

CITY OF YUBA CITY
STAFF REPORT

Date: January 18, 2022
To: Honorable Mayor & Members of the City Council
From: Finance/IT Department
Presentation By: Spencer Morrison, Finance Director

Summary

Subject: Final Financial Report for Fiscal Year Ending June 30, 2021
Recommendation: Note and File the Final Financial Report for the Fiscal Year Ending June 30, 2021
Fiscal Impact: Informational item only

Purpose:

To support City Council's priority of fiscal responsibility by providing City Council with a summary of the final, unaudited, revenue and expenses of the City's major operating funds.

Council's Strategic Goal:

This item addresses the City Council's Strategic Goal of fiscal responsibility.

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 Final Financial Report has been prepared for City Council review for the Fiscal Year Ending June 30, 2021.

Alternatives:

Not applicable

Recommendation:

Staff recommends that the City Council note and file the Final Financial Report for the Fiscal Year

Ending June 30, 2021.

Attachments:

1. QFR 6-30-21

Prepared By:
Spencer Morrison
Finance Director

Submitted By:
Spencer Morrison
Finance Director



Final Financial Report

For Fiscal Year Ending 06/30/21 (Final Year End)

January 18, 2022

OVERVIEW

The field work for the City's independent financial audit for FY 2020-20 was completed during the first two weeks of October. During the months of August and September, a great deal of Finance staff time goes into closing the books and preparing for the arrival of the City's auditors. Finance staff gathers all of the accrual information in accordance with Governmental Accounting Standards. In addition, we analyze the components that make up the City's assets, liabilities, revenues, expenditures and fund balances to ensure everything is properly accounted for. City staff attempts to review activity from an auditor's perspective prior to the arrival of the City's independent auditors. This is beneficial because it makes the performance of the audit much smoother for the City's auditors, City staff, and other departments throughout the City. Finance makes the effort to ensure that the City has no material misstatements in the pre-audit balances which are provided to the auditors. As stated, the audit fieldwork was completed in the first two weeks of October, the auditors made very few adjustments to the City's records.

In this Financial Report, any use of reserves to fund operations will be consistently referred to as *reserves*, not to be confused with revenues. Revenues are generated through operational charges for services or tax sources, not from spending fund balances accumulated in previous years to finance current expenditures.

This Final Financial Report for the fiscal year ending June 30, 2021, includes only the major operating funds of the City: the general fund, the water fund and the wastewater operating fund.

GENERAL FUND

General Fund Financial Condition.

The original adopted budget for FY 2020-21 included revenues of \$43.2 million and expenditures of \$45.0 million resulting in a deficit on a budgetary basis of \$1.8 million. We then added just over \$1.6 million in grant carryover and new grant revenue supplemental appropriations and \$2.0 million in expenditure supplemental appropriations throughout the year as we began to see the economic outlook improve. City

staff expected to end the fiscal year with a surplus because staff anticipated there would be budgetary savings due to vacant positions throughout the City which create onetime savings along with budgetary savings in materials, supplies, and services accounts.

Throughout the fiscal year, adjustments are approved by City Council increasing the total final adopted budget amounts. Below is a summary of the significant adjustments increasing appropriations during FY 2020-21:

PERS Supplemental UAL Payment	\$ 500,000
Strike Team Overtime Appropriation	597,948
Encumbrances 6/30/2020	350,187
Grants Carried Over From 6/30/2020	474,340
New Grant Appropriations	280,572
Other Miscellaneous Small Changes	120,043
	<u>\$ 2,323,090</u>

During FY 2020-21, budget priorities focused on investing in general fund infrastructure, reduction of our unfunded pension liabilities, providing City services to all City residents, setting aside funds for economic development, and planning for more broadly distributed employee salary increases as staff salaries had remained fairly static for many years.

