

City of Arroyo Grande

Fiscal Year 2021-22

Third Quarter Financial Status Report

## INTRODUCTION

The following report is an overview of the City's fiscal position at the end of the third quarter of Fiscal Year (FY) 2021-22. The purpose of this report is to update the public and the City Council on the City's financial position at the end of the third quarter of the fiscal year and compare actual results to the prior year and the budgeted Target, to determine the City's performance. The third quarter report timeframe is July 1, 2021, through March 31, 2022.

The financial report is organized in the following sections:

**Section 1** – an overview of City's financial position after the completion of third quarter of FY 2021-22. This includes a comparison of third quarter results between the current and prior year. In addition, third quarter results will be compared to the budgeted Target. As part of the analysis, brief explanations of significant revenue and expenditure variances are included.

**Section 2** – a listing of any personnel changes occurring during the third quarter and a summary of headcount by department. This section also includes the City's calculated vacancy rate.

**Section 3** – an update on the Capital Improvement Projects (CIP) managed by the Public Works and Community Development Departments. This section includes CIP that were completed in the third quarter along with their final costs.

**Section 4** – a listing of Budget Amendment Requests previously approved by Council or approved administratively and completed in the third quarter.

### ***ENSURING FISCAL STABILITY:***

*In Fall 2020, the City Council established a goal to ensure financial stability for the organization throughout the planning, budgeting, and expenditure process, including preparation and presentation of year-end and quarterly financial reports.*

**SECTION 1: OVERVIEW OF FINANCIAL POSITION**

**CITY FUND STRUCTURE**

The overall City budget is comprised of many individual funds, which are categorized below. This financial report will focus primarily on the General Fund but will also report on all Governmental Funds (i.e. Special Revenue and Debt Service Funds).

General Fund – The General Fund is the primary operating fund of the City, which accounts for resources and services traditionally associated with government.

Special Revenue Funds – Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds – This fund is used to account for the accumulation of resources and payment of long-term debt principal and interest. This includes the USDA loan issued by the City to finance the relocation of City Hall.

Enterprise Funds - An enterprise fund is a separate accounting and financial reporting mechanism for which revenues and expenses are segregated into a fund with financial statements separate from all other governmental activities. These funds include Water and Sewer services provided to City residents.

Private Purpose Fund – The private-purpose fund was created to hold the assets of the former Redevelopment Agency of the City of Arroyo Grande until they are distributed.

Agency Funds – Agency funds are funds that the City holds on behalf of another entity. Currently, there are two Agency funds. One is the Sanitation District fund, which accounts for the receipt and remittance of wastewater processing fees on behalf of the South San Luis Obispo County Sanitation District. The other is the Downtown Parking Fund, which collects assessments from Arroyo Grande Village merchants within the boundaries of the Parking and Business Improvement Area for maintenance of the Village parking lots.

The following chart below shows an overview of the City’s fund structure.

ALL FUNDS							
GOVERNMENTAL FUNDS				PROPRIETARY FUNDS		FIDUCIARY FUNDS	
General Fund	Legislative & Information Services	Fire Protection Impact Fees	City Hall Debt Service	Sewer	Successor Agency to RDA	Downtown Parking	Sanitation Distribution
	Administrative Services	Public Access Television					
Special Revenue Funds	Community Development	Police Protection Impact	Debt Service Funds	Enterprise Funds	Private Purpose Fund	Agency Funds	
	Police Department	Park Development					
	Recreation Services	Park Improvement					
	Public Works	Recreation Community Center					
		Grace Lane Assessment District					
		Parkside Assessment District					
		Street (Gas Tax)					
		Traffic Signalization					
		Traffic Circulation					
		Transportation Facility Impact					
		Transportation					
		In-Lieu Water Neutralization					
		In-Lieu Affordable Housing					
		Tourism Business Improvement Dist.					
		Water Availability					
		CDBG Grant Fund					
		State COPS Block Grant					

## CURRENT YEAR ACTUALS COMPARED TO PRIOR YEAR

Table 1 below reflects revenue and expenditure patterns through the end of the third quarter of FY 2021-22 and compares the current quarter results against the prior year's results for all Governmental Funds as well as the City's General Fund. The table reflect the third quarter actuals for both revenue and expenditures.

Table 1

<b>Governmental Funds</b>			
	3rd QTR FY 2021-22	3rd QTR FY 2020-21	Variance
Revenue	\$ 19,639,156	\$ 15,615,565	\$ 4,023,591
Expenditures	\$ 14,970,655	\$ 14,490,900	\$ 479,755

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

The following discussion focuses on both the City's Governmental Funds and the General Fund and provides a comparison between third quarter results for the current and prior year for both revenue and expenditures. Governmental Funds and General Fund revenue and expenditures for the third quarter of this year are generally on Target with the prior year. The Governmental Funds category includes Special Revenue Funds, Debt Service Funds, as well as the General Fund.

