

City of
Monterey Park
Finance Department



MID-YEAR BUDGET REPORT
FISCAL YEAR 2022-2023

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Overview

The City's Mid-Year Report compares the revenues and expenditures during the first six months of the fiscal year against budgeted amounts to determine appropriate adjustments; provides links between the City budget, financial records, and the independent financial audit; and compares revenues earned and expenses made during the first six months of the Fiscal Year (FY) 2022-2023 against the FY 2021-2022 figures.

This information is provided in the following format:

- The starting point is the FY 2021-2022 ending fund balances, which is also the beginning Available Fund Balance for the FY 2022-2023. 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.

The Mid-Year Report is normally based on the completed Annual Comprehensive Financial Report (ACFR) or audited financial statements. This year, the completion of the ACFR has been met with a delay due to shortages and illness with the City's independent auditing firm, CliftonLarsonAllen LLP (CLA). The ACFR is expected to be presented to City Council on March 15, 2023.

Summary of Key Points

- Over the last few months, slight inflation improvements materialized in various industries, however real change has yet to take hold. Many remain nervous about the economy sliding into a recession. Nevertheless, customer spending remains strong. Experts vary on whether a recession will occur and to what extent. Unemployment rates remain a key indicator of whether this adverse economic situation will occur. From a sales tax perspective, the forecast does reflect a slowdown in taxable merchandise spending as the higher cost of utilities, food and other necessities limit dollars available for discretionary and non-essential items.

- On the November 8, 2022, voters adopted Measure MP which authorizes a $\frac{3}{4}$ cent transactions and use (sales) tax. The measure was adopted based upon a 58.14% voter approval. This tax will begin to be collected by businesses on April 1, 2022 and is projected to generate \$1.2 million in FY2022-2023.
- The Federal American Rescue Plan (ARPA) funds allocated to the City for COVID-19 pandemic recovery efforts continues to subsidize the General Fund. ARPA funds in the amount of \$2.1M were expensed between July 1, 2022 to December 31, 2022.
- The Courtyard by Marriott transient occupancy tax (TOT) revenue is anticipated to realize at 50% higher than previously projected.
- Proposed Mid-Year Budget Changes

ARPA Fund – Budget Augmentation

- Demolition of the training tower at Station 3 due to safety concerns with a cost of \$100,000.
- Rekeying of City Hall doors with a cost of \$100,000.
- Emergency Rescue Ambulance with a cost of \$375,000.
- Go MPK Software licensing, Points Merchant Reimbursements, and additional marketing costs of \$58,000.
- Fire Department software subscription costs of \$6,802.
- Fire Protection Engineering & Consulting Services increased cost at \$15,694.
- Human Resources costs related to recruitments and onboarding at \$100,000.
- Verdugo Services increased costs at \$14,207.
- Police Department costs related to the January 21, 2023 incident at \$58,900.
- Recreation and Community Services vehicle to transport hazardous materials cost of 40,000.

Enterprise Funds – Budget Augmentation

- Water funds in the amount of \$175,116 for contracted staffing and on-call contract services.
- Water funds in the amount of \$23,000 for the unanticipated repair and maintenance of city facilities and to cover the rise in cost for material and labor.
- Water funds in the amount of \$14,000 and Sewer funds in the amount of \$8,000 for replacement of fleet vehicles assigned to the Public Works Director, Maintenance Manager and Water Utility Manager.

- Mid-Year Staffing Changes

Department	Position	Salary & Benefits
Public Works	Add Part-Time Senior Clerk Typist	63,198.75
Public Works	Delete Full-Time Senior Clerk Typist	(84,265.00)
Public Works	Add Full-Time Public Works Manager	150,268.00
Public Works	Delete Full-Time Principal Management Analyst	(132,476.00)
Public Works	Add Full-Time Senior Civil Engineer	206,000.00
Public Works	Delete Full-Time Civil Engineer Associate	(185,908.00)
Finance	Add Full-Time Finance Analyst	285,325.00
Finance	Delete Full-Time Support Services Supervisor	(129,143.00)
Finance	Delete Full-Time Payroll Technician	(108,437.00)
Finance	Delete Full-Time Support Services Manager	(150,789.00)
Total FTE		(86,226.25)

- The City’s General Fund balance committed for catastrophic events is established at \$4,840,000. 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 has implemented a strategic plan to increase the Committed Catastrophic Event amount to \$6.3M by FY 2024-2025. At June 30, 2020, the Committed Catastrophic Event amount has gone from \$2.3M to \$4.8M at June 30, 2022, at this time, the City is requesting to increase its Committed-Catastrophic by an amount up to \$500,000 from \$4.84M up to \$5.34M for the year ending 6/30/2023, to secure higher unrestricted reserves in the event of a catastrophe.

