



What's Your Number?

Key Financial Indicators for Wisconsin Municipalities

Session Overview

01

Leverage financial data & ratios to distill financial health, guide budgeting & inform long-term decision making

02

Use trend analysis to benchmark performance against financial goals

03

Provide basis for comparison against relevant peer groups

04

Offer simple method to convey complex fiscal information to constituents



What's Your Number?

GOVERNMENTAL ACCOUNTING PRIMER

Governmental Funds

Typically include all tax-supported

- General Fund
- Debt Service Fund
- Capital Projects Funds & TIF Districts

Financial statements focus

- Balance Sheet
- Statement of Revenues, Expenditures & Changes in Fund Balances

Proprietary/Enterprise Funds



Revenues primarily comprised
of user fees & charges

Utilities fees
Facility charges



Financial statements focus

Statement of Net Position
Statement of Revenue,
Expenditures & Changes in
Net Position

Fund Relationships

Understand distinctions & connections

- Revenue & expenditure profiles
- Are certain Funds supporting others?
- Commingled cash accounts?



What's Your Number?

KEY FINANCIAL INDICATORS: GENERAL FUND

Before We Begin...

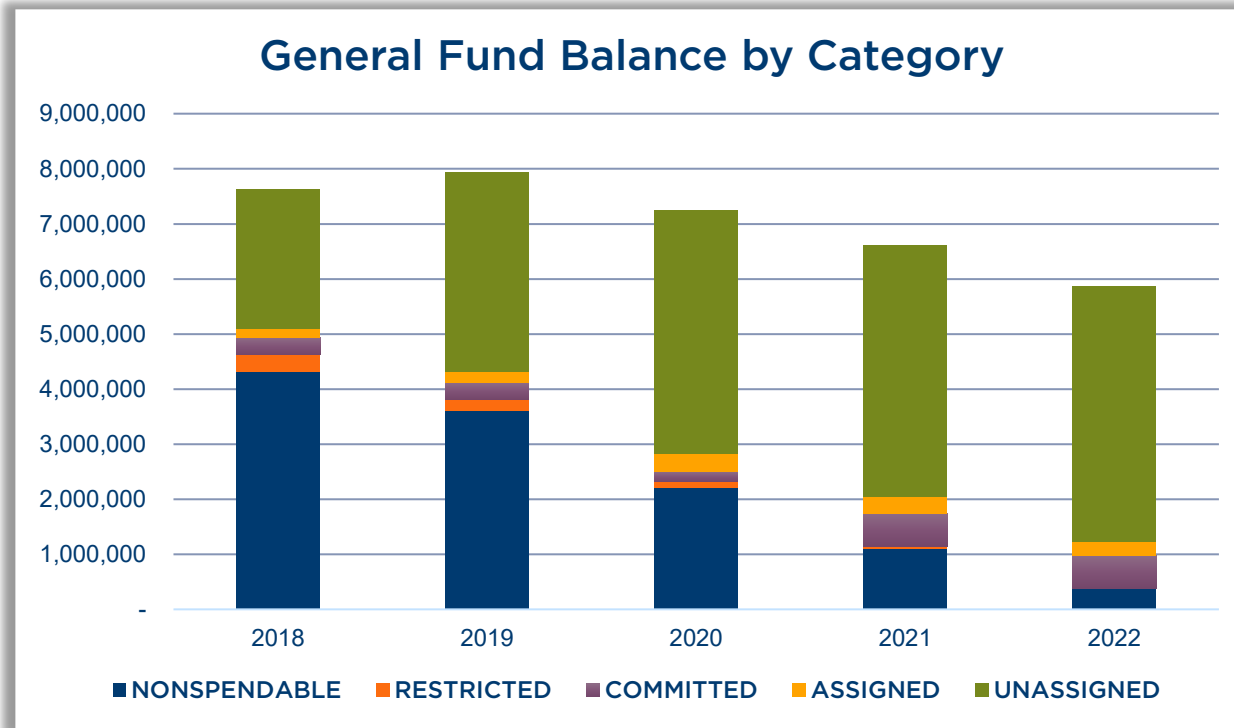
Audit only shows single point in time.

- End of fiscal period
- Notes section carries important information

Trend analysis reveals patterns over time.

