

CITY OF COMPTON, CALIFORNIA  
Management's Discussion and Analysis (UNAUDITED)  
June 30, 2021

As management of the City of Compton, California (City) we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for fiscal year ended June 30, 2021. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the Introductory Section of this report.

A) FINANCIAL HIGHLIGHTS

- The assets and the deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the Fiscal Year 2020-2021 by approximately \$5.1 million (*net position*), which is approximately \$105.1 million higher than the previous year's net position. This is due primarily to a City-wide valuation of capital assets and an increase in tax revenue, including property taxes and sales taxes. While franchise tax and special assessment tax revenue remained mostly flat relative to fiscal year 2019-20, property tax and sales tax revenue improved relative to the prior year by approximately \$12.0 million and \$7.1 million, respectively. The unrestricted portion of net position as of June 30, 2021 increased by approximately \$21.4 million to (\$256,963,174) accumulating more resources that may be used to meet the City's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City's Governmental Funds (e.g. General Fund, Capital Projects Funds, Special Revenue Funds, etc.) reported combined fund balances of approximately \$169.6 million, an increase of approximately \$59.1 million from the prior year. Of this amount, \$172.5 million, or approximately 102.1%, of total fund balances are reported as either "Nonspendable" (\$10.5 million), "Assigned" (\$140 thousand), "Committed" (\$3.4 million), or "Restricted" (\$162.2 million) fund balances, leaving negative \$(6.7 million) available as Unassigned for use at the City's discretion. This increase in the City's governmental funds combined fund balances reported was primarily driven by increases in tax revenue (by approximately \$11 million) and an influx of bond proceeds (by approximately \$41.8 million) from the 2021 Sales Tax Revenue Bonds issued in March 2021.
- The City's net capital assets (land, buildings, equipment, infrastructure, less accumulated depreciation) were at \$208.8 million as of June 30, 2021, increasing by \$83.7 million over the previous year due mainly to a valuation of capital assets that the City had been performed which recognized prior unrecorded capital assets (\$73.4 million), as well as additions and improvements during Fiscal Year 2020-2021 for streets and pavement (\$14.5 million), and for Gonzales Park solar arrays (\$637.5 thousand).
- The City's net long-term liabilities increased by \$67.3 million to \$466.2 million, primarily as the result of issued bonds of \$41 million during March of 2021 along with Pension and OPEB liability increases of \$8.3 million and of \$20.0 million respectively. Offsets to these increases occurred from principal payments made by the City on exiting bonds payable, notes and loans payable.
- The City's financial position was elevated during Fiscal Year 2020-2021 with the removal of two "qualified" opinions from the City's Single Audit and audited financial statements. Prior to Fiscal Year 2020-2021, the City maintained a "qualified" audit opinion on its valuation of Capital Assets, as well as on the City's reporting of Housing Authority Equity balances. During Fiscal Year 2020-2021 City staff performed the necessary research to rectify the valuations and reporting of these assets and liabilities. This follows the research done during the prior Fiscal Year 2019-2020 which saw the removal of two "qualified" audit opinions regarding the City's recorded balances of Unearned Revenue and Loan Receivable. As of the Fiscal Year ended June 30, 2021 only one "qualified" opinion has remained for which research has begun for an anticipated rectification within the next audit report.
- Property Taxes increased by approximately \$12.0 Million, 24.6%, primarily as a result of an increase in assessed valuation from new non-residential construction (a 7.54% increase as shown in the Proposition 111 Analysis of the Office of the Assessor of Los Angeles County).
- Sales Taxes increased by approximately \$7.1 Million or 33%, as a result of increased spending volume.
- Utility User Taxes increased by approximately \$1.1 million, 10.2%, as a result of increased residential utility usage incurred from shut down orders in Los Angeles County during the Covid-19 pandemic.
- Casino Tax Revenue significantly declined by approximately \$548,000 or 36%, as a result of shut-down orders in Los Angeles County during the Covid-19 pandemic.

CITY OF COMPTON, CALIFORNIA  
Management's Discussion and Analysis (UNAUDITED)  
June 30, 2021

B) OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: government-wide financial statements, fund financial statements and notes to basic financial statements. This report also contains supplementary information in addition to the basic financial statements.

**Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The statement of net position presents information on all of the City's assets, deferred outflows of resources, liabilities, deferred inflows of resources, with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, environmental and human services and debt service. The business-type activities of the City include operations of its Water, Sewer and Solid Waste utilities.

The government-wide financial statements include not only the City itself (known as the primary government), but also activities of three legally separate component units: the Successor Agency of the City of Compton, the Compton Public Finance Authority, and the Compton Housing Authority. Because the City Council acts as (or appoints) the governing board for each of these component units and because they function as part of the City government, their activities are blended with those of the primary government.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds**

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the governmentwide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 141 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the

CITY OF COMPTON, CALIFORNIA  
Management's Discussion and Analysis (UNAUDITED)  
June 30, 2021

General Fund, the Retirement Fund, and the Compton Housing Successor Capital Projects Fund, each of which are considered to be major funds. Data from the other 138 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the Additional Financial Information section of this report.

The City adopts an annual appropriated budget for its General Fund, each of its special revenue funds, its debt service fund, and its capital projects fund. A budgetary comparison statement is provided for each of the City's major governmental funds or groups of funds to demonstrate compliance with this budget. The budgetary comparison statement for the General Fund and the Retirement Fund is located in the basic financial statements; the budgetary comparison statements for the Compton Housing Successor Capital Projects Fund and the non-major governmental funds are presented in the Additional Financial Information section of this report.

The basic governmental fund financial statements can be found on pages 8-11 of this report.

### **Proprietary Funds**

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the governmentwide financial statements. The City uses Enterprise Funds to account for its Water, Sewer and Solid Waste utilities. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for the following activities:

- Equipment Usage and Rental
- Central Duplication, and
- Self-Insurance

Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the governmentwide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer, Solid Waste, each of which is considered a major fund of the City. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements in the Additional Financial Information section of this report. The basic proprietary fund financial statements can be found starting at page 12 of this report.

### **Notes to the Basic Financial Statements**

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 18 - 72 of this report.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 73 of this report. The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds, together with information on the Retirement Fund budget comparison, are presented immediately following the required supplementary information on pensions and other postemployment benefits.

