

CITY OF BUELLTON



QUARTERLY FINANCIAL REPORT

Second Quarter Ending December 31, 2016

January 26, 2017

Overview

The purpose of this financial report is to provide financial information for the City of Buellton. This report focuses on the second quarter of fiscal year 2016-17 and covers the period July 1, 2016 through December 31, 2016. The report is presented quarterly and concentrates on the General Fund and Enterprise Funds. The quarterly financial report presents the City's financial position, considers economic factors and highlights trends based on the City's budget versus what actually occurred during the period. A discussion of other economic factors provides a means of comparing the local economy against larger economic events that may affect the City of Buellton. This quarterly financial report is a valuable tool to the Council, staff and general public.

US Economy

The Federal Reserve increased its key interest rate by 0.25 percent in December. The rate increase will affect millions of Americans, including home buyers, savers and investors. The Federal Reserve released a new forecast and projects U.S. economic growth in 2017 to be 1.9 percent and 2.1 percent the following year, both slightly better than their previous projection in September. The national unemployment rate was 4.6 percent in November, slightly lower than a year ago at 5 percent. The unemployment rate is an economic indicator about the strength of the job market and the status of household finances. Low unemployment indicates a tight labor market, where employers have a tougher time finding people to fill jobs and often must pay more to attract them. Businesses accumulated \$68.6 billion worth of inventory this quarter, down from \$85.5 billion in the previous quarter.

State Economy

California's seasonally adjusted unemployment rate fell slightly to 5.3 percent in November 2016, down 0.2 percentage point from October. Civilian employment increased by 47,000 in November to 18,417,000 persons. On a year-over basis, civilian employment was up 551,000 persons (3.1 percent). California's sales and use tax (SUT) increased a quarter-cent in 2012 under Proposition 30, which expires on January 1, 2017. As a result, sales tax rates in California – which vary across cities and counties, currently ranging from 7.5 percent to 10 percent – will drop to the 7.25 percent to 9.75 percent range. The state's lowest rate of 7.25 percent as of January 1, 2017, is the second highest in the nation. Tennessee is highest at 8.5 percent and Washington ranks third at 7 percent.

City of Buellton

The City's General fund ended the second quarter of 2016-17 with almost \$6.5 Million in fund balance and finished the quarter with about \$6 Million in cash reserves. Assets in the General Fund were reduced at June 30, 2016 because of the dissolution of the Redevelopment Agency. This caused fund balance to be lower than expected at the beginning of the 2016-17 fiscal year. Revenues for the period reached 40 percent of budget while expenditures stayed within appropriations, ending the quarter at 43 percent. The Enterprise funds completed the quarter with negative results. Both funds experienced net operating losses for the quarter. Rate increases in November 2016 are expected to reverse future operating deficits and fund planned capital improvement projects. Details are provided in a later discussion.

GENERAL FUND

General Fund Balance

The chart below shows that with 50 percent of the year complete, revenues are slightly below projections at 40% while expenditures fell below expected at 43 percent of appropriations. “Revenue versus budget” gaps are explained in the next paragraph.

General Fund - Fund Balance	Budget	Actual	Percent
Balance, at Start of Year	\$ 7,500,000	\$ 6,700,000	
Revenues *	6,999,437	2,774,318	40%
Expenditures *	(6,999,937)	(2,979,143)	43%
Expenditures - Restricted Cash			
Balance, at End of Quarter	<u>\$ 7,499,500</u>	<u>\$ 6,495,175</u>	

The chart below provides summary comparison information on revenues and expenditures for the quarter ending December 31, 2016 versus the prior year quarter ending December 31, 2015. Total revenues are higher in the prior year by almost \$800,000. The major cause of this variance is due to higher Property Tax receipts resulting from a one-time distribution after the Redevelopment dissolution. Expenditures are lower in this fiscal year compared to the prior year by over \$2.5 million. The cause is due to required payouts resulting from the Redevelopment dissolution. Revenue and expenditure activity ended the fiscal year within appropriations and key revenue sources maintained steady streams. Budgeted Capital projects include Storm Drain Cleaning/Retrofit, Facilities Maintenance, Painting of City Hall, City Hall Roof and Restroom Repairs, Village Park improvements, Road Maintenance and Industrial Way Streetlights. Project activity during the quarter included Storm Drains and Industrial Way Streetlights. Painting of City Hall was completed during the previous quarter.

