



Council Agenda Report

From: Ryan Cornell, Administrative Services Director

Subject: Annual Comprehensive Financial Report for Fiscal Year 2022-23

CEQA Determination: The City finds that this action is not a project under the California Environmental Quality Act pursuant to State Guidelines Section State CEQA Guidelines, §§ 15060, subd. (c)(2)-(3), 15378.

Date: December 19, 2023

Facts

1. The Annual Comprehensive Financial Report (ACFR) is a set of financial statements comprising all financial activity of the City. The information presented in the ACFR has been reviewed by an independent auditor, using accepted standards and report formats, to ensure the accuracy of the City's financial practices and overall financial condition.
2. The ACFR is prepared in accordance with generally accepted accounting procedures (GAAP), including compliance with pronouncements issued by the Governmental Accounting Standards Board (GASB). The report is designed to highlight changes in the City's financial condition and practices over time and to allow consistencies between all state, municipal, and other governmental agencies.
3. An audit of the City's financial records was performed by the outside certified public accounting firm, Brown Armstrong Accountancy Corporation.
4. City management is responsible for the preparation and fair presentation of the financial statements as well as the design, implementation, and maintenance of internal control. Internal controls are the mechanisms, rules, and procedures implemented by the City to ensure the integrity of financial and accounting information, promote accountability, and prevent fraud.
5. The independent auditors issued an unqualified opinion, meaning that the financial statements and other information reported in the ACFR fairly represent, in all material respects, the financial position of the City as of June 30, 2023 and the financial activities beginning on July 1, 2022 and ending on June 30, 2023.
6. In addition to receiving an unqualified opinion, the auditors did not note any deficiencies within the City's accounting practices or internal controls, thus informing the community that the City's financial practices contribute to the City's commitment to be trustworthy stewards of the community's tax dollars. Over the past 23 years, the City has excelled in financial reporting, resulting in various awards and audits that have been clear of findings and material misstatements.
7. Hard copies of the ACFR are available for review in the City Library and City Clerk's Office at 1000 Spring Street, and the Administrative Services Office at 821 Pine Street. A reference copy for the City Council has been placed in the City Council office. An electronic copy of the ACFR is also available on the City's website.

Options

1. Take no action;
2. Receive and file the Annual Comprehensive Financial Report for fiscal year ending June 30, 2023; or

3. Provide alternative direction to staff or the auditor.

Analysis and Conclusions

State law requires that every general-purpose local government publish an annual report on its financial position and activity, and that the report be audited by an independent firm of certified public accountants. Taken together, the ACFR, the multi-year fiscal forecast, and the budget provide the best overview of the City's fiscal health and opportunities for future financial stability. Because the ACFR is audited by an independent expert, the report provides additional assurance to the community that the City is being a responsible steward of the community's tax dollars.

The City's financial statements, internal documents, and controls have been audited by Brown Armstrong Accountancy Corporation. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2023 are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor's report is presented as the first component of the financial section of the ACFR.

ACFR Organization

The City's ACFR is organized into three major sections: Introductory, Financial, and Statistical. The following is a brief summary of the contents of each of these sections:

1. **Introductory Section:** The letter of transmittal and other information of general interest are presented in this section including the organizational chart, directory of officials as well as the Government Finance Officers Association's *Certificate of Achievement for Excellence in Financial Reporting*. The letter of transmittal is an opportunity for management to provide an overview of the City's activities, prospective information as well as subjective information useful in assessing the City's economic condition.
2. **Financial Section:** The financial section includes the report of the independent auditor, management's discussion and analysis, basic financial statements (including notes), required supplementary information and related notes, combining statements (i.e., non-major funds), and individual fund financial statements and schedules.
3. **Statistical Section:** The statistical section offers operational, economic, and historical data that provides a context for assessing the City's economic condition. Such data includes information on financial trends, information on revenue capacity, information on debt capacity, demographic and economic information, and operating information.

Recognition for Excellence in Financial Reporting

Beginning in fiscal year 2017-18, the City's ACFR has been awarded each year with the *Certificate of Achievement for Excellence in Financial Reporting* from the Government Finance Officers Association of the United States and Canada (GFOA). This is a prestigious national award recognizing the City's use of the highest standards in preparing our annual financial report.

Financial Highlights

Key financial highlights as discussed in the Management Discussion and Analysis, are as follows:

- In 2020, the voters of the City approved Measure J-20, a one-cent supplemental sales tax override. The main priorities for spending the Measure J-20 supplemental sales tax revenue—as approved by City Council in Resolution 20-118—are for fire and emergency services, police services, and

street repair and maintenance. For FY 2022-23, revenues received totaled \$13.3 million, a slight increase from FY 2021-22 of \$13.1 million. Approximately \$9.4 million of these funds were expended during FY 2022-23 on the following:

Expenditure Description	FY 22-23 Actual
Construction of Fire Station No. 3	\$ 4,484,428
Fire and Emergency Services Personnel ¹	1,722,062
Street and Road Maintenance	1,075,361
Police Personnel	932,990
Police Vehicle & Equipment	507,101
Public Safety Center Camera System	190,656
Fire and Emergency Services Equipment	160,500
9-1-1 Communications System	131,374
Design of Police Substation/Evidence Storage	122,048
Street Maintenance Personnel	118,752
Total Measure J-20 Expenditures	<u>\$ 9,445,272</u>
1- Net of grant revenues	

