AGENDA

Special Budget Workshop City Council Meeting
and Successor Agency to the Former
Redevelopment Agency
Tuesday, April 27, 2021, 6:00 p.m.
Via Zoom Webinar
www.cityofwasco.org

IMPORTANT NOTICE REGARDING APRIL 27, 2021 SPECIAL BUDGET WORKSHOP MEETING
This meeting is being conducted utilizing teleconferencing, and electronic means consistent with Executive Order N-29-20, Issued by Governor Gavin Newsom on March 17, 2020, and, to the extent applicable, Government Code Section 54953(b) in-person participation by the public will not be permitted. No physical location from which the public may observe the meeting will be available. Remote public participation is allowed in the following ways via Zoom Webinar; please see the instruction below:

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Verbal Participation using Zoom

Please use the “Raise Hand” button to request to speak. Raised hands will only be acknowledged during the Public Hearing and Public Comment sections of the agenda and when the Meeting’s presiding officer requests public comments.

Verbal Participation over the phone

Please dial ***9** to “raise your hand” to request to speak. Raised hands will only be acknowledged during the Public Hearing and Public Comment sections of the agenda and when the Meeting’s presiding officer requests public comments. Please be advised you will be called on by the phone number you are calling from.

Submitting written comments:

You can also submit your comments via email to **cityclerk@cityofwasco.org;** such email comments must be identified by adding the Agenda Item Number in the email's subject line. Every effort will be made to read your comment into the record; however, they are limited to two (2) minutes. If a comment is received after the agenda item is heard but before the meeting is adjourned, the comment will still be included as a part of the record of the meeting but will not be read into the record.

American Disability Act Accommodations:

Meetings are accessible to people with disabilities. Requests in advance of the meeting will enable the City to make reasonable arrangements to ensure accessibility to this meeting and its materials. Individuals who need special assistance or a disability–related modification or accommodation to participate in this meeting or who have a disability and wish to request an alternative format for the meeting materials should contact the City Clerk at **cityclerk@cityofwasco.org** or call 661-758-7203. Every attempt will be made to swiftly address each request. *(28 CFR 35.102–35.104 ADA Title II)*

You can also submit your comments via email to **cityclerk@cityofwasco.org;** such email comments must be identified by adding the Agenda Item Number in the email's subject line. Every effort will be made to read your comment into the record; however, they are limited to two (2) minutes. If a comment is received after the agenda item is heard but before the meeting is adjourned, the comment will still be included as a part of the record of the meeting but will not be read into the record.

SPECIAL BUDGET WORKSHOP MEETING – 6:00 p.m.

1) **CALL TO ORDER:** Mayor

2) **FLAG SALUTE:** Mayor

3) **INVOCATION:**

4) **ROLL CALL:** Mayor Garcia, Mayor Pro Tem Reyna, Council Member Cortez, Martinez, Pallares

5) **PRESENTATIONS: NONE**

6) **PUBLIC COMMENTS: (PLEASE REFER TO THE INSTRUCTION PAGE FOR MORE INFORMATION)**
This portion of the meeting is reserved for persons desiring to address the Council and including the Council acting as the Governing Board for the Successor Agency on any matter not on this agenda and over which the Council and Successor Agency has

jurisdiction. Speakers are limited to two (2) minutes. Please state your name for the record before making your presentation.

The City Council is very interested in your comments; however, no action may be taken at this meeting due to Brown Act requirements. Should your comments require further consideration by the City Council or the Successor Agency, the item will be agendized for a report and discussed at a future City Council meeting.

7) NEW BUSINESS:

a. Review, Discuss, and Possible Minute actions regarding Budget and Fiscal Policies. (Perez-Hernandez)

b. Review and Discuss the General Fund Five-Year Fiscal Forecast.(Perez-Hernandez)

c. Review and Discuss the Water Fund Five-Year Fiscal Forecast. (Perez-Hernandez)

8) ADJOURNMENT:

This is to certify that this agenda was posted at Wasco City Hall on April 26, 2021. The agenda is also available on the City website at www.cityofwasco.org

Maria O. Martinez, City Clerk

All agenda item supporting documentation is available for public review in the city website ***www.cityofwasco.org*** *and the office of the City Clerk of the City of Wasco, 746 8th Street, Wasco, CA 93280 during regular business hours, 7:30 a.m. – 5:00 p.m. Monday through Thursday and 8–5 p.m. Friday (closed alternate Friday's), following the posting of the agenda. Any supporting documentation related to an agenda item for an open session of any regular meeting that is distributed after the agenda is posted and prior to the meeting will also be available for review at the same location and available at the meeting.* ***Please remember to turn off all cell phones, pagers, or electronic devices during Council meetings.***

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STAFF REPORT

CITY OF WASCO

TO: Honorable Mayor and Council Members

FROM: Daniel Ortiz-Hernandez, City Manager
Isarel Perez-Hernandez, Finance Director
William C. Statler, Fiscal Advisor

DATE: April 27, 2021

SUBJECT: Review, Discuss, and Possible Minute actions regarding Budget and Fiscal Policies.

RECOMMENDATION:
Staff recommends that the City Council conceptually approve the proposed *Budget and Fiscal Policies* in guiding the preparation of the Preliminary Budget, with final adoption in June 2021 in conjunction with approval of the 2021-22 Fiscal Year Budget, except for the *Capital Financing and Debt Management Policy*: in meeting State Water Resource Control Board (SWRCB) loan requirements, this policy will be presented for formal Council approval at the May 4, 2021 meeting.

DISCUSSION:
When clearly articulated (and followed), budget and fiscal policies provide an essential foundation for effective financial decision-making and in protecting the City's fiscal health, in both the short and long-term.

The City's fiscal health is a lot like personal health: it isn't what you live for, but it is hard to enjoy your life without it. Cities don't exist to be fiscally healthy: they exist to make communities better places to live, work, and play. However, this requires the fiscal capacity to link community goals with the resources needed to achieve them. In short, fiscal health is not an end in itself; but it is an important part of the tool kit in achieving "ends."

And like personal health, fiscal health is rarely luck. The strength of the local economy is obviously an important fiscal health factor – just as genes are in personal health. However, regardless of the strength of its local economy, no city is immune from economic downturns or unexpected expenditure needs.

Formal statements key budget and fiscal policies provide the foundation for assuring long-term fiscal health by establishing a clear framework for effective and prudent financial decision-making.

For this reason, clearly articulated policies are a city's "north star" in guiding the preparation and implementation of budgets and financial plans. They help make tough decisions easier by stating an organization's values before they are placed under stress by adverse circumstances. The organization might still choose to do something different – effective policies are guides, not straightjackets – but they are a powerful starting point: but for "this," the organization should do what?

Stated simply, articulating and then following prudent fiscal policies is the most effective and proven way for cities to ensure their long-term fiscal health.

They are both preventative and curative: clearly articulated policies help prevent problems from arising in the good times; and help respond to bad times when they do occur. They also help provide continuity as elected officials and staff change. Lastly, they are most powerful when it is put in place before the need for them arrives.

In summary, adopting key fiscal policies is an essential factor for effective stewardship of the City's resources, both in the short and long-term.

Proposed Budget and Fiscal Policies

"One size does not fit all" in setting fiscal policies. Careful consideration needs to be given in developing policies that are appropriate given the unique circumstances of each city.

Based on "best practices" recommended by professional organizations like the Governments Finance Officers Association of the United States and Canada (GFOA) and the California Society of Municipal Finance Officers (CSMFO) as well as the major credit rating agencies, fiscal policy areas that the City will want to address are presented in the sidebar.

Within the next six months, we recommend addressing each of these policy areas. However, for guidance in preparing the 2021-22 Budget, we recommend focusing on the following four policies as set forth in Attachment 1 at this time:

- Budget purpose and organization
- Revenue management
- Minimum fund balance and reserves
- Financial reporting and budget administration

Each of these will provide an important foundation and guidance for staff preparation of the Preliminary Budget for 2021-22 as well for the Council's review of it at the workshops and hearings that will follow its issuance by June 15, 2021.

Fiscal Policy "Best Practices"

"One size does not fit all" in setting fiscal policies. Careful consideration needs to be given in developing policies that are appropriate given the unique circumstances of each city. Fully addressing all of these areas is planned within the next six months:

- Budget purpose and organization (including a balanced budget policy and what this means)
- Revenue management
- User fee cost recovery: when should user fees fund services versus general purpose revenues?
- Minimum fund balance and reserves
- Financial reporting
- Budget administration
- Capital improvement plan (CIP) management
- Capital financing and debt management
- Purchasing
- Human resources management

Capital Financing and Debt Management Policy

While not essential for the preparation of the 2021-22 Budget, we also recommend considering the *Capital Financing and Debt Management* policy at this time. As noted above, adopted debt policies are required by the SWRCB in considering the City's $25.8 million loan application for water system improvements. Moreover, the City's current policies (Attachment 2) call for the preparation of a comprehensive debt management policy:

"In recognition of its responsibility for the management of debt obligation for itself and its component units, the City of Wasco will develop a comprehensive set of formal debt policies."

Accordingly, we recommend formal adoption of the proposed *Capital Financing and Debt Management Policy* by the Council approval at the May 4, 2021.

Preparing the Proposed Policy. It draws on "best practices" and policies used in other highly-regarded cities. Moreover, it reflects the elements recommended by the State of California Debt and Investment Advisory Commission (CDIAC). As such, In several cases, it addresses debt issues that are not currently on the City's radar, such as land-based and conduit financings. However, in assuring that it meets SWRCB loan requirements, it is intended to be comprehensive in meeting current and future needs.

Current Budget and Fiscal Policies

As presented in Attachment 2, the City currently has adopted budget and fiscal policies covering the following areas:

- Balanced budget
- Investments
- Debt management
- Reserves
- Budgetary procedures and authority
- Revenues
- Five-Year CIP
- Competitive compensation

With two exceptions, the proposed policies cover all current areas (in most cases using the same language) but remove redundancy in several cases, organize them differently to group similar policies together and provide supplemental information in some cases for greater clarity. Since they do not directly relate to budget development or administration, the two exceptions are investments and City Manager contract amendment authority. These will be carried forward as currently written.

These policies were last presented in the 2019-20 Budget. For 2021-22 and future years, these policies will be again be presented as an integral part of the budget document.

Minimum Fund Balance and Reserves

While each of the attached policy areas speak for themselves, minimum fund balance ("reserves") is an especially important policy in determining the City's ability to respond to unexpected fiscal hardships such as local disasters, public health crises, downturns in the economy, external revenue hits like (State budget takeaways) and unforeseen operating or capital needs. Stated simply, it is the City's first line of defense in responding to adverse, unforeseen circumstances.

As noted above, the City is fortunate to already have in place a reserve policy (as well several others: Attachment 2). However, there are several proposed changes and clarifications that will be useful for 2021-22 and beyond in implementing this policy, most notably:

- ***Purpose of reserves.*** Reserves exist for a reason. The proposed policy sets forth those purposes in accordance with the risk assessment methodology developed by the GFOA.

- ***Guidance on when it is appropriate to go below the minimum target.*** The proposed policy clarifies the one-time circumstances where taking reserves below the target minimum balances would be appropriate.

- ***Restoring the reserve if it falls below the target minimum.*** The proposed policy provides for restoring reserves to policy levels within five years; and as revenues versus expenditures improve, allocating at least 50% to restoring the reserve.

- ***Using reserves above the minimum.*** The proposed policy provides a framework for the potential use of reserves above the minimum. The Short Story: Since reserves can only be used once, uses above the minimum should be for one-time purposes.

- ***Defining the reserve.*** Under generally accepted accounting principles, General Fund balance is organized into five categories: non-spendable; restricted; committed; assigned and unassigned. The proposed policy clarifies that the minimum target applies to the "unassigned" balance (after commitments and assignments for other purposes).

- ***Setting the minimum General Fund reserve.*** The current policy calls for setting the minimum General Fund reserve at 30% of operating expenditures. Using the GFOA's structured approach to setting reserve levels, we recommend setting the target at 35%. (A description of the methodology and the assessment results are provided in Attachment 3). Two factors largely account for this recommended increase: recent experience with the pandemic; and the results of a high-level cash flow analysis that shows two peak cash flow shortfalls of 15% in November and 20% in May prior to the recent of property tax revenues (Attachment 4). Setting the reserve at 35% provides greater flexibility in meeting cash flow needs and other contingencies.

Next Steps

If conceptually approved by the Council at this time, staff will use these policies as the foundation in guiding preparation of the 2021-22 Preliminary Budget. Final adoption of the policies will occur in June 2021 in conjunction with the Council's approval of the 2021-22 Budget. (The only exception to this is the proposed Capital Financing and Debt Management policy, which is recommended for formal adoption on at the May 4 Council meeting.)

As noted above, for future reference, the City's *Budget and Fiscal Policies* will be included the Budget document (as will any future additions or revisions).

In considering the proposed *Budget and Fiscal Policies*, it is important to not only clearly articulate the policy, but to assure compliance with it. Stated simply, clearly stating where the City wants to be (versus where it may be today) will significantly enhance the City's ability to achieve it.

For this reason, each policy area is followed by a brief summary of "compliance status." Where the City has not yet achieved the goal, a status summary on the City's progress in doing should be provided. In short, including the policies in the Budget document and indicating its compliance status will keep the policies in front of the Council, community and organization; and help make the relationship between policy and "actual" transparent for these stakeholders.

FISCAL IMPACT:
There are no direct fiscal impacts as a result of conceptually approving the proposed Budget and Fiscal policies. However, this will provide an important policy framework and foundation for preparing the Budget.

ALTERNATIVES:
1. Approve different budget and fiscal policies than those proposed.

2. Do not approve budget and fiscal policies in establishing a policy framework for financial management and decision-making.

ATTACHMENTS:
1. Proposed Budget and Fiscal Policies
2. Current Budget and Fiscal Policies
3. GFOA Fund Balance Assessment Methodology and Results
4. General Fund Cash Flow Analysis

BUDGET PURPOSE AND ORGANIZATION

A. **Balanced Budget.** The City will maintain a balanced budget. This means that:

1. Operating revenues should fully cover operating expenditures, including debt service.

2. Ending fund balance/working capital must meet minimum policy levels or other target levels established by the Council for the fiscal year.

Under this policy, it is allowable for total expenditures to exceed revenues in a given year; however, in this situation, beginning fund balance should only be used to fund capital improvement plan projects or other "one-time," non-recurring expenditures. (See *Fund Balance and Reserves* policy for other circumstances when it would be appropriate to use beginning fund balance.)

B. **Budget Objectives.** Through its Budget, the City will link resources with goals and results by:

1. Identifying community needs for essential services.

2. Organizing the programs required to provide these essential services.

3. Describing programs and activities performed in delivering services.

4. Proposing objectives for improving the delivery of program services.

5. Identifying and appropriating the resources required to perform program activities and accomplish program objectives.

Budgetary emphasis will focus on providing high quality municipal services, recognizing the fundamental importance to the citizens of public safety and properly maintained infrastructure.

C. **Measurable Objectives.** The Budget will establish measurable program objectives and allow reasonable time to accomplish those objectives.

D. **Goal Status Reports.** The status of major program objectives will be formally reported to the Council on an ongoing, periodic basis.

E. **Adequate Maintenance of Existing Assets.** The budget will provide sufficient funding for adequate maintenance and orderly replacement of capital plant and equipment. Future maintenance needs for all new capital facilities will be fully costed out and added costs will be recognized and included in future year budget projections.

F. **Five-Year Capital Improvement Program.** The City will maintain a long-range fiscal perspective through the use of a five-year Capital Improvement Plan.

G. **Continued Commitment to Customer Service and Productivity Improvements**. Strong customer service and productivity improvements, with a focus on value added services, remain important budgetary goals. Consistent with this goal, the City will strive to pay competitive market level compensation to its employees.

H. **Mid-Year Budget Reviews.** The Council will formally review the City's fiscal condition, and amend appropriations if necessary, six months after the beginning of each fiscal year.

Status: In Compliance. *These practices are either in place or the Council has adopted a budget process and document for 2021-22 that meets these policy objectives. However, linking resources to outcomes and measuring performance will always be a work in progress, with ongoing improvements.*

REVENUE MANAGEMENT

A. Current Revenues for Current Uses; One-Time Revenues for One-Time Purposes. The City will make all current expenditures with current revenues, avoiding procedures that balance current budgets by postponing needed expenditures, accruing future revenues or rolling over short-term debt. The City will avoid using one-time revenues to fund ongoing program costs.

B. Revenue Distribution. The Council recognizes that generally accepted accounting principles for state and local governments discourage the "earmarking" of General Fund revenues, and accordingly, the practice of designating General Fund revenues for specific programs should be minimized in the City's management of its fiscal affairs. In those cases where it does occur, the basis and methodology for earmarking should be clearly articulated in the City's Budget and Fiscal Policies.

C. Grant Management. Intergovernmental assistance in the form of grants and loans will be used to finance only:

1. Capital improvements that are consistent with the Five-Year Capital Improvement Program (CIP) priorities and can be maintained and operated over time.
2. Technological upgrades or enhancements.
3. Capital acquisition items.
4. Operating programs which either can be sustained over time or have a limited horizon.
5. Other areas as determined by the Council to be in the best interest of the City.

D. Enterprise Fund Fees and Rates. All fees and charges for each enterprise fund (such as Water, Wastewater and Sanitation) will be set at a level that fully supports the direct and indirect costs of the enterprise, including operations, maintenance, capital improvements and debt service, as well as meet any debt service coverage requirements set forth in related bond covenants.

E. Internal Service Funds. All internal service funds will have revenues (intra-City user charges, interest earnings and other income) sufficient to meet all operating and capital expenses. Such revenues shall also be sufficient to maintain minimum reserve targets.

Status: In Compliance. *These practices are either in place or the Council has adopted a budget process and document for 2021-22 that meets these policy objectives.*

MINIMUM FUND BALANCE AND RESERVES

Section 1: Policy

A. **Policy Overview.** This policy accomplishes two main goals. First, it sets forth specific levels of minimum unassigned fund balance to be maintained for the City's General Fund and a minimum level of available working capital for the City's Water, Wastewater and Sanitation enterprise funds. Secondly, this policy establishes a framework and process for the City to follow if these reserve levels fall below the established minimum.

This Policy provides guidelines for fiscal sustainability through maintaining adequate operational liquidity and should be used in preparing the City's Annual Operating Budget, Capital Improvement Program, and general financial management of the City. It recognizes the need for exceptions in extraordinary conditions and unforeseeable events while maintaining a goal and path to regain fiscal sustainability when necessary.

