

UPDATE | OCT. 11, 2018

FINANCIAL HEALTH INDICATORS



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FINANCIAL HEALTH INDICATORS

2018 update

Most city and county officials are doing well managing their finances, coping with the sometimes uncontrollable ups and downs of their revenues and keeping a close eye on their expenses to balance their books, according to current Financial Health Indicators (FHI). The state's strong economy is evident in the number of cities and counties showing few signs of fiscal stress.

However, since FHI were first unveiled by Auditor of State Dave Yost nearly two years ago as a way to monitor the fiscal condition of cities and counties in Ohio, there is evidence of some problem areas for some of our state's largest local governments.

While no single indicator should be used to evaluate a city's or county's health, the data show communities across Ohio are seeing spending outpacing revenues, with only their reserves keeping them in the black. Data also show that expenditures have been delayed for infrastructure and other capital assets (major equipment, vehicles, etc.) in our cities and counties are now reaching the end of their useful lives, meaning major replacement expenditures lie ahead.

The FHI are based on financial data provided by cities and counties in their financial statements. They provide a snapshot of a community's fiscal health based on a historical analysis of entities that have been declared in fiscal distress. The data-driven indicators generate outlooks that are either "critical," "cautionary" or "positive," represented by the colors red, yellow and green.

A snapshot of 2017's 'fiscal physical'

Overall, there has been a 33 percent increase (from 12 to 16) in the number of cities that are either facing fiscal stress or are one indicator away, data through Sept. 30 show.

Seven cities are experiencing fiscal stress according to the indicators (Akron, Alliance, Canton, Fostoria, Norwood, Parma Heights and Powell), and nine others are a "critical" indicator away from that same stress level (Bowling Green, Cincinnati, East Cleveland, Lorain, North College Hill, Riverside, Upper Sandusky, Warren and Youngstown).

In addition, six cities (Bedford, Euclid, Lima, Mount Vernon, Reading and Springdale) are showing early signs of stress, meaning they are two to three years away from fiscal stress. And five cities (Lakewood, Maple Heights, New Philadelphia, Olmsted Falls and Wickliffe) are one indicator away from showing early signs of stress.

Indicators for Ohio counties found none reaching enough "critical" indicators to indicate they were facing fiscal stress through Sept. 30, although one (Highland) is an indicator away from fiscal stress. No counties met this condition in 2015. Hamilton County is showing early signs of stress (meaning it is two to three years away from fiscal stress) and Coshocton County is an indicator away from showing signs of stress.

In developing the indicators, Auditor Yost's objective was two-fold: Help local officials avoid a fiscal crisis by identifying potential problems in their fiscal health, and to elevate the discussion around local government financing and budgeting.

While they have responsibility for balancing the books, local governments cannot always control major fund-

By the numbers OF 88 COUNTIES:

0

in fiscal stress

1

early signs of stress

1

is an indicator from
early signs of stress

OF 247 CITIES:

7

in fiscal stress

6

early signs of stress

9

are an indicator from
early signs of stress

Through Sept. 30, 2018

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ing streams they depend on, such as income tax revenues from local employers who may relocate or downsize, or policy changes made by state or federal officials that result in reduced funding for local governments. Over time, however, the FHI provide an indication to local officials and residents alike that things are going well or, conversely, point to troubling trends.

For instance, the FHI reports for 27 cities show a trend toward fiscal stress as they have had an increase in the number of “critical” or “cautionary” indicators in both 2016 and 2017. The original FHI report was based on 2015 data.

The 27 cities that have had progressively worse indicators since 2015 include:

Alliance, Amherst, Beachwood, Bellbrook, Broadview Heights, Brooklyn, Brookville, Columbiana, Defiance, Delaware, Findlay, Forest Park, Geneva, Grove City, Hilliard, Lakewood, Lima, Louisville, Mount Vernon, Piqua, Powell, Reading, Rittman, Shelby, Sidney, Vandalia and Wapakoneta. The majority of these cities are not experiencing overall fiscal stress, however, Alliance and Powell are facing fiscal stress, while Lima, Mount Vernon and Reading are showing early signs of fiscal stress.

