

CITY OF COMPTON, CALIFORNIA
Management's Discussion and Analysis (UNAUDITED)
June 30, 2022

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, 2022.

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 2021-2022 by approximately \$18.8 million (*net position*), which is approximately \$13.7 million higher than the previous year's net position. This is due primarily to increases in sales tax revenue of \$6.0 million and increases in intergovernmental revenue not restricted to specific programs of \$7.9 million. The unrestricted portion of net position as of June 30, 2022 increased by approximately \$936 thousand to (\$256,027,418) million 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 \$190.5 million, an increase of approximately \$20.9 million from the prior year. Of this amount, \$190.5 million, or approximately 100%, of total fund balances are reported as either "Nonspendable" (\$9.1 million), "Assigned" (\$141 thousand), "Committed" (\$8.5 million), or "Restricted" (\$172.8 million) fund balances. The increase in the City's governmental funds combined fund balances reported was primarily driven by increases in tax revenue (by approximately \$5.1 million), increases in intergovernmental revenue (by approximately \$6.9 million), increases in Licenses and Permit revenue (by approximately \$800 thousand), decreases in expenditures in the Compton Housing Successor (by approximately \$4.2 million), and by decreases in Capital Outlay costs in governmental funds outside of the Compton Housing Successor (by approximately \$3.5 million).
- The City's net capital assets (land, buildings, equipment, infrastructure, less accumulated depreciation) were at \$208.5 million as of June 30, 2022, decreasing by \$253 thousand over the previous year due mainly to depreciation of capital assets.
- The City's net long-term liabilities decreased by \$60.6 million to \$405.6 million, primarily as a result of the decrease in both the Pension and OPEB liability of approximately \$44.6 million and \$8.9 million, respectively, for Fiscal Year 2021-2022.
- The City's deferred inflow on resources increased by \$74.9 million to \$78.9 million, primarily as a result of \$46.5 million in net differences between projected and actual earnings on pension plan investments, as well as \$26.0 million from the difference between the expected and actual experience of the OPEB plan.
- The City's financial position was elevated during Fiscal Year 2021-2022 with the removal of a "qualified" opinion from the City's audited financial statements. Prior to Fiscal Year 2021-2022, the City maintained a "qualified" audit opinion on the allocation of cash across all funds. The City hired a consultant for preparation of a cost allocation plan which was implemented for FY 2021-2022. Due to this cost allocation study and the implementation of this plan, the City saw the removal of this "qualified" opinion. This is an escalation from the financial-position-elevation already attained during the prior Fiscal Year 2020-2021 audit, which saw the removal of two "qualified" audit opinions on the City's FY 2020-2021 Single Audit and FY 2020-2021 audited financial statements regarding the City's recorded balances of Capital Assets, as well as Section 8 grant reporting. Additionally, during the 2019-2020 Fiscal Year audit, two other "qualified" audit opinions were removed from the City's audited financial statements regarding the City's recorded balances of Unearned Revenue and Loan Receivable. As of the Fiscal Year ended June 30, 2022, there are no qualified audit opinions on the City's audited financial statements.
- As of June 30, 2021, Property Taxes reported on the Government-wide Statement of Activities have been adjusted (See Section II. Prior Period Adjustment of the Notes to the Financial Statements). As of June 30, 2021, Property Tax is adjusted from \$60,768,875 to \$50,979,946. After taking into consideration the prior period adjustment of reducing property tax revenue by \$9.8 million for Fiscal Year 2020-2021, property taxes increased by \$4.7 million, or 9.1% during Fiscal Year 2021-2022. It has been noted that an increase in assessed valuation from new non-residential construction (a 6.52% increase as shown in the Proposition 111 Analysis of the Office of the Assessor of Los Angeles County) has occurred during FY 2021-2022.

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- During FY 2021-2022, Sales Taxes increased by approximately \$6.0 million or 20.8%. Though less growth compared to the previous fiscal year (growth of 33%), the City still saw an increase as a result of federal stimulus.
- Utility User Taxes increased by approximately \$268 thousand, 2.2%, during FY 2021-2022, as a result of increased residential utility usage incurred from shut down orders in Los Angeles County during the Covid-19 pandemic.
- Intergovernmental Revenues not restricted to specific programs increased by \$7.9 million or 964.7% during Fiscal Year 2021-2022, primarily due to an American Rescue Plan Act Grant received by the City. The first installment of the award was for \$17,212,501.50 received on June 10, 2021. As of June 30, 2022, \$8.1 million was spent or obligated towards qualifying expenditures. The second installment was received on September 26, 2022 for an amount of \$17,212,501.50.
- Casino Tax Revenue increased significantly by approximately \$812 thousand or 83.6% to \$1.8 million during Fiscal Year 2021-2022. This is a result of the rebounding of gaming from the shut-down orders in Los Angeles County in years prior. The gaming industry saw record high growth as gaming continues its reopening and recovery.

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.

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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 134 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 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 131 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 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, and Solid Waste funds, 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 - 69 of this report.

