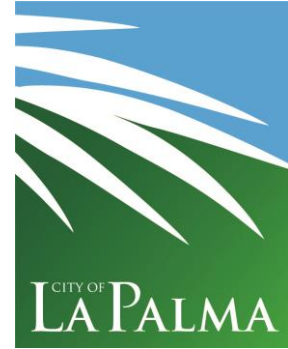


# City of La Palma

## Agenda Item No. 4



MEETING DATE: May 15, 2018  
TO: CITY COUNCIL  
FROM: CITY MANAGER  
SUBMITTED BY: Sea Shelton, Administrative Services Director  
AGENDA TITLE: Third Quarter Operating Report, Fiscal Year 2017-18

---

### **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, 2018, 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, 2018).

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 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 for review are the following summary schedules through the end of the third 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 declined by \$3.3 million from the beginning of the fiscal year from \$28.6 million to \$25.3 million at March 31, 2018. This \$3.3 million change is accounted for as follows:

- General Fund decreased by \$3,147,000
- Special Revenue Funds increased by \$324,000
- Capital Projects Funds decreased by \$206,000
- Water & Sewer Funds decreased by \$5,000
- Internal Service Funds decreased by \$235,000

The remainder of the financial review section will discuss the activity in the funds which account for the majority of the \$3.3 million change in spendable fund balance.

### **General Fund**

As shown in the attached charts, General Fund revenues totaled \$7.7 million (67% of the amended budget) while expenditures totaled \$10.9 million (76% of the amended budget) as of March 31, 2018. The excess of expenditures over revenues equals the \$3.1 million reduction in spendable fund balance.

### Revenues

Due to the timing of major revenue receipts, total General Fund revenue of \$7.7 million is at 67% of the amended budget of \$11.6 million through the end of the third quarter. **By fiscal year-end, the City anticipates receiving \$11.8 million in revenue which is slightly higher than the amended budget.**

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% of the General Fund's amended revenue budget.

- Property Tax: The General Fund's largest revenue source, property tax, has \$2.3 million revenue recorded through March 31, which is 64% of the \$3.6 million budget. In comparison, through the same time period of the prior year, the City had recorded 58% of the annual property tax revenue.
- 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. **Annual revenue is expected to be \$3.7 million after recording all year-end accruals.**

- Sales Tax: The second largest revenue source, sales tax, has \$1.7 million recorded through March 31, which is 73% of the amended budget. In comparison, through the same time period of the prior year, the City had recorded 66% 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 \$2.4 million for the fiscal year.**
- Transaction & Use Tax: The transaction and use tax is the third largest revenue source. There is \$825,000 revenue recorded through March 31, which is 61% of the \$1.35 million budget. These receipts follow the same payment track as sales tax, and receipts lag by two to three months. The \$825,000 revenue includes corrections for payment errors by two businesses in both 2<sup>nd</sup> Quarter (April-June 2017) and 3<sup>rd</sup> Quarter (July-Sept 2017). FY 2017-18 is the first full year for the transaction and use tax, so there is no comparable prior year data. **Annual revenue is expected to be \$1.45 million after recording all year-end accruals.**
- Utility Users Tax: The fourth largest revenue source is utility users tax, budgeted at \$1.1 million. Payments received through March 31 total \$688,000 which is 66% of the amended budget. Utility users tax payments lag by one month; consequently, extrapolating the eight months of payments received through March to nine months results in an estimate of \$774,000 which is 74% of the amended budget. **The City anticipates receiving \$1.02 million in utility users tax revenue for the fiscal year.**

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

- Franchise fee revenue totals \$117,000 through March 31, which is 29% of the \$400,000 amended 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 vs. budget. **Franchise fees are estimated to total \$380,000 by fiscal year-end.**
- Transient occupancy tax revenue of \$198,500 is at 53% of the \$375,000 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 after year-end accruals, **the transient occupancy tax revenue is expected to approximate the budget at fiscal year-end.**
- Other revenue of \$394,600 has been received through March 31, which is 114% of the amended budget of \$346,600. During the third quarter, the City received an unbudgeted rebate of \$113,000 from Southern California Edison. Consequently, **the amount anticipated to be received through year-end is estimated to total \$473,500.**

## Expenditures

The General Fund's expenditures total \$10.9 million at March 31, while the prior year expenditures totaled \$6.7 million through the end of the third quarter. The increase of \$4.2 million is explained mainly by three 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 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.
- 3) As was budgeted, the City made an optional, one-time payment of \$2.5 million towards the City's unfunded pension obligation.