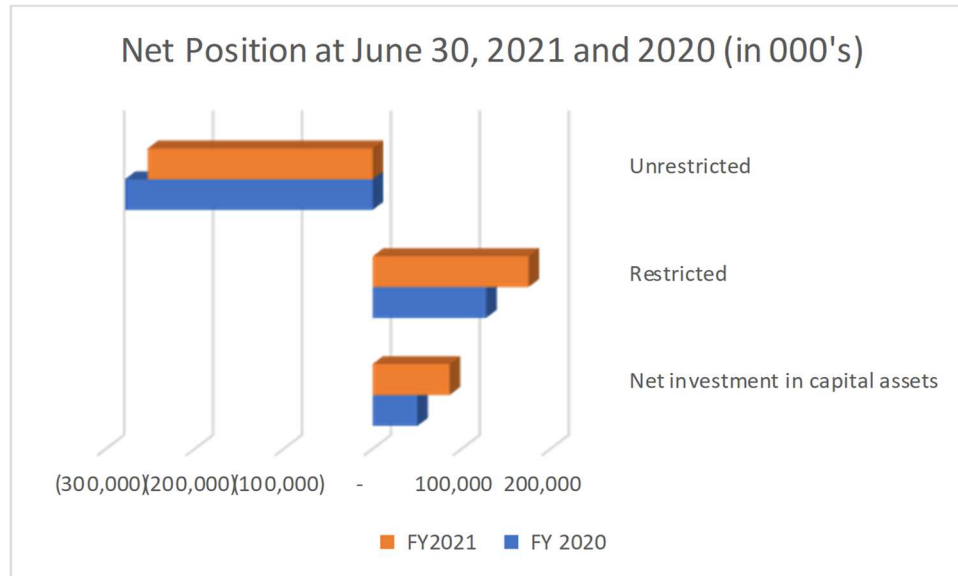
## **C) GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$5.1 million at the close of Fiscal Year 2020-2021.

A large portion of the City's net position, \$86.7 million reflects its net investment in capital assets (e.g., land, buildings, utility and general government infrastructure, machinery and equipment, etc.), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently,

CITY OF COMPTON, CALIFORNIA  
Management's Discussion and Analysis (UNAUDITED)  
June 30, 2021

these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.



Another large portion of the City's net position, \$175.3 million is restricted and, as noted earlier, is restricted to meet the City's ongoing obligations to creditors, grantors, and special-levy tax payers. A negative portion of the City's net position, (\$257.0 million) represents a deficit in resources that need to be set aside to cover long term liabilities. At the end of the fiscal year, due to the City's financial position and despite the impacts of the COVID-19 pandemic on the City's revenues, the City is able to report improvements in balances in net position for both its governmental activities as well as its business activities.

City of Compton, California (000's)							
As of June 30, 2021 and 2020							
	Governmental Activities		Business-type Activities		Total		
	2021	2020	2021	2020	2021	2020	
<b>ASSETS</b>							
Current assets	\$	167,418	124,620	34,544	29,369	201,962	153,990
Noncurrent Assets		31,538	(9,002)	29,776	30,220	61,314	21,218
Capital assets		164,048	90,093	44,703	34,911	208,751	125,004
Total assets		<u>363,004</u>	<u>205,711</u>	<u>109,024</u>	<u>94,500</u>	<u>472,028</u>	<u>300,211</u>
Deferred outflows of resources		<u>43,703</u>	<u>34,678</u>	<u>3,335</u>	<u>1,703</u>	<u>47,038</u>	<u>36,381</u>
<b>LIABILITIES</b>							
Current liabilities		35,504	20,392	8,294	7,082	43,798	27,474
Long-term liabilities, net of current portion		388,533	327,212	77,710	71,757	466,244	398,969
Total liabilities		<u>424,037</u>	<u>347,604</u>	<u>86,004</u>	<u>78,839</u>	<u>510,041</u>	<u>426,443</u>
Deferred inflows of resources		<u>3,693</u>	<u>9,705</u>	<u>233</u>	<u>484</u>	<u>3,926</u>	<u>10,188</u>
<b>NET POSITION</b>							
Net investment in capital assets		86,719	50,582	-	-	86,719	50,582
Restricted		162,198	117,334	13,146	10,412	175,344	127,746
Unrestricted		<u>(269,939)</u>	<u>(284,835)</u>	<u>12,976</u>	<u>6,468</u>	<u>(256,963)</u>	<u>(278,367)</u>
Total net position	\$	<u>(21,021)</u>	<u>(116,919)</u>	<u>26,121</u>	<u>16,880</u>	<u>5,100</u>	<u>(100,039)</u>

The City's governmental current assets increased by \$42.8 million (primarily due to an increase in tax revenues as well as from the City's receipt of grant proceeds from the American Rescue Plan) to \$167.4 million, while current assets for business-type activities increased by \$5.2 million to \$34.5 million. Net capital assets overall grew to \$208.8

CITY OF COMPTON, CALIFORNIA  
Management's Discussion and Analysis (UNAUDITED)  
June 30, 2021

million at June 30, 2021. Growth in capital assets in governmental activities was due to a capital assets valuation that the City performed as well as from increases in buildings, infrastructure, and machinery and equipment, while growth in business-type activities was primarily due to the performance of the capital assets valuation which included the recording of past asset acquisitions. Long-term liabilities increased by \$67.3 million to \$466.2 million primarily as a result of the 2021 Sales Tax Revenue bonds issued in March of 2021 for \$41 million, as well as a result of the increase to the total of Pension and OPEB liabilities of approximately \$8.3 million and \$20.0 million, respectively.

