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City of Columbia
Columbia, Missouri
TRANSMITTAL LETTER

March 15, 2005

Mr. Raymond A. Beck
City Manager
City of Columbia
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This manual is divided into three sections: General Government Section, Enterprise and Internal Service Section, and Financial Trends Section. This manual provides financial information for the ten year period of FY 1995 - FY 2004.

General Government Section (Pages 1 – 120)

The City's General Fund revenue estimates have consistently been within a 3-5% tolerance range of actual revenues. The FY 2004 Actual Revenues were 3.57% over FY 2004 Budgeted Revenues and 1.58% over Estimated FY 2004 Revenues. The FY 2004 Actual Expenditures were (7.61%) under FY 2004 Budgeted Expenditures and (4.17%) under Estimated FY 2004 Expenditures.

There is a graphic overview on page 3 which illustrates the General Fund revenues, expenditures, and unreserved fund balance. During the past ten years the General Fund balance has steadily risen which reflects a positive financial turnaround from the late 90's. The slight increase in fund balance for FY 2004 is a result of a consistently tighter budget policy. The General Fund balance is well above the 16% of expenditure levels required by Council Policy.

Also included in this section are certain Special Revenues and Trust Funds for the readers' information.

Enterprise and Internal Service Funds Section (Pages 121 – 228)

The Enterprise Funds consist of nine funds: Water and Electric Utility Fund, Sanitary Sewer Utility Fund, Regional Airport Fund, Public Transportation Fund, Solid Waste Utility Fund, Parking Facilities Fund, Recreation Services Fund, Railroad Fund, and Storm Water Utility Fund. The financial condition of the Enterprise Funds taken as a whole is good. The City annually reviews subsidy levels to consider possible rate increases for certain Enterprise funds where appropriate in the next fiscal year.

Certain Enterprise Funds received subsidies and transfers totaling $6,405,572 from the General Government. Subsidies and transfers for FY 2004 from the General Fund included $1,520,000 for Recreation Services Fund and $173,200 for Parking Fund. Subsidies from the Transportation Sales Tax Fund include $633,465 into the Airport Fund and $1,600,000 into the Transportation Fund. The Railroad Fund received a $50,000 subsidy from the Water and Electric Utility Fund. Recreation Services received $541,000 from the Parks Sales Tax Fund and a large transfer from 99 ¾ Cent Sales Tax in the amount of $2,478,907 for capital projects defined in the ballot issue.

Internal Service Funds consist of seven funds: Custodial and Maintenance Services Fund; Utility Customer Services Fund; Information Services Fund; Public Communications Fund; Fleet Operations Fund; Employee Benefit Fund; and Self Insurance Reserve Fund. There are no General Government subsidies to Internal Service Funds.

Included in this section are summary and individual graphic overview for all Enterprise and Internal Service Funds. These charts indicate Operating Revenues, Operating Expenses, Operating Income, Net Income (Loss), Net Working Capital, Subsidies, and Retained Earnings for the past ten years.
The International City Management Association (ICMA), under a grant from the National Science Foundation, developed a comprehensive financial trend monitoring system. During FY 1980, the City of Columbia received permission to use the model, and was designated one of 24 test cities under the National Science Foundation grant.

The purpose in developing the City of Columbia's Financial Trend Monitoring System (CFTMS) was to enable the City to better understand the factors that affect the City's financial condition, and to present a clear picture of the City's financial strengths and weaknesses for review by City management, credit rating agencies and others with a need to know. The ICMA Financial Trend Monitoring System was modified by the City's Finance Department to apply not only to governmental funds, but also to include the City's diverse enterprise operations. The system monitors the indicators organized around environmental and financial factors such as external economic conditions, intergovernmental constraints, revenues, expenditures, operating position, debt structure, and the condition of capital plant.

Conclusions of the CFTMS:
The results of the CFTMS appear favorable based upon financial trend analysis and comparisons which suggest that the "City is in excellent financial condition" as evidenced by the following summary of the major indicator categories. Even though negative trends may exist from time to time, it should be noted that no one negative trend of itself should be reason for undue alarm regarding the City's financial condition.

Revenues:
During the last ten fiscal years, inflation has not eroded revenues per capita stated in constant dollars. When examining the percentage relationship of elastic tax revenues to total operating revenues and transfers of the General Fund, elastic tax revenues have had a percentage that varied from 49.16% to 52.30% during the past ten years. FY 2004 was near the low end of that range at 49.32%. As a result, at times the City's General Fund became more vulnerable to inflation due to expenditures being forced upward while some amounts of revenues were stagnating or declining. However, a recent low inflation environment has reduced this concern. Because of management's close scrutiny of revenues and expenditures, the FY 2004 actual revenues were 3.57% over FY 2004 Budgeted Revenues and 1.58% over Estimated FY 2004 Revenues. The City's revenue estimates have consistently been within a 3-5% tolerance range of actual revenues. In previous years, the City's general revenue base has nevertheless been constrained due to less reliance on property taxes, the loss of Federal Revenue Sharing and other state and federal resources. Nationally, we are seeing other economic factors that may be affecting revenues such as declining interest rates and declining growth in Sales Tax figures across the country. All revenues should be examined very carefully, and future funding strategies developed in order to effectively deal with constraints.

