

# City of La Palma

## Agenda Item No. 4



MEETING DATE: January 10, 2023

TO: CITY COUNCIL

FROM: CITY MANAGER

SUBMITTED BY: Ryan Hallett Hinton, Administrative Services Director

AGENDA TITLE: First Quarter Operating Report, Fiscal Year 2022-23

---

### **RECOMMENDED ACTION:**

It is recommended that the City Council receive and file the First Quarter Operating Report, Fiscal Year 2022-23.

### **BACKGROUND:**

Staff is presenting a report to the City 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 as of September 30, 2022, 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, 2022).

For the quarterly report, no quarter-end accruals are recorded. Except at fiscal year-end when accruals are recorded according to accounting standards, revenue is reported when cash is received and expenditures are reported when cash payments are made. Many revenue and expenditure transactions do not occur uniformly or at 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 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:**

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 \$2.2 million from the beginning of the fiscal year from \$36.6 million to \$34.4 million as of September 30, 2022. 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 \$2.9 million
- Special Revenue Funds increased by \$0.5 million
- Capital Projects Funds increased by \$1.1 million
- Water & Sewer Funds decreased by \$0.4 million
- Internal Service Funds decreased by \$0.6 million

The remainder of the financial review will discuss the General Fund's revenues and expenditures and then report on the other funds' activity.

## **General Fund**

The attached charts show that General Fund revenues totaled \$1.4 million (11% of the budget), while expenditures totaled \$3.9 million (31% of the budget) through September 30, 2022. This results in a net shortfall of revenues under expenditures of \$2.5 million, which also accounts for the majority of the reduction in spendable fund balance. The remaining reduction is due to transfers made to other funds for budgeted expenditures. These results are comparable to the prior year, where revenues totaled \$1.2 million (9% of the year's total revenue), and expenditures totaled \$3.4 million (30% of the year's expenditures), resulting in a net revenue shortfall of \$2.2 million.

### Revenues

Total General Fund revenues are at 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, transaction and use tax, sales tax, and utility users tax. These four sources account for approximately 73% of the General Fund's revenue budget. Also discussed below is revenue from use of money and property.

- **Property Tax:** The General Fund's largest revenue source, property tax, has \$42,000 in revenue recorded as of September 30 (1% of the \$4.4 million budget). This is similar to the prior year's receipt pattern – by the end of the first quarter of FY 2021-22, the City had received \$44,000.

The property tax line item includes secured and unsecured property taxes (budgeted at \$2.7 million) as well as the property tax in lieu of vehicle license fees (budgeted at \$1.7 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.

- **Transaction & Use Tax:** The transaction and use tax is the second largest budgeted revenue source. There is revenue of \$152,000 recorded as of September 30 (7% of the \$2.1 million budget). These receipts follow the same payment track as sales tax. 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 slightly higher than in the prior year, where the revenue recorded through the end of the first quarter was \$129,000, which was 5% of the total fiscal year's revenue.
- **Sales Tax:** The third largest budgeted revenue source, sales tax, has \$138,000 recorded as of September 30 (7% of the \$2.0 million budget). Sales tax receipts always lag by two to three months; consequently, much of the sales tax payments received during the quarter were recorded as prior year revenue. Current year revenues are trending higher than at the end of the prior year's first quarter, where the revenue recorded was \$88,000, which was 4% 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 23% of the budget at \$214,000. This is higher than the \$178,000 revenue reported through the first quarter of the prior year, which was 17% of the total fiscal year's revenue.
- **Use of Money and Property:** Total revenue recorded through September is \$241,000 (64% of the \$377,400 budget). This category comprises the senior housing lease, miscellaneous rental, 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 (\$206,000). In addition, miscellaneous rental income totals \$31,000, and investment income totals \$3,700 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 fair market value of investments has decreased each quarter since June 30, 2020. As a result, as of June 30, 2022, \$1.1 million of unrealized loss was recorded against investment interest earnings, resulting in negative interest revenue for the fiscal year. As of September 30, 2022, the unrecorded, unrealized loss on investments for the actively managed investment portfolio was \$1,235,024.