City of Compton, Change in Net Position (000's)						
For the Years Ended June 30, 2021 and 2020						
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 14,399	15,317	28,437	29,485	42,835	44,801
Op. grants & cont.	15,579	11,139	-	-	15,579	11,139
Cap. Grants & cont.	8,035	10,258	-	-	8,035	10,258
<b>General Revenues</b>						
<b>Taxes</b>						
Property	60,769	48,768	-	-	60,769	48,768
Sales	28,829	21,755	-	-	28,829	21,755
Utility user taxes	12,273	11,140	-	-	12,273	11,140
Franchise Taxes	2,737	2,565	-	-	2,737	2,565
Special Assessments	4,250	4,241	-	-	4,250	4,241
Transient occupancy taxes	68	105	-	-	68	105
Real property transfer taxes	237	242	-	-	237	242
Intergovernmental not restricted to specific programs	815	-	-	-	815	-
Investment earnings	1,334	1,558	50	124	1,385	1,682
Other Income	774	3,184	-	-	774	3,184
Transfer in from fiduciary fund	1,748	-	-	-	1,748	-
<b>Total Revenues</b>	<b><u>113,834</u></b>	<b><u>130,272</u></b>	<b><u>28,487</u></b>	<b><u>29,608</u></b>	<b><u>180,335</u></b>	<b><u>159,880</u></b>
<b>Expenses</b>						
General government	22,026	19,586	-	-	22,026	19,586
Public Safety	45,336	47,886	-	-	45,336	47,886
Public Works	13,504	9,551	-	-	13,504	9,551
Management Services	18,543	26,366	-	-	18,543	26,366
Environmental and Human Services	15,842	15,284	-	-	15,842	15,284
Interest on long-term debt	1,835	1,578	-	-	1,835	1,578
Water	-	-	18,682	9,510	18,682	9,510
Rubbish	-	-	6,161	9,005	6,161	9,005
Sewer	-	-	<u>2,241</u>	<u>1,934</u>	<u>2,241</u>	<u>1,934</u>
<b>Total Expenses</b>	<b>117,086</b>	<b>120,250</b>	<b>27,084</b>	<b>20,448</b>	<b>144,170</b>	<b>140,698</b>
Prior Year Adjustment	55,461	(5,900)	13,513	13,404	68,974	7,505
Transfers	5,675	5,651	(5,675)	(5,651)	-	-
<b>Change in Net Position</b>	<b>40,437</b>	<b>15,673</b>	<b>(4,272)</b>	<b>3,510</b>	<b>36,165</b>	<b>19,182</b>
Net Position, July 1 (as restated)	(61,458)	(132,592)	30,393	13,371	(31,065)	(119,221)
<b>Net position, June 30</b>	<b>\$ <u>(21,022)</u></b>	<b><u>(116,919)</u></b>	<b><u>26,121</u></b>	<b><u>16,880</u></b>	<b><u>5,100</u></b>	<b><u>(100,039)</u></b>

CITY OF COMPTON, CALIFORNIA  
 Management's Discussion and Analysis (UNAUDITED)  
 June 30, 2021

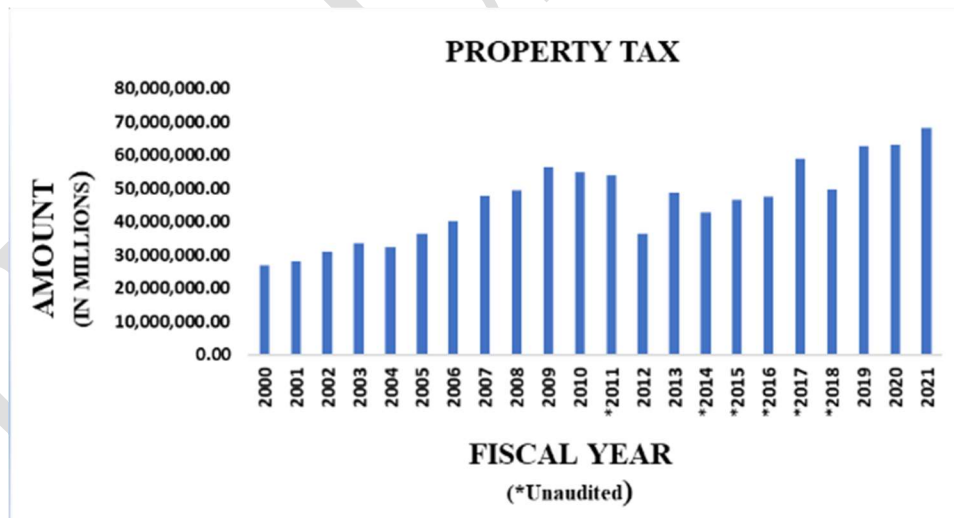
Total revenues increased from \$159.9 million in Fiscal Year 2019-2020 to \$180.3 million in Fiscal Year 2020-2021 or, an increase of \$20.5 million or 12.8%. The City experienced an increase of 22.9% in tax revenues or \$20.3 million. While Franchise Tax, and Special Assessment Taxes saw slight increases of \$181 thousand (6.7% from \$2.6 million to \$2.7 million), and \$10 thousand (0.2% from \$4.24 million to \$4.25 million) respectively, certain tax revenues were less affected by the Covid-19 pandemic. Sales Tax due to an increase in spending trends, recorded a \$12.0 million increase (32.5% from \$21.7 million to \$28.8 million). Similarly, Property Tax increased due to appreciation in assessed property values by \$20.3 million (24.6% from \$48.8 million to \$60.7 million). The City also experienced a decrease of \$2.0 million or 4.4% in revenue from charges for services provided due to reduced demand in services offered during the pandemic closures. Total expenses increased by \$3.5 million from \$140.7 million in fiscal year 2019-2020 to \$144.2 million in fiscal year 2020-2021 or 2.0%.

**Governmental Activities**

The total growth in net position for the City was \$105.1 million for the fiscal year ended June 30, 2021 compared to \$13.2 million in fiscal year ended June 30, 2020, a \$91.9 million increase. This was mainly due to the performance of the City-wide capital asset valuation and increases in tax revenue. Total general revenues and transfers increased \$20.5 million compared to the prior year primarily due to the increase in tax revenue, The City of Compton has three major tax sources, sales, property, and utility users tax. While these sources generally provide for a diversified and stable tax base, which reduces reliance on any one source, this year the City did see significant increases in both sales tax and property tax, further described below.

**Property Tax**

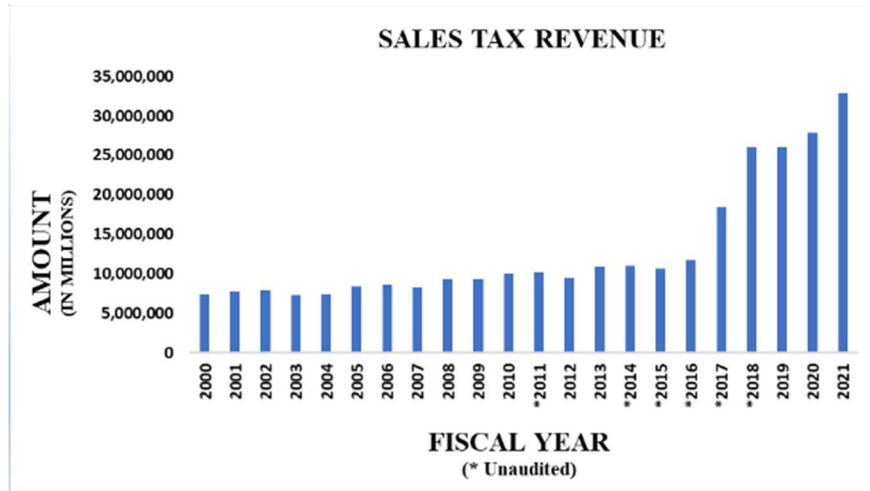
Property taxes are levied based on assessed values, which grew 7.54% (as shown in the Proposition 111 Analysis of the Office of the Assessor of Los Angeles County for new non-residential growth) this past year. This reflects a real estate market in the City of Compton that continues to gain strength resulting in a \$12.0 million or 24.6% increase in property tax revenues to a total of \$60.8 million.



