

# City of La Palma

## Agenda Item No. 5



MEETING DATE: November 20, 2018  
TO: CITY COUNCIL  
FROM: CITY MANAGER  
SUBMITTED BY: Sea Shelton, Administrative Services Director  
AGENDA TITLE: First Quarter Operating Report, Fiscal Year 2018-19

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### **RECOMMENDED ACTION:**

It is recommended that the City Council receive and file the 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, 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 first quarter of the fiscal year (25% of the year as of September 30, 2018).

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 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 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 (the sum of cash, investments, and current receivables less current liabilities) has declined by \$2.3 million from the beginning of the fiscal year from \$26.8 million to \$24.5 million at September 30, 2018. 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 \$2.3 million change is accounted for as follows:

- General Fund decreased by \$1,500,000
- Special Revenue Funds increased by \$100,000
- Water Fund decreased by \$300,000
- Internal Service Funds decreased by \$600,000

### **General Fund**

As shown in the attached charts, General Fund revenues totaled \$1.4 million (12% of the budget) while expenditures totaled \$3.0 million (29% of the budget) as of September 30, 2018. The excess of expenditures over revenues approximates the \$1.5 million reduction in spendable fund balance.

#### **Revenues**

Total General Fund revenues are at only 12% 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 72% of the General Fund's revenue budget.

- **Property Tax:** The General Fund's largest revenue source, property tax, has \$54,000 revenue recorded at September 30 (1% of the \$3.8 million budget). This is similar to the prior year receipt pattern – by the end of the first quarter of FY 2017-18, the City had received \$59,000.

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% in November/December during the second quarter, 10% in January/March during the third quarter, 40% 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% 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 budgeted revenue source, sales tax, has \$263,000 recorded at September 30 (13% of the \$2.1 million budget). The California Department of Tax and Fee Administration (CDTFA) modified the timing of quarterly cleanup payments which effected which fiscal year 2<sup>nd</sup> quarter receipts would be accrued. Traditionally, 2<sup>nd</sup> quarter cleanup payments for both sales tax and transaction and use tax (TUT) would be received in September and accrued in the fiscal year received. Under the CDTFA's new method, the 2<sup>nd</sup> quarter cleanup was received in August which falls within the 60-day period in which revenues can be accrued back to the fiscal year in which they were earned. As a result, sales tax revenue is down in FY 2018-19 by \$58,000 compared to the same period in FY 2017-18.
- **Transaction & Use Tax:** The transaction and use tax is the third largest budgeted revenue source. There is \$281,000 recorded at September 30 (18% of the \$1.59 million budget). These receipts follow the same payment track as sales tax. Since inception of Measure JJ, transaction and use tax remittances have included overpayments from two businesses. Although there have been several attempts by the City to work with these business to fix the error, TUT overpayments have continued. One of these businesses closed operations in late September 2018 and as a result future overpayments will cease. The second business that has made overpayments is undergoing a major merger which has delayed correction of the error. Staff has been in communication with this business in hopes to have the payment error corrected in the near future. A consequence of the TUT overpayments is that the advances from the CDTFA have been inflated. The \$281,000 of recorded revenue as of September 30<sup>th</sup> is the July 2018 advance from the CDTFA. The inflated advances have resulted in year to date TUT coming in slightly higher than sales tax. At the end of each quarter when clean up numbers are available, staff is able to reconcile actual receipts versus business overpayments and State advances. A reserve account has been set up to hold these additional monies until corrections can be made at the State level.
- **Utility Users Tax:** The fourth largest budgeted revenue source is utility users tax. Payments received through September 30 total 16% of budget at \$167,000. Utility users tax payments lag by one month resulting in total revenues representing just two months of receipts. Some August receipts were posted in October resulting in FY 2018-19 revenues reported as September 30 being slightly slower versus the same period last fiscal year by \$20,700. In actuality, July and August 2018 receipts were slightly higher than in FY 2017-18.

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

- Licenses and Permits revenue total \$190,285 through September 30 (51% of the \$374,500 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. The revenue recorded through the end of the first quarter of the prior year was 57% of the total fiscal year's revenue, which is comparable to the current year.
- Charges for Services revenue total \$147,571 through September 30 (30% of the \$485,500 budget). The revenue recorded through the end of the first quarter of FY 2017-18 was 29% of the total fiscal year's revenue, which is comparable to the current year.

