

City of La Palma

Agenda Item No. 5



MEETING DATE: May 7, 2019
TO: CITY COUNCIL
FROM: CITY MANAGER
SUBMITTED BY: Sea Shelton, Administrative Services Director
AGENDA TITLE: Third Quarter Operating Report, Fiscal Year 2018-19

RECOMMENDED ACTION:

It is recommended that the City Council receive and file the Third Quarter Operating Report.

BACKGROUND:

Staff is presenting a third quarter 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 March 31, 2019, as well as the year-to-date change in spendable fund balances.
2. A review of the General Fund's revenue and expenditures through the third quarter of the fiscal year (75 percent of the year as of March 31, 2019).

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 third quarter represent 75 percent of the fiscal year, not all line items will be at 75 percent 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 report 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 increased by \$687,000 from the beginning of the fiscal year from \$26.8 million to \$27.5 million at March 31, 2019. This \$687,000 change is accounted for as follows:

- General Fund decreased by \$5,000
- Special Revenue Funds increased by \$357,000
- Capital Projects Funds increased by \$342,000
- Water & Sewer Funds increased by \$115,000
- Internal Service Funds decreased by \$122,000

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

General Fund

As shown in the attached charts, at the end of the quarter, General Fund revenues totaled \$7.6 million (65 percent of the amended budget) while expenditures totaled \$7.3 million (68 percent of the amended budget). The excess of revenues over expenditures less transfers to other funds approximates the \$5,000 reduction in spendable fund balance.

Revenues

Due to the timing of major revenue receipts, total General Fund revenue is at 65 percent of the amended budget through the end of the third quarter. This is in line with the prior year trend whereby 66 percent of the year's total revenue was received by the end of the third quarter. **By fiscal year-end, the City anticipates receiving the entire budgeted revenue of \$11.6 million.**

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 72 percent of the General Fund's revenue budget.

- Property Tax: The General Fund's largest revenue source, property tax, has \$2.2 million revenue recorded through March 31 (59 percent of the \$3.8 million budget). In comparison, through the same time period of the prior year, the City had recorded 61 percent of the annual property tax revenue.

The property tax line item includes secured and unsecured property taxes (budgeted at \$2.3 million) as well as the property tax in lieu of vehicle license fees (budgeted at \$1.5

million). Secured property tax payments are distributed in four main payments with estimated distributions of 40 percent in November/December during the second quarter, 10 percent in January/March during the third quarter, 40 percent in April 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 percent is distributed in January during the third quarter and the remaining 50 percent is distributed in May during the fourth quarter. Once all year-end accruals have been recorded, **actual property tax revenue is expected to be \$3.8 million, as budgeted.**

- Sales Tax: The second largest budgeted revenue source, sales tax, has \$1.4 million recorded through March 31 (66 percent of the \$2.1 million budget). In comparison, through the same time period of the prior year, the City had recorded 69 percent of the annual sales tax revenue. Sales tax receipts lag by two to three months, and the contractual tax rebate payments follow the lag time too. Once all year-end accruals have been recorded, **actual sales tax revenue is expected to be \$2.1 million, as budgeted.**
- Transaction & Use Tax: The transaction and use tax is the City's third largest revenue source. There is \$1.1 million recorded through March 31 (79 percent of the \$1.45 million amended budget). These receipts follow the same payment track as sales tax, and receipts lag by two to three months. The current year receipts appear much higher than the prior year receipts through the same time period, but the prior year's receipts included corrections for earlier year's overpayments; consequently, the 66 percent reported as collected through last year's third quarter is not useful for comparative purposes. Once all year-end accruals have been recorded, **actual transaction and use tax revenue is expected to be \$1.45 million, as budgeted.**
- Utility Users Tax: The fourth largest budgeted revenue source is utility users tax. Payments received through March 31 total \$669,000 which is 67 percent of the \$995,000 amended budget. In comparison, through the same time period of the prior year, the City had recorded 69 percent of the year's total utility users tax receipts. Once all year-end accruals have been recorded, **actual utility users tax revenue is expected to be \$995,000, as budgeted.**

Following are descriptions of smaller revenue sources which have uneven revenue streams:

- Franchise fees: Total revenue through March 31 is \$114,300 (30 percent of the \$386,800 budget). The City receives payment from its largest franchise fee source in one payment for the entire fiscal year in April of each year resulting in the proportionally low actual versus budget. In comparison, through the same time period of the prior year, the City had recorded 31 percent of the year's total franchise fee receipts. **The City anticipates \$386,800 in franchise fee revenue for the fiscal year, as budgeted.**
- Transient occupancy tax: Total revenue recorded through March 31 is \$203,300, which is 53 percent of the budget. The City receives four quarterly payments, with each payment received after the end of the applicable quarter. Consequently, the City has received two of the four quarterly payments through March 31. In comparison, through the same time period of the prior year, the City had recorded 51 percent of the year's total utility users tax receipts. **The City anticipates \$385,000 in transient occupancy tax revenue for the fiscal year, as budgeted.**

- Intergovernmental: Total revenue recorded through March 31 is \$11,700 (34 percent of the \$34,300 amended budget). During the last quarter of the year, the City is anticipating recording grant revenues of \$24,000 for an Orange County Proposition 69 grant to be used for acquiring forensic supplies. **The City anticipates recording \$34,300 in intergovernmental revenues for the fiscal year, as budgeted.**
- Fines and forfeitures: Total revenue recorded through March 31 is \$54,900 (58 percent of the \$95,100 amended budget). At mid-year, a reduction of \$25,000 was made to the budget for Ordinance and Miscellaneous fines to better reflect the year's trends, and the City anticipates additional monies to be received in the last quarter of the year. **The City anticipates receiving \$95,100 as shown in the amended budget.**
- Use of money and property: During the fiscal year, the City records interest revenue as dividend and interest payments are received. At year-end, in accordance with governmental accounting standards, the City adjusts interest revenue to record unrealized gains and losses based on market values of investments at that point in time. Because the City typically holds investments to maturity rather than realizing gains or losses by selling before maturity, this change in interest revenue is only recorded at fiscal year-end for financial reporting purposes. At March 31, the unrecorded, unrealized loss on investments is \$44,800. If this unrealized loss were recorded at the quarter's end, the revenue would be at 87 percent of the budget. If the year's trend of lower interest rates continues through year-end, the unrealized loss on investments should also remain low. Consequently, the **use of money and property annual revenue may exceed the budgeted \$332,400 at year-end.**

Expenditures

The General Fund's expenditures total \$7.3 million at March 31 (68% of the \$10.6 million amended budget). In comparison, the prior year expenditures totaled \$10.9 million through the end of the third quarter; the prior year's costs were disproportionately high due to a \$1.5 million property acquisition in August 2017 and a one-time \$2.5 million payment in March 2018 towards the City's unfunded pension obligation.

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 amended budget for this department totals \$676,600, and as of March 31, expenditures total \$473,500 (70 percent of the amended budget). **Expenditures are expected to approximate the budget at fiscal year-end.**
- 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 \$2.6 million, and as of March 31, expenditures total \$1.9 million (73 percent of the budget). **Expenditures are expected to approximate the budget at fiscal year-end.**
- The Police Department has an amended expenditure budget of \$4.8 million, and as of March 31, department expenditures total \$3.4 million (72 percent of the amended budget). **Expenditures are expected to approximate the amended budget at fiscal year-end.**

- 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 an amended budget of \$2.1 million, and as of March 31, expenditures total \$1.2 million (57 percent of the amended budget). The department's costs are proportionately low due to delayed street maintenance work and due to a delay in receiving invoices for incurred costs. **Expenditures are expected to be lower than the budgeted \$2.1 million at fiscal year-end.**
- The Community Development Department accounts for the Building and Safety, Code Enforcement, and Planning divisions. This department has a budget of \$468,000, and as of March 31, expenditures total \$267,000 (57 percent of the budget). The prior year's costs through December 31 totaled \$1.86 million due to the \$1.5 million acquisition of property in July 2017. The department's costs are proportionately low at the end of the third quarter due to no incurred costs for budgeted professional planning services in addition to a delay in receiving invoices for incurred costs. **By fiscal year-end, expenditures are expected to be approximately \$40,000 lower than the budgeted \$468,000.**

At the end of the third quarter, the expenditure outflows for personnel services are at 74 percent of the budget and total \$4.95 million. Expenditure outflows for maintenance and operations are at 60 percent of the amended budget and total \$2.3 million. These maintenance and operations costs are proportionately low mainly due to delays in receiving invoices for incurred costs as well as delays in street maintenance work, as previously explained. The cash flow timing of capital expenditures is not as equally distributed throughout the year, and capital outlay costs total \$12,600, nine percent of the \$143,700 budget.

