

CITY OF COMPTON, CALIFORNIA
Management's Discussion and Analysis (UNAUDITED)
June 30, 2023

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, 2023.

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 2022-2023 by approximately \$79.1 million (*net position*), which is approximately \$60.3 million higher than the previous year's net position. This is due primarily to decreases in expenses of Governmental Activities of \$22.5 million, Business-Type activity expense decreases of \$2.1 million, increases in property taxes of \$4.7 million, increases in investment earnings of \$5.3 million, and increases in utility user taxes of \$2.7 million. The unrestricted portion of net position as of June 30, 2023 increased by approximately \$37.0 million to (\$219.0) 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 \$218.7 million, an increase of approximately \$28.2 million from the prior year. Of this amount, \$197.7 million, or approximately 90.4%, of total fund balances are reported as either "Nonspendable" (\$1.7 million), "Assigned" (\$142 thousand), "Committed" (\$552 thousand), or "Restricted" (\$195.3 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 \$6.7 million).
- The City's net capital assets (land, buildings, equipment, infrastructure, less accumulated depreciation) were at \$209.9 million as of June 30, 2023, increasing by \$1.4 million over the previous year due mainly to an increase in infrastructure capital assets.
- The City's net long-term liabilities increased by \$10.6 million to \$416.2 million, primarily as a result of the increase in the Pension liability of approximately \$51.4 million, combined with a decrease in Other Post Employment Benefits Payable (OPEB) liability of \$35.2 million as well as a decrease in long term Bonds and notes payable of approximately \$5.5 million, for Fiscal Year 2022-2023.
- The City's deferred inflow on resources decreased by \$25.5 million to \$64.5 million, primarily as a result of a combination of a decrease of Pension deferred inflows of approximately \$46.5 million in net differences between projected and actual earnings on pension plan investments, as well as an increase in OPEB deferred inflows of \$19.6 million from the difference between the expected and actual experience of the OPEB plan, as well as from changes in assumptions in the OPEB plan. Additionally, the City's deferred outflows increased by \$13.3 million, or 22.8% due to a combination of an increase of \$25.9 million from Net Difference between Projected and Actual Earnings on Pension Plan Investments and pension plan changes in assumptions, with a decrease of \$12.6 million from OPEB plan changes of assumptions.
- During FY 2022-2023, Sales Taxes decreased by approximately \$6.8 million or 19.5%. The City saw a decrease in Sales Tax due to a decrease in spending.
- Utility User Taxes increased by approximately \$2.7 million, or 22.2%, during FY 2022-2023, as a result of increased commercial and industrial activity within the City.
- Investment earnings increased by \$5.6 million or 441.1% during Fiscal Year 2022-2023, primarily due to an increase in market interest rates.

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.

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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 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.

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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

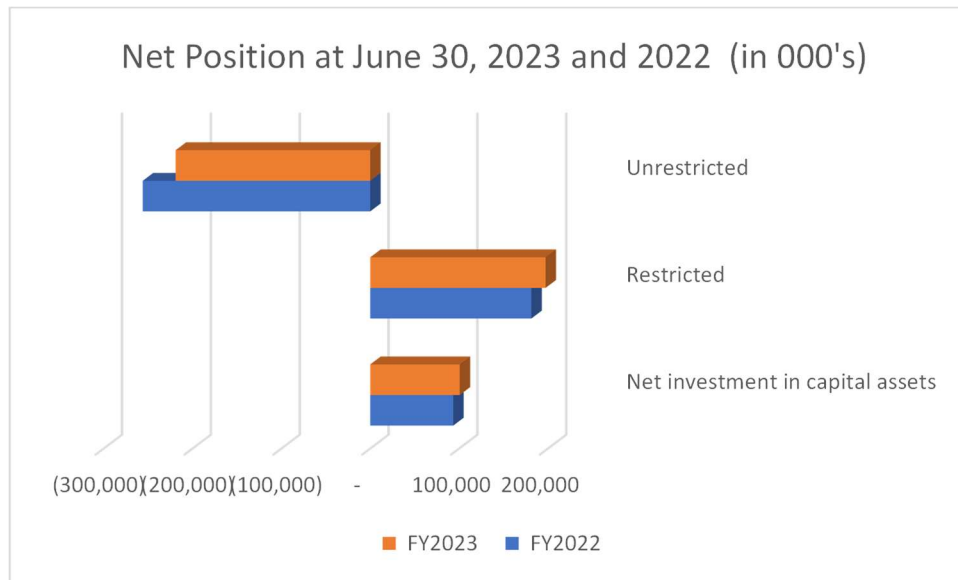
In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 70 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 \$79.1 million at the close of Fiscal Year 2022-2023.

A large portion of the City's net position, \$100.8 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.