Governmental Funds – At the end of the third quarter of FY 2021-22, Governmental Fund revenue was \$4.0 million higher than the prior year, and expenditures were \$479,755 higher.

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 and not otherwise addressed in this report. The Governmental Funds category includes the General Fund as well as other Special Revenue Funds. The General Fund and ARPA Fund variances are explained as follows:

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 revenue through the end of the third quarter of FY 2021-22 was \$1.4 million higher than the third quarter of the prior year. The largest variances are related to an increase in Property Tax, Sales Tax, and Transient Occupancy Tax. Expenditures were \$540,551 million higher through the end of the third quarter of this year versus the prior year. The largest component of the expenditure variance is due to the timing of allocation of PERS prepayments; in FY 2020-21, PERS prepayments were accounted for each quarter and in FY 2021-22 this is accounted for at time of payment in July.

ARPA Fund – The ARPA Fund was created to help separately track funding provided pursuant to the American Rescue Plan Act. This Act is intended to provide financial aid to families, governments, businesses, schools, non-profits and others impacted by the COVID-19 public health crisis. To date the

City has received \$2,150,121, which in FY 2021-22 created an increase in governmental revenues. Minimal expenditures related to COVID-19 have been incurred through the end of the third quarter of this fiscal year.

## GENERAL FUND IMPACTS

The following discussion focuses on the City's General Fund performance. Chart 1 starts off with a simple overview of General Fund performance compared to the Target. Next are expenditures by category (Table 2). This is followed by a summarized look at FY 2021-22 third quarter actual expenditures compared to the Target (Table 3). Lastly, a discussion of General Fund revenue is included, which compares third quarter actual results to the Target (Table 4).

The City's actual third quarter financial results will be compared to both the prior year's third quarter and the budgeted Target. Using the Target as a comparator against actual results provides a simplified method to evaluate performance for the third quarter. During FY 2020-21, the 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 actual receipts 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. This approach increased the expenditure Target from 75% to 77.73% at 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. Revenue realization is typically low at the end of the third quarter due to the timing of receipt of major tax revenues, the time lag involved in billing cycles, and the receipt of reimbursements.

Chart 1

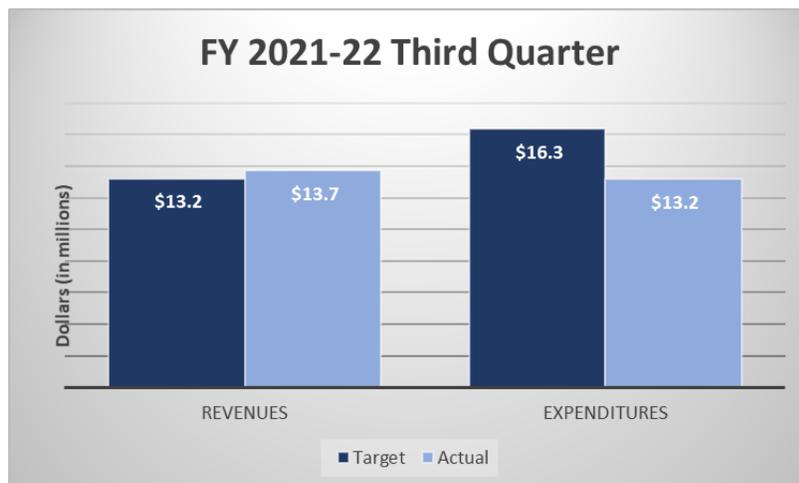


Chart 1 shows a simple comparison of actual revenue and expenditures at the end of the third quarter compared to the Target. The actual third quarter General Fund revenue is more than the budgeted Target by \$502,947. Property Tax, Sales Tax and Transient Occupancy Tax are all trending to show positive results when compared to the Target through the third quarter. Actual expenditures through the third quarter totaled \$13.2 million, or

63% of the full year's Budget, and are under the Target by \$3,149,454. A more detailed discussion on General Fund revenue and expenditure variances is included later in this report.

Table 2

Expenditure Category	FY 2021-22	% of
	3rd QTR Actuals	Actuals
Personnel Costs	\$ 8,251,572	62.6%
Operating Costs	4,563,312	34.6%
Debt Service	121,045	0.9%
Capital Outlay	12,845	0.1%
Transfers Out	229,500	1.7%
Total	<u>\$ 13,178,274</u>	

Table 2 reflects major expenditure cost categories within the General Fund. This chart is intended to explain where the City's resources were spent through the end of the third quarter of the fiscal year. Within the total expenditures of \$8.3 million, 62.6% of the City's costs are associated with personnel, 34.6% with operating and maintenance, 1% for the City's debt service and capital outlay, and 1.7% with transfers to other funds.

