



**CITY OF DANA POINT
DECEMBER 2017 QUARTERLY FINANCIAL REPORT
MANAGEMENT DISCUSSION**

**FY18
Q2**

SUMMARY – The City’s finances for the first six months of Fiscal Year 2017-2018 (“FY18”), which ended December 31, 2017, are overall tracking better than budget. General Fund revenues are up \$1.3 million compared to the same period last year, and is primarily due to continued record collections for transient occupancy taxes, along with increased property taxes. Fiscal year to date expenditures, excluding transfers to other funds, were \$16.4 million, compared to \$16.3 million for the same period last fiscal year. Details of revenue and expenditure versus budget and change from the prior year are explained later in this report.

The City’s Reserve Accounts are fully funded in accordance with City Council Policy, and stand at \$13.4 million, or 36.2% of the \$37.0 million of budgeted General Fund Revenue. The reserves include those for Emergencies and Cash Flows which are \$7.3 million and \$3.6 million, respectively. In addition, it includes the Capital Projects Reserve of \$2.5 million.

BUDGETED FUND BALANCE SUMMARY:

The following details the General Fund’s budgeted FY18 Fund Balance computation:

Budgeted Fund Balance (in millions)	Amended Budget
Fund Balance, 7/1/17 (audited)	\$ 20.5
Budgeted Revenues	36.4
Budgeted Expenditures	(35.2)
Budgeted Operating Transfers In	0.6
Budgeted Operating Transfers Out	(4.7)
Budgeted Fund Balance, 6/30/18	\$ 17.6

The Budgeted Fund Balance at June 30, 2018 is further categorized into specific reserve accounts per City Council Policy and as shown in the table below. The Policy designates portions of the fund balance into an Emergency Reserve and a Cash Flow Reserve, set at 20% and 10% of budgeted General Fund revenue, respectively. Art in Public Places (APP) is restricted for public art per the City’s Municipal Code. The Capital Projects fund balance designation is set at a minimum of \$2.5

million. The remaining balance of funds not specifically designated are listed as unassigned.

The following table details the projected June 30, 2018 budgeted ending fund balance, detailed by reserve account:

Reserve Designation (in millions)	Amended Budget
Emergency	\$ 7.3
Cash Flow	3.6
Art in Public Places	0.1
Capital Projects	2.5
Unassigned	4.1
Fund Balance Projected @ 6/30/18	\$ 17.6

REVENUES:

The FY18 General Fund revenue and transfers in budget is \$37.0 million. Through the second quarter (Q2) of FY18, total General Fund revenue and transfers in was \$16.8 million, which is roughly \$1.4 million, or 8.8% more than the same period last fiscal year.

The City’s seven largest annual revenue sources typically account for over 90% of the General Fund budget. Those revenues, in order of magnitude, are currently Transient Occupancy Tax, Property Tax, Sales Tax, In-Lieu Property Tax, Licenses & Permits Fees, Charges for Services, and Franchise Fees.

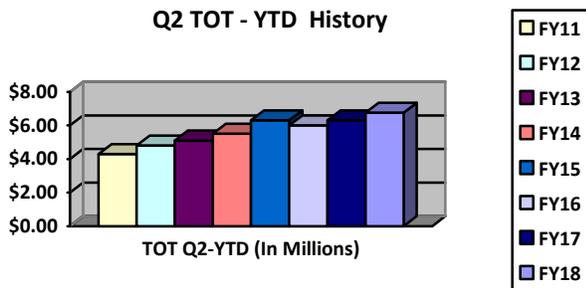
Transient Occupancy Tax (TOT) – At \$6.8 million collected for the first half of FY18, TOT receipts were \$416 thousand, or 6.6% higher than the same period last year. The four major hotels in town saw a TOT increase of 7.5% compared to the prior year, with one resort reporting an almost 16% increase. Note that one of these hotels began an extensive guest-room update in November 2017, with rooms being taken out of circulation in blocks and the entire project not expected to be completed before late Spring 2018.



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At 50% of the way through FY18, TOT stands at 54.8% of its annual budget, and is well ahead of the historical average percent collected for the first half of a fiscal year. Depending on the economy and impact of the hotel under renovation, TOT is expected at this point to finish a couple of hundred thousand dollars better than budget.



