

Message from the Director of Finance and Information Systems:

The City publishes many annual financial documents; however, given the volume, timing and complexity of those documents it can be difficult to identify and focus on the most critical information. We have created this report to help consolidate these critical items into a simple format. We hope you find the Snapshot helpful and welcome any feedback.

COVID-19 ECONOMIC IMPACTS**General Fund**

This spring, the COVID-19 pandemic created significant uncertainty regarding the fiscal impact to the City's revenues. Primary concerns centered around the impact on development, the housing market and activity based revenues like sales taxes. Staff prepared a conservative outlook for the remainder of the 2019/20 fiscal year that projected a General Fund deficit as a result.

Looking back, development has not yet slowed at all, and in fact single-family permits slightly exceeded the pre-COVID budget. Through September, the City is also on pace to meet the FY 2020/21 permit budget.

In addition, economic stimulus from the federal government helped with consumer spending, softening the impact on the overall economy. The performance of the financial markets at the end of the fiscal year brought CalPERS better returns on assets invested for pensions, reducing contribution increases anticipated in future years.

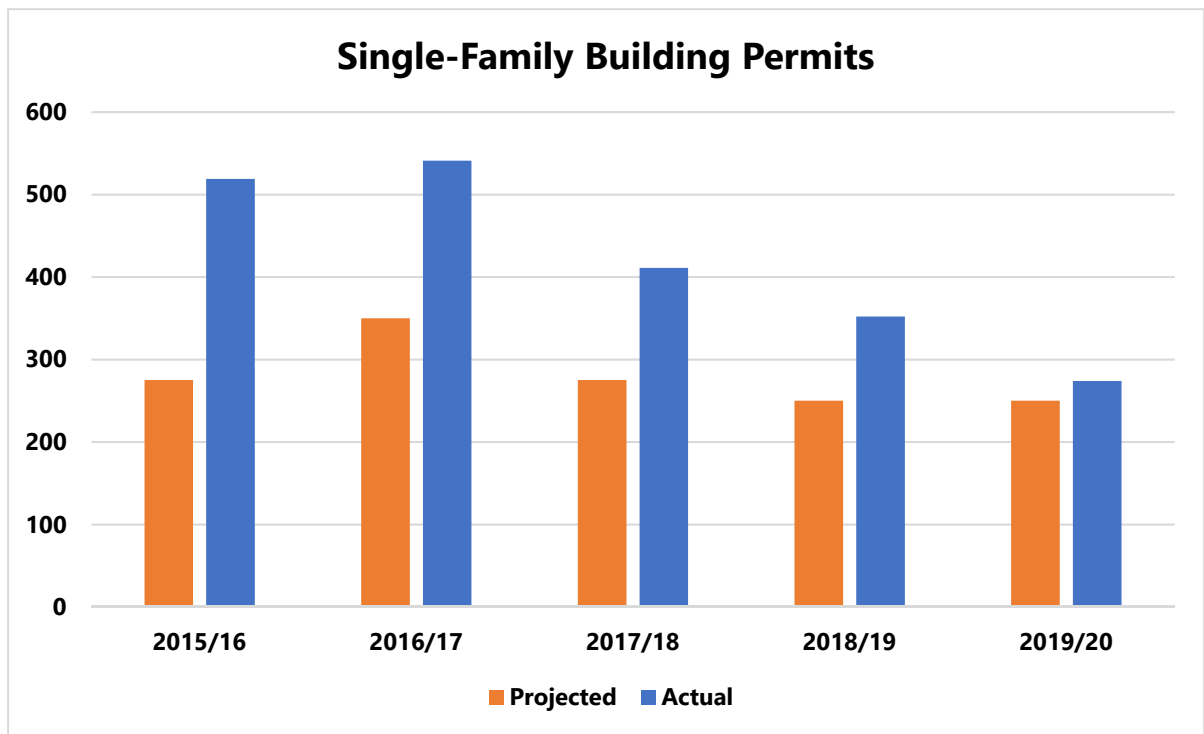
On the expenditure side, reductions in operating expenses were greater than projected, especially in Parks programs as social distancing and county health orders restricted activities. In addition, expenditures across the City were reduced to essentials resulting in greater savings than anticipated.

