

CITY OF YUBA CITY
STAFF REPORT

Date: March 2, 2021
To: Honorable Mayor & Members of the City Council
From: Finance Department
Presentation By: Spencer Morrison, Finance Director

Summary

Subject: Financial Report for Quarter Ending December 31, 2020
Recommendation: Note and File the Financial Report for Quarter Ending December 31, 2020
Fiscal Impact: Informational item only

Purpose:

To provide City Council with a summary of unaudited revenue and expenses of the City's major operating funds.

Background:

Finance provides periodic financial reports to City Council to keep them apprised of the City's financial activities along with trends in revenues and expenditures. To help guide the ongoing budget review process and to help make recommendations to the entire City Council, the Council formed a Budget Ad Hoc Committee.

Analysis:

The attached financial report has been prepared for City Council review for the quarter ending December 31, 2020.

The Budget Ad Hoc Committee has reviewed the department budget priorities line-by-line developing policy recommendations and follow up information requests. The next steps for this committee will be to review the Vehicle Replacement Fund, Technology Replacement Fund, a potential equipment replacement fund, and finalize recommendations for Council consideration.

Fiscal Impact:

Informational item only

Alternatives:

Not applicable

Recommendation:

Staff recommends that the City Council note and file the financial report for the quarter ending December 31, 2020.

Attachments:

1. Quarterly Financial Report

Prepared By:

/s/ Spencer Morrison

Spencer Morrison
Finance Director

Submitted By:

/s/ Dave Vaughn

Dave Vaughn
City Manager

Reviewed By:

City Attorney

[SLC by email](#)

ATTACHMENT 1



FY 2020-21 Financial Report

For the Six Months Ending 12/31/20

February 18, 2021

OVERVIEW

As of July 1, 2020, the general fund had an unassigned fund balance of \$6,625,995 as stated in the City's annual independent audit, the Comprehensive Annual Financial Report (also known as the CAFR). This amount meets the City's Fiscal Policy requirement of a 15% general fund reserve. The 15% Fiscal Policy minimum reserve level is a recommended best practice and is supported by the Government Finance Officers Association of the United States and Canada (GFOA). GFOA recommends that cities maintain a general fund reserve equal to 2 to 4 months of operating expenses. Yuba City has 1.8 months of operating expenses in reserve as of June 30, 2020.

It is difficult to determine when the next downturn in the economy will occur, the only certainty is that the next recession-causing event, such as the housing bubble or pandemic, will eventually come. With this in mind, it is important for the City to maintain its 15% general fund reserve; ensure that both the water and wastewater enterprise fund revenues are sufficient to cover operating, debt service and infrastructure replacement costs; plan for infrastructure renewal and replacement; and to continue monitoring fiscal performance regularly.

Rather than lowering it further, the CalPERS Board voted in December, 2017, to maintain the lowered discount rate at 7.0% with the three-year phase-in over a period of several years. The CalPERS Board had been evaluating the possibility of lowering it even further. This would have had severe fiscal impacts on the City. As it is, the fiscal impact of a 7.0% discount rate is significant. The most recent projections based upon the June 30, 2019 CalPERS

actuarial reports project that retirement costs will grow from \$9.9 million in FY 2020/21 to \$11.7 million by FY 2026/27. It will be a challenge for revenues to grow sufficiently to keep pace with this mandatory expenditure. This does not take into consideration growth in other expenditure categories or needs of the community such as infrastructure renewal and replacement, employee cost of living increases, or any other budget priorities. The City Council will be carefully prioritizing allocation of resources to cover increases in employee compensation and benefit costs, allocate funding towards unfunded pension liabilities, fund unmet facility and infrastructure needs related to parks and roads, cover the cost of providing police services to all City residents, and address deferred maintenance and improvements throughout the City. On a positive note, the City has a Pension Stabilization Trust Fund with \$2.8 million dollars available that can be utilized to buy down a portion of future pension cost increases.

The City's financial model projects a balanced budget in the five-year financial forecast. Notably, the assumptions included in this model include positive revenue growth and very conservative expenditure growth.

