

Comprehensive Annual Financial Report Review
May 2009

Internal Audit
City of Sioux Falls, South Dakota

WHY INTERNAL AUDIT DID THIS REVIEW

The Comprehensive Annual Financial Report (the CAFR) contains the audited financial statements of the City of Sioux Falls. However, the CAFR is over 100 pages long and readers may find this document difficult to read and understand. As part of our 2009 Audit Plan approved by the City Council, we reviewed and analyzed the 2008 CAFR. We identified financial trends for the past five years and compared financial information in the City of Sioux Falls CAFR with ten benchmark cities in the upper Midwest.

Information is presented in the form of graphs and ratios to help facilitate understanding. We also researched information on what financial analysts consider favorable and unfavorable trends and ratios. By comparing Sioux Falls to benchmark cities, we believe the City Council and the citizens of Sioux Falls will have a clearer picture of the financial condition of the City.

The main focus of this report is the review of the CAFR. However, we have also included a beginning section on the **audit expectation gap** and a concluding section on the **price of government**. The information on audit expectations is intended to clarify what a financial statement audit is and what it is not. The concluding section on the price of government is intended to provide citizens and elected officials with information on the price of local government in a way that is easy to understand. Data for calculation of the price of local government comes from the CAFR.

WHAT WE CONCLUDED

The financial strength of the City of Sioux Falls is excellent. We compare very favorably to the ten peer communities used in this report.

- Solvency, both short term and long term is strong.
- The City is in a good financial position to weather emergencies and a bad economy.
- Long-term debt has increased substantially in 2007 and 2008; however it is not at a warning level (see page 11 for details).
- The price of local government has been stable the past five years.

We would like to commend the administration and the City Council for fiscal policies and practices that have led to the strong financial position highlighted in this report.

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Scope, methods, and objectives

The scope of this review included financial trend analysis for the City of Sioux Falls for the years 2004-2008. When comparing Sioux Falls to ten peer communities¹ we used information from the most current financial reports available. For Sioux Falls this means the 2008 CAFR, for the fiscal year ended December 31, 2008. For most of the peer communities this was the CAFR for the fiscal year ended December 31, 2007. In two cases, this was the CAFR for the fiscal year ended June 30, 2008. These CAFRs contain both financial and statistical data. Comprehensive Annual Financial Reports for all the cities were readily available on the official web sites of the city government.

We used methodology developed by the International City/County Management Association (ICMA) publication, *Evaluating Financial Condition: a Handbook for Local Government*, 2003 edition. We also used information from *Financial Management in the Public Sector: Tools, Applications, and Cases* by XiaoHu Wang, published 2006. For further ideas on report methodology and presentation we reviewed financial condition reports prepared by the internal audit staff of the following local governments:

- Maricopa County, Arizona
- Portland, Oregon
- Lawrence, Kansas

For information on the Audit Expectation Gap, we did research of the professional literature on the topic. For information on The Price of Government, we used methodology similar to that developed by the Public Strategies Group. The Public Strategies Group is a public-sector consulting firm. Principal partners of PSG are David Osborne and Peter Hutchinson, co-authors of the influential books, *Reinventing Government* and *The Price of Government*.

For several financial indicators, we expressed financial information in the form of constant dollars. By using constant dollars, we attempted to account for inflation. When presenting financial analysis using constant dollars, we used the price index produced by the federal government called *the implicit price deflator for state and local government purchases of goods and services*. Although not as well known as the consumer price index (CPI), the implicit price deflator is favored by many analysts because it focuses more on the goods and services purchased by municipalities.² Information on the implicit price deflator was found at the United State Department of Commerce, Bureau of Economic Analysis web site, www.bea.gov.

We also became aware of another useful index for adjusting dollars for the impact of inflation. The municipal cost index (MCI) was developed by *American City and County* magazine and is published monthly. We performed calculations with both the MCI and the implicit price deflator but only showed the results for the price deflator because the results were very close. A disadvantage of these two indexes is that they compare price changes on a national level only. Prices may vary across the country.

¹ See page 22 of this report for information on the ten comparison or peer communities used in this report

² *Evaluating Financial Condition: a Handbook for Local Governments*, page 198

We did not intend that our review of financial and statistical data would give absolute assurance that all information was free from error. Professional diligence and care was used in compiling and analyzing information; however, we intended to provide reasonable assurance that the information in this report presents a fair and accurate picture of the financial condition of the City of Sioux Falls. Most of the financial and statistical information came from the Comprehensive Annual Financial Reports for Sioux Falls and the ten peer communities. These CAFRs contain the financial statements presented by management and the audit opinions of Certified Public Accounting firms hired by the various local governments. We did not audit the accuracy of source documents nor test the reliability of data in computer-based systems. We relied upon the audit work performed by the external auditors. All CAFRS used in this report received unqualified opinions by external auditors. See pages six and seven of this report for more information on what external auditors do.