This policy is also intended to follow best practices and industry standards, including those issued by the Governmental Finance Officers Association of the United States and Canada (GFOA) in setting reserve levels that adequately address risks such as:

1. Economic uncertainties, local disasters, public heath crises and other financial hardships or downturns in the local or national economy.
2. Contingencies for unseen operating or capital needs.
3. Unfunded liabilities such as pensions.
4. Institutional changes, such as State budget takeaways and unfunded mandates.
5. Cash flow requirements.

B. **Objectives.** The purpose of this policy is to assist the City in the pursuit of the following equally important objectives:

1. Maintain long-term fiscal sustainability of the General, Water, Wastewater and Sanitation Funds.
2. Meet the short-term liquidity needs of the General, Water, Wastewater and Sanitation Funds.
3. Cultivate a fiscally responsible internal control environment.
4. Help achieve the highest possible credit ratings and lowest possible financing costs when borrowing funds.

C. **Budget Integration and Financial Management**. The City's Annual Operating Budget and Capital Improvement Plan should be developed to comply and implement the various aspects of this policy. This includes but is not limited to both the budgeted use of excess unassigned fund balance or available working capital and the rebuilding of the same as needed to maintain compliance with the minimum reserve levels established herein.

Any areas of shortfall or otherwise non-compliance with the minimum reserve levels contained within this policy should be disclosed in the City Annual Operating Budget document and Comprehensive Annual Financial Report, including a response from management on what actions are being taken to bring the City back into compliance with the policy.

Section 2: Minimum Balances

The following amounts are established as the minimum unassigned fund balance for the City's General Fund and minimum available working capital for the City's major utility enterprise funds.

A. **General Fund.** At the end of each fiscal year, the General Fund should have a minimum unassigned fund balance of at least 35% of operating and debt service expenditures. This represents about 120 days of General Fund operating cash flow and is conservatively based on the risk assessment methodology for setting reserve levels developed by the GFOA.

B. **Water, Wastewater and Sanitation Funds.** The City operates three major utility enterprise funds: water, wastewater and sanitation, which provide essential public services that are paid for by users of these services. Maintaining adequate liquidity in these funds is an essential factor in the City's ability to provide these services without interruption. Accordingly, at the end of each fiscal year the City should have a minimum available working capital balance (current assets less current liabilities, minus amounts designated for funding capital projects or other purposes) in each of these enterprise funds at equal or more than 25% of operating and debt service expenditures for that fund. This minimum available working capital balance should be factored into all future user rate studies used to establish utility user rates for these three funds.

C. **Internal Service Funds.** The City's internal service funds shall maintain working capital of at least 60 days of operating expenditures.

D. **Taking Reserves Below Minimum Policy Levels**. There are circumstances where intentionally taking reserves below the established policy levels would be appropriate in responding to the risks that reserves are intended to mitigate and are not considered a violation of this policy. These include <u>one-time uses</u> such as:

   1. Making investments in human resources, technology, economic development, productivity improvements and other strategies that will reduce future costs or increase future revenue sources.

   2. Reducing ongoing expenditures through the partial or full refinancing of unfunded long-term liabilities.

   3. Closing short-term revenue/expenditure gaps.

   4. Responding to unexpected expenditure requirements or revenue shortfalls.

   5. Meeting one-time cash flow needs as well as normal cash flow needs during the year.

   6. Where a forecast shows an ongoing structural gap, providing a strategic bridge to the future.

   Any intentional use of reserves that reduces reserve levels below the minimum policy levels shall be specifically approved by the City Council.

Section 3: Other Assignments/Commitments

A. **Future Capital Project or Other Long-Term Goal Assignments or Commitments.** The Council may also commit or assign specific General Fund balance levels above the reserve target for future development of capital projects, unfunded liabilities or other long-term goals that it determines to be in the best interests of the City.

B. **Other Commitments and Assignments.** In addition to the 35% target noted above, unrestricted fund balance levels will be sufficient to meet funding requirements for programs or projects approved in prior years which are carried forward into the new year; debt service reserve requirements; commitments for encumbrances; and other restrictions, commitments or assignments required by contractual obligations, state law or generally accepted accounting principles.

Section 4: Correcting Balances Below the Minimum Balance

Whenever the City's Funds with established minimum balances per this policy fall below these minimal levels, the City will strive to restore these balances to the minimum level within five-years. Some actions that may be considered to rectify this situation include the following:

A. **General Fund**

1. Strategically reducing general fund operating budgets.
2. Updating and improving the City's economic development strategy.
3. Assessing workload and staffing levels to ensure appropriate staffing of General Fund operations, redeploy staffing if necessary.
4. Conduct a revenue study to update General Fund revenue sources that may have fallen behind.
5. Conduct an analysis of General Fund cost allocation to plan to ensure other City funds are paying the appropriate fees for the General Fund services they receive.
6. Identify special revenues or other funds that can help support the General Fund.

B. **Water, Wastewater and Sanitation Funds**

1. Strategically reduce operations budgets.
2. Initiate a user rate analysis and implement rate changes as needed.
3. Analyze existing debt and possible refinancing options to reduce existing debt service cost.
4. Defer non-essential capital improvement projects until adequate funding can be secured through rate increases, grants or debt issuance.

As revenues versus expenditures improve, the City will allocate at least half to reserve restoration, with the balance available to fund asset replacements, unfunded liabilities, capital improvement projects, service level restorations or new operating programs.

Section 5: Use of Balances Exceeding the Minimum Balance

At times, the City may find itself with unassigned General Fund balances and/or available working capital in the Water, Wastewater and Sanitation funds that exceed the minimums established by this policy. This policy does not require or recommend that those additional reserve funds be spent down but it does establish the following guidelines regarding the potential use of those funds.

A. Excess reserve funds are not to be used for new or existing recurring expenses except on a short-term basis.

B. Investment of these funds on a longer-term basis, in compliance with the City's Investment Policy, should be considered to provide an ongoing source of recurring investment income for the City.

C. Assignment or use of these funds should be considered for early partial or full retirement of existing debt or other unfunded long-term liabilities.

D. A review of the one-time capital improvements needed within the City should be considered to identify and prioritize potential capital projects. Once potential projects have been identified, assignment or use of these funds should be considered for these one-time capital improvement projects.

Status: In Progress. *After assigning $9.3 million for potential labor housing complex demolition and site clean-up costs, the projected unassigned General Fund balance at June 30, 2021 is 18% of operating expenditures. Consistent with the City's policy, the goal is to restore reserves to policy levels with the next five years.*

FINANCIAL REPORTING AND BUDGET ADMINISTRATION

A. **Annual Reporting.** The City will prepare annual financial statements as follows:

  1. In accordance with best practices and industry standards, the City will contract for an annual audit by a qualified independent certified public accountant. The City will strive for an unqualified auditors' opinion.

  2. The City will use generally accepted accounting principles in preparing its annual financial statements and will strive to meet the requirements of the GFOA's Award for Excellence in Financial Reporting program.

  3. The City will issue audited financial statements within 180 days after year-end.

B. **Interim Reporting.** The City will prepare and issue timely interim reports on the City's fiscal status to the Council and staff. This includes on-line access to the City's financial management system; monthly reports to program managers; more formal quarterly reports to the Council and Department Heads; mid-year budget reviews; and interim annual reports.

C. **Budget Administration.** The Council may amend or supplement the budget at any time after its adoption by majority vote of the Council members. Council approval is required for all new appropriations from fund balance/working capital. The City Manager has the authority to make administrative adjustments to the budget as long as those changes will not have a significant policy impact nor affect budgeted year-end fund balances.

D. **Agenda Report Review**. A Fiscal Impact Statement will be provided with each staff report submitted to the Council as part of the agenda packet.

Status: In Compliance. *These practices are in place.*

CAPITAL FINANCING AND DEBT MANAGEMENT

A. **Capital Financing**

1. The City will consider the use of debt financing only for one-time capital improvement projects and only under the following circumstances:

   a. When the project's useful life will exceed the term of the financing.
   b. When project revenues or specific resources will be sufficient to service the long-term debt.

2. Debt financing will not be considered appropriate for any recurring purpose such as current operating and maintenance expenditures. The issuance of short-term instruments such as revenue, tax or bond anticipation notes is excluded from this limitation.

3. Capital improvements will be financed primarily through user fees, service charges, assessments, special taxes or developer agreements when benefits can be specifically attributed to users of the facility. Accordingly, development impact fees should be created and implemented at levels sufficient to ensure that new development pays its fair share of the cost of constructing necessary community facilities.

4. While development impact fees can be a major funding source in financing capital project improvements, revenues from these fees are subject to significant fluctuation based on the rate of new development. Accordingly, the following guidelines will be followed in designing and building projects funded with development impact fees:

   a. The availability of impact fees in funding a specific project will be analyzed on a case-by-case basis as bid specifications or contract awards are submitted for approval.

   b. If adequate funds are not available at that time, the Council will make one of two determinations:

      - Defer the project until funds are available.
      - Based on the high-priority of the project, advance funds from the General Fund or appropriate enterprise fund, which will be reimbursed as soon as funds become available. Repayment of advances should be the first use of development impact fee funds when they become available.

5. The City will use the following criteria to evaluate pay-as-you-go versus long-term financing in funding capital improvements:

   Factors Favoring Pay-As-You-Go Financing

a. Current revenues and adequate fund balances are available or project phasing can be accomplished.

b. Existing debt levels adversely affect the City's credit rating.

c. Market conditions are unstable or present difficulties in marketing.

Factors Favoring Long Term Financing

d. Revenues available for debt service are deemed sufficient and reliable so that long-term financings can be marketed with investment grade credit ratings.

e. The project securing the financing is of the type that will support an investment grade credit rating.

f. Market conditions present favorable interest rates and demand for City financings.

g. A project is mandated by state or federal requirements, and resources are insufficient or unavailable.

h. It is a high-priority that is immediately required to meet or relieve service or capacity needs and current resources are insufficient or unavailable.

B. Budget Integration and Policy Links

The decision to incur new indebtedness should be integrated with the adopted Operating Budget and Capital Improvement Plan (CIP). While CIP projects may surface independently from the budget process, they will typically be an integral of the adopted CIP. Moreover, projects in the CIP typically have strong policy links to the General Plan, Special Plans, adopted facility or infrastructure plans and other policy documents. Annual debt service requirements will be included in the Operating Budget.

C. Sources of Capital Financing

1. ***Cash Funding.*** The City funds a significant portion of its CIP on a "pay-as-you-go" basis. As part of a "pay as you go" strategy, the City will first look for grant funding for capital projects.

2. ***Interfund Borrowing***. The City may borrow internally from other funds with surplus cash instead of issuing bonded debt. The purpose of interfund borrowing is to finance high priority needs and reduce costs of interest, debt issuance and/or administration. Purposes warranting the use of this type of borrowing could include short-term cash flow imbalances due to grant terms, interim financing pending the issuance of bonds or long-term financing in lieu of bonds. The City funds from which the money is borrowed shall be repaid with interest based upon the earning rate of the City's investment pool. The Finance Director shall also exercise due diligence to ensure that it is financially prudent for the Fund making the loan. Interfund loans will be evaluated on a case-by-case basis. Any borrowing between two City funds which exceeds 24 months requires a repayment schedule approved by the Council.

3. ***Bank Loans, Lines of Credit and Direct Placements***. While not a common method of financing capital projects, financial institution credit or other direct placements may be evaluated on a case-by-case basis where the advantages over other methods are compelling.

4. ***State and Federal Loans.*** The City will evaluate State and Federal loan programs, including but not limited to loans such as the State Water Resources Control Board's revolving fund loans for the construction of water and wastewater infrastructure projects.

5. ***Other Loan Programs***. The City may consider other loan programs on a case-by-case basis where the advantages over other methods are compelling.

6. ***Equipment Lease Purchase Agreements.*** The City may consider lease-purchase agreements for long-lived assets such as backhoes and trash trucks.

7. ***Bond Financing.*** The City may issue any bonds that are allowed under federal and state law, including but not limited to general obligation bonds, certificates of participation, revenue bonds, lease-revenue bonds, assessment district bonds and special tax bonds.

   While conduit financings do not constitute a general obligation of the issuer, the same level of due diligence prior to bond issuance is required as outlined Section F below. The City will consider requests for assessment or special tax district formation on a case-by-case basis as outlined in Section G below.

D. ***Joint Powers Authority (JPA).*** In addition to the long and short-term financing instruments described above, the City may also consider joint arrangements with other governmental agencies when a project serves the public interest beyond City boundaries.

E. **Debt Management**

1. The City will not obligate the General Fund to secure long-term financings except when marketability can be significantly enhanced.

2. An internal feasibility analysis will be prepared for each long-term financing which analyzes the impact on current and future budgets for debt service and operations. This analysis will also address the reliability of revenues to support debt service.

3. The City will generally conduct financings on a competitive basis. However, negotiated financings may be used due to market volatility or the use of an unusual or complex financing or security structure.

4. The City's financing team (such as financial advisor, bond counsel and trustee) will typically be selected through a competitive request for proposal (RFP) process for a multi-year, program-based term in providing ongoing advice and understanding of City needs.

5. The City will seek an investment grade rating (Baa/BBB or greater) on any direct debt and will seek credit enhancements such as letters of credit or insurance when necessary for marketing purposes, availability and cost-effectiveness.

6. The City will monitor all forms of debt annually coincident with the City's Budget preparation and review process and report concerns and remedies, if needed, to the Council.

7. The City will diligently monitor its compliance with bond covenants and ensure its adherence to federal arbitrage regulations.

8. The City will maintain good, ongoing communications with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus (Official Statement).

9. In accordance with generally accepted accounting principles and the City internal control procedures, the Finance Director is responsible for ensuring bond proceeds are spent for the intended purposes identified in the bond documents and that the proceeds are spent in the time frames identified in the tax certificate prepared by the City's bond counsel.

10. For any applicable debt issued after January 2017, the City will file annual debt transparency reports with the California Debt and Investments Advisory Commission in accordance State Government Code Section 8855.

F. **Debt Capacity**

1. ***General Purpose Debt Capacity.*** The City will carefully monitor its levels of general-purpose debt. Because the City's general purpose debt capacity is limited, it is important that general purpose debt financing is only used for high-priority projects where the City cannot reasonably use other financing methods for two key reasons:

   a. Funds borrowed for a project today are not available to fund other projects tomorrow.
   b. Funds committed for debt repayment today are not available to fund operations in the future.

   In evaluating debt capacity, general-purpose annual debt service payments should not exceed 10% of General Fund revenues.

2. ***Enterprise Fund Debt Capacity.*** The City will set enterprise fund rates at levels needed to fully cover debt service requirements (including any coverage requirements) as well as operations, maintenance, administration and capital improvement costs. The ability to afford new debt for enterprise operations will be evaluated as an integral part of the City's rate review and setting process.

G. **Land-Based Financings**

1. ***Public Purpose.*** The City will consider formation of land-based financing districts in accordance with the State's assessment law or the Mello-Roos Community Facilities Act. There will be a clearly articulated public purpose in forming an assessment or special tax district in financing public improvements. This should include a finding by the Council as to why this form of financing is preferred over other funding options such as impact fees, reimbursement agreements or direct developer responsibility for the improvements.

2. ***Eligible Improvements.*** Except as otherwise determined by the Council when proceedings for district formation are commenced, preference in financing public improvements through an assessment or special tax district shall be given for those public improvements that help achieve clearly identified community facility and infrastructure goals in accordance with adopted facility

and infrastructure plans as set forth in key policy documents such as the General Plan, Specific Plan, Facility or Infrastructure Master Plans, or Capital Improvement Plan.

Such improvements include study, design, construction and/or acquisition of:

a. Public safety facilities.
b. Water supply, distribution and treatment systems.
c. Waste collection and treatment systems.
d. Major transportation system improvements, such as freeway interchanges; bridges; intersection improvements; construction of new or widened arterial or collector streets (including related landscaping and lighting); sidewalks and other pedestrian paths; transit facilities; and bike paths.
e. Storm drainage, creek protection and flood protection improvements.
f. Parks, trails, community centers and other recreational facilities.
g. Open space.
h. Cultural and social service facilities.
i. Other governmental facilities and improvements such as offices, information technology systems and telecommunication systems.

School facilities will not be financed except under appropriate joint community facilities agreements or joint exercise of powers agreements between the City and school districts.

3. ***Active Role.*** Even though land-based financings may be a limited obligation of the City, the City will play an active role in managing the district. This means that the City will select and retain the financing team, including the financial advisor, bond counsel, trustee, appraiser, disclosure counsel, assessment engineer and underwriter. Any costs incurred by the City in retaining these services will generally be the responsibility of the property owners or developer; will be advanced via a deposit when an application is filed; or will be paid on a contingency fee basis from the proceeds from the bonds.

4. ***Credit Quality.*** When a developer requests district formation, the City will carefully evaluate the applicant's financial plan and ability to carry the project, including the payment of assessments and special taxes during build-out. This may include detailed background, credit and lender checks, and the preparation of independent appraisal reports and market absorption studies. For districts where one property owner accounts for more than 25% of the annual debt service obligation, a letter of credit further securing the financing may be required.

5. ***Reserve Fund.*** A reserve fund should be established in the lesser amount of: the maximum annual debt service; 125% of the annual average debt service; or 10% of the bond proceeds.

6. ***Value-to-Debt Ratios.*** The minimum value-to-date ratio should generally be 4:1. This means the value of the property in the district, with the public improvements, should be at least four times the amount of the assessment or special tax debt. In special circumstances, after conferring and receiving the concurrence of the City's financial advisor and bond counsel that a lower value-to-debt ratio is financially prudent under the circumstances, the City may consider allowing a value-to-debt ratio of 3:1. The Council should make special findings in this case.

7. ***Appraisal Methodology***. Determination of value of property in the district shall be based upon the full cash value as shown on the ad valorem assessment roll or upon an appraisal by an independent Member Appraisal Institute (MAI). The definitions, standards and assumptions to be used for appraisals shall be determined by the City on a case-by-case basis, with input from City consultants and district applicants, and by reference to relevant materials and information promulgated by the State of California, including the Appraisal Standards for Land-Secured Financings prepared by the California Debt and Investment Advisory Commission.

8. ***Capitalized Interest During Construction.*** Decisions to capitalize interest will be made on case-by-case basis, with the intent that if allowed, it should improve the credit quality of the bonds and reduce borrowing costs, benefiting both current and future property owners.

9. ***Maximum Burden.*** Annual assessments (or special taxes in the case of Mello-Roos or similar districts) should generally not exceed 1% of the sales price of the property; and total property taxes, special assessments and special taxes payments collected on the tax roll should generally not exceed 2%.

