

City of La Palma

Agenda Item No. 5



MEETING DATE: May 4, 2021

TO: CITY COUNCIL

FROM: CITY MANAGER

SUBMITTED BY: Michael Matsumoto, Financial Consultant

AGENDA TITLE: Third Quarter Operating Report, Fiscal Year 2020-21

RECOMMENDED ACTION:

It is recommended that the City Council receive and file the Third Quarter Operating Report, Fiscal Year 2020-21.

BACKGROUND:

Staff is presenting a report to Council and the public on the state of the City's finances. This report provides the following information:

1. A snapshot of the City's spendable fund balances at March 31, 2021, as well as the fiscal year-to-date change in spendable fund balances.
2. 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, 2021).

For the quarterly report, no quarter-end accruals are recorded. Except at fiscal year-end when accruals are recorded in accordance with accounting standards, revenue is essentially reported when cash is received and expenditures are essentially 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 transactions through the third quarter represent 75% of the fiscal year, not all line items will be at 75% 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 distributed as evenly.

FINANCIAL SUMMARY:

The intent of this financial summary 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 for review are the following summary schedules through the end of the quarter:

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

The City's overall spendable fund balance has increased by \$767,000 from the beginning of the fiscal year from \$32.0 million to \$32.8 million at March 31, 2021. This net increase is accounted for as follows:

- General Fund decreased by \$690,000
- Special Revenue Funds increased by \$1,213,000
- Capital Projects Funds decreased by \$81,000
- Water & Sewer Funds increased by \$415,000
- Internal Service Funds decreased by \$90,000

The remainder of the financial review will discuss the General Fund's revenues and expenditures and then will report on the activity in the other funds.

General Fund

As shown in the attached charts, General Fund revenues totaled \$7.1 million (63% of the amended budget) while expenditures totaled \$7.8 million (68% of the amended budget) through March 31, 2021. This results in a net shortfall of revenues under expenditures of \$700,000, which accounts for the reduction in spendable fund balance. These results are comparable to the prior year where revenues totaled \$7.4 million (62% of the year's total revenue) and expenditures totaled \$7.8 million (74% of the year's expenditures).

Revenues

Due to the timing of major revenue receipts, total General Fund revenue is at 63% of the amended budget through the end of the third quarter. This is in line with the prior year trend whereby 62% of the year's total revenue was received by the end of the third quarter.

Following is a discussion of the four largest General Fund revenue sources: property tax, sales tax, transaction and use tax, and utility users tax. Together, these four revenues account for approximately 70% of the General Fund's revenue budget.

- **Property Tax:** The General Fund's largest revenue source, property tax, has \$2.4 million of revenue recorded at March 31 (58% of the \$4.1 million budget). In comparison, through the same time period of the prior year, the City had recorded 58% (\$2.3 million) of the annual property tax revenue.

The property tax line item includes secured and unsecured property taxes as well as the property tax in lieu of vehicle license fees. Secured property tax payments are distributed in four main payments with estimated distributions of 40% in November/December during the second quarter, 10% in January/March during the third quarter, 40% in April/May during the fourth quarter, and the final cleanup distribution at the end of the fiscal year.

Property tax payments in lieu of vehicle license fees are received in two installments: 50% is distributed in January during the third quarter and the remaining 50% is distributed in May during the fourth quarter.

- **Sales Tax:** The third largest budgeted revenue source, sales tax, has \$949,000 recorded through March 31 (66% of the \$1.45 million budget). Sales tax receipts lag by two to three months, and the corresponding contractual tax rebate payments follow the lag time too. In comparison with the prior year, the revenue recorded through the end of the third quarter was 66% of the total fiscal year's revenue. The prior year's third quarter results were pre-pandemic, so revenues were higher.
- **Transaction & Use Tax:** The transaction and use tax is the second largest budgeted revenue source, and \$983,000 has been recorded through March 31 (65% of the \$1.5 million budget). These receipts follow the same payment track as sales tax, and receipts lag by two to three months. In comparison with the prior year, the revenue recorded through the end of the third quarter was 66% of the total fiscal year's revenue. The prior year's third quarter results were pre-pandemic, so revenues were higher.
- **Utility Users Tax:** The fourth largest budgeted revenue source is utility users tax. Payments received through March 31 total 72% of budget at \$659,000. This is comparable to the \$639,000 revenue that was reported through the third quarter of the prior year, which was 70% of the total fiscal year's revenue.