Some background information for this report came from federal government sources such as the United States Census Bureau. Statistical information contained in CAFRs concerning population and per capita income came from sources such as city planning departments, state departments of labor, and federal government sources.

The primary objective for this review was to promote discussion about the City's financial condition and alert the City Council to trends, both favorable and unfavorable, in the City's finances.

When analyzing the financial condition, we focused on these areas:

- Solvency, both short-term and long-term. (Solvency refers to the capacity to meet financial obligations).
- General fund unreserved fund balance as a surplus for financial emergencies.
- Net assets over time. Net assets are a useful indicator of financial condition.
- Diversity of taxpayer base.
- Efficiency indicators such as expenditures per capita and employees per capita.
- Debt indicators including various long-term debt ratios and legal debt margins.
- Bond ratings.

As part of our effort to promote discussion about the City's financial condition we included a calculation of the price of local government for the past five years. As an introduction to our review of the City's finances, we included a discussion of the limitations of external audits and what an unqualified audit opinion signifies.

Audit Expectation Gap

What is an audit expectation gap?

The expectation gap is the gap between the auditor's actual standard of performance and various expectations of auditors' performance by the public.³ In simpler terms, the gap is the difference between what auditors actually do and what the public thinks they do.

When referring to auditors in this discussion, we are referring to certified public accountants (CPAs) hired to perform financial statement audits.

What do many members of the public expect auditors to do?

- Test every transaction.
- Accept prime responsibility for the financial statements.
- Prepare the financial statements.
- Certify the financial statements.
- Detect fraud.
- Guarantee the accuracy of the financial statements.
- Give early warning of possible business failure.

The reality, according to the public auditing profession (CPAs) is that⁴:

- Auditors are only required to test selected transactions. The cost of an audit that tested every transaction would be prohibitive.
- Financial statements are the responsibility of management. Auditors give their professional opinion on whether or not the statements are free from material misstatement.
- Although management may request that the auditors prepare the financial statements, the statements are the responsibility of management and are usually prepared by management.
- Audits only provide *reasonable assurance* that financial statements are free of material misstatement.
- An audit does not guarantee that fraud will be detected. Most frauds are *not* discovered by the external auditors. Auditors are required to have an attitude of *professional skepticism* when planning and performing the audit.
- Auditors give their professional opinion on the financial statements. They do not guarantee anything.
- Although auditors may give management a "heads up" on possible business failure, that is not what CPAs are hired to do in a financial statement audit. The analysis of the financial information in the statements is the responsibility of the various users of those statements such as creditors and investors.

³ <http://wiki.answers.com>

⁴ CPA Journal, *The Past and Future of Reasonable Assurance*, November 2005

The City of Sioux Falls received a “clean” audit opinion. What does that really mean? The audit opinion is a brief report that appears with the financial statements. A clean audit opinion is more precisely referred to as an unqualified opinion. When the City’s independent certified public accounting firm performs a financial statement audit, there will normally be one of four possible audit opinions offered:

- Unqualified opinion.
- Qualified opinion.
- Adverse opinion.
- Disclaimer.

An *unqualified opinion* means that the financial statements have been prepared using generally accepted accounting principles, do not contain material misstatements, and are fairly presented. A *qualified opinion* contains an “except for” clause in the audit report. The auditors are calling the readers attention to a certain issue with which they have a disagreement with management concerning a certain accounting application which could have a material effect on the financial statements. An *adverse opinion* is a negative opinion. The auditors are pointing out that the financial statements were not prepared in accordance with generally accepted accounting principles (GAAP). The auditors may be saying the financial statements contain material misstatements. Adverse opinions are very rare. A *disclaimer* indicates that the auditors are unable to express an opinion. Management may have restricted the scope of the auditor’s work. The auditors may have had an inability to gather sufficient evidence to support an opinion.

Some readers of financial statements with an unqualified (clean) audit opinion may believe that the auditors are signifying that the organization has a financial clean bill of health. They may believe the auditors are indicating that there is no fraud, that the organization is using its resources effectively and efficiently, and that the organization is in compliance with all laws and regulations. The auditor’s report (audit opinion) on a financial statement audit is merely the auditor’s professional opinion, based on audit work, on whether the financial statements were prepared in accordance with GAAP and are free from material misstatement.

Audited financial statements are important. For the City of Sioux Falls they are a requirement of law. Users of financial statements need to have a level of confidence that the statements are not misleading. However, the interpretation of the financial statements of the City of Sioux Falls is the responsibility of the users of those statements. As an aid to interpretation and understanding of the government financial statements, management provides a section of the CAFR called Management’s Discussion and Analysis (MD&A). The MD&A is a requirement of the Government Accounting Standards Board (GASB)⁵ and is intended as an introduction to the basic financial statements contained in the City’s CAFR. The MD&A gives readers an objective analysis of the government’s financial performance for the year and is prepared by the City’s financial management team.

⁵ GASB Statement 34 *Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments*, issued June 1999.

