



FINANCIAL TRENDS MONITORING SYSTEM

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Introduction

Financial Trend Monitoring System

The Financial Trend Monitoring System (FTMS) was developed by the International City/County Management Association (ICMA) as a method for monitoring the financial condition of local governments. This system identifies factors that effect financial condition and sets the framework for their analysis. The indicators described in the ICMA publication, Evaluating Financial Condition, A Handbook for Local Government, are designed to give local governments a method of monitoring financial condition using data that is easily accessible. Using this model local government's can provide a report to policy makers, citizens, employees, bond rating agencies, and anyone else who may be interested in the their financial wellbeing. The FTMS is indented to be used as a management tool that can help to shape long term policy priorities.

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Financial Condition

Financial condition, as defined by the FTMS, is the ability of a locality to maintain existing service levels, withstand local and regional economic disruptions, and meet the demands of natural growth decline, and change. These conditions are examined by looking at four areas of a localities fiscal condition as follows:

1. Cash Solvency – the ability to pay the bills over the next 30 or 60 days
2. Budgetary Solvency – the ability to cover expenditures with revenues and other resources over the normal budget period
3. Long-Run Solvency – the ability to meet expenditures as they come due in the future
4. Service Level Solvency – the ability to provide services at the level and quality that are required for the health, safety, and welfare of the community and that the citizens desire and expect.

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Financial Indicators

ICMA provides a list of over 40 indicators that can serve as a litmus test for the financial condition of a locality. These indicators are broken down into specific categories for further analysis. For this report 21 indicators were chosen from 5 categories that best fit the City's accounting structure.

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Adjusting For Inflation

Adjusting for inflation converts current dollars into constant dollars. The conversion from actual dollars to constant dollars allows for analysts to take into account the appearance of growth that may be due to inflation. Adjusting for inflation involves three steps. The first step is selecting a price index. For this report the Consumer Price Index (CPI) was used. The CPI tracks the prices of good and services used by average wage earners. The goods and services include items such as food, housing, clothing, transportation, health, and recreation. The second step is selecting a base year as the starting point for comparison. The data for this report dates back to 1996 so it was used as the base year. The third step is the actual conversion from actual to constant dollars by multiplying the actual dollar amount by the conversion factor. The conversion factor is equal to the 1996 CPI divided by the CPI of following years. The table below depicts the CPI, conversation factors used for this report, and the percentage change from the previous year.

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Consumer Price Index	156.60	160.50	163.00	166.60	172.20	177.10	179.90	184.00	188.90	195.30	201.60	207.30	215.50
1996 Conversion Table	1.000	0.978	0.963	0.942	0.911	0.886	0.872	0.853	0.831	0.803	0.778	0.757	0.728
Percent Change		2.24%	1.53%	2.16%	3.25%	2.77%	1.56%	2.23%	2.59%	3.28%	3.12%	2.75%	3.81%

The following example converts 1000 dollars in 2008 to constant 1996 dollars:

Conversion Factor = (1996 CPI / 2008 CPI) or (156.60 / 215.5) = .728

Constant Dollar = (Actual Dollar X Conversion Factor) or (\$1000 X .728) = \$728

This means that \$1000 in 2008 would have been worth \$728 in 1996

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Rating Structure

There are significant variations in the way that local governments manage their finances. These variations make it difficult to develop standards that apply from organization to organization. Therefore, there are no defined benchmarks for many of the indicators. Benchmarks for these indicators should be set by the individual municipality. A few of the indicators do have benchmarks that are generally set by bond rating agencies or organizations such as the Government Finance Officers Association (GFOA). The FTMS focuses on trends rather than defined benchmarks. For each indicator a warning trend has been defined. City staff has evaluated each indicator and assigned ratings according to the following rating scheme:



Green – the trend is favorable. The indicator meets any policy or performance measure set by the City.



Yellow – the trend is uncertain. The indicator should be watched carefully because it may move in a direction that could have a negative impact on the City’s financial health.



Red – the warning trend has been observed. The indicator does not meet the policy or performance measure set by the City. More information should be gathered and corrective action should be taken.

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COMMUNITY INDICATORS

Community Needs and Resources Indicators

Community indicators encompass various economic and demographic characteristics including population, employment, personal income, property value, and residential development. These indicators describe and quantify a community's wealth and economic condition. They provide insight into the community's collective ability to generate revenue relative to the community's demand for public services such as public safety, capital improvements, and social services.

Community needs and resources are all closely interrelated and affect each other in a continuous cycle of cause and effect. In addition, changes in these characteristics tend to be cumulative. These characteristics are the most difficult to formulate into indicators because the data is not easy to gather. The indicators detailed in this section represent only those for which data is reasonably available.

In addition to analyzing these indicators, the City may also want to study more subjective issues, such as economic geography, location advantages, and land-use characteristics, as they all relate to the City's ability to generate revenue and, therefore, provide convenient, efficient public services. Also important are the City's plans and potential for future development. The diversification of the commercial and industrial tax base should be considered for its revenue-generating ability, employment-generating ability, vulnerability to economic cycles, and relationships to the larger economic region. While difficult to quantify using indicators, this information is useful in evaluating the City's financial condition.

An examination of local economic and demographic characteristics can identify the following types of situations:

- A declining tax base and correspondingly, the community's ability to pay for public services.
- A need to shift public service priorities because of demographic changes in the community.
- A need to shift public policies because of a loss in competitive advantage of the City's businesses to surrounding communities or because of a surge in inflation or other changes in regional or national economic conditions.

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Population

Description

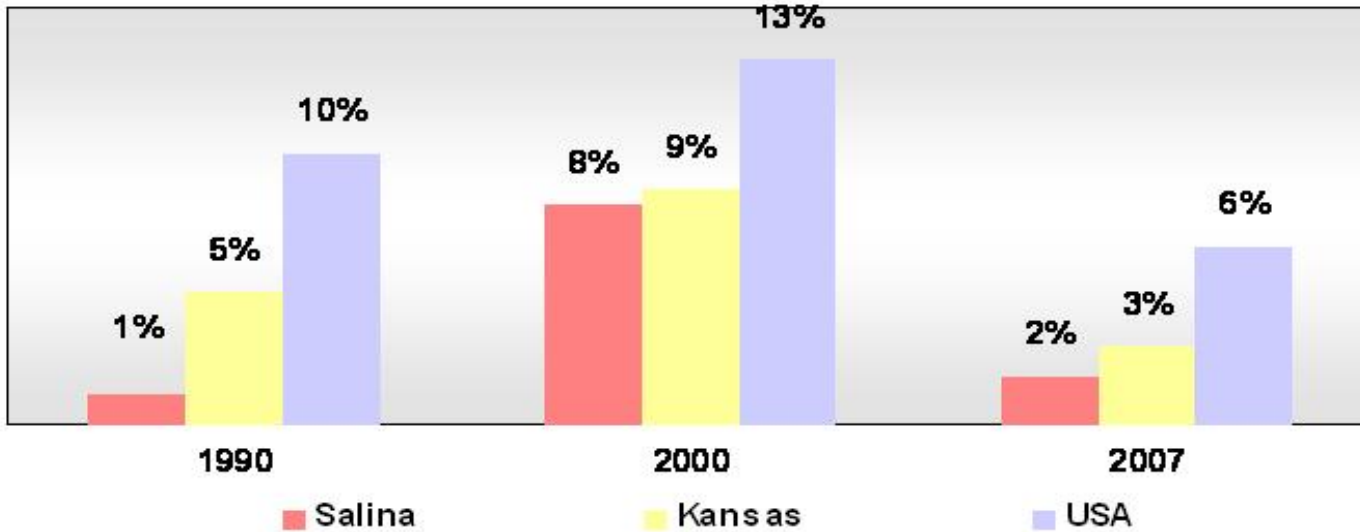
Changes in population can directly affect City revenues, such as property tax collections and cost of services. Population level indirectly relates to such issues as employment, income, and property value. An increasing population is generally considered positive as long as the City is prepared to take on the added service responsibilities. With respect to population, the biggest indicator of fiscal hardship is a dramatic change. If the population increases or decreases rapidly it may be difficult to react the sudden change.



Analysis

Over the past 17 years Salina's population has seen increases below the National and Kansas averages. Over the 17 year period Salina has seen an annual average increase of .53%. This modest increase is well below the National average but only slightly below the Kansas average.

Percent Change in Population



Warning Trend:
Rapid change in population

Formula:
Population

	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2007</u>
Salina	41,843	42,303	45,679	46,458
Kansas	2,363,679	2,477,574	2,688,418	2,764,075

USA	226,545,805	248,709,873	281,421,906	299,398,485
<i>Note: 2007 numbers are based on U.S. Census Bureau Estimates</i>				

Trend

The warning trend was not observed for this indicator. There have been no dramatic changes in population in the City since the closure of Schilling Air Force Base in the 1960's. Although the City has seen yearly population increases, it has been more slowly than both the state and national averages. In order to remain the regional focal the City would like to observe increases at or above the state average. This indicator received a yellow rating.

Source: U.S. Census Data, Retrieved from <http://www.census.gov/>, <http://www.kslib.info/sdc/cities.html>

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Personal Income Per Capita

Description

Personal income is one measure of a community's ability to pay taxes. Generally, the higher the per capita income, the more property taxes, sales taxes, income taxes, and business taxes the City can generate. If income is distributed evenly, a higher per capita income will usually mean a lower dependency on governmental services. A decline in per capita income results in loss of consumer purchasing power and can provide advance notice that businesses, especially in the retail sector, will suffer a decline that can ripple through the rest of the City's economy. Credit rating firms use per capita income as an important measure of a City's ability to meet its financial obligations.



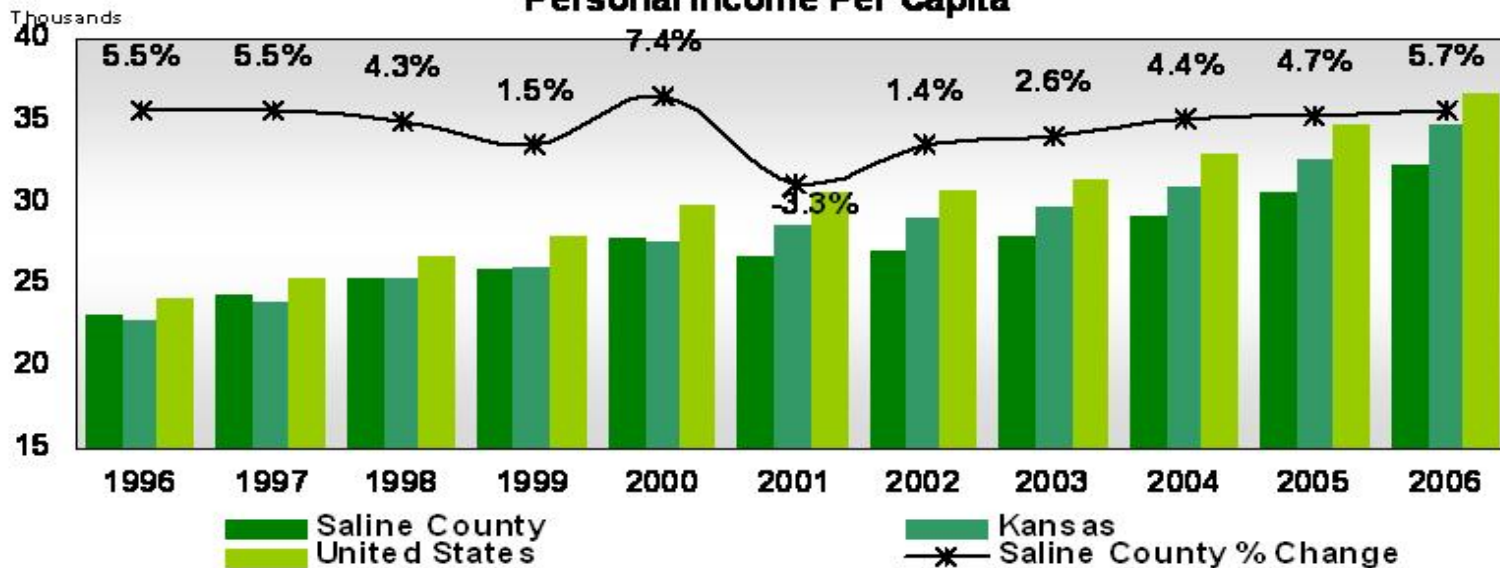
Warning Trend:
Decline in the level, or growth rate, of personal income per capita (constant dollar)

Analysis

The City's per capita personal income was ahead of, or nearly, even with the state until 2001. There was a dramatic decline in 2001 due to an economic downturn and a decrease in proprietary income which includes dividends, interest, and rental income. Since 2001 the City has seen an increase, but remains behind the national and state averages.

Formula:
$$\frac{\text{Personal income (constant dollar)}}{\text{Population}}$$

Personal Income Per Capita



USA	\$30,821	\$31,504	\$33,123	\$34,757	\$36,714
Saline % Change	1.4%	2.6%	4.4%	4.7%	5.7%
Kansas % Change	0.9%	2.8%	4.0%	5.5%	6.4%
USA % Change	0.8%	2.2%	5.1%	4.9%	5.6%

Note: Total personal income includes net earnings by place of residence; dividends, interest, and rent; and personal current transfer receipts received by the residents of Saline County.

Trend

The warning trend for this indicator was observed from 1996 to 2001. Since 2001, the City's personal income per capita has increased by an average of 3.7 % per year with increases larger than 4% in 2004, 2005, and 2006. Although personal income per capita has increased over the last part of the evaluation period it still remains behind the state average. In order to remain competitive in the state the City must keep up with the state averages. An increased effort to bring in jobs with higher wages will help to increase personal income per capita at an acceptable level. This indicator received a yellow rating.