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, state road maintenance and rehabilitation funds, County Measure M taxes, grants, South Coast Air Quality funding, police grant funds, park development fees, housing-related sources, and other similar remittances.

The spendable fund balance increased by a net of \$357,000 due to the receipt of 1) restricted monies from Road Maintenance and Rehabilitation Account (RMRA/SB1), gas tax, and Measure M in advance of spending for street purposes, 2) restricted monies from public safety augmentation funds and public safety grants in advance of spending for law enforcement purposes, and 3) restricted monies received from housing loan interest payments to be used for future housing purposes. These increases are offset by the expenditure of monies in advance of grant reimbursements for the Community Development Block Grant and state and county public safety grants.

Capital Outlay Reserve and Civic Center Rehabilitation Reserve Funds

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. For FY 2018-19, the Capital Outlay Reserve

Fund is estimated to provide \$2.8 million of funds for the City's projects which include \$1.5 million for facility improvement projects and \$1.3 million for street rehabilitation and intersection improvement projects.

The spendable fund balance of the capital outlay reserve fund increased by \$288,000 from the beginning of the year as a result of a budgeted transfer of \$350,000 from the General Fund in addition to interest earnings; these increases are offset by \$133,000 charged to projects through the end of the quarter. **Capital project activity is expected to increase during the remainder of the year but is expected to be less than the \$2.8 million budget; unspent project monies are planned to be carried over to the FY 2019-20 budget.**

The Civic Center Rehabilitation Reserve Fund increased by \$54,000 as a result of a budgeted transfer of \$50,000 from the General Fund in addition to interest earnings.

Water and Sewer Funds

The Water and Sewer Funds had a net addition to spendable fund balance of \$115,000 at March 31 due to revenues exceeding expenses. However, the water fund's spendable fund balance decreased by \$64,000 while the sewer fund's spendable fund balance increased by \$180,000.

Water Fund: Due to the timing of recording revenues and expenses, the operating water fund's revenues and expenditures are both at 58 percent of the budget at March 31. However, revenues were budgeted to be \$2.98 million while expenditures were budgeted to be \$3.05 million. This budgeted deficit is reflected in the decrease to the water fund's spendable fund balance.

Sewer Fund: The operating sewer fund's revenues are at 75 percent of the budget at March 31 while expenditures are at 58 percent of the budget. Revenues were budgeted to be \$349,300 and expenditures were budgeted to be \$184,800. This budget surplus is reflected in the increase to the sewer fund's spendable fund balance.

By year-end, after accounting for accruals, revenues and expenses are anticipated to approximate the budget.

Internal Service Funds

The Internal Service Funds began the year with a spendable fund balance of \$2.7 million which has been reduced by \$0.1 million to \$2.6 million at March 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. Payments from other funds are charged evenly over the fiscal year and are calculated to fully reimburse internal service funds for incurred costs.

FISCAL IMPACT:


This is a receive and file report which provides a summary of the year's fiscal activity through the end of the third fiscal quarter. Staff anticipates year end General Fund Expenditures coming in below the amended FY 2018-19 budget and currently estimates a budget surplus of

approximately \$574,000. There is three months remaining in the fiscal year and actuals may differ than estimates.

APPROVED:



Administrative Services Director



City Manager

Attachments:

1. General Fund Revenue Summary
2. General Fund Expenditures by Department
3. General Fund Expenditures by Category
4. Spendable Fund Balance Summary

THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2018-19
GENERAL FUND REVENUES BY TYPE
QUARTER ENDING MARCH 31, 2019