While the percentage of the amended budget spent within each department varies from 61% to 90% through the end of the third quarter, the overall expenditures of \$10.9 million are 76% of the amended budget. **Staff anticipates that expenditures within all departments will match the amended budget amounts at fiscal year-end.**

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 \$658,800, and as of March 31, expenditures total \$429,000 (65% of the amended budget).
- The Administrative Services Department is comprised of the divisions for Administration, Fiscal Services, Human Resources, and Technology and Communications. The amended budget for this department totals \$4.9 million, and as of March 31, expenditures total \$4.3 million (86% of the amended budget). The budget for this department includes a \$2.5 million one-time additional payment toward the City's unfunded pension obligation which was paid during the third quarter.
- The Police Department has an expenditure budget of \$4.6 million, and as of March 31, expenditures total \$3.1 million (68% 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 \$2.1 million, and as of March 31, expenditures total \$1.3 million (61% of the budget).
- The Community Development Department accounts for the Building and Safety, Code Enforcement, and Planning divisions. The amended budget for the year totals \$2.1 million, and as of March 31, expenditures total \$1.9 million (90% of the amended budget). The costs are proportionately high as of March 31 due to a \$1.5 million property acquisition during the first quarter of the year.

The expenditure outflows for personnel and maintenance and operations are at 74% of the amended budget. Personnel costs total \$6.97 million (77% of the amended budget) and Maintenance & Operations costs total \$2.39 million (66% of the amended budget). The cash flow timing of capital expenditures is not as equally distributed throughout the year. Capital outlay costs total \$1.58 million (92% of the amended budget), mainly due to the \$1.5 million property acquisition that occurred during the first quarter.

### **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.

All but two special revenue funds had increases to spendable fund balance during the nine months ending March 31, 2018, and the spendable fund balance increased by \$324,000 to \$2.3 million. The funds that decreased were the Asset Seizure Fund and the BSCC Local Law Enforcement Grant Fund. Both decreases were due to the expenditure of monies accumulated in prior years for future law enforcement purposes.

All other special revenue funds had increases to spendable fund balance mainly due to the receipt of restricted monies in advance of spending for street, housing, and law enforcement purposes.

### **Capital Outlay Reserve & One-Time Projects 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, 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. Several projects included in the FY 2017-18 budget are not expected to be completed by fiscal year end and are to be carried over to FY 2018-19. As of the end of the third quarter, the City has charged \$430,000 to projects funded by the Capital Outlay Reserve and One-Time Projects Funds and has received project reimbursements of \$224,000, resulting in the net decrease to spendable fund balance of \$206,000.

### **Water & Sewer Funds**

The Water and Sewer Funds had a total reduction in spendable fund balance of \$5,000 at March 31. The reason for this is because revenues are less than expenses. Expenses total \$1,889,900 while revenues total \$1,884,900 but lag by one to two months because of accounting for year-end receivables. By year-end and after accounting for accruals, revenues and expenditures are anticipated to approximate the budget amounts.

### **Internal Service Funds**

The Internal Service Funds began the year with a spendable fund balance of \$2.9 million which has been reduced by \$235,000 to \$2.7 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 paid at the beginning of the fiscal year. Payments from other funds are charged evenly over the fiscal year and are calculated to fully reimburse the internal service fund for 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.