Sources: Regional Economic Information System, Bureau of Economic Analysis Table CA1-3, Retrieved from www.bea.gov/regional

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Employment Base

Warning Trend:

Increasing rate of local unemployment or a decrease in the number of jobs in the community



Description

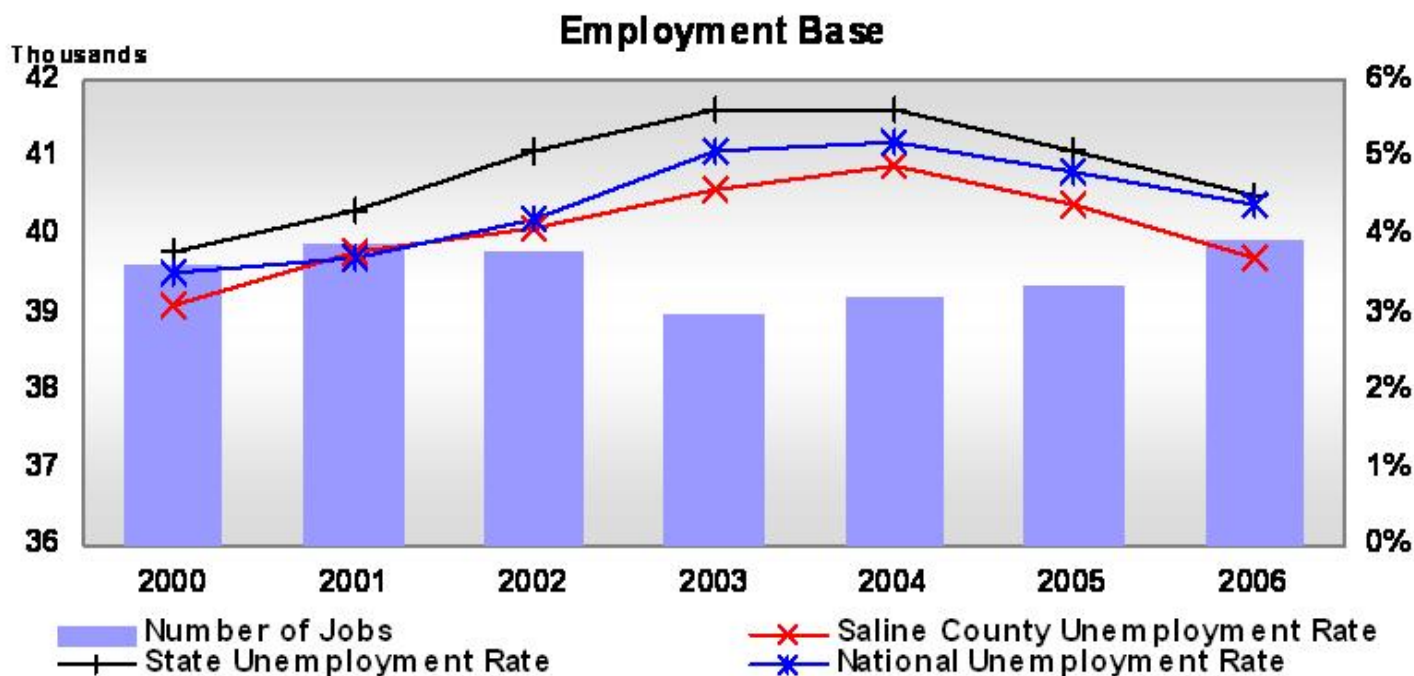
The unemployment rate and number of jobs in the community make up the employment base. They are considered together because they are so closely related. A growing employment base will help to provide a cushion against economic downturn in individual business categories. A decline in the employment base can indicate the early signs of an overall economic downturn in the community and a decline in government revenues as well.

Formula:

$$\frac{\text{Local Unemployment Rate} \times \text{Local Employment Base}}{\text{Local Unemployment Rate} + \text{Local Employment Base}}$$

Analysis

Salina experienced a slight decline in number of jobs in 2002 and 2003. During that same period the unemployment rate increased. Since 2003, the number of jobs has increased and the unemployment rate has declined. During the entire 6 year period the unemployment rate remained lower than both the state and national averages.



	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
# of Jobs	39,790	38,979	39,212	39,354	39,947

Saline County Unemployment Rate	4.1%	4.6%	4.9%	4.4%	3.7%
State Unemployment Rate	5.1%	5.6%	5.6%	5.1%	4.5%
National Unemployment Rate	4.2%	5.1%	5.2%	4.8%	4.4%
% Change in # of Jobs	-0.25%	-2.04%	0.60%	0.36%	1.51%

Warning Trend:
Declining growth or drop in the
market value of residential,
commercial, or industrial property
(constant dollars)

Source: Saline County Labor force History Report, Kansas Department of Labor, Retrieved from www.dol.ks.gov, Full-time and Part-time Employment by Major Industry Report, Kansas Regional Economic Analysis Project, Retrieved from www.pnreap.org

Formula:
Real Property Values
(constant dollars)

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Real Property Value

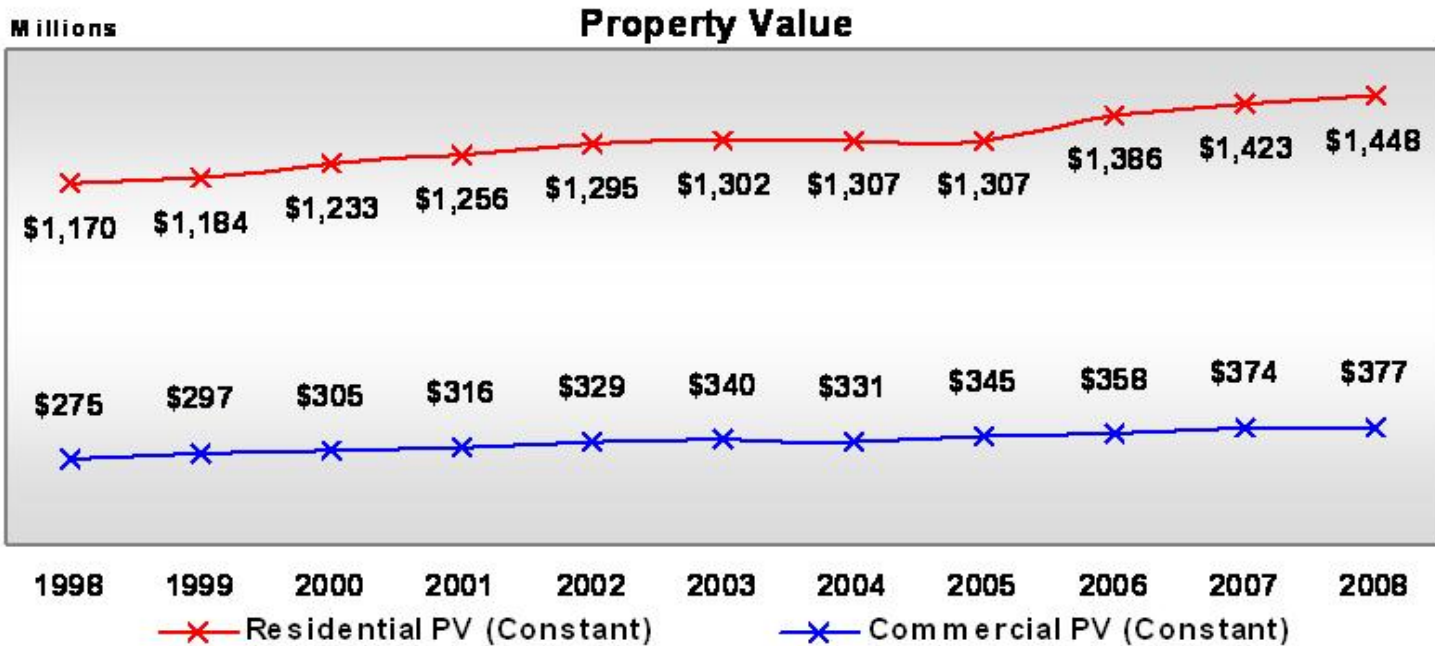
Description

Real property value is an important indicator since general property taxes account for approximately 30% of the City's operating revenue. With Salina maintaining a relatively stable tax rate, higher aggregate property values generate greater property tax revenue. This allows the City to maintain a stable or increasing revenue stream without raising the property tax mill levy.



Analysis

Over the ten year evaluation period there has been constant growth in real property value in residential, commercial, and industrial property. From 1998 to 2008 there has been an increase of 17.8% in residential property value and an increase of 26.4% in commercial property value.



Warning Trend:
 Increasing market value of residential development as a percentage of market value of total development

Formula:

$$\frac{\text{Market value of residential development}}{\text{Market value of total development}}$$

	2004	2005	2006	2007	2008
Residential PV (Constant)	\$1,307,266,736	\$1,307,187,197	\$1,386,112,811	\$1,422,847,430	\$1,448,334,356
Commercial PV (Constant)	\$330,642,775	\$345,122,355	\$357,658,425	\$373,760,077	\$377,410,004
% Change Residential	0.4%	-0.01%	5.7%	2.6%	1.8%
% Change Commercial	-2.9%	4.2%	3.5%	4.3%	1.0%

Trend

The warning trend has not been observed for this indicator. In each year of the evaluation period, with the exception of 2004, saw increases in both residential and commercial property value. The continual increase in real property value means that the City will receive a steady increase in property tax even if the mill levy is not increased. This indicator received a green rating.

Sources: City of Salina Valuations provided by Saline County Clerk 1998-2008

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Residential Development

Description

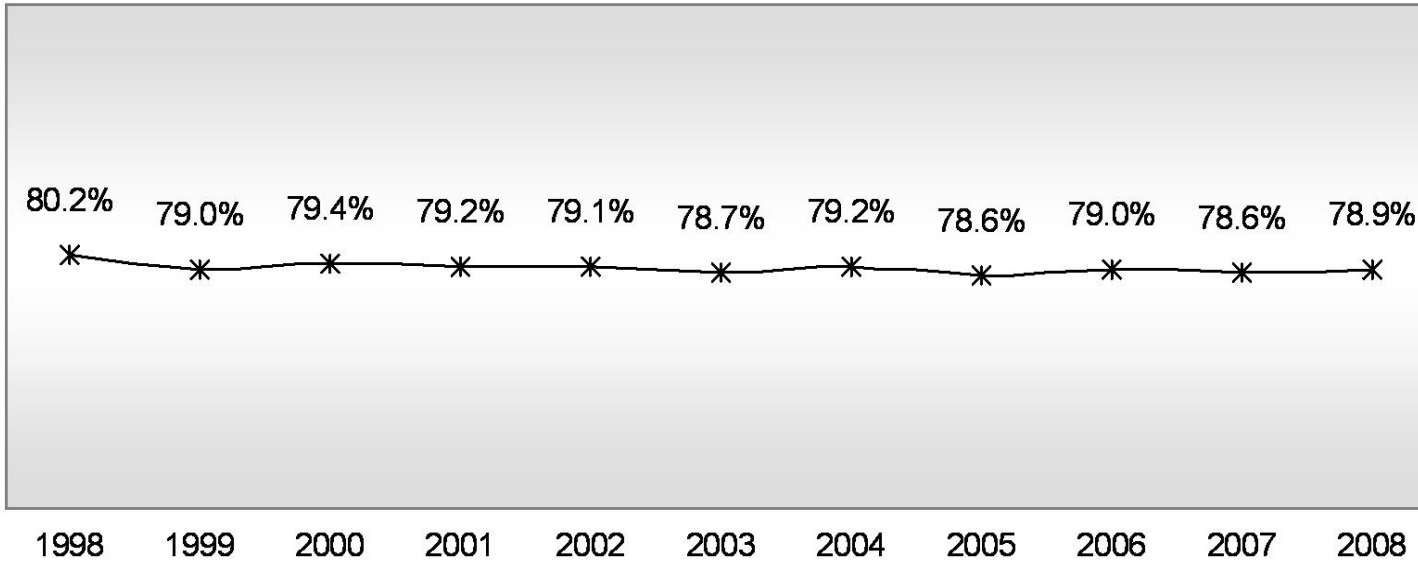
The net cost of servicing residential development is generally higher than the net cost of servicing commercial or industrial development because residential development usually creates more expenditure demands than revenue receipts. The location of residential development is also important. Houses built on the outer edges of a community can impose greater initial cost to local government than houses built in an already developed area. The ideal condition would be to have sufficient commercial or industrial development to offset the cost of residential development.



Analysis

Over the evaluation period there has been a slight decline in the market value of residential development as a percentage of the market value of total development. Residential development as a percentage of total development has ranged from a high of 80.2% in 1998 to 78.6% in 2007. The percentage has not changed drastically in any direction during the evaluation period.

Residential Development
(as a % of Total Market Value)



	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Mkt Val of Res Dev	\$1,573,885,828	\$1,627,110,641	\$1,781,009,195	\$1,879,899,759	\$1,969,251,945

Mkt Val of Tot Dev	\$1,986,197,809	\$2,070,611,592	\$2,254,037,699	\$2,390,778,973	\$2,495,608,888
% of Total Mkt Val	79.2%	78.6%	79.0%	78.6%	78.9%

Trend

The warning trend has not been observed for this indicator. The relative stability in residential development as a percentage of total market value indicates that the City is not outpacing its ability to cover the cost of residential development. This indicator received a green rating.