Property Tax – The City’s second largest revenue, budgeted at \$7.75 million for FY18, comes from Property Taxes. Year to date revenue was \$4.6 million, which is \$457 thousand, or 11.0% more than last fiscal year. Property Tax may be paid by property owners in two installments, December and April, and thus is not received evenly throughout the City’s fiscal year.

Historically, the City would receive roughly 50% of the annual tax revenue by the end of Q2, with another 10% in Q3 and the remaining 40% in Q4. However, with recent Federal tax law changes, an inordinate number of property owners paid their full assessment before December 31, 2017 to take advantage of tax deductions that are not available to the same extent beginning with the 2018 Federal income tax year. In this light, we report that property tax collections through Q2 stand at 59.7% of the FY18 budget.

This change in taxpayer behavior significantly reduces the opportunity to rely on historical receipts for projection purposes. However, given that the adopted FY18 budget of \$7.75 million is comparable to FY17’s actual collections, and year over year tax growth is likely to occur, we do expect at this point to finish several hundred thousand dollars better than budget by the end of the fiscal year.

Sales and Use Tax – This is the third largest revenue source for the City, which receives 1% of taxable sales occurring in the City, plus a relatively small but growing amount of tax collected for out of state and online sales that are attributed to Orange County and allocated to cities (the latter is Use Tax).

Dana Point’s five largest Sales Tax producing industry groups make up over 85% of this revenue source, and in current order of magnitude are: Hotels & Restaurants; Allocations from the County Pool; Gas Stations; General Consumer Goods; and, Grocery & Drug Stores. The Hotels & Restaurants Category alone generally accounts for roughly 42% of annual Sales & Use Tax revenue.

Sales and Use Tax revenue year-to-date amounted to nearly \$2.0 million, which is \$97 thousand, or 5.2% higher than last fiscal year. The most recent FY18 estimate from the sales tax consultants indicated sales tax at approximately \$5.5 million, which is \$200 thousand less than the budgeted.

In-Lieu Property Taxes – Currently the City’s fourth largest revenue, In-Lieu Property Taxes are budgeted at \$3.875 million for FY18. These exist because the State cut Vehicle License Fees, traditionally a revenue source for cities, and in prior years also took one-fourth of city’s Sales Tax revenue (the latter referred to as the “Triple Flip”). In order to keep cities financially whole, the State provided some of the State’s portion of property tax revenue to backfill the taking – but did so in the next fiscal year. The Sales Tax Triple Flip portion ended last fiscal year.

As expected, no In-Lieu taxes have been received year-to-date. In Lieu Property Taxes are not received evenly throughout the year, with roughly 49% received in January and again in May each year. Based on collections received in January 2018, it is expected that this revenue will exceed budget by just over \$100 thousand.

Licenses & Permits – Most structural changes and new construction on private property require building permits. The State Constitution and Government



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Code place with the City the responsibility and authority to engage in certain regulatory activities in the interest of the community. Related fees are set by Council resolution, and may not exceed the cost of the service. Dana Point's fees in this area have remained largely unchanged.

The FY18 budget is \$1.54 million, of which \$790 thousand, or 51.2% has been collected to date. This is approximately \$62 thousand or 7.3% lower than last fiscal year. Note that these revenues are for specific projects that are not recurring and thus are not necessarily a good predictor for future revenue. Though these revenues are currently tracking with the budget, the volatility associated with building activity warrants much restraint in making projections beyond the current budget.

Charges for Services – This category includes Planning, Building & Engineering Fees, and Recreation Class Fees. Charges for services differ from license and permit fees in that the latter are designed to reimburse a city for costs related to regulatory activities, while Charges for Services support services to individuals. Such amounts are set by Council resolution, and may not exceed the cost of the service.

The FY18 budget is \$1.62 million, placing them as the sixth largest revenue. During the first six months the City, and excluding a one-time payment received for Lantern District Impact Fees discussed below, the City received \$840 thousand, which is \$103 thousand or 11% less than last fiscal year, and tracking close and slightly above budget.

