

City of La Palma

Agenda Item No. 4



MEETING DATE: March 7, 2023

TO: CITY COUNCIL

FROM: CITY MANAGER

SUBMITTED BY: Ryan Hallett, Administrative Services Director

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

RECOMMENDED ACTION:

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

BACKGROUND:

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

1. A snapshot of the City's spendable fund balances on December 31, 2022, and 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, 2022). This report includes approved budget amendments through December 31, but it does not include proposed mid-year adjustments as those are presented in a separate staff report.

For the quarterly report, no quarter-end accruals are recorded. Except at fiscal year-end, when accruals are recorded per accounting standards, revenue is essentially reported when cash is received and expenditures are 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 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:

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 \$1.2 million from the beginning of the fiscal year from \$36.6 million to \$35.4 million on December 31, 2022. 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 decreased by \$2.1 million
- Special Revenue Funds increased by \$0.6 million
- Capital Projects Funds increased by \$0.8 million
- Water & Sewer Funds decreased by \$0.3 million
- Internal Service Funds decreased by \$0.2 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 \$5.0 million (39% of the budget), while expenditures totaled \$6.6 million (52% of the budget) through December 31, 2022. This results in a net shortfall of revenues under expenditures of \$1.6 million, accounting for most of the General Fund's spendable fund balance reduction. 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 \$5.0 million (38% of the year's total revenue), and expenditures totaled \$6.1 million (53% of the year's total expenditures), resulting in a net revenue shortfall of \$1.1 million.

Revenues

Total General Fund revenues are at 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 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 is revenue from the use of money and property.

- Property Tax: The General Fund's largest revenue source, property tax, has \$1.4 million in revenue recorded through December 31 (33% of the \$4.4 million budget). This is similar

to the prior year's receipt pattern – by the end of the second quarter of FY 2021-22, the City had received \$1.3 million, which was 31% of the fiscal year's total revenue.

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 \$732,000 recorded through December 31 (34% 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 the first quarter were recorded as prior year revenue. Current year revenues are lower than in the prior year, where the revenue recorded through the end of the second quarter was \$905,000, which was 38% of the fiscal year's total revenue. There is no bulk fuel revenue in the transaction and use tax, and the revenues appear to be on track with estimates.
- **Sales Tax:** The third largest budgeted revenue source, sales tax, has \$540,000 recorded through December 31 (27% 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 first quarter were recorded as prior year revenue. Current year revenues are trending lower than at the end of the prior year's second quarter, where the revenue recorded was \$693,000, which was 31% of the fiscal year's total revenue. The decline was due to the lack of bulk fuel sales for the first two quarters of fiscal year 22-23. Staff spoke with the bulk fuel sales company, and the company realized that they had not properly reported the La Palma bulk fuel sales. The company is in the process of amending its sales tax returns, and it appears the revenues will be received later than normal.
- **Utility Users Tax:** The fourth largest budgeted revenue source is utility users tax. Payments received through December 31 total 58% of the budget at \$528,000. This is higher than the \$415,000 revenue reported through the second quarter of the prior year, which was 40% of the fiscal year's total revenue.
- **Use of Money and Property:** Total revenue recorded through December is \$298,000 (79% of the \$377,400 budget). This category is comprised of the senior housing lease, miscellaneous rental income, and investment income. The majority of the revenue through the second quarter is from the annual senior housing lease, for which payment of \$206,000 was received in full. Miscellaneous rental income totals \$61,000, and investment income totals \$31,000 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. Due to changing interest rates, the fair market value of investments has decreased each quarter since June 30, 2020. As a result, on June 30, 2022, \$1.10 million of unrealized loss was recorded against investment interest earnings, resulting in negative

interest revenue for the fiscal year. On December 31, 2022, the unrecorded, unrealized loss on investments for the actively managed investment portfolio was \$1.06 million, resulting in an unrealized gain of \$40,000 through mid-year.

Expenditures

The General Fund's expenditures total \$6.6 million through December 31 (52% of the \$12.6 million budget). In comparison, the prior year's expenditures totaled \$6.1 (53% of the \$11.5 million annual expenditures) through the end of the second quarter. The majority of this \$500,000 increase is in the personnel services category, where the higher costs are attributable to larger UAL payments, positions that were unfilled in the prior year being staffed in the current year, and the terms of the labor agreements being implemented.

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 second quarter total \$381,000, 46% of the budget. In comparison, the prior year's expenditures through the second quarter totaled \$370,000, which was 45% of the year's 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 second quarter total \$2.4 million. Expenditures are at 71% of the budget, consistent with the prior year's expenditures through the second quarter of \$2.0 million, which was 72% 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 \$5.6 million. As of December 31, expenditures totaled \$2.6 million, 47% of the budget. In comparison, the prior year's expenditures through the second quarter totaled \$2.5 million, which was 49% of the year's total expenditures.
- The Community Services Department provides a wide range of services to the community, 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 second quarter total \$988,000, which is 45% of the budget. In comparison, the prior year's expenditures through the second quarter totaled \$1.0 million, which was 43% of the year's total expenditures.
- The Community Development Department oversees the Building and Safety, Code Enforcement, and Planning divisions. This department has a budget of \$609,700, and expenditures through the second quarter total \$193,000 which is 32% of the budget. In comparison, the prior year's expenditures through the second quarter totaled \$175,000 was 34% of the year's total expenditures.

