

Valley Transit

Management's Discussion and Analysis

The management of Valley Transit offers readers of our financial statements the following narrative overview and analysis of our financial activities for the years ended December 31, 2020 and 2019.

Basic Financial Statements

Valley Transit is owned and operated by the City of Appleton, with our basic financial statements prepared using proprietary fund (enterprise fund) accounting that uses the same basis of accounting as private-sector business enterprises. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used.

Revenue is recorded when earned and expenses are recorded when incurred. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. These are followed by the notes to the financial statements. In addition to the basic financial statements, this report also contains required supplementary information.

The Statement of Net Position presents information on the assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between these reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Valley Transit is improving or deteriorating.

The Statement of Revenue, Expenses and Changes in Net Position reports the operating revenues and expenses and non-operating revenues and expenses of Valley Transit for the fiscal year, with the difference – the net income or loss – being combined with any capital grants to determine the net change in position for the fiscal year. That change combined with the net position at the end of the prior year equals the net position at the end of the current fiscal year.

The Statement of Cash Flows reports cash and cash equivalent activities for the fiscal year resulting from operating activities, capital and related financing activities, non-capital and related financing activities and investing activities. The net result of these activities added to the beginning of the year cash balance equals the cash and cash equivalent balance at the end of the current fiscal year.

An analysis of Valley Transit's financial position begins with a review of the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position. These two statements report Valley Transit's net position and changes to it. It should be noted that the financial position can also be affected by non-financial factors, including economic conditions, population growth and new regulations.

Net position may serve over time as a useful indicator of the government's financial position. In the case of Valley Transit, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$10,327,391 as of December 31, 2020; compared to \$8,493,758 in 2019. The largest portion of Valley Transit's net position is investments in capital assets (i.e. land, building, equipment and improvements). These assets are used to provide transportation services to customers.

The following table provides a summary of Valley Transit's balances as of December 31, 2020 and 2019.

Assets	<u>2020</u>	<u>2019</u>
Current Assets	\$3,202,061	\$2,876,739
Capital Assets	9,155,990	7,419,607
Other Assets	<u>1,718,562</u>	<u>1,006,459</u>
Total Assets	14,076,613	11,302,805
 Deferred Outflow of Resources		
Deferred outflows related to pension	1,377,900	1,727,811
 Liabilities		
Current Liabilities	2,971,172	2,592,564
Non-current Liabilities	<u>470,064</u>	<u>1,077,202</u>
Total Liabilities	3,441,236	3,669,766
 Deferred Inflow of Resources		
Deferred inflows related to pension	1,685,886	867,092
 Net Assets		
Invested in capital assets	9,155,989	7,411,784
Restricted for depreciation reserve	1,718,562	1,006,459
Unrestricted	<u>(547,160)</u>	<u>75,515</u>
Total Net Assets	10,327,391	8,493,758
 Percent restricted	 16.64%	 11.85%

Current Assets increased by \$325,322 in 2020 mostly due to a higher balance in cash and investments and an increase in the prepaid items balances. Current liabilities increased by \$378,608 primarily due to a increase in unearned revenue from the sale of ADA paratransit tickets.

The increase in Capital Assets during 2020 reflects capital purchases of \$2,552,371 financed by federal and state capital funding and local match dollars, offset by depreciation expense of approximately \$817,979.

The deferred outflow and inflows of resources and non-current liabilities in 2020 & 2019 is related directly to Valley Transit's proportionate share of the financial activities of the Wisconsin Retirement System, and the investment returns. Other Assets increased and Non-current Liabilities decreased primarily due to net pension asset/liability.

Operating revenues decreased \$601,058 in 2020 due to an approximate 42% decrease in ridership on the fixed route (\$242,000) and a decrease of approximately \$315,000 in ADA and ancillary paratransit fares. The decrease in ridership was due to the COVID-19 global pandemic that shut down most of the country in mid-March 2020. Preventive measures included social distancing, travel restrictions, lockdowns and quarantines for people exposed or symptomatic. Precautions continued throughout 2020.

Operating expenses decreased by \$1,562,065 mostly due to a decrease in purchased transportation expense resulting from lower demand for ADA and ancillary paratransit services due to the pandemic. Payroll expense increased due to collective bargaining agreements for represented staff and pay for performance adjustments for non-represented staff that totaled approximately \$50,700, but was offset by a decrease in fringes of \$227,794 which was due to OPEB/net pension decrease.