Mid-Year Budget Changes

General Fund Revenues:

	Unaudited FY21-22	Mid-Year FY21-22 12/31/2021	Adopted Budget FY22-23	Mid-Year FY22-23 12/31/2022	Budget Update FY22-23
Property Tax	21,308,720	4,997,793	21,470,692	5,728,007	21,628,351
Sales Tax	9,294,060	3,197,830	9,544,249	3,472,307	9,747,597
Measure MP	0	0	0	0	1,200,000
Transient Occupancy Tax	2,098,921	608,959	1,827,566	1,446,243	2,796,243
Utility User Tax	3,278,449	1,619,240	2,961,263	1,643,381	3,294,841
Business License Tax	876,521	203,437	868,634	156,770	885,286
Other Tax	1,422,588	204,396	1,278,931	235,737	1,278,931
Licenses & Permits	1,531,954	611,231	1,525,022	1,024,912	1,525,002
Service Charges & Fees	7,498,057	2,317,186	6,903,095	3,021,009	6,903,095
Other Revenue	1,762,688	2,057,603	4,142,875	2,163,539	4,142,875
TOTAL	49,071,958	15,817,675	50,522,327	18,891,905	53,402,221

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 \$5.7M in the month of December. The City is on track to receive the updated estimated revenue of \$21.6M for FY2022-2023.

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, 2022, the CDTFA has distributed to the City four of the twelve monthly disbursements; a total of \$3.5M. Sales tax revenue will continue to have a slow growth rate as other cost like utilities and food continue to increase in cost. Bradley Burns is expected to generate \$9.7M revenue for the City for the current Fiscal Year. Measure MP passed by the voters in November of 2022 is expected to generate \$1.2M beginning April 1, 2023.

Transient Occupancy Tax:

As of December 31, 2022, the City has received two of the four quarterly Transient Occupancy Tax (TOT) disbursements for a total of \$1,446,243. Courtyard by Marriott TOT is anticipated to generate higher revenue than previously projected. The updated estimated revenue is \$2.8M.

Utility User Tax:

As of December 31, 2022, the City has received \$1.6M of its FY 2021-2022 estimated Utility User Tax (UUT) revenues and is on track to receive the total estimated amount of \$3.3M.

Business License Tax:

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 revenues will be slightly higher than projected FY 2022-2023 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, 2022, are \$235,737. Projected FY2022-2023 revenues are on target to be realized.

Licenses and Permits:

Permits help to regulate the safety and establish minimum standards for construction in our homes, business, and community. Other licenses and permits issued by the City include, but are not limited to, yard sale, fireworks and tobacco retail. The City is on target to realize its projected FY 2022-2023 revenues.

Services Charges:

This category includes charges for fee-supported City services. As of December 31, 2022, the City has received \$3M of its FY 2022-2023 estimated Service Charge revenues. The City is on target to realize or exceed its projected FY 2022-2023 revenues.

Other Revenue:

Interest income, rentals, and fines are included revenues in the Other Revenue category. As of December 31, 2022, the City has received \$2.1M of its FY 2022-2023 estimated revenues. The City is on target to realize its projected FY 2022-2023 revenues.

General Fund Expenditures:

ACCOUNT DESCRIPTION	ORIGINAL APPROP	TRANFRS/ ADJSMTS/ CARRYVRS	REVISED BUDGET	YTD EXPENDED	AVAILABLE BUDGET	% USED
51 Salary & Benefits	31,754,323	1,003,541	32,757,864	16,293,409	16,464,454	50%
52 Services	6,558,080	242,667	6,800,747	3,261,572	3,539,176	48%
53 Commodities	1,465,264	0	1,465,264	531,953	933,311	36%
54 Internal Service Chg	10,276,510	0	10,276,510	5,138,238	5,138,272	50%
55 Capital Improvement	0	231,909	231,909	231,909	0	100%
56 Debt Serv./Other Pymt	442,074	0	442,074	67,365	374,709	15%
Expense Total	50,496,250	1,478,117	51,974,367	25,524,445	26,449,922	49%

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 49%.

