



REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

AUDIT OF THE CITY OF SHREVEPORT FINANCIAL CONDITION

INTERNAL AUDIT REPORT (IAR) 650019-01

March 29, 2019

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Report Highlights

Page(s)

- Sales Tax Revenue shows a positive steady trend 7
- Unassigned Fund Balance was at a 10-year low for 2017 11
- Employee Retirement System is severely distressed 29



The Council
City of Shreveport

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March 29, 2019

Councilman Jerry Bowman, Jr.
Chairman, Shreveport City Council

Dear Councilman Bowman:

Subject: IAR 650019-01 – Audit of the City of Shreveport Financial Condition

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Steward, CPA, CIA
City Internal Auditor

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EXECUTIVE SUMMARY
AUDIT OF CITY OF SHREVEPORT FINANCIAL CONDITION
(IAR) 650019-01

Why We Did This Audit

We have completed a performance audit of the City of Shreveport Financial Condition. This audit was conducted as a regularly scheduled audit included in the annual audit plan. Our objectives were to analyze 6 financial indicators over a 10-year period from 2008-2017 and identify opportunities for improving budgeting and financial management. The 6 financial indicators are:

1. Revenues
2. Expenditures
3. Operating position
4. Debt structure
5. Unfunded liabilities
6. Condition of capital assets

What We Recommended

For better financial management, we recommend that those responsible for budgeting and finance:

- Reduce spending during a revenue decline
- Streamline or consolidate processes where appropriate
- Limit budgeted revenues to 98% of previous year's actual revenues
- Increase operating reserves and establish a contingency fund
- Improve collections
- Maintain Employee Retirement System (ERS) funding policy

For better operational efficiencies we recommend the administration:

- Cross train personnel
- Enhance use of technology
- Implement continuous monitoring over financial processes and controls

Performance Audit of the City of Shreveport Financial Condition

What We Found

The City of Shreveport revenues show a positive steady 10-year trend, with sales tax averaging 53% of total General Fund Revenue. Property taxes, however, reflect a 10-year average decline of \$158,000 per year due to millage decreases.

The City has not been able to meet the budget goal of maintaining an operating reserve (unassigned fund balance) of 7% of expenditures; and actual revenues averaged 98.9% of budgeted revenues.

When adjusted for inflation, the total cost to provide services has remained the same. Salaries continue to be the largest General Fund expenditure (67%).

\$21.5 million in GOB debt will be eliminated by 2020. Although Water & Sewer revenues are sufficient for bond coverage, the City's bond rating was downgraded due to increasing fixed costs and long-term liabilities.

The ERS is severely distressed having a funding ratio of 47.5%. If the City continues to implement and maintain the adopted contribution increases, the plan will be 85% funded by 2045.

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Introduction and Background

This audit was included in the annual audit plan as a performance audit of the Financial Condition of the City of Shreveport. The goal of this audit is to analyze the financial information in the Comprehensive Annual Financial Report (CAFR) and the annual Operating Budgets and use the results of those analyses as a catalyst for the development of a financial management and monitoring system that would:

- Identify problems before they reach serious proportions
- Provide transparency in reporting financial strengths and weaknesses
- Introduce long-term planning in the annual budgeting process
- Provide a starting point for elected officials in setting financial policies

There are many sources and numerous factors to consider when analyzing local government's financial condition: budgetary compliance, accounting and auditing standards, revenue growth and diversity, and population growth just to name a few. Experts agree that local government obtains financial health when it can:

1. deliver services to residents with the resources provided by those residents,
2. respond to residents' changing needs,
3. is prepared for unforeseen events, and
4. reserves a portion of resources for long-term needs.

The International City/County Management Association (ICMA) identifies three primary factors that influence a local government financial condition: **1) Environmental factors; 2) Organizational factors; and 3) Financial factors.** Organizational factors are influenced by environmental factors and have an impact on financial factors. Environmental factors will be discussed in a separate report. This report is the result of our analyses of the following financial factor indicators over 10 fiscal years from 2008-2017:

1. Revenues
2. Expenditures
3. Operating position
4. Debt structure
5. Unfunded liabilities
6. Condition of capital assets

The yellow **WARNING TREND** boxes are graphic depictions of what a red flag trend for each indicator would look like.

The discussion and graphics following the blue **ACTUAL TREND** boxes reflect the current condition of the City of Shreveport.

The objectives of this audit were to:

- Analyze each of the 6 financial indicators separately
- Identify opportunities for improvement in budgeting and financial management



Recommendation Evaluation Risk Criteria

This report contains six financial indicators and eleven recommendations. The chart below summarizes our evaluation of risk for the recommendations outlined in the report. Each recommendation was assessed a high, medium, or low risk level based on a qualitative assessment of exposure and/or corrective action priority.

Risk Levels	Recommendations
<p style="text-align: center;">High Risk</p> <p>Represents a significant level of risk exposure to city assets, public safety, or achievement of objectives or mission. Corrective action should have the highest priority.</p>	<p style="text-align: center;">None</p>
<p style="text-align: center;">Medium Risk</p> <p>Represents a moderate level of risk exposure to the city from extensive operating inefficiencies or high-level non-compliance issues. Corrective action should occur expeditiously.</p>	<ul style="list-style-type: none"> ➤ Monitor revenues and make appropriate reductions to expenditures on a quarterly basis. When decline appears to be a trend (3yrs or more), consider whether spending can be reduced or revenue can be increased. (Financial Indicator 1: Revenues) ➤ Consider a policy of budgeting 98% of prior year actual revenues. (Financial Indicator 1: Revenues) ➤ Determine if expenditures can be reduced by consolidating services, cross-training personnel, or enhancing management controls, information systems or technologies. (Financial Indicator 2: Expenditures) ➤ Engage department heads to employ continuous monitoring systems. (Financial Indicator 2: Expenditures) ➤ Adopt and implement a formal minimum reserve policy (ordinance). (Financial Indicator 3: Operating Position) ➤ Increase operating reserves to offset debt per capita. (Financial Indicator 4: Debt Structure) ➤ Analyze collection procedures to improve cash flow. (Financial Indicator 4: Debt Structure)
<p style="text-align: center;">Low Risk</p> <p>Represents a minimal level of risk exposure to the city from inefficiencies or low-level non-compliance issues. Corrective action should occur as appropriate.</p>	<ul style="list-style-type: none"> ➤ Determine if processes can be streamlined or consolidated to improve operational efficiencies. (Financial Indicator 1: Revenues) ➤ Establish a contingency reserve to provide funding of unforeseen needs. (Financial Indicator 3: Operating Position) ➤ Continue to increase COS employer contributions to ERS in compliance with the existing ordinance schedule. (Financial Indicator 5: Unfunded Liabilities) ➤ Develop a centralized tracking system to maintain, manage, and analyze capital assets. (Financial Indicator 6: Capital Assets)



Scope and Methodology

The scope of this audit includes the City of Shreveport CAFR and Operating Budgets for the reporting periods ending December 31, 2008-2017. To answer our objectives, we reviewed internal controls surrounding these activities and developed audit procedures including, but not limited to, the following:

- Interviewing personnel in the Chief Administrative Office, Department of Finance, and other City Departments regarding controls and practices over budgeting and financial reporting
- Reviewing City ordinances and administrative procedures
- Researching various local governmental financial reporting standards and best practices

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings, conclusions, and recommendations based on our audit objectives.

We thank the personnel in the various Offices and Departments identified above, as well as personnel in other City Departments, for their cooperation and assistance in gathering information provided to us in our work on this project.





FINDINGS AND RECOMMENDATIONS



Financial Indicator 1: Revenues

Elasticity

WARNING TREND:
Decreasing amount of elastic revenue as a percentage of net revenues

FORMULA:
$$\frac{\text{ELASTIC OPERATING REVENUES}}{\text{NET OPERATING REVENUES}}$$

Year 1 Year 2 Year 3 Year 4 Year 5

ACTUAL TREND

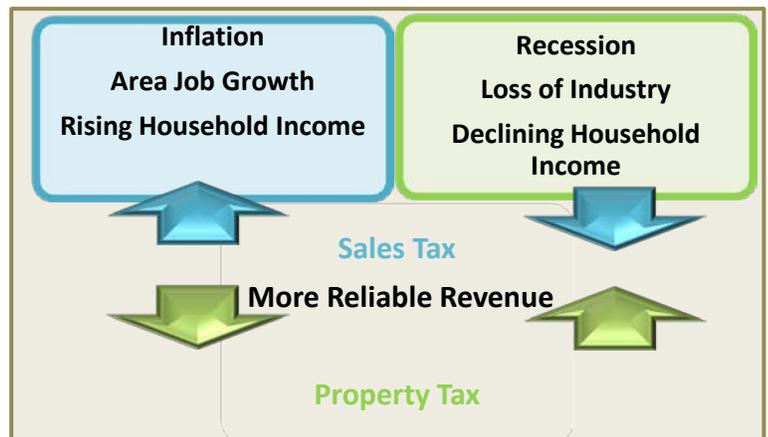
Elastic Revenues: rise and fall with changes in population, business volume, inflation, etc. – **Sales Tax Revenue.**

Inelastic Revenues: relatively unresponsive to economic changes – **Property Tax Revenue.**

Economic swings can be volatile for elastic revenues. Inflation will cause a temporary spike, however, consumers quickly reduce spending, causing a sudden drop in revenues. This increases the risk that revenues will not cover expenditures.

City of Shreveport elastic revenues show a positive steady trend, averaging 53% of General Fund Revenues (GFR) over the last 10 years.

Table 1 shows the last four years (2015-2018) of budgeted GFR.

