

FINANCIAL CONDITION ANALYSIS

- ▶ City of Newton
- ▶ Fiscal Year 2014-2015



FINANCIAL CONDITION ANALYSIS

▶ Management Tool

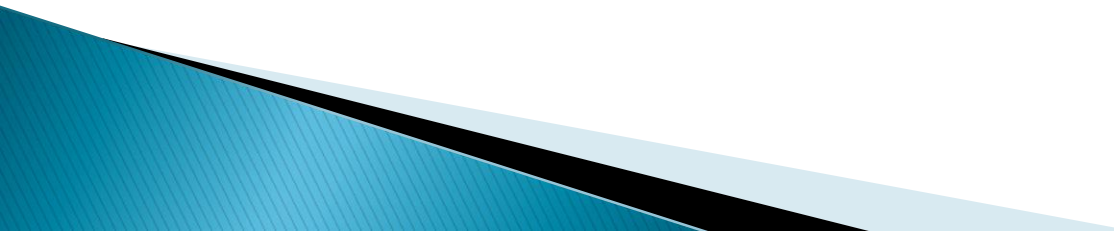
- Helps local governments communicate complex financial information in an easy to understand format
 - Utilizes a Dashboard format to present trend data
 - Evaluates financial condition against benchmark peers
 - Analysis is based on Government-wide and Fund level Reporting

FINANCIAL CONDITION ANALYSIS

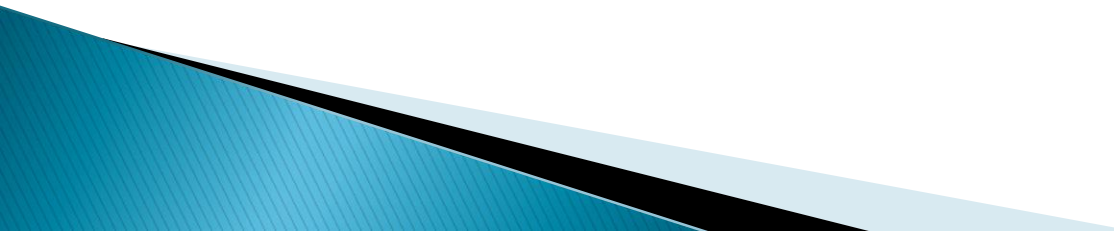
▶ Assessment tool

- 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. 10,522
 - *County Seat, Lincoln County*
 - ▶ **Morganton** – pop. 16,720
 - *County Seat, Burke County*
 - ▶ **Clayton** – pop. 17,330
 - *Johnston County*
 - ▶ **Albemarle** – pop. 15,958
 - *County Seat, Stanly County*
 - ▶ **Kings Mountain** – pop. 10,632
 - *Cleveland County*
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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

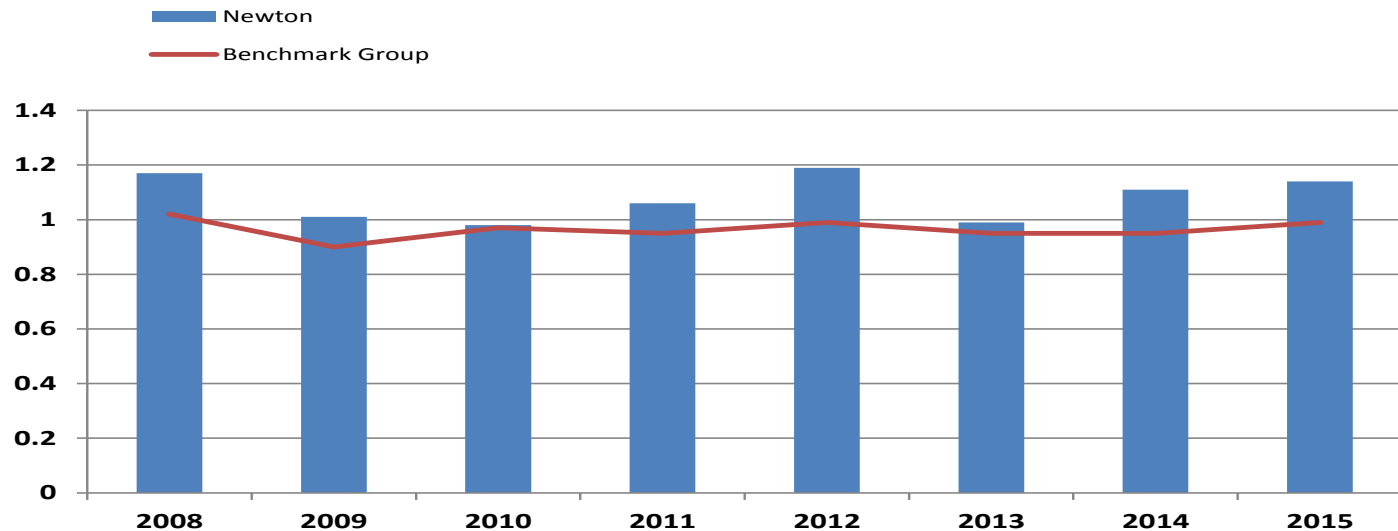
RESOURCE FLOW (OPERATIONS)