General Fund	2016-17	2015-16	Over (Under)
Revenues:			
Taxes	2,603,771	3,292,717	(688,946)
Fees and Permits	6,771	26,590	(19,819)
Fines and Penalties	6,545	20,250	(13,705)
Charges For Current Services	89,896	96,430	(6,534)
Other Revenues	67,335	95,727	(28,392)
Total Revenues	<u>2,774,318</u>	<u>3,531,714</u>	<u>(757,396)</u>
Expenditures:			
General Government	2,945,966	5,499,510	(2,553,544)
Capital	33,177	35,972	(2,795)
Total Expenditures	<u>2,979,143</u>	<u>5,535,482</u>	<u>(2,556,339)</u>

Top Five Revenues

Top Five Revenues	Budget	YTD Actual	Percent
Sales Tax	2,250,000	985,774	44%
TOT	1,850,000	844,790	46%
Property Tax	1,223,000	724,179	59%
MVLF	422,400	-	0%
Franchise Fees	220,000	49,028	22%
Other Revenues	1,034,037	170,547	16%
Total Revenues	6,999,437	2,774,318	40%

Sales Tax

Sales Tax is below target because of payment delays during the quarter. Sales Tax payments fluctuate each month in conjunction with seasonal flows and receipts are one month behind. For example, the December revenue has not been received resulting in five months total sales tax to date. The City's Sales Tax is the top revenue source in the General Fund and ended the quarter at 44 percent. Strong revenue streams from local sales tax are expected to increase as new businesses continue to open at the Crossroads Center.

Transient Occupancy Tax (TOT)

TOT revenue is less than expected because of the timing of receipts, similar to Sales Tax. Receipts include five months of revenue as of December and based on budgeted levels are expected to exceed target by year-end. Total receipts ended the quarter at 46 percent of expected revenue. Payments for the reporting period are due on the 20th of the following month and as previously mentioned, causes revenue streams to lag one month.

Property Tax

The City's property tax revenues are received later in the fiscal year at intervals set by the Santa Barbara County Auditor-Controller. Property tax is above target at 59 percent and expected to exceed target by the end of the fiscal year. The City's ongoing share of property tax is expected to increase based on new development in progress.

Motor Vehicle License Fees

Payments for 2016-17 have not been received during the second quarter. Allocations from the State of California are paid throughout the fiscal year. The City expects an allocation in January. This revenue source is trending upwards based on historic receipts.

Franchise Fees

Franchise fees are received monthly, quarterly and annually. The majority of the City's Franchise Fees are collected from MarBorg Industries, the City's solid waste service provider. Other franchise fees are received from various utilities. Franchise Fees are falling short of budget at 22 percent due to timing of payments but will meet anticipated amounts within the fiscal year.

Expenditures

The chart below summarizes operating costs by department and shows that two budget units are over budget. The General fund is within budget at the end of the second quarter for all departments in total.

Department Expenditures	Budget	YTD Actual	% Expended
City Council	131,503	58,141	44%
City Manager	233,381	109,144	47%
City Clerk	116,525	55,794	48%
City Attorney	175,000	58,060	33%
Non-Departmental	1,608,096	484,891	30%
Finance	189,614	93,572	49%
Police and Fire	1,981,688	960,126	48%
Library	148,541	143,373	97%
Recreation	481,904	261,525	54%
Street Lights	55,000	27,645	50%
Storm Water	195,600	65,755	34%
Public Works - Parks	331,000	127,841	39%
Public Works - Landscape	106,000	25,456	24%
Public Works - Engineering	110,000	46,745	42%
Public Works - General	662,771	288,505	44%
Planning (Comm Dev)	473,314	172,570	36%
Transfer to CIP Fund 92	-	-	
Total All Departments	6,999,937	2,979,143	43%