10. ***Benefit Apportionment.*** Assessments and special taxes will be apportioned according to a formula that is clear, understandable, equitable and reasonably related to the benefit received by—or burden attributed to—each parcel with respect to its financed improvement. Any annual escalation factor should generally not exceed 2%.

11. ***Special Tax District Administration.*** In the case of Mello-Roos or similar special tax districts, the total maximum annual tax should not exceed 110% of annual debt service. The rate and method of apportionment should include a back-up tax in the event of significant changes from the initial development plan and should include procedures for prepayments.

12. ***Foreclosure Covenants.*** In managing administrative costs, the City will establish minimum delinquency amounts per owner, and for the district as a whole, on a case-by-case basis before initiating foreclosure proceedings.

13. ***Impact on the City Bonding Capacity.*** The City will consider the effect of assessments or special taxes on the City's ability to issue bonds or other property-based tax measures.

14. ***Adjustment of Development Impact Fees.*** Assessment and special tax districts can fund public facilities or infrastructure improvements otherwise funded with the City's development impact fees or project-specific exactions. In such cases, the area's development impact fee obligations will be adjusted proportionately.

15. ***Special Tax Consultant.*** As part of special tax district formations, the City will retain a special tax consultant to prepare a report that recommends a special tax rate and method for the proposed district and evaluates the special tax proposed to determine its ability to adequately fund identified public facilities, City administrative costs and services (if applicable) and other related expenditures.

16. ***Disclosure to Bondholders.*** In general, each property owner who accounts for more than 10% of the annual debt service or bonded indebtedness must provide ongoing disclosure information annually as described under SEC Rule 15(c)-12.

17. ***Disclosure to Prospective Purchasers.*** Full disclosure about outstanding balances and annual payments should be made by the seller to prospective buyers at the time that the buyer bids on the property. It should not be deferred to after the buyer has made the decision to purchase. When appropriate, applicants or property owners may be required to provide the City with a disclosure plan.

H. **Conduit Financings**

1. The City will consider requests for conduit financing (use of the City's tax-exempt status by other agencies in issuing their own bonds that do not incur any repayment obligation by the City) on a case-by-case basis using the following criteria:

    a. The City's bond counsel will review the terms of the financing and render an opinion that there will be no liability to the City in issuing the bonds on behalf of the applicant.

    b. There is a clearly articulated public purpose in providing the conduit financing.

    c. The applicant is capable of achieving this public purpose.

2. This means that the review of requests for conduit financing will generally be a two-step process:

    a. First asking the Council if they are interested in considering the request and establishing the ground rules for evaluating it.

    b. And then returning with the results of this evaluation and recommending approval of appropriate financing documents if warranted.

    This two-step approach ensures that the issues are clear for both the City and applicant, and that key policy questions are answered.

3. The workscope necessary to address these issues will vary from request to request, and accordingly will have to be determined on a case-by-case basis. Additionally, the City should generally be fully reimbursed for its costs in evaluating the request; however, this should also be determined on a case-by-case basis.

I. **Enhanced Infrastructure Financing District (EIFD)**

1. EIFD financing should be considered for public facility or infrastructure improvements that confer Citywide and/or regional benefits. This may include the "City share" of infrastructure included in the City's development impact fees.

2. Unless there is a Development Agreement in place that provides otherwise, EIFDs should not be used to fund real estate projects' proportional share of infrastructure costs otherwise included in the City's development impact fees or charged as project-specific exactions (such as subdivision improvements).

3. City should consider EIFDs when more than one local government jurisdiction is participating to produce maximum benefit.

4. At the time of formation of the EIFD (or if changes to the EIFD are contemplated), the City should require a fiscal impact analysis to determine if an EIFD is fiscally prudent and analyze opportunity cost to the City's General Fund.

J. **Refinancings**

1. ***General Guidelines.*** Periodic reviews of all outstanding debt will be undertaken to determine refinancing opportunities. Refinancings will be considered (within federal tax law constraints) under the following conditions:

   a. There is a net economic benefit.

   b. It is needed to modernize covenants that are adversely affecting the City's financial position or operations.

   c. The City wants to reduce the principal outstanding in order to achieve future debt service savings, and it has available working capital to do so from other sources.

2. ***Standards for Economic Savings.*** In general, refinancings for economic savings will be undertaken whenever net present value savings of at least five percent (5%) of the refunded debt can be achieved.

   a. Refinancings that produce net present value savings of less than five percent will be considered on a case-by-case basis, provided that the present value savings are at least three percent (3%) of the refunded debt.

   b. Refinancings with savings of less than three percent (3%), or with negative savings, will not be considered unless there is a compelling public policy objective.

Summary

The City's updated Financial Reserve Policy strives to maintain a minimum General Fund balance reserve equal to 30% of its operating budget.

The City will strive to fund all current expenditures from current revenues, avoiding procedures that balance current budgets by postponing needed expenditures, accruing future revenues or rolling over short-term debt.

One-time funds will not be budgeted or used to pay ongoing operating expenses for the City. Exceptions require City Council approval and a financial plan to get back to covering ongoing expenditures using only ongoing revenues.

Recurring revenue growth will be used to pay for recurring expenditures. Recurring expenditure increases should not be approved which exceed recurring revenue growth. Any new or expanded programs will be required to identify new funding sources and/or offsetting reductions in expenditures.

The Water, Wastewater and Sanitation Enterprise Funds will have revenues (customer charges, interest income and all other income) sufficient to meet all cash operating expenses, capital expenses, prescribed cash reserves and debt service coverage requirements set forth in related bond covenants.

All Internal Service Funds will have revenues (intra-City user charges, interest income and other income) sufficient to meet all cash operating expenses and capital expenses. Such revenues shall also be sufficient to maintain cash reserves.

The City will strive to maintain a minimum working capital balance equal to 90 days of operating requirements for the Water, Wastewater and Sanitation Enterprise Funds operating budgets. In addition, a cash capital improvement reserve will be maintained for capital improvement projects.

The City will maintain a long-range fiscal perspective through the use of an Annual Operating Budget and a five-year Capital Improvement Plan.

Major capital improvement projects will be funded using the most financially prudent method available. Such methods include:

- Traditional long-term financing (bond issues).
- "Pay As You Go" financing (using recurring revenues only).
- Combination of debt financing and "Pay As You Go" financing.
- Using cash accumulated in excess of policy requirements.

A Fiscal Impact Statement will be provided with each staff report submitted to the City Council as part of the City Council agenda process.

The City will comply with all the requirements of "Generally Accepted Accounting Principles."

The City will annually review and adopt a formal set of Debt Policies.

The City will strive to pay competitive market level compensation to its employees.

Investment Policy

It is the policy of the City of Wasco to invest public funds in a prudent manner which will provide maximum security while meeting daily cash flow demands and conforming to all statutes governing the investment of public funds. Within these parameters, funds will be invested to optimize investment return.

The purpose of this document is to set forth the City's policies guiding prudent investment of temporarily idle funds and to establish guidelines and objectives for suitable investments including delegation of authority, prudence, monitoring and reporting, policy review, diversification, eligible securities, safekeeping, collateralization, selection of depositories, brokers/dealers and glossary of terms.

Debt Policy

In recognition of its responsibility for the management of debt obligation for itself and its component units, the City of Wasco will develop a comprehensive set of formal debt policies. Such policies are necessary in order to consolidate information of debt obligations and to maintain good credit standing. These policies will be reviewed annually by the City Treasurer and Finance Director and any changes will be presented to the City Council for approval.

The City of Wasco shall issue bonds primarily to finance capital improvement projects in accordance with set procedures included in the document. In a few instances, the City may be permitted to issue bonds to finance other projects or purposes, including operating expenses. However, such uses must receive City Council approval. For the purpose of this document, the term "bond" shall also include a variety of debt instruments including notes, commercial paper, certificates of participation, etc.

Fund Balance Policy

The City Council adopted a Fund Balance Policy in accordance with the requirements of Governmental Accounting Standards Board Statement No 54. This Policy establishes procedures for reporting fund balance classifications, establishes prudent reserve requirements and establishes a hierarchy of fund balance expenditures. The policy also authorizes and directs the Finance Director to prepare financial reports, which accurately categorize fund balance per GASB Statement No. 54. GASB 54 establishes five components of fund balance, each of which identifies the extent to which the City is bound to honor constraints on the specific purposes for which amounts can be spent as follows: Non-Spendable fund balance, Restricted fund balance, Committed fund balance, Assigned fund balance and Unassigned fund balance.

General Policies

Budgetary emphasis will focus on providing high quality municipal services, recognizing the fundamental importance to the citizens of public safety and properly maintained infrastructure.

The City will strive to fund all current expenditures from current revenues, avoiding procedures that balance current budgets by postponing needed expenditures, accruing future revenues or rolling over short-term debt.

The budget will provide sufficient funding for adequate maintenance and orderly replacement of capital plant and equipment.

Future maintenance needs for all new capital facilities will be fully costed out and added costs will be recognized and included in future year budget projections.

Strong customer service and productivity improvements, with a focus on value added services, remain important budgetary goals.

Budgetary Procedures and Authority

The Finance Department notifies all City Departments when monthly reports are ready for review comparing budget vs. year-to-date actual expenditures for their respective department.

The City established a threshold cost of $5,000 for capitalization of fixed assets. This only applies if the estimated useful life of the asset is more than one (1) year.

The City's Budget Document will include selected performance measures to better describe the workload of the different City programs, to gauge our effectiveness in providing services and to ultimately be able to compare the City's overall performance with other like agencies.

All budgetary procedures will conform to State regulations and Generally Accepted Accounting Principles (GAAP).

Specific levels of budgetary authority will be maintained:

1. Department Heads will be responsible for ensuring that expenditures within departmental budget categories of salaries and benefits; services and supplies and capital outlay do not exceed appropriations. Budget appropriations will be made at the line-item level; however, the level of control (level at which expenditures may not exceed appropriations) will be total departmental appropriations for each of these budget categories (excluding capital outlay).

2. The City Manager will have the authority to transfer up to $50,000 in appropriations between capital projects and between funds for capital projects in order to meet the policy intent of the City Council.

3. City Council approval will be required to transfer appropriations between departments.

4. Contract change orders may be administratively approved by the City Manager up to an aggregate amount of $25,000 subject to terms and conditions approved by the City Council. Any amount greater than $25,000 or exceeding the aggregate amount requires City Council approval.

Revenue Policies

A diversified and stable revenue system will be maintained to shelter the City from short-run fluctuations in any single revenue source.

The City will estimate revenues using an objective, analytical process; in the case of assumption uncertainty, conservative projections will be utilized. Revenues will be projected for the current year and reviewed semi-annually.

Intergovernmental assistance in the form of grants and loans will be used to finance only:

1. Capital improvements that are consistent with the Five-Year Capital Plan priorities and can be maintained and operated over time; or

2. Technological upgrades or enhancements; or

3. Capital acquisition items; or

4. Operating programs which either can be sustained over time or have a limited horizon.

5. Other areas as determined by the City Council to be in the best interest of the City.

One-time revenues will be used for operating programs only after an examination determines whether they are subsidizing an imbalance between operating revenues and expenditures and only if a long-term forecast shows that the operating deficit will not continue. In general, one-time revenues will be used only to support capital or other non-recurring expenditures.

All fees and charges for each enterprise fund (i.e., Water, Wastewater and Sanitation) will be set at a level that fully supports the direct and indirect cost of the enterprise.

Reserve Policy

Funding of reserves will come generally from one-time revenues, excess fund balance and projected revenues in excess of projected expenditures. They will generally be reserved based on the City Financial Reserve Policy in the following priority order:

1.Reserve for Economic Contingency or Emergencies.
2.Special Purpose Designated Reserves.

However, flexibility will be retained to allocate available funds among the reserves based on the current circumstances and needs of the City's various operating funds.

Attachment 2

If it becomes necessary to utilize reserve funds for unique one-time costs, emergencies or maintaining City services during periods of reductions, appropriations should, when feasible, be accompanied by a plan for the replenishment within a reasonable period of time.

The City's enterprise funds shall maintain working capital equal to at least 90 days of operating requirements for the Water, Wastewater and Sanitation operating budgets. This will be evaluated as of June 30th of each fiscal year end.

The City's internal service funds shall maintain working capital of at least 60 days of operating requirements. This will be evaluated as of June 30th of each fiscal year end.

The City's general fund shall maintain a fund balance equal to 30% of the total expenditures appropriated for the following fiscal year. This will be evaluated and measured as of June 30th of each fiscal year end.

GFOA Fund Balance Assessment Methodology

OVERVIEW

The recommended policy sets the target minimum unassigned General Fund balance at 35% of operating and debt service expenditures. This is based on the structured assessment methodology for setting reserve levels developed by the Government Finance Officers Association of the United Sate and Canada (GFOA) in considering a city's exposure to the following eight fiscal risk factors:

- Vulnerability to extreme events and public safety concerns
- Revenue source stability
- Expenditure volatility
- Leverage, such as unfunded pensions and asset maintenance
- Liquidity (cash flow)
- Dependence of other funds on the General Fund
- Growth: revenue and expenditure imbalance
- Unfunded high priority capital projects

Depending on the results of this assessment, the GFOA methodology provides recommended targets ranging from a minimum of 16.6% of expenditures (60 days cash flow) to circumstances where more than 35% might be warranted. Based on the City's circumstances, the GFOA's structured methodology recommends a target of 26% to 35%. Based on a "rating" at the end of the of the scale, the assessment supports a target of 35% of operating expenditures.

PRUDENT RESERVES REFLECT ABILITY TO MANAGE RISK
Not Fiscal Strength Per Se

Reserves – whether large or small – do not per se reflect on a city's financial capacity or underlying fiscal strength. There are much better indicators than reserves for this, most notably the ability over time for ongoing revenues to adequately meet day-to-day service needs, capital improvement goals and debt service requirements.

Stated simply, reserves are a risk management tool: how much can things go differently than the organization otherwise thought they would before it must take corrective action? Reserves can also serve as a bridge to the future, providing time to develop and implement thoughtful solutions.

Typical risks that reserves help mitigate include economic uncertainties, such as downturns in the economy and external revenue hits (like State takeaways); responding to local disasters; contingencies for unforeseen operating or capital needs; strategic opportunities; and cash flow.

What's the Right Amount? It depends on each agency's unique fiscal circumstances and capacity for risk. In answering this question, the GFOA has developed structured assessment approach.

GFOA ASSESSMENT METHODOLOGY

The GFOA's methodology for setting reserve levels in considers an agency's exposure to the following eight fiscal risk factors:

1. ***Vulnerability to Extreme Events and Public Safety Concerns.*** Major extreme events the community could reasonably be subject to and the likelihood and potential magnitude of loss for each event.

2. ***Revenue Source Stability.*** Volatility of each major revenue source based on factors such as past experience and trends with that revenue, characteristics of the tax or rate payers, state or federal revenue takeaways and economic factors.

3. ***Expenditure Volatility.*** Spikes in expenditures, usually arising from special, non-recurring circumstances such as lawsuits; critical special projects without a funding source; or new state or federal spending requirements and unfunded mandates.

4. ***Leverage.*** Common examples include unfunded pensions and unfunded asset, as well as outstanding bonded indebtedness and compensated absences. Is the source of leverage very large? Does it have an off-setting funding source or asset?

5. ***Liquidity (Cash Flow).*** Intra-period cash imbalances, such as property taxes that are only received at two major points during the year (December and June).

6. ***Dependence of Other funds.*** Are there other funds that have a significant dependence on the General Fund?

7. ***Growth.*** Is significant growth a realistic possibility in the next three to five years? This includes assessing likely potential marginal costs associated with serving new growth compared with marginal revenues and resulting gaps.

8. ***Capital Projects.*** Are there high priority projects without a funding source, where reserves may be looked to as a funding source?

The methodology uses a scale of 5-1 in assessing how important reserves are in mitigating each risk:

5: Very important
4: Important
3: Neutral
2: Unimportant
1: Very unimportant

Since there are eight mitigation factors, total scores will range from 8 (the least risk) to 40 points (greatest risk). Along with these eight risk factors, the methodology also considers:

- City size (assumes larger cities have more mitigation strategies than smaller ones)
- Other reserve/contingency funds
- Borrowing capacity

Depending on the results of this assessment, the GFOA methodology provides recommended targets ranging from a minimum of 16.6% of expenditures (60 days cash flow) to circumstances where more than 35% might be warranted.

The following summarizes the GFOA's rating scale.

GFOA Reserve Rating Scale

Rating	Target Minimum General Fund Reserve
8 -16	Minimal risk to retain through reserves. Consider target equal to the GFOA minimum recommended reserve of 16.6% (two months cash flow) of revenues/expenditures.
17-24	Low to moderate level of risk to retain through reserves. Consider reserve target of 17% to 25%.
25-31	Moderate to high level of risk to retain through reserves. Consider reserve target of 26% to 35%.
32-40	High level of risk to retain through reserves. Consider reserve target greater than 35%.

As detailed in Attachment 3.2, the City's rating under this methodology is 30, which indicates that the target minimum should be at the top of this range (35%).

Two factors intuitively support this assessment: recent experience with the pandemic; and the results of a high-level cash flow analysis that shows two peak cash flow shortfalls of 15% in November and 20% in May prior to the recent of property tax revenues (Attachment 4). Setting the reserve at 35% provides greater flexibility in meeting cash flow needs and other contingencies.

ACCOUNTING FOR THE RESERVE

As noted in side bar, under generally accepted accounting policies, General Fund balances are classified into the following categories:

- Non-spendable
- Restricted
- Unrestricted
  - Committed
  - Assigned
  - Unassigned

The policy sets the reserve target based on the unassigned General Fund balance: net of non-spendable, restricted, committed or assigned balances.

This intuitively makes sense: non-spendable and externally restricted funds are not readily available to meet the risks that the reserve is intended to mitigate. (This is also the recommended approach by the GFOA in its publication *Financial Policies*). It should also be net of other commitments or assignments, so it is available to meet its intended purposes.

General Fund Balance Classifications

Under generally accepted accounting principles set by the Government Accounting Standards Board (GASB) in Statement No. 54, General Fund balance is classified into five components:

- ***Non-Spendable.*** Amounts that are not in spendable form, such prepaid items or inventories.
- ***Restricted.*** Amounts subject to *externally* enforceable restrictions imposed by outside third parties.
- ***Committed.*** Amounts whose use is constrained internally by the agency itself for specific purposes set by the governing body.
- ***Assigned.*** Amounts intended for specific purposes as determined by the governing body or others it has formally designated.
- ***Unassigned.*** Residual classification of spendable amounts available for other purposes.

Based on the unassigned fund balance, two things can be readily determined from audited financial statements after calculating the policy target based on actual operating expenditures:

- Whether the City has achieved its policy goal.