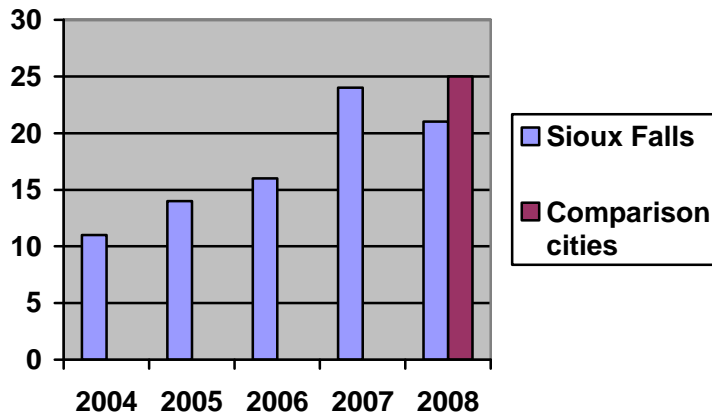
CAFR Review

This review of the City's CAFR is intended to encourage discussion of the City of Sioux Falls' financial condition and to:

- Alert the City Council to financial condition trends, both favorable and unfavorable.
- Put the City's financial condition in perspective by compiling data for five years (2004-2008) and comparing data to the average of ten cities similar to Sioux Falls.

To facilitate understanding of financial ratios and other analysis, graphs are presented throughout this report.

Figure 1 Example graph



Internal audit selected the various ratios and financial indicators for this review. We were guided by information in the ICMA publication *Evaluating Financial Condition: a Handbook for Local Government*. Data came primarily from the Comprehensive Annual Financial Report (CAFR) for the City of Sioux Falls and the CAFRs for the ten comparison cities.

There are strengths and limitations to using this approach to evaluate financial condition. Strengths include:

- Sioux Falls data and comparative data was compiled under consistent accounting principles and audited under Government Auditing Standards.
- Analysis was performed independent of City management and offers a new perspective of the City of Sioux Falls' financial condition.

Limitations include:

- The analysis is historical rather than a projection of future financial condition.
- The analysis provides a broad overview rather than detailed analysis.
- The analysis does not attempt to measure level and quality of services.

Liquidity

Liquidity refers to an organization's ability to pay short-term financial obligations. Liquidity involves determining the level of cash on hand and in the bank and other assets that can be easily converted into cash. This cash position is compared to accounts payable and other current liabilities as well as that portion of long-term liabilities that are due within one year.

The formula for calculating the liquidity ratio is:

$$\frac{\text{Cash and cash equivalents}}{\text{Accounts payable and other current liabilities} + \text{Long-term liabilities due within one year}}$$

City of Sioux Falls

Governmental activities only⁶

<u>Year</u>	<u>Liquidity ratio</u>
2004	2.7
2005	3.4
2006	4.8
2007	5.0
2008	4.2

Total of governmental and business-type activities⁷

<u>Year</u>	<u>Liquidity ratio</u>
2004	2.4
2005	3.2
2006	4.2
2007	6.3
2008	4.9

A liquidity ratio of less than one to one (for example 0.8) is considered by financial analysts to be a negative factor in an organization's financial condition.

Conclusion: There is a positive trend. Liquidity is excellent for governmental activities and for total governmental and business-type activities. The City has the ability to meet its short-term obligations.

Liquidity is a controversial financial indicator according to many analysts. Because the ratio can change daily according to receipt of cash, any analysis of the liquidity ratio must be done at the same time of the year for a meaningful comparison.⁸ This comparison was done with the year-end cash and liability position. A comparison of Sioux Falls was not made to the ten peer communities due to other communities having different patterns of receipt of revenue.

⁶ Governmental activities include the general fund, special revenue funds, and capital project funds.

⁷ Business-type activities include the enterprise funds such as water, water reclamation, and sanitary landfill

⁸ *Evaluating Financial Condition: a Handbook for Local Government*, page 71

Net asset ratio

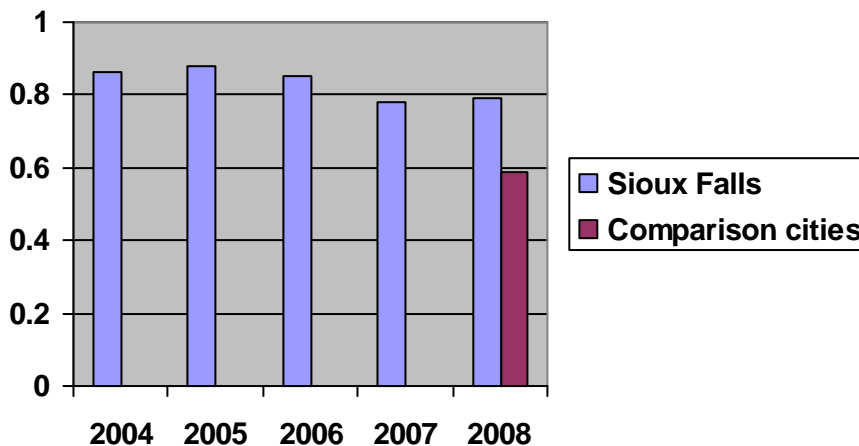
Liquidity is a measure of the City's short-term solvency, the ability to meet short-term financial obligations. One measure of long-term solvency is the net asset ratio. Assets are things that the City owns. Assets include current assets and noncurrent assets. Current assets include cash, cash equivalents, and inventories. Noncurrent (or long-term) assets include land, buildings, and equipment. Liabilities are what the City owes to others. As with assets, liabilities can be considered current (due within one year) or long-term (greater than one year). *Net assets* are the difference between assets and liabilities.

