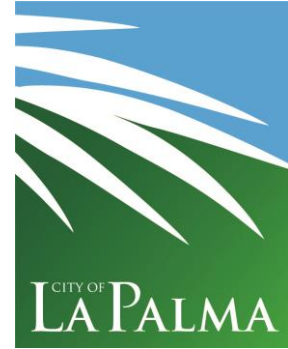


City of La Palma

Agenda Item No. 4



MEETING DATE: March 1, 2022

TO: CITY COUNCIL

FROM: CITY MANAGER

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

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

RECOMMENDED ACTION:

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

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, 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 second quarter of the fiscal year (50% of the year as of December 31, 2021). This report was prepared after the budget amendments were approved in January 2022, and those amendments are reflected in the amended budget columns in order to facilitate the analysis of whether additional amendments are needed.

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% of the fiscal year, not all line items will be at 50% 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 decreased by \$1.7 million from the beginning of the fiscal year from \$34.0 million to \$32.3 million at December 31, 2021. 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 expenditures. This net decrease is accounted for as follows:

- General Fund Operating Fund decreased by \$1,500,000
- Special Revenue Funds increased by \$300,000
- Capital Projects Funds increased by \$300,000
- Water & Sewer Funds decreased by \$500,000
- Internal Service Funds decreased by \$300,000

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 \$5.0 million (40% of the budget) while expenditures totaled \$6.1 million (50% of the budget) through December 31, 2021. This results in a net shortfall of revenues under expenditures of \$1.1 million, which also accounts for the majority of the reduction in spendable fund balance in the General Fund. The remaining difference in the General Fund's spendable fund balance is a \$0.5 million reduction of American Rescue Plan monies as grant expenditures are made. These results are comparable to the prior year where revenues totaled \$4.4 million (37% of the year's revenue) and expenditures totaled \$5.7 million (53% of the year's expenditures), resulting in the prior year's net revenue shortfall of \$1.3 million.

Revenues

Total General Fund revenues are at 40% 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 was received 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 Residual Property Tax and Use of Money and Property revenues. All other revenue line items have revenue patterns that are comparable to prior years.

- **Property Tax:** The General Fund's largest revenue source, property tax, has \$1.3 million revenue recorded through December 31 (31% of the \$4.2 million budget). This is similar to the prior year receipt pattern – by the end of the second quarter of FY 2020-21, the City had received \$1.3 million (32% of the total prior year's property tax revenue).

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 \$693,000 recorded through December 31 (40% of the \$1.7 million budget, as amended). 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. Current year revenues are higher than in the prior year where the revenue recorded through the end of the second quarter was \$513,000 which was 29% of the total fiscal year's revenue.
- **Transaction & Use Tax:** The transaction and use tax is the second largest budgeted revenue source. There is \$905,000 recorded through December 31 (50% 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 the first quarter were recorded as prior year revenue. Current year revenues are also higher than in the prior year where the revenue recorded through the end of the second quarter was \$653,000 which was 35% of the total fiscal year's revenue.
- **Utility Users Tax:** The fourth largest budgeted revenue source is utility users tax. Payments received through December 31 total 45% of budget at \$415,000. This is comparable to the \$425,000 revenue that was reported through the second quarter of the prior year, which was 44% of the total fiscal year's revenue.
- **Residual Property Tax:** This money is distributed through the County of Orange in December and May and is determined based on residual balances of RPTTF after distributions have been made for Successor Agency enforceable obligations. The amount to be received for each distribution is not able to be predicted. However, as redevelopment debts get repaid, the residual RPTTF that is available for distribution to the City will increase. The City received \$217,500 in residual property tax during December 2021.
- **Use of Money and Property:** Total revenue recorded through September is \$289,000 (42% of the \$693,700 budget). This category is comprised of the senior housing lease, miscellaneous rental income, and investment income. The majority of the revenue is from the annual senior housing lease for which payment was received in full (\$200,000) during the first quarter. Miscellaneous rental income totals \$37,000 and investment income totals \$52,000 through December 31.

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. The unrealized gain at September 30 of \$48,500 became an unrealized loss of \$154,200 at December 31 as a result of changing interest rates.

Expenditures

The General Fund's expenditures total \$6.1 million through December 31 (50% of the \$12.2 million budget, as amended). In comparison, the prior year expenditures totaled \$5.7 (53% of the \$10.9 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 \$802,200, and expenditures through the second quarter total \$370,000, 46% of the budget. In comparison, the prior year's expenditures through the second quarter totaled \$310,000 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 \$3.2 million, and expenditures through the second quarter total \$2.0 million. Expenditures are at 63% of the budget which is consistent with the prior year's expenditures through the second quarter of \$1.9 million which were 67% 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 early in the year.
- The Police Department has an expenditure budget of \$5.4 million. As of December 31, expenditures totaled \$2.5 million, which is 46% of the budget. In comparison, the prior year's expenditures through the second quarter totaled \$2.4 million which were 50% 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 second quarter total \$1.0 million which is 45% of the budget. In comparison, the prior year's expenditures through the second quarter totaled \$887,000 which were 45% 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 second quarter total \$175,000 which is 34% of the budget. In comparison, the prior year's expenditures through the second quarter of \$200,000 were 41% 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 \$278,000 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 special police grants 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 second quarter, the City has charged \$327,000 to building reparation and ADA improvement projects funded by the Capital Outlay Reserve Fund. The spendable fund balance increased by \$339,000, mainly due to receiving a payment on the long-term advance made to other funds and from transfers from other funds for specific project funding.