Other Information

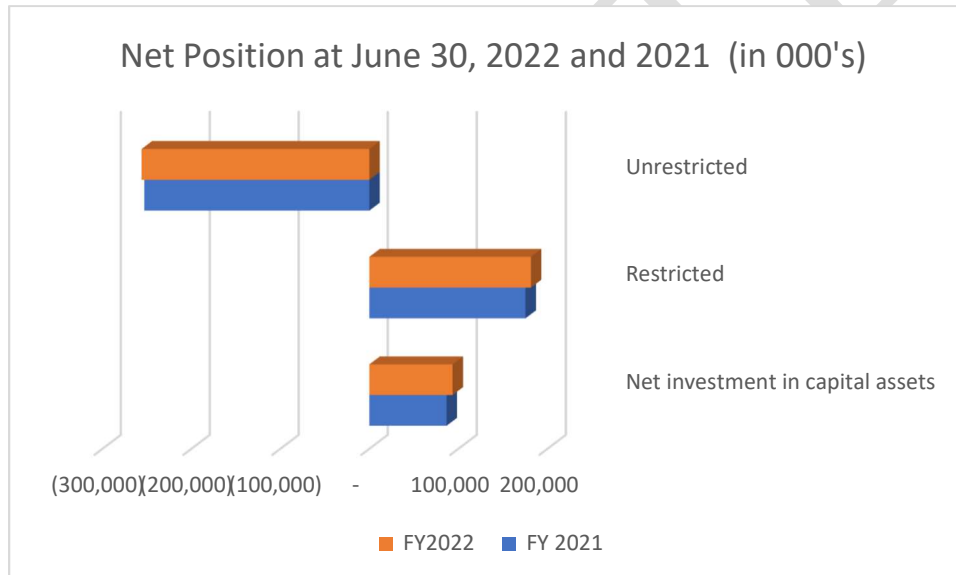
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In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 70 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 and deferred outflows exceeded liabilities and deferred inflows by \$18.8 million at the close of Fiscal Year 2021-2022.

A large portion of the City’s net position, \$93.5 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, 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, \$181.4 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, (\$256.0 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.

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City of Compton, California (000's)						
As of June 30, 2022 and 2021						
	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
ASSETS						
Current assets	\$ 182,711	167,418	43,952	34,544	226,663	201,962
Noncurrent Assets	34,738	31,538	25,728	29,776	60,466	61,314
Capital assets	166,236	164,048	42,262	44,703	208,498	208,751
Total assets	<u>383,685</u>	<u>363,004</u>	<u>111,942</u>	<u>109,023</u>	<u>495,627</u>	<u>472,027</u>
Deferred outflows of resources	<u>53,627</u>	<u>43,703</u>	<u>4,772</u>	<u>3,335</u>	<u>58,399</u>	<u>47,038</u>
LIABILITIES						
Current liabilities	31,823	35,504	7,773	8,294	39,596	43,798
Long-term liabilities, net of current portion	331,840	388,533	73,778	77,710	405,618	466,243
Total liabilities	<u>363,663</u>	<u>424,037</u>	<u>81,551</u>	<u>86,004</u>	<u>445,214</u>	<u>510,041</u>
Deferred inflows of resources	<u>84,916</u>	<u>3,693</u>	<u>5,074</u>	<u>233</u>	<u>89,990</u>	<u>3,926</u>
NET POSITION						
Net investment in capital assets	93,453	86,719	-	-	93,453	86,719
Restricted	172,752	162,198	8,644	13,146	181,396	175,344
Unrestricted	<u>(277,473)</u>	<u>(269,939)</u>	<u>21,446</u>	<u>12,976</u>	<u>(256,027)</u>	<u>(256,963)</u>
Total net position	<u>\$ (11,268)</u>	<u>(21,022)</u>	<u>30,090</u>	<u>26,122</u>	<u>18,822</u>	<u>5,100</u>

The City's governmental current assets increased by \$15.3 million (primarily due to an increase in tax revenues as well as from the City's receipt of intergovernmental revenues) to \$182.7 million, while current assets for business-type activities increased by \$9.4 million to \$44.0 million. Net capital assets minimally decreased to \$208.5 million at June 30, 2022. Long-term liabilities decreased by \$60.6 million to \$405.6 million primarily as a result of the decrease in both the Pension and OPEB liability of approximately \$44.6 million and \$8.9 million, respectively, for Fiscal Year 2022. Further, Deferred outflows of resources increased by \$11.4 million to \$58.4 million primarily because of changes in assumptions to the OPEB Plan by the actuary.

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City of Compton, Change in Net Position (000's)						
For the Years Ended June 30, 2022 and 2021						
	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues						
Program revenues						
Charges for services	\$ 17,551	14,399	28,244	28,437	45,795	42,836
Op. grants & cont.	9,229	15,579	-	-	9,229	15,579
Cap. Grants & cont.	7,534	8,035	-	-	7,534	8,035
General Revenues						
Taxes						
Property*	55,643	60,769	-	-	55,643	60,769
Sales	34,824	28,829	-	-	34,824	28,829
Utility user taxes	12,541	12,273	-	-	12,541	12,273
Franchise Taxes	2,649	2,737	-	-	2,649	2,737
Special Assessments	4,188	4,250	-	-	4,188	4,250
Transient occupancy taxes	64	68	-	-	64	68
Real property transfer taxes	318	237	-	-	318	237
Intergovernmental not restricted to specific programs	8,673	815	-	-	8,673	815
Investment earnings	(1,305)	1,334	41	50	(1,264)	1,384
Other Income	707	774	-	-	707	774
Transfer in from fiduciary fund	-	1,748	-	-	-	1,748
Total Revenues*	152,616	151,847	28,285	28,487	180,901	180,334
Expenses						
General government	27,104	22,026	-	-	27,104	22,026
Public Safety	43,593	45,336	-	-	43,593	45,336
Public Works	12,598	13,504	-	-	12,598	13,504
Management Services	29,131	18,543	-	-	29,131	18,543
Environmental and Human Services	11,656	15,842	-	-	11,656	15,842
Interest on long-term debt	2,682	1,835	-	-	2,682	1,835
Water	-	-	15,794	18,682	15,794	18,682
Rubbish	-	-	6,350	6,161	6,350	6,161
Sewer	-	-	2,362	2,241	2,362	2,241
Total Expenses	126,764	117,086	24,506	27,084	151,270	144,170
Prior Year Adjustment	(16,094)	55,461	183	13,513	(15,911)	68,974
Transfers	(7)	6	7	(6)	-	-
Change in Net Position*	25,847	40,437	3,786	(4,272)	29,633	36,165
Net Position, July 1 (as restated)	(37,115)	(61,458)	26,304	13,513	(10,811)	47,945
Net position, June 30*	\$ (11,268)	(21,021)	30,090	16,881	18,822	(4,140)