As the City looks toward the future, we will continue our fiscally conservative financial planning. The year-end results of operations show the general fund once again with a surplus from vacant positions and other budgetary savings. However, this is onetime savings and will not help balance budgets in future fiscal years. Additionally, there are a significant list of fiscal needs that compete for those fiscal year-end dollars. The transfers out from the general fund based on the year-end surplus per the FY 2021-22 Budget Resolution included the following items:

Transfers Out FY 2020-21:

Transfer to General CIP Fund	\$ 2,686,263
Transfer to Pension Trust Fund	2,121,263
PERS Add'l Discretionary Paymnt	500,000
Veh. Maint. Fund & Technology	97,300
LLMD 1B Deficit Balance	7,900
	<u>\$ 5,412,726</u>

As part of the adopted landscape and lighting maintenance budgets, City Council authorized \$7,900 to be transferred from the general fund to district 1B to cover an ongoing operational deficit to keep up the appearance of one of the City's gateways. This district denied adding cost of living increases during an earlier Proposition 218 balloting. Thereafter, the remaining \$5,307,526 was split and half was transferred to the general unallocated CIP fund for future use and allocation and half was transferred to the City's Pension Stabilization Trust to offset the unfunded pension liability. The remaining fund balance is equal to 15 percent of the FY 2021-22 appropriations in accordance to the City's budget policy.

FY 2020-21 governmental and business operations continue to be impacted by the global, coronavirus pandemic—COVID-19. While sales tax revenues continued to buoy the City's revenues, the unpredictability and uncertainty of future operating costs and revenue shortfalls related to the pandemic response, supply-chain disruptions, and policy changes at the local, state, and federal levels has added to uncertainty. Much of the City's surplus is due to the robust automobile sales segment, which may be subject to large declines in coming months due to ongoing supply-chain issues.

The budgetary impact resulting from the CalPERS Board's approval of reducing the discount rate from 7.5 percent to 7.0 percent continues to factor into budget decisions. Recent double-digit investment earning for CalPERS will certainly trigger the Funding Risk Mitigation Policy that will automatically reduce the discount rate from 7.0 percent to something less—perhaps 6.5-6.8 percent. This will have an impact on the City's unfunded actuarial liability, but will be funded by the gains experienced by such large investment returns, a wash for the City. The FY 2023-24 actuarial report will reflect these changes. The revised estimated citywide impact is an increase from \$10.0 million in total retirement costs for FY 2020-21 to a projected \$12.7 million in FY 2027-28 based on the CalPERS actuarial reports released in July, 2021. The total increase in projected retirement costs for the City's general fund through FY 2026-27, based on the most recent actuarial reports, is \$3.3 million.

The City continues to update its long-range financial model in order to plan for these excessive impacts. Long-term however, revenue growth is not anticipated to keep pace with the significant growth in CalPERS retirement cost increases. Other monetary options have been and will continue to be considered. All jurisdictions in the State of California are facing a similar financial burden; Yuba City is not alone in this regard. What this means: the CalPERS retirement system as it exists today is not sustainable for some agencies. City staff follows the issue discussions about additional options which will lessen the burden in future years. An example of such an option is the addition of another layer of pension reform which would convert all classic CalPERS employees over to a less generous formula similar to PEPPRA employees for future service credit as of a set date in the future. Many options continue to be discussed

by specific groups throughout the state of California at this time.

In the past several years, the City experienced more vacancy savings than was historically seen in the ten previous years. For FY 2020-21, the general fund salaries and benefits savings was just under \$1.3 million. Finance typically attributes the perennial vacancy savings to two things: 1) Employees who reach eligible retirement age begin drawing CalPERS retirement while going back to work in a non-PERS employment arrangement; and 2) The City has provided an increase in salaries for most employees totaling only seven percent in the past ten years. Human Resources is actively recruiting to fill all vacancies throughout the City, and continues to focus on hiring quality team members for our agency.

General Fund Summary.

