

***The City publishes many annual financial documents; however, it can be difficult to identify and focus on the most critical information given the size, timing and complexity of the documents. We have created this report to present these key items in a simple format. This report focuses on the most recently completed Fiscal Year, covering July 1, 2021 – June 30, 2022.***

***We hope you find the Snapshot helpful and welcome all feedback.***

## **SHORT-TERM RECOVERY AND LONGER-TERM CHALLENGES**

### **General Fund**

The City is reporting strong financial results for the Fiscal Year ended June 30, 2022. Property values and consumer spending reached record levels, and the General Fund benefited from revenues that exceeded projections. At June 30, 2022, the City's financial trends looked stronger than ever.

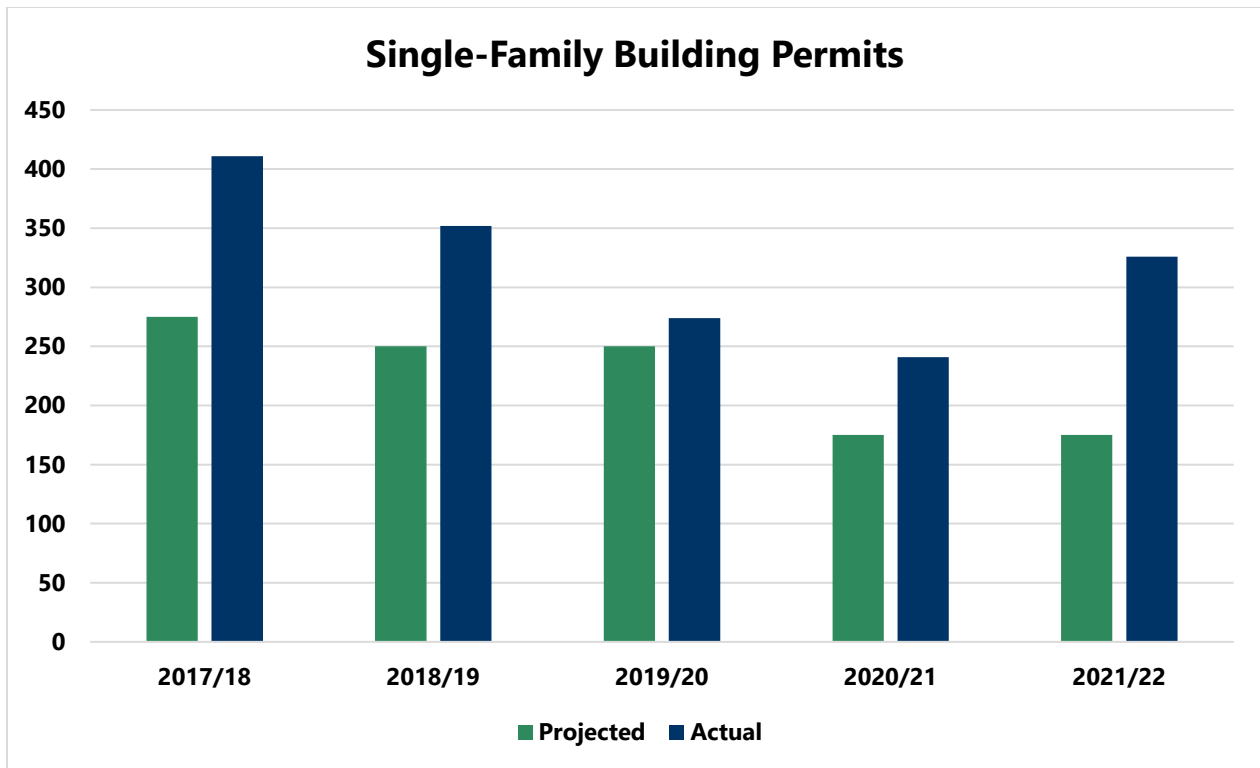
The Federal Government enacted a series of unprecedented actions to protect the economy from financial upheaval during the pandemic. The General Fund's result illustrates the extremely positive aspects of these efforts. Unfortunately, the economic recovery is facing a number of significant challenges. Inflation is at levels unseen in 40 years, increasing the cost of providing governmental services. Project costs are increasing at the same time supply chain issues are causing delays. In the longer-term, personnel costs will also increase to make up for investment losses suffered by CalPERS. On the revenue side, it is likely that current economic headwinds will lead to slower consumer spending and could soften the housing market, affecting the City's top sources of revenue.