**Sales Tax**

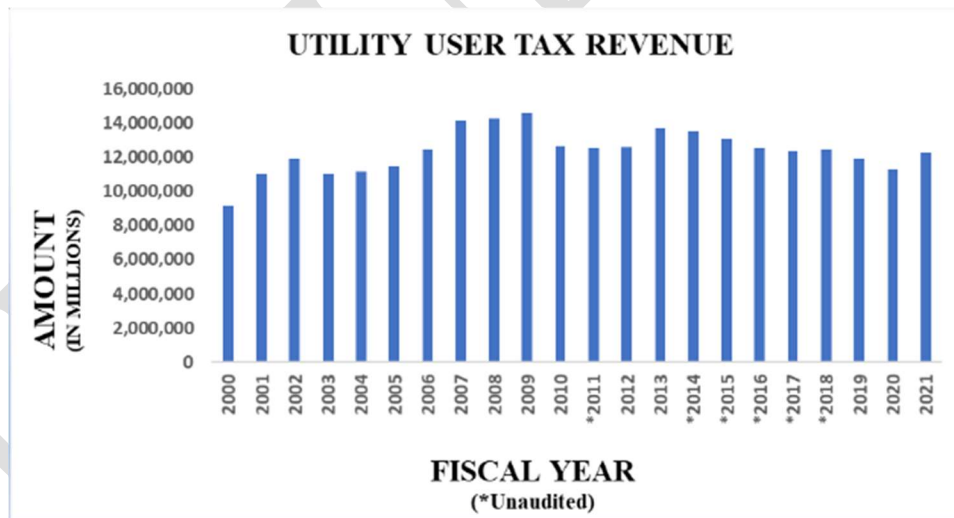
CITY OF COMPTON, CALIFORNIA  
 Management's Discussion and Analysis (UNAUDITED)  
 June 30, 2021

Sales tax revenue increased by approximately \$7.1 million or 32.5% to \$28.8 million in fiscal year 2020-2021 compared to fiscal year 2019-2020, primarily due to increased spending volume.



**Utility User Taxes**

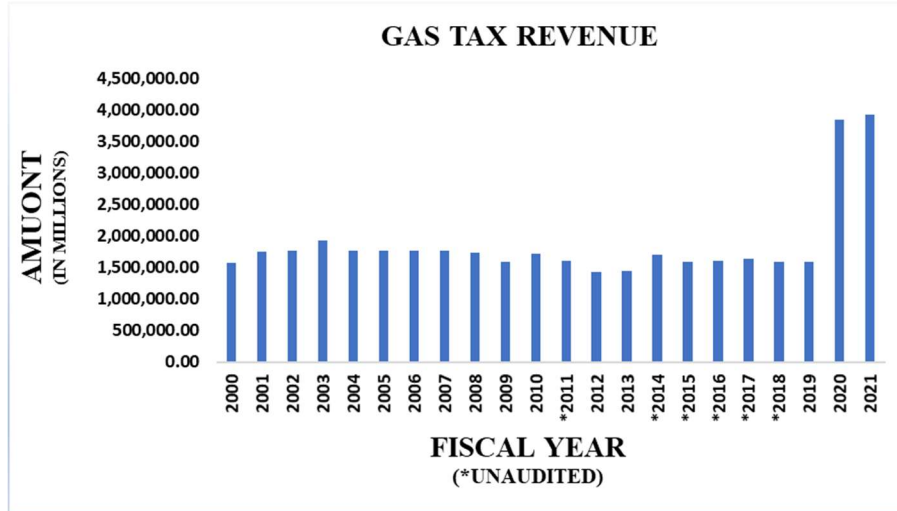
Utility User tax revenue also increased in fiscal year 2020-2021 to \$12.3 million, increasing \$1.1 million or 10.2% from \$11.1 million in prior fiscal year. For commercial, retail and certain other categories of utility user tax, the utility user tax is computed on units of utility usage. As a result, the increase in residential activities attributable to pandemic periods contributed to the increase of this revenue.



**Gas Taxes**

CITY OF COMPTON, CALIFORNIA  
 Management's Discussion and Analysis (UNAUDITED)  
 June 30, 2021

Gas tax revenues for fiscal year 2020-2021 decreased by \$16 thousand or 0.4% for a total of \$3.94 million versus prior year actual receipts of \$3.95 million. The decrease in revenue is primarily driven by temporary shut-down orders in Los Angeles County due to the Covid-19 pandemic.



**Franchise Taxes**

Franchise tax revenues for fiscal year 2020-2021 increased by approximately \$172 thousand or 6.7% for a total of \$2.74 million versus prior year actual receipts of \$2.57 million. The increase in revenue is primarily driven by temporary increased usage of utilities due to Covid-19 shut downs.

**Charges for services**

Charges for Services slightly declined by approximately \$918 thousand or 6.0% to approximately \$14.4 million in Fiscal Year 2020-2021 due to the effect that the Covid-19 pandemic shut downs had on the demand for City services.