- Other Revenue totaled \$52,020 or 11% of the \$469,400 adopted budget. This is \$76,700 lower than the same period in FY 2017-18. The difference can be attributed to the timing of the accounting of the annual RPTTF reimbursement for administration costs to manage the Successor Agency which is paid in two payments of \$125,000 each for FY 2018-19. The first \$125,000 will be credited to the General Fund when all RPTTF eligible expenditures between July – December 2018 are accounted for in January 2018.

### Expenditures

The General Fund's expenditures total \$3.0 million at September 30 (29% of the \$10.6 million budget). In comparison, the prior year expenditures totaled \$4.4 million through the end of the first quarter; the prior year's costs were disproportionately high due to a \$1.5 million property acquisition in August 2017.

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 \$645,300, and as of September 30, expenditures total \$119,200 (18% 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 \$2.6 million, and as of September 30, expenditures total \$1.3 million (51% of the budget). The costs are proportionately high through the end of the first quarter due to making the required annual payment for the City's unfunded pension obligation in July.
- The Police Department has an expenditure budget of \$4.7 million. As of September 30, expenditures totaled \$1.1 million (24% 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 \$1.0 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 \$396,000 (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 \$393,000.
- 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 September 30, expenditures total \$66,000 (14% of the budget). The prior year's first quarter's costs totaled \$1.6 million due to the \$1.5 million acquisition of property in July 2017.

## **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 a net of \$100,000 due to the receipt of 1) restricted monies from Road Maintenance and Rehabilitation Account (RMRA), Measure M, and the Supplemental Law Enforcement Fund in advance of spending for street and law enforcement purposes and 2) housing loan interest payments. These increases are offset by the expenditure of La Palma Community Foundation Public Safety Grant monies in advance of grant reimbursements.

## **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, 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. As of the end of the first quarter, the City has charged \$12,000 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 \$4.6 million which has been reduced by \$0.3 million to \$4.3 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.

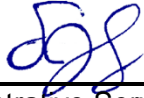
## **Internal Service Funds**

The Internal Service Funds began the year with a spendable fund balance of \$2.7 million which has been reduced by \$0.7 million to \$2.0 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 may occur during the mid-year review process.

**APPROVED:**



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Administrative Services Director



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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

**FIRST QUARTER FINANCIAL REPORT, FISCAL YEAR 2018-19  
GENERAL FUND REVENUES BY TYPE  
QUARTER ENDING SEPTEMBER 30, 2018**

Revenue Type	FY 2018-19				FY 2017-18			Q1 Variance FY 2018-19 to FY 2017-18 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 9/30/2017 (25% of FY)	Q1 Actual as a % of Annual Revenue	
Property Tax	\$ 3,816,100	\$ 3,816,100	\$ 53,883	1%	\$ 3,731,600	\$ 59,199	2%	\$ (5,316)
Sales Tax (Note 1)	2,100,000	2,100,000	263,166	13%	2,502,894	321,204	13%	(58,038)
Transaction & Use Tax (Note 1)	1,590,000	1,590,000	281,285	18%	1,250,535	369,037	30%	(87,752)
Utility Users Tax (Note 2)	1,015,000	1,015,000	167,152	16%	992,221	187,857	19%	(20,705)
Residual Property Tax	100,000	100,000	-	0%	147,467	-	0%	-
Franchise Fees	386,800	386,800	12,833	3%	377,451	15,001	4%	(2,168)
Transient Occupancy Tax	385,000	385,000	-	0%	391,991	-	0%	-
Licenses and Permits	374,500	374,500	190,285	51%	340,730	193,883	57%	(3,598)
Intergovernmental	-	-	40	N/A	8,465	-	0%	40
Charges for Services	485,500	485,500	147,571	30%	501,869	146,910	29%	661
Fines and Forfeitures	120,100	120,100	14,298	12%	92,271	18,031	20%	(3,733)
Use of Money and Property	332,400	332,400	80,220	24%	265,242	53,339	20%	26,881
Other Revenue (Note 3)	469,400	469,400	52,020	11%	483,412	128,757	27%	(76,737)
Interfund Charges	587,700	587,700	146,925	25%	587,700	146,925	25%	-
<b>Total Revenues</b>	<b>\$ 11,762,500</b>	<b>\$ 11,762,500</b>	<b>\$ 1,409,678</b>	<b>12%</b>	<b>\$ 11,673,848</b>	<b>\$ 1,640,143</b>	<b>14%</b>	<b>\$ (230,465)</b>