Sources: City of Salina Valuations provided by Saline County Clerk 1998-2008

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REVENUE INDICATORS

Revenue

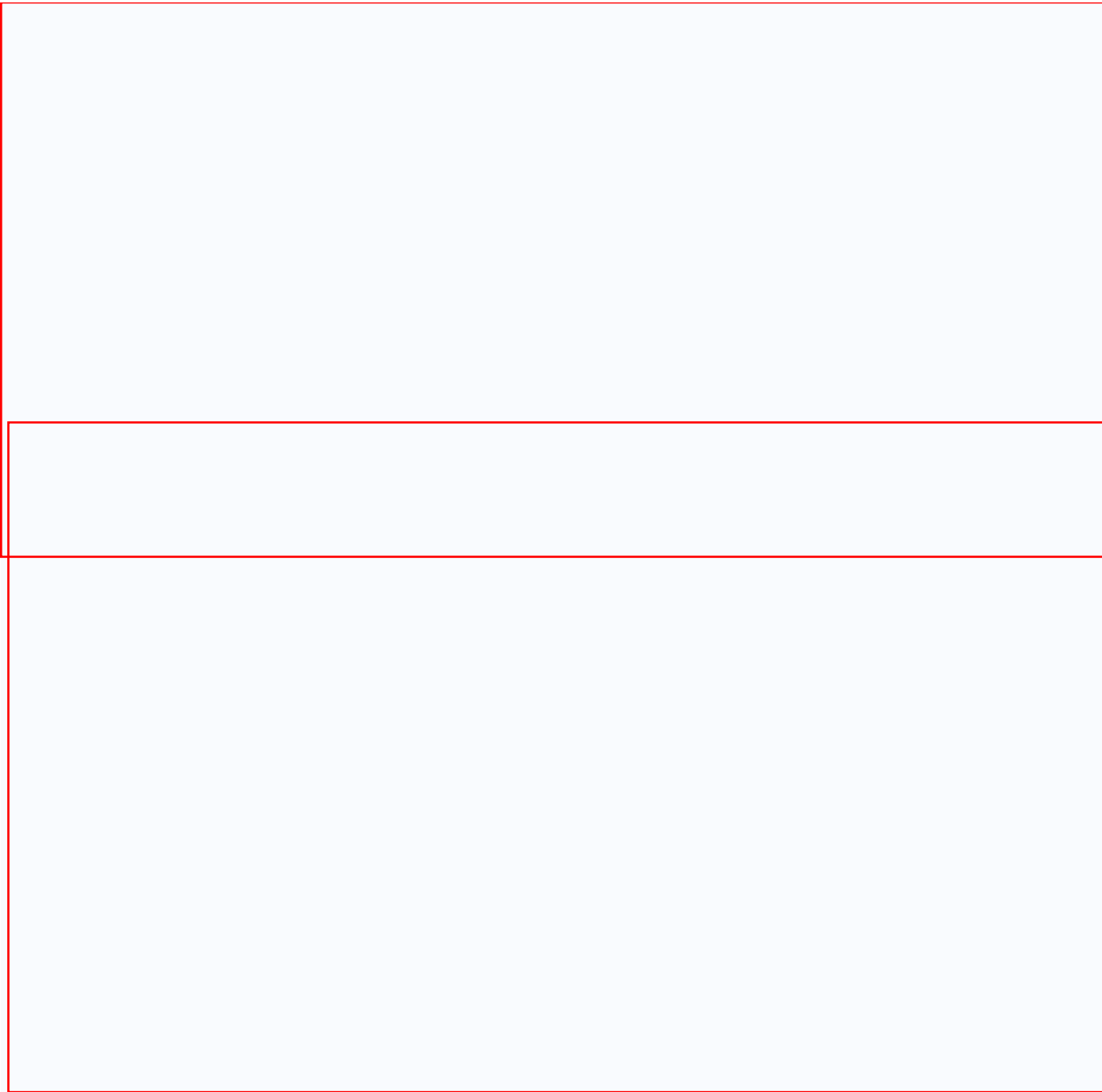
Revenue determines the capacity of the City to provide services. Important issues to consider with respect to revenue are economic growth, diversity, reliability, flexibility, and administration. Under ideal conditions, revenue should be growing at a rate equal to or greater than the combined effects of inflation and expenditures. Revenue should be sufficiently unrestricted to allow for necessary adjustments to changing economic and operational conditions. Revenue should be balanced between elastic and inelastic sources with respect to economic base and inflation. Revenue should be diversified by source so as not to be overly dependent on residential, commercial, or industrial land uses, or external funding sources such as Federal grants or discretionary State aid. User fees should be regularly reevaluated to cover the full costs of services.

Analyzing the City's revenue structure will help to identify the following types of problems:

- Deterioration of revenue base.
- Internal procedures or legislative policies that may adversely affect revenue yields.
- Overdependence on obsolete or external revenue sources.
- Changes in tax burden.
- Lack of cost controls and poor revenue estimating practices.
- Inefficiency in the collection and administration of revenue.

The indicators detailed below can be used to monitor changes in revenue.

Source: City of Salina Budget 1996-2007, Schedule D, Key Revenues



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Revenue Per Capita

Description

Per capita revenue illustrates revenue changes relative to population size. As population increases, it may be expected that the need for services would increase proportionately and, therefore, the level of per capita revenue should remain at least constant in real terms. If per capita revenue is decreasing, it would be expected that the City would be unable to maintain existing service levels unless it were to find new revenue sources or financial savings, assuming the cost of service correlates to population. This also assumes that programs are funded at adequate levels.

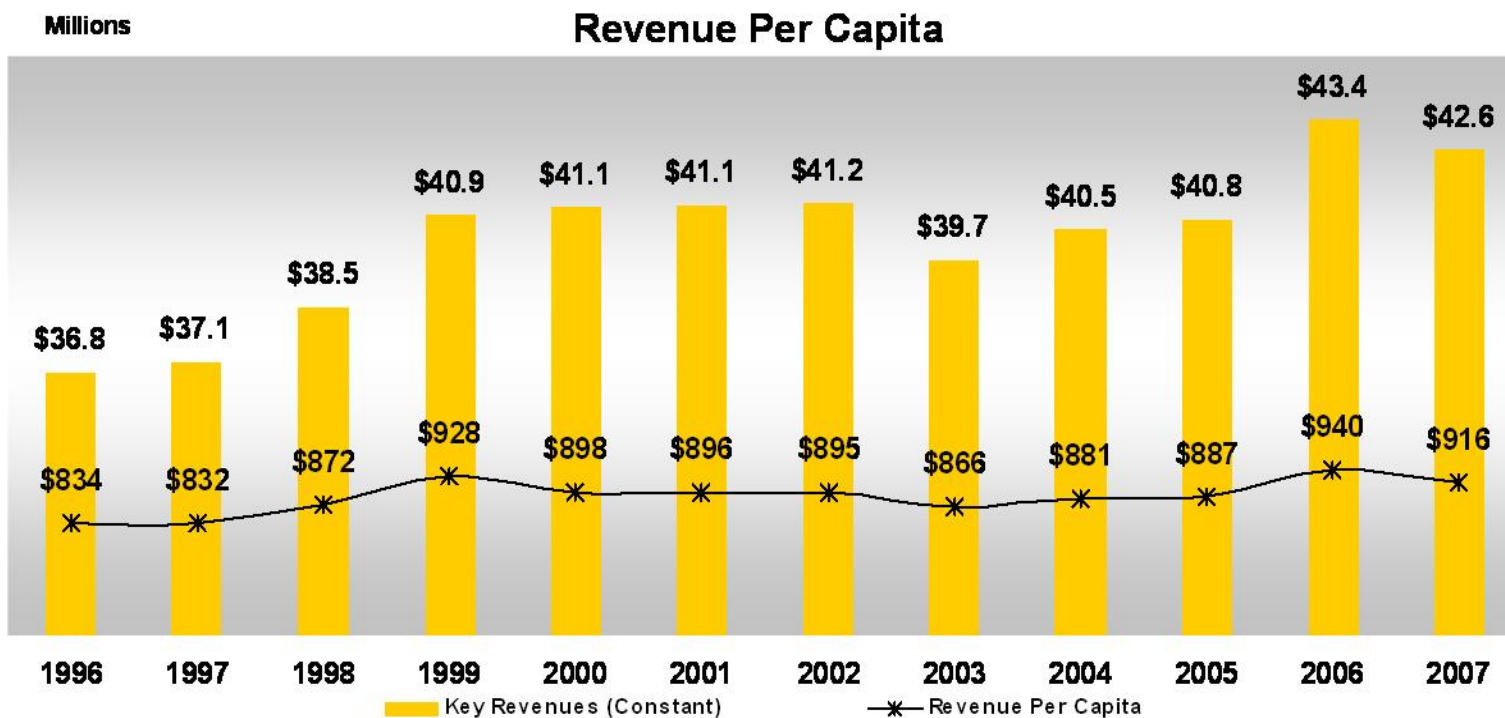


Warning Trend:
Decreasing net operating revenues per capita (constant dollars)

Analysis

Salina's revenue per capita was relatively stable over the ten year period. It jumped up several times during the period only to level back out in the following years. Revenue per capita has ranged from a low of \$832 in 1997 to a high of \$940 in 2006.

Formula:
$$\frac{\text{Net operating revenues (constant dollars)}}{\text{Population}}$$



	2003	2004	2005	2006	2007
Key Revenues	\$46,600,788	\$48,762,867	\$50,749,127	\$55,748,839	\$56,245,380
Key Rev (Constant)	\$39,737,303	\$40,502,349	\$40,770,804	\$43,387,861	\$42,570,671

Revenue Per Capita	\$866	\$881	\$887	\$940	\$916
% Change	-3.2%	1.7%	0.7%	6.0%	-2.6%
<i>Note: Key Revenue's include Enterprise Fees, Property Taxes, Vehicle Tax, Sales Tax, Franchise Fees, Ems Charges, and Intergovernmental Revenue.</i>					

Trend

The warning trend was not observed for this indicator. The stability in revenue per capita indicates that the City has had little trouble absorbing the population increases over the last 10 years. Salina has been able to maintain its service level without looking for new sources of revenue. This indicator received a green rating.

Source: City of Salina Budget 1996-2007, Schedule D, Key Revenues

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Property Tax Revenue

Description

General property tax revenues include both current and delinquent real and personal property tax revenue levied by the City. Property tax revenue represents the City's second largest revenue source. A decline or diminished growth rate in property tax revenue may indicate a number of potential problems in the City's revenue structure.

Warning Trend:
Decline in property tax revenue
 (constant dollars)
Formula:

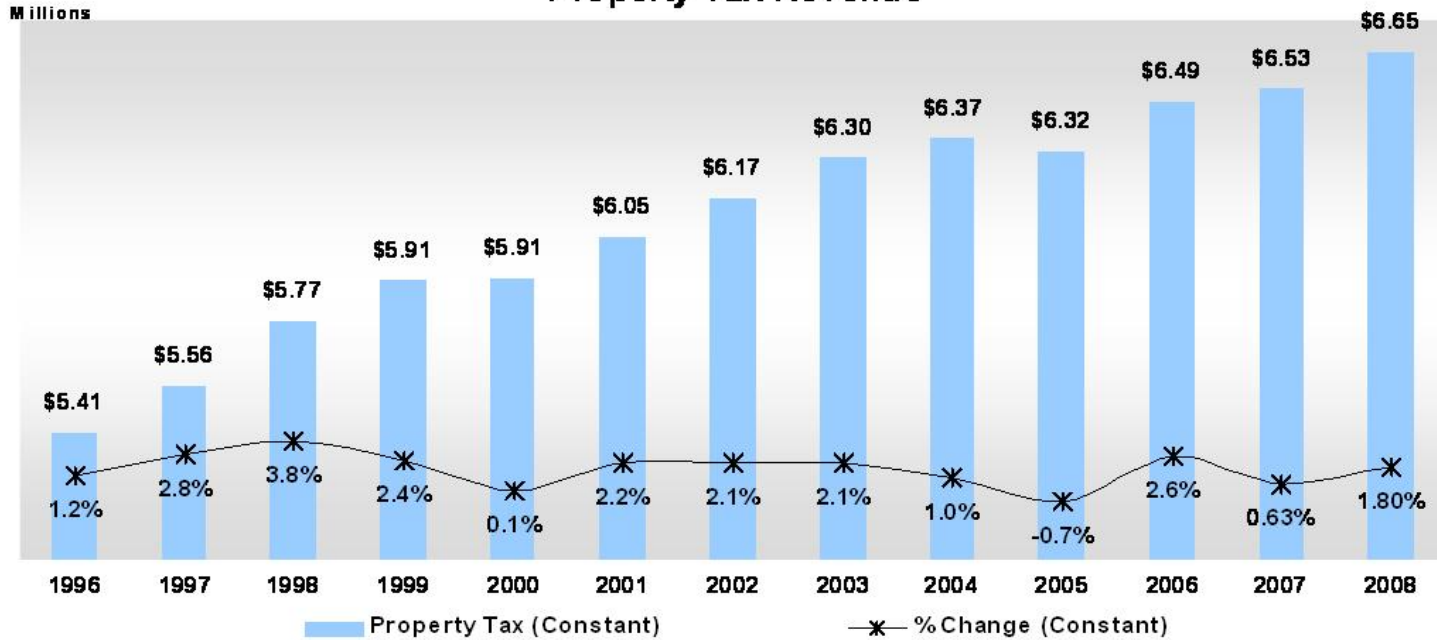
$$\frac{\text{Property tax revenue (constant dollars)}}{\text{Property tax revenue (constant dollars)}}$$



Analysis

Property tax has seen steady growth over the ten year period. Even though the mill levy has decreased from 27.1 in 1996 to 23.9 in 2007 there has been an increase in property tax revenue. This increase can be attributed to new construction and increased valuation to existing property. In a growing community property tax revenue is expected to increase without adjusting the mill levy.