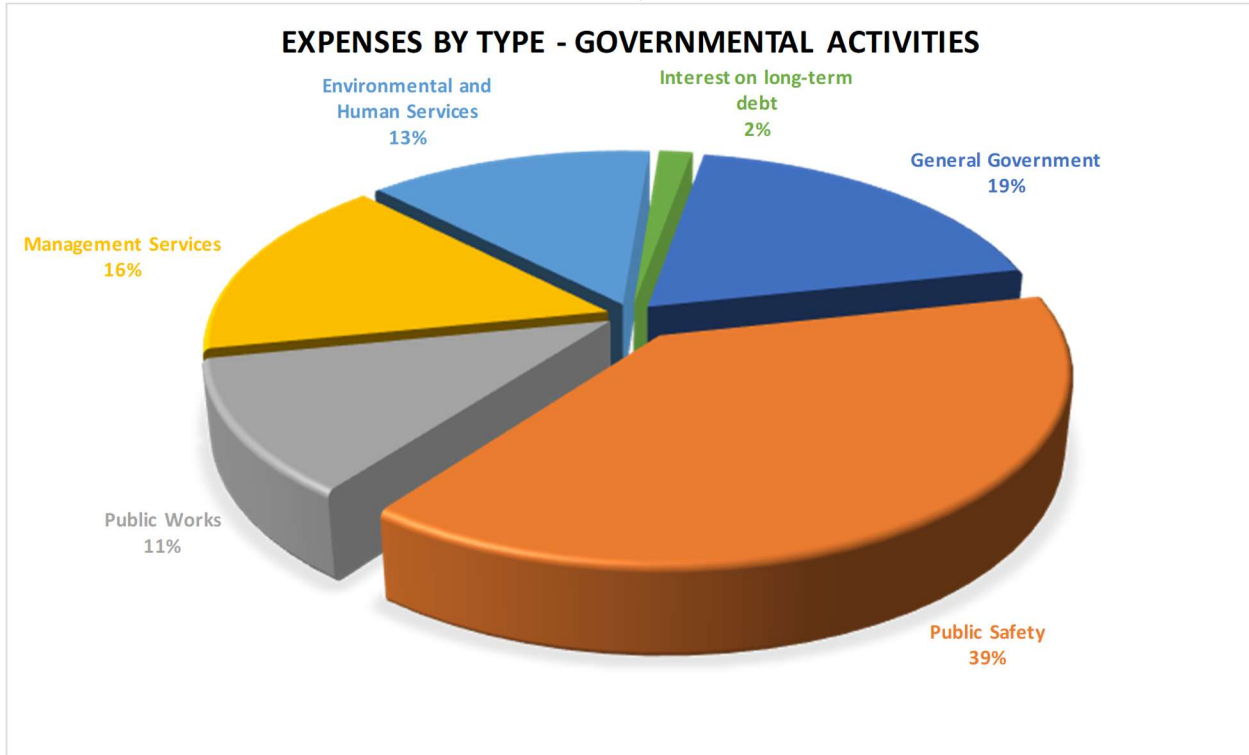
**Investment revenues**

Investment revenues also decreased by \$297 thousand or 17.7% due to a decrease in interest rates and investment returns.

**Expenses of Governmental Activities**

The City continued its efforts to maintain effective cost controls. Governmental activities expenses during fiscal year 2020-2021 were allocated as shown in the following chart:

CITY OF COMPTON, CALIFORNIA  
 Management's Discussion and Analysis (UNAUDITED)  
 June 30, 2021



**Public safety expenses**

Public Safety expenses decreased 5.3% to \$45.3 million primarily due to a decrease in Pension expenses of approximately \$2.0 million due to change in projected earnings on Pension plan investments and recognized changes in assumptions. Additionally, there were decreases in Public Safety expenditures for salaries and crossing guard costs, approximately \$1.0 million. These decreases were primarily off-set by an increase of approximately \$1.2 million in the City's contract with the Los Angeles County Sherriff.

**Public works expenses**

Public works expenses increased 41.4% to \$13.5 million primarily due increase in depreciation expenses attributed to increases in public works capital assets being valued in the capital asset valuation study implemented in Fiscal Year 2020-2021.

**Management services expenses**

Management Services Expenses decreased 29.7% to \$18.5 million, primarily due to a \$6.3 million decrease in OPEB and pension costs due to change in projected earnings on Pension plan investments and recognized changes in OPEB and Pension assumptions. Additionally, expenses for the General Services department decreased by \$1.0 million, as those expenses were budgeted under the category of Public Works during FY2020-2021, instead of in Management Services as they were budgeted in FY 2019-2020. There was additionally, an approximate \$500 thousand decrease in utility costs of water and electricity used by the City.

**General government expenses**

General government expenses increased 12.5% from \$19.5 million to \$22.0 million mainly due an increase in general liability claims incurrence during FY 2020-2021.

**Environmental and human services expenses**

CITY OF COMPTON, CALIFORNIA  
 Management's Discussion and Analysis (UNAUDITED)  
 June 30, 2021

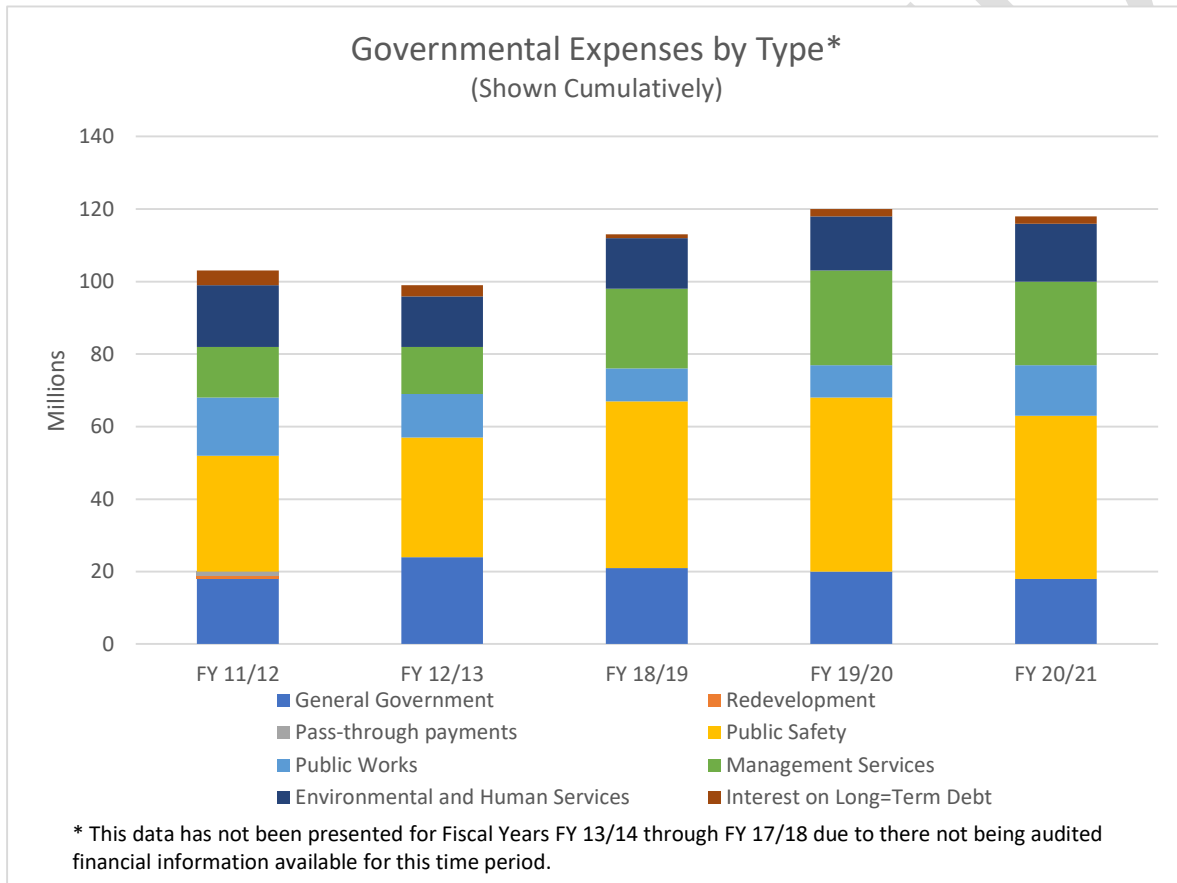
Environmental and human services expenses increased 3.7% from \$15.3 million to \$15.8 million primarily due a contribution to other agencies valued at \$2.9 million that was made from the Compton Housing Successor fund, primarily offset by \$2.1 million decrease in Recreation expenditures.