TOTAL MARGIN RATIO

Ratio of revenue to expenditures

(Ability to live within financial means)

General Fund



Newton = 1.14, Benchmark = 0.99

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

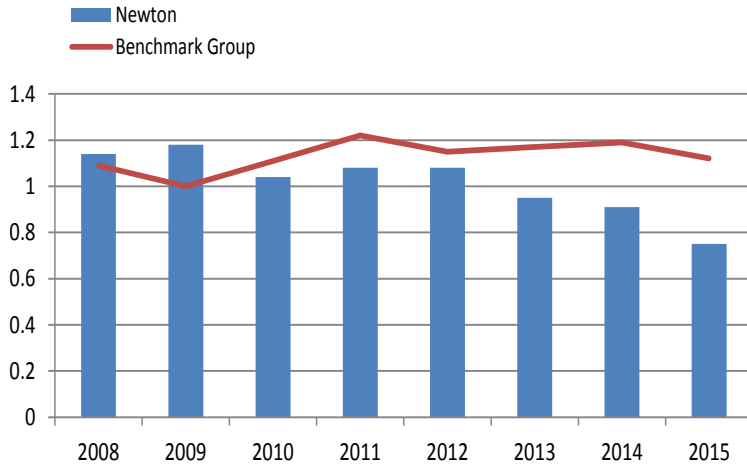
Note: FY 2012 reflects \$1.2 million contribution from Sue Jones Estate

TOTAL MARGIN RATIO

Ratio of revenue to expenses

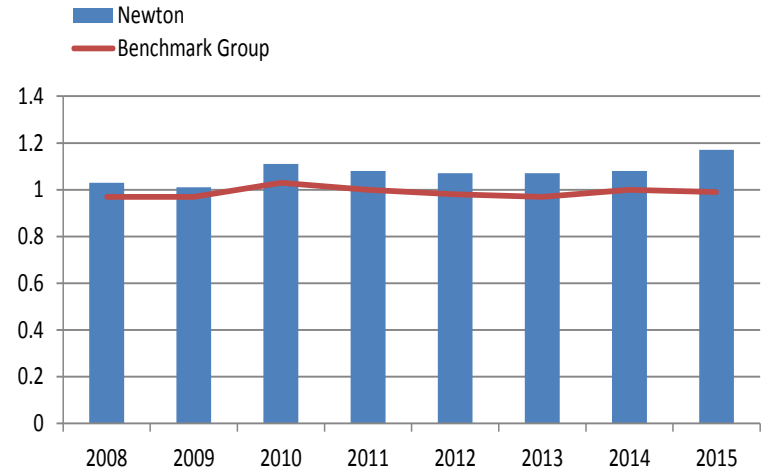
(Ability to live within financial means)

