fund are less depreciated than the City's peer group indicating the City is systematically investing in its capital assets while the Water and Wastewater Fund is comparable to the peer group.

SUMMARY

General Fund:

- ▶ The City has demonstrated a stronger ability to live within its financial means.
- ▶ The City is more reliant on debt than its peer group thereby reducing service flexibility (committing resources to pay debt service).
- ▶ The City's ability to address short-term obligations within the General Fund is much stronger than peer group.
- ▶ The City's unassigned (unrestricted) fund balance is slightly stronger than its peer group.

Water & Wastewater Fund:

- ▶ The City's peer group is better able to cover a larger portion of expenses indicating that they are more fully self-supporting than the City.
- ▶ The City's reliance on debt is comparable to its peers.
- ▶ Our peer group has demonstrated a stronger ability to address short-term obligations.
- ▶ The City is investing in capital assets at a comparable rate.
- ▶ The City's unrestricted net position ("Fund Balance") remains lower than its peer group indicating that the peer group is in a better position to meet long-term obligations.

SUMMARY (cont.)

Electric Fund:

- ▶ The Electric Fund has demonstrated the ability to live within its financial means.
- ▶ The City's peer group is better able to cover a larger portion of expenses indicating that they are more fully self-supporting than the City.
- ▶ The City is more reliant on debt than its peer group thereby reducing service flexibility (committing resources to pay debt service).
- ▶ The City is investing in capital assets at a faster rate.
- ▶ The City's unrestricted net position ("Fund Balance") remains lower than its peer group indicating that the peer group is in a better position to meet long-term obligations.

Recommendations

- ▶ Maintain a balance between debt financing and pay-as-you-go financing.
 - It provides flexibility for issuing additional debt when needed.
 - Too much debt limits our resources for operations.
 - Implement systematic replacement schedule for certain capital.
 - Establish Capital Reserve Fund for future debt.
 - ▶ Continue to focus on strengthening financial stability in areas noting weakness.
 - ▶ Increase revenue by focusing on economic growth and increasing/changing rate structures.
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