



Washington State Auditor's Office
Troy Kelley

Independence • Respect • Integrity

Diagnose Your Financial Health

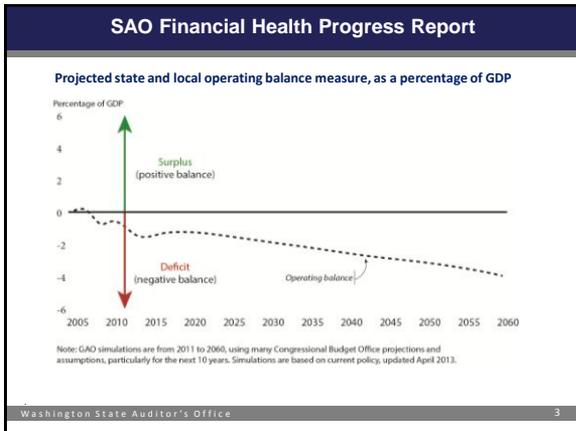
Infrastructure Assistance Coordinating Council
October 1, 2014

Session Objectives

- Review SAO's new report findings regarding local government financial health.
- Discover what the SAO is developing to make your job easier as stewards of public resources.
- Provide your input!



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SAO Financial Health Progress Report



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State Auditor's Office Progress Report:
Local Government Financial Health
August 7, 2014
Report Number: 1012330

What we looked at:

- Local governments with one or more indicators of declining financial condition
- Findings and Management Letters
- Audits issued between November 2012 and May 2014
- (Refresh of our November 2012 financial condition report)

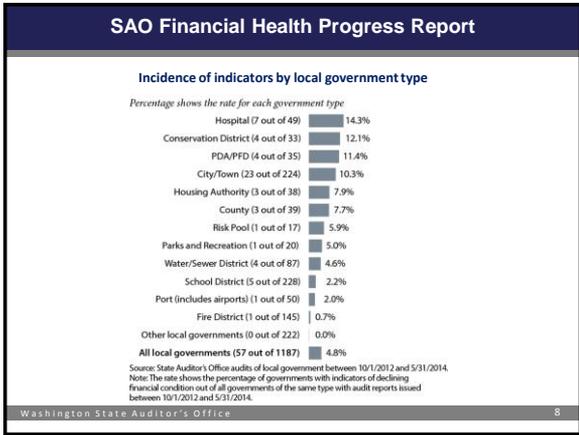
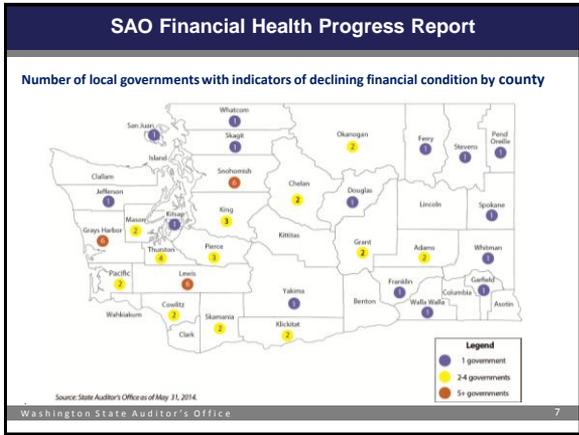
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SAO Audit Indicators of Financial Health

Type of indicator	What it shows
Expenditures exceeding revenues	Operating expenditures exceed revenues in the General Fund.
Declining or negative general fund balance	A situation in which the General Fund has declined significantly over time or has a negative balance. The General Fund pays for services such as public safety, community planning, public health, etc. The ending balance identifies the amount of resources the government has available for these services.
Increasing or high debt	The use of other sources of long-term financing, such as issuing Bond Anticipation Notes or taking out bank loans, to cover general operating expenditures.
Reliance on short-term financing	Borrowing money from the County to pay for operations and to address cash-flow shortages. This is known as "registered warrants" and interest is charged on these funds, resulting in an additional expense to the local government.
Reliance on unsupported cost allocations	The costs of central services such as administration, human resources, payroll and purchasing can be allocated among government funds that benefit from the services. The government must adopt a fair and equitable method of distributing these shared costs among the funds. At times, these allocations are not properly supported, such as allocating more costs to funds with the most resources.
Reliance on interfund loans	When the General Fund does not have sufficient funds to cover general government operating expenses, the government loans money from a separate fund.
Failed levy	Some local governments receive funding from voter approved property taxes called levies. Typically, the levies fund maintenance and operations and apply for a year or two. Levy failures can have a major impact on financial condition.
Inadequate management action or oversight	Indications that elected officials are not aware of, engaged, or taking necessary actions to stabilize the financial conditions, such as reducing expenditures through program or staff reductions or identifying new revenue sources.
Contingent debt liability	Local governments can accept responsibility for loans through contracts or agreements. These liabilities are contingent on certain events or circumstances occurring or not occurring.
Pending litigation	Litigation costs or pending legal judgments that risk depleting available fund reserves.

