

# City of La Palma

## Agenda Item No. 5



MEETING DATE: December 20, 2016  
TO: CITY COUNCIL  
FROM: CITY MANAGER  
SUBMITTED BY: Sea Shelton, Administrative Services Director  
AGENDA TITLE: First Quarter Operating Report, Fiscal Year 2016-17

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### **RECOMMENDED ACTION:**

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

### **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 September 30, 2016, as well as the year-to-date change in spendable fund balances.
2. A review of the General Fund's revenue and expenditures through the first quarter of the fiscal year (25% of the year as of September 30, 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 first quarter represents 25 percent of the fiscal year, not all line items will be at 25 percent of the budget as of the end of the first 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:**

Attached for review are the following first quarter summary schedules:

- Schedule of General Fund Revenues

- 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 (the sum of cash, investments, and current receivables less current liabilities) has declined by \$3.0 million from the beginning of the fiscal year from \$30.6 million to \$27.6 million at September 30, 2016. As explained further in the following section, this follows the prior year's pattern of a nine to ten percent reduction in spendable fund balance as a result of cash flow timing. This \$3.0 million change is accounted for as follows:

- General Fund decreased by \$1,300,000
- Special Revenue Funds decreased by \$100,000
- Capital Outlay Revolving Fund decreased by \$600,000
- Water Fund decreased by \$300,000
- Internal Service Funds decreased by \$700,000

## **General Fund**

As shown in the attached charts, General Fund revenues totaled \$1.3 million (14% of the budget) while expenditures totaled \$2.6 million (26% of the budget) as of September 30, 2016. The excess of expenditures over revenues equals the \$1.3 million reduction in spendable fund balance. The FY 2016-17 activity is similar to the prior year's first quarter activity: FY 2015-16 General Fund revenues totaled \$1.4 million and expenditures totaled \$2.6 million through September 30, 2015.

## Revenues

Total General Fund revenues are at only 14% of the budget through the end of the first quarter. This is not unusual since the largest component of General Fund revenues is property taxes, and the first major distribution of property tax receipts is scheduled during the second quarter. Following is a discussion of the three largest General Fund revenue sources of property tax, sales tax, and utility users tax. Together, these three revenues account for approximately 70% of the General Fund's revenue budget.

- **Property Tax:** The General Fund's largest revenue source, property tax, has \$12,000 revenue recorded at September 30 (0.3% of the \$3.5 million budget). This is similar to the prior year receipt pattern – by the end of the first quarter of FY 2014-15, the City had received \$58,000.

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 \$1.4 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 will be received in two installments; the first distribution will be in January 2017 (during the third quarter) and the second installment will be in May 2017 (during the fourth quarter).

- **Sales Tax:** The next largest revenue source, sales tax, has \$334,000 recorded at September 30 (17% of the \$1.9 million budget). Sales tax receipts always lag by two to three months, and consequently, much of the actual sales tax payments received during

the quarter were recorded as prior year revenue. The prior year revenue recorded through the end of the first quarter was 18% of the total fiscal year's revenue, which is comparable to the current year's 17% of total budget.

- Utility Users Tax: The third largest revenue source is utility users tax, budgeted at \$1.1 million. Payments received through September 30 total 17% of budget at \$190,000. Utility users tax payments lag by one month; consequently, extrapolating the two months of payments received through September 30 to three months results in an estimate of \$285,500 which is 25% of the budget.

### Expenditures

The General Fund's expenditures total \$2.6 million at September 30 (26% of the \$9.97 million budget). The prior year expenditures also totaled \$2.6 million through the end of the first quarter.

- 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 \$634,200, and as of September 30, expenditures total \$123,268 (19% of the budget).
- The Administrative Services Department is comprised of the divisions for Administration, Fiscal Services, Human Resources, and Technology and Communications. The budget for this department totals \$2.2 million, and as of September 30, expenditures total \$981,000 (45% of the budget). The expenditures are relatively high at this point in the fiscal year due to paying \$738,000 pension liability payments at the beginning of the fiscal year rather than proportionately through the year.
- The Police Department has the largest expenditure budget at \$4.6 million (46% of the total General Fund budget). As of September 30, expenditures totaled \$1.1 million (23% of the 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 \$2.1 million, and as of September 30, expenditures total \$390,000 (19% of the budget).
- The Community Development Department accounts for the Building and Safety, Code Enforcement, and Planning divisions. As of September 30, expenditures totaled \$84,000 (18% of the \$457,000 budget).

### **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, and housing-related sources, and other similar remittances.

The reason for the \$100,000 decrease in spendable fund balance is a result of a pending grant reimbursement from the Community Development Block Grant program of \$200,000 which is

offset by various other sources (e.g., park development receipts and housing-related receipts) being accumulated prior to being spent.

