

# Mayor's Semi-annual Financial Condition Statement to Council

October 1, 2023 – March 31, 2024

April 8, 2024

## OVERVIEW

Section 11-43-84, Code of Alabama 1975, requires the mayor to present a semi-annual written statement to the Council of the City's financial condition and show all temporary floating indebtedness, for what created, and the steps he/she will take to protect the credit of the City.

The following report covers the first six months of FY 2024.

## FYTD 2024 BUDGET PERFORMANCE (thru March 31, 2024)

Council approved a Fiscal Year (FY) 2024 budget that assumed ~\$13.35M in revenue and cash against anticipated expenses of ~\$11.95M. The budgeted surplus was ~\$1.35M.

The \$13.35M budgeted revenue assumed \$10.4M in estimated FY24 receipts, \$1.1M in carryover funds, and \$1.85M in beginning cash.

In addition to taxes and fees, FY24 budgeted revenue assumed, among other things, \$65k ADECA, \$35k COPS, and \$70k SRO grants for the Police Department; a \$250k Rebuild Alabama Act (RAA) grant for street upgrades; \$10k County and \$700k AFG grants for the Fire Department; a \$90k County Recreation grant; a \$2.5k County grant for the Senior Center; a \$10k State grant for the Library; and a \$2.76M Alabama Department of Environmental Management (ADEM) grant for sewer upgrades.

Through March 31, 2024, the Police Department received approximately \$36k of the incrementally funded ADECA grant, \$152k of SRO funding and \$47.3 from the COPS grant. Police Department grant receipts have been significantly above budget estimates primarily driven by SRO grants.

Award of the \$250k RAA grant for street repairs is pending.

The Fire Department has received \$12k of County grant funds, \$2k above budget as well as an unbudgeted \$11.5k grant from the Forestry Commission. Unfortunately, the Fire Department was not awarded the \$700k AFG grant. This will result in postponement of the purchase of a new pumper truck.

FY to date (FYTD), the Sewer Department has received \$50k of its \$2.76M ADEM grant while incurring \$55k of actual expense. The sewer grant funds are released as costs are incurred.

The City was awarded \$89,775 of its requested \$90k Recreation grant. The Senior Center received an additional \$1.0k above its budgeted \$2.5k County Grant. The \$10k Library grant has not yet been awarded.

The Sewer upgrade project has required numerous regulatory reviews and the City has just recently received the necessary approvals allowing it to solicit bids for the project. Given approval delays, the City is unlikely to incur a substantial amount of the budgeted cost and associated grant revenue in FY24.

The City's net surplus as of March 31, 2024, is ~\$1.74M. The FYTD surplus is, essentially, on-track against a FYTD budget of \$1.8M and tracking toward a year-end surplus ~\$388k above the budgeted

year-end surplus of \$1.35M. Monthly budget variances are impacted by the timing of revenue receipts and expenses.

Section 11-43-57, Code of Alabama 1975, permits “the council to appropriate the sums necessary for the operation of city departments and for the interest on its bonded and other indebtedness, not exceeding in the aggregate within 10 percent of its estimated revenue”. In other words, anticipated expenses should not exceed 90% of expected revenue. For FY24 Columbiana budgeted anticipated expenses equal to 89.8% of estimated funds available. Table 1 contains a summary of FYTD revenue and expense.