- And the amount (if any) that reserves (unassigned fund balance) exceed or are less than the policy goal.

Vulnerability to Extreme Events

1. Identify Risks

What extreme events are you at risk for?

A	Fire
B	Flood
C	Drought
D	Earthquake
E	Pandemic

2. Assess Risks

What is your vulnerability to each extreme event, given past experience?

A	Moderate
B	Moderate
C	High
D	Low probability; depending on epicenter, losses could be significant
E	Low, but high impact

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk (i.e., manage it without reserves)

A	FEMA reimbursement
B	FEMA reimbursement
C	State drought relief, possible FEMA reimbursement
D	FEMA reimbursement
E	Federal Funds possible, such as CARES, ARPA

Note: While significant reimbursements from FEMA are likely, it is also likely that there will be significant lags between when recovery costs are incurred and when payments will be received. Lastly, based on experiences in other cities, even under the best of circumstances, it is unlikely that the City will be reimbursed for all recovery costs. And even where costs are largely recovered, there is no reimbursement for lost revenues - like sales tax and TOT - during the disaster and recovery period.

4. Considering the above, how important for you is it to retain the risks of extreme events through reserves ?

4 < Enter your score here

5 **Very important.** We are subject to extreme events of severe potential magnitude which would require a quick and decisive response from our government. There are few alternative risk management approaches.

4 **Important.** We are subject to extreme events of severe potential magnitude, but our government does not have an important disaster response role and/or we have other risk management alternatives.

3 **Neutral.** We do not face an unusually high or low level of risk from extreme events.

2 **Unimportant.** We are subject to one or two types of significant extreme events and we have other risk management options.

1 **Very unimportant.** We are subject to very few, if any, potential extreme events of significant potential damage

Revenue Source Stability

1. Identify Risks

What are your major revenue sources?

A	Property Tax (26%)
B	Sales Tax (25%)
C	Internal Service Charges/Transfers (25%)
D	Permits/Service Charges (4%)
E	State Takeaways (Always a Threat)

Note: Top 3 revenues account for about 75% of total

2. Assess Risks

How stable are your revenue sources?

A	Historically stable but downturn in "Great Recession"
B	Subject to significant swings with economy
C	Stable
D	Subject to swings based development activity
E	
F	

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk (i.e., manage it without reserves)

Limited in all cases

4. Considering the above, how important for you is it to retain the risks of revenue instability through reserves ?

4 < Enter your score here

5 **Very important.** We rely on just one or two sources of revenue, and they are unstable

4 **Important.** We rely on unstable sources for a significant portion of our revenue and/or have particular unstable payers as part of our tax base (e.g., sales tax from an industry with volatile sales)

3 **Neutral.** We do not face an unusually high or low level of risk from revenue instability

2 **Unimportant.** While some portion of our revenue base has instability, the majority of revenues are pretty stable.

1 **Very unimportant.** Our revenues are very stable and diverse.

Expenditure Volatility

1. Identify Risks

What are sources of potential expenditure spikes?

A	Increased pension costs
B	Unexpected infrastructure repairs
C	State/federal mandates

2. Assess Risks

What is the potential cost of these spikes?

A	Based on CalPERS investment losses and approved funding methodology changes, very high
B	Unknown
C	Moderate

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk of these potential spikes? (i.e., manage it without reserves)

A	Need to address on ongoing basis
B	Unknown
C	Limited (legislative advocacy)

4. Considering the above, how important for you is it to retain the risks of expenditure spikes through reserves ?

5 < Enter your score here

5 **Very important.** There are expenditure spikes with very high potential to open a significant hole in our budget.

4 **Important.** We are subject to important potential expenditure spikes, such that we need reserves but we also have other risk mitigation approaches available.

3 **Neutral.** We do not face an unusually high or low level of risk from expenditure spikes

2 **Unimportant.** There are one or a few potential spikes but the risk of them occurring is low, the impact not great and/or we have other risk management options.

1 **Very unimportant.** We have no important risk from expenditure spikes.

Leverage

1. Identify Risks

What are major sources of leverage you are subject to?

A	Pension liabilities
B	
C	
D	

2. Assess Risks

What are the implications of leverage for the organization's financial flexibility?

A	Higher future costs
B	
C	
D	

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk of leverage? (i.e., manage it without reserves)

A	Need to address these higher cost on an ongoing basis: reserves not an appropriate source of funding
B	
C	
D	

4. Considering the above, how important for you is it to retain the risks of leverage through reserves ?

3	< Enter your score here
5	**Very important.** We are subject to significant leverage and have no other risk management approach
4	**Important.** We are subject to significant leverage and do not have equally significant offsetting risk management approaches.
3	**Neutral.** We do not face an unusually high or low level of risk from leverage
2	**Unimportant.** We have one or two sources of leverage, but these are largely addressed with other risk management strategies.
1	**Very unimportant.** We have no important sources of leverage that aren't already managed with out reserves.

Liquidity

1. Identify Risks

What are your major sources of potential intra-period cash imbalances?

A	Property tax collections in December and June (26% of revenues): see cash flow worksheet
B	Gas and electric franchise payments in April
C	
D	

2. Assess Risks

How likely are these risks to occur and what is their potential magnitude?

A	Ongoing
B	Ongoing
C	
D	

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk of liquidity? (i.e., manage it without reserves)

A	Tax/revenue anticipation notes - but results in added interest costs
B	Borrow from other funds - but adds "leverage" to them
C	

4. Considering the above, how important for you is it to retain the risks of liquidity spikes through reserves ?

5 < Enter your score here

5 **Very important.** We have very important potential intra-period imbalances with few risk management alternatives.

4 **Important.** We have important potential intra-period imbalances, but do have some off-setting risk management alternatives.

3 **Neutral.** We do not face an unusually high or low level of risk from intra-period cash imbalances.

2 **Unimportant.** We have some minor potential intra-period cash imbalances.

1 **Very unimportant.** Our cash flows are very stable.

Other Funds Dependency

1. Identify Risks

What other funds rely on the general fund for an important part of their funding?

A	Very limited
B	
C	

2. Assess Risks

How likely is it that these funds will need the general fund to "backstop" them in an emergency?

A	
B	
C	

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk of other funds' dependency? (i.e., manage it without reserves)

A	
B	
C	

4. Considering the above, how important for you is it to retain the risks of other fund dependency through reserves ?

2 < Enter your score here

5 **Very important.** A number of funds rely on the general fund for backstopping, with few, if any, risk management alternatives.

4 **Important.** We have at least some funds that rely on the general fund and this includes reliance for backstopping.

3 **Neutral.** We do not face an unusually high or low level of risk from other fund dependency.

2 **Unimportant.** There are a small number of funds that rely on the general fund, and the potential for the general fund to need to backstop them is small.

1 **Very unimportant.** No other funds rely on the general fund for backstopping.

Growth

1. Identify Risks

What are potential major sources of growth in the next three to five years?

A | Limited new development opportunities

2. Assess Risks

What is the potential for these sources of growth to cause imbalances in the revenue received from the growth and the expenditures needed to serve it?

A | Limited

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk of growth? (i.e., manage it without reserves)

A | Limited, if significant growth does occur

4. Considering the above, how important for you is it to retain the risks of growth through reserves ?

2 < Enter your score here

5 **Very important.** We expect significant growth with imbalances in the timing of revenues and expenditures

4 **Important.** We have some growth that will cause imbalances in the timing of revenues and expenditures.

3 **Neutral.** We do not face an unusually high or low level of risk from growth

2 **Unimportant.** We have a small potential for future growth and/or only minor potential imbalances in the timing between revenues and expenditures.

1 **Very unimportant.** We expect no growth or growth will fully pay for itself as expenditures are incurred.

Population as of January 1: Last Ten Years

2017	15,498
2016	15,388
2015	15,364
2014	15,298
2013	15,245
2012	15,195
2011	15,122
2010	15,053
2009	14,935
2008	14,874
2007	14,879

Source: State of California, Department of Finance, Demographic Research Unit
http://www.dof.ca.gov/Forecasting/Demographics/Estimates/

Capital Projects

1. Identify Risks

What high priority capital projects don't have a funding source?

A	The City has a significantly underfunded CIP
B	
C	

2. Assess Risks

What is the likelihood that reserves will be looked to as a funding source for the project?

A	Likely
B	
C	

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk of capital projects using reserves as a funding source? (i.e., manage it without reserves)

A	Not applicable
B	
C	

4. Considering the above, how important for you is it to retain the risks of unfunded capital projects through reserves ?

5	< Enter your score here
5	**Very important.** There are very high profile projects with out a funding source and reserves are likely to be considered as a funding source.
4	**Important.** There are at least some high profile projects where reserves may be called upon to provide at least some of the funding.
3	**Neutral.** We do not face an unusually high or low level of risk from unfunded high-priority projects
2	**Unimportant.** High priority capital projects will probably have funding sources, if they don't already.
1	**Very unimportant.** All high priority capital projects have funding sources.

Guiding Your Selection of a Fund Balance Target

Step 1. Determine your total score from the risk factors

30	Your total score from the risk factors (calculated if you entered a score in other sheets)

Step 2. Preliminary Analysis

Compare your score from Step 1 to the guidelines below.

Your Score	*Analytical Guidance*
8 - 16	You face minimal risk to retain through reserves. Consider a target equal to the GFOA minimum recommended reserve of 16.6% of revenues/expenditures.
17-24	You face a low to moderate level of risk to retain through reserves. Consider adopting a reserve target somewhat higher than the GFOA minimum (e.g. 17-25% of revenues/expenditures). Since risk is low, do not invest excessive analytical effort in determining an exact target amount. Consider a short, informal benchmarking study with peer agencies to provide guidance.
25-31	You face a moderate to high level of risk to retain through reserves. Consider adopting a target amount of reserves significantly higher than the GFOA recommended minimum (e.g., 26 - 35%). Consider a short, informal benchmarking survey as a starting point, but then analyze your most significant risk factors to make sure they are adequately covered by what the survey suggests is reasonable.
32 - 40	You face a high level of risk to retain through reserves. Consider adopting a much higher target than the GFOA minimum (e.g., greater than 35%). Consider performing a more in-depth analysis of the risks you face to arrive at target level of reserved that provides sufficient coverage.

Step 3. Consider Impact of Government Size, Budget Practices, & Borrowing Capacity

For each driver pick which description best fits you and enter the appropriate number of points.

2	**Government Size**
+2	We are under 50,000 in population
0	We are between 50,000 and 300,000 in population
-4	We are over 300,000 in population

0	**Budget Practices**
-3	The budget has a formal contingency beyond what is being considered for this reserve.
-2	The budget has informal contingencies beyond what is being considered for the reserve.
0	The budget is lean and has no contingencies in it.

-2	**Borrowing Capacity**
-3	We have excellent external and internal borrowing capacity, including a good rating, little existing debt, and political will to use it.
-2	We have some external and/or internal borrowing capacity and political will could be mobilized to use it.
0	We have little or no borrowing capacity.

Step 4. Consider Impact of Commitments/Assignments, Outsider Perceptions & Political Support

Place an "X" next to each statement that applies to you.

Commitments and Assignments

x	We have commitments or assignments that designate fund balance for uses other than retaining the types of risk described in this analysis. If so, these commitments/assignments should not be included in the total reserve used to reach your target.

Outsider Perceptions

	Rating agencies have given us a target level of reserve for getting a good rating. If so, use that target in place of or in addition to a benchmarking survey to provide guidance on starting point for your target.
	The public is likely to question reserve levels as too high. If so, be sure to document your analysis findings in the other sheets.

Political Support

	The governing board places great weight on the policies of comparable jurisdictions. If so, conduct a benchmarking survey that includes governments the board perceives as relevant.
	The board places great weight on rating agency recommendations. If so, tie the reserve target recommendation to rating agency recommendations or standards.
	The board places great weight on GFOA recommendations. If so, use this analysis and GFOA's Best Practices to support your recommendation.

Step 5. Putting it All Together

A. Consider your adjusted risk score and re-consult the analytical guidance.

30 < Your adjusted risk score (risk score modified with results from Step 3)

B. Review results of Step 4.

Review each item you checked from Step 4 and add the advice to your analytical guidance.

C. Proceed with finalizing target

Proceed with setting a final reserve target based on analytical guidance.

City of Wasco General Fund Cash Flow: 2020-21 Mid-Year Revised

	Total	% Total	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
REVENUES/SOURCES														
Property Tax: General	975,000	6%						487,500						487,500
Property Tax: VLF	3,151,359	20%						1,575,680						1,575,680
Sales Tax: General	1,588,000	10%	132,333	132,333	132,333	132,333	132,333	132,333	132,333	132,333	132,333	132,333	132,333	132,333
Sales Tax: Measure X	2,360,000	15%	196,667	196,667	196,667	196,667	196,667	196,667	196,667	196,667	196,667	196,667	196,667	196,667
Franchise Fees	350,000	2%										350,000		
TOT	74,451	0%	18,613			18,613			18,613			18,613		
Business License Tax	75,000	0%	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250
Permit/Service Charges	666,500	4%	55,542	55,542	55,542	55,542	55,542	55,542	55,542	55,542	55,542	55,542	55,542	55,542
G&A Allocations	1,514,727	9%	126,227	126,227	126,227	126,227	126,227	126,227	126,227	126,227	126,227	126,227	126,227	126,227
Grants	2,568,600	16%	214,050	214,050	214,050	214,050	214,050	214,050	214,050	214,050	214,050	214,050	214,050	214,050
Other Sources (Uses)	2,518,685	16%	209,890	209,890	209,890	209,890	209,890	209,890	209,890	209,890	209,890	209,890	209,890	209,890
Other Revenues	140,610	1%	11,718	11,718	11,718	11,718	11,718	11,718	11,718	11,718	11,718	11,718	11,718	11,718
Total Revenues/Sources	15,982,932	100%	971,290	952,677	952,677	971,290	952,677	3,015,856	971,290	952,677	952,677	1,321,290	952,677	3,015,856
ANNUALCOSTS														
Operating	10,803,905	59%	900,325	900,325	900,325	900,325	900,325	900,325	900,325	900,325	900,325	900,325	900,325	900,325
Capital	7,405,563	41%	617,130	617,130	617,130	617,130	617,130	617,130	617,130	617,130	617,130	617,130	617,130	617,130
Total Costs	18,209,468	100%	1,517,456	1,517,456	1,517,456	1,517,456	1,517,456	1,517,456	1,517,456	1,517,456	1,517,456	1,517,456	1,517,456	1,517,456
NET SOURCES	(2,226,536)	-	(546,166)	(564,779)	(564,779)	(546,166)	(564,779)	1,498,401	(546,166)	(564,779)	(564,779)	(196,166)	(564,779)	1,498,401
Cummulative Net	(2,226,536)		(546,166)	(1,110,945)	(1,675,724)	(2,221,890)	(2,786,669)	(1,288,268)	(1,834,434)	(2,399,213)	(2,963,992)	(3,160,158)	(3,724,937)	(2,226,536)
% OF ANNUAL COSTS			**-3%**	**-6%**	**-9%**	**-12%**	**-15%**	**-7%**	**-10%**	**-13%**	**-16%**	**-17%**	**-20%**	**-12%**

STAFF REPORT

CITY OF WASCO

TO: Honorable Mayor and Council Members

FROM: Daniel Ortiz-Hernandez, City Manager
Isarel Perez-Hernandez, Finance Director
William C. Statler. Fiscal Advisor

DATE: April 27, 2021

SUBJECT: Review and Discuss the General Fund Five-Year Fiscal Forecast.

RECOMMENDATION:
Review and discuss the General Fund Five-Year Fiscal Forecast.

DISCUSSION:

Report Purpose
The purpose of the forecast is to identify the General Fund's ability over the next five years – on an "order of magnitude" basis – to continue current services in light of recovery from the Great Recession and Covid-19 impacts. The forecast does this by projecting ongoing revenues and subtracting from them likely operating and capital costs in continuing current service levels. If positive, the balance remaining is available to fund "new initiatives" such as implementing capital improvement plan (CIP) goals, addressing unfunded liabilities or improving service levels. On the other hand, if negative, it shows the likely "forecast gap" if the City continues current service levels without corrective action.

Report Findings
The attached report provides a detailed assessment of General Fund revenues, expenditures and changes in fund balance for the next five years. It also describes the key assumptions that drive forecast results.

The report concludes that the General Fund is facing a modest "forecast gap" of about $104,000 per year on average, although there are variances from year to year. However, this is based on a very modest CIP compared with 2020-21.

FISCAL IMPACT:
There are no direct fiscal impacts as a result of reviewing this report. However, it provides important information about the fiscal challenges facing the General Water Fund in the next five years in providing day-to-day services and accomplishing high priority CIP goals.

ATTACHMENT:
1. General Fund Five-Year Fiscal Forecast

City of Wasco

General Fund
Five Year Fiscal Forecast: 2022-26

April 2021

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William C. Statler

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

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INTRODUCTION

OVERVIEW

Purpose

This purpose of this report is to assess the General Fund's ability over the next five years – on an "order of magnitude" basis – to sustain current service levels on an ongoing in the aftermath of the worst recession since the Great Depression and subsequent Covid-19 impacts.

Past Fiscal Challenges and Those Ahead. Like virtually all other local governments in California, the City faced major fiscal challenges in the wake of the worst recession since the Great Depression. This was compounded by the dissolution of redevelopment agencies, which was a key funding source for community investments. As reflected in this forecast, the City's revenues have improved since the Great Recession ended, albeit modestly. However, like all other members of the California Public Employees Retirement System (CalPERS), the City has experienced – and will continue to experience – increases in pension costs. Moreover, the economic and related fiscal effects of the Covid-19 pandemic have had significant adverse impacts on the General Fund.

Role of the Fiscal Forecast. Making good resource decisions in the short term as part of the budget process requires considering their impact on the City's fiscal condition down the road. Developing good solutions requires knowing the size of any problem the City is trying to solve. In short, the City cannot fix a problem it hasn't defined. And in this economic and fiscal environment, looking only one year ahead has the strong potential to misstate the size and nature of the fiscal challenges – and opportunities – ahead of the City.

For those local agencies that have prepared longer-term forecasts and follow-on financial plans, this did not magically make their fiscal problems disappear: they still had tough decisions to make. However, it allowed them to better assess their longer-term outlook, more closely define the size and duration of the fiscal challenges and opportunities facing them, and then make better decisions accordingly for both the short and long run. This will be true for the City as well.

