

3 Indicators That Will Tell You if Your City Is Financially Solvent — or Not

In order to provide critical life-sustaining services to the public today and for generations to come, cities must be good stewards of the public purse over the long term. Every resident should be able to ask, “Can my city afford to continue doing this forever?” Answering that question is never easy. Below are 3 indicators that can help.

1. Sustainability

This is the degree to which a city can maintain its existing financial obligations — including both its service commitments to the public and financial commitments to creditors, employees and others — without increasing the debt or tax burden relative to the economy within which it operates.

WAYS TO MEASURE SUSTAINABILITY

1. **Assets to Liabilities:** Illustrates the extent to which a government finances its operations by issuing debt.
2. **Financial Assets to Liabilities:** Simply the Net Financial Position expressed in a different format.
3. **Net Debt to Total Revenues:** A measure of the future revenue required to pay for past transactions. (An increasing ratio indicates that more time will be required to eliminate net debt.)

2. Flexibility

This is the degree to which a government can change its debt or tax burden on the economy it operates within to meet its existing financial obligations.

WAYS TO MEASURE FLEXIBILITY

1. **Public Debt Charges to Total Revenue:** Illustrates the extent to which past borrowing decisions constrain the city's ability to meet its financial and service commitments.
2. **Net Book Value of TCA (Total Capital Assets) to Cost of TCA:** Measures the extent to which the estimated useful lives of TCA are still available to provide services. (A quickly falling ratio may mean rising deferred maintenance.)

3. Vulnerability

This is the degree to which a government is dependent on sources of funding outside of its control or influence.

WAYS TO MEASURE VULNERABILITY

1. **Government Transfers to Own Source Revenues:** Measures the proportion of a city's revenues that are dependent on policy decisions outside of its own control.