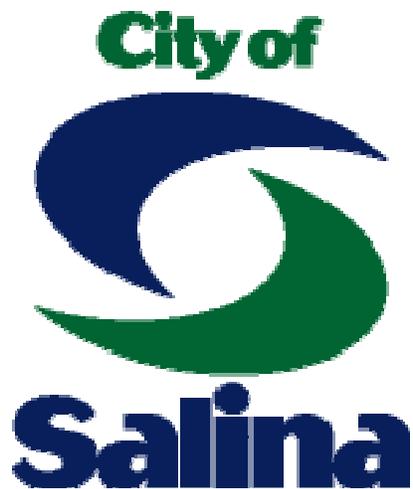


Financial Trends Monitoring System



December, 2011



| | Page |
|--|-------------|
| Introduction | iii |
| Ratings | iv |
| Indicators | |
| Community Indicators | |
| Population | 2 |
| Personal Income Per Capita | 3 |
| Employment Base | 4 |
| Real Property Value | 5 |
| Residential Development | 6 |
| Revenue Indicators | |
| Key Revenues | 8 |
| Revenue Per Capita | 9 |
| Property Tax Revenue | 10 |
| Uncollected Property Taxes | 11 |
| Sales Tax Revenue | 12 |
| Intergovernmental Operating Revenue | 13 |
| Expenditure Indicators | |
| Departmental Expenditures | 15 |
| Expenditures Per Capita | 16 |
| Employees Per Capita | 17 |
| Fringe Benefits | 18 |
| Capital Outlay | 19 |
| Operating Position Indicators | |
| Growth in Revenue vs. Growth in Expenditures | 21 |
| Fund Balance: Total | 22 |
| Fund Balance: Governmental Funds | 23 |
| Enterprise Fund Operating Margin | 24 |
| Current Liabilities | 25 |
| Liquidity | 26 |
| Debt Structure Indicators | |
| Long -Term Debt | 28 |
| Debt Service | 29 |
| Debt Margin | 30 |

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.

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.

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 22 indicators were chosen from 5 categories that best fit the City's accounting structure.

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 National Consumer Price Index (Urban, All Consumers) (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. 1997 is used as the base year in this report.. 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 1997 CPI divided by the CPI of following years.

The following example converts 1,000 dollars in 2008 to constant 1997 dollars:

$$\text{Conversion Factor} = (1997 \text{ CPI} / 2008 \text{ CPI}) \text{ or } (160.50 / 215.5) = .728$$

$$\text{Constant Dollar} = (\text{Actual Dollar} \times \text{Conversion Factor}) \text{ or } (\$1000 \times .744) = \$744$$

This means that \$1,000 in 2008 would have been worth \$728 in 1997.

Ratings

k

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.

| Rating as of Report Date | | | Page |
|---|---|--|-----------|
| 2009 | 2011 | | |
| | | Community Indicators | 1 |
|  |  | Population | 2 |
|  |  | Personal Income Per Capita | 3 |
|  |  | Employment Base | 4 |
|  |  | Real Property Value | 5 |
|  |  | Residential Development | 6 |
| | | Revenue Indicators | 7 |
|  |  | Revenue Per Capita | 9 |
|  |  | Property Tax Revenue | 10 |
|  |  | Uncollected Property Taxes | 11 |
|  |  | Sales Tax Revenue | 12 |
|  |  | Intergovernmental Operating Revenue | 13 |
| | | Expenditure Indicators | 14 |
|  |  | Expenditures Per Capita | 17 |
|  |  | Employees Per Capita | 19 |
|  |  | Fringe Benefits | 20 |
|  |  | Capital Outlay (Change in Methodology) | 21 |
| | | Operating Position Indicators | 22 |
|  |  | Growth in Revenue vs. Growth in Expenditures | 23 |
|  |  | Fund Balance: Total | 24 |
|  |  | Fund Balance: Governmental Funds | 25 |
|  |  | Enterprise Fund Operating Margin | 26 |
|  |  | Current Liabilities | 27 |
|  |  | Liquidity | 28 |
| | | Debt Structure Indicators | 29 |
|  |  | Long -Term Debt | 30 |
|  |  | Debt Service | 32 |
|  |  | Debt Margin | 34 |

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.

Population

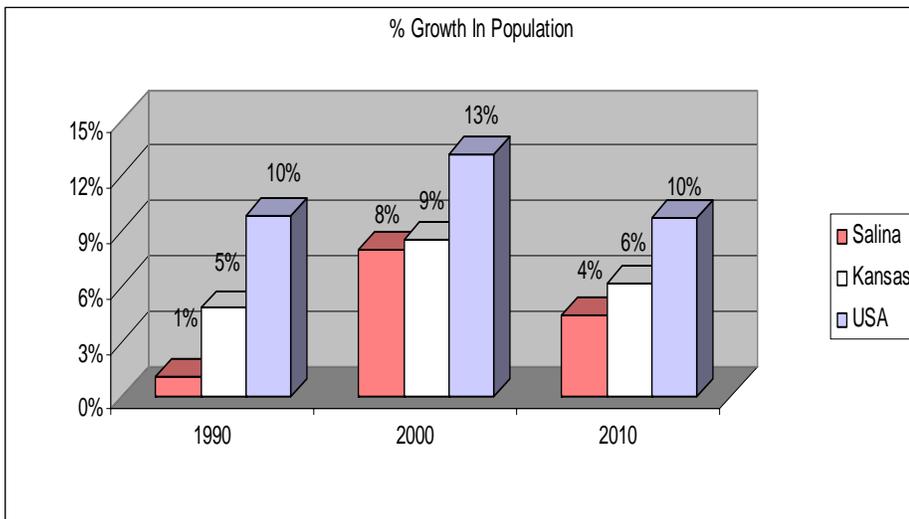
Description

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 to the sudden change.



Analysis

Over the past 17 years Salina's population has seen increases below the National and Kansas averages.



**Warning Trend:
Rapid change in population**

**Formula:
Population**

Note: 2010 numbers are based on U.S. Census Bureau Estimates

| | 1970 | 1980 | Population 1990 | 2000 | 2010 |
|--------|-------------|-------------|--------------------|-------------|-------------|
| Salina | 37,714 | 41,843 | 42,303 | 45,679 | 47,707 |
| Kansas | 2,246,578 | 2,363,679 | 2,477,574 | 2,688,418 | 2,853,118 |
| USA | 203,211,926 | 226,545,805 | 248,709,873 | 281,421,906 | 308,745,538 |

Trend

The warning trend was not observed for this indicator. There have been no dramatic reductions 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, City growth has been slower 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: US Census (2010) - <http://www.census.org>

Personal Income Per Capita

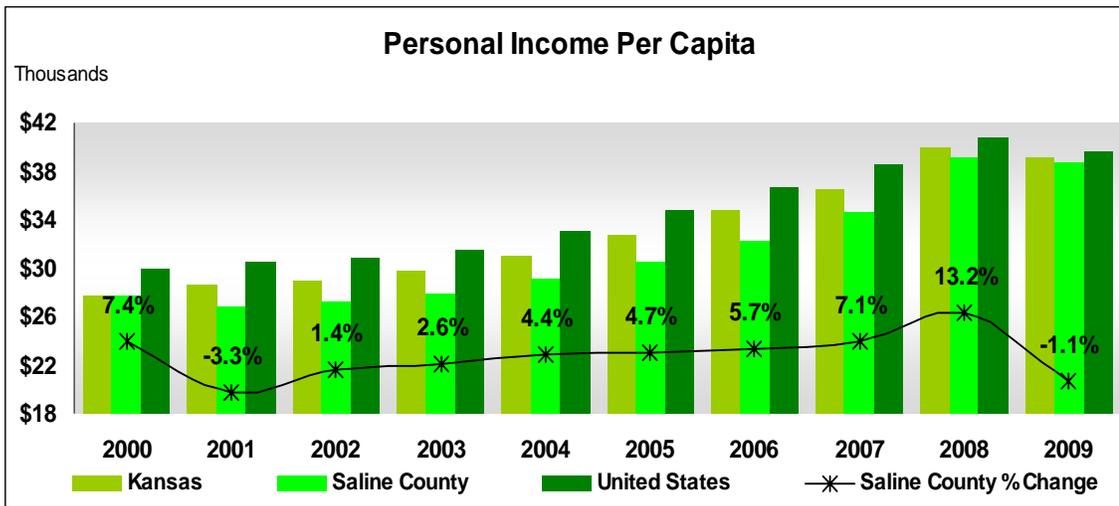
Description

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 may mean a lower dependency on governmental services, depending on the mix of services provided. 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.



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. From 2001 to 2008 the City has seen steady increases, but remains behind the national and state averages. The drop in 2009 was a precursor to the recession, and may also reflect the effects of the Raytheon closure.



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

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

| | Personal Income Per Capita | | | | |
|---------------|----------------------------|--------|--------|--------|--------|
| | 2005 | 2006 | 2007 | 2008 | 2009 |
| Kansas | 32,709 | 34,799 | 36,525 | 40,022 | 39,173 |
| Saline County | 30,577 | 32,319 | 34,611 | 39,173 | 38,752 |
| Salina | 27,750 | 29,222 | 31,991 | 37,392 | 38,699 |
| United States | 34,757 | 36,714 | 38,615 | 40,674 | 39,635 |

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, and again in 2009. Since 2001, the City's personal income per capita has increased by an average of 3.7 % per year. Although personal income per capita has increased over the last part of the evaluation period it still remains behind the state and national averages. 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, due to a one year decline in 2009.

