



To: Mayor and City Council
From: City Manager
Meeting Date: November 14, 2023
Subject: FISCAL YEAR 2023-24 – FIRST QUARTER BUDGET REPORT AS OF SEPTEMBER 30, 2023

Recommendation:

1. Receive and file the fiscal year (FY) 2023-24 First Quarter Budget Report as of September 30, 2023, which represents the balances and activity for the first quarter (July through September) of the 2023-24 fiscal year; and
2. Approve a Personnel Adjustment amending the FY 2023-24 Authorized Positions (FTE) as outlined in Enclosure 3 of this report.

Fiscal Impact:

The First Quarter Budget Report shows current revenues and expenditures for the first three (3) months of FY 2023-24, with an emphasis on the General Fund and Enterprise Funds. For the recommended Personnel Adjustment listed in Enclosure 3, sufficient funding is available in the FY 2023-24 adopted budget and no additional appropriations are needed at this time.

Discussion:

On June 27, 2023, the City Council adopted the FY 2023-24 Budget, which includes projected General Fund revenues of \$59,564,653 and expenditures of \$59,564,653. This is the First Quarter Budget Report for FY 2023-24 for the three-month period ending September 30, 2023. This report summarizes the City of Pico Rivera's (City) overall financial position for the current fiscal year and provides quarterly public reporting. The City has been consistently monitoring its revenues and expenditures to ensure it can proactively respond to unanticipated changes or emerging trends while enhancing the transparency of the City's finances.

This report includes comparisons between the actual financial data for the first quarter of FY 2022-23 and that of FY 2023-24, alongside budget-to-actual comparisons for FY 2023-24. The information in this report is the most accurate and up-to-date information available at the time of publication. However, this report is not an audited financial

statement, and the numbers provided are preliminary and subject to change as the year progresses. It should be noted that the City balances its budget on an annual basis and that the fund's revenues and expenditures may not align on a quarterly basis. The following factors should be taken into consideration when analyzing first-quarter data:

- Property tax revenue has not yet been received (expected in mid-January and mid-May).
- Other major revenue categories, such as Transient Occupancy Tax (TOT), usually begin collection in the third or fourth months of the fiscal year.
- Some significant costs are incurred upfront (for example, CalPERS payments and some contracts), with variances smoothing out over the fiscal year.
- Some expenditure costs, such as Contracted Services, are expected to be expensed later in the fiscal year.
- Normal fluctuations from month to month make it challenging to discern a consistent pattern in revenue and expenditure categories due to insufficient receipts.
- Some prior fiscal year amounts have been updated to include adjustments and reclassifications for the first quarter made later in the fiscal year.

Revenues

General Fund revenues through the first quarter total \$5.25 million, or 9% of the \$59.56 million annual budget. Table 1 on the following page shows revenues by category that contains actual revenue comparisons between the first quarter of FY 2022-23 and FY 2023-24, as well as a comparison of revenue budget versus actual for FY 2023-24. It should be noted that certain revenues are collected and distributed by the State and County, resulting in a time delay from when the actual collections are provided to the City and, in some cases, a delay in when the City receives actual distributions.

Table 1. General Fund Revenues by Category

Revenue Source	FY 22-23	FY 23-24	FY 23-24	\$	%	Percentage of Budget Realized
	1ST QUARTER ACTUALS	ADOPTED BUDGET	1ST QUARTER ACTUALS	FY 22-23 vs. FY 23-24 1ST QUARTER ACTUALS	FY 22-23 vs. FY 23-24 1ST QUARTER ACTUALS	
Sales Tax	\$ 1,720,590	\$24,937,496	\$ 1,673,558	\$ (47,032)	(3%)	7%
Property Tax	55,310	13,906,142	54,978	(332)	(1%)	0%
Utility Users Tax (UUT)	641,030	4,178,135	628,613	(12,417)	(2%)	15%
Licenses & Permits	460,168	2,417,665	483,513	23,345	5%	20%
Business License	394,298	6,493,628	472,500	78,202	17%	7%
Transient Occupancy Tax (TOT)	-	560,000	-	-	0%	0%
Other Taxes*	1,014,645	2,149,900	1,050,123	35,478	3%	49%
Charges for Services	152,449	395,130	161,100	8,650	5%	41%
All Other Revenues**	424,008	2,769,460	426,131	2,123	0%	15%
OPERATING REVENUE	4,862,498	57,807,556	4,950,516	88,018	2%	9%
CARES Act	-	-	-	-	0%	0%
Transfers In***	291,267	1,757,097	306,039	14,772	5%	17%
TOTAL - GENERAL FUND REVENUE	\$ 5,153,765	\$59,564,653	\$ 5,256,555	\$ 102,789	2%	9%