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

- **Franchise fees:** Total revenue through March 31 is \$142,000 (35% of the \$410,000 budget). This is comparable to the prior year where 34% of the year's total licenses and permits were collected by the end of March. The City receives payment from its largest franchise fee source in one payment for the entire fiscal year in April, during the fourth quarter, resulting in the proportionally low actual versus budget.
- **Licenses and permits:** Total revenue recorded through March 31 is \$333,000 (93% of the \$356,200 budget). In comparison, in the prior year, 84% of the year's total licenses and permits were collected by the end of March. The City collects the majority of its business license revenue during the first half of the fiscal year, accounting for most of the proportionately high actual versus budgeted percentage in this category.
- **Intergovernmental:** Total revenue recorded through March 31 is \$218,000 (75% of the \$290,382 budget). This category includes all of the general government grants. In May 2021, the City is scheduled to receive an unbudgeted \$1.45 million of federal stimulus money from the American Rescue Plan Act of 2021 which will be deposited into a separate fund.
- **Charges for services:** Total revenue recorded through March 31 is \$130,000 (26% of the \$510,500 budget). In the prior year, 98% of the year's total charges for services were collected by the end of March. Due to the pandemic, the City's community programs have been reduced or eliminated, resulting in very low revenues in the current year. The budget was prepared assuming that community programs would eventually be allowed to occur, and it is anticipated that many of the State's pandemic restrictions will be lifted in the last month of the fiscal year.

- Fines and forfeitures: Total revenue recorded through March is \$34,000 (35% of the \$97,000 budget). In the prior year, 72% of the year's total fines and forfeitures were collected by the end of March. Due to the pandemic, the City's assessment of fines has been reduced for those that are collected through the County Court system.

Expenditures

The General Fund's expenditures total \$7.8 million through March 31 (68% of the \$11.5 million budget). In comparison, the prior year expenditures totaled \$7.8 (74% of the \$10.5 million annual expenditures) through the end of the third quarter.

Following is a general discussion of each General Fund department:

- The General Government Department is comprised of the divisions for City Council, City Manager, Legal Services, and City Clerk. The budget for this department totals \$726,700, and expenditures through the third quarter total \$498,000. Expenditures are at 69% of the budget, which is consistent with the prior year's third quarter expenditures of \$471,000 which were 66% of the year's total expenditures.
- The Administrative Services Department is comprised of the divisions for Administration, Community Promotions, Fiscal Services, Human Resources, and Technology and Communications. The budget for this department totals \$2.9 million, and expenditures through the third quarter total \$2.1 million. Expenditures are at 73% of the budget which is consistent with the prior year's third quarter expenditures of \$2.1 million which were 80% of the year's total expenditures.
- The Police Department has an expenditure budget of \$5.3 million. As of March 31, expenditures totaled \$3.55 million. Expenditures are at 67% of the budget which is a little lower than the prior year's third quarter expenditures of \$3.58 million which were 74% of the year's total expenditures.
- 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 \$2.1 million, and expenditures through the third quarter total \$1.3 million. Expenditures are at 63% of the budget which is lower than the prior year's third quarter expenditures of \$1.3 million which were 70% of the year's total expenditures.

Due to the pandemic, the City's community programs have been reduced or eliminated, resulting in reductions in program costs. The budget was prepared assuming that community programs would eventually be allowed to occur, and it is anticipated that many of the State's pandemic restrictions will be lifted in the last month of the fiscal year.

- The Community Development Department accounts for the Building and Safety, Code Enforcement, and Planning divisions. This department has a budget of \$530,000, and expenditures through the third quarter total \$336,000, which are 63% of the budget. In comparison, the prior year's third quarter expenditures of \$307,000 were at 63% of the year's total expenditures.

Special Revenue Funds

The Special Revenue Funds consist of funds with revenue sources that are restricted by outside parties to specific types of expenditures. The revenues consist of remittances of state gas taxes, County Measure M taxes, grants, South Coast Air Quality funding, park development fees, housing-related sources, and other similar remittances.

The spendable fund balance increased by a net of \$1.2 million due to the 1) receipt of restricted monies from Road Maintenance and Rehabilitation Account (RMRA), gas tax, and Measure M in advance of spending for street purposes; 2) receipt of public safety grants in advance of spending law enforcement purposes, and 3) receipt of housing loan interest payments. These increases are offset by expenditures in asset seizure and county public safety augmentation funds.

Capital Outlay Reserve Fund

The City's capital improvement program is for multi-year projects which improve City facilities, buildings, grounds, streets, parks, and roads. The Capital Outlay Reserve Fund accumulates monies for funding of projects which are not able to be funded by other sources such as gas tax, Measure M, RMRA, or park development funds. Through the end of the third quarter, the City has charged \$873,000 to projects funded by the Capital Outlay Reserve Fund.

