

City of La Palma

Agenda Item No. 7



MEETING DATE: May 16, 2017
TO: CITY COUNCIL
FROM: CITY MANAGER
SUBMITTED BY: Sea Shelton, Administrative Services Director
AGENDA TITLE: Third Quarter Operating Report, Fiscal Year 2016-17

RECOMMENDED ACTION:

It is recommended that the City Council receive and file the FY 2016-17 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, 2017, 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% of the year as of March 31, 2017).

For the quarterly report, no quarter-end accruals are recorded. Essentially, revenue is 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 at equal intervals throughout the year. Consequently, although the third quarter represents 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 are the following summary schedules through March 31, 2017:

- 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 declined by \$1.7 million from the beginning of the fiscal year from \$30.6 million to \$28.9 million at March 31, 2017. It is useful to compare the change in spendable balance to the same time period in the prior year; the City's spendable fund balance declined by \$1.7 million during this same period in the prior year. This means that the City's spendable fund balance declined by the same amount during the same time period in the prior fiscal year.

The current year reduction in spendable fund balance is accounted for as follows:

- General Fund decreased by \$400,000
- Special Revenue Funds increased by \$200,000
- Capital Outlay Revolving Fund decreased by \$500,000
- Water Fund decreased by \$700,000
- Sewer Fund decreased by \$100,000
- Internal Service Funds decreased by \$100,000

The remainder of the financial review section will focus on the activity in the funds with significant changes in spendable fund balance.

General Fund

The General Fund's spendable fund balance decreased by \$400,000 through March 31. As shown in the attached charts, General Fund revenues totaled \$6.6 million (64% of the amended budget) while expenditures totaled \$6.7 million (68% of the amended budget) as of March 31, 2017. General Fund expenditures exceed revenues by \$0.1 million. The remaining reduction in spendable fund balance is a result of \$0.3 million transferred to the Capital Outlay Reserve Fund during the third quarter.

Revenues

Due to the timing of major revenue receipts, total General Fund revenue of \$6.6 million is at 64% of the amended budget of \$10.3 million through the end of the third quarter. **By fiscal year-end, the City anticipates receiving the entire budgeted revenue of \$10.3 million.**

Following is a discussion of the three largest General Fund revenue sources: property tax, sales and use tax (including the new voter-approved transaction and use tax), and utility users tax.

Together, these three revenues account for approximately 68% of the General Fund's amended revenue budget.

- **Property Tax:** The General Fund's largest revenue source, property tax, has \$2.0 million revenue recorded through March 31 (58% of the \$3.5 million budget). This percentage of revenue received is the same as the prior year where the City had received 58% of the annual property tax revenue by March 31.

The property tax line item includes secured and unsecured property taxes (budgeted at \$2.1 million) as well as the property tax in lieu of vehicle license fees (budgeted at \$1.4 million). Secured and unsecured property tax payments are distributed in two main payments; the first payment is distributed in December during the second quarter, and the second payment is distributed in April during the fourth quarter. Property tax payments in lieu of vehicle license fees are received in two installments; the first distribution was in January 2017 (during the third quarter) and the second installment will be in May 2017 (during the fourth quarter). **The City anticipates receiving all property tax revenue as budgeted.**

- **Sales & Use Taxes**
 - **Sales Tax:** The next largest revenue source, sales tax, has \$1.5 million recorded at March 31 (73% of the amended \$2.0 million budget). 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 are expected to be \$2.2 million for the fiscal year.**
 - **Transaction & Use Tax:** In November 2016, the voters approved a local add-on transaction and use tax which will be applied beginning in April 1, 2017. **The City estimates \$275,000 to be received during the fiscal year from this tax.**
- **Utility Users Tax:** The third largest revenue source is utility users tax, budgeted at \$1.1 million. Payments received through March 31 total 63% of budget at \$704,000. Utility users tax payments lag by one month; consequently, extrapolating the eight months of payments received through March 31 to nine months results in an estimate of \$792,000 which is 71% of the budget. **The City anticipates receiving \$1,050,000 in utility users tax revenue for the fiscal year.**