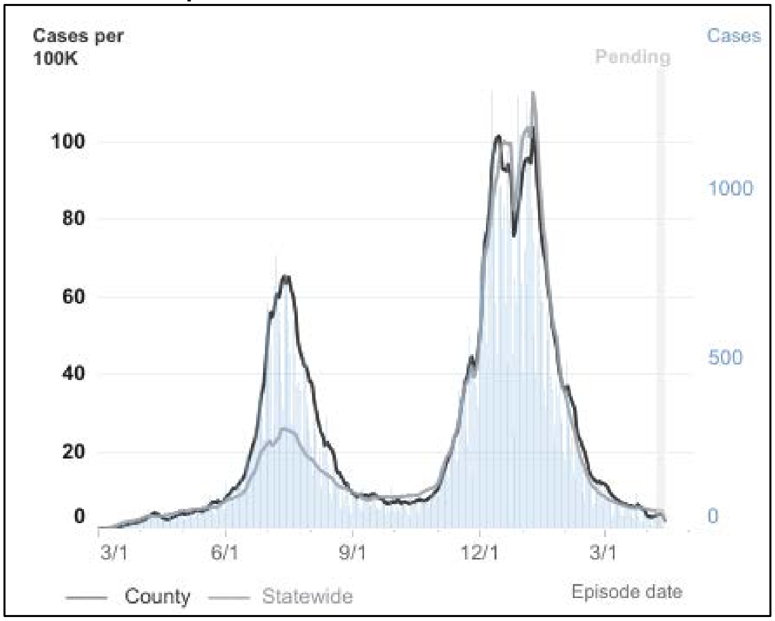
Economic and Public Health Challenge Outlook

It is important to stress that the economic, fiscal and public health challenges facing the City are real. Stated simply, the City's revenue outlook will not get better until the economy improves; and the economy won't begin to improve until the public health crisis is over.

Fortunately, as reflected in the following chart showing trends in average daily Covid-19 cases since March 2020, it appears that the public health crisis in California and Kern County is abating. (The trends for Kern County and the State track closely together.)

As reflected in this chart, cases peaked in Summer 2020 and peaked even larger in Winter 2020-21. However, since then there has been a dramatic decrease in average daily cases.

Average Daily Cases: Kern County and State
March 2020 to April 2021



Source: State of California
https://covid19.ca.gov/state-dashboard

However, given past surges, cautious optimism is warranted about the possibility that the pandemic crisis may soon be over.

Economic Recovery. The economic and fiscal downturns experienced during the Great Recession versus Covid-19 are fundamentally different:

Great Recession	Covid-19
• Economic meltdown/financial system failure due to housing bubble and subprime mortgages • Slow recovery • Systemic problem	• Strong underlying economy. • Public health crisis causes downturn. • When public health recovers, economy will recover. • One-time problem.

For this reason, virtually all economists believe that the economy will recover strongly and quickly once the public health crisis is over. (Of course, when this will happen is difficult to predict.)

The forecast reflects this consensus but is nonetheless cautious in projecting revenues.

Forecast Framework and Approach

As noted above, the purpose of the forecast is to identify the General Fund's ability over the next five years – on an "order of magnitude" basis – to continue current services in light of recovery from the Great Recession and Covid-19 impacts. The forecast does this by projecting ongoing revenues and subtracting from them likely operating and capital costs in continuing current service levels. If positive, the balance remaining is available to fund "new initiatives" such as implementing capital improvement plan (CIP) goals, addressing unfunded liabilities or improving service levels. On the other hand, if negative, it shows the likely "forecast gap" if the City continues current service levels without corrective action.

***It is important to stress that this forecast is not the budget*.**

Budgets are based on program review, priorities and affordability. Forecasts, on the other hand, are based on assumptions. Accordingly, this forecast doesn't make expenditure decisions; it doesn't make revenue decisions. As noted above, its sole purpose is to provide an "order of magnitude" feel for the General Fund's ability to continue current service levels.

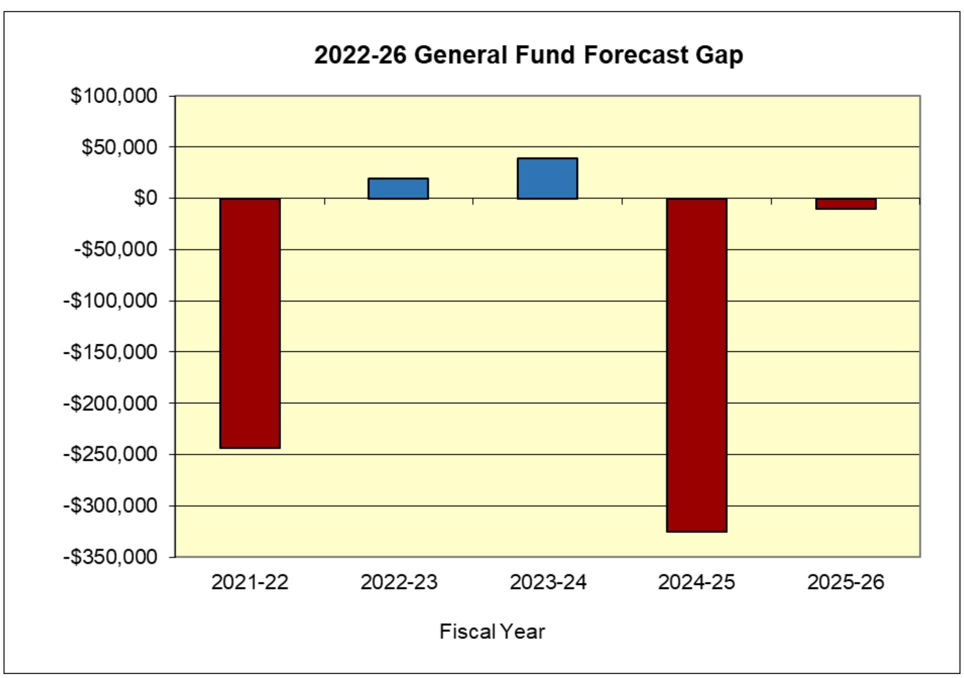
Ultimately, this forecast cannot answer the question: "Can the City afford new initiatives?" This is a basic question of priorities, not of financial capacity per se. However, making trade-offs is what the budget process is all about: determining the highest priority uses of the City's limited resources. And by identifying and analyzing key factors affecting the City's long-term fiscal heath, the forecast can help assess how difficult making these priority decisions will be.

Stated simply, the forecast is not the budget. Rather, it sets forth the challenges – and opportunities – ahead of the City in adopting a balanced budget, next year and beyond.

SUMMARY OF FORECAST FINDINGS

The Short Story

Based on curent service levels and a very small CIP, the General Fund is facing a modest "forecast gap" over the next five years:



While it "yoyos" from year-to-year, the average gap is about $104,000 annually (or 1% of operating costs).

- The forecast gap in 2021-22 of $243,000 is the most immediate concern. However,,placed in context, this reflects a small percentage of operating costs (about 2%). While below target fund balance levels, General Fund reserves are available to fund the short-term gap in 2021-22.

- As the economy and revenues recover from Covid-19, the second two years of the forecast show positive (albeit small) results.

- The large gap in 2024-25 is due to "lumpy" CIP costs in that year.

- The last year shows costs and revenues in balance with a minor $10,000 gap.

Impact of Covid-19 on Revenues. The following chart summarizes the impact of Covid-19 revenue decreases from 2018-19 (the last completed fiscal year before Covid-19 impacts):

Revenue Losses Due to Covid-19

	2018-19	2019-20		2020-21		2021-22		Total
	Base Year	Amount	Variance*	Amount	Variance*	Amount	Variance*	Variance*
Sales Tax: General	1,607,600	1,470,400	(137,200)	1,588,000	(19,600)	1,545,000	(62,600)	(219,400)
Sales Tax: Measure X	2,800,400	2,506,800	(293,600)	2,360,000	(440,400)	2,336,400	(464,000)	(1,198,000)
TOT	210,800	166,700	(44,100)	74,500	(136,300)	120,000	(90,800)	(271,200)
Business License Tax	119,700	116,200	(3,500)	75,000	(44,700)	90,000	(29,700)	(77,900)
Total	4,738,500	4,260,100	(478,400)	4,097,500	(641,000)	4,091,400	(647,100)	(1,766,500)

* Variance from base year.

As reflected above, total revenue losses through 2021-22 total $1.7 million, with an annual revenue loss of $647,100 in 2021-22.

Key Forecast Drivers

Assumptions drive the forecast results, which are outlined on pages 9 to 11. Stated simply, if the assumptions change, the results will change. Key drivers underlying the forecast results include:

Current Solid Financial Condition. While the unassigned fund balance is below policy targets, overall fund balance (including the portion assigned for the labor housing complex) provides meaningful resiliency in addressing adverse fiscal circumstances. In short, the City starts with solid reserves compared with many other cities in the State, who have exhausted their reserves in mitigating service cuts in light of Covid-19 revenue losses.

State Budget Outlook. Over the past thirty years, the greatest fiscal threat to cities in California has not been economic downturns, dot.com meltdowns or corporate scandals, but rather, State takeaways. These included 20% reductions in property tax revenues in transferring revenues to schools via the Education Revenue Augmentation Fund (which in turn allowed the State to reduce its funding to schools by a commensurate amount), property tax administration fees, unfunded State mandates and more recently, dissolution of redevelopment agencies. These takeaways were on top of the fiscal challenges facing cities in light of their own revenue declines and cost pressures.

Fortunately, there are no further State takeaways on the horizon – but neither are there any suggested restorations of past takeaways. That said, while there are added constitutional protections in place since the last State raids on local finances, five years is a long time for the State to leave cities alone.

Revenues. The forecast generally assumes recovery in all key General Fund revenues, albeit slowly in 2021-22 as Covid-19 impacts begin (hopefully) to abate. Revenue assumptions are provided on pages 10 and 11.

Expenditures. There are four key expenditure assumptions reflected in the forecast, which are described in greater detail on page 9.

- **"Baseline" operating costs.** The 2020-21 Budget is the "baseline" for the forecast. From this, operating costs are projected to increase by inflation (projected at 2% annually), excluding projected increases pension costs and public safety contract services.

- **Penson cost increases.** Increases in retirement costs for contributions to the City's unfunded actuarial liabilities (UAL) are based on projection factors provided by CalPERS.

- **Public safety contract costs.** Significant increases are projected in contract Sheriff and Fire costs based on the factors presented at the Council's goal-setting session on February 27, 2021.

- **CIP expenditures.** These are based on the current five-year CIP included in the 2020-21 Budget through 2024-25. After that, the forecast assumes the average of the prior four years. It should be noted that this results in very modest average annual CIP of $184,000. To place this in perspective, the adopted General Fund CIP in 2020-21 was $3.1 million.

BASIC FORECAST FRAMEWORK

Background

There are two basic approaches that can be used in preparing and presenting forecasts: developing one forecast based on one set of assumptions about what is believed to be the most likely outcome; or preparing various "scenarios" based on a combination of possible assumptions for revenues and expenditures. This forecast uses the "one set of assumptions" approach as being the most useful for policy-making purposes. However, the financial model used in preparing this forecast can easily accommodate a broad range of "what if" scenarios.

Economic, Fiscal and Demographic Trends

The past doesn't determine the future. However, if the future won't look like the past, we need to ask ourselves: why not? How will the future be different than the past, and how will that affect the City's fiscal outlook? Accordingly, one of the first steps in preparing the forecast is to take a detailed look at key demographic, economic and fiscal trends over the past ten years.

A summary of key indicators is provided in the *Trends* section of this report beginning on page 14. Areas of focus included:

- ***Economic and Demographic Trends.*** Population and inflation as measured by changes in the consumer price index (CPI).
- ***Revenues Trends.*** Focused on the City's top four General Fund revenues: general property taxes, VLF swap property taxes, general sales taxes and Measure X sales taxes. Together, these account for about 65% of total General Fund revenues.
- ***Expenditure Trends.*** Overall trends in the City's top operating cost – public safety – which accounts for 50% of General Fund operating costs.

Forecast Assumptions

As noted above, assumptions drive the forecast results. Sources used in developing forecast projections include:

- Long and short-term trends in key City revenues and expenditures.
- Economic trends as reported in the national media.
- Statewide and regional economic forecasts prepared by the University of California, Los Angeles, California Economic Forecast and Beacon Economics.
- Economic and fiscal information developed by the State Legislative Analyst's Office (LAO), State Department of Finance and State Controller.
- Fiscal and legislative analysis by the League of California Cities.
- Analysis by the City's sales tax advisor (HdL).
- Employer contribution projections based on factors prepared by CalPERS.

Ultimately, working closely with City staff, the forecast projections reflect our best judgment about the performance of the local economy during the next five years, and how these will affect General Fund revenues and expenditures. A summary of the assumptions used in the forecast begins on page 9.

What's Not in the Forecast

Grant Revenues. The forecast does not reflect the receipt of any "competitive" grant revenues over the next five years. However, based on past experience, it is likely that the

City will be successful in obtaining grants for either operating or capital purposes. That said, these are typically for restricted purposes that meet the priorities of the granting agency, which are not necessarily the same as the City's.

Most notably, the forecast does not include American Rescue Plan Act (ARPA) funds. Uses of these funds will be considered as part of the budget process, pending further direction from the U.S. Treasury Department on availability, constraints and allowable uses.

Operating Needs Not Funded in the 2020-21 Budget. It is likely that there are City needs that are not reflected in the 2020-21 Budget, which is the basis for the forecast.

Development Impact Fee Revenues. These can only be used to fund the cost of facilities in meeting the needs of new development.

What's Most Likely to Change?

By necessity, the forecast is based on a number of assumptions. The following summarizes key areas where changes from forecast assumptions are most likely over the next five years:

- ***Top Revenue Projections.*** These are directly tied to the performance of the local economy, which in turn is driven by the interrelated performance of the regional, state and national economies. While the forecast assumes recovery, this is not a sure thing.

- ***Insurance Costs.*** Consistent with the general forecast assumption of using the 2020-21 Budget as the "baseline," the forecast assumes that general liability, workers' compensation and property insurance costs will grow by inflation (2% annually). However, in the past this has been a volatile cost for many cities in California.

- ***Retirement Costs.*** The forecast uses CalPERS' rate projection factors for the next five years. While there are a number of actuarial factors that determine rates, investment yield assumptions are the main driver. The CalPERS actuarial yield assumption is 7%. Based on long-term trends, this is a reasonable assumption. While there have been significant year-to-year swings, the investment yield has averaged 8.5% over the past ten years. And most recently, the return for calendar year 2020 was 12%. However, experience has shown the potential for unexpected steep increases in employer contribution costs.

CONCLUSION

The City's General Fund is facing a modest forecast gap over the next five years: about $104,000 annually. For the upcoming Budget, the "forecast gap" is a modest $243,000, about 2% of operating costs, However, this is based on a very modest CIP that is significantly smaller than the adopted CIP for 2020-21. Accordingly, the General Fund's greatest challenge will be in funding an adequate CIP.

Fortunately, while less than the policy target, the City has adequate reserves that are available to help fund the modest, short-term gap in 2021-22.

Challenges Ahead but Begin with Key Strengths

While the City is facing challenges in preparing the 2021-22 Budget, especially in funding an adequate CIP, it does so with significant strengths compared with many other cities:

- ***"Clean" (unqualified) audited financial statements***. The City has a long history of receiving clean audits. And the last one (2019-20), for the first time in many years, was prepared on a timely basis.

- ***No unfunded retiree health care obligations.*** This is a significant fiscal-health factor for the City. To put the potential impact of unfunded retiree health costs in perspective compared with other agencies, for the State of California, its unfunded retiree health care liabilities are larger than its unfunded pension obligations.

- ***No General Fund debt obligations*.** The City has no General Fund debt service obligations.

- ***Long-standing tradition of responsible financial management and stewardship of community assets.*** This core value will serve the City well in meeting the challenges ahead in a fiscally responsible way that preserves essential services.

KEY ASSUMPTIONS

DEMOGRAPHIC TRENDS

Population. Based on recent trends, no change in population (either up or down) is projected to materially affect revenues or expenditures over the next five years.

Inflation. Based on long-term trends and projections in recent statewide and regional forecasts, inflation – as measured by the consumer price index (CPI) – grows by 2% annually throughout the forecast period.

ECONOMIC OUTLOOK

Stated simply, the City's revenue outlook will not get better until the economy improves; and the economy won't begin to improve until the Covid-19 public health crisis is over. Fortunately, based on the large drop daily cases, it appears that the public health crisis in California and Kern County is abating.

Virtually all economists believe that economy will recover strongly and quickly once the public health crisis is over. (Of course, when this will happen is difficult to predict.)

The forecast reflects this consensus but is nonetheless cautious in projecting revenues.

EXPENDITURES

Operating Costs. The 2020-21 Budget is the "baseline" for the forecast operating expenditures. From this, operating costs are projected to increase by inflation (projected at 2% annually), excluding annual contributions for the unfunded actuarial liability (UAL) and projected increases in public safety contracts.

UAL Increases. The following shows UAL cost increases by plan based on projections provided by CalPERS.(see "Historical Trends" for a fuller description of the City's different retirement plans).

UAL Contributions	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Classic Employees	292,800	337,400	340,600	395,900	421,200	433,600
Classic Employees: Second Tier	1,600	2,100	2,300	2,500	2,600	2,800
PEPRA Employees	1,100	1,900	2,800	3,700	4,500	4,700
Legacy Safety Plan	49,100	49,300	49,000	49,000	49,000	49,000

Reflects General Fund portion (65%); balance is allocated to other funds.

As reflected above, increases are primarily driven by classic employees.

Public Safety Costs. These are based on projected increases presented to the Council at tits February 27, 2021 goal-setting session:

Public Safety	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Sheriff Contract	3,984,400	4,285,400	4,430,400	4,651,900	4,884,500	5,218,700
Fire Contract	529,100	1,037,300	1,058,000	1,079,200	1,100,800	1,122,800

Capital Improvement Plan (CIP) Expenditures. These are based on the five-year plan included in the 2020-21 Budget through 2024-25. After that, they increase by the average of the four prior years. This results in a very modest CIP.

KEY ASSUMPTIONS

INTERFUND TRANSFERS

Transfers reflect the City's mainstream practice of transferring Gas Tax funds (except for SB 1 revenues, which are allocated for CIP projects) to the General Fund in offsetting street-related maintenance costs that are far in excess of Gas Tax revenues. This practice is projected to continue at the flat level of $527,500 annually.

STATE BUDGET ACTIONS

The forecast assumes no added cuts nor restoration of past cuts to cities.