**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

# Attachment 1

**THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2017-18  
GENERAL FUND REVENUES BY TYPE  
QUARTER ENDING MARCH 31, 2018**

| Revenue Type              | FY 2017-18           |                      |  |   |   | FY 2016-17                                |   |   | Q3 Variance<br>FY 2017-18<br>to FY 2016-17<br>Increase /<br><Decrease> |
|---------------------------|----------------------|----------------------|--|---|---|---|---|---|--|
|                           | Adopted<br>Budget    | Amended<br>Budget    | Year-to-Date<br>Actual through<br>3/31/2018<br>(75% of FY) | Q3 Actual<br>as a % of<br>Adopted<br>Budget | Q3 Actual<br>as a % of<br>Amended<br>Budget | Prior Year<br>Actual<br>Annual<br>Revenue | Prior YTD<br>Actual through<br>3/31/2017<br>(75% of FY) | Q3 Actual<br>as a % of<br>Annual<br>Revenue |  |
|                           |                      |                      |  |   |   |   |   |   |  |
| Property Tax              | \$ 3,597,100         | \$ 3,597,100         | \$ 2,291,505   | 64%   | 64%   | \$ 3,557,988                              | \$ 2,047,024  | 58%   | \$ 244,481   |
| Sales Tax                 | 2,180,000            | 2,350,000            | 1,715,550  | 79%   | 73%   | 2,233,852                                 | 1,484,344   | 66%   | 231,206  |
| Transaction & Use Tax     | 1,350,000            | 1,350,000            | 825,037  | 61%   | 61%   | 526,509                                   | -   | Note 1                                      | 825,037  |
| Utility Users Tax         | 969,000              | 1,050,000            | 688,134  | 71%   | 66%   | 1,024,147                                 | 703,948   | 69%   | (15,814)   |
| Residual Property Tax     | 133,600              | 133,600              | 106,009  | 79%   | 79%   | 270,154                                   | 170,532   | 63%   | (64,523)   |
| Franchise Fees            | 430,000              | 400,000              | 117,114  | 27%   | 29%   | 379,624                                   | 126,115   | 33%   | (9,001)  |
| Transient Occupancy Tax   | 375,000              | 375,000              | 198,473  | 53%   | 53%   | 377,595                                   | 183,184   | 49%   | 15,289   |
| Licenses and Permits      | 349,200              | 349,200              | 294,396  | 84%   | 84%   | 492,886                                   | 368,032   | 75%   | (73,636)   |
| Intergovernmental         | 2,000                | 2,000                | 8,465  | 423%  | 423%  | 14,616                                    | 12,123  | 83%   | (3,658)  |
| Charges for Services      | 505,000              | 505,000              | 337,252  | 67%   | 67%   | 584,068                                   | 399,880   | 68%   | (62,628)   |
| Fines and Forfeitures     | 130,200              | 100,200              | 62,858   | 48%   | 63%   | 94,945                                    | 66,936  | 70%   | (4,078)  |
| Use of Money and Property | 405,000              | 405,000              | 268,824  | 66%   | 66%   | 265,316                                   | 299,763   | 113%  | (30,939)   |
| Other Revenue             | 494,500              | 346,600              | 394,638  | 80%   | 114%  | 430,272                                   | 262,766   | 61%   | 131,872  |
| Interfund Charges         | 587,700              | 587,700              | 440,775  | 75%   | 75%   | 587,700                                   | 440,775   | 75%   | -  |
| <b>Total Revenues</b>     | <b>\$ 11,508,300</b> | <b>\$ 11,551,400</b> | <b>\$ 7,749,030</b>  | <b>67%</b>                                  | <b>67%</b>                                  | <b>\$ 10,839,672</b>                      | <b>\$ 6,565,422</b>                                     | <b>61%</b>                                  | <b>\$ 1,183,608</b>  |

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.