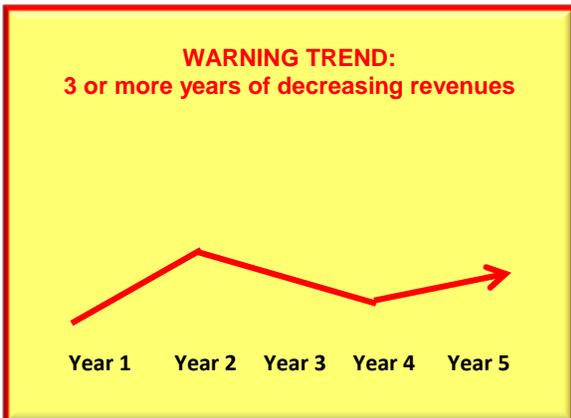


BUDGETED REVENUE	2015		2016		2017		2018	
Sales & Use Tax	\$ 120,000,000	53%	\$ 121,000,000	53%	\$ 118,400,000	54%	\$ 117,000,000	53%
Property Tax	\$ 28,069,500	12%	\$ 28,069,500	12%	\$ 28,069,500	13%	\$ 28,069,500	13%
External Service Charges	\$ 21,625,500	10%	\$ 13,372,400	6%	\$ 13,423,700	6%	\$ 13,464,700	6%
All other General Fund Revenues	\$ 20,095,500	9%	\$ 30,394,400	13%	\$ 28,364,600	13%	\$ 35,055,100	16%
Transfers from Riverfront and Streets Special Revenue	\$ 17,060,000	8%	\$ 14,095,000	6%	\$ 11,912,100	5%	\$ 7,030,600	3%
Franchise and Local Tax	\$ 11,035,000	5%	\$ 10,700,000	5%	\$ 11,100,000	5%	\$ 11,100,000	5%
Licenses and Permits	\$ 9,573,200	4%	\$ 9,486,600	4%	\$ 9,500,900	4%	\$ 9,494,200	4%
Total General Fund Revenues	\$ 227,458,700	100%	\$ 227,117,900	100%	\$ 220,770,800	100%	\$ 221,214,100	100%

Table 1



Growth



ACTUAL TREND

As shown in **Chart 1** below, from 2008-2017, taxes and fees have risen and fallen with an average annual change of .27% or \$541,800. General Government Taxes and Fees include sales, property and franchise taxes, and occupational license, and gaming.

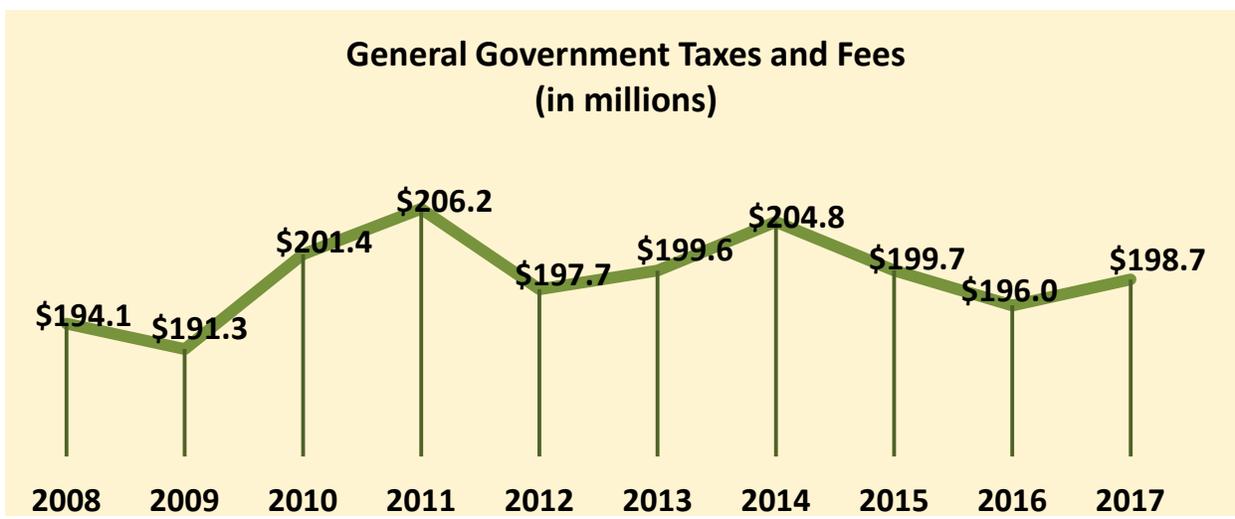


Chart 1

Possible explanation for decreases:

2009 – General Motors (a major employer) eliminated 2100 jobs; impact from 2008 housing market crisis.

2012 – Property tax decreased by 4.84 mills; sales tax revenue down 4%; franchise fees decreased 4%.

2015 – Sales tax revenue decreased by 2%. Property tax revenue decreased by 6% and millage decreased by 3.05 mills.

2016 – Shreveport-Bossier Metropolitan Statistical Area (MSA) labor force reduced by 4,300 people. Property tax millage reduced by another .4 mills.

Note: In 2017, Moody's Investors Services reported a negative outlook for the City of Shreveport based on "absent economic growth, given a reliance on economically sensitive revenues and increasing fixed costs."



Sales Tax Revenue increased an average of \$1 million per year from 2008-2015; then there was a \$2 million drop from 2015 to 2016 followed by a \$3 million increase in 2017 (**Chart 2**). Property taxes experienced an average decline of \$158,000 per year from 2008-2017, with the steepest decline from 2015 to 2016 (**Chart 3**).

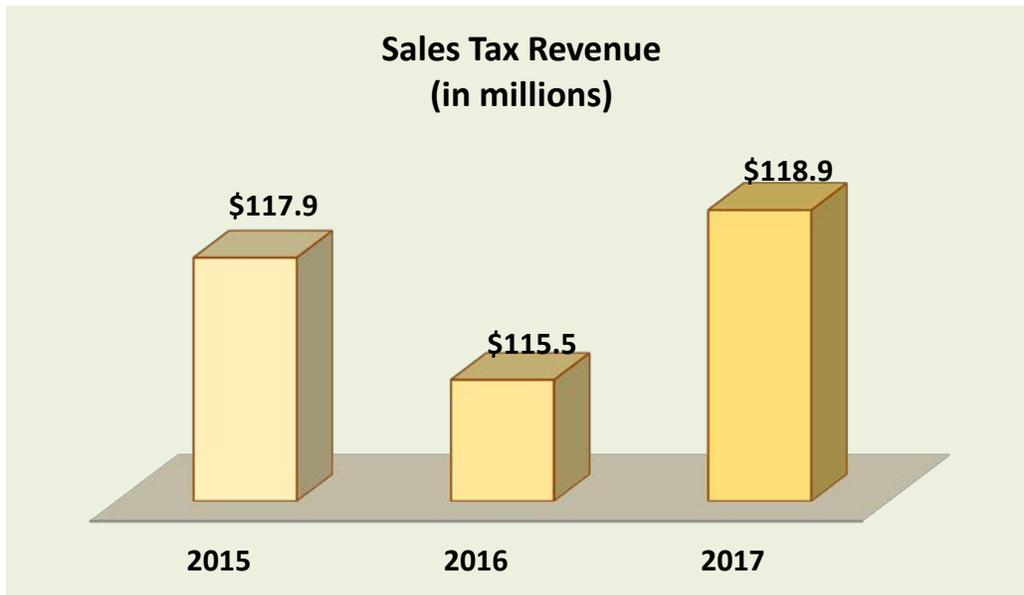


Chart 2

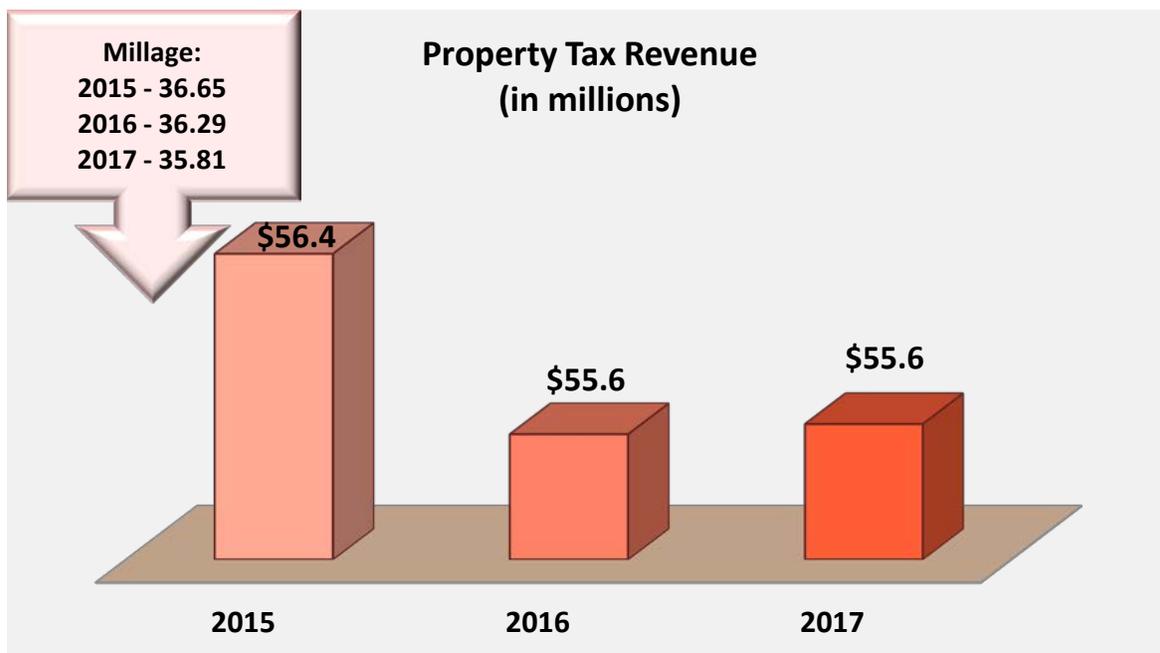
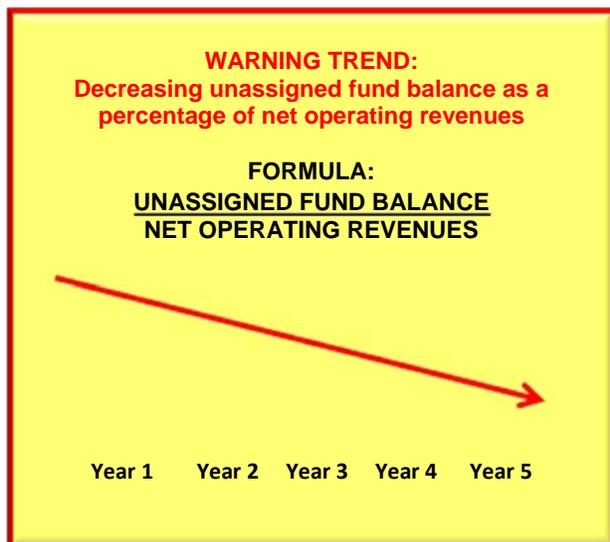


Chart 3



Unassigned Fund Balance



ACTUAL TREND

Fund balance: the difference between assets and liabilities.