### **Capital Outlay Reserve Fund**

In accordance with the project budgets, the Capital Outlay Reserve Fund had expenditures of \$586,000 for the Residential Slurry Seal, Arterial Pavement Management, and ADA Improvements projects. This fund is expected to use monies previously set-aside to fund these projects.

### **Water Funds**

The Water Fund began the year with a spendable fund balance of \$4.9 million which has been reduced by \$0.3 million to \$4.6 million at September 30. Due to recording receivables on an accrual basis at fiscal year-end in accordance with generally accepted accounting principles while recording receipts on a cash basis during the year, revenues lag by one to two months during the year. Consequently, the spendable fund balance for the water fund is typically reduced during the first quarter.

### **Internal Service Funds**

The Internal Service Funds began the year with a spendable fund balance of \$2.7 million which has been reduced by \$0.7 million to \$2.0 million at September 30. The majority of the activity in the Internal Service Funds occurs in the Risk Management/Insurance Fund, Vehicle Replacement Fund, and the Technology Replacement Fund. 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:**

As of the end of the first quarter, staff anticipates that actual revenues and expenditures will generally approximate the budgeted numbers by fiscal year-end. However, some adjustments may be necessary and adjustments may occur during the mid-year review process.

### **RECOMMENDED ACTION:**

It is recommended that the City Council receive and file the report.

### **APPROVED:**

  
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Administrative Services Director

  
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City Manager

- Attachments:
1. General Fund revenue summary
  2. General Fund Expenditure by Department
  3. General Fund Expenditures by Category
  4. Spendable Fund Balance Summary

**FIRST QUARTER FINANCIAL REPORT, FISCAL YEAR 2016-17**  
**GENERAL FUND REVENUES BY TYPE**  
**FISCAL YEAR QUARTER ENDING SEPTEMBER 30, 2016**

Revenue Type	FY 2016-17			FY 2015-16			Q1 Variance FY 2016-17 to FY 2015-16 Increase / <Decrease>
	Adopted Budget	Year-to-Date Actual through 9/30/2016 (25% of FY)	Q1 Actual as a % of Adopted Budget	Prior Year Actual Annual Revenue	Prior YTD Actual through 9/30/2015 (25% of FY)	Q1 Actual as a % of Annual Revenue	
Property Tax	\$ 3,484,000	\$ 11,904	0%	\$ 3,407,901	\$ 57,591	2%	\$ (45,687)
Sales Tax	1,949,500	334,236	17%	2,341,421	426,072	18%	(91,836)
Utility Users Tax	1,125,000	190,363	17%	1,078,903	189,672	18%	691
Residual Property Tax	131,000	45,988	35%	158,252	-	0%	45,988
Franchise Fees	426,400	16,340	4%	394,345	10,266	3%	6,074
Transient Occupancy Tax	370,000	-	0%	390,823	-	0%	-
Licenses and Permits	302,700	224,764	74%	373,165	203,854	55%	20,910
Intergovernmental	31,400	1,436	5%	22,560	8,363	37%	(6,927)
Charges for Services	488,900	174,746	36%	607,852	182,578	30%	(7,832)
Fines and Forfeitures	160,200	10,959	7%	148,689	20,349	14%	(9,390)
Use of Money and Property	313,600	54,093	17%	371,676	39,111	11%	14,982
Other Revenue	398,500	132,628	33%	451,017	125,138	28%	7,490
Interfund Charges	484,400	146,925	30%	587,700	146,925	25%	-
<b>Total Revenues</b>	<b>\$ 9,665,600</b>	<b>\$ 1,344,382</b>	<b>14%</b>	<b>\$ 10,334,304</b>	<b>\$ 1,409,919</b>	<b>14%</b>	<b>\$ (65,537)</b>

**FIRST QUARTER FINANCIAL REPORT, FISCAL YEAR 2016-17  
GENERAL FUND EXPENDITURES BY DEPARTMENT  
FISCAL YEAR QUARTER ENDING SEPTEMBER 30, 2016**

Department	FY 2016-17			FY 2015-16			Q1 Variance FY 2016-17 to FY 2015-16 Increase / <Decrease>
	Adopted Budget	Year-to-Date Actual through 9/30/2016 (25% of FY)	Q1 Actual as a % of Adopted Budget	Prior Year Actual Annual Expenditures	Prior YTD Actual through 9/30/2015 (25% of FY)	Q1 Actual as a % of Annual Expenditures	
General Government	\$ 634,200	\$ 123,268	19%	\$ 618,523	\$ 48,968	8%	\$ 74,300
Administrative Services	2,197,400	980,893	45%	2,289,804	1,021,193	45%	(40,300)
Police	4,628,900	1,050,453	23%	4,334,964	1,128,641	26%	(78,188)
Community Services	2,051,900	390,276	19%	1,859,625	368,645	20%	21,631
Community Development	457,400	84,408	18%	448,055	62,238	14%	22,170
<b>Total</b>	<b>\$ 9,969,800</b>	<b>\$ 2,629,298</b>	<b>26%</b>	<b>\$ 9,550,971</b>	<b>\$ 2,629,685</b>	<b>28%</b>	<b>\$ (387)</b>

