



City of Naples

--- MEMO ---

TO: HONORABLE MAYOR AND CITY COUNCIL MEMBERS
 FROM: BILL HANLEY, DIRECTOR OF FINANCE *[Signature]*
 SUBJECT: CITY OF NAPLES ANALYSIS OF FINANCIAL & ECONOMIC TRENDS
 DATE: MARCH 12, 1986

BACKGROUND

During 1978 the GFOA thought it appropriate to develop some indicators of a city's financial health. The difficulties experienced by such municipalities as New York and Cleveland prompted the need for such a set of measurements. Identifying the need was just the first problem. The undertaking was such a major task that the resources of Peat, Marwick, Mitchell & Co. and the Institute of Government, University of Georgia were drawn upon to accomplish the job. What evolved was a comprehensive set of financial and economic indicators that may be used to forecast a city's condition. Following is a list of those factors and what they mean.

The five factors that are reviewed are:

- I. Economic vitality
 - II. Financial independence and flexibility
 - III. Municipal productivity
 - IV. Current funding for current operations
 - V. Financial management
- I. The Economic Vitality of a city comes from the local economy which provides the source of revenue for the city and a positive community environment which attracts residents and businesses. The trends reviewed to determine that the local economy is in a growth position are:
- 1) Property values
 - 2) Building permits
 - 3) Occupational licenses
 - 4) Population
 - 5) Income per capita
- II. Financial Independence and Flexibility gives a city the ability to cope with any financial condition that may develop and permits the city to control its own destiny. The trends which are reviewed give an indication that the city has not become dependent on outside funding sources for operations, is controlling the debt burden, and is doing a good job of financial planning for expenditures.

The data presented is:

- 1) Nature of grants
- 2) Debt burden
- 3) Budget performance
- 4) Fringe benefits
- 5) Revenue limits

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III. With the constant pressure of inflation and resource scarcity, it is important that cities as well as all organizations improve Municipal Productivity so that more and better services can be provided at a lesser cost. This is accomplished through better work methods, developing skill of employees, utilizing technology, and establishing better organization and management. Indications of performance in productivity are:

- 1) Employees per capita
- 2) Expenditures per capita
- 3) Enterprise operations income and rates

IV. If its Current Costs of Operations and Capital Improvements are not funded on a current basis, a city may find itself with financial problems in the future. The City of Naples has not incurred any short or long term debt for operations and is funding its pension funds on a current basis. Data showing increases in capital outlays is presented.

V. Sound Financial Management provides the City with the tools to develop and protect its financial condition. The state has set property assessments at 100% of value and the city has been audited and received an unqualified audit opinion each year. Data on investment income and revenue performance show the trends that indicate that sound financial management practices are being used.

FACTORS CONTRIBUTING TO FISCAL CONDITION

- 1) Economic Vitality
- 2) Financial Independence
- 3) Municipal Productivity
- 4) Current Cost Funding
- 5) Sound Financial Management

ECONOMIC VITALITY TRENDS

- 1) Property Value
- 2) Building Permits
- 3) Business Licenses
- 4) Retail Sales
- 5) Population
- 6) Per Capita Income

ANALYSIS

Per Capita Property Value - This trend is arrived at by taking our assessed valuation and dividing by population. A declining trend here could indicate that large tracts of real estate have been removed from the tax base because of plant shutdowns, etc. Our numbers which follow show that this is not the case for us.

PER CAPITA PROPERTY VALUE

<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
\$70,496	\$70,358	\$79,600	\$82,750	\$87,244

Building Permits - This trend shows the number and dollar value of building permits over the last 5 years. If the number and value is declining there are 4 possibilities:

- 1) The trend reflects a National recession or decline in construction activity.
- 2) No land available for new development.
- 3) The economic vitality of the municipality is eroding.
- 4) A rising tax rate is discouraging new development.

Following are the numbers for the last 5 years for us:

BUILDING PERMITS

	<u>1981</u>		<u>1982</u>		<u>1983</u>		<u>1984</u>		<u>1985</u>	
	<u>Res.</u>	<u>Comm.</u>	<u>Res.</u>	<u>Comm.</u>	<u>Res.</u>	<u>Comm.</u>	<u>Res.</u>	<u>Comm.</u>	<u>Res.</u>	<u>Comm.</u>
Number:	887	8	949	6	1,113	9	1,271	7	1,430	18
Amount:	\$155,732		\$105,731		\$154,005		\$174,584		\$164,566	

Our numbers have remained relatively constant. We can say several things about this. Certainly a rising tax rate has not discouraged anyone because our rates have fallen 5 consecutive years. There is currently land available for development, however, the number of vacant lots is diminishing each year. The lots that are left are generally in expensive areas so although the numbers of new houses, for example, may tend to decrease the dollar value will remain high.

