

GROVELAND COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2020

California law establishes the structure and process for governance, management and administration of the Groveland Community Services District (District or GCSD), and its financial affairs. A five member Board of Directors are elected at large from within the District boundaries, to serve four year staggered terms. The Board appoints a General Manager who is responsible for the day to day management of the District financial affairs, administered in accordance with policies adopted by the Board.

FINANCIAL POLICIES AND GUIDELINES

The financial integrity of GCSD is of utmost importance. Maintaining fiscal stability is a critical component of the overall financial plan. GCSD is accountable to its ratepayers and the public for the use of public funds. Resources should be used wisely to ensure adequate funding for services, public facilities and infrastructure necessary to meet present and future needs. GCSD's financial policies and guidelines provide the backbone for making financial decisions and a benchmark for monitoring financial activities.

General Financial Policy Guidelines

The GCSD Board has adopted financial policies to provide a framework to guide the District's decision-making with respect to operations, budgeting, debt issuance, and financial planning. These guidelines provide overview policy guidelines in the areas of general, revenue, budgeting and expenses, reserves, investments, debt management, capital improvements, purchasing and fixed assets.

These policies require that:

- The District will manage its financial assets in a sound and prudent manner.
- The District will maintain and further develop programs to assure its long-term ability to pay all the costs necessary to provide the level and quality of service required by its customers.

These policies are to promote sound financial management and to ensure that its finances are managed in a manner, which will:

- Support the continued delivery of quality services,
- Ensure the District's stability, efficiency and effectiveness in accomplishing the Board of Director's goals and objectives,
- Maintain a balanced budget annually to ensure that the District is operating within its revenue constraints, even when faced with fluctuating service demands, and
- Maintain adequate reserves necessary to meet known and unknown future obligations.

The financial policies of the District are summarized below:

Investment Policy

The District's *Investment Policy* follows California Government Code objectives of safety, liquidity and yield (in that priority order). Annually during the budget development process of each year, the policy is reviewed and readopted by the Board of Directors to ensure GCSD's Investment Policy is up-to-date with current regulations. The General Manager also serves as the District's Treasurer who annually reviews the Investment Policy and as necessary, submits recommended revisions to the Board for their annual consideration and approval. The investing process is carefully monitored to ensure compliance with the Investment Policy and other applicable regulations.

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Budget Policy

The budget policy defines the budget process for both the operating and CIP budgets. This policy provides guidance to District personnel performing budgetary process functions. The policy requires balanced budgets, which will serve as a financial plan to promote financial stability while accomplishing the Board's goals and objectives.

Reserve Policy

The District's *Reserve Policy*, is designed to distinguish between Legally Restricted Reserves and Board Designated Reserves, establish distinct purposes for each reserve category, set funding targets and accumulation levels for reserves, and identify events or conditions prompting use. The Reserve Policy provides guidance for establishing, funding and using reserves to meet known future obligations and unforeseen needs as deemed prudent and/or required by agreement. As available and deemed appropriate, Board Designated Reserves are funded to reserves in the following broad categories: operational and contingencies, capital facilities and equipment, and debt service.

Debt Management Policy

The policy is intended to provide guidance for debt structure, its justification and evaluation. The primary objective of the Debt Management Policy is to establish conditions for the use of debt and to create procedures and policies that minimize GCSD's debt service and issuance costs, retain the highest practical credit rating, and maintain full and complete financial disclosure and reporting.

Procurement Policy

The District's *Expense Authorization* policy provides the framework and guidelines for District purchases and contracts. This policy covers all District procurement activities (commodity and service purchases and public works contracts) and adheres to Government Code Section 54202 that requires local governmental agencies to adopt policies and procedures including "bidding regulations, governing purchases of supplies and equipment."

DISTRICT ADMINISTRATION AND RELATED EXPENSES

All GCSD administrative, or overhead expenses are budgeted annually in their own category for transparency and evaluation purposes. The salary and benefits of office staff, office expense, insurance, board expenses and other basic costs incurred to administer the affairs of the District, regardless of the services provided, are accounted for in the administrative expense. As a standard practice in allocating District administrative expenses, costs are distributed to the various services provided, at an allocation percentage based on the level of administrative effort that goes into delivering the respective service.

Beginning in 2018/19, GCSD began allocating the administrative expenses to each of its service funds based on an appropriate percentage of benefit derived. Prior to 2018/19, GCSD distributed the administrative expense only to the water, sewer and fire services, with very little to nothing, charged to park service expenses. There is most obviously a benefit derived by the park service by sharing office administrative expenses with other services; since if these services were provided by a separate special district, there would be expenses for a separate office, staff and Board expenses in an amount that would certainly exceed the shared administrative expenses of a CSD.