Water & Wastewater Fund



Newton =0.75, Benchmark =1.12

Electric Fund



Newton =1.17, Benchmark =0.99

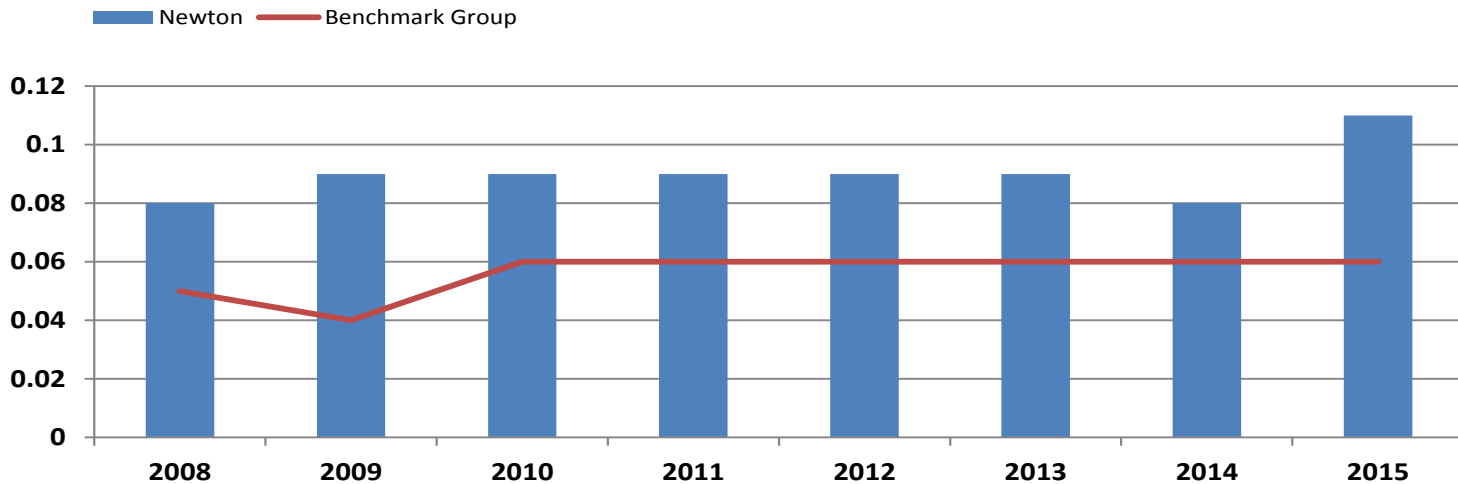
A ratio higher than one indicates the City has lived within its means while not building up excess reserves.

*Notes: FY 2015 reflects \$2 million transfer from Water/Wastewater Fund to Electric Fund for AMI Project
5% Water and Wastewater rate increase FY 2015 / 3% Water and Wastewater rate increase FY 2016*

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.

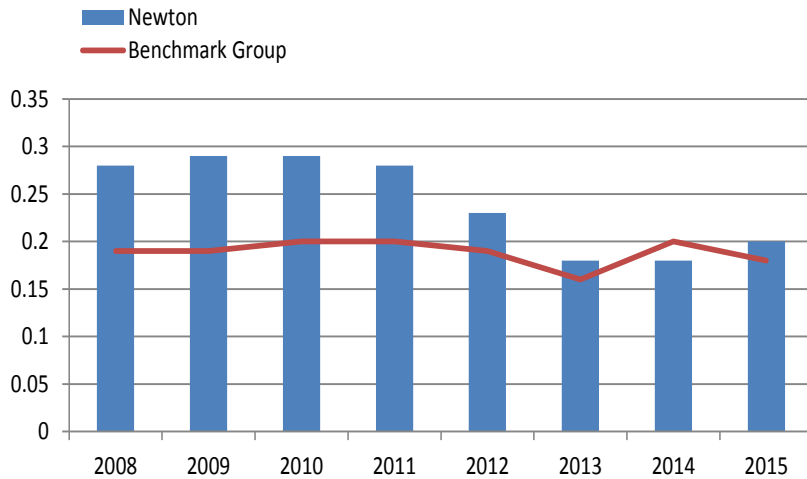
Note: FY 2015 reflects the debt service payment associated with the new Fire Headquarters which was financed in FY 2014.

DEBT SERVICE RATIO

Debt service compared to total expenses

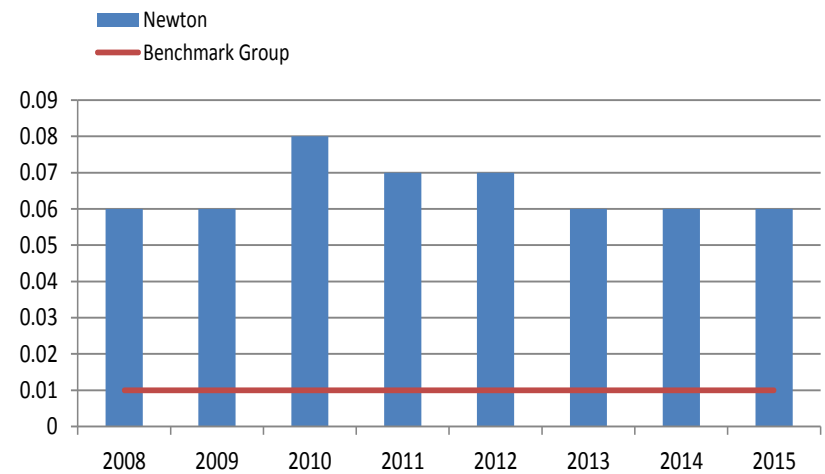
(Financing Obligation - service flexibility in relation to debt service committed)

Water & Wastewater Fund



Newton =0.2, 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.