Employment Base

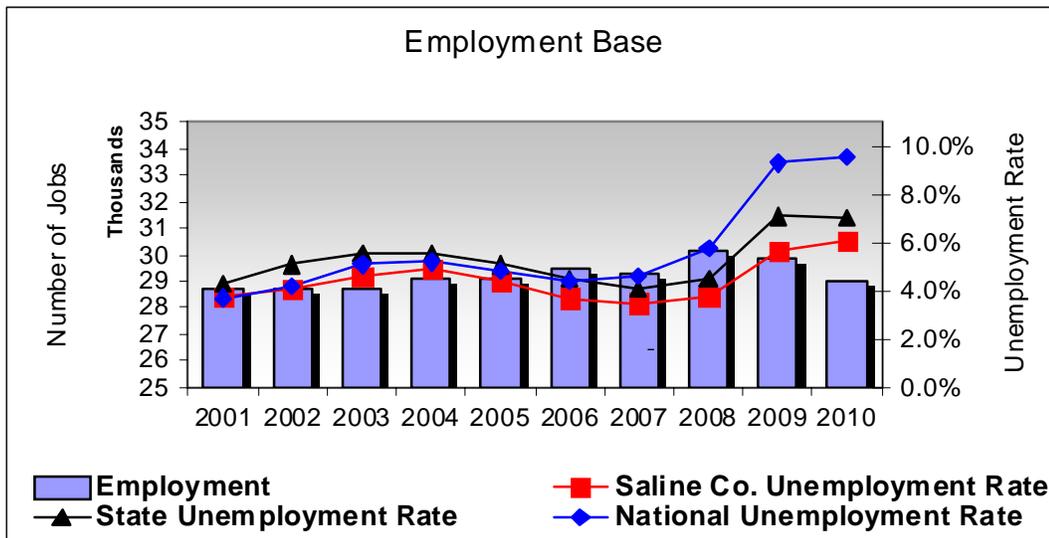
Description

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 decline in economic activity and a decline in government revenues as well.



Analysis

Salina experienced a slight decline in number of jobs in 2002, 2003, and 2008. During that same period the unemployment rate increased. Since 2003, the number of jobs has increased and the unemployment rate has declined. The unemployment rate has increased dramatically in 2008 and 2009. However, the number of jobs (employment) also increased dramatically in 2009. During the entire period the unemployment rate remained lower than both the state and national averages.



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

Formula:
Local unemployment rate and the number of jobs in the community

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|------------------------------|--------|--------|--------|--------|--------|
| Employment | 29,461 | 29,291 | 30,124 | 29,852 | 28,998 |
| Saline Co. Unemployment Rate | 3.7% | 3.5% | 3.8% | 5.7% | 6.1% |
| State Unemployment Rate | 4.5% | 4.1% | 4.5% | 7.1% | 7.0% |
| National Unemployment Rate | 4.4% | 4.6% | 5.8% | 9.3% | 9.6% |
| % change in Employment | 1.40% | -0.58% | 2.84% | -0.90% | -2.86% |

Trend

The warning trend was observed for this indicator. Unemployment rates are rising and the number of employed has now declined for 3 consecutive years. However, unemployment rates remain well below state and national averages. This indicator received a yellow rating.

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

Real Property Value

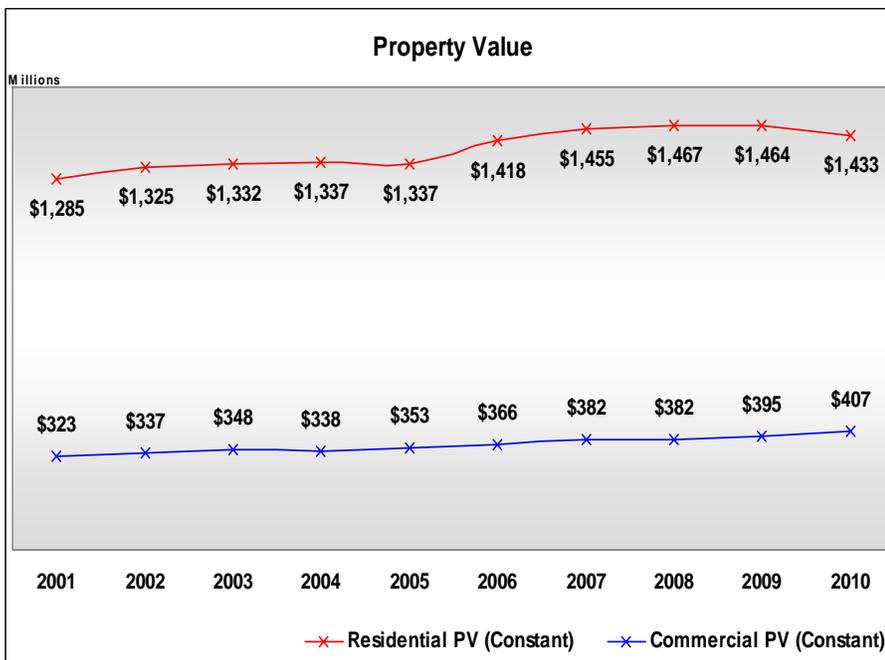
Description

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 gradual growth in real property value in residential, commercial, and industrial property.



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

Formula:
Real Property Values (constant dollars)

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---------------------------|------------------|------------------|------------------|------------------|------------------|
| Residential PV (Constant) | \$ 1,417,916,547 | \$ 1,455,494,025 | \$ 1,466,658,641 | \$ 1,464,304,623 | \$ 1,433,412,599 |
| Commercial PV (Constant) | \$ 365,864,737 | \$ 382,335,834 | \$ 382,184,985 | \$ 395,001,897 | \$ 407,344,850 |
| % Change Residential | 5.7% | 2.6% | 0.8% | -0.2% | -2.2% |
| % Change Commercial | 3.5% | 4.3% | 0.0% | 3.2% | 3.0% |

Trend

The warning trend has been observed for this indicator for residential property from 2008 through 2010. Commercial property values have continued to increase modestly. This indicator received a yellow rating.

Residential Development

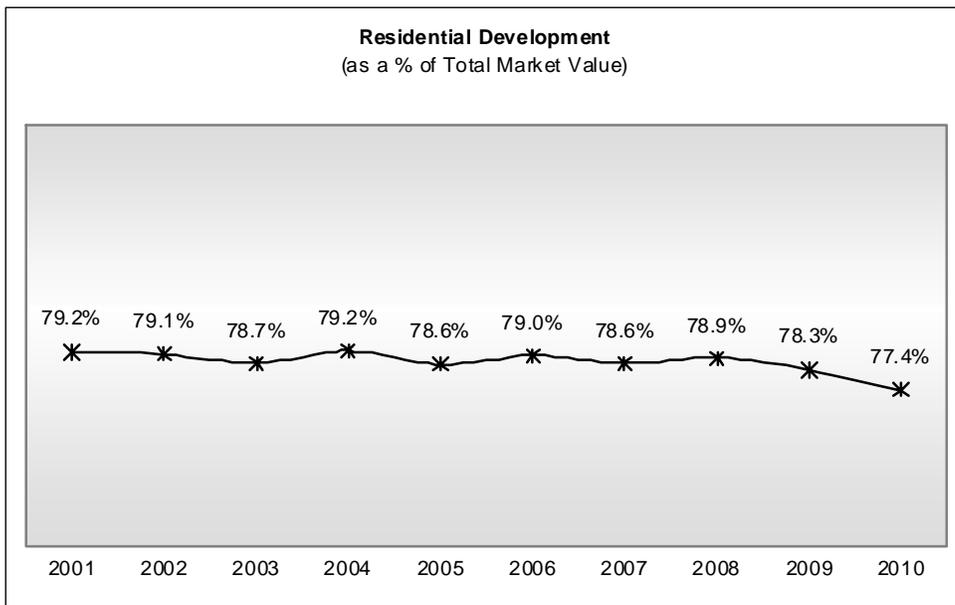
Description

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 79.4% in 1998 to 78.3% in 2008. The percentage has not changed drastically in any direction during the evaluation period, however, it does continue to decline slowly.



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

Formula:

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

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Market Value of Residential Dev | \$1,781,009,195.00 | \$1,879,899,759.00 | \$1,969,251,945.00 | \$1,956,967,860.00 | \$1,947,833,569.00 |
| Market Value of Total Dev | \$2,254,037,699.00 | \$2,390,778,973.00 | \$2,495,608,888.00 | \$2,498,325,196.00 | \$2,516,610,970.00 |
| % of Total Market Value | 79.0% | 78.6% | 78.9% | 78.3% | 77.4% |

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 2001-2010

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. Elastic revenues change more rapidly in response to changes in economic base or inflationary pressures. Inelastic revenues change more slowly in response to those changes. In general, elastic revenues are good to have during times of growth, and inelastic revenues are more reliable during times of decline or recession. As examples, sales taxes and income taxes are examples of elastic revenues, while property taxes are more inelastic. User fees can be either, and depend on rate-setting and sales or use volume.

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.

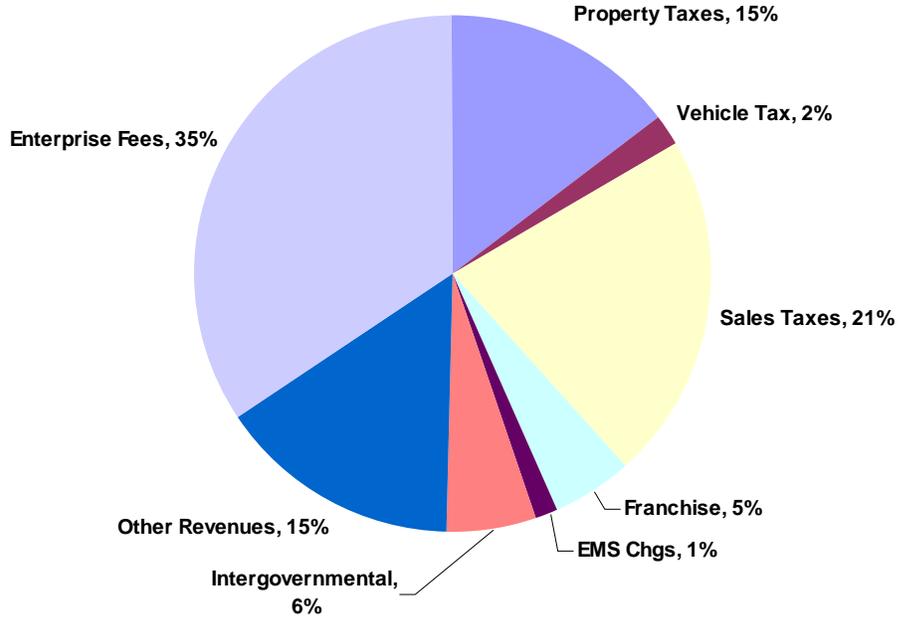
Analyzing the City's revenue structure will help to identify the following types of problems:

- 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.