On the county level, the FHI reports show 15 counties have experienced a progressive increase in signs of fiscal stress as they have had an increase in the number of “critical” and “cautionary” indicators since the initial 2015 data was released.

The 15 counties that have had progressively worse indicators in 2016 and 2017 include: Clinton, Defiance, Delaware, Hamilton, Lake, Licking, Lucas, Marion, Medina, Pike, Preble, Ross, Sandusky, Trumbull and Wyandot. With the exception of Hamilton, which is showing early signs of fiscal stress, these counties are not currently showing signs of overall fiscal stress.

How the indicators have changed

TOTAL CRITICAL INDICATORS

	2015	2016	2017
Counties	35	67	78
Cities	293	302	302

TOTAL CAUTIONARY INDICATORS

	2015	2016	2017
Counties	134	182	147
Cities	542	515	522

AT LEAST ONE CRITICAL OR CAUTIONARY INDICATOR

	2015	2016	2017
Counties	70	79	73
Cities	220	220	220

Through Sept. 30, 2018

Statewide Perspective

While the FHI provide a look into a specific city’s or county’s fiscal health, they also provide a way for state policymakers to better understand what’s happening across the Buckeye State. If there are issues across the state with a specific indicator, that information can be used by state legislators and the executive branch to dig more deeply to determine root causes of the problem.

According to the most recent data, the most ‘troubled’ financial indicators are Nos. 1 and 9, although there are others as well.



Indicator 1 assesses the year-end balance of the unrestricted net assets of a city, and there has been a 46 percent increase in those reflecting a ‘critical’ outlook in this area and a 31 percent increase for those with a ‘cautionary’ outlook. The number of cities that have lower stress for indicator 1 has fallen from 163 to 136. If an entity’s unrestricted net assets/position is declining or is negative, it leaves

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little or no room for unexpected expenses; therefore it is a sign of fiscal stress.

Indicator 9 assesses whether net expenses are exceeding general revenues for government activities. There has been a 49 percent increase in cities reflecting a high level of fiscal stress for this indicator, from 67 cities in 2015 to 100 for FY 2017. Another seven cities are reflecting a cautionary outlook, up from two in 2015.

Indicator 11: There has been a slight increase in the number of cities with a high or critical outlook of financial stress regarding capital assets (Indicator 11). Some 20 cities today have high financial stress in this area, up from 17 two years ago. A high percentage indicates assets replacement is imminent, and the entity may be delaying replacement of assets or significant repairs for cash flow purposes.

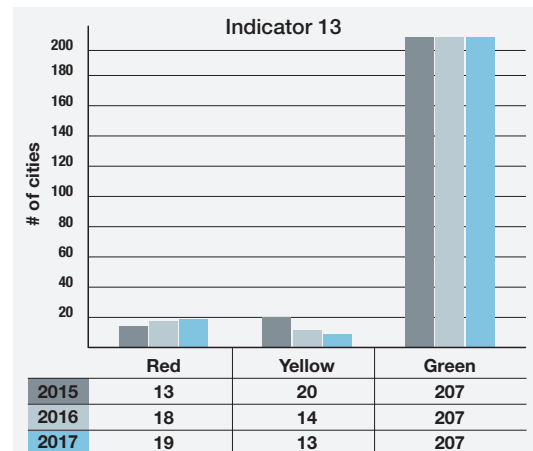
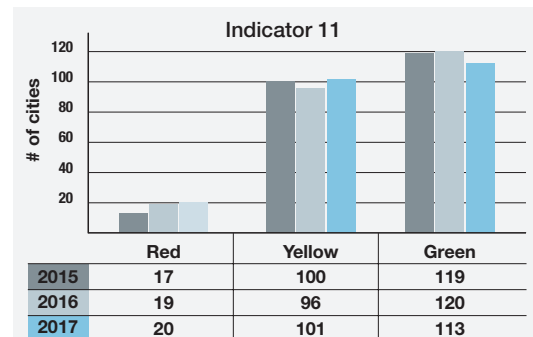
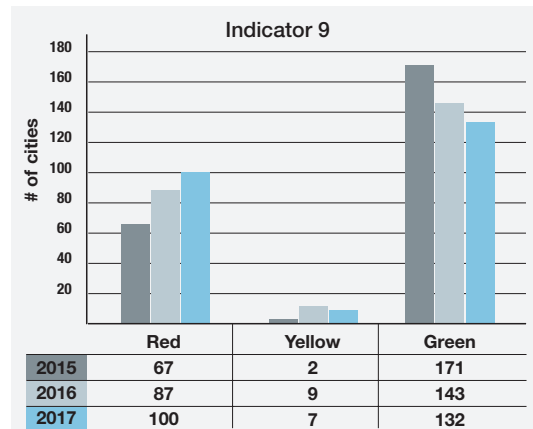
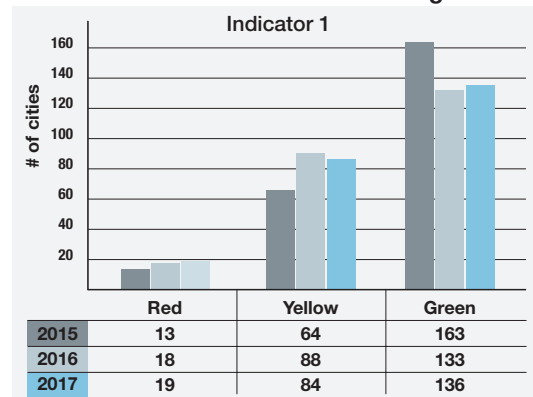
Indicator 13: There has been a 46 percent increase in the number of cities facing high fiscal stress with regard to having enough unrestricted net assets (cash, investments, land, etc. minus liabilities) to cover average daily expenses for 30 days. In 2017, 19 cities were “critical” in Indicator 13, up from 13 in 2015.