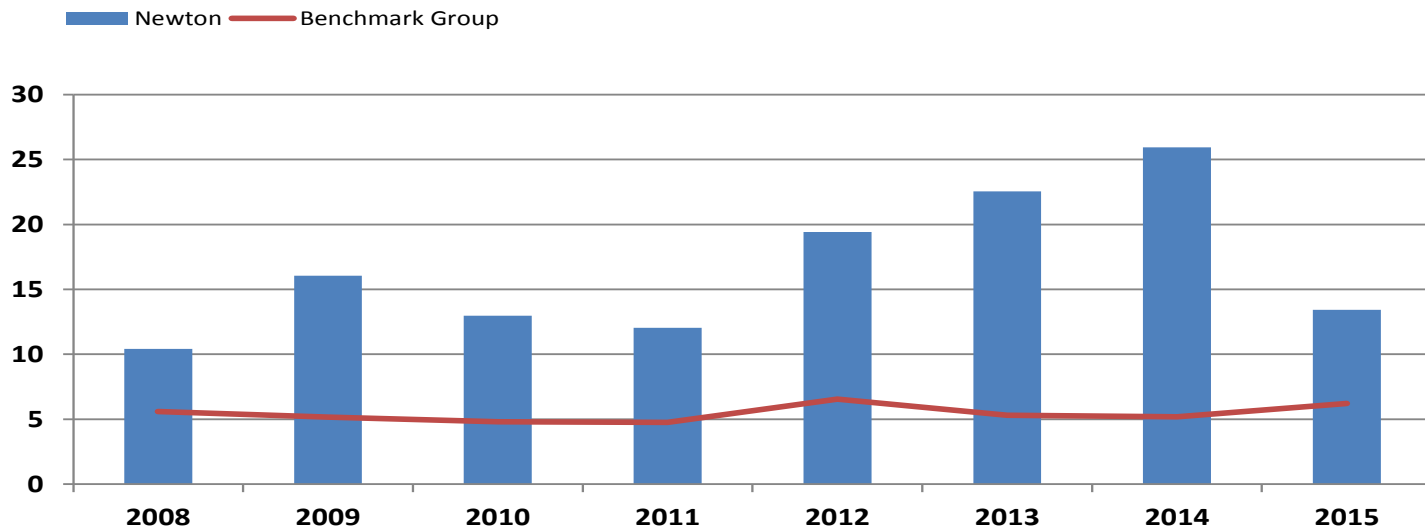
FINANCIAL CONDITION INDICATORS

RESOURCE STOCK (BALANCE SHEET)

QUICK RATIO

Cash and investments compared to current liabilities
(Liquidity - ability to address short-term obligations)

General Fund



Newton =13.43, Benchmark =6.22

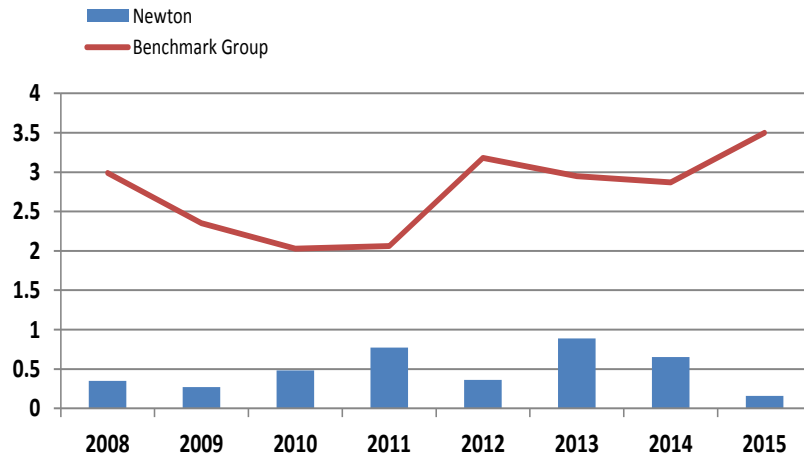
While the City's cash and investment levels are adequate to cover current obligations, the City maintains the lowest cash and investments per dollar than each of its peers with the exception of two peers. The City maintains the lowest current liabilities of the entire peer group with the exception of one peer.

