

CITY OF BUELLTON



QUARTERLY FINANCIAL REPORT

Third Quarter Ending March 31, 2016

April 28, 2016

Overview

The purpose of this financial report is to provide financial information for the City of Buellton. This report covers the third quarter of fiscal year 2015-16 or the period July 1, 2015 through March 31, 2016. The report will be 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 U.S. economy is expected to maintain a moderate pace of expansion throughout the coming year, around 2.5 percent. With the first federal funds rate hike behind us, we are now facing additional monetary policy uncertainty as we assess the impact of the higher rates on real economic activity. Recent economic data are pointing to signs of a slowdown in growth, at least for this quarter. Household spending has remained positive but is not quite as strong as we would expect to see in an environment of persistently low inflation. The unemployment rate is an economic indicator about the strength of the job market and the status of household finances. The rate has risen slightly in the last month from 4.9 percent to 5 percent. We continue to expect a positive impact on consumption via savings at the gas pump, assuming consumers actually spend these savings elsewhere.

State Economy

The California Economic Summit – along with its network of businesses, communities and civic organizations – aims to spur California's economic growth in the 21st century. The Summit is working to develop, advocate and implement ideas that will advance prosperity in California by expanding its workforce, housing and water sustainability capacity. Goals include, 1) closing the looming "skills gap" with one million more skilled workers; 2) increasing the supply of housing near transit and jobs with one million more homes; 3) expand watershed management solutions and conservation efforts to achieve one million more acre-feet of water each year.

City of Buellton

The City's General fund ended the third quarter of the 2015-16 fiscal year with over \$7.5 Million in fund balance. The balance no longer includes a restricted cash category and the City is no longer required to separate the former legally restricted segment. The General fund finished the quarter with revenues at 61 percent of budget and expects to be on target by year-end. Expenditures are slightly higher than budget at 80 percent. This condition is believed to be temporary and was caused by the large transfer and payout of restricted funds to the Department of Finance. Expenditures are expected to be within appropriations by the end of the fiscal year. The City's Enterprise funds ended the third quarter of 2015-16 with negative and positive results in fund balances. Details are provided in a later discussion.

GENERAL FUND

General Fund Balance

The chart below shows that with 75 percent of the year complete revenues are below projections at 61% while expenditures are above expected at 80 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	\$ 12,810,992	\$ 12,880,075	
Revenues *	7,838,335	4,771,113	61%
Expenditures *	(12,611,872)	(4,155,465)	80%
Expenditures - Restricted Cash		(5,943,790)	
Balance, at End of Year	<u>\$ 8,037,455</u>	<u>\$ 7,551,933</u>	

The chart below provides summary comparison information on revenues and expenditures for the third quarter ending March 31, 2016 versus the third quarter ending March 31, 2015. Total revenues are higher in the current year. The major cause of this increase is due to the redistribution of property tax resulting from the Successor Agency payment to the Department of Finance. After payment, the City’s share of property tax was returned to the General Fund. Expenditures are higher compared to the prior year third quarter because of the overall increase caused by the State remittance related to Successor Agency in the prior quarter. The City’s budget is expected to end the fiscal year in line with appropriations. Capital projects in progress include Fundware software replacement (completed and all modules working to capacity), Storm Drain Cleaning/Retrofit, Facilities Maintenance, Riverview Park Improvements, Village Park Improvements, Road Maintenance and Industrial Way Streetlights.

General Fund	2015-16	2014-15	Over (Under)
Revenues:			
Taxes	4,157,016	3,424,076	732,940
Fees and Permits	8,977	9,070	(93)
Fines and Penalties	21,389	27,415	(6,026)
Charges For Current Services	137,275	151,861	(14,586)
Other Revenues	446,456	218,881	227,575
Total Revenues	<u>4,771,113</u>	<u>3,831,303</u>	<u>939,810</u>
Expenditures:			
General Government	9,996,092	3,906,259	6,089,833
Capital	103,163	108,875	(5,712)
Total Expenditures	<u>10,099,255</u>	<u>4,015,134</u>	<u>6,084,121</u>

Top Five Revenues

Top Five Revenues	Budget	YTD Actual	Percent
Sales Tax	2,053,000	1,057,404	52%
TOT	1,800,000	1,205,158	67%
Property Tax	2,371,335	1,894,511	80%
MVLF	375,000	202,369	54%
Franchise Fees	210,000	74,133	35%
Other Revenues	1,029,000	337,538	33%
Total Revenues	7,838,335	4,771,113	61%

Sales Tax

The City continues to receive Sales Tax revenue at expected levels. Sales Tax payments fluctuate each month but trends are showing the City will exceed target for the 2015-16 fiscal year. Sales tax is the top revenue source in the General Fund and is at 52 percent. The City has experienced strong revenue streams from local sales tax as new businesses continue to open, i.e. Tractor Supply – April 2016. Starbucks has been open through the current quarter.