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Financial Intelligence Tool (F.I.T.)

What

- Local government financial health indicator library, data, & guidance
- User defined dashboards with indicators & data that are most important to them
- Benchmarking financial health against other entities selected by the user

Who

- All types of local government entities
- Accounting basis – GAAP & Cash
- All types of user roles – elected officials, finance officers, state agencies, etc.
- Eventual public access

Why

- Enable local governments to assess their own financial health proactively
- Provide actionable information to local government policymakers
- Trend analysis and future forecasting

Responsive Design | Visualization | Easy-to-Use
 Trusted & Accurate | Data Clearinghouse
 Communication Between Entities & Agencies
 Educational | Financial & Non-Financial Data

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F.I.T. v. 1.0

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Local Government Financial Condition Assessment Tool: At a Glance

This Financial Health Assessment Tool is provided by the Washington State Auditor's Office as a resource for local government leaders looking for more information to help them make sound financial decisions.

This workbook contains data for City of CASH EXAMPLE as of fiscal year 2013

The summaries below are based on unaudited annual report data provided by City of CASH EXAMPLE to the Washington State Auditor's Office. For more information about this tool, the ratios, and other important factors to consider when assessing financial health, click through the tabs across the bottom of this workbook.

Ratio	What does it measure?	What does it reveal?	Current Year Value	SAO Warning Indicator?
Operating Margin	Net income as a percent of revenues	Are governmental activities sustainable?	15.1%	No
Cash Balance Sufficiency	Days of Operating Expenditures	What is the government's ability to deal with emergencies and unanticipated needs?	62.9	No
Change in Cash Position	Percent change in cash position	Did the cash position of governmental funds improve or decline?	-18.2%	YES
Enterprise Fund Self-Sufficiency	Enterprise revenues as a percent of expenses	Are enterprise funds supporting themselves?	103.2%	No
Debt Load	Debt as a percent of revenues	How much governmental fund revenue goes toward debt payments?	6.7%	No

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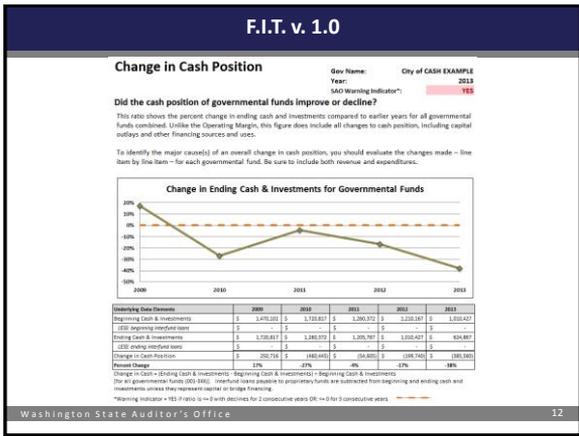
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F.I.T. v. 1.0

Draft Financial Health Assessment Ratios for governments using cash accounting

Ratio	What does it reveal?	What does it measure?	SAO Guideline
Cash Balance Sufficiency	What is the government's ability to deal with emergencies and unanticipated needs?	The number of days that the general fund can cover its operating expenditures.	The general fund ending cash balance should equal at least 60 days of operating expenditures.
Operating Margin	Are governmental activities sustainable?	Operating revenues compared to operating expenditures.	The percent difference between governmental fund operating revenues and governmental fund operating expenditures should be greater than 0%.
Change in Cash Position	Did the cash balance of governmental funds improve or decline?	The percent change in ending cash for all governmental funds compared to the prior year.	The percent difference between prior year ending cash and current year ending cash should be greater than 0%.
Enterprise Fund Self-Sufficiency	Are enterprise funds supporting themselves?	Enterprise fund revenues compared to enterprise fund expenditures.	Enterprise revenues should cover at least 100% of enterprise expenditures.
Debt Load	How much governmental fund revenue goes toward debt payments?	Governmental fund debt payments compared to governmental fund revenues.	Governmental fund debt payments should be less than 12% of governmental fund revenues.