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As management of the District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended June 30, 2020. We encourage the readers to consider the information presented here in conjunction with the District's basic financial statements, which immediately follow this section. We also encourage readers to attend GCSD Board meetings to become familiar with District governance and operations and to provide public input. The Board meets in regular session on the second Tuesday of each month. Regular meetings are held at 10:00 a.m. at the District Office, 18966 Ferretti Road, Groveland, California. Board meetings are open to the public, and all meeting agendas and supporting materials are available on the District website at www.gcsd.org.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis provided here are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes required supplementary information intended to furnish additional detail to support the basic financial statements.

- **Government-wide financial statements**, which comprise the first two statements presented, provide both short-term and long-term information about the District's overall financial position. These statements are intended to provide the reader with a broad overview of the District's finances in a manner that is similar to that used by private-sector businesses.
 - The statement of net position presents financial information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Increases or decreases in the net position of the District over time are indicators of whether its financial position is improving or deteriorating, respectively.
 - The statement of activities presents information showing how the District'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 may be reported in the current period for some items that will only result in cash flows in future fiscal periods, or for which the cash flows have already occurred.
 - Both the statement of net position and the statement of activities distinguish between two types of activities carried out by the District: governmental activities, which are principally supported by property taxes, and business-type activities, which are intended to recover all or a significant portion of their costs through charges for services. The governmental activities of the District include fire protection and parks and recreation. The business-type activities of the District include water, sewer, and the Davis-Grunsky fund.
- **Fund financial statements.** A fund is a grouping of related accounts that is used to maintain separate accountability for resources that have been segregated for specific activities or objectives. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and the fiduciary fund.
 - **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 funds focus on near-term inflows and outflows of spendable

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resources. Such information may be useful in assessing a government's near-term financial requirements and legal compliance. Because this information does not encompass the additional long-term focus of the government-wide statements, a reconciliation to the governmental fund statements is provided to explain the differences (or relationships) between them.

- **Proprietary funds** – The District's proprietary funds, which are enterprise funds, are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail.
- **Fiduciary fund** – The District is responsible for the administration of the Improvement Districts (Sewer Assessment Districts Nos. 3 and 4) formed under the Municipal Improvement Act of 1911. The District is not obligated to repay the special assessment debt of these special assessment districts. Tuolumne County (County) functions as an agent for the property owners by collecting assessments and forwarding collections to the special assessment debt holders. The County has sufficient funds on hand to pay off these debts.
- **Notes to the financial statements**, which are included in the financial statements, provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.
- **Required supplementary information** provides further explanations and additional support for the financial statements. The District's budget to actual comparisons for the year are included for the Fire Protection Fund and the Parks and Recreation Fund (major special revenue funds).

GOVERNMENT-WIDE OVERALL FINANCIAL ANALYSIS

Net Position

Net position over time may serve as a useful indicator of a government's financial position. For the District as a whole, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$12,717,057 as of June 30, 2020. This amount represents the District's net position.

The largest portion (57%) of the District's net position reflects its investment in capital assets (e.g., land, construction in progress, structures and improvements, furnishing and equipment, and vehicles) less any related outstanding debt that was used to acquire those assets. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources used to pay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of \$5,466,428 is unrestricted and may be used to meet the District's ongoing obligations. The District accounts for this unrestricted fund balance separately for Water, Sewer, (the Business Type Activities), and Fire and Park Services (the Government Type activities), based on amounts budgeted and spent each year in accordance with adopted fund balance and reserve policies.

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	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Current assets and other assets	\$ 1,030,058	\$ 1,319,138	\$ 9,343,489	\$ 7,554,086	\$ 10,373,547	\$ 8,873,224
Capital assets	<u>754,697</u>	<u>752,135</u>	<u>13,013,778</u>	<u>13,073,258</u>	<u>13,768,475</u>	<u>13,825,393</u>
Total assets	<u>1,784,755</u>	<u>2,071,273</u>	<u>22,357,267</u>	<u>20,627,344</u>	<u>24,142,022</u>	<u>22,698,617</u>
Total deferred outflows of resources	<u>37,486</u>	<u>33,137</u>	<u>850,879</u>	<u>1,061,292</u>	<u>888,365</u>	<u>1,094,429</u>
Long-term liabilities	184,709	172,076	10,302,740	11,326,697	10,487,449	11,498,773
Other liabilities	<u>18,211</u>	<u>105,529</u>	<u>490,205</u>	<u>449,286</u>	<u>508,416</u>	<u>554,815</u>
Total liabilities	<u>202,920</u>	<u>277,605</u>	<u>10,792,945</u>	<u>11,775,983</u>	<u>10,995,865</u>	<u>12,053,588</u>
Total deferred inflows of resources	<u>195,122</u>	<u>21,589</u>	<u>1,122,343</u>	<u>184,089</u>	<u>1,317,465</u>	<u>205,678</u>
Net position:						
Net investment in capital assets	754,697	752,135	6,495,932	7,319,531	7,250,629	8,071,666
Unrestricted	<u>669,502</u>	<u>1,053,081</u>	<u>4,796,926</u>	<u>2,409,033</u>	<u>5,466,428</u>	<u>3,462,114</u>
Total net position	<u>\$ 1,424,199</u>	<u>\$ 1,805,216</u>	<u>\$11,292,858</u>	<u>\$ 9,728,564</u>	<u>\$ 12,717,057</u>	<u>\$ 11,533,780</u>