Transient Occupancy Tax (TOT)

This revenue source is a major component of the City's General Fund revenue. The City expects TOT revenue streams to meet budgeted levels with total receipts at 67 percent at the end of the third quarter. TOT receipts have been received through February 2016. Payments for the reporting period are due on the 20th of the following month, which 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 exceeds budget at 80 percent. An increase this fiscal year is due to the redistribution of property tax resulting from the recent payment by the Successor Agency to the Santa Barbara County Auditor-Controller. The City's share of property tax was redistributed to the City's General Fund.

Motor Vehicle License Fees

Payments for 2015-16 are at 54 percent and expected to be on course with budget. Payments from the State of California are received throughout the fiscal year, usually January and June.

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. At 35 percent, this revenue source is on target with budget with timing delays in the third quarter.

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 third quarter.

Department Expenditures	Budget	YTD Actual	% Expended
City Council	142,622	96,555	68%
City Manager	213,832	151,286	71%
City Clerk	111,385	76,155	68%
City Attorney	150,000	118,309	79%
Non-Departmental	6,859,582	6,457,367	94%
Finance	312,580	233,820	75%
Police and Fire	1,977,896	1,385,524	70%
Library	99,741	94,286	95%
Recreation	474,058	327,181	69%
Street Lights	55,000	38,997	71%
Storm Water	184,600	136,454	74%
Public Works - Parks	320,800	143,984	45%
Public Works - Landscape	100,500	58,387	58%
Public Works - Engineering	110,000	48,560	44%
Public Works - General	584,205	396,590	68%
Planning (Comm Dev)	450,187	232,637	52%
Transfer to CIP Fund 92	464,884	103,163	22%
Total All Departments	12,611,872	10,099,255	80%

As of March 31, 2016 or 75 percent of the year expended, the General Fund budget ended at 80 percent spent (including CIP). Actual General Fund expenditures were approximately \$10 Million. Almost all Budget Units ended the quarter within budget except for the City Attorney, Non-Departmental and Buellton Library . The overage in the Library was due to a contract payment early in the fiscal year. Non-Departmental recorded the transfer of funds from “reserved cash” related to the Successor Agency remittance. This lump-sum transfer to the Successor Agency was paid in full immediately to satisfy the Department of Finance. The City Attorney expenditures exceeded budget by a small margin as part of legal fees associated with operations. The General Fund absorbed part of the overage because numerous departments were within appropriations. CIP expenditures include costs for the Fundware Replacement, Storm Drains and Industrial Way Streetlights. All CIPs will be discussed later in the fiscal year. There are no budget amendments required this quarter for the General Fund.

Major Expenditure Variances

Expenditures By Type	Budget	YTD Actual	% Expended
Staffing	1,648,560	1,186,562	72%
Contract Services	3,075,737	2,304,704	75%
Telecomm and Utilities	263,092	91,974	35%
Supplies and Materials	254,050	45,642	18%
Other Operating Costs	6,856,799	6,334,875	92%
Minor Capital & CIPs	513,634	135,497	26%
Total by Type	12,611,872	10,099,255	80%

The chart above shows General Fund operating and CIP expenditures by Expenditure Type. With 75 percent of the year expended as of the third quarter of fiscal year 2015-16, all budget categories are within budget with the exception of “Other Operating Costs” which includes the large payment related to the Successor Agency. Staff will monitor this overage and return in the fourth quarter to verify the category is within budget or explain the shortfall. The overall General Fund operating expenditures are substantially within budget.

ENTERPRISE FUNDS

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

Revenues and Expenses

Enterprise Funds	Water	Wastewater
Revenues		
Charges for Service	1,156,563	560,963
Interest Income	1,500	1,500
Other Revenues*	394,100	219,902
Total Revenues	1,552,163	782,365
Expenses		
Operating	592,507	525,912
Transfers Out/CIP	393,251	123,128
State Water	763,732	-
Total Expenses	1,749,490	649,040
Profit (Loss)	(198,176)	36,551

*Connection Fees used for CIP

Water Fund

Operating revenues are less than operating expenditures causing a net operating loss of almost \$200,000 in the third quarter of 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 almost \$400,000 expended as of March 31, 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 is in progress to provide direction regarding the need for future rate increases. The Water Fund ended the third quarter with approximately \$2 Million in reserves.

Wastewater Fund

Operating revenues exceeded operating expenditures by about \$37,000 in the third quarter of 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 \$123,000 expended as of March 31, 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 is in progress to provide direction regarding the need for future rate increases. The Sewer Fund ended the third quarter with slightly over \$1.5 Million in reserves.