* See footnote disclosure for Prior Period Adjustments

Total revenues increased from an adjusted amount of \$170.5 million for Fiscal Year 2020-2021 to \$180.9 million for Fiscal Year 2021-2022, an increase of \$10.4 million or 6.1%. The City experienced an increase of 10.9% in tax revenues or \$10.9 million. The adjustment noted in the preceding sentence resulted from a prior period adjustment deferring \$9.8 million of property tax revenue in Fiscal Year 2020-2021 and reducing the Fiscal Year 2020-2021 total revenue by a like amount. See footnote disclosure, Section II, Prior Period Adjustment of the Notes to the Financial Statements. While Franchise Tax, and Special Assessment Taxes saw slight decreases of \$88 thousand (3.2% from

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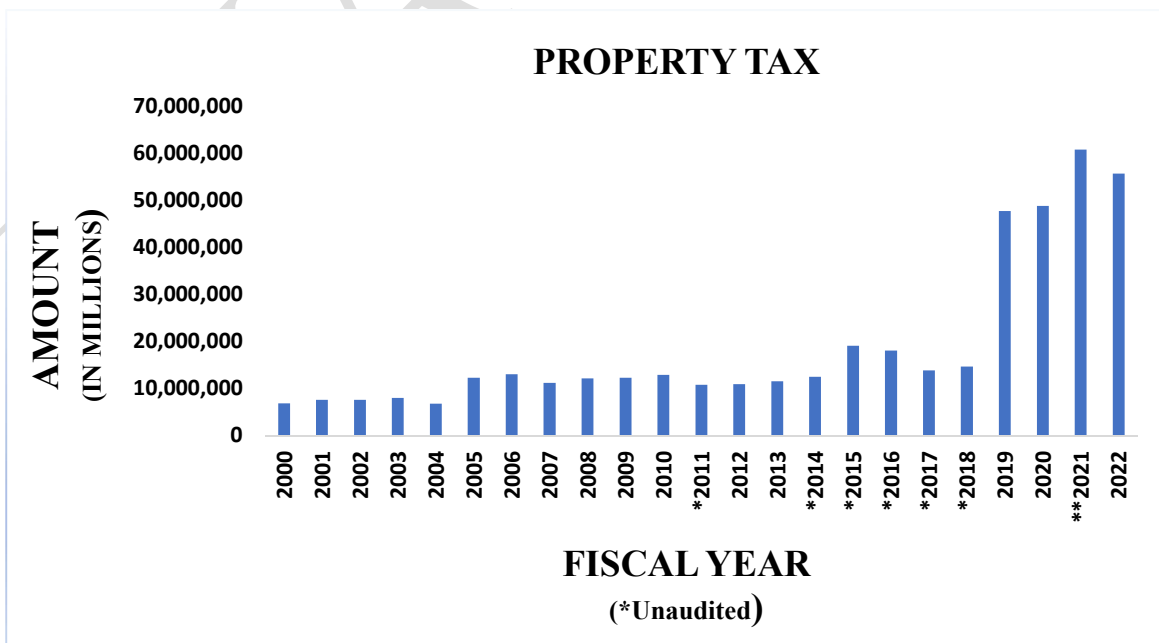
\$2.7 million to \$2.6 million), and \$62 thousand (1.5% from \$4.25 million to \$4.19 million) respectively, certain tax revenues were less affected by the Covid-19 pandemic. Sales Taxes increased due to an increase in spending trends, recording a \$6.0 million increase (20.8% from \$28.8 million to \$34.8 million). Additionally, Property Tax increased by \$4.7 million or 9.1% to \$55.6 million primarily due to an increase in assessed valuation from new non-residential construction (a 6.52% increase as shown in the Proposition 111 Analysis of the Office of the Assessor of Los Angeles County). (Please note that property taxes for FY 2020-2021 are adjusted to \$50,979,946. See Section II. Prior Period Adjustment of the Notes to the Financial Statements). The City also experienced an increase of \$3.0 million or 6.9% in revenue from charges for services. This increase is a result of the City's implementation of the City-wide cost allocation plan during FY 2021-2022. Total expenses increased by \$7.1 million from \$144.2 million in fiscal year 2020-2021 to \$151.3 million in fiscal year 2021-2022 or 4.9%. This increase is primarily due to a \$3.0 million increase in Capital Outlay expenditures from Governmental Funds, as well as a \$1.6 million increase in General Government expenditures in Governmental funds mainly due to an increase in spending in Federal Grants. Further, an increase in interest in Long-Term Debt in an amount of \$847 thousand to the amount of \$2.7 million for Fiscal Year 2021-2022 also contributed to the increase in total expenses from the Statement of Activities.

