

A photograph of a wastewater treatment plant. In the foreground, there's a paved area and a grassy field. In the middle ground, there are concrete structures and pipes. In the background, there are hills and a large rainbow arching across the sky. The sky is filled with dramatic, grey clouds, and the rainbow is very vibrant. The overall scene is a mix of industrial and natural elements.

# Fiscal Health Analysis

Fiscal Year Ending December 31,  
2023

# **General Overview - Fiscal Health Analysis for Colorado Counties and Municipalities**

- The Fiscal Health Analysis is a set of financial ratios that can be applied to county or municipal financial statements. These are developed by the State Auditor.
- Financial Indicators within these ratios can provide information to assist municipalities in identifying areas to focus for further examination and if needed, action by the appropriate parties.

# Fiscal Health Analysis for Colorado Counties and Municipalities

- 7 Financial Ratios used to assess financial health
- Trend Analysis – Identify ratios that indicate a warning over multiple periods.
  - Analysis is a starting point for discussion and inquiry.
  - One of many available tools to analyze fiscal health.
  - Management Discussion and Analysis in the Annual Financial Statements can provide information that puts ratio analysis in context.
  - Economic factors outside of government control can impact perceived fiscal health.

# Fiscal Health Analysis for Colorado Counties and Municipalities

- Limitations of Fiscal Health Analysis Ratios
  - Financial concern is not warranted until a three-year trend is indicated.
  - No consideration is given for current budgetary actions being taken to affect financial condition.
  - Analysis looks only at historical data and does not consider a local governments financial condition at the current point in time.

# Fiscal Health Analysis for Colorado Counties and Municipalities

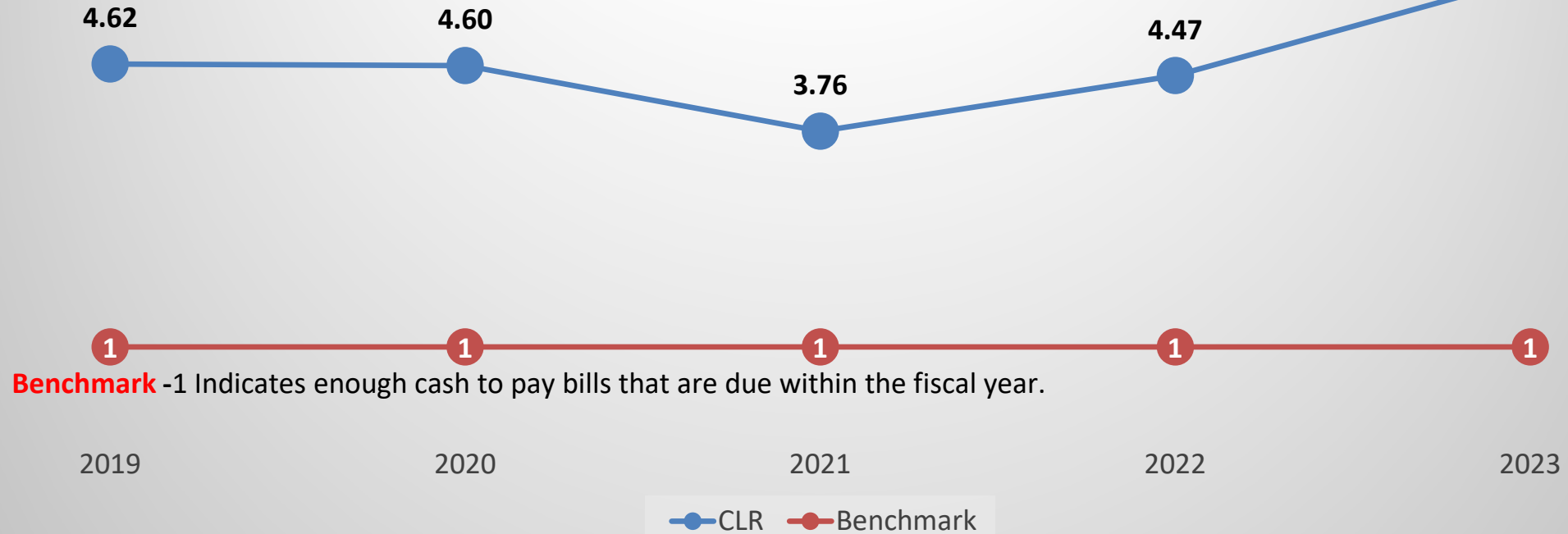
- **Cash to Liabilities Ratio:**

- Shows how much cash a government has to pay its current liabilities and provides a good indication as to whether the government can pay its bills in the short term.
- A downward trend could indicate decreasing cash, increasing liabilities, or both.
- Timing issues of cash flow and payments at period end may have an adverse impact.