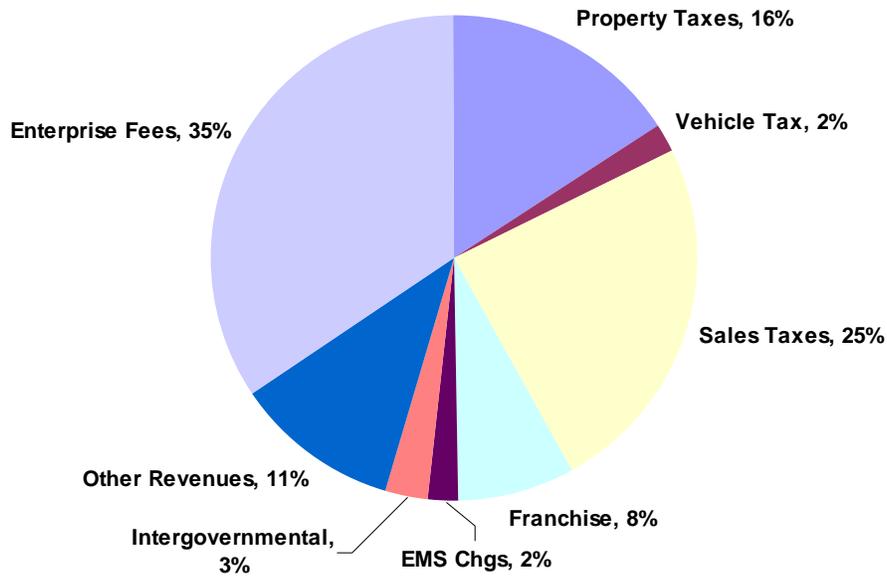
The indicators detailed on the following pages can be used to monitor changes in revenue.

The "Key Revenues" page immediately following is not a formal indicator of financial condition, but does provide a summary of the revenue mix, as well as the trend in that mix.

Key Revenues 2001



Key Revenues 2010



Revenue Per Capita

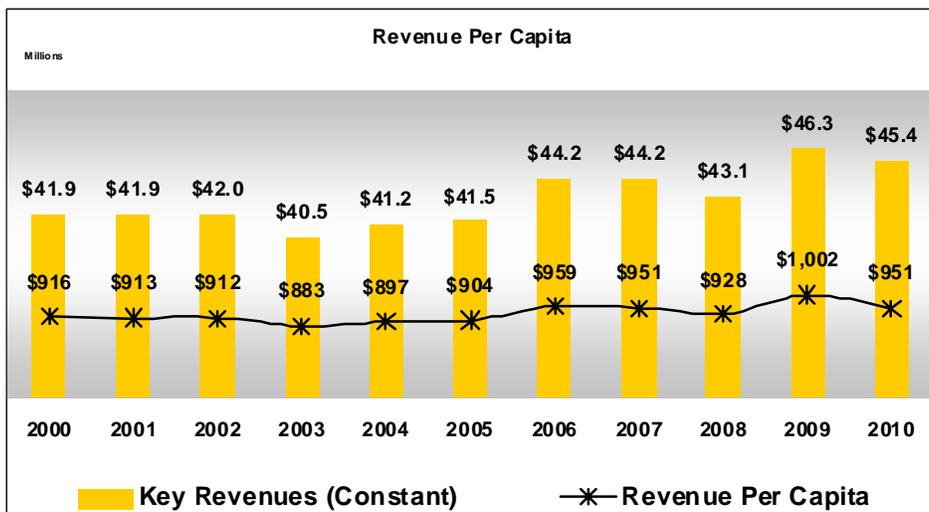
Description

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.



Analysis

Salina’s revenue per capita was relatively stable over the ten year period. Revenue per capita has ranged from a low of \$883 in 2003 to a high of \$1,002 in 2009. The 2009 peak was the result of a deferred receipt of Motor Vehicle tax, attributable to 2008.



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

Formula:

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

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|-------------------------|--------------|--------------|--------------|--------------|--------------|
| Key Revenues | \$55,575,746 | \$57,086,522 | \$57,907,019 | \$61,838,472 | \$61,675,921 |
| Key Revenues (Constant) | \$44,245,572 | \$44,198,682 | \$43,127,965 | \$46,270,745 | \$45,387,370 |
| Population | 46,140 | 46,458 | 46,483 | 46,180 | 47,707 |
| Revenue Per Capita | \$959 | \$951 | \$928 | \$1,002 | \$951 |
| % Change | 6.1% | -0.8% | -2.5% | 8.0% | -5.0% |

Note: Key Revenue’s include Enterprise Fees, Property Taxes, Vehicle Tax, Sales Tax, Franchise Fees, Ems Charges, and Intergovernmental Revenue.

Trend

While revenue per capita has increased modestly over the period that has largely been in response to enhancements to the service package provided. The warning trend was not observed for this indicator. The relative stability in revenue per capita indicates that the City has had little trouble absorbing the population increases over the last 10 years. This indicator received a green rating.

Source: City of Salina Budget 2000-2010, Schedule D, Key Revenues

Property Tax Revenue

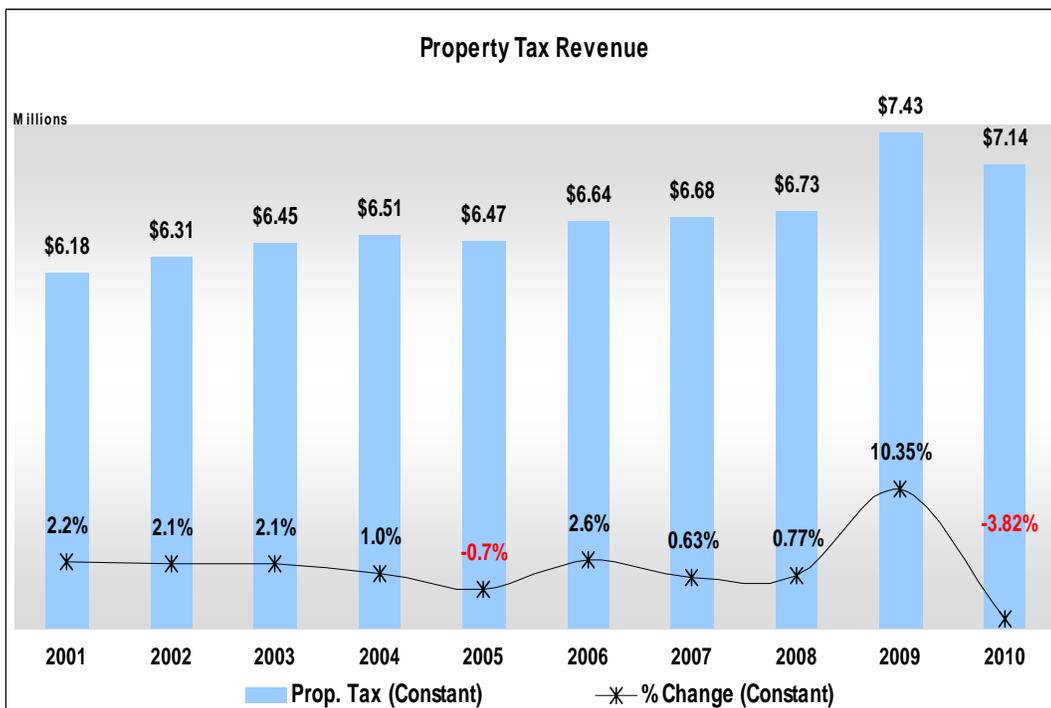
Description

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.



Analysis

Property tax has seen steady growth over the ten year period. The mill levy has increased from 24.365 in 2000 to 26.022 for 2010. The bulk of that increase was for 2009, and was in response to very limited growth (and decline) in other revenue sources. 2009 also saw collection of a large disputed amount from previous years.



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

Formula:
Property tax revenue (constant dollars)

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
|----------------------|--------------|--------------|--------------|--------------|--------------|
| Property Tax | \$ 8,335,344 | \$ 8,624,642 | \$ 9,035,101 | \$ 9,923,960 | \$ 9,704,937 |
| Prop. Tax (Constant) | \$ 6,636,025 | \$ 6,677,545 | \$ 6,729,159 | \$ 7,425,620 | \$ 7,141,872 |
| % Change (Constant) | 2.6% | 0.63% | 0.77% | 10.35% | -3.82% |

Note: Does not include Motor Vehicle Tax

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 and 2010. In most years property tax has increased around 2% above inflation. This indicator received a green rating.

Source: City of Salina Budget 2001-2010, Schedule D, Key Revenues

Uncollected Property Taxes

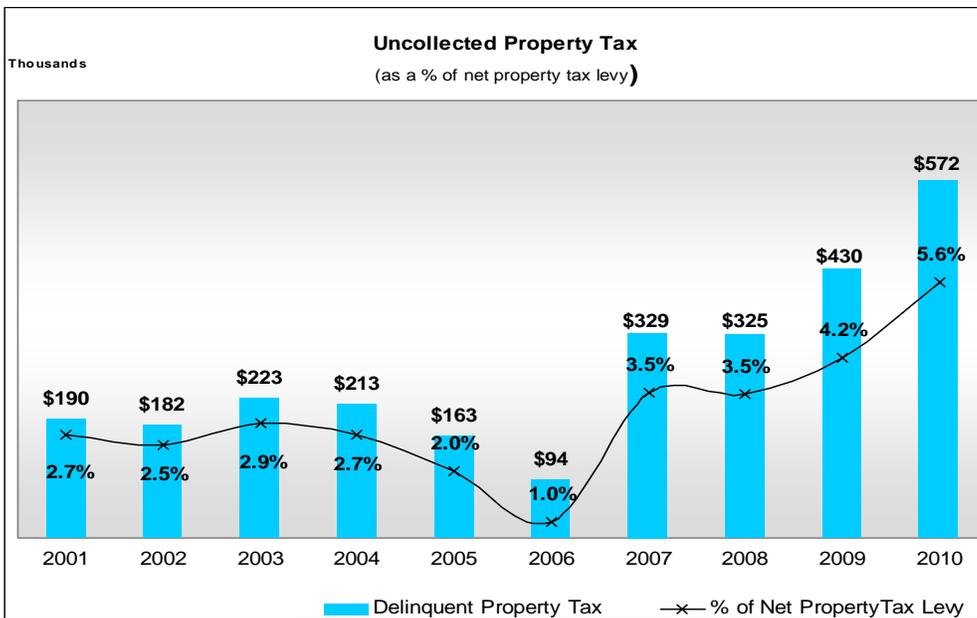
Description

Each year, a certain percentage of property taxes are not collected because of property owners' inability to pay, intentional deferral of payments, 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.



