

# City of La Palma

## Agenda Item No. 5



MEETING DATE: February 2, 2021

TO: CITY COUNCIL

FROM: CITY MANAGER

SUBMITTED BY: Michael Matsumoto, Financial Consultant

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

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### **RECOMMENDED ACTION:**

It is recommended that the City Council receive and file the Second 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 December 31, 2020, 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 second quarter of the fiscal year (50% of the year as of December 31, 2020).

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 second quarter represent 50 percent of the fiscal year, not all line items will be at 50 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 \$1.4 million from the beginning of the fiscal year from \$32.0 million to \$30.6 million at December 31, 2020. 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 \$1.4 million change is accounted for as follows:

- General Fund decreased by \$1,828,000
- Special Revenue Funds increased by \$489,000
- Capital Projects Funds increased by \$218,000
- Water & Sewer Funds increased by \$47,000
- Internal Service Funds decreased by \$378,000

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 \$4.4 million (39% of the budget) while expenditures totaled \$5.7 million (50% of the budget) as of December 31, 2020. These results are comparable to the prior year where revenues totaled \$4.7 million (40% of the year's revenues) and expenditures totaled \$5.6 million (53% of the year's expenditures). The excess of current year expenditures over revenues approximates the \$1.8 million reduction in spendable fund balance.

### Revenues

Total General Fund revenues are at only 39% of the budget through the end of the second 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 \$1,304,000 revenue recorded at December 31 (32% of the \$4.1 million budget). This is similar to the prior year receipt pattern – by the end of the second quarter of FY 2019-20, the City had received \$1,236,000.

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 \$513,000 recorded at December 31 (35% of the \$1.45 million budget). Sales tax receipts always lag by two to three months, and consequently, much of the actual sales tax payments received during the first quarter were recorded as prior year revenue. In comparison with the prior year, the revenue recorded through the end of the second quarter was 50% of the total fiscal year's revenue. The prior year was pre-pandemic, so revenues were higher.
- **Transaction & Use Tax:** The transaction and use tax is the second largest budgeted revenue source. There is \$653,000 recorded at December 31 (44% of the \$1.5 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 December 31 total 47% of budget at \$425,000. This is comparable to the \$403,000 revenue that was reported through the second quarter of the prior year, which was 44% of the total fiscal year's revenue.

### Expenditures

The General Fund's expenditures total \$5.7 million at December 31 (50% of the \$11.4 million budget). In comparison, the prior year expenditures totaled \$5.6 (53% of the \$10.5 million annual expenditures) through the end of the second 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 second quarter total \$310,000. Expenditures are at 43% of the budget, which is consistent with the prior year's second quarter expenditures of \$307,000 which were 43% 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 \$2.8 million, and expenditures through the second quarter total \$1.9 million. Expenditures are at 66% of the budget which is consistent with the prior year's second quarter expenditures of \$1.8 million which were 70% of the year's total expenditures. The costs are proportionately high through the end of the second 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 \$5.3 million. As of December 31, expenditures totaled \$2.45 million. Expenditures are at 46% of the budget which is a little lower than the prior year's second quarter expenditures of \$2.36 million which were 49% 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 second quarter total \$887,000. Expenditures are at 43% of the budget which is lower than the prior year's second quarter expenditures of \$891,000 which were 48% 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 \$515,000, and expenditures through the second quarter total \$200,000. In comparison, the prior year's second quarter expenditures of \$219,000 were 45% 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 \$489,000 due to 1) the receipt of restricted monies from Road Maintenance and Rehabilitation Account (RMRA), La Palma Community Foundation Public Safety Grant 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 expenditures in Streets and Asset Seizure 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. Capital project activity is expected to increase during the remainder of the year.

### **Water & Sewer Funds**

The Sewer Fund increased by \$119,000 in spendable fund balance. The Water Fund began the year with a spendable fund balance of \$4.8 million which has been reduced by \$70 thousand to \$4.7 million at December 31. 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**

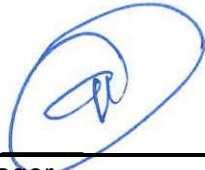
The Internal Service Funds began the year with a spendable fund balance of \$3.3 million which has been reduced by \$0.4 million to \$2.9 million at December 31. The majority of the activity in the Internal Service Funds occurs in the Risk Management/Insurance Fund, and the reduction in the spendable 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:**

As of the end of the second 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:**

  
\_\_\_\_\_  
Financial Consultant

  
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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