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Another large portion of the City's net position, \$197.4 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, (\$219.0 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, 2023 and 2022						
	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
ASSETS						
Current assets	\$ 235,753	182,711	51,342	43,952	287,095	226,663
Noncurrent Assets	22,823	34,738	26,208	25,729	49,031	60,467
Capital assets	170,367	166,236	39,542	42,262	209,909	208,498
Total assets	<u>428,943</u>	<u>383,685</u>	<u>117,092</u>	<u>111,943</u>	<u>546,035</u>	<u>495,628</u>
Deferred outflows of resources	<u>67,204</u>	<u>53,627</u>	<u>4,497</u>	<u>4,772</u>	<u>71,701</u>	<u>58,399</u>
LIABILITIES						
Current liabilities	49,090	31,823	8,779	7,773	57,869	39,596
Long-term liabilities, net of current portion	346,301	331,840	69,932	73,779	416,233	405,619
Total liabilities	<u>395,391</u>	<u>363,663</u>	<u>78,711</u>	<u>81,552</u>	<u>474,102</u>	<u>445,215</u>
Deferred inflows of resources	<u>59,080</u>	<u>84,916</u>	<u>5,456</u>	<u>5,074</u>	<u>64,536</u>	<u>89,990</u>
NET POSITION						
Net investment in capital assets	100,757	93,453	-	-	100,757	93,453
Restricted	189,027	172,752	8,356	8,644	197,383	181,396
Unrestricted	<u>(248,108)</u>	<u>(277,473)</u>	<u>29,066</u>	<u>21,446</u>	<u>(219,042)</u>	<u>(256,027)</u>
Total net position	<u>\$ 41,676</u>	<u>(11,268)</u>	<u>37,422</u>	<u>30,090</u>	<u>79,098</u>	<u>18,822</u>

The City's governmental current assets increased by \$53.0 million (primarily due to an increase in property tax revenues of \$4.7 million, an increase in investment earnings of \$5.3 million, an increase in Charges for services of \$1.3 million, and a decrease in Governmental Activities expenses of \$22.5 million) to \$235.7 million, while current assets for business-type activities increased by \$7.4 million to \$51.3 million. Net capital assets minimally increased to \$209.9 million at June 30, 2023. Long-term liabilities increased by \$10.6 million to \$416.2 million primarily as a net result of the increase in the Pension liability of approximately \$51.6 million, a decrease in OPEB liability of approximately \$35.2 million, and a decrease in Bonds and Notes Payable of approximately \$5.5 million, for Fiscal Year 2022-2023. Further, Deferred outflows of resources increased by \$13.3 million to \$71.7 million primarily because of a combination of an increase of \$25.9 million from Net Difference between Projected and Actual Earnings on Pension Plan Investments and pension plan changes in assumptions, with a decrease of \$12.6 million from OPEB plan changes of assumptions.

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City of Compton, Change in Net Position (000's)						
For the Years Ended June 30, 2023 and 2022						
	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Revenues						
Program revenues						
Charges for services	\$ 18,863	17,551	29,473	28,244	48,336	45,795
Op. grants & cont.	9,268	9,229	-	-	9,268	9,229
Cap. Grants & cont.	7,317	7,534	-	-	7,317	7,534
General Revenues						
Taxes						
Property*	60,300	55,643	-	-	60,300	55,643
Sales	28,023	34,824	-	-	28,023	34,824
Utility user taxes	15,263	12,541	-	-	15,263	12,541
Franchise Taxes	3,399	2,649	-	-	3,399	2,649
Special Assessments	4,227	4,188	-	-	4,227	4,188
Transient occupancy taxes	82	64	-	-	82	64
Real property transfer taxes	203	318	-	-	203	318
Intergovernmental not restricted to specific programs	5,904	8,673	-	-	5,904	8,673
Investment earnings	3,988	(1,305)	325	41	4,313	(1,264)
Other Income	306	707	-	-	306	707
Transfer in from fiduciary fund	42	(7)	(42)	7	-	-
Total Revenues*	157,185	152,609	29,756	28,292	186,941	180,901
Expenses						
General government	23,597	27,104	-	-	23,597	27,104
Public Safety	46,880	43,593	-	-	46,880	43,593
Public Works	13,403	12,598	-	-	13,403	12,598
Management Services	2,574	29,131	-	-	2,574	29,131
Environmental and Human Services	15,234	11,656	-	-	15,234	11,656
Interest on long-term debt	2,554	2,682	-	-	2,554	2,682
Water	-	-	13,306	15,794	13,306	15,794
Rubbish	-	-	6,826	6,350	6,826	6,350
Sewer	-	-	2,292	2,362	2,292	2,362
Total Expenses	104,242	126,764	22,424	24,506	126,666	151,270
Prior Year Adjustment	-	(16,093)	-	183	-	(15,910)
Transfers	-	-	-	-	-	-
Change in Net Position*	52,944	25,847	7,332	3,786	60,276	29,633
Net Position, July 1 (as restated)	(11,268)	(37,115)	30,090	26,304	18,822	(10,811)
Net position, June 30*	\$ 41,676	(11,268)	37,422	30,090	79,098	18,822

