

Financial Health in Ponderosa: A Financial Strength Analysis of Ponderosa City

Sean M. Harris

School of Public Affairs and Administration, Rutgers University

20:834:543, Public Financial Management

Cleopatra Charles, Ph.D.

December 12, 2024

Cash Solvency

The first analysis stated is cash solvency. Cash solvency refers to the ability of the government to generate enough cash in the short term to meet its current liabilities. The analysis uses a current ratio for the governmental activities and total primary government. These ratios suggest that Ponderosa has enough cash solvency to cover expected and unexpected expenses and are in good financial condition. Additionally most of the city's cash is invested in financial instruments. The current policy in place to monitor these investments is: *3B: Cash and Investments- Authorized Investments* is the policy in place that monitors the cities financial instrument choices.

Government Activities= Current Assets/ Liabilities= 2.20

Total Primary Activities= Current Assets/ Liabilities= 2.27

Long-run Solvency

The second analysis will refer to long-run solvency. Long-run solvency refers to the ability of a government to generate sufficient revenues to meet all regular operating costs as well as unusual costs that occur in specific years. These unusual costs might include payments for capital assets replacement and acquisition and pension obligations. The following tools are used to conduct long-run solvency analysis: debt to total assets ratio, debt to net position ration, return on net position, and times-interest earned. Overall, the financial health considering long-run solvency for Ponderosa looks secure. There are some components that could benefit from improvement but presently there is no major cause for concern. The breakdown of this assessment is as follows:

Debt to Total Assets Ratio

Governmental Activities= .455

Total Primary Government= .440

The total asset ratio for both calculations are below .5, showing that there is minimal financial risk

Debt to Net Position Ratio

Governmental Activities= .834

Total Primary Government= .787

The debt to Net Position Ratio for both calculations are below 1, showing that liabilities are less than the net position

Return on Net Position

Governmental Activities= 3.7%

Total Primary Government= 2.3%

The Return on Net Position for both calculations show a positive return which is acceptable, but can strive for higher returns around 4.5% given the current economic

environment

Times-Interest-Earned

The times interest earned ratio 1.70 which moderate. A TIE of 2 or higher is generally considered strong and below 1 would indicate that government cannot cover its interest obligations. Overall financial health can be considered stable.

In fidelity of a comprehensive long-run solvency analysis, efforts were taken to examine the statement of revenues, expenditures, and changes in fund balances to calculate the common size ratios by revenue sources and the revenue per capita for government funds. Effort continued to then identify the major revenue sources for Ponderosa and provide a comparative analysis with other cities referenced within Ponderosa's statement.

The major revenue sources for Ponderosa were taxes and assessments followed by intergovernmental revenue and other revenue sources fell below contributing 7%. Compared to other cities, city3 and city4 showed similar revenues per capita but had over a 2x increase in revenue from "charges for services" showing Ponderosa is comparatively weaker in this category and could benefit from restructuring this revenue source.

Taxes and assessments	0.66
Intergovernmental	0.21
Interests and rentals	0.04
Licenses and permits	0.01
Charges for services	0.06
Fines, forfeits and penalties	0.00
Other	0.01

Per Capita Revenues in Dollars by Source for FY 2024
with Comparative Data for FY 2023

	FY 2024	FY 2023			
	Ponderosa	City 1	City 2	City 3	City 4
Total revenues	803	806	728	928	1,092
Intergovernmental	170	151	117	119	170
Total taxes	532	288	337	478	533
Property taxes	329	147	212	411	344
Charges	91	286	207	207	199

To uncover strategic opportunities for Ponderosa a comparative analysis was conducted using common size ratios for expenditures per capita from major expenditure items in governmental funds compared to those of the other cities in the background section in the financial statement packages.

The largest capital expenditures for Ponderosa are public safety, capital outlay, general government, interest charges, and public works followed by other expenditures that were no greater than 7%. Compared to other city mean

expenditures Ponderosa was over the mean of total expenditures of \$800 per capita. Within subcategories policing was the only category over the mean subcategory expenditure which would require further comparative analysis to see if its crime rates warrant greater expenditures.

General government	0.16
Public safety	0.28
Public works	0.11
Recreation	0.06
Capital outlay	0.23
Debt service:	0.00
Principal	0.03
Cost of issuance	0.00
Interest and fiscal charges	0.14

**Per Capita Expenditures in Dollars by Function for FY 2024
with Comparative Data for FY 2023**

	FY 2024	FY 2023			
	Ponderosa	City 1	City 2	City 3	City 4
Total expenditures	946	711	550	973	823
Police	167	108	117	140	104
Fire	98	43	66	191	92
Highways	54	80	63	136	68
Sewer	104	206	44	114	56

The statement of activities was examined to determine which government function generates the most program revenue and which government function is subsidized the most by taxes and other general revenue. The government function that generates the most program revenue is recreation at \$1,002,362. The government function that receives the most subsidy from taxes and other general revenues is Public Works at \$1,755,654.

