

City of La Palma

Agenda Item No. 5



MEETING DATE: January 18, 2022

TO: CITY COUNCIL

FROM: CITY MANAGER

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

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

RECOMMENDED ACTION:

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

BACKGROUND:

Staff is presenting a report to the Council and public on the City's finances. This report provides the following information:

1. A snapshot of the City's spendable fund balances at September 30, 2021, 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, 2021).

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 equal intervals throughout the year. Consequently, although transactions through the first quarter represent 25% of the fiscal year, not all line items will be at 25% of the budget as of the end of the quarter.

Making sense of the information presented herein requires considering 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:

This financial summary intends to explain 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 decreased by \$3.3 million from the beginning of the fiscal year from \$34.0 million to \$30.7 million on September 30, 2021. As explained further in the following section, this reduction in spendable fund balance is consistently reported in the first quarter of each fiscal year and is essentially a result of cash flow timing for major revenue sources and a few expenditures. This net decrease is accounted for as follows:

- General Fund decreased by \$2,300,000
- Special Revenue Funds increased by \$60,000
- Capital Projects Funds increased by \$200,000
- Water & Sewer Funds decreased by \$700,000
- Internal Service Funds decreased by \$600,000

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 \$1.2 million (10% of the budget) while expenditures totaled \$3.5 million (28% of the budget) through September 30, 2021. This results in a net shortfall of revenues under expenditures of \$2.3 million, which also accounts for the reduction in spendable fund balance. These results are comparable to the prior year, where revenues totaled \$1.0 million (8% of the year's total revenue), and expenditures totaled \$3.2 million (30% of the year's expenditures), resulting in a net revenue shortfall of \$2.2 million.

Revenues

Total General Fund revenues are at only 10% 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. Also discussed below are Charges for Services and Use of Money and Property revenues. All other revenue line items have revenue patterns comparable to prior years.

- **Property Tax:** The General Fund's largest revenue source, property tax, has \$44,000 revenue recorded at September 30 (1% of the \$4.2 million budget). This is similar to the prior year receipt pattern – by the end of the first quarter of FY 2020-21, the City had received \$42,000.

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 \$88,000 recorded on September 30 (7% of the \$1.3 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. Current year revenues are similar to the prior year, where the revenue recorded through the end of the first quarter was \$84,000, which was 5% of the total fiscal year's revenue.
- **Transaction & Use Tax:** The transaction and use tax is the second largest budgeted revenue source. There is \$129,000 recorded on September 30 (7% of the \$1.8 million budget). These receipts follow the same payment track as sales tax, and receipts lag by two to three months, and much of the transaction and use tax payments received during this first quarter were recorded as prior year revenue. Current year revenues are similar to the prior year where the revenue recorded through the end of the first quarter was \$120,000, which was 6% of the total fiscal year's revenue.
- **Utility Users Tax:** The fourth largest budgeted revenue source is utility users tax. Payments received through September 30 total 19% of the budget at \$178,000. This is comparable to the \$162,000 revenue that was reported through the first quarter of the prior year, which was 17% of the total fiscal year's revenue.
- **Charges for Services:** Total revenue recorded through September 30 is \$113,300 (22% of the \$520,800 budget). In the prior year, only \$20,000 of revenue had been recorded from charges for services, mainly due to the City's community programs being reduced or eliminated due to the pandemic.
- **Use of Money and Property:** Total revenue recorded through September is \$246,000 (35% of the \$693,700 budget). This category is comprised of the senior housing lease, miscellaneous rental income, and investment income. The majority of the first quarter's revenue is from the annual senior housing lease for which payment was received in full (\$200,000). Miscellaneous rental income totals \$18,000 and investment income totals \$28,000 through September 30. 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. Due to changing interest rates, the value of unrealized gains has decreased each quarter since June 30, 2020. At September 30, the unrecorded, unrealized gain was \$48,500.

Expenditures

The General Fund's expenditures total \$3.5 million through September 30 (28% of the \$12.1 million budget). In comparison, the prior year's expenditures totaled \$3.2 (30% of the \$10.9 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 \$802,200, and expenditures through the first quarter total \$116,500, 15% of the budget. In

comparison, the prior year's first quarter expenditures totaled \$139,500, 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 \$3.2 million, and expenditures through the first quarter total \$1.7 million. Expenditures are at 54% of the budget, which is consistent with the prior year's first quarter expenditures of \$1.5 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 early in the year.
- The Police Department has an expenditure budget of \$5.4 million. As of September 30, expenditures totaled \$1.7 million, which is 21% of the budget. In comparison, the prior year's first quarter expenditures totaled \$1.1 million, which were 23% 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 first quarter total \$411,000, which is 18% of the budget. In comparison, the prior year's first quarter expenditures totaled \$343,000, which were 17% 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 first quarter total \$65,300, which is 13% of the budget. In comparison, the prior year's first quarter expenditures of \$68,100 were 14% 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 \$64,000 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) the receipt of 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 from the public safety augmentation program and from payments made on the senior housing loan.