# Attachment 2

**THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2017-18  
GENERAL FUND EXPENDITURES BY DEPARTMENT  
QUARTER ENDING MARCH 31, 2018**

| Department                       | FY 2017-18           |                      |  |   |   | FY 2016-17                                     |   |  | Q3 Variance<br>FY 2017-18<br>to FY 2016-17<br>Increase /<br><Decrease> |
|----------------------------------|----------------------|----------------------|--|---|---|--|---|--|--|
|                                  | Adopted<br>Budget    | Amended<br>Budget    | Year-to-Date<br>Actual through<br>3/31/2018<br>(75% of FY) | Q3 Actual<br>as a % of<br>Adopted<br>Budget | Q3 Actual<br>as a % of<br>Amended<br>Budget | Prior Year<br>Actual<br>Annual<br>Expenditures | Prior YTD<br>Actual through<br>3/31/2017<br>(75% of FY) | Q3 Actual<br>as a % of<br>Annual<br>Expenditures |  |
| General Government               | \$ 633,800           | \$ 658,800           | \$ 429,018   | 68%   | 65%   | \$ 591,718                                     | \$ 416,038  | 70%  | \$ 12,980  |
| Administrative Services (Note 2) | 4,845,900            | 4,941,500            | 4,265,903  | 88%   | 86%   | 4,571,181                                      | 1,562,702   | 34%  | 2,703,201  |
| Police                           | 4,592,700            | 4,592,700            | 3,102,418  | 68%   | 68%   | 4,269,004                                      | 3,207,264   | 75%  | (104,846)  |
| Community Services               | 2,088,900            | 2,096,900            | 1,275,326  | 61%   | 61%   | 1,783,402                                      | 1,201,949   | 67%  | 73,377   |
| Community Development (Note 1)   | 495,500              | 2,072,000            | 1,863,014  | 376%  | 90%   | 467,668  | 322,147   | 69%  | 1,540,867  |
| <b>Total</b>                     | <b>\$ 12,656,800</b> | <b>\$ 14,361,900</b> | <b>\$ 10,935,679</b>                                       | <b>86%</b>                                  | <b>76%</b>                                  | <b>\$ 11,682,973</b>                           | <b>\$ 6,710,100</b>                                     | <b>57%</b>                                       | <b>\$ 4,225,579</b>  |

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

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



# Attachment 3

**THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2017-18  
GENERAL FUND EXPENDITURES BY CATEGORY  
QUARTER ENDING MARCH 31, 2018**

| Expenditure Type                     | FY 2017-18          |                      |  |   |   | FY 2016-17                                     |   |  | Q3 Variance<br>FY 2017-18<br>to FY 2016-17<br>Increase /<br><Decrease> |
|--------------------------------------|---------------------|----------------------|--|---|---|--|---|--|--|
|                                      | Adopted<br>Budget   | Amended<br>Budget    | Year-to-Date<br>Actual through<br>3/31/2018<br>(75% of FY) | Q3 Actual<br>as a % of<br>Adopted<br>Budget | Q3 Actual<br>as a % of<br>Amended<br>Budget | Prior Year<br>Actual<br>Annual<br>Expenditures | Prior YTD<br>Actual through<br>3/31/2017<br>(75% of FY) | Q3 Actual<br>as a % of<br>Annual<br>Expenditures |  |
| Personnel Services                   | \$ 8,914,800        | \$ 9,010,400         | \$ 6,966,309   | 78%   | 77%   | \$ 8,373,391                                   | \$ 4,422,420  | 53%  | \$ 2,543,889   |
| Maintenance and Operations           | 3,578,800           | 3,628,300            | 2,389,041  | 67%   | 66%   | 3,256,155                                      | 2,278,439   | 70%  | 110,602  |
| Capital Outlay/Improvements (Note 1) | 163,200             | 1,723,200            | 1,580,329  | 968%  | 92%   | 53,427   | 9,241   | 17%  | 1,571,088  |
| <b>Total</b>                         | <b>\$12,656,800</b> | <b>\$ 14,361,900</b> | <b>\$ 10,935,679</b>                                       | <b>86%</b>                                  | <b>76%</b>                                  | <b>\$ 11,682,973</b>                           | <b>\$ 6,710,100</b>                                     | <b>57%</b>                                       | <b>\$ 4,225,579</b>  |

