

City of La Palma

Agenda Item No. 4



MEETING DATE: May 3, 2022

TO: CITY COUNCIL

FROM: CITY MANAGER

SUBMITTED BY: Ryan Hallett Hinton, Assistant to the City Manager

AGENDA TITLE: Third Quarter Operating Report, Fiscal Year 2021-22

RECOMMENDED ACTION:

It is recommended that the City Council receive and file the Third Quarter Operating Report, Fiscal Year 2021-22.

BACKGROUND:

Staff is presenting a report to the City 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 on March 31, 2022, 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, 2022).

For the quarterly report, no quarter-end accruals are recorded. Except at fiscal year-end when accruals are recorded according to accounting standards, 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 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 of 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

On March 31, 2022, the City's overall spendable fund balance was \$33.8 million, which is \$202,000 lower than at the beginning of the fiscal year. This net change is accounted for as follows:

- General Fund Operating Fund decreased by \$419,000
- Special Revenue Funds increased by \$417,000
- Capital Projects Funds increased by \$234,000
- Water Funds decreased by \$689,000
- Sewer Funds increased by \$226,000
- Internal Service Funds increased by \$29,000

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 \$8.21 million (66% of the amended budget), and expenditures totaled \$8.18 million (67% of the amended budget) through March 31, 2022. Since revenues essentially offset expenditures, the General Fund's reduction in spendable fund balance is due to making the budgeted transfers of \$400,000 to the capital projects funds.

Revenues

Total General Fund revenues are at 66% of the budget through 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. Also discussed below are Residual Property Tax, Transient Occupancy Tax, and Use of Money and Property revenues. All other revenue line items have smaller revenue totals or patterns that are comparable to prior years.

- **Property Tax:** The General Fund's largest revenue source, property tax, has \$2.5 million in revenue recorded through March 31 (59% of the \$4.2 million budget). This is similar to the prior year's receipt pattern – by the end of the third quarter of FY 2020-21, the City had received \$2.4 million (58% of the total prior year's property tax revenue).

The property tax line item includes secured and unsecured property taxes (budgeted at \$2.6 million) as well as the property tax in lieu of vehicle license fees (budgeted at \$1.6 million). 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 \$1.2 million recorded through March 31 (64% of the \$1.9 million budget, as amended). Sales tax receipts lag by two to three months, and the corresponding contractual tax rebate payments follow the lag time too. Current year revenues are higher than in the prior year, where the revenue recorded through the end of the third quarter was \$949,000, which was 54% of the total fiscal year's revenue.
- **Transaction & Use Tax:** The transaction and use tax is the second largest budgeted revenue source. There is \$1.3 million recorded through March 31 (69% of the \$1.9 million amended budget). These receipts follow the same payment track as sales tax, and receipts lag by two to three months. Current year revenues are higher than in the prior year, where the revenue recorded through the end of the third quarter was \$983,000, which was 52% of the total fiscal year's revenue.
- **Utility Users Tax:** The fourth largest budgeted revenue source is the utility users tax. Payments received through March 31 total 74% of the budget at \$692,000. This is comparable to the \$659,000 revenue that was reported through the third quarter of the prior year, which was 69% of the total fiscal year's revenue.
- **Residual Property Tax:** This money is distributed through the County of Orange in December and May and is determined based on residual balances of the Redevelopment Property Tax Trust Fund (RPTTF) after distributions have been made for Successor Agency enforceable obligations. The amount to be received for each distribution is not able to be predicted. However, as redevelopment debts get repaid, the residual RPTTF that is available for distribution to the City will increase. The City received \$217,500 in residual property tax during December 2021, and additional receipts are expected during the fourth quarter.
- **Transient Occupancy Tax:** Total revenue recorded through March is \$239,000, which is 80% of the budget. However, this includes \$79,000 received in February 2022, which relates to the fourth quarter of the prior fiscal year. Without this prior year's payment, the current year's revenue through March is \$160,000, which is higher than the prior year's comparable timing of \$104,000.
- **Use of Money and Property:** Total revenue recorded through March is \$333,000 (91% of the \$366,700 amended budget). This category is comprised of the senior housing lease, miscellaneous rental income, and investment income. The majority of the revenue is from the annual senior housing lease, for which payment was received in full (\$200,000) during the first quarter. Miscellaneous rental income totals \$71,000, and investment income totals \$62,000 through March 31.