FHI’s Long-term Value

One of the Auditor’s duties is to place communities into fiscal emergency when they meet certain thresholds. In developing the FHI, Auditor Yost’s goal was to help local leaders avoid a fiscal distress designation.

Like a health checkup for humans, the ‘fiscal physical’ provided by FHI is to highlight key areas of concern. With advance warning, local leaders could take steps to avert major problems. The indicators show how some cities and counties exhibit evidence of growing fiscal stress, including some that have more “cautionary” or “critical” indicators each year.

How the indicators have changed



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A sampling

Alliance

Alliance is a case study for how the FHLs were intended to work. The indicators showed a lower-stress outlook in 2015, but the outlook worsened in 2016 to reflect eight red or yellow indicators, which history has reflected indicates the entity will be experiencing fiscal stress in two to three years and reached an even higher level in 2017 with six red indicators, which signifies the entity was experiencing fiscal stress. Alliance is now in fiscal watch.

Entity Name	Entity Type	County	Year	Basis	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	Filing Status	Population	Budget	# Red	# Yellow
Alliance	City	Stark	2015	GAAP																		Final	22,522	\$50,595,729	1	3
Alliance	City	Stark	2016	GAAP																		Final	22,522	\$41,857,423	3	5
Alliance	City	Stark	2017	GAAP																		Final	22,522	\$56,659,299	6	3

Hamilton

Hamilton's financial outlook has increased fiscal stress, starting with two red and two yellow indicators in 2015, to three yellow and one red in 2016, to four red and three yellow indicators in 2017, which is one away from the eight red/yellow that historical indicates the entity is heading towards fiscal stress.

Entity Name	Entity Type	County	Year	Basis	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	Filing Status	Population	Budget	# Red	# Yellow
Hamilton	City	Butler	2015	GAAP																		Final	62,486	\$438,561,875	2	2
Hamilton	City	Butler	2016	GAAP																		Final	62,359	\$472,808,051	1	3
Hamilton	City	Butler	2017	GAAP																		Final	62,127	\$431,886,558	4	3

Lima

Lima is an example of an outlook with approaching fiscal stress with eight red/yellow indicators for 2017.

Entity Name	Entity Type	County	Year	Basis	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	Filing Status	Population	Budget	# Red	# Yellow
Lima	City	Allen	2015	GAAP																		Final	38,771	\$144,032,664	1	4
Lima	City	Allen	2016	GAAP																		Final	38,432	\$147,345,003	2	5
Lima	City	Allen	2017	GAAP																		Final	38,432	\$177,051,366	3	5

Mount Vernon

Mount Vernon's is another example of an outlook indicating approaching fiscal stress with eight red/yellow indicators for 2017.