While the FY 2021/22 results are excellent, they should be viewed with the knowledge that the fiscal environment has already changed, and more difficult conditions are likely ahead. Fortunately, as will be demonstrated throughout this Snapshot, the City is well positioned and prepared to meet any upcoming economic challenges.



## PERMIT ACTIVITY – 326 Single-Family Building Permits

New residential development remained steady throughout the year. To avoid a record development fee increase driven by inflation, we saw a substantial number of permits issued just before year-end. The resulting fiscal impact was a surplus of development related revenue of \$1.2 million for the year. We are likely to see an equal shortfall in FY 2022/23, as permit activity happened earlier than projected.



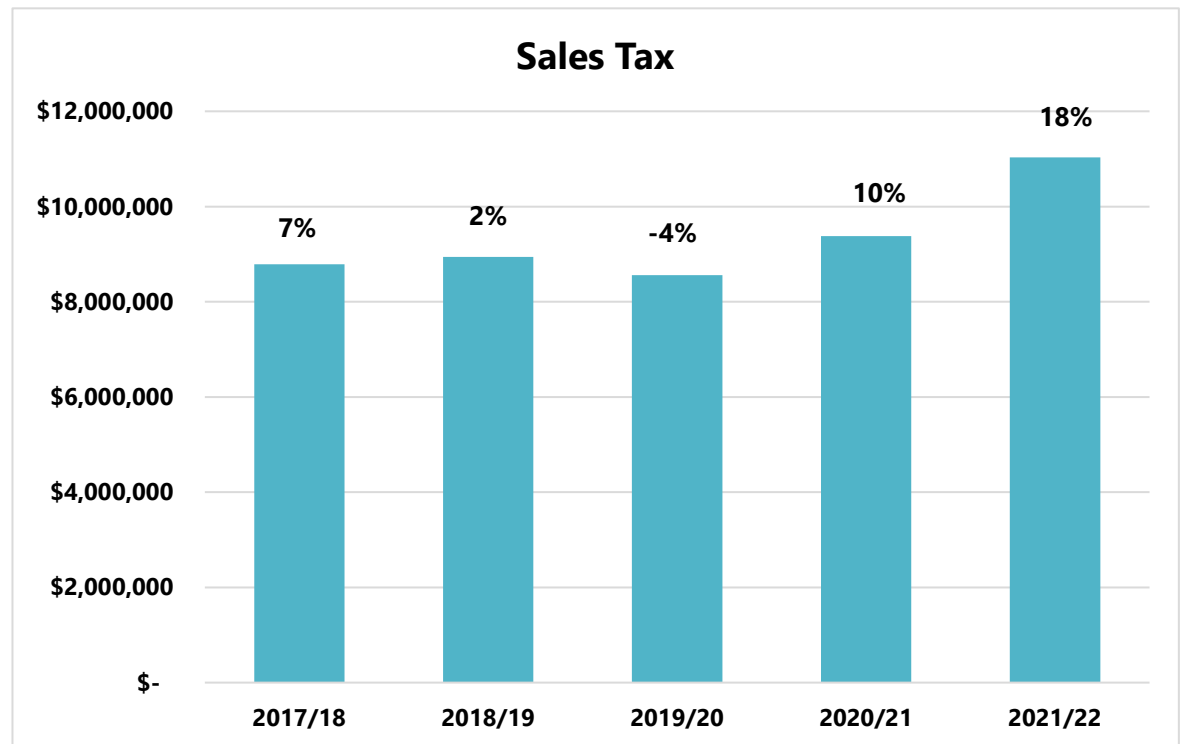
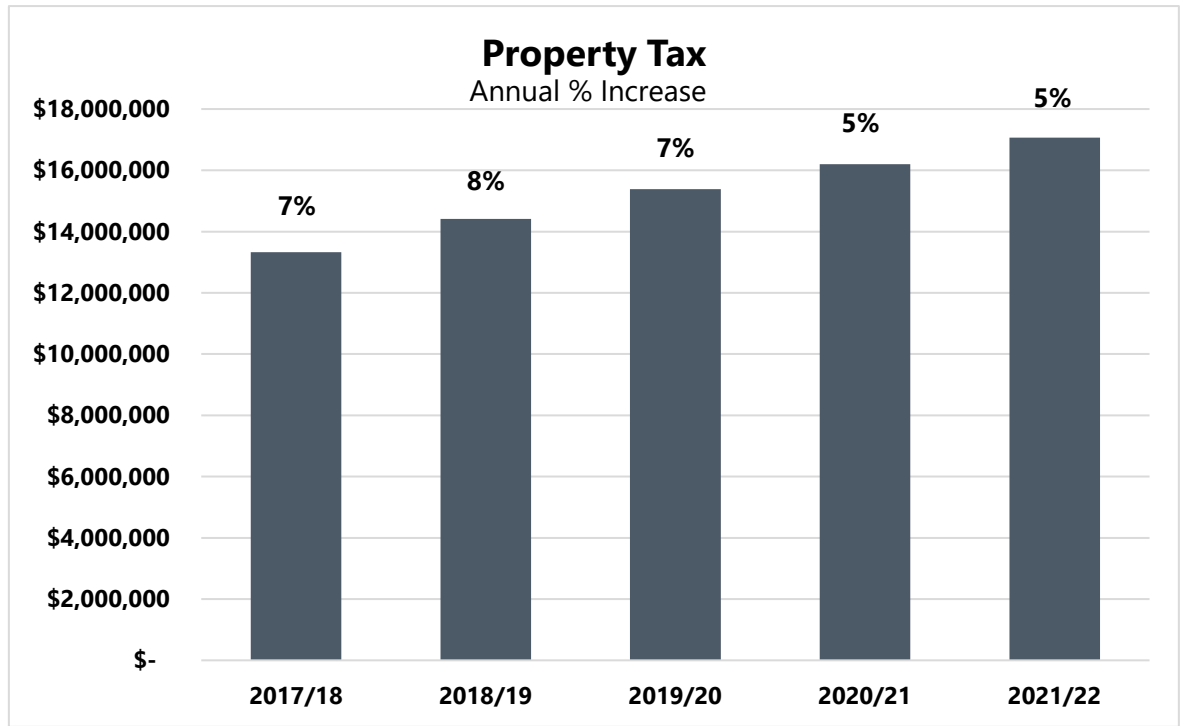
## Property Tax Revenue