One-time revenue of \$626 thousand for Lantern District Impact Fees was received for a project that is currently under construction. The fee was established several years ago to offset the portion of the Town Center Improvements that could legally be assigned to private development, with the allocation to the private property owners being based on lineal footage of their properties that front Del Prado and Pacific Coast Highway.

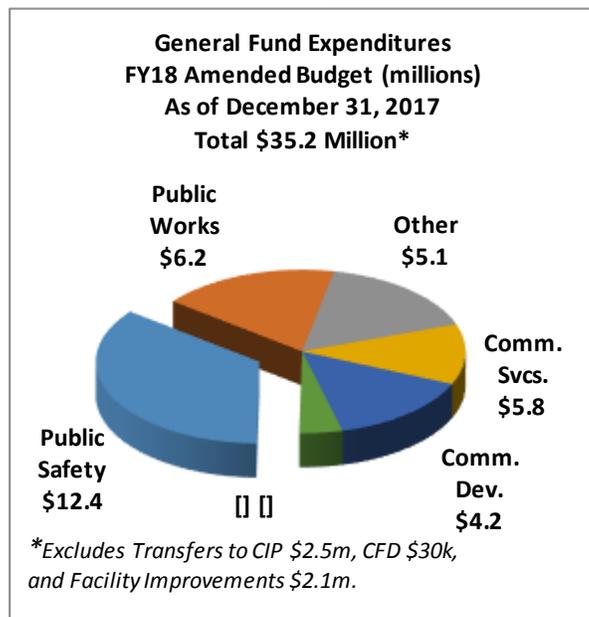
At half way through the fiscal year, Charges for Services revenue is slightly ahead of budget.

Franchise Fees – These are derived from Cox Communications, SDG&E, SoCal Gas and CR&R, for their right to use public rights-of-way. This revenue has been consistent year to year, and totals roughly \$1.3 million. One-fourth of Franchise Fees are received in Q2, again in Q3, and about one-half in Q4. As anticipated the City collected \$322 thousand or 25% to date.

EXPENDITURES

The City's FY18 General Fund budget is \$39.8 million, inclusive of \$4.65 million in transfers to other funds. Excluding the transfers to other funds, the budget is committed to the following functional areas:

Expenditures (in millions)	FY18 Amended Budget	% of Total
Police Services	\$ 12.4	35%
Public Works	6.2	18
Community Services & Parks	5.8	16
Community Development	4.2	12
Non-Departmental*	1.5	4
General & Admin Services	5.1	14
Total Budget	\$ 35.2	100%



* Non-Dept. excludes Transfers to the CFD Fund (\$30k), the Facilities Improvement Fund (\$2.1m) and CIP Fund (\$2.5m), and includes items such as IT, contributions to Animal Services and OC Library.



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During the first six months of this fiscal year, General Fund expenditures totaled \$16.4 million, which is \$851 thousand or 5.0% less than the previous fiscal year, with the majority of that due to a prior year transfer out of \$956 thousand to cover the capital cost of the Police Substation build-out.

Expenditures with notable variances from the prior year include:

Personnel Costs – *Personnel* expenditures to date totaled \$4.1 million, which is \$86 thousand, or 2.0% less than the same time last year. This variance results from a combination of eliminating a management position, vacancy savings and vested leave termination cash outs. At 49%, personnel costs are projected to the \$8.5 million budget that included a \$200 thousand organizational savings target for the City Manager to achieve.

City Attorney – Fiscal 2018 legal costs are budgeted at \$862 thousand, with \$594 thousand having been incurred through December 2017. At Council direction, the attorney is currently prosecuting several code enforcement matters that are generating a considerable amount of costs, in particular a few associated with improper land uses and a few more regarding sober living homes illegally operating without State licenses.

Included in the costs incurred through the first two quarters of FY18 is: \$421 thousand for non-reimbursable legal work inclusive of normal day-to-day legal work the City requires along with much of the sober living home work; \$18 thousand for developer projects that is reimbursed (\$6k revenue recorded for Q1 and the balance pending reconciliation and posting from deposits in the City's trust account); and, \$156 thousand of costs associated with matters where reimbursement is by no means guaranteed because it is dependent on action by the courts (to date this fiscal year \$32k was received in Q2 for a receivership case and another \$30k will be received in Q3 for a code enforcement settlement).