## Cash to Liabilities Ratio

### Financial Concern

A continuous decline for 3 years with year 3 below the benchmark of 1.  
A ratio less than 1 for 3 years in a row.

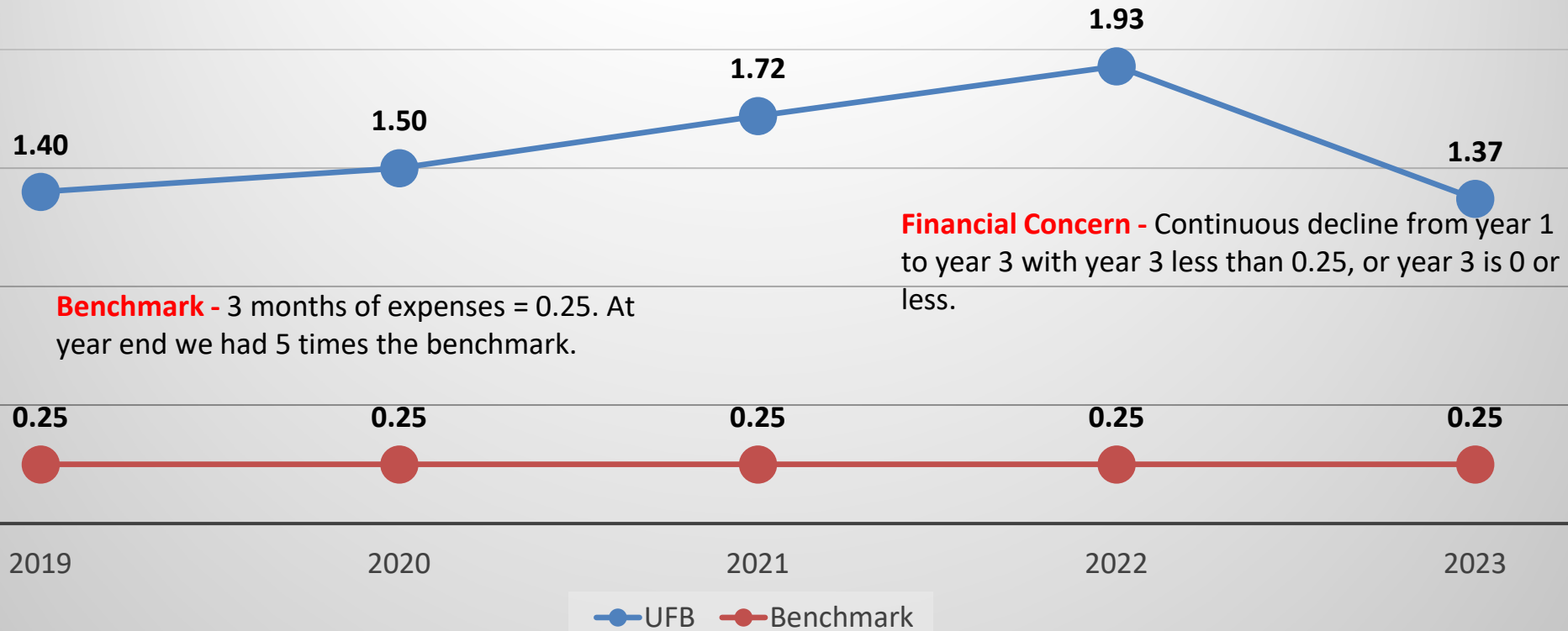


CASH TO LIABILITIES RATIO: Is there enough cash to pay current liabilities - Yes

# Fiscal Health Analysis for Colorado Counties and Municipalities

- **Unrestricted Fund Balance Ratio:**
  - Specifically, this ratio shows the amount of fund balance a government has to cover future expenditures, without corresponding revenues.
  - This ratio also provides insight into how long a government could operate if it were unable to collect any revenue.
  - The key to this ratio is that management is aware of the changes, and they are intentional or planned.