Budgetary Solvency

The last type of solvency analysis conducted in this review was budgetary solvency. Budgetary solvency refers to whether a city can generate enough revenues to meet its expenditure obligations and not incur deficits over the normal budgetary period. To conduct this analysis the budgetary comparison schedule for general funding was reviewed.

For 2024, the total revenue for Ponderosa is \$13,981,156 and total expenditures is \$14,503,281. This led to budget deficiency of revenues over expenditures of (\$522,125). Furthermore, the operating transfers in and operating transfers out led to a deficit of (\$509,228) causing the fund balance to drop from \$4,031,675 to \$3,522,447. Overall, the budget for 2024 resulted in an over expenditure. However, the amount of reserves in the fund balance was able to cover this cost. In reviewing the long-term stability of Ponderosa their revenue structure needs to increase its revenue streams or find ways to reduce costs by \$522,125.

Business Activities and Enterprise Funds

Supplemental revenue streams for Ponderosa were assessed under the category of Business Activities and Enterprise Funds. This assessment of the business activities of Ponderosa is that they currently are going through a deficit in FY 2023 and FY 2024. They have had general financial success in the past which allows general financial stability outside their current performance. However, the performance of FY 2023 and FY 2024 must immediately be addressed. The business activities according to the Statement of Revenues, Expenses, Charges in Fund Net Position and Statement of Net Position- Proprietary Funds show an unpromising picture for the current performance relative to primary government activities. Business activities might be important to the governmental activities of Ponderosa in that they need to be improved to ensure long term financial stability for the city.

This assessment was made through analyzing overall risk in continuing to conduct its business and enterprise activities through liquidity ratios, profitability ratios, and leverage ratios. The assessment is as follows:

The liquidity ratio analysis for FY 2023 and FY 2024 used a current and quick ratio and are as follows:

The current ratio for Ponderosa in FY 2023 and FY 2024 was .62 and .72 respectively, and the quick ratios were .51 and .60. For the current ratio to be considered an indicator of positive financial health a 2:1 ratio is needed. Therefore, the current ratio shows that the current assets of business type activities and enterprise funds is not adequate in covering the current liabilities. Though a slight improvement was made y/y.

The quick ratio requires a 1:1 ratio to be considered an indicator of positive financial health, however, the results of this analysis confirm further a story of poor current financial condition. The current cash and accounts receivable are not substantial enough to cover total current liabilities. Overall, Ponderosa has poor liquidity and must adjust its business type activities and enterprise funds to remain sustainable.

The profitability assessment for FY 2023 and FY 2024 used a total margin and return on net position analysis and are as follows:

The total margin for Ponderosa in FY 2023 and FY 2024 was operating at a loss with a ratio of -0.79 and -0.83 respectively. Typically, a good margin would be considered anything over .10. This shows that the operating revenues do not cover operating expenses significantly. However, the return on net position shows that they have a good

capital structure outside of their current assets and operating revenues for FY 2023 and FY2024.

The leverage assessment for FY 2023 and FY 2024 used debt ratio, debt to net position, and times-interest earned ratio for analysis and are as follows:

The leverage to debt ratio for Ponderosa in FY 2023 and FY 2024 were 25% and 26% respectively. Typically, ratios that fall below 30% show strong financial health to cover debts. The debt to net position confirms this narrative for both FY 2023 and FY 2024 with ratios of .33 and .35 respectively. Generally, debt to net position ratios between 0.3-0.6 are considered to be an indicator of good financial stability. Lastly, the times-interest earned ratio for FY 2023 and FY 2024 were 7.98 and 7.98, respectively. As ratios above 2 are considered financially stable this result confirms strong financial stability.

Conclusion

The major strengths of Ponderosa are its primary government activities. They have strong financial health within this activity shown by their Debt to Total Assets Ratio, Debt to Net Position Ratio, Return on Net Position Ratio, and Times-Interest Earned Ratio. Within their expenditures of primary government activities policing was the only category over the mean subcategory expenditure when compared to other cities, which would require further comparative analysis to see if its crime rates warrant greater expenditures. Ponderosa's greatest vulnerability is their business type activities and enterprise funds. This aspect of their financial condition raises cause for concern in the near term and may require restructuring.