



City of Arroyo Grande

Fiscal Year 2020-21

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) 2020-21. 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, calculated at 75% of the Budget, to determine the City's performance. The third quarter timeframe is July 1 through March 31, 2021.

The financial report is organized in the following sections:

Section 1 – an overview of City's financial position at the end of the third quarter of the FY 2020-21. 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 (75% of budget). 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 (BAR) previously approved by Council and completed in the third quarter.

CITY COUNCIL PRIORITIES: FISCAL STABILITY

One of the Top 10 Council Priorities for FY 2020-21 includes continuing to ensure fiscal stability for the organization throughout the planning, budgeting, and expenditure process. This includes preparing and presenting year-end and quarterly financial reports to Council.

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.

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 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 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 expenditures 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	Debt Service Funds	City Hall Debt Service	Enterprise Funds	Sewer	Private Purpose Fund	Successor Agency to RDA	Agency Funds	Downtown Parking
	Administrative Services	Public Access Television		Sewer Facility		Sanitation Distribution				
	Community Development	Police Protection Impact		Water						
	Police Department	Park Development		Water Facility						
	Recreation Services	Park Improvement		Lopez Water						
	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 2020-21 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 calculated percentages in the table reflect the third quarter actuals for both revenue and expenditures, divided by that fiscal year's annual budget.

Table 1

Governmental Funds			
	Third Quarter FY 2020-21	Third Quarter FY 2019-20	Variance
Revenue	68%	71%	-3%
Expenditures	53%	56%	-3%
General Fund			
	Third Quarter FY 2020-21	Third Quarter FY 2019-20	Variance
Revenue	67%	68%	-1%
Expenditures	68%	71%	-3%

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 2020-21 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 Target is calculated as three-fourths (75%) of the FY 2020-21 Budget and represents the 9-month period from July 2020 through March 2021. Using the Target as a comparator against actual results provides a simplified method to evaluate performance for the quarter.

Chart 1



Chart 1 shows a simple comparison of actual third quarter revenue and expenditures to the Target. The actual third quarter General Fund revenue is less than the budgeted Target by \$1.5 million, which is not unusual because revenue realization is typically lower than the Target through the third quarter due to the time lag involved in billing cycles and the receipt of reimbursements. Likewise, actual expenditures

through the third quarter totaled \$12.6 million, or 68% of the full year's Budget, and are under the Target

by \$1.3 million. A more detailed discussion on General Fund revenue and expenditure variances is included later in this report.

Table 2

Expenditure Category	FY 2020-21 Q3 Actuals	% of Actuals
Personnel Costs	\$ 7,712,276	61.0%
Operating Costs	4,712,244	37.3%
Debt Service	53,023	0.4%
Capital Outlay	12,639	0.1%
Transfers Out	146,475	1.2%
Total	\$ 12,636,657	

Table 2 reflects major expenditure cost categories within the General Fund. This chart is intended to explain where the City's resources were spent during the third quarter. Within the total expenditures of \$12.6 million, 61% of the City's costs are associated with personnel, 37% with operating and maintenance, and 2% 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	2020-21 Adjusted Budget	2020-21 Q3 Target	2020-21 Q3 Actuals	Dollar Fav/(Unfav)
City Administration	\$ 1,012,300	\$ 759,225	\$ 548,404	\$ 210,821
Legislative & Information Services	1,030,652	772,989	651,422	121,567
Administration Services	5,956,529	4,467,397	5,075,578	(608,182)
Community Development	1,990,866	1,493,149	938,689	554,460
Police Department	5,666,843	4,250,132	3,523,305	726,827
Recreation Services	961,620	721,215	583,348	137,867
Public Works	1,970,034	1,477,526	1,315,911	161,614
TOTAL EXPENDITURES	18,588,844	13,941,633	12,636,658	1,304,974

Overall, third quarter expenditures were \$1.3 million under the Target. Most of the City's departments are under their spending targets. Some of the more significant savings occurred in the Police and Community Development Departments. However, offsetting other favorable variances is an unfavorable variance of \$608,200 in the Administrative Services Department, which was expected. A more detailed explanation of key expenditure variances by individual department/division is provided below.

KEY EXPENDITURE VARIANCES FOR INDIVIDUAL DIVISIONS/DEPARTMENTS FOR FISCAL YEAR 2020-21

Department: Administrative Services
Division: 4145-Non Departmental
Issue: Timing differences in quarterly payments for Five Cities Fire Authority
Impact to General Fund: \$608,200 overage

The Non Departmental Division of the Administrative Services Department is set up to capture overhead costs that are general in nature and cannot be linked to any one department or division. For example, this Division includes all of the City's insurance costs, utilities costs,

and payment to the Five Cities Fire Authority (FCFA). As mentioned earlier, the Department is reflecting a \$608,200 unfavorable variance through the third quarter. The variance is attributed to the timing of the Five Cities Fire Authority (FCFA) payment. The City’s fourth quarter obligation to the FCFA is due on April 1st but was paid at the end of March creating an unfavorable variance when compared to target, which was expected.