Changes in Net Position

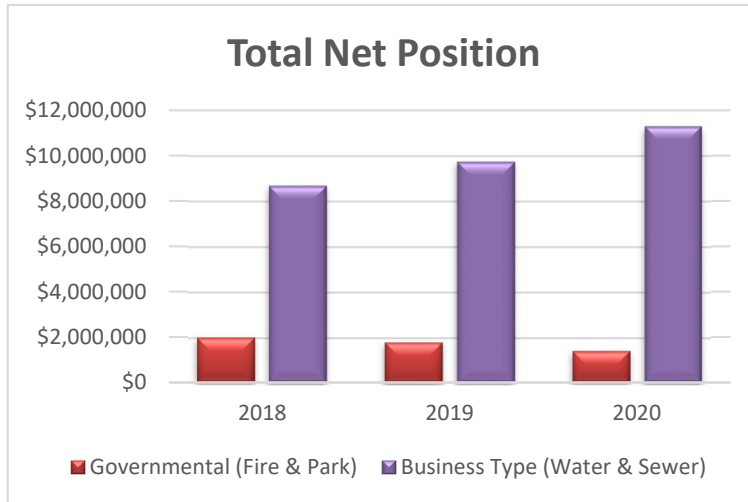
The net position of the District as a whole was \$12,717,057 as of June 30, 2020. This is an overall increase in net position of \$1,183,277 from the prior year. Total investment in capital assets of \$7,250,629 represents the net book value of capital assets, less bonds payable plus unspent bond proceeds. Total net position increased mainly due to the increase in net position for the Water Fund and Sewer Fund in which the reserves will be used for future capital projects as noted in the "Factors Bearing on the District's Future" section of the MD&A.

Governmental activities – The net position for governmental activities as of June 30, 2020 was \$1,424,199. This is an overall decrease in net position of \$381,017 from the prior year; primarily the result of expenses increasing at a higher rate than the growth in property tax revenue. Management has taken various actions to reduce expenses to neutralize the effect on governmental activities. Property values continue to increase slightly due to real estate market changes and higher overall assessed valuation, and therefore property tax revenue increased by 3.6%, \$42,679 in FY2020. Total expenses exceeded total revenues which accounts for the decrease in net position. This is also due to a decrease in grants received in FY2019 as reimbursement from FEMA and CalOES for storm damages to the park.

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Business-type activities – For the District’s business-type activities the net position as of June 30, 2020 was \$11,292,858 as shown below. This is an overall increase in net position of \$1,564,294 from the prior year. Total revenues exceeded expenses which accounts for the increase in net position. This is due to an



increase in base monthly and commodity rates for services for fiscal year 2019/2020, which were implemented to improve the cash position of the District and provide additional cash for investments in replacing and upgrading fixed assets, such as infrastructure and equipment. The rate increases were also necessary to provide the cashflow necessary to qualify for the maximum grants and other state and federal funding assistance received for improvement projects.

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Program revenues:						
Charges for services	\$ 2,515	\$ 1,710	\$ 5,540,485	\$ 5,208,038	\$ 5,543,000	\$ 5,209,748
Capital grants and contributions	-	167,008	431,844	243,008	431,844	410,016
General revenues:						
Property taxes	1,219,417	1,176,738	3,755	3,786	1,223,172	1,180,524
Interest income	20,905	14,731	57,084	41,431	77,989	56,162
Other revenues	129,129	84,099	35,544	860	164,673	84,959
Loss on disposal of capital asset	-	(50,361)	-	(22,251)	-	(72,612)
Total revenues	1,371,966	1,393,925	6,068,712	5,474,872	7,440,678	6,868,797
Expenses:						
Public safety	1,585,136	1,274,331	-	-	1,585,136	1,274,331
Parks and recreation	167,847	331,678	-	-	167,847	331,678
Water	-	-	2,791,551	2,516,717	2,791,551	2,516,717
Davis-Grunsky	-	-	(314)	(113)	(314)	(113)
Sewer	-	-	1,713,181	1,898,708	1,713,181	1,898,708
Total expenses	1,752,983	1,606,009	4,504,418	4,415,312	6,257,401	6,021,321
Change in net position	(381,017)	(212,084)	1,564,294	1,059,560	1,183,277	847,476
Net position - beginning	1,805,216	2,017,300	9,728,564	8,669,004	11,533,780	10,686,304
Net position - ending	\$ 1,424,199	\$ 1,805,216	\$ 11,292,858	\$ 9,728,564	\$ 12,717,057	\$ 11,533,780