Table 3 reflects the third quarter status of all General Fund operating departments. Some departments include multiple divisions. The divisions are consolidated under their respective department, rather than reflected individually within the table.

Table 3 – General Fund Expenditures by Department

General Fund Department Variances - Third Quarter					
General Fund Department	2021-22	2021-22	2021-22	Dollar	%
	Budget	3rd QTR Target	3rd QTR Actuals	Fav/(Unfav)	Fav/(Unfav)
City Administration	\$ 1,129,656	\$ 847,242	\$ 656,715	\$ 190,527	17%
Legislative & Information Services	439,875	329,906	253,629	76,277	17%
Administration Services	5,874,405	4,405,804	3,039,591	1,366,212	23%
Non-Departmental Annual Payments	2,290,692	2,290,692	2,238,295	52,397	2%
Community Development	2,117,900	1,588,425	957,169	631,256	30%
Police Department	6,033,354	4,525,016	3,993,724	531,291	9%
Recreation Services	1,117,500	838,125	742,828	95,297	9%
Public Works	2,003,358	1,502,519	1,296,322	206,197	10%
<b>TOTAL EXPEDITURES</b>	<b>21,006,740</b>	<b>16,327,728</b>	<b>13,178,274</b>	<b>3,149,454</b>	<b>15%</b>

Overall, third quarter expenditures were \$3,149,454 under the Target. Though all City departments were under their spending Targets, some of the more significant savings occurred in the Administrative Services, Police, and Community Development Departments. A more detailed explanation of key expenditure variances by individual department/division is provided below.

## KEY EXPENDITURE VARIANCES FOR INDIVIDUAL DIVISIONS/DEPARTMENTS

Department: Administrative Services

Division: 4120-Administrative Services and 4145-Non Departmental

Issue: Overall savings CalPERS prepayment and CIP Fund Transfers

Impact to General Fund: \$1,366,212 savings

The Administrative Services Department includes the City's Fiscal as well as Information Technology functions. The City's annual CalPERS UAL retirement 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. The remaining

variance is related to CIP Fund Transfers of approximately \$1.3 million through the end of the third quarter related to the approval of using excess reserve fund balance towards the pavement management program

totaling \$1,751,000. This project is still in process and will remain a variance until project completion in Q4 of this fiscal year.

Department: Police Services
Division: Various (4201, 4203, 4204, 4208, 4209)
Issue: Overall savings in salaries and benefits
Impact to General Fund: \$531,291 savings

Police Services includes the functions of Administration, Patrol Services, Support Services and the Office of Traffic Safety (OTS) Grant for Traffic/DUI Enforcement Program, which, for simplicity, will be analyzed in total rather than by individual divisions. Some of the more significant variances in Police Services include:

- The Police Patrol Division currently has two vacancies of its Police Officer positions and Training Technician through the end of the third quarter of FY 2021-22, resulting in labor savings of approximately \$405,000.
- The City’s contract with the County Sheriff Department for dispatch services is paid semiannually in the months of January and June. The January payment was made in the third quarter, and payment for the second half of these services will not be made until the fourth quarter, resulting in a third quarter favorable variance to the Target of \$107,500.
- The City’s contract with the County for Animal Control Services is paid quarterly; the October through December payment was made in January, resulting in a third quarter favorable variance to the Target of \$18,600 due to the timing of payments.

Department: Community Development
Division: Various (4301, 4130, 4212)
Issue: Overall savings in salaries and contractual services
Impact to General Fund: \$631,256 savings

The Community Development Department includes the functions of Planning, Engineering, and Building & Safety Divisions. The majority of the favorable variance in this department can be attributed to salary savings and lower spending in contractual services. Salary

savings within Community Development is attributed to a number of staffing variances that occurred through the end of the third quarter of the fiscal year and include:

- The vacancy of the Building Permit Technician position in the Building division through the end of the third quarter resulted in labor savings of approximately \$83,650. During this fiscal year, this service has been provided by the City’s Building Services contractor until the recruitment is completed.
- The vacancy of the Permanent Planning Manager and Community Services Specialist positions in the Planning division in through third quarter resulted in labor savings of approximately \$225,000. The Community Services Specialist position was filled in late March 2022.
- The vacancy of the part-time Intern position and salary savings from the Engineering Permit Technician position being hired at a lower step than budgeted at third quarter resulted in labor savings of approximately \$50,000.
- Minimal contractual services for the Planning Division were incurred through the end of the third quarter resulting in \$175,895 of favorability to the Target. The following table will summarize where these savings occurred:

Planning Contractual Services	Budget	Target	Expenditures	Variance
Comprehensive General Plan Update	150,000	112,500	-	112,500
Comprehensive General Plan Studies	10,000	7,500	-	7,500
On-Call Environmental Review Services	50,000	37,500	-	37,500
On-Call Planning Services and Misc. Planning Studies	30,000	22,500	4,105	18,395
	240,000	180,000	4,105	175,895

- Contractual services for the Building division were lower than the Target by approximately \$73,900. However, the January, February, and March invoices had not yet been paid at the end of the third quarter; these payments would bring this account over the Target by approximately \$12,000.
- Lower than expected contractual services for the Engineering Division were incurred through the end of the third quarter resulting in \$15,133 of favorability to the Target. The following table will summarize where these savings occurred:

Engineering Contractual Services	Budget	Target	Expenditures	Variance
Stormwater:				
2nd Nature Software	9,000	6,750	8,324	(1,574)
Annual Water Quality Testing/Report	15,000	11,250	2,738	8,513
MS4 Permit	7,000	5,250	10,602	(5,352)
On-Call Engineering Services	80,000	60,000	46,454	13,546
	111,000	83,250	68,117	15,133

- The variance for Community Development Travel and Membership Expenditures through the end of the third quarter results in \$7,260 of favorability to the Target. This variance is related to the continued COVID-19 pandemic and its impact on trainings being attended this fiscal year.

## KEY REVENUE VARIANCES BY ACCOUNT

Table 4 – General Fund Revenue

General Fund Revenue Variances - Third Quarter					
REVENUE BY CATEGORY	2021-22 Budget	FY 2021-22 3rd QTR Target	FY 2021-22 3rd QTR Actuals	Dollar (Unfav)/Fav	% Fav/(Unfav)
Property Tax	\$ 5,665,926	\$ 4,249,445	\$ 4,406,802	\$ 157,358	3%
Sales Tax	4,487,142	2,617,500	2,749,963	132,464	3%
Transient Occ. Tax	972,000	648,000	918,461	270,461	28%
Property Tax in Lieu of VLF	1,895,649	947,825	950,724	2,899	0%
Franchise Fees	696,900	348,450	338,986	(9,464)	-1%
License & Permit Fees	571,200	428,400	319,277	(109,123)	-19%
User Fees	504,000	378,000	448,503	70,503	14%
Planning Fees	510,500	382,875	301,670	(81,205)	-16%
Recreation Fees	512,595	384,446	539,608	155,162	30%
Transfers In	3,089,400	2,317,050	2,271,815	(45,235)	-1%
Other Revenue	677,305	507,979	467,106	(40,873)	-6%
<b>TOTAL</b>	<b>19,582,617</b>	<b>13,209,969</b>	<b>13,712,916</b>	<b>502,947</b>	<b>3%</b>

As reflected in Table 4, third quarter actual revenue was over the Target by \$502,947. This table uses a Target of 67.5% that more accurately reflects the anticipated revenues to be received in the third quarter of the fiscal year. A more detailed discussion is included below to help explain actual revenue variances through the end of the third quarter compared to the Target.

**Property Tax** –The majority of the City’s property tax revenue comes from Secured Property Taxes. This tax is billed on a fiscal year (July 1- June 30) basis and is payable in two (2) annual installments. Property owners typically receive their first property tax bills at the end of September or early October, with a due date of November 1<sup>st</sup>. The majority of property tax related to the first installment was received in December 2021. The second property tax bill installment is received in April 2022 and will be included in the fourth quarter report. Property tax typically represents around 31% of the City’s annual revenue. The Target is based on nine months of Property Tax revenue. Actual revenue received in this category was higher than this Target in part because many taxpayers made the full payment in December.

**Sales Tax** – Sales tax realization through the end of the third quarter is higher than the Target due to better than anticipated performance and economic recovery. Actual sales tax revenue received through the end of the third quarter was \$2,749,963 and represents seven months of payments (Jul – Jan).

**Transient Occupancy Tax (TOT)** – 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 make their TOT payments.

**Property Tax in Lieu of Vehicle License Fees (VLF)** – Property tax in lieu of VLF is received in two installments during the fiscal year. Typically, the revenue is received in the months of January (3<sup>rd</sup> quarter) and June (4<sup>th</sup> quarter), the first payment was received on January 14, 2022. The Target for this revenue is 50% at the end of the third quarter.