Department: Community Development
Division: Various (4301, 4130, 4212)
Issue: Overall savings in salaries and contractual services
Impact to General Fund: \$554,500 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 third quarter of the fiscal year and include:

- The Community Development Director position remained vacant for five months when the former Community Development Director was appointed as the City Manager in early September 2020. The savings amounted to roughly \$86,000 through February when the position was filled.
- One of the recommendations approved in the FY 2020-21 Adopted Budget was to delay the hiring of the Permit Technician position through the first quarter. The vacancy of the Permit Technician position in the Engineering division continued through the end of the second quarter resulting in labor savings of approximately \$55,000 compared to the Target. The Permit Technician position was filled in early January 2021.
- One Community Development Department staff member was on maternity leave for a portion of the first quarter and returned to work at less than full-time, saving approximately \$35,000.
- The part-time CDD Intern position remained vacant through third quarter.
- Contractual services were budgeted for on-call engineering services; however, none of the budgeted services were incurred through third quarter resulting in a favorable variance of \$60,000 to the Target.
- Contractual services for plan check and inspection costs were lower than the Target by approximately \$65,000.
- Minimal contractual services for the Planning Division were incurred through third quarter resulting in \$143,000 of favorability to the Target; however, it is anticipated that payments for consulting services for projects such as updates to the Housing and Circulation Elements will occur in the remainder of the fiscal year.

Department: Police Services
Division: Various (4201,4203,4204)
Issue: Overall savings in salaries and benefits
Impact to General Fund: \$727,000 savings

For simplicity, Police Services will be analyzed in total rather than by individual divisions. The majority of the Police Department’s favorable variance is attributed to salary savings resulting from vacant permanent Police Officer positions through third quarter. Some of the

more significant variances include:

- The Police Patrol Division experienced vacancies in three of its Police Officer positions. The costs were lower than the Target by approximately \$339,000.
- Other labor costs including health benefits and retirement costs were under the Target by \$63,000 and \$83,000 respectively.

KEY REVENUE VARIANCES BY ACCOUNT FOR THE THIRD QUARTER

Table 4 – General Fund Revenue

General Fund Revenue Variances - Third Quarter				
REVENUE BY CATEGORY	2020-21 Adjusted Budget	FY 2020-21 Q3 Target	FY 2020-21 Q3 Actual	Target vs Actual (Unfav)/Fav
Property Tax	\$ 5,456,521	\$ 4,092,391	\$ 4,060,823	\$ (31,568)
Sales Tax	4,401,649	3,301,237	2,603,695	(697,542)
Transient Occ. Tax	900,000	675,000	564,388	(110,612)
Property Tax in Lieu of VLF	1,822,740	1,367,055	911,370	(455,685)
Franchise Fees	690,000	517,500	367,225	(150,275)
License & Permit Fees	441,300	330,975	307,846	(23,129)
User Fees	443,800	332,850	326,313	(6,537)
Planning Fees	360,500	270,375	283,377	13,002
Recreation Fees	410,700	308,025	345,086	37,061
Transfers In	2,737,100	2,052,825	2,033,928	(18,897)
Other Revenue	728,336	546,252	521,301	(24,951)
TOTAL	18,392,646	13,794,485	12,325,351	(1,469,134)

As reflected in Table 4, third quarter actual revenue was short of the Target by \$1.4 million, which is also not unusual. Revenue realization is typically low at the end of the third quarter of the fiscal year due to the time lag involved in billing cycles and the receipt of reimbursements. A more detailed discussion is included below to help explain actual revenue variances through mid-year 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 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 was received in December 2020. The second property tax bill installment is received in April 2021 and will be included in the fourth quarter report. Property tax typically represents around 31% of the City’s annual revenue.

Sales Tax – Sales tax realization through third quarter is lower due to the time lag involved in billing cycles and the receipt of the City’s sales tax payment from the State. Actual sales tax revenue received through third quarter was \$2.6 million and represents seven months of payments (Jul – Jan).

Transient Occupancy Tax (TOT) – TOT revenue is reflecting an \$111,000 unfavorable variance to the Target. The 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. TOT revenue is expected to exceed the current Adopted Budget by year’s end.

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 (3rd quarter) and June (4th quarter). The first installment was received in January 2021; the second installment will be reflected in the fourth quarter.

License & Permit Fees – License and permit revenue fell short of the Target by \$23,000. The majority of the variance is due to fewer building permits being issued through third quarter than estimated to the Target.

Franchise Fees – Only eight months of Waste Water Connection franchise fees were received through third quarter. In addition, Charter Communications franchise fees earned in the third quarter will not be paid and received until the fourth quarter. Due to the timing of these franchise fee collections, actual revenue at the end of the third quarter is lower than the Target by \$150,000.