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

# Attachment 4

**THIRD QUARTER FINANCIAL REPORT, FISCAL YEAR 2017-18  
SPENDABLE FUND BALANCE AT MARCH 31, 2018  
and FISCAL YEAR CHANGE OF SPENDABLE FUND BALANCE THROUGH THE QUARTER END**

| Fund # | Fund Title                                       | Balance<br>6/30/2017 | Balance<br>3/31/2018 | FY Change<br>through<br>3/31/2018 |
|--------|--|----------------------|----------------------|-----------------------------------|
| 1      | General Fund                                     | \$ 5,198,288         | \$ 2,051,306         | \$ (3,146,982)                    |
| 3      | Emergency Reserve Fund                           | 4,984,900            | 4,984,900            | -                                 |
| 5      | Economic Development Fund                        | 228,814              | 228,814              | -                                 |
|        | <b>Subtotal General Funds</b>                    | <b>10,412,002</b>    | <b>7,265,020</b>     | <b>(3,146,982)</b>                |
| 10     | Road Maintenance & Rehabilitation Account (RMRA) | -                    | 20,892               | 20,892                            |
| 11     | Streets Fund                                     | 124,211              | 162,352              | 38,141                            |
| 12     | Measure M2                                       | 322,562              | 358,311              | 35,749                            |
| 14     | Community Development Block Grant                | -                    | -                    | -                                 |
| 15     | Air Quality Fund                                 | 113,679              | 124,359              | 10,680                            |
| 16     | PEG Fund   | 217,439              | 234,298              | 16,859                            |
| 20     | Asset Seizure Fund                               | 118,917              | 97,602               | (21,315)                          |
| 21     | Public Safety Augmentation Fund                  | 159,479              | 176,781              | 17,302                            |
| 22     | Supplemental Law Enforcement Fund                | 99,732               | 165,192              | 65,460                            |
| 23     | SVC Authority for Abandoned Vehicles             | 26,303               | 26,503               | 200                               |
| 24     | BSCC Local Law Enforcement Grant                 | 56,937               | 55,134               | (1,803)                           |
| 25     | La Palma Community Foundation Grant              | -                    | 74,990               | 74,990                            |
| 33     | Park Development Fund                            | 99,884               | 100,642              | 758                               |
| 38     | Successor Housing Fund                           | 616,742              | 682,801              | 66,059                            |
|        | <b>Subtotal Special Revenue Funds</b>            | <b>1,955,885</b>     | <b>2,279,857</b>     | <b>323,972</b>                    |
| 35     | Capital Outlay Reserve Fund                      | 5,267,232            | 5,184,226            | (83,006)                          |
| 36     | One-Time Projects Fund                           | 242,224              | 118,849              | (123,375)                         |
|        | <b>Subtotal Capital Projects Funds</b>           | <b>5,509,456</b>     | <b>5,303,075</b>     | <b>(206,381)</b>                  |
| 50     | Water Fund                                       | 430,384              | 291,670              | (138,714)                         |
| 55     | Water Capital reserve Fund                       | 4,068,083            | 4,107,294            | 39,211                            |
| 52     | Sewer Fund                                       | 1,065,354            | 1,085,278            | 19,924                            |
| 56     | Sewer Capital Reserve Fund                       | 2,268,954            | 2,343,499            | 74,545                            |
|        | <b>Subtotal Water &amp; Sewer Funds</b>          | <b>7,832,775</b>     | <b>7,827,741</b>     | <b>(5,034)</b>                    |
| 60     | Risk Management/Insurance                        | 649,539              | 422,636              | (226,903)                         |
| 61     | Employee Benefits Fund                           | 294,060              | 296,366              | 2,306                             |
| 62     | Building Maintenance & Replacement Fund          | 51,983               | 52,377               | 394                               |
| 63     | Vehicle Replacement Fund                         | 1,244,151            | 1,214,648            | (29,503)                          |
| 64     | Technology Replacement Fund                      | 682,010              | 700,700              | 18,690                            |
|        | <b>Subtotal Internal Service Funds Funds</b>     | <b>2,921,743</b>     | <b>2,686,727</b>     | <b>(235,016)</b>                  |
|        | <b>Total All Funds</b>                           | <b>\$ 28,631,861</b> | <b>\$ 25,362,420</b> | <b>\$ (3,269,441)</b>             |

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