QUICK RATIO

Cash and investments compared to current liabilities

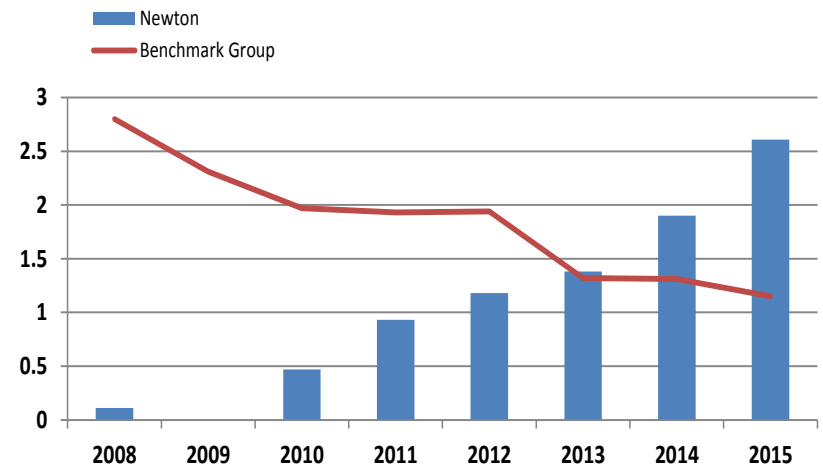
(Liquidity - ability to address short-term obligations)

Water & Wastewater Fund



Newton =0.16, Benchmark =3.5

Electric Fund



Newton =2.61, Benchmark =1.15

The City's Water/Wastewater Fund indicates current liabilities exceed cash and investments indicating lack of ability to address short-term obligations.

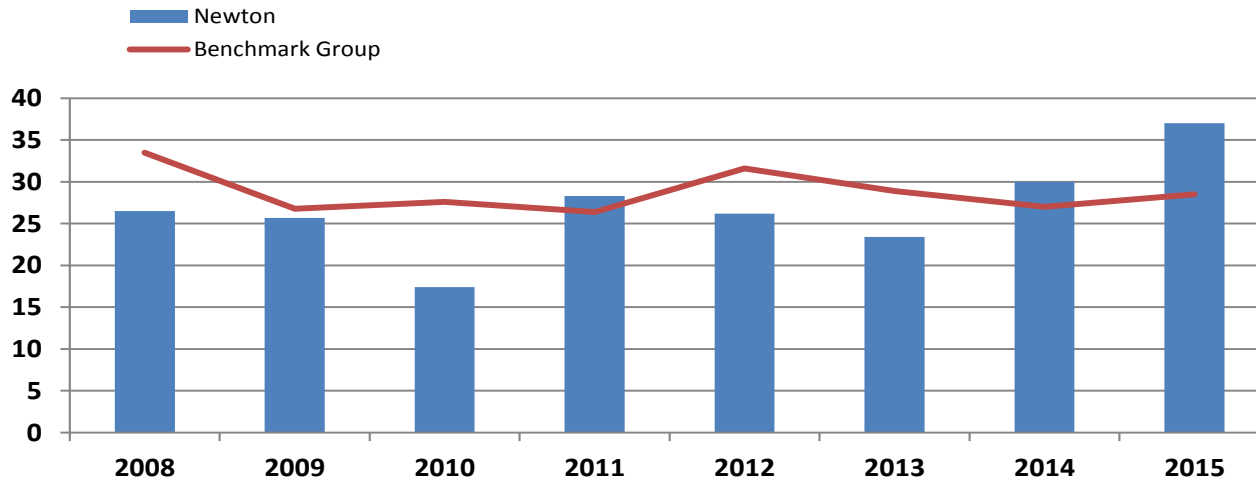
Note: FY 2015 reflects \$2 million transfer from Water/Wastewater Fund to Electric Fund for AMI Project

FUND BALANCE

Fund balance as a percentage of expenditures

(Solvency - ability to address long-term obligations)