Governmental Activities

The total growth in net position for the City was \$24.7 million for the fiscal year ended June 30, 2022 compared to the amount of \$105.1 million in fiscal year ended June 30, 2021, a \$91.4 million decrease. This was mainly due to the performance of the City-wide capital asset valuation as of June 30, 2021. Total general revenues and transfers increased \$4.6 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 6.52% (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 \$4.7 million or 9.1% increase in property tax revenues to a total of \$55.6 million from the adjusted amount of \$50,979,946. (See Section II. Prior Period Adjustment of the Notes to the Financial Statements, for prior period adjustment related to deferred revenues)

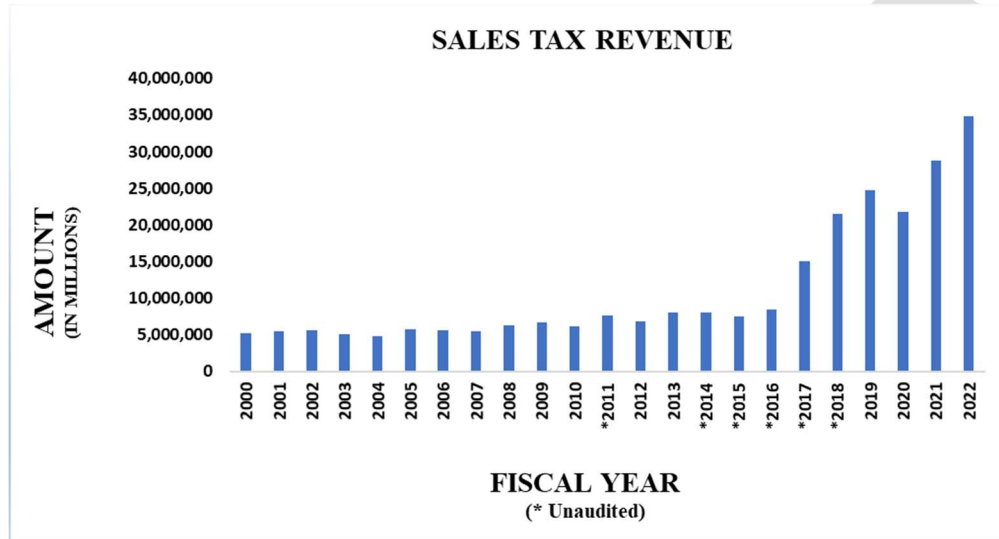


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**During Fiscal Year 2021-2022, a prior period adjustment was found regarding the recording of the figure for property tax on the Statement of Activities as of June 30, 2021. The value of the prior period adjustment was \$9.8 million, which results in the amount of \$50,979,946 million for Fiscal Year 2020-2021. (See Section II. Prior Period Adjustment of the Notes to the Financial Statements for prior period adjustment related to deferred revenues)

Sales Tax

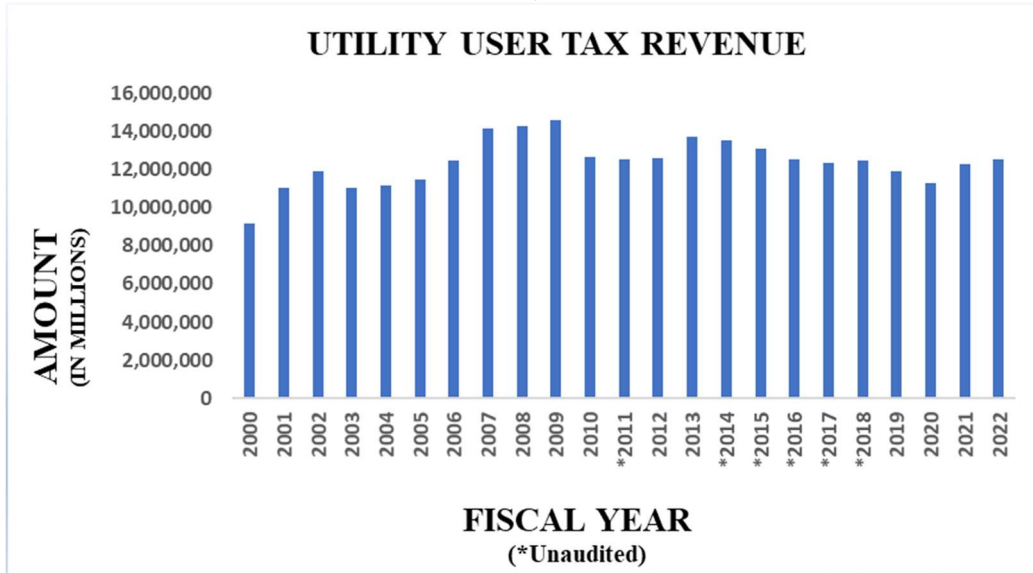
Sales tax revenue increased by approximately \$6.0 million or 20.8% to \$34.8 million in Fiscal Year 2021-2022 compared to Fiscal Year 2020-2021, primarily due to increased spending volume.



