

City of La Palma

Agenda Item 9



MEETING DATE: May 17, 2016
TO: CITY COUNCIL
FROM: CITY MANAGER
SUBMITTED BY: Sea Shelton, Administrative Services Director
AGENDA TITLE: Third Quarter Operating Report and Budget Adjustments, Fiscal Year 2015-16

RECOMMENDED ACTION:

It is recommended that the City Council receive and file the Third Quarter Operating Report.

BACKGROUND:

Staff is presenting a third quarter report to Council and the public on the state of the City's finances.

This report provides the following information:

- A snapshot of the City's spendable fund balances at March 31, 2016, as well as the year-to-date change in spendable fund balances.
- A review of the General Fund's revenue and expenditures through the third quarter of the fiscal year (75% of the year as of March 31, 2016).

For the quarterly report, financial data is reported on a cash basis, meaning that revenue is reported when cash is received and expenditures are reported when cash payments are made. Many revenue and expenditure transactions do not occur at uniform times or at equal intervals throughout the year. Consequently, although the end of the third quarter represents 75 percent of the fiscal year, not all line items will be at 75 percent of the budget as of the end of the quarter.

Making sense of the information presented herein requires consideration of the cash flow factors of major revenues and expenditures. For instance, while expenditure outflows for normal operations tend to be relatively even, the cash flow timing of capital expenditures and major revenues such as property taxes are not as equalized.

FINANCIAL SUMMARY:

The intent of this financial summary report is to provide an understanding for the changes in spendable fund balance. Spendable fund balance is calculated as cash, investments, and other

current assets less current liabilities. Attached are the following summary schedules through March 31, 2016:

- Schedule of General Fund Revenues
- Schedule of General Fund Expenditures by Department
- Schedule of General Fund Expenditures by Category
- Schedule of Interfund Transfers by Fund
- Schedule of Spendable Fund Balances by Fund

The City's overall spendable fund balance has declined by \$1.7 million from the beginning of the fiscal year, from \$29.5 million to \$27.8 million at March 31, 2016. In comparison, the City's spendable fund balance declined by \$0.6 million during this same period in the prior year. The current year reduction of \$1.7 million in spendable fund balance is accounted for as follows:

- General Fund decreased by \$1.4 million
- Special Revenue Funds increased by \$0.4 million
- Capital Project Funds increased by \$0.7 million
- Internal Service Funds decreased by \$0.8 million
- Water & Sewer Enterprise Funds decreased by \$0.6 million

The balance of the financial review section will focus on the changes in these funds.

General Fund

As shown in the attached charts, General Fund revenues total \$6.2 million (62% of the amended budget) and expenditures total \$7.0 million (70% of the amended budget) through March 31, 2016. General Fund expenditures exceed revenues by \$0.8 million. The remaining \$0.6 million reduction in spendable fund balance is a result of \$0.2 transferred to the Capital Outlay Reserve Fund and \$0.4 transferred to the Risk Management Fund.

Revenues

Due to the timing of major revenue receipts, total General Fund revenue of \$6.2 million is at 62% of the \$10.1 million amended budget through the end of the third quarter. **By fiscal year-end, the City anticipates receiving the entire budgeted revenue of \$10.1 million.**

The three largest revenue sources are property tax, sales tax, and utility user's tax. Together, these three revenues account for 67% of the General Fund's amended revenue budget.

- **Property Tax:** The General Fund's largest revenue source, property tax, has \$1.96 million revenue recorded through March 31 (58% of the amended \$3.4 million budget). This percentage of revenue received is comparable with the prior year where the City had received 57% of the annual property tax revenue by March 31.