Total revenues increased from an adjusted amount of \$180.9 million for Fiscal Year 2021-2022 to \$187.0 million for Fiscal Year 2022-2023, an increase of \$6.0 million or 3.3%. The City experienced an increase of 1.1% in tax revenues or \$1.3 million. While Franchise Tax, and Special Assessment Taxes saw increases of \$750 thousand (28.3% from \$2.7 million to \$3.4 million), and \$38 thousand (.91% from \$4.2 million to \$4.23 million) respectively, certain tax revenues were less affected by the Covid-19 pandemic. Sales Taxes decreased due to a reduction in spending trends, recording a \$6.8 million decrease (19.5% from \$34.8 million to \$28.0 million). Additionally, Property Tax increased by \$4.7 million or 8.4% to \$60.3 million primarily due to an increase in total assessed values (a 6.69% increase as shown in the Proposition 111 Analysis of the Office of the Assessor of Los Angeles County). Total expenses decreased by \$24.6 million from \$151.3 million in fiscal year 2021-2022 to \$126.7 million in fiscal year 2022-2023 or 16.3%. This decrease in expenses is primarily due to a \$19.2 million increase in Deferred outflows related to

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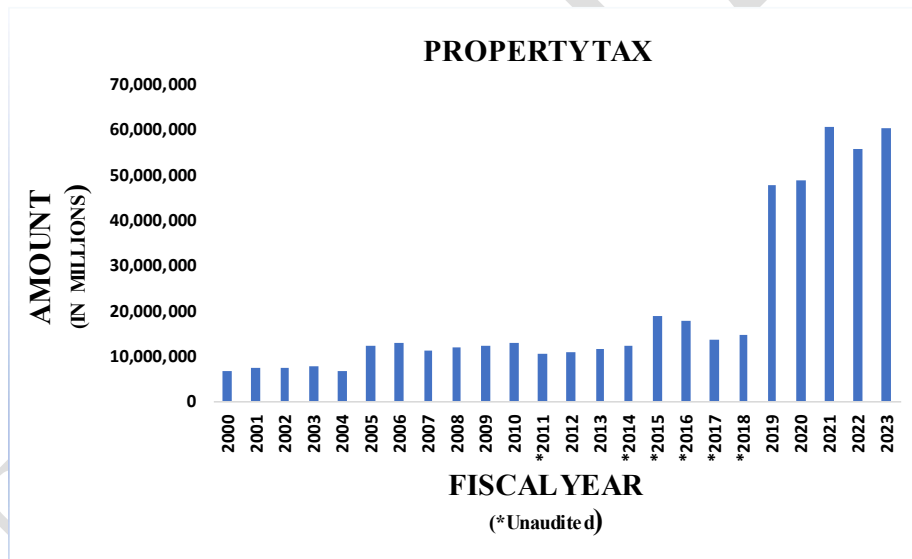
Pension in Governmental Activities, as well as a \$1.9 million decrease Governmental Activities expenses mainly due to a decrease in the OPEB liability.

Governmental Activities

The total growth in net position for the Governmental Activities of the City was \$53.0 million for the fiscal year ended June 30, 2023 compared to the amount of \$9.8 million in fiscal year ended June 30, 2022, a \$43.2 million increase. This was mainly due to a decrease on Management Services expenditures by approximately \$26.6 million related to a \$19.2 million increase in Deferred outflows related to Pension in Governmental Activities, as well as a \$1.9 million decrease Governmental Activities expenses mainly due to a decrease in the OPEB liability. Total general revenues and transfers increased \$3.4 million compared to the prior year primarily due to the increases 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 utility user tax and property tax, further described below.

Property Tax

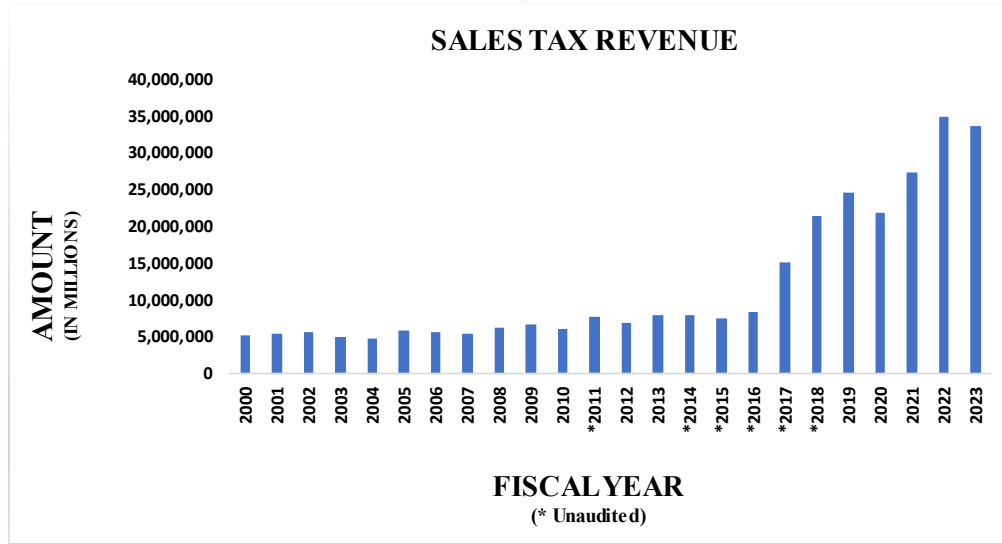
Property taxes are levied based on assessed values, which grew 6.69% (as shown in the Proposition 111 Analysis of the Office of the Assessor of Los Angeles County for new non-residential growth) this past year. This reflects a real estate market in the City of Compton that continues to gain strength resulting in a \$4.7 million or 8.4% increase in property tax revenues to a total of \$60.3 million from the previous amount of \$55.6 million.



