

City of Littleton



"Beyond the Numbers"

A Closer Look into the Financial and Non-financial Data for the City of Littleton

Prepared by: Randy L. Watkins

Date: July 21, 2015

This presentation was prepared as part of our audit, has consequential limitations, is restricted to those charged with governance and, if appropriate, management and should not be used by anyone other than those specified parties



July 21, 2015

Mr. Doug Farmen
Finance Director
City of Littleton
2255 W Berry Avenue
Littleton, CO 80120

Dear Mr. Farmen, Honorable Mayor and Members of City Council:

Every year we come before you to present your financial statements, along with our audit wrap up document. During this presentation we attempt to convey in concise terms what these financial statements and footnotes mean; what story they tell. However, the information is very detailed, and organized in a way that makes it difficult to extract meaning without further review and analysis.

In the pages that follow this cover letter, we have summarized information extracted from the City of Littleton, Colorado's (the "City") annual report, in a manner that will present how the City's financial ratios and statistics have changed over the past five years, and also how these same ratios and statistics compare to other municipal organizations similar to yours.

We have compiled data from five (5) municipal organizations in the State of Colorado, primarily from the front-range, with populations between approximately 30,000 and 60,000, with an average of approximately 45,000. These 5 municipal organizations are the Town of Castle Rock, the Town of Parker, City of Commerce City, City of Englewood, and City of Northglenn.

We have also included in this presentation, discussion that should help you understand what these ratios mean, and interpret the trends observed, as well as the City's information in relation to comparative market data.

If at any point, you'd desire to discuss this information further, we are always available.

Sincerely,

Randy L. Watkins
Partner - Governmental and Nonprofit Practice

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Organization

The ratios, percentages, and per capita data presented herein are organized into three different sections, starting at the most macro level; the government-wide statements, drilling down next to the governmental funds financial statement level, followed by a more micro level, the General fund financial statements.

There is a fourth section which presents future debt service obligations for the business-type and governmental activities, and analyzes the current aging of capital assets for the business-type and governmental activities.

The formula used to calculate the ratio, percentage or per capita data is first described, then the data is presented, and finally additional interpretation is discussed. The interpretation of the data is largely derived from our understanding of the organization, heavily supplemented by discussions with senior-level management with the City of Littleton (the "City").

Profile

Municipality:	City of Littleton, Colorado
Population:	43,092 ¹
Peer Group Size:	30,000 - 60,000
# of Municipalities included in peer group:	Five
Average Population of Peer Group:	44,730
Largest Population in Peer Group:	56,645
Smallest Population in Peer Group:	31,516

¹ The 2014 census data was extracted from the City's Comprehensive Annual Financial Report ("CAFR").

Government-Wide Information

Change in Net Position as a Percentage of Net Position

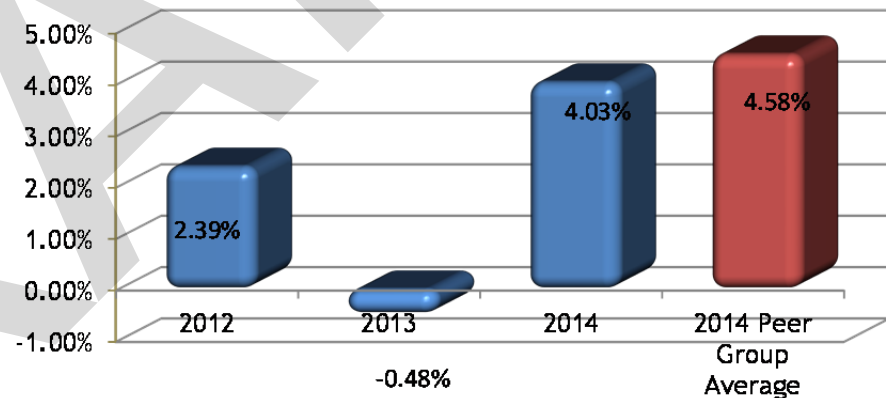
Current Year Change in Net Position

Net Position at the Beginning of the year

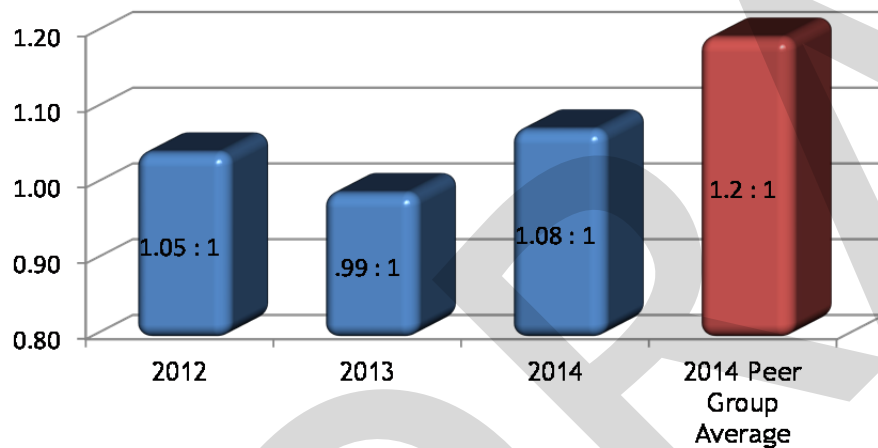
The change in net position as a percentage of beginning net position provides an indication of whether the financial condition of the municipal organization is improving or deteriorating.