Property Tax Revenue



Trend

The warning trend was not observed for this indicator during the ten year evaluation period. Property tax revenue has increased at a rate greater than inflation in each year except for 2005. In most years property tax has increased around 2% above inflation. This indicator received a green rating.

Source: City of Salina Budget 1996-2008, Schedule D, Key Revenues

Warning Trend:
 Increasing amount of uncollected property taxes as a percentage of net property tax levy
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Uncollected Property Taxes

Description

Each year, a certain percentage of property taxes are not collected because of property owners' inability to pay, deficiencies in collection methods, policies and procedures, or a declining economy. Property taxes are collected by the county and distributed based on the amount levied by separate taxing entities. If the percentage of uncollected property taxes increases over time, it may indicate decline in the City's overall economic health.

Formula:

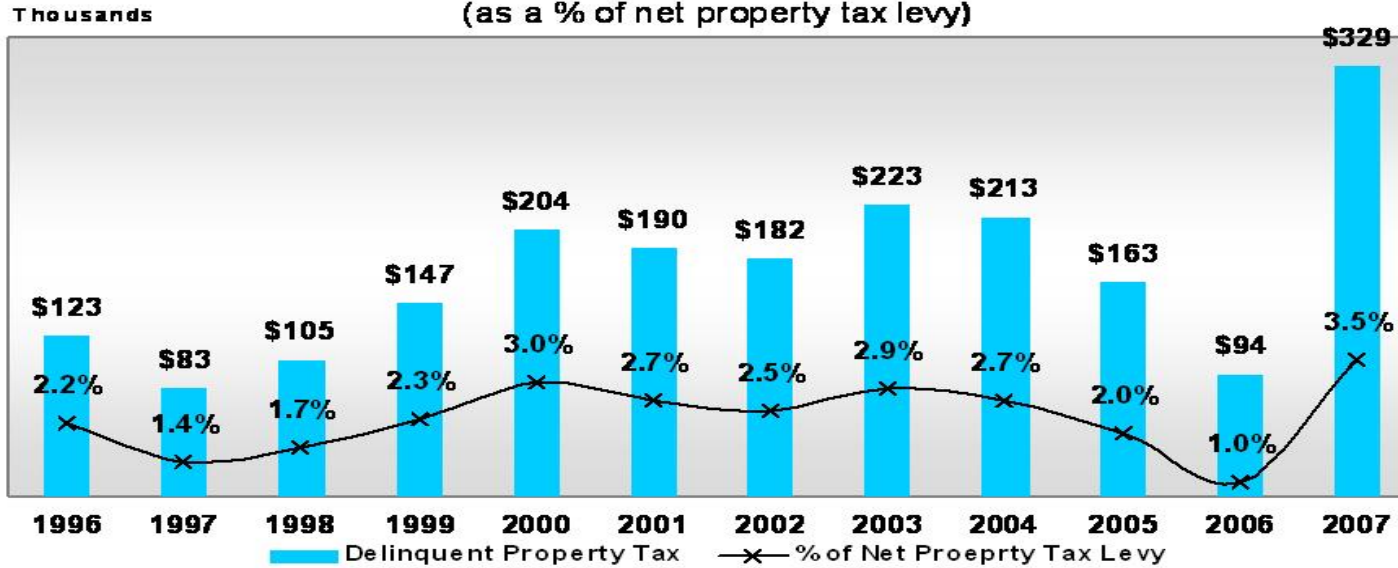
$$\frac{\text{Uncollected property taxes}}{\text{Net property tax levy}}$$



Analysis

Salina's delinquent property taxes make up less than 3.5% of total property taxes levied in each of the last 10 years. The percentage has ranged from a low of 1% in 2006 to a high of 3.5% in 2007. In most years the delinquent property taxes have ranged between 1% and 3%.

Uncollected Property Tax (as a % of net property tax levy)



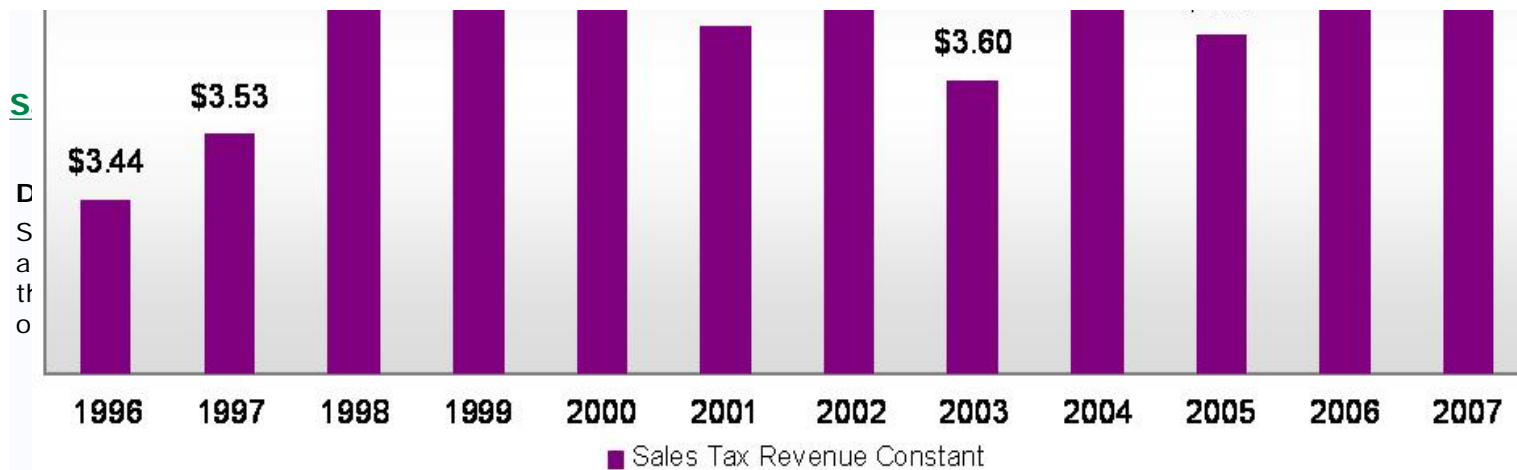
	2003	2004	2005	2006	2007
Delinquent Property Tax	\$222,972	\$212,972	\$163,069	\$93,980	\$328,568
Net Property Tax Levy	\$7,640,249	\$7,890,387	\$8,067,300	\$8,990,268	\$9,409,338
% of Net Property Tax Levy	2.9%	2.7%	2.0%	1.0%	3.5%

Sales Tax Revenue Constant



Warning Trend: Decline in sales tax revenue (constant dollars)

Formula:
Sales tax revenue (constant dollars)



: general sales tax, and
ity was used because
on a state formula laid



A

Sales tax increased from 1996 to 1998 due to increased market pull from commercial development throughout the community. Since 1998 sales tax has declined slightly. There was a large decline from 2000 to 2003 that recovered to previous levels by 2006. Sales tax revenue for the .5 percent general tax has remained stable in most years between \$3.75 and \$3.76 million.

	2003	2004	2005	2006	2007
Sales Tax Revenue	\$4,227,186	\$4,528,413	\$4,560,772	\$4,834,368	\$4,967,469
Sales Tax Revenue Constant	\$3,604,595	\$3,761,292	\$3,664,030	\$3,762,462	\$3,759,749

Note: Does not include Special Sales Tax or City portion of County Sales Tax.

Warning Trend:
Increasing amount of
intergovernmental operating
revenues as a percentage of gross
operating revenue

Trend

The warning trend was observed for this indicator from 1998 to 2001 with declines appearing in 2003 and 2005 as well. For most of the evaluation period sales tax levels have been between \$3.75 and \$3.76 million. There have been no significant gains since 1998. A growing community would expect to see sales tax revenues increase over time rather than remain stagnant. This indicator received a yellow rating.

Formula:

$$\frac{\text{Intergovernmental operating revenues}}{\text{Gross operating revenue}}$$

Source: City of Salina Budget 1996-2008, Schedule D, Key Revenues

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Intergovernmental Operating Revenue

Description

Intergovernmental operating revenues are received from other governmental entities. An overdependence on intergovernmental revenues can have an adverse impact on financial condition due to restrictions or stipulations that the other governmental entities attach to the revenue. The overriding concern in analyzing intergovernmental revenues is to determine whether the City is controlling its use of the revenues or whether these revenues are controlling the City.



Analysis

During the ten year period intergovernmental operating revenue has been at or below 8% of total operating revenue. The decrease in intergovernmental operating revenue can be attributed to the loss of city-county revenue sharing funds and the Local Ad Valorem Tax Reduction (LAVTR) program in 2002.

Intergovernmental Revenue

Millions

(as a % of gross operating revenue)



2007	844,843	,167,290
% of Operating Revenue	5.4%	5.5%
	5.4%	5.8%
		5.3%

Note: Intergovernmental Operating Revenue includes gas tax, liquor tax, federal grants, state grants, county EMS, and donation.

Trend

Over the ten year evaluation period the intergovernmental operating revenue has declined. Although it is generally considered positive that a City is not reliant on intergovernmental revenue the decline could indicate that the City is missing out on some funding opportunities. This indicator received a yellow rating.

Source: City of Salina Budget 1996-2007, Line Items

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EXPENDITURES

Expenditures

Expenditures are an approximate measure of the City's service output. Generally, the more the City spends in constant dollars, the more service it is providing. This reasoning does not account for service delivery efficiency and effectiveness.

The first issue to consider is the expenditure growth rate to determine whether the City is operating within its revenues. Since the City of Salina is required to have a balanced budget, it would seem unlikely that expenditure growth would exceed revenue growth. Nevertheless, the City may balance its annual budget yet create a long-run imbalance in which expenditure outlays and commitments grow faster than revenues.

Some of the more common ways in which this happens are to use bond proceeds for operations, use reserve funds, defer maintenance on streets, buildings, or other capital stock, or by deferring funding of contingent liabilities. In each of these cases, the budget remains balanced, but the long-run budget is developing a deficit.

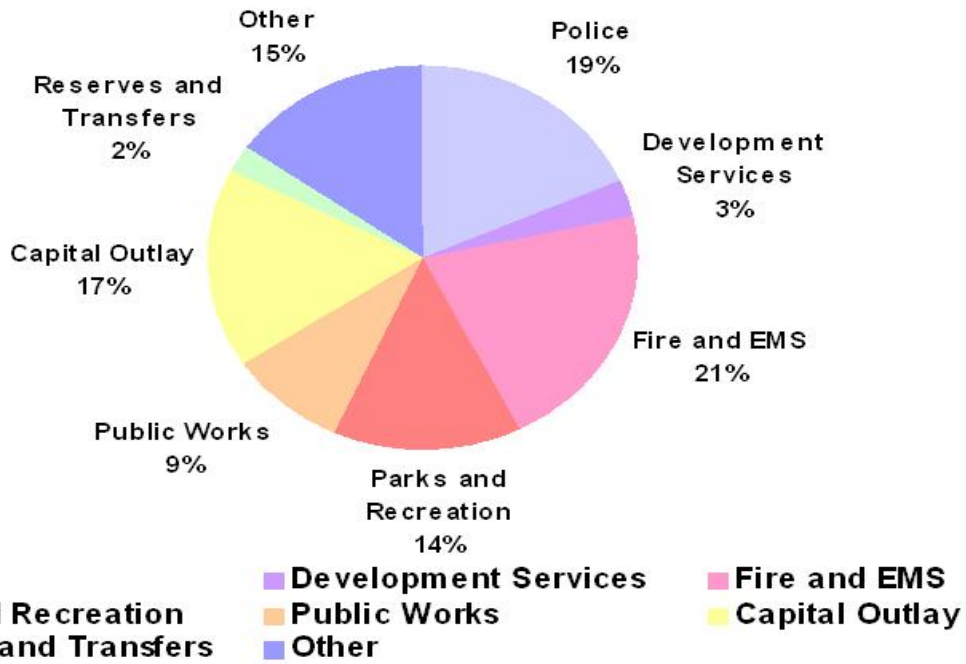
A second issue to consider is the level of mandatory or fixed costs. This is also referred to as expenditure flexibility, which is a measure of the City's freedom to adjust its service levels to changing economic, political, and social conditions. A city with a growing percentage of mandatory costs will find itself proportionately less able to make adjustments. As the percentage of debt service, matching requirements, pension benefits, State and Federal mandates, contractual agreements, and commitments to existing capital plant increase, the flexibility to make spending decisions decreases.

Ideally, the City will have an expenditure growth rate that does not exceed its revenue growth rate and will have maximum spending flexibility to adjust to changing conditions. Analyzing the City's expenditure profile will help identify the following types of problems:

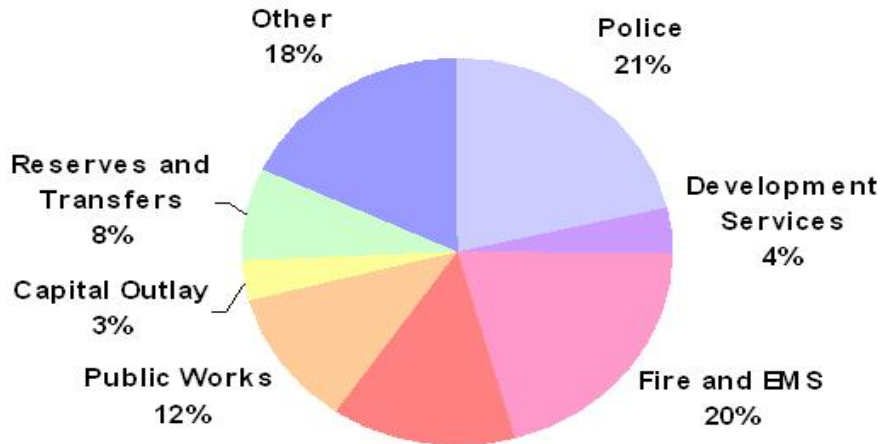
- Excessive growth of overall expenditures as compared to revenue growth in community wealth.
- An undesired increase in fixed costs.
- Ineffective budget controls.
- A decline in personnel productivity.
- Excessive growth in programs that create future expenditure liabilities.