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F.I.T. v. 1.0

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F.I.T. for GAAP

Draft Financial Health Assessment Ratios for governments using GAAP

Ratio	What does it reveal?	What does it measure?	SAO Guideline
Current Ratio	Can current general fund assets cover current general fund liabilities?	Current Assets compared to current liabilities.	Current assets should be 125% or more of current liabilities.
Fund Balance Sufficiency	What is the government's ability to deal with emergencies and unanticipated needs?	The number of days the ending General Fund balance can cover Operating Expenditures.	The General Fund should be able to cover at least 60 days of operating expenditures.
Capital Asset Condition	Will major capital asset investments be needed in the near future?	The remaining useful life of capital assets.	Capital assets should have at least 25% of their useful life remaining.
Operating Margin	Are governmental activities sustainable?	Operating revenues compared to operating expenditures.	The percent difference between governmental fund operating revenues and governmental fund operating expenditures should be greater than 0%.
Change in Net Position	Did the balance of assets and liabilities of governmental activities improve or decline?	The change in the balance of assets and liabilities of governmental activities.	The percent difference between prior year net position and current year net position should be greater than 0% (positive change).
Business Type Activity Self-Sufficiency	Are business-type activities supporting themselves?	Business type activity revenues compared to business type activity expenditures.	Business type activity revenues should be at least 100% of business type activity expenditures.
Debt Load	How much governmental fund revenue goes toward debt payments?	Governmental fund debt payments compared to governmental fund revenues.	Governmental fund debt payments should be less than 12% of governmental fund revenues.

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Web-Based F.I.T. Prototype

DEMO

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Tentative High-level Timeline

Deliverable	Projected Completion
Excel Version of Tool (for cash-basis)	December 2014
Web-based Tool (for cash-basis)	June 2015
Excel Tool Template (for GAAP)	June 2015
GAAP Pilot Group Work	June 2015
Web-based Tool (for GAAP)	June 2016
Public Facing Web-based Tool	December 2016 ???

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- ### Success Factors - Initial Guidance
- "The Financial Health Assessment Tool should..."**
- ❑ Assist, inform, & facilitate **local control** over local governments' financial health
 - ❑ Provide unbiased, fully explained data & information to inform elected officials
 - ❑ Provide different, customizable views of information based on varied user roles (elected vs. staff) and varied local government types, sizes, & basis of accounting (GAAP & Cash)
 - ❑ Avoid labels, scoring, or a "one size fits all" approach to financial health assessment
 - ❑ Facilitate communication between elected officials and fiscal managers/staff
 - ❑ Facilitate communication with state legislature & agencies regarding shared state revenue, grants, bond ratings, etc.
 - ❑ Provide a single local government financial health "data" hub for all state agencies, offices, & auditors to interact with local governments
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- ### Challenges - Initial Guidance
- "Be aware that..."**
- ❑ There is disagreement regarding the definition of "financial condition" and what constitutes financial "distress"
 - ❑ Budget data is not collected by SAO, so forward-looking planning data is not readily available
 - ❑ Multiple state agencies & offices request the same data from local governments which is a significant burden on small entities
 - ❑ It is not always easy for local government to determine the root cause of a financial health concern and/or how they might act to resolve an issue
 - ❑ It is difficult to balance presenting detailed information versus simple, easy-to-understand assessment indicators of financial health (to much detail hides problems; to little detail provides no actionable information or provides false sense of security)
 - ❑ Financial health assessment knowledge & understanding can vary widely across a local government's organization
 - ❑ Many entities are unique or have characteristics that make it difficult to compare with other entities
 - ❑ Tools like the one proposed can end up being misused for political purposes
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Priorities & Stakeholder Engagement - Initial Guidance

"Priorities..."

- ❑ Cash based entities – current BARS structure supports as-is
- ❑ Types of local governments that experience the most financial "distress"
- ❑ Local governments & state agencies should have access initially
- ❑ Targeted initial local government users should include Elected Officials, Finance/Budget Managers, Treasurers, Clerks, County Auditors, & City Managers
- ❑ Counties, Small Cities, Fire Districts, Small Hospitals, Special Districts, Conservation Districts

"Make sure you talk to or continue to talk to..."

- ❑ The entities themselves – a good mix of entity types, sizes, and accounting basis
- ❑ Local Government Conferences (June – November)
- ❑ Associations - AWC, WSAC, WACO, WFOA, MRSC, & Others
- ❑ State Agencies/Offices – DOT, Commerce, SAO, OFM, State Treasurer, DoH, Legislative Committees
- ❑ UW/Central WA/Eastern WA/Boise State Environmental Finance Center

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