At the close of the year, the General Fund produced a surplus of about \$1.2 million, or 2% of operating revenues. While FY 2019/20 ended with results that were better than expected, economic uncertainty continues and the City's finances will be reviewed and updates provided to the City Council frequently in FY 2020/21.



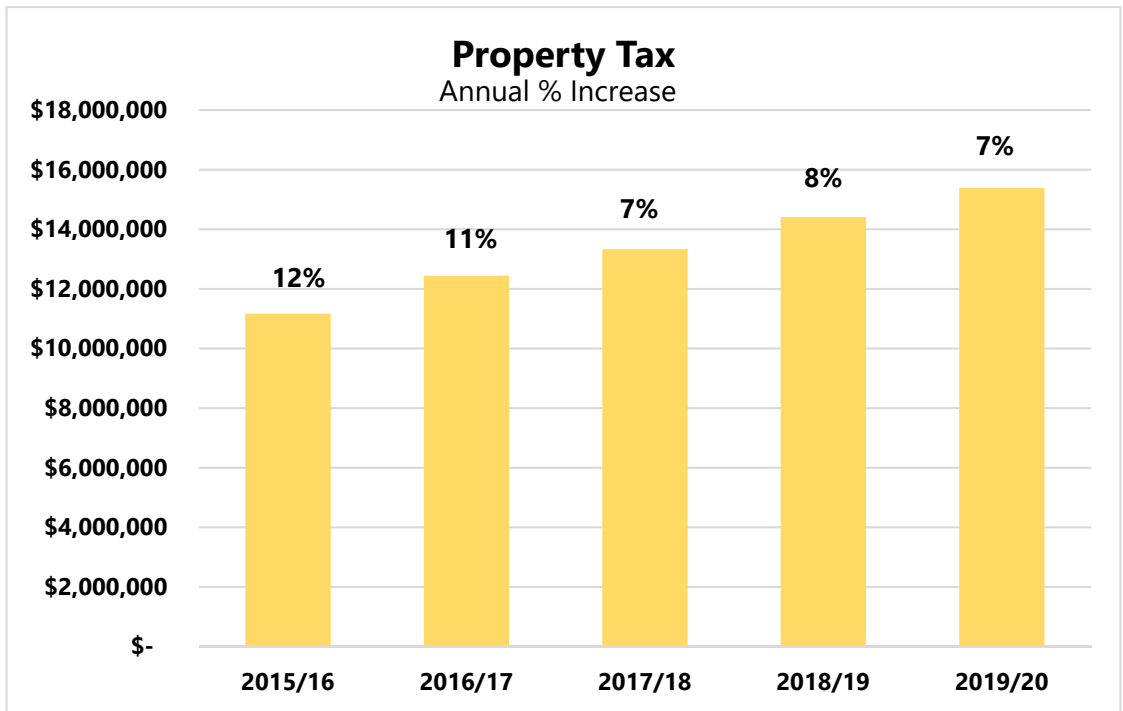
PERMIT ACTIVITY – 274 Single-Family Building Permits

Despite concerns about the economic impacts of COVID-19 on the housing market, the City exceeded its budgeted permit count in the current year, resulting in development revenues above budget. The trend of reduced single family housing development continued, however, as the City is now down nearly 50% over the past three years.