Until investments are sold, any difference between market and book value is an unrealized gain or loss; only at year-end are the unrealized gains or losses recorded as part of interest revenue. As a result of rising interest rates, the unrealized loss on March 31 was \$765,000. If interest rates continue to rise, as is anticipated from the results of the March 2022 Federal Reserve Board meeting, the unrealized loss at the end of the fiscal year is likely

to be even higher, which would result in this revenue line item being negative at fiscal year-end.

Expenditures

The General Fund's expenditures total \$8.2 million through March 31 (67% of the \$12.2 million budget, as amended). In comparison, the prior year's expenditures totaled \$7.8 (72% of the \$10.9 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 of the City Council, City Manager, Legal Services, and City Clerk. The budget for this department totals \$802,200, and expenditures through the third quarter total \$529,000, 66% of the budget. In comparison, the prior year's expenditures through the third quarter totaled \$498,000, which was 69% of the year's total expenditures.
- The Administrative Services Department is comprised of the divisions of Administration, Fiscal Services, Human Resources, and Technology and Communications. The budget for this department totals \$3.2 million, and expenditures through the third quarter totaled \$2.2 million. Expenditures are at 69% of the budget, which is consistent with the prior year's expenditures through the third quarter of \$2.1 million, which were 74% of the year's total expenditures.
- The Police Department has an expenditure budget of \$5.4 million. As of March 31, expenditures totaled \$3.6 million, which is 67% of the budget. In comparison, the prior year's expenditures through the third quarter totaled \$3.6 million, which was 73% 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 \$2.3 million, and expenditures through the third quarter total \$1.5 million, which is 64% of the budget. In comparison, the prior year's expenditures through the third quarter totaled \$1.3 million, which was 69% of the year's total expenditures.
- The Community Development Department accounts for the Building and Safety, Code Enforcement, and Planning divisions. This department has a budget of \$508,000, and expenditures through the third quarter total \$327,000, which is 64% of the budget. In comparison, the prior year's expenditures through the third quarter of \$336,000 were 69% 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 \$417,000 essentially due to 1) the receipt of restricted monies from Road Maintenance and Rehabilitation Account (RMRA), Gas Tax, Measure M, and AQMD in advance of spending for street purposes; 2) receipt of public safety grants in advance of spending for law enforcement purposes; and 3) the receipt of housing loan interest payments.

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 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 \$696,000 to building reparation and ADA improvement projects funded by the Capital Outlay Reserve Fund. The spendable fund balance increased by \$234,000, mainly due to receiving payment on the long-term advance made to other funds and from transfers from other funds for specific project funding.

Water & Sewer Funds

The Water Fund began the year with a spendable fund balance of \$5.1 million, which was reduced by \$0.7 million to \$4.4 million on March 31. Due to the timing of recording revenues and expenses, revenues lag by one to two months during the year. The majority of the reduction in spendable fund balance is due to paying for budgeted, long-term capital improvements to the water system.

The Sewer Fund began the year with a spendable fund balance of \$4.2 million, which was increased by \$0.2 million to \$4.4 million on March 31. As long-term capital improvements to the sewer system get underway, it is expected that the spendable fund balance will decrease.

Internal Service Funds

The Internal Service Funds began the year with a spendable fund balance of \$3.4 million, which increased to \$3.5 million on March 31. Changes in the spendable fund balance of the internal service funds are typically due to timing differences as revenues are recorded evenly throughout the year while expenses occur at various times. The majority of the activity in the Internal Service Funds occurs in the Risk Management/Insurance Fund, and that fund's reduction in the spendable fund balance is due to the annual insurance payments for workers' compensation, property, and general liability coverage, which are paid at the beginning of the fiscal year. The Vehicle and Technology Replacement Funds have budgeted purchases that are expected to approximate the year's revenues in those funds.

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. 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 2021-22
GENERAL FUND REVENUES BY TYPE
QUARTER ENDING MARCH 31, 2022