Business Licenses - This trend shows the number and dollar value of licenses over the last 5 years. A slowdown or decline in the number and/or value of licenses could mean that the economy of the municipality is stagnating. Our numbers follow for the last 5 years:

BUSINESS LICENSES

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Number:	2,392	2,396	2,302	2,721	2,753
Amount:	\$128,180	\$130,701	\$140,780	\$152,631	\$155,902

These numbers demonstrate that the number of licenses has increased the last two years. In addition to growth our enforcement efforts have contributed to the increase.

Population - This trend identifies the population for the current year and 4 prior years. A declining population could mean that the economic base may not continue to support municipal expenditures at current levels. Our figures follow and demonstrate a small but steady increase.

POPULATION

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Reported Population:	17,972	18,103	18,415	18,556	18,756
Housing Units:	13,235	13,818	13,855	13,993	14,136
Household Size:	2.03	1.96	1.98	1.98	1.98

Per Capita Income - This trend shows the per capita income for City residents for the most recent 5 years we have. A declining per capita income could mean a temporary national or regional recession, or a local economic decline. Our numbers follow and demonstrate a steady rise in this indicator.

PER CAPITA INCOME

	<u>1973</u>	<u>1975</u>	<u>1977</u>	<u>1979</u>	<u>1981</u>
	\$10,588	\$10,592	\$14,031	\$16,942	\$21,764

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Federal and State Grants - This trend can be used to measure the dependence on State and Federal Grants and what services are contingent upon these grants. Our numbers follow and reflect total Federal and State grant dollars received during the last 5 years. The relatively small dollar amounts of these demonstrates very little dependence is placed on these funds.

GRANTS

FEDERAL:

HUD - Rental Assistance \$157,733

STATE:

Traffic Engineer \$ 17,660
Recreation Grant \$ 7,927
Law Enforcement Grant \$ 18,050
Beach Study \$147,137

Debt Service - This trend shows our general obligation debt service per capita for the last 5 years. If this shows an increasing trend we could be unduly restricting future financial flexibility by committing too much future revenue to debt repayments. Our numbers follow and indicate a steady decrease.

G.O. DEBT SERVICE PER CAPITA

<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
\$41.18	\$35.63	\$29.87	\$24.25	\$18.39

Budget Performance General Fund Expenditures - This trend shows budgeted vs. actual expenditures and the resulting variance the past 5 years. A continuing unfavorable variance could have various meanings such as:

- 1) Inadequate allowances in original budget.
- 2) A series of emergencies that require special expenditures.
- 3) Budget controls may not be sufficient to avoid overspending and waste.

Our numbers follow and show that we have exceeded the budget in 1 of the last 5 years and by only 1%.

BUDGET PERFORMANCE GENERAL FUND EXPENDITURES

	<u>BUDGETED</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
1981	\$4,932,132	\$4,904,584	\$ 27,548
1982	5,577,684	5,639,393	(61,709)
1983	6,025,613	5,919,239	106,374
1984	6,148,125	6,141,197	6,928
1985	6,442,994	6,396,001	46,993

Employee Fringe Benefits - This trend measures the cost of fringes per employee over the last 5 years. Rapid increases here represent a trend that could carry over into future years thus placing demands on future revenue and reducing financial flexibility. Our figures follow and they show steady but not rapid increases. These increases are not only due to increased costs but improved benefits and the City sharing in a greater per centage of total costs.

FRINGE BENEFITS

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Cost	\$734,705	\$876,391	\$1,056,350	\$1,362,645	\$1,516,318
Employees	404	411	412	410	412
Per Employee	1,819	2,132	2,564	3,324	3,680
% Increase		17.2	20.2	29.6	10.7

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Millage Limits - This trend shows the millages levied over the last 5 years. Our legal limit is 10 mills and a rate approaching the limit could indicate a reduction in flexibility and that the revenue source may be in danger. Our numbers follow and indicate we are in excellent condition since they have declined over the last 5 years and have never approached the legal limit.

REVENUE LIMITS GENERAL FUND TAX MILLAGE

<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
3.3958	1.8715	1.4586	1.3339	1.2294

Millage Limit is 10 Mills.

Employees Per Capita - This trend is a broad measure of municipal productivity and assumes that the need for services is directly proportional to the population. This assumption can not be accepted in all cases without question. Our numbers follow and indicate very small decreases in this area. We believe the decrease here is a positive sign and is due to more reliance on technology.

EMPLOYEES PER CAPITA

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Employees	404	411	412	410	412
Population	17,972	18,103	18,415	18,556	18,756
Per Capita	.02248	.02270	.02237	.02209	.02196

Expenditures Per Capita - This trend is also a broad measure of municipal productivity. An increasing trend could mean productivity is falling, however, this assumption can not be accepted without question. Our numbers follow and reflect a trend of increases. However, those years that experienced increases is where we added to the public safety forces or made large capital expenditures for police cruisers, etc.