Analysis

Salina's delinquent property taxes have ranged from a low of 1% in 2006 to a high of 5.6% in 2010. In most years the delinquent property taxes have ranged between 1% and 3%.



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

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

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
|----------------------------|-------------|-------------|-------------|--------------|--------------|
| Delinquent Property Tax | \$93,980 | \$328,568 | \$325,421 | \$430,202 | \$571,968 |
| Net Property Tax Levy | \$8,990,268 | \$9,409,338 | \$9,409,338 | \$10,354,161 | \$10,276,905 |
| % of Net Property Tax Levy | 1.0% | 3.5% | 3.5% | 4.2% | 5.6% |

Trend

The warning trend was observed since 2007 for this indicator. The credit rating agencies consider an uncollectible rate of 2% or 3% per year normal. If the delinquency rate rises for two consecutive years or more to 5% to 8%, it may signal potential problems in the stability of the property tax base or collection methods. This indicator received a red rating.

Source: City of Salina Comprehensive Annual Financial Report 2001-2010, Schedule 9 Property Tax Levies and Distributions

Sales Tax Revenue



Description

Sales tax represents the City’s largest general revenue source. Salina receives a portion of a 1 percent County tax, a .5 percent general sales tax, and any voter approved special sales tax. For this indicator only the .5 percent general sales tax that goes directly to the City was used because the City has received the .5 percent consistently over the evaluation period. The County portion changes yearly based on a state formula laid out in K.S.A. 12-824. Generally an increase at or above inflation is positive.

Analysis

Sales tax has shown a long term decline in terms of real purchasing power. Taxes in 2009 and 2010 were significantly below prior years. This decline reflects a reduction in taxable retail sales because of economic conditions, increased regional competition, competition from internet sales, or due to exemptions from sales tax granted by the Kansas Legislature.



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

Formula:
Sales Tax Revenue (constant dollars)

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|----------------------------|-------------|-------------|-------------|-------------|-------------|
| Sales Tax Revenue | \$4,834,368 | \$4,967,469 | \$5,175,292 | \$4,987,415 | \$4,803,553 |
| Sales Tax Revenue Constant | \$3,848,790 | \$3,846,014 | \$3,854,452 | \$3,731,842 | \$3,534,939 |

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

Trend

While there have been annual fluctuations, the warning trend was observed for this indicator over the full period. There has been a significant reduction since 2001. A growing community would expect to see sales tax revenues increase over time rather than remain stagnant. This indicator received a red rating.

Source: City of Salina Budget 2001-2010, Schedule D, Key Revenues

Intergovernmental Operating Revenue

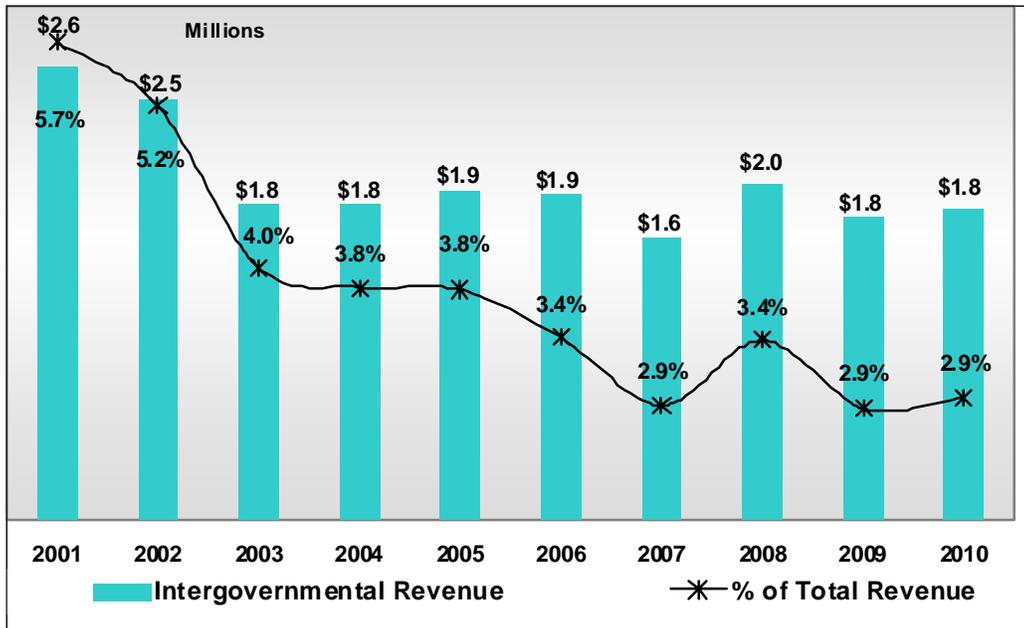
Description

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, as well as other, less significant changes.



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

Formula:

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

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| Intergovernmental Revenue | \$1,900,363 | \$1,649,058 | \$1,968,631 | \$1,772,928 | \$1,817,428 |
| Total Revenue | \$55,575,746 | \$57,086,522 | \$57,907,019 | \$61,838,472 | \$61,675,921 |
| % of Total Revenue | 3.4% | 2.9% | 3.4% | 2.9% | 2.9% |

Note: Intergovernmental Operating Revenue includes gas tax, liquor tax, lavtr, revenue sharing.

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 indicates a loss of “entitlement” distributions from the State of Kansas, placing more demands on other revenue to maintain current service levels. This indicator received a yellow rating.

Source: City of Salina Budget 2001-2010, Line Items

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, rely upon 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.

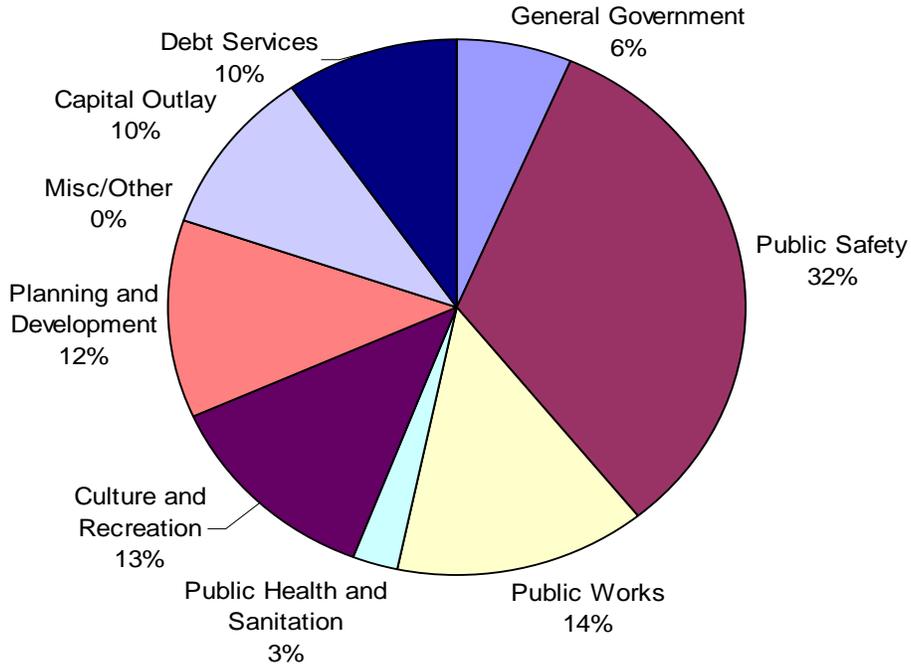
A second issue to consider is the level of mandatory or fixed costs. This is also referred to as expenditure flexibility, which is a measure of the City's freedom to adjust its service levels to changing economic, political, and social conditions. A city with a growing percentage of mandatory costs will 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:

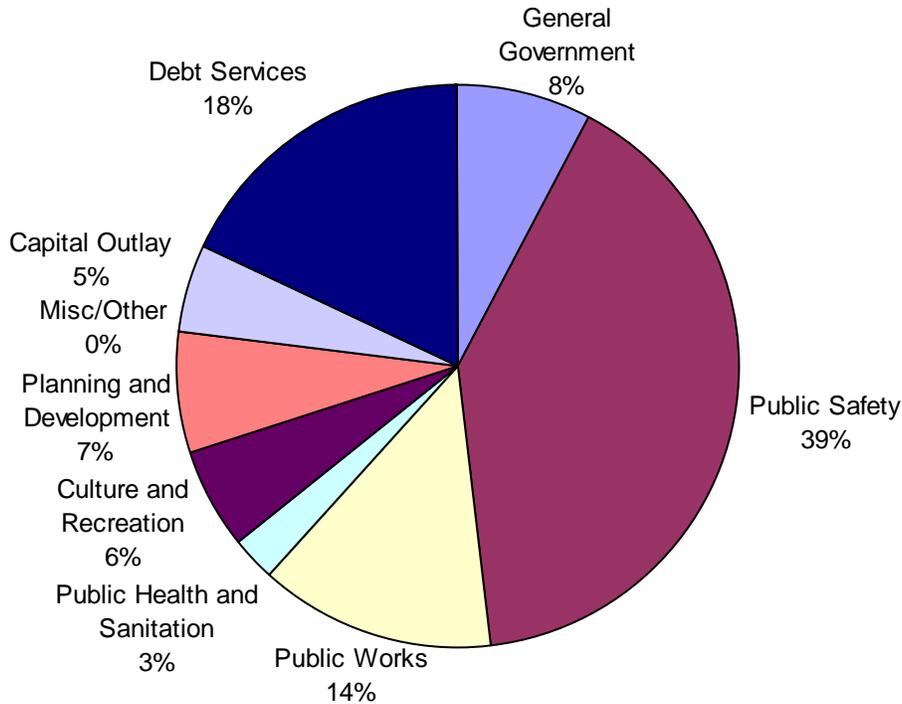
- Excessive growth of overall expenditures as compared to revenue growth.
- An undesired increase in fixed costs.
- Ineffective budget controls.
- A decline in personnel productivity.
- Excessive growth in programs that create future expenditure liabilities.