The City is recommending a budget adjustment for the following:

ARPA Fund

- Demolition of the training tower at Station 3 due to safety concerns with a cost of \$100,000.
- Rekeying of City Hall doors with a cost of \$100,000.
- Emergency Medical Services Vehicle (Ambulance) with a cost of \$375,000.
- Go MPK Software licensing, Points Merchant Reimbursements, and additional

marketing costs of \$58,000.

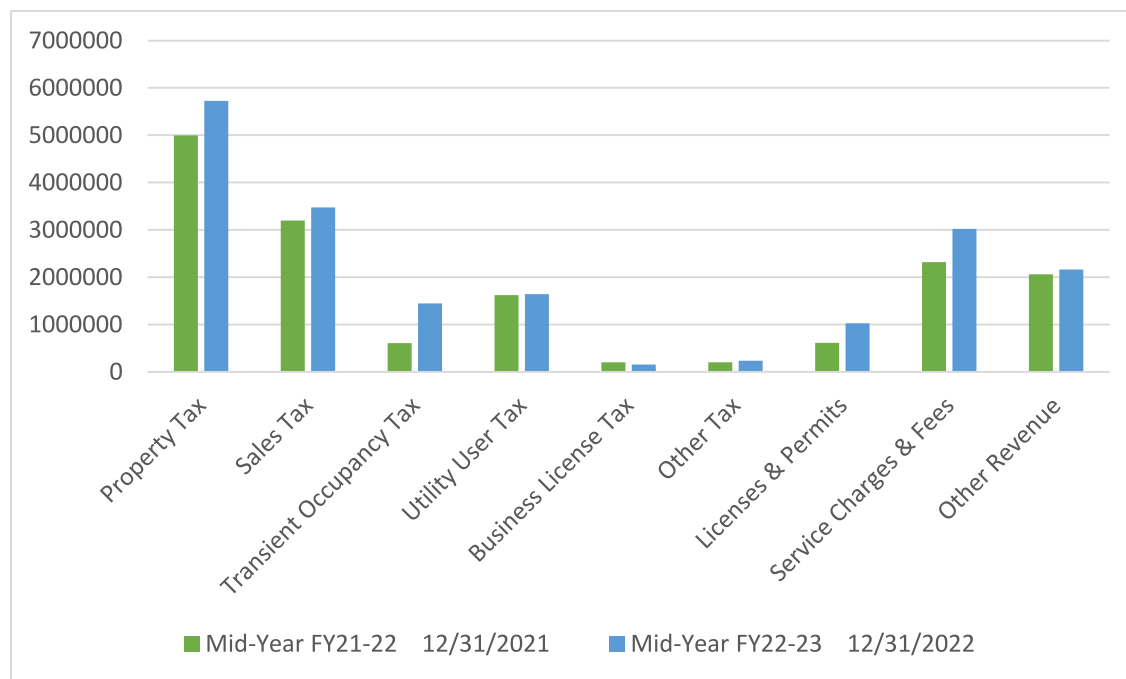
- Fire Department software subscription costs of \$6,802.
- Fire Protection Engineering & Consulting Services increased cost at \$15,694.
- Human Resources costs related to recruitments and onboarding at \$100,000.
- Verdugo Services increased costs at \$14,207.
- Police Department costs related to the January 21, 2023 incident at \$58,900.
- Recreation and Community Services vehicle to transport hazardous materials cost of 40,000.

Enterprise Funds

- Water funds in the amount of \$175,116 for contracted staffing and on-call contract services.
- Water funds in the amount of \$23,000 for the unanticipated repair and maintenance of city facilities and to cover the rise in cost for material and labor.
- Water funds in the amount of \$14,000 and Sewer funds in the amount of \$8,000

General Fund Overview

Revenues are currently 35% collected and expenditures are 50% 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 updated projected 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 FY21-22 12/31/2021	Mid-Year FY22-23 12/31/2022	Percent Difference 2022 VS 2023	Budget Update FY22-23	Percent Revenue to Date
Property Tax	4,997,793	5,728,007	15%	21,628,351	26%
Sales Tax	3,197,830	3,472,307	9%	9,747,597	36%
Measure MP Sales Tax	0	0	0%	1,200,000	0%
Transient Occupancy Tax	608,959	1,446,243	137%	2,796,243	52%
Utility User Tax	1,619,240	1,643,381	1%	3,294,841	50%
Business License Tax	203,437	156,770	-23%	885,286	18%
Other Tax	204,396	235,737	15%	1,278,931	18%
Licenses & Permits	611,231	1,024,912	68%	1,525,002	67%
Service Charges & Fees	2,317,186	3,021,009	30%	6,903,095	44%
Other Revenue	2,057,603	2,163,539	5%	4,142,875	52%
TOTAL	15,817,675	18,891,905	19%	53,402,221	35%