| Revenue Type | FY 2021-22 | | | | FY 2020-21 | | | Q3 Variance FY 2021-22 to FY 2020-21 Increase / <Decrease> |
|---------------------------|----------------------|----------------------|--|---|---|---|---|--|
| | Adopted Budget | Amended Budget | Year-to-Date Actual through 3/31/2022 (75% of FY) | Q3 Actual as a % of Amended Budget | Prior Year Actual Annual Revenue | Prior YTD Actual through 3/31/2021 (75% of FY) | Q3 Actual as a % of Annual Revenue | |
| Property Tax | \$ 4,246,900 | \$ 4,246,900 | \$ 2,488,604 | 59% | \$ 4,133,331 | \$ 2,408,566 | 58% | \$ 80,038 |
| Sales Tax | 1,300,400 | 1,859,000 | 1,181,350 | 64% | 1,767,292 | 948,580 | 54% | 232,770 |
| Transaction & Use Tax | 1,822,600 | 1,938,000 | 1,327,955 | 69% | 1,880,718 | 982,936 | 52% | 345,019 |
| Utility Users Tax | 929,600 | 929,600 | 692,400 | 74% | 957,702 | 658,988 | 69% | 33,412 |
| Residual Property Tax | 163,200 | 315,000 | 217,529 | 69% | 243,983 | 115,921 | 48% | 101,608 |
| Franchise Fees | 418,200 | 418,200 | 154,455 | 37% | 397,504 | 142,103 | 36% | 12,352 |
| Transient Occupancy Tax | 300,000 | 300,000 | 239,452 | 80% | 160,948 | 103,864 | 65% | 135,588 |
| Licenses and Permits | 363,400 | 363,400 | 322,467 | 89% | 407,482 | 333,020 | 82% | (10,553) |
| Intergovernmental | 14,300 | 212,481 | 214,117 | 101% | 323,418 | 218,255 | 67% | (4,138) |
| Charges for Services | 520,800 | 520,800 | 280,730 | 54% | 224,124 | 130,470 | 58% | 150,260 |
| Fines and Forfeitures | 98,900 | 98,900 | 58,761 | 59% | 73,818 | 34,216 | 46% | 24,545 |
| Use of Money and Property | 693,700 | 366,700 | 332,863 | 91% | 298,005 | 300,867 | 101% | 31,996 |
| Other Revenue | 261,000 | 261,000 | 207,897 | 80% | 418,460 | 257,639 | 62% | (49,742) |
| Interfund Charges | 659,500 | 659,500 | 494,550 | 75% | 646,600 | 484,950 | 75% | 9,600 |
| Total Revenues | \$ 11,792,500 | \$ 12,489,481 | \$ 8,213,130 | 66% | \$ 11,933,385 | \$ 7,120,375 | 60% | \$ 1,092,755 |

**THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2021-22
GENERAL FUND EXPENDITURES BY DEPARTMENT
QUARTER ENDING MARCH 31, 2022**

| Department | FY 2021-22 | | | | FY 2020-21 | | | Q3 Variance FY 2021-22 to FY 2020-21 Increase / <Decrease> |
|----------------------------------|----------------------|----------------------|--|---|--|---|--|--|
| | Adopted Budget | Amended Budget | Year-to-Date Actual through 3/31/2022 (75% of FY) | Q3 Actual as a % of Amended Budget | Prior Year Actual Annual Expenditures | Prior YTD Actual through 3/31/2021 (75% of FY) | Q3 Actual as a % of Annual Expenditures | |
| General Government | \$ 802,200 | \$ 802,200 | \$ 529,079 | 66% | \$ 722,013 | \$ 498,091 | 69% | \$ 30,988 |
| Administrative Services (Note 1) | 3,167,700 | 3,167,700 | 2,179,390 | 69% | 2,813,993 | 2,088,407 | 74% | 90,983 |
| Police | 5,397,500 | 5,401,372 | 3,642,324 | 67% | 4,877,153 | 3,552,351 | 73% | 89,973 |
| Community Services | 2,257,400 | 2,343,900 | 1,501,508 | 64% | 1,962,620 | 1,347,442 | 69% | 154,066 |
| Community Development | 508,000 | 508,000 | 327,055 | 64% | 487,239 | 335,900 | 69% | (8,845) |
| Total | \$ 12,132,800 | \$ 12,223,172 | \$ 8,179,356 | 67% | \$ 10,863,018 | \$ 7,822,191 | 72% | \$ 357,165 |

**THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2021-22
GENERAL FUND EXPENDITURES BY CATEGORY
QUARTER ENDING MARCH 31, 2022**