The property tax line item includes secured and unsecured property taxes (budgeted at \$2.1 million) as well as the property tax in lieu of vehicle license fees (budgeted at \$1.3 million). Secured and unsecured property tax payments are distributed in two main payments; the first payment is distributed in December during the second quarter, and the second payment is distributed in April during the fourth quarter. Property tax payments in lieu of vehicle license fees are received in two installments; the first distribution was in January 2016 (during the third quarter) and the second installment will be in May 2016

(during the fourth quarter). **The City anticipates receiving all property tax revenue as budgeted.**

- Sales Tax: The next largest revenue source is sales tax which has \$1.2 million revenue recorded at March 31 (56% of the amended \$2.2 million amended budget). Sales tax receipts lag by two to three months, and the \$1.2 million recorded revenue is comprised of the following:
 - FY 2014/15 additional receipts of \$83,300
 - July – December 2015 actual receipts of \$861,800 (net of Q1 rebates)
 - January 2016 receipt for the month's estimated revenue of \$54,000
 - January 2016 distribution of property tax in lieu of sales tax of \$247,000

Net sales tax revenue for the fiscal year is estimated to be \$2.2 million which is \$0.6 million less than the original budget. The major reasons for the decline in the year's estimated sales tax revenue are due to a current year refund of excess revenues received in a prior year revenue as well as a decline in fuel prices. This demonstrates the City's dependence on this volatile commodity market.

- Utility Users Tax: The third largest revenue source is utility users tax, budgeted at \$1.1 million. Payments received through March 31 total 67% of budget at \$765,200. Utility users tax payments lag by one month; consequently, extrapolating the eight months of payments received through March 31 to nine months results in an estimate of \$860,900 which is 75% of the amended budget. **The City anticipates receiving utility users tax revenue as budgeted.**

Following are descriptions of smaller revenue sources which have uneven revenue streams:

- Franchise Fees have revenue of \$129,300 through March 31, which is 32% of the \$403,500 amended budget. This percentage of revenue received is comparable with the prior year where the City had received 31% of the annual franchise fee revenue by March 31. Two of the largest franchise payments are received annually during the fourth quarter. **Franchise fees are estimated to approximate or slightly exceed the amended budget of \$403,500 by fiscal year-end.**
- Transient occupancy tax revenue of \$198,000 is at 66% of the 300,000 amended budget through March 31. Transient occupancy tax is paid on a quarterly basis and lags by one quarter. The City has received two of the four quarterly payments through March 31, and **the transient occupancy tax revenue is expected to approximate the budget by fiscal year-end.**
- Licenses and permits revenue totals \$309,800 through March 31 and is at 92% of the \$338,200 amended budget. As in years past, the majority of the license and permit revenue is collected through the business license annual renew process which occurs mostly during the beginning part of the fiscal year. **Licenses and permits revenue are expected to approximate or slightly exceed the budget by fiscal year-end.**
- Other revenue totals \$253,400 through March 31 and is at 50% of the amended budget of \$503,200. The major items included in this category are \$250,000 for administrative cost

reimbursement from the Successor Agency, \$120,000 for reimbursement from CERBT for OPEB payments made by the City, and \$50,000 for trash hauler rebates. Both the CERBT reimbursement and the trash hauler rebates occur annually during the fourth quarter. **Revenues are expected to approximate the budget at fiscal year-end.**

Expenditures

The General Fund's expenditures total \$7.0 million at March 31 (70% of the \$10.0 million amended budget). This is comparable to the prior year, where 71% of the General Fund's annual expenditures were incurred by the end of the third quarter. **Staff anticipates that expenditures within all departments will approximate the amended budget amounts at fiscal year-end.**

- The General Government and Administrative Services Department is comprised of the divisions for City Council, City Manager, Legal Services, Administration, City Clerk, Community Promotions, Fiscal Services, Human Resources, and Technology & Communications. The amended budget for this department totals \$2.9 million, and as of March 31, expenditures total \$2.1 million (74% of the adopted budget).
- The Police Department has the largest expenditure budget at \$4.7 million (47% of the total General Fund amended budget). As of March 31, expenditures totaled \$3.3 million (71% of the amended budget).
- The Community Services Department covers a wide range of services that are provided to the citizens including Health & Wellness, Recreation Facility Operations, Special Events, Youth and Family Services, Citywide Maintenance, Engineering, Parks & Medians, and Street Maintenance divisions. This department has a budget of \$2.0 million. As of March 31, expenditures total \$1.3 million (63% of the amended budget).
- The Community Development Department accounts for the Building and Safety, Code Enforcement, and Planning divisions. As of March 31, expenditures total \$310,000 (68% of the amended budget).