- **Property Tax** - Property tax is the City’s largest revenue source representing 41% of the General Fund FY 2022-23 Estimated Revenue. Property tax revenue received is 15% higher than at the same time last year and budgeted revenues are expected to be slightly higher than originally projected.
- **Sales Tax** - Sales tax is the City’s second largest revenue source representing 21% of the General Fund FY 2022-23 Adopted Budget. Sales tax is 9% higher than at the same time last year and updated budgeted revenues are expected to reach \$10.9 million including Measure MP.
- **Transient Occupancy Tax** - Revenues are 137% more than the previous fiscal year, estimated revenue of \$2.8M has been updated to reflect projected revenue at mid-year. Increased revenues are related to the success of the Courtyard by Marriott.

- **Utility User Tax** - Revenues are 1% more than at mid-year from the previous fiscal year and are expected to realize.
- **Business License Tax** - 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.
- **Licenses and Permits** - Revenues are 68% more than at mid-year from the previous fiscal year. Budgeted revenues are expected to be met or exceed forecasted revenue.
- All other estimated funds are expected to be realized by end of year.

General Fund Expenditures:

Total citywide general fund expenses at FY 2022-23 mid-year are at 51% of budget. Departments over budget are explained below.

	Budgeted	YTD Expended 12/31/2022	YTD Percentage 12/31/2022
City Attorney	688,046	335,415	48.75%
City Clerk	692,076	286,669	41.42%
City Council	222,551	91,666	41.19%
City Manager	1,460,803	709,739	48.59%
City Treasurer	28,297	12,364	43.69%
Community CIP	231,909	231,909	100.00%
Community Development	1,815,363	885,418	48.77%
Fire	13,699,122	6,931,892	50.60%
HR & Risk Management	601,191	295,969	49.23%
Library	2,433,044	1,122,305	46.13%
Finance	2,702,665	1,099,317	40.68%
Non-Department	1,887,569	939,333	49.76%
Police	20,761,512	10,582,018	50.97%
Public Works	3,000,432	1,153,714	38.45%
Recreation & Community	1,749,786	846,719	48.39%
YTD Total	51,974,367	25,524,445	49.11%

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 \$4,840,000. The City has prepared a plan to increase the Committed Catastrophic Event reserves to \$6.3M by the end of fiscal year 2024-2025. At this time, the City is requesting to increase its Committed-Catastrophic amount by up to \$500K from \$4.8M up to \$5.3M for the year ending 6/30/2023.

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 \$3M.

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 Reserve

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 Committed, Assigned, and Unassigned fund balance) is 50% of General Fund expenditures.

GENERAL FUND BALANCE

	30-Jun-21	30-Jun-22
		Unaudited
RESTRICTED		
Nonspendable		
Prepaid Items	72,590	82,310
Total Nonspendable	72,590	82,310
UNRESTRICTED		
Committed:		
Catastrophic Event	4,340,000	4,840,000
Working Capital	3,000,000	3,000,000
Economic Development	1,886,927	1,886,927
Total Committed	9,226,927	9,726,927
Assigned		
City Capital Improvements	21,418,237	19,156,028
Total Assigned	21,418,237	19,156,028
Unassigned		
General Fund	4,419,338	0
Total Unassigned	4,419,338	0
Total Fund Balance	\$35,137,092	\$28,965,265

Conclusions

The City's reserves continue to meet the Government Finance Officers Association (GFOA) recommended amounts of no less than two months of regular operating revenues or expenditures and will continue to increase Committed Catastrophic Event reserves.

The City continues to monitor its revenues closely and is controlling its expenditures in a prudent and fiscally responsible manner. The City is requesting a mid-year budget augmentation in the amount of \$868,603 from ARPA funds, \$212,116 from Water funds and \$8,000 from Sewer funds. Total budget augmentation request equals \$1,088,719.