**Notes:**

(1) Sales Tax and Transaction and Use Tax are down from the previous fiscal year due to the change of timing of the CY 2nd Quarter true up payments by the CDTFA from September to August. Under the CDTFA's new method, the 2nd quarter cleanup was received in August which falls within the 60-day period in which revenues can be accrued back to the fiscal year in which they were earned.

(2) Some August Utility User Tax receipts were posted in October resulting in FY 2018-19 revenues reported as of Sept. 30th being slightly slower versus the same period last fiscal year by \$20,700. In actuality, July and August 2018 receipts were slightly higher than in FY 2017-18.

(3) Other Revenue as of Sept. 30th was \$76,700 lower than the same period in FY 2017-18. The difference can be attributed to the timing of the accounting of the annual RPTTF reimbursement for administration costs to manage the Successor Agency which is paid in two payments of \$125,000 each. The first \$125,000 will be credited to the General Fund when all RPTTF eligible expenditures between July – December 2018 are accounted for in January 2018.

# Attachment 2

**FIRST QUARTER FINANCIAL REPORT, FISCAL YEAR 2018-19  
GENERAL FUND EXPENDITURES BY DEPARTMENT  
QUARTER ENDING SEPTEMBER 30, 2018**

Department	FY 2018-19				FY 2017-18			Q1 Variance FY 2018-19 to FY 2017-18 Increase / <Decrease>
	Adopted Budget	Amended Budget	Year-to-Date Actual through 9/30/2018 (25% of FY)	Q1 Actual as a % of Amended Budget	Prior Year Actual Annual Expenditures	Prior YTD Actual through 9/30/2017 (25% of FY)	Q1 Actual as a % of Annual Expenditures	
General Government	\$ 645,300	\$ 645,300	\$ 119,199	18%	\$ 611,112	\$ 124,893	20%	\$ (5,694)
Administrative Services (Note 1)	2,604,100	2,604,100	1,323,048	51%	4,785,921	1,236,734	26%	86,314
Police	4,735,900	4,735,900	1,117,500	24%	4,229,480	1,034,638	24%	82,862
Community Services	2,128,900	2,128,900	396,214	19%	1,843,377	393,177	21%	3,037
Community Development (Note 2)	468,000	468,000	65,748	14%	2,048,888	1,612,221	79%	(1,546,473)
<b>Total</b>	<b>\$ 10,582,200</b>	<b>\$ 10,582,200</b>	<b>\$ 3,021,709</b>	<b>29%</b>	<b>\$ 13,518,778</b>	<b>\$ 4,401,663</b>	<b>33%</b>	<b>\$ (1,379,954)</b>

Note 1: FY 2018/19 costs are proportionately high due to making the required payment for the City's unfunded pension obligation in July.

Note 2: FY 2017/18 costs are proportionately high due to a \$1.55M property acquisition during the first quarter.



# Attachment 3

**FIRST QUARTER FINANCIAL REPORT, FISCAL YEAR 2018-19  
GENERAL FUND EXPENDITURES BY CATEGORY  
QUARTER ENDING SEPTEMBER 30, 2018**

Expenditure Type	FY 2018-19				FY 2017-18			Q1 Variance FY 2018-19 to FY 2017-18 Increase / <Decrease>
	Adopted Budget	Amended Budget	Year-to-Date Actual through 9/30/2018 (25% of FY)	Q1 Actual as a % of Amended Budget	Prior Year Actual Annual Expenditures	Prior YTD Actual through 9/30/2017 (25% of FY)	Q1 Actual as a % of Annual Expenditures	
Personnel Services (Note 1)	\$ 6,652,000	\$ 6,652,000	\$ 2,325,614	35%	\$ 8,470,576	\$ 2,116,457	25%	\$ 209,157
Maintenance and Operations	3,786,500	3,786,500	692,781	18%	3,439,836	724,802	21%	(32,021)
Capital Outlay/Improvements (Note 2)	143,700	143,700	3,314	2%	1,608,366	1,560,404	97%	(1,557,090)
<b>Total</b>	<b>\$ 10,582,200</b>	<b>\$ 10,582,200</b>	<b>\$ 3,021,709</b>	<b>29%</b>	<b>\$ 13,518,778</b>	<b>\$ 4,401,663</b>	<b>33%</b>	<b>\$ (1,379,954)</b>

Note 1: FY 2018/19 costs are proportionately high due to making the required payment for the City's unfunded pension obligation in July.

