

City of La Palma

Agenda Item No. 4



MEETING DATE: November 21, 2017
TO: CITY COUNCIL
FROM: CITY MANAGER
SUBMITTED BY: Sea Shelton, Administrative Services Director
AGENDA TITLE: First Quarter Operating Report, Fiscal Year 2017-18

RECOMMENDED ACTION:

It is recommended that the City Council receive and file the Fiscal Year 2017-18 First Quarter Operating Report.

BACKGROUND:

Staff is presenting a 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 September 30, 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 first quarter of the fiscal year (25% of the year as of September 30, 2017).

For the quarterly report, no quarter-end accruals are recorded. 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 the first quarter represents 25 percent of the fiscal year, not all line items will be at 25 percent of the budget as of the end of the first 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:

Attached for review are the following first quarter summary schedules:

- Schedule of General Fund Revenues
- 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 (the sum of cash, investments, and current receivables less current liabilities) has declined by \$3.4 million from the beginning of the fiscal year from \$28.6 million to \$25.2 million at September 30, 2017. 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 expenditure uses. This \$3.4 million change is accounted for as follows:

- General Fund decreased by \$2,700,000
- Special Revenue Funds increased by \$100,000
- Capital Outlay Revolving Fund increased by \$200,000
- Water Fund decreased by \$300,000
- Internal Service Funds decreased by \$700,000

General Fund

As shown in the attached charts, General Fund revenues totaled \$1.6 million (14% of the budget) while expenditures totaled \$4.4 million (32% of the budget) as of September 30, 2017. The excess of expenditures over revenues equals the \$2.7 million reduction in spendable fund balance.

Revenues

Total General Fund revenues are at only 14% 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, 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.

- **Property Tax:** The General Fund's largest revenue source, property tax, has \$59,000 revenue recorded at September 30 (2% of the \$3.6 million budget). This is similar to the prior year receipt pattern – by the end of the first quarter of FY 2016-17, the City had received \$12,000.

The property tax line item includes secured and unsecured property taxes (budgeted at \$2.2 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 four payments: 40% is distributed in December during the second quarter, 10% is distributed in January during the third quarter, 40% is distributed in April during the fourth quarter, and the final 10% is distributed in May during the fourth quarter. 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.

- **Sales Tax:** The second largest revenue source, sales tax, has \$321,000 recorded at September 30 (15% of the \$2.2 million budget). Sales tax receipts always lag by two to three months, and consequently, much of the actual sales tax payments received during the quarter were recorded as prior year revenue. The revenue recorded through the end of the first quarter of the prior year was 15% of the total fiscal year's revenue, which is comparable to the current year.
- **Transaction & Use Tax:** The transaction and use tax is the third largest revenue source. There is \$369,000 recorded at September 30 (27% of the \$1.35 million budget). These receipts follow the same payment track as sales tax, and receipts lag by two to three months. Much of the transaction and use tax payments received during the quarter were recorded as prior year revenue. Approximately \$191,000 of the recorded revenue for the period was due to a payment error by two businesses inflating the amount received. The City should receive an adjustment in future payments by the California Department of Tax and Fee Administration to correct the error. FY 2017-18 is the first full year for the transaction and use tax, so there is no comparable first quarter data for the prior year.
- **Utility Users Tax:** The fourth largest revenue source is utility users tax, budgeted at \$969,000. Payments received through September 30 total 19% of budget at \$188,000. This is comparable to the \$190,000 revenue that was reported through the first quarter of the prior year. Utility users tax payments lag by one month; consequently, extrapolating the two months of payments received through September to three months results in an estimate of \$376,000 which is 38.8% of the budget. Although early in the fiscal year, utility user tax revenue is anticipated to exceed the adopted budget. As with all revenue accounts, staff will closely monitor any variations that may require future adjustments.

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

- **Licenses and Permits revenue** total \$193,883 through September 30 (56% of the \$349,000 budget), The City collects approximately 80% of its business license revenue during the first quarter of the fiscal year accounting for the proportionately high actual vs. budgeted percentage in this category. Licenses and Permits are down from the same period last fiscal year by \$30,881 due to an anticipated reduction in building activity citywide.
- **Charges for Services revenue** total \$146,910 through September 30 (29% of the \$505,000 budget). This is \$27,800 less than the same period in the previous fiscal year. Charges for Services are down from the same period last fiscal year due to higher than normal building activity the previous year. Reduced building activity was anticipated and staff budgeted accordingly.