**Interest on long-term debt**

Interest on long-term debt increased 16.3% to \$1.8 million, with debt service payments of \$2.1 million, as a result of debt-service structures.

The following chart examines the City's governmental (i.e. non-business type) expenses over the past several years:

**Governmental Expenses by Type**



**Business-type Activities**

Business-type activities increased the City's net position by \$ 9.2 million in Fiscal Year 2020-2021 to \$26.1 million.

Key factors related to business-type activities include:

**Total revenues for business-type activities** were \$1.1 million lower than the previous year primarily due to \$1.8 million reduction in charges for services for the Rubbish Enterprise Fund as a result of lower demand due to the pandemic.

**Total expenses in the business-type activities** increased \$6.6 million compared to the prior fiscal year due primarily to a \$5.4 million increase in the Water Enterprise Fund from additions to OPEB cost.

CITY OF COMPTON, CALIFORNIA  
Management's Discussion and Analysis (UNAUDITED)  
June 30, 2021

D) FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows and outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unrestricted fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of the 2020-2021 fiscal year, the City's governmental funds report combined ending fund balances of \$169.6 million, an increase of \$59.1 million over the prior year. Increases in tax and special assessment revenue for the current year provided a \$10.9 million or 12.4% increase in revenues to \$99.8 million. A \$5.2 million or 4.7% increase in expenditures to \$115.5 million was mostly due to an increase in capital outlay expenditures of \$9.1 million with a combining offset primarily from an approximate \$3.7 million decrease in Governmental fund expenditures due to decreases in General Government, Public Safety, Public Works, Management Services, and Environmental and Human Services (this included a wide variety of cost reduction measures that were undertaken as a result of the pandemic, such as reductions to materials, supplies, and contractual services, deferral of labor cost increases from labor negotiations, reduction of certain City services, slow hiring, position eliminations, and layoffs). The increase in capital outlay expenditures were primarily related to street and pavement projects, as well as a transfer of land in the Housing Successor Capital Projects Fund.

**Fund Balance**

The components of fund balance include the following line items:

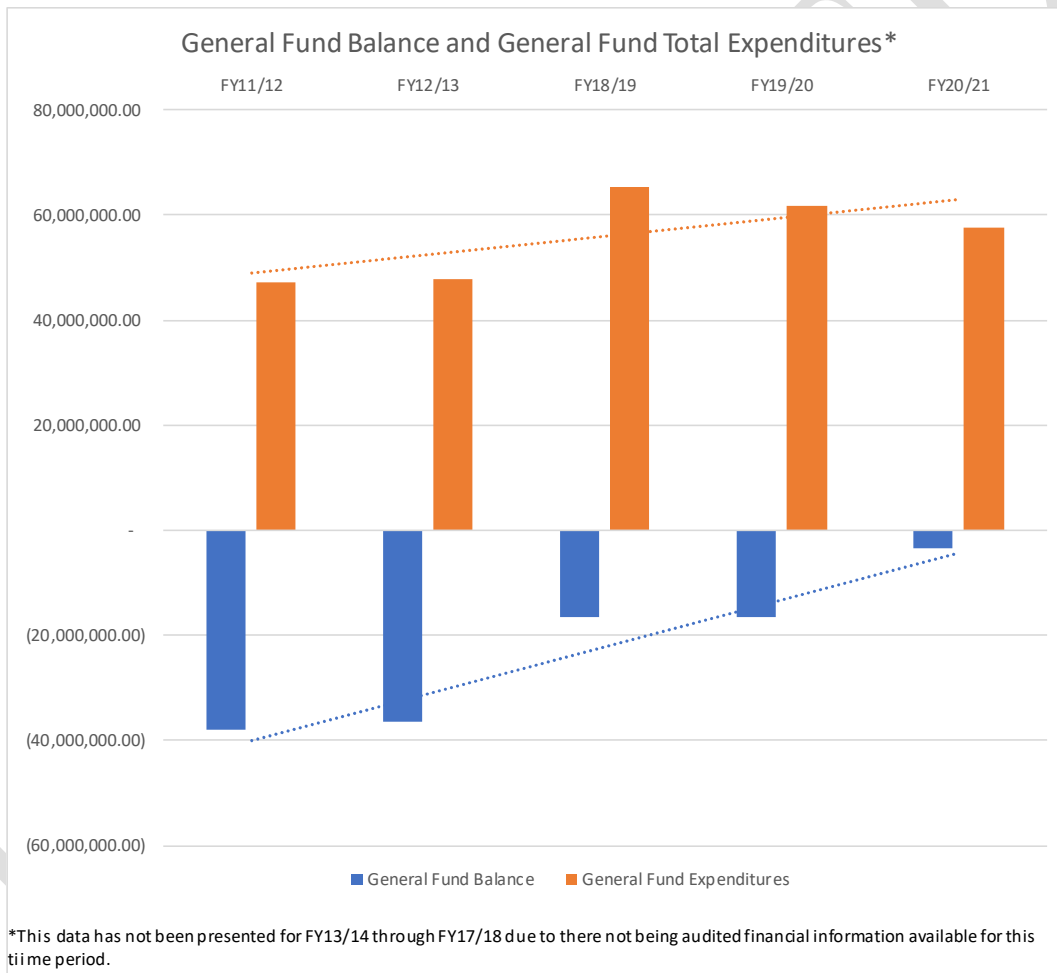
- a) **Nonspendable fund balance** - \$10.5 million (inherently nonspendable) include the portion of net resources that cannot be spent because of their form, such as long-term receivables, and the portion of net resources that cannot be spent because they must be maintained intact.
- b) **Restricted fund balance** - \$162.2 million (externally enforceable limitations on use) include amounts subject to limitations imposed by creditors, grantors, contributors, or laws and regulations of other government
- c) **Committed fund balance** - \$3.4 million (self-imposed limitation set in place prior to the end of the period) Limitation imposed at the highest level of decision making that requires formal action at the same level to remove.
- d) **Assigned fund balance** - \$141 thousand (limitation resulting from intended use) consists of amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. Based on the City Charter, the City Manager is the designated official.
- e) **Unassigned fund balance** - (\$6.7 million) (residual net resources) is the total fund balance in the general fund in excess of nonspendable, restricted, committed, and assigned fund balance.