The

Departmental Expenditures 1996



Departmental Expenditures 2007



- Police**
- Parks and Recreation**
- Reserves and Transfers**
- Other**
- Development Services**
- Public Works**
- Fire and EMS**
- Capital Outlay**

Municipal Band, Skyfire, Economic
n 2% of the total expenditures (City
um)

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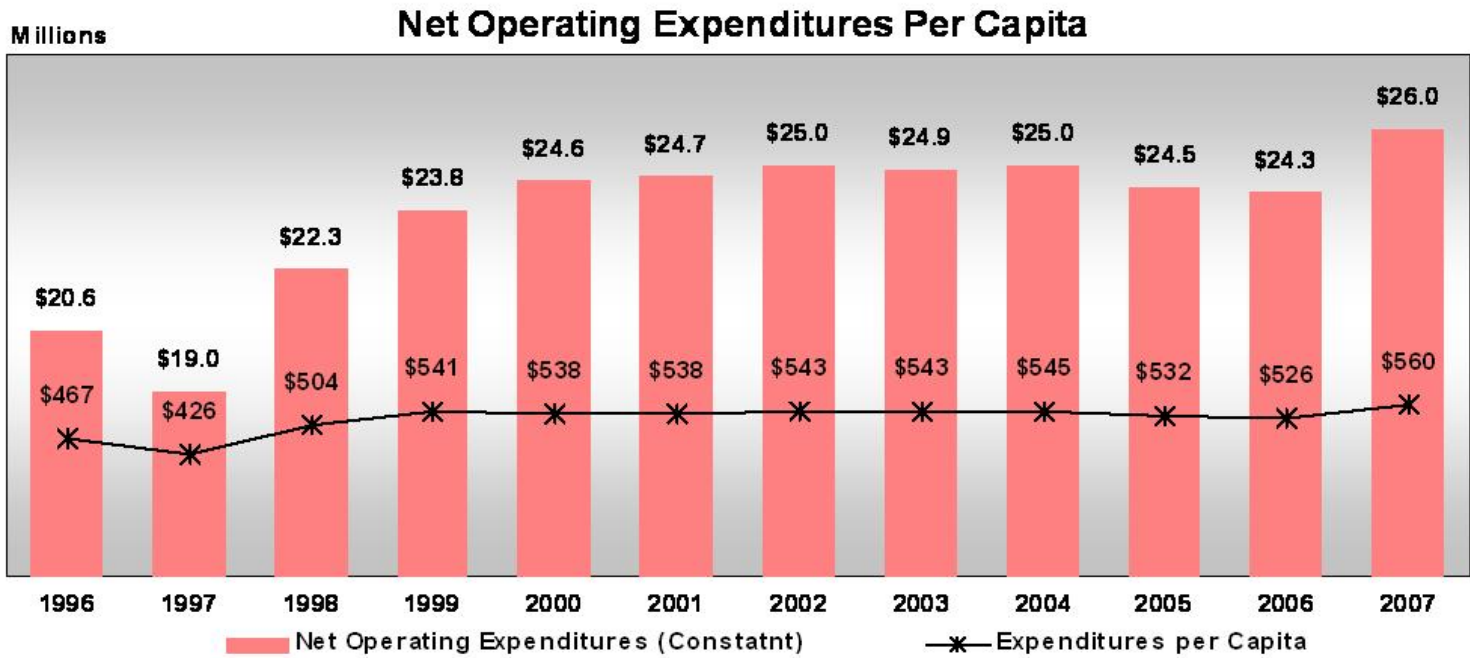
creasing per capita
pecially if spending is
is greater than would be
indicator of declining

Analysis

Salina's expenditures per capita have increased from 1997 to 1999, remained steady from 1999 to 2004, declined slightly from 2004 to 2006 and increased dramatically to a high of \$560 in 2007. Over the ten year period the City has added 74 positions. The addition of employees has a direct affect on expenditures because wages make up over 40% of the total operating expenditures. Expenditures per capita will also rise as new services are provided and current services are upgraded.

Warning Trend:
Increasing net operating expenditures
per capita (constant dollar)

Formula:
$$\frac{\text{Net operating expenditures (constant dollar)}}{\text{Population}}$$



Expenditures per Capita	\$543	\$545	\$532	\$526	\$560
% Change	-0.1%	0.4%	-2.3%	-1.1%	6.4%

Note: Graph does not include Capital Outlay or Debt Service.

Trend

Over the ten year period the warning trend has not been observed. Although the expenditures per capita remained stable from 1999 to 2006, it has increased by over 6% in 2007. This increase from 2006 to 2007 is largely attributable to pay plan adjustments. In reaction to this increase there is a 2009 budget objective to reduce staffing by 15 positions. If the expenditures per capita continue to increase in the coming years without an offsetting increase in revenue the City will be faced with some difficult staffing and service decisions. This indicator received a yellow rating.

Source: City of Salina Comprehensive Annual Report 1996-2007, Statement of Revenues, Expenditures and Change in Fund Balance for Governmental Funds

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Employees Per Capita

Description

Personnel costs are a major portion of the City's operating budget. Tracking changes in the number of employees to population is a means to measure changes in expenditures. An increase in employees to population may indicate that expenditures are rising faster than revenues, the City is becoming more labor intensive, productivity is declining, or the City has not yet increased services. An increase in employee per capita is not negative if a direct correlation can be shown to increased services.

Warning Trend:
Increasing number of Municipal employees per capita

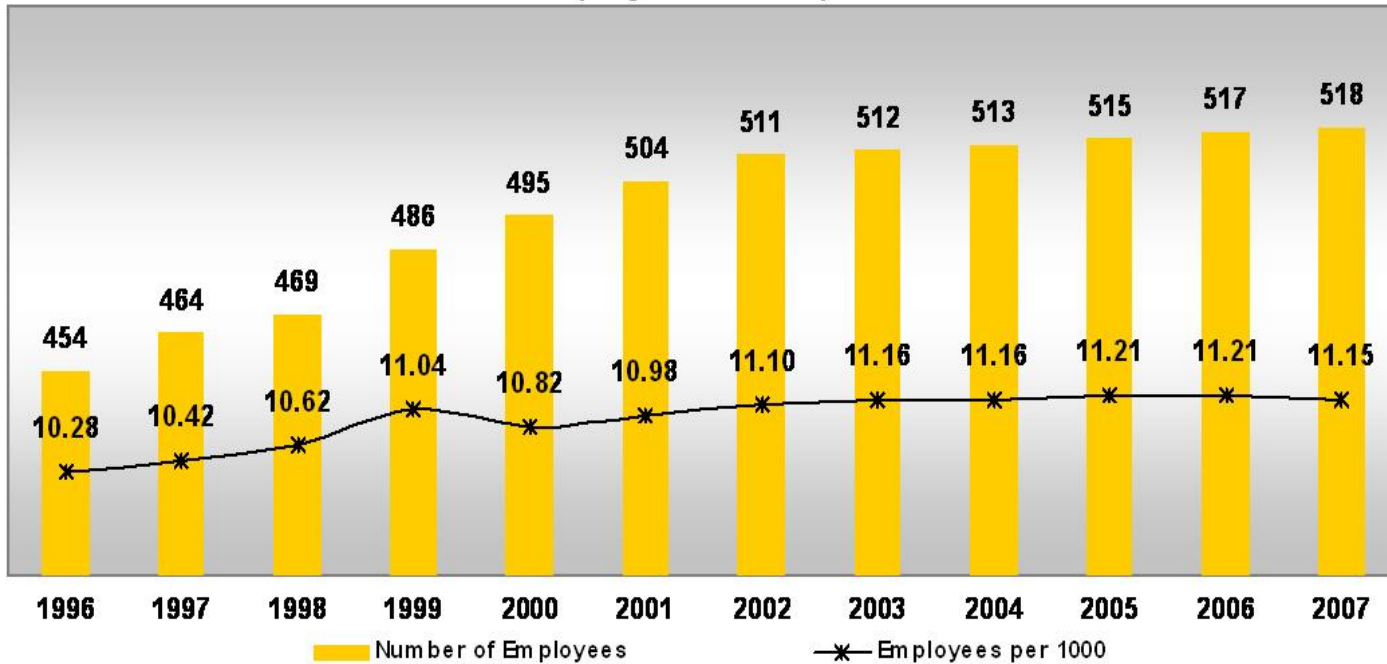


Formula:
$$\frac{\text{Number of employees}}{\text{Population}}$$

Analysis

There has been a slight increase from a 10.28 employees per every thousand people to 11.15 over the 10 year period. Much of this increase can be attributed to an increase in the size of the Police Department, Fire Department and Development Services Department. These staffing increases are due to an increased concentration on enhanced services in these functions.

Employees Per Capita



Note: Number of Employees denotes authorized strength not full staffing.

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Number of Employees	512	513	515	517	518

Employees Per 1,000	11.16	11.16	11.21	11.21	11.15
% Change	0.54%	-0.2%	0.41%	-0.01%	-0.49%

Trend

The City's employees per capita remained relatively stable over the evaluation period. The warning trend was not observed for this indicator. The slight increase in number of employees can be directly correlated with changes in City services. There is no indication of a decrease in productivity. This indicator received a green rating.

Source: City of Salina Staffing Tables 1996-2007

Warning Trend:
Increasing fringe benefit expenditures as a percentage of salaries and wages [«BACK TO TOP»](#)

Fringe Benefits

Formula:

$$\frac{\text{Fringe benefit expenditures}}{\text{Salaries and wages}}$$

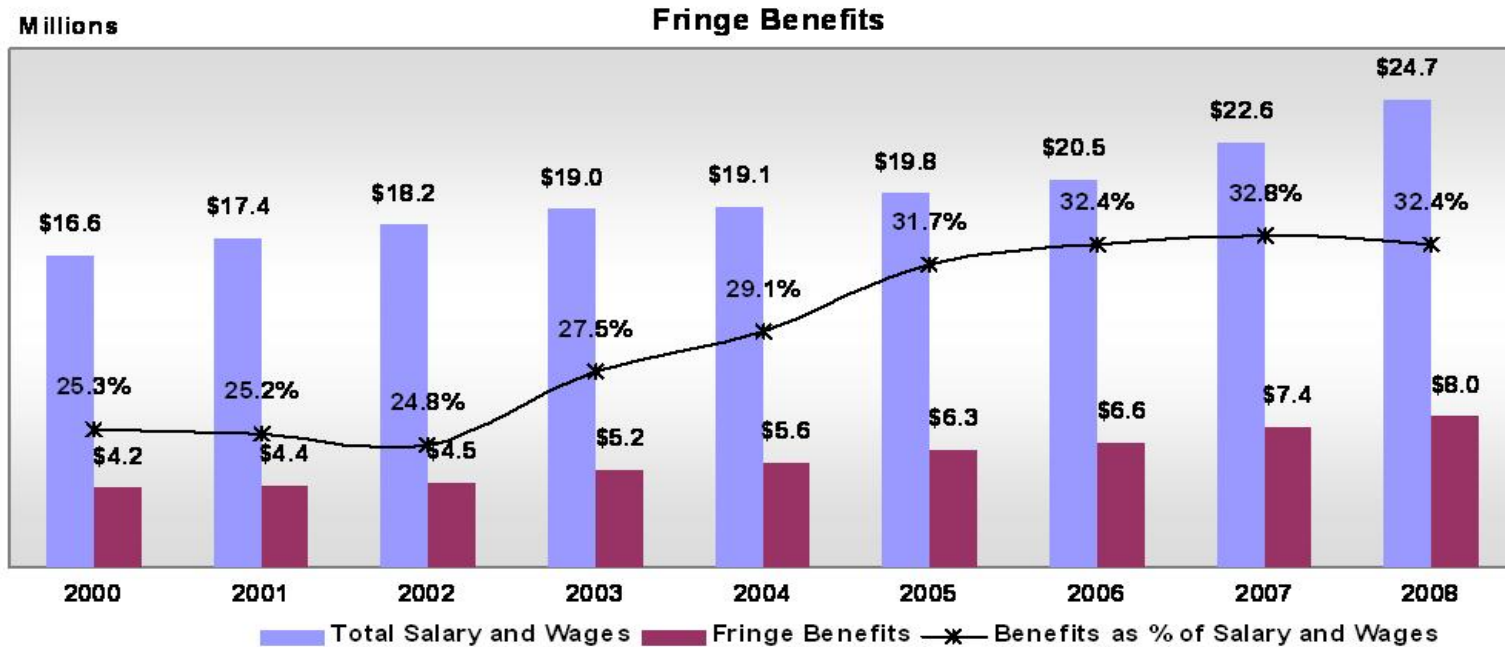
Description

Fringe Benefits represent a significant share of the cities operating cost. The most common fringe benefits are pension plans, health and life insurance, vacation, sick and holiday leave, automobile allowance, disability insurance and educational and incentive pay. Fringe benefits represent fixed costs that the city must pay. Monitoring fringe benefits will allow the City to isolate increasing costs and make adjustments where necessary.



Analysis

Over the evaluation period fringe benefits as a percentage of total salaries and wages have increased from 25.3% to 32.4%. There was a dramatic increase from 2002 to 2006. Since 2006 the fringe benefits have leveled off at around 32.5% of salaries and wages.