Finance evaluates employee vacancies on a quarterly basis to monitor the anticipated savings to the budget based on those vacancies. During the first half of the fiscal year, the vacancy rate remains near 9%. Finance anticipates that the City will end the fiscal year with a surplus due to better than expected sales tax revenue and normal employee turnover throughout the year. Notably, vacancy savings are usually partially offset by increased overtime for shift coverage in both the Police and Fire departments.

This report is prepared on a cash basis; therefore it describes the timing of cash flows as it relates to the City's revenues and expenditures.

Beginning Balances. The beginning fund and working capital balances presented in this report are final year end amounts from the previous year audit report and will not change.

Adjusted Budgets. The revenue projections and expenditure budgets shown in this report include adjustments for encumbrances, carryovers, and any supplemental revenue and expenditure appropriations made by the Council as of December 31, 2020.

GENERAL FUND

General Fund Financial Condition. With 50% of the year complete, General Fund revenues are at 26.0% of projections and expenditures are at 44.9%.

General Fund

	Budget	YTD Actual	Percent
Balance, Start of Year	\$ 6,625,995	\$ 6,625,995	-
Revenues	43,881,644	11,597,424	26.4%
Expenditures	(46,025,080)	(20,687,817)	44.9%
Balance	\$ 4,482,559	\$(2,464,398)	-

The budgeted expenditures shown above include encumbrance carryovers from FY 2019/20 of \$350,187. Encumbrance carryovers are outstanding purchase orders as of June 30th. Encumbrances are liquidated and paid from the beginning fund balance as prior year budget monies are used to pay for them (as opposed to current year revenues). In addition, budgeted expenditures include \$654,912 added for grant program amounts carried over from FY 2019/20 and new grants in FY 2020/21.

In the YTD Actual shown above, the ending fund balance is negative as of the end of the second quarter. The negative balance is an indication of the typical cash flow pattern for the general fund. This happens because general fund expenditures for payroll and vendor payments are incurred evenly throughout the fiscal year whereas our largest revenue sources of sales tax and property tax lag in receipt compared to the timing of when they are earned. Property tax is received in two large payments in February and May when property taxes are received from Sutter County. This is the City's second largest revenue source for the general fund and when it is received only two times per year, it

causes the cash flows (and therefore fund balance) to go deficit until the first installment is received. The City receives two advance payments and a true-up payment for each quarter of sales tax revenue. However, there is a lag in time as to the end of the quarter of revenues and when the cash is received. For example, the advance payments for the Christmas quarter (October through December revenues) are received by the City in January and February with the true-up payment in mid-March. When additional sales tax is received from the State and property taxes are received from Sutter County, the negative fund balance will reverse and fund balance will end the fiscal year with a positive balance. The negative fund balance as of December 31, 2020, was compared to that of December 31, 2019, and the City is approximately \$1,220,262 better off in FY 2020/21, a smaller negative. Upon analyzing this change, the difference is related to brisk building permit revenue activity and vacancy savings coupled with lower materials, supplies, and services spending in several categories.

Revenues.

The City's top ten revenues account for approximately 95.0% of total General Fund revenues. As such, they provide a very good summary of our revenue position. Key revenues are performing as projected based on payment schedules and past trends for half way through the fiscal year. More detailed information is noted below.

Top Ten Revenues	Budget	YTD Actual	% Received
Property Taxes	\$ 14,215,500	\$ -	0.0%
Sales Tax	11,900,300	5,657,208	47.5%
Business Licenses	1,137,700	94,314	8.3%
Franchise Fees	1,921,200	308,282	16.0%
Hotel/Motel Surcharge	956,000	316,088	33.1%
Building Permits	1,050,000	894,002	85.1%
Police Special Services	200,000	1,381	0.7%
CSA "G" Fire Contract	835,600	0	0.0%
Recreation Fees	750,000	27,029	3.6%
Operating Transfers	8,712,800	3,812,660	43.8%
Total	\$ 41,679,100	\$ 11,110,963	26.7%

▪ **Property Tax.** The first apportionment of FY 20/21 taxes will not occur until February, 2021. The FY 20/21 adopted budget projected a 4.5% increase in property taxes. Based upon the preliminary assessed valuation reports from the Sutter County Auditor-Controller's Office, general fund secured and unsecured assessed values increased by 5.1%. Property tax revenues are expected to exceed budget projections by approximately \$58,800 at the end of the fiscal year.