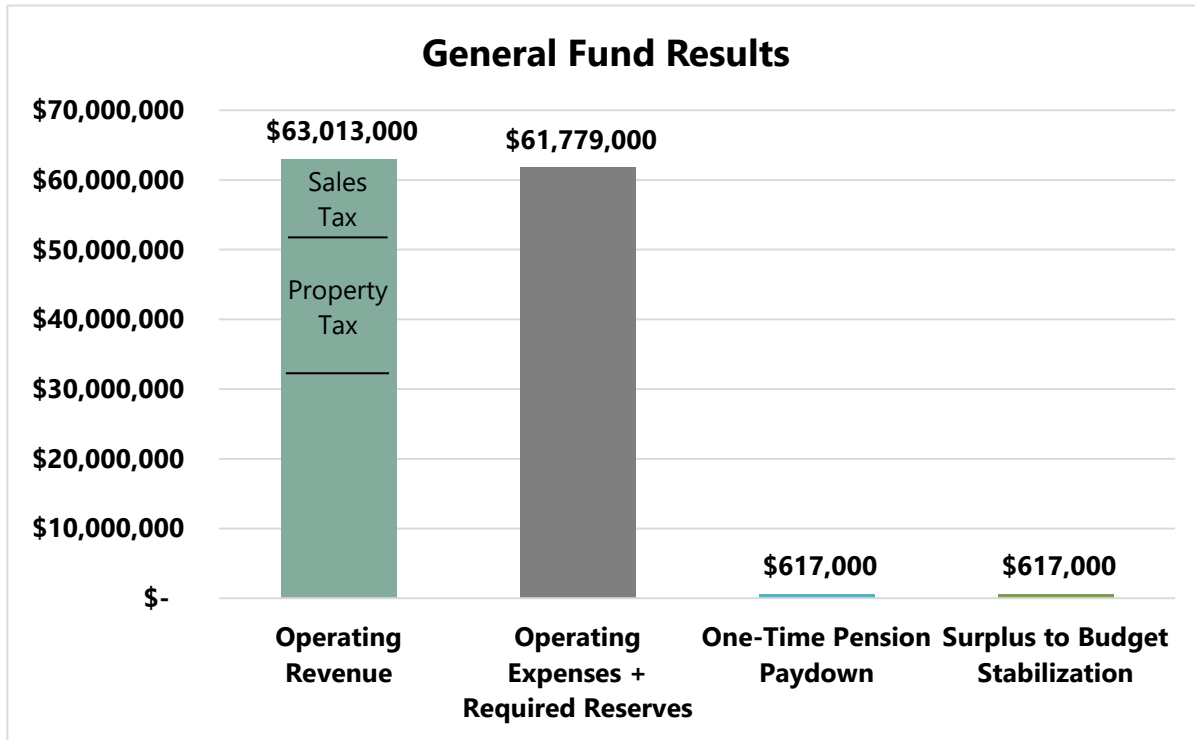
Property tax revenue, the General Fund's top revenue source, has performed well over the past five years. FY 2022/23 property tax revenues are expected to continue to trend upward before slowing considerably in 2023/24 due to rising interest rates and a softening housing market.



