

City of La Palma

Agenda Item No. 4



MEETING DATE: November 19, 2019

TO: CITY COUNCIL

FROM: CITY MANAGER

SUBMITTED BY: Sea Shelton, Administrative Services Director

AGENDA TITLE: First Quarter Operating Report, Fiscal Year 2019-20

RECOMMENDED ACTION:

It is recommended that the City Council receive and file the First Quarter Operating Report, Fiscal Year 2019-20.

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, 2019, 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 first quarter of the fiscal year (25% of the year as of September 30, 2019).

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 first quarter represent 25 percent of the fiscal year, not all line items will be at 25 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 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 declined by \$2.6 million from the beginning of the fiscal year from \$29.4 million to \$26.8 million at September 30, 2019. As explained further in the following section, this reduction in spendable fund balance is essentially a result of cash flow timing for major revenue sources and a few expenditure uses. This \$2.6 million change is accounted for as follows:

- General Fund decreased by \$1,979,000
- Special Revenue Funds increased by \$151,000
- Capital Projects Funds decreased by \$31,000
- Water & Sewer Funds decreased by \$211,000
- Internal Service Funds decreased by \$483,000

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 \$1.4 million (11% of the budget) while expenditures totaled \$3.3 million (30% of the budget) as of September 30, 2019. These results are comparable to the prior year where revenues totaled \$1.4 million (12% of the year's revenues) and expenditures totaled \$3.0 million (30% of the year's expenditures). The excess of current year expenditures over revenues approximates the \$1.9 million reduction in spendable fund balance.

Revenues

Total General Fund revenues are at only 11% 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 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 \$47,000 revenue recorded at September 30 (1% of the \$4.0 million budget). This is similar to the prior year receipt pattern – by the end of the first quarter of FY 2018-19, the City had received \$54,000.

The property tax line item includes secured and unsecured property taxes (budgeted at \$2.4 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 second largest budgeted revenue source, sales tax, has \$221,000 recorded at September 30 (11% of the \$2.0 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. In comparison with the prior year, the revenue recorded through the end of the first quarter was 13% of the total fiscal year's revenue.
- **Transaction & Use Tax:** The transaction and use tax is the third largest budgeted revenue source. There is \$255,000 recorded at September 30 (19% of the \$1.4 million budget). These receipts follow the same payment track as sales tax, and receipts lag by two to three months. Much of the transaction and use tax payments received during this first quarter were recorded as prior year revenue.
- **Utility Users Tax:** The fourth largest budgeted revenue source is utility users tax. Payments received through September 30 total 15% of budget at \$145,000. This is comparable to the \$167,000 revenue that was reported through the first quarter of the prior year, which was 18% of the total fiscal year's revenue.

Expenditures

The General Fund's expenditures total \$3.3 million at September 30 (30% of the \$11.2 million budget). In comparison, the prior year expenditures totaled \$3.0 (30% of the \$10.2 million annual expenditures) through the end of the first 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 \$707,200, and expenditures through the first quarter total \$134,500. Expenditures are at 19% of the budget, which is consistent with the prior year's first quarter expenditures of \$119,200 which were 19% 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 \$2.7 million, and expenditures through the first quarter total \$1.5 million. Expenditures are at 56% of the budget which is consistent with the prior year's first quarter expenditures of \$1.2 million which were 55% of the year's total expenditures. The costs are proportionately high through the end of the first quarter due to making the required annual payment for the City's unfunded pension obligation in July.
- The Police Department has an expenditure budget of \$5.2 million. As of September 30, expenditures totaled \$1.2 million. Expenditures are at 22% of the budget which is consistent with the prior year's first quarter expenditures of \$1.1 million which were 24% 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 first quarter total \$424,000. Expenditures are at 20% of the budget which is consistent with the prior year's first quarter expenditures of \$396,000 which were 20% 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 \$470,000, and expenditures through the first quarter total \$100,000. In comparison, the prior year's first quarter expenditures of \$66,000 were 16% 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 \$151,000 due to 1) the receipt of restricted monies from Road Maintenance and Rehabilitation Account (RMRA), Gas Tax, Measure M, and the Supplemental Law Enforcement Fund in advance of spending for street and law enforcement purposes and 2) housing loan interest payments. These increases are offset by public safety expenditures in advance of funding from the La Palma Community Foundation Public Safety Grant and the Public Safety Augmentation Fund.