2008
683,590
806,040
2.4%

Warning Trend: A three or more year decline in capital outlay from operating funds as a % of net operating expenditures

The warning trend was observed for this indicator from 2002 to 2006. Over the evaluation period health insurance costs have increased at about 10% per year, KPERs has increased by about .5% per year and KP&F has increased at about 1% per year. These increases have resulted in an overall increase in the cost of fringe benefits. From 2006 to 2008 fringe benefits remained relatively stable. This indicator should be monitored to assure that fringe benefits aren't increasing beyond the cities capacity to keep up. This indicator received a yellow rating.

Source: City of Salina Budget 2000 and 2008, Individual Departmental Budgets

Formula:

$$\frac{\text{Capital outlay from operating funds}}{\text{Net operating expenditures}}$$
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Capital Outlay

Description

The expenditure for operating equipment, such as vehicles, radios, and computer and office equipment purchased from the operating budget is referred to as capital outlay. It includes equipment that will last longer than one year and costs more than \$10,000. Capital expenditures may remain constant or even decline in the short run as new and replacement equipment is purchased. If the decline persists over three years, it can be an indicator that capital outlay needs are being deferred, resulting in the use of obsolete equipment and the creation of an unfunded liability.

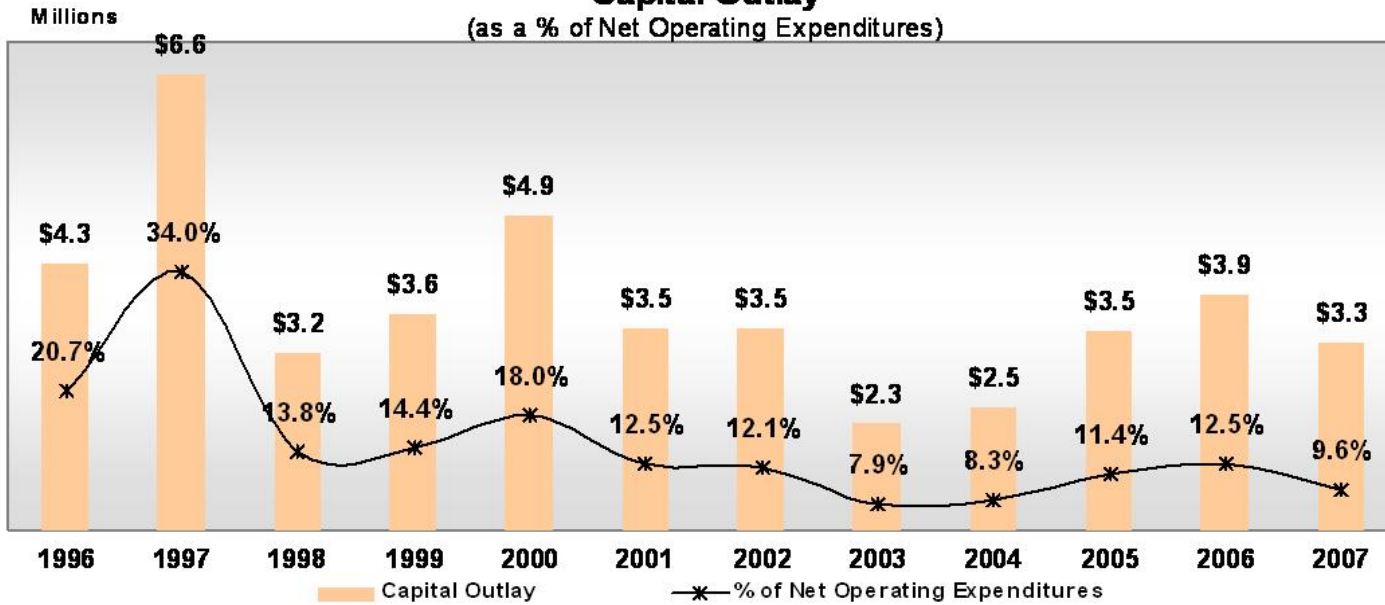


Analysis

The City's capital outlay as percent of net operating expenditures has varied widely during the evaluation period. It reached a high of 34% in 1997 and has declined with a few spikes ever since. The overall trend is a decline in capital outlay spending.

Capital Outlay

(as a % of Net Operating Expenditures)



	2003	2004	2005	2006	2007
Capital Outlay	\$2,320,003	\$2,516,694	\$3,454,921	\$3,892,955	\$3,297,624
Net Operating Expenditures	\$29,184,451	\$30,142,069	\$30,438,180	\$31,196,547	\$34,377,093
% of Net Operating Exp	7.9%	8.3%	11.4%	12.5%	9.6%

Trend

The warning trend has not been observed. During the evaluation period there has not been a three year stretch of declining capital outlay. The overall trend indicated less spending on capital outlay. This is not negative unless the City is putting this spending on hold. The graph indicates that in each instance after a few years of decline there was a spike in capital outlay spending. This is an indication that capital outlay spending is being deferred. This indicator received a yellow rating.

Source: City of Salina Comprehensive Annual Report 1996-2007, Statement of Revenues, Expenditures and Change in Fund Balance for Governmental Funds

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FINANCIAL TRENDS MONITORING SYSTEM

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[Introduction](#) [Community Revenue](#) [Expenditures](#) [Debt Service](#)

OPERATING POSITION

Operating Position

Operating position refers to the City's ability to balance its budget on a current basis, maintain reserves for emergencies, and maintain sufficient cash to pay its bills on a timely basis.

During a typical year, a city will usually generate either an operating surplus (when revenues exceed expenditures) or an operating deficit (when expenditures exceed revenues). An operating surplus or deficit may be created intentionally as a result of a conscious policy decision, or may be created unintentionally because it is difficult to precisely forecast revenues and expenditures. When deficits occur, they are usually funded from accumulated fund balances; when surpluses occur, they are usually dedicated to building prior years' fund balances, paying down current debt, avoiding future debt, or to funding future years' operations.

Reserves are built through the accumulation of operating surpluses. Reserves are maintained for the purposes of financial security in the event of loss of a revenue source, economic downturn, unanticipated expenditure demands due to natural disasters, insurance loss, need for large-scale capital expenditures or other non-recurring expenses, or uneven cash flow.

Sufficient cash, or liquidity, refers to the flow of cash in and out of the City treasury. The City receives many of its revenues in large installments at infrequent intervals during the year. It is to the City's advantage to have excess liquidity or cash reserves as security in the event of an unexpected delay in receipt of revenues, an unexpected decline or loss of a revenue source, or an unanticipated need to make a large expenditure.

An analysis of operating position can help identify the following situations:

- Emergence of operating deficits.
- Decline in reserves.
- Ineffective revenue forecasting techniques.
- Ineffective budgetary controls.
- Inefficiencies in management of enterprise operations.

The indicators detailed below can be used to monitor changes in operating position.

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Growth in Revenue vs. Growth in Expenditures

Description

Revenue vs. expenditure is the most basic measure of a localities operating position. A cities financial well-being can be gauged by looking at how much money was spent as compared with the amount that was brought in. If more money is spent than is brought in then the locality will have to make adjustments in order to maintain operations. If the expenditures are outpacing revenue too quickly than the locality will have to cut costs or decrease the level of services. The level of fund balances allows for a cushion in times when revenues don't meet projections. If expenditures outpace revenue for long enough to bring fund balances down then the ability to pay short term liabilities will be diminished.

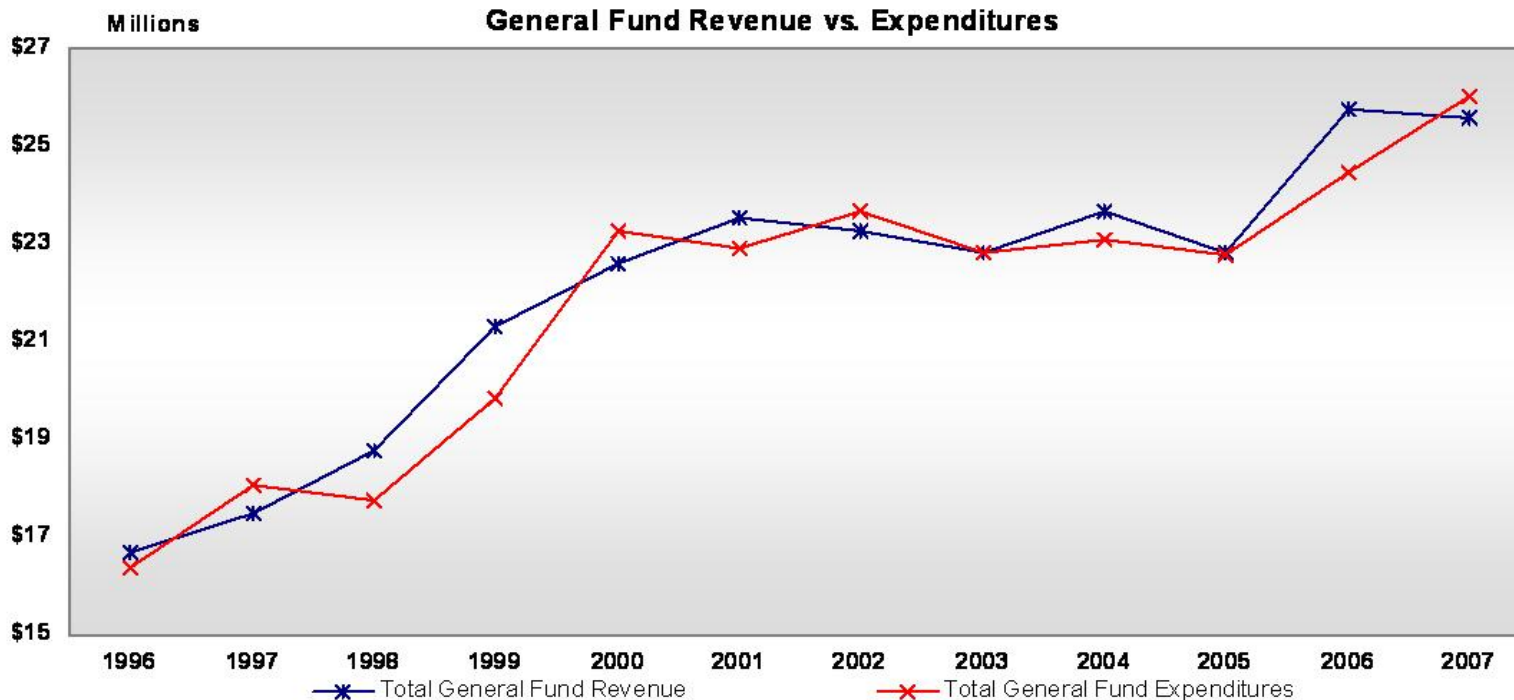


Analysis

The City's expenditures outpaced revenue in 1996, 2000, 2002, and 2007. In each case the City was able to adjust in the following year. During the years when revenues were higher than expenditures the City was able to increase the fund balances. These fund balances allowed the City to continue to operate even when more money was spent than was coming in.

Warning Trend:
Expenditures increasing at a greater rate than revenue for two consecutive years

Formula:
General fund revenue and expenditures



	2003	2004	2005	2006	2007
Total General Fund Revenue	\$22,808,898	\$23,648,957	\$22,813,723	\$25,739,453	\$25,597,011
Total General Fund Expenditures	\$22,800,201	\$23,075,970	\$22,767,514	\$24,462,295	\$26,001,209
Surplus/ (Deficit)	\$8,697	\$572,987	\$46,209	\$1,277,158	(\$404,198)

Trend

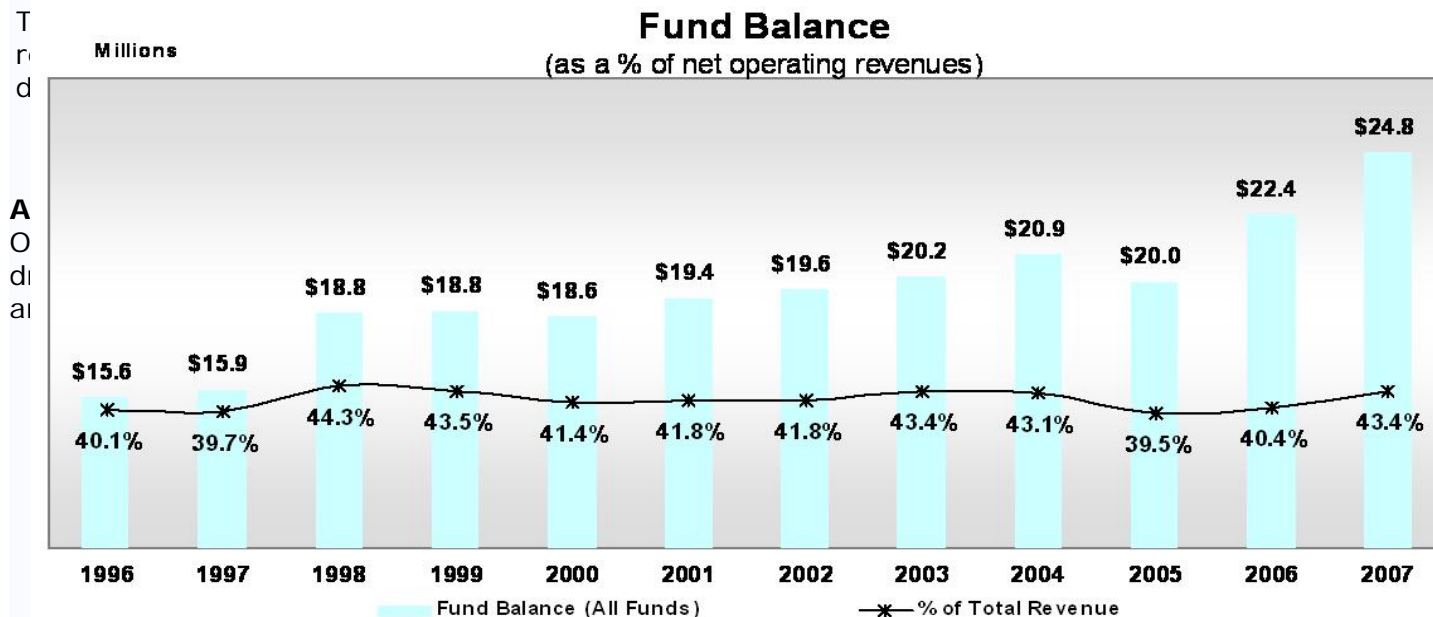
The warning trend has not been observed for this indicator. Although expenditures have increased faster than revenue several times during the evaluation period, the City has been able to make adjustments in the following year to correct imbalances. The City’s fund balances have been large enough to absorb any budget deficits that occurred. The City has already implemented measures to slow the increase in expenditures by recommending a reduction of 15 employees in the 2009 budget. This indicator received a yellow rating.