*Includes Franchise Tax, Property Transfer Tax and Rubbish Franchise Fee
 **Includes Fines & Forfeitures, Use of Money, Other Revenue, and Intergovernmental Revenue
 ***Includes Transfer In (Gas Tax)

General Fund operating revenues through the first quarter are \$4.95 million, or 2% up compared to the same period in FY 2022-23, primarily due to the increases in Business License, Licenses and Permits, and Other Taxes compared to the prior fiscal year. Total revenues are at 9% of the budget through the first quarter of the current year; this is primarily due to the timing associated with receiving some of the more significant revenue sources.

The General Fund has several sources of revenue. Five (5) major categories include Sales Tax, Property Tax, Utility Users Tax (UUT), Business License (BL), and Licenses and Permits.

- Sales tax is the largest source of revenue for the General Fund. The Sales Tax slightly decreased by \$47,000, or 3%, compared to this same period last fiscal year primarily due to the previous year's higher-than-normal figures resulting from substantial additional payments made by local vendors to correct previous reporting errors. Another contributing factor is the reduced receipts reported by fuel and service stations. This decrease can be attributed to the stabilization of gasoline product prices in contrast to the elevated prices in the previous year, which resulted from the Russia-Ukraine conflict and subsequent price inflation.

- Property tax, the second-largest revenue source for the General Fund, is predominantly distributed during the third and fourth quarters of the fiscal year. Although the most recent data indicates high-interest rates and a decreased number of homes available for sale in the last quarter, these factors persist in a sluggish housing market. Any potential impact on property tax will be assessed and reported during the third quarter budget review.
- UUT is slightly lower this year than at the same time last fiscal year by \$12,400, or 2%, primarily attributed to local fuel and service stations reporting reduced revenues, which can be linked to the stabilization of petroleum product prices as opposed to the sharp increase observed in the aftermath of Russia's invasion of Ukraine last year. When examining the per-gallon gasoline prices, the Bureau of Labor Statistics data reveals that gasoline prices in the Los Angeles Area decreased by 13% in 2023 compared to 2022.
- BL revenues are higher compared to this same period last year by \$78,000, or 17%. In November 2022, the City voters overwhelmingly approved Measure AB to modernize the City's outdated BL fee structure and to provide equity for small businesses. The City expects more BL revenues as businesses renew their BL under the new fee structure throughout the year.
- Licenses and Permits revenues increased by \$23,000, or 5%, compared to the same period last year, primarily due to increases in Building, Plumbing, Mechanical, and Electrical Permits, as well as Zoning and Planning fees. Comparing the first quarter of FY 2022-23 to FY 2023-24, the number of permits has increased with the rise in commercial and residential projects and a notable surge in construction costs and Improvement Valuation estimates.
- Other Taxes category is coming in higher compared to this same period last year due to an increase in the Rubbish Franchise fee receipts from the City's trash haulers due to adjustments linked to the Consumer Price Index (CPI).
- Charges for Services revenues saw a modest increase of around \$8,600, representing a 5% growth in FY 2023-24. This growth can be attributed mainly to expanding Parks and Recreation programs and in-person services, with Contract Programs, Youth Sports, and Camps experiencing the most notable upticks.

