

City of
Monterey Park
Management Services Department



MID-YEAR BUDGET REPORT
FISCAL YEAR 2020-2021

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Overview

The City's Mid-Year Report compares the revenues and expenditures occurring during the first six months of the fiscal year against budgeted amounts to determine appropriate adjustments; provides links between the City budget, the financial records, and the independent financial audit and; compares revenues earned and expenses made during the first six months of the Fiscal Year (FY) 2020-2021 against the FY 2019-2020 figures. This information is provided in the following format:

- The starting point is the FY 2019-2020 ending fund balances, which is also the beginning Available Fund Balance for the FY 2020-2021. Combining the beginning Available Fund Balances with the estimated revenues, transfers, and appropriations adopted in the Budget and this report, provides the estimated ending fund balances.

As a result of a comprehensive review, adjustments are recommended where actual receipts and disbursements are materially different from the budgeted amounts. Although budget adjustments are recommended across several City funds, typically the emphasis of the Mid-Year Budget Report is directed at the General Fund. The General Fund is deemed to be the most critical as it provides most services commonly associated with government (i.e., public safety, recreation, parks, building, public works, planning, etc.) and is limited primarily by tax-generated revenues.

Historically, the Mid-Year Report is based on the completed Comprehensive Annual Financial Report (CAFR) or audited financial statements. This year, the CAFR was presented to City Council on January 20, 2021.

Summary of Key Points

- The City is currently facing a mixed fiscal picture. Some General Fund categories are increasing while others have decreased because of the COVID-19 impacts to the economy. COVID-19 related revenue decreases have had a moderate impact to the City. The City has strong reserves and a diverse revenue stream, which are important as we continue to face the challenges associated with the impacts of COVID-19, and the City's unmet needs.
- Mid-Year Changes
 - There is no recommendation for change to the General Fund revenues and expenditures at Mid-Year.

- Other Funds
 - Federal Funding in Response to COVID-19.
 - FEMA Funding. As of December 31, 2020, the City has documented expenditures of \$114,180 that may be eligible for funding from FEMA, however it is unknown if or when FEMA will reimburse the City.
 - CARES Act Funding. As of December 21, 2020, the City has received \$818,729.02 in CARES Act funding to cover COVID-19 related public safety costs.
 - Community Development Block Grants (CDBG). The City was awarded \$938,435 in CDBG funding under the CARES Act, of which the City has received \$390,757 as of December 21, 2020.
 - Proposition A. The City is requesting a budget augmentation of \$48,500 from Proposition A funds to cover related Compressed Natural Gas (CNG) costs.
 - Development Impact Fees -Parks. The City is requesting a budget augmentation of \$20,000 from Development Impact Fees - Parks to connect the Recreation Administration Office to City Hall’s network system.

The City’s General Fund balance committed for catastrophic events is established at \$2,340,000. These funds should be sufficient to allow for a quick and decisive municipal response to events such as natural disasters, catastrophic accidents, or other declared emergency incidents. The City is preparing a strategic plan to increase the Committed Catastrophic Event reserves to 15 percent of the City’s annual General Fund operating budget or \$6.5 million. At this time, the City is requesting to increase its Committed-Catastrophic amount by \$2M from \$2.3M to \$4.3M for the year ending 6/30/2021, to secure higher unrestricted reserves in the event of a catastrophic

Mid-Year Budget Changes

General Fund Revenues:

	Actual FY19-20	Mid-Year FY1920 12/31/2019	Adopted Budget FY20-21	Mid-Year FY2021 12/31/2020	Budget Update FY20-21
Property Tax	19,674,189	4,135,802	18,934,200	5,154,738	19,864,153
Sales Tax	6,923,739	2,593,389	6,705,823	3,282,728	7,794,537
Transient Occupancy Tax	847,272	484,479	1,616,166	471,090	1,010,786
Utility User Tax	2,846,105	1,322,685	3,100,000	1,149,641	2,800,000
Other Tax	1,203,184	174,506	1,227,500	606,412	1,227,500
Licenses & Permits	1,837,426	887,081	2,411,559	570,711	2,004,229
Service Charges & Fees	5,908,389	3,413,217	4,416,300	2,833,693	4,416,300
Other Revenue	4,142,132	1,041,166	5,859,950	1,259,310	5,109,950
TOTAL	43,382,436	14,052,325	44,271,498	15,328,323	44,227,455

Property Tax:

The City receives its property tax revenue from L.A. County during the months of December/January and April/May. These months coincide with the first and second installments paid to L.A. County by the property owners. The City received \$5.2M in the month of December. This is a 25% increase from FY 2019-2020 Mid-Year to FY 2020-2021 Mid-Year revenues.