## Sales Tax Revenue

Sales tax revenue, the General Fund's second largest revenue, suffered a pandemic induced slowdown in 2020. Government stimulus helped spur growth through FY 2021/22. We expect very little growth in FY 2022/23.





**GENERAL FUND RESULTS**

The General Fund remained balanced, with revenues exceeding expenses and amounts set aside for reserves by \$1.2 million. During the fiscal year \$800,000 was also allocated by the City Council for one-time Strategic Plan Initiatives. We had been expecting a break-even result, however, developers rushed in to pull permits just prior to the fiscal year-end close to avoid an upcoming fee increase.

The increased permit activity at the end of the fiscal year is really a matter of timing and moving funds between fiscal years, as opposed to new or unexpected revenue. With the rush to pull permits in June we now believe our FY 2022/23 development revenue will fall short of our budgeted projections in an amount similar to the surplus generated in FY 2021/22.

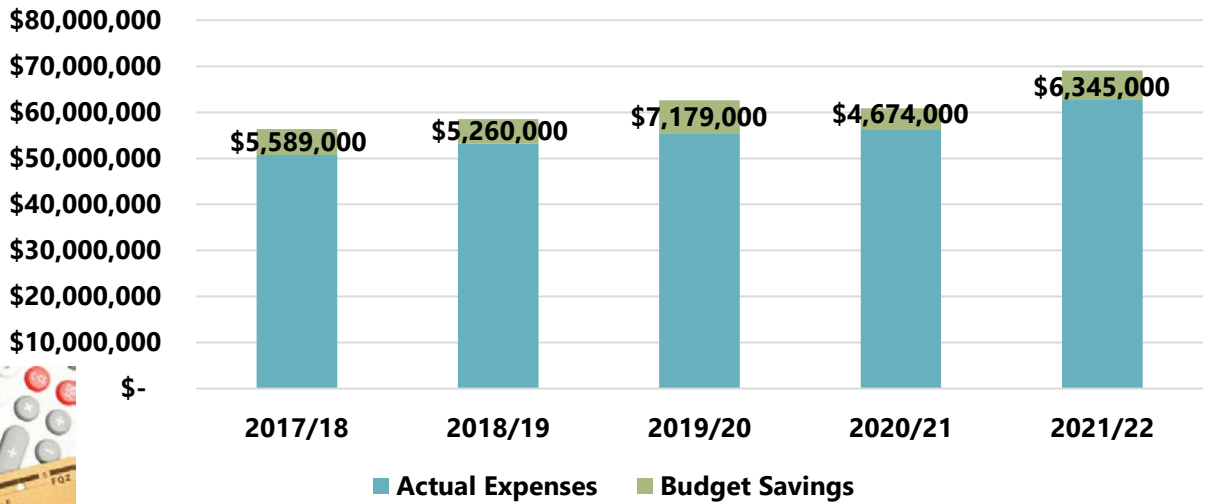
Pursuant to City Council policy, 1/2 of the remaining surplus (\$0.6 million) will be used to reduce unfunded pension obligations via a lump sum payment, while the other 1/2 will be transferred to the Budget Stabilization Fund. The Budget Stabilization Fund is used to offset rising pension and retiree medical costs in the intermediate-term, and has provided a source for additional pension pay down payments.