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. For FY 2019-20, the Capital Outlay Reserve Fund is estimated to provide \$5.1 million of funds for the City's projects which include \$2.1 million for facility improvement projects and \$3.0 million for street rehabilitation and intersection improvement projects. As of the end of the first quarter, the City has charged \$59,000 to projects funded by the Capital Outlay Reserve Fund. Capital project activity is expected to increase during the remainder of the year.

Water & Sewer Funds

The Sewer Fund had a minor increase of \$13,000 in spendable fund balance. The Water Fund began the year with a spendable fund balance of \$4.5 million which has been reduced by \$0.2 million to \$4.3 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 \$2.8 million which has been reduced by \$0.5 million to \$2.3 million at September 30. 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:

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 may occur during the mid-year review process.

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

FIRST QUARTER FINANCIAL REPORT, FISCAL YEAR 2019-20
GENERAL FUND REVENUES BY TYPE
QUARTER ENDING SEPTEMBER 30, 2019

Revenue Type	FY 2019-20			FY 2018-19			Q1 Variance FY 2019-20 to FY 2018-19 Increase / <Decrease>
	Adopted Budget	Year-to-Date Actual through 9/30/2019 (25% of FY)	Q1 Actual as a % of Adopted Budget	Prior Year Actual Annual Revenue	Prior YTD Actual through 9/30/2018 (25% of FY)	Q1 Actual as a % of Annual Revenue	
Property Tax	\$ 4,012,300	\$ 47,326	1%	\$ 3,863,599	\$ 53,883	1%	\$ (6,557)
Sales Tax	2,000,000	221,430	11%	2,010,833	263,166	13%	(41,736)
Transaction & Use Tax	1,376,000	255,087	19%	1,663,764	281,285	17%	(26,198)
Utility Users Tax	980,000	145,179	15%	951,388	167,152	18%	(21,973)
Residual Property Tax	122,400	-	0%	156,224	-	0%	-
Franchise Fees	402,000	19,372	5%	437,747	12,833	3%	6,539
Transient Occupancy Tax	409,000	-	0%	398,343	-	0%	-
Licenses and Permits	349,300	199,576	57%	366,063	190,285	52%	9,291
Intergovernmental	102,900	2,357	2%	38,885	40	0%	2,317
Charges for Services	500,700	166,954	33%	495,744	147,571	30%	19,383
Fines and Forfeitures	95,100	13,260	14%	83,110	14,298	17%	(1,038)
Use of Money and Property	414,400	81,454	20%	568,945	80,220	14%	1,234
Other Revenue	494,200	52,725	11%	499,041	52,020	10%	705
Interfund Charges	634,000	158,500	25%	587,700	146,925	25%	11,575
Total Revenues	\$ 11,892,300	\$ 1,363,220	11%	\$ 12,121,386	\$ 1,409,678	12%	\$ (46,458)

**FIRST QUARTER FINANCIAL REPORT, FISCAL YEAR 2019-20
GENERAL FUND EXPENDITURES BY DEPARTMENT
QUARTER ENDING SEPTEMBER 30, 2019**

Department	FY 2019-20			FY 2018-19			Q1 Variance FY 2019-20 to FY 2018-19 Increase / <Decrease>
	Adopted Budget	Year-to-Date Actual through 9/30/2019 (25% of FY)	Q1 Actual as a % of Adopted Budget	Prior Year Actual Annual Expenditures	Prior YTD Actual through 9/30/2018 (25% of FY)	Q1 Actual as a % of Annual Expenditures	
General Government	\$ 707,200	\$ 134,517	19%	\$ 633,722	\$ 119,199	19%	\$ 15,318
Administrative Services (Note 1)	2,720,500	1,521,522	56%	2,415,824	1,323,048	55%	198,474
Police	5,190,800	1,160,784	22%	4,736,822	1,117,500	24%	43,284
Community Services	2,137,300	424,081	20%	1,999,596	396,214	20%	27,867
Community Development	470,200	100,450	21%	407,030	65,748	16%	34,702
Total	\$ 11,226,000	\$ 3,341,354	30%	\$ 10,192,994	\$ 3,021,709	30%	\$ 319,645

Note 1: FY 2019-20 costs are proportionately high due to making the required payment for the City's unfunded pension obligation in July.