A budget adjustment will be necessary to cover all legal costs this year, and will be processed before year end, along with a revenue budget increase for known reimbursements.

Professional Services – Encompassing services to multiple departments, contracts for professional services totaled \$1.1 million through December 2017, which is \$130 thousand less than the same period last year. Nearly half of the year over year difference is in Community Development and is due to one-time planning-related work associated with the Doheny Village Plan in the prior year. The remaining difference is a result of higher costs last fiscal year due to a biennial Solid Waste audit, along with one-time costs associated with a fee study, actuarial consulting services, and facility repairs.

At half way through the fiscal year, professional services costs paid were at 34.2% of the amended budget. Factoring payments for contract labor for the building department not yet processed, and other department's budgeted professional services costs to be incurred in the latter half of the fiscal year, this item is tracking close to but below budget.

Community Activities – Expenditures to date totaled \$405 thousand, which is \$77 thousand, or 16% lower than the previous fiscal year. This reduction is a result of timing differences as well as the elimination of the Dana Point BBQ Championship. Current expenditures are at 64% of the budget, which is anticipated given the number of activities that occur during the summer months at the beginning of the fiscal year.

Equipment Purchases and Maintenance – Furniture & Equipment expenditures were \$25 thousand year to date, down from \$185 thousand spent in the prior year mainly for the conversion of all Police radios to comply with the new County-wide radio system technology. The Equipment Maintenance line item increased by \$97 thousand over last year to date and is mainly attributed to a one-time final payment for the City's participation in the County's 800 MHz partnership, along with increased facilities custodial costs. At six months into the fiscal year, Furniture & Equipment and Equipment Maintenance are at 42% and 66% of the budget, respectively.



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Police Services – This is by far the largest cost incurred by the City, with the current budget at \$12.1 million. Costs to date totaled \$6.1 million, an expected increase of \$367 thousand, or 6.4% over last year. Police Services are in line with the budget at 50.1% of the annual budget paid out this fiscal year to date, particularly as a credit will be received later in the fiscal year that accounts for an annual accounting true-up of vacancies, vacations and deputy call-back overtime.

At half of the way through the fiscal year, overall, expenditures are on target at 47% of the budget, excluding transfers out.

Operations Contingency – In addition, the City budgeted \$250 thousand in the Non-Department 99 for unforeseen operational contingencies. At half-way through the fiscal year, this budget remains unspent.

Capital Improvement Fund disbursements for July through December 2017 totaled roughly \$941 thousand, with an additional \$465 thousand under contract as of December 31, 2017. The majority of activity to date has been for the annual residential road resurfacing (\$212k), street slurry seal (\$902k), Crown Valley Median Drought Conversion (\$163k) and Citywide Storm Drain Repairs (\$63k).

A full listing of capital projects, along with their budgets, expenditures and encumbered (contracted) balances are shown in Attachment D to this report, as well as a new report this quarter in Attachment E that shows the status for each project.

Cash & Investments

The City’s Local Agency Investment Fund (LAIF) account ended the second quarter with a balance of \$13.5 million. The T-Note portfolio balance was \$16.4 million at December 31, 2017 and consists of three \$3.4 million, one \$3.2 million, and one \$3.0 million laddered investments maturing at one-year intervals over the next 5 years on October 31st.

Investment Portfolio At December 31, 2017	
Account	Amount
Cash	\$ 5,603,833
Petty Cash	5,200
LAIF	13,514,771
T-Notes	16,400,000
Total	\$ 35,523,804

ATTACHED FINANCIAL REPORTS:

- A. General Fund Revenues – Budget vs. Actual for Period Ending 12/31/17;
- B. General Fund Expenditures – Budget vs. Actual for Period Ending 12/31/17;
- C. 12/31/17 Balance Sheets All Funds;
- D. CIP Projects – Budget vs. Actual for Period Ending 12/31/17;
- E. CIP Projects – Narrative Summary of Project Status. (New)
- F. General Fund Expenditures by Function for Period Ending 12/31/17.