Source: City of Salina Comprehensive Financial Report 1996-2007, Statement of Revenues, Expenditures, and Changes in Fund Balance.

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Fund Balance

Description



In emergencies that may arise, fund balances may also be used without having to borrow. A warning trend is observed when unrestricted fund balances as a percentage of net operating revenues decline.



Formula:

$$\frac{\text{Unrestricted fund balances}}{\text{Net operating revenues}}$$
 The ratio has been between 39% and 44%. The target was 40%.

	2003	2004	2005	2006	2007
Fund Balance (All Funds)	\$20,150,580	\$20,930,187	\$19,971,005	\$22,435,984	\$24,781,005
Net Operating Revenue	\$46,423,888	\$48,535,290	\$50,536,435	\$55,575,746	\$57,086,522
% of Net Operating Revenue	43.4%	43.1%	39.5%	40.4%	43.4%

Trend

The warning trend has not been observed for this indicator. The fund balance as a percentage of operating revenue has remained stable over the evaluation period. Slight declines in the fund balance as a percentage of operating revenue can be attributed to concerted efforts to spend down fund balances that have increased at a rate greater than expected. The City has set target balances for several funds. In each year of the evaluation period the City has met or exceeded the overall fund balance target of \$12.4 million. Fund targets for individual funds can be found in Schedule F, Fund Balances, located in the budget document.

Source: City of Salina Budget 1996-2007, Schedule F, Fund Balances

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Enterprise Fund Operating Position

Description

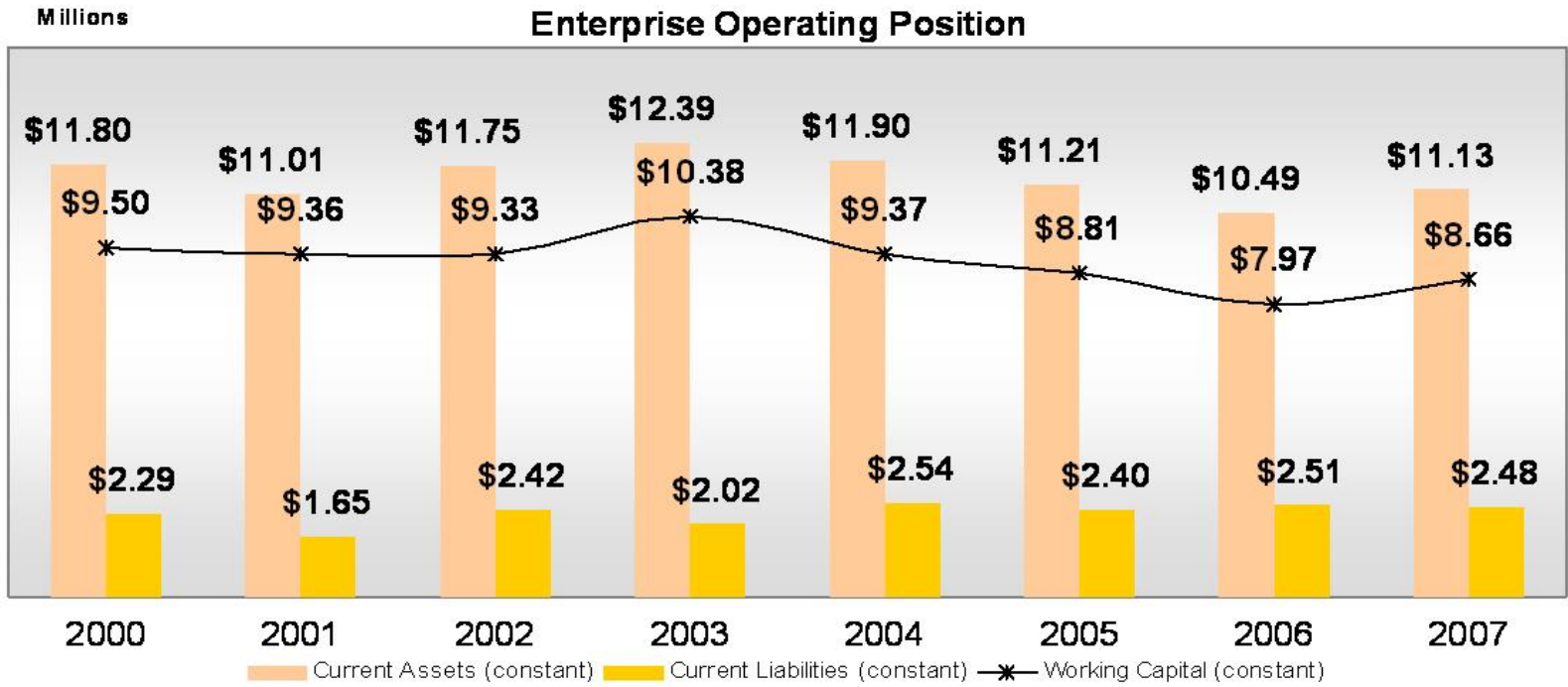
**Warning Trend:
Reduction in working capital
(constant dollars)**

Enterprises are supported by user fees and are intended to operate more like a business than a public entity supported by taxes. The City of Salina's Enterprise funds include Sanitation, Solid Waste, Water, Wastewater, and the Golf Course. User fees and charges are established in enterprise funds to promote efficiency by shifting payment of costs to specific users of services and to avoid general taxation. Moderate rate increases are included as part of the budget to offset increasing operating costs, mandated environmental standard compliance, and pay-as-you-go capital costs attributable to repair and replacement of infrastructure. Enterprise fund operating position is measured by examining the enterprise working capital. Enterprise working capital equals the current assets minus current liabilities.



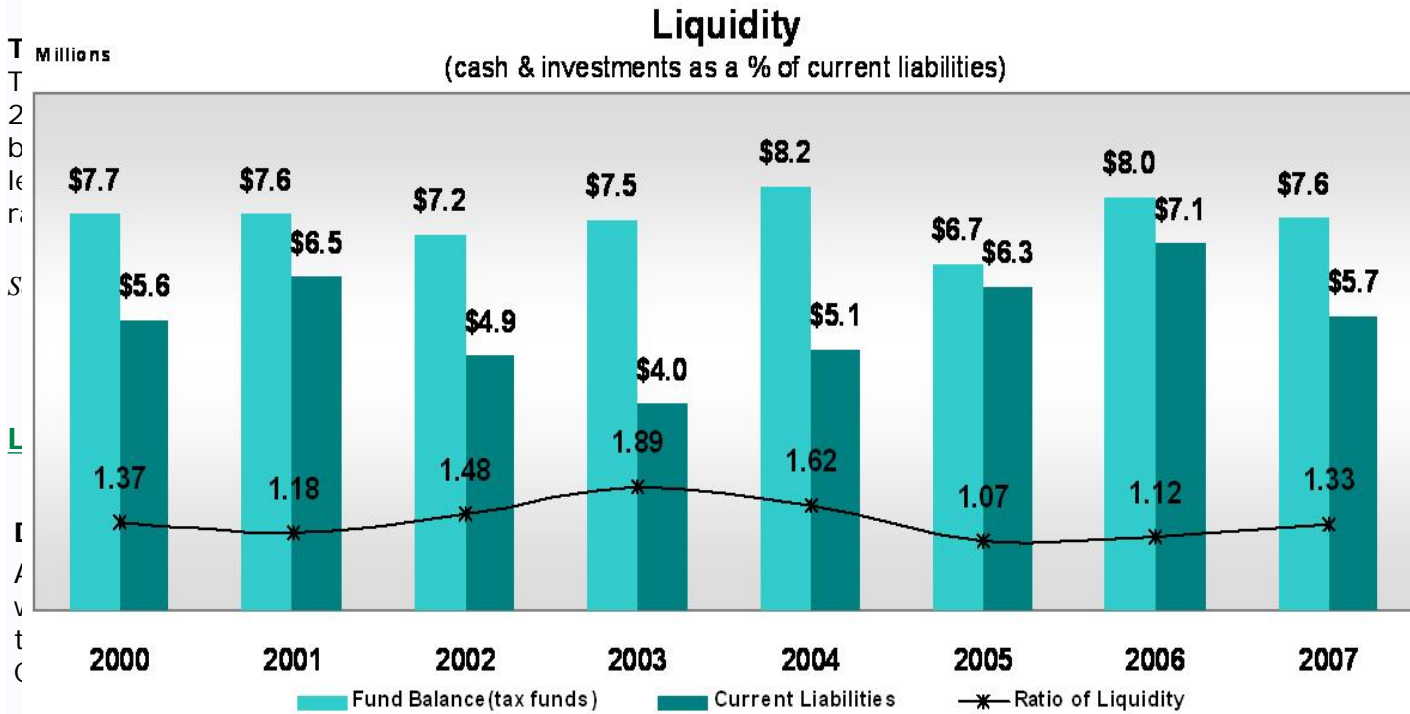
Analysis

Enterprise working capital has declined over the evaluation period. This decline is a result of declining assets and stable liabilities. The current assets went from \$12.39 million in 2003 to \$10.49 million in 2006. In 2007 there was a slight increase in current assets to \$11.13 million. The current liabilities have remained stable around \$2.0 to \$2.5 million over the entire evaluation period.



	2003	2004	2005	2006	2007
Current Assets (constant)	\$12,393,844	\$11,904,407	\$11,208,632	\$10,485,321	\$11,133,376

Current Liabilities (constant)	\$2,017,526	\$2,538,752	\$2,395,215	\$2,511,225	\$2,477,730
Working Capital (constant)	\$10,376,318	\$9,365,654	\$8,813,416	\$7,974,096	\$8,655,645



Warning Trend:
Decreasing working capital and drop in current investments as a percentage of current liabilities

Formula:
$$\frac{\text{Cash and short-term investments}}{\text{Current Liabilities}}$$

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on hand and in the bank, as if this type of cash is referred to as liquidity can indicate that the



Analysis

The City's liquidity increased from 1.37 in 2000 to 1.89 in 2003. From 2004 to 2005 the liquidity ratio decreased. Since 2006 liquidity has increased. As long as the ratio remains above 1 the city will have enough cash on hand to cover current liabilities.

	2002	2003	2004	2005	2006	2007
Fund Balance(tax funds)	\$7,244,680	\$7,543,327	\$8,165,762	\$6,711,958	\$7,969,288	\$7,570,903
Current Liabilities	\$4,902,993	\$3,988,773	\$5,051,137	\$6,255,928	\$7,096,922	\$5,686,678
Ratio of Liquidity	1.48	1.89	1.62	1.07	1.12	1.33

Trend

The warning trend for this indicator was observed from 2003 to 2005. Since 2005 there has been gradual increase in the level of liquidity. In each year during the evaluation period the liquidity ratio remained above 1. This indicates that the City has had no issue covering current liabilities. This indicator should be monitored so that the City can adjust should the warning trend return. This indicator received a yellow rating.

Source: City of Salina Budget 2000-2008, Schedule F, Fund Balances, City of Salina Comprehensive Annual Report 2000-2007, Statement of Net Assets.

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FINANCIAL TRENDS MONITORING SYSTEM

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DEBT STRUCTURE

Debt Structure

Debt structure is important because debt is an explicit expenditure obligation that must be satisfied when due. Debt can be an effective tool to finance capital improvements and to smooth out short-term revenue flows; however, its misuse can cause serious financial problems. Even a temporary inability to repay debt can result in loss of credit rating, increased borrowing costs, and loss of autonomy to State and other regulatory bodies.

The most common forms of long-term debt are general obligation, lease purchases, special assessments, and revenue bonds. When the City issues debt for capital projects, it must ensure that aggregate outstanding debt does not exceed the community's ability to pay debt service as measured by the property value or personal or business income.

Under the most favorable circumstances, the City's debt should be proportionate in size and growth to the City's tax base; should not extend past the useful life of the facilities which it finances; should not be used to balance the operating budget; should not require repayment schedules that put excessive burdens on operating expenditures; and should not be so high as to jeopardize the City's credit rating.

An examination of the City's debt structure can reveal the following conditions:

- Inadequacies in cash management procedures.
- Inadequacies in expenditure controls.
- Decreases in expenditure flexibility due to increased fixed costs in the form of debt service.
- Use of short-term debt to finance current operations.
- Existence of sudden large increases or decreases in future debt service.
- The amount of additional debt that the community can absorb.

The indicators detailed below can be used to monitor changes in debt structure.