## Unrestricted Fund Balance Ratio



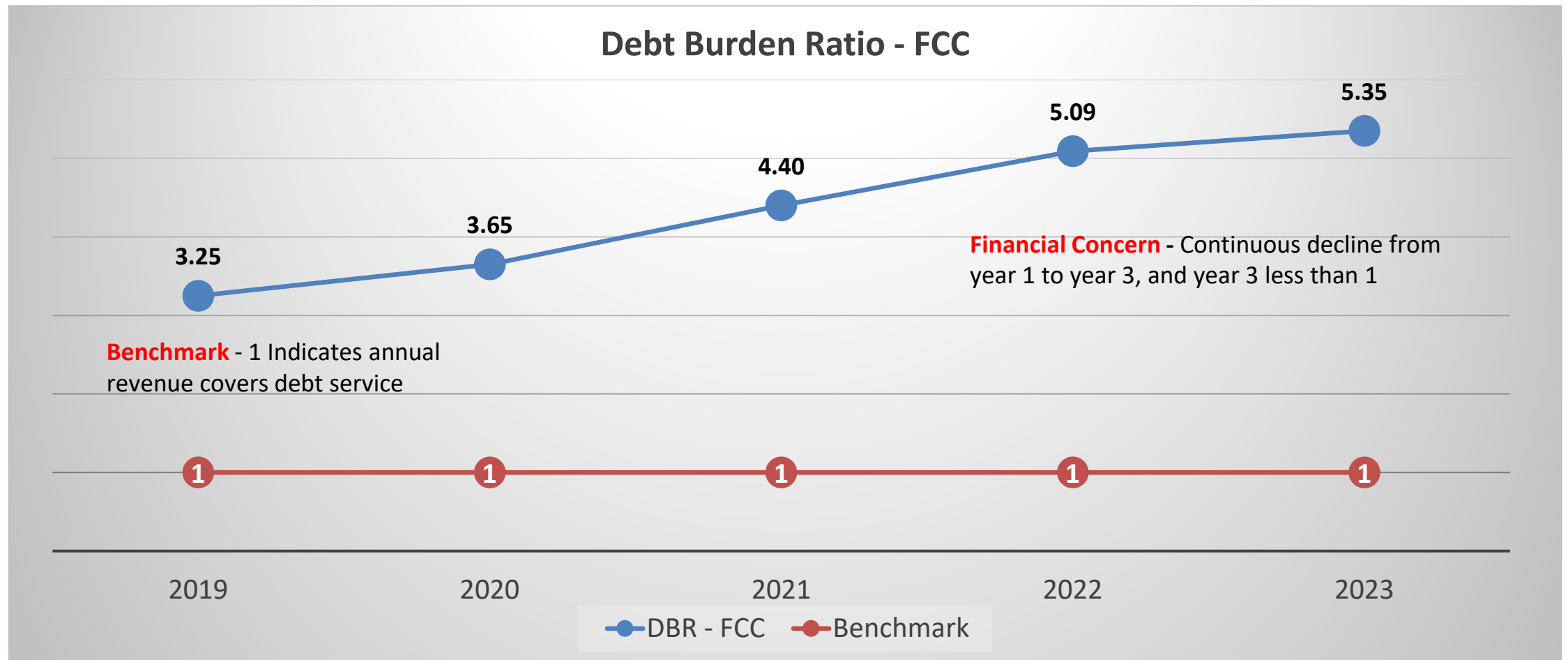
UNRESTRICTED FUND BALANCE RATIO: How long will reserves last to pay future expenses