## GENERAL FUND EXPENDITURE SAVINGS

Historically, the City has seen significant expenditure savings when comparing results to the budget. This helps reduce or eliminate the need to transfer in funds from the Budget Stabilization Fund. Last year we saved about \$6.3 million compared to the budget. Vacant positions throughout the year, along with delays in purchasing due to supply chain issues (e.g., vehicles and equipment) were responsible for a large portion of this savings.

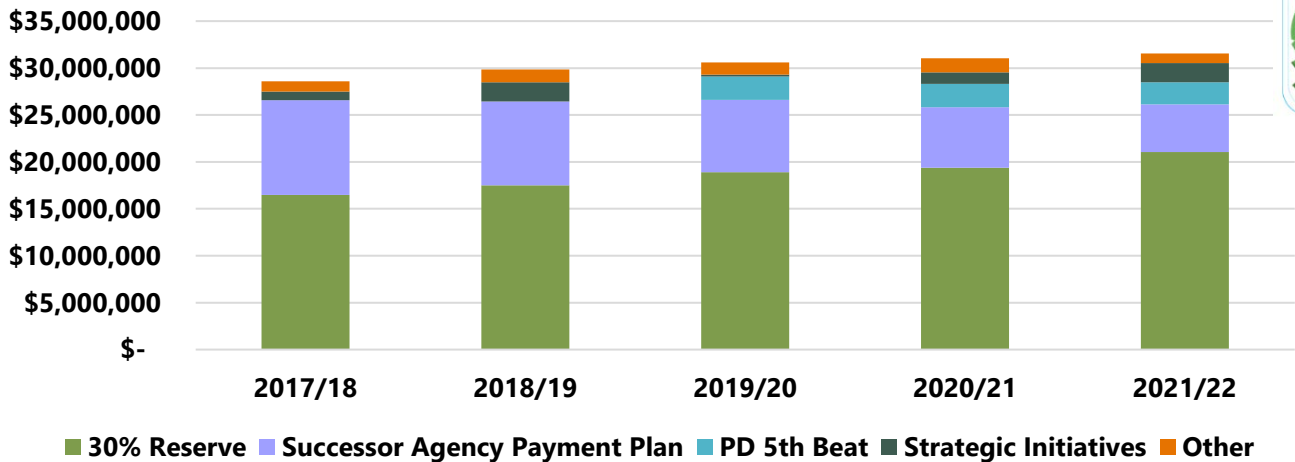
### General Fund Budget Expenditure Savings



## GENERAL FUND RESERVES

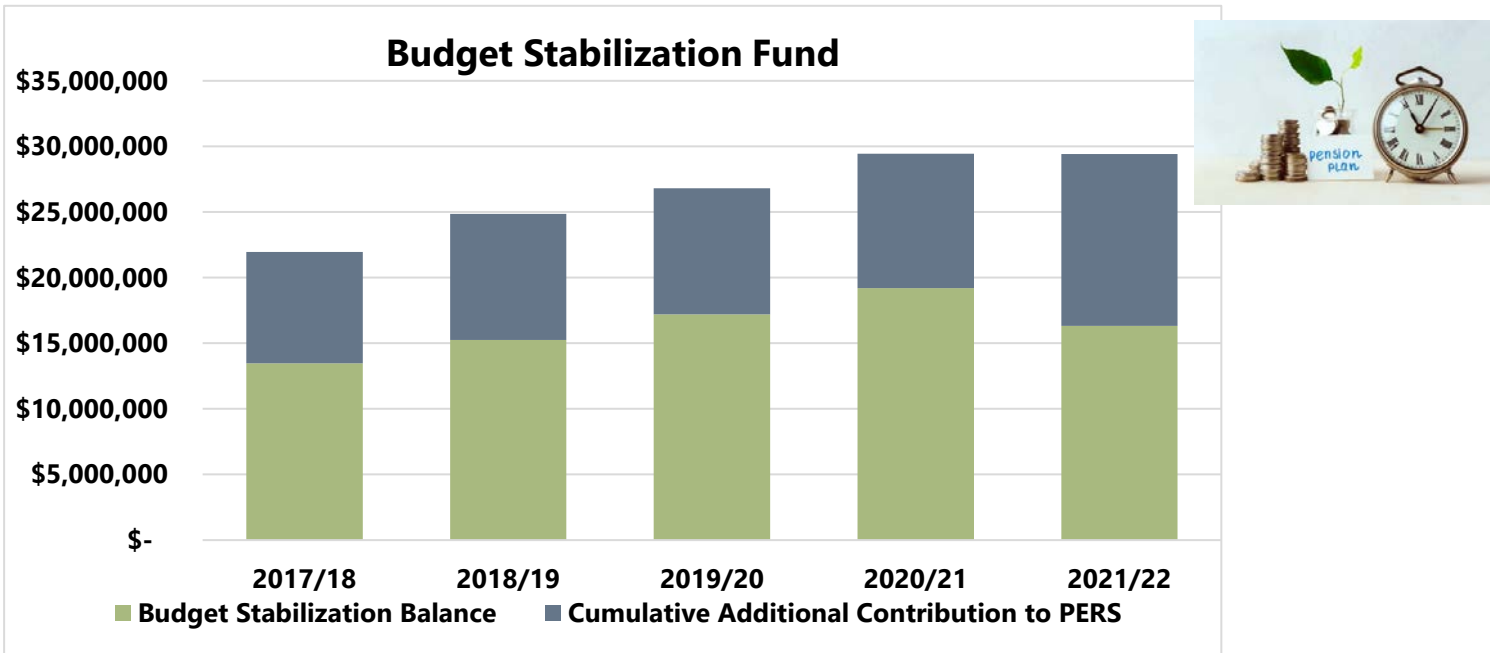
Per City Council Policy, the General Fund maintains a 30% reserve. In addition, we have reserves for other future expenses and projects. Reserve amounts include funds set aside to fund the first two years of the Police Department 5<sup>th</sup> beat and future Strategic Initiatives.