The indicators detailed on the following pages can be used to monitor changes in expenditures.

General Fund Department Expenditures 2001 (Constant)



General Fund Departmental Expenditures, 2010 (Constant)



Source: City of Salina Budget Comprehensive Annual Financial Report, 2001 and 2010, Individual Departmental Budgets

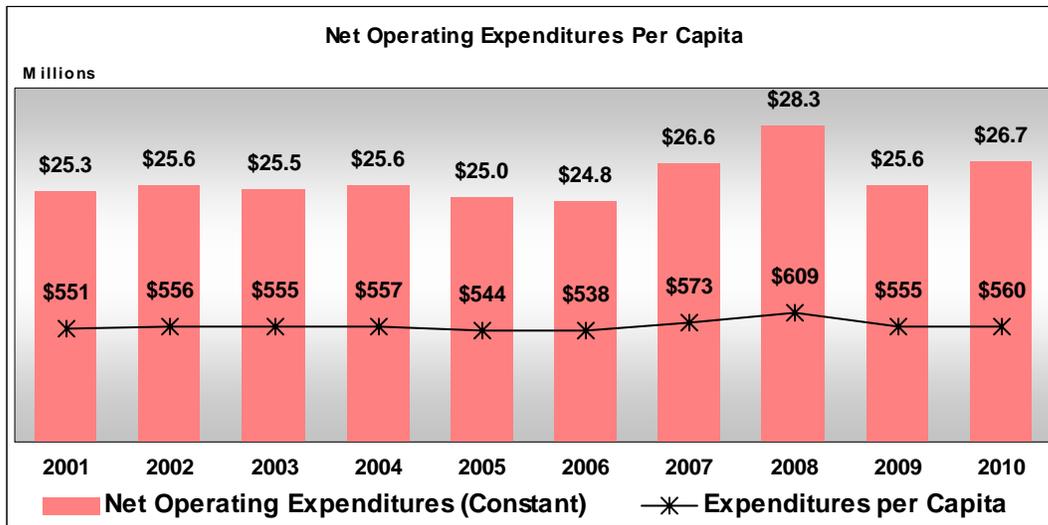
Expenditures Per Capita

Description

Per capita operating expenditures reflect changes in expenditures relative to changes in population. Increasing per capita expenditures may indicate that the cost of providing services is outstripping the City’s ability to pay, especially if spending is increasing faster than the City’s property, sales, or other relevant tax base. If the increase in spending is greater than would be expected from continued inflation and cannot be explained by the addition of new services, it can be an indicator of declining productivity.

Analysis

Salina’s expenditures per capita have remained steady from 2001 to 2004, declined slightly from 2004 to 2006 and increased to a high of \$609 in 2008, before declining once again. Staffing levels have 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:

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

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Net Operating Expenditures | \$31,196,547 | \$34,377,093 | \$37,997,550 | \$34,240,382 | \$36,284,558 |
| Net Operating Expenditures (Constant) | \$24,836,537 | \$26,616,128 | \$28,299,799 | \$25,620,426 | \$26,701,841 |
| Population | 46,140 | 46,458 | 46,483 | 46,180 | 47,707 |
| Expenditures per Capita | \$538 | \$573 | \$609 | \$555 | \$560 |
| % Change | -1.1% | 6.4% | 6.3% | -8.9% | 0.9% |

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 2001 to 2006, it has increased 2007 and 2008, and then decreased again. These changes are largely attributable to pay plan adjustments to bring pay levels into line with prevailing markets, and reductions in force attributable to recessionary pressures. 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 2001-2010, Statement of Revenues, Expenditures and Change in Fund Balance for Governmental Funds

Employees Per Capita

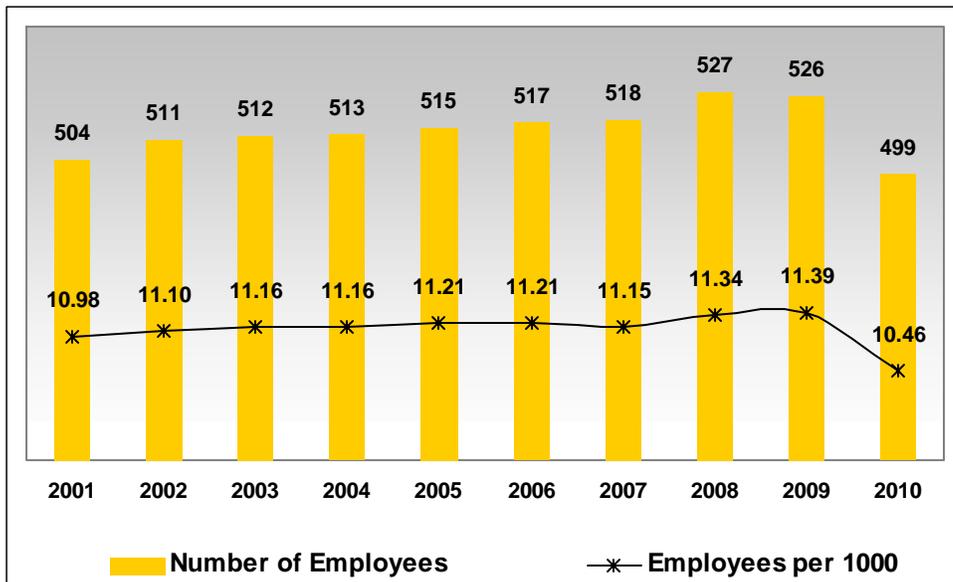


Description

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 met labor needs. An increase in employee per capita is not negative if a direct correlation can be shown to increased services.

Analysis

There has been a slight increase from a 10.98 employees per every thousand people to 11.39 in 2009 followed by a marked decrease in 2010. 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.



Warning Trend:
Significantly changing number of municipal employees per capita

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

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
|---------------------|-------------|-------------|-------------|-------------|-------------|
| Number of Employees | 517 | 518 | 527 | 526 | 499 |
| Employees per 1000 | 11.21 | 11.15 | 11.34 | 11.39 | 10.46 |
| % Change | -0.01% | -0.49% | 1.68% | 0.47% | -8.17% |

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

Trend

The City’s employees per capita remained relatively stable over the evaluation period but for the decline in 2010. This decline may be of concern if there are corresponding declines in productivity, or if this change continues into future years. This indicator received a yellow rating.

Source: City of Salina Organizational Charts 2001-2010

Fringe Benefits

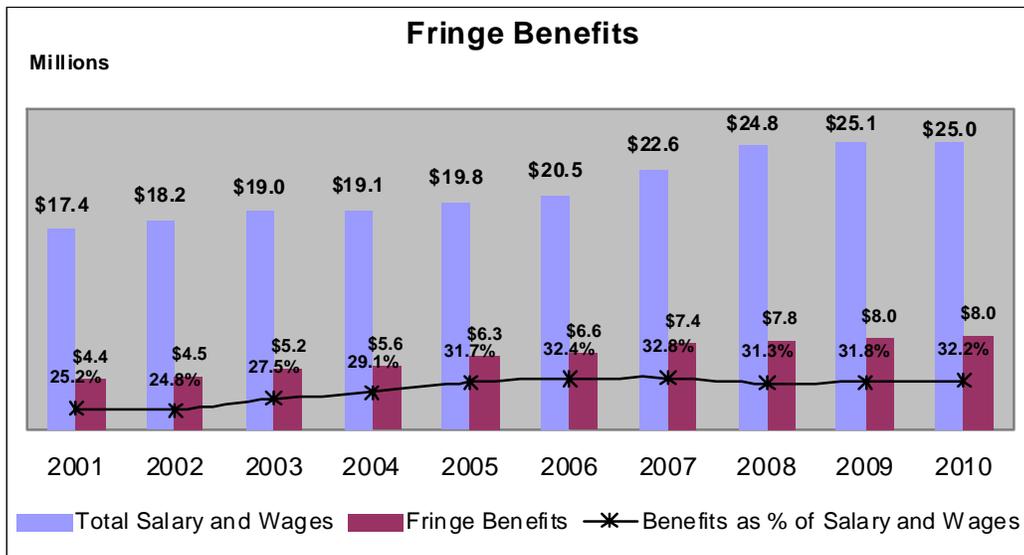
Description

Fringe Benefits represent a significant share of the City’s 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 25.2% to 32.2%. There was a dramatic increase from 2002 to 2006, primarily representing increasing health insurance costs. Since 2007 the fringe benefits have declined very slightly.



Warning Trend:
Increasing fringe benefit expenditures as a percentage of salaries and wages

Formula:

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

Note: Fringe benefits include Unemployment insurance, Medicare, life insurance, contributions for Kpers and Kp&f, health insurance and workers compensation.

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Fringe Benefits | \$6,644,888 | \$7,397,716 | \$7,762,948 | \$7,985,956 | \$8,042,980 |
| Total Salary and Wages | \$20,482,396 | \$22,580,704 | \$24,790,001 | \$25,125,812 | \$25,000,200 |
| Benefits as % of Salary and Wages | 32.4% | 32.8% | 31.3% | 31.8% | 32.2% |

Trend

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 2010 fringe benefits declined slightly as a percentage of payroll, but this is illusory, resulting from increasing payroll rather than decreasing benefit costs. This indicator should be monitored to assure that fringe benefits aren’t increasing beyond the city’s capacity to keep up. This indicator received a yellow rating.