General Fund



Newton =37, Benchmark =28.5

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

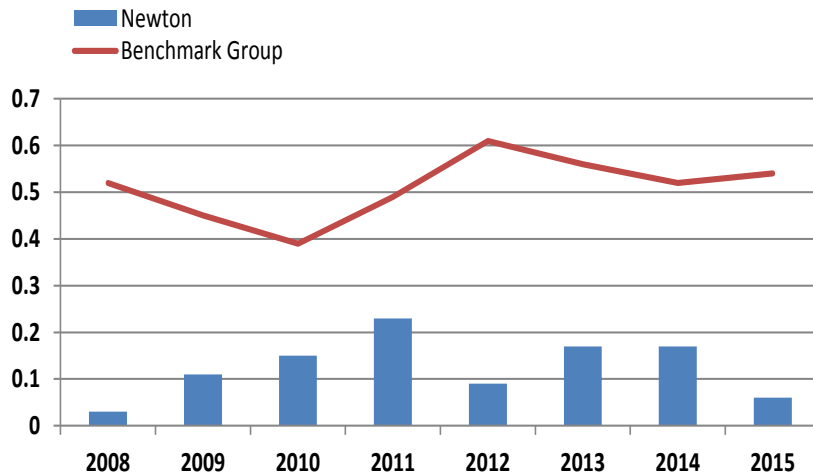
Note: Policy Benchmark 21%

Net Position Ratio

Ratio of net position (unrestricted) to total liabilities

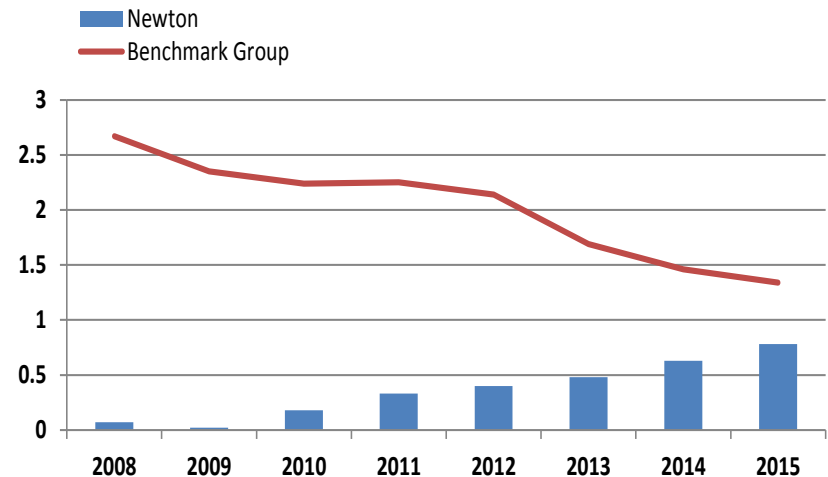
(Solvency - ability to address long-term obligations)

Water & Wastewater Fund



Newton =0.06, Benchmark =0.54

Electric Fund



Newton =0.78, Benchmark =1.34

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.

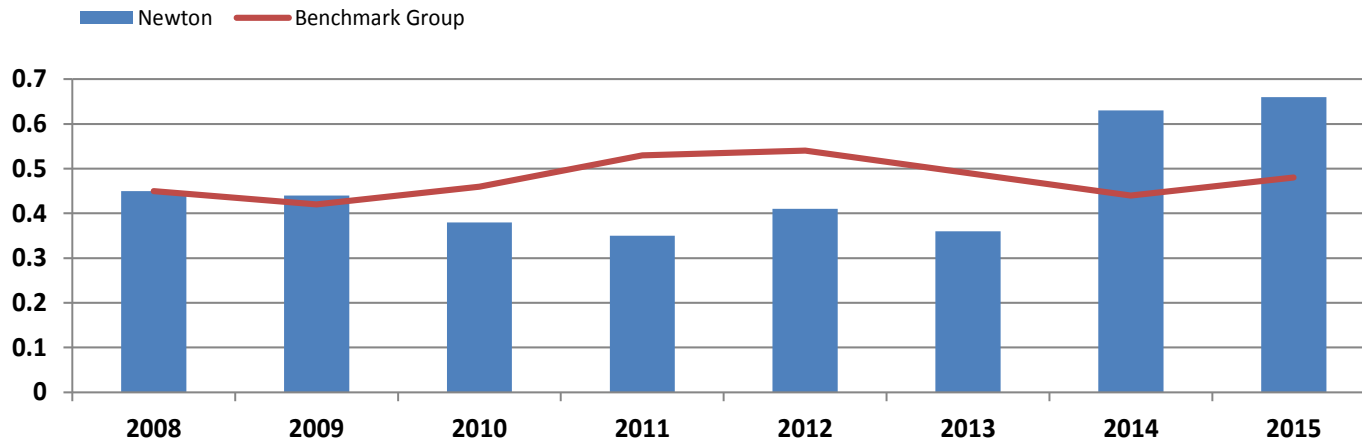
Note: FY 2015 Water/Wastewater Fund reflects the \$2 million transfer to the Electric Fund for the AMI Project

DEBT RATIO

Debt as a % of assessed value

(Leverage - extent government relies on tax supported debt)