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. Through the end of the first quarter, the City has charged \$315,000 to building reparation and ADA improvement projects funded by the Capital Outlay Reserve Fund. The spendable fund balance increased by \$198,000, mainly due to receiving a payment on the long-term advance made to other funds.

Water & Sewer Funds

The Water Fund began the year with a spendable fund balance of \$5.1 million which has been reduced by \$0.7 million to \$4.4 million at September 30. Due to the timing of recording revenues and expenses, revenues lag by one to two months during the year. The operating water fund's revenues are at 5% of the budget while expenditures are at 15% of the budget at September 30. Consequently, the spendable fund balance for the water fund is typically reduced during the first quarter.

The Sewer Fund had a minor increase of \$3,000 in spendable fund balance, with an ending spendable fund balance of \$4.2 million on September 30. The sewer fund follows the same pattern as the Water Fund for the timing of recording revenues and expenses. The operating sewer fund's revenues are at 6% of the budget while expenditures are at 17% of the budget at September 30.

Internal Service Funds

The Internal Service Funds began the year with a spendable fund balance of \$3.4 million which has decreased to \$2.8 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.

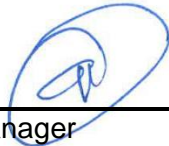
FISCAL IMPACT:

This is a receive and file report which provides a summary of the year's fiscal activity through the end of the first fiscal quarter.

APPROVED:



Assistant to the City Manager



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 2021-22
GENERAL FUND REVENUES BY TYPE
QUARTER ENDING SEPTEMBER 30, 2021**

Revenue Type	FY 2021-22			FY 2020-21			Q1 Variance FY 2021-22 to FY 2020-21 Increase / <Decrease>
	Adopted Budget	Year-to-Date Actual through 9/30/2021 (25% of FY)	Q1 Actual as a % of Adopted Budget	Prior Year Actual Annual Revenue	Prior YTD Actual through 9/30/2020 (25% of FY)	Q1 Actual as a % of Annual Revenue	
Property Tax	\$ 4,246,900	\$ 44,031	1%	\$ 4,133,331	\$ 42,339	1%	\$ 1,692
Sales Tax	1,300,400	87,752	7%	1,767,292	83,589	5%	4,163
Transaction & Use Tax	1,822,600	128,691	7%	1,880,718	119,839	6%	8,852
Utility Users Tax	929,600	177,902	19%	957,702	162,300	17%	15,602
Residual Property Tax	163,200	-	0%	243,983	-	0%	-
Franchise Fees	418,200	33,507	8%	397,504	20,375	5%	13,132
Transient Occupancy Tax	300,000	1,183	0%	160,948	-	0%	1,183
Licenses and Permits	363,400	164,667	45%	407,482	178,586	44%	(13,919)
Intergovernmental	14,300	3,117	22%	323,418	62,997	19%	(59,880)
Charges for Services	520,800	113,278	22%	224,124	19,999	9%	93,279
Fines and Forfeitures	98,900	9,652	10%	73,818	4,615	6%	5,037
Use of Money and Property (Note 1)	693,700	245,605	35%	298,005	73,701	25%	171,904
Other Revenue	261,000	55,249	21%	418,460	55,352	13%	(103)
Interfund Charges	659,500	164,850	25%	646,600	161,650	25%	3,200
Total Revenues	\$ 11,792,500	\$ 1,229,484	10%	\$ 11,933,385	\$ 985,342	8%	\$ 244,142

Note 1: FY 2021/22 Q1 revenue includes the annual payment on the senior housing lease of \$200,000.

**FIRST QUARTER FINANCIAL REPORT, FISCAL YEAR 2021-22
GENERAL FUND EXPENDITURES BY DEPARTMENT
QUARTER ENDING SEPTEMBER 30, 2021**

Department	FY 2021-22			FY 2020-21			Q1 Variance FY 2021-22 to FY 2020-21 Increase / <Decrease>
	Adopted Budget	Year-to-Date Actual through 9/30/2021 (25% of FY)	Q1 Actual as a % of Adopted Budget	Prior Year Actual Annual Expenditures	Prior YTD Actual through 9/30/2020 (25% of FY)	Q1 Actual as a % of Annual Expenditures	
General Government	\$ 802,200	\$ 116,504	15%	\$ 722,013	\$ 139,491	19%	\$ (22,987)
Administrative Services (Note 1)	3,167,700	1,698,455	54%	2,813,993	1,544,289	55%	154,166
Police	5,397,500	1,159,169	21%	4,877,153	1,110,943	23%	48,226
Community Services	2,257,400	411,247	18%	1,962,620	342,946	17%	68,301
Community Development	508,000	65,258	13%	487,239	68,079	14%	(2,821)
Total	\$ 12,132,800	\$ 3,450,633	28%	\$ 10,863,018	\$ 3,205,748	30%	\$ 244,885

Note 1: 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 at the beginning of the fiscal year.