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

- **Franchise Fees** have revenue of \$126,100 through March 31, which is 31% of the \$411,700 amended budget. This percentage of revenue received is comparable with the prior year where the City had received 33% of the annual franchise fee revenue by March 31. Two of the largest franchise payments are received annually during the fourth quarter. **Franchise fees are estimated to approximate the amended budget of \$411,700 by fiscal year-end.**
- **Transient occupancy tax** revenue of \$183,200 is at 50% of the \$370,000 budget through March 31. Transient occupancy tax is paid on a quarterly basis and lags by one quarter. The City has received two of the four quarterly payments through March 31, and **the transient occupancy tax revenue is expected to approximate the budget by fiscal year-end.**

- Licenses and permits revenue total \$368,000 through March 31, 104% of the \$354,700 amended budget. As in years past, the majority of the license and permit revenue is collected through the business license annual renewal process which occurs mostly during the beginning of the fiscal year. **Licenses and permits revenue are expected to total approximately \$461,700 by the end of the fiscal year.**
- Fines and forfeitures revenue of \$66,900 is at 53% of the \$125,200 budget through March 31. These receipts come from a variety of sources, including State and County payments which lag by one to two months. **By fiscal year-end, fines and forfeitures revenue is anticipated to approximate the amended budget of \$125,200.**
- Use of money and property revenue consists of rental income and interest earnings. This revenue totals \$299,800 at March 31 and is at 92% of the amended budget of \$327,600. Revenues are proportionately high because the ground lease payment received from the Successor Agency Housing fund of \$110,000 has been paid in full as a single payment. Additionally, interest revenues are trending higher than was anticipated. **By fiscal year-end, this revenue is expected to exceed the budget by a small amount.**

Expenditures

The General Fund's expenditures total \$6.7 million at March 31 (68% of the \$9.9 million amended budget). In the prior year, expenditures were at 70% of budget at March 31 and were at 74% when compared to actual year-end amounts. **Staff anticipates that expenditures within all departments will approximate the budget amounts at fiscal year-end.**

- 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 \$634,200. As of March 31, expenditures total \$416,000 (66% of the budget). This is comparable to the prior year where 64% of the department's year-end total expenditures were incurred by March 31.
- The Administrative Services Department is comprised of the divisions for Administration, Fiscal Services, Human Resources, and Technology and Communications. The budget for this department totals \$2.2 million and as of March 31, expenditures total \$1.6 million (73% of the budget).
- The Police Department has the largest expenditure budget at \$4.6 million (47% of the total General Fund budget). As of March 31, expenditures totaled \$3.2 million (69% of the budget).
- 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 \$2.0 million. As of March 31, expenditures total \$1.2 million (60% of the budget).

- The Community Development Department accounts for the Building and Safety, Code Enforcement, and Planning divisions. The department's amended budget totals \$469,000, and as of March 31, expenditures totaled \$322,100 (69% of the budget).

The expenditure outflows for normal operations are at 68% of the amended budget. Personnel costs total \$4.4 million (71% of the amended budget) and Maintenance & Operations costs total \$2.3 million (64% of the amended budget). The cash flow timing of capital expenditures is not as equally distributed throughout the year, and capital outlay costs total \$9,200 (11% of the budget).

Special Revenue Funds

The Special Revenue Funds are comprised of a variety of funds whose revenues are restricted for specific purposes. During the nine months ending March 31, 2017, the spendable fund balance of special revenue funds increased by a net of \$190,000 to \$2.1 million. All but two special revenue funds had increases to spendable fund balance during this time:

The funds that decreased were 1) the Community Development Block Grant fund as a result of pending grant reimbursement from the Community Development Block Grant program of \$200,000 (for ADA improvements) and 2) the Successor Agency Housing Fund decreased by a net of \$54,000 as a result of paying the ground lease payment to the City's general fund for the Seasons Housing project in excess of monies received for principal and interest payment on previously-made housing loans.