Sales Tax

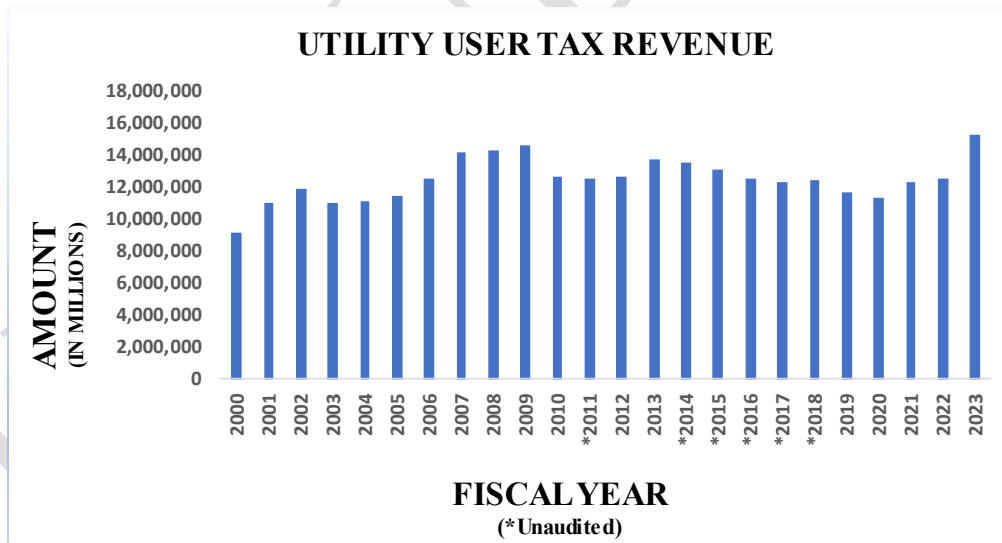
Sales tax revenue decreased by approximately \$6.8 million or 19.5% to \$28.0 million in Fiscal Year 2022-2023 compared to Fiscal Year 2021-2022, primarily due to a reduction in spending.

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Utility User Taxes

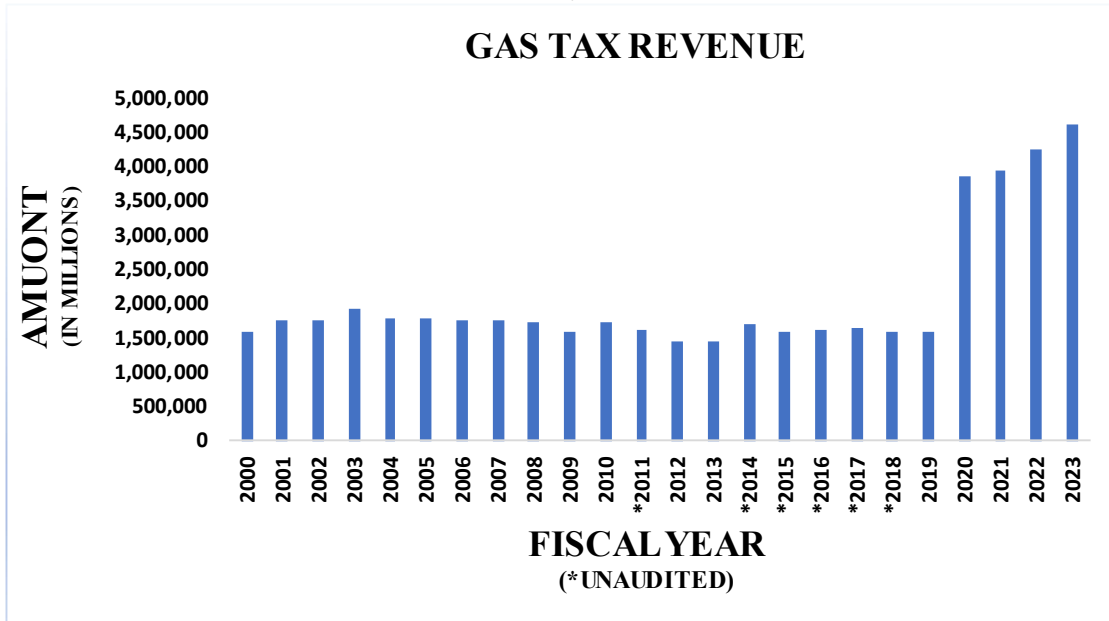
Utility User tax revenue also increased in Fiscal Year 2022-2023 to \$15.3 million, increasing approximately \$2.7 million or 21.7% from \$12.5 million in the prior Fiscal Year. For commercial, industrial, retail and certain other categories of utility user tax, the utility user tax is computed on units of utility usage. As a result, there was an increase in commercial and industrial activities.



Gas Taxes

Gas tax revenues for Fiscal Year 2022-2023 increased by approximately \$358 thousand or 8.4% for a total of approximately \$4.6 million versus prior year actual receipts of \$4.2 million. The increase in revenue is primarily driven by the increase in the cost of gas that occurred during FY2022-2023.