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Designated Reserves - Also funded by the water and sewer rate increases were water and sewer infrastructure and equipment replacement reserves established beginning in fiscal year 2015/16 for the water fund and in 2018/19 for the sewer fund. The designated reserves were created specifically to fund annually budgeted equipment and infrastructure expenses, with any remaining amount of the annual allocations set aside to accumulate to fund future important projects. In addition to any budgeted capital outlay, the designated sewer reserves established a \$100,000 set aside specifically to fund infrastructure replacement or improvements required. A summary of the designated reserves are shown below:

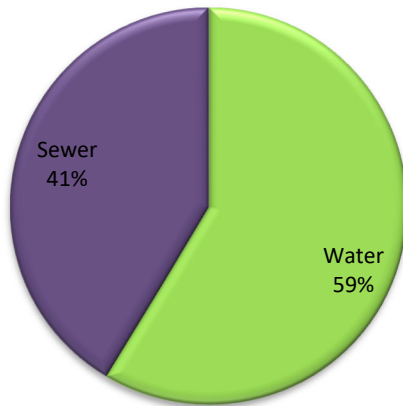
Infrastructure and Equipment Reserves Summary Report			
Fiscal Year	Water (Designated Annual Capital Outlay)	Sewer (Designated Annual Capital Outlay)	Sewer (Designated Annual Infrastructure Reserve)
2015/16	\$450,000	\$0	\$ -
2016/17	\$463,500	\$0	\$ -
2017/18	\$477,405	\$0	\$ -
2018/19	\$491,727	\$300,000	\$ 100,000
2019/20	\$506,479	\$300,000	\$ 100,000
Total	\$2,389,111	\$600,000	\$200,000
Capital Expenditures	\$ 2,809,647	\$ 995,081	\$ -
Grants Received	\$ (1,224,613)	\$ (568,384)	\$ -
Reserve Balance	\$ 804,077	\$ 173,303	\$ 200,000

The reserve funds have provided for the upgrade and replacement of \$3,804,728 in equipment and infrastructure since established, including the leveraging of \$1,792,997 in grant funding and resulted in a total accumulated reserve through June 30, 2020 of \$1,177,380.

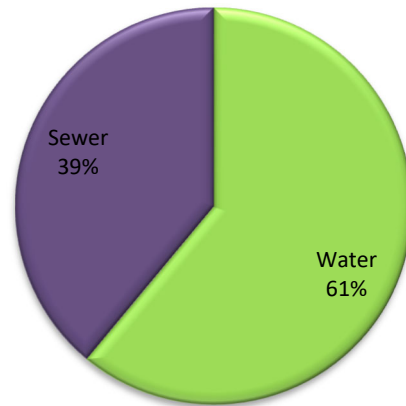
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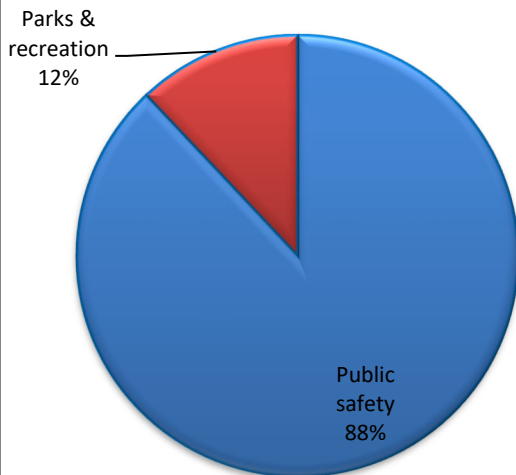
FY 20 Charges for Services for Business-type Activities



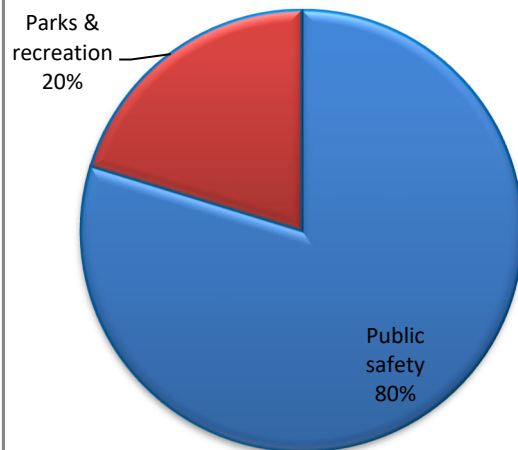
FY 19 Charges for Services for Business-type Activities