Unassigned fund balance (UFB): the residual *General Fund* amount; funds available that have not been restricted (by law, bond contract, or other), committed, or assigned to a specific purpose.

The UFB needed varies by municipality. The Government Finance Officers Association (GFOA) recommends a minimum fund balance of two months (16.67%) of GFR. The International City/County Management Association (ICMA) recommends a minimum of 5% of annual operating expenditures. According to the City Operating Budget, the goal is to maintain a reserve of at least 7% of expenditures.

Regardless of the percentage, a declining fund balance (**Chart 4**) signals that expenditures and liabilities are growing faster than revenues and assets. Since governmental budgets have to balance, management likely uses internal borrowing (inter-fund transfers) to make up the difference (**Table 2**).

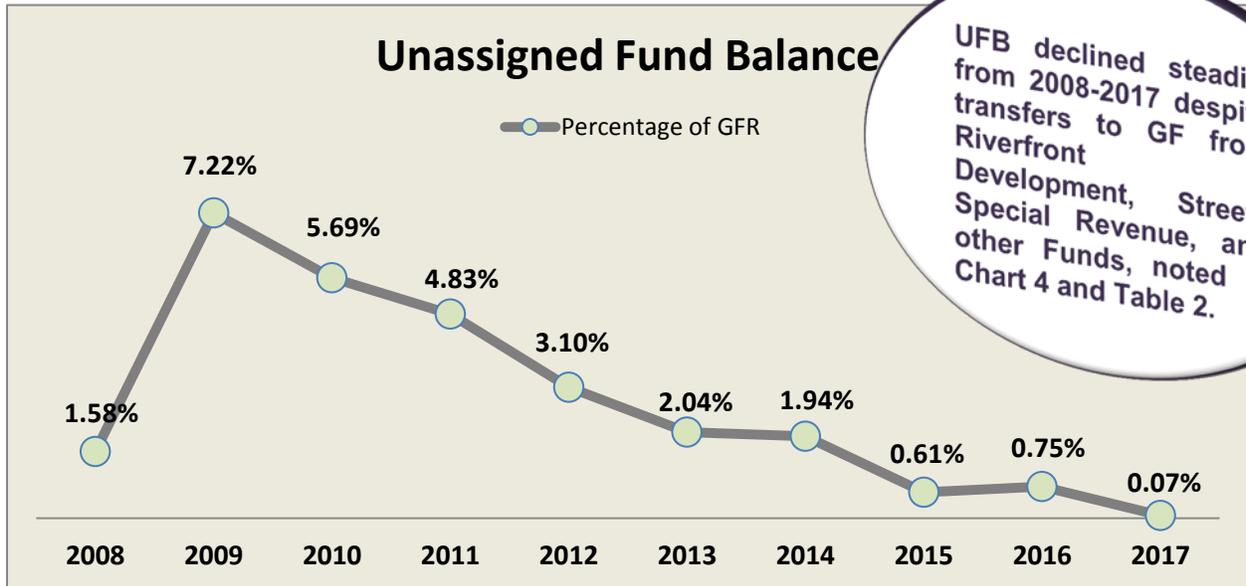


Chart 4

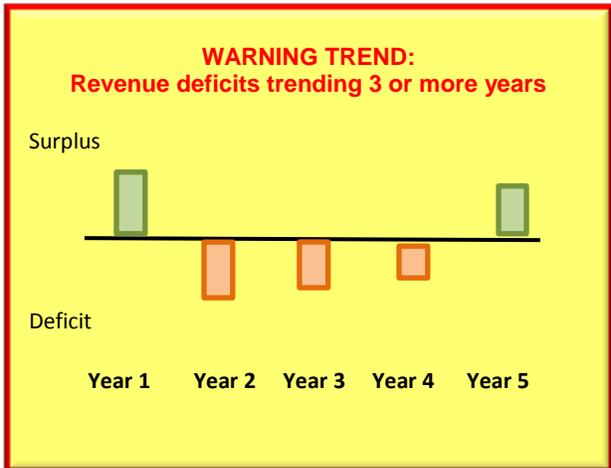
Year	Transfer from Riverfront	Transfers from Streets Special Revenue	Net Due to Other Funds	Total Transfers	Year-End Unassigned Fund Balance
2008	\$ 5,700,000	\$ -	\$ 12,879,936	\$ 18,579,936	\$ 3,009,981
2009	\$ 8,130,100	\$ -	\$ 778,027	\$ 8,908,127	\$ 13,930,927
2010	\$ 11,500,000	\$ -	\$ 13,810,528	\$ 25,310,528	\$ 11,458,224
2011	\$ 4,875,000	\$ -	\$ 402,347	\$ 5,277,347	\$ 9,805,320
2012	\$ 7,580,000	\$ 3,000,000	\$ 4,434,489	\$ 15,014,489	\$ 6,429,096
2013	\$ 7,316,500	\$ 1,500,000	\$ 10,260,088	\$ 19,076,588	\$ 4,137,247
2014	\$ 8,390,000	\$ 1,500,000	\$ 1,817,440	\$ 11,707,440	\$ 4,036,252
2015	\$ 4,564,600	\$ 6,060,000	\$ 3,453,748	\$ 14,078,348	\$ 1,257,328
2016	\$ 7,295,000	\$ 6,800,000	\$ 14,480,970	\$ 28,575,970	\$ 1,614,702
2017	\$ 9,259,900	\$ 2,652,200	\$ 6,392,382	\$ 18,304,482	\$ 155,452

Table 2



Budget to Actual Revenues

ACTUAL TREND



Standard & Poor considers budget and actual variances indications of local government management's financial planning capabilities.

Even in small amounts, revenue shortfalls and overestimates can have cumulative significance. Overestimating revenues widens the gap between inflows and outflows, and decreases the fund balance. Underestimating revenues may result in delaying or not meeting critical needs.

Actual revenues averaged 98.9% of budgeted revenues over the ten-year period with drastic swings from surpluses in 2010 and 2011 to a 6-year deficit trend from 2012-2017.

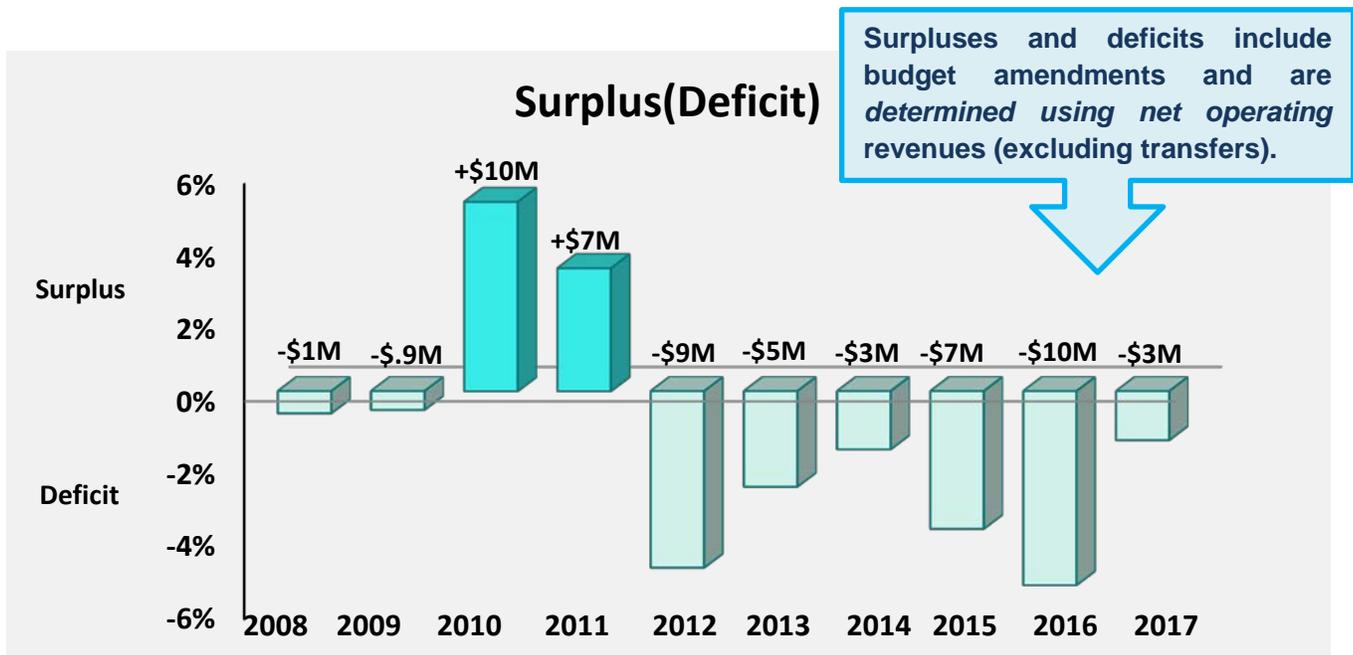


Chart 5



IAR 650019-01 December 31, 2018

Recommendation 1: Monitor revenues and make appropriate reductions to expenditures on a quarterly basis. When decline appears to be a trend (3yrs or more), consider whether spending can be reduced or revenue can be increased by any of the following: improving revenue collection procedures, reducing tax delinquencies, instituting or increasing service charges, fines, penalties, license and permit fees, etc.

Recommendation 2: Determine if processes can be streamlined or consolidated to improve operational efficiencies.

Recommendation 3: Consider a policy of budgeting 98% of actual revenues from year to year. Implement a multi-year budget process to improve long-term financial planning.

Management Response:

Recommendation 1: Monthly budget to actual reports will continue to be provided to the council and administration, and all department heads. Management will continue to work with departments to monitor their respective revenues and expenses variances on a monthly and annual basis so budgets can be adjusted at least mid-year and at year end. Administration will stress to departments that revenue and expenditure estimates made during budget should be realistic and based on current expectations.

Due Date: In progress

Recommendation 2: Management will be working closely with Department Directors and across departments and divisions to assess our operating procedures and look for opportunities to use resources more wisely. Examples of areas the administration has made progress includes managing the employment of all technology (software, technology systems, etc.) to consolidate departmental tech needs into fewer separate systems, finding low and no cost ways to utilize technology, communicating with utilities to establish a standard and oversight to protect the city's investment in pavement, and exploring the best use of city facilities.