Water & Sewer Funds

The Water and Sewer Funds had an increase to spendable fund balance of \$415,000 at March 31 due to revenues and transfers in exceeding expenses.

Water Fund: Due to the timing of recording revenues and expenses, the operating water fund's revenues are at 62% of the budget while expenditures are at 60% of the budget at March 31. Revenues are budgeted to be \$3.23 million while expenditures are budgeted to be \$3.16 million. This budgeted surplus is reflected in the increase to the water operating fund's spendable fund balance.

Sewer Fund: The operating sewer fund's revenues are at 75% of the budget at March 31 while expenditures are at 61% of the budget. Revenues are budgeted to be \$504,400 and expenditures are budgeted to be \$115,300. This budget surplus is reflected in the increase to the sewer operating fund's spendable fund balance.

Both the Water and Sewer Capital Reserve Funds have increases to spendable fund balance which is mainly due to budgeted transfers from other funds.

Internal Service Funds

The Internal Service Funds began the year with a spendable fund balance of \$3.3 million which has been reduced by \$90,000 to \$3.2 million at March 31. The majority of the activity in the Internal Service Funds occurs in the Risk Management/Insurance Fund, and 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.


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:



Financial Consultant



City Manager

Attachments:

1. General Fund Revenues by Type
2. General Fund Expenditures by Department
3. General Fund Expenditures by Category
4. Spendable Fund Balance by Fund

THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2020-21
GENERAL FUND REVENUES BY TYPE
QUARTER ENDING MARCH 31, 2021

Revenue Type	FY 2020-21				FY 2019-20			Q3 Variance FY 2020-21 to FY 2019-20 Increase / <Decrease>
	Adopted Budget	Amended Budget	Year-to-Date Actual through 3/31/2021 (75% of FY)	Q3 Actual as a % of Amended Budget	Prior Year Actual Annual Revenue	Prior YTD Actual through 3/31/2020 (75% of FY)	Q3 Actual as a % of Annual Revenue	
Property Tax	\$ 4,131,700	\$ 4,131,700	\$ 2,408,566	58%	\$ 3,965,084	\$ 2,299,796	58%	\$ 108,770
Sales Tax	1,661,200	1,447,000	948,580	66%	1,579,279	1,045,879	66%	(97,299)
Transaction & Use Tax	1,464,500	1,501,500	982,936	65%	1,528,879	1,002,733	66%	(19,797)
Utility Users Tax	911,400	911,400	658,988	72%	918,256	638,919	70%	20,069
Residual Property Tax	160,000	160,000	115,921	72%	283,903	163,385	58%	(47,464)
Franchise Fees	410,000	410,000	142,103	35%	417,835	144,058	34%	(1,955)
Transient Occupancy Tax	205,000	150,000	103,864	69%	297,709	196,132	66%	(92,268)
Licenses and Permits	356,200	356,200	333,020	93%	410,233	344,878	84%	(11,858)
Intergovernmental	19,100	290,382	218,255	75%	271,900	22,820	8%	195,435
Charges for Services	510,500	510,500	130,470	26%	355,615	346,732	98%	(216,262)
Fines and Forfeitures	97,000	97,000	34,216	35%	91,382	66,105	72%	(31,889)
Use of Money and Property	421,800	421,800	300,867	71%	647,342	378,036	58%	(77,169)
Other Revenue	352,700	352,700	257,639	73%	520,023	305,525	59%	(47,886)
Interfund Charges	646,600	646,600	484,950	75%	634,000	475,500	75%	9,450
Total Revenues	\$ 11,347,700	\$ 11,386,782	\$ 7,120,375	63%	\$ 11,921,440	\$ 7,430,498	62%	\$ (310,123)

**THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2020-21
GENERAL FUND EXPENDITURES BY DEPARTMENT
QUARTER ENDING MARCH 31, 2021**

Department	FY 2020-21				FY 2019-20			Q3 Variance FY 2020-21 to FY 2019-20 Increase / <Decrease>
	Adopted Budget	Amended Budget	Year-to-Date Actual through 3/31/2021 (75% of FY)	Q3 Actual as a % of Amended Budget	Prior Year Actual Annual Expenditures	Prior YTD Actual through 3/31/2020 (75% of FY)	Q3 Actual as a % of Annual Expenditures	
General Government	\$ 726,700	\$ 726,700	\$ 498,091	69%	\$ 714,368	\$ 470,730	66%	\$ 27,361
Administrative Services (Note 1)	2,836,000	2,870,000	2,088,407	73%	2,621,921	2,105,790	80%	(17,383)
Police	5,205,400	5,285,400	3,552,351	67%	4,831,449	3,584,604	74%	(32,253)
Community Services	2,068,300	2,137,300	1,347,442	63%	1,865,864	1,310,844	70%	36,598
Community Development	514,700	529,700	335,900	63%	486,958	306,840	63%	29,060
Total	\$ 11,351,100	\$ 11,549,100	\$ 7,822,191	68%	\$ 10,520,560	\$ 7,778,808	74%	\$ 43,383

**THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2020-21
GENERAL FUND EXPENDITURES BY CATEGORY
QUARTER ENDING MARCH 31, 2020**

Expenditure Type			Year-to-Date	Q3 Actual	FY 2019-20			Q3 Variance FY 2020-21 to FY 2019-20 Increase / <Decrease>
	Adopted Budget	Amended Budget	Actual through 3/31/2021 (75% of FY)	as a % of Amended Budget	Prior Year Actual Annual Expenditures	Prior YTD Actual through 3/31/2020 (75% of FY)	Q3 Actual as a % of Annual Expenditures	
Personnel Services	\$ 7,530,300	\$ 7,537,300	\$ 5,252,378	70%	\$ 6,834,749	\$ 5,230,570	77%	\$ 21,808
Maintenance and Operations	3,729,600	3,840,600	2,483,351	65%	3,651,044	2,532,000	69%	(48,649)
Capital Outlay/Improvements	91,200	171,200	86,462	51%	34,767	16,238	47%	70,224
Total	\$ 11,351,100	\$ 11,549,100	\$ 7,822,191	68%	\$ 10,520,560	\$ 7,778,808	74%	\$ 43,383

THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2020-21
SPENDABLE FUND BALANCE - FISCAL YEAR CHANGE
THROUGH THE QUARTER ENDING MARCH 31, 2021

<u>Fund #</u>	<u>Fund Title</u>	<u>Balance 6/30/2020</u>	<u>Balance 3/31/2021</u>	<u>FY Change through 3/31/2021</u>
1	General Fund	\$ 3,065,726	\$ 2,335,641	\$ (730,085)
3	Emergency Reserve Fund	5,897,700	5,897,700	-
5	Economic Development Fund	219,768	260,074	40,306
	Subtotal General Funds	9,183,194	8,493,415	(689,779)
10	Road Maintenance & Rehabilitation Account (RMRA)	\$ 687,176	\$ 765,654	78,478
11	Streets Fund	238,265	241,274	3,009
12	Measure M2	373,907	1,168,070	794,163
15	Air Quality Fund	185,140	197,255	12,115
16	PEG Fund	310,591	326,122	15,531
20	Asset Seizure Fund	74,794	62,254	(12,540)
21	Public Safety Augmentation Fund	223,048	216,680	(6,368)
22	Supplemental Law Enforcement Fund	201,392	248,379	46,987
23	SVC Authority for Abandoned Vehicles	28,139	28,473	334
24	BSCC Local Law Enforcement Grant	50,497	51,096	599
25	Community Foundation Public Safety Grant	801	100,505	99,704
33	Park Development Fund	69,860	70,689	829
38	SA Housing Entity Fund	1,035,730	1,215,889	180,159
	Subtotal Special Revenue Funds	3,479,340	4,692,340	1,213,000
35	Capital Outlay Reserve Fund	6,917,318	6,617,192	(300,126)
37	Civic Center Rehabilitation Reserve Fund	422,841	642,156	219,315
	Subtotal Capital Projects Funds	7,340,159	7,259,348	(80,811)
50	Water Fund	435,357	379,333	(56,024)
55	Water Capital reserve Fund	4,331,553	4,520,074	188,521
	Subtotal Water Related Funds	4,766,910	4,899,407	132,497
52	Sewer Fund	1,797,699	1,956,021	158,322
56	Sewer Capital Reserve Fund	2,198,288	2,322,100	123,812
	Subtotal Sewer Related Funds	3,995,987	4,278,121	282,134
60	Risk Management/Insurance	1,164,574	907,611	(256,963)
61	Employee Benefits Fund	314,726	318,463	3,737
62	Building Maintenance & Replacement Fund	55,610	56,271	661
63	Vehicle Replacement Fund	1,029,517	1,201,180	171,663
64	Technology Replacement Fund	697,864	688,529	(9,335)
	Subtotal Internal Service Funds Funds	3,262,291	3,172,054	(90,237)
	Total All Funds	\$ 32,027,881	\$ 32,794,685	\$ 766,804

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