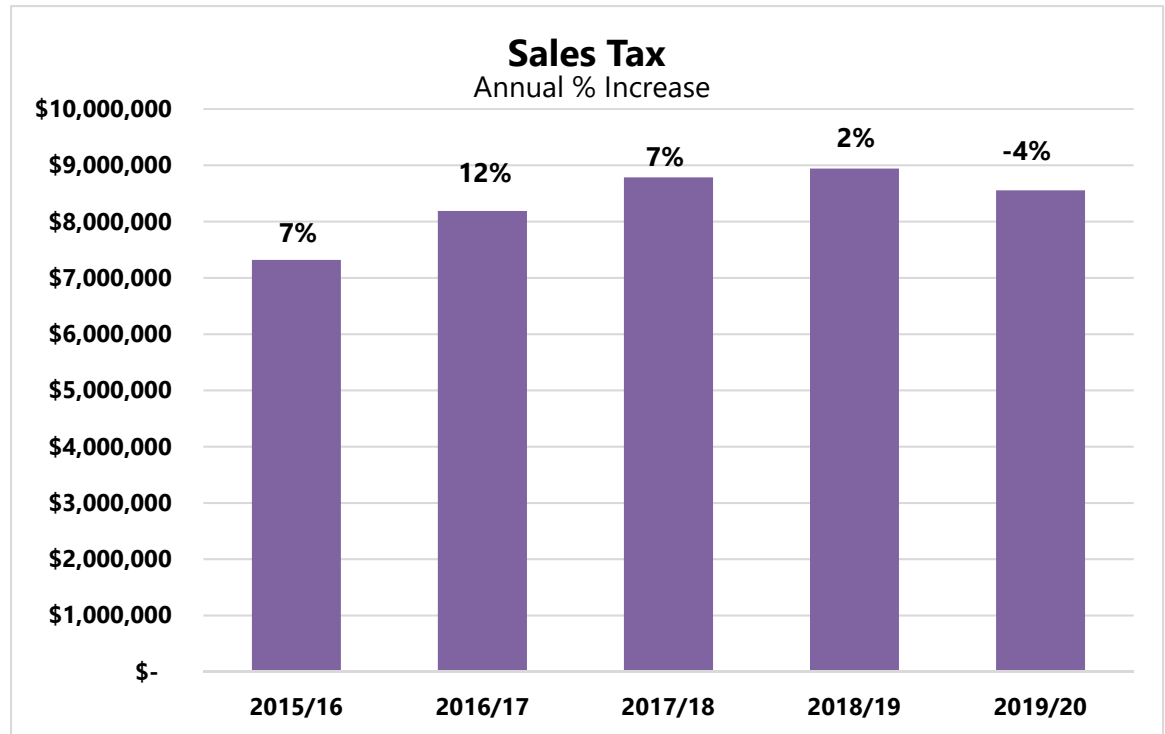
Property Tax Revenue

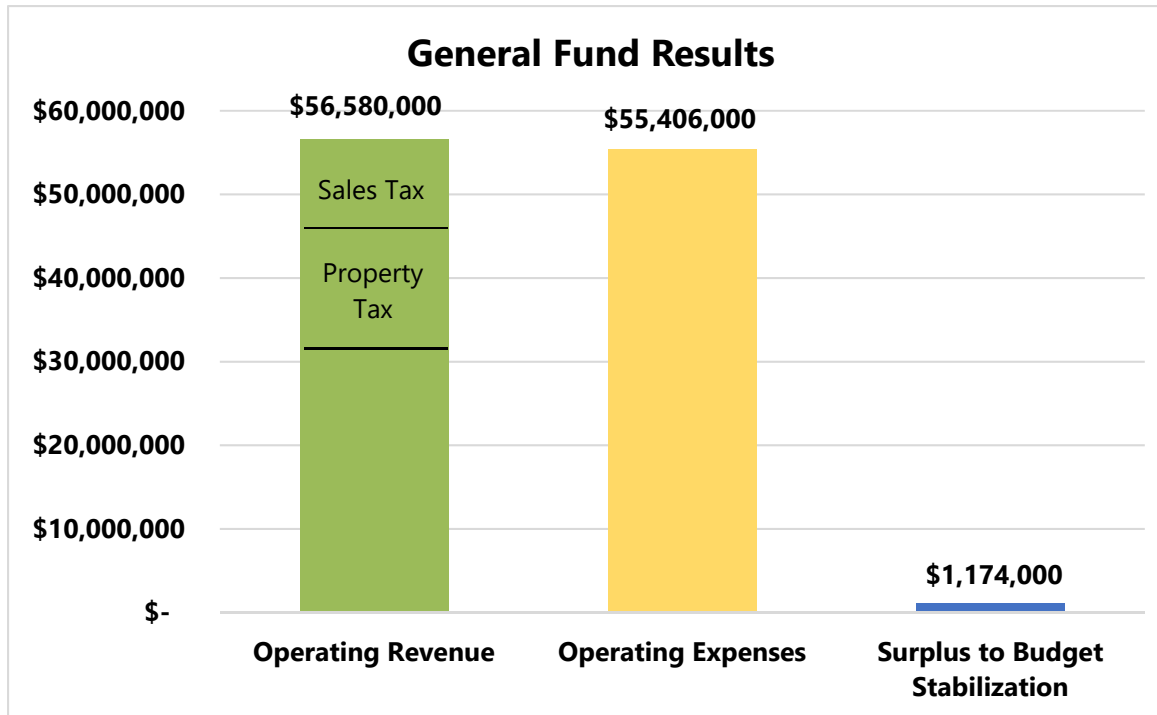
Property tax revenue, the General Fund's top revenue source, has performed well over the past 5 years. FY 2020/21 property taxes will continue to trend upward, however the long-term impacts of the COVID-19 crisis on the housing market remain uncertain at this time.



Sales Tax Revenue

Sales tax revenue, the General Fund's second largest revenue source, was growing at a healthy pace until the economic slowdown caused by COVID-19 resulted in reduced revenues in FY 2019/20.





GENERAL FUND RESULTS

General Fund revenues exceeded expenses and amounts set aside for Council directed reserves by \$1.2 million during the fiscal year. The surplus was due to the following factors:

- Continued strength, rather than a slowdown, in the housing market resulting in better than expected development revenues and supplemental property taxes