| Expenditure Type | FY 2021-22 | | | | FY 2020-21 | | | Q3 Variance FY 2021-22 to FY 2020-21 Increase / <Decrease> |
|-----------------------------|----------------------|----------------------|--|---|--|---|--|--|
| | Adopted Budget | Amended Budget | Year-to-Date Actual through 3/31/2022 (75% of FY) | Q3 Actual as a % of Amended Budget | Prior Year Actual Annual Expenditures | Prior YTD Actual through 3/31/2021 (75% of FY) | Q3 Actual as a % of Annual Expenditures | |
| Personnel Services | \$ 7,764,500 | \$ 7,764,500 | \$ 5,419,715 | 70% | \$ 7,198,437 | \$ 5,252,378 | 73% | \$ 167,337 |
| Maintenance and Operations | 4,287,100 | 4,377,472 | 2,680,530 | 61% | 3,565,289 | 2,483,351 | 70% | 197,179 |
| Capital Outlay/Improvements | 81,200 | 81,200 | 79,111 | 97% | 99,292 | 86,462 | 87% | (7,351) |
| Total | \$ 12,132,800 | \$ 12,223,172 | \$ 8,179,356 | 67% | \$ 10,863,018 | \$ 7,822,191 | 72% | \$ 357,165 |

THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2021-22
SPENDABLE FUND BALANCE - FISCAL YEAR CHANGE
THROUGH THE QUARTER ENDING MARCH 31, 2022

| <u>Fund #</u> | <u>Fund Title</u> | <u>Balance</u> <u>6/30/2021</u> | <u>Balance</u> <u>3/31/2022</u> | <u>FY Change</u> <u>through</u> <u>3/31/2022</u> |
|---------------|--|------------------------------------|------------------------------------|--|
| 1 | General Fund | \$ 4,211,663 | \$ 4,303,172 | \$ 91,509 |
| 3 | Emergency Reserve Fund | 5,897,700 | 6,047,700 | 150,000 |
| 5 | Economic Development Fund | 258,069 | 202,380 | (55,689) |
| 17 | American Rescue Plan | 695,353 | 90,043 | (605,310) |
| | Subtotal General Funds | 11,062,785 | 10,643,295 | (419,490) |
| 10 | Road Maintenance & Rehabilitation Account (RMRA) | \$ 594,395 | \$ 612,960 | 18,565 |
| 11 | Streets Fund | 220,902 | 264,105 | 43,203 |
| 12 | Measure M2 | 513,113 | 549,114 | 36,001 |
| 15 | Air Quality Fund | 205,920 | 216,615 | 10,695 |
| 16 | PEG Fund | 329,703 | 351,134 | 21,431 |
| 20 | Asset Seizure Fund | 39,643 | 38,278 | (1,365) |
| 21 | Public Safety Augmentation Fund | 222,275 | 227,355 | 5,080 |
| 22 | Supplemental Law Enforcement Fund | 186,614 | 257,434 | 70,820 |
| 23 | SVC Authority for Abandoned Vehicles | 28,234 | 28,364 | 130 |
| 24 | BSCC Local Law Enforcement Grant | 50,523 | 50,225 | (298) |
| 25 | Community Foundation Public Safety Grant | 801 | 161,181 | 160,380 |
| 33 | Park Development Fund | 2,287 | 2,298 | 11 |
| 38 | SA Housing Entity Fund | 1,175,829 | 1,228,178 | 52,349 |
| | Subtotal Special Revenue Funds | 3,570,239 | 3,987,241 | 417,002 |
| 35 | Capital Outlay Reserve Fund | 5,957,026 | 5,939,659 | (17,367) |
| 37 | Civic Center Rehabilitation Reserve Fund | 636,780 | 888,583 | 251,803 |
| | Subtotal Capital Projects Funds | 6,593,806 | 6,828,242 | 234,436 |
| 50 | Water Fund | 713,187 | 548,584 | (164,603) |
| 55 | Water Capital reserve Fund | 4,385,503 | 3,861,379 | (524,124) |
| | Subtotal Water Related Funds | 5,098,690 | 4,409,963 | (688,727) |
| 52 | Sewer Fund | 2,180,948 | 1,504,452 | (676,496) |
| 56 | Sewer Capital Reserve Fund | 2,030,338 | 2,932,838 | 902,500 |
| | Subtotal Sewer Related Funds | 4,211,286 | 4,437,290 | 226,004 |
| 60 | Risk Management/Insurance | 1,192,176 | 964,641 | (227,535) |
| 61 | Employee Benefits Fund | 315,796 | 317,244 | 1,448 |
| 62 | Building Maintenance & Replacement Fund | 55,800 | 56,055 | 255 |
| 63 | Vehicle Replacement Fund | 1,168,600 | 1,320,730 | 152,130 |
| 64 | Technology Replacement Fund | 716,845 | 819,627 | 102,782 |
| | Subtotal Internal Service Funds Funds | 3,449,217 | 3,478,297 | 29,080 |
| | Total All Funds | \$ 33,986,023 | \$ 33,784,328 | \$ (201,695) |

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