FY 20 Revenue for Governmental Activities



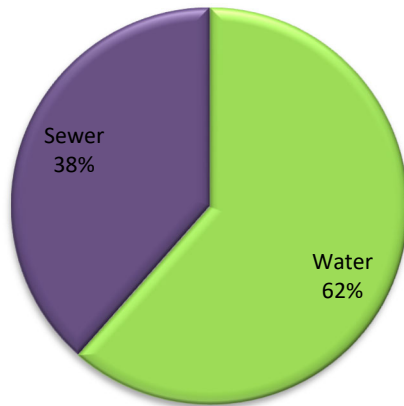
FY 19 Revenue for Governmental Activities



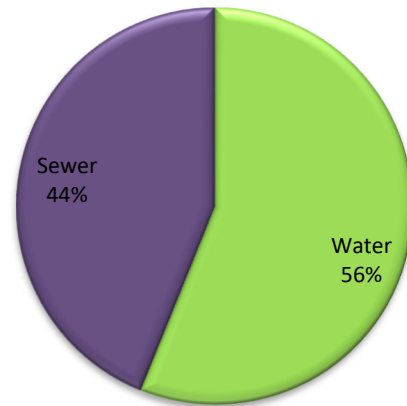
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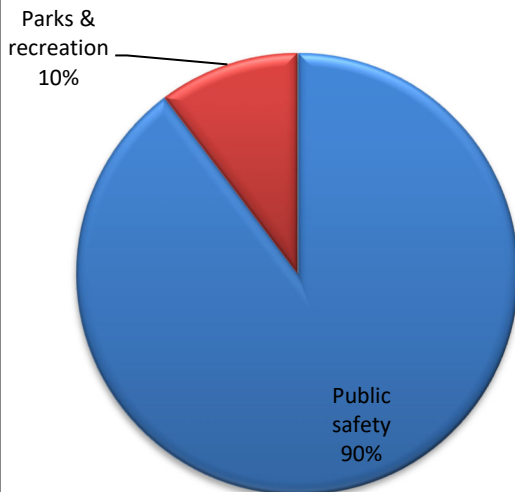
FY 20 Operating Expenses for Business-type Activities



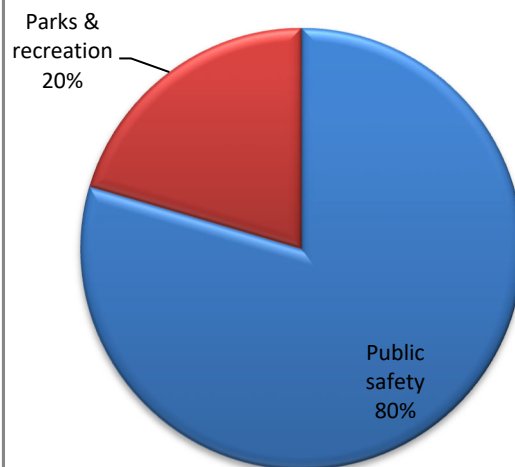
FY 19 Operating Expenses for Business-type Activities



FY 20 Expenses for Governmental Activities



FY 19 Expense for Governmental Activities



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FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Changes in Net Fund Balance/Net Position

Governmental fund balances

Fire Fund – A special benefit assessment for the fire department expired in June 2012, resulting in a reduced funding level for the fire department. The District subsequently eliminated its fire department staff positions and entered into a contractual agreement (Schedule A Contract) with CAL FIRE for the operation of the fire department, that began April 1, 2013. This contractual arrangement initially reduced expenses, but was quickly determined to not provide adequate staffing to achieve industry standard services year-round. Therefore, to maintain adequate firefighting resources, the District entered into agreement in 2014 with CAL FIRE to provide year-round staffing at their Merrell Road station (Amador Contract).

The budgeted cost of the Schedule A and Amador contract has exceeded available property tax revenue each year, however the actual amount billed by CAL FIRE has historically been well under budget. In addition, due to serious drought conditions from 2014 through 2017 which resulted in an extended state fire season, no Amador Contract expenses were incurred in those years and therefore revenue and expenses were in balance. In the 2018/19 and again in the 2019/20 fiscal year, the Amador contract expense was billed by CAL FIRE and the Schedule A billing began increasing by over 5% per year which approached the amount budgeted, causing the fund balance to be drawn down to balance revenue and expenses for the year. In the 2019/20 fiscal year, the fire department fund balance was depleted by \$204,905. The District estimates that without additional revenue, the remaining fire department cash will be depleted in less than three years.