Utility User Taxes

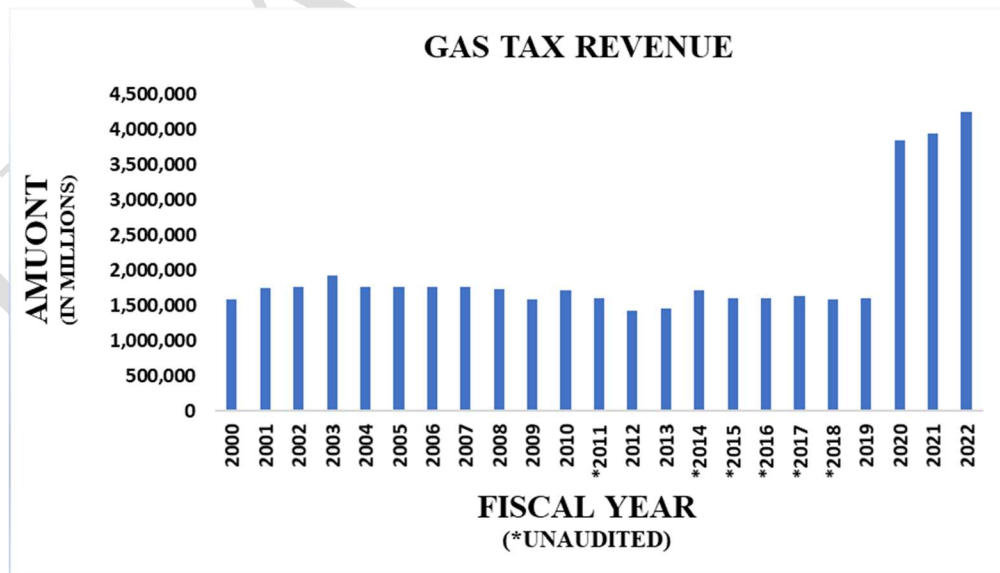
Utility User tax revenue also increased in Fiscal Year 2021-2022 to \$12.5 million, increasing \$268 thousand or 2.2% from \$12.3 million in prior Fiscal Year. For commercial, retail and certain other categories of utility user tax, the utility user tax is computed on units of utility usage. As a result, the increase in residential activities attributable to pandemic periods contributed to the increase of this revenue.

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Gas Taxes

Gas tax revenues for Fiscal Year 2021-2022 increased by \$305 thousand or 7.7% for a total of \$4.2 million versus prior year actual receipts of \$3.94 million. The increase in revenue is primarily driven by the recovery of the temporary shut-down orders in Los Angeles County due to the Covid-19 pandemic.



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Franchise Taxes

Franchise tax revenues for Fiscal Year 2021-2022 decreased by approximately \$88 thousand or 3.2% for a total of \$2.65 million versus prior year actual receipts of \$2.74 million. The decrease in revenue is primarily driven by temporary decreased usage of utilities due to Covid-19 shut downs and recovery.

Charges for services

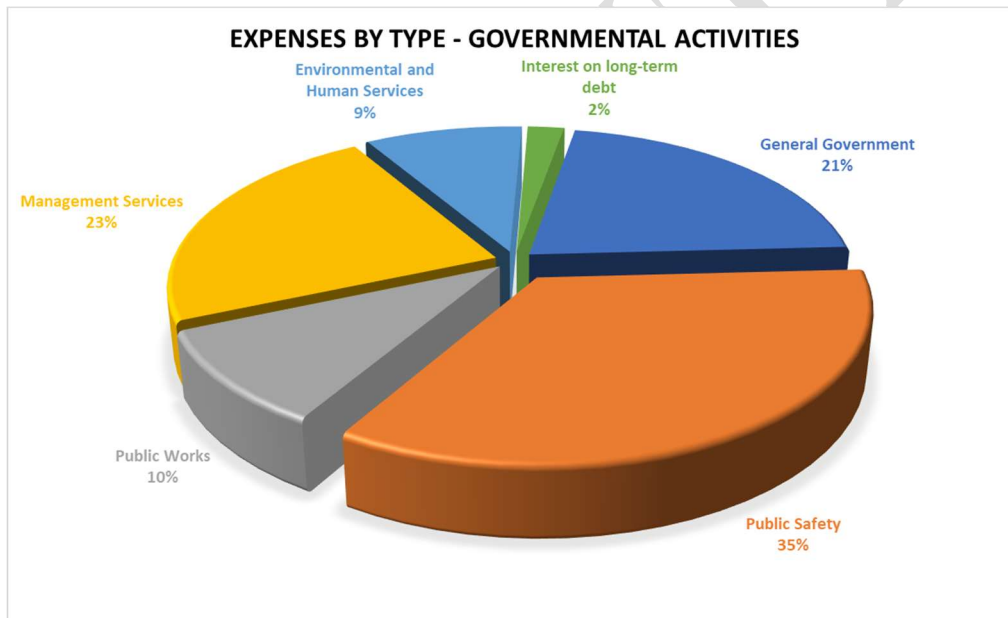
Charges for Services increased by approximately \$3.2 million or 2.2% to approximately \$17.6 million in Fiscal Year 2021-2022 primarily due to the implementation of the City's cost allocation plan.

Investment revenues

Investment revenues also decreased by \$2.6 million or 198% due to a decrease in change in fair market value of investments and investment returns.

Expenses of Governmental Activities

The City continued its efforts to maintain effective cost controls during Fiscal Year 2021-2022, as it did during Fiscal Year 2020-2021. Governmental Activities expenses during Fiscal Year 2021-2022 were allocated as shown in the following chart:



Public safety expenses

Public Safety expenses decreased 3.8% to \$43.6 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.

Public works expenses

Public works expenses decreased 6.7% to \$12.6 million primarily due to a decrease in depreciation expenses related to capital assets for Public Works activities.