The formula for calculating the net asset ratio is:

$$\frac{\text{Total net assets}}{\text{Total assets}}$$

The net asset ratio is a financial indicator of the City's ability to withstand financial emergencies such as bad economic times, natural disasters, and loss of major employers.⁹ A higher ratio is a positive financial indicator indicating better long-term solvency.

Figure 2 Net Asset Ratios



Conclusion: The Sioux Falls net asset ratio is significantly better than the average of the ten comparison cities. The trend for Sioux Falls is generally steady; the last five years the net asset ratio has been about .80. The average of ten comparison cities was about .60. Based on this indicator of long-term solvency, Sioux Falls is in good financial condition and has the ability to weather financial storms.

⁹ *Financial Management in the Public Sector Tools, Applications, and Cases*, X. Wang, page 151

Long-term debt ratio

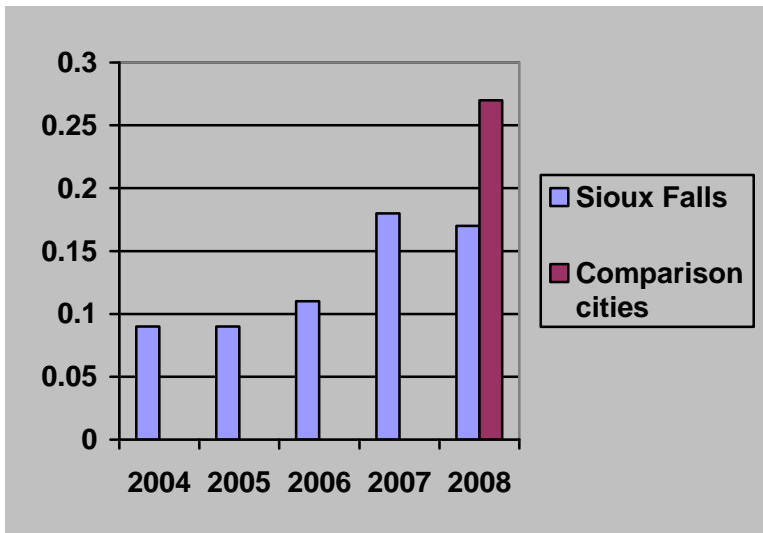
Another measure of long-term solvency is the long-term debt ratio. While the net asset ratio is a measure of the City's ability to withstand financial emergencies, the long-term debt ratio is a measure of the City's ability to pay its long-term debt.

The formula for calculating the long-term debt ratio is:

$$\frac{\text{Total long-term debt}}{\text{Total assets}}$$

A higher ratio of this indicator indicates a declining ability to pay long-term debt. Some financial analysts suggest that this ratio should not exceed a benchmark of 0.5.¹⁰

Figure 3 Long-term Debt Ratios



Conclusion: Although the long-term ratio increased the last two years, it is still well below the warning threshold of 0.5 and below the average of the ten comparison communities (0.27).

¹⁰ *Financial Management in the Public Sector*, X. Wang, page 152

General fund unreserved fund balance

The general fund is the largest fund of the City and includes general governmental activities such as public safety (fire rescue, police), culture and recreation (parks and recreation, libraries), and highway and streets (engineering, street maintenance). Fund balance is the cumulative difference between fund assets and fund liabilities. Fund balance could also be called fund equity. Fund balance is further divided into reserved, unreserved, and designated categories. Reserved fund balance is legally restricted and cannot be appropriated for other spending. Designated fund balance is intended for a specific activity but is not legally restricted. Unreserved, undesignated fund balance can be thought of as reserves or a “rainy day” fund.

A positive fund balance:

- Contributes to a favorable bond rating.
- Produces investment income.
- Provides a source of working capital to meet cash flow needs.
- Offers a cushion for unexpected expenditures or revenue shortfalls.