**SECOND QUARTER FINANCIAL REPORT, FISCAL YEAR 2020-21**  
**GENERAL FUND REVENUES BY TYPE**  
**QUARTER ENDING DECEMBER 31, 2020**

Revenue Type	FY 2020-21				FY 2019-20			Q2 Variance FY 2020-21 to FY 2019-20 Increase / <Decrease>
	Adopted Budget	Amended Budget	Year-to-Date Actual through 12/31/2020 (50% of FY)	Q2 Actual as a % of Amended Budget	Prior Year Actual Annual Revenue	Prior YTD Actual through 12/31/2019 (50% of FY)	Q2 Actual as a % of Annual Revenue	
Property Tax	\$ 4,131,700	\$ 4,131,700	\$ 1,304,351	32%	\$ 3,965,084	\$ 1,235,798	31%	\$ 68,553
Sales Tax	1,661,200	1,447,000	513,041	35%	1,579,279	787,292	50%	(274,251)
Transaction & Use Tax	1,464,500	1,501,500	653,224	44%	1,528,879	813,934	53%	(160,710)
Utility Users Tax	911,400	911,400	425,149	47%	918,256	403,079	44%	22,070
Residual Property Tax	160,000	160,000	115,787	72%	283,903	-	0%	115,787
Franchise Fees	410,000	410,000	75,711	18%	417,835	77,748	19%	(2,037)
Transient Occupancy Tax	205,000	150,000	51,715	34%	297,709	105,851	36%	(54,136)
Licenses and Permits	356,200	356,200	253,300	71%	410,233	302,654	74%	(49,354)
Intergovernmental	19,100	290,382	158,688	55%	271,900	5,078	2%	153,610
Charges for Services	510,500	510,500	84,354	17%	355,615	248,158	70%	(163,804)
Fines and Forfeitures	97,000	97,000	13,110	14%	91,382	31,019	34%	(17,909)
Use of Money and Property	421,800	421,800	247,315	59%	647,342	285,034	44%	(37,719)
Other Revenue	352,700	352,700	200,482	57%	520,023	106,952	21%	93,530
Interfund Charges	646,600	646,600	323,300	50%	634,000	317,000	50%	6,300
<b>Total Revenues</b>	<b>\$ 11,347,700</b>	<b>\$ 11,386,782</b>	<b>\$ 4,419,527</b>	<b>39%</b>	<b>\$ 11,921,440</b>	<b>\$ 4,719,597</b>	<b>40%</b>	<b>\$ (300,070)</b>

**SECOND QUARTER FINANCIAL REPORT, FISCAL YEAR 2020-21  
GENERAL FUND EXPENDITURES BY DEPARTMENT  
QUARTER ENDING DECEMBER 31, 2020**

Department	FY 2020-21				FY 2019-20			Q2 Variance FY 2020-21 to FY 2019-20 Increase / <Decrease>
	Adopted Budget	Amended Budget	Year-to-Date Actual through 12/31/2020 (50% of FY)	Q2 Actual as a % of Amended Budget	Prior Year Actual Annual Expenditures	Prior YTD Actual through 12/31/2019 (50% of FY)	Q2 Actual as a % of Annual Expenditures	
General Government	\$ 726,700	\$ 726,700	\$ 310,160	43%	\$ 714,368	\$ 306,792	43%	\$ 3,368
Administrative Services (Note 1)	2,836,000	2,836,000	1,875,384	66%	2,621,921	1,829,201	70%	46,183
Police	5,205,400	5,285,400	2,448,230	46%	4,831,449	2,363,948	49%	84,282
Community Services	2,068,300	2,068,300	886,603	43%	1,865,864	891,494	48%	(4,891)
Community Development	514,700	514,700	199,971	39%	486,958	218,509	45%	(18,538)
<b>Total</b>	<b>\$ 11,351,100</b>	<b>\$ 11,431,100</b>	<b>\$ 5,720,348</b>	<b>50%</b>	<b>\$ 10,520,560</b>	<b>\$ 5,609,944</b>	<b>53%</b>	<b>\$ 110,404</b>

Note 1: Costs are proportionately high due through the end of the second quarter due to making the required payment for the City's unfunded pension obligation in July.