### General Fund Reserve Balance



## BUDGET STABILIZATION FUND

Since 2018, a total of \$13.1 million in pension paydown prepayments have been made from the Budget Stabilization Fund. These payments will save the General Fund approximately \$25 million in future pension costs. The current balance of the Budget Stabilization Fund is approximately \$16.3 million, equivalent to about 23% of General Fund expenditures.

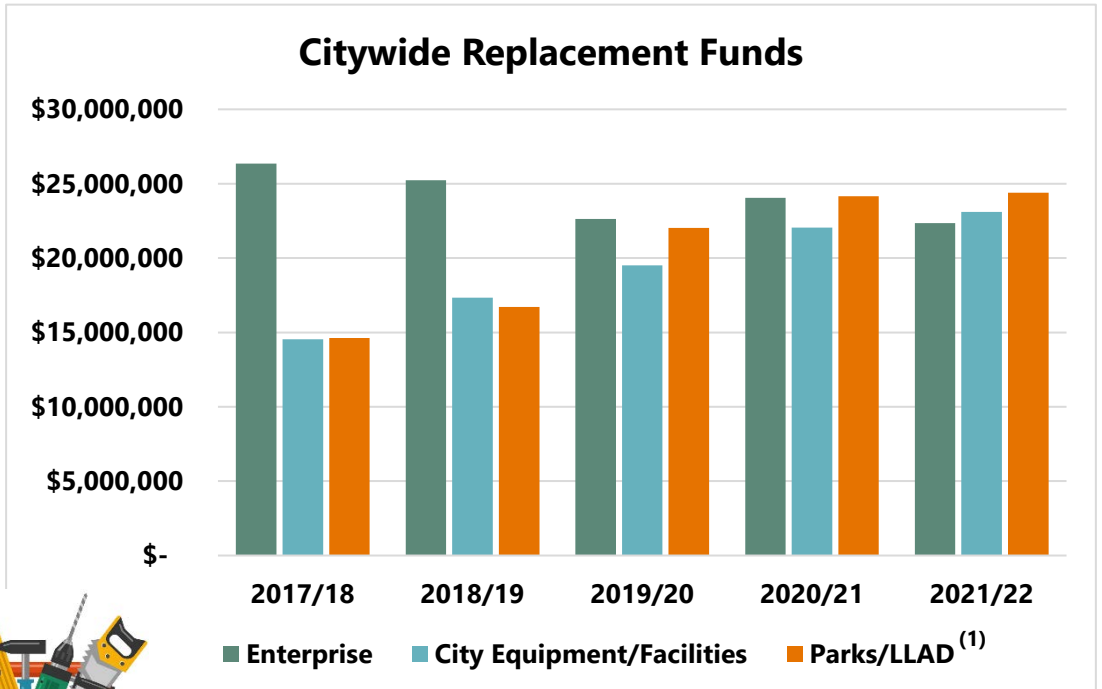


## CITYWIDE REPLACEMENT FUNDS

The City sets aside funds for future asset replacement needs for things like park playgrounds and water pipes. By the end of FY 2021/22, we had \$69.9 million set-aside for asset replacement. Enterprise replacement funds were used over the past several years to fund several significant water and wastewater replacement capital projects.