Source: City of Salina Budget 2001 to 2010, Individual Departmental Budgets

Capital Outlay

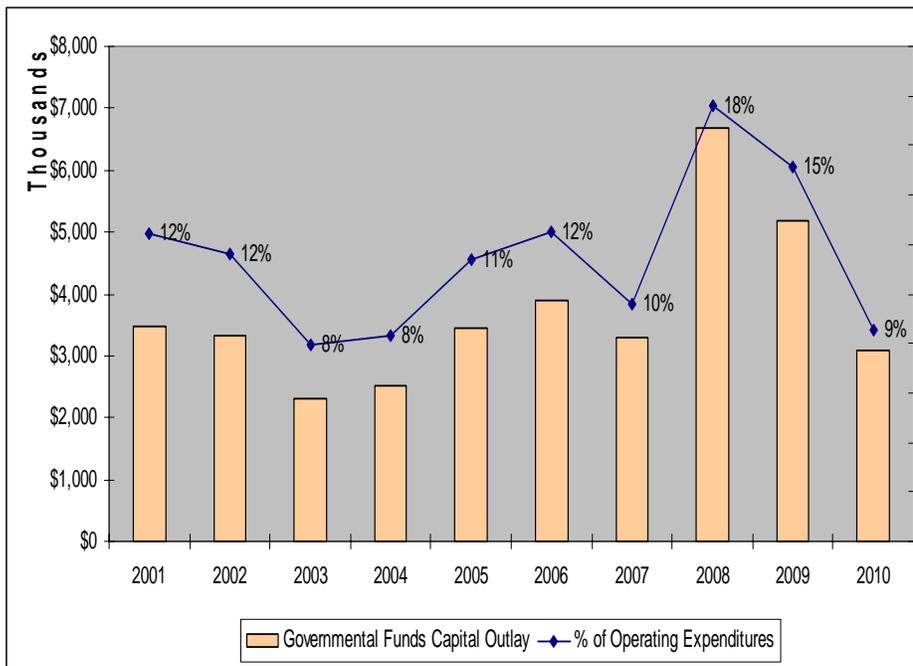
Description

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 13% in 2000 and has declined with a few spikes ever since. The overall trend is a significant decline in capital outlay spending.



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

Formula:

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

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Net Operating Expenditures | \$31,196,547 | \$34,377,093 | \$37,997,550 | \$34,240,382 | \$36,284,558 |
| Governmental Funds Capital Outlay | \$3,893,005 | \$3,297,624 | \$6,691,518 | \$5,173,942 | \$3,095,980 |
| % of Operating Expenditures | 12% | 10% | 18% | 15% | 9% |

Trend

The warning trend has is not observed. While spending and percentage has trended down for the last two years, the amounts are still within the range of historic variation. This indicator received a green rating.

Source: City of Salina Comprehensive Annual Report 2001-2010, Statement of Revenues, Expenditures and Change in Fund Balance for Governmental Funds

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 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 on the following pages can be used to monitor changes in operating position.

Growth in Revenue vs. Growth in Expenditures

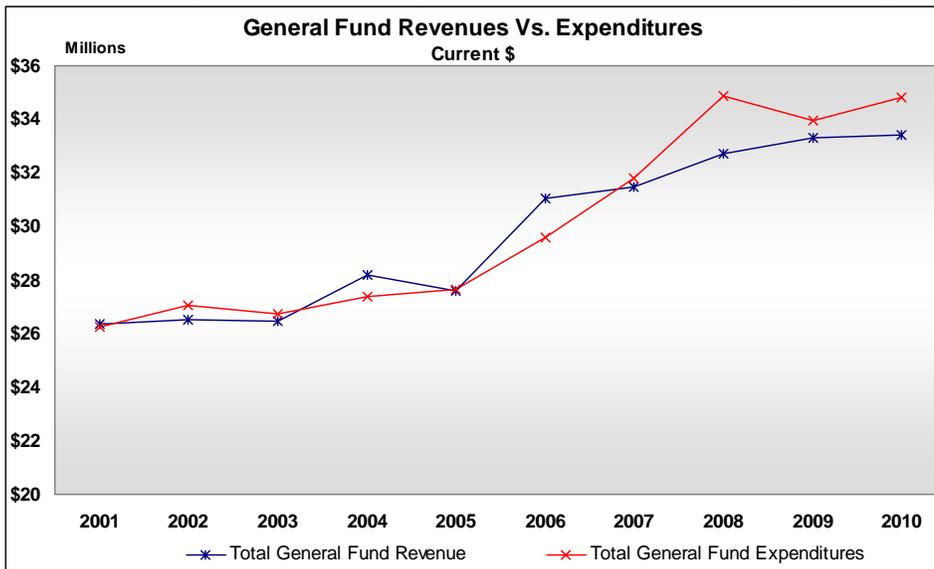


Description

Revenue vs. expenditure is the most basic measure of a localities operating position. A city’s 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 2002, and 2007, 2008, 2009, and 2010. 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

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| Total General Fund Revenue | \$31,050,701 | \$31,499,035 | \$32,697,071 | \$33,327,466 | \$33,401,340 |
| Total General Fund Expenditures | \$29,577,159 | \$31,775,220 | \$34,860,694 | \$33,977,330 | \$34,789,416 |

Trend

The warning trend was observed for this indicator from 2007 through 2010. The City’s fund balances have been sufficient to absorb any budget deficits that occurred. This indicator received a red rating.

Source: City of Salina Comprehensive Financial Report 2001-2010, Statement of Revenues, Expenditures, and Changes in Fund Balance.

Fund Balance: All Funds

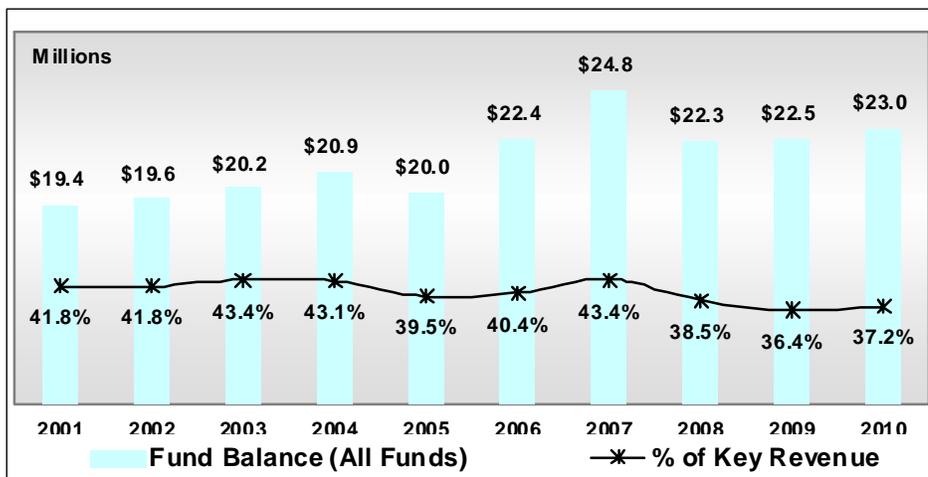
Description

The level of unrestricted fund balances may determine the City’s ability to withstand unexpected financial emergencies that may result from natural disasters, revenue shortfalls, unexpected maintenance costs or steep rises in inflation. Fund balances may also determine the City’s ability to manage monthly cash flows or accumulate funds for large-scale purchases without having to borrow.



Analysis

Over the ten year period the City’s unrestricted fund balances as a percentage of operating revenue have been between 37% and 44%. The drop from 43% to 39% from 2004 to 2005 can be attributable to planned spend down of the fund balances that were above the target amount. The reduction in fund balance from 2008 to 2009 more likely reflects economic conditions, but levels of the total fund balance are still adequate.



Warning Trend:
Declining unrestricted fund balance as a percentage of net operating revenues

Formula:
$$\frac{\text{Unrestricted fund balances}}{\text{Net operating revenues}}$$

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| Fund Balance (All Funds) | \$22,435,984 | \$24,781,005 | \$22,321,089 | \$22,487,304 | \$22,971,379 |
| % of Key Revenue | 40.4% | 43.4% | 38.5% | 36.4% | 37.2% |

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.

Even though this indicator received a green, balances should be closely monitored to identify any continued reductions.

Source: City of Salina Budget 2001-2010, Schedule F, Fund Balances

Fund Balance: Governmental Funds

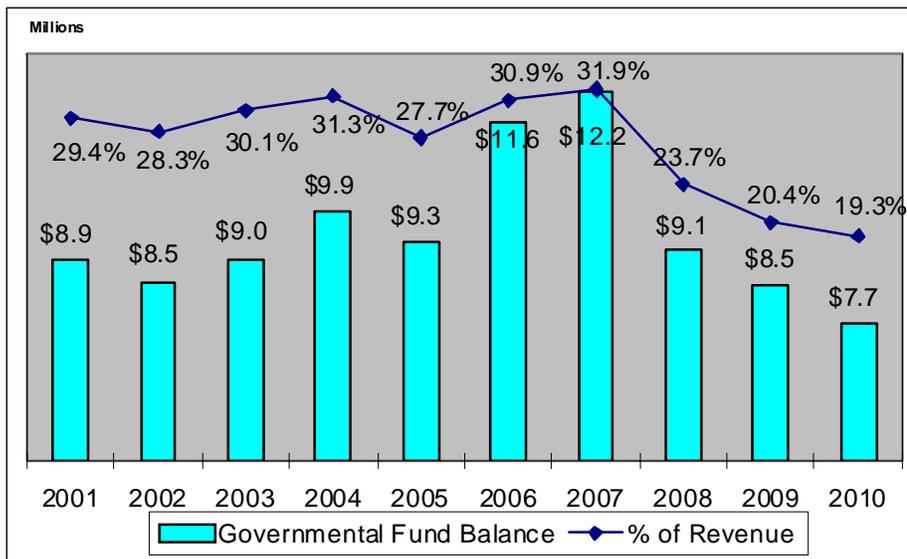
Description

The level of unrestricted fund balances in Governmental Funds may determine the City’s ability to withstand unexpected financial emergencies in the tax supported funds that may result from natural disasters, revenue shortfalls, unexpected maintenance costs or steep rises in inflation. Fund balances may also determine the City’s ability to manage monthly cash flows or accumulate funds for large-scale purchases without having to borrow.



