

# CITY OF BUELLTON



## QUARTERLY FINANCIAL REPORT

*Fourth Quarter Ending June 30, 2016*

September 22, 2016

### Overview

The purpose of this financial report is to provide financial information for the City of Buellton. This report focuses on the fourth quarter of fiscal year 2015-16 and covers the period July 1, 2015 through June 30, 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 fourth quarter showed no signs of a rate hike from the Federal Reserve. The last two employment reports and the combination of low inflation and slow growth may have prevented another increase until next year. The May employment situation reflects the nearly one million people who have left the labor market during the quarter. In light of this occurrence, business seems to have become quite cautious about hiring. The biggest challenges for the Federal Reserve to proceed with its anticipated rate hike include, lack of wage growth, unexpected slowdown in the economy and Britain's referendum on European Union membership. The biggest concerns were with the United States employment situation and the continuous weakness of the international economy. These are some of the dominating factors in the decision to hold rates constant.

### State Economy

California's fourth quarter continued a slow but steady GDP growth in the two percent range. There were steady gains in employment and an unemployment rate of 5.4 percent as of June 2016. The state's unemployment rate was insignificantly different from the U.S. rate of 5.1 percent, as expected. Inland California, with its traditional manufacturing and agriculture, continued to suffer in terms of employment, while the coast, with its technology, information and trade sectors, lead the recovery. Total employment growth for 2016 is estimated at 2 percent. Payrolls are expected to grow at about the same rate. Real personal income growth is estimated to be 3.1 percent in 2016.

### City of Buellton

The City's General fund ended the 2015-16 fiscal year with almost \$8.6 Million in fund balance. The General fund realized an increase of about \$1 Million from the previous quarter and ended the year with over \$6 Million in cash reserves. Revenues ended at 93 percent of budget while expenditures stayed within appropriations, ending the year at 91 percent. This reflected prudent spending against solid revenue streams throughout the fiscal year. The City's Enterprise funds ended the fiscal year with negative results in fund balances. Both funds experienced operating losses and face rate increases in the future. Details are provided in a later discussion.

**GENERAL FUND**

**General Fund Balance**

The chart below shows that with 100 percent of the year complete revenues are slightly below projections at 93% while expenditures fell below expected at 91 percent of appropriations. “Revenue versus budget” gaps are explained in the next paragraph.

<b>General Fund - Fund Balance</b>	<b>Budget</b>	<b>Actual</b>	<b>Percent</b>
Balance, at Start of Year	\$ 12,810,992	\$ 12,792,682	
Revenues *	7,838,335	7,290,472	93%
Expenditures *	(12,611,872)	(11,522,243)	91%
Expenditures - Restricted Cash		(5,943,790)	
Balance, at End of Year	<u>\$ 8,037,455</u>	<u>\$ 8,560,911</u>	

The chart below provides summary comparison information on revenues and expenditures for the year ending June 30, 2016 versus the prior year ending June 30, 2015. Total revenues are higher in the current year by over \$1 Million. The major cause of this increase is due to the redistribution of property tax resulting from the Successor Agency payout to the Department of Finance. The increase in the City’s share of property tax was returned to the General Fund in a one-time property tax payment. Expenditures are higher in this fiscal year compared to the prior year because of the over \$5 Million payout caused by the State remittance related to Successor Agency (the General Fund held restricted cash and transferred it back to the Successor Agency upon demand from the State). Revenue and expenditure activity ended the fiscal year within appropriations and key revenue sources maintained steady streams. Capital project activity included Fundware software replacement (completed and all Tyler modules are functioning at capacity), Storm Drain Cleaning/Retrofit, Facilities Maintenance, Riverview Park Improvements, Village Park Improvements, Road Maintenance and Industrial Way Streetlights.