The expenditure outflows for normal operations are at 70 percent of the amended budget: Personnel costs total \$4.9 million (74% of the adopted budget) and Maintenance & Operations costs total \$2.1 million (62% of the amended budget). The cash flow timing of capital expenditures is not as equalized, and capital outlay costs total \$8,000 (22% of the amended budget).

Special Revenue Funds

Special Revenue funds are comprised of a variety of funds whose revenues are restricted for specific purposes. During the nine months ending March 31, 2016, the spendable fund balance of special revenue funds increased by \$369,000 to \$1.6 million. The special revenue funds with the most significant activity through March 31 are the Streets Fund (with an increase to spendable fund balance of \$56,000), the Measure M Fund (with an increase to spendable fund balance of \$194,000), the Public Safety Augmentation Fund (with an increase to spendable fund balance of \$26,000), Supplemental Law Enforcement Fund (with an increase to spendable fund balance of \$43,000), and the Successor Agency Housing Entity Fund (with an increase to spendable fund balance of \$36,000).

Streets Fund

During the nine months ending March 31, the Streets Fund had an increase to spendable fund balance of \$56,000, a result of revenues exceeding expenditures. Revenues consist of remittances from the State for the City's share of gas tax. Through the end of the third quarter, revenues total \$237,000 and are at 66% of the amended.

Operating expenditures consist of costs for normal street maintenance, traffic signal operations and maintenance, and traffic control operations. Operating costs total \$181,000 through March 31 and are at 66% of the budget. **The City is expecting to receive and expend the budgeted amounts of \$357,400 and \$317,500, respectively.**

Measure M Fund

During the nine months ending March 31, the Measure M Fund had an increase to spendable fund balance of \$194,000, a result of revenues exceeding expenditures. Revenues consist of the City's share of revenues from the County's Measure M sales tax and total \$194,000 (19% of the \$1.0 million revenue budget) through March 31. The budgeted revenues consist of the City's fair share of Measure M sales tax monies and an additional \$750,000 grant for use on the City's Arterial Pavement Management Program. **The City anticipates receiving the fair share of Measure M2 monies as originally budgeted.**

Although \$1.3 million has been budgeted in FY 2015-16 for the Arterial Pavement Management project, there have been no expenditures as of March 31, 2016. This program cost will be expended, but this part of the Arterial Pavement Management project will likely be pushed into the next fiscal year resulting in expenditures and the corresponding grant revenue to be less than budgeted in FY 2015-16.

Public Safety Augmentation Fund

During the nine months ending March 31, the Public Safety Augmentation Fund had an increase to spendable fund balance of \$26,000, a result of revenues exceeding expenditures. Revenues consist of the money generated by a ½ cent sales tax under the State's Proposition 172 and are restricted in use for public safety programs. Payments received through March 31 total \$117,000 (66% of the amended budget) while expenditures for safety personnel total \$91,000 (53% of the amended budget). **The City anticipates receiving and spending all of the money as budgeted.**

Supplemental Law Enforcement Fund

During the nine months ending March 31, the Supplemental Law Enforcement Fund had an increase to spendable fund balance of \$43,000. The City budgeted to receive \$100,200 in State money for front-line police services. Through March 31, the City has received \$107,200 (107% of the budget). The City has charged \$64,400 against these monies through March 31. **The City anticipates spending all of the money received during the year for front-line police services.**