A summary of the results of FY 2020-21, are as follows:

	Budget	Actual	Percent
Revenues	\$ 48,510,105	\$ 50,322,851	103.7%
Expenditures	(47,343,071)	(44,375,552)	93.7%
Operating Surplus/(Deficit)	1,167,034	5,947,299	
Transfers Out	(5,412,726)	(5,412,726)	
Plus Beginning Fund Balance	6,752,997	6,752,997	
Balance 6-30-21	\$ 2,507,305	\$ 7,287,570	-

On a budgetary basis, the City would have ended the year with a \$1.8 million operating deficit. In reality, the actual results of operations at the end of the year resulted in the City having a nearly \$6.0 million surplus. This difference is because expenditures came in under budget by \$2.9 million and revenues were over budget by \$1.8 million. In expenditures, there was salaries and benefits savings of \$1.2 million, mostly from vacant positions throughout the year; \$1.1 million in materials, supplies and services savings; \$15,636 in capital acquisitions savings; and \$496,679 in grant expenditures were budgeted, but not expended, which will roll forward to FY 2021-22. For comparison purposes, the amount of vacancy savings for FY 2019-20 was \$2.3 million.

The City monitors and tracks vacant positions quarterly. In reviewing the vacancy lists, it is clear that vacant positions are being filled, but turnover in staffing continues. For perspective, in June, 2017, there were 36 vacant positions in the general fund which represented 15.2 percent of the authorized full-time equivalent general fund positions. The total amount budgeted for these vacancies was \$4.2 million. In July, 2018, the number of vacant positions in the general fund declined to 21, with a total budgeted cost of \$2.2 million. By February, 2019, the number of vacancies in the general fund had declined to 10, with a budgeted cost of \$1.3 million. By June, 2019, the number of vacancies increased back up to 15 positions with a budgeted value of \$2.2 million. The declining trend in the number of vacancies would have continued, along with declining budgetary savings had it not been for the pandemic slowing hiring through proactive budget savings measures or due to shifting priorities to COVID-19 response and difficulty in conducting hiring during these times. It is also important to recognize

that not all of the savings from vacancies is realized for public safety personnel as necessary shifts are covered through the use of overtime, thereby reducing savings in order to continue service levels. As stated previously, the Human Resource department continues to place a high priority on recruiting and filling vacant positions.

As part of adopting the FY 2021-22 budget, City Council affirmed the budget policy which splits any amount of revenues in excess of expenditures at the end of the year (after transfers outlined in the budget resolution) to the City's general unallocated capital improvement fund (CIP) account for future capital projects. City Council has placed the funding of the pension stabilization account on hold until long-term financial impacts from the pandemic are clear.

For FY 2020-21, the City transferred out \$5.3 million to be used in future years for general fund capital infrastructure projects and for allocated uses deferred such as pension stabilization. During the recession, only the highest priority general fund infrastructure projects were funded, depleting reserves. The City has been unable to set aside sufficient capital funds for infrastructure replacement and renewal needs. As of June 30, 2021, the City has \$4.8 million in unrestricted general capital improvement project dollars available after deducting the \$1.9 million allocated for general fund CIP projects included in the adopted FY 2021-22 CIP budget. Staff has recommended that a minimum balance of \$500,000 be maintained for urgent or emergency facility needs. Long-term, there is a need to address finding additional revenue sources in order to meet the infrastructure renewal and replacement needs for the City's aging facilities.

Revenues.

The City's top ten revenues account for almost 95 percent of total General Fund revenues; as such, they provide a very good summary of our revenue position.

Fiscal year end is a good time to not only compare budget vs. actual for the fiscal year, but also to compare the actual results of operations for two fiscal years. This is shown in the tables below for the top ten general fund revenues.