**Table 1**

	Feb			Mar			FY 2024		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	FYTD Actual	FYTD Remain
GF Cum Revenue	\$ 2,672,221	\$3,212,584	\$ 540,363	\$ 3,206,666	\$3,796,341	\$ 589,676	\$ 6,413,331	\$ 3,796,341	\$ (2,616,990)
GF Cum Expense	\$ 3,060,381	\$2,036,300	\$ 1,024,081	\$ 3,672,457	\$2,628,501	\$ 1,043,956	\$ 7,344,914	\$ 2,628,501	\$ 4,716,413
GF Cash+Cap+OMS	\$ 2,238,834	\$2,098,194	\$ (140,639)	\$ 2,238,834	\$2,072,497	\$ (166,337)	\$ 2,238,834	\$ 2,072,497	\$ (166,337)
<b>GF Net Surplus (Deficit)</b>	<b>\$ 1,850,674</b>	<b>\$3,274,479</b>	<b>\$ 1,423,805</b>	<b>\$ 1,773,042</b>	<b>\$3,240,337</b>	<b>\$ 1,467,295</b>	<b>\$ 1,307,251</b>	<b>\$ 3,240,337</b>	<b>\$ 1,933,086</b>
Cum Revenue + ΔCash	\$ 6,848,566	\$4,463,180	\$(2,385,386)	\$ 7,770,512	\$5,193,308	\$(2,577,204)	\$13,302,191	\$ 5,193,308	\$ (8,108,882)
Cum Expense	\$ 4,948,818	\$2,695,745	\$ 2,253,073	\$ 5,944,596	\$3,452,180	\$ 2,492,415	\$11,949,333	\$ 3,452,180	\$ 8,497,153
<b>Net Surplus (Deficit)</b>	<b>\$ 1,899,748</b>	<b>\$1,767,435</b>	<b>\$ (132,313)</b>	<b>\$ 1,825,916</b>	<b>\$1,741,128</b>	<b>\$ (84,788)</b>	<b>\$ 1,352,858</b>	<b>\$ 1,741,128</b>	<b>\$ 388,270</b>

As depicted in Table 1, as of March 31, 2024, **General Fund** revenues were > \$500k above plan while expenses were ~ 1.0M below plan. Timing of budgeted revenues and expenses are primarily responsible for the variances.

Cumulative revenue from **all funds**, plus cash, was below plan due primarily to Sewer grant receipts that are paid incrementally as progress toward project completion is achieved. This was offset by expenses significantly below plan; also based on project completion.

As of March 31, 2024, the balance of all City funds was approximately \$3.58M. This includes \$1.74M of unrestricted General Fund cash with the remainder in various restricted and unrestricted funds.

ASSESSMENT OF FINANCIAL CONDITION

There are no prescribed standards for assessing a municipality’s financial health. There are, however, some commonly used techniques, guidelines and rules of thumb. A proper assessment would require a complete set of financial statements in compliance with Government Accounting Standards Board (GASB) policies and procedures. Due to staff and systems limitations, Columbiana does not typically have these available until completion of the annual audit - approximately one year after the fiscal year.

The City’s budgeting process operates predominantly on a cash basis, as does its day to day financial management. To ensure on-going financial health in the absence of current GASB financial statements, the City uses three primary criteria and metrics to measure and track budget performance.

The first of these is the criteria to comply with the statutorily required appropriation process which precludes planning for expenditures in excess of 90% of estimated revenues. With expenses equal to 89.8% of anticipated revenue, the City is compliant with this requirement.

Another technique is to budget a financial reserve. The Government Finance Officers Association (GFOA) recommends a minimum reserve, or surplus, of two months General Fund operating expenses.

Columbiana budgeted a surplus of 2.14 months. Likewise, Credit Rating agencies recommend having a fund balance of 60 days, or 17% of General Fund (GF) expenses.<sup>1</sup> Columbiana budgeted a GF surplus equal to ~17.8% of annual expenditures.

The final technique is to ensure a Quick Ratio of greater than 1. A quick ratio above 1 means the City has enough liquid assets to cover short-term obligations and maintain its operations. Again, to do this properly requires GASB compliant financial statements but, using the cash basis budget, we can approximate this by dividing budgeted GF expenses into the sum of budgeted GF revenue and cash. Columbiana’s “budgeted Quick Ratio” in FY2024 is 1.18. As of March 31, 2024, the approximate Quick Ratio was 2.23.

**DEBT**

**Floating indebtedness** means all obligations of the municipality to pay money, of whatever kind or character, *except* indebtedness evidenced by outstanding negotiable interest-bearing bonds of the municipality.

**Negotiable bonds** are debt securities that can be bought and sold between investors on the secondary market. These bonds typically have a stated interest rate and maturity date, and they are issued by governments, municipalities, corporations, and other entities to raise capital. The "negotiable" aspect means that the ownership of the bond can be transferred from one investor to another, allowing for liquidity and price discovery in the market. The City has two types of negotiable bonds outstanding – general obligation and revenue bonds.