- More informative to financial health & future
- Most metrics should cover 3- to 5-year period

Key Financial Indicators: Liquidity



Key Financial Indicators: Liquidity



**Unassigned funds
generally best
measure of liquidity.**

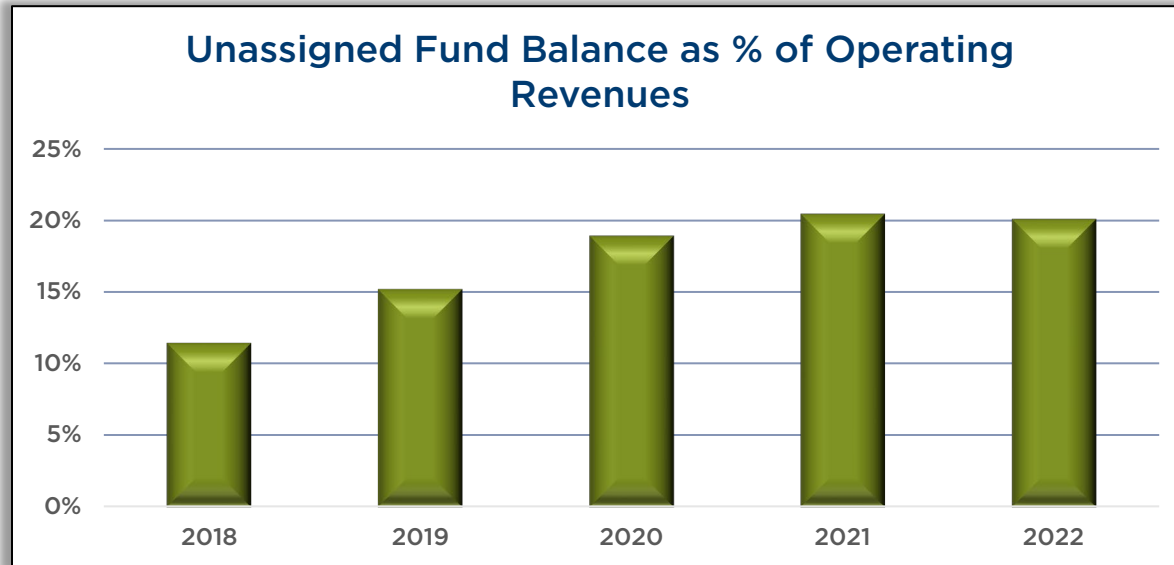


**Unassigned +
Assigned offers more
complete picture.**



**Negative Unassigned
Fund balance is
cause for concern!**

Key Financial Indicators: Liquidity



- Minimum = 25%
- Good = 50%
- Great = 75%
- Excellent = 100%+

Primary measure of financial strength

Trend Analysis: Liquidity

Is Total Fund balance & Unassigned funds declining?