General Fund



Newton =0.66, Benchmark =0.48

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

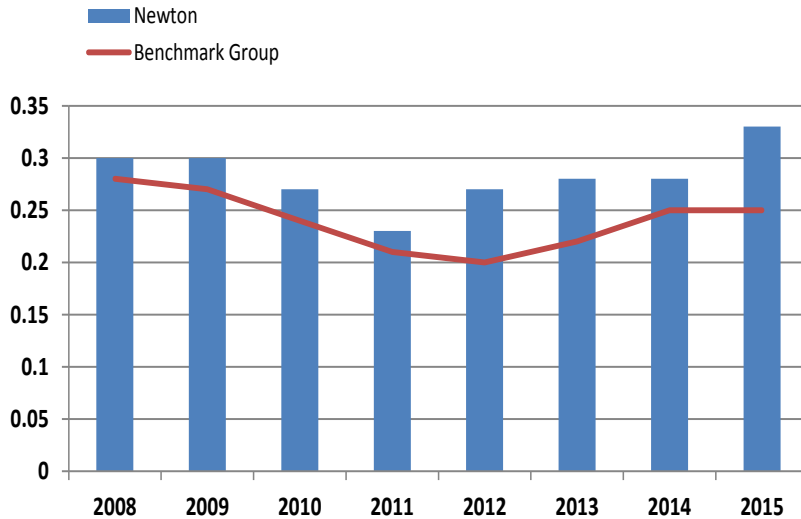
Note: FY 2014 and FY 2015 reflect debt associated with the new Fire Headquarters.

DEBT RATIO

Ratio of long-term debt to total assets

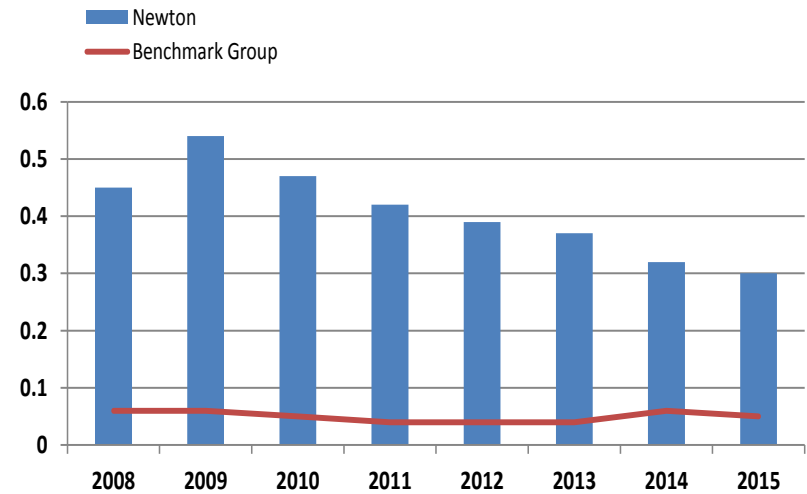
(Leverage - extent assets are financed with long-term debt)

Water & Wastewater Fund



Newton =0.33, Benchmark =0.25

Electric Fund



Newton =0.3, Benchmark =0.05

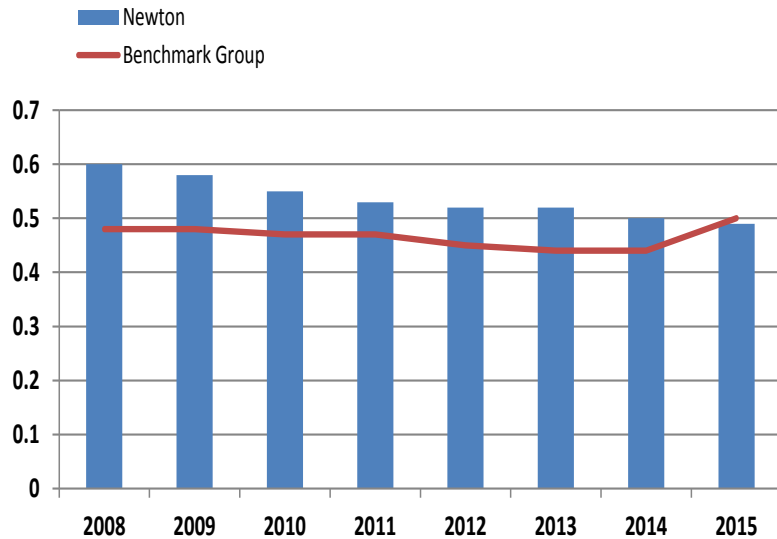
This ratio indicates that the City is more reliant on long-term debt for financing assets than the City's peer group.