**General obligation (GO) warrants** are negotiable bonds backed by the general revenue of the City, while **revenue bonds** are supported by a specific revenue source. The 2021 Cultural Facilities Cooperative District Revenue Bonds are supported by a pledge from the City of Columbiana to lease (specific source of revenue) Old Mill Square facilities from the District. Upon maturation of remaining revenue bonds in 2048, ownership of the leased facilities will transfer from the Cooperative District to the City of Columbiana.

The City has no temporary floating indebtedness. Table 2, below, summarizes the City’s outstanding long-term debt in the form of GO and revenue bonds.

**Table 2**

	Interest Rate *	Opening Balance	Balance As of: 31 Mar 2024	FY24 Annualized Debt Service	Maturity Date
General Obligation Warrants 2020 (OMS)	1.45%-3.0%	\$ 2,595,000	\$ 2,316,250	\$ 134,902	5/1/2048
General Obligation Warrants 2021	0.42%-2.9%	\$ 3,650,000	\$ 3,373,750	\$ 191,782	5/1/2048
Coop Dist Revenue Bonds 2021 (OMS)	0.27%-2.9%	\$ 8,765,000	\$ 8,178,333	\$ 439,594	5/1/2048
<b>Totals</b>		<b>\$ 15,010,000</b>	<b>\$ 13,868,333</b>	<b>\$ 766,278</b>	

\*Note: Interest rates increase each subsequent year in which bonds/warrants mature.

\*\* Note: Balances and debt service are estimates based on maturity and payment schedules.

**FY24 debt service = 13.9% of budgeted recurring taxes and fees.**

<sup>1</sup> Financial Condition Analysis: Comparing Philadelphia to 13 other Major Municipalities, using the most recent Comprehensive Annual Financial Reports (CAFRs). City Council of Philadelphia, 8/1//2017.

As of March 31, 2024, the City's outstanding long-term debt balance was approximately \$13.9M. Approximately \$10.5M of that are GO warrants and Revenue bonds associated with the Old Mill Square development. Approximately \$3.4M of GO warrants are associated with old City debt that was refunded in 2021.

As with assessing a City's overall financial health, there are no prescribed standards to determine how much debt is too much. Again, there are some criteria and techniques that may be used.

The first requirement is to comply with statutorily authorized debt limitations established by Section 225 and Amendment 772 of the State of Alabama Constitution of 1901. The City is well within the limits established by statute. Under those statutes the City has approximately \$11M of additional borrowing capacity.

The percentage of recurring taxes and fees consumed by debt service is a useful metric in that the more consumed by debt, the less available to provide other essential services to the community. Some experts have suggested that this metric should be below 10%. Others assert that when the metric is greater than 15% a City should take steps to reduce its debt and/or increase revenue. Columbiana's long term debt is approaching the upper limit of this metric at ~13.9%.

A rule of thumb used by some municipalities is that the sum of capital investment and debt service should be between 25 – 30% of recurring taxes and fees, excluding capital investment funded by grants or other sources of revenue. The sum of long-term debt service and capital expense (excluding that portion of capital expense funded by grants) for Columbiana in FY24 was budgeted at approximately 34% of recurring taxes and fees, slightly higher than the rule of thumb.

FY25 long-term debt service will increase to \$792K due to the maturation of lower interest rate warrants and revenue bonds. Additionally, this debt service will increase annually to approximately \$800k in FY28 and remain relatively constant (slight annual fluctuations) until the maturation of associated bonds in April 2048.