Expenditures:
The General Fund and Enterprise Fund (utilities) activities of the City have consistently expended funds under budget each fiscal year. Fixed costs as a percent of operating expenditures and transfers have ranged from 14.83% to 21.10% for the past ten years. Again, FY 2004 was near the low end of the range with 15.24%. The City experienced a brief increase in the late 90's, however, has consistently been within the listed range. When examining actual growth for the General Fund, Enterprise Funds and Internal Service Funds, expenditures have increased on average approximately 5.07% each year during the time period. City expenditures continue to be impacted by population growth and federal mandates. Expenditures per capita have only increased slightly. Given the fact that the number of employees per capita and per household fluctuated only slightly from year to year with either slight increases or decreases, it demonstrates that employee growth has not outstripped the growth occurring in the community even though the City has continued to add programs and services. Given the possibility of certain negative trends in revenues caused by economic cycles and other factors the City should continue to monitor forecasts of revenues and expenditures.

Operating Position:
When examining all trend indicators of this category, the City's overall operating position has been excellent during the last ten years, especially for most of the City's enterprise operations (utilities). The City has generally been able to balance its budget on a current basis, maintain reserves for emergencies, and maintain sufficient cash to pay bills on a timely basis. In previous years the General Fund experienced negative trends causing deficits, a decline in liquidity, and an intended decline in reserves. During this time period the General Fund Balance has continued to increase reversing negative trends that occurred during the mid-80’s. The fund balance, as a percent of the total operating budget, is considerably higher today than it was due to a concentrated effort by management to increase the fund balance.
Debt Structure:
When examining all trend indicators for this debt category, the City’s debt has remained well below what would normally be considered proportionate to its size and tax base. The City’s debt practices have not extended past the useful life of the capital facilities it finances. The City has not used debt as an instrument to balance the operating budgets, and the City requirements for repaying its debt have not been an excessive burden on operating expenditures for neither the general government nor the City's enterprise operations (utilities). The debt service coverage ratio for the City's Enterprise Funds is 2.43, the City's legal debt margin on general obligation debt is about $232 million, and the general obligation debt per capita is well below $1,200 per capita which would be considered a negative trend. The amount required is less than the amount available therefore making the obligation a negative amount. The City had no outstanding General Obligation Debt for fiscal year 2004.

Unfunded Liability:
There are no negative trends associated with this category because the City, by policy, sets up appropriate reserves for payments required in future years. The City has experienced no decreasing value of pension assets as a percent of benefits paid because the City's pension programs are funded as benefits are accrued. Therefore, future costs of benefits are not deferred to future years. In the area of accumulated employee leave, some cities have allowed sick leave, or some portion, to be accrued for pay purposes along with vacation pay. Until 1989, the City's policy had not allowed sick leave to accrue for pay purposes, therefore, no future funding problems existed. A sick leave buyback plan was created in 1989 and changed in FY 1993 requiring employees to accumulate 1,040 hours of sick leave (6 months), to be eligible. Reimbursement is 3/4 of the employee’s normal hourly rate for each hour bought back up to 144 hours accrued beyond the required 1,040 hours. Accrued vacation is funded and presents no problem in future years. The average accrued vacation per employee is about 2.12 weeks.

Condition of Capital Plant:
The trend indicators of this category show no substantive negative trends. In the short run, some of the trends appear to be irregular, but have remained relatively constant over the last ten years. There has been no steady long-term decline in either capital outlay or maintenance effort for all City funds. The City continues to review and update capital replacement schedules.

Community Needs and Resources:
When examining all trend indicators for this category, the overall demographic and economic outlook for Columbia is good. Average annual unemployment is less than one-third the national average, property values for residential and commercial properties have increased, growth in the population is increasing gradually, and the level of business activity has increased in terms of new businesses and retail sales. Because sales tax is a major revenue for the general government, the City's business activity must be carefully monitored. In FY 2001 the City's total one percent sales tax reflected a growth of 8.00%, (due to the shift of 4.1% from the CIP portion to the General Fund portion) while FY 2004 experienced a growth rate of 6.09%, which is 3% higher than FY 2003. Although FY 2004 increased more than expected, the rate of growth over the past ten years listed has fluctuated causing the City to continue to closely monitor this resource.

Conclusion:
It is hopeful that the financial information contained in this manual will provide a more efficient and better tool in preparing and analyzing the current financial and economic trends within the city organization.

Respectfully Submitted,

Lori B. Fleming
Director of Finance