<b>General Fund</b>	<b>2015-16</b>	<b>2014-15</b>	<b>Over (Under)</b>
<b>Revenues:</b>			
Taxes	6,395,579	5,186,063	1,209,516
Fees and Permits	31,170	10,704	20,466
Fines and Penalties	39,875	37,508	2,367
Charges For Current Services	243,718	299,673	(55,955)
Other Revenues	580,130	655,671	(75,541)
<b>Total Revenues</b>	<u>7,290,472</u>	<u>6,189,619</u>	<u>1,100,853</u>
<b>Expenditures:</b>			
General Government	11,501,829	5,690,644	5,811,185
Capital	20,414	111,203	(90,789)
<b>Total Expenditures</b>	<u>11,522,243</u>	<u>5,801,847</u>	<u>5,720,396</u>

**Top Five Revenues**

Top Five Revenues	Budget	YTD Actual	Percent
Sales Tax	2,053,000	1,959,315	95%
TOT	1,800,000	1,783,757	99%
Property Tax	2,371,335	2,435,273	103%
MVLF	375,000	402,748	107%
Franchise Fees	210,000	217,634	104%
Other Revenues	1,029,000	491,745	48%
<b>Total Revenues</b>	<b>7,838,335</b>	<b>7,290,472</b>	<b>93%</b>

**Sales Tax**

The City received Sales Tax revenue at anticipated levels falling just short of target due to a variance in the final triple flip payment. Sales Tax payments fluctuated each month in conjunction with seasonal flows. The City's Sales Tax is the top revenue source in the General Fund and ended the fiscal year at 95 percent. Strong revenue streams from local sales tax are expected to increase as new businesses continue to open, i.e. Tractor Supply and Starbucks opened during the last quarter. Sky River RV opened early in the fiscal year.

**Transient Occupancy Tax (TOT)**

This revenue source is a major component of the City's General Fund. The City reached goals for TOT revenue against budgeted levels. Total receipts ended the year at 99 percent of expected revenue. Payments for the reporting period are due on the 20<sup>th</sup> of the following month, which causes revenue streams to lag one month. All TOT receipts are recorded through June 2016

**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 exceeded budget at 103 percent. An increase this fiscal year is due to the one-time redistribution of property tax resulting from the recent payment by the Successor Agency to the Santa Barbara County Auditor-Controller. The City's ongoing share of property tax is expected to increase based on new development in progress.

**Motor Vehicle License Fees**

Payments for 2015-16 are at 107 percent and budget was exceeded. Payments from the State of California are received throughout the fiscal year, usually January and June. This revenue source is trending upwards based on historic receipts.

**Franchise Fees**

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. All Franchise Fees exceeded budget ending the year at 107 percent.

**Expenditures**

The chart below summarizes operating costs by department and shows that one budget unit is over budget. Overall the General fund is within budget at the end of the fourth quarter.

Department Expenditures	Budget	YTD Actual	% Expended
City Council	142,622	129,769	91%
City Manager	213,832	210,143	98%
City Clerk	111,385	106,206	95%
City Attorney	150,000	168,827	113%
Non-Departmental	6,859,582	6,576,414	96%
Finance	312,580	323,508	103%
Police and Fire	1,977,896	1,808,093	91%
Library	99,741	97,056	97%
Recreation	474,058	504,186	106%
Street Lights	55,000	54,491	99%
Storm Water	184,600	167,057	90%
Public Works - Parks	320,800	219,029	68%
Public Works - Landscape	100,500	73,471	73%
Public Works - Engineering	110,000	120,570	110%
Public Works - General	584,205	491,824	84%
Planning (Comm Dev)	450,187	347,624	77%
Transfer to CIP Fund 92	464,884	123,975	27%
<b>Total All Departments</b>	<b>12,611,872</b>	<b>11,522,243</b>	<b>91%</b>

As of June 30, 2016 or 100 percent of the year expended, the General Fund budget ended at 91 percent spent (including CIP). Actual General Fund expenditures were approximately \$11.5 Million. Almost all Budget Units ended the quarter within budget except for the City Attorney, Finance, Recreation and Public Works – Engineering. The City Attorney costs increased as part of legal services associated with operations during 2015-16. The Finance Department paid for contract staffing assistance during the hiring process to replace key personnel. In addition, contract staff assisted in the implementation of the various software modules related to the City's conversion to a new accounting and utility billing software. The Recreation Department costs exceeded budget due to increased activity and staffing requirements. The Public Works – Engineering overage is due to charges that staff has determined relate to Gas Tax. Staff is in the process redirecting costs from this department in accordance with State Guidelines, which will cause the department to be within budget. The overall General Fund did not experience a budget deficit because numerous departments ended the year under budget. CIP expenditures include costs for the Fundware Replacement, Storm Drains, Facilities Maintenance, Riverview Park Improvements, Village Park Improvements, Road Maintenance and Industrial Way Streetlights. There are no budget amendments required for the General Fund.