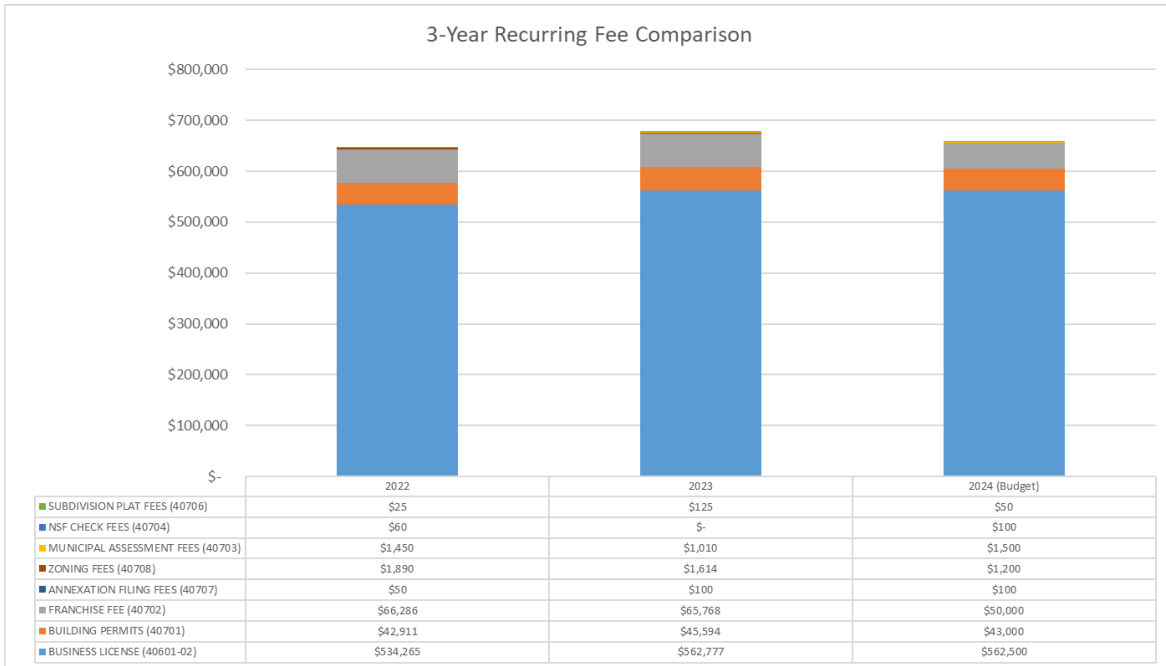
In August 2022, the City received a 50/50 combination grant and loan of \$5.525M for urgent repairs/upgrades to the City's waste water sewage treatment facility. Half of the grant/loan, administered by ADEM, is funded by federal ARPA funds and the remainder will be funded by a 20-year, 1.99% loan from the State Revolving Fund (SRF). The City will not likely begin drawing upon the loan until FY25 at which time the City's debt service will begin to increase an estimated \$135k annually. Assuming modest increases in tax revenue, the City's debt service at that time may climb slightly >15% of recurring taxes and fees.

Tables 3 and 4, below, depict recurring taxes and fees from FY22 – FY24. FY24 taxes and fees are budgeted estimates. More than 70% of recurring tax revenue comes from sales tax.

**Table 3**



**Table 4**



The cumulative rate of inflation between FY21 and FY23 was 13.1% while the cumulative increase in sales tax revenue for the same period was 33.7%. If this trend continues, financial health and debt metrics may improve.

#### PROTECTION OF THE CITY'S CREDIT

Columbiana's municipal credit rating was last updated by S & P Global (Standard and Poor's credit rating service) in June 2021. The rating was "AA - very strong capacity to meet financial commitments". Customarily, municipalities do not seek an updated credit rating unless seeking material financing or refunding existing municipal bonds.

The City's legal debt limits established by Section 225 of the Alabama Constitution of 1901 and Amendment 772 to the Constitution provide substantial additional borrowing authority. Liquidity ratios indicate the City has sufficient revenue to pay its operating expenses and service its debt. However; the rules of thumb described above (and others) suggest the City may wish to establish future budgeting guidelines to lower its debt ratio and increase its financial reserves. Rather than cost cutting, the City may wish to focus on economic development to increase tax revenues. Other alternatives include an increase in the sales tax rate, which has already been done by surrounding communities, and/or increased fees for services, such as garbage pick-up, which have also been increased by surrounding communities.

A handwritten signature in blue ink, appearing to read "David F. Mitchell", written over a horizontal line.

David F. Mitchell, Mayor