**Franchise Fees** – Seven months of franchise fees were received from South County Sanitary Services (Waste Connections) through the end of the third quarter. In addition, Charter Communications franchise fees earned in the third quarter will not be paid and received until the fourth quarter. In light of the timing of payments, the Target is based on 6 months of revenue. Without the Charter Communications franchise fee receipts, the actual revenue at the end of the third quarter is lower than the Target by \$9,464.

**License & Permit Fees and Planning Fees** – License and permit revenue fell short of the Target by \$109,123. Planning revenue fell short of the Target by \$81,205. The majority of the variance is due to fewer permits being issued through the end of the third quarter than estimated in the Target. The Target is based on 75% or 9 months of the fiscal year’s total budget. Revenue in this category is customer driven and fluctuates over the course of a year as well as year over year based on demand.

**Recreation Fees** – Recreation revenue is reflecting a \$155,162 favorable variance to the Target. The Target is based on 9 months of the fiscal year’s total budget. The recreation revenue budget estimates were conservative due to the many unknowns related to childcare activities and the COVID-19 pandemic and have already exceeded the full fiscal year budgeted revenue total.

## SECTION 2: POSITION CHANGES AND HEADCOUNT NUMBERS

**POSITION ALLOCATION CHANGES MADE BY THE CITY COUNCIL (3rd Quarter)**

None made during this quarter.

**FULL TIME EQUIVALENT (FTE) BY DEPARTMENT – PERMANENT STAFF ONLY**

The following table reflects FTE staffing by department as of March 31, 2022. The table only includes permanent staff and does not include part-time or temporary staffing. While departments may hire part-time staff on a regular or seasonal basis, they are not included in the analysis below.

Department	Adopted Budget Headcount (FTE's)	Vacancies (3rd QTR)	% of Total Staffing	Vacant Positions
<b>City Manager &amp; Human Resources</b>	2	-	3%	
<b>Administrative Services</b>	7	-	9%	
<b>Community Development</b>	10	2	13%	Planning Manager, Building Permit Technician
<b>Legislative &amp; Info Services</b>	2	-	3%	
<b>Police Services</b>	29	3	39%	Police Officer (2), Training Technician
<b>Public Works</b>	22	2	29%	2 Maintenance Workers
<b>Recreation Services</b>	3	-	4%	
<b>Total</b>	75	7	100%	

**EMPLOYEE VACANCY RATE**

The City's employee vacancy rate at the end of the third quarter of FY 2021-22 was 9.3%. This equates to seven (7) vacant positions. The vacancy rate tracks the number of permanent vacant positions at the end of the quarter in comparison to the total number of permanent positions available. Unlike a turnover rate, which tracks employees that separated during the period, the vacancy rate only looks at vacancies at the end of period. The costs associated with turnover includes the cost of advertising new positions, training, overtime, lowered productivity, and workload balance.

## SECTION 3: UPDATE ON COMPLETED CAPITAL PROJECTS

This information is provided to keep the Council apprised of the status of the City's Capital Improvement Projects (CIP). The projects listed below represent projects that were completed in the third quarter of FY 2021-22.

FY 2021-22 Third Quarter - Completed Capital Improvement Projects						
CIP Number	Project Title	Comments	Total Amount Budgeted for Project	Total Final Project Costs	% Expended	Funding Sources
612-5849	Manhole Rehabilitation	The project consisted of cleaning and coating 4 existing sewer manholes.	107,254	37,413	35%	Sewer Fund, Developer Funds
350-5678	Castillo Del Mar Extension	The project consisted of roadway extension, multi-use path, drainage improvements, waterline relocation, landscaping, and street lighting.	1,095,371	1,086,269	99%	Sales Tax, Developer Funds, Other Gov Agencies
350-5638	2021 Striping Refresh	The project consisted of restriping sections of various streets within the City.	60,000	60,000	100%	Sales Tax

**SECTION 4: APPROPRIATION TRANSFERS AND BUDGET ADJUSTMENTS****Administrative and Previously-Approved Third Quarter Budget Adjustments**

The following third quarter budget adjustments were previously approved by Council or are classified as administrative and not requiring Council approval.

\$115,800 Capital Improvement: Appropriated ARPA funding of \$115,800 to the 251 E Grand Avenue Project (Chevron Station) to allow the continuance of emergency repairs through a reallocation of a portion of ARPA funds from the Stormwater Master Plan Update/Watershed Management Plan and the Corp Yard Stormwater Compliance Plan Implementation. Approved on 02/08/2022 Council meeting, item 8.f.

In general, revenues and expenditures in all other funds are on target with projections and prior year trends. No other adjustments are required at this time.