# Fiscal Health Analysis for Colorado Counties and Municipalities

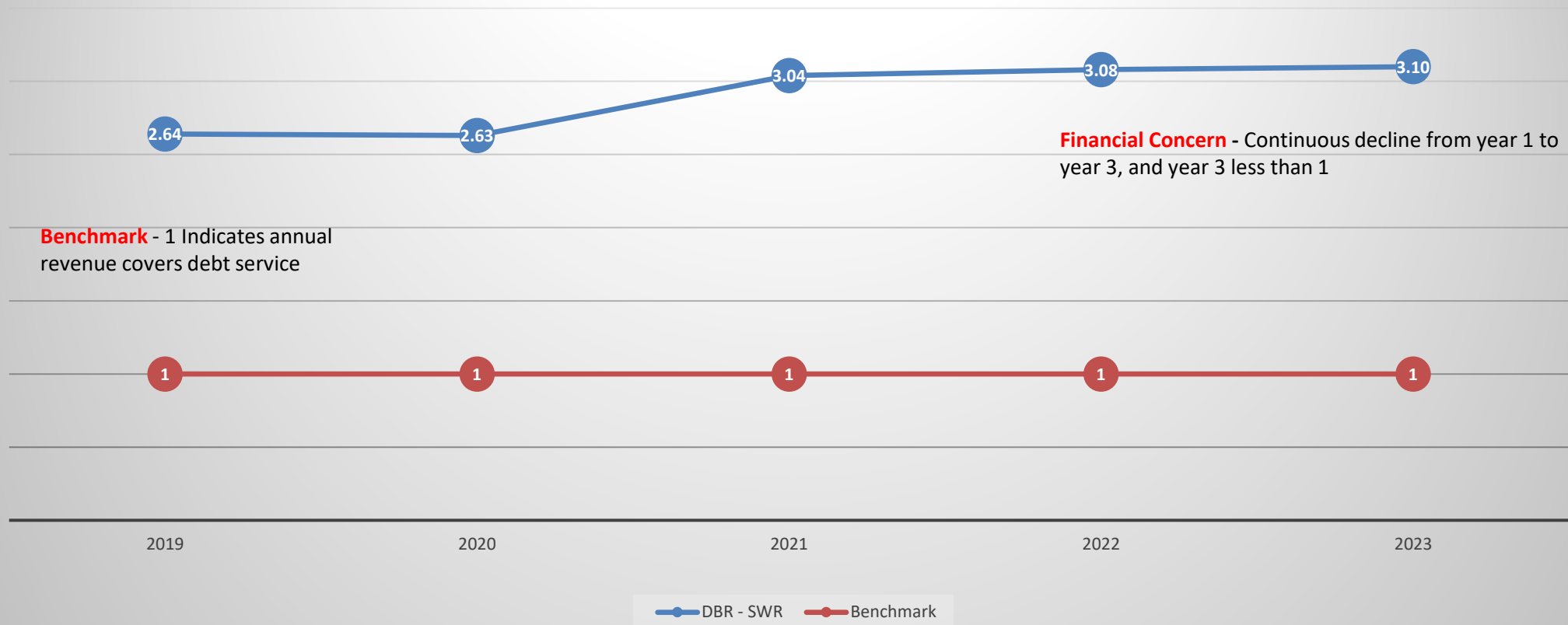
- **Debt Burden Ratio:**

- The ratio indicates whether the local government's annual revenue will cover its annual debt payments, including principal and interest.
- If the ratio shrinks every year, it might be a sign that the government's debt payment is becoming more burdensome and concerning.



DEBT BURDEN RATIO – Community Center: Do annual revenues cover debt service payments?