Top Ten Revenues	Budget	Actual	% Received
Property Taxes	\$ 14,215,500	\$ 14,464,400	101.8%
Sales Tax	15,637,600	17,146,189	109.6%
Business Licenses	1,137,700	854,015	75.1%
Franchise Fees	1,921,200	1,963,163	102.2%
Hotel/Motel Surcharge	956,000	1,167,422	122.1%
Building Permits	1,050,000	894,002	85.1%
Police Special Services	200,000	178,734	89.4%
CSA "G" Fire Contract	835,600	838,155	100.3%
Recreation Fees	750,000	376,459	50.2%
Operating Transfers	9,582,763	8,753,336	91.3%
Total	\$ 46,286,363	\$ 46,635,874	100.8%

Top Ten Revenues	FY 19-20	FY 20-21	% Change
Property Taxes	\$ 13,965,655	\$ 14,464,400	3.6%
Sales Tax	14,274,066	17,146,189	20.1%
Business Licenses	1,374,704	854,015	-37.9%
Franchise Fees	1,881,145	1,963,163	4.4%
Hotel/Motel Surcharge	1,106,889	1,167,422	5.5%
Building Permits	1,395,037	894,002	-35.9%
Special Police Services	197,939	178,734	-9.7%
CSA "G" Fire Contract	844,968	838,155	-0.8%
Recreation Fees	430,678	376,459	-12.6%
Operating Transfers	8,173,799	8,753,336	7.1%
Total	\$ 43,644,880	\$ 46,635,874	6.9%

- **Property Tax.** Property tax receipts experienced a 3.6 percent increase, \$498,745, in the current fiscal year over the previous year. Budget projections were based on an estimated increase of 0.2 percent. Final assessed values increased by 4.6 percent for the general fund, as provided by the Sutter County Auditor-Controller's Office. With the increase in assessed values being 4.6 percent, the City would have expected to see an increase equivalent to about that percentage, or slightly higher than the 3.6 percent actually received. Actual receipts were \$248,900 more than budgeted.

- **Sales Tax.** Sales tax revenues are \$1.5 million more than budgeted and \$2.9 million, or 20.1 percent higher, than FY 2019-20. The FY 2020-21 budget projections for a 15 percent decrease from the FY 2019/20 budget were developed with a lack of information on the ongoing impacts of the COVID-19 pandemic on the local economy and with dire forecasts and projections from cities across the nation and state. After the budget was adopted, however, actual results showed a different outcome. Actual sales tax receipts for the most recent four quarters resulted in an average increase of 24.8 percent on a cash basis and 17.1 percent on an adjusted basis compared to the same quarters of the previous year. The big difference in cash basis vs. adjusted basis is due to the governor's executive order N-40-20 which created a business payment deferral program, along with the delays in the California Department of Tax and Fee Administration's (CDTFA) processing of tax returns during their software conversion. The City continues to benefit from the Wayfair Decision which defines the taxable point of sale as the online customers' county and online retailers must now remit sales taxes based on the laws of that jurisdiction.

Sales tax continues to be volatile from quarter to quarter, making it difficult to predict. The chart below shows changes in sales tax revenues compared to the same quarter of the previous year, both on a cash basis and on an adjusted basis. The amounts received on a cash basis are important to the City because it represents revenues flowing into our bank account that we can use to pay employees and vendors of the City. The adjusted basis data is also important to evaluate as it is the "true" amount of increase or decrease from the same quarter of the previous year on an audited basis after factoring in accounting adjustments. Accounting adjustments are made by the CDTFA and include such items as a retailer who misses a payment one quarter and then pays

a double payment the following quarter. The adjusted amounts factor in these differences from quarter to quarter.

	Cash Basis	Adjusted Basis
Jul-Sep 17	9.4%	6.9%
Oct-Dec 17	5.0%	2.8%
Jan-Mar 18	-0.4%	6.2%
Apr-Jun 18	-10.0%	10.0%
Jul-Sep 18	15.9%	1.9%
Oct-Dec 18	6.0%	3.9%
Jan-Mar 19	12.6%	1.4%
Apr-Jun 19	14.5%	1.2%
Jul-Sep 19	-9.6%	0.5%
Oct-Dec 19	2.2%	-0.4%
Jan-Mar 20	-16.5%	-4.1%
Apr-Jun 20	14.1%	1.5%
Jul-Sep 20	18.2%	12.7%
Oct-Dec 20	6.9%	10.1%
Jan-Mar 21	45.2%	21.3%
Apr-Jun 21	19.4%	24.1%