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Franchise Taxes

Franchise tax revenues for Fiscal Year 2022-2023 increased by approximately \$750 thousand or 28.32% for a total of \$3.4 million versus prior year actual receipts of \$2.65 million. The increase in revenue is primarily driven by an increase in commercial and industrial activities.

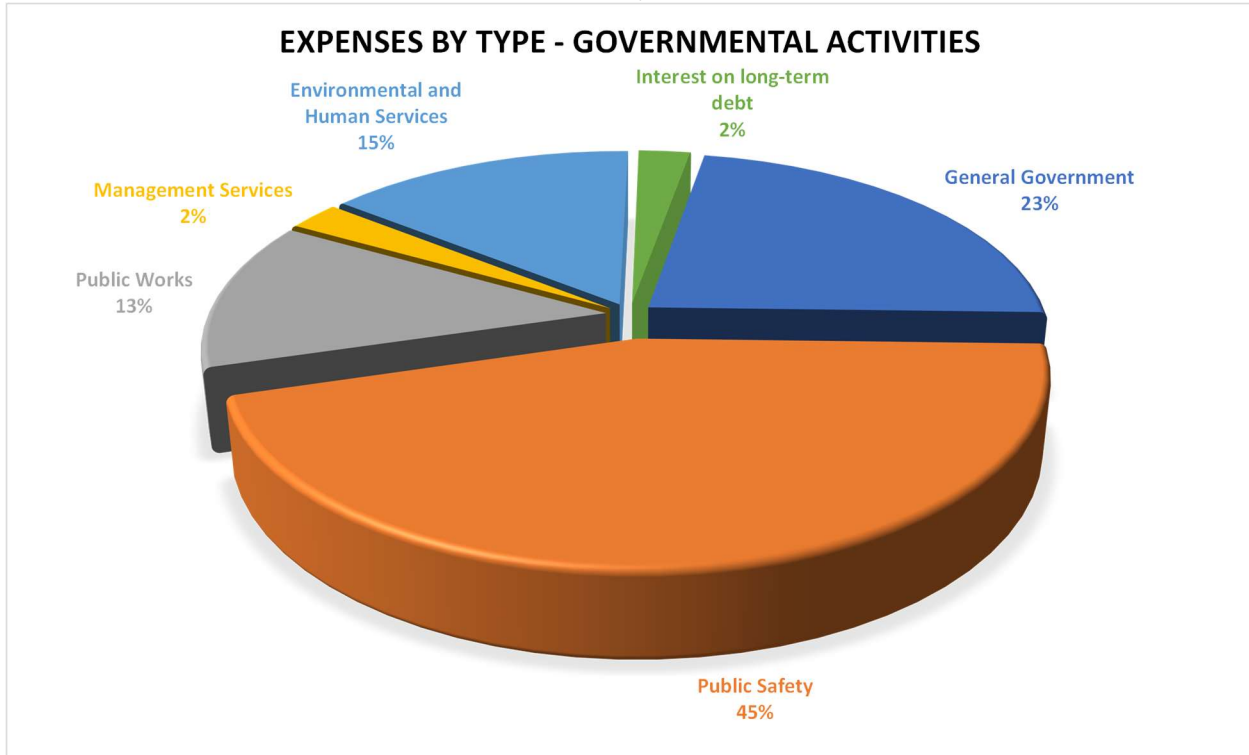
Investment revenues

Investment revenues for Governmental Activities also increased by \$5.3 million or 415.4% due to increases in market rates.

Expenses of Governmental Activities

The City continued its efforts to maintain effective cost controls during Fiscal Year 2022-2023, as it did during Fiscal Year 2021-2022. Governmental Activities expenses during Fiscal Year 2022-2023 were allocated as shown in the following chart:

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Public safety expenses

Public Safety expenses increased by \$3.3 million or 7.5% to \$46.9 million primarily due to increases in expenditures for salaries and in LA County Sherriff contract costs, approximately \$2.1 million combined.

Public works expenses

Public works expenses increased 6.4% to \$13.4 million primarily due an increase in depreciation expenses related to capital assets for Public Works activities.

Management services expenses

Management Services Expenses decreased 91.2% to \$2.6 million, primarily due to a \$19.2 million increase in Deferred outflows related to Pension, as well as a \$1.9 million decrease in the OPEB liability

General government expenses

General government expenses decreased 12.9% from \$27.1 million to \$23.4 million mainly due to decreases in federal grant spending by approximately \$3.1 million.

Environmental and human services expenses

Environmental and human services expenses increased 30.7% from \$11.7 million to \$15.2 million primarily from a variety of increases in governmental activities. One such activity that saw an increase was the Compton Housing Successor which had development costs of approximately \$2.3 million. Additionally there were increases in Federal, State, and County grant expenditures of approximately \$613 thousand, \$187 thousand, and \$81 thousand, respectively. Lastly, there were also increases in Recreation activity salary expenditures in comparison to Fiscal Year 2021-2022.