Special Revenue Funds

The Special Revenue Funds consist of funds with revenue sources that outside parties restrict 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, safety grants, and other similar remittances.

The spendable fund balance increased by a net of \$600,000 due to the receipt of restricted monies, such as 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. 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, grounds, streets, parks, and roads. The Capital Outlay Reserve Fund accumulates monies for projects other sources cannot fund, such as gas tax, Measure M, RMRA, or park development funds. Through the end of the second quarter, the City has charged \$462,000 to capital projects, with the majority spent on the EOC generator and sidewalk-related projects. The spendable fund balance increased by \$783,000, mainly due to receiving a payment on the long-term advance made to other funds and EOC generator grant revenues, which receipts were offset by project expenditures.

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 on December 31. Due to the timing of recording revenues and expenses, 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 and second quarters. The operating water fund's revenues are at 22% of the budget, while expenditures are at 29% of the budget through December 31.

The Sewer Fund had an increase of \$60,000 in spendable fund balance, with an ending spendable fund balance of \$4.2 million on December 31. 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 24% of the budget, while expenditures are at 34% of the budget through December 31.

Internal Service Funds

The Internal Service Funds began the year with a spendable fund balance of \$3.7 million which decreased to \$3.5 million on 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:

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

SECOND QUARTER FINANCIAL REPORT, FISCAL YEAR 2022-23
GENERAL FUND REVENUES BY TYPE
QUARTER ENDING DECEMBER 31, 2022

Revenue Type	FY 2022-23				FY 2021-22			Q2 Variance FY 2022-23 to FY 2021-22 Increase / <Decrease>
	Adopted Budget	Amended Budget	Year-to-Date Actual through 12/31/2022 (50% of FY)	Q2 Actual as a % of Amended Budget	Prior Year Actual Annual Revenue	Prior YTD Actual through 12/31/2021 (50% of FY)	Q2 Actual as a % of Annual Revenue	
Property Tax	\$ 4,357,800	\$ 4,357,800	\$ 1,417,886	33%	\$ 4,285,171	\$ 1,331,498	31%	\$ 86,388
Sales Tax	1,994,000	1,994,000	539,944	27%	2,259,533	692,610	31%	(152,666)
Transaction & Use Tax	2,136,172	2,136,172	731,978	34%	2,375,624	905,401	38%	(173,423)
Utility Users Tax	915,700	915,700	528,191	58%	1,037,550	414,603	40%	113,588
Residual Property Tax	320,000	320,000	194,145	61%	323,243	217,529	67%	(23,384)
Franchise Fees	426,600	426,600	99,972	23%	428,401	88,048	21%	11,924
Transient Occupancy Tax	400,000	400,000	115,295	29%	392,423	85,831	22%	29,464
Licenses and Permits	370,500	370,500	293,899	79%	392,109	236,676	60%	57,223
Intergovernmental	33,500	33,500	6,249	19%	214,862	74,373	35%	(68,124)
Charges for Services	531,200	521,600	184,691	35%	467,026	191,669	41%	(6,978)
Fines and Forfeitures	100,900	100,900	34,191	34%	101,574	28,558	28%	5,633
Use of Money and Property (Note 1)	377,400	377,400	297,975	79%	(113,963)	288,868	-253%	9,107
Other Revenue	269,900	269,900	185,402	69%	261,760	112,084	43%	73,318
Interfund Charges	672,700	672,700	336,300	50%	659,400	329,700	50%	6,600
Total Revenues	\$ 12,906,372	\$ 12,896,772	\$ 4,966,118	39%	\$ 13,084,713	\$ 4,997,448	38%	\$ (31,330)

Note 1: The City typically holds investments 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 December 31, 2022, the unrealized loss on investments for the actively managed investment portfolio was \$1,054,972.

**SECOND QUARTER FINANCIAL REPORT, FISCAL YEAR 2022-23
GENERAL FUND EXPENDITURES BY DEPARTMENT
QUARTER ENDING DECEMBER 31, 2022**

Department	FY 2022-23				FY 2021-22			Q2 Variance FY 2022-23 to FY 2021-22 Increase / <Decrease>
	Adopted Budget	Amended Budget	Year-to-Date Actual through 12/31/2022 (50% of FY)	Q2 Actual as a % of Amended Budget	Prior Year Actual Annual Expenditures	Prior YTD Actual through 12/31/2021 (50% of FY)	Q2 Actual as a % of Annual Expenditures	
General Government	\$ 822,300	\$ 835,700	\$ 380,557	46%	\$ 822,100	\$ 369,844	45%	\$ 10,713
Administrative Services (Note 1)	3,401,600	3,404,000	2,423,477	71%	2,741,734	1,985,425	72%	438,052
Police	5,548,000	5,567,000	2,629,045	47%	5,046,836	2,490,084	49%	138,961
Community Services	2,186,400	2,213,100	988,266	45%	2,418,723	1,038,382	43%	(50,116)
Community Development	580,700	609,700	192,875	32%	509,667	175,155	34%	17,720
Total	\$ 12,539,000	\$ 12,629,500	\$ 6,614,220	52%	\$ 11,539,060	\$ 6,058,890	53%	\$ 555,330

Note 1: 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 at the beginning of the fiscal year.