Expenditures

The General Fund's expenditures total \$4.4 million at September 30 (31% of the \$12.7 million budget). In comparison, the prior year expenditures totaled \$2.6 million through the end of the first quarter. The increase of \$1.8 million is explained mainly by two major expenditures:

- 1) In August 2017, the City approved a budget amendment of \$1,560,000 for the acquisition of property by the Community Development Department. The property was acquired for \$1,555,000, including associated Escrow and Title fees, in August.
- 2) The required payment for the unfunded actuarial liability for pensions increased from \$738,000 in FY 2016-17 to \$860,000 in FY 2017-18.

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 budget for this department totals \$633,800, and as of September 30, expenditures total \$125,000 (20% of the budget).
- 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 \$4.8 million, and as of September 30, expenditures total \$1.2 million (26% of the budget). The budget for this department includes a \$2.5 million one-time additional payment toward the City's unfunded pension obligation. As previously explained, the City made the required payment of \$860,000 toward the unfunded actuarial liability in July; the additional \$2.5 million one-time payment has not been made as of September 30.
- The Police Department has an expenditure budget at \$4.6 million. As of September 30, expenditures totaled \$1.0 million (23% of the budget). The current year's budget and expenditures through the end of the first quarter remain consistent with the prior year's budget of \$4.6 million and expenditures of \$1.1 million.
- 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 a budget of \$2.1 million, and as of September 30, expenditures total \$393,000 (19% of the budget). The current year's budget and expenditures remain consistent with the prior year's budget of \$2.1 million and expenditures of \$390,000.
- The Community Development Department accounts for the Building and Safety, Code Enforcement, and Planning divisions. The adopted budget for the year was \$495,000, but as previously explained was amended by \$1.56 million to \$2.055 to provide funding for a property which was acquired in August 2017. As of September 30, expenditures totaled \$1.6 million (78% of the amended \$2.055 million budget). Total expenditures through September 30 without the property acquisition total \$57,400. This is \$27,000 less than the previous fiscal year during the same period. Part of the reduction is due to the vacancy of the Community Development Director position. In addition, consultant billing is still pending for August and September and had not been recorded as of September 30.

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, County Measure M taxes, grants, South Coast Air Quality funding, park development fees, and housing-related sources, and other similar remittances.

The spendable fund balance increased by \$100,000 mainly due to the receipt of restricted monies from Measure M and the Supplemental Law Enforcement Fund in advance of spending for street and law enforcement purposes.

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 funding of projects which are not able to be funded by other sources such as gas tax, Measure M, or park development funds. For FY 2017-18, the Capital Outlay Reserve Fund is estimated to provide \$1.2 million of funds for the City's projects which include City Yard, City Hall, and Police Facility projects. As of the end of the first quarter, the City has charged \$1,520 to projects funded by the Capital Outlay Reserve Fund. Capital project activity is expected to increase during the remainder of the year.

Water Funds

The Water Fund began the year with a spendable fund balance of \$4.5 million which has been reduced by \$0.3 million to \$4.2 million at September 30. Due to recording receivables on an accrual basis at fiscal year-end in accordance with generally accepted accounting principles while recording receipts on a cash basis during the year, 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 quarter.

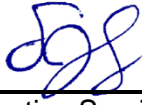
Internal Service Funds

The Internal Service Funds began the year with a spendable fund balance of \$2.9 million which has been reduced by \$0.7 million to \$2.2 million at 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:

As of the end of the first quarter, staff anticipates that actual revenues and expenditures will generally approximate the budgeted numbers by fiscal year-end. However, some adjustments may be necessary and adjustments may occur during the mid-year review process.