This analysis focuses on the change in net position for the governmental activities of the City. During 2012 through 2014, the City's change in net position was less than the peer group. In 2013, the City experienced a decrease in revenues of approximately 1% and an increase in expenditures of approximately 4%, resulting in a decrease in net position.

Change in Net Position as a Percentage of Net Position



Revenue Coverage Ratio



Revenue Coverage Ratio

Governmental Activities Current Year Revenue

Governmental Activities Current Year Expenses

This ratio indicates whether the City's current revenues are sufficient to provide for annual expenditures. When the ratio exceeds 1.00 : 1, revenues generated from citizens are sufficient to provide for the costs of services received. When the ratio falls below 1.00 : 1, the City is using net position to fund operations.

In 2012 through 2014, the City's revenue coverage has been less than the peer group. However, the ratio has been close to or exceeded 1.00 :1, which indicates that revenues have been sufficient to cover costs.

Unrestricted Net Position as a Percentage of Current Year Revenues

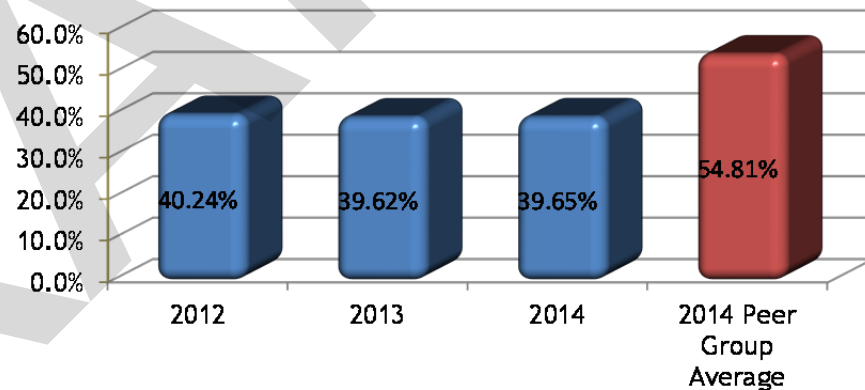
Governmental Activities Unrestricted Net Position

Governmental Activities Current Year Revenues

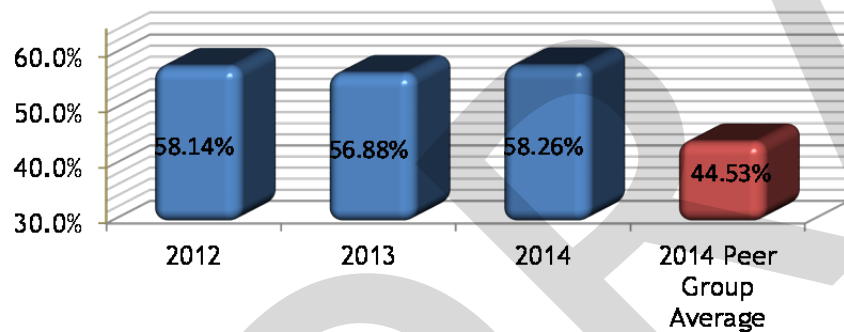
This measures the municipal organization's ability to sustain an interruption in revenues. For example, a percentage of 25% would indicate that the municipal organization would be able to continue to function at full capacity for a period of approximately three months.

The City has consistently had approximately four and half months in unrestricted net position over the last three years. The average for the peer group was over six months.

Unrestricted Net Position as a Percent of Current Year Revenue



Accumulated Depreciation as a Percent of Depreciable Capital Assets



Accumulated Depreciation as a Percent of Depreciable Capital Assets

Governmental Activities Accumulated Depreciation

Governmental Activities Depreciable Capital Assets

This measures the approximate age of depreciable capital assets. A lower percentage indicates a longer remaining average life of capital assets, and presumably a reduced level of repairs and maintenance. A higher percentage indicates that capital asset replacements or repairs are more likely in the near term.

The City of Littleton has a relatively higher percentage than the peer group indicating that capital assets are aging at a faster rate than replacement is occurring. The capital assets have less than half of the original estimated useful life remaining.