Five of the largest components of the change in assessed values are as follows:

- Properties were adjusted by a CPI factor of 2.0% between FY 19/20 and FY 20/21 (an increase of \$65.0 million in assessed valuations), this accounted for 23% of all growth experienced in the City.
- Residential increased by 5.5% (\$217.2 million).
- Unsecured decreased by 1.2%.
- Industrial increased by 0.9% (\$2.1 million).
- Commercial values increased 3.8% (\$39.6 million) largely due to sales which added \$42.0 million.

The City received the benefit of \$287.4 million in assessed value increases during FY 20/21 attributable to an increase in market value compared to prior years when there had been decreases in assessed values pursuant to Proposition 8. The increase in Proposition 8 values included \$36.5 million in residential (affecting a total of 1,733 residential parcels). An additional 1,483 parcels remain under Proposition 8 status, with a total potential recapture of \$98.6 million. The City will see these increases in assessed value translate to increases in property tax revenues if real estate sales prices continue to escalate. The potential recapture is eliminated when and if a home under Proposition 8 status is sold for less than the recapture value.

• **Sales Tax.** When the FY 20/21 revenue projections were developed, sales tax was projected to decrease 9.3%. Compared to the prior year, the most recent quarterly sales tax results increased 18.2% on a cash basis and increased 13.3% on an adjusted basis (July - September, 2020 sales). Sales tax continues to be unpredictable and volatile, but has shown positive effects of stimulus spending and consumers making large purchases close to home or online. Finance expects sales tax revenues from the county pool (mostly online sales) to level off and remain flat as active COVID-19 cases subside regionally and retail begins to open up in neighboring counties.

There is a lengthy lag time between the time that sales occur and when the City receives the information regarding the sales tax revenues in order to compare the data to the same quarter of the

previous year. As of the date of this report, Finance staff is still waiting for the Christmas quarter results which will be available in mid-April, 2021—later than usual due to COVID-19. Finance continues to be cautiously optimistic because overall sales tax revenues have increased in 12 of the past 16 quarters on a cash basis (14 of 16 quarters have been positive on an adjusted basis).

As stated, the revenue data for the October through December quarter sales has not yet been released by the CDTFA. The revenue shown here represents the first quarter payments received from the State and advance payments received towards the second quarter revenues.

▪ **Business Licenses.** Business licenses are renewed in January of each year; therefore most of the revenues from business licenses are received during the third quarter of the fiscal year.

▪ **Franchise Fees.** The City receives franchise fees from PG&E, Recology, AT&T and Comcast; the fees are based upon a percentage of their revenues. The receipts for the second quarter of the fiscal year are not received until the end of January and PG&E pays theirs annually in April. Therefore, we would not expect franchise fees to be near the 50% mark during the first two quarters of the fiscal year.

▪ **Hotel/Motel Surcharge.** Surcharge revenues for the first quarter are included in the amount shown, but second quarter receipts are not due or paid until the end of January and are therefore not included here.

▪ **Building Permit Fees.** Building Permits are right on track with budget expectations with 85.1% received half way through the fiscal year. This is an indication of the continued activity in construction and development.

▪ **CSA "G" Fire Contract.** The City receives these funds for fire services to the unincorporated area that was formerly served by the Walton Fire Protection District. Since revenues are property tax based, the first apportionment will be received in February, 2021.

▪ **Recreation Fees.** At 3.6% of budgeted revenues, service fees from recreation programs are lower than normal halfway through the year due to the limitations of the ongoing pandemic response.

▪ **Operating Transfers.** The General Fund receives reimbursement for operating costs associated with support services provided to the water and wastewater utilities as well as other fund transfers. Transfers are on track with budgetary expectations.

Expenditures. Operating costs are all within budgetary expectations with the exception of the Fire Department and City Attorney as summarized below. It appears that some departments exceed the 50% of budget expended half-way through the year. The City Manager Department experienced a large leave balance payout relative to their normal operating budget with the retirement of a longtime employee. The Fire Department appears to have the largest percent in excess of 50 percent of their budget expended. In their case, it is due to strike team costs. Should the state send reimbursements for any strike team claims, the Fire Department's budget will be increased to account for the increase in overtime costs when the strike team revenue reimbursements are received from the State of California. The 2020 fire season reimbursement will be \$636,000, which would have the effect of reducing the percent of budget expended for the Fire Department as of December 31st to exactly 50 percent, once received.