Sales Tax:

The California Department of Tax and Fee Administration (CDTFA) issues monthly disbursements to the City after the quarter's end. As of December 31, 2020, the CDTFA has distributed to the City four of the twelve monthly disbursements; a total of \$3.3M. This is a 27% increase from FY 2019-2020 Mid-Year to FY 2020-2021 Mid-Year revenues.

Transient Occupancy Tax:

As of December 31, 2020, the City has received two of the four quarterly Transient Occupancy Tax (TOT) disbursements. This is a 3% decrease from FY 2019-2020 Mid-Year to FY 2020-2021 Mid-Year revenues. The City is on target to realize its projected FY 2020-2021 TOT revenues.

Utility User Tax:

As of December 31, 2020, the City has received \$1.1M (41%) of its FY 2020-2021 estimated Utility User Tax (UUT) revenues. This is a 13% decrease from FY 2019-2020 Mid-Year to FY 2020-2021 Mid-Year revenues. The City is optimistic that it will realize its projected FY 2020-2021 UUT revenues.

Other Tax:

This category consists of property transfer tax and franchise tax. The property transfer tax is the real estate transfer tax at a rate of \$1.10 per \$1,000 of value transferred. Cities and county share the tax equally. Franchise tax is collected by the City on gas, electric, and cable television utilities for the privilege of using City streets public property. Revenues received by the City as of December 31, 2020, are 2.5 times higher than in FY 2019-2020 at Mid-Year; a total of \$620K. Projected FY2020-202 revenues are on target to be realized.

Licenses and Permits:

City business licenses are renewed each calendar year. Business owners are given until January 31 to renew their business license for the current calendar year without any penalties. The City is expecting most business license revenues to be received in the month of January; thus, up-to-date figures are not reflected in this report. The City anticipates staying on target to realize its projected FY 2020-2021 revenues.

Services Charges:

This category includes charges for fee-supported City services. As of December 31, 2020, the City has received \$2.8M (64%) of its FY 2020-2021 estimated Service Charge revenues. While, this is a 17% decrease from FY 2019-2020 Mid-Year to FY 2020-2021 Mid-Year revenues, the City is on target to realize or exceed its projected FY 2020-2021 revenues.

Other Revenue:

Interest income, rentals, and fines are included revenues in the Other Revenue category. As of December 31, 2020, the City has received \$1.3M (25%) of its FY 2020-2021 estimated revenues. This is a 21% increase from FY 2019-2020 Mid-Year to FY 2020-2021 Mid-Year revenues. The City is on target to realize its projected FY 2020-2021 revenues.

General Fund Expenditures:

ACCOUNT DESCRIPTION	ORIGINAL APPROP	TRANFRS/ ADJSMTS	REVISED BUDGET	YTD EXPENDED	AVAILABL E BUDGET	% USED
51 Salary & Benefits	28,480,220	0	28,480,220	13,432,722.81	15,047,497	0.47
52 Services	5,538,260	244,280	5,782,540	2,538,839.48	3,243,701	0.44
53 Commodities	1,278,414	0	1,278,414	332,116.76	946,297	0.26
54 Internal Service Chg	8,114,565	0	8,114,565	2,354,663.19	5,759,902	0.29
56 Debt Service	530,886	0	530,886	33,516.85	497,369	0.06
Expense Total	43,942,345	244,280	44,186,625	18,691,859	25,494,766	0.42

As part of the mid-year process, departments were asked to review their current budgets and determine if any adjustments should be proposed in this report. Since departments have been asked to closely monitor their budgets and spend only what is necessary, the City's overall General Fund expense total at Mid-Year is 42%. At this time, no adjustments are recommended to the General Fund departmental budgets.

Other Funds - Revenue:

Special Revenue Funds

Grants:

FEMA Funding. On March 13, 2020, the President of the United States of America declared a national emergency related to the COVID-19 pandemic. Under the emergency declaration, state, local, tribal and territorial government entities and certain private nonprofit organizations are eligible to apply for financial assistance under the Federal Emergency Management Agency's ("FEMA") Public Assistance Program. As of December 31, 2020, the City has documented expenditures of \$114,180 that may be eligible for funding from FEMA, however the City has not yet received this funding and

does not know when, or if, to expect FEMA to distribute these moneys to the City. The City will continue to actively monitor the reimbursement of these COVID 19 related expenditures.