Due Date: In progress

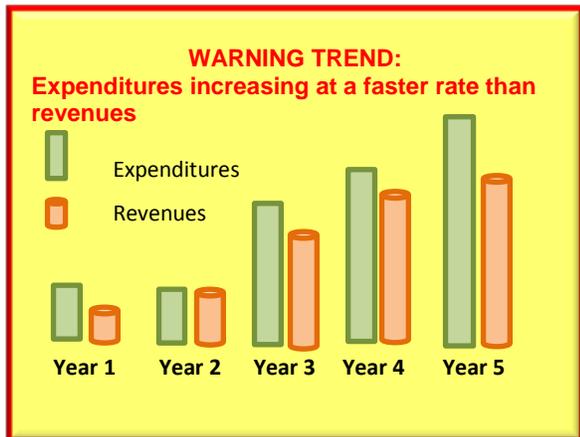
Recommendation 3: We continue to look at budget projections in future years. As a step further, we agree that a multi-year budget can improve long-term financial planning, and we look to incorporate long-term planning projections and discussion with the coming budget process.

Due Date: 1 Year or More



Financial Indicator 2: Expenditures

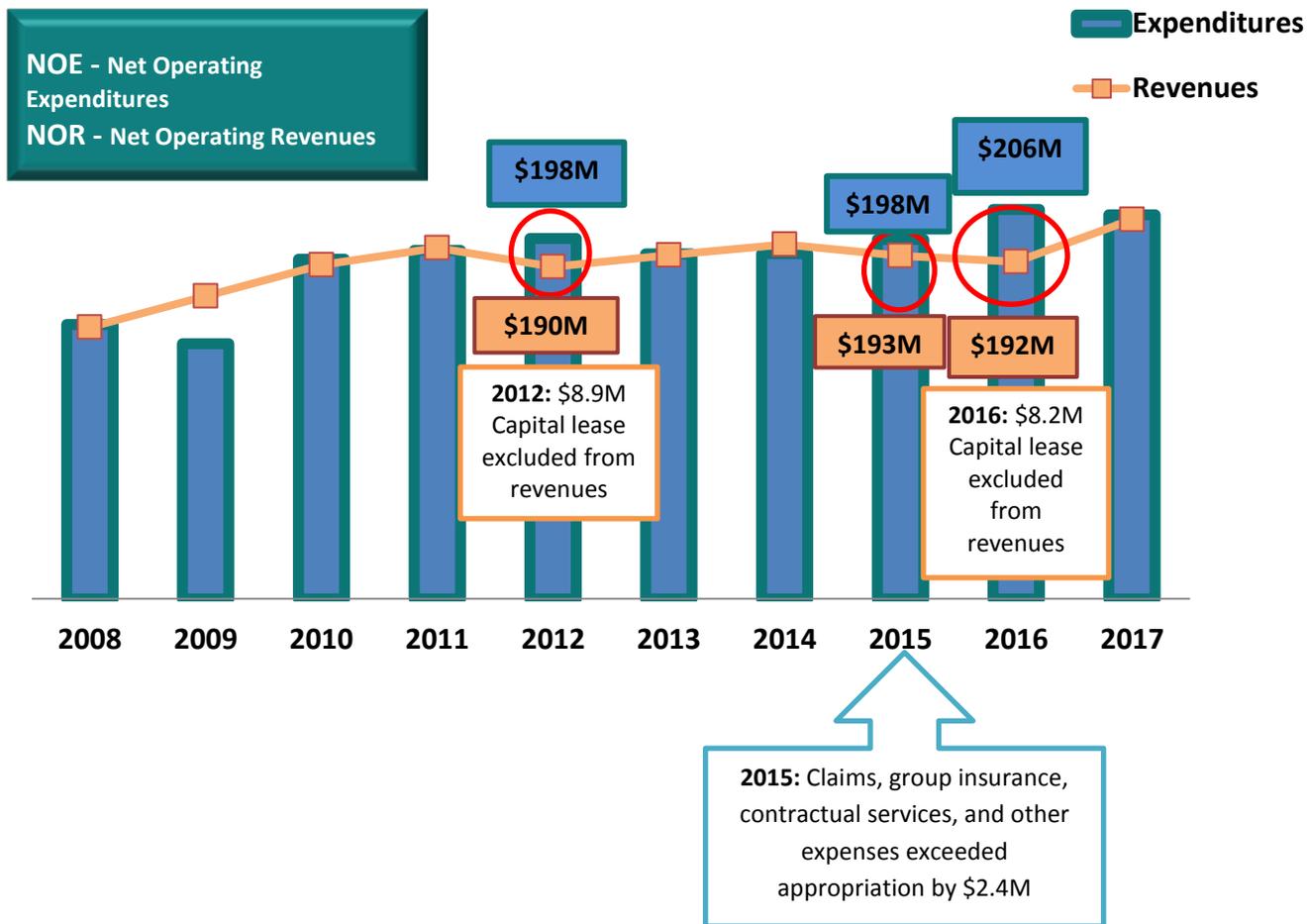
Growth



ACTUAL TREND

Expenditures increased by an average of \$3.31M per year compared to a \$3.2M average increase for revenues. In 2012, 2015, and 2016 expenditures exceed revenue by \$7.6M, \$4.5M, and \$14.2M respectively. Net Operating Expenditures and Net Operating Revenues exclude inter-fund transfers.

GF NOE to NOR Comparison





Per Capita Expenditures

WARNING TREND:
Increasing net operating expenditures per capita

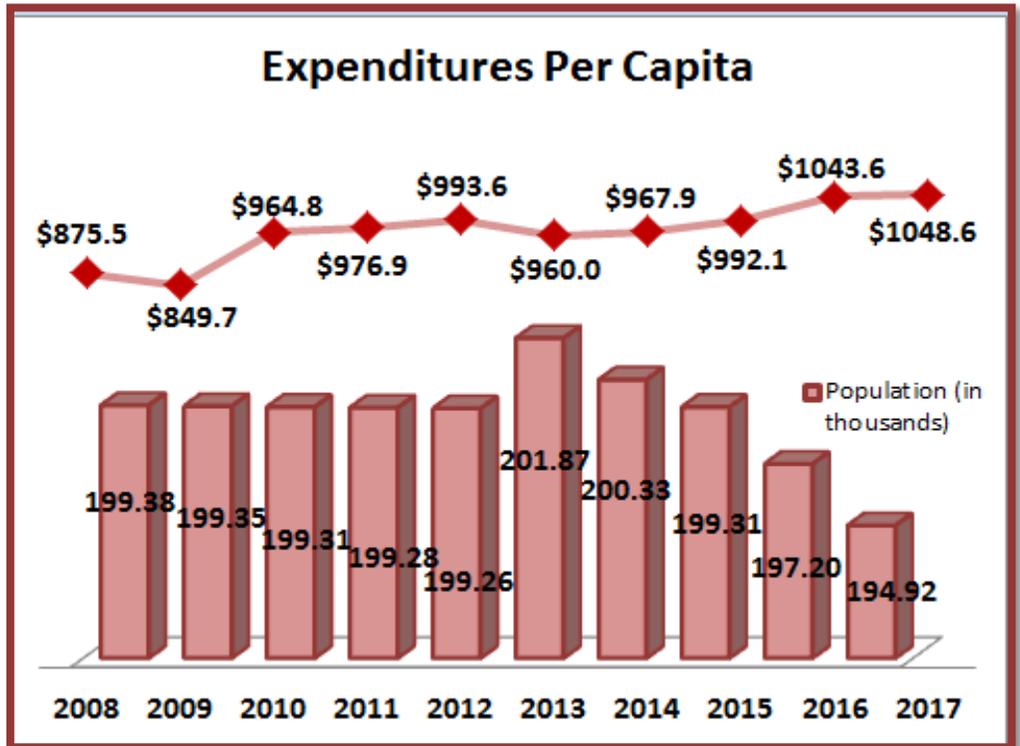
FORMULA:
$$\frac{\text{NET OPERATING EXPENDITURES}}{\text{POPULATION}}$$

Year 1 Year 2 Year 3 Year 4 Year 5

ACTUAL TREND

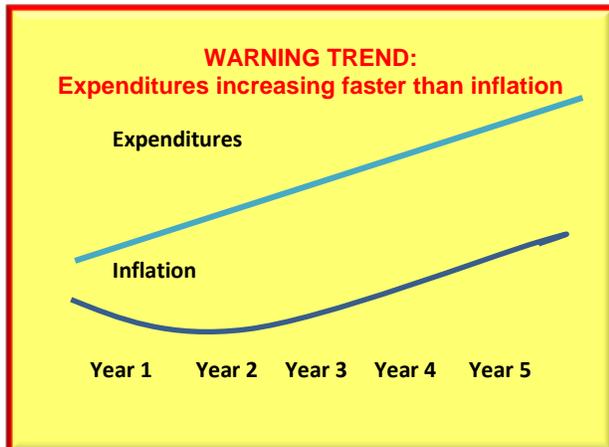
Increasing per capita expenditures and decreasing per capita income may indicate that the cost of providing services is exceeding the community's ability to pay, requiring the City to be efficient with its spending.

Year	City Per Capita Income	Variance
2008	26,330	-
2009	26,521	191
2010	24,821	(1,700)
2011	26,133	1,312
2012	25,972	(161)
2013	25,186	(786)
2014	24,360	(826)
2015	24,799	439
2016	24,445	(354)
2017	n/a	n/a
Average	25,396	(1,885)





Productivity and Efficiency



ACTUAL TREND

If per capita expenditures are increasing at a rate faster than inflation, without the addition of new services, productivity may be declining: more dollars are being spent to provide the same level of services.