All other special revenue funds had increases to spendable fund balance as a result of accumulations of various funding sources prior to the related expenditures taking place or from receiving reimbursement for expenditures previously made. The most significant fund increases were the following:

- Streets Fund – net increase of \$29,000: Revenues consist of remittances from the State for the City's share of gas tax. All accumulated receipts are for normal street maintenance, traffic signal operations and maintenance, and for traffic control operations.
- Measure M2 Fund – net increase of \$138,000: Revenues consist of monies received from the County's Measure M sales tax and grant reimbursement received for costs previously incurred for the City's Arterial Pavement Management Program. Expenditures are entirely for street-related purposes.
- Police special revenue funds – net increase of \$204,000: Revenues received are from asset seizure monies, the public safety augmentation fund (revenues generated by a ½ cent sales tax under the State's Proposition 172 program), the State supplemental law enforcement program, and a new BSCC local law enforcement grant. All monies received in these funds will be spent as required for public safety programs including front-line police services.
- Park development fund – net increase of \$56,000: Revenues consist of developer fees received with the money to be spent for park improvement programs.

Capital Outlay Reserve Fund

The Capital Outlay Reserve Fund (COR) had a net decrease to spendable fund balance of \$490,000. During the fiscal year, \$325,000 was transferred into COR to provide funding for projects and the fund received interest allocation of \$49,000. In accordance with the project budgets, expenditures through March 31 total \$846,000 for the Residential Slurry Seal, Arterial Pavement Management, and ADA Improvements projects. These projects are being funded by

using monies set-aside in this fund for this purpose, resulting in anticipated reductions in spendable fund balance.

Water & Sewer Funds

The Water and sewer funds had a total reduction in spendable fund balance of \$783,000. The reason for this is because revenues are less than expenses. Revenues totaled \$1,670,000 but lag by one to two months because of accounting for year-end receivables. Expenses totaled \$2,430,000 and include MWD water purchases of \$647,000 which have an annual budget of \$548,000. The emergency sediment removal project for the City Yard Well that was approved by City Council on August 2, 2016, is a primary factor in the increased expenditures. By year-end, revenues and expenditures in total are anticipated to approximate the budget amounts.

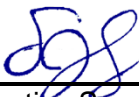
Internal Service Funds

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, Vehicle Replacement Fund, and the Technology Replacement Fund. 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. The internal service funds recover costs by charging the General, Water, and Sewer funds for their proportional share of the costs. This cost recovery is distributed evenly over the fiscal year, even when costs are incurred 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 third fiscal quarter.

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

**CITY OF LA PALMA
THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2016-17
GENERAL FUND REVENUES BY TYPE
FISCAL YEAR QUARTER ENDING MARCH 31, 2017**

| Revenue Type | FY 2016-17 | | | | FY 2015-16 | | | Q3 Variance FY 2016-17 to FY 2015-16 Increase / <Decrease> |
|---------------------------|---------------------|----------------------|--|---|---|---|---|--|
| | Adopted Budget | Amended Budget | Year-to-Date Actual through 3/31/2017 (75% of FY) | Q3 Actual as a % of Amended Budget | Prior Year Actual Annual Revenue | Prior YTD Actual through 3/31/2016 (75% of FY) | Q3 Actual as a % of Annual Revenue | |
| Property Tax | \$ 3,484,000 | \$ 3,510,900 | \$ 2,047,024 | 58% | \$ 3,407,901 | \$ 1,963,624 | 58% | \$ 83,400 |
| Sales Tax | 1,949,500 | 2,040,000 | 1,484,344 | 73% | 2,341,421 | 1,246,703 | 53% | 237,641 |
| Transaction & Use Tax | - | 275,000 | - | 0% | - | - | n/a | - |
| Utility Users Tax | 1,125,000 | 1,115,000 | 703,948 | 63% | 1,078,903 | 765,204 | 71% | (61,256) |
| Residual Property Tax | 131,000 | 220,000 | 170,532 | 78% | 158,252 | 141,853 | 90% | 28,679 |
| Franchise Fees | 426,400 | 411,700 | 126,115 | 31% | 394,345 | 129,280 | 33% | (3,165) |
| Transient Occupancy Tax | 370,000 | 370,000 | 183,184 | 50% | 390,823 | 198,006 | 51% | (14,822) |
| Licenses and Permits | 302,700 | 354,700 | 368,032 | 104% | 373,165 | 309,793 | 83% | 58,239 |
| Intergovernmental | 31,400 | 14,100 | 12,123 | 86% | 22,560 | 21,266 | 94% | (9,143) |
| Charges for Services | 488,900 | 513,775 | 399,880 | 78% | 607,852 | 410,060 | 67% | (10,180) |
| Fines and Forfeitures | 160,200 | 125,200 | 66,936 | 53% | 148,689 | 101,152 | 68% | (34,216) |
| Use of Money and Property | 313,600 | 327,600 | 299,763 | 92% | 371,676 | 249,567 | 67% | 50,196 |
| Other Revenue | 398,500 | 398,500 | 262,766 | 66% | 451,017 | 253,449 | 56% | 9,317 |
| Interfund Charges | 484,400 | 587,700 | 440,775 | 75% | 587,700 | 440,775 | 75% | - |
| Total Revenues | \$ 9,665,600 | \$ 10,264,175 | \$ 6,565,422 | 64% | \$ 10,334,304 | \$ 6,230,732 | 60% | \$ 334,690 |