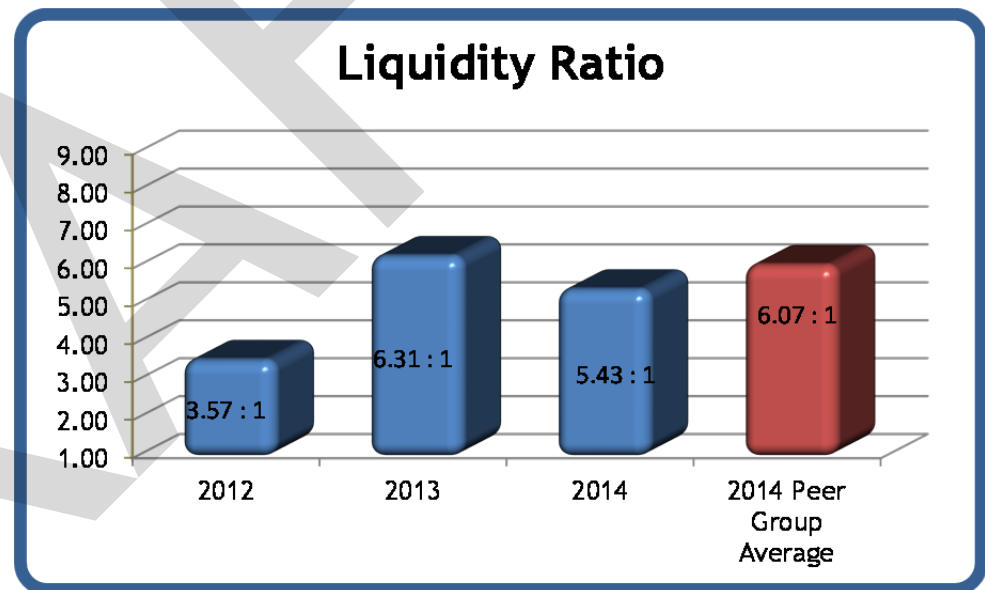
Liquidity Ratio

Governmental Activities Liquid Assets

Governmental Activities Current Liabilities

This ratio measures your ability to meet the demands of current obligations from existing cash and liquid investments. A higher ratio indicates that the municipal organization is better positioned to meet current obligations, and anything above 1.0 : 1.0 is considered acceptable, as it means the city is not illiquid.

Maintaining a 1.0 : 1.0 position should be considered a baseline threshold in cash management considerations.



Debt to Assets Leverage Ratio

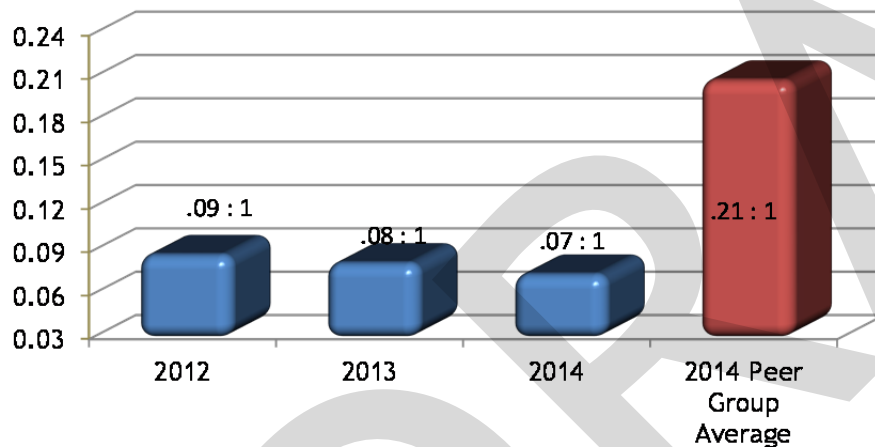
Governmental Activities Total Debt

Governmental Activities Total Assets

This ratio measures how much of your assets have been financed using debt versus accumulated earnings (Net Position). It is generally considered favorable to have a lower ratio, and anything less than 0.25 : 1.0 would be considered acceptable.

This ratio is considerably less than the peer group and has decreased due to scheduled debt payments on the fire engine and medic unit and certificates of participation. Capital asset balances comprise the majority of the balance in total assets, which are reduced by depreciation expense. Major capital improvements commonly require debt financing, so monitoring the remaining useful lives and the relative age of infrastructure and major capital assets serves to predict future borrowing requirements. See additional discussions above under "Accumulated Depreciation as a Percentage of Depreciable Capital Assets," and in later sections of this report.