The fund balance of the City's General Fund increased by \$13.0 million during the current fiscal year. Revenues exceeded expenditures by approximately \$15.7 million in Fiscal Year 2020-2021. Expenditures in the General Fund decreased by \$4.4 million (which included a wide variety of cost reduction measures that were undertaken as a result of the pandemic, such as reductions to materials, supplies, and contractual services, deferral of labor cost increases from labor negotiations, reduction of certain City services, slow hiring, position eliminations, and layoffs). Additionally, Transfers In for charges for internal services exceeded Transfers Out (which were primarily for debt service payment funding of \$3.4 million) by approximately \$859 thousand.

CITY OF COMPTON, CALIFORNIA  
 Management's Discussion and Analysis (UNAUDITED)  
 June 30, 2021

The fund balance of the City's Housing Successor Capital Projects Fund increased by \$859 thousand, primarily due to a reimbursement from the former CRA and current Compton Successor Agency related to a purchase of a property at Lot 14 from Prism Realty with APN #: 7318-003-077.

Perhaps the best measure of the City's effectiveness in weathering an economic downturn and building sustained growth for the future is its ability to catch up on building fund reserves. As a rule of thumb, a city should maintain sufficient reserves to weather the worst potential emergency scenarios. In the accompanying chart, the changes in the fund balance of the City's General Fund and the changes in total expenditures (excluding transfers out) is presented. As this chart demonstrates, the actions taken by the City have effectively improved revenues, controlled expenditures and allowed the City to increase its reserves for future needs. As shown in the chart below, in fiscal year 2011-2012 the fund balance was approximately negative \$38 million while total General Fund expenditures were \$48 million. By the end of fiscal year 2020-2021, on the other hand, the General Fund fund balance was approximately negative \$3.5 million while total expenditures were \$57.5 million.



**Enterprise Funds**

The City's enterprise funds account for financial transactions of the City's business-type function that primarily serve external customers. Total net position of the enterprise funds totaled \$26.1 million, an increase of \$9.2 million or 54.7%. The increase to total net position is the result of effective rate setting and managing available resources.

Other factors concerning the finances of these funds are as follows:

CITY OF COMPTON, CALIFORNIA  
Management's Discussion and Analysis (UNAUDITED)  
June 30, 2021

Operating revenues for the Water Enterprise increased by approximately 3.5% to \$19.5 million. Residential, Commercial, Industrial, and Multi-family consumption all increased in a comparable manner compared to the consumption of the prior year. Operating expenses increased by \$9.2 million, or 130.1% during Fiscal Year 2020-2021 primarily due to an accrual of OPEB costs of \$5.4 million, as well as \$2.8 million recorded in Depreciation expenses which had not been determined in the prior year due to the City-wide valuation of capital assets occurring for Fiscal Year 2020-2021. Further, Materials and Supplies increased by approximately \$600 thousand in the Water Enterprise Fund due to the rising cost of wholesale water purchases. After factoring in non-operating items, net position in the Water Enterprise increased by \$7.8 million to \$22.9 million.

Operating revenues for the Sewer Enterprise increased slightly by approximately \$8 thousand or 0.3%. Operating expenses increased by 43.1% or by \$704 thousand primarily due to \$567 thousand recorded for Depreciation expenses which had not been determined in the prior year due to the City-wide valuation of capital assets occurring for Fiscal Year 2020-2021. These resulted in an overall, net position increase of approximately \$2.0 million to \$4.8 million.

Operating revenues for the Solid Waste Enterprise decreased \$1.7 million (21.6%) from \$7.9 million in prior fiscal year to \$6.2 million in current fiscal year. This decrease is due to an outsourcing of residential collection services that occurred during FY2019-2020. Operating expenses mirrored the trend and decreased \$(2.8) million to \$6.1 million due to reduced third party servicing company billing. Overall, the net position in the Solid Waste Enterprise Fund decreased \$(65) thousand to \$(1.5 million).

#### **Internal Service Funds**

The City's internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Equipment Rental, Central Duplication, and Self-Insurance Services provided. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Factors concerning the finances of the internal service funds have already been addressed in the discussion of the City's governmental activities.

#### **E) BUDGETARY HIGHLIGHTS**

The City adopts annual appropriated operating budgets for its governmental funds (General Fund, special revenue funds, debt service fund, and Housing Successor capital projects fund), and reports the results of operations on a budgetary comparison basis. The City also uses annual financial plans as a management tool for its enterprise and internal service funds, although the City does not report the results of these funds on a budgetary comparison basis.

When preparing its budgets, the City attempts to estimate its revenues using realistic, but conservative, methods so as to budget its expenditure appropriations and activities in a prudent manner. As a result, the City Council adopts budget adjustments during the course of the fiscal year to reflect both changed priorities and availability of additional revenues to allow for expansion of existing programs. During the course of the year, the City Council can amend the originally adopted budget to re-appropriate prior year approved projects and expenditures, increase legal and professional services, move up the timing of expenditures for capital projects, and provide additional funding for community support.

#### **General Fund**

The General Fund reflected a positive net budget variance of \$16.5 million when comparing actual amounts to the final budget for the 2020-2021 fiscal year. This budget variance reflects actual revenues exceeding the final budget by \$4.6 million and total actual expenditures of \$11.9 million less than the final budget.