**FIRST QUARTER FINANCIAL REPORT, FISCAL YEAR 2016-17  
GENERAL FUND EXPENDITURES BY CATEGORY  
FISCAL YEAR QUARTER ENDING SEPTEMBER 30, 2016**

Expenditure Type	FY 2016-17			FY 2015-16			Q1 Variance FY 2016-17 to FY 2015-16 Increase / <Decrease>
	Adopted Budget	Year-to-Date Actual through 9/30/2016 (25% of FY)	Q1 Actual as a % of Adopted Budget	Prior Year Actual Annual Expenditures	Prior YTD Actual through 9/30/2015 (25% of FY)	Q1 Actual as a % of Annual Expenditures	
Personnel Services	\$ 6,338,200	\$ 1,911,025	30%	\$ 6,332,950	\$ 2,011,726	32%	\$ (100,701)
Maintenance and Operations	3,548,300	717,411	20%	3,203,006	617,673	19%	99,738
Capital Outlay/Improvements	83,300	862	1%	15,015	286	2%	576
<b>Total</b>	<b>\$ 9,969,800</b>	<b>\$ 2,629,298</b>	<b>26%</b>	<b>\$ 9,550,971</b>	<b>\$ 2,629,685</b>	<b>28%</b>	<b>\$ (387)</b>

**FIRST QUARTER FINANCIAL REPORT, FISCAL YEAR 2016-17  
SPENDABLE FUND BALANCE - FISCAL YEAR CHANGE  
THROUGH THE FISCAL YEAR QUARTER ENDING SEPTEMBER 30, 2016**

<u>Fund #</u>	<u>Fund Title</u>	<u>Balance 6/30/2016</u>	<u>Balance 9/30/2016</u>	<u>FY Change through 9/30/2016</u>
1	General Fund	\$ 2,279,457	\$ 994,541	\$ (1,284,916)
3	Emergency Reserve Fund	9,000,000	9,000,000	-
5	Economic Development Fund	228,814	228,814	-
	<b>Subtotal General Funds</b>	<b>11,508,271</b>	<b>10,223,355</b>	<b>(1,284,916)</b>
11	Streets Fund	98,453	108,516	10,063
12	Measure M2	559,195	554,269	(4,926)
14	Community Development Block Grant	-	(200,000)	(200,000)
15	Air Quality Fund	92,888	93,196	308
16	PEG Fund	201,466	202,145	679
20	Asset Seizure Fund	75,252	75,507	255
21	Public Safety Augmentation Fund	116,898	128,480	11,582
22	Supplemental Law Enforcement Fund	66,714	86,710	19,996
23	SVC Authority for Abandoned Vehicles	26,206	26,295	89
33	Park Development Fund	44,291	75,697	31,406
38	SA Housing Entity Fund	641,152	664,811	23,659
	<b>Subtotal Special Revenue Funds</b>	<b>1,922,515</b>	<b>1,815,626</b>	<b>(106,889)</b>
35	Capital Outlay Reserve Fund	5,373,576	4,804,927	(568,649)
36	One-Time Projects Fund	661,851	661,851	-
	<b>Subtotal Capital Projects Funds</b>	<b>6,035,427</b>	<b>5,466,778</b>	<b>(568,649)</b>
50	Water Fund	942,859	598,555	(344,304)
55	Water Capital reserve Fund	3,960,118	3,973,512	13,394
	<b>Subtotal Water Related Funds</b>	<b>4,902,977</b>	<b>4,572,067</b>	<b>(330,910)</b>
52	Sewer Fund	980,353	968,184	(12,169)
56	Sewer Capital Reserve Fund	2,583,990	2,592,769	8,779
	<b>Subtotal Sewer Related Funds</b>	<b>3,564,343</b>	<b>3,560,953</b>	<b>(3,390)</b>
60	Risk Management/Insurance	828,568	78,619	(749,949)
61	Employee Benefits Fund	44,779	45,852	1,073
62	Building Maintenance & Replacement Fund	51,791	51,966	175
63	Vehicle Replacement Fund	1,100,971	1,140,926	39,955
64	Technology Replacement Fund	637,845	660,498	22,653
	<b>Subtotal Internal Service Funds Funds</b>	<b>2,663,954</b>	<b>1,977,861</b>	<b>(686,093)</b>
	<b>Total All Funds</b>	<b>\$ 30,597,487</b>	<b>\$ 27,616,640</b>	<b>\$ (2,980,847)</b>

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