- In 2012, the voters of the City approved Measure E-12, a one half-cent supplemental sales tax override. The main purpose of these funds is for street repair and maintenance. On February 4, 2020, City Council approved a “Street Maintenance Plan” which outlines which residential streets, arterials, and collectors will be maintained over the next six years. For FY 2022-23, approximately \$4 million of these funds were expended on the following street segments:

Road Segment	FY 22-23 Actual
Melody Drive/Patricia Lane	\$ 1,960,192
County Club-Area	935,290
Appaloosa Drive	478,687
Creston Road	337,674
Sherwood/Sierra Bonita/Turtle Creek	103,246
24 th Street Bridge	75,412
Dry Creek Road	54,925
Riverside (17 th Street – 24 th Street)	46,444
Rolling Hill Estates	12,195
Total Measure E-12 Expenditures	<u>\$ 4,004,065</u>

- The City’s defined pension benefit is heavily dependent on not only on member and employee contributions, but also investment earnings on those contributions. When these assumptions are not met, an Unfunded Accrued Liability (UAL) is created, which is essentially the amount needed to fund past service credit earned. Noncurrent liabilities realized a significant increase from FY 2021-22 to FY 2022-23 because the California Public Employees Retirement System (CalPERS) did not meet its expected rate of return in FY 2021-22 (the assumed rate of return is 6.9% and the

actual rate of return was -6.1%). This resulted in an increase in net pension liability of \$19.7 million. To exacerbate the issue, the decrease comes on the heels of a year where the actual rate of return was 21.3%, which far exceeded the expected rate of return and accentuates this year's decrease. The City has been proactive in addressing the City's UAL and to minimize impacts to City contributions when CalPERS does not meet their assumed rate of return and/or changes their assumptions. In 2017, the City established a Section 115 Pension Trust Fund and on June 30, 2023, the Trust had a fair market value balance of \$8.8 million. It is likely the City will utilize the Trust fund within the upcoming years when the full impacts investment loss of 2022 are realized.

- In FY 2022-23, the City entered into fee deferral agreements associated with two affordable housing development projects: River Walk Terrace, a 79-unit low-income senior housing development; and Sunrise Villas, a 69-unit housing project. The fee deferral includes fees associated with building permits, development impact fees, and water and sewer connection fees. The agreements provide for repayment over a 30-year period, with an interest rate of 3.75%. The fees will be repaid from a portion of residual receipts available from the project. The deferral of fees helps with the overall financial feasibility of the project as well as ensuring the rent associated with these units maintains its affordability for a period of at least 55 years. The total fee deferral recognized in FY 2022-23 for River Walk Terrace and Sunrise Villas is \$1.3 million and \$1.7 million, respectively.
- The City experienced two 100-year storms this past winter. As a result, on January 12, 2023, the City Council declared a local state of emergency due to a severe storm event that resulted in sustained damage to public and private infrastructure. The City is working with the California Office of Emergency Services and the Federal Emergency Management Agency in order to seek reimbursement for the damage caused by the storm. It is unknown how much each of these participating agencies will be contributing towards this damage, and as such, City Council appropriated money from general fund reserves to cover the repair costs. In addition to immediate debris removal and Emergency Center Operation costs, the anticipated repair costs for damages incurred during the storm are listed below:

Damaged Facility	General	Water	Wastewater
Sinkhole at Bolen Drive	\$ 300,000	\$ -	\$ -
Larry Moore Park Playground, Fence, Grading	30,700	-	-
Riverwalk Trail Repair	31,000	-	-
Police Shooting Range	20,500	-	-
Fire Station No. 3 Sidewalk	18,200	-	-
Dry Creek Trail	45,400	-	-
Rambouillet/Snead Trail	14,600	-	-
Water Treatment Plant and Yard Rock Slope Protection	-	168,000	-
Ronconi Well Repairs	-	40,000	-
Wastewater Treatment Plant Ponds	-	-	200,000
Total	<u>\$ 460,400</u>	<u>\$ 208,000</u>	<u>\$ 200,000</u>

- The City was recently awarded a low-interest, 2.6%, 30-year State Revolving Fund (SRF) loan and a variety of grants pertaining to the City's Recycled Water Distribution System. In 2019, the City completed construction of the first phase of its recycled water program, which included Tertiary Treatment Facilities at the Paso Robles Wastewater Treatment Plant. The second phase of the recycled water program is a purple pipe system that will deliver the recycled water to east Paso Robles for irrigation and recharge of groundwater. Design and environmental permitting of the Recycled Water Distribution System are nearly complete. The project is a major undertaking and includes installation of a large pumping station, over 4.5 miles of large diameter water pipeline across the northern part of the City, and a two-million-gallon storage tank located at east end of the City, near Barney Schwartz Park. The total project cost is currently estimated at \$35.4 million (in 2024 dollars, the anticipated mid-point of construction). The City recently received a \$3.5 million grant from the State's Department of Water Resources for completion of a portion of the Recycled Water Distribution System under the Salinas River. Additionally, SRF staff recently informed City staff the project is slated to receive a \$10.2 million grant in combination with the low-interest loan.

Fiscal Impact

None.

CEQA

The City finds that this action is not a project under the California Environmental Quality Act pursuant to State Guidelines Section State CEQA Guidelines, §§ 15060, subd. (c)(2)-(3), 15378.

Recommendation (Option 2)

Receive and file the Annual Comprehensive Financial Report, which includes the Independent Auditor's Report on the City's financial statements, for the fiscal year ended, June 30, 2023.

Attachments

1. Annual Comprehensive Financial Report for Fiscal Year Ended June 30, 2023.