Note 2: FY 2017/18 costs are proportionately high due to a \$1.55M property acquisition during the first quarter.

# Attachment 4

**FIRST QUARTER FINANCIAL REPORT, FISCAL YEAR 2018-19  
SPENDABLE FUND BALANCE - FISCAL YEAR CHANGE  
THROUGH THE QUARTER ENDING SEPTEMBER 30, 2018**

Fund #	Fund Title	Balance 6/30/2018	Balance 9/30/2018	FY Change through 9/30/2018
1	General Fund (Note 2)	\$ 2,405,223	\$ 882,121	\$ (1,523,102)
3	Emergency Reserve Fund	5,080,000	5,080,000	-
5	Economic Development Fund	221,864	221,864	-
<b>Subtotal General Funds</b>		<b>7,707,087</b>	<b>6,183,985</b>	<b>(1,523,102)</b>
10	Road Maintenance & Rehabilitation Account (RMRA)	\$ 93,659	\$ 119,246	25,587
11	Streets Fund	155,651	160,527	4,876
12	Measure M2	414,468	432,404	17,936
14	Community Development Block Grant	-	-	-
15	Air Quality Fund	134,338	134,873	535
16	PEG Fund	244,934	245,917	983
20	Asset Seizure Fund	88,014	88,380	366
21	Public Safety Augmentation Fund	192,652	188,451	(4,201)
22	Supplemental Law Enforcement Fund	150,180	177,214	27,034
23	SVC Authority for Abandoned Vehicles	26,385	26,492	107
24	BSCC Local Law Enforcement Grant	54,890	54,571	(319)
25	Community Foundation Public Safety Grant	-	(31,253)	(31,253)
33	Park Development Fund	100,196	100,601	405
37	Civic Center Rehabilitation Reserve Fund	298,671	299,877	1,206
38	SA Housing Entity Fund	741,321	829,086	87,765
<b>Subtotal Special Revenue Funds</b>		<b>2,695,359</b>	<b>2,826,386</b>	<b>131,027</b>
35	Capital Outlay Reserve Fund	5,582,427	5,593,213	10,786
36	One-Time Projects Fund	-	-	-
<b>Subtotal Capital Projects Funds</b>		<b>5,582,427</b>	<b>5,593,213</b>	<b>10,786</b>
50	Water Fund	581,689	277,414	(304,275)
55	Water Capital reserve Fund	4,033,100	4,049,389	16,289
<b>Subtotal Water Related Funds</b>		<b>4,614,789</b>	<b>4,326,803</b>	<b>(287,986)</b>
52	Sewer Fund	1,206,307	1,213,533	7,226
56	Sewer Capital Reserve Fund	2,329,815	2,338,951	9,136
<b>Subtotal Sewer Related Funds</b>		<b>3,536,122</b>	<b>3,552,484</b>	<b>16,362</b>
60	Risk Management/Insurance	889,914	226,283	(663,631)
61	Employee Benefits Fund	295,010	296,240	1,230
62	Building Maintenance & Replacement Fund	52,145	52,356	211
63	Vehicle Replacement Fund	862,531	833,612	(28,919)
64	Technology Replacement Fund	583,713	612,938	29,225
<b>Subtotal Internal Service Funds Funds</b>		<b>2,683,313</b>	<b>2,021,429</b>	<b>(661,884)</b>
<b>Total All Funds</b>		<b>\$ 26,819,097</b>	<b>\$ 24,504,300</b>	<b>\$ (2,314,797)</b>

**Notes:**

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

(2) General Fund balance as of June 30, 2018 includes \$250,000 Cash Float Reserve and \$303,325 of FY 18-19 estimated surplus to be transferred to Emergency Reserve Fund per the Fund Balance Reserve Policy at mid-year budget review. Actual available unassigned cash balance is estimated at \$1.8 million.