Debt to Assets Leverage Ratio

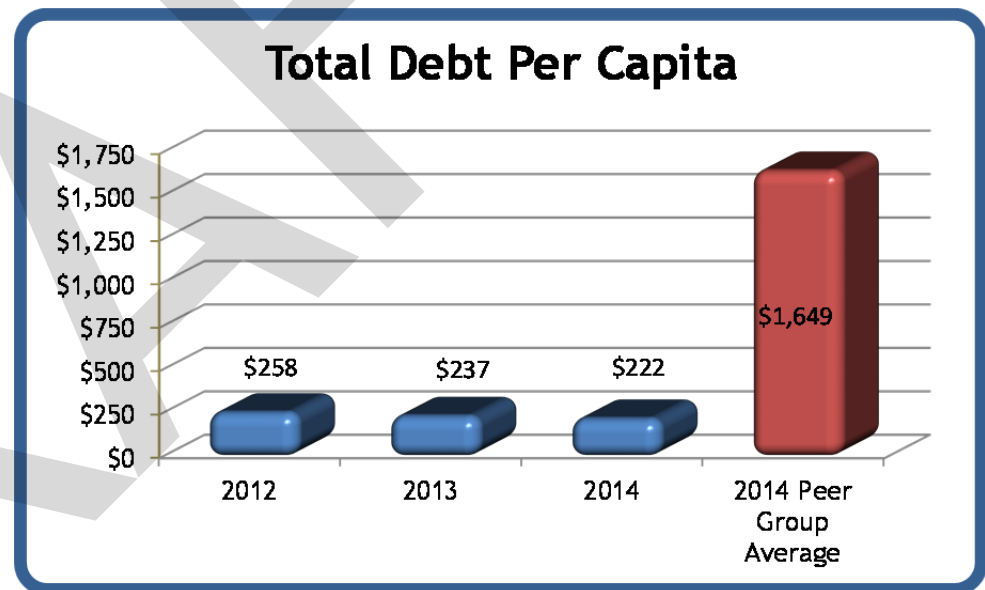


Total Debt Per Capita

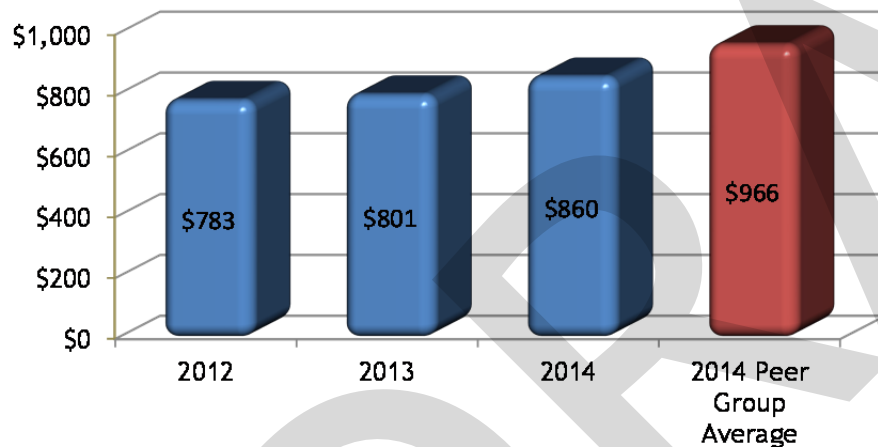
$$\frac{\text{Governmental Activities Total Debt}}{\text{Population}}$$

This measures the level of debt burden for which your citizens are responsible. A lower amount improves your ability to borrow future funds at a lower overall cost.

The City of Littleton debt burden is considerably lower than the peer group. See additional discussion above under, "Debt to Assets Leverage Ratio."



Tax Revenue Per Capita



Tax Revenue Per Capita

Governmental Activities Tax Revenue

Population

This measures how much tax each of your citizens is responsible for paying annually. A lower rate is considered favorable, as it indicates that the municipality is better positioned to raise taxes to meet future financial needs.

The City of Littleton has seen increased taxes paid from 2012 through 2014; these increases are primarily a result of increased sales taxes. Tax revenue also includes franchise fees collected by the City. Both sales tax and franchise fees disproportionately benefit the citizens of the City, as they can be significantly sourced from outside of the City's boundaries (i.e. citizens of other communities' spending money within the City of Littleton). Compared to the City's peer group, taxes per citizen are lower by over 10%.

Total Grants, Contributions and Other Intergovernmental Revenue as a Percent of Total Revenues

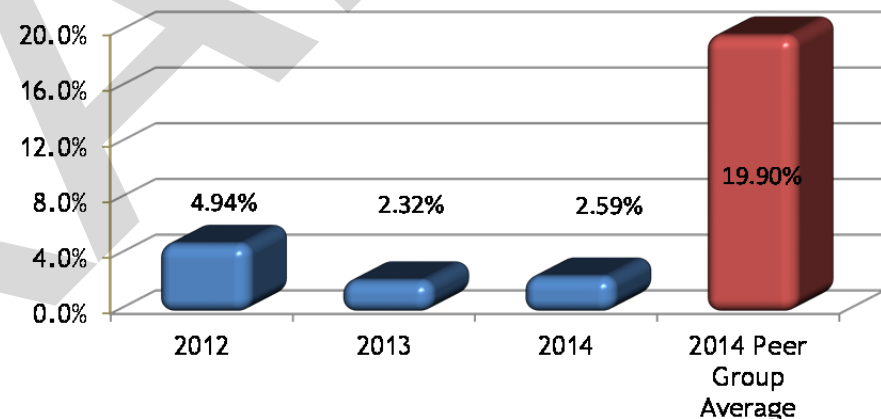
Governmental Activities Operating and Capital
Grants/Contributions + Other Intergovernmental Revenue

Governmental Activities Current Year Revenues

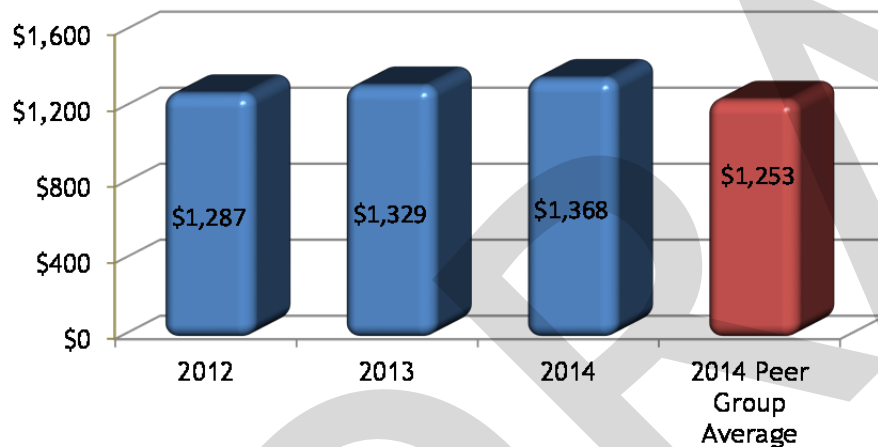
This measures your reliance on grants, contributions and other outside sources of financing. Generally, a lower ratio is considered encouraging, as it indicates that the municipality is less dependent on sources that are considered unreliable and unpredictable.