### Expenditures

The General Fund's expenditures total \$3.9 million through September 30 (31% of the \$12.5 million budget). The prior year's expenditures totaled \$3.5 (30% of the \$11.5 million annual expenditures) through the end of the first quarter.

Following is a general discussion of each General Fund department:

- The General Government Department comprises the City Council, City Manager, Legal Services, and City Clerk divisions. The budget for this department totals \$835,700, and

expenditures through the first quarter total \$164,600, 20% of the budget. In comparison, the prior year's first quarter expenditures totaled \$116,500, 14% of the total expenditures.

- The Administrative Services Department comprises the Administration, Fiscal Services, Human Resources, and Technology and Communications divisions. The budget for this department totals \$3.4 million, and expenditures through the first quarter total \$2.0 million. Expenditures are at 60% of the budget, consistent with the prior year's first quarter expenditures of \$1.7 million, which were 62% 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 \$5.6 million. As of September 30, expenditures totaled \$1.15 million, which is 21% of the budget. In comparison, the prior year's first quarter expenditures totaled \$1.16 million, 23% of the total expenditures.
- The Community Services Department covers a wide range of services 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 \$2.2 million, and expenditures through the first quarter total \$460,000, which is 21% of the budget. In comparison, the prior year's first quarter expenditures totaled \$411,000, which was 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 \$609,700, and expenditures through the first quarter total \$82,300, which is 14% of the budget. In comparison, the prior year's first quarter expenditures of \$65,300 were 13% of the year's total expenditures.

### **Special Revenue Funds**

The Special Revenue Funds consist of funds with revenue sources from outside parties restricted to specific 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 \$500,000 due to the receipt of restricted monies, such as from the 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. In addition, the restricted funds received housing loan interest payments and made payments 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, streets, parks, and roads. The Capital Outlay Reserve Fund accumulates monies for projects that Special Revenue Funds cannot fund. Through the end of the first quarter, the City has charged \$90,000 to capital projects, with the majority being spent on sidewalk-related projects. The spendable fund balance increased by \$1.1 million, mainly due to receiving a payment on the long-term advance made to other funds in addition to grant revenues for the Emergency Operations Center generator project.

## Water & Sewer Funds

The Water Fund began the year with a spendable fund balance of \$4.5 million, which was reduced by \$0.4 million to \$4.1 million as of September 30. Due to the timing of recording revenues and expenses, revenues lag by one to two months during the year. As a result, the operating water fund's revenues are at 4% of the budget, while expenditures are at 11% as of 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 \$2,000 in spendable fund balance, with an ending spendable fund balance of \$4.2 million as of 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 5% as of September 30.

## Internal Service Funds

The Internal Service Funds began the year with a spendable balance of \$3.7 million, which decreased to \$3.1 million as of 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.

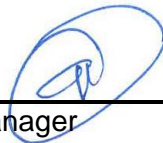
## FISCAL IMPACT:

None.

## 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 2022-23  
GENERAL FUND REVENUES BY TYPE  
QUARTER ENDING SEPTEMBER 30, 2022**