Management services expenses

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Management Services Expenses increased 57.1% to \$29.1 million, primarily due to a \$5.9 million increase in OPEB and pension costs due to change in projected earnings on Pension plan investments and recognized changes in OPEB and Pension assumptions. Additionally, increases in expenditures were incurred by the Retirement Fund (by approximately \$1 million) and by Non-major Governmental Funds (by approximately \$500 thousand) for Management Services activities.

General government expenses

General government expenses increased 23.1% from \$22.0 million to \$27.1 million mainly due to increases in Internal Service Fund expenses of approximately \$3 million related to General Government activities. Additionally, due to increases in federal grant spending in Non-major Governmental Funds, total governmental funds expenditures for General Government activities rose by approximately \$1.5 million.

Environmental and human services expenses

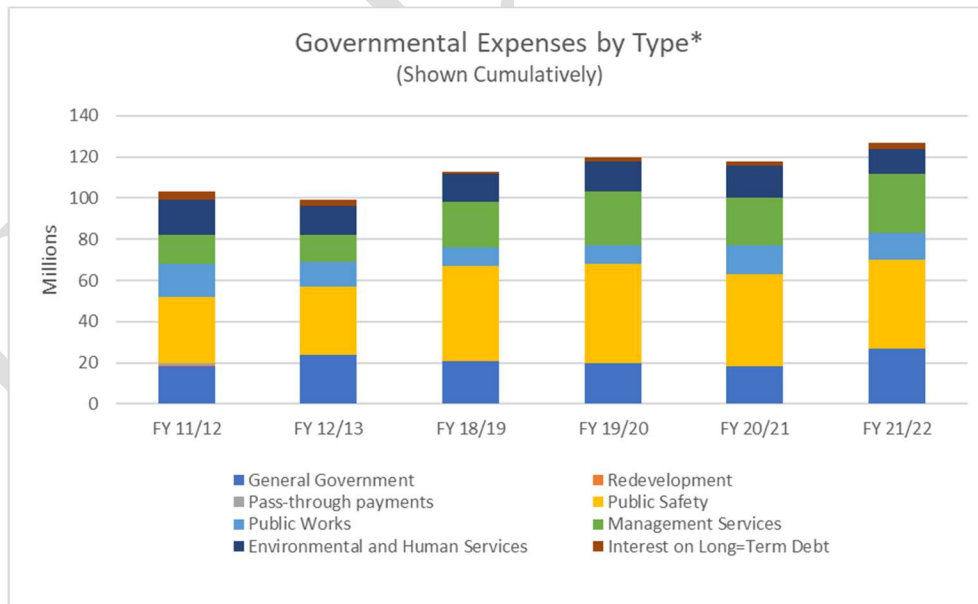
Environmental and human services expenses decreased 26.4% from \$15.8 million to \$11.7 million primarily from a decrease in activity in the Compton Housing Successor in comparison to Fiscal Year 2020-2021. In that year, expenses related to a development agreement in the amount of \$3,088,859 had been incurred, but no similar deals resulted in expenses during Fiscal Year 2021-2022. Additionally, the decrease in Environmental and Human Services expenses was also caused by a decrease in expenditures in federal grants, which decreased by approximately \$602 thousand, or 6.8%.

Interest on long-term debt

Interest on long-term debt for Governmental Activities increased 46.1% to \$2.7 million, with debt service payments of \$4.2 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

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Business-type activities increased the City's net position by \$ 4.0 million in Fiscal Year 2021-2022 to \$30.1 million.

Key factors related to business-type activities include:

Total revenues for business-type activities were slightly changed, with a slight decrease of approximately \$202 thousand compared to the previous year.

Total operating expenses in the business-type activities decreased \$2.0 million compared to the prior Fiscal Year due primarily to a decrease of \$3.0 million in the Water Enterprise Fund of OPEB cost.

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 2021-2022 Fiscal Year, the City's governmental funds report combined ending fund balances of \$190.5 million, an increase of \$20.8 million over the prior year, or 12.3%. Increases in tax and special assessment revenue for the current year provided a \$5.1 million or 5.1% increase in revenues to \$104.9 million. A \$9.7 million or 8.4% increase in expenditures to \$125.2 million was mostly due the General Fund expenses increasing by \$4.7 million, other governmental fund capital outlay outside of Compton Housing Successor increased by \$4.8 million, and the Retirement Fund had an increase of \$1.0 million. The increase in General Fund expenses were driven by increases in Public Works and Public Safety activities. The increase in capital outlay expenditures of other governmental funds outside of Compton Housing Successor were related to street and pavement projects, as well as purchases of Public Safety equipment from grant funds.

Fund Balance

The components of fund balance include the following line items:

- a) **Nonspendable fund balance** - \$9.1 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** - \$172.8 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** - \$8.5 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.