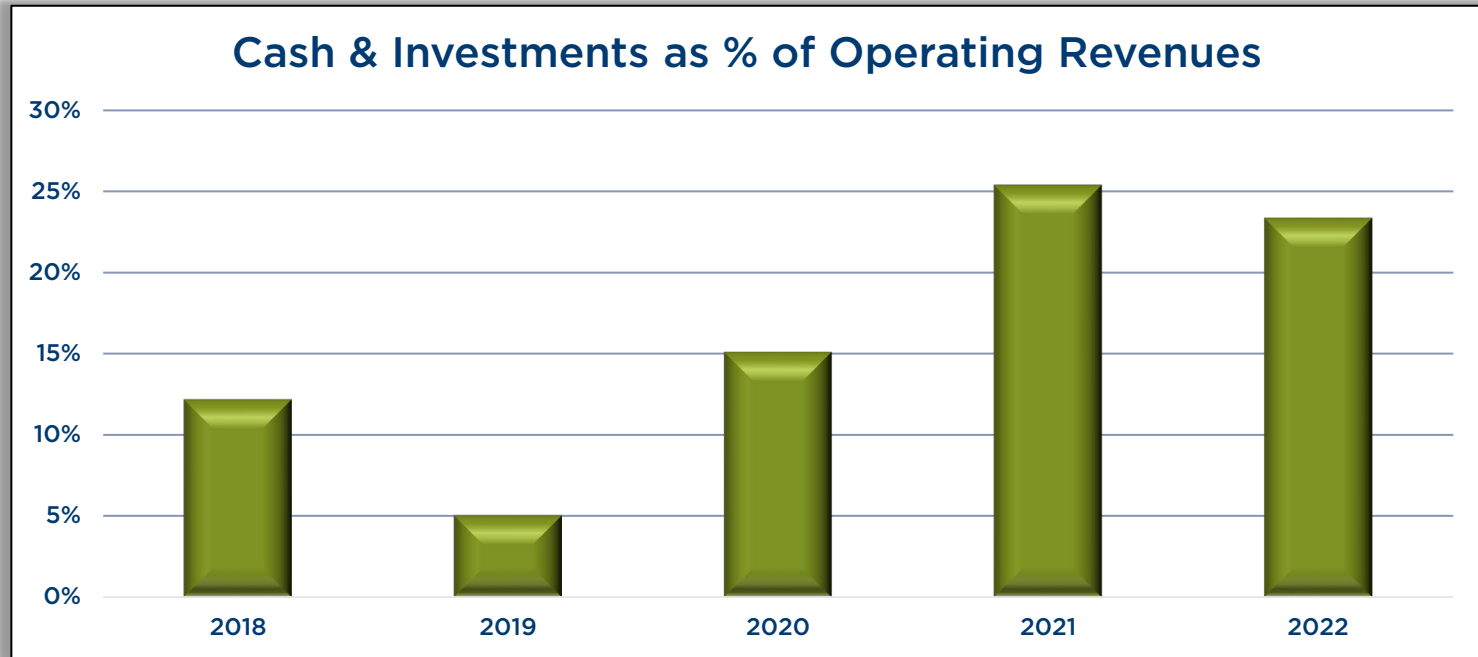
- Spending more than you're taking in
- Poor budgeting & governance environment

Is Non-spendable increasing & Unassigned funds declining?

- General Fund subsidizing other fund(s)
- Other fund(s) spending more than taking in, owes the General Fund

Both scenarios can exhaust cash resources.

Key Financial Indicators: Liquidity



Good = 50%

Great = 75%

Excellent = 100%+

Trend Analysis: Liquidity

Cash & Investments as % of Operating Revenue

- Stable to increasing = Good
- Declining = Poor financial performance (expenditures exceeding revenues or advances to other funds)

Key Financial Indicators: Leverage

Key Concepts:

General Obligation debt is “claim” against general tax base

Debt service & pension obligations are fixed, non-discretionary costs

Statutory limitation on General Obligation debt is 5% of Equalized Value (EV)

Key Financial Indicators: Leverage

Key Concepts:



“Self-supporting” G.O. Debt

G.O. debt paid from revenues other than general tax levy and TIF & not included in some measures

TID(s), if healthy & supporting debt fully



Net G.O. Debt

Principal amount of G.O. debt after deducting for all self-supporting debt

Key Financial Indicators: Leverage

Debt & Fixed Cost Ratios:

- Total G.O. Debt as % of total Equalized Value
 - ✓ Maximum = 5% per state statute
 - ✓ Maintain reserve balance for unexpected circumstances
 - 15 - 20%, depending on size of tax base
 - May be targeted dollar amount (smaller communities)
- Net G.O Debt as % of total Equalized Value
 - ✓ No statutory considerations
 - ✓ Better indicator of “leverage”

Key Financial Indicators: Leverage

Debt & Fixed Cost Ratios:

- Total & net debt per capita
 - ✓ Compare against similar communities & population count
- Fixed cost burden
 - ✓ Debt service as % of operating budget
 - 20% or greater can be sign of stress
 - ✓ Debt service + pension obligation as % of operating budget
 - 30% or greater can be sign of stress

Trend Analysis: Leverage

Consistent increases in debt/cost ratios?

- Points to potential for unsustainable debt levels
- May lead to credit deterioration

Context is important!

- Growing communities require investment
- May skew debt metrics higher than more established peers



What's Your Number?

