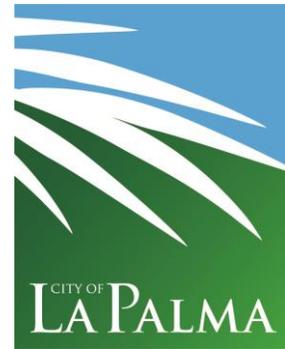


City of La Palma

Agenda Item No. 4



MEETING DATE: December 18, 2018

TO: CITY COUNCIL

FROM: CITY MANAGER

SUBMITTED BY: Sea Shelton, Administrative Services Director

AGENDA TITLE: Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ending June 30, 2017

RECOMMENDED ACTION:

It is recommended that the City Council accept and receive and file the Comprehensive Annual Financial Report (CAFR) of the City of La Palma for the Fiscal Year ended June 30, 2018.

SUMMARY:

The attached CAFR describes in detail the financial position and financial activity of the City of La Palma for the fiscal year ended June 30, 2018. The City's financial statements were audited and found to be in conformance with Generally Accepted Accounting Principles (GAAP). City staff has every reason to expect that this year's CAFR will be the twenty-first report to receive the Government Finance Officers Association of the United States and Canada's *Certificate of Achievement for Excellence in Financial Reporting*. The City Manager's letter of Transmittal and the Management Discussion and Analysis contained in the CAFR provide highlights of the report's contents including the following:

Governmental Activities:

Overall revenues increased by \$0.8 million over the previous fiscal year. The majority of the increase is due to the following:

- Charges for services decreased by \$0.3 million due to fewer projects being done in the City, resulting in lower planning review revenues.
- Grants and contributions decreased by \$0.3 million, mainly due to a project completed in the prior year, the Arterial Pavement Management Project, which had multiple grant funding sources.
- Sales taxes increased by \$1.1 million mainly as a result of receiving a full year's revenue for the transaction and use tax which was approved by the voters in November 2016. In

fiscal year 2016-17, revenue was only received in the last quarter of the fiscal year for the transaction and use tax.

- Other general revenues increased by \$0.1 million due to a new sign display rental agreement that began in February 2018.
- The remainder of the change is due to smaller increases in property and other taxes.

Expenses decreased by \$0.9 million when compared to the previous fiscal year:

- Public safety costs increased by \$0.5 million mainly as a result of receiving the new North Orange County Public Safety Task Force grant in fiscal year 2017-18 and reduction to costs not occurring in FY 2017-18 from the internal service closing to governmental activities.
- Public works costs decreased by \$1.2 million mainly due to the cyclical nature of street maintenance costs which results in alternating years having higher costs.
- General government costs decreased by \$0.1 million resulting from net adjustments to the net pension liability despite having higher actual payments for retiree health costs, unfunded pension liability contributions, and sales tax rebates.
- Community development costs decreased by \$0.1 million mainly from salary savings resulting from department vacancies.

General Fund:

As of June 30, 2018, the “spendable” portion of the General Fund’s fund balance (i.e., Committed, Assigned, and Unassigned fund balance) was \$7.6 million, while the total fund balance was \$10.0 million. Total General Fund “spendable” fund balance represents 60% of total General Fund expenditures. The General Fund’s Unassigned fund balance was \$2.1 million at June 30, 2018, and represents 16.5% of total General Fund expenditures.

The City’s General Fund had a net decrease to fund balance of \$1.2 million in both FY 2016-17 and FY 2017-18. Despite the same net result, revenues were higher in FY 2017-18 by \$0.9 million, expenditures were higher in FY 2017-18 by \$0.3 million, and net transfers to other funds increased by \$0.6 million. The reasons for these changes are as follows:

- Tax revenue increased by \$1.1 million with the majority of the increase (\$0.7 million) from the Transaction and Use Tax which was in effect for the entire fiscal year as opposed to only one fiscal quarter in FY 2016-17.
- Sales tax and property tax were each higher by \$0.1 million. All other tax categories had only small changes from the prior year.
- Licenses and permits decreased by \$0.2 million mainly as a result of higher than normal building activity in the prior year.
- Charges for services decreased by \$0.1 million as a result of fewer planning reviews being performed since building activity was lower.
- Rental revenue was higher by \$0.1 million resulting from a new display sign rental agreement beginning in February 2018.

- General government costs increased by \$0.3 million, mainly due to increased costs for retiree health insurance and for higher required payments toward the City's unfunded pension liability.
- Net transfers to other funds increased by \$0.6 million mainly to fund capital projects and capital project reserves.

An important component of the CAFR is the section entitled Notes to the Financial Statements. It is recommended that particular attention be paid to the notes, as they contain a great deal of useful information about the City's financial policies and position.

Pension and Other Post Employment Benefit (OPEB) Liability Reporting

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions*—an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. GASB 68 went into effect for the FY 2014-15 CAFR. In fiscal year 2017-2018, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement applies to government employers who provide OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. Both GASB 68 and 75 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for pensions and postemployment benefits other than pensions (OPEB) which are reported on the City's financial statements.

GASB 68 requires the reporting of the net pension liability (NPL); which is an accrual accounting measurement calculated in conformity with the Statement. This is not to be confused with the Unfunded Accrued Liability (UAL) that is reported in the City's Annual Valuation Report provided by the California Public Employees' Retirement System (CalPERS). The purpose of the NPL is to comply with GASB's financial reporting requirements and is not related to funding. The UAL is the present value of future employer contributions for service that has already been earned and is in addition to the future normal cost contributions for active members and is used to determine the employer contributions/funding in future fiscal years.

The City's NPL as of June 30, 2018, is reported as \$18,141,407 and can be found in Note 10.b in the Notes to Basic Financial Statements section of the CAFR. The total NPL is measured as of June 30, 2017, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures. The UAL as of June 30, 2018, will be available from CalPERS in late summer/early fall of 2019. The most recent CalPERS valuation reports are as of June 30, 2017, and report the City's total UAL as \$17,689,971. The valuation as of June 30, 2017, includes the first of two \$2.5 million additional payments the City made towards its UAL. A second \$2.5 million payment was made in FY 2017-18 and will be reflected in the next CalPERS valuation as of June 30, 2018.

As stated earlier, GASB 75 relates to OPEB liabilities and are reported separately from pension obligation. Accounting changes adopted to conform to the provisions of GASB 75 are to be applied retroactively. The result of the implementation of this statement decreased the net position at July 1, 2017, of the governmental activities, the business-type activities, the water enterprise fund, and the sewer enterprise fund by \$309,407, \$120,322, \$103,535, and \$16,787, respectively.

APPROVED:



Administrative Services
Director



City Manager

Attachment: 1. FY 2017-18 Comprehensive Annual Financial Report



Due to the large size of the attachment, a separate link has been created. You can open the file by clicking on the link provided below:

Attachment 1:

FY 2017-18 Comprehensive
Annual Financial Report