This ratio can vary depending on the availability of grants and contributions and the City's needs. This ratio does not include the amounts received for fire protection reimbursements for service contracts as these are considered program revenues for the public safety function. Over the past three years, the City of Littleton has received significantly less of these sources of revenues than the peer group.

Total Grants, Contributions and Other Intergovernmental Revenue as a Percent of Total Revenue



Total Expense Per Capita



Total Expense Per Capita

Governmental Activities Total Expense

Population

This measures the average level of cost necessary to provide services to each citizen. Generally, a lower cost per citizen is considered favorable. However, great care should be taken when considering this measure compared to other municipalities or even on a year over year basis. Major factors contributing to this amount include the quality of services provided, and the types of services available to the municipalities' citizens (i.e. fire protection, parks and recreation, and other services).

The City of Littleton has increased the level of costs per citizen over the last three years. The City of Littleton is a full service government that provides police, fire, public works, museum, and library services to its citizens. The costs are approximately 10 percent greater than the peer group, but not all municipalities in this peer group provide the same level of services.

Total General Government (Administration) Expense Per Capita

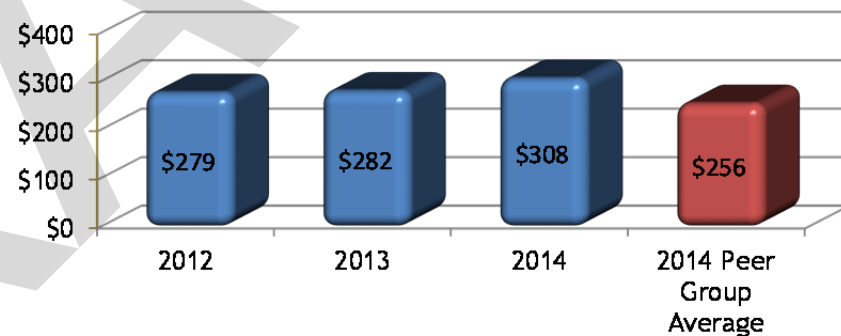
Governmental Activities Total General Government
(Administration) Expense

Population

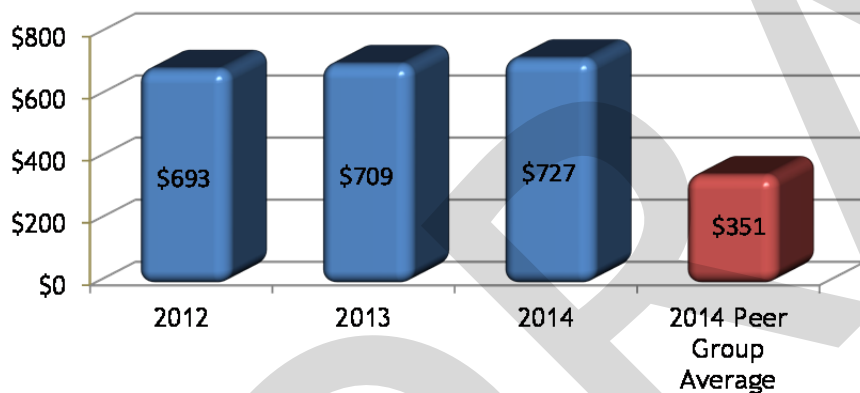
This measures the average cost per citizen for the delivery of general administrative services. As noted above, a lower amount is generally considered positive; however, the level and quality of services provided significantly affects this number.

The trend for these costs is similar to total expenses. General administrative services for the City include the city attorney, city manager, courts, finance, human resources, community development, information services, and building maintenance. Compared to the peer group, the City of Littleton's costs are higher; however, not all municipalities in this peer group provide the same level of services

Total General Government (Administration) Expense Per Capita



Total Public Safety Expense Per Capita



Total Public Safety Expense Per Capita

$$\frac{\text{Governmental Activities Total Public Safety Expense}}{\text{Population}}$$

This measures the average cost per citizen for the delivery of public safety services. As noted above, a lower amount is generally considered positive; however, the level and quality of services provided significantly affects this number.

These costs have increased from 2012 to 2014. Compared to the peer group, the City of Littleton's costs are significantly higher (approximately 107%). This is likely due to the fact that many of the other communities included in the peer group receive fire protection services from fire protection districts in the region while the City provides these services to its citizens. In addition, the City provides services to two other districts, whose population is about 180,000 citizens.