*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.*

**Major Expenditure Variances**

Expenditures By Type	Budget	YTD Actual	% Expended
Staffing	1,648,560	1,490,434	90%
Contract Services	3,075,737	2,926,383	95%
Telecomm and Utilities	263,092	153,737	58%
Supplies and Materials	196,050	58,982	30%
Other Operating Costs	6,856,799	6,334,875	92%
Minor Capital & CIPs	571,634	557,832	98%
<b>Total by Type</b>	<b>12,611,872</b>	<b>11,522,244</b>	<b>91%</b>

The chart above shows General Fund operating and CIP expenditures by Expenditure Type. With 100 percent of the year expended, all budget categories are within budget. The overall General Fund operating and CIP expenditures adhered to the City's Municipal Budget through 2015-16.

**ENTERPRISE FUNDS**

The Statement of Revenues and Expenses for the fourth quarter of Fiscal Year 2015-16 are shown below.

**Revenues and Expenses**

<b>Enterprise Funds</b>	<b>Water</b>	<b>Wastewater</b>
Revenues		
Charges for Service	1,457,321	732,239
Interest Income	6,328	4,386
Total Operating Revenues	1,463,649	736,625
Other Revenues*	468,460	267,802
Total Revenues	1,932,109	1,004,427
Expenses		
Operating	732,268	738,777
Depreciation	161,438	255,983
State Water	1,014,991	-
Total Operating Expenses	1,908,697	994,760
Operating Profit (Loss)	(445,048)	(258,135)
Transfers Out - CIP	(532,648)	(225,194)

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

**Water Fund**

Operating revenues were less than operating expenditures causing a net operating loss of almost \$450,000 for Fiscal Year 2015-16 (excludes Connection Fee revenue and Capital Improvement Project expenses). The Water fund utilizes connection fees and reserves to fund Capital Improvement projects (CIPs) which amount to over \$530,000 expended as of June 30, 2016. The total CIP budget for fiscal year 2015-16 includes Reservoirs 1 & 2 Improvements, Water Treatment Plant Facilities Improvements and Water Treatment Plant Backwash Reclamation Improvement Project, Water Meter Improvements, Recycled Water Concept (costs shared jointly with Wastewater) and Fundware Financial and Utility Billing Replacement Project. The Water Fund will split the cost of the Fundware Software Replacement Project equally between Water, Wastewater and General Fund (1/3 each). Budgeted appropriations for CIPs amount to approximately \$1.1 Million. A water rate study in progress during the fourth quarter recommended future rate increases. The Water Fund ended the fourth quarter with approximately \$1.3 Million in reserves.

**Wastewater Fund**

Operating revenues were less than operating expenditures causing a net loss of about \$260,000 for Fiscal Year 2015-16 (excludes Connection Fee revenue and Capital Improvement Project expenses). The Sewer fund utilizes connection fees and reserves to fund Capital Improvement projects (CIPs) which amount to about \$225,000 expended as of June 30, 2016. The total CIP budget for fiscal year 2015-16 includes Wastewater Treatment Plant Facilities Improvements, Sewer Collection System Clean (CCTV), Recycled Water Concept (costs shared jointly with Water) and Fundware Financial and Utility Billing Software Replacement. The Wastewater Fund will split the cost of the Fundware Software Replacement Project equally between Water, Wastewater and General Fund (1/3 each). Total budgeted appropriations for CIPs amount to about \$280,000. A sewer rate study in progress during the fourth quarter recommended future rate increases. The Sewer Fund ended the fourth quarter with slightly over \$1.5 Million in reserves.