YEAR	AVG. CPI	% INC/DEC
2006	201.600	
2007	207.342	2.85%
2008	215.303	3.84%
2009	214.537	-0.36%
2010	218.056	1.64%
2011	224.939	3.16%
2012	229.594	2.07%
2013	232.957	1.46%
2014	236.736	1.62%
2015	237.017	0.12%
2016	240.008	1.26%
2017	245.12	2.13%
10-year Avg. Inc.(Dec)		1.80%

CPI = Consumer Price Index

	GF Expenditures	Variance	% Increase (Decrease)
Year	Actual		
2008	\$ 174,558,944	\$ -	0.00%
2009	\$ 169,378,811	\$ (5,180,133)	-2.97%
2010	\$ 192,925,043	\$ 23,546,232	13.90%
2011	\$ 194,686,685	\$ 1,761,642	0.91%
2012	\$ 197,974,437	\$ 3,287,752	1.69%
2013	\$ 193,793,623	\$ (4,180,814)	-2.11%
2014	\$ 193,900,940	\$ 107,317	0.06%
2015	\$ 197,743,600	\$ 3,842,660	1.98%
2016	\$ 205,810,404	\$ 8,066,804	4.08%
2017	\$ 204,388,136	\$ (1,422,268)	-0.69%
Average	\$ 192,516,062	\$ 3,314,355	1.87%

Although total expenditures are increasing, the cost to provide services is remaining about the same in terms of real dollars, a sign of little to no loss in productivity/efficiency.



Constant efficiency levels do not mean *optimal process efficiencies* have been achieved; instead, the *overall* level of efficiency has not changed.



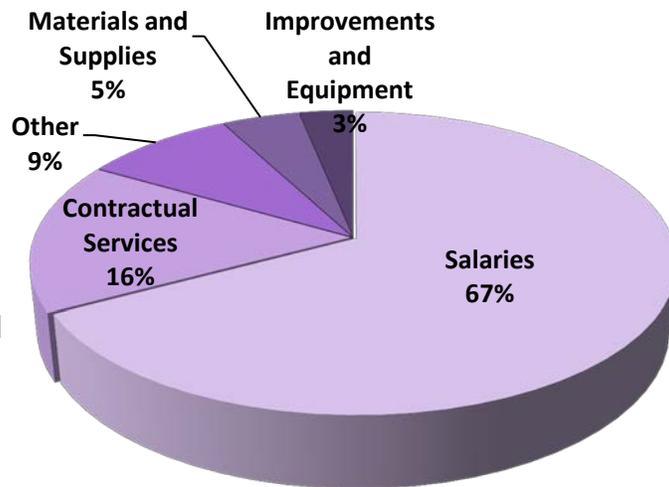
Expenditures by Category

WARNING TREND:
Increasing operating expenditures for one function as a percentage of total net operating expenditures

FORMULA:
OPERATING EXPENDITURES for ONE FUNCTION
TOTAL NET OPERATING EXPENDITURE

ACTUAL TREND

Analysis of expenditures by category can provide more insight into productivity and efficiency.



Major GF Expenditures

The major GF expenditure categories are:

- Salaries (includes retirement, health and other fringe benefits)
- Contractual Services
- Other
- Materials and supplies
- Improvements and Equipment

The primary reason for increasing GF expenditures is employees' salaries, averaging 67% of total GF expenditures over the last ten years. Retirement contributions are the major driver for salary increases. Contributions are set by state law for public safety: Municipal Police Employee Retirement System (MPERS) and Firefighters Retirement System (FRS). Employment Retirement System contributions were increased by city ordinance to improve fund solvency (discussed later).

Plan	Contributions				10-yr Inc. (Dec.)
	2008		2017		
	Rate	Amount	Rate	Amount	
ERS	13.50%	\$ 6,686,309	22.00%	\$ 9,449,966	\$ 2,763,657
MPERS	9.50%	3,000,541	31.75%	9,506,039	6,505,498
FRS	12.50%	3,884,451	25.00%	11,772,653	7,888,202



Recommendation 4: Determine if expenditures can be reduced by any of the following:

1. Consolidating services to make processes more efficient,
2. Cross-training personnel to reduce idle time, or
3. Enhancing management controls, information systems or technologies.

Recommendation 5: Engage department heads to employ continuous monitoring over systems and processes to identify issues, analyze them, and develop strategies to minimize unplanned spikes in costs.

Management Response:

Recommendation 4: As outlined in Recommendation 2, Management will be working closely with Department Directors and across departments and divisions to assess our operating procedures and look for opportunities to use resources more wisely. Management agrees that this process should be broad and will include strategies to ensure we are continually cross-training employees, tightening management controls, optimizing the usage of technology, measuring and increasing productivity and standardizing efficient operations. For example, due to funding constraints, city maintenance activities are reactive. Management looks to evaluate cost savings to start implementing equipment replacement schedules and seek adequate funding for ongoing replacement and maintenance.

Due Date: 1 Year or More

Recommendation 5: The administration agrees and desires to closely monitor systems and processes and use the information to improve operations. Management is working with the Chief Technology Officer to centralize all departments' performance measures and various data collection points to ensure they are tracked accurately and consistently. Management will be implementing quarterly reviews with department heads to check status of resolution on various matters, including troubleshooting issues and monitoring the monthly budget to actual reports provided by accounting.

Due Date: 1 Year or More



Financial Indicator 3: Operating Position

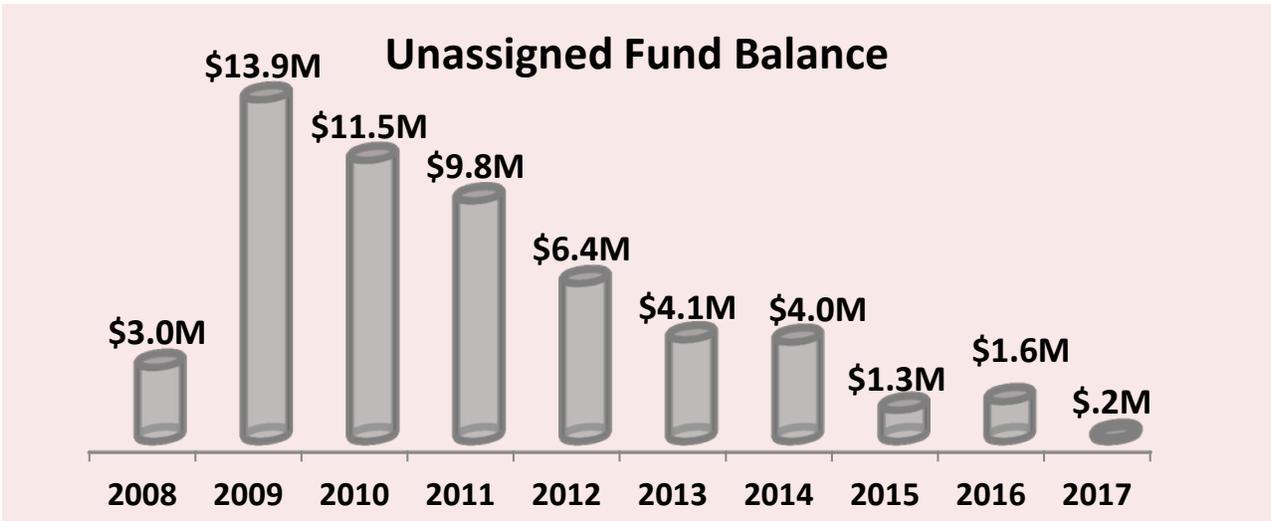
Unassigned Fund Balance

ACTUAL TREND



Unassigned Fund balance (UFB) remaining at the end of the year is an important component of municipal operating position. UFB as a percentage of net operating revenues was discussed in Financial Indicator 1.

UFB has steadily declined over the last 10 years. The City Operating Budget establishes a reserve goal of 7% of operating expenditures, but the City has maintained an average of 3%. At December 31, 2017, UFB was 0.08% of General Fund Expenditures.





Liquidity

WARNING TREND:
Decreasing liquidity ratios

Current Ratio FORMULAS:
 $\frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$

Cash Ratio
 $\frac{\text{CASH AND SHORT-TERM INVESTMENTS}}{\text{CURRENT LIABILITIES}}$

Year 1 Year 2 Year 3 Year 4 Year 5

ACTUAL TREND

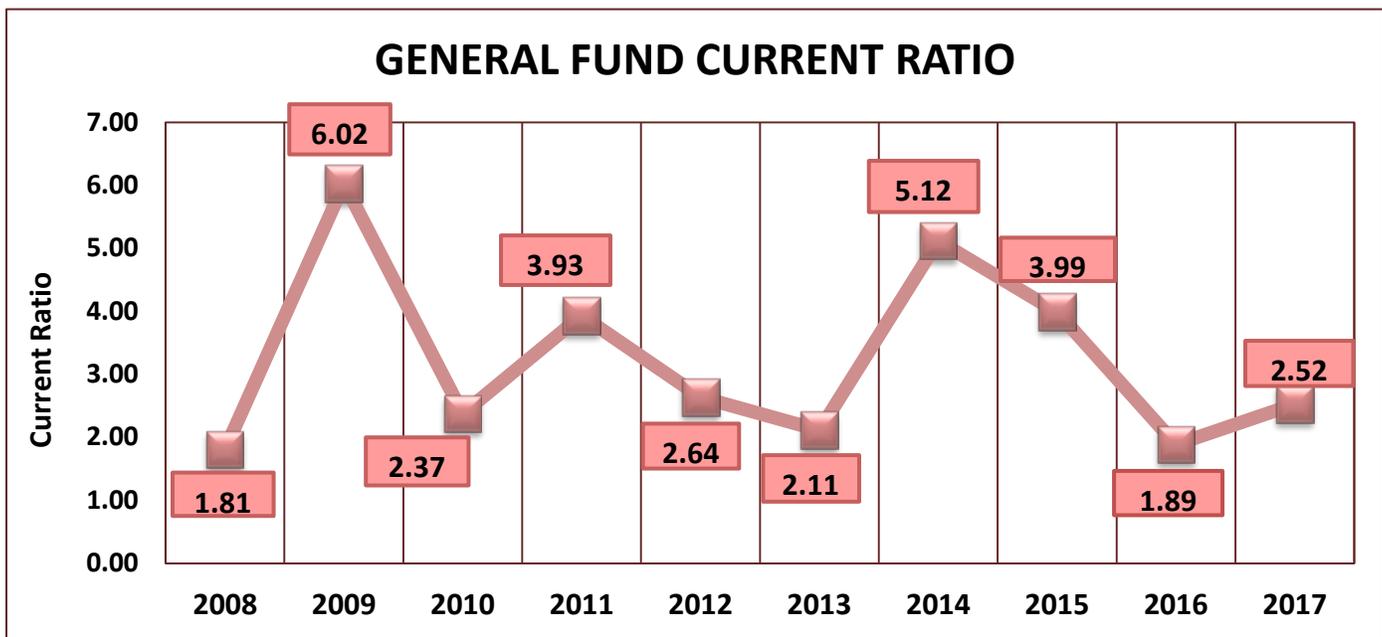
Cash and short-term investments (quickly converted to cash) should be greater than current financial obligations.