The municipal credit industry views the unreserved general fund balances as follows:

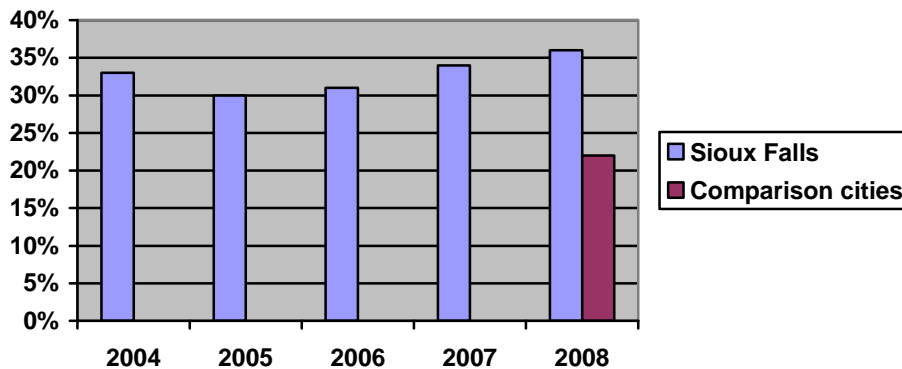
Strong - Greater than 8%

Adequate - 2% to 8%

Low – Less than 2%

The Government Finance Officers Association (GFOA) encourages local governments to adopt a policy on the fund balance in the general fund such that the unreserved portion of the fund balance is maintained at no less than 5 to 15 percent.¹¹

Figure 4 General Fund unreserved fund balance as a % of general fund expenditures



Conclusion: The City of Sioux Falls is clearly in a strong position with its general fund unreserved fund balance. The percentage has been 30 to 36 percent the last five years and compares favorably to an average of 22 percent for the comparison cities used in this review. The City is meeting its policy goal of finishing the year with a reserve of 25 percent or greater.

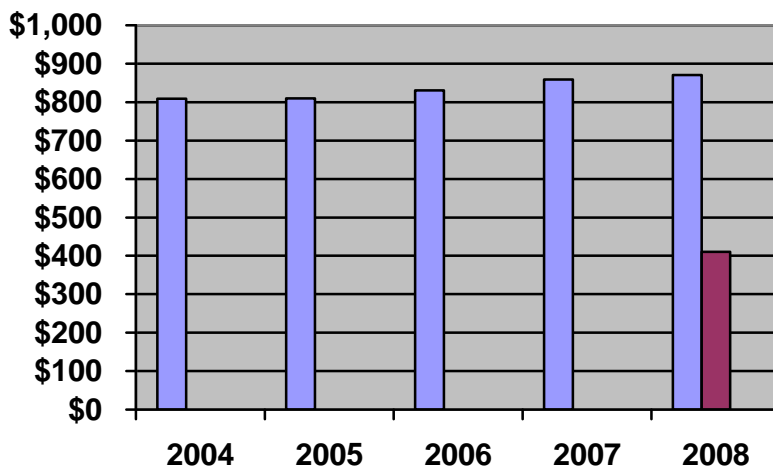
¹¹ *Appropriate Level of Unreserved Fund Balance in the General Fund*, GFOA recommended practice, 2002

Net assets over time

A Statement of Net Assets is a required financial statement in the City's CAFR. This statement presents information on city-wide assets and liabilities with the difference between the two reported as net assets. The change in net assets is a useful indicator of the City's financial condition. According to the Government Accounting Standards Board: *Net assets are an indicator of a government's financial position – its financial standing at a given point in time (typically, the end of the fiscal year). Financial position can be tracked over time to assess whether a government's financial health is improving or deteriorating.*¹²

The following chart shows the City of Sioux Falls net assets for the years 2004 through 2008 and the average of net assets for the comparison cities. The net assets were adjusted for inflation using the implicit price deflator (see page four of this report for details) so that the dollar amounts for 2005-2008 are comparable to the base year of 2004.

Figure 5
Net assets in constant dollars
(Millions of dollars)



Conclusion: The financial health of the City of Sioux Falls is improving slightly based on this indicator of financial condition. The net assets adjusted for constant dollars are consistently increasing.

¹² *Touring the Financial Report*, GASB newsletter, May 2007

Top taxpayers

Because the property tax is a large revenue source for the City of Sioux Falls, we are vulnerable if too much of the property tax base is tied to the fortunes of a few taxpayers. There may be concern if the top five taxpayers hold more than 20 percent of the community's total valuation.¹³ Standard & Poor's, the well known provider of independent credit ratings, considers the following when analyzing taxpayer concentration:

Percentage of assessed value in the top 10 taxpayers

Diverse less than or equal to 15 percent

Moderately concentrated 25 percent

Concentrated greater than or equal to 40 percent

The statistical section of the CAFR contains information on the top five and top ten taxpayers.

Figure 6
Sioux Falls Top Five and Top Ten Property Taxpayers

2004	2005	2006	2007	2008
3.8%	3.7%	3.5%	3.5%	3.2%
5.5%	5.4%	5.2%	5.3%	4.8%

The figure above shows the assessed value for the top five taxpayers (first line) as a percentage of the total valuation. The second line shows the assessed value for the top ten taxpayers.