Successor Agency Housing Authority Fund

During the nine months ending March 31, the Successor Agency Housing Authority Fund had an increase to spendable fund balance of \$36,000. Monies received in and payment made out of

this fund are related to the housing activities of the former redevelopment agency. **The City anticipates receiving and spending all of the money as budgeted.**

Capital Projects Funds

The Capital Projects Funds are comprised of the Capital Outlay Reserve Fund (COR) and the One-Time Projects Fund. The One-Time Projects Fund has costs totaling \$19,600 through March for the Countywide 800 MHz Communication System. During the nine months ending March 31, 2016, COR incurred costs of \$307,400 for capital project costs. The arterial pavement management and the energy efficiency projects are the major projects worked on in FY 2015-16. Other projects that incurred costs include storm drain, ADA, street improvements, and building improvements.

Water and Sewer Funds

The water and sewer funds had a total reduction in spendable fund balance of \$610,000. The reason for this is because revenues are less than expenses. Revenues total \$1.4 million (54% of budget) but lag by one or two months because of accounting for year-end receivables. Expenditures total \$2.0 million (44% of budget). Although through March 31 revenues and expenses are below anticipated amounts, by year-end, revenues and expenditures are anticipated to approximate the budgeted amounts.

Internal Service Funds

The Internal Service Funds are comprised of the Risk Management, Vehicle Replacement, and Technology Replacement Funds. The Internal Service Funds began the year with a spendable fund balance of \$2.8 million which has been reduced by \$827,000 to \$1.9 million at March 31. The reduction in the spendable fund balance is mainly due to the annual insurance payments for workers' compensation, property, and general liability coverage which are due at the beginning of the fiscal year. The internal service funds recover costs by charging the General, Water, and Sewer Funds for their proportional share of the costs. This cost recovery is distributed evenly over the fiscal year, even when costs are incurred at the beginning of the fiscal year.

FISCAL IMPACT:

This is a receive and file report which provides a summary of the year's fiscal activity through the end of the third fiscal quarter.

APPROVED:



Administrative Services Director



City Manager

Attachments: 1. Third Quarter Summary Schedule

**THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2015-16
GENERAL FUND REVENUES BY TYPE
FISCAL YEAR QUARTER ENDING MARCH 31, 2016**

Revenue Type	FY 2015-16					FY 2014-15			Q3 Variance FY 2015-16 to FY 2014-15 Increase / <Decrease>
	Adopted Budget	Amended Budget	Year-to-Date Actual through 3/31/2016 (75% of FY)	Q3 Actual as a % of Adopted Budget	Q3 Actual as a % of Amended Budget	Prior Year Actual Annual Revenue	Prior YTD Actual through 3/31/2015 (75% of FY)	Q3 Actual as a % of Annual Revenue	
Property Tax	\$ 3,311,500	\$ 3,390,300	\$ 1,963,624	59%	58%	\$ 3,260,967	\$ 1,874,587	57%	\$ 89,037
Sales Tax	2,822,400	2,208,000	1,246,703	44%	56%	2,560,939	1,575,635	62%	(328,932)
Utility Users Tax	1,139,300	1,149,300	765,204	67%	67%	1,126,749	793,603	70%	(28,399)
Residual Property Tax	133,900	200,000	141,853	106%	71%	126,355	71,204	56%	70,649
Franchise Fees	415,500	403,500	129,280	31%	32%	407,114	126,814	31%	2,466
Transient Occupancy Tax	345,000	300,000	198,006	57%	66%	346,077	168,773	49%	29,233
Licenses and Permits	295,200	338,200	309,793	105%	92%	357,912	289,343	81%	20,450
Intergovernmental	33,000	33,000	21,266	64%	64%	51,591	13,324	26%	7,942
Charges for Services	490,100	512,600	410,060	84%	80%	539,582	389,852	72%	20,208
Fines and Forfeitures	161,000	160,200	101,152	63%	63%	144,972	93,933	65%	7,219
Use of Money and Property	317,600	317,600	249,567	79%	79%	236,877	207,240	87%	42,327
Other Revenue	411,500	503,200	253,449	62%	50%	321,842	322,244	100%	(68,795)
Interfund Charges	506,600	587,700	440,775	87%	75%	283,100	212,325	75%	228,450
Total Revenues	\$ 10,382,600	\$ 10,103,600	\$ 6,230,732	60%	62%	\$ 9,764,077	\$ 6,138,877	63%	\$ 91,855

**THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2015-16
GENERAL FUND EXPENDITURES BY DEPARTMENT
FISCAL YEAR QUARTER ENDING MARCH 31, 2016**

Department	FY 2015-16					FY 2014-15			Q3 Variance FY 2015-16 to FY 2014-15 Increase / <Decrease>
	Adopted Budget	Amended Budget	Year-to-Date Actual through 3/31/2016 (75% of FY)	Q3 Actual as a % of Adopted Budget	Q3 Actual as a % of Amended Budget	Prior Year Actual Annual Expenditures	Prior YTD Actual through 3/31/2015 (75% of FY)	Q3 Actual as a % of Annual Expenditures	
General Government/Admin Svc	\$ 2,690,700	\$ 2,872,340	\$ 2,125,983	79%	74%	\$ 1,427,948	\$ 966,230	68%	\$ 1,159,753 (1)
Police	4,713,200	4,698,400	3,315,040	70%	71%	4,840,193	3,516,434	73%	(201,394)
Community Services	2,021,300	2,021,300	1,278,216	63%	63%	1,956,538	1,376,488	70%	(98,272)
Community Development	454,100	455,100	309,876	68%	68%	526,198	347,915	66%	(38,039)
Total	\$ 9,879,300	\$ 10,047,140	\$ 7,029,115	71%	70%	\$ 8,750,877	\$ 6,207,067	71%	\$ 822,048

Note 1: The increase is due to charging employee benefits costs and a portion of the technology/communications costs to the General Fund Administration Department in FY 15/16 rather than to Internal Service Funds as was done in FY 14/15. The comparable prior year's employee benefits costs that were charged to the Internal Service Fund totaled \$1,747,323 and the comparable prior year's technology/communications costs that were charged to the General Fund totaled \$193,840. When these prior year costs are considered, then the Administration Department change from the prior year results in a decrease in costs of \$781,410.

**THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2015-16
GENERAL FUND EXPENDITURES BY CATEGORY
FISCAL YEAR QUARTER ENDING MARCH 31, 2016**

Expenditure Type	FY 2015-16					FY 2014-15			Q3 Variance FY 2015-16 to FY 2014-15 Increase / <Decrease>
	Adopted Budget	Amended Budget	Year-to-Date Actual through 3/31/2016 (75% of FY)	Q3 Actual as a % of Adopted Budget	Q3 Actual as a % of Amended Budget	Prior Year Actual Annual Expenditures	Prior YTD Actual through 3/31/2015 (75% of FY)	Q3 Actual as a % of Annual Expenditures	
Personnel Services	\$ 6,576,000	\$ 6,617,640	\$ 4,904,444	75%	74%	\$ 5,969,578	\$ 4,300,450	72%	\$ 603,994 (1)
Maintenance and Operations	3,267,200	3,393,400	2,116,612	65%	62%	2,772,165	1,900,306	69%	216,306 (2)
Capital Outlay/Improvements	36,100	36,100	8,059	22%	22%	9,134	6,311	69%	1,748
Total	\$ 9,879,300	\$ 10,047,140	\$ 7,029,115	71%	70%	\$ 8,750,877	\$ 6,207,067	71%	\$ 822,048

Note 1: The increase is due to charging employee benefits costs to the General Fund Administration Department in FY 15/16 rather than to an Internal Service Funds as was done in FY 14/15. The comparable prior year's employee benefits costs that were charged to the Internal Service Fund totaled \$1,747,323. When these prior year costs are considered, then the personnel services cost change from the prior year results in a decrease in costs of \$1,143,329.