EXPENDITURES PER CAPITA

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
*Expenditures	\$4,904,584	\$5,639,393	\$5,919,239	\$6,141,197	\$6,396,001
Population	17,972	18,103	18,415	18,556	18,756
Per Capita	\$273	\$312	\$321	\$331	\$341
% Increase		14.2	2.4	3.1	3.0
% (Decrease)					

* Does not include Sanitation

Enterprise Operations - This trend measures operating income for our Water and Sewer enterprise operations over the last 5 years. Consistent losses could mean that:

- 1) Rates are unreasonably low
- 2) Operations are inefficient
- 3) Demand for services is weak
- 4) Inflation in cost factors has driven costs beyond revenue raising capabilities.

Our numbers follow and demonstrate that we have never operated at a loss, however, our income has been steadily decreasing. Our new rate structure has turned this around in 1985.

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ENTERPRISE OPERATIONS

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Water Cost	\$3,011,835	\$3,309,654	\$3,287,889	\$3,626,586	\$3,904,335
Water Revenue	3,675,696	4,010,371	3,922,334	4,106,182	4,021,745
Difference	663,861	700,717	634,445	479,596	117,410
Sewer Cost	1,371,117	1,536,149	1,647,368	1,811,959	2,078,947
Sewer Revenue	1,245,302	1,308,235	1,339,692	1,431,801	2,412,927
Difference	(125,815)	(227,914)	(307,676)	(380,158)	333,980
Operating Income (Loss)	538,046	472,803	326,769	99,438	451,390

Municipal Enterprise Rates - This trend measure charges for services over the past 5 years. Rapidly growing rates could indicate that the productivity of the enterprise is not improving sufficiently to offset inflationary cost increases. The new rate structure adopted in 1983 is designed to be reviewed annually and maintain the financial soundness of the system.

MUNICIPAL ENTERPRISE RATES

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Water Per 1,000 Gal.	.65	.65	.65	.65	.78
Sewer Per Month	6.25	6.25	7:72	7.72*	14.04*

* Minimum charge

Capital Outlays - This trend identifies the City's capital expenditures over the last 5 years. A declining trend may indicate that the City has reached the optimum level and further enhancement is not needed or current capital needs are not being met and the infrastructure may be deteriorating. Our numbers for the last 5 years are presented and indicate some fluctuation, but our new bond issue will give rise to increasing expenditures.

CAPITAL OUTLAYS

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
	\$1,711,894	\$1,501,810	\$1,790,926	\$2,624,990	\$2,406,592

Investment Income - This trend identifies the City's interest earnings during the last 5 years. A declining trend may indicate:

- 1) An overall decline in interest rates.
- 2) Cash management and investment procedures are inadequate.
- 3) The City is operating on a slimmer cash margin making less money available to invest.

Our figures for the last 5 years follow and show a fluctuation trend of increases and decreases. The reason for this was an overall decline in interest rates which we have no control over. Rates this last year ranged in the 8% - 11% range whereas the previous years range was 9% - 17%. We feel very comfortable that our cash management plan is working successfully for us. Our plan insures that all dollars are earning interest even in our checking account. This program is put out for annual bid and for a relatively small compensating balance the burden of daily investment rests with the bank.

INVESTMENT INCOME

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
	\$3,031,919	\$3,537,537	\$2,490,283	\$2,697,402	\$1,937,215

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Revenue Performance - This trend measures our revenues, budgeted vs. actual, over the last 5 years. If variances are constantly unfavorable this could indicate that estimates were deliberately too high to make the budget appear balanced. Our numbers are presented for the past 5 years and for two years we experienced unfavorable variances. In 1983 this was primarily due to less interest income than estimated.

REVENUE PERFORMANCE

	<u>BUDGETED</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
1981	\$5,092,310	\$5,231,882	\$139,572
1982	5,809,981	5,636,035	(173,946)
1983	6,033,782	5,757,310	(276,472)
1984	5,851,812	6,115,176	263,364
1985	6,322,700	6,593,962	271,262

CONCLUSIONS & RECOMMENDATIONS

The final analysis of these measurements collectively would indicate that the City is in a strong financial position. The credit for this condition should be shared by the citizens of Naples who make up our community, the Mayors and Councilmen who have established the policies which have allowed the financial condition to develop, and the employees who provide for the day to day administration and operation.

CAPITAL OUTLAYS

1981	1982	1983	1984	1985
\$1,711,824	\$1,507,810	\$1,790,928	\$2,624,900	\$2,408,782

INVESTMENT INCOME

1981	1982	1983	1984	1985
\$2,031,918	\$2,577,977	\$2,490,283	\$2,697,402	\$1,937,218