## Citywide Replacement Funds



(1) LLAD - Landscape and Lighting Assessment District

**PANDEMIC ECONOMIC IMPACTS**

**Enterprise Funds**

The pandemic has had a negative fiscal impact on the City’s Enterprise (Water, Wastewater and Solid Waste) funds. During the pandemic the City’s collection efforts of past-due accounts were limited by State Law. Over the past year past due balances have declined through the efforts of Utility Billing staff to secure direct State funding and grants for our residents.



**ENTERPRISE RESERVES**

We have a 30% cash reserve goal for the Enterprise Funds. The following table shows the status of each fund at 2021/22 fiscal year-end.

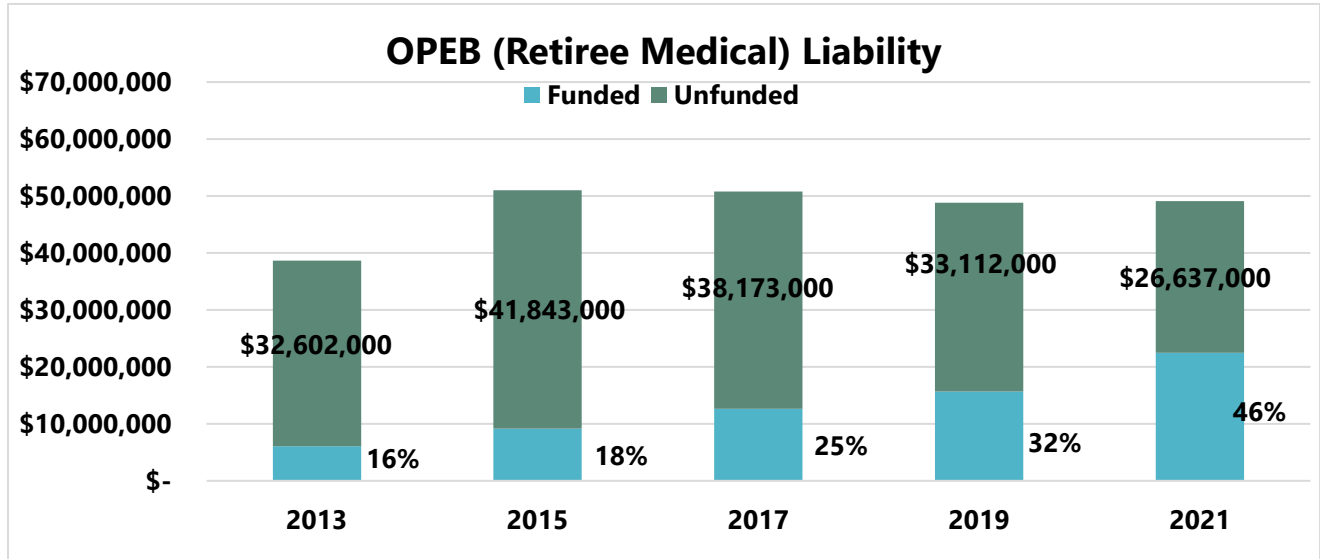


<b>Enterprise Fund</b>	<b>30% Reserve Met?</b>
Solid Waste	Yes
Water	Yes
Wastewater	Yes



## **OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

The funding percentage for retiree medical benefits continues to improve. In 2011 the City's OPEB Trust was only 1% funded! Although continued progress will be made in the coming decade, recent market volatility will likely reduce the funded percentage at the next measurement date in 2023.



## **PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)**

The City's pension funding percentage is well above the statewide average due in large part to extra contributions made over the past several years. The most recent valuation is as of June 30, 2021, prior to significant losses in the investment markets. As such, the City will see a decrease in the funded percentage when the 2022 valuation is released next year. As of June 2022 we estimate the current funded percentage to be around 80%.