As of December 31, 2016 or 50 percent of the year expended, the General Fund budget ended the quarter at 43 percent spent. Actual General Fund expenditures were under \$3 Million. Almost all Budget Units ended the quarter within budget except for Recreation and Library. The Recreation Department's costs exceeded budget due to increased activity and staffing requirements for seasonal employees. The Library costs will average out by the end of the fiscal year. Total contract costs for the Library are paid in accordance with the contract at the beginning of the fiscal year. The overall General Fund did not experience a budget deficit because numerous departments ended the quarter under budget. CIP projects include Storm Drains, Facilities Maintenance, City Hall Painting and Repairs (Painting of City Hall completed in the prior quarter), Village Park Improvements, Road Maintenance and Industrial Way Streetlights. There are no budget amendments required for the General Fund this quarter.

Top Five Revenues for the City of Buellton' General Fund are Sales Tax, Property Tax, Transient Occupancy Tax (TOT), Motor Vehicle License Fee (MVLFF) and Franchise Fees. These revenues account for almost 90% of total General Fund Revenues.

Expenditures By Type	Budget	YTD Actual	% Expended
Staffing	1,750,451	752,358	43%
Contract Services	2,897,329	1,485,339	51%
Telecomm and Utilities	228,150	112,719	49%
Supplies and Materials	27,950	12,678	45%
Other Operating Costs	2,026,557	580,076	29%
Minor Capital & CIPs	69,500	35,972	52%
Total by Type	6,999,937	2,979,143	43%

The chart above shows General Fund operating costs and minor CIP expenditures summarized by type. With 50 percent of the year expended, all budget categories are within budget with the exception of contract services. This variance is due to the Library contract payment, paid at the beginning of the fiscal year. The overall General Fund operating and minor CIP expenditures adhered to the City's Municipal Budget through the second quarter of 2016-17.

ENTERPRISE FUNDS

The Statement of Revenues and Expenses for the second quarter of Fiscal Year 2016-17 are shown below.

Revenues and Expenses

Enterprise Funds	Water	Wastewater
Revenues		
Charges for Service	815,080	391,159
Interest Income	1,987	1,805
Total Operating Revenues	817,067	392,964
Other Revenues*	21,528	8,161
Total Revenues	838,595	401,125
Expenses		
Operating	434,843	438,544
Depreciation	80,000	128,000
State Water	448,280	-0-
Total Operating Expenses	963,123	566,544
Operating Profit (Loss)	(146,056)	(165,419)
Transfers Out - CIP	18,883	28,924

*Connection Fees used for CIP with restrictions; cannot be used for Operating costs.

Water Fund

Operating expenditures exceeded operating revenues causing the Water fund to experience a net operating loss of over \$146,000 in the second quarter of Fiscal Year 2016-17 (excludes Connection Fee revenue and Capital Improvement Project expenses). The Water fund utilizes connection fees and reserves to fund Capital Improvement projects (CIPs) which are budgeted at \$500,000 in the current fiscal year. The total CIP budget for fiscal year 2016-17 includes Reservoirs 1 & 2 Improvements, Water Treatment Plant Facilities Improvements, Water Treatment Plant Backwash Reclamation Improvement Project and Water Distribution System Improvements. Water rate increases took place in November 2016. The rate increases will help reverse the operating deficit and fund the capital improvements. The Water Fund ended the second quarter with approximately \$1.6 Million in cash reserves.

Wastewater Fund

Operating expenditures exceeded operating revenues causing the Wastewater fund to experience a net operating loss of over \$165,000 in the second quarter of 2016-17 (excludes Connection Fee revenue and Capital Improvement Project expenses). The Sewer fund utilizes connection fees and reserves to fund Capital Improvement projects (CIPs) which are budgeted at \$250,000 in 2016-17. The total CIP budget for fiscal year 2016-17 includes Wastewater Treatment Plant Facilities Improvements, Sewer Collection System Clean (CCTV) and Sewer Line Replacement. Wastewater rate increases took place in November 2016. The rate increases will help reverse the operating deficit and fund the capital improvement projects. The Wastewater fund ended the second quarter with about \$1.4 Million in cash reserves.