Considering the fire department budget deficit, inability to replace critical equipment and inability to reduce expenses further and continue to provide required staffing, the District completed an update of its fire department master plan to identify required immediate and long term expenses to meet established fire protection and emergency response standards and evaluate department revenue options. Concurrently in this fiscal year, the District hired professional consultants to determine, develop and place before the voters a revenue measure to ensure that fire services are adequately funded into the future. Due to the Covid-19 Pandemic and its negative economic impact locally, the fire revenue measure planned for 2020 was placed on hold.

In addition, as recommended in the updated 2020 Fire Master Plan, the District has been negotiating with the County of Tuolumne for funding assistance to offset the expense and impact of providing fire protection and emergency response services for an increasing 911 call volume occurring outside the District boundaries, predominantly in the county's responsibility area, as a result of the District's via its automatic/mutual aid agreement. The District, County Fire Department and independent fire districts in Tuolumne County have begun collaborating on the formation of a Joint Powers Authority to place a countywide fire services funding measure on the ballot in June 2021. Funding from a tax measure, combined with funding assistance provided by Tuolumne County if both are successful, will result in a significantly improved financial position for the fire department in the future. Failure of either or both of these funding initiatives will result in the need to reduce fire department staffing and response areas, which also reduces service level to a point where firefighter and public safety is compromised and the department becomes ineffective in addressing many emergency situations.

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Park Fund – The park services benefit from the administrative services of the District, which include shared Board, management and office expenses. In the 2018/19 and 2019/20 fiscal years, the District allocated approximately 5% of the majority of administrative expenses to the park services, to accurately reflect the benefit received in accordance with law. This administrative expense allocation change coupled with flood damage repairs completed over the last two fiscal years significantly increased the overall park expense budget. Reduction in other expenses in 2019/20 resulted in a \$3,143 increase in fund balance.

Business Type Activity Funds

The **Water Fund** generated operating income of \$667,546 and a net decrease from nonoperating activities of \$125,506 for a total increase in net position of \$542,040. The primary nonoperating item was interest expense of \$149,446 on long-term debt.

The **Sewer Fund** generated operating income of \$665,995 and a net increase from nonoperating activities of \$351,955 for a total increase in net position of \$1,017,950. The primary nonoperating items were state grant revenue of \$423,164 and interest expense of \$57,084 on long-term debt.

Change in Fund Balance/Net Position

	<u>2020</u>	<u>2019</u>	<u>Increase (Decrease)</u>
Governmental Fund Balance:			
Fire protection	\$ 897,485	\$ 1,102,390	\$ (204,905)
Parks and recreation	114,362	111,219	3,143
Enterprise Net Position:			
Water	6,310,757	5,768,717	542,040
Davis-Grunsky	13,287	8,983	4,304
Sewer	4,968,814	3,950,864	1,017,950

CAPITAL ASSETS

At June 30, 2020 the District has invested \$13,768,475 in capital assets. This amount represents a net decrease of \$56,918 from last year. The decrease in capital assets was primarily a result of \$1,030,414 related to the annual depreciation expense offset by capital asset additions of \$973,496. The most significant additions to the capital assets during this fiscal year are detailed below:

Assets Shared by Multiple Services

- Purchased a global positioning system (GPS) unit and related equipment to accurately map infrastructure locations
- Replacement of the roof on the Operations building at the District administrative complex
- New mechanic tools
- Purchase of a construction water trailer

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Water Service

- Big Creek Water Treatment Plant Improvements:
 - Turbine pump rebuild
 - Building roof replacement
 - Ultraviolet (disinfection) system analyzer
- Alternate Water Supply Treatment Plant (AWS) Tank 2 Booster installation (construction in progress)
- Tank 4 variable frequency drive replacement
- Booster pump valve replacement

Sewer Service

- Wastewater treatment plant stormwater diversion flume restoration
- Purchase and installation of an industrial washer and dryer for uniforms and other items soiled with wastewater
- Rebuilding of wastewater treatment plant sludge return pump
- Rebuilding of wastewater treatment plant chlorine system
- Replacement of wastewater treatment plant flowmeter
- Replacement sewer lift station pump
- Lift station #10 electrical control upgrades
- Lift station #11 power pole replacement
- Replacement of a failed section of sewer main crossing Rattlesnake Creek

Fire

- Purchase and installation of a self contained breathing apparatus (SCBA) Fill Station for the fire station
- Purchase of a used fire engine to be leased to the state to generate fire department revenue

Park

- Upgrades to the park amphitheater

Investments in Capital Assets

	<u>2020</u>	<u>2019</u>	<u>Increase (Decrease)</u>
Land	\$ 468,436	\$ 468,436	\$ -
Structures and improvements	32,870,827	32,332,717	538,110
Furniture and equipment	2,860,631	2,661,944	198,687
Vehicles	1,409,511	1,401,511	8,000
Construction in progress	1,359,828	1,131,129	228,699
Accumulated depreciation	<u>(25,200,758)</u>	<u>(24,170,344)</u>	<u>(1,030,414)</u>
Total	<u>\$ 13,768,475</u>	<u>\$ 13,825,393</u>	<u>\$ (56,918)</u>

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LONG-TERM DEBT

At June 30, 2020, the District has \$10,487,449 in long-term debt, including the net pension liability and net OPEB liability. The changes to long-term debt are primarily attributable to scheduled principal payments and the change in the net pension liability and net OPEB liability.