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

Expenditure Type					FY 2019-20			Q2 Variance FY 2020-21 to FY 2019-20 Increase / <Decrease>
	Adopted Budget	Amended Budget	Year-to-Date Actual through 12/31/2020 (50% of FY)	Q2 Actual as a % of Amended Budget	Prior Year Actual Annual Expenditures	Prior YTD Actual through 12/31/2019 (50% of FY)	Q2 Actual as a % of Annual Expenditures	
Personnel Services	\$ 7,530,300	\$ 7,530,300	\$ 4,020,311	53%	\$ 6,834,749	\$ 3,806,269	56%	\$ 214,042
Maintenance and Operations	3,729,600	3,729,600	1,638,832	44%	3,651,044	1,790,261	49%	(151,429)
Capital Outlay/Improvements	91,200	171,200	61,205	36%	34,767	13,414	39%	47,791
<b>Total</b>	<b>\$ 11,351,100</b>	<b>\$ 11,431,100</b>	<b>\$ 5,720,348</b>	<b>50%</b>	<b>\$ 10,520,560</b>	<b>\$ 5,609,944</b>	<b>53%</b>	<b>\$ 110,404</b>



**SECOND QUARTER FINANCIAL REPORT, FISCAL YEAR 2020-21**  
**SPENDABLE FUND BALANCE - FISCAL YEAR CHANGE**  
**THROUGH THE QUARTER ENDING DECEMBER 31, 2020**

<u>Fund #</u>	<u>Fund Title</u>	<u>Balance</u> <u>6/30/2020</u>	<u>Balance</u> <u>12/31/2020</u>	<u>FY Change</u> <u>through</u> <u>12/31/2020</u>
1	General Fund	\$ 3,065,726	\$ 1,240,475	\$ (1,825,251)
3	Emergency Reserve Fund	5,897,700	5,897,700	-
5	Economic Development Fund	219,768	216,605	(3,163)
	<b>Subtotal General Funds</b>	<b>9,183,194</b>	<b>7,354,780</b>	<b>(1,828,414)</b>
10	Road Maintenance & Rehabilitation Account (RMRA)	\$ 687,176	\$ 790,221	103,045
11	Streets Fund	238,265	220,609	(17,656)
12	Measure M2	373,907	542,587	168,680
14	Community Development Block Grant	-	-	-
15	Air Quality Fund	185,140	191,989	6,849
16	PEG Fund	310,591	314,401	3,810
20	Asset Seizure Fund	74,794	62,079	(12,715)
21	Public Safety Augmentation Fund	223,048	229,084	6,036
22	Supplemental Law Enforcement Fund	201,392	259,526	58,134
23	SVC Authority for Abandoned Vehicles	28,139	28,393	254
24	BSCC Local Law Enforcement Grant	50,497	50,953	456
25	Community Foundation Public Safety Grant	801	126,502	125,701
33	Park Development Fund	69,860	70,491	631
38	SA Housing Entity Fund	1,035,730	1,081,673	45,943
	<b>Subtotal Special Revenue Funds</b>	<b>3,479,340</b>	<b>3,968,508</b>	<b>489,168</b>
35	Capital Outlay Reserve Fund	6,917,318	7,081,271	163,953
37	Civic Center Rehabilitation Reserve Fund	422,841	476,733	53,892
	<b>Subtotal Capital Projects Funds</b>	<b>7,340,159</b>	<b>7,558,004</b>	<b>217,845</b>
50	Water Fund	435,357	187,126	(248,231)
55	Water Capital reserve Fund	4,331,553	4,507,385	175,832
	<b>Subtotal Water Related Funds</b>	<b>4,766,910</b>	<b>4,694,511</b>	<b>(72,399)</b>
52	Sewer Fund	1,797,699	1,799,403	1,704
56	Sewer Capital Reserve Fund	2,198,288	2,315,581	117,293
	<b>Subtotal Sewer Related Funds</b>	<b>3,995,987</b>	<b>4,114,984</b>	<b>118,997</b>
60	Risk Management/Insurance	1,164,574	684,045	(480,529)
61	Employee Benefits Fund	314,726	317,569	2,843
62	Building Maintenance & Replacement Fund	55,610	56,113	503
63	Vehicle Replacement Fund	1,029,517	1,173,752	144,235
64	Technology Replacement Fund	697,864	652,606	(45,258)
	<b>Subtotal Internal Service Funds Funds</b>	<b>3,262,291</b>	<b>2,884,085</b>	<b>(378,206)</b>
	<b>Total All Funds</b>	<b>\$ 32,027,881</b>	<b>\$ 30,574,872</b>	<b>\$ (1,453,009)</b>

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