Current assets = Current liabilities
Current ratio = 1

A higher ratio indicates a better financial position.

Average Current Ratio: 3.24

Liquidity moved up or down with the short-term debt, indicating a reliance on inter-fund transfers. This explains why reserves are low despite the appearance of high liquidity.



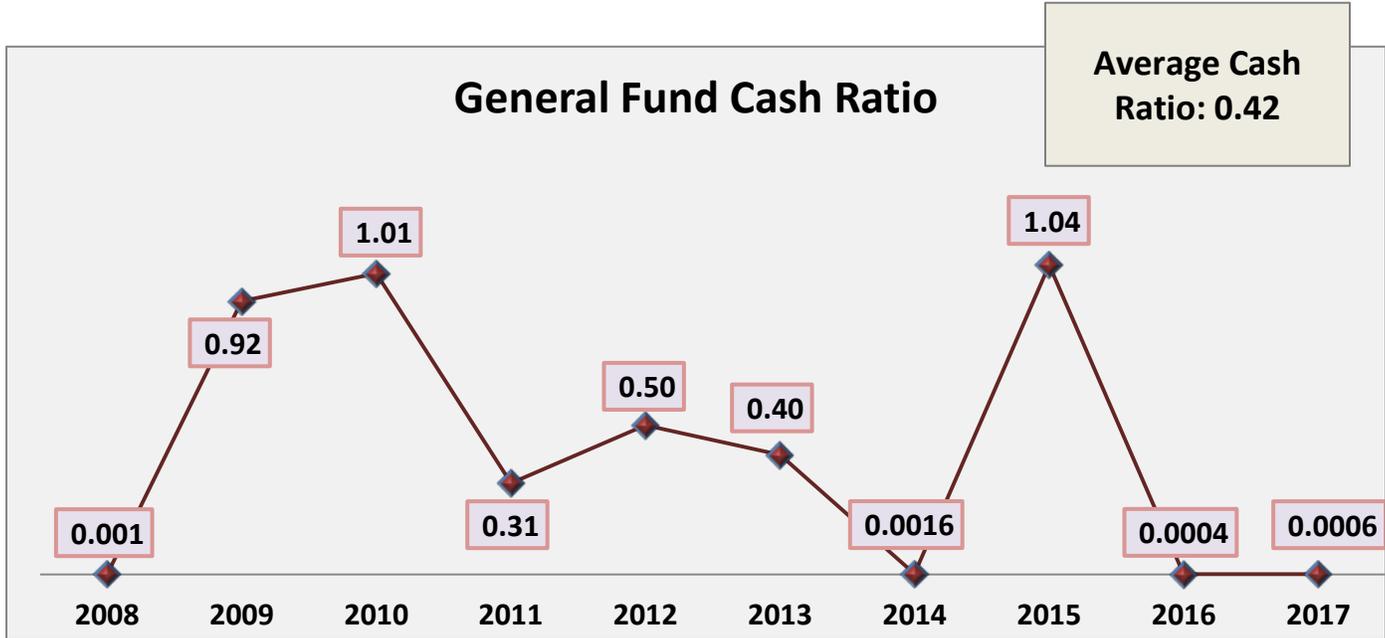


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The cash ratio may provide a better explanation. A good current ratio with a poor cash ratio could reflect untimely collections, reliance on inter-fund transfers, and slow inventory turnover. Inventory turnover is more of a concern for for-profit than governmental entities.

The cash ratio averaged .42, meaning there is enough cash to cover 40% of short-term obligations on average.

Cash Ratio:
(Cash and Cash equivalents + Investments)
÷
Current Liabilities





IAR 650019-01 December 31, 2018

Recommendation 6: Adopt a formal minimum reserve policy (ordinance) and implement it with budgeting and planning.

Recommendation 7: Establish a contingency reserve to:

1. Provide temporary funding of unforeseen needs due to disaster or other nonrecurring emergencies
2. Permit orderly budgetary adjustments when revenues are loss or expenditures increase due to imposition by other governmental agencies
3. Meet unexpected small increases in service delivery costs

The contingency reserve should be a percentage (not less than 2%) of general operating revenues and separate from the operating reserve in Recommendation 6.

Management Response:

Recommendation 6: The city has an informal policy that General Fund operating reserves should be 7% of expenditures. Management agrees that this policy should be formalized after the city has established a direct annual plan to reach the reserve target and establish a method and commitment to how this number will be reached each year if revenues fall or expenditures exceed budget. There is concern that rating agencies will place more scrutiny on a formalized and ordained policy than an informal policy. Management desires to adopt a formalized policy after we define a clear path of how we can correct the current structural imbalance (General Fund revenues exceeding expenditures), and build the unreserved fund balance.

Due Date: 1 Year or More

Recommendation 7: Government Finance Officers best practices advise municipalities have a contingency reserve, separate from the operating reserve that provides a cushion for normal cycles up and down in revenue or expenditures. Management agrees and recommends that a contingency reserve standard should be outlined within a formal reserve policy. As mentioned in Recommendation 6, the administration desires to formalize reserve standards after a clear plan is established to comply with such Ordinance. There is concern that a formalized policy that is not being met will put the city in a position of being out of compliance with its own Ordinance, which carries a greater level of scrutiny and can result in greater penalization by rating agencies.

Due Date: 1 Year or More



Financial Indicator 4: Debt Structure

Total Long-term Debt per Capita

ACTUAL TREND

WARNING TREND:
Increasing debt per capita with stagnant or declining population

FORMULA:
$$\frac{\text{NET DIRECT DEBT OUTSTANDING}}{\text{CITY POPULATION}}$$

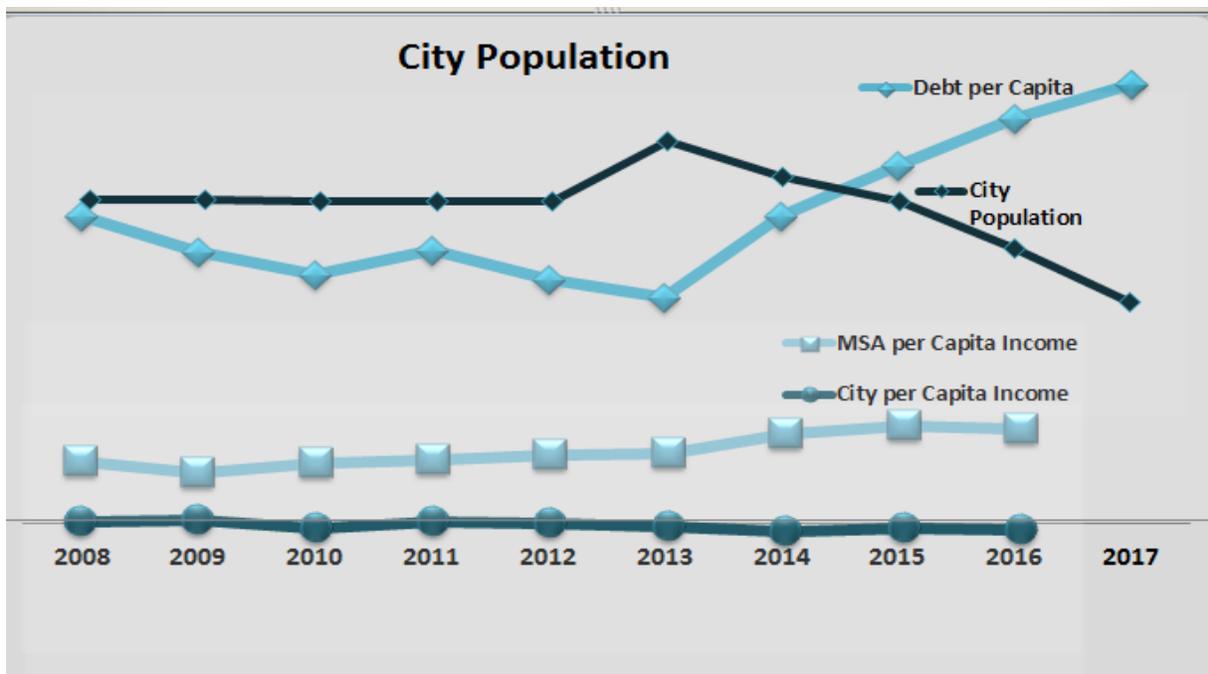
Year 1 Year 2 Year 3 Year 4 Year 5

A local government's debt should:

- be proportional in size and growth rate to its tax base;
- not extend past the useful life of the assets it finances;
- not be used to balance the operating budget;
- not require repayment that puts excessive burdens on operating expenditures;
- not jeopardize the government's credit rating.

2008 to 2017:

1. Debt per Capita increased.
2. City population steadily decreased.
3. Per Capita City income was flat. (2017 income was unavailable at the time of this report).
4. The Metropolitan Statistical Area income per capita increased.





The increase in debt per capita is largely due to an additional \$120M in W&S Revenue bonds issued to help fund the sewer improvement program under a 2014 Environmental Protection Agency and Department of Environmental Quality consent decree.

How does this impact the bond rating?

Moody's Investors cited elevated long term liabilities with growing fixed costs as one of the reasons for downgrading the City's bond rating in 2017.