Conclusion: The trend is favorable. There is not a high percentage of assessed valuation in a few large property taxpayers. The trend is that the top taxpayers represent a steadily decreasing percentage of the total assessed valuation.

¹³ *Evaluating Financial Condition: a Handbook for Local Governments*, page 123

General fund operating expenditures per capita

Calculating the operating expenditures of the City's general fund relative to changes in population is a commonly used financial indicator. If the cost of providing services is rising faster than the population, this may be an indicator of inefficiency or decreased productivity. Any calculation should take into account the effects of inflation.

Additionally, increased services provided by the local government can affect this ratio.

As mentioned earlier in this report (page 12), the general fund is the primary operating fund of the City of Sioux Falls. Operating expenditures are used to calculate this ratio because capital expenditures, such as buildings and heavy equipment, can fluctuate tremendously and make trend analysis difficult.

The formula for calculating operating expenditures per capita is:

$$\frac{\text{Operating expenditures (constant dollars)}}{\text{Population}}$$

A warning trend would be increasing operating expenditures per capita that are not explainable by inflation or increased services.

Figure 7
Sioux Falls
General Fund Operating Expenditures per Capita
(Adjusted for inflation)

2004	2005	2006	2007	2008
\$577	\$562	\$546	\$556	\$535

Conclusion: The five-year trend is steady or slightly decreasing. This is a positive trend.

Employees per capita

Another measure of municipal productivity or efficiency is the ratio of employees to the population. Personnel costs are a large portion of the City's operating budget. An increasing ratio of public employees to citizens could mean several things:

- The government is becoming more labor intensive.
- The productivity of employees is declining.
- Government expenditures are increasing faster than government revenues.

The ratio for this report was calculated by using the information in the CAFRs for authorized positions. The ratio was then adjusted to reflect the number of authorized positions per 1,000 residents.

Figure 8
Employees per 1,000 Capita (all municipal employees)

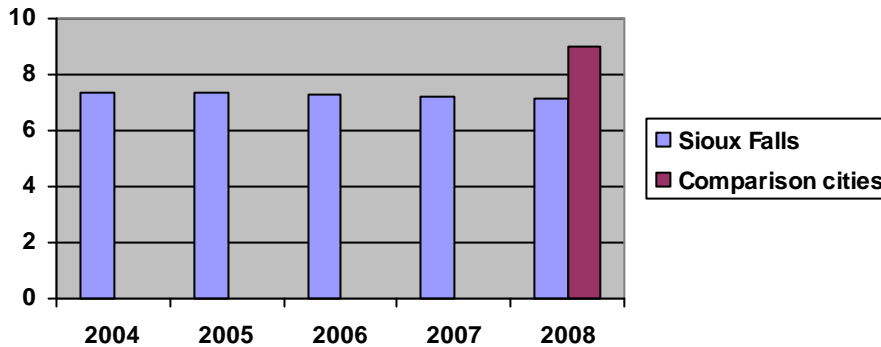
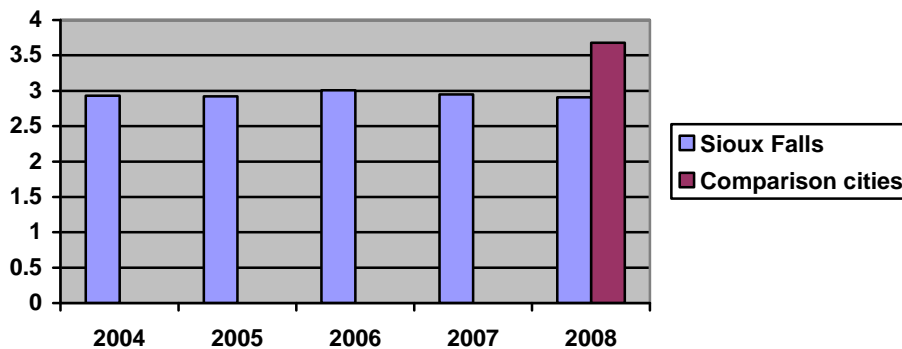


Figure 9
Employees per 1,000 Capita (fire and police only)



Conclusion: The trend shows little movement which is not alarming. The ratio of employees to citizens in Sioux Falls is steady at about 7 total employees per 1,000 citizens and about 3 public safety employees per 1,000 citizens. The comparison cities have a higher ratio, on average, than Sioux Falls.