Water & Sewer Funds

The Water Fund began the year with a spendable fund balance of \$5.1 million which has been reduced by \$0.6 million to \$4.5 million at December 31. Due to the timing of recording revenues and expenses, revenues lag by one to two months during the year. The majority of the reduction in spendable fund balance is due to paying for long-term capital improvements to the water system.

The Sewer Fund began the year with a spendable fund balance of \$4.2 million which has been increased by \$0.1 million to \$4.3 million at December 31. As long-term capital improvements to the sewer system get underway, it is expected that the spendable fund balance will decrease.

Internal Service Funds

The Internal Service Funds began the year with a spendable fund balance of \$3.4 million which has decreased to \$3.2 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.

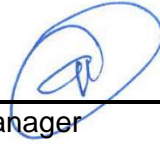
FISCAL IMPACT:

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

**SECOND QUARTER FINANCIAL REPORT, FISCAL YEAR 2021-22
GENERAL FUND REVENUES BY TYPE
QUARTER ENDING DECEMBER 31, 2021**

Revenue Type	FY 2021-22					FY 2020-21			Q2 Variance FY 2021-22 to FY 2020-21 Increase / <Decrease>
	Adopted Budget	Jan-22 Budget Amendment	Amended Budget	Year-to-Date Actual through 12/31/2021 (50% of FY)	Q2 Actual as a % of Amended Budget	Prior Year Actual Annual Revenue	Prior YTD Actual through 12/31/2020 (50% of FY)	Q2 Actual as a % of Annual Revenue	
Property Tax	\$ 4,246,900	\$ -	\$ 4,246,900	\$ 1,331,498	31%	\$ 4,133,331	\$ 1,304,351	32%	\$ 27,147
Sales Tax	1,300,400	442,000	1,742,400	692,610	40%	1,767,292	513,041	29%	179,569
Transaction & Use Tax	1,822,600	-	1,822,600	905,401	50%	1,880,718	653,224	35%	252,177
Utility Users Tax	929,600	-	929,600	414,603	45%	957,702	425,149	44%	(10,546)
Residual Property Tax	163,200	-	163,200	217,529	133%	243,983	115,787	47%	101,742
Franchise Fees	418,200	-	418,200	88,048	21%	397,504	75,711	19%	12,337
Transient Occupancy Tax	300,000	-	300,000	85,831	29%	160,948	51,715	32%	34,116
Licenses and Permits	363,400	-	363,400	236,676	65%	407,482	253,300	62%	(16,624)
Intergovernmental	14,300	198,181	212,481	74,373	35%	323,418	158,688	49%	(84,315)
Charges for Services	520,800	-	520,800	191,669	37%	224,124	84,354	38%	107,315
Fines and Forfeitures	98,900	-	98,900	28,558	29%	73,818	13,110	18%	15,448
Use of Money and Property	693,700	-	693,700	288,868	42%	298,005	247,315	83%	41,553
Other Revenue	261,000	-	261,000	112,084	43%	418,460	200,482	48%	(88,398)
Interfund Charges	659,500	-	659,500	329,700	50%	646,600	323,300	50%	6,400
Total Revenues	\$ 11,792,500	\$ 640,181	\$ 12,432,681	\$ 4,997,448	40%	\$ 11,933,385	\$ 4,419,527	37%	\$ 577,921

**SECOND QUARTER FINANCIAL REPORT, FISCAL YEAR 2021-22
GENERAL FUND EXPENDITURES BY DEPARTMENT
QUARTER ENDING DECEMBER 31, 2021**

Department	FY 2021-22					FY 2020-21			Q2 Variance FY 2021-22 to FY 2020-21 Increase / <Decrease>
	Adopted Budget	Jan-22 Budget Amendment	Amended Budget	Year-to-Date Actual through 12/31/2021 (50% of FY)	Q2 Actual as a % of Amended Budget	Prior Year Actual Annual Expenditures	Prior YTD Actual through 12/31/2020 (50% of FY)	Q2 Actual as a % of Annual Expenditures	
General Government	\$ 802,200	\$ -	\$ 802,200	\$ 369,844	46%	\$ 722,013	\$ 310,160	43%	\$ 59,684
Administrative Services (Note 1)	3,167,700	-	3,167,700	1,985,425	63%	2,813,993	1,875,384	67%	110,041
Police	5,397,500	3,872	5,401,372	2,490,084	46%	4,877,153	2,448,230	50%	41,854
Community Services	2,257,400	70,000	2,327,400	1,038,382	45%	1,962,620	886,603	45%	151,779
Community Development	508,000	-	508,000	175,155	34%	487,239	199,971	41%	(24,816)
Total	\$ 12,132,800	\$ 73,872	\$ 12,206,672	\$ 6,058,890	50%	\$ 10,863,018	\$ 5,720,348	53%	\$ 338,542