APPROVED:



Administrative Services Director



City Manager

- Attachments:
1. General Fund revenue summary
 2. General Fund Expenditure by Department
 3. General Fund Expenditures by Category
 4. Spendable Fund Balance Summary

**FIRST QUARTER FINANCIAL REPORT, FISCAL YEAR 2017-18
GENERAL FUND REVENUES BY TYPE
QUARTER ENDING SEPTEMBER 30, 2017**

Revenue Type	FY 2017-18				FY 2016-17			Q1 Variance FY 2017-18 to FY 2016-17 Increase / <Decrease>
	Adopted Budget	Amended Budget	Year-to-Date Actual through 9/30/2017 (25% of FY)	Q1 Actual as a % of Amended Budget	Prior Year Actual Annual Revenue	Prior YTD Actual through 9/30/2016 (25% of FY)	Q1 Actual as a % of Annual Revenue	
Property Tax	\$ 3,597,100	\$ 3,597,100	\$ 59,199	2%	\$ 3,557,988	\$ 11,904	0%	\$ 47,295
Sales Tax	2,180,000	2,180,000	321,204	15%	2,233,852	334,236	15%	(13,032)
Transaction & Use Tax	1,350,000	1,350,000	369,037	27%	526,509	-	Note 1	369,037
Utility Users Tax (Note 2)	969,000	969,000	187,857	19%	1,024,147	190,363	19%	(2,506)
Residual Property Tax	133,600	133,600	-	0%	270,154	-	0%	-
Franchise Fees	430,000	430,000	15,001	3%	379,624	16,340	4%	(1,339)
Transient Occupancy Tax	375,000	375,000	-	0%	377,595	-	0%	-
Licenses and Permits (Note 3)	349,200	349,200	193,883	56%	492,886	224,764	46%	(30,881)
Intergovernmental	2,000	2,000	-	0%	14,616	1,436	10%	(1,436)
Charges for Services (Note 3)	505,000	505,000	146,910	29%	584,068	174,746	30%	(27,836)
Fines and Forfeitures	130,200	130,200	18,031	14%	94,945	10,959	12%	7,072
Use of Money and Property	405,000	405,000	53,339	13%	265,316	54,093	20%	(754)
Other Revenue	494,500	494,500	128,757	26%	430,272	132,628	31%	(3,871)
Interfund Charges	587,700	587,700	146,925	25%	587,700	146,925	25%	-
Total Revenues	\$ 11,508,300	\$ 11,508,300	\$ 1,640,143	14%	\$ 10,839,672	\$ 1,298,394	12%	\$ 341,749

Note 1: The Transaction and Use Tax was approved by the voters in November 2016. The first remittances were received in the last quarter of FY 2016/17.

Note 2: Utility User Tax payments lag by one month; consequently revenue reported through Sept. 30 reflect only two months worth of receipts.

Note 3: Licenses and Permits and Charges for Services are down compared to the previous fiscal year during the same period due to anticipated slowing of building activity citywide.

**FIRST QUARTER FINANCIAL REPORT, FISCAL YEAR 2017-18
GENERAL FUND EXPENDITURES BY DEPARTMENT
QUARTER ENDING SEPTEMBER 30, 2017**

Department	FY 2017-18				FY 2016-17			Q1 Variance FY 2017-18 to FY 2016-17 Increase / <Decrease>
	Adopted Budget	Amended Budget	Year-to-Date Actual through 9/30/2017 (25% of FY)	Q1 Actual as a % of Amended Budget	Prior Year Actual Annual Expenditures	Prior YTD Actual through 9/30/2016 (25% of FY)	Q1 Actual as a % of Annual Expenditures	
General Government	\$ 633,800	\$ 633,800	\$ 124,893	20%	\$ 591,718	\$ 123,268	21%	\$ 1,625
Administrative Services	4,845,900	4,845,900	1,236,734	26%	4,571,181	980,893	21%	255,841
Police	4,592,700	4,592,700	1,034,638	23%	4,269,004	1,050,453	25%	(15,815)
Community Services	2,088,900	2,088,900	393,177	19%	1,783,402	390,276	22%	2,901
Community Development (Note 1)	495,500	2,055,500	1,612,221	78%	467,668	84,408	18%	1,527,813
Total	\$ 12,656,800	\$ 14,216,800	\$ 4,401,663	31%	\$ 11,682,973	\$ 2,629,298	23%	\$ 1,772,365

Note 1: FY 2017/18 costs are proportionately high due to a \$1.55M property acquisition during the first quarter. Total expenditures without the property acquisition total \$57,400 which is \$27,000 less than the previous fiscal year.