CARES Act Funding. On March 27, 2020, the federal government passed the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") to provide emergency assistance and health care response for individuals, families, and businesses affected by the COVID-19 pandemic. The CARES Act provides \$150 billion in payments to states and local governments from the Coronavirus Relief Fund ("CRF") that may only be used to cover costs that: (1) are necessary expenditures incurred due to the public health emergency with respect to the COVID-19; (2) were not accounted for in the budget most recently approved as of the date of enactment of the CARES Act; and (3) were incurred during the period that begins on March 1, 2020, and ends on December 20, 2020. As of December 31, 2020, the City has received \$818,729.02 in CARES Act funding.

Under federal guidelines, the requirement that expenditures be incurred "due to" the public health emergency means that expenditures must be used for actions taken to respond to the public health emergency. The CARES Act funds may not be used to cover shortfalls in government revenue, and communities receiving these payments are required to certify compliance with federal guidance regarding expenditures of such funds.

Community Development Block Grants. The California Department of Housing and Community Development receives funding from the United States Department of Housing and Urban Development ("HUD") for the Community Development Block Grant ("CDBG") Program and allocates funds to CDBG eligible non-entitlement jurisdictions. The CARES Act provides \$5 billion in new CDBG funds for eligible jurisdictions to perform activities related to COVID-19 response and recovery. The City was awarded \$938,435 in CDBG funding under the CARES Act, of which the City has received \$390,757 as of December 31, 2020.

Other Funds - Budget Adjustments:

Special Revenue Funds

Proposition A:

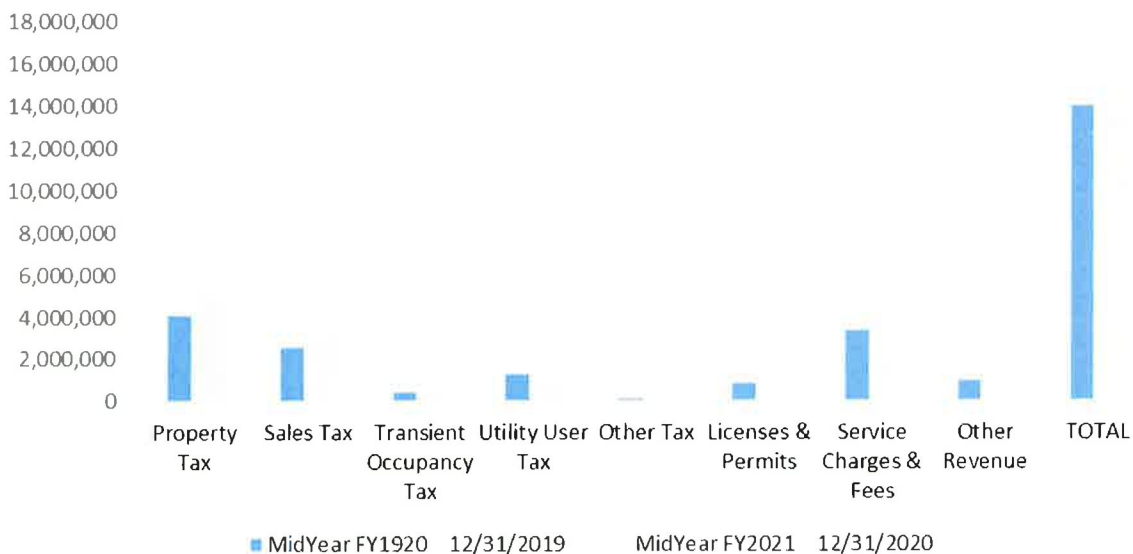
The City is requesting a budget augmentation of \$48,500 from Proposition A funds to cover related Compressed Natural Gas (CNG) costs.

Development Impact Fees -Parks:

The City is requesting a budget augmentation of \$20,000 from Development Impact Fees - Parks to connect the Recreation Administration Office to City Halls network system.

General Fund Overview

Revenues are currently 35% collected and expenditures are 42% spent. This reflects the fact that not all revenues and expenditures occur evenly throughout the fiscal year. Significant variances are discussed later in the report, but in general, this trend is consistent with prior years. As reflected on the following chart, collecting approximately 35% of the General Fund revenues by the mid-point of the fiscal year is consistent with prior year trends.