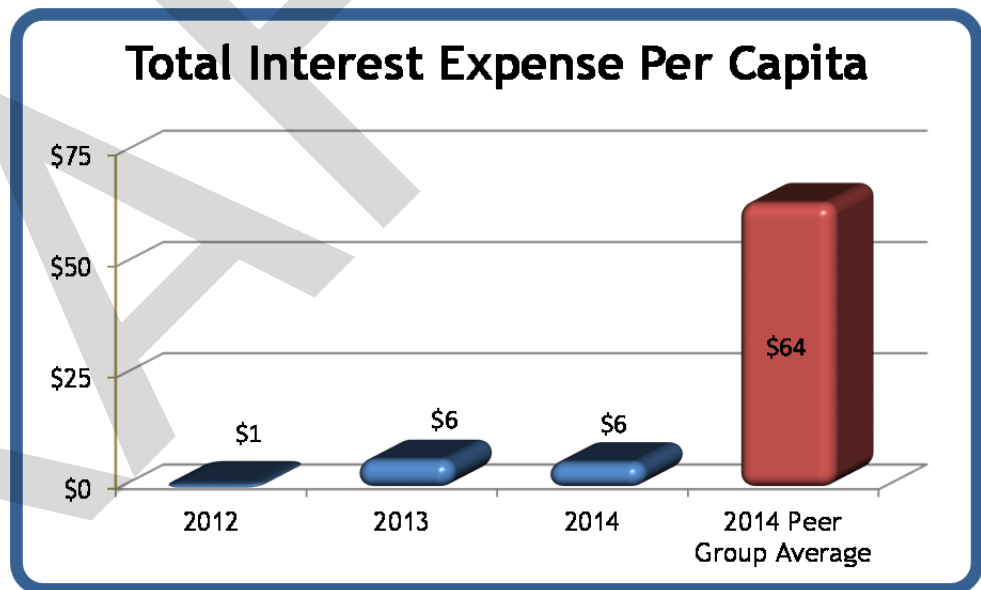
Total Interest Expense Per Capita

Governmental Activities Total Interest Expense

Population

Like the debt ratio, this measures the debt service burden on average per citizen. A lower amount is considered favorable and generally indicates lower debt service costs (i.e. lower effective interest rate, or less debt).

The City of Littleton issued new debt in 2012. This contributed to the increased interest costs in 2013. Also, the City's interest cost per citizen is considerably lower than the peer group, primarily due to the significantly higher debt load per citizen in the peer group (see analysis above).



Governmental Fund Information

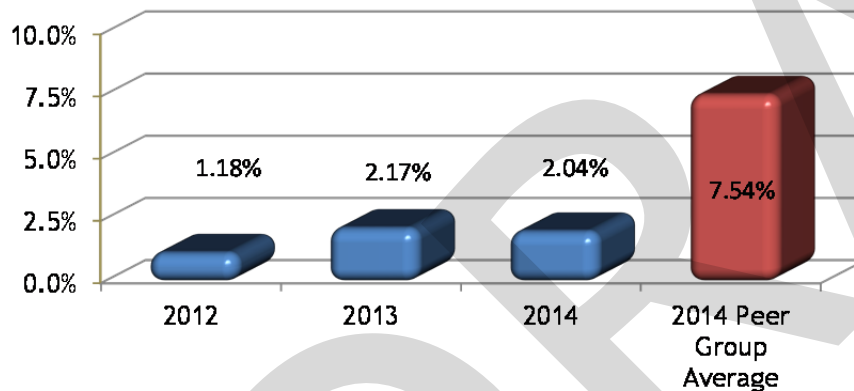
Total Debt Service Expenditures as a Percent of Total Revenue

$$\frac{\text{Governmental Funds Total Debt Service Expenditures}}{\text{Governmental Funds Total Revenue}}$$

This measures the level of current year revenues that are dedicated to meeting the debt service requirements, thereby reducing the amount of revenues available for other services/needs.

The City of Littleton's debt service is lower than the peer group.

Total Debt Service Expenditures as a Percent of Total Revenues



Capital Outlay Expenditures as a Percent of Total Expenditures

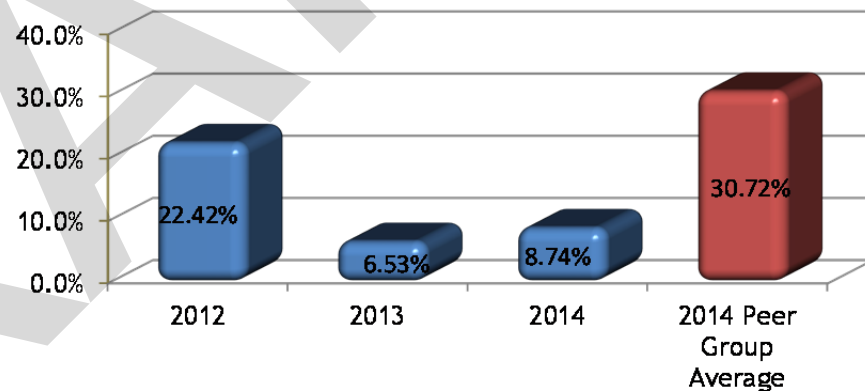
Governmental Funds Total Capital Outlay Expenditures

Governmental Funds Total Expenditures

This measures the amount of capital asset expenditures, relative to overall expenditures. Generally, this number fluctuates based on the capital improvement needs of the municipality. The relative age of capital assets may serve as a leading indicator for predicting fluctuations in this number.