- Postponement of the Police Department 5th Beat, which included 5 additional officers and start-up costs
- Savings on Parks programs and part-time staffing costs from the cancellation of activities and facility rentals
- Expenditure savings across the board from limiting expenditures to essential activities in the final quarter of the year, along with reduction of services due to County health orders (e.g. reduced landscape maintenance)

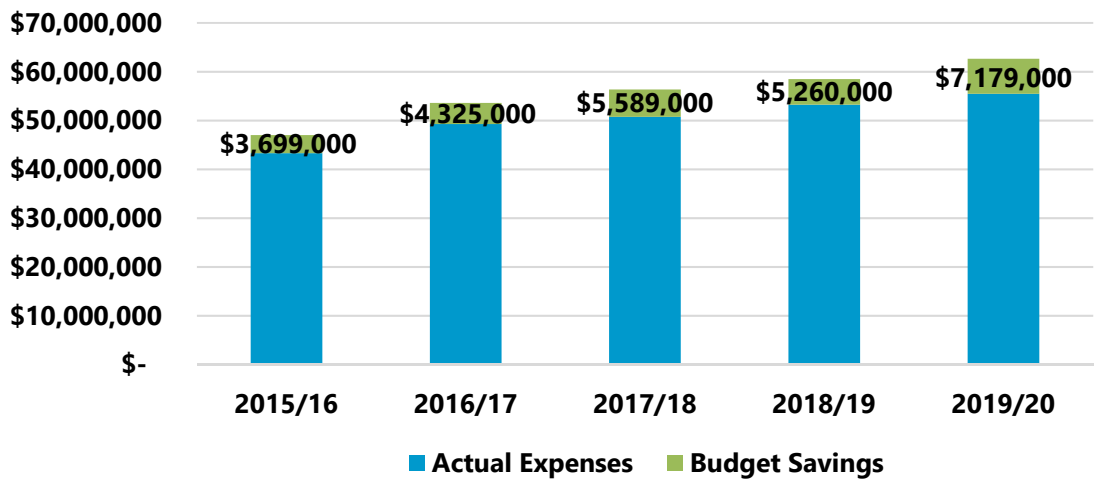
The surplus was transferred to the Budget Stabilization Fund in accordance with City Council policy. The Budget Stabilization Fund is used to offset rising pension and retiree medical costs in the intermediate-term. In the long-term, those costs will decline, and operating revenues are expected to match up with expenses, eliminating the need for the Budget Stabilization Fund to balance budgets.