Entity Name	Entity Type	County	Year	Basis	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	Filing Status	Population	Budget	# Red	# Yellow
Mount Vernon	City	Knox	2015	GAAP																		Final	16,990	\$50,026,176	0	1
Mount Vernon	City	Knox	2016	GAAP																		Final	16,990	\$42,378,895	2	4
Mount Vernon	City	Knox	2017	GAAP																		Final	16,990	\$40,555,825	2	6

Riverside

Riverside's fiscal outlook has a higher stress level in 2017 than it did in 2015, climbing from three red and four yellow indicators to five red and one yellow in 2017, which is one away from the six red indicators, which historically has indicated fiscal stress is occurring.

Entity Name	Entity Type	County	Year	Basis	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	Filing Status	Population	Budget	# Red	# Yellow
Riverside	City	Montgomery	2015	GAAP																		Final	25,040	\$31,796,202	3	4
Riverside	City	Montgomery	2016	GAAP																		Final	25,200	\$27,420,537	3	4
Riverside	City	Montgomery	2017	GAAP																		Final	24,981	\$28,013,155	5	1

Springdale

Springdale's financial outlook shows increased fiscal stress between 2015 and 2017 with seven red/yellow increasing to nine red/yellow in 2017. Historically, at least eight red/yellow indicators is predictive of the entity experiencing fiscal stress in two to three years.

Entity Name	Entity Type	County	Year	Basis	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	Filing Status	Population	Budget	# Red	# Yellow
Springdale	City	Hamilton	2015	GAAP																		Final	11,223	\$22,620,388	0	7
Springdale	City	Hamilton	2016	GAAP																		Final	11,223	\$32,357,083	2	5
Springdale	City	Hamilton	2017	GAAP																		Final	11,223	\$32,424,162	4	5

Hamilton County

Hamilton County has seen its cautionary and critical indicators grow over the past three years, with the preliminary results for 2017 reflecting eight red/yellow indicators, which historically indicates the entity will experience fiscal stress in two to three years.

Entity Name	Entity Type	County	Year	Basis	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	Filing Status	Population	Budget	# Red	# Yellow
Hamilton	County	Hamilton	2015	GAAP																		Final *	807,598	\$1,360,750,600	1	2
Hamilton	County	Hamilton	2016	GAAP																		Final *	809,099	\$1,927,197,134	2	2
Hamilton	County	Hamilton	2017	GAAP																		Preliminary *	813,822	\$1,438,851,384	4	4

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Background

Staff from the Auditor of State’s office used historical data for entities that had been declared in fiscal distress to create the indicators. Using that data, the Auditor’s office developed a set of Financial Health Indicators to recognize early signs of fiscal stress for cities and counties.

The indicators are a collection of financial information, percentages and ratios gathered from annual financial statements filed by local governments with the Auditor’s office in addition to their audit reports. There are up to 17 indicators for entities that report financial statements using the Generally Accepted Accounting Principles (GAAP) and up to 15 for those that use a cash basis or modified cash basis of accounting.

Historical data indicate that entities with at least six “critical” indicators are in a state of fiscal stress. (For cities and counties using a cash basis or modified cash basis of accounting, four critical indicators is the threshold.) Historical data indicate that entities with a combination of eight critical and cautionary indicators may experience fiscal stress in two to three years. (For cities and counties using a cash or modified cash basis of accounting, a combination of six critical and cautionary indicators is the threshold.)

However, having a high number of indicators which suggest fiscal stress does not mean a community will fall into fiscal caution, watch or emergency, nor does it mean local officials have failed to properly manage their finances. It does mean, however, that barring a course correction, the finances of these entities are such that the community is at higher risk of being declared in fiscal distress by the Auditor in the future.

It is important to note that no individual financial indicator is of use in identifying overall fiscal stress or predicting that an entity will fail. While individual indicators do point to specific areas of concern, the indicators should be considered together to obtain insight as to whether or not an entity is experiencing early signs of fiscal stress.



How to use the Indicators



Go to www.ohioauditor.gov/FHI/default.html



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