Expenditures	Budget	YTD Actual	% Expended
City Council	\$ 154,714	\$ 60,342	39.0%
City Attorney	250,000	131,157	52.5%
City Manager	474,628	280,611	59.1%
Finance/IT	2,753,209	1,244,798	45.2%
City Treasurer/City Clerk	47,555	15,801	33.2%
Human Resources	1,065,122	341,066	32.0%
Development Services	1,511,527	618,020	40.9%
Public Works	5,131,599	2,044,372	39.8%
Police	17,962,454	8,232,267	45.8%
Fire	11,176,286	5,907,462	52.9%
Animal Control Services	894,842	376,505	42.1%
Economic Development	306,498	60,889	19.9%
Contingency	100,600	15,421	15.3%
Non-Departmental Misc.	282,900	59,578	21.1%
Community Services	3,913,146	1,299,527	33.2%
Total General Fund	\$ 46,025,080	\$ 20,687,817	44.9%

ENTERPRISE FUNDS

The following summarizes year-to-date revenues, expenditures, and changes in current assets net of current liabilities for the enterprise funds. Depreciation is included as a footnote in the budget and is therefore not included below.

Water Fund

	Budget	YTD Actual	Percent
Balance, Start of Year	\$ 25,009,788	\$ 25,009,788	-
Revenues			
Operating	15,142,700	8,325,291	55.0%
Capital	450,000	156,840	34.9%
SRF Surcharge	655,000	337,773	51.6%
Sub-Total Revenues	16,247,700	8,819,904	54.3%
Expenditures			
Operating Programs	(10,239,404)	(4,395,485)	42.9%
Capital Equipment	(7,796)	(7,200)	92.4%
CIP Contributions	-	-	-
Debt Service	(3,674,883)	(1,145,006)	31.2%
Sub-Total Expenditures	(13,922,084)	(5,547,690)	39.8%
Balance	\$ 27,335,404	\$ 28,282,002	-
CIP Projects	\$ 15,005,310	\$ 1,339,450	8.9%

Water service revenue increases (10.0%) were last approved by City Council in June, 2018, in order to cover the operating cost of the Water utility, debt service costs and infrastructure renewal and replacement projects. Below is a summary of the total service revenues billed from July to December, comparing the total revenues billed, the consumption and the percentage of revenues billed changes from 2019 to 2020:

	July 2019	July 2020	August 2019	August 2020	September 2019	September 2020
Revenues	\$ 1,403,706	\$ 1,454,253	\$ 1,567,645	\$ 1,594,809	\$ 1,547,073	\$ 1,577,314
% Change in Revenues		3.6%		1.7%		2.0%
Consumption	560,918	600,226	667,061	688,797	651,570	666,195
% Change in Consumption		7.0%		3.3%		2.2%

	October 2019	October 2020	November 2019	November 2020	December 2019	December 2020
Revenues	\$ 1,395,977	\$ 1,397,141	\$ 1,335,544	\$ 1,360,326	\$ 1,188,438	\$ 1,179,124
% Change in Revenues		0.1%		1.9%		-0.8%
Consumption	560,645	564,850	508,370	533,393	407,803	392,830
% Change in Consumption		0.8%		4.9%		-3.7%

Operating revenues in the water fund are at 55.0% of the amount budgeted and are on track to meet budget projections at the end of the fiscal year. At first glance halfway through the year, it would appear that we should have only approximately 50.0% of budgeted revenues as of December, 2019. However, this is somewhat misleading because the highest billing months occur in July, August and September. Even though operating revenues are at 55.0% mid-way through the year, it is possible that by the end of the fiscal year, operating revenues may be less than budgeted. Water consumption is heavily weather dependent. If we see an early and warm spring, customer consumption and therefore water revenues tend to increase. The reverse is also true.