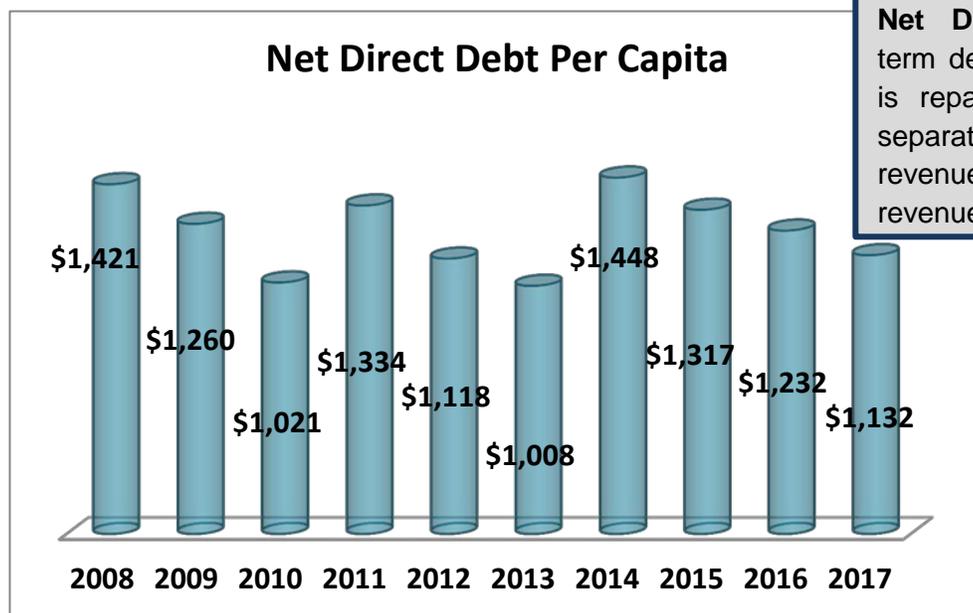
Moody's Rating	
Factors that could lead to an upgrade	Factors that could lead to a downgrade
Material improvement in liquidity with sustained balanced operations	Further erosion of reserves
Improvement in resident income indices and employment trends	Trend of tax base contraction
	Increase in the debt burden



- GOB bonds outstanding decreased by \$18.6M in 2017.
- City will pay off all GOB Bonds except the 2011 and 2014 GOB debt in 2020.
- Net direct debt per capita decreased each year 2014-2017.

\$21.5M in GOB Bonds paid by 2020

Net direct debt takes into consideration that self-supporting debt will be paid from the revenue source on which it depends. This gives a better assessment of the debt burden to taxpayers.



Net Direct Debt: long-term debt minus debt that is repaid from a source separate from general tax revenues, such as W&S revenue bonds



Revenue Bonds Coverage Ratio

ACTUAL TREND

WARNING TREND:
Debt coverage ratio less than 1 or less than the Rate Covenant Requirement

FORMULA:
$$\frac{\text{NET AVAILABLE REVENUE}}{\text{TOTAL DEBT SERVICE}}$$

1- _____

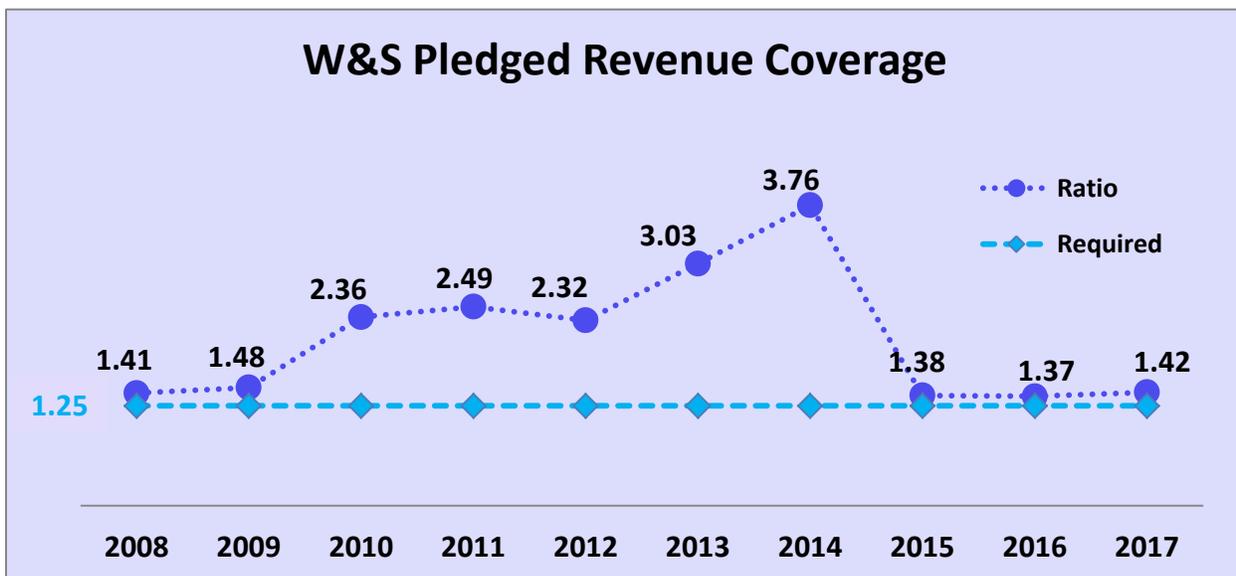
Year 1 Year 2 Year 3 Year 4 Year 5

The City has debt covenants with respect to the various revenue bond issues.

After allowing for collection delinquencies and after paying operating and maintenance expenses each year, Water & Sewer is required to produce net revenues:

- sufficient to pay debt service on all outstanding bonds,
- to maintain the funds and accounts as provided in the bond resolution, and
- that result in the greater of (a) the sum of debt service on bonds payable in the ensuing fiscal year plus any required deposit to the Debt Service Reserve Fund, or (b) a ratio of net revenues to average annual debt service of not less than **1.25 to 1**, the required debt service coverage ratio.

W&S revenue has provided sufficient coverage for the past 10 years.





Current Liabilities

ACTUAL TREND

WARNING TREND:
Increasing current liabilities at year-end as a percentage of net operating revenues

FORMULA:
 $\frac{\text{CURRENT LIABILITIES}}{\text{NET OPERATING REVENUES}}$

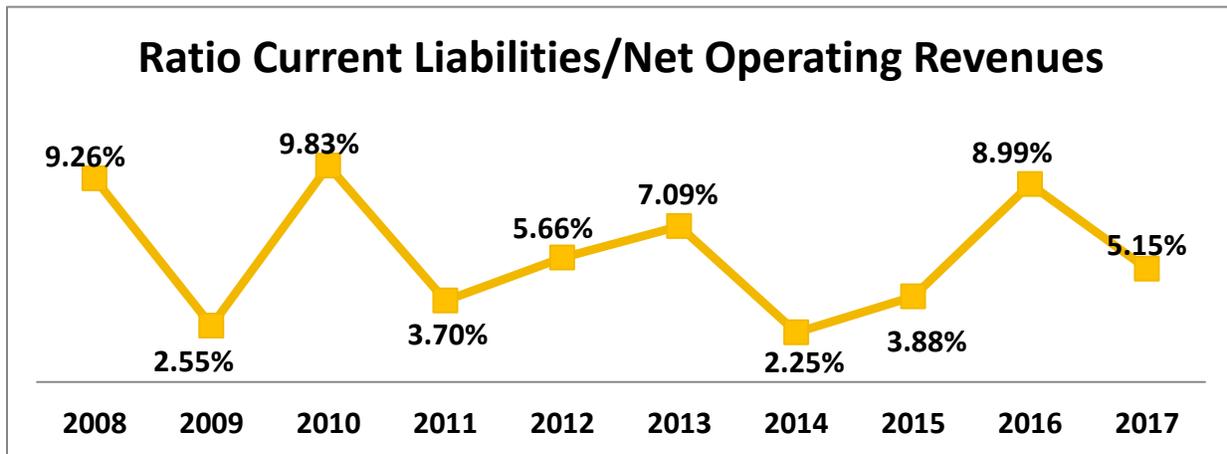
Year 1 Year 2 Year 3 Year 4 Year 5

The credit industry considers the following situations negative factors:

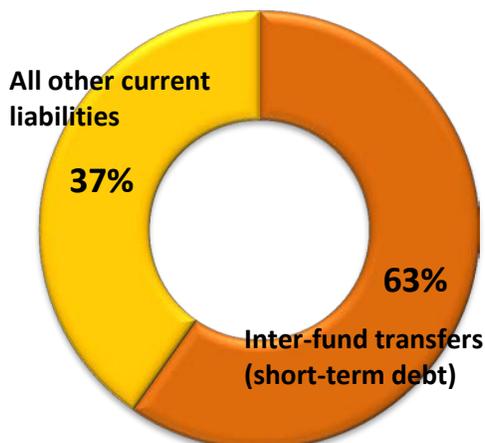
- (1) Year-end short-term debt (total current liabilities) outstanding exceeding 5% of operating revenues, and
- (2) A two-year trend of increasing short-term debt outstanding at the end of the fiscal year.

The Current Liabilities to Net Operating Revenues (CL/NOR) ratio averaged 5.8% of over the 10-year period with 2010 showing the highest at 9.83% and 2014 the lowest at 2.25%. NOR increased by .6% yet CL/NOR ratio increased by 5% from 2015 to 2016.

The ratio went down significantly in 2017, but at 5.15% was still greater than the credit agency threshold.



Short-term Debt to Current Liabilities



Short-term Debt (inter fund transfers) is the main driver of the trend and would be improved by either generating more revenue (improving collections) or decreasing expenditures, reducing the need for other fund transfers to the General Fund.



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December 31, 2018

Recommendation 8: Increase operating reserves to offset total governmental debt per capita.

Recommendation 9: Analyze collection procedures to determine if cash flow can be improved.

Management Response:

Recommendation 8: Management agrees and is seeking revenue opportunities and expenditure reductions to balance the budget without utilizing reserves. Furthermore, management desires to gradually reach the 7% operating reserve target.

Due Date:

Recommendation 9: Cash flow is not necessarily an issue with General Fund. Revenue auditors are consistently chasing down delinquent taxes and licenses. The largest single revenue sources to the General Fund, Sales taxes are collected monthly and remitted to City with in two days of collection. They are not due until 20th of month and cannot be changed by City without legislative approval. The Finance Director and CAO are members of the Sales & Use Tax Commission and will continue to be updated with tax audits and legislative changes to the sales tax law. Most taxing sources of revenues have due dates that are set by statues and cannot be changed. Many revenue sources are fees for services that are collected. Management is currently looking into working with the City Judges to increase Courts and Marshal Revenues. The most difficult to collect is property standards revenue, which are inherently difficult because they are corrective actions. However, many of these are collections are received in arrears when they become liens.

Due Date:



Financial Indicator 5: Unfunded Liabilities

Unfunded Pension Liability

ACTUAL TREND



Actuarial accrued liability (AAL) – the future cost of pension benefits earned by employees in terms of the current dollar value.

Unfunded actuarial accrued liability (UAAL) – the difference between the AAL and the market value of pension assets.