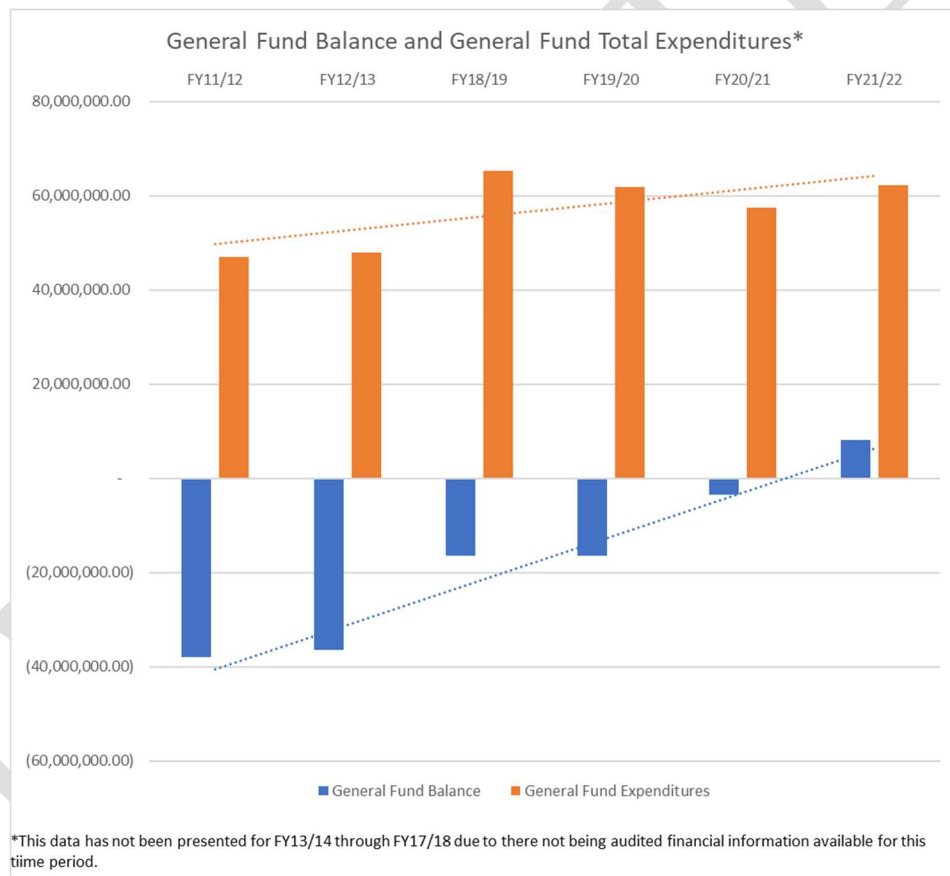
The fund balance of the City's General Fund increased by \$11.6 million during the current Fiscal Year. Revenues exceeded expenditures by approximately \$14.7 million in Fiscal Year 2021-2022. Expenditures in the General Fund increased by \$4.7 million. The increase in General Fund expenses were driven by increases in Public Works and Public

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Safety activities. Additionally, Transfers In were exceeded by Transfers Out (which were primarily for debt service payment funding of \$3.0 million) by approximately \$3.0 million.

The fund balance of the City's Housing Successor Capital Projects Fund decreased by \$2.2 million, primarily due to a reimbursement of expenditure made to the Successor Agency for a prior period transaction (approximately \$1.4 million), coupled with a decline in the use of money and property (\$692 thousand).

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 2021-2022, on the other hand, the General Fund fund balance was approximately a positive \$8.1 million while total expenditures were \$62.2 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 \$30.1 million, an increase of \$4.0 million or 15.2%. The increase to total net position is the result of effective rate setting and managing available resources.

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

Operating revenues for the Water Enterprise increased by approximately 2.4% to \$20.0 million. Residential, Commercial, Industrial, and Multi-family consumption all increased in a comparable manner compared to the consumption of the prior year. Operating expenses decreased by \$2.6 million, or 15.7% during Fiscal Year 2021-2022 primarily due to a decrease of OPEB costs of \$3.0 million. After factoring in non-operating items, net position in the Water Enterprise still displays an increase of \$4.2 million to \$27.1 million.

Operating revenues for the Sewer Enterprise increased slightly by approximately \$42 thousand or 1.5%. Operating expenses increased by 31.5% or by \$332 thousand primarily due to approximately \$380 thousand increase in the purchase of materials and supplies which had not been incurred in the prior year. Further, in this fund, during Fiscal Year 2021-2022, change in net position resulted in \$445.0 thousand and a gain obtained in a prior year of \$73 thousand was recognized. This resulted in an overall, net position increase of approximately \$518 thousand to \$5.3 million.

Operating revenues for the Solid Waste Enterprise decreased \$710 thousand (11.5%) from \$6.2 million in prior Fiscal Year to \$5.5 million in current fiscal year. This decrease is due to a delay in revenue billing that occurred during Fiscal Year 2021-2022. Operating expenses increased \$211 thousand to \$6.3 million, or 3.5%. Overall, the net position in the Solid Waste Enterprise Fund decreased \$(788) thousand to \$(2.3 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 for the General Fund and Retirement fund only. 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 \$14.6 million when comparing actual amounts to the final budget for the 2021-2022 Fiscal Year. This budget variance reflects actual revenues exceeding the final budget by \$14.4 million and total actual expenditures of \$166 thousand less than the final budget.

F) CAPITAL ASSET AND DEBT ADMINISTRATION

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Capital Assets

The City's investment in capital assets and CIP for its governmental and business-type activities amounts to approximately \$208.5 million net of accumulated depreciation and construction in progress as of June 30, 2022, which is a net decrease of \$253 thousand (0.1%) over the adjusted amount of the prior year total of \$208.8 million.

Capital assets, net of accumulated depreciation, for governmental activities, increased from \$164.0 million at June 30, 2021 to \$166.2 million at June 30, 2022; a net increase of \$2.2 million or 1.3%. Capital asset additions totaled \$20.1 million, and depreciation expense totaled \$7.8 million. Significant additions include capital projects for streets and pavement (\$6.2 million), as well as purchases of Fire Department equipment (\$5.0 million).

Capital assets, net of accumulated depreciation, for business-type activities, decreased from \$44.7 million at June 30, 2021 to \$42.3 million at June 30, 2022; a net decrease of \$2.4 million or 5.5%. Depreciation expense totaled \$2.7 million. Additional information on the City's capital assets can be found in Note IIID to the basic financial statements on page 40 of this report.