Achieving targeted revenues is a fiscal priority as the City's bond covenants require the City to raise rates in order to continue meeting a 1.2% debt coverage ratio. Capital connection fee revenues are at 34.9% of the amount budgeted mid-way through the fiscal year.

Operating expenditures are at 42.9% at the mid-point of the fiscal year. There is savings in salaries and benefits due to 3.25 full-time equivalent vacant positions in the water utility, in addition to budgetary savings to date in heat and power, professional services, and building operation and maintenance.

Debt service expenditures are less than half for the first two quarters for both Water and Wastewater as they include only an interest payment because the payment that includes both principal and interest is not due until June 1st of each year.

Wastewater Fund

	Budget	Actual	Percent
Balance, Start of Year	\$ 24,505,574	\$ 24,505,574	-
Revenues			
Operating	16,708,200	8,270,821	49.5%
Capital	493,200	121,997	24.7%
Sub-Total Revenues	17,201,400	8,392,818	48.8%
Expenditures			
Operating Programs	(12,136,258)	(5,061,744)	41.7%
Capital Equipment	-	-	0.0%
Debt Service	(3,255,038)	(1,033,257)	31.7%
Sub-Total Expenditures	(15,391,296)	(6,095,002)	39.6%
Balance	\$ 26,315,678	\$ 26,803,390	-

CIP Projects	\$ 11,852,000	\$ 596,935	5.0%
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Wastewater operating revenues are at 49.5% of the amount budgeted and capital revenues are at 24.7%. Revenues through December 31st are on track with expectations. The most recent rate change happened on July 1, 2018; the City implemented an eight percent (8.0%) increase in wastewater service charges.

Wastewater operating expenses are slightly lower than anticipated halfway through the year at only 41.7% of budget. There is savings in salaries and benefits due to 4.25 full-time equivalent vacant positions in the wastewater utility, in addition to budgetary savings to date in operation and maintenance accounts. The most significant area where there are budgetary savings are in heat and power and materials and supplies. However, a significant amount of the unspent budget is

encumbered (purchase orders have been issued but the actual expense has not yet been incurred).

Finance staff tracks and accounts for the operating funds and capital connection fee funds for both the Water and Wastewater operations separately. Debt service payments are allocated to the capital connection fee funds based upon how the debt proceeds were used to finance projects at the time the debt was issued. Repayments for bond principal and interest are charged accordingly. Public Works/Utilities advises Finance when a Water or Wastewater project is approved how much should be paid from operating funds versus capital connection fee funds. In recent years with the decline in development activities, City Council has been advised that at some point Finance staff will draw the connection fee fund reserves into a negative position in order to meet our bond covenant commitments and make debt service payments. Council concurred that this was an acceptable practice as long as Finance kept track of the funds separately, and replenished the cash flows as development activities increased. As of December 31, 2020, Finance reviewed the available cash balance in both the Water and Wastewater connection fee/capital funds and provides the following update:

		Water	Wastewater
Cash available @ 12/31/20	\$	1,610,135	\$ 611,882
Annual D/S from connection fees	\$	1,150,914	\$ 709,125
# of years of coverage available		1.40	0.86

This table indicates that the Water connection fee fund cash balance is deficit as of December 31, 2020. The table compares the amount of cash reserves available in each of the capital connection fee accounts to the total annual debt service currently being allocated to and paid from capital connection fees. Those two amounts are then compared to calculate a ratio of how long, in terms of years, the City will be able to pay debt service without drawing capital connection fee funds into a deficit position. Measured in terms of overage and shortage in dollars, the water fund currently has sufficient funds to meet the 1.20% requirement for debt coverage. However, the wastewater fund would need to provide \$240 thousand of cash in order to meet the 1.20% requirement:

		Water	Wastewater
Required Ratio		1.2	1.2
Cash Req'd. to be at 1.2 Coverage	\$	1,381,096	\$ 850,950
Cash Over(Short) @ 12/31/20	\$	229,039	\$ (239,068)

This calculation does not consider amounts used from capital connection fees for future capital projects or future revenues received; it is a snapshot in time of where the funds stand as of December 31, 2020. The water fund is in a better position to cover debt service than the wastewater fund, but without additional development to increase revenues, both will need to cover debt service from the operating funds as has been anticipated.