General Fund Revenues:

Total General Fund revenue collections are at 35% of total estimated revenues with half of the year complete. This is below 50% because certain revenues have a delay in when they are received by the City; specifically, it only represents four months of Sales Tax revenue, four months of Franchise Fee revenue, and approximately 25% of property tax revenue. The table below presents a comparison of the top revenue accounts. Because the City has a diverse revenue basis for total General Fund revenues, changes to a specific revenue source here will not have profound impacts overall. Table shown on next page.

General Fund Revenue Table

General Fund Revenues	Mid-Year FY1920 12/31/2019	Mid-Year FY2021 12/31/2020	% 2020 VS 2019	Estimate Budget Update FY20-21	% Revenue to Date
Property Tax	4,135,802	5,154,738	25%	19,864,153	26%
Sales Tax	2,593,389	3,282,728	27%	7,794,537	42%
Transient Occupancy Tax	484,479	471,090	-3%	1,010,786	47%
Utility User Tax	1,322,685	1,149,641	-13%	2,800,000	41%
Other Tax	174,506	606,412	248%	1,227,500	49%
Licenses & Permits Service Charges & Fees	887,081	570,711	-36%	2,004,229	28%
Other Revenue	3,413,217	2,833,693	-17%	4,416,300	64%
TOTAL	1,041,166	1,259,310	21%	5,109,950	25%
TOTAL	14,052,325	15,328,323	9%	44,227,455	35%

- **Property Tax** - Property tax is the City’s largest revenue source representing 45% of the General Fund FY 2020-21 Adopted Budget. Property tax revenue received are 25% higher than at the same time last year and budgeted revenues are expected to be met.
- **Sales Tax** - Sales tax is the City’s second largest revenue source representing 18% of the General Fund FY 2020-21 Adopted Budget. Sales tax is 27% higher than at the same time last year and budgeted revenues are expected to be met.
- **Transient Occupancy Tax** - Revenues are 3% less than the previous fiscal year, however estimated revenue of \$1.01 million is expected to be met.
- **Utility User Tax** - Revenues are 13% less than the previous fiscal year. City will continue to monitor this funding source and will return to Council with the FY 2020-21 3rd Quarter Financial Report with changes, if necessary.
- **Licenses and Permits** - Business owners are given until January 31, to renew their business license for the current calendar year without any penalties. The City is expecting most business license revenues to be received in the month of January. Thus, budgeted revenues are expected to be met.
- All other variances are within normal ranges.

General Fund Expenditures:

Most departmental expenses are under the 50% budget mark with total FY 2020-21 expended at 42% of budget. Department variances above the 50% mark are discussed below.

	Budgeted	YTD Expended 12/31/2020	YTD Percentage 12/31/2020
City Attorney	393,000	188,866	48.06%
City Clerk	506,308	289,625	57.20%
City Council	118,287	41,162	34.80%
City Manager	712,216	203,311	28.55%
City Treasurer	13,732	5,877	42.80%
Fire	10,801,051	5,473,954	50.68%
HR & Risk Management	535,495	309,380	57.77%
Library	1,985,510	844,836	42.55%
Management Services	745,843	284,261	38.11%
Non-Department	5,943,600	1,333,356	22.43%
Police	16,687,692	7,517,056	45.05%
Public Works	4,010,524	1,533,601	38.24%
Recreation & Community	1,733,367	666,572	38.46%
YTD Total	44,186,625	18,691,859	42.30%

- **City Clerk** -Year-To-Date (YTD) expended funds are mostly for payment of the March and November elections, social archive, codification, legal notices and redistricting.
- **HR & Risk Management** - YTD expended funds are due to unanticipated personnel issues, including COVID-19 related occurrences.
- **City Manager & Public Works** - YTD lower percentages reflect salary & service savings in these two departments.
- **Non-Department** - Internal service charges are trued-up and collected at Year End.
- All other variances are within a normal range.

General Fund Balance

The City Council has established an Unrestricted General Fund Balance of a minimum of two months of the General Fund regular revenues or operating expenditures, as recommended by the Government Finance Officers' Association (GFOA),.

Unrestricted General Fund Balance:

Committed Fund Balance

The City Council, as the City's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as an ordinance or resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specific use through the same type of formal action taken to establish the commitment. City Council action to commit fund balance needs to occur within the fiscal reporting period; however the amount can be determined subsequently.