## Debt Burden Ratio - Sewer

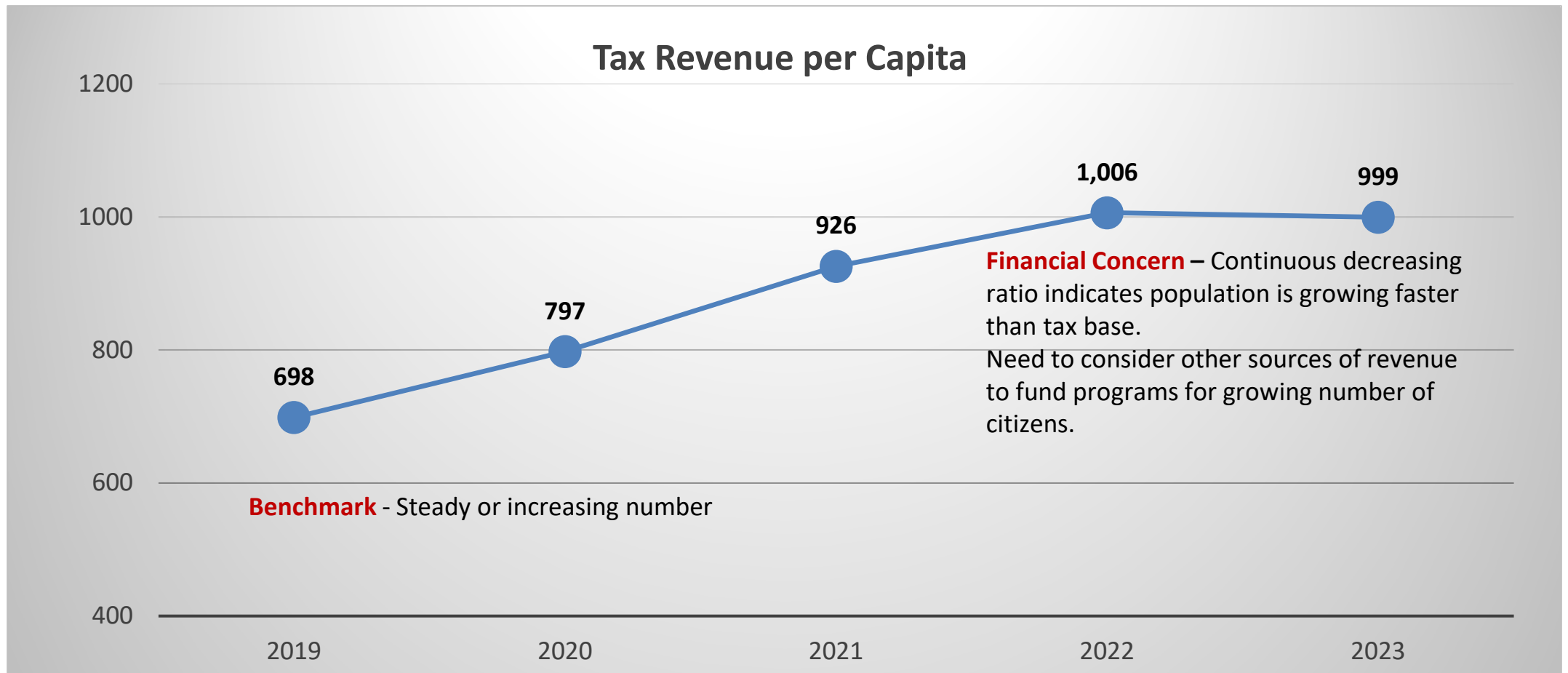


DEBT BURDEN RATIO – Sewer Fund: Do annual revenues cover debt service payments?

# Fiscal Health Analysis for Colorado Counties and Municipalities

- **Tax Revenue Per Capita:**

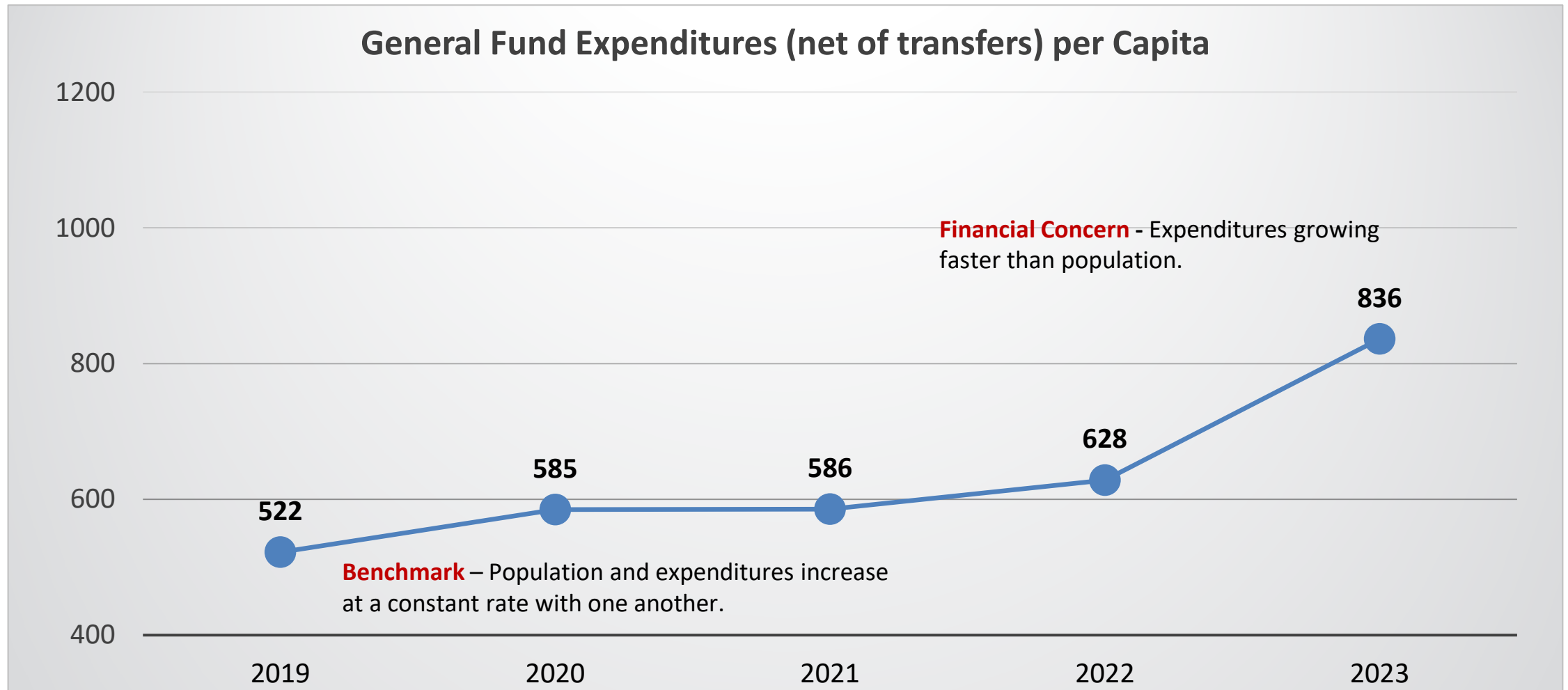
- Shows the expected relationship between population growth and tax revenue growth.
- The ratio also indicates the extent to which tax revenue in governmental funds changes with population.
- If this ratio is consistently decreasing, it means that a government's population could be growing faster than its tax base. Consider other revenue sources to provide the same level of service.