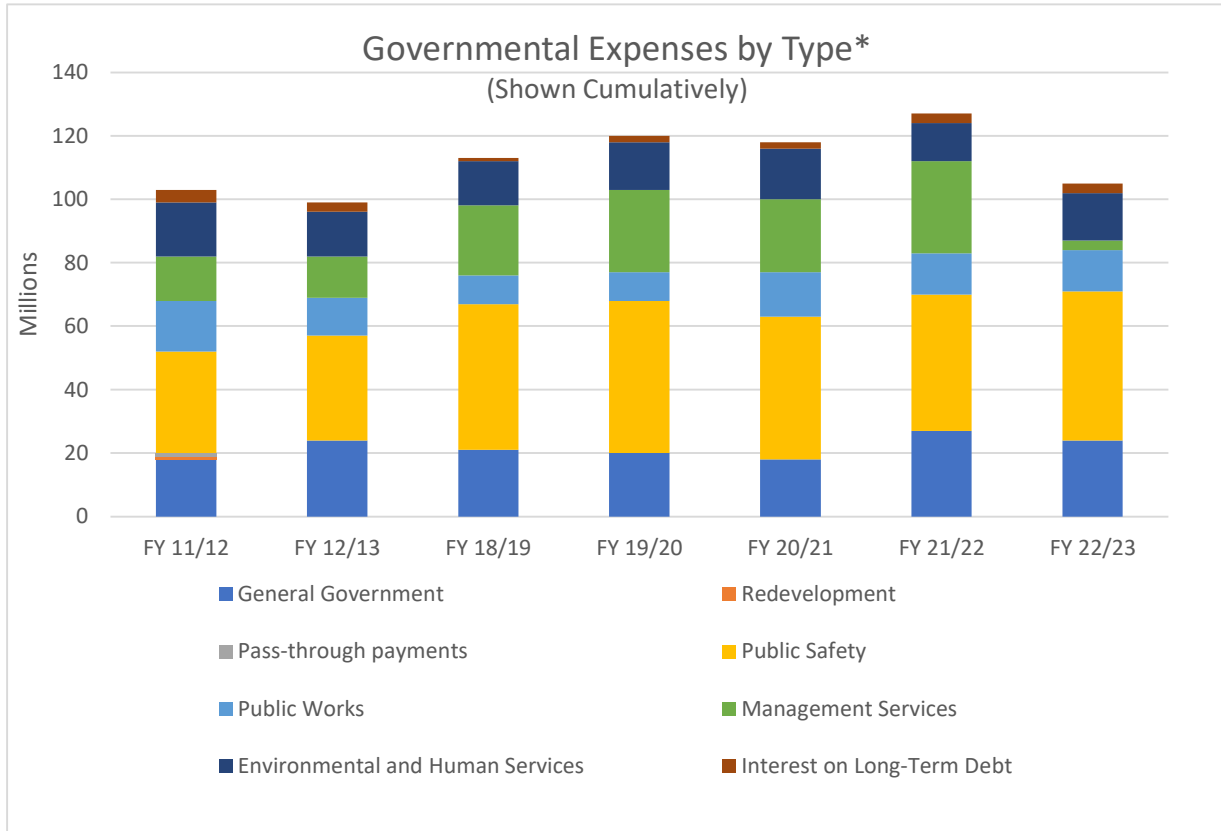
Interest on long-term debt

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Interest on long-term debt for Governmental Activities decreased 4.8% to \$2.6 million, with debt service payments of \$2.9 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 \$7.3 million in Fiscal Year 2022-2023 to \$37.4 million.

Key factors related to business-type activities include:

Total revenues for business-type activities were slightly changed, with an increase of approximately \$1.5 million compared to the previous year.

Total operating expenses in the business-type activities decreased \$2.4 million compared to the prior Fiscal Year due primarily to a decrease of \$2.8 million in the Water Enterprise Fund of Pension and OPEB costs.

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.

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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 2022-2023 Fiscal Year, the City's governmental funds report combined ending fund balances of \$218.7 million, an increase of \$28.2 million over the prior year, or 14.8%. Increases in tax and special assessment revenue for the current year provided a \$6.6 million or 6.3% increase in revenues to \$111.5 million. Additionally, Use of Money and Property revenue increased by \$5.2 million to \$3.9 million. Governmental funds also had a decrease in capital outlay expenditures of approximately \$3.9 million, or 19.2%. Debt service payments for Governmental funds also decreased by \$1.4 million to \$2.9 million for Fiscal Year 2022-2023.

Fund Balance

The components of fund balance include the following line items:

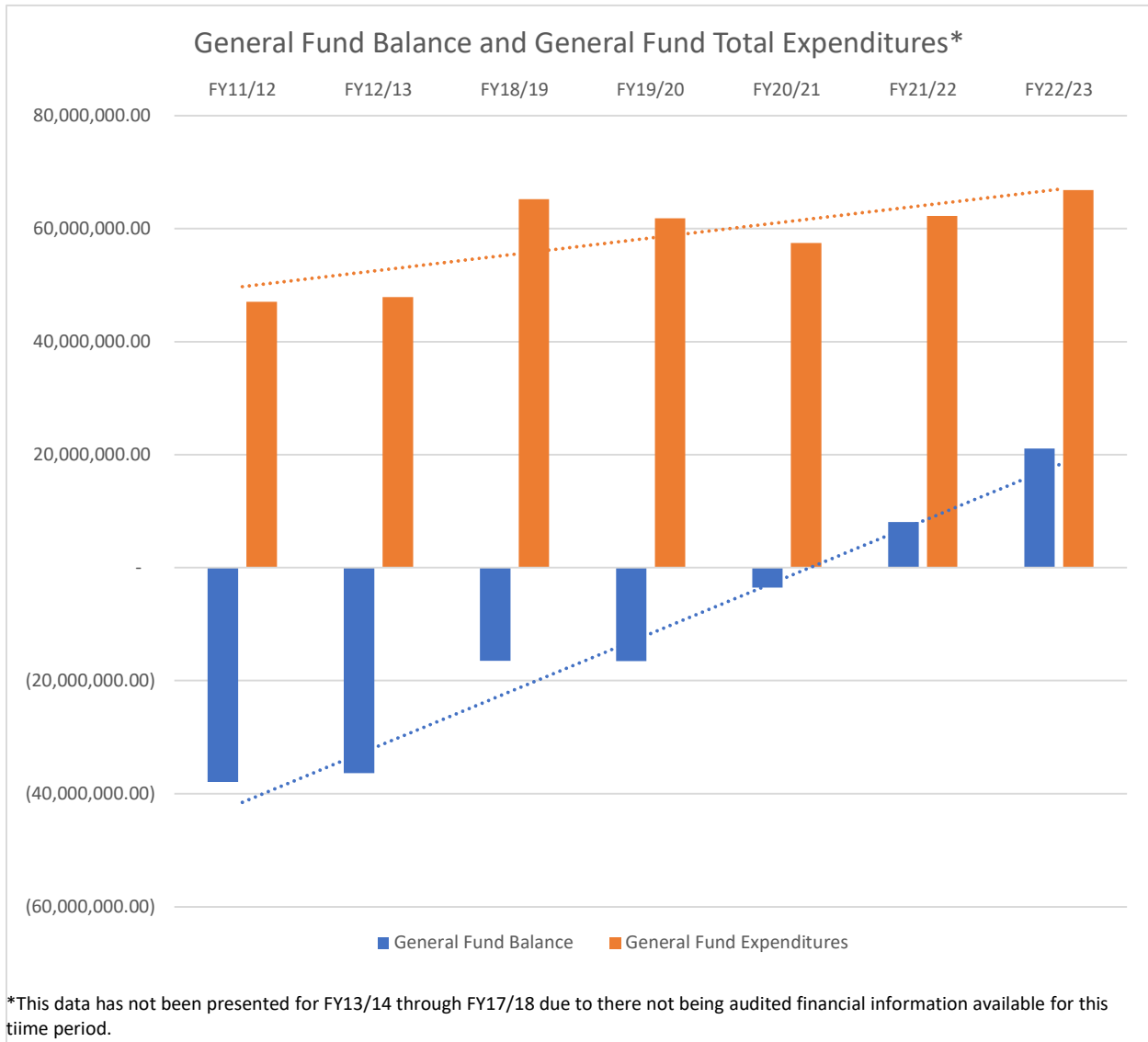
- a) **Nonspendable fund balance** - \$1.7 million (inherently non-spendable) include the portion of net resources that cannot be spent because of their form, such as long-term receivables, and the portion of net resources that cannot be spent because they must be maintained intact.
- b) **Restricted fund balance** - \$195.3 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** - \$552 thousand (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** - \$142 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** - \$20.9 million, consists of fund balance in excess of the other components of 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 \$16.6 million in Fiscal Year 2022-2023. Expenditures in the General Fund increased by \$4.6 million. The increase in General Fund expenses were driven by increases in Capital outlay and Public Safety activities. Additionally, Transfers In were exceeded by Transfers Out (which were primarily for debt service payment funding of \$3.6 million) by approximately \$3.6 million.

The fund balance of the City's Housing Successor Capital Projects Fund decreased by \$1.2 million, primarily due to an increase in expenditures made to the Successor Agency development purposes (approximately \$2.3 million).

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 2022-2023, on the other hand, the General Fund fund balance was approximately a positive \$21.1 million while total expenditures were \$66.9 million.

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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 \$37.8 million, an increase of \$7.8 million or 25.9%. 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:

Operating revenues for the Water Enterprise decreased by approximately 4.2% to \$19.1 million due to the effect of heavy rains during FY2022-2023. Residential, Commercial, Industrial, and Multi-family consumption all decreased in a comparable manner compared to the consumption of the prior year. Operating expenses decreased by \$2.7 million, or 20.0% during Fiscal Year 2022-2023 primarily due to a decrease of Pension and OPEB costs of \$2.7 million. After factoring in non-operating items, net position in the Water Enterprise still displays an increase of \$6.3 million to \$33.4 million.

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Operating revenues for the Sewer Enterprise decreased by approximately \$112 thousand or 4.0%, also due to heavy rains during FY2022-2023. Operating expenses decreased by 11.1% or by \$154 thousand primarily due to approximately \$120 thousand decrease in contractual services compared to the prior year.