KEY FINANCIAL INDICATORS: ENTERPRISE FUNDS

Key Financial Indicators: Liquidity

Days Cash on Hand

- ✓ Measures how many days enterprise system can support operating costs with absence of or material decline in revenue

Traditional Measure

$$\frac{(\text{Unrestricted Cash} + \text{Cash Equivalents})}{((\text{Annual Operating Expenses} - \text{Depreciation} - \text{Amortization})/365)}$$

Conservative Measure

$$\frac{(\text{Unrestricted Cash} + \text{Cash Equivalents})}{((\text{Annual Operating Expenses} + \text{Tax Equivalent Payments} + \text{Debt Service} - \text{Depreciation} - \text{Amortization})/365)}$$

Key Financial Indicators: Liquidity

Days Cash on Hand (DCoH):

Enterprise
Fund Revenue
& Expense
Profiles

- Target higher DCoH when Fund has:
 - Higher customer concentration
 - Older age of assets
 - Higher fixed costs

General
Benchmarks

- Minimum = 90 days
- Good = 120 days
- Great = 365 days
- Excellent = >365 days

Trend Analysis: Liquidity

Unrestricted Cash Balances

Should be stable to growing over time

Should represent substantial portion of total assets



Advances to/from Other Funds

Should not be growing unless pre-planned

If present, develop plan for repayment in reasonable time

All measures should be stable or improving over time.

Key Financial Indicators: Leverage

Debt & Fixed Costs:

- ✓ Leverage generally viewed through debt service coverage lens

Net Revenues Available For Debt Service *(Traditional)*

Total Operating Revenues
-Net Operating Expenses
*(Net of Depreciation
Amortization
Debt Service
Tax Equivalents,
Capital Expenditures)*



Net Revenues Available For Debt Service *(Conservative)*

Total Operating Revenues
-Net Operating Expenses
*(Net of Depreciation,
Amortization
Debt Service,
Capital Expenditures)*



Debt Service Coverage

Net Revenue Available
Total Annual Principal
& Interest

Key Financial Indicators: Leverage

If debt service coverage ratio is:	It means the Fund...
Less than 1.0	Has negative cash flow & can't support all expenditures
Equal or just above 1.0	Isn't generating enough cash to support improvement, repair & replacement costs
At least 1.15	Can maintain a level of cash reserves
1.25 & up	Can likely accommodate future borrowing for capital improvements

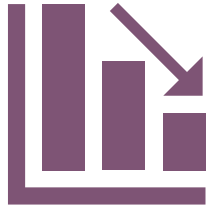
Good = 1.50

Great = 1.75

Excellent = 2.0+

Key Financial Indicators: Leverage

Debt & Pension Liability as Percentage of Total Assets:



Lower is Better

Context is key

Typically spikes during major capital improvements & replacements



Trend Analysis

Understand reasons behind fluctuations

Monitor regularly

Key Financial Indicators: Special Considerations

When Revenue Bond covenants are in place...



**Manage Enterprise Fund
fiscal health to maintain
covenant compliance**

- Required minimum debt service coverage & rate covenant
- Additional bonds tests
- Minimum Days Cash on Hand

Key Financial Indicators: Special Considerations

Poor DCoH & Debt Service Coverage impede access to capital.

Moody's Investor Services Scorecards:

Financial Strength (40%)	Aaa	Aa	A	Baa	Ba	≤B
DCoH (15%)	> 250	250 ≥ n ≥ 150	150 ≥ n ≥ 35	35 ≥ n ≥ 15	15 ≥ n ≥ 7	≥ 7

Financial Strength (40%)	Aaa	Aa	A	Baa	Ba	≤B
Annual Debt Service Coverage (15%)	> 2.0	2.0 ≥ n ≥ 1.7	1.7 ≥ n ≥ 1.25	1.25 ≥ n ≥ 1.0	1.0 ≥ n ≥ .70	≥ 0.70

Putting it Together

- Conduct capital planning to maintain assets properly & quantify future investment needs
- Complete regular cash flow projections to understand impacts of capital planning
- **Wisconsin Water Utilities are highly regulated:** Know your windows of opportunity & manage rate timing

Final Thoughts: KFIs in Action!

Manage your entity's financial performance to target KFIs! They can *and will* determine your ability to fund operations & capital projects.

- Create or amend financial policies to include target KFI benchmarks
- Use BOTH point-in-time & trend analysis to assess current, anticipated financial health
- Continuously review as standard component of capital & operating budget processes
- Adjust budgeting practices when KFIs identify emerging problems



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