GENERAL FUND EXPENDITURE SAVINGS

Historically, the General Fund has had significant expenditure savings when compared to the approved budget. Expenditure reductions implemented in response to the pandemic such as the delay in the implementation of the Police Department 5th Beat, other vacancy savings, part-time staff reductions and cutting all non-essential costs resulted in approximately \$2 million in expenditure savings above what is experienced in a typical year.

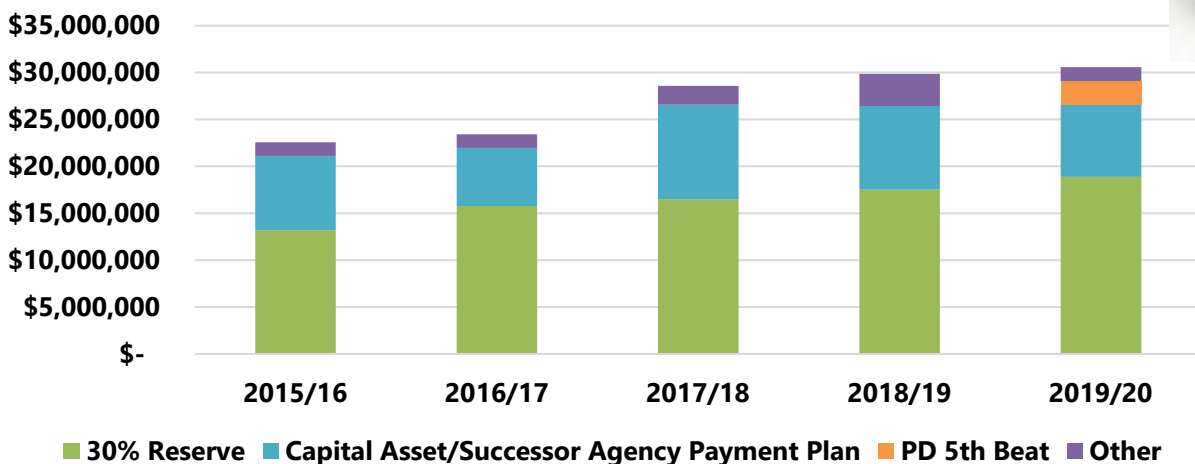
General Fund Budget Expenditure Savings



GENERAL FUND RESERVES

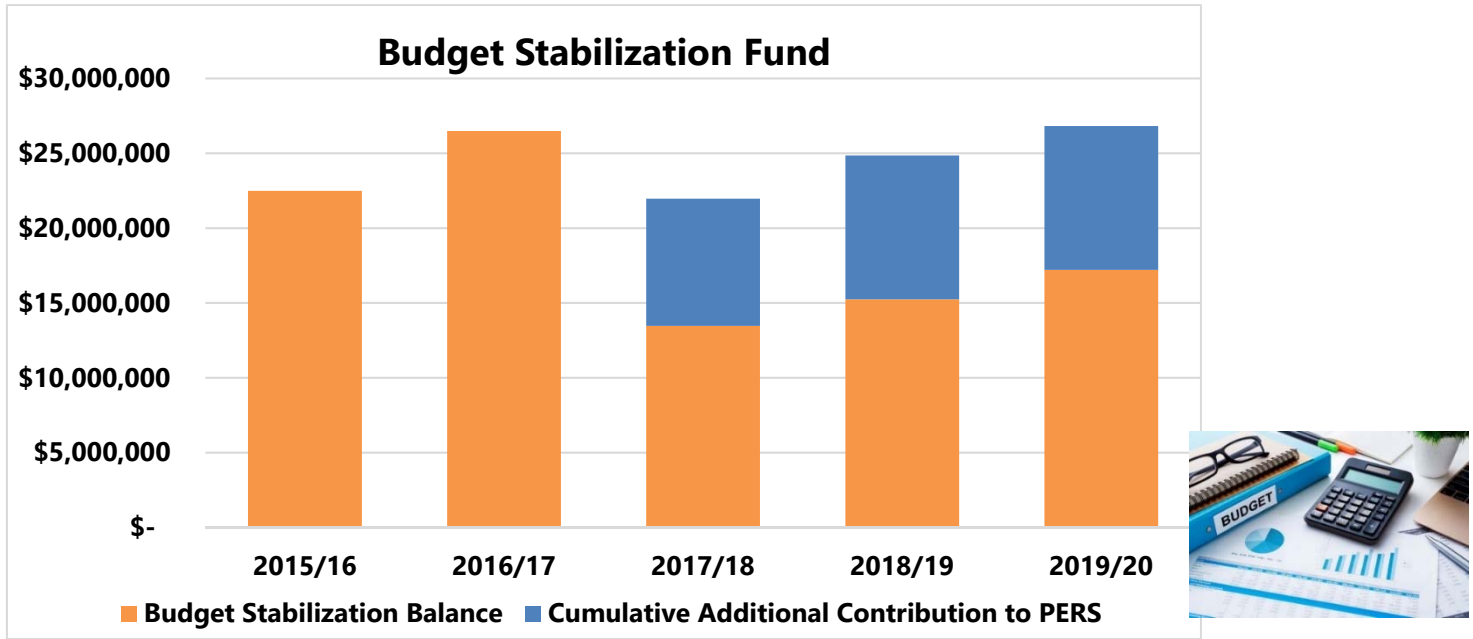
Per Council Policy, the General Fund maintains a 30% reserve. In addition, we have reserves for other future expenses. For example, the Successor Agency Payment Plan reserve is fully funded. Other reserve items include amounts set aside for the Police Department 5th beat, Strategic Initiatives, and a future General Plan Update.