**FIRST QUARTER FINANCIAL REPORT, FISCAL YEAR 2019-20
GENERAL FUND EXPENDITURES BY CATEGORY
QUARTER ENDING SEPTEMBER 30, 2019**

Expenditure Type	FY 2019-20			FY 2018-19			Q1 Variance FY 2019-20 to FY 2018-19 Increase / <Decrease>
	Adopted Budget	Year-to-Date Actual through 9/30/2019 (25% of FY)	Q1 Actual as a % of Adopted Budget	Prior Year Actual Annual Expenditures	Prior YTD Actual through 9/30/2018 (25% of FY)	Q1 Actual as a % of Annual Expenditures	
Personnel Services (Note 1)	\$ 7,199,800	\$ 2,540,489	35%	\$ 6,535,272	\$ 2,325,614	36%	\$ 214,875
Maintenance and Operations	3,895,500	799,471	21%	3,606,321	692,781	19%	106,690
Capital Outlay/Improvements	130,700	1,394	1%	51,401	3,314	6%	(1,920)
Total	\$ 11,226,000	\$ 3,341,354	32%	\$ 10,192,994	\$ 3,021,709	30%	\$ 319,645

Note 1: FY 2019-20 costs are proportionately high due to making the required payment for the City's unfunded pension obligation in July.

FIRST QUARTER FINANCIAL REPORT, FISCAL YEAR 2019-20
SPENDABLE FUND BALANCE - FISCAL YEAR CHANGE
THROUGH THE QUARTER ENDING SEPTEMBER 30, 2019

<u>Fund #</u>	<u>Fund Title</u>	<u>Balance</u> <u>6/30/2019</u>	<u>Balance</u> <u>9/30/2019</u>	<u>FY Change</u> <u>through</u> <u>9/30/2019</u>
1	General Fund	\$ 3,655,045	\$ 1,676,909	\$ (1,978,136)
3	Emergency Reserve Fund	5,447,500	5,447,500	-
5	Economic Development Fund	221,864	220,864	(1,000)
	Subtotal General Funds	9,324,409	7,345,273	(1,979,136)
10	Road Maintenance & Rehabilitation Account (RMRA)	\$ 393,402	\$ 420,040	26,638
11	Streets Fund	146,266	159,450	13,184
12	Measure M2	386,739	439,167	52,428
14	Community Development Block Grant	-	-	-
15	Air Quality Fund	159,205	159,925	720
16	PEG Fund	276,244	277,500	1,256
20	Asset Seizure Fund	72,737	73,070	333
21	Public Safety Augmentation Fund	228,729	215,848	(12,881)
22	Supplemental Law Enforcement Fund	214,597	255,705	41,108
23	SVC Authority for Abandoned Vehicles	27,158	27,282	124
24	BSCC Local Law Enforcement Grant	53,860	50,305	(3,555)
25	Community Foundation Public Safety Grant (Note 1)	801	(31,787)	(32,588)
33	Park Development Fund	67,423	67,732	309
38	SA Housing Entity Fund	775,060	839,208	64,148
	Subtotal Special Revenue Funds	2,802,221	2,953,445	151,224
35	Capital Outlay Reserve Fund	5,802,651	5,770,372	(32,279)
37	Civic Center Rehabilitation Reserve Fund	358,512	360,151	1,639
	Subtotal Capital Projects Funds	6,161,163	6,130,523	(30,640)
50	Water Fund	451,298	188,134	(263,164)
55	Water Capital reserve Fund	4,092,343	4,131,487	39,144
	Subtotal Water Related Funds	4,543,641	4,319,621	(224,020)
52	Sewer Fund	1,454,183	1,456,563	2,380
56	Sewer Capital Reserve Fund	2,313,989	2,324,776	10,787
	Subtotal Sewer Related Funds	3,768,172	3,781,339	13,167
60	Risk Management/Insurance	963,854	392,451	(571,403)
61	Employee Benefits Fund	303,750	305,139	1,389
62	Building Maintenance & Replacement Fund	53,671	53,916	245
63	Vehicle Replacement Fund	880,622	942,067	61,445
64	Technology Replacement Fund	596,270	622,073	25,803
	Subtotal Internal Service Funds Funds	2,798,167	2,315,646	(482,521)
	Total All Funds	\$ 29,397,773	\$ 26,845,847	\$ (2,551,926)

Note 1: City awaiting grant funds from the La Palma Community Foundation

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