REVENUES

Sources used in developing revenue projections for the forecast include:

- Long and short-term trends in key City revenues and expenditures.
- Economic trends as reported in the national media.
- State and regional economic forecasts prepared by the University of California, Los Angeles; California Economic Forecast; and Beacon Economics.
- Economic and fiscal information developed by the State Legislative Analyst's Office (LAO), State Department of Finance and State Controller.
- Fiscal and legislative analysis by the League of California Cities.
- Analysis by the City's sales tax advisor (HdL).

Ultimately, however, in close consultation with City staff, the forecast projections reflect our best judgment about the State budget process and the performance of the local economy during the next five years and how these will affect General Fund revenues.

Top Four Revenues

The following describes the assumptions for the General Fund's top four revenues, which account for about 65% of total revenues: general property taxes, VLF swap property tax revenues, general sales tax and Measure X sales tax.

General and VLF Swap Property Tax. These revenue sources are driven by changes in assessed value. The following growth assumptions reflect recovery from Covid-19, followed by increases based on past trends.

2021-22	2.0%
2022-23	7.0%
2023-24	6.0%
2024-25	5.0%
2025-26	5.0%

General Sales Tax. This is based on projections by the City's sales tax advisor (HdL). 2021-22 reflects their assessment of the impact of the highspeed rail construction disruption.

2021-22	-2.7%
2022-23	3.5%
2023-24	3.5%
2024-25	3.7%
2025-26	3.7%

Measure X Sales Tax Revenues. These projections were also developed by the City's sales tax advisor (HdL) and reflects their assessment in 2021-22 for the impact of the highspeed rail construction disruption.

2021-22	-1.0%
2022-23	2.4%
2023-24	3.8%
2024-25	3.7%
2025-26	3.7%

Other Revenues. These are projected to remain flat or grow modestly by inflation (2%) during the forecast period.

GENERAL FUND FIVE YEAR FISCAL FORECAST: 2022-26

	2018-19	2019-20	2020-21	FORECAST				
	Actual	Actual	Esimated	2021-22	2022-23	2023-24	2024-25	2025-26
REVENUES								
Property Tax								
General	$882,900	$957,800	$975,000	$994,500	$1,014,400	$1,085,400	$1,150,500	$1,208,000
In Lieu of VLF	2,883,500	3,147,800	3,151,400	3,214,400	3,439,400	3,645,800	3,828,100	4,019,500
Sales Tax								
General	1,607,600	1,470,400	1,588,000	1,545,100	1,599,200	1,655,200	1,716,400	1,779,900
Measure X	2,800,400	2,506,800	2,360,000	2,336,400	2,392,500	2,483,400	2,575,300	2,670,600
Franchise Fees	368,100	351,900	350,000	357,000	364,100	371,400	378,800	386,400
Transient Occupancy Tax	210,800	166,900	74,500	120,000	165,500	210,800	215,000	219,300
Business License Tax	119,700	116,200	75,000	90,000	105,000	119,700	122,100	124,500
Permit and Service Charges								
Development Review	271,800	392,500	527,000	397,100	405,000	413,100	421,400	429,800
Other Charges	142,400	-	139,500	142,300	145,100	148,000	151,000	154,000
General & Admin Allocations	1,530,400	1,256,300	1,514,700	1,545,000	1,575,900	1,607,400	1,639,500	1,672,300
Grants	641,800	223,600	1,634,600	-	-	-	-	-
Other Revenues	1,164,900	1,099,400	140,600	140,600	140,600	140,600	140,600	140,600
Total Revenues	**12,624,300**	**11,689,600**	**12,530,300**	**10,882,400**	**11,346,700**	**11,880,800**	**12,338,700**	**12,804,900**
EXPENDITURES								
Operating Costs	8,459,600	8,899,700	10,588,500	11,558,400	11,845,000	12,263,300	12,665,300	13,158,400
CIP Projects	2,047,200	1,144,400	6,471,600	95,000	10,000	106,000	526,000	184,300
Total Expenditures	**10,506,800**	**10,044,100**	**17,060,100**	**11,653,400**	**11,855,000**	**12,369,300**	**13,191,300**	**13,342,700**
OTHER SOURCES (USES)								
Transfers In	1,769,900	1,895,500	2,303,300	527,500	527,500	527,500	527,500	527,500
Transfers Out	(644,600)	(403,300)	-	-	-	-	-	-
Total Other Sources (Uses)	1,125,300	1,492,200	2,303,300	527,500	527,500	527,500	527,500	527,500
Sources Over (Under) Uses	**3,242,800**	**3,137,700**	**(2,226,500)**	**(243,500)**	**19,200**	**39,000**	**(325,100)**	**(10,300)**
FUND BALANCE, BEGINNING OF YEAR	7,129,600	10,372,400	13,510,100	11,283,600	11,040,100	11,059,300	11,098,300	10,773,200
FUND BALANCE, END OF YEAR	**10,372,400**	**13,510,100**	**11,283,600**	**11,040,100**	**11,059,300**	**11,098,300**	**10,773,200**	**10,762,900**
Assigned: Labor Housing Complex Project			9,300,000	9,300,000	9,300,000	9,300,000	9,300,000	9,300,000
Unaasigned	10,372,400	13,510,100	1,983,600	1,740,100	1,759,300	1,798,300	1,473,200	1,462,900

2020-21 excludes Labor Housing Complex Demolition/Site Clean-up and Covid-19 project related costs and revenues.

ASSUMPTIONS SUMMARY

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Inflation	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
REVENUES & OTHER SOURCES						
Property Tax (General and In-Lieu VLF)	4,126,400	2.0%	7.0%	6.0%	5.0%	5.0%
Sales Tax: HdL (Sales Tax Advisor) Projection						
General	1,588,000	-2.7%	3.5%	3.5%	3.7%	3.7%
Measure X	2,360,000	-1.0%	2.4%	3.8%	3.7%	3.7%
Franchise Fees (Inflation)	350,000	2.0%	2.0%	2.0%	2.0%	2.0%
Transient Occupancy Tax						
Recovers to 2018-19 "base year" by 2023-24; grows by inflation thereafter	74,500	120,000	165,500	210,800	2.0%	2.0%
Busnuess License Tax						
Recovers to 2018-19 "base year" by 2023-24; grows by inflation thereafter	75,000	90,000	105,000	119,700	2.0%	2.0%
Development Review Fees Service Charges:						
Average of 2 Prior Year Actuals and 2020-21 Estimate as Base for 2021-22	527,000	397,100	2.0%	2.0%	2.0%	2.0%
Othe Service Charges: Grow by Inflation	139,500	2.0%	2.0%	2.0%	2.0%	2.0%
Gen & Admin Allocations: Grow by inflation	1,514,700	2.0%	2.0%	2.0%	2.0%	2.0%
Other Revenues	140,600	Flat	Flat	Flat	Flat	Flat
EXPENDITURES						
Operating Expenditures						
Sheriff Contract	3,984,400	4,285,400	4,430,400	4,651,900	4,884,500	5,218,700
Fire Contract	529,100	1,037,300	1,058,000	1,079,200	1,100,800	1,122,800
CalPERS Unfunded Acturial Liability (UAL) Contributions						
"Classic" Employees (65% of total UAL; balance in enterprise funds)	292,800	337,400	340,600	395,900	421,200	433,600
"Classic" Employees: Second Tier	1,600	2,100	2,300	2,500	2,600	2,800
PEPRA Employees	1,100	1,900	2,800	3,700	4,500	4,700
Legacy Safety Plan	49,100	49,300	49,000	49,000	49,000	49,000
Total CalPERS UAL	344,600	390,700	394,700	451,100	477,300	490,100
Other Operating Costs: Grow by Inflation (2%)	5,730,400	5,845,000	5,961,900	6,081,100	6,202,700	6,326,800
Total Operating Costs	10,588,500	11,558,400	11,845,000	12,263,300	12,665,300	13,158,400
Capital Improvement Program (CIP) Projects: 2021-25 Adopted CIP						
Server/Network Upgrade			20,000			
Munis Upgrade			16,800	16,800		
Survellance Security		5,000				
Keyless Access			10,000			
Courthouse Demolition					420,000	
Police Station Ro;of and HVAC		75,000				
Replacemnt Mower		15,000				
Road Rehabilitation: Central Avenbuie				106,000		
Road Rehabilitation: Filbum Avenbuie					106,000	
Four Year Average						
Total CIP	6,471,600	95,000	10,000	106,000	526,000	184,300
Other Sources (Uses): Transfers in from Gas Tax: 2020-21 Budget, stays flat	527,500	527,500	527,500	527,500	527,500	527,500

ECONOMIC AND DEMOGRAPHIC TRENDS

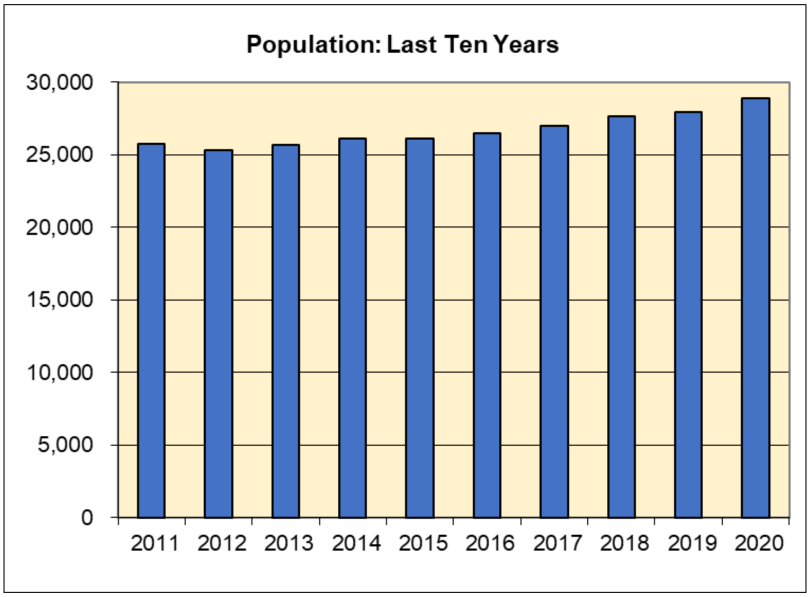
Population

Population		
Fiscal Year Ending	Amount	% Change
2011	25,781	
2012	25,324	-1.8%
2013	25,710	1.5%
2014	26,159	1.7%
2015	26,130	-0.1%
2016	26,471	1.3%
2017	26,980	1.9%
2018	27,691	2.6%
2019	27,955	1.0%
2020	28,884	3.3%

January 1 of Each Year

Average Annual % Change	
Last 2 Years	2.1%
Last 5 Years	2.0%
Last 10 Years	1.3%

Source: State of California, Demographic Research Unit

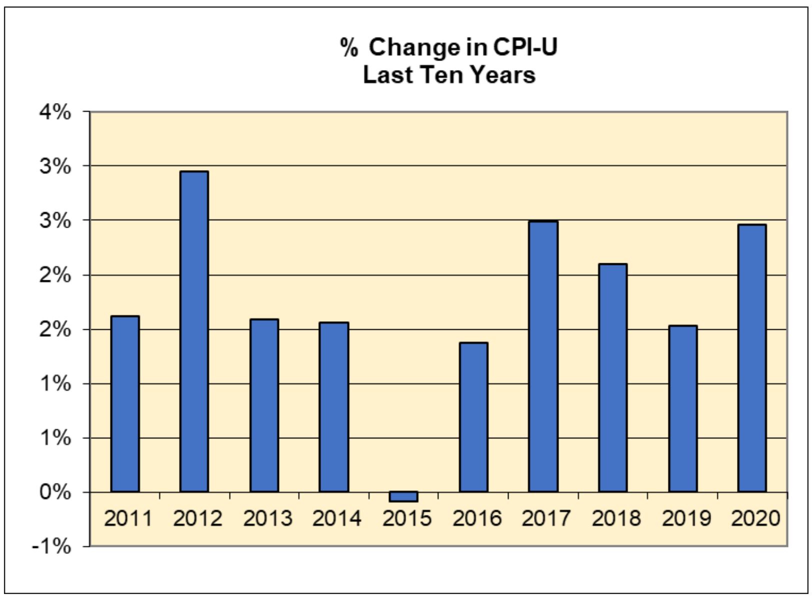


Consumer Price Index

U.S. Consumer Price Index		
Fiscal Year Ending	Amount	% Change
2010	216.7	
2011	220.2	1.6%
2012	226.7	3.0%
2013	230.3	1.6%
2014	233.9	1.6%
2015	233.7	-0.1%
2016	236.9	1.4%
2017	242.8	2.5%
2018	247.9	2.1%
2019	251.7	1.5%
2020	257.9	2.5%

All Urban Consumers, January 1 of Each Year

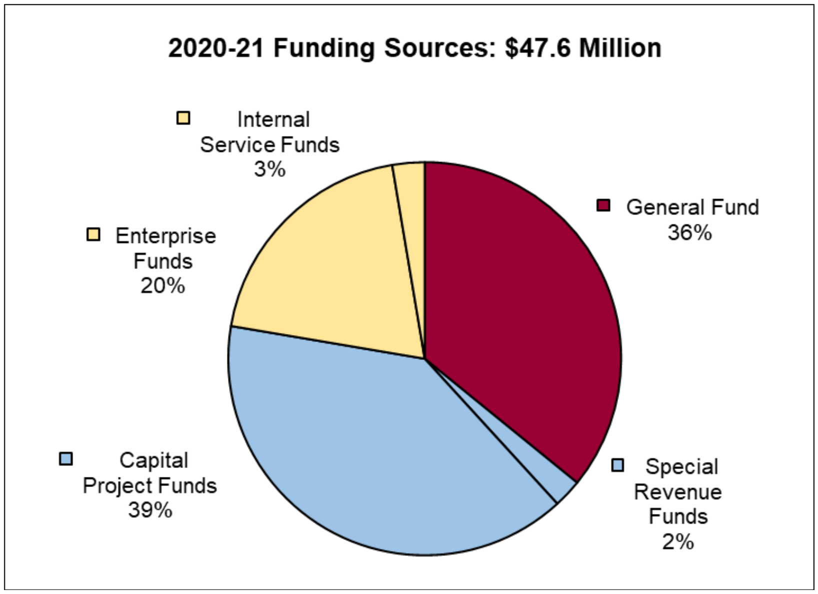
Average Annual % Change	
Last 2 Years	2.0%
Last 5 Years	2.0%
Last 10 Years	1.8%



HISTORICAL TRENDS

EXPENDITURE AND REVENUE SUMMARIES

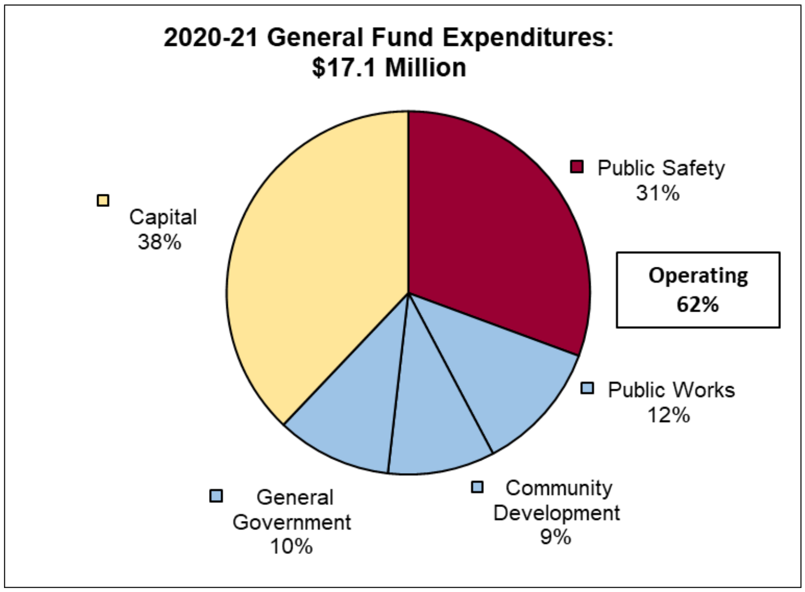
Funding Sources: 2020-21 Budget		
Source	Amount	% Total
General Fund	17,060	36%
Special Revenue Funds	1,115	2%
Capital Project Funds	18,769	39%
Enterprise Funds	9,363	20%
Internal Service Funds	1,262	3%
Total	**$47,569**	**100%**



General Fund Expenditures: 2020-21 Budget		
Function	Amount	% Total
Operating		
Public Safety	5,225	31%
Public Works	1,989	12%
Community Development	1,624	10%
General Government	1,751	10%
Capital	6,471	38%
Total	**$17,060**	**100%**

In Thousands of Dollars

2020-21 excludes Labor Housing Complex Demolition/Site Clean-up and Covid-19 project related costs and revenues.

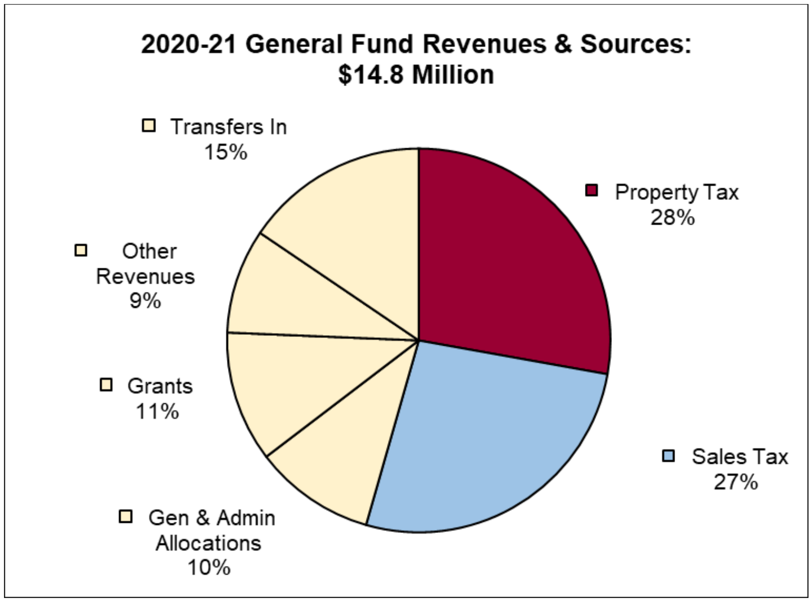


HISTORICAL TRENDS

General Fund Revenues & Sources: 2020-21		
Source	Amount	% Total
Property Tax	4,126	28%
Sales Tax	3,948	27%
Gen & Admin Allocations	1,514	10%
Grants	1,634	11%
Other Revenues	1,308	9%
Transfers In	2,303	16%
Total	**$14,833**	**100%**

In Thousands of Dollars

2020-21 excludes Labor Housing Complex Demolition/Site Clean-up and Covid-19 project related costs and revenues.