**TAX REVENUE PER CAPITA:**  
What is the relationship between population growth and tax revenue growth?

# Fiscal Health Analysis for Colorado Counties and Municipalities

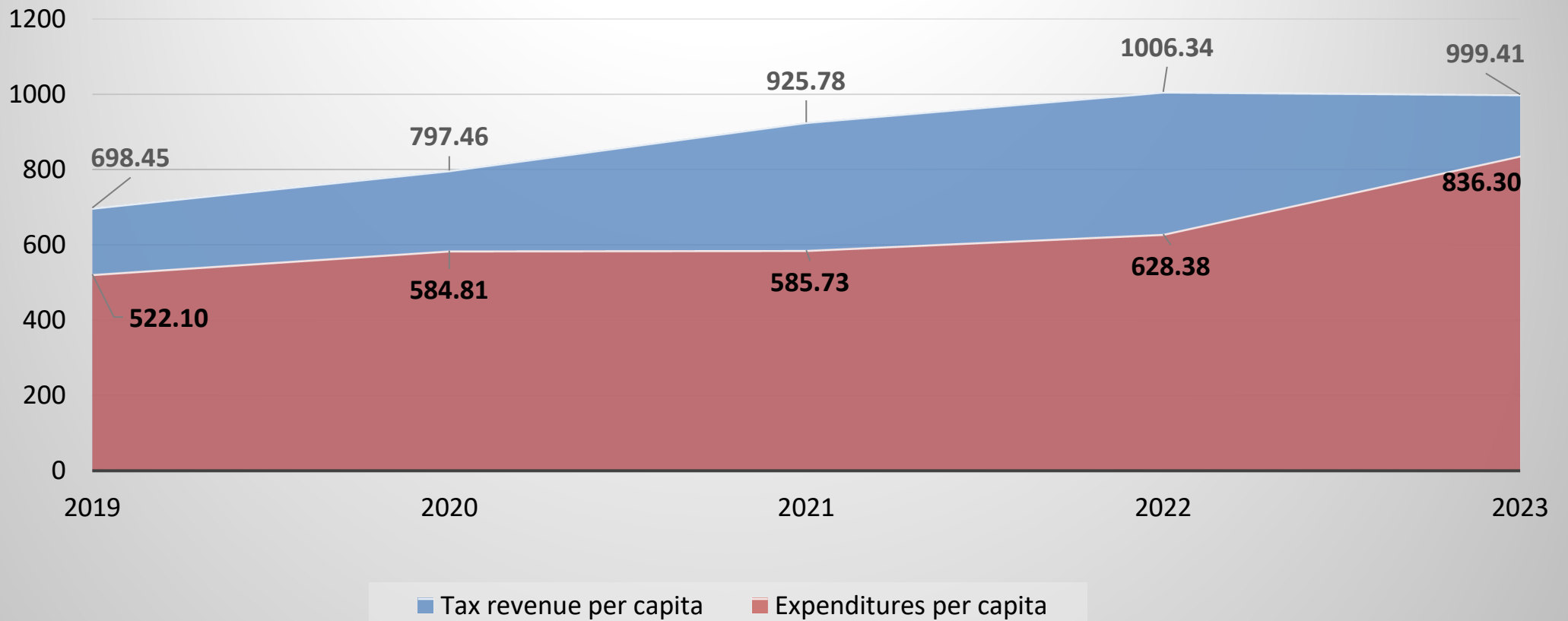
- **General Fund Expenditures Per Capita:**
  - This ratio divides total general fund expenditures by the population to show the amount of general fund expenditures per citizen.
  - The expected relationship is that when population increases, expenditures increase at a constant rate.
  - If expenditures grow faster than population, investigate the cause and determine if this is a problem.