Operating revenues for the Solid Waste Enterprise increased \$2.2 million (40.0%) from \$5.5 million in prior Fiscal Year to \$7.6 million in current fiscal year. This increase is due to a delay in revenue billing that occurred during Fiscal Year 2021-2022, where additional billings were issued in FY2022-2023 to recuperate the prior delayed billings. Operating expenses increased \$460 thousand to \$6.8 million, or 7.3%. Overall, the net position in the Solid Waste Enterprise Fund increased \$797 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 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 \$15.4 million when comparing actual amounts to the final budget for the 2022-2023 Fiscal Year. This budget variance reflects actual revenues exceeding the final budget by \$9.9 million and total actual expenditures of \$5.5 million less than the final budget.

F) CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets and CIP for its governmental and business-type activities amounts to approximately \$209.9 million net of accumulated depreciation and construction in progress as of June 30, 2023, which is a net increase of \$1.4 million (0.7%) over the amount of the prior year total of \$208.5 million.

Capital assets, net of accumulated depreciation, for governmental activities, increased from \$166.2 million at June 30, 2022 to \$170.4 million at June 30, 2023; a net increase of \$4.1 million or 2.5%. Capital asset net additions totaled

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\$10.7 million, and depreciation expense totaled \$8.6 million. Significant additions include capital projects for streets and pavement (\$9.3 million).

Capital assets, net of accumulated depreciation, for business-type activities, decreased from \$42.3 million at June 30, 2022 to \$39.5 million at June 30, 2023; a net decrease of \$2.7 million or 6.4%. 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 41 of this report.

		As of June 30, 2023 and 2022					
		City of Compton's Capital Assets, Net of Accumulated Depreciation (000's)					
		Governmental Activities		Business-type Activities		Total	
		2023	2022	2023	2022	2023	2022
Land	\$	88,425	88,425	162	162	88,587	88,587
Buildings		60,603	59,352	3,836	3,836	64,439	63,188
Infrastructure		130,711	123,487	70,285	70,285	200,996	193,772
Machinery and Equipment		21,534	21,283	3,654	3,654	25,188	24,937
Construction in Progress		14,468	13,522	0	-	14,468	13,522
Right of use assets		1,009	-	0	-	1,009	-
Accumulated Depreciation		(146,383)	(139,834)	(38,395)	(35,675)	(184,778)	(175,509)
Total capital assets, net	\$	<u>170,367</u>	<u>166,235</u>	<u>39,542</u>	<u>42,262</u>	<u>209,909</u>	<u>208,497</u>

Long-term Debt

At the end of the current Fiscal Year, the City had total long-term bonded debt outstanding of \$113.4 million, down by \$5.5 million from the prior year. The decrease is comprised of bond repayments.

Other long-term obligations include pension obligations of \$157.2 million, other post-employment benefits of \$125.4 million, employee-compensated absences of \$4.4 million, and outstanding claims of \$19.5 million.

		City of Compton's Outstanding Long-Term Debt (000's)					
		As of June 30, 2023 and 2022					
		Governmental Activities		Business-type Activities		Total	
		2023	2022	2023	2022	2023	2022
Bonds Payable	\$	69,611	72,744	49,133	51,285	118,744	124,029
Mortgage Loan Payable		-	-	-	-	-	-
Notes Payable		-	-	-	-	-	-
Installment Payment Agreement		-	39	-	-	-	39
Compensated Absences		3,999	4,360	419	444	4,418	4,804
Claims Payable		19,497	19,970	-	-	19,497	19,970
Net Pension Liability		148,386	99,580	8,823	6,252	157,209	105,832
Total other postemployment benefits		<u>111,372</u>	<u>142,499</u>	<u>13,989</u>	<u>18,104</u>	<u>125,361</u>	<u>160,603</u>
Total debt	\$	<u>352,865</u>	<u>339,192</u>	<u>72,364</u>	<u>76,085</u>	<u>425,229</u>	<u>415,277</u>

G) PRIOR PERIOD ADJUSTMENTS

At the end of Fiscal Year 2022-2023, the City had no prior period adjustments, an increase of \$15.9 million, from \$(15.9 million) in prior period adjustments during Fiscal Year 2021-2022. The prior period adjustments during Fiscal

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Year 2021-2022 were primarily due to the effects of the City's capital assets valuation that was performed with effective date during FY 2021-2022. However, during Fiscal Year 2022-2023, there were no prior period adjustments.

H) AMERICAN RESCUE PLAN ACT AWARD

The City of Compton was awarded funds from the American Rescue Plan Act (ARPA) in calendar year 2022. The first installment of the award was for \$17,212,501.50 received on June 10, 2021. The second installment was received on September 26, 2022 for an amount of \$17,212,501.50. As of June 30, 2023, \$8.4 million was spent or obligated towards qualifying expenditures. 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 2022-2023 reflected projected revenues plus a portion of reserves meeting operating expenditures, the overall result was an excess of revenues over expenditures of \$13.0 million when factoring in interfund transfers in and out. Transfers included a \$3.6 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 2022-23 total revenues were forecasted conservatively and cost cutting measures were implemented during Fiscal Year 2020-2021 and such measures gradually receded during Fiscal Year 2022-2023 in order to increase service levels to the public. Despite the contraction in staffing and other cost cutting measures from prior budgets, the adopted Fiscal Year 2022-2023 budget provided for enhancement of the robust services to the community for which Compton strives to achieve annually. This endeavor also continued throughout Fiscal Year 2023-2024.

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>.