Analysis

Over the ten year period the City’s unrestricted fund balances as a percentage of operating revenue have been between 28% and 32%. The drop from 32% to 21% from 2007 to 2009 is attributable to economic conditions and the failure of the City’s revenue sources to produce as expected. Governmental fund balances remain at or above target levels.



Warning Trend:
Declining unrestricted fund balance as a percentage of net operating revenues

Formula:

$$\frac{\text{Unrestricted fund balances}}{\text{Net operating revenues}}$$

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Governmental Fund Balances | \$11,614,606 | \$12,222,049 | \$9,145,556 | \$8,460,427 | \$7,671,972 |
| Key Revenues, less enterprise | \$37,547,301 | \$38,320,927 | \$38,511,549 | \$41,418,825 | \$39,840,907 |
| % of Key Revenues | 30.9% | 31.9% | 23.7% | 20.4% | 19.3% |

Trend

The warning trend has been observed for this indicator. The fund balance as a percentage of operating revenue has remained stable until 2007, then turns downward. 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, however, the downturns in 2008 and 2009 are largely the results of economic factors, and not the intent of the City to spend down balances.. The City has set target balances for several funds. Fund balances for Governmental funds remain near or above targeted balances, however the decline must be arrested.

Source: City of Salina Budget 2001-2010, Schedule F, Fund Balances

Enterprise Fund Operating Position

Description

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 been recovering since 2006, anticipating large future infrastructure requirements.



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

**Formula:
Enterprise working capital (constant dollar)**

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| Current Assets (constant) | \$10,725,902 | \$11,388,826 | \$11,578,520 | \$12,310,488 | \$14,390,568 |
| Current Liabilities (constant) | \$2,568,844 | \$2,534,581 | \$2,033,913 | \$2,087,005 | \$2,467,095 |
| Working Capital (constant) | \$8,157,058 | \$8,854,245 | \$9,544,607 | \$10,223,483 | \$11,923,473 |

Trend

The warning trend is visible from 2003 to 2006, however that has been reversed since then. Many of the enterprise functions require large investment in infrastructure and ongoing maintenance. As new projects arise the fund balances are spent down causing a decrease in current assets and ultimately a decrease in working capital. If the working capital drops to a level that hampers the operations the City will have to reevaluate fee structures and maintenance schedules. This indicator received a green rating.

Source: City of Salina Comprehensive Annual Report 2001-2010, Statement of Net Assets.

Current Liabilities

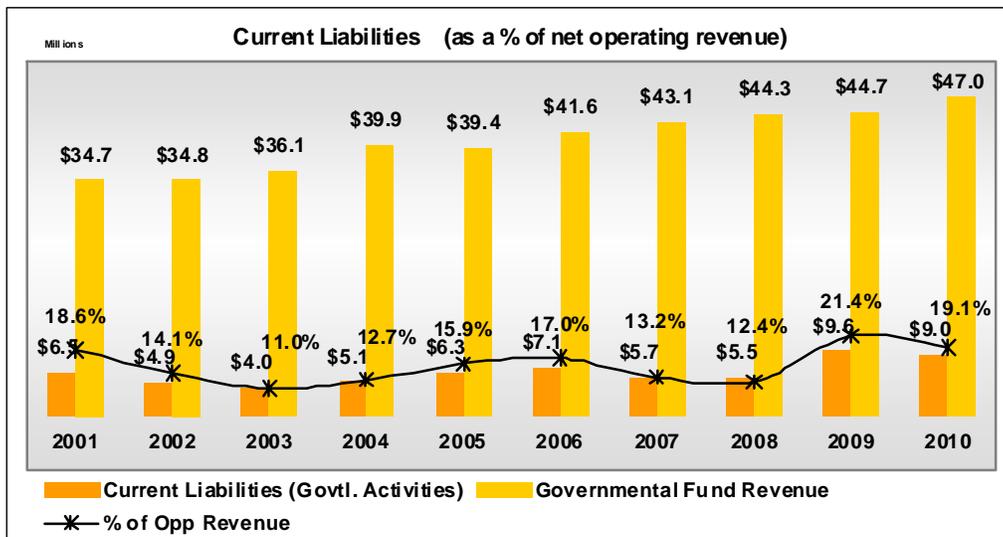
Description

Current liabilities are defined as the sum of all liabilities due at the end of the fiscal year. These liabilities represent current annual portions of long-term debt and accrued compensated absences as well as all accounts payable and other accrued liabilities. An increasing amount of debt outstanding at the end of successive years can indicate liquidity problems, deficit spending, or both. Current liabilities are measured as a percentage of net operating revenues.



Analysis

The City's current liabilities as a percentage of operating revenue have remained stable until 2009, when there was a significant increase in current accounts payable and the current portion of long term bonds payable. The current portion of the bonds outstanding for the Aquatics Center (\$1,350,000) play the predominant role in this.



Warning Trend:
Increasing current liabilities at the end of the year as a percentage of net operating revenues

$$\text{Formula: } \frac{\text{Current Liabilities}}{\text{Net operating revenue}}$$

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
|---|--------------|--------------|--------------|--------------|--------------|
| Current Liabilities (Govtl. Activities) | \$7,096,922 | \$5,686,678 | \$5,508,372 | \$9,560,779 | \$9,002,903 |
| Governmental Fund Revenue | \$41,647,645 | \$43,119,142 | \$44,258,137 | \$44,692,188 | \$47,018,981 |
| % of Opp Revenue | 17.0% | 13.2% | 12.4% | 21.4% | 19.1% |

Trend

The trend is towards higher short term liabilities. However, this is partially offset by higher Special Sales Tax revenues, which began to flow for this purpose in 2007, reducing the current liability ratios for 2007 and 2008.

Source: City of Salina Budget 2001-2010, Schedule F, Fund Balances, City of Salina Comprehensive Annual Report 2001-2010, Statement of Net Assets.

Liquidity

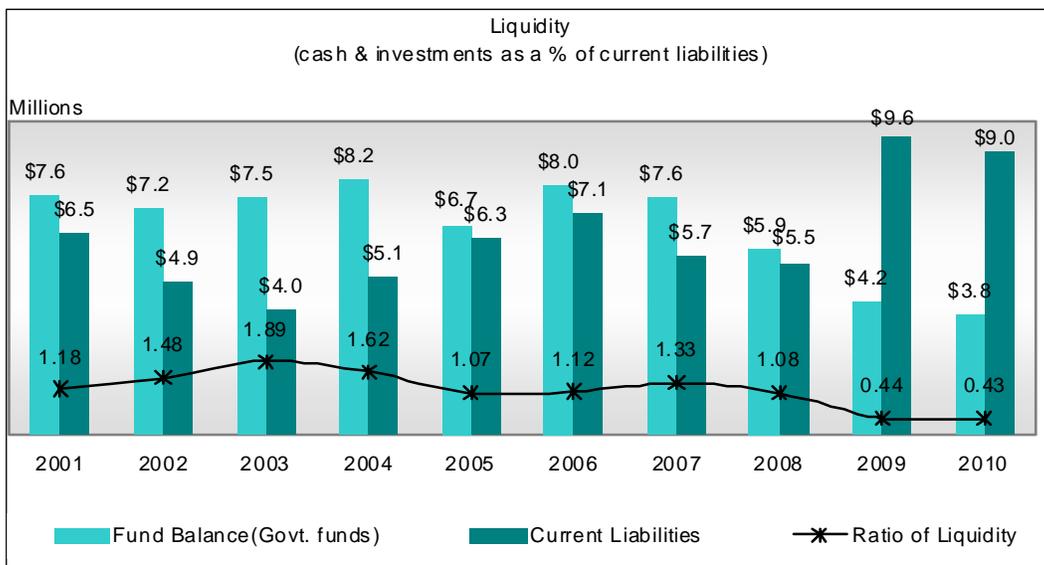
Description

A measure of the City’s short-run financial condition is its cash position. Cash position includes cash on hand and in the bank, as well as other assets that can be easily converted to cash, such as short-term investments. The level of this type of cash is referred to as liquidity. Liquidity measures the City’s ability to pay its short-term obligations. Low or declining liquidity can indicate that the City has overextended itself in the long term.



Analysis

The City’s liquidity reflects a downward trend. A ratio of 1 would mean the City will have enough cash on hand to cover current liabilities.



Warning Trend:
Decreasing amount of cash and short-term investments as a percentage of liabilities

Formula:
Cash and short-term investments
Current Liabilities

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
|---------------------------|-------------|-------------|-------------|-------------|-------------|
| Fund Balance(Govt. funds) | \$7,969,288 | \$7,570,903 | \$5,928,048 | \$4,208,167 | \$3,838,096 |
| Current Liabilities | \$7,096,922 | \$5,686,678 | \$5,508,372 | \$9,560,779 | \$9,002,903 |
| Ratio of Liquidity | 1.12 | 1.33 | 1.08 | 0.44 | 0.43 |

Trend

The warning trend for this indicator was observed from 2003 to 2005, with another decrease in 2008 to 2010. The downward trend is due in part to the increase in the current portion of bonds payable (Aquatics Center). Current year revenues are budgeted and anticipated to offset this liability. A second factor is the decline in Governmental Fund balances due to the recessionary stresses of the last few years. This indicator received a yellow rating.

Source: City of Salina Budget 2001-2010, Schedule F, Fund Balances, City of Salina Comprehensive Annual Report 2001-2010, Statement of Net Assets.

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 on the following pages can be used to monitor changes in debt structure.