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- All Other Revenues slightly increased by approximately \$2,100, or 0.5%, primarily due to a modest increase in the Miscellaneous Revenue category resulting from the recognition of additional revenues from the unclaimed Waste Management deposits.
- Transfers In includes the State of California Gas Tax, primarily the Highway Users' Tax Account revenue, which is coming in slightly higher compared to this same period last year due to higher gas taxes collected and then distributed by the State Controller's Office.

Expenditures

General Fund expenditures through the first quarter total \$15.30 million, or 26% of the \$59.56 million annual budget. Most department expenditures had increased from the same period last fiscal year, partially attributed to more Salaries and Benefits savings from multiple vacant positions in the prior fiscal year and more programs and services offered in this fiscal year. Noteworthy increases can be attributed to elevated costs in contracts and supplies due to unprecedented inflation, higher expenses for healthcare insurance, and an augmentation in the Unfunded Actuarial Liability (UAL) contributions to the City's Public Employees Retirement (PERS) pension plan. Table 2 below shows expenditures by Department.

Table 2. General Fund Expenditures by Department

Department/Program	FY 22-23	FY 23-24	FY 23-24	\$	%	Percentage of Budget Used
	1ST QUARTER ACTUALS	ADOPTED BUDGET	1ST QUARTER ACTUALS	FY 22-23 vs. FY 23-24 1ST QUARTER ACTUALS	FY 22-23 vs. FY 23-24 1ST QUARTER ACTUALS	
Administration	546,372	2,403,983	541,116	(5,256)	(1%)	23%
Public Safety	3,237,791	13,964,004	3,435,857	198,066	6%	25%
Community and Economic Dev	996,784	7,285,141	1,037,664	40,880	4%	14%
Administrative Services	513,436	3,385,376	655,993	142,557	28%	19%
Human Resources	219,885	1,233,512	277,143	57,258	26%	22%
Non-Departmental*	4,320,005	6,573,052	4,763,717	443,713	10%	72%
Parks and Recreation	1,440,847	7,644,904	1,580,099	139,251	10%	21%
Public Works	1,581,784	10,898,178	1,942,739	360,955	23%	18%
GENERAL FUND OPERATING EXPENDITURES	12,856,904	53,388,150	14,234,328	1,377,424	11%	27%
Operating Transfers Out	1,065,000	1,065,000	1,065,000	-	0%	100%
Non-Operating Transfers Out**	2,982,695	5,111,503	-	(2,982,695)	0%	0%
TOTAL - GENERAL FUND EXPENDITURES	16,904,599	59,564,653	15,299,328	(1,605,271)	(10%)	26%

*Includes Vacancy Savings
 **Includes Interfund Transfers for Capital Improvement Projects

Discussion of Departments with significant variances from the prior year are as follows:

- Administration first quarter expenditure is slightly lower compared to the same period last year due to a vacant position in the City Clerk division.
- Public Safety (Los Angeles County Sheriff's Department - LASD) is tracking higher compared to the same period last year due to the LASD contract increases of more than 8% in FY 2023-24.

- Community and Economic Development is tracking slightly higher compared to the same period last year due to filling employee vacancies.
- Administrative Services is tracking higher compared to the same period last year due to filling an existing vacant position. Also, the Business License division was moved to the Administrative Services Department in the current fiscal year, resulting in more associated expenditures tracked in this department. Other notable increases are due to the rising costs for Software Licensing and projects in the Information Technology (IT) division.
- Human Resources is tracking higher compared to this same period last fiscal year, primarily due to the filling of the vacant Director position in late 2022.
- Non-Departmental is tracking higher compared to this same period last year primarily due to annual contract rate increases including the increase of \$147,000 in contributions towards the City's UAL obligations for FY 2023-24 compared to the last fiscal year. Other notable increases are due to the General Liability increase of \$124,000 and the Animal Control contract increase of \$172,000.
- Parks and Recreation is tracking higher compared to the same period last fiscal year due to more programs and services being offered and the rising costs of Special Events. The most notable Special Events held from July to September 2023 were the Fireworks Spectacular, three (3) Summer Street Fests, two (2) Movies in the Park, and one (1) Fiestas Patrias. In addition, the contracted services costs for additional programming and services being offered have risen due to increased usage and inflated costs for goods and services.
- Public Works is coming in higher compared to the same period last year primarily due to the Heating, Ventilation, and Air Conditioning (HVAC) replacement at Rivera Park in July 2023, costing approximately \$190,000, and due to timing differences. The City paid for Street Sweeping and Tree Trimming services in August and September 2023, compared to those paid in October 2022 for the same service in the prior fiscal year. Other notable increases include higher contracted services and supply costs.
- Operating Transfers Out include the \$1.065 million Sales Tax Pledge from the General Fund to the Successor Agency (Fund 851).
- Non-Operating Transfers Out is lower compared to this same period last fiscal year. In July 2022, the City transferred \$2.98 million to support Community and Economic Development Strategic Projects and some Capital Improvements Projects. No such transfers occurred in the first quarter of the current fiscal year.