The District also completed the following debt refunding and debt issuance during the year ended June 30, 2020:

The District issued the 2019 Wastewater Revenue Refunding Bonds (2019 Wastewater Refunding) dated December 10, 2019 in the amount of \$1,906,811 with an interest rate of 2.840% to refinance the Wastewater Revenue Refunding Bonds, Series 2014 bonds (2014 Wastewater Revenue Refunding). Payments are due semiannually on July 10 and January 10. Final maturity is on July 20, 2026. The refunding reduced the District's debt service payments by \$483,155 and provided for an economic gain (difference between the present value of the old and new debt service payments) of approximately \$71,543 in aggregate through the end of the loan term in 2026.

The District issued the 2019 Wastewater Revenue Installment Sale Agreement (2019 Wastewater Installment Sale) dated December 10, 2019 in the amount of \$1,511,053, with an interest rate of 3.350% for the immediate replacement and improvement of the Wastewater Treatment Plant Headworks, recycled wastewater irrigation system and wastewater collection system lift station #2. Payments are due semiannually on July 10 and January 10. Final maturity is on July 10, 2039. The project will be constructed in 2021 and is intended to replace outdated and failed equipment, reduce operation and maintenance costs, increase operating efficiency and reduce treatment plant odor production.

The District provides pension benefits to its employees through the Groveland Community Services District Miscellaneous Plan, a cost-sharing multiple-employer defined benefit pension plan maintained by CalPERS, an agency of the State of California. Qualified employees are covered under the Miscellaneous 2.7% at 55 for classic employees and 2% at 62 for PEPRAs employees in the Risk Pool (the Plan). CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. As of June 30, 2020, the District's proportionate share of the Plan's net pension liability was \$2,576,825, which is determined by an actuary annually. The District is evaluating refinancing methods to further reduce its CalPERS Unfunded Accrued Liability.

For certain employees hired before July 1, 2016, the District offers a retiree healthcare plan that provides other postemployment health, dental, and vision care benefits for eligible retired employees and their dependents through the retiree healthcare plan (the Plan). The District, through the authorization of their Board of Directors, elected to establish an irrevocable trust for the Plan through the California Employers' Retiree Trust (CERBT) fund, an agent multiple-employer plan, administered by CalPERS. The CERBT has pooled administrative and investment functions, while separate employer accounts are maintained to prefund and pay for health care or other postemployment benefits in accordance with the terms of the participating employers' plans. The CERBT offers three investment strategies for employers to choose from depending on their expected levels of return and volatility. Benefit provisions are established by the District. As of June 30, 2020, the District's net OPEB liability was \$418,332 which is determined by an actuary annually. As a cost control measure, the District eliminated this benefit for employees hired after July 1, 2016.

GROVELAND COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

	<u>2020</u>	<u>2019</u>	<u>Increase (Decrease)</u>
Installment sales agreements and bonds, net	\$ 4,109,885	\$ 6,935,116	\$ (2,825,231)
Net OPEB obligation	418,332	2,082,536	(1,664,204)
Compensated absences	118,077	82,398	35,679
Net pension liability	2,576,825	2,388,940	187,885
Other long-term debt	<u>3,264,330</u>	<u>9,783</u>	<u>3,254,547</u>
Total	<u>\$ 10,487,449</u>	<u>\$ 11,498,773</u>	<u>\$ (1,011,324)</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared, factors affecting the District's future included:

Fire Services – The District continued its contract with CAL FIRE for the operation of the Fire Department, and for the second consecutive year as predicted, the expenses associated with the Schedule A and Amador CAL FIRE contracts exceeded the available annual property tax allocation, causing a drawdown of fund balance reserves. The community experienced enhanced services with the expanded CAL FIRE contract (Amador Contract) to include year round staffing of the seasonal Fire Station (Station B), for which the District budgets the maximum cost share based on estimates provided by CAL FIRE. The cost of staffing this station is funded by the state during the (state) declared fire seasons, and by the District during non-fire season; typically November through April annually. During the 2016/17 and 2017/18 fiscal years, the state fire season was extended to year-round which resulted in their payment of the entire cost of Station B operations, and no related expense to the District. In 2018/19 and 2019/20 the state declared an end to fire season in fall of each year, resulting in the District funding the cost of Station B operations and the associated decline in net position in each of those fiscal years.