▪ **Business Licenses.** Business licenses are renewed in January of each year. Revenues were \$283,685 less than budget estimates, and were 37.9 percent lower, or \$520,689 less than the prior year. This is largely attributable to enforcement action by City staff and in some small part the business license audit conducted in FY 2019-20 to ensure that all businesses operating in Yuba City are doing so with a valid business license in order to create equality. This program was put on hold during the pandemic due to staffing issues.

▪ **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. Actual receipts were \$41,963 more than budgeted, and \$152,963 more than the prior year budget. This was an increase of 8.5 percent. The FY 2020-21 budget estimated an increase of 6.0 percent.

▪ **Hotel/Motel Surcharge.** Surcharge revenues were \$211,422 more than budgeted and \$60,533 more than the previous year actuals. Travel and leisure services were hit especially hard by the pandemic response which included travel and gathering restrictions, so the gradual opening of the economy in 2021 brought better revenue to the sector.

▪ **Construction Permit Fees.** Building Permit revenues were \$155,998 less than budgeted and \$501,035 less than the previous year. These revenues are difficult to project and are driven by the level of construction occurring locally. Developers and builders began planning more projects and pulled more permits in FY 2019-20.

▪ **Special Police Services.** Special police service revenues were \$21,266 less than budgeted and \$19,205 less than the prior year.

▪ **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. These revenues were \$2,555 higher than budgeted and \$6,813 less than the previous year.

▪ **Recreation Fees.** Service fees received through the end of the fiscal year were \$373,541 less than budgeted and \$54,219 less than the previous year. The pandemic response has limited the ability to gather and take part in recreation classes.

▪ **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. Actual transfers for reimbursements to the general fund were \$829,427 less than budgeted due to reimbursements for staff time spent on various capital projects being less than originally budgeted. The shortfall was due to vacancies in the Public Works Engineering division which caused staff to charge less time to capital projects. There was an offsetting expenditure savings of \$461,555 from the vacant positions. The remaining transfers are within budgetary expectations.

Expenditures. Operating costs are less than budgetary expectations when the original budget was adopted and significantly less than the amended budget as adjusted for supplemental appropriations during the fiscal year. Compared to final general fund appropriations, the savings generated is a combination from all categories. There was \$1.3 million in savings in salaries and benefits (plus \$41,614 applicable to grant programs). Just under 94.0 percent of the total budgeted for salaries and benefits was expended. Materials, supplies and services had savings of \$1.0 million and was expended at 90.8 percent of the amount budgeted. Capital acquisitions had \$323,515 in unexpended grant activities that will carry over to FY 2021-22. Please see additional information below showing the expenditure summaries. Summaries are included comparing final budgeted vs. actual expenditures both by department and by category.

Expenditures	Budget	Actual	% Expended
City Council	\$ 154,714	\$ 132,565	85.7%
City Attorney	250,000	357,691	143.1%
City Manager	501,022	647,140	129.2%
Finance/IT	2,850,557	2,756,132	96.7%
City Treasurer/City Clerk	49,336	49,043	99.4%
Human Resources	1,087,689	775,430	71.3%
Development Services	1,563,640	1,309,806	83.8%
Public Works	5,307,204	4,424,990	83.4%
Police	18,171,943	17,503,224	96.3%
Fire	11,802,831	12,111,688	102.6%
Animal Control Services	894,842	733,966	82.0%
Economic Development	306,498	84,307	27.5%
Contingency	38,096	38,096	100.0%
Non-Departmental Misc.	282,900	163,636	57.8%
Community Services	3,984,500	3,287,839	82.5%
Total General Fund	\$ 47,245,771	\$ 44,375,552	93.9%