SECTION 2: POSITION CHANGES AND HEADCOUNT NUMBERS

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

Division 4204 – Police Department – Support Services
 Delete 1.4 FTE Neighborhood Services Technician

Division 4130 – Community Development Department – Planning
 Add 1.4 FTE Neighborhood Services Technician

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

The following table reflects FTE staffing by department. 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 (Third Quarter)	% of Total Staffing	Vacant Positions
City Manager	1.00	0.00	6.4%	
Administrative Services	6.00	1.00	7.7%	Director of Administrative Services
Community Development	10.00	2.00	12.8%	Permit Tech, Program Analyst
Legislative & Info Services	4.00	1.00	5.1%	Deputy City Clerk
Police Services	29.00	3.00	37.2%	Police Officers (3)
Public Works	21.00	1.00	27.0%	Maintenance Worker I
Recreation Services	<u>3.00</u>	<u>0.00</u>	<u>3.8%</u>	
Total	74.00	8.00	100%	

EMPLOYEE VACANCY RATE

The City’s employee vacancy rate at the end of the third quarter of FY 2020-21 was 10.8%. This equates to eight (8) 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. In the FY 2020-21 Budget, it was agreed that the City Manager, Permit Tech, and Maintenance Worker positions were to remain vacant until after the first quarter. These positions, other than the City Manager position which was appointed prior to the end of the first quarter, remained vacant through the second quarter. In addition, a Police Officer position was to remain vacant for the full year. The higher than normal vacancy rate can be attributed to the delay in hiring these positions at the end of the third quarter.

Please note not reflected in this table or graph are a number of individuals out on Family Medical Leave Act (FMLA) or Family First Coronavirus Response Act (FFCRA) leave during the third quarter creating

operational deficiencies being currently filled by temporary, consulting, or interim staff. This affected the Administrative Services, Legislative & Information Services, Community Development, and Police Departments during the third quarter. Additionally, throughout this fiscal year, every department has experienced extended absences due to quarantine requirements following possible COVID-19 exposures that have occurred largely outside of the workplace.

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 2020-21.

FY 2020-21 Third Quarter - Completed Capital Improvement Projects					
Project Title	Comments	Total Amount Budgeted for Project	Total Final Project Costs	% Expended	Funding Sources
Vard Loomis Erosion Repair	Repair of an area where erosion had created a cavity within a slope behind homes	31,500	31,432	100%	Sales Tax
Chevron Service Station Corrugated Metal Pipe (CMP) Repair	Stabilization of the CMP outlet area where erosion and base failure had occurred	28,774	28,774	100%	Sales Tax, General Fund, Sewer Fund
Bridge Street Bridge Rehabilitation Project	Rehabilitation of the 112-year old two lane bridge over Arroyo Grand Creek	8,719,310	8,052,630	92%	Federal Highway Bridge Program (HBR)
Bridge Street Bridge Habitat Mitigation	Mitigation planting for the Rehabilitation project and initiation of the five-year monitoring and reporting	426,000	249,284	59%	Federal Highway Bridge Program (HBR)
Five Cities Fire Authority (FCFA) Security Gate and Fencing	Construction of fencing to secure the rear area of the FCFA Station 1	25,509	23,190	91%	Fire Impact Fees

SECTION 4: APPROPRIATION TRANSFERS AND BUDGET ADJUSTMENTS

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

\$55,228 Capital Improvement Castillo Del Mar Extension Project: Increased the Revenue from Other Government Agencies account by \$31,125 to account for the additional contribution from Lucia Mar Unified School District, and transferred \$24,103 of Local Sales Tax funds from the Annual Pavement Management Program budget for construction of Construction of the Castillo Del Mar Extension project. Approved on 01/12/2021 Council meeting, item 8.i.

\$31,981 Capital Improvement Ikeda Field Barrier Removal Project: Transferred \$31,981 in Park Improvement Fees to increase appropriations in the amount of \$31,981 for the Ikeda Field Barrier Removal Project. Approved on 01/26/2021 Council meeting, item 8.f.

No change to fund balance Capital Improvement Ikeda Field Barrier Removal: Reallocated \$3,609 of budgeted expenditures to better reflect anticipated actuals, including the Agreement for Consultant Services with R. Burke Corporation for the Ikeda Field Barrier Removal Project. Approved on 03/09/2021 Council meeting, 8.e.

\$124,000 Administrative Services Department: Appropriated funding for the Agreement for Consultant Services with Management Partners for Human Resources and Financial Consultant Services from fund balance in the amount of \$124,000. Approved on 03/09/2021 Council meeting, item 8.d.

No change to fund balance Community Development Department: Reallocated \$73,430 of budgeted expenditures within the General Fund from the Police Department to the Community Development Department to transfer the existing 1.4 full-time equivalent Neighborhood Services Technician position and the associated costs. Approved on 02/23/2021 Council meeting, item 8.e.

\$150,000 City Council: Appropriated \$110,000 the SB 1090 funds for the COVID Resiliency Grant Program, including the Business Assistance Grant Program and administration fees to the South County Chambers of Commerce, and an appropriation of \$40,000 from the SB 1090 funds for the Retraining Scholarship Program, to be administered by the South County Chambers of Commerce in Partnership with SLO Partners, including administration fees. Approved on 03/09/2021 Council meeting, item 10.a.

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.