Actuarially determined contribution (ADC) – the current year’s required pension contribution that includes the current cost of pension benefits plus an additional amount designed to spread the UAAL over a period of no more than 30 years.

Funded Ratio – the actuarial value of pension resources as a percentage of AAL.

Failure to fully fund the ADC for any given period creates UAAL for that period. UAAL accumulates from year to year based on the percentage of ADC (funding ratio) provided each year. The funding ratio should be increasing and the UAAL should be decreasing over time.

The National Association of State Retirement Administrators (NASRA) recommends using the ratio of unfunded liabilities to covered payroll to measure pension plan health. GFOA recommends adopting a funding policy that provides reasonable assurance that the cost of pension benefits will be funded in an equitable and sustainable manner by fully funding the ADC each period (or at least develop a plan accomplishing this objective).

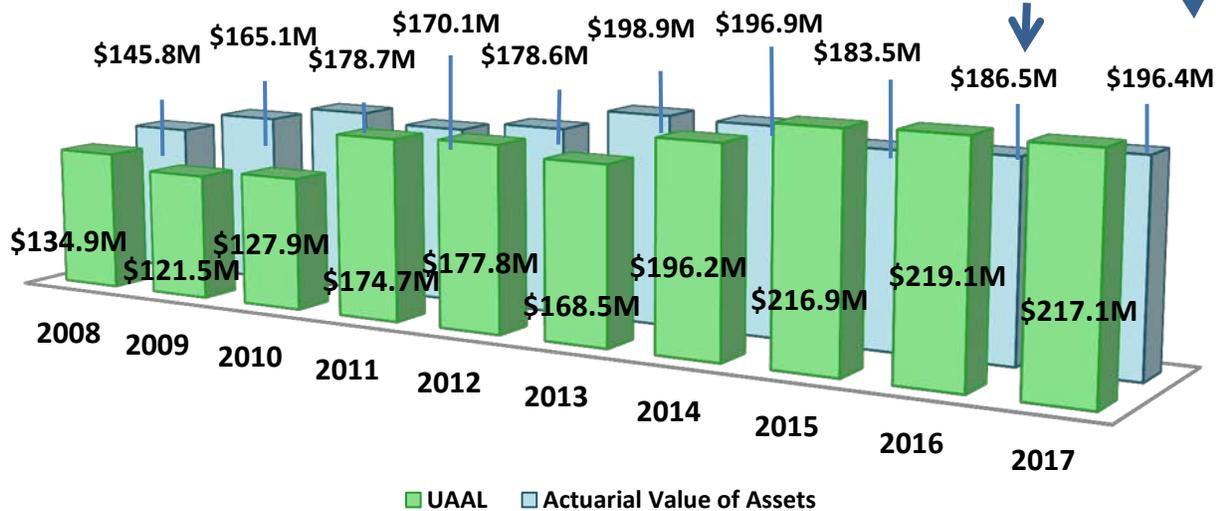


IAR 650019-01
December 31, 2018

Employee Retirement System (ERS) contributions and investment returns have not kept pace with the ADC from year-to-year:

- UAAL increased by 61% from 2008-2017
- Actuarial Value of Assets (AVA) increased by only 35%
- Average funding ratio 51%

AVA increased \$10M and UAAL went down by \$2M due to 2% increase in employer contribution of earnable compensation



The Municipal Pension Plan Funding Standard and Recovery Act (Act 205), as amended in 2009, provides the following criteria for determining the level of financial distress based on the funded ratio:

Level	Indication	Percentage of liabilities that are funded
0	Not Distressed	90% or greater
1	Minimal distress	70-89%
2	Moderate distress	50-69%
3	Severe Distress	Less than 50%

The current ERS funded ratio is 47.5%: **severely distressed**. The City adopted a plan of employer contribution increases that should bring the funding ratio to 80% by 2045.

Scheduled ERS Employer Contribution Increases	
2019 (current)	26%
2020	28%
2021	30%



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Recommendation 10: Continue to increase COS employer contributions to ERS in compliance with the existing ordinance schedule.

Management Response:

Recommendation 10: The city will continue to implement the COS employer contribution increase in compliance with the existing ordinance schedule. The Employee Retirement System Board of Trustees presented recommended changes to the city pension plan that would decrease the unfunded actuarial accrued liability over time. These changes were passed by Ordinance 86 of 2014 and included changes to the retirement age thresholds, a decrease in the benefit multiplier, and increase in the vesting period from 10 to 15 years of service for new employees hired after the 2015 effective date. The Ordinance also scheduled increases in the employee contribution from 9% to 12%, and scheduled increases in the employer contribution from 13.15% to 29%. Ordinance 84 of 2016 amended the schedule of employer contributions to 30% in 2021. The ERS Board will request the actuary to occasionally re-verify that the city is on track to gradually bring the funding ratio to a non-distressed level.

Due Date: In progress



Financial Indicator 6: Capital Assets

Expenditures per Fixed Asset

WARNING TREND:
Declining expenditures for maintenance of general fixed assets per unit of asset

FORMULA:
$$\frac{\text{EXPENDITURES FOR REPAIR AND MAINTENANCE OF GENERAL FIXED ASSETS}}{\text{QUANTITY OF ASSETS}}$$

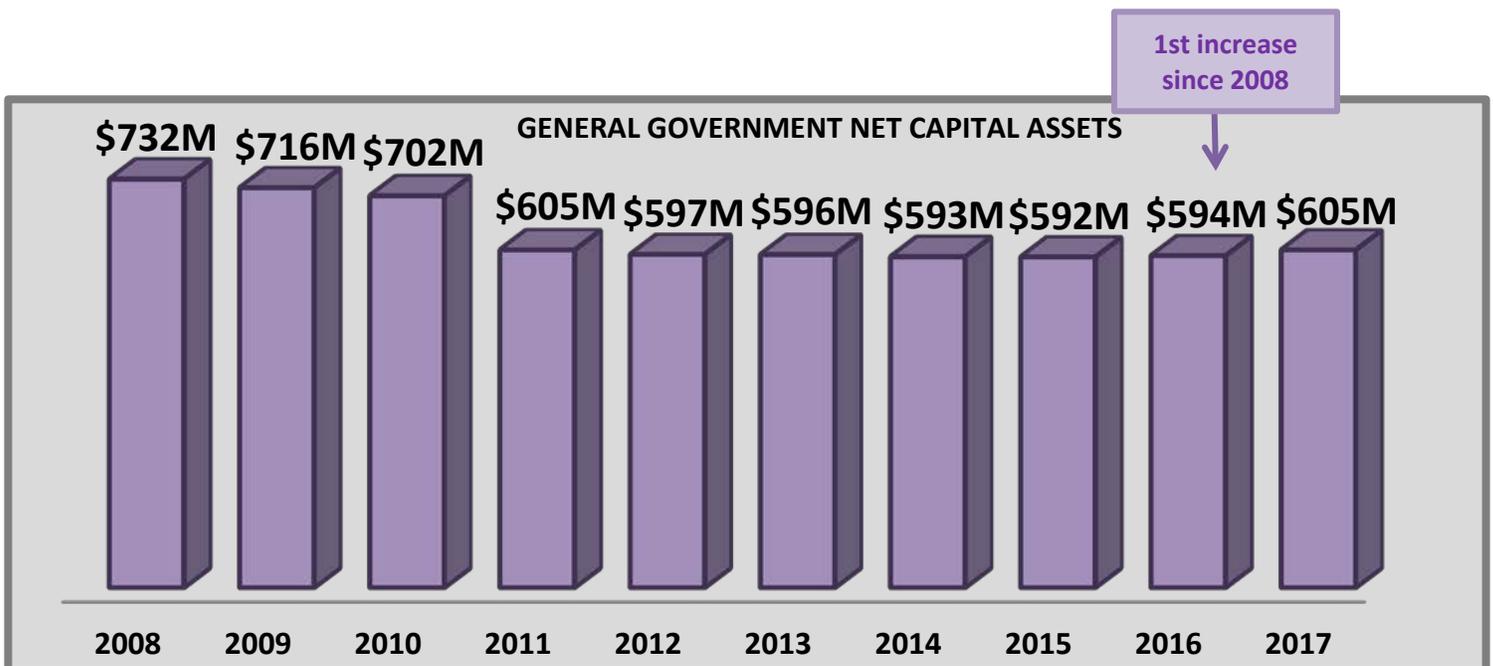
Year 1 Year 2 Year 3 Year 4 Year 5

ACTUAL TREND

According to the International City County Manager Association, maintenance expenditures should remain relatively stable (in constant dollars), relative to the amount and nature of the assets. A declining ratio between maintenance expenditures and quantity of assets may be a sign that the government's assets are deteriorating. If the trend persists, deterioration will drive up maintenance expenditures.

City of Shreveport capital asset details are neither centrally located, nor maintained in a structured format in order to calculate and analyze expenditures per unit.

We could, based on the audited financial statements analyze the trend in total net assets (including additions and depreciation).





A decline in net assets could indicate:

1. Assets are not being replaced as they are disposed.
2. Assets are being replaced at a lower unit cost than the original.
3. Physical assets are being replaced by improvements in use of technology.
4. Construction-in-progress included significant amount of items that do not meet asset capitalization criteria.

There was not enough appropriate data available to determine if any of the above is or is not occurring.

Recommendation 11: Develop a centralized tracking system to maintain, manage, and analyze capital assets. The following categories and units of assets are recommended for analysis:

Category	Unit of asset
Streets	Miles/Lane miles
Sidewalks	Miles
Traffic signals	Number of intersections
Sewers	Miles
Buildings	Square feet
Parks	Acres

Management Response:

Recommendation 11: Management agrees with the recommendation to establish a centralized source of data for capital assets maintenance and information, and IT has begun this research. However, a single system may not suit everything needed to be tracked. Management recommends an integrated system that is affordable and can be used for a long period of time but is customizable to the unique variables within each department.

Due Date: 1 Year or More



Prepared by:

A handwritten signature in blue ink, appearing to read "AMJ".

April M. Jordan, CFE, CLEA
Staff Auditor III

Approved by:

A handwritten signature in blue ink, appearing to read "Leanis L. Steward".

Leanis L. Steward, CPA, CIA
City Internal Auditor

aj:dw

c: City Council
Clerk of Council
Mayor
Director of Finance
Chief Administrative Officer
Carr, Riggs & Ingram