Catastrophic Event - The City of Monterey Park's General Fund balance committed for catastrophic events is established at \$2,340,000. The City Council may wish to increase or decrease this amount, with the goal of providing an amount equivalent to 15 to 20 percent of the City's annual operating budget for the General Fund. This range should be sufficient to allow for a quick and decisive municipal response to events such as natural disasters, catastrophic accidents, or other declared emergency incidents. The City Council may, by the affirming vote of three members, change the amount of this commitment and/or the specific uses of these monies.

The City is preparing a plan to increase the Committed Catastrophic Event reserves to 15 percent of the City's annual General Fund operating budget or \$6.5 million. At this time, the City is requesting to increase its Committed-Catastrophic amount by \$2M from \$2.3M to \$4.3M for the year ending 6/30/2021.

Working Capital - The City's General Fund balance committed for the purpose of working capital for the delivery of City services during periods of severe operational budget deficits and to mitigate the effects of major economic uncertainties resulting from unforeseen change in revenues and/or expenditures is established at \$3,000,000. The City Council may wish to increase or decrease this amount, with the goal of providing an amount equivalent to 10-15 percent of the City's annual operating budget for the General Fund. This range serves as a sufficient cushion, safeguarding the City's fiscal health against fluctuations in revenues and costs due to economic volatility. City Council approval shall be required before expending any portion of this committed fund

balance. Access to these funds will be reserved for economic emergency situations.

Economic Development - The City's General Fund balance committed for the purpose of economic development for the delivery of the Potrero Grande Street Improvement Project is established at \$1,886,927. City Council approval shall be required before expending any portion of this committed fund balance.

Assigned Fund Balance

Amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. This policy hereby delegates the authority to assign amounts to be used for specific purposes to the City Manager for the purpose of reporting these amounts in the annual financial statements. A few examples of assigned fund balance follow.

- *Encumbrances* - materials and services on purchase order and contracts which are unperformed
- *Reappropriations* - appropriated by the Council for specific projects or programs that were not completed and not encumbered by year end
- *Infrastructure Maintenance Projects* - amounts to be transferred to the General CIP Fund for such projects in the subsequent fiscal year adopted budget

Unassigned Fund Balance

These are residual positive net resources of the General Fund in excess of what can properly be classified in one of the other four categories.

Amounts held in Reverse

Funding of General Fund balance targets will come generally from one-time revenues, one-time expenditure savings, excess fund balance (e.g., unused or reversed assignment or commitments), and revenues in excess of projected expenditures. The total goal range for the City's unrestricted fund balance (includes Commitments and Assignments of fund balance) is 50% of General Fund expenditures.

Table below illustrates the \$2M transfer from Unassigned to Committed- Catastrophic.

GENERAL FUND BALANCE

	June 30, 2020	June 30, 2021
RESTRICTED		
Nonspendable		
Prepaid Items	78,802	78,802
Total Nonspendable	<u>78,802</u>	<u>78,802</u>
UNRESTRICTED		
Committed:		
Catastrophic Event	2,340,000	4,340,000
Working Capital	3,000,000	3,000,000
Economic Development	1,886,927	1,886,927
Total Committed	<u>7,226,927</u>	<u>9,226,927</u>
Assigned		
City Capital Improvements	19,365,589	19,365,589
Total Assigned	<u>19,365,589</u>	<u>19,365,589</u>
Unassigned		
General Fund	5,838,129	3,838,129
Total Unassigned	<u>5,838,129</u>	<u>3,838,129</u>
Total Fund Balance	<u>\$ 32,509,447</u>	<u>\$ 32,509,447</u>

Conclusions

The City has strong reserves and a diverse revenue stream, which are important as we continue to face the challenges associated with the impacts of COVID 19. Nonetheless amidst the pandemic, the City is preparing a strategic plan to increase the Committed Catastrophic Event reserves to 15 percent of the City’s annual General Fund operating budget or \$6.5 million. At this time, the City is requesting to increase its Committed-Catastrophic amount by \$2M from \$2.3M to \$4.3M for the year ending 6/30/2021, to secure higher unrestricted reserves in the event of a catastrophic occurrence.

The City is monitoring its revenues closely and is controlling its expenditures in a prudent and fiscally responsible manner. There is no change to the General Fund projected revenues and expenditures at Mid-Year. For other funds, The City is requesting a budget augmentation in the amount of \$48,500 from the Proposition A funds to cover related Compressed Natural Gas costs and \$20,000 from the Development Impact Fee- Park funds to connect the Recreation Administration Office to City Halls network system.

Overall, the City is financially sound to meet current needs.