Revenue Type	FY 2018-19					FY 2017-18			Q3 Variance FY 2018-19 to FY 2017-18 Increase / <Decrease>
	Adopted Budget	Amended Budget	Year-to-Date Actual through 3/31/2019 (75% of FY)	Q3 Actual as a % of Adopted Budget	Q3 Actual as a % of Amended Budget	Prior Year Actual Annual Revenue	Prior YTD Actual through 3/31/2018 (75% of FY)	Q3 Actual as a % of Annual Revenue	
Property Tax	\$ 3,816,100	\$ 3,816,100	\$ 2,240,943	59%	59%	\$ 3,731,600	\$ 2,291,505	61%	\$ (50,562)
Sales Tax	2,100,000	2,100,000	1,384,031	66%	66%	2,502,894	1,715,550	69%	(331,519)
Transaction & Use Tax	1,590,000	1,450,000	1,144,770	72%	79%	1,250,535	825,037	66%	319,733
Utility Users Tax	1,015,000	995,000	669,490	66%	67%	992,221	688,134	69%	(18,644)
Residual Property Tax	100,000	100,000	93,082	93%	93%	147,467	106,009	72%	(12,927)
Franchise Fees	386,800	386,800	114,312	30%	30%	377,451	117,114	31%	(2,802)
Transient Occupancy Tax	385,000	385,000	203,263	53%	53%	391,991	198,473	51%	4,790
Licenses and Permits	374,500	374,500	290,931	78%	78%	340,730	294,396	86%	(3,465)
Intergovernmental	10,500	34,300	11,733	112%	34%	8,465	8,465	100%	3,268
Charges for Services	485,500	485,500	318,362	66%	66%	501,869	337,252	67%	(18,890)
Fines and Forfeitures	120,100	95,100	54,888	46%	58%	92,271	62,858	68%	(7,970)
Use of Money and Property**	332,400	332,400	334,897	101%	101%	265,242	268,824	101%	66,073
Other Revenue	458,900	494,500	297,467	65%	60%	483,412	394,638	82%	(97,171)
Interfund Charges	587,700	587,700	440,775	75%	75%	587,700	440,775	75%	-
Total Revenues	\$ 11,762,500	\$ 11,636,900	\$ 7,598,944	65%	65%	\$ 11,673,848	\$ 7,749,030	66%	\$ (150,086)

** The City typically holds investments rather than realizing losses by selling before maturity; therefore, the active investment portfolio's unrealized market value losses as of March 31 of \$44,790 have been excluded.

**THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2018-19
GENERAL FUND EXPENDITURES BY DEPARTMENT
QUARTER ENDING MARCH 31, 2019**

Department	FY 2018-19					FY 2017-18			Q3 Variance FY 2018-19 to FY 2017-18 Increase / <Decrease>
	Adopted Budget	Amended Budget	Year-to-Date	Q3 Actual	Q3 Actual	Prior Year	Prior YTD	Q3 Actual	
			Actual through 3/31/2019 (75% of FY)	as a % of Adopted Budget	as a % of Amended Budget	Actual Annual Expenditures	Actual through 3/31/2018 (75% of FY)	as a % of Annual Expenditures	
General Government	\$ 645,300	\$ 676,630	\$ 473,530	73%	70%	\$ 611,112	\$ 429,018	70%	\$ 44,512
Administrative Services (Note 2)	2,604,100	2,604,100	1,892,200	73%	73%	4,785,921	4,265,903	89%	(2,373,703)
Police	4,735,900	4,768,200	3,448,444	73%	72%	4,229,480	3,102,418	73%	346,026
Community Services	2,128,900	2,133,900	1,211,473	57%	57%	1,843,377	1,275,326	69%	(63,853)
Community Development (Note 1)	468,000	468,000	267,178	57%	57%	2,048,888	1,863,014	91%	(1,595,836)
Total	\$ 10,582,200	\$ 10,650,830	\$ 7,292,825	69%	68%	\$ 13,518,778	\$ 10,935,679	81%	\$ (3,642,854)

Note 1: FY 2017/18 costs were proportionately high due to a \$1.55M property acquisition during the first quarter.

Note 2: FY 2017/18 costs were proportionately high due to a one-time \$2.5M payment made in March 2018 towards the City's unfunded pension obligation.

**THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2018-19
GENERAL FUND EXPENDITURES BY CATEGORY
QUARTER ENDING MARCH 31, 2019**

Expenditure Type	FY 2018-19					FY 2017-18			Q3 Variance FY 2018-19 to FY 2017-18 Increase / <Decrease>
	Adopted Budget	Amended Budget	Year-to-Date Actual through 3/31/2019 (75% of FY)	Q3 Actual as a % of Adopted Budget	Q3 Actual as a % of Amended Budget	Prior Year Actual Annual Expenditures	Prior YTD Actual through 3/31/2018 (75% of FY)	Q3 Actual as a % of Annual Expenditures	
Personnel Services (Note 2)	\$ 6,652,000	\$ 6,652,000	\$ 4,951,607	74%	74%	\$ 8,470,576	\$ 6,966,309	82%	\$ (2,014,702)
Maintenance and Operations	3,786,500	3,855,130	2,328,633	61%	60%	3,439,836	2,389,041	69%	(60,408)
Capital Outlay/Improvements (Note 1)	143,700	143,700	12,585	9%	9%	1,608,366	1,580,329	98%	(1,567,744)
Total	\$ 10,582,200	\$ 10,650,830	\$ 7,292,825	69%	68%	\$ 13,518,778	\$ 10,935,679	81%	\$ (3,642,854)

Note 1: FY 2017/18 costs were proportionately high due to a \$1.55M property acquisition during the first quarter.

Note 2: FY 2017/18 costs were proportionately high due to a one-time \$2.5M payment made in March 2018 towards the City's unfunded pension obligation.

**THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2018-19
SPENDABLE FUND BALANCE - FISCAL YEAR CHANGE
THROUGH THE QUARTER ENDING MARCH 31, 2019**

<u>Fund #</u>	<u>Fund Title</u>	<u>Balance 6/30/2018</u>	<u>Balance 3/31/2019</u>	<u>FY Change through 3/31/2019</u>
1	General Fund	\$ 2,405,223	\$ 2,032,771	\$ (372,452)
3	Emergency Reserve Fund	5,080,000	5,447,500	367,500
5	Economic Development Fund	221,864	221,864	-
	Subtotal General Funds	7,707,087	7,702,135	(4,952)
10	Road Maintenance & Rehabilitation Account (RMRA)	\$ 93,659	\$ 263,496	169,837
11	Streets Fund	155,651	202,961	47,310
12	Measure M2	414,468	534,226	119,758
14	Community Development Block Grant (Note 1)	-	(270,000)	(270,000)
15	Air Quality Fund	134,338	145,964	11,626
16	PEG Fund	244,934	260,441	15,507
20	Asset Seizure Fund	88,014	89,120	1,106
21	Public Safety Augmentation Fund	192,652	211,318	18,666
22	Supplemental Law Enforcement Fund	150,180	240,105	89,925
23	SVC Authority for Abandoned Vehicles	26,385	26,714	329
24	BSCC Local Law Enforcement Grant	54,890	54,453	(437)
25	Community Foundation Public Safety Grant	-	58,486	58,486
33	Park Development Fund	100,196	101,443	1,247
38	Successor Housing Fund	741,321	834,887	93,566
	Subtotal Special Revenue Funds	2,396,688	2,753,614	356,926
35	Capital Outlay Reserve Fund	5,582,427	5,870,684	288,257
36	One-Time Projects Fund	-	-	-
37	Civic Center Rehabilitation Reserve Fund	298,671	352,654	53,983
	Subtotal Capital Projects Funds	5,881,098	6,223,338	342,240
50	Water Fund	581,689	499,287	(82,402)
55	Water Capital reserve Fund	4,033,100	4,051,034	17,934
	Subtotal Water Related Funds	4,614,789	4,550,321	(64,468)
52	Sewer Fund	1,206,307	1,300,894	94,587
56	Sewer Capital Reserve Fund	2,329,815	2,415,359	85,544
	Subtotal Sewer Related Funds	3,536,122	3,716,253	180,131
60	Risk Management/Insurance	889,914	747,927	(141,987)
61	Employee Benefits Fund	295,010	298,787	3,777
62	Building Maintenance & Replacement Fund	52,145	52,794	649
63	Vehicle Replacement Fund	862,531	853,886	(8,645)
64	Technology Replacement Fund	583,713	607,514	23,801
	Subtotal Internal Service Funds Funds	2,683,313	2,560,908	(122,405)
	Total All Funds	\$ 26,819,097	\$ 27,506,569	\$ 687,472

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

Note 1: City awaiting reimbursement from CDBG Grant upon ADA Ramp project completion.