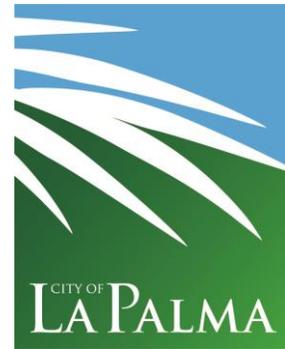


City of La Palma

Agenda Item No. 4



MEETING DATE: December 19, 2017

TO: CITY COUNCIL

FROM: CITY MANAGER

SUBMITTED BY: Sea Shelton, Administrative Services Director

AGENDA TITLE: Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ending June 30, 2017

RECOMMENDED ACTION:

It is recommended that the City Council accept and receive and file the Comprehensive Annual Financial Report (CAFR) of the City of La Palma for the Fiscal Year ended June 30, 2017.

SUMMARY:

The attached CAFR describes in detail the financial position and financial activity of the City of La Palma for the fiscal year ended June 30, 2017. The City's financial statements were audited and found to be in conformance with Generally Accepted Accounting Principles (GAAP). City staff has every reason to expect that this year's CAFR will be the twentieth report to receive the Government Finance Officers Association of the United States and Canada's *Certificate of Achievement for Excellence in Financial Reporting*. The City Manager's letter of Transmittal and the Management Discussion and Analysis contained in the CAFR provide highlights of the report's contents including the following:

Governmental Activities:

Overall revenues increased by \$1.3 million over the previous fiscal year. The majority of the increase is due to the following:

- Grants and contributions increased by \$1.1 million due to grants received for the Arterial Pavement Management project.
- Property taxes increased by \$0.2 million as a result of increased property values.
- Sales taxes increased by \$0.6 million mainly as a result of the transaction use tax which was approved by the voters in November 2016.
- Other general revenues decreased by \$0.5 million, mainly a result of lower investment earnings due to a lower interest rate on investments.

Expenses increased by \$2.5 million when compared to the previous fiscal year:

- General government costs increased by \$1.4 million as a result of higher payments toward the unfunded pension liability reduced by adjustments to the net pension liability for pension expense and lower payouts to terminated employees in the current year.
- Public safety costs decreased by \$0.5 million. Although actual fund statement costs remained stable at \$4.5 million, the allocation of internal service charges to the program was less in the current year.
- Public works costs increased by \$1.6 million mainly due to the cyclical nature of street maintenance costs. In FY 2015-16, street maintenance costs totaled only \$0.4 million while a year earlier costs totaled \$1.5 million.

General Fund:

As of June 30, 2017, the “spendable” portion of the General Fund’s fund balance (i.e., Committed, Assigned, and Unassigned fund balance) was \$10.4 million, while the total fund balance was \$11.2 million. Total General Fund “spendable” fund balance represents 84% of total General Fund expenditures. The General Fund’s Unassigned fund balance was \$4.9 million at June 30, 2017, and represents 40% of total General Fund expenditures.

The City’s General Fund revenues increased by \$0.65 million (6.4%) over the prior year with the majority of the changes in the taxes, licenses and permits, and investment income categories.

- Tax revenue increased by \$752,000 with \$527,000 coming from the new Transaction Use Tax which was approved by the voters in November 2016; property tax revenue increased by \$150,000 mainly a result of higher property values; and the residual monies received from the wind-down of the State’s Successor Agencies increased by \$112,000. All other tax categories had only small changes from the prior year.
- Licenses and permits increased by \$120,000 mainly as a result of increased building activity in the City.
- Investment income decreased by \$109,000 due to the investment portfolio earning a lower interest rate.
- Other revenue categories had much smaller changes with an accumulated total reduction to revenue of \$109,000.

The City’s General Fund expenditures increased by \$2.3 million (22.9%) over the prior year.

- General government costs increased by \$2.4 million, a net result of a \$2.6 million increase in payments towards the unfunded pension liability offset by a reduction to special and termination pay of \$0.2 million.
- Public safety and Recreation categories each had decreases in costs of \$0.06 million resulting from cost containment measures.

An important component of the CAFR is the section entitled Notes to the Financial Statements. It is recommended that particular attention be paid to the notes, as they contain a great deal of useful information about the City’s financial policies and position.

In the back of the CAFR, the statistical section shows information generally over the prior ten years. The statistical section, which includes a history of the net changes of fund balances of Governmental Funds, illustrates previous years of difficult financial times for the City. For FY 2016-17, the negative change in fund balance was due to an additional payment of \$2.5M towards the City's unfunded pension obligation. A second payment of \$2.5 million is included in the FY 2017-18 budget. Should the City's financial condition continue to look stable and several months of actual revenue from the new Transaction and Use Tax have been received, City Council is expected to make final approval of the second \$2.5 million payment after FY 2017-18 mid-year budget review. Making large additional payments towards the unfunded pension obligation, helps decrease future pension liability costs.

The City should see much more financial stability in years to come as a result in the additional revenue provided by the new Transaction and Use Tax. In addition, the City has taken proactive steps to address its unfunded pension obligations. As a result of these two actions, the City is anticipated to be running in operating surpluses for the foreseeable future. Even with the new found financial stability, the City will remain vigilant and continue to pursue economic development opportunities and remain fiscally conservative to ensure that the services that residents have come to expect are not compromised.

APPROVED:



Administrative Services
Director



City Manager

Attachment: 1. FY 2016-17 Comprehensive Annual Financial Report



Due to the size of the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ending June 30, 2017, a separate link has been created below for you to access the file:

Attachment 1

FY 2016-2017 CAFR