It is estimated that the cost associated with the CAL FIRE Schedule A and Amador Contract will increase by approximately 5% annually, at minimum over the next three years through June 30, 2024. It is also estimated that Fire Department revenue will increase at approximately 2% during this same period, resulting in further reductions in net position and cash unless additional revenue is secured to balance the budget. The District's Government (Fire) Fund balances could be depleted within the next two to three years. Options to reduce expenses include discontinuing the Amador contract, which will reduce fire department staffing available in non-wildfire season, and will cause extensive delays in structure firefighting capabilities. The District is currently working cooperatively with Tuolumne County to potentially secure their funding assistance on the Amador Contract, as recommended in the 2020 Fire Master Plan. Elimination of the Amador Contract expense alone will not balance department expense and revenue, as the cost of the Schedule A contract alone will soon exceed total revenue available. Therefore, an increase in Fire Department revenue is critical to maintain services at the current level.

In addition, GCSO maintains over \$4.7 million in Fire Department capital assets, including fire engines, buildings, tools and safety equipment. Recent past budgets have not included funding for the short and long term replacement of fire department equipment. In January 2020 the Board

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adopted the Fire Department capital asset replacement schedule which revealed that a \$274,000 annual expense is required to replace critical department equipment and facilities as they wear out. The amount of funding available to the District for its Fire Department is inadequate to fund replacement of the capital assets. The Board subsequently adopted the updated Fire Master Plan in March 2020 which recommended a number of actions related to department finances, as listed below:

1. Pursue a cost reimbursement or direct funding assistance from Tuolumne County for the expense associated with providing fire services outside the District boundaries, including the Amador Contract costs. District management is actively collaborating with the county on cost sharing.
2. Pursue a fire special tax or assessment to fund the structural fire department deficit and to cover the cost of CAL FIRE contracts and equipment replacement. The District is actively working with Tuolumne County and the other fire districts in the county in formation of a Joint Powers Authority to place a special parcel tax on the ballot countywide in June 2021.
3. Evaluate cost sharing agreements with Tuolumne County regarding services provided to new land development projects. District management is working with the county to assist in identifying appropriate cost and service level impact mitigation.

It is management's estimation that achieving success in all three actions listed will result in a balanced Fire Department budget and the ability to fully fund the necessary equipment replacement schedule.

Park Services – As with Fire services, the expense of delivering basic park services including building and facility maintenance and repair, cleaning, insurance and other necessary expenses exceed the amount of property tax funding available. There is not adequate reserve funding available to sustain Park services into the future. The District is currently evaluating various revenue producing options to fund park services into the future. The District is also evaluating the implementation of Park capital improvement projects that will reduce maintenance costs and increase future revenue potential.

Water Services – The District has completed the planning and design process for a large-scale Water System Replacement Project which will improve the water distribution lines in the Groveland- Big Oak Flat area; funded with a \$405,000 state grant. The planning process resulted in engineered plans and specifications, state permits and environmental approvals necessary to construct the project should adequate grant and/or loan funding be awarded. The District has applied for project funding to the State Drinking Water State Revolving Fund and to the Community Development Block Grant program as a subrecipient to the County of Tuolumne. In addition, a state grant funding contract has been received for \$3.4 million for the rehabilitation of two clear well water storage tanks, which will begin construction in the 2020/2021 fiscal year. The District is nearing completion of its Water System Master Plan, which will contain a long and short term Capital Improvement/Replacement Plan; and for which the District will establish appropriate fees and charges, and seek funding and financing. Cash generated from recent increases to customer water rates will be used to leverage grant funds, make loan and debt service payments, and generate reserve funds for capital projects.

Sewer Services – The District has completed planning a large-scale Sewer System Replacement Project which will improve the sewer collection lines in various locations throughout the District's sewer system. This planning process was funded through a state grant in the amount of \$399,000.

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The planning process resulted in preliminary engineering, state permits and environmental approvals necessary to support an application for state funding for project construction, which has been submitted. A \$5.8 million state grant and loan funding agreement is expected early in the 2020/2021 fiscal year, and construction will begin immediately thereafter. The District also secured a \$1,511,053 low interest loan as discussed in the Long Term Debt section above, for the purpose of constructing improvements to the wastewater treatment plant to increase operating efficiency and reduce the production of odors. Engineering design has been completed for the project and construction will begin in early 2021. Cash generated from recent increases to customer sewer rates will be used to leverage grant funds, make loan and debt service payments, and generate reserve funds for capital projects.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, ratepayers, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact Peter Kampa, General Manager, Groveland Community Services District, 18966 Ferretti Rd., Groveland, CA 95321.