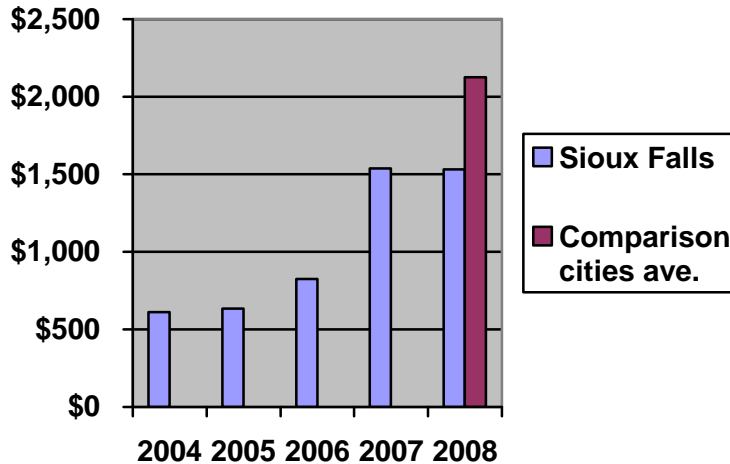
Long-term debt to population

A financial indicator related to debt is the long-term debt to population ratio or debt per capita. When long-term debt compared to population is accelerating, the local government can become overburdened.¹⁴ While increasing debt can be a warning sign, the credit industry recognizes that a low debt burden may not necessarily be a positive credit indicator. Local governments that lag behind in funding vital infrastructure projects such as utilities and streets may have a low long-term debt to population ratio.

The formula for calculating long-term debt to population is:

$$\frac{\text{Long-term debt}}{\text{Population}}$$

Figure 10
Long-term Debt to Population (Debt per Capita)



Standard & Poor Debt per Capita averages

Low: <\$1,000

Moderate: \$1,000 - \$2,500

High: >\$2,500

Conclusion: Long-term debt for the City of Sioux Falls increased dramatically in 2007 and 2008 primarily due to bonding for the Lewis and Clark water system project and other infrastructure projects.¹⁵ However, the City of Sioux Falls is still in the moderate category for debt per capita according to credit industry analyst Standard & Poor. Sioux Falls is considerably below the average debt per capita of the ten comparison cities.

¹⁴ *Evaluating Financial Condition: a Handbook for Local Government*, page 79

¹⁵ City of Sioux Falls 2008 Comprehensive Annual Financial Report, page 23

Legal debt margin

The amount of debt the City of Sioux Falls may incur is limited by the South Dakota Constitution:

The City is subject to Article XIII, Section 4, of the South Dakota Constitution which limits the amount of bonded debt to a percent of the assessed valuation of the taxable property therein for the year preceding that in which said indebtedness is incurred.¹⁶

Figure 11
City of Sioux Falls
Total Net Debt Applicable to the Limit as a % of Debt Limit

2004	2005	2006	2007	2008
25%	24%	30%	52%	47%

Source: City of Sioux Falls 2008 CAFR (Table XIII)

Literature that we reviewed suggests that a warning trend is anything approaching or exceeding 90% of the legal limit of debt.

Conclusion: The City of Sioux Falls has taken on increased debt as a result primarily of funding for infrastructure projects (see page 17 of this report). However, this level of debt is not at the level of warning or danger.

Note 1: The peer cities were not used for comparison purposes since each state constitution has varying legal debt margins making comparisons to cities in other states difficult.

Note 2: On page 16 of the City of Sioux Falls Monthly Financial Report (March 2009) it is reported that there is \$94,105,494 of debt that is authorized but not issued. \$38 million is authorized for the flood control project and about \$31 million for water system improvements and \$19 million for water reclamation system improvements. Total debt outstanding or authorized as of March 31, 2009 is \$321 million.

Note 3: The South Dakota Constitution allows municipalities increased debt limits for two special purpose situations. The City has available legal debt margin of \$996 million for the purpose of providing water and sewage, subject to a majority vote of the electorate. The City has available legal debt margin of \$797 million for the purpose of constructing electric lights and other electric plants, subject to a majority vote of the electorate.

¹⁶ City of Sioux Falls 2008 Comprehensive Annual Financial Report, page 63

Bond ratings

Bond ratings have a direct impact upon the taxpayers of Sioux Falls. If the City's bond rating is lowered, the taxpayers have to pay more to finance projects. Moody's Investor Services and Standard & Poor are two of the largest and most respected sources for credit ratings, risk analysis, and research.

The rating review process considers a municipality's ability to meet its obligations in a timely manner. Factors that would impact rating changes include:

- Economy
- Finances
- Debt
- Management

Moody's Bond Rating Scale

Ordered from high to low

Aaa
Aa1
Aa2
Aa3
A1
A2
A3
Baa1
Baa2
Baa3

Standard & Poor's Rating Scale

(Investment grade)

AAA
(Strongest)
AA+
AA
AA-
(Very Strong)
A+
A
A-
(Strong)
BBB+
BBB
BBB-
(Adequate)

In March of 2004, the City received an upgrade from an A1 to Aa3 bond rating from Moody's on the sales and use tax revenue bonds, although the issues have been insured to Aaa quality. Standard and Poor also upgraded the City's sales and use tax revenue bond rating from A+ to AA- in February of 2004.¹⁷

The City carries an Aa3 rating from Moody's on the sales and use tax revenue bonds.¹⁸

Conclusion: The City's bond ratings remain very strong. Because bond ratings remain high, the cost to borrow money is lower, resulting in a lower burden to the taxpayers when the City borrows money.