As of June 30, 2022 and 2021						
City of Compton's Capital Assets, Net of Accumulated Depreciation (000's)						
	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	88,425	88,425	162	162	88,587	88,587
Buildings	59,415	59,405	3,836	3,836	63,251	63,241
Infrastructure	123,487	123,917	70,285	70,285	193,772	194,202
Machinery and Equipment	21,283	20,001	3,654	3,379	24,937	23,380
Construction in Progress	13,460	6,305	-	-	13,460	6,305
Accumulated Depreciation	(139,834)	(134,005)	(35,675)	(32,959)	(175,509)	(166,964)
Total capital assets, net	166,236	164,048	42,262	44,703	208,498	208,751

Long-term Debt

At the end of the current Fiscal Year, the City had total long-term bonded debt outstanding of \$118.9 million, down by \$4.9 million from the prior year. The decrease is comprised of bond repayments.

At the close of the Fiscal Year 2021-22, the Successor Agency to the Community Redevelopment Agency of the City of Compton issued Tax Allocation Refunding Bonds, Series 2022A and 2022B for an aggregate amount of \$75.8 million, estimated to save approximately \$5.9 million in debt service payments for the upcoming Fiscal Year 2022-2023 (Disclosed in the Debt Service Schedule provided at issuance). The purpose of the issuance of these bonds are for the refunding of all the former Agency's outstanding bonds (i) Compton Redevelopment Project Second Lien Tax Allocation Bonds (Housing), Series 2010A (the "Series 2010A Bonds"), (ii) Compton Redevelopment Project Second Lien Tax Allocation Bonds, Series 2010B (the "Series 2010B Bonds"), and (iii) Compton Redevelopment Project Second Lien Tax Allocation Bonds (Taxable), Series 2010C (the "Series 2010C Bonds") and for defeasing all of the former Agency's outstanding Compton Redevelopment Project Tax Allocation Capital Appreciation Bonds, Series 1995C (Taxable)(the "Series 1995C Bonds"). (Please see section VI.C.d. Long-Term Liabilities – Successor Agency for more information about the Successor Agency's Long-Term Liability)

Other long-term obligations include pension obligations of \$105.8 million, other post-employment benefits of \$160.6 million, employee-compensated absences of \$4.7 million, and outstanding claims of \$20 million.

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City of Compton's Outstanding Long-Term Debt (000's)
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	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Bonds Payable	69,834	71,646	49,085	51,437	118,919	123,083
Mortgage Loan Payable		427		-	-	427
Notes Payable	-	-	-	-	-	-
Installment Payment Agreement	-	1,039	-	-	-	1,039
Compensated Absences	3,276	3,543	338	323	3,614	3,866
Claims Payable	16,651	17,918	-	-	16,651	17,918
Net Pension Liability	99,580	141,928	6,252	8,455	105,832	150,383
Total other postemployment benefits	142,499	152,033	18,104	17,495	160,603	169,528
Total debt	331,840	388,534	73,779	77,710	405,619	466,244

G) PRIOR PERIOD ADJUSTMENTS

At the end of Fiscal Year 2021-2022, the City had prior period adjustments totaling a negative \$15.9 million, a decrease of \$84.9 million, from \$69.0 million in prior period adjustments during Fiscal Year 2020-2021. The prior period adjustments during Fiscal Year 2020-2021 were primarily due to the effects of the City's capital assets valuation that was performed with effective date during FY 2020-2021. The capital assets valuation identified assets net of their related accumulated depreciation which had not been recorded in prior periods which 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. However, during Fiscal Year 2021-2022, prior period adjustments were primarily driven by \$9.8 million related to deferred revenue and property tax revenue recognition in Fiscal Year 2020-2021, and \$4.7 million to adjust capital assets valuation after additional inventory and valuation procedures.

H) AMERICAN RESCUE PLAN ACT AWARD

The City of Compton was awarded funds from the American Rescue Plan Act (ARPA) in calendar year 2021. The first installment of the award was for \$17,212,501.50 received on June 10, 2021. As of June 30, 2022, \$8.1 million was spent or obligated towards qualifying expenditures. The second installment was received on September 26, 2022 for an amount of \$17,212,501.50. For a description of expenditures that qualify for the use of ARPA funds, please see the file at the following link:

<https://home.treasury.gov/system/files/136/SLFRF-Final-Rule.pdf>

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

While the adopted General Fund budget for Fiscal Year 2021-2022 reflected projected revenues meeting operating expenditures, the overall result was an excess of revenues over expenditures of \$11.6 million when factoring in interfund transfers in and out. Transfers included a \$3.0 million transfer out to the Debt Service Fund to make bond repayments for the 2008 and 2016 Lease Revenue Bonds. Due to the uncertainty of the economic environment due to the COVID-19 recovery, Fiscal Year 2021-22 total revenues were forecasted conservatively and cost cutting measures were implemented during Fiscal Year 2020-2021 and such measures continued during Fiscal Year 2021-2022. Additionally, the City took advantage of using various COVID-19 grants for purchases of heavy equipment for Public Safety activities. The City's cost cutting measures yielded an estimated total savings of \$1.6 million in personnel costs for Fiscal Year 2021-2022. Despite the contraction in staffing and other cost cutting measures, the adopted Fiscal Year

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2021-2022 budget provided for continuity of the robust services to the community for which Compton strives to achieve annually.

J) 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>.