## EXPENDITURES PER CAPITA:

What is the relationship between population growth and General Fund expenditures?

## Tax Revenues vs General Fund Expenses Per Capita



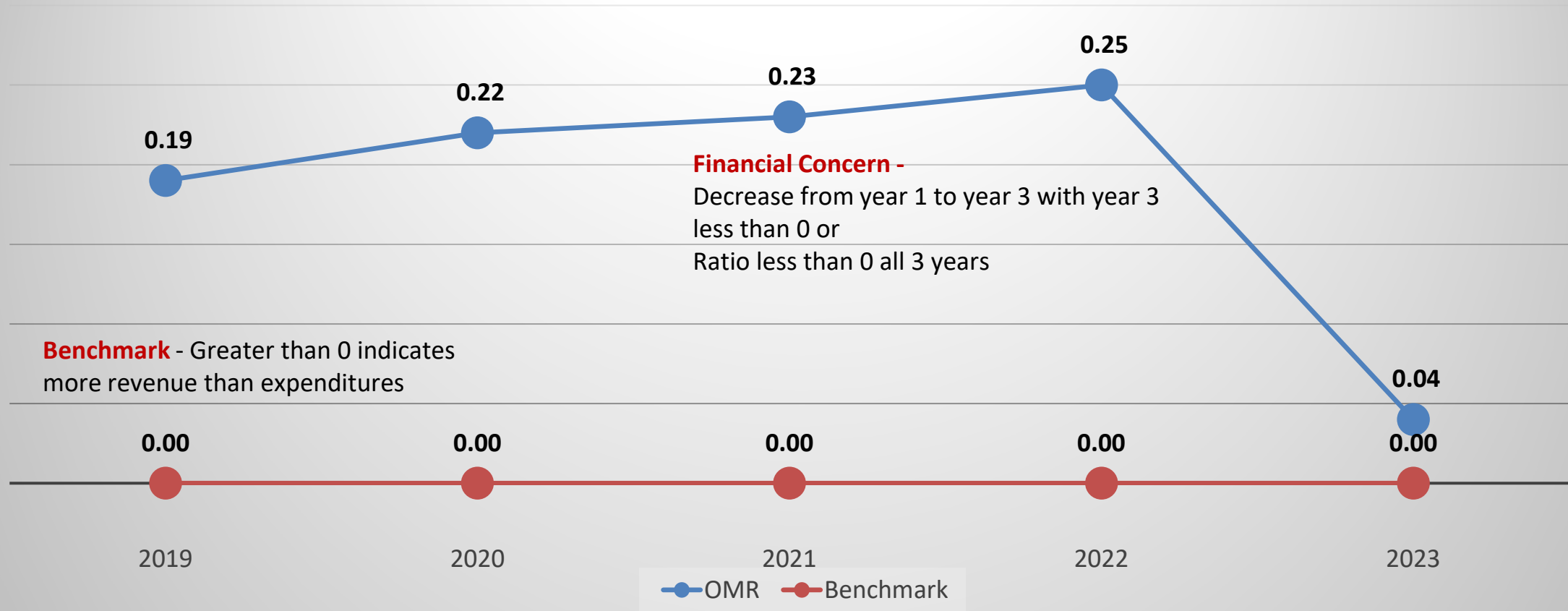
Missed Benchmark: Tax revenues vs General Fund Expenditures



# Fiscal Health Analysis for Colorado Counties and Municipalities

- **Operating Margin Ratio:**
  - The ratio indicates the amount added to the local government's reserves for every \$1 generated in revenue.
  - This ratio will tend to change consistently over time
  - The ratio may be negative one year if for one-time capital expenditures, and positive the next.
  - A consistently negative ratio could indicate structural problems in operating decisions, or poor economic conditions.