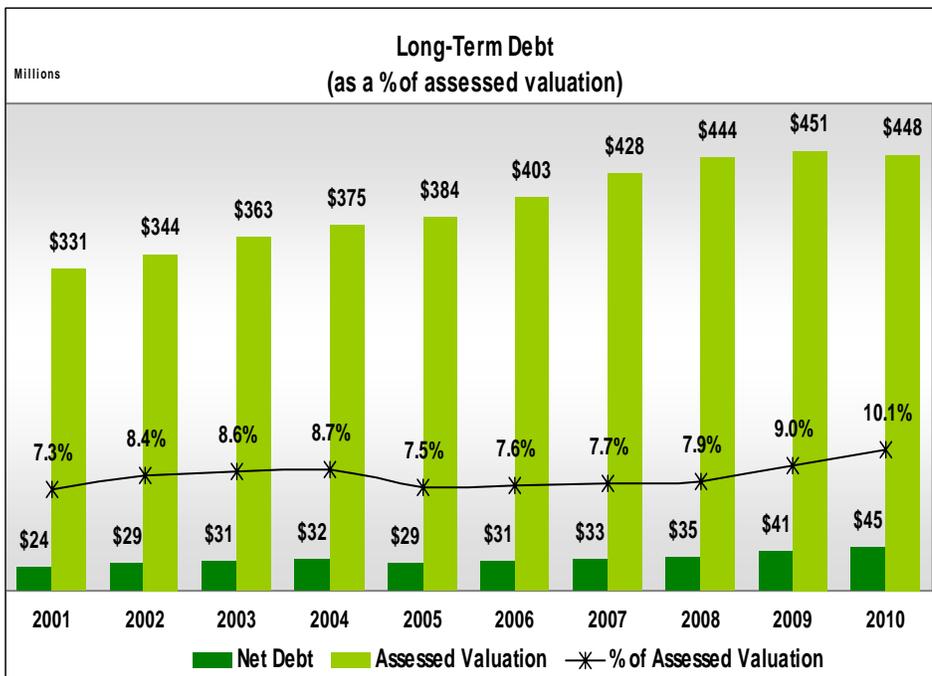
Long-Term Debt

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 until 2009, when debt attributable to construction of the Aquatics Center and the most recent phase of South 9th Street was issued. Sales taxes are pledged to the retirement of the Aquatics Center Debt (approximately \$11,000,000).



Warning Trend:
Increasing net direct debt as a percentage of assessed valuation

Formula:

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

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
|-------------------------|----------------|----------------|----------------|---------------|---------------|
| Net Debt | \$ 30,697,408 | \$ 33,061,632 | \$ 34,874,930 | \$40,534,590 | \$45,241,253 |
| Assessed Valuation | \$ 403,375,084 | \$ 428,465,893 | \$ 444,080,143 | \$451,333,804 | \$447,800,878 |
| % of Assessed Valuation | 7.6% | 7.7% | 7.9% | 9.0% | 10.1% |

Trend

The warning trend for this indicator has 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 is at that benchmark. This indicator received a yellow rating.

Note: Net direct debt is equal to total bonded debt minus revenue bonds, loans, GO bonds with pledged revenues, sales tax pledge, and fund balance designated for debt service.

Source: City of Salina Comprehensive Annual Financial Report 2001 to 2010.

Debt Service

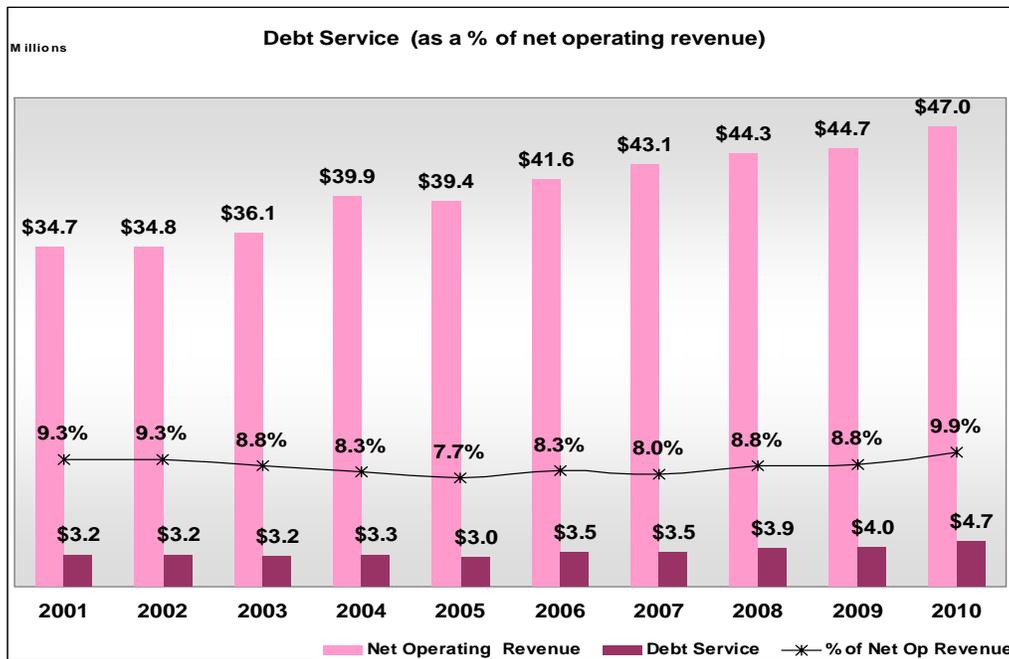
Description

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.



Analysis

Salina’s debt services have been relatively steady over the evaluation year period ranging from 9.3% of operating revenue to 12.8%. The dollar amount of debt service has ranged from \$3 million to \$4.7 million. Aquatic Center Bonds for which Sales tax is pledged are not included.



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

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

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
|-----------------------|---------------|---------------|---------------|--------------|--------------|
| Net Operating Revenue | \$ 41,647,645 | \$ 43,119,142 | \$ 44,258,137 | \$44,692,188 | \$47,018,981 |
| Debt Service | \$3,459,170 | \$ 3,457,680 | \$ 3,901,025 | \$3,953,133 | \$4,674,583 |
| % of Net Op Revenue | 8.3% | 8.0% | 8.8% | 8.8% | 9.9% |

Note: Net Operating Revenue is the Total revenues from the Statement of Revenues, Expenditures and Changes in Fund Balance for Governmental Funds, excluding other sources and uses. 2010 has been adjusted to account for refinancing activity.

Trend

The warning trend has been observed, since 2007. 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 yellow rating.

Source: City of Salina Comprehensive Annual Report 2001-2010, Statement of Revenues, Expenditures and Change in Fund Balance for Governmental Funds

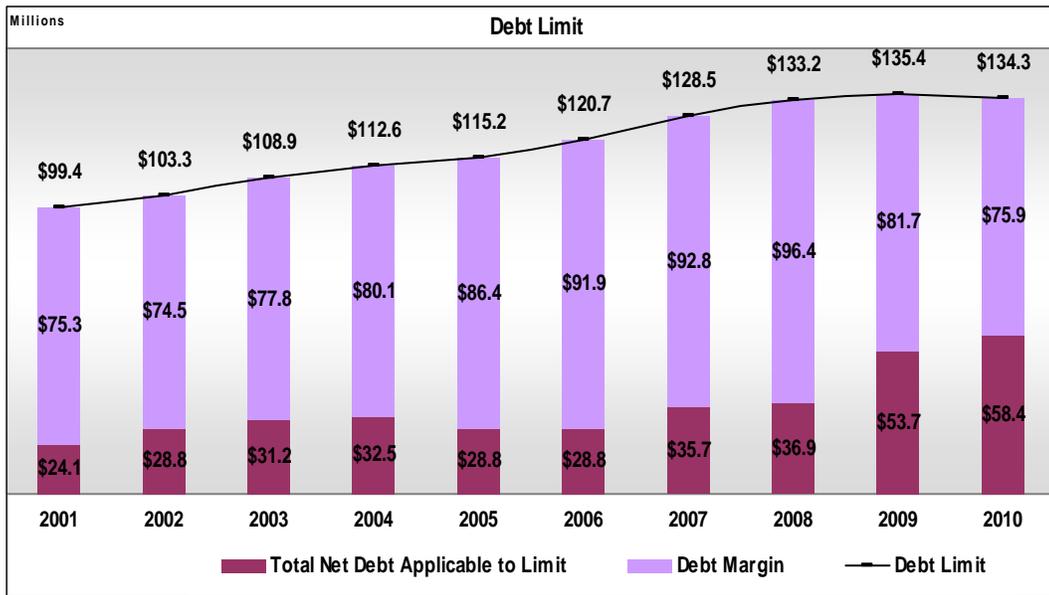
Debt Margin

Description

Under Kansas law (K.S.A. 10-308), cities can issue general obligation bonds up to an amount not exceeding specific debt limits. General obligation bonds issued cannot exceed 30 % of assessed valuation. The debt margin is the amount of debt that the City can legally incur. A decreasing debt margin decreases the City’s ability to incur new debt and could hamper the use of bonds for future projects.

Analysis

The City’s total applicable debt has been less than 10% of the total assessed valuation each year of the evaluation period. The debt margin has increased from \$63.7 million in 1999 to \$96.4 million in 2008. The debt margin decreased in 2009 and 2010 as a result of larger bond issues.



**Warning Trend:
Decreasing debt margin**

**Formula:
Debt limit minus net
debt applicable to the
debt limit**

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Assessed Valuation | \$403,375,084 | \$428,465,893 | \$444,080,143 | \$451,333,804 | \$447,800,878 |
| Debt Limit | \$120,657,497 | \$128,539,768 | \$133,224,043 | \$135,400,141 | \$134,340,263 |
| Debt Margin | \$91,882,705 | \$92,800,225 | \$96,361,788 | \$81,747,842 | \$75,929,078 |
| Total Net Debt Applicable to Limit | \$28,774,792 | \$35,739,543 | \$36,862,255 | \$53,652,299 | \$58,411,185 |
| % of Debt Limit | 24% | 28% | 28% | 40% | 43% |
| % of Assessed Valuation | 7.1% | 8.3% | 8.3% | 11.9% | 13.0% |

Trend

The warning trend is observed for this indicator over the evaluation period. While the City still has room within the debt margin to incur new debt for future projects, the amount of the margin has declined for two consecutive years due to an increasing amount of debt and no growth in assessed valuation. This indicator received a yellow rating.

Source: City of Salina Comprehensive Annual Financial Reports 2001 - 2010, Schedule 15, Legal Debt Margin

Calculation: Debt Limit is equal to 30% of assessed evaluation. Applicable debt is equal to bonded debt minus revenue bonds, loans, and fund balance designed for Debt Services. Debt margin is the difference in the debt limit and the total applicable debt.