	Budget	Actual	Savings	% Expended
Salaries & Benefits	\$ 35,744,309	\$ 34,459,652	\$ 1,284,657	96.4%
Heat & Power	359,848	491,536	(131,688)	136.6%
Telephone	213,437	233,727	(20,290)	109.5%
Postage & Freight	119,823	114,392	5,431	95.5%
Advertising	68,100	43,177	24,923	63.4%
Forms & Supplies	147,346	104,638	42,708	71.0%
Printing & Binding	83,293	41,834	41,459	50.2%
Professional Services	2,823,804	2,229,316	594,488	78.9%
Professional Development	197,478	53,453	144,025	27.1%
Dues & Subscriptions	104,658	112,400	(7,742)	107.4%
Rental Blds./Equipment/Land	1,025	499	526	48.7%
Equipment O & M	427,787	400,669	27,118	93.7%
Special Equipment O & M	123,277	141,972	(18,696)	115.2%
Vehicle & Special Equipment	2,115,697	2,005,048	110,649	94.8%
Buildings & Facility O & M	893,510	868,151	25,359	97.2%
Chemicals	37,000	25,238	11,762	68.2%
Tools, Supplies & Equipment	243,788	184,370	59,418	75.6%
Other Materials & Supplies	262,899	92,887	170,012	35.3%
Training Programs	204,195	164,744	39,451	80.7%
Water	180,165	226,210	(46,045)	125.6%
Uniform Clothing	76,338	63,023	13,315	82.6%
Liability Insurance	924,582	924,582	-	100.0%
Debt Service	724,482	703,069	21,412	97.0%
Contingency	38,096	38,096	-	100.0%
Technology Replacement ISF	421,703	421,703	-	100.0%
Recreation Programs	195,590	49,756	145,834	25.4%
Equipment & Vehicle Purchase	513,542	181,410	332,131	35.3%
Total General Fund	\$ 47,245,771	\$ 44,375,552	\$ 2,870,219	93.9%

The savings from unexpended appropriations as of June 30, 2021, can be misleading. It gives the impression that the City was under budget by \$2.9 million. This is not the full story as there was \$509,192 in encumbrance carryovers for general fund purchase orders outstanding at year end which roll over into the next fiscal year and are in essence monies spent out of the current fiscal year budget. In addition, City Council approved grant funded programs, which were not fully spent during the fiscal year, and will therefore also roll over into the next year. These total \$496,679 at the end of FY 2020-21. The general fund savings for unexpended appropriations that will not carryover and be spent in the following fiscal year is as large as it has been in recent years due to greater vacancies and savings through reduced activities during the pandemic response and amounts to \$2.4 million.

Comparing actual expenditures for FY 2019-20 to FY 2020-21 indicate that expenditures increased by approximately \$1.0 million, or 2.4 percent.

Expenditures	FY 19-20	FY 20-21	Change
City Council	\$ 133,532	\$ 132,565	\$ (967)
City Attorney	359,432	357,691	(1,741)
City Manager	746,876	647,140	(99,736)
Finance/IT	2,655,496	2,756,132	100,637
City Treasurer/City Clerk	29,718	49,043	19,324
Human Resources	855,686	775,430	(80,256)
Development Services	1,571,232	1,309,806	(261,426)
Public Works	4,322,703	4,424,990	102,286
Police	15,651,276	17,503,224	1,851,948
Fire	12,370,802	12,111,688	(259,114)
Animal Control Services	841,007	733,966	(107,042)
Economic Development	88,875	84,307	(4,568)
Contingency	18,524	38,096	19,571
Non-Departmental Misc.	265,684	163,636	(102,048)
Community Services	3,432,825	3,287,839	(144,985)
Total General Fund	\$ 43,343,669	\$ 44,375,552	\$ 1,031,883

Comparing expenditures by category to those of the previous year shows the changes in types of expenditures made in FY 2020-21.