## Operating Margin Ratio



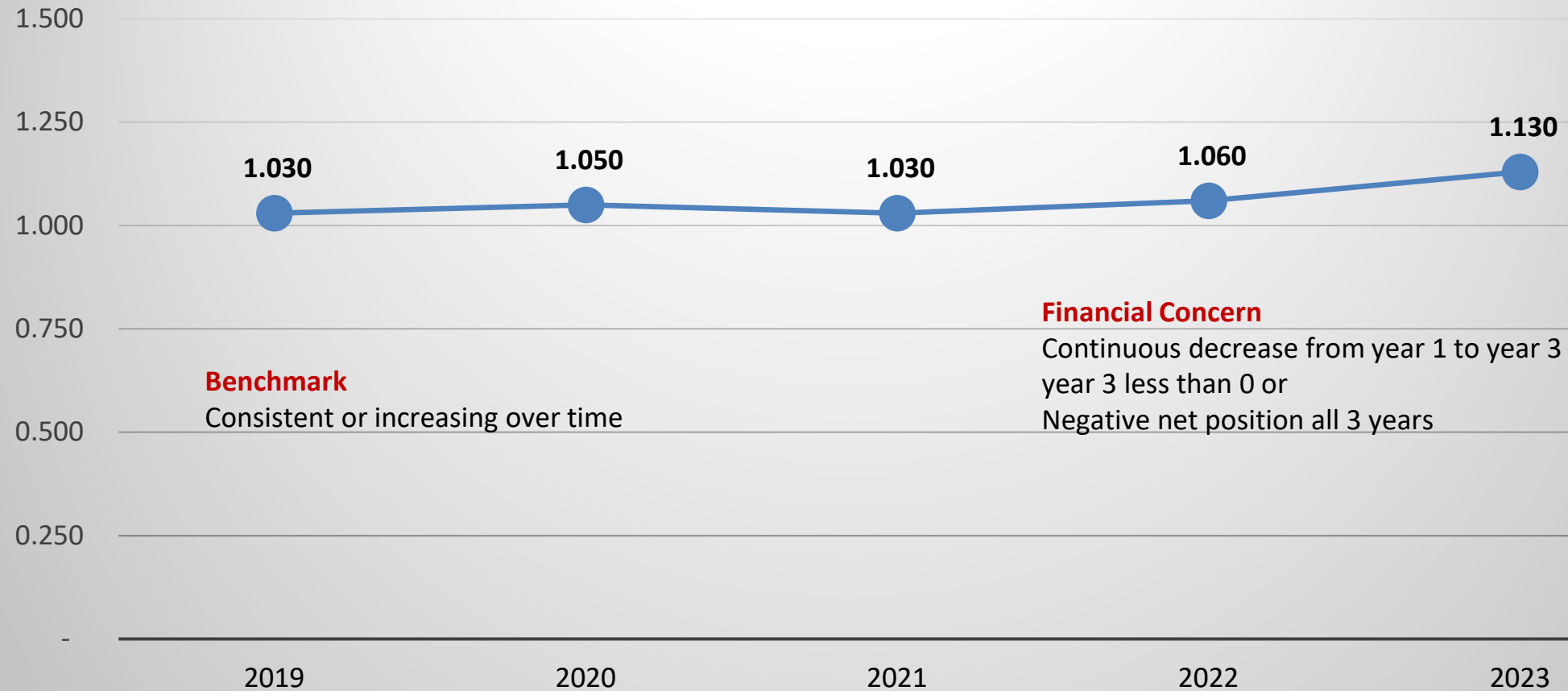
## OPERATING MARGIN RATIO:

How much is added to reserves for every dollar generated in revenues?

# Fiscal Health Analysis for Colorado Counties and Municipalities

- **Enterprise Funds Net Position:**
  - The ratio indicates whether the local government's net position in its enterprise funds are increasing or decreasing.
  - This ratio could indicate that a government needs to adjust its revenue and expense structure to remain solvent over time.
  - An enterprise that is not sustainable, without structural changes, will have a consistently decreasing EFNP over time, eventually falling below zero.

## Enterprise Funds Net Position



**ENTERPRISE FUNDS NET POSITION:**  
Is net position in the enterprise funds increasing or decreasing?

# Questions?