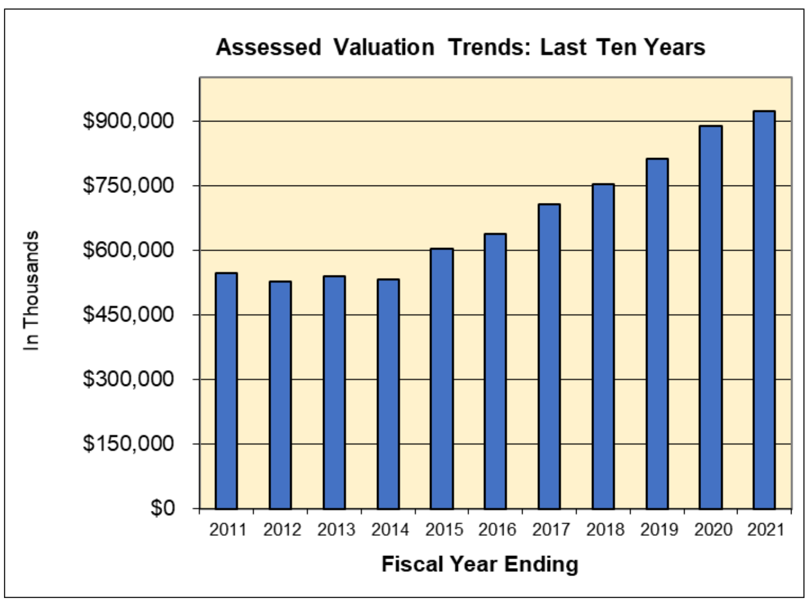


GENERAL FUND REVENUE TRENDS

The following tables and charts show long and short-term General Fund trends for the "Top Two" revenue sources: property tax and sales tax related revenues. These two sources are projected to account for about 65% of total General Fund revenues in 2021-22.

Assessed Valuation Trends		
Fiscal Year Ending	Amount	% Change
2011	547,205	
2012	526,168	-3.8%
2013	540,050	2.6%
2014	532,502	-1.4%
2015	602,589	13.2%
2016	636,696	5.7%
2017	706,539	11.0%
2018	753,539	6.7%
2019	812,865	7.9%
2020	888,741	9.3%
2021	922,450	3.8%
Average Annual % Change		
Last 2 Years		6.6%
Last 5 Years		7.7%
Last 10 Years		5.5%

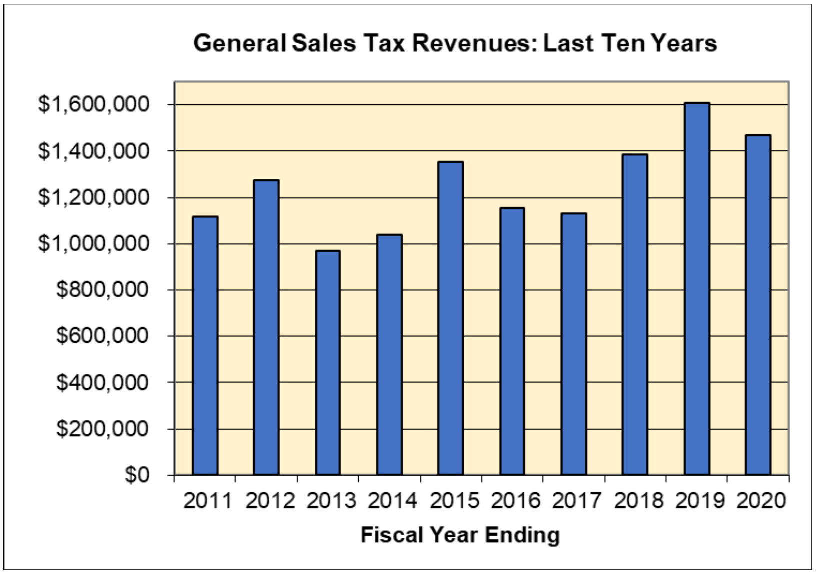
In Thousands



Property tax revenues, which are the top General Fund revenue source (accounting for about one-third of total General Fund sources) are driven by changes in assessed value as determined by the Kern County Assessor's Office. The allocation of property tax revenues is determined by the State and are subject to change. Accordingly, changes in assessed value are the best long-term indicator for this revenue source.

Source: Kern County Auditor-Controller Office

General Sales Tax Trends		
Fiscal Year Ending	Amount	% Change
2011	1,115,200	
2012	1,273,000	14.1%
2013	968,200	-23.9%
2014	1,036,900	7.1%
2015	1,350,900	30.3%
2016	1,155,800	-14.4%
2017	1,132,000	-2.1%
2018	1,385,400	22.4%
2019	1,607,600	16.0%
2020	1,470,400	-8.5%
Average Annual % Change		
Last 2 Years		3.8%
Last 5 Years		10.4%
Last 10 Years		6.2%

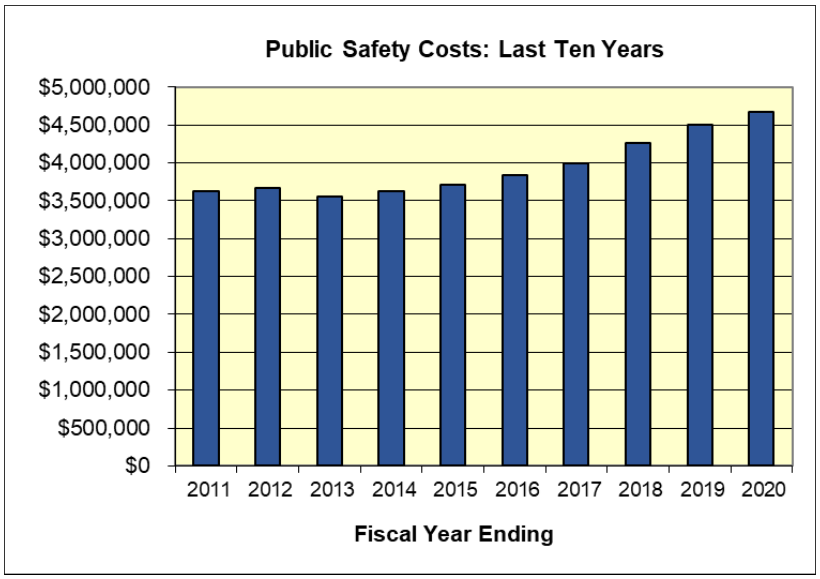


Sales tax revenues (including Measure X) are the General Fund's second largest revenue source. Since 2017-18 was the first full year for Measure X collctions, long-term trends are not available..

GENERAL FUND EXPENDITURE TRENDS

The most significant General Fund operating cost is for public safety - police and fire – which account for 50% of total operating costs.

Public Safety		
Fiscal Year Ending	Amount	% Change
2011	3,630,800	
2012	3,669,200	1.1%
2013	3,551,100	-3.2%
2014	3,627,500	2.2%
2015	3,710,700	2.3%
2016	3,835,400	3.4%
2017	3,995,200	4.2%
2018	4,262,100	6.7%
2019	4,497,700	5.5%
2020	4,665,100	3.7%
Average Annual % Change		
Last 2 Years		5.4%
Last 5 Years		3.7%
Last 7 Years		2.4%



CalPERS Pension Costs

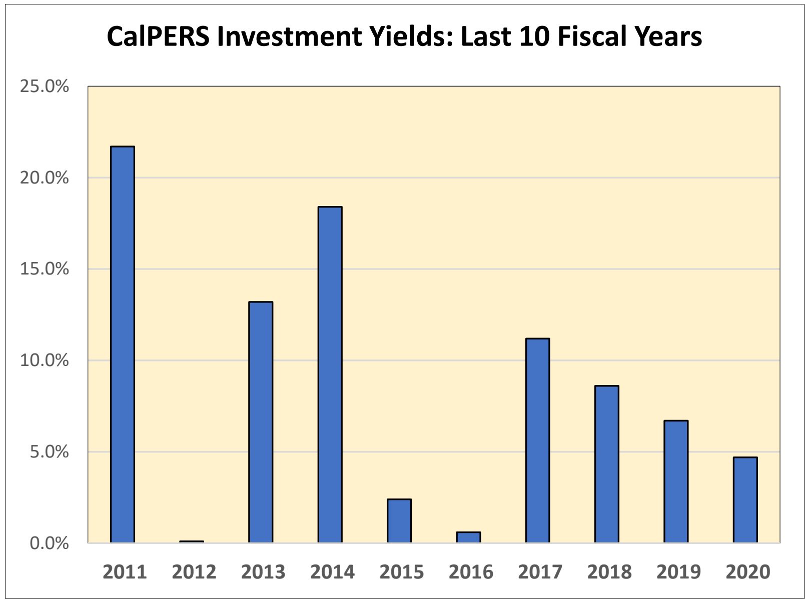
The City currently provides defined pension benefits to its regular employees through its contract with the California Public Employees Retirement System (CalPERS).

About CalPERS. While cities, counties, and special districts are free to create their own retirement systems, 460 of California's 482 cities are members of CalPERS. Dating back eighty years, CalPERS is now the largest pension fund in the United States, providing services to about 2,900 state, city, county and special districts, with over 1.5 million members and managing $393 billion in assets.

Funding Pension Benefits. There are many actuarial factors that determine contribution rates, including inflation, employee earnings and life expectancy assumptions. However, the assumption for the "discount rate" - the projected long-term yield on investments – is one of the most important. For example, only about one-third of CalPERS retirement benefits are funded by employee and employer contributions: the other two-thirds are funded from investment yields. Small changes in this rate – up or down – can significantly affect funding. CalPERS actuarial assumption for investment earnings is 7.0%. For context, the following presents CalPERS investment earnings for the last ten years.

CalPERS Investment Yields		
Fiscal Year Ending	Amount	% Change
2011	21.7%	
2012	0.1%	-99.5%
2013	13.2%	13100.0%
2014	18.4%	39.4%
2015	2.4%	-87.0%
2016	0.6%	-75.0%
2017	11.2%	1766.7%
2018	8.6%	-23.2%
2019	6.7%	-22.1%
2020	4.7%	-29.9%
Average Net Return		
Last 5 Years		6.3%
Last 10 Years		8.5%
Last 20 Years		5.5%
Last 30 Years		8.0%

As reflected in this sidebar graph, there have been significant swings from year-to-year over the past ten years, ranging from gains of 21% in 2010-11 to 0.1% just one year later



City Pension Plans

The City currently has four separate retirement plans with CalPERS:

- Classic" Employees: hired before 2013.
- Classic" Employees Second Tier: hired before 2013 but under a plan with lower benefits.
- PEPRA Employees: hired after December 31, 2012.
- Legacy Safety Plan from when the City provided police services in-house before contracting with the County.

Funding CalPERS Benefits

Along with investment earnings, CalPERS pension benefits are funded by contributions from both employees and employers.

The employer share has two components:

- **Normal cost:** The rate needed to meet current actuarial obligations.
- **Unfunded actuarial liability (UAL)**: Funding needed to amortize any outstanding unfunded liabilities (typically over 30 years).

At this point, employer "normal" contributions have stabilized and are not expected to grow significantly in the future. However, if there are adverse actuarial results, such as lower investment yields, this will be reflected in the UAL payment.

Over the past five years, CalPERS has phased-in increases in both the normal and UAL employer contribution rates. As noted above, normal cost rates have stabilized, but UAL payments continue to rise.

Public Employees' Pension Reform Act

Effective January 1, 2013, the Public Employees' Pension Reform Act (PEPRA) created a "two-tier" retirement system under which benefits for "new" employees hired on or after January 1, 2013 are lower than those employees who were in the system before then.

"PEPRA" Employees. With the goal of reducing costs and future liabilities for state and local agency system members, major changes for "new" system (PEPRA) members include lower-cost pension formulas, increased retirement age requirements, use of "three years of highest average compensation" (rather than single highest year) in calculating pensionable pay and caps on maximum annual benefits.

"Classic" Employees. Retirement benefits for local agency employees hired before January 1, 2013 ("classic" employees) are not affected by these "rollbacks:" they only affect PEPRA employees hired after this date. "Classic" employees also include those hired after December 31, 2012 who had established CalPERS membership with another agency before then, as long as any break in service was six months or less. These employees will be eligible for the new agency's benefit level that was in place as of December 31, 2012.

STAFF REPORT

CITY OF WASCO

TO: Honorable Mayor and Council Members

FROM: Daniel Ortiz-Hernandez, City Manager
Isarel Perez-Hernandez, Finance Director
Biridiana Bishop, Public Works Director
William C. Statler. Fiscal Advisor

DATE: April 27, 2021

SUBJECT: Review and Discuss the Water Fund Five-Year Fiscal Forecast.

RECOMMENDATION:
Review and discuss the Water Fund Five-Year Fiscal Forecast.

DISCUSSION:

Report Purpose
The purpose of this report is to provide a high-level forecast of the Water Fund's financial needs in funding key Capital Improvement Plan (CIP) projects over the next five years. The need to do so is driven by City's recent application to the State Water Resources Control Board (SWRCB) for a low-cost loan (and possible partial grant) of $25.8 million in construction projects. Additionally, there is a need to construct other high-priority water projects on a "pay-as-you-go" basis in the near term.

Background
The City needs to prepare a long-term financial plan for the Water Fund that includes a comprehensive CIP master plan, which is likely to be the most significant factor driving future revenue requirements and rates. The City's most recent master plan for water improvements was prepared in 2007. As such, it is highly unlikely that it can be effectively used in guiding needed improvements over the next ten to twenty years; and developing a meaningful master plan CIP is likely to take 6 to 12 months to prepare.

The City is in the process of preparing a request for proposals and selecting a consultant to prepare this type of comprehensive review for both the Water and Wastewater Funds, as well as an assessment of the City's current rate structures. This selection process is likely to take 3 to 6 months. Accordingly, the results of this comprehensive review are likely 18 to 24 months away.

In addressing immediate concerns about the Water Fund's financial condition due to the SWRCB application before this comprehensive review is completed, the City contracted with William C. Statler in December 2020 to prepare a high-level assessment of the Water Fund's more immediate needs.

Report Findings
The attached report provides a detailed assessment of Water Fund revenues, expenditures and changes in working capital (reserves) for the next five years. It also describes the key assumptions that drive forecast results.

CIP project costs – and how they are financed – are the main driver of forecast results. The most significant of these are the projects related to SWRCB funding. There are two funding options that the SWRCB could approve for the City:

- ***25% Loan, 75% Grant.*** This is the most favorable outcome, and based on initial discussions with the SWRCB, very likely, but not guaranteed. In this case, if the City is only obligated to repay 25% of the proceeds, the near-term rate impacts are modest. Beginning next year (2022-23), annual rate increases of 3.25% could be phased-in to meet funding needs by 2025-26 (the year when all costs, including debt services, are stabilized).

- ***SWRCB 100% Loan.*** However, if the State does not approve 75% of the proceeds as a grant, and the City must repay all of the proceeds, the rate impact is much greater. With phasing beginning next year, annual rate increases of 9.5% would be required to meet funding needs by 2025-26.

Based on initial discussions with SWRCB, the 25% loan/75% grant option appears likely (while also recognizing that this may not be the case). Accordingly, no rate adjustments are recommended at this time. The City will have better information about the status of its funding application in about six months. Fortunately, the City has a strong beginning reserve position that can assist with any needed rate phase-ins under both scenarios, so it can afford to wait until it has better information upon which to make a decision.

FISCAL IMPACT:
There are no direct fiscal impacts as a result of reviewing this report. However, it provides important information about the fiscal challenges facing the Water Fund in the next five years in providing services and accomplishing high-priority CIP goals.

ATTACHMENT:
1. Water Fund Five-Year Fiscal Forecast

City of Wasco

Water Fund
Five-Year Fiscal Forecast: 2022-26

April 2021

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San Luis Obispo, CA 93405
805.544.5838 ■ Cell: 805.459.6326
bstatler@pacbell.net
www.bstatler.com

William C. Statler

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

Water Fund Five-Year Fiscal Forecast: 2022-26

TABLE OF CONTENTS

INTRODUCTION

OVERVIEW

Purpose

The purpose of this report is to provide a high-level forecast of the Water Fund's financial needs in funding key Capital Improvement Plan (CIP) projects over the next five years in light of City's recent application to the State Water Resources Control Board (SWRCB) for a low-cost loan (and possible partial grant) of $25.8 million in construction projects, as well as the need to construct other high-priority water projects on a "pay-as-you-go" basis in the near term.

Context. The City needs to prepare a long-term financial plan for the Water Fund that includes a comprehensive CIP master plan, which is likely to be the most significant factor driving future revenue requirements and rates. The City's most recent master plan for water improvements was prepared in 2007. As such, it is highly unlikely that it can be effectively used in guiding needed improvements over the next ten to twenty years; and developing a meaningful master plan CIP is likely to take 6 to 12 months to prepare.

The City is in the process of contracting with a consultant to prepare this type of comprehensive review for both the Water and Wastewater Funds, as well as an assessment of the City's current rate structures (in short, an analysis of how much is needed as well as "who pays"). This selection process is likely to take 3 to 6 months. Accordingly, the results of this comprehensive review are likely 18 to 24 months away.

In addressing immediate concerns about the Water Fund's financial condition due to the SWRCB application before this comprehensive review is completed, the City contracted with me in December 2020 to prepare a high-level assessment of the Water Fund's more immediate needs.

Forecast Framework and Approach

The purpose of the forecast is to identify the Water Fund's ability over the next five years – on an "order of magnitude" basis – to continue current services, achieve major CIP goals and repay the SWRCB.

The forecast does this by projecting ongoing revenues and subtracting from them likely operating, debt service and capital costs. If there is a positive difference, the remaining balance is available to fund other operating program and CIP goals. On the other hand, if negative, it shows the likely "forecast gap" and needed corrective action via rate increases.

It is important to stress that this forecast is not the budget.