General Fund Citywide

At the end of the first quarter, expenditures surpass revenues, primarily because Property, Franchise, and TOT are received later in the year. This is compounded by upfront expenditures such as the Sales Tax Pledge transferred to the Successor Agency, the CalPERS UAL payment, and some contracted services that must be paid for in the first quarter. The first quarter budget report is developed using three (3) months of actual (unaudited) activity for FY 2023-24. Except for the identified

variances, expenditures and revenues are tracking as expected. Considering the timing of revenues and expenditures, the first quarter analysis compares actual activity for the period to the actual activity over the same period in the prior fiscal year to measure consistency. Table 3 below summarizes the total General Fund revenues and expenditures citywide.

Table 3. General Fund Revenues and Expenditures Citywide Totals

	FY 22-23 1ST QUARTER ACTUALS	FY 23-24 ADOPTED BUDGET	FY 23-24 1ST QUARTER ACTUALS	\$ FY 22-23 vs. FY 23-24 1ST QUARTER ACTUALS	% FY 22-23 vs. FY 23-24 1ST QUARTER ACTUALS	Percentage of Budget
REVENUE*	\$ 5,153,765	\$ 59,564,653	\$ 5,256,555	\$ 102,789	2%	9%
EXPENDITURES**	16,904,599	59,564,653	15,299,328	(1,605,271)	(10%)	26%
SURPLUS / (DEFICIT)	\$ (11,750,834)	\$ -	\$ (10,042,773)	\$ 1,708,060	(17%)	

*Includes Non-Operating Transfers In (Gas Tax and Intergovernmental Transfers)
 **Includes Vacancy Savings and Interfund Transfers for Capital Improvement Projects

Personnel Adjustment:

To support City operations, adjusting personnel positions as efficiently and effectively as possible is essential to meet the objectives and goals of Departments. Under certain circumstances, the need to modify positions may arise. The change allows the City to achieve optimal service levels.

To carry out the strategies in the City Council priorities and guiding principles, the following position is recommended for reclassifying from the Field Services Manager to the Public Works Superintendent.

The Field Services Manager position serves as the Division’s lead on human resources, accounting, purchasing and professional development. In addition, maintaining and cultivating a safe work environment and motivating staff to maintain the City to a high standard is a challenging daily task. The maintenance staff has approximately 35 full-time positions and approximately seven (7) part-time positions, directly or indirectly supervised by the Public Works Superintendent position.

The Field Services Manager has shown growth and professional development over the past eight (8) months by addressing personnel staffing issues and the needs of the City fleet. Specifically, the Field Services Manager has demonstrated an ability to expedite deliverables and still comply with the City’s procurement policies and procedures. For example, the Field Services Manager took the initiative for the emergency repairs to the HVAC system at Rivera Park as those repairs were completed expeditiously. Furthermore, the Field Services Manager has shown the highest integrity and leadership in the position and serves as a role model to the Public Works staff.

The FY 2023-24 Adopted Budget includes the salary and benefits for a Field Services Manager position at approximately \$183,000. The net increase between the Field Services Manager and the Public Works Superintendent is approximately \$9,000. There are sufficient appropriations from the Public Works Maintenance and Operations budget in the FY 2023-24 fiscal year to fund the increase.

