



## MEMORANDUM

**TO:** City Council

**FROM:** Nicole Valentine, Administrative Services Director

**SUBJECT:** Consideration of Fiscal Year 2021-22 Third Quarter Financial Status Report

**DATE:** May 10, 2022

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### **SUMMARY OF ACTION:**

Consider and file the Fiscal Year (FY) 2021-22 Third Quarter Financial Status Report.

### **IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:**

Preparation of the Third Quarter Financial Status Report requires staff time within the existing work plan and budget for the Administrative Services Department. At the end of the third quarter, FY 2021-22 revenues for the General Fund were \$13.7 million, or four percent (4%) above the Budget Target. Actual Expenditures were \$13.1 million, and below the Budget Target by \$3.1 million (19%).

### **RECOMMENDATION:**

Receive, consider, and file the FY 2021-22 Third Quarter Financial Status Report.

### **BACKGROUND:**

Each fiscal year the City Council adopts a budget, which commits government resources and services to accomplish the City's mission of making Arroyo Grande the best place possible for everyone who lives, works, and visits here. The Third Quarter Financial Status Report is the third of four financial performance reports that staff will present to Council during the 2021-22 fiscal year.

The purpose of the FY 2021-22 Third Quarter Financial Status Report is to:

- Compare third quarter revenues received and expenditures incurred to the third quarter of the prior year and to the budgeted Target to determine the City's financial performance;
- Provide explanations for key account variances and identify any potential trends that might impact financial planning; and

**City Council**  
**Consideration of Fiscal Year 2021-22 Third Quarter Financial Status Report**  
**May 10, 2022**  
**Page 2**

- Provide other key third quarter information, including headcount statistics and completed Capital Improvement Projects, and completed Budget Adjustment Requests.

The City's actual third quarter financial results will be compared to both the prior year's third quarter and the budgeted Target. During FY 2020-21, the General Fund revenue and expenditure Target was calculated as three-fourths (75%) of the FY 2020-21 Budget, or basically nine equal months of the budget. For FY 2021-22, staff has revised this approach to more accurately reflect what is expected through March 2022. The Target for expenditures is calculated as three-fourths (75%) of the FY 2021-22 Budget and represents the 9-month period from July 2021 through March 2022, except for the Non-Departmental Annual Payments line that has a Target of the full budget items that are expended at the beginning of the fiscal year. This approach increased the Target from 75% to 77.73% through the end of the third quarter. The Target for revenues does not use the 75% Target but a Target of 67.5% that more accurately reflects the anticipated revenues to be received at the end of the third quarter of the fiscal year. Using the Target as a comparator against actual results provides a simplified method to evaluate performance at the end of the third quarter.

**ANALYSIS OF ISSUES:**

Third Quarter Revenue and Expenditures Compared to Prior Year

**Current Year Third Quarter Actuals Compared to Prior Year Third Quarter Actuals**

| General Fund |                       |                       |              |
|--------------|-----------------------|-----------------------|--------------|
|              | 3rd QTR<br>FY 2021-22 | 3rd QTR<br>FY 2020-21 | Variance     |
| Revenue      | \$ 13,712,916         | \$ 12,337,731         | \$ 1,375,185 |
| Expenditures | \$ 13,178,274         | \$ 12,637,723         | \$ 540,551   |

Governmental Funds includes Special Revenue Funds, Debt Service Funds, as well as the General Fund. The majority of the revenue and expenditure variances in Governmental Funds were attributed to variances within the General Fund and the newly created American Rescue Plan Act (ARPA) Fund, which is separate from the General Fund. The General Fund is the primary operating fund of the City and accounts for resources and services traditionally associated with government. General Fund revenues at the end of the third quarter of this year were \$1.4 million higher than third quarter of the prior year. Expenditures were also \$540,551 higher at the end of the third quarter of the current fiscal year versus third quarter of the prior year. A more thorough explanation of third quarter changes is set forth in the attached financial report. The following is a summary of third quarter changes between the two fiscal years.

**City Council**  
**Consideration of Fiscal Year 2021-22 Third Quarter Financial Status Report**  
**May 10, 2022**  
**Page 3**

Revenue (\$1.4 million higher)

The majority of the \$1.4 million variance between third quarter of this year and the prior third quarter is related to an increase in Property Tax, Sales Tax and Transient Occupancy Tax revenue received at the end of the third quarter of FY 2021-22 that was lower in the third quarter of FY 2020-21.