Revenue Type	FY 2022-23				FY 2021-22			Q1 Variance FY 2022-23 to FY 2021-22 Increase / <Decrease>
	Adopted Budget	Amended Budget	Year-to-Date Actual through 9/30/2022 (25% of FY)	Q1 Actual as a % of Amended Budget	Prior Year Actual Annual Revenue	Prior YTD Actual through 9/30/2021 (25% of FY)	Q1 Actual as a % of Annual Revenue	
Property Tax	\$ 4,357,800	\$ 4,357,800	\$ 41,984	1%	\$ 4,285,171	\$ 44,031	1%	\$ (2,047)
Sales Tax	1,994,000	1,994,000	138,275	7%	2,259,533	87,752	4%	50,523
Transaction & Use Tax	2,136,172	2,136,172	151,732	7%	2,375,624	128,691	5%	23,041
Utility Users Tax	915,700	915,700	213,909	23%	1,037,550	177,902	17%	36,007
Residual Property Tax	320,000	320,000	-	0%	323,243	-	0%	-
Franchise Fees	426,600	426,600	36,619	9%	428,401	33,507	8%	3,112
Transient Occupancy Tax	400,000	400,000	-	0%	392,423	1,183	0%	(1,183)
Licenses and Permits	370,500	370,500	210,335	57%	392,109	164,667	42%	45,668
Intergovernmental	33,500	33,500	3,503	10%	214,862	3,117	1%	386
Charges for Services	531,200	521,600	93,490	18%	467,026	113,278	24%	(19,788)
Fines and Forfeitures	100,900	100,900	11,308	11%	101,574	9,652	10%	1,656
Use of Money and Property (Note 1)	377,400	377,400	241,234	64%	(113,963)	245,605	-216%	(4,371)
Other Revenue	269,900	269,900	118,148	44%	261,760	55,249	21%	62,899
Interfund Charges	672,700	672,700	168,150	25%	659,400	164,850	25%	3,300
<b>Total Revenues</b>	<b>\$ 12,906,372</b>	<b>\$ 12,896,772</b>	<b>\$ 1,428,687</b>	<b>11%</b>	<b>\$ 13,084,713</b>	<b>\$ 1,229,484</b>	<b>9%</b>	<b>\$ 199,203</b>

Note 1: The City typically holds invests rather than realizing gains or losses by selling before maturity; at year-end, the unrealized gain or loss is recorded against interest revenue. For fiscal year 2021-22, the City recorded an unrealized loss of \$1,102,980, resulting in negative interest revenue for the fiscal year. At September 30, 2022, the unrealized loss on investments for the actively managed investment portfolio was \$1,235,024.

**FIRST QUARTER FINANCIAL REPORT, FISCAL YEAR 2022-23  
GENERAL FUND EXPENDITURES BY DEPARTMENT  
QUARTER ENDING SEPTEMBER 30, 2022**

Department	FY 2022-23				FY 2021-22			Q1 Variance FY 2022-23 to FY 2021-22 Increase / <Decrease>
	Adopted Budget	Amended Budget	Year-to-Date Actual through 9/30/2022 (25% of FY)	Q1 Actual as a % of Amended Budget	Prior Year Actual Annual Expenditures	Prior YTD Actual through 9/30/2021 (25% of FY)	Q1 Actual as a % of Annual Expenditures	
General Government	\$ 822,300	\$ 835,700	\$ 164,642	20%	\$ 822,100	\$ 116,504	14%	\$ 48,138
Administrative Services (Note 1)	3,401,600	3,404,000	2,029,332	60%	2,741,734	1,698,455	62%	330,877
Police	5,548,000	5,567,000	1,147,677	21%	5,046,836	1,159,169	23%	(11,492)
Community Services	2,186,400	2,213,100	459,635	21%	2,418,723	411,247	17%	48,388
Community Development	580,700	609,700	82,343	14%	509,667	65,258	13%	17,085
<b>Total</b>	<b>\$ 12,539,000</b>	<b>\$ 12,629,500</b>	<b>\$ 3,883,629</b>	<b>31%</b>	<b>\$ 11,539,060</b>	<b>\$ 3,450,633</b>	<b>30%</b>	<b>\$ 432,996</b>

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 2022-23  
GENERAL FUND EXPENDITURES BY CATEGORY  
QUARTER ENDING SEPTEMBER 30, 2022**

Expenditure Type	FY 2022-23				FY 2021-22			Q1 Variance FY 2022-23 to FY 2021-22 Increase / <Decrease>
	Adopted Budget	Amended Budget	Year-to-Date Actual through 9/30/2022 (25% of FY)	Q1 Actual as a % of Amended Budget	Prior Year Actual Annual Expenditures	Prior YTD Actual through 9/30/2021 (25% of FY)	Q1 Actual as a % of Annual Expenditures	
Personnel Services (Note 1)	\$ 8,091,700	\$ 8,108,500	\$ 3,014,267	37%	\$ 7,233,565	\$ 2,674,846	37%	\$ 339,421
Maintenance and Operations	4,437,300	4,511,000	869,362	19%	4,218,146	749,402	18%	119,960
Capital Outlay/Improvements	10,000	10,000	-	0%	87,349	26,385	30%	(26,385)
<b>Total</b>	<b>\$ 12,539,000</b>	<b>\$ 12,629,500</b>	<b>\$ 3,883,629</b>	<b>31%</b>	<b>\$ 11,539,060</b>	<b>\$ 3,450,633</b>	<b>30%</b>	<b>\$ 432,996</b>