**SECOND QUARTER FINANCIAL REPORT, FISCAL YEAR 2022-23
GENERAL FUND EXPENDITURES BY CATEGORY
QUARTER ENDING DECEMBER 31, 2022**

Expenditure Type	FY 2022-23				FY 2021-22			Q2 Variance FY 2022-23 to FY 2021-22 Increase / <Decrease>
	Adopted Budget	Amended Budget	Year-to-Date Actual through 12/31/2022 (50% of FY)	Q2 Actual as a % of Amended Budget	Prior Year Actual Annual Expenditures	Prior YTD Actual through 12/31/2021 (50% of FY)	Q2 Actual as a % of Annual Expenditures	
Personnel Services (Note 1)	\$ 8,091,700	\$ 8,108,500	\$ 4,610,625	57%	\$ 7,233,565	\$ 4,145,132	57%	\$ 465,493
Maintenance and Operations	4,437,300	4,511,000	2,001,455	44%	4,218,146	1,866,656	44%	134,799
Capital Outlay/Improvements	10,000	10,000	2,140	21%	87,349	47,102	54%	(44,962)
Total	\$ 12,539,000	\$ 12,629,500	\$ 6,614,220	52%	\$ 11,539,060	\$ 6,058,890	53%	\$ 555,330

Note 1: 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 at the beginning of the fiscal year.

SECOND QUARTER FINANCIAL REPORT, FISCAL YEAR 2022-23
SPENDABLE FUND BALANCE - FISCAL YEAR CHANGE
THROUGH THE QUARTER ENDING DECEMBER 31, 2022

<u>Fund #</u>	<u>Fund Title</u>	<u>Balance</u> <u>6/30/2022</u>	<u>Balance</u> <u>12/31/2022</u>	<u>FY Change</u> <u>through</u> <u>12/31/2022</u>
1	General Fund	\$ 5,829,822	\$ 4,287,638	\$ (1,542,184)
3	Emergency Reserve Fund	6,047,700	6,267,700	220,000
5	Economic Development Fund	200,505	195,505	(5,000)
17	General Fund Budget Reserves	1,918,092	1,142,606	(775,486)
	Subtotal General Funds	13,996,119	11,893,449	(2,102,670)
10	Road Maintenance & Rehabilitation Account (RMRA)	\$ 727,640	\$ 778,721	51,081
11	Streets Fund	257,994	114,420	(143,574)
12	Measure M2	612,659	1,104,183	491,524
15	Air Quality Fund	220,391	225,932	5,541
16	PEG Fund	355,825	362,198	6,373
20	Asset Seizure Fund	37,202	37,269	67
21	Public Safety Augmentation Fund	233,515	276,892	43,377
22	Supplemental Law Enforcement Fund	216,620	283,153	66,533
23	SVC Authority for Abandoned Vehicles	27,566	27,615	49
24	BSCC Local Law Enforcement Grant	48,813	48,900	87
25	Community Foundation Public Safety Grant	-	105,697	105,697
33	Park Development Fund	2,233	2,237	4
38	SA Housing Entity Fund	1,265,154	1,266,542	1,388
	Subtotal Special Revenue Funds	4,005,612	4,633,759	628,147
35	Capital Outlay Reserve Fund	5,354,338	5,525,270	170,932
37	Civic Center Rehabilitation Reserve Fund	863,608	1,475,551	611,943
	Subtotal Capital Projects Funds	6,217,946	7,000,821	782,875
50	Water Fund	936,910	522,856	(414,054)
55	Water Capital reserve Fund	3,561,073	3,611,454	50,381
	Subtotal Water Related Funds	4,497,983	4,134,310	(363,673)
52	Sewer Fund	1,664,991	1,604,764	(60,227)
56	Sewer Capital Reserve Fund	2,513,039	2,633,056	120,017
	Subtotal Sewer Related Funds	4,178,030	4,237,820	59,790
60	Risk Management/Insurance	1,168,692	700,547	(468,145)
61	Employee Benefits Fund	308,328	308,876	548
62	Building Maintenance & Replacement Fund	54,480	54,577	97
63	Vehicle Replacement Fund	1,381,247	1,556,460	175,213
64	Technology Replacement Fund	826,485	901,080	74,595
	Subtotal Internal Service Funds Funds	3,739,232	3,521,540	(217,692)
	Total All Funds	\$ 36,634,922	\$ 35,421,699	\$ (1,213,223)

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