	FY 19-20	FY 20-21	Change
Salaries & Benefits	\$ 33,033,925	\$ 34,459,652	\$ 1,425,727
Heat & Power	546,464	491,536	(54,927)
Telephone	207,363	233,727	26,364
Postage & Freight	113,010	114,392	1,381
Advertising	45,613	43,177	(2,435)
Forms & Supplies	119,610	104,638	(14,972)
Printing & Binding	64,428	41,834	(22,594)
Professional Services	2,876,333	2,229,316	(647,017)
Professional Development	107,867	53,453	(54,415)
Dues & Subscriptions	101,391	112,400	11,009
Rental Blds./Equipment/Land	3,401	499	(2,901)
Equipment O & M	358,255	400,669	42,414
Special Equipment O & M	123,149	141,972	18,823
Vehicle & Special Equipment	1,971,621	2,005,048	33,426
Buildings & Facility O & M	767,719	868,151	100,433
Chemicals	24,302	25,238	935
Tools, Supplies & Equipment	234,739	184,370	(50,369)
Other Materials & Supplies	103,407	92,887	(10,521)
Training Programs	171,615	164,744	(6,871)
Water	191,322	226,210	34,888
Uniform Clothing	89,033	63,023	(26,011)
Liability Insurance	594,566	924,582	330,016
Debt Service	680,328	703,069	22,741
Contingency	2,376	38,096	35,719
Technology Replacement ISF	468,388	421,703	(46,685)
Recreation Programs	140,277	49,756	(90,522)
Equipment & Vehicle Purchases	203,166	181,410	(21,755)
Total General Fund	\$ 43,343,669	\$ 44,375,552	\$ 1,031,883

ENTERPRISE FUNDS

The following summarizes year-end revenues, expenditures and changes in current assets and liabilities for the enterprise funds. Current assets and liabilities are used as a measurement tool as the net of these two are the resources available to pay for operating expenses and capital infrastructure project funding.

Water Fund

	Budget	Actual	Percent
Balance, Start of Year	\$ 25,009,788	\$ 25,009,788	-
<i>Revenues</i>			
Operating	17,742,700	18,100,752	102.0%
Capital	450,000	394,168	87.6%
SRF Surcharge	655,000	679,634	103.8%
Sub-Total Revenues	18,847,700	19,174,554	101.7%
<i>Expenditures</i>			
Operating Programs	(10,348,331)	(9,587,539)	92.6%
Capital Equipment	(50,366)	(42,012)	83.4%
CIP Contributions	-	-	
Debt Service	(3,674,883)	(3,203,871)	87.2%
Sub-Total Expenditures	(14,073,580)	(12,833,422)	91.2%
Balance	\$ 29,783,908	\$ 31,350,920	-

CIP Projects	\$ 15,005,310	\$ 8,305,160	55.3%
---------------------	----------------------	---------------------	--------------

The Water Fund operating revenues ended the year \$358,052 higher than budgeted, about 2.0 percent more than expected. The increase is entirely attributable to water rate increases and revenues exceeding budget estimates for water sales to customers.

Capital connection fee revenues were below budget estimates by \$27,007. Water main extension fees were below budget estimates by \$4,521, and water connection fee revenues were less than budget estimates by \$49,759, and water meter materials exceeded budget projections by \$6,800.

Operating expenditures ended the year \$1,240,158, or 8.8 percent under budget. Current year budgetary savings occurred in the following categories and amounts:

- \$507,720 Salaries & benefits
- \$122,883 Professional services
- \$136,708 Special Equipment O & M
- \$123,495 Buildings & facility O & M
- \$159,000 Chemicals
- \$50,366 Capital equipment

With total FY 2019-20 operating expenditures for the Water Fund equal to \$8,757,865, the current year-end results represent an increase in expenses of \$829,674, or approximately 9.0 percent, higher than the previous year. Comparing the category totals of FY 2019-20 expenses to FY 2020-21, the largest changes were in the following areas and amounts:

- (\$421,193) Salaries & benefits
- (\$142,442) Heat & power
- \$41,320 Dues & Subscriptions
- \$74,235 Special equipment O & M
- (\$70,166) Vehicle & special equip.
- \$121,735 Chemicals
- \$85,300 Cost allocation charges

City Council adopted new water and wastewater rates on June 21, 2016 in accordance with a Proposition 218 protest hearing process. The water rate increase included a 29 percent adjustment in the monthly base rate with no increase to the volumetric charge the first year. For FY 2017-18, both the monthly base rate and the volumetric rate were increased by an amount less than the Proposition 218 maximum at 17 percent. The rate increase was effective July 1, 2017 so that the higher rate would be collected for the entire fiscal year. Effective July 1, 2018, City Council once again set water rates at a level below the Proposition 218 maximum. They increased both the base monthly rate and the consumption rate by 10 percent for FY 2018-19. City Council voted to not increase water rates for FY 2019-20, then again in FY 2020-21.

Wastewater Fund

	Budget	Actual	Percent
Balance, Start of Year	\$ 24,505,574	\$ 24,505,574	-
<i>Revenues</i>			
Operating	18,058,200	17,854,761	98.9%
Capital	493,200	712,725	144.5%
Sub-Total Revenues	18,551,400	18,567,486	100.1%
<i>Expenditures</i>			
Operating Programs	(12,320,879)	(10,556,111)	85.7%
Capital Equipment	(87,170)	(87,170)	100.0%
Debt Service	(3,255,038)	(3,279,296)	100.7%
Sub-Total Expenditures	(15,663,087)	(13,922,578)	88.9%
Balance	\$ 27,393,886	\$ 29,150,482	-

CIP Projects	\$ 11,852,000	\$ 7,007,319	59.1%
---------------------	----------------------	---------------------	--------------

Wastewater operating revenues were below budget estimates by \$203,439, or 1.1 percent. The decrease is attributable to revenues falling short of budget estimates in the following areas:

- (\$96,650) Sewer service charges
- (\$182,124) Septage charges
- (\$33,181) Sewer – lab testing

Capital related revenues were \$219,525 more than budgeted and largely attributable to the following differences:

- \$246,257 Capital connection fees
- (\$40,000) Sewer main extension fees
- (\$14,634) Special connection fees
- \$27,902 Investment income

Operating expenditures were \$1,764,768, or 14.3 percent, less than budgeted. Budget savings occurred in the following categories and amounts:

- \$490,446 Salaries & benefits
- \$136,636 Heat & power
- \$361,400 Professional services
- \$59,129 Dues & subscriptions

- \$192,581 Special equipment O & M
- (\$17,273) Buildings & facility O & M
- \$281,199 Chemicals

With total FY 2020-21 operating expenditures for the Wastewater Fund equal to \$10,556,111, the current year-end results show a decrease in expenditures of \$105,743, or 1.0 percent less than the previous year. The changes compared to the prior year were in the following categories and amounts:

- (\$18,855) Salaries & benefits
- (\$24,208) Heat & power
- \$362,204 Professional services
- (\$61,115) Dues & subscriptions
- \$81,826 Special equipment O & M
- \$6,340 Chemicals
- \$126,000 Cost allocation charges

The rate study conducted in accordance with Proposition 218 requirements included the City's wastewater operations. The study recommended a 10 percent increase each fiscal year in order to fund budgetary needs including operating costs, debt service, and infrastructure renewal and replacement. The recommended 10 percent increase was implemented for both FY 2016-17 and FY 2017-18. Rates are reviewed as part of the budget process and are brought back to City Council for annual consideration. An effort is made to recommend a rate for adoption that is less than the Proposition 218 maximum. For FY 2018-19, City Council increased wastewater rates by 8 percent, less than the Proposition 218 authorized amount of 10 percent. In June, 2019, after reviewing wastewater rates, City Council did not increase rates for FY 2019-20 and decided on no increases in FY 2020-21.