**FIRST QUARTER FINANCIAL REPORT, FISCAL YEAR 2021-22
GENERAL FUND EXPENDITURES BY CATEGORY
QUARTER ENDING SEPTEMBER 30, 2021**

Expenditure Type	FY 2021-22			FY 2020-21			Q1 Variance FY 2021-22 to FY 2020-21 Increase / <Decrease>
	Adopted Budget	Year-to-Date Actual through 9/30/2021 (25% of FY)	Q1 Actual as a % of Adopted Budget	Prior Year Actual Annual Expenditures	Prior YTD Actual through 9/30/2020 (25% of FY)	Q1 Actual as a % of Annual Expenditures	
Personnel Services (Note 1)	\$ 7,764,500	\$ 2,674,846	34%	\$ 7,198,437	\$ 2,540,939	35%	\$ 133,907
Maintenance and Operations	4,287,100	749,402	17%	3,565,289	664,358	19%	85,044
Capital Outlay/Improvements	81,200	26,385	32%	99,292	451	0%	25,934
Total	\$ 12,132,800	\$ 3,450,633	28%	\$ 10,863,018	\$ 3,205,748	30%	\$ 244,885

Note 1: 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 at the beginning of the fiscal year.

FIRST QUARTER FINANCIAL REPORT, FISCAL YEAR 2021-22
SPENDABLE FUND BALANCE - FISCAL YEAR CHANGE
THROUGH THE QUARTER ENDING SEPTEMBER 30, 2021

<u>Fund #</u>	<u>Fund Title</u>	<u>Balance 6/30/2021</u>	<u>Balance 9/30/2021</u>	<u>FY Change through 9/30/2021</u>
1	General Fund	\$ 4,211,663	\$ 1,990,513	\$ (2,221,150)
3	Emergency Reserve Fund	5,897,700	5,897,700	-
5	Economic Development Fund	258,069	209,052	(49,017)
17	American Rescue Plan	695,353	696,811	1,458
	Subtotal General Funds	11,062,785	8,794,076	(2,268,709)
10	Road Maintenance & Rehabilitation Account (RMRA)	\$ 594,395	\$ 617,411	23,016
11	Streets Fund	220,902	280,295	59,393
12	Measure M2	513,113	566,301	53,188
15	Air Quality Fund	205,920	206,348	428
16	PEG Fund	329,703	335,156	5,453
20	Asset Seizure Fund	39,643	39,726	83
21	Public Safety Augmentation Fund	222,275	219,160	(3,115)
22	Supplemental Law Enforcement Fund	186,614	232,393	45,779
23	SVC Authority for Abandoned Vehicles	28,234	28,294	60
24	BSCC Local Law Enforcement Grant	50,523	50,629	106
25	Community Foundation Public Safety Grant	801	(25,248)	(26,049)
33	Park Development Fund	2,287	2,292	5
38	SA Housing Entity Fund	1,175,829	1,081,071	(94,758)
	Subtotal Special Revenue Funds	3,570,239	3,633,828	63,589
35	Capital Outlay Reserve Fund	5,957,026	5,955,023	(2,003)
37	Civic Center Rehabilitation Reserve Fund	636,780	836,444	199,664
	Subtotal Capital Projects Funds	6,593,806	6,791,467	197,661
50	Water Fund	713,187	416,880	(296,307)
55	Water Capital reserve Fund	4,385,503	3,970,279	(415,224)
	Subtotal Water Related Funds	5,098,690	4,387,159	(711,531)
52	Sewer Fund	2,180,948	2,179,169	(1,779)
56	Sewer Capital Reserve Fund	2,030,338	2,034,616	4,278
	Subtotal Sewer Related Funds	4,211,286	4,213,785	2,499
60	Risk Management/Insurance	1,192,176	493,295	(698,881)
61	Employee Benefits Fund	315,796	316,459	663
62	Building Maintenance & Replacement Fund	55,800	55,917	117
63	Vehicle Replacement Fund	1,168,600	1,242,459	73,859
64	Technology Replacement Fund	716,845	735,393	18,548
	Subtotal Internal Service Funds Funds	3,449,217	2,843,523	(605,694)
	Total All Funds	\$ 33,986,023	\$ 30,663,838	\$ (3,322,185)

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