Enterprise Funds

The City has four (4) Enterprise Funds – Water Authority, PRIME, Golf Course, and Sports Arena. Collectively, these are all separate funds where the City charges a fee to customers to cover all or most of the costs of services it provides. The total Enterprise Funds summary of revenues and expenses as of September 30, 2023, is outlined in the table below. The FY 2023-24 Mid-Year Budget Report will provide an update on activities along with projected year-end estimates.

Table 5. Enterprise Funds Revenues and Expenses Totals

FY 2023-24 Enterprise Funds First Quarter Results				
	Water Operations	PRIME	Golf Course	Sports Arena
Revenue	\$ 2,426,017	\$ 7,543,159	\$ 228,106	\$ 89,266
Operating Expenses	\$ 2,027,918	\$ 3,029,517	\$ 299,980	\$ 77,098
OPERATING SURPLUS / (DEFICIT)	\$ 398,099	\$ 4,513,642	\$ (71,874)	\$ 12,168
Less: Capital Outlay	\$ 834,947	\$ -	\$ -	\$ -
TOTAL SURPLUS / (DEFICIT)	\$ (436,848)	\$ 4,513,642	\$ (71,874)	\$ 12,168

Water Operations Enterprise Fund

The Water Operations Enterprise Fund accounts for the operation and maintenance of the City’s water treatment, water transmission, and distribution system. The FY 2023-24 Water Fund revenues include the implementation of the annual water rate increase that the City Council adopted on April 27, 2021. FY 2023-24 expenses include two (2) Capital Improvement Projects currently undergoing construction: one for the Water Treatment System and another one for the Advanced Metering Infrastructure (AMI) Replacement. These projects have experienced a rise in both material and construction expenses.

Pico Rivera Innovative Municipal Energy (PRIME) Fund

The PRIME Fund includes revenues and expenses for purchasing and selling “greener” energy for customers. Most expenses are expected to be spent later in the fiscal year. The FY 2023-24 PRIME Fund revenues increased compared to the same period last year, primarily due to the implementation of the rate increase approved by the City Council in February 2023. Since January 2023, many Community Choice Aggregations (CCA) across the state adopted rate hikes to stay competitive in pricing, particularly in light of escalating rates from Investor-Owned Utilities such as Southern California

Edison, which increased its rates by more than 19% in January 2023 and another increase of approximately 7% in June 2023. Rate increases also enable PRIME to prepare for potential challenges stemming from climate change and the flexibility to initiate programs and projects that would benefit its customers.

Golf Course Fund

The Pico Rivera Golf Course is still recovering from the U.S. Army Corp of Engineers (USACE) partial green closures. The increase in expenses is primarily a result of the uptick in costs for materials, services, and contract management fees. Also, in FY 2023-24, the City procured some new equipment to ensure smooth operation of the fully open Golf Course.

Sports Arena Fund

The Sports Arena has resumed operations to pre-pandemic levels for rentals and events, increasing revenues and expenses as more events were held in the outdoor venue.

Conclusion:

This quarterly report presents an overview of the City's operating revenues and expenditures for the first quarter ending September 30, 2023, in comparison to the previous year. The City is currently in the process of closing the prior fiscal year. The financial results from the prior fiscal year and the FY 2023-24 first quarter data confirm the City's goal of continuing to remain on the path to structural balance though fiscal discipline is essential. Departments continue to work to reduce impacts to the General Fund, understand the financial pressures, and should be commended for their efforts. Staff will continue to monitor each revenue source and expenditure activity closely and will evaluate opportunities to enhance revenues and reduce expenditures.

The FY 2023-24 Mid-Year Budget Report will provide an update on General Fund and Enterprise Fund activities, recommended budget adjustments, and projected year-end estimates for the City Council's consideration.



Steve Carmona

SC:AG:JG:DS:ep

- Enclosures:
- 1) First Quarter FY 2023-24 General Fund Budget Revenue and Expenditure Budget Report
 - 2) First Quarter FY 2023-24 Enterprise Funds Revenue and Expense Budget Report
 - 3) FY 2023-24 Authorized Positions (FTE)