In spite of lower operating revenues, the combination of lower operating expenses, an increase in State support and the receipt of CARES Act funding resulted in lower local operating support (a reduction of \$443,850). The CARES Act funding was used for safety equipment and associated operating expenses directly related to the pandemic and was a 100% reimbursement of those costs.

Valley Transit's 2020 net position has increased when compared to 2019. The largest factor contributing to the increase in net position is the capital funding received for five replacement buses purchased during 2020.

Capital Assets

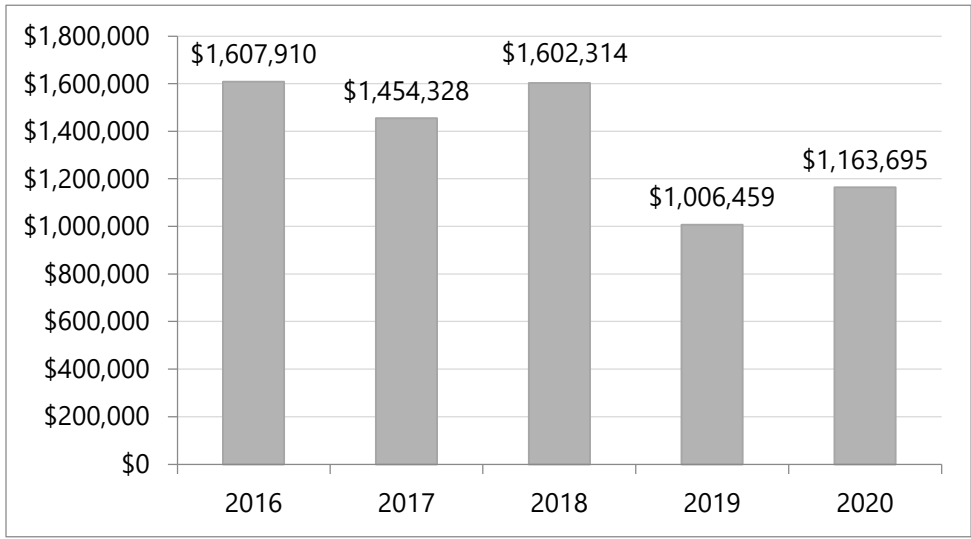
The Federal Transit Administration provided 80% of the funding to purchase Valley Transit's capital assets and therefore has significant interest in their use. The remaining 20% is funded either through Valley Transit's depreciation reserve for replacement equipment or from current year support from the various local governments that participate in Valley Transit.

Net capital assets increased \$1,736,383 during 2020 as the result of capital purchases of \$2,552,371 financed by state and federal capital grants and local match dollars, offset by depreciation expense of \$817,979. Capital investments in 2020 consisted of five new buses at a total investment of \$2,354,614, a floor scrubber (\$59,286), bus shelter (\$10,043), Operation staff vehicle (\$38,830), maintenance software (\$55,981) and completion of two scheduling and dispatch software projects (\$35,608).

Funded Depreciation Reserve – Restricted Assets

Restricted Assets represents a funded reserve used to pay for asset replacements that are not paid for by capital grants; typically 20% of the asset value. This reserve is funded by a charge equal to 20% of annual depreciation expense levied on the system's fixed route local municipal partners.

The balance of this account over the past five years is as follows:



The decrease in the restricted cash during 2019 is due to utilization of the funds for the 20% capital local share of 2019's capital purchases. This is slightly offset by the annual payment of 20% of the depreciation expense by the local funding partners. The balance increased in 2020 due to investment income on the cash balance and the charge to local funding partners based on depreciation expense. None of the reserve was used for the five new buses purchased in 2020 as they were 100% financed by State of Wisconsin capital grants resulting from the Volkswagen emissions settlement. Twenty percent of that grant amount will be repaid to the State over a period of ten years via withholding from the City of Appleton's portion of State Shared Revenues. That reduction in State revenues to the City will be reimbursed to the general fund from this reserve.

Requests for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of Valley Transit's finances. If you have questions about this report or need any additional information contact the City of Appleton, Valley Transit Attn: Ronald McDonald, General Manager at 1.920.832.5800 or Ronald.McDonald@appleton.org.