**FIRST QUARTER FINANCIAL REPORT, FISCAL YEAR 2017-18
GENERAL FUND EXPENDITURES BY CATEGORY
QUARTER ENDING SEPTEMBER 30, 2017**

Expenditure Type	FY 2017-18				FY 2016-17			Q1 Variance FY 2017-18 to FY 2016-17 Increase / <Decrease>
	Adopted Budget	Amended Budget	Year-to-Date Actual through 9/30/2017 (25% of FY)	Q1 Actual as a % of Amended Budget	Prior Year Actual Annual Expenditures	Prior YTD Actual through 9/30/2016 (25% of FY)	Q1 Actual as a % of Annual Expenditures	
Personnel Services	\$ 8,914,800	\$ 8,914,800	\$ 1,560,404	18%	\$ 8,373,391	\$ 1,911,025	23%	\$ (350,621)
Maintenance and Operations	3,578,800	3,578,800	724,802	20%	3,256,155	717,411	22%	7,391
Capital Outlay/Improvements (Note 1)	163,200	1,723,200	2,116,457	1297%	53,427	862	2%	2,115,595
Total	\$ 12,656,800	\$ 14,216,800	\$ 4,401,663	31%	\$ 11,682,973	\$ 2,629,298	23%	\$ 1,772,365

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

**FIRST QUARTER FINANCIAL REPORT, FISCAL YEAR 2017-18
SPENDABLE FUND BALANCE - FISCAL YEAR CHANGE
THROUGH THE QUARTER ENDING SEPTEMBER 30, 2017**

<u>Fund #</u>	<u>Fund Title</u>	<u>Balance 6/30/2017</u>	<u>Balance 9/30/2017</u>	<u>FY Change through 9/30/2017</u>
1	General Fund	\$ 5,198,288	\$ 2,476,435	\$ (2,721,853)
3	Emergency Reserve Fund	4,984,900	4,984,900	-
5	Economic Development Fund	228,814	228,814	-
	Subtotal General Funds	10,412,002	7,690,149	(2,721,853)
11	Streets Fund	124,211	132,956	8,745
12	Measure M2	322,562	361,744	39,182
14	Community Development Block Grant	-	-	-
15	Air Quality Fund	113,679	114,011	332
16	PEG Fund	217,439	218,082	643
20	Asset Seizure Fund	118,917	112,712	(6,205)
21	Public Safety Augmentation Fund	159,479	156,771	(2,708)
22	Supplemental Law Enforcement Fund	99,732	134,404	34,672
23	SVC Authority for Abandoned Vehicles	26,303	26,381	78
24	BSCC Local Law Enforcement Grant	56,937	55,865	(1,072)
33	Park Development Fund	99,884	100,180	296
38	SA Housing Entity Fund	616,742	657,306	40,564
	Subtotal Special Revenue Funds	1,955,885	2,070,412	114,527
35	Capital Outlay Reserve Fund	5,220,232	5,394,920	174,688
36	One-Time Projects Fund	242,224	242,224	-
	Subtotal Capital Projects Funds	5,462,456	5,637,144	174,688
50	Water Fund	430,384	131,805	(298,579)
55	Water Capital reserve Fund	4,068,083	4,078,799	10,716
	Subtotal Water Related Funds	4,498,467	4,210,604	(287,863)
52	Sewer Fund	1,065,354	1,051,267	(14,087)
56	Sewer Capital Reserve Fund	2,268,954	2,275,706	6,752
	Subtotal Sewer Related Funds	3,334,308	3,326,973	(7,335)
60	Risk Management/Insurance	649,539	(43,757)	(693,296)
61	Employee Benefits Fund	294,060	294,962	902
62	Building Maintenance & Replacement Fund	51,983	52,137	154
63	Vehicle Replacement Fund	1,244,151	1,276,437	32,286
64	Technology Replacement Fund	682,010	648,728	(33,282)
	Subtotal Internal Service Funds Funds	2,921,743	2,228,507	(693,236)
	Total All Funds	\$ 28,584,861	\$ 25,163,789	\$ (3,421,072)

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