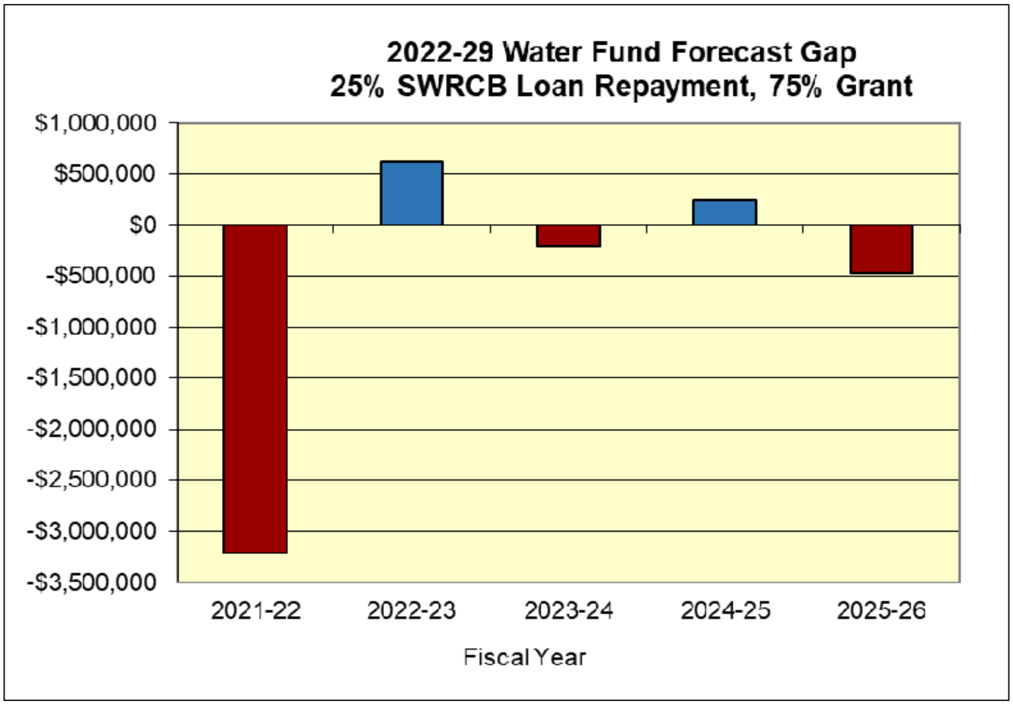
Budgets are based on program review, priorities and affordability. Forecasts, on the other hand, are based on assumptions. Accordingly, this forecast doesn't make expenditure decisions; it doesn't make revenue decisions. As noted above, its sole purpose is to provide an "order of magnitude" feel for the Water Fund's ability to meet its financial needs over the next five years.

SUMMARY OF FORECAST FINDINGS

The Short Story

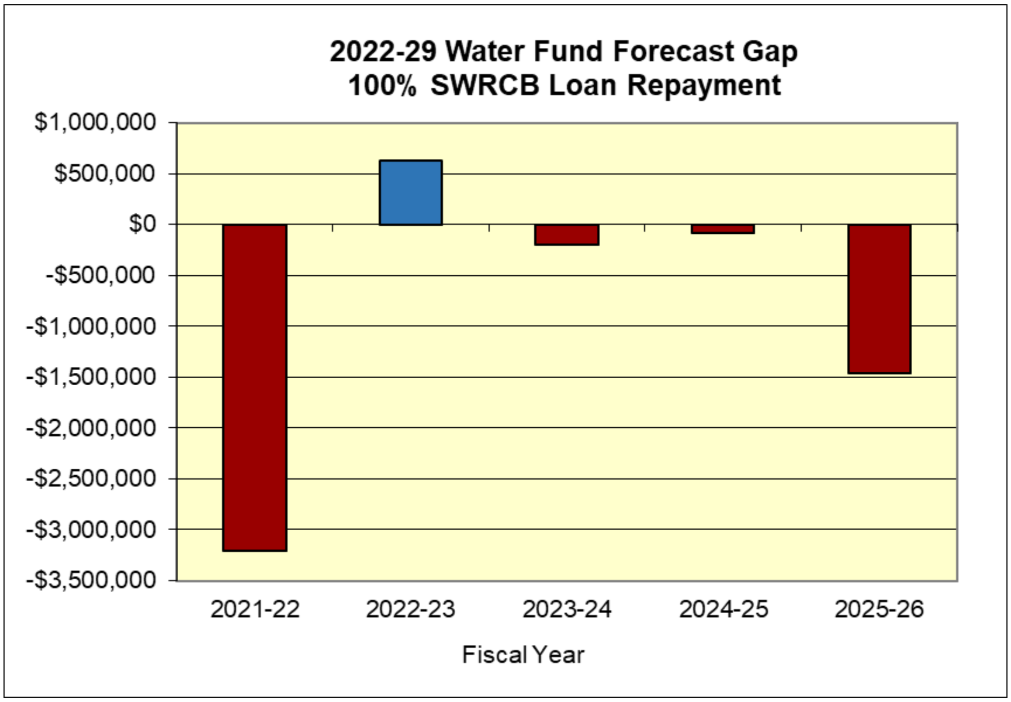
2025-26 is the "base-year" for considering rate needs, as debt service costs for loan repayments are fully developed and all costs and revenues are stabilized by then. Two scenarios are developed based on whether all of the SWRCB proceeds must repaid versus 75% to be in the form of a grant.

- **SWRCB 25% Loan, 75% Grant.** This is the most favorable outcome, and based on initial discussions with the SWRCB, very likely, but not guaranteed. In this case, if the City is only obligated to repay 25% of the proceeds, the near-term rate impacts are modest. As reflected below, in this scenario costs exceed revenues (assuming no rate increases) by $466,800 in 2025-26 (as noted above, the "base year").



Because of the Water Fund's strong beginning reserves (working capital), the added revenue can be phased-in over four years beginning next year (2022-23), with modest annual increases of 3.25%. (The detail for this scenario is provided in Attachment 1).

- **SWRCB 100% Loan.** However, if the State does not approve 75% of the proceeds as a grant, and the City must repay all of the proceeds, the rate impact is much greater. As reflected below, in this scenario costs exceed revenues (assuming no rate increases) by $1.46 million in 2025-26, an increase of about $1.0 million due to much higher loan repayment costs ($1,319,800 versus $330,000).



Again, because of the Water Fund's strong beginning reserves, the added revenue can be phased-in over four years beginning next year (2022-23). However, the annual increases would need to be 9.5%. (The detail for this scenario is provided in Attachment 2).

Recommendation. Given that the 25% loan/75% grant option is likely (while recognizing that this may not be the case), no rate adjustments are recommended at this time. The City will have better information about the status of its funding application in about six months. Fortunately, the City has a strong beginning reserve position that can assist with any needed rate phase-ins under both scenarios, so it can afford to wait until it has better information upon which to make rate decisions.

KEY FORECAST DRIVERS

Assumptions drive the forecast results. Stated simply, if the assumptions change, the results will change. Forecast results and assumptions are presented in Attachments 1 and 2: the only difference between the two scenarios are debt service repayments based on whether the full amount of SWRCB proceeds must be paid or just 25%. Key drivers underlying the forecast results include:

Current Strong Beginning Financial Condition

The Water Fund begins the forecast period with reserves (working capital) of $9.1 million. As noted above, this allows phased increases under both scenarios and meet minimum reserve policies of 25% of operating and debt service costs.

Revenues

Water Service Charges. The Water Fund's primary revenue source is customer water service charges, which account for about 90% of total revenues. These are projected to increase based on customer growth of 1% annually. (Any other increases would require Council approval.)

Other Revenues. Development impact fees, interest earnings, late fees, construction water sales and other miscellaneous fees account for about 10% of total Water Fund revenues. They are generally projected to be flat during the forecast period with two exceptions, which play a minor role in Water Fund revenues:

- Interest earnings are projected to decrease from prior year actual results based on lower interest yields and declining working capital balances.
- Late fees were waived for a portion of 2019-20 and all of 2020-21. As the pandemic ends, late fees are projected to gradually prior year levels.

Operating Expenditures

These are projected to increase by inflation (2%) from the current year budget (2021-21) as amended at the mid-year budget review.

CIP Projects

CIP project costs – and how they are financed – are the main driver of forecast results. Accordingly, CIP project costs are organized by those that are related to SWRCB funding and other projects.

SWRCB Funding Summary. On October 6, 2020, the Council approved submitting a loan application of $25.8 million to the SWRCB to construct the following projects:

Construction: SWRCB Loan	
Replacement of four wells ($4,172,300 per well)	16,689,200
1,2,3 TCP treatment at Well 12	2,229,700
Storage tank and booster pump station	3,750,000
Advanced metering infrastructure (AMI): remote metering	3,200,000
Total	25,868,900
Pay-As-You-Go	
Engineering	1,360,000
Land acquisition	1,500,000
Total	2,860,000
TOTAL	**$28,728,900**

As reflected above, $2.8 million of related costs for engineering and land acquisition for these projects will be funded on a "pay-as-you-go basis." These amounts are in addition to $4.0 million in other CIP projects over the next five years.

There are two significant advantages to SWRCB funding compared with conventional financing options:

- **Below market interest rates.** Typically, these are based on 50% of the State's borrowing interest rate. Based on the SWRCB's web site "facts," the current interest rate under the program is 3.0%.

  https://www.waterSWRCBs.ca.gov/water_issues/programs/grants_loans/srf/faqs_general.shtml#q2

- **Possible grant/principal forgiveness.** Based on the City's demographics, it may be eligible for up 75% of the loan amount to be forgiven. (There is a maximum limit of $60,000 per service connection; however, with 5,500 connections, the City would be far below this limit.) As noted above, rate impacts if the City qualifies for this option are significantly reduced.

CIP Project Phasing. Before the loan application can be finalized, SWRCB requires further environmental review, which is likely to take about 6 months. After the application is deemed complete and approved, it is likely to take at least another year before the City is actually in the "queue" to receive the proceeds. During this period, the City plans to concurrently prepare construction bid documents, so that work can begin once funds are available. Construction is estimated to take 18 months. Debt repayments typically begin one-year after the first draw-down, based on the total amount drawn-down at that point.

As such, the following shows CIP phasing for SWRCB related projects:

Task	Timeframe	Fiscal Year	Cost
Engineering Land Acquisition SWRCB Approval	Underway 6 months 6 months (concurrent with land acquisition)	2020-21 2021-22 2021-22	1,360,000 1,500,000
Total Pay-As-You-Go			2,860,000
Funding drawdown/ construction begins Construction ends	12 months 18 months	2022-23 2023-24	8,623,000 17,245,900
Total Construction/SWRCB Funding			25,868,900
Total Project Cost			$27,728,900

Debt Service

Based on this phasing, the first debt service payment is projected to begin in 2024-25 (one year after the first completed year of construction); and the second (and ongoing payment for the next twenty-nine year) begins in 2025-26.

The amount of the ongoing repayment beginning in 2025-26 depends on which option the SWRCB approves for the City:

25% Loan/75% Grant	$330,000
100% Loan	$1,319,800

Debt service payment terms are the same under both scenarios: 3% interest rate for 30 years.

Important Caveat

What's Most Likely to Change

As reflected above, the forecast is based on current circumstances reflected in the 2020-21 Budget and approved CIP, and other assumptions outlined above. It is important to stress that any changes from these assumptions, which are likely, will change the results. These include:

- Adoption of the 2021-22 Budget.
- Final SWRCB application and agreement approval
- Results of upcoming comprehensive CIP master plan, revenue requirements and rate structure review.
- Actual cost and phasing of SWRCB related projects and resulting debt service payment amounts and phasing.

CONCLUSION

The forecast results largely depend on which funding option the SWRCB approves for the City:

- The rate impacts are very modest if the SWRCB only requires 25% repayment of the funding proceeds. Beginning next year (2022-23), annual rate increases of 3.25% could be phased-in to meet funding needs by 2025-26.

- However, the rate impacts will be much more significant if the SWRCB requires full repayment of the proceeds. With phasing beginning next year, annual rate increases of 9.5% would be required .

Given that the 25% loan/75% grant option is likely (while recognizing that this may not be the case), no rate adjustments are recommended at this time. The City will have better information about the status of its funding application in about six months. Fortunately, the City has a strong beginning reserve position that can assist with any needed rate phase-ins under both scenarios, so it can afford to wait until it has better information upon which to make a decision.

State Water Resource Control Board Funding: 25% Loan, 75% Grant

WATER FUND FIVE YEAR FISCAL FORECAST: 2022-26

	2018-19 Actual	2019-20 Actual	2020-21 Estimated	FORECAST 2021-22	2022-23	2023-24	2024-25	2025-26
REVENUES								
Water Service Charges	$3,041,200	$3,153,300	$3,150,000	$3,181,500	$3,213,300	$3,245,400	$3,277,900	$3,310,700
Development Impact Fees	287,900	239,600	250,000	250,000	250,000	250,000	250,000	250,000
Interest Earnings	174,300	147,100	75,000	50,300	50,300	50,300	50,300	50,300
Late Fees	163,900	124,500	-	62,500	126,300	127,600	128,900	130,200
Construction Water Sales	42,200	73,900	50,000	50,000	50,000	50,000	50,000	50,000
Other Revenues	131,000	16,700	15,000	15,000	15,000	15,000	15,000	15,000
Total Revenues	**3,840,500**	**3,755,100**	**3,540,000**	**3,609,300**	**3,704,900**	**3,738,300**	**3,772,100**	**3,806,200**
EXPENDITURES								
Operating Costs	2,444,200	2,294,400	2,961,800	3,021,000	3,081,400	3,143,000	3,205,900	3,270,000
CIP Projects	1,079,100	741,300	1,410,000	3,800,000	8,623,000	18,045,900	215,000	673,000
Debt Service	-	-	-	-	-	-	110,000	330,000
Total Expenditures	**3,523,300**	**3,035,700**	**4,371,800**	**6,821,000**	**11,704,400**	**21,188,900**	**3,530,900**	**4,273,000**
OTHER SOURCES (USES)								
Proceeds from SWRCB Grant/Loan	-	-		-	8,623,000	17,245,900	-	-
Sources Over (Under) Uses	**317,200**	**719,400**	**(831,800)**	**(3,211,700)**	**623,500**	**(204,700)**	**241,200**	**(466,800)**
WORKING CAPITAL, START OF YEAR	8,889,400	9,206,600	9,926,000	9,094,200	5,882,500	6,506,000	6,301,300	6,542,500
WORKING CAPITAL, END OF YEAR	**9,206,600**	**9,926,000**	**9,094,200**	**5,882,500**	**6,506,000**	**6,301,300**	**6,542,500**	**6,075,700**

Attachment 1

ASSUMPTIONS SUMMARY

	Proj Total	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Customer Growth			1.0%	1.0%	1.0%	1.0%	1.0%
Inflation			2.0%	2.0%	2.0%	2.0%	2.0%
Revenues							
Water Service Charges: increase by customer growth (1%)							
Any other increase would require Council rate increase approval.							
Development Impact Fees							
Stay flat based on average of prior two year actual.							
Interest Earnings							
2020-21 based on year-to-date that reflect lower interest yields than prior two-year actuals; forecast years lower due to smaller working capital balances (about 67%).							
Late Fees							
Late fees waived for partial year in 2019-20 and full year I, 2020-21. Forecast assumes partial restoration in 2021-22 and "baseline" levels in 2022-23.							
Construction Water Sales and Other Revenues							
Remain flat in forecast period.							
Proceeds from SWRCB Loan/Grant				8,623,000	17,245,900		
Debt Service							
25% loan/75% grant: 30 year financing at 3.0 interest rate.						110,000	330,000
100% loan: 30 year financing at 3.0 interest rate.						439,900	1,319,800
CIP Projects	Proj Total						
SWRCB Loan Related Projects							
Well replacements	16,689,200			5,563,100	11,126,100		
1,2,3 TCP treatment at Well 12	2,229,700			743,200	1,486,500		
Storage tank and booster pump station	3,750,000			1,250,000	2,500,000		
Advanced metering infrastructure	3,200,000			1,066,700	2,133,300		
SWRCB Loan Projects	25,868,900	-	-	8,623,000	17,245,900	-	-
Pay-As-You-Go							
Engineering	1,360,000	1,360,000					
Land acquisition	1,500,000		1,500,000				
Total SWRCB Loan Related Projects	28,728,900	1,360,000	1,500,000	8,623,000	17,245,900	-	-
Other CIP Projects							
Well Site 14 development	2,300,000		2,300,000				
Well 7 aandonment	865,000				800,000	65,000	
Well 8 abandonment	50,000					50,000	
Well 10 abandonment	50,000					50,000	
Well 11 abandonment	50,000					50,000	
Well 5 abandonment	50,000	50,000					
Other repair, replacement projects: 5-year CIP average	673,000	-	-	-	-	-	673,000
Total Other Projects	4,038,000	50,000	2,300,000	-	800,000	215,000	673,000
Total CIP Projects	32,766,900	1,410,000	3,800,000	8,623,000	18,045,900	215,000	673,000

State Water Resource Control Board Funding: 100% Loan Repayment

WATER FUND FIVE YEAR FISCAL FORECAST: 2022-26

	2018-19	2019-20	2020-21	FORECAST				
	Actual	Actual	Estimated	2021-22	2022-23	2023-24	2024-25	2025-26
REVENUES								
Water Service Charges	$3,041,200	$3,153,300	$3,150,000	$3,181,500	$3,213,300	$3,245,400	$3,277,900	$3,310,700
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CIP Projects	1,079,100	741,300	1,410,000	3,800,000	8,623,000	18,045,900	215,000	673,000
Debt Service	-	-	-	-	-	-	439,900	1,319,800
Total Expenditures	**3,523,300**	**3,035,700**	**4,371,800**	**6,821,000**	**11,704,400**	**21,188,900**	**3,860,800**	**5,262,800**
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WORKING CAPITAL, START OF YEAR	8,889,400	9,206,600	9,926,000	9,094,200	5,882,500	6,506,000	6,301,300	6,212,600
WORKING CAPITAL, END OF YEAR	**9,206,600**	**9,926,000**	**9,094,200**	**5,882,500**	**6,506,000**	**6,301,300**	**6,212,600**	**4,756,000**

ASSUMPTIONS SUMMARY

		2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Customer Growth			1.0%	1.0%	1.0%	1.0%	1.0%
Inflation			2.0%	2.0%	2.0%	2.0%	2.0%
Revenues							
Water Service Charges: increase by customer growth (1%)							
Any other increase would require Council rate increase approval.							
Development Impact Fees							
Stay flat based on average of prior two year actual							
Interest Earnings							
2020-21 based on year-to-date that reflect lower interest yields than prior two-year actuals; forecast years lower due to smaller working capital balances (about 67%)							
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Pay-As-You-Go							
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Total SWRCB Loan Related Projects	28,728,900	1,360,000	1,500,000	8,623,000	17,245,900	-	-
Other CIP Projects							
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Well 10 Abandonment	50,000					50,000	
Well 11 Abandonment	50,000					50,000	
Well 5 Abandonment	50,000	50,000					
Other Repair, Replacement Projects: 5-year average	673,000	-	-	-	-	-	673,000
Total Other Projects	4,038,000	50,000	2,300,000	-	800,000	215,000	673,000
Total CIP Projects	32,766,900	1,410,000	3,800,000	8,623,000	18,045,900	215,000	673,000