Note 2: The increase is due to charging a portion of the technology/communications costs to the General Fund Administration Department in FY 15/16 rather than to an Internal Service Fund as was done in FY 14/15. The comparable prior year's technology/communications costs that were charged to the General Fund totaled \$193,840. When these prior year costs are considered, then the Maintenance and Operations costs change from the prior year results in an increase in costs of only \$22,466.

THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2015-16
SCHEDULE OF INTERFUND TRANSFERS
FISCAL YEAR QUARTER ENDING MARCH 31, 2016

Transfers In	Transfers Out					Totals
	General Fund	Building Replacement Fund	Water Fund	Sewer Fund	Successor Agency Fund	
Capital Outlay Reserve Fund	\$ 250,000	\$ 777,482	\$ -	\$ -	\$ -	\$ 1,027,482
Successor Agency Housing Entity	-	-	-	-	16,819	16,819
Water Capital Reserve Fund	-	-	224,700	-	-	224,700
Sewer Capital Reserve Fund	-	-	-	54,200	-	54,200
Risk Management Fund	359,000	-	-	-	-	359,000
Totals	\$ 609,000	\$ 777,482	\$ 224,700	\$ 54,200	\$ 16,819	\$ 1,682,201

**THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2015-16
SPENDABLE FUND BALANCE - FISCAL YEAR CHANGE
THROUGH THE FISCAL YEAR QUARTER ENDING MARCH 31, 2016**

<u>Fund #</u>	<u>Fund Title</u>	<u>Balance 6/30/2015</u>	<u>Balance 3/31/2016</u>	<u>FY Change through 3/31/2016</u>
1	General Fund	\$ 2,004,315	\$ 662,847	\$ (1,341,468)
3	Emergency Reserve Fund	8,996,969	8,996,969	-
5	Economic Development Fund	249,556	228,814	(20,742)
	Subtotal General Funds	11,250,840	9,888,630	(1,362,210)
11	Streets Fund	1,313	57,671	56,358
12	Measure M	272,264	466,192	193,928
15	Air Quality Fund	71,590	81,528	9,938
16	PEG Fund	181,417	191,511	10,094
20	Asset Seizure Fund	38,518	31,859	(6,659)
21	Public Safety Augmentation Fund	53,553	79,537	25,984
22	Supplemental Law Enforcement Fund	42,487	85,282	42,795
23	SVC Authority for Abandoned Vehicles	25,851	25,996	145
33	Park Development Fund	43,689	43,936	247
38	SA Housing Entity Fund	536,961	572,662	35,701
	Subtotal Special Revenue Funds	1,267,643	1,636,174	368,531
35	Capital Outlay Reserve Fund	4,701,378	5,447,698	746,320
36	One-Time Projects Fund	681,459	661,851	(19,608)
	Subtotal Capital Projects Funds	5,382,837	6,109,549	726,712
50	Water Fund	1,284,351	682,176	(602,175)
55	Water Capital reserve Fund	3,787,494	3,945,255	157,761
	Subtotal Water Related Funds	5,071,845	4,627,431	(444,414)
52	Sewer Fund	966,702	906,358	(60,344)
56	Sewer Capital Reserve Fund	2,816,992	2,712,217	(104,775)
	Subtotal Sewer Related Funds	3,783,694	3,618,575	(165,119)
60	Risk Management/Insurance	466,696	217,707	(248,989)
61	Employee Benefits Fund	40,929	42,662	1,733
62	Building Maintenance & Replacement Fund	824,861	51,398	(773,463)
63	Vehicle Replacement Fund	863,537	1,018,927	155,390
64	Technology Replacement Fund	583,668	622,448	38,780
	Subtotal Internal Service Funds Funds	2,779,691	1,953,142	(826,549)
	Total All Funds	\$ 29,536,550	\$ 27,833,501	\$ (1,703,049)

Note: Spendable Fund Balance is defined as cash and current assets less current liabilities.