General Fund Reserve Balance



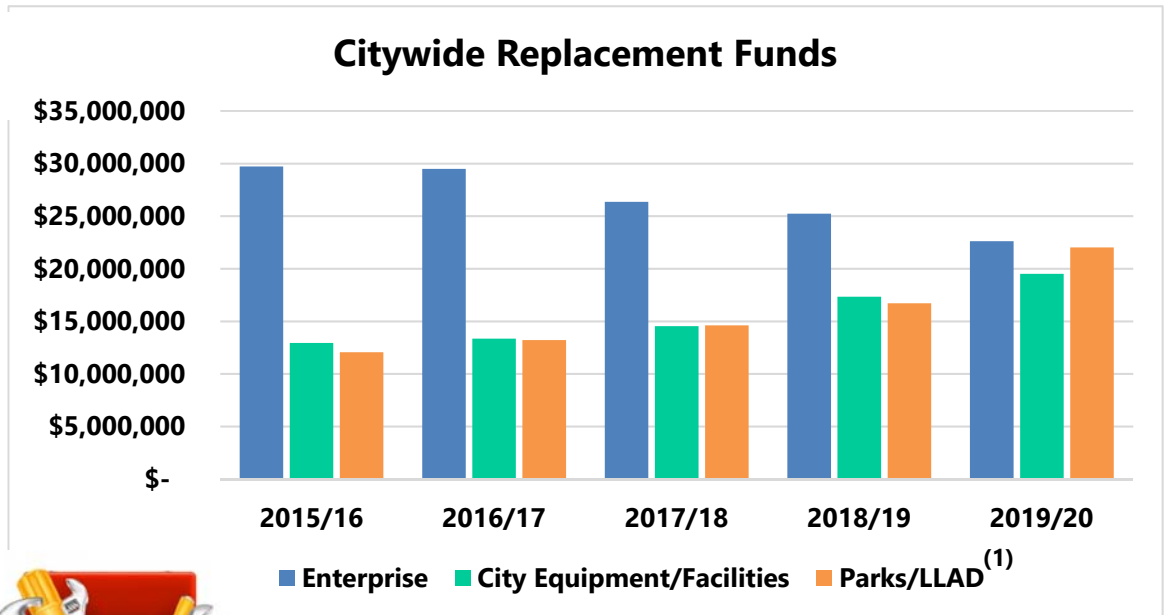
BUDGET STABILIZATION FUND

In July 2018, \$8.5 million of the Budget Stabilization Fund balance was used for a pension paydown payment, reducing the City's unfunded pension obligation. An additional \$1.1 million pension paydown payment was made in October 2019. This will save the General Fund nearly \$17 million in future pension costs. The current balance of the Budget Stabilization Fund is approximately \$17.2 million, equivalent to about 31% of General Fund expenditures.



CITYWIDE REPLACEMENT FUNDS

The City ensures that sufficient funds are being set aside annually for future asset replacement needs. In 2019/20, we have \$61.5 million set-aside for citywide asset replacement. Enterprise replacement funds were used over the past several years to fund several significant water replacement capital projects.



(1) LLAD - Landscape and Lighting Assessment District

COVID-19 ECONOMIC IMPACTS

ENTERPRISE FUNDS

The COVID-19 impacts on the Enterprise funds are reflected in higher customer account delinquency levels than in prior years. At June 30, 2020 delinquent balances were \$771,000 as compared to \$509,000 in 2019. As long-term economic conditions are uncertain, additional account write-offs may occur.



ENTERPRISE RESERVES

We have a 30% cash reserve goal for the Enterprise Funds. The following table shows the status of each fund at 2019/20 fiscal year-end.