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 2022-23**  
**SPENDABLE FUND BALANCE - FISCAL YEAR CHANGE**  
**THROUGH THE QUARTER ENDING SEPTEMBER 30, 2022**

<u>Fund #</u>	<u>Fund Title</u>	<u>Balance</u> <u>6/30/2022</u>	<u>Balance</u> <u>9/30/2022</u>	<u>FY Change</u> <u>through</u> <u>9/30/2022</u>
1	General Fund	\$ 5,829,822	\$ 3,480,799	\$ (2,349,023)
3	Emergency Reserve Fund	6,047,700	6,267,700	220,000
5	Economic Development Fund	200,505	200,505	-
17	General Fund Budget Reserves	1,918,092	1,140,829	(777,263)
	<b>Subtotal General Funds</b>	<b>13,996,119</b>	<b>11,089,833</b>	<b>(2,906,286)</b>
10	Road Maintenance & Rehabilitation Account (RMRA)	\$ 727,640	\$ 702,972	(24,668)
11	Streets Fund	257,994	140,927	(117,067)
12	Measure M2	612,659	1,069,735	457,076
15	Air Quality Fund	220,391	220,439	48
16	PEG Fund	355,825	355,904	79
20	Asset Seizure Fund	37,202	37,211	9
21	Public Safety Augmentation Fund	233,515	243,187	9,672
22	Supplemental Law Enforcement Fund	216,620	267,570	50,950
23	SVC Authority for Abandoned Vehicles	27,566	27,572	6
24	BSCC Local Law Enforcement Grant	48,813	48,824	11
25	Community Foundation Public Safety Grant	-	144,672	144,672
33	Park Development Fund	2,233	2,233	-
38	SA Housing Entity Fund	1,265,154	1,268,735	3,581
	<b>Subtotal Special Revenue Funds</b>	<b>4,005,612</b>	<b>4,529,981</b>	<b>524,369</b>
35	Capital Outlay Reserve Fund	5,354,338	5,888,159	533,821
37	Civic Center Rehabilitation Reserve Fund	863,608	1,473,257	609,649
	<b>Subtotal Capital Projects Funds</b>	<b>6,217,946</b>	<b>7,361,416</b>	<b>1,143,470</b>
50	Water Fund	936,910	410,064	(526,846)
55	Water Capital reserve Fund	3,561,073	3,723,008	161,935
	<b>Subtotal Water Related Funds</b>	<b>4,497,983</b>	<b>4,133,072</b>	<b>(364,911)</b>
52	Sewer Fund	1,664,991	1,544,761	(120,230)
56	Sewer Capital Reserve Fund	2,513,039	2,635,233	122,194
	<b>Subtotal Sewer Related Funds</b>	<b>4,178,030</b>	<b>4,179,994</b>	<b>1,964</b>
60	Risk Management/Insurance	1,168,692	463,166	(705,526)
61	Employee Benefits Fund	308,328	308,396	68
62	Building Maintenance & Replacement Fund	54,480	54,492	12
63	Vehicle Replacement Fund	1,381,247	1,467,823	86,576
64	Technology Replacement Fund	826,485	861,699	35,214
	<b>Subtotal Internal Service Funds Funds</b>	<b>3,739,232</b>	<b>3,155,576</b>	<b>(583,656)</b>
	<b>Total All Funds</b>	<b>\$ 36,634,922</b>	<b>\$ 34,449,872</b>	<b>\$ (2,185,050)</b>

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