CAPITAL ASSET CONDITION RATIO

Accumulated depreciation divided by capital assets

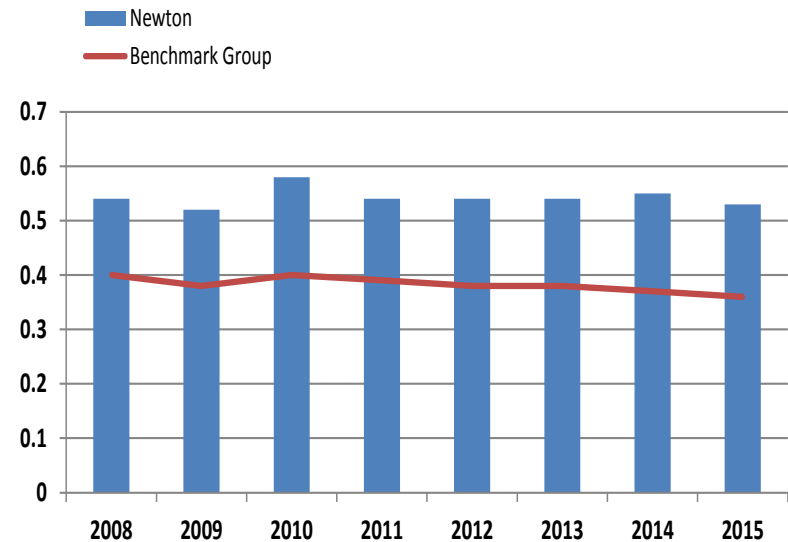
(Capital - condition of capital assets)

Water & Wastewater Fund



Newton =0.49, Benchmark =0.5

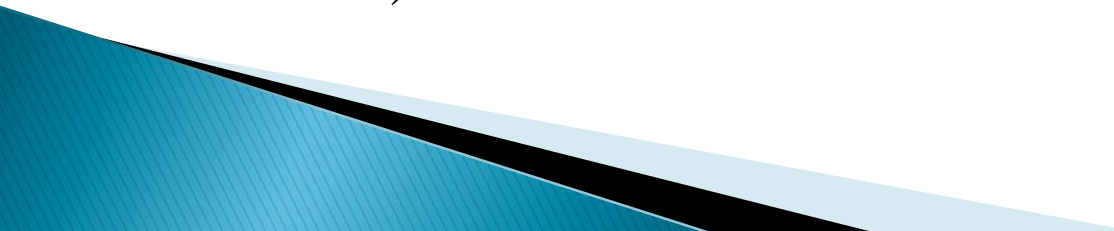
Electric Fund



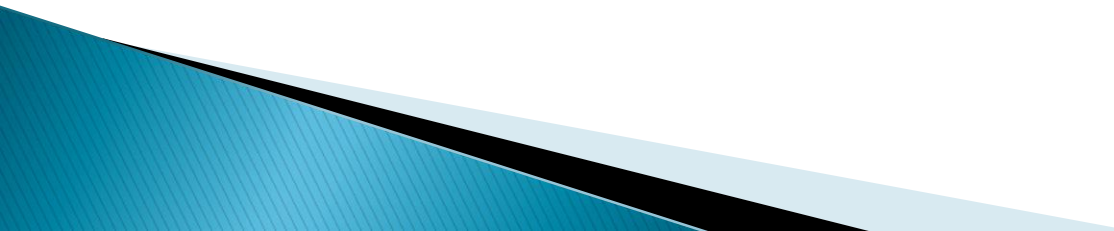
Newton =0.53, Benchmark =0.36

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

- ▶ The City's ability to address short-term obligations within the General Fund is much stronger than peer group even with lower cash and investment levels.
 - ▶ The City's unassigned (unrestricted) fund balance is slightly stronger than its peer group.
 - ▶ The City's unrestricted net position remains lower than its peer group.
 - ▶ Our ability to meet long-term obligations is not as strong as our peers within the enterprise funds.
 - ▶ The City is more reliant on debt than its peer group thereby reducing service flexibility (committing resources to pay debt service).
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SUMMARY (cont.)

- ▶ Current liabilities within the City's Water/ Wastewater Fund exceed cash and investments which indicates lack of ability to address short-term obligations.
 - ▶ We are investing in capital assets at a comparable rate with our peer group while the City's Electric Fund is at a faster rate.
 - ▶ While the financial position for both of the City's enterprise funds continue to exhibit signs of improvement, there is still need for continued financial stability.
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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.
 - Establish Capital Reserve Fund
 - ▶ Strengthen financial stability within each of the City's main operating funds.
 - ▶ Increase revenue by focusing on economic growth and increasing/changing rate structures.
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