**CITY OF LA PALMA
 THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2016-17
 GENERAL FUND EXPENDITURES BY DEPARTMENT
 FISCAL YEAR QUARTER ENDING MARCH 31, 2017**

| Department | FY 2016-17 | | | | FY 2015-16 | | | Q3 Variance FY 2016-17 to FY 2015-16 Increase / <Decrease> |
|-------------------------|---------------------|---------------------|--|---|--|---|--|--|
| | Adopted Budget | Amended Budget | Year-to-Date Actual through 3/31/2017 (75% of FY) | Q3 Actual as a % of Amended Budget | Prior Year Actual Annual Expenditures | Prior YTD Actual through 3/31/2016 (75% of FY) | Q3 Actual as a % of Annual Expenditures | |
| General Government | \$ 634,200 | \$ 634,200 | \$ 416,038 | 66% | \$ 618,523 | \$ 394,239 | 64% | \$ 21,799 |
| Administrative Services | 2,197,400 | 2,154,100 | 1,562,702 | 73% | 2,289,804 | 1,731,744 | 76% | (169,042) |
| Police | 4,628,900 | 4,641,900 | 3,207,264 | 69% | 4,334,964 | 3,315,040 | 76% | (107,776) |
| Community Services | 2,051,900 | 2,001,900 | 1,201,949 | 60% | 1,859,625 | 1,278,216 | 69% | (76,267) |
| Community Development | 457,400 | 468,875 | 322,147 | 69% | 448,055 | 309,876 | 69% | 12,271 |
| Total | \$ 9,969,800 | \$ 9,900,975 | \$ 6,710,100 | 68% | \$ 9,550,971 | \$ 7,029,115 | 74% | \$ (319,015) |

**CITY OF LA PALMA
 THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2016-17
 GENERAL FUND EXPENDITURES BY CATEGORY
 FISCAL YEAR QUARTER ENDING MARCH 31, 2017**

| Expenditure Type | FY 2016-17 | | | | FY 2015-16 | | | Q3 Variance FY 2016-17 to FY 2015-16 Increase / <Decrease> |
|-----------------------------|---------------------|---------------------|--|---|--|---|--|--|
| | Adopted Budget | Amended Budget | Year-to-Date Actual through 3/31/2017 (75% of FY) | Q3 Actual as a % of Amended Budget | Prior Year Actual Annual Expenditures | Prior YTD Actual through 3/31/2016 (75% of FY) | Q3 Actual as a % of Annual Expenditures | |
| Personnel Services | \$ 6,338,200 | \$ 6,238,200 | \$ 4,422,420 | 71% | \$ 6,332,950 | \$ 4,904,444 | 77% | \$ (482,024) |
| Maintenance and Operations | 3,548,300 | 3,579,475 | 2,278,439 | 64% | 3,203,006 | 2,116,612 | 66% | 161,827 |
| Capital Outlay/Improvements | 83,300 | 83,300 | 9,241 | 11% | 15,015 | 8,059 | 54% | 1,182 |
| Total | \$ 9,969,800 | \$ 9,900,975 | \$ 6,710,100 | 68% | \$ 9,550,971 | \$ 7,029,115 | 74% | \$ (319,015) |