The City of Littleton has seen fluctuations over the past three years, and has remained below the average of the peer group. This may be an indicator that there will be increased capital asset expenditures in future years.

Capital Outlay Expenditures as a Percent of Total Expenditures



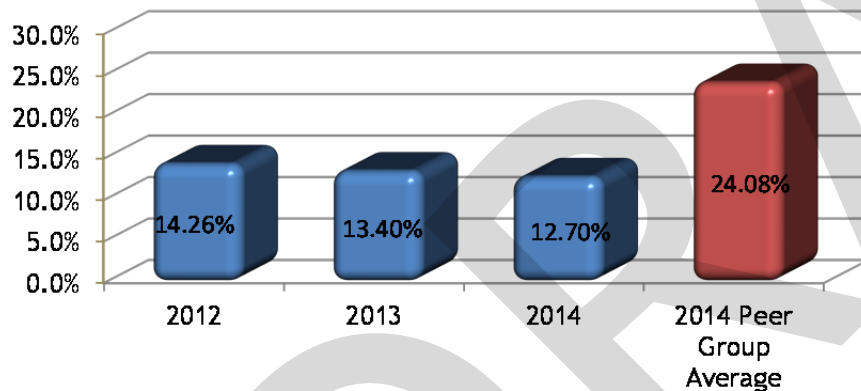
General Fund Information

Unassigned Fund Balance as a Percent of Total Revenues

General Fund Unassigned Fund Balance

General Fund Total Revenues

Unassigned Fund Balance as a Percent of Total Revenues



This serves as an indicator of the how much of the annual expenditures of the municipality would be covered if the collection of revenues ceased for an indeterminable period of time. Higher percentages are generally viewed positively. However, excessive fund balances may be viewed by citizens as an unnecessary accumulation of resources, barring any planned major improvements.

Over the past three years, the City of Littleton has maintained a consistent percentage of unassigned fund balance. Expressed in terms of days, the City had approximately 52 days, 49 days, and 46 days of annual expenditures in unassigned fund balance as of December 31, 2014, 2013, and 2012, respectively. This is compared to 134 days for the Peer Group Average as of December 31, 2014. The City's is less than the peer group due to transfers from the General Fund to the Capital Projects Fund.

Intergovernmental Revenue as a Percent of Total Revenue

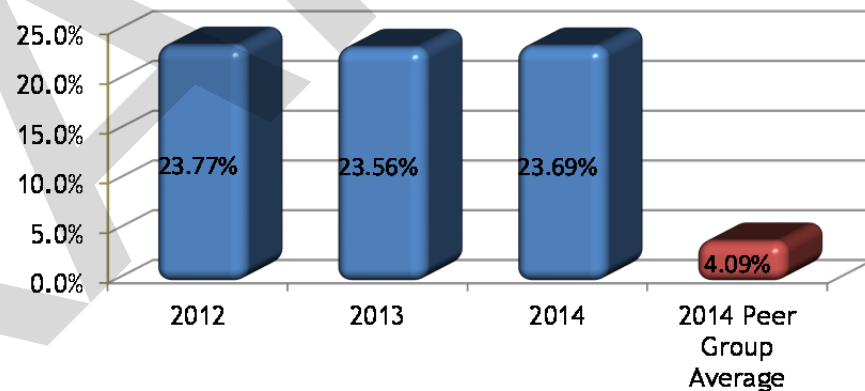
General Fund Intergovernmental Revenue

General Fund Total Revenue

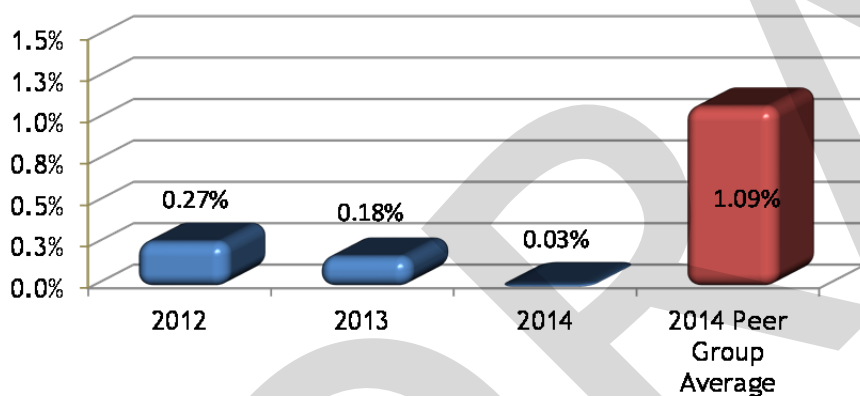
This ratio reveals the portion of the general funds finances that are covered by external sources. A lower percentage is considered favorable as it indicates a reduced reliance on external sources.

Over the three year period ending December 31, 2014, the City of Littleton's dependence on intergovernmental revenues has been consistent. The City has continually been higher than the average of the peer group due to fire protection reimbursements for service contracts.