Expenditures (\$540,551 higher)

As mentioned, third quarter expenditures compared to the prior year were higher by \$540,551. The majority of the variance between the two fiscal third quarter reports is related to timing and payment of Liability and Property Insurance, as well as an intentional delay in hiring four positions in the first half of FY 2020-21.

Third Quarter Revenue and Expenditures Compared to Target

| <b>Current Year Third Quarter Actuals Compared to Target</b> |                              |                               |                |
|--------------------------------------------------------------|------------------------------|-------------------------------|----------------|
| <b>General Fund</b>                                          |                              |                               |                |
|                                                              | FY 2021-22<br>3rd QTR Target | FY 2021-22<br>3rd QTR Actuals | Variance       |
| Revenue                                                      | \$ 13,209,969                | \$ 13,712,916                 | \$ 502,947     |
| Expenditures                                                 | \$ 16,327,728                | \$ 13,178,274                 | \$ (3,149,454) |

The table above compares third quarter actual results to the budgeted Target. Third quarter actual revenue was above the Target by \$502,947. Third quarter actual expenditures were below the Target by \$3.1 million. The following is a summary of the third quarter revenue and expenditure variances compared to the budgeted Target. A more thorough explanation of third quarter variances is set forth in the attached financial report.

Revenue (\$502,947 higher)

Revenue for FY 2021-22 was budgeted conservatively due to the many unknowns related to the ongoing COVID-19 pandemic, which resulted in third quarter revenue being above the Target. Some of the larger revenue variances are explained below.

- The largest single source of City revenue is Secured Property Tax. Secured Property Tax is billed by the County to property owners and payable in two (2) installments. Property owners typically receive their first property tax bill at the end of September or early October, with a due date of November 1st. The majority of property tax related to the first installment is received in December 2021. The second installment is due on April 1<sup>st</sup> and will be reflected in the fourth quarter report. Actual revenue received in this category was higher than the Target by \$157,358.

## City Council

### Consideration of Fiscal Year 2021-22 Third Quarter Financial Status Report

May 10, 2022

Page 4

- The Sales Tax Target identified in the third quarter report is based on seven months of revenue, taking into account the timing of anticipated payments, as actual sales tax receipts by March 31, 2022, represent seven months of payments (Jul – Jan). Nonetheless sales tax realization through third quarter is higher than the Target by \$132,464 indicating stronger than expected economic activity early in this fiscal year.
- License and permit revenue fell short of the Target by \$109,123. Planning Division revenue fell short of the Target by \$81,205. The Target is based on 75% or 9 months of the fiscal year's total budget. The majority of the variance is due to fewer permits being issued through the end of the third quarter than estimated in the Target. Revenue in this category is customer driven and fluctuates over the course of a year as well as year over year based on demand.
- Transient Occupancy Tax (TOT) revenue is reflecting an \$270,461 favorable variance to the Target. The Target and actual TOT revenue represents only eight months of TOT receipts due to the timing of payments. Lodging facilities have thirty days after the month's end to submit their TOT assessments.

#### Expenditures (\$3.1 million lower)

Actual third quarter expenditures were \$3,149,454 under the Target. All of the City's departments are under their spending Targets. Some of the more significant savings occurred in the Police, Administrative Services, and Community Development Departments.

- A portion of the variance is attributed to the annual CalPERS UAL retirement payment. This payment was budgeted at \$1,571,900 but the actual expenditure was \$1,519,503, resulting in a favorable variance to the budget of \$52,397.
- Other favorable departmental variances compared to the Target include salary savings and lower contractual service spending, as described in more detail in the report (Attachment 1).

#### **ALTERNATIVES:**

The following alternatives are provided for the Council's consideration:

1. Receive and file the Fiscal Year 2021-22 Third Quarter Financial Status Report;
2. Provide other direction to staff.

#### **ADVANTAGES:**

The financial report presents an updated review of the City's financial performance in the through the end of the third quarter of FY 2021-22.

#### **DISADVANTAGES:**

No disadvantages have been identified at this time.

**ENVIRONMENTAL REVIEW:**

No environmental review is required for this item.

**PUBLIC NOTIFICATION AND COMMENTS:**

The Agenda was posted at City Hall and on the City's website in accordance with Government Code Section 54954.2.

Attachments:

1. Fiscal Year 2021-22 Third Quarter Financial Status Report