**CITY OF LA PALMA
THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2016-17
SPENDABLE FUND BALANCE - FISCAL YEAR CHANGE
THROUGH THE FISCAL YEAR QUARTER ENDING MARCH 31, 2017**

| <u>Fund #</u> | <u>Fund Title</u> | <u>Balance 6/30/2016</u> | <u>Balance 3/31/2017</u> | <u>FY Change through 3/31/2017</u> |
|---------------|--|------------------------------|------------------------------|--|
| 1 | General Fund | \$ 2,279,457 | \$ 1,866,031 | \$ (413,426) |
| 3 | Emergency Reserve Fund | 9,000,000 | 9,000,000 | - |
| 5 | Economic Development Fund | 228,814 | 228,814 | - |
| | Subtotal General Funds | 11,508,271 | 11,094,845 | (413,426) |
| 11 | Streets Fund | 98,453 | 126,985 | 28,532 |
| 12 | Measure M2 | 559,195 | 696,937 | 137,742 |
| 14 | Community Development Block Grant | - | (200,000) | (200,000) |
| 15 | Air Quality Fund | 92,888 | 103,442 | 10,554 |
| 16 | PEG Fund | 201,466 | 208,510 | 7,044 |
| 20 | Asset Seizure Fund | 75,252 | 143,140 | 67,888 |
| 21 | Public Safety Augmentation Fund | 116,898 | 146,281 | 29,383 |
| 22 | Supplemental Law Enforcement Fund | 66,714 | 109,889 | 43,175 |
| 23 | SVC Authority for Abandoned Vehicles | 26,206 | 26,373 | 167 |
| 24 | BSCC Local Law Enforcement Grant | - | 63,418 | 63,418 |
| 33 | Park Development Fund | 44,291 | 100,149 | 55,858 |
| 38 | SA Housing Entity Fund | 641,152 | 587,195 | (53,957) |
| | Subtotal Special Revenue Funds | 1,922,515 | 2,112,319 | 189,804 |
| 35 | Capital Outlay Reserve Fund | 5,373,576 | 4,883,565 | (490,011) |
| 36 | One-Time Projects Fund | 661,851 | 613,373 | (48,478) |
| | Subtotal Capital Projects Funds | 6,035,427 | 5,496,938 | (538,489) |
| 50 | Water Fund | 942,859 | 128,499 | (814,360) |
| 55 | Water Capital reserve Fund | 3,960,118 | 4,114,081 | 153,963 |
| | Subtotal Water Related Funds | 4,902,977 | 4,242,580 | (660,397) |
| 52 | Sewer Fund | 980,353 | 969,777 | (10,576) |
| 56 | Sewer Capital Reserve Fund | 2,583,990 | 2,471,481 | (112,509) |
| | Subtotal Sewer Related Funds | 3,564,343 | 3,441,258 | (123,085) |
| 60 | Risk Management/Insurance | 828,568 | 341,761 | (486,807) |
| 61 | Employee Benefits Fund | 44,779 | 295,130 | 250,351 |
| 62 | Building Maintenance & Replacement Fund | 51,791 | 52,120 | 329 |
| 63 | Vehicle Replacement Fund | 1,100,971 | 1,187,325 | 86,354 |
| 64 | Technology Replacement Fund | 637,845 | 683,935 | 46,090 |
| | Subtotal Internal Service Funds Funds | 2,663,954 | 2,560,271 | (103,683) |
| | Total All Funds | \$ 30,597,487 | \$ 28,948,211 | \$ (1,649,276) |

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