#### **F) CAPITAL ASSET AND DEBT ADMINISTRATION**

##### **Capital Assets**

CITY OF COMPTON, CALIFORNIA  
Management's Discussion and Analysis (UNAUDITED)  
June 30, 2021

The City performed a City-wide valuation of its capital assets which was effective for Fiscal Year 2020-2021. Due to this valuation, the City recognized that prior capital asset balances needed to be adjusted and these adjustments are reflected in the various City funds that house capital assets.

The City's investment in capital assets and CIP for its governmental and business-type activities amounts to approximately \$209 million net of accumulated depreciation and construction in progress as of June 30, 2021, which is a net increase of \$10.3 million (5.2%) over the restated amount of the prior year total of \$198.4 million.

Capital assets, net of accumulated depreciation, for governmental activities, increased from \$151.0 million at June 30, 2020 to \$164.0 million at June 30, 2021; a net increase of \$13.0 million or 8.6%. Capital asset additions totaled \$15.5 million, and depreciation expense totaled \$7.8 million. Significant additions include capital projects for streets and pavement (\$14.5 million), and for Gonzales Park solar arrays (\$637.5 thousand).

		As of June 30, 2021 and 2020					
		City of Compton's Capital Assets, Net of Accumulated Depreciation (000's)					
	Governmental Activities		Business-type Activities		Total		
	2021	2020 *	2021	2020 *	2021	2020 *	
Land	88,425	88,425	162	162	88,587	88,587	
Buildings	59,405	58,751	3,836	3,836	63,241	62,587	
Infrastructure	123,917	109,429	70,285	70,285	194,202	179,714	
Machinery and Equipment	20,001	19,607	3,379	3,379	23,380	22,986	
Construction in Progress	6,305	1,016	-	-	6,305	1,016	
Accumulated Depreciation	(134,005)	(126,229)	(32,959)	(30,213)	(166,964)	(156,443)	
Total capital assets, net	164,048	150,999	44,703	47,449	208,751	198,448	

\* restated capital asset amount as of 7/1/2020

Capital assets, net of accumulated depreciation, for business-type activities, decreased from \$47.4 million at June 30, 2020 to \$44.7 million at June 30, 2021; a net decrease of \$2.7 million or 5.8%. Depreciation expense totaled \$2.7 million. Additional information on the City's capital assets can be found in Note D to the basic financial statements on pages 41 of this report.

**Long-term Debt**

At the end of the current fiscal year, the City had total long-term bonded debt outstanding of \$130.0 million, up by \$92.5 million from the prior year. The increase comprises a combination of bond repayments (\$6.1 million) and a new debt issuance, the 2021 Sales Tax Revenue Bonds (\$41 million) transacted on March 11, 2021. The new debt was issued in connection with financing certain improvements to the City's roadways. No rating was issued on the new debt.

Other long-term obligations include pension obligations of \$150.3 million, other post-employment benefits \$169.5 million (\$20.0 million increase is due to interest rate fluctuations), employee-compensated absences of \$5.0 million, and outstanding claims of \$21.9 million.

CITY OF COMPTON, CALIFORNIA  
Management's Discussion and Analysis (UNAUDITED)  
June 30, 2021

G) PRIOR PERIOD ADJUSTMENTS

City of Compton's Capital Assets, Net of Accumulated Depreciation  
As of June 30, 2021 and 2020

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Bonds Payable	\$ 75,757,844.00	36,156,102	54,230,000	56,330,000	129,987,844	\$ 92,486,102.00
Mortgage Loan Payable	427,211	815,574	-	-	427,211	815,574
Notes Payable	-	500,000	-	-	-	500,000
Installment Payment Agreement	1,038,941	2,038,941	-	-	1,038,941	2,038,941
Compensated Absences	4,600,316	4,337,658	418,856	376,391	5,019,172	4,714,049
Claims Payable	17,883,006	18,551,000	-	-	17,883,006	18,551,000
Net Pension Liability	142,655,587	130,813,290	7,727,242	11,243,821	150,382,829	142,057,111
Total other postemployment benefits	153,091,386	140,363,905	16,436,883	9,188,166	169,528,269	149,552,071
Total debt	\$ 395,454,291.19	333,576,470	78,812,981	77,138,378	474,267,272	\$ 410,714,848.00

At the end of Fiscal Year 2020-2021, the City had prior period adjustments totaling \$68,973,728, an increase of \$74.9 million, from negative \$5,933,849 in prior period adjustments during Fiscal Year 2019-2020. The prior period adjustments during FY 2020-2021 were primarily due to the effects of the City's capital assets valuation that was performed with effective date of FY 2020-2021. The capital assets valuation identified assets net of their related accumulated depreciation which had not been recorded in prior periods totaled \$77.7 million across both Governmental Activities (\$64.8 million) and Business-type activities (\$12.9 million). These prior period adjustments were off-set primarily by an adjustment of negative \$6.9 million in the Retirement Fund to correct for proper revenue recognition in a prior period.

H) ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

While the adopted General Fund budget for Fiscal Year 2021-22 reflected projected revenues meeting operating expenditures, the overall result was an excess of revenues over expenditures of \$15.7 million when factoring in interfund transfers in and out. Transfers included a \$3.4 million transfer out to the Debt Service Fund to make bond repayments for the 2008 and 2016 Lease Revenue Bonds and a \$1.4 million transfer to the General Liability fund to finance ongoing claims and expenses. To address the unknowns regarding the possible economic decline related to the COVID-19 pandemic, Fiscal Year 2021-22 total revenues were forecasted conservatively at depressed amounts relative to pre-pandemic levels and additional strategies were executed for reducing the City's expenses, such as deferral of labor cost increases during labor negotiations, reductions of City services, and salary savings from existing vacancies. The City's cost cutting measures yielded an estimated total savings of \$803 thousand in personnel costs for fiscal year 2021- 22. Despite the contraction in staffing and other cost cutting measures, the adopted Fiscal Year 2021-22 budget provided for continuity of the robust services to the community for which Compton strives to achieve annually.

I) REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for readers of the financial statements. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Sharon Rahban Navizadeh, City Controller, City of Compton, 205 S. Willowbrook Avenue, City Controller's Office, Compton, California 90220. Additional information, including the prior year's audited financial statements and prior and current year budgets are available on the City's website at <https://www.comptoncity.org/departments/city-manager/budget-information>.