Intergovernmental Revenue as a Percent of Total Revenue



Transfers In as a Percent of Total Revenues and Transfers In



Transfers In as a Percent of Total Revenues and Transfers In

General Fund Transfers In

General Fund Total Revenues and Transfers In

This ratio measures the General Funds reliance on other funds to finance current operations. Higher numbers generally indicate an unfavorable reliance on funding from other funds.

The City of Littleton has maintained a relatively consistent level of General Fund finances coming from other funds. The City's percentage is less than the peer group, thus the City's General Fund relies less on funding from other funds.

Capital Asset Analysis

The following analysis presents capital asset balances; cost and accumulated depreciation, and estimates the remaining useful lives by dividing depreciation expense into total net book value by category. This information can be compared to the range of estimated useful lives by category to get a general perspective for how soon assets may require replacement. This is a leading indicator of imminent major capital expenditures.

Governmental Activities

	Depreciable Lives	Cost	Accumulated Depreciation	Net Book Value	2014 Depreciation Expense	Average Remaining Life
<i>Governmental Activities</i>						
Capital Assets Being Depreciated						
Machinery and equipment	3 - 10 Years	19,128,719	(14,130,344)	4,998,375	1,491,385	3.35 Years
Buildings and improvements	10 - 50 Years	31,906,878	(11,996,867)	19,910,011	968,528	20.56 Years
Infrastructure	10 - 50 Years	90,002,999	(56,040,020)	33,962,979	3,220,543	10.55 Years
Totals		\$ 141,038,596	\$ (82,167,231)	\$ 58,871,365	\$ 5,680,456	

Business-type Activities

	Depreciable Lives	Cost	Accumulated Depreciation	Net Book Value	2014 Depreciation Expense	Average Remaining Life
<i>Business-type Activities</i>						
Capital Assets Being Depreciated						
Machinery and equipment	3 - 10 Years	1,584,547	(1,347,352)	237,195	94,006	2.52 Years
Buildings and improvements	10 - 50 Years	34,204,609	(21,488,489)	12,716,120	783,324	16.23 Years
Totals		\$ 35,789,156	\$ (22,835,841)	\$ 12,953,315	\$ 877,330	

Debt Service Analysis

Debt Profile

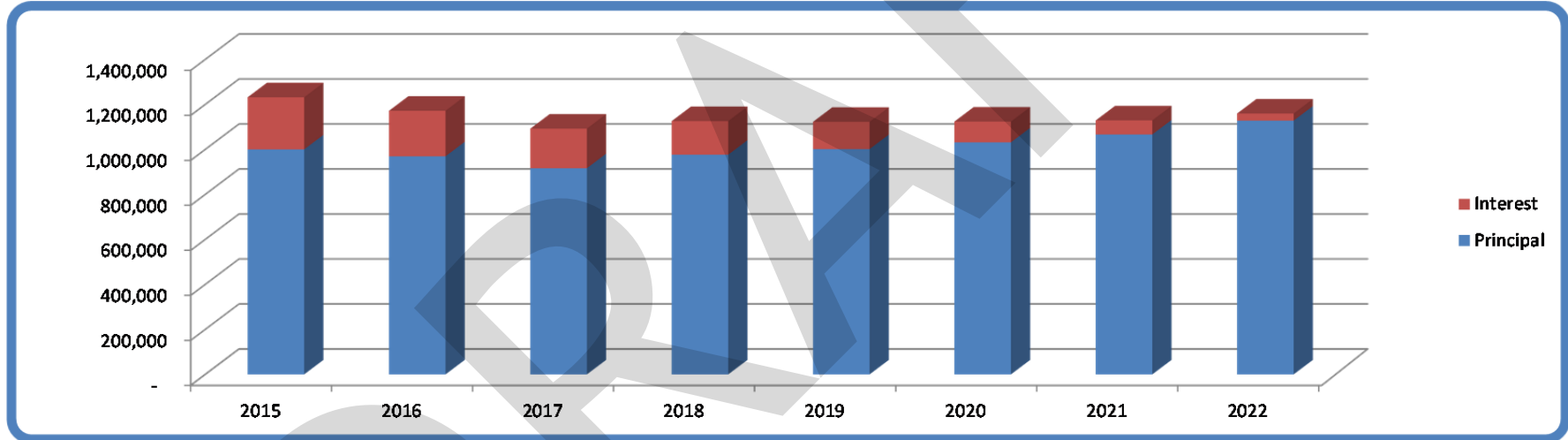
Description	Balance	Interest Rate	Maturity	S&P Credit Rating ²
<i>Governmental Activities:</i>				
Capital Lease Obligations	\$ 8,090,345	3.49% to 4.10%	2022	AA
<i>Business-type Activities:</i>				
Assignment Certificate - 2011	1,830,000	3.34%	2024	Unrated
Revenue Loan Payable - 2004 (including premium)	31,474,210	3.70% to 3.82%	2025	Unrated
	\$ 41,394,555			

² Based on a rating per the Standard & Poor's rating website www.standardandpoors.com. The definition for "AA" is, "Very strong capacity to meet financial commitments." The Definition for "Stable" is, "rating is not likely to change."

Future Maturities

The following charts are a graphical depiction of future debt maturities, principal and interest, and serve to demonstrate the future funding requirements resulting from debt obligations.

Governmental Activities



Business-type Activities