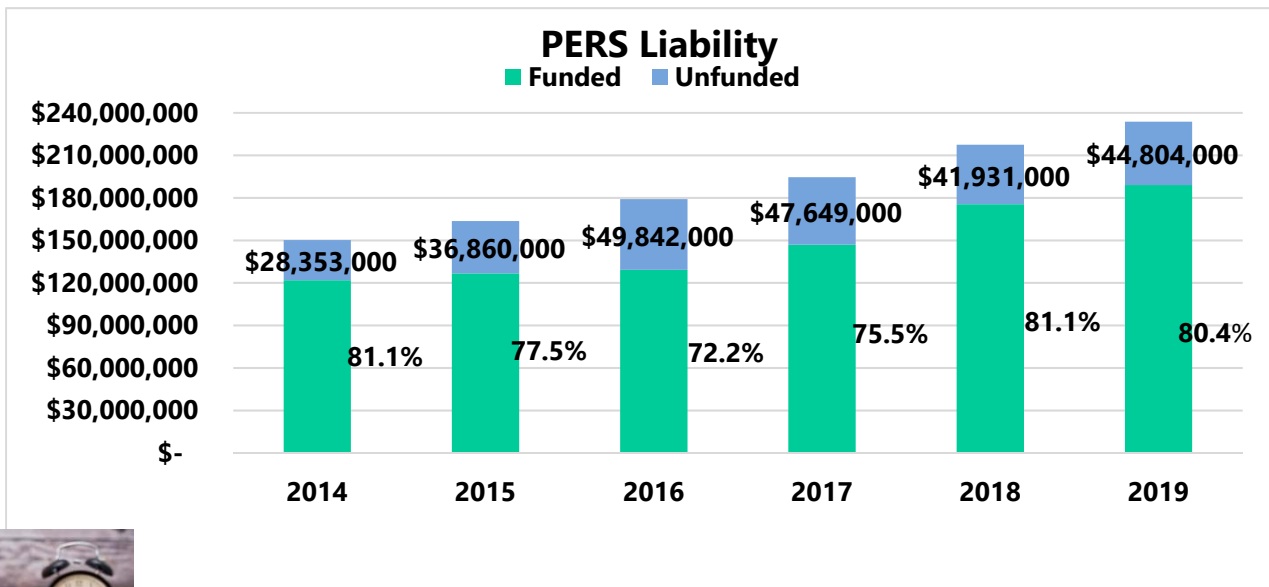
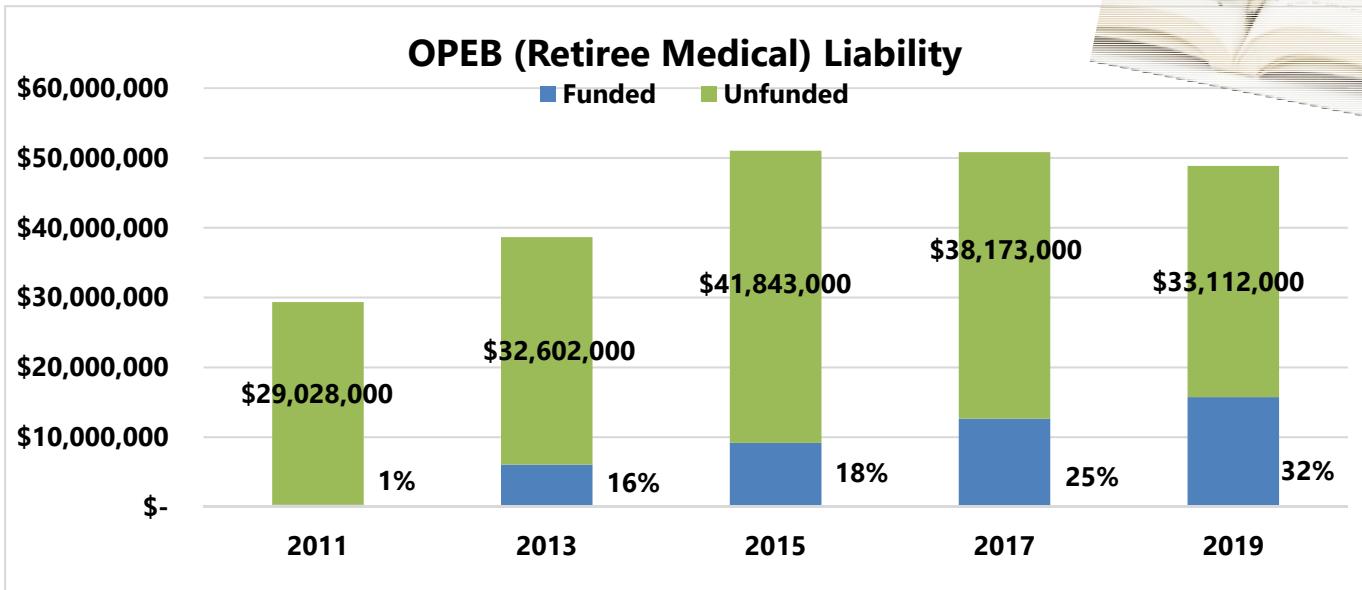


Enterprise Fund	30% Reserve Met?
Solid Waste	Yes
Water	Yes
Wastewater	Yes



OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Funding percentage of retiree medical benefits continues to improve, with the amount set aside projected to exceed 50% of the liability in 7 to 8 years.



PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

In large part due to the pension paydown payments made in 2018 and 2019 reflected in the chart above, the funded percentage of the City's pension plan is at a much healthier level. The City's assets at PERS have increased from \$120 million to over \$185 million over the past five years. Uncertainty remains about PERS earnings during the COVID-19 crisis.