Long-Term Debt

Description

A locality's ability to repay its debt is determined by comparing net direct long term debt to assessed valuation. Net direct debt is defined as any debt for which the City has pledged full faith and credit minus self-supporting debt. Self-supporting debt is any debt that the City has pledged to repay from sources other than tax dollars (user fee from enterprise operations). An increase of net direct debt as a percentage of assessed property valuation can indicate diminishing ability to repay debt obligation. If long-term debt were to exceed a local government's resources for paying the debt, the government may have difficulty obtaining additional capital funds, may have to pay a higher rate of interest for them, and may have difficulty repaying existing debt.



Analysis

The net direct debt as a percentage of assessed valuation has remained stable over the evaluation period. The increase from 6% in 1996 to 9% in 1998 can be attributed to the Magnolia/I135 interchange project. Other projects that have affected the net direct debt over the last **Wary Trend** include the South Ohio corridor project and the South Ninth Corridor Phase III project.

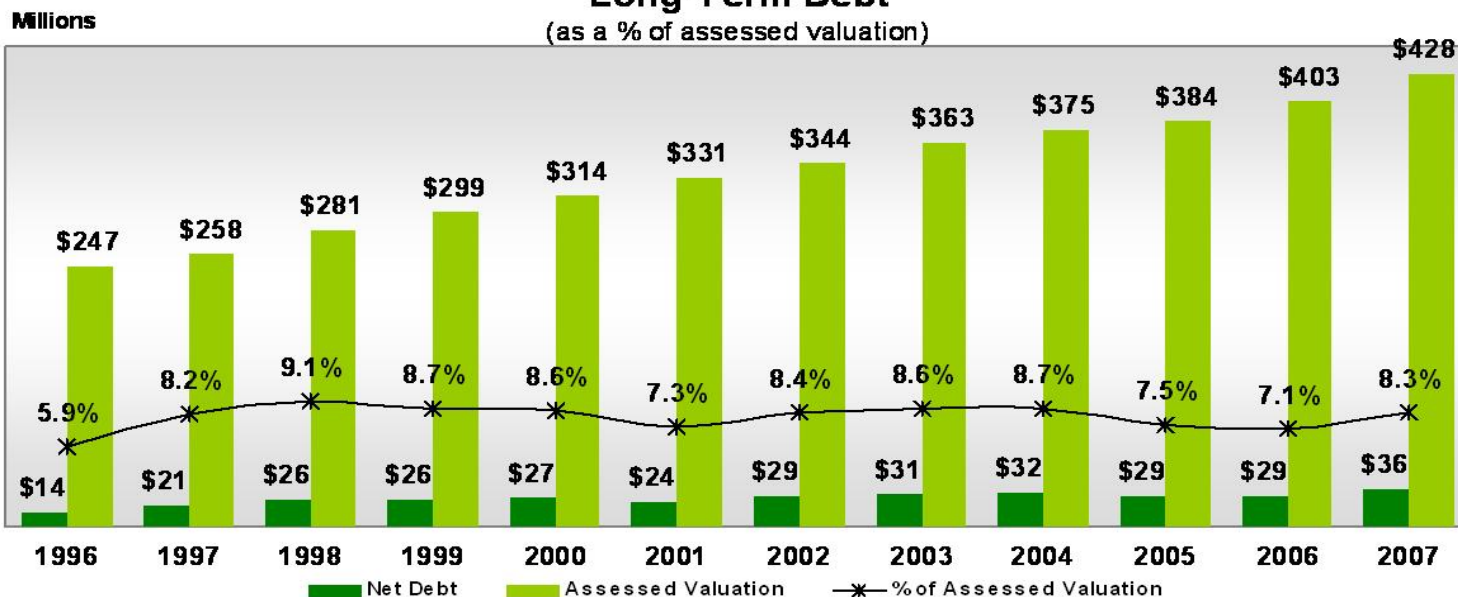
Increasing net direct debt as a percentage of assessed valuation

Formula:

$$\frac{\text{Net direct bonded long-term debt}}{\text{Assessed valuation}}$$

Long-Term Debt

(as a % of assessed valuation)



Net Debt	\$31,172,348	\$32,485,503	\$28,774,792	\$28,774,792	\$35,739,543
Assessed Valuation	\$363,100,444	\$375,273,018	\$383,949,303	\$403,375,084	\$428,465,893
% of Assessed Valuation	8.6%	8.7%	7.5%	7.1%	8.3%

Trend

The warning trend for this indicator has not been observed during the evaluation period. The credit industry indicates that net debt exceeding 10% of assessed valuation is negative. The City's net direct debt was below 10% in each year evaluated. This indicator received a green rating.

Note: Net direct debt is equal to total bonded debt minus revenue bonds, loans, and fund balance designated for debt service.

Source: City of Salina Comprehensive Annual Financial Report 1996-2007, Schedule 6 and Schedule 15.

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Debt Service

Description

Debt service is defined as the amount of principal and interest that the City must pay each year on long-term debt plus the interest it must pay on direct short-term debt. As the debt service increases, it adds to the City's obligations and reduces the City's expenditure flexibility. Debt service can be a major part of the City's fixed costs and its increase may indicate excessive debt and fiscal strain. When debt service reaches 20% of operating revenue it is considered a potential problem. Debt service at 10% of operating revenue or less is considered acceptable.

Warning Trend:
Increasing net direct debt service as a percentage of net operating revenue



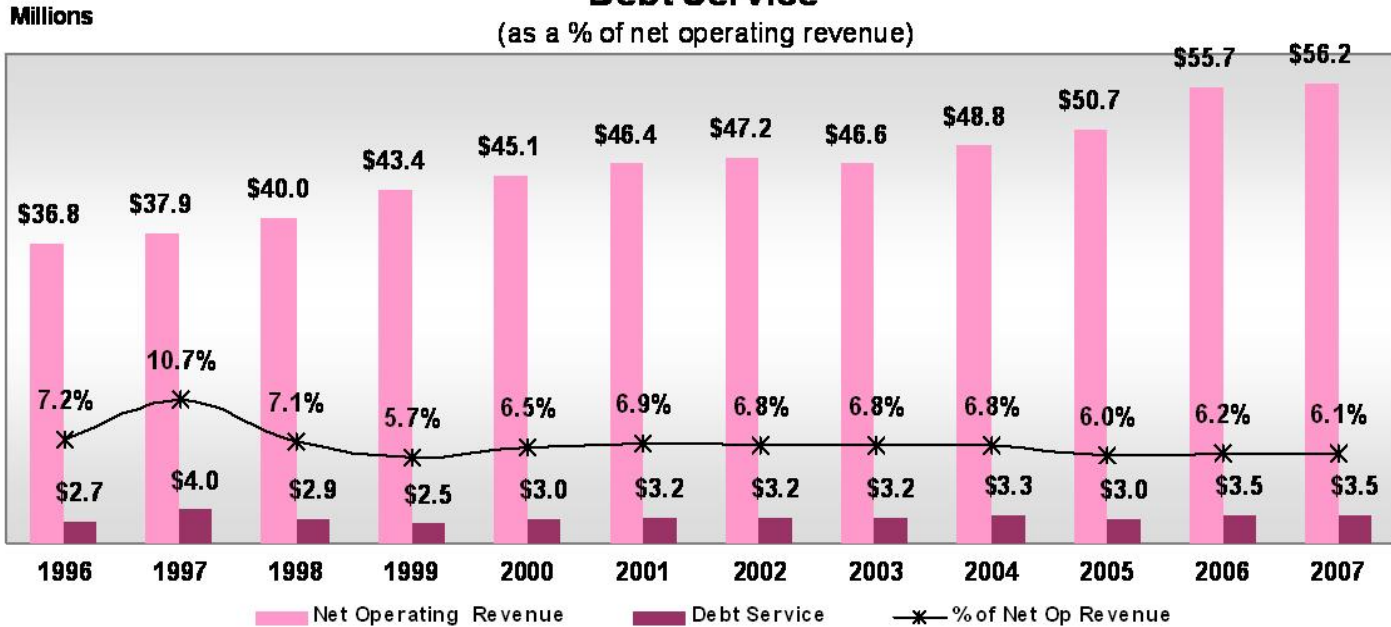
Analysis

Salina's debt services have been relatively steady over the evaluation year period ranging from 10.7% of operating revenue to 11.1%. Each year with the exception of 1997 the debt service was below 10%. The dollar amount of debt service has ranged from \$3 million to \$3.5 million.

Formula:
$$\frac{\text{Net direct debt service}}{\text{Net operating revenue}}$$

Debt Service

(as a % of net operating revenue)



Debt Service	\$3,179,781	\$3,308,119	\$3,026,314	\$3,459,170	\$3,457,680
% of Net Op Revenue	6.8%	6.8%	6.0%	6.2%	6.1%

Trend

The warning trend has not been observed. The relative stability of the debt service and increase in the operating revenue indicate that the City is in a good position with respect to the amount of outstanding debt. This stability in the amount of debt service should help the City to endure difficult economic times because the City has not taken on extra debt during prosperous years. This indicator received a green rating.

Source: City of Salina Comprehensive Annual Report 1996-2007, Statement of Revenues, Expenditures and Change in Fund Balance for Governmental Funds

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Debt Limit



Warning Trend:
Decreasing debt margin
bt limits. General
, can legally incur A
Debt limit minus net debt
jects applicable to the debt limit





...d. The debt margin has increased
...ult of stable debt and increasing

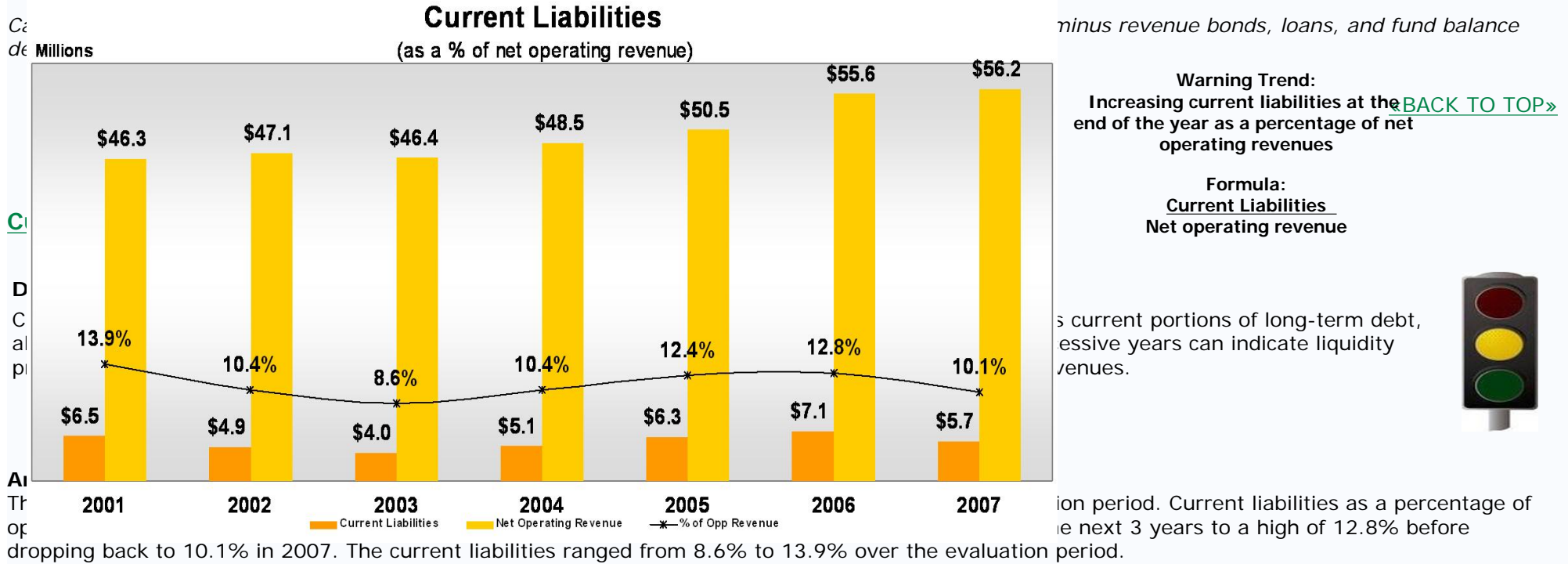
	2003	2004	2005	2006	2007
Assessed Valuation	\$363,100,444	\$375,273,018	\$383,949,303	\$402,191,655	\$428,465,893
Debt Limit	\$108,930,133	\$112,581,905	\$115,184,791	\$120,657,497	\$128,539,768
Debt Margin	\$77,757,785	\$80,096,402	\$86,409,999	\$91,882,705	\$92,800,225
Total Net Debt Applicable to Limit	\$31,172,348	\$32,485,503	\$28,774,792	\$28,774,792	\$35,739,543

% of Assesed Valuation	8.6%	8.7%	7.5%	7.2%	8.3%
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Trend

The warning trend was not observed for this indicator over the evaluation period. The City has more than enough room within the debt margin to incur new debt for future projects. This indicator received a green rating.

Source: City of Salina Comprehensive Annual Financial Reports 1996-2007, Schedule 15, Legal Debt Margin



	2003	2004	2005	2006	2007
Current Liabilities	\$3,988,773	\$5,051,137	\$6,255,928	\$7,096,922	\$5,686,678
Net Operating Revenue	\$46,423,888	\$48,535,290	\$50,536,435	\$55,575,746	\$56,245,380
% of Operating Revenue	8.6%	10.4%	12.4%	12.8%	10.1%

Trend

The warning trend was observed during the period from 2003 to 2006. From 2006 to 2007 the trend reversed with a drop in current liabilities as a percentage of operating revenue from 12.8% to 10.1%. If the warning trend reappears in the next few years the City will have to monitor current liabilities more closely. This indicator received a yellow rating.

Source: City of Salina Budget 2000-2007, Schedule F, Fund Balances, City of Salina Comprehensive Annual Report 2000-2007, Statement of Net Assets.

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