¹⁷ City of Sioux Falls 2004 Comprehensive Annual Financial Report, page 22

¹⁸ City of Sioux Falls 2008 Comprehensive Annual Financial Report, page 23

The Price of Government

The term “price of government” has become popular in recent years due to the book *The Price of Government* by David Osborne and Peter Hutchinson. Osborne and Hutchinson are partners of a public-sector consulting firm, The Public Strategies Group (PSG) in St. Paul, Minnesota. A definition used by PSG for the price of local government is the sum of taxes, fees, and charges collected directly by the government and divided by the municipality’s total economic resources.¹⁹

We calculated the price of government in Sioux Falls from statistical and financial information in the CAFR as follows:

$$\frac{\text{Taxes + fees + charges}^{20}}{\text{Community income (population times the per capita income)}}$$

The population figures represent that portion of the surrounding population that is within the city limits of Sioux Falls and were found in Table XX of the City of Sioux Falls CAFR. The figures for per capita income also came from Table XX. Population figures, in turn, were derived from the City Planning Department based upon end-of-year estimates. Income figures came from the SD Department of Labor and the US Bureau of Economic Analysis for the Sioux Falls Metropolitan Statistical Area which included Minnehaha, Lincoln, McCook, and Turner counties.

We calculated the price of government for the years 2003 through 2007 because income figures for 2008 were not available at the time we prepared this report.

Figure 12
City of Sioux Falls
Price of Government

2003	2004	2005	2006	2007
138,000	141,000	144,600	148,200	151,300
\$32,757	\$34,148	\$35,276	\$36,017	\$38,551
\$4,520,466,000	\$4,814,868,000	\$5,100,909,600	\$5,337,719,400	\$5,832,766,300
\$171,199,581	\$190,642,903	\$202,910,743	\$216,242,927	\$227,549,162
Cents per Dollar of Personal Income				
3.8	4.0	4.0	4.1	3.9

Row one represents the population of Sioux Falls.
Row two represents the per capita personal income of Sioux Falls.
Row three represents the community income (population times the per capita income).
Row four represents taxes, fees, and charges collected by the City of Sioux Falls.

¹⁹ *The Price of Government Getting the Results We Need in an Age of Permanent Fiscal Crisis*, D. Osborne and P. Hutchinson, published 2004. page 43

²⁰ Taxes (property, sales/use), licenses and permits, charges for goods and services, fines and forfeitures, other revenue

Price of Government conclusion: The price of government (City of Sioux Falls) has been holding steady at about 4 cents per dollar of community income.

Osborne and Hutchinson point out that there is no “right” price of government. There is, however, an acceptable price that citizens are willing to pay. When citizens become concerned about the price of government, they will take action through ballot initiatives and through other political means. The price of local government (city, county, school) has been steady in the United States at about 6 to 6.6 cents per dollar of community income.²¹

NOTE: some analysts would include the government’s interest income in the calculation of the price of government and include the Metropolitan Statistical Area (MSA) population in the formula for the price of local government. In that case, the price of government would be closer to **3 cents per dollar of personal income for Sioux Falls.**

²¹ *The Price of Government*, pp. 41-44

Characteristics of the ten communities used for comparison

We reviewed data from the United States Census Bureau American Community Survey for 2005-2007 to identify ten Midwestern communities with similarities to Sioux Falls.²² The comparison cities (urbanized areas) were:

1. Cedar Rapids, Iowa
2. Duluth, Minnesota
3. Eau Claire, Wisconsin
4. Fargo, North Dakota-Minnesota
5. Green Bay, Wisconsin
6. La Crosse, Wisconsin-Minnesota
7. Racine, Wisconsin
8. Saint Cloud, Minnesota
9. Sioux City, Iowa-Nebraska-South Dakota
10. Topeka, Kansas

The eight measures we used to identify these comparison cities were:

- Population of the urban area.
- Median age of population.
- Median household income.
- Median value of owner-occupied housing.
- Poverty level: percent of population living at or below federal poverty income level.
- Geographic mobility: percent of population (at least one year old) living in the same residence as a year earlier.
- Education: percent of population (25 years and older) who had at least a high school degree.
- Housing: percent of housing built after 1990.

Measure	Sioux Falls	Average of the ten communities
Population	147,000	127,354
Median age in years	34.5	34.1
Median household income	\$47,551	\$43,908
Median value housing	\$134,100	\$129,800
Poverty level	11%	15%
Geographic mobility	78%	79%
Education	90%	89%
Housing built after 1990	32%	21%

Although every city is unique, we believe that the ten comparison communities, when looked at as a composite, are very similar to many characteristics of Sioux Falls. In addition, the local governments are “full-service” governments, like the City of Sioux Falls. They offer a wide variety of government services including public safety, utilities, street maintenance, parks & recreation, et cetera.

²² Found at web site <http://factfinder.census.gov>