**SECOND QUARTER FINANCIAL REPORT, FISCAL YEAR 2021-22
GENERAL FUND EXPENDITURES BY CATEGORY
QUARTER ENDING DECEMBER 31, 2021**

Expenditure Type	FY 2021-22					FY 2020-21			Q2 Variance FY 2021-22 to FY 2020-21 Increase / <Decrease>
	Adopted Budget	Jan-22 Budget Amendment	Amended Budget	Year-to-Date Actual through 12/31/2021 (50% of FY)	Q2 Actual as a % of Amended Budget	Prior Year Actual Annual Expenditures	Prior YTD Actual through 12/31/2020 (50% of FY)	Q2 Actual as a % of Annual Expenditures	
Personnel Services	\$ 7,764,500	\$ -	\$ 7,764,500	\$ 4,145,132	53%	\$ 7,198,437	\$ 4,020,311	56%	\$ 124,821
Maintenance and Operations	4,287,100	73,872	4,360,972	1,866,656	43%	3,565,289	1,638,832	46%	227,824
Capital Outlay/Improvements	81,200	-	81,200	47,102	58%	99,292	61,205	62%	(14,103)
Total	\$ 12,132,800	\$ 73,872	\$ 12,206,672	\$ 6,058,890	50%	\$ 10,863,018	\$ 5,720,348	53%	\$ 338,542

SECOND QUARTER FINANCIAL REPORT, FISCAL YEAR 2021-22
SPENDABLE FUND BALANCE - FISCAL YEAR CHANGE
THROUGH THE QUARTER ENDING DECEMBER 31, 2021

<u>Fund #</u>	<u>Fund Title</u>	<u>Balance 6/30/2021</u>	<u>Balance 12/31/2021</u>	<u>FY Change through 12/31/2021</u>
1	General Fund	\$ 4,211,663	\$ 3,100,221	\$ (1,111,442)
3	Emergency Reserve Fund	5,897,700	6,047,700	150,000
5	Economic Development Fund	258,069	209,052	(49,017)
17	American Rescue Plan	695,353	197,770	(497,583)
	Subtotal General Funds	11,062,785	9,554,743	(1,508,042)
10	Road Maintenance & Rehabilitation Account (RMRA)	\$ 594,395	\$ 686,239	91,844
11	Streets Fund	220,902	281,617	60,715
12	Measure M2	513,113	611,014	97,901
15	Air Quality Fund	205,920	211,798	5,878
16	PEG Fund	329,703	345,135	15,432
20	Asset Seizure Fund	39,643	39,798	155
21	Public Safety Augmentation Fund	222,275	216,533	(5,742)
22	Supplemental Law Enforcement Fund	186,614	261,449	74,835
23	SVC Authority for Abandoned Vehicles	28,234	28,345	111
24	BSCC Local Law Enforcement Grant	50,523	50,191	(332)
25	Community Foundation Public Safety Grant	801	(58,218)	(59,019)
33	Park Development Fund	2,287	2,296	9
38	SA Housing Entity Fund	1,175,829	1,171,714	(4,115)
	Subtotal Special Revenue Funds	3,570,239	3,847,911	277,672
35	Capital Outlay Reserve Fund	5,957,026	6,045,127	88,101
37	Civic Center Rehabilitation Reserve Fund	636,780	887,987	251,207
	Subtotal Capital Projects Funds	6,593,806	6,933,114	339,308
50	Water Fund	713,187	556,894	(156,293)
55	Water Capital reserve Fund	4,385,503	3,902,158	(483,345)
	Subtotal Water Related Funds	5,098,690	4,459,052	(639,638)
52	Sewer Fund	2,180,948	2,197,665	16,717
56	Sewer Capital Reserve Fund	2,030,338	2,141,259	110,921
	Subtotal Sewer Related Funds	4,211,286	4,338,924	127,638
60	Risk Management/Insurance	1,192,176	726,290	(465,886)
61	Employee Benefits Fund	315,796	317,031	1,235
62	Building Maintenance & Replacement Fund	55,800	56,018	218
63	Vehicle Replacement Fund	1,168,600	1,286,722	118,122
64	Technology Replacement Fund	716,845	776,322	59,477
	Subtotal Internal Service Funds Funds	3,449,217	3,162,383	(286,834)
	Total All Funds	\$ 33,986,023	\$ 32,296,127	\$ (1,689,896)

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