

CITY OF BUELLTON



QUARTERLY FINANCIAL REPORT

Second Quarter Ending December 31, 2015

January 28, 2016

Overview

The purpose of this financial report is to provide financial information for the City of Buellton. This report covers the second quarter of fiscal year 2015-16 or the period July 1, 2015 through December 31, 2015. 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 consumer-price index, which measures what Americans pay for everything, fell a seasonally adjusted 0.1 percent in December. The cost of shelter and medical care has been steadily increasing even as prices for energy products and consumer goods have fallen. The number of unemployed person, at 7.9 million, was essentially unchanged in December, and the unemployment rate was 5.0 percent for the third month in a row. Building permits fell 3.9 percent but permits for the construction of single-family homes rose 1.8 percent in the prior month. Multi-family building permits tumbled 11.4 percent. The Federal Reserve has said it will carefully monitor inflation goals as it considers subsequent rate increases in the year ahead. In December, it raised short-term interest rates from near-zero for the first time in nearly a decade.

State Economy

Governor Brown's 2016-17 State Budget proposes \$3.6 Billion for Road System Maintenance and Repair. He supported his argument with charts demonstrating the rise and fall of revenues and years of massive deficits followed by small surpluses. The budget proposes many positive aspects for cities, including proposed allocations of \$3.1 billion in cap and trade funds, allocations of water bond funds and drought and disaster assistance proposals, among other items. Of major importance to the cities is the proposal to provide an annual amount of transportation funding but the Governor's revenue package relies on adjusting the variable gas tax and highway user fees. No new proposals are made affecting redevelopment dissolution.

City of Buellton

The City's General fund ended the second quarter of the 2015-16 fiscal year with over \$7 Million in fund balance. The legal decision was rendered concerning the City's current lawsuit against the State of California and remittance of \$5,943,790 was made to the Santa Barbara County Auditor Controller. The residual balance in "Restricted Cash" leftover after the remittance is \$241,649. This amount will be added to the unrestricted cash reserves in the General Fund. General Fund finished the quarter with excess revenues over budget at 52 percent. Expenditures are below budget at 43 percent. The City's Enterprise funds ended the first quarter 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 50% of the year complete revenues are above projections at 52% while expenditures are below expected at 43% 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	\$ 12,810,992	
Revenues *	6,665,000	3,485,253	52%
Expenditures *	(6,653,082)	(2,891,060)	43%
Restricted Cash		(5,943,790)	
Balance, at End of Year	<u>\$ 12,822,910</u>	<u>\$ 7,461,395</u>	

The chart below provides summary comparison information on revenues and expenditures for the second quarter ending December 31, 2015 versus the second quarter ending December 31, 2014. Total revenues are higher in the current year. The major cause of this variance is because of the redistribution of property tax resulting from the payment to the Santa Barbara County Auditor-Controller. After payment, the City’s share of property tax was returned to the General Fund. Although expenditures are higher compared to the prior year second quarter, overall costs are within budget and in line with appropriations. Capital projects in progress include Fundware software replacement (near completion with \$20,000 under-budget to be used refining modules), 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	3,287,641	2,363,073	924,568
Fees and Permits	10,725	6,800	3,925
Fines and Penalties	13,504	13,840	(336)
Charges For Current Services	91,818	96,158	(4,340)
Other Revenues	81,565	98,775	(17,210)
Total Revenues	<u>3,485,253</u>	<u>2,578,646</u>	<u>906,607</u>
Expenditures:			
General Government	2,787,897	2,582,048	205,849
Capital	103,163	83,454	19,709
Total Expenditures	<u>2,891,060</u>	<u>2,665,502</u>	<u>225,558</u>

Top Five Revenues

Top Five Revenues	Budget	YTD Actual	Percent
Sales Tax	2,050,000	557,364	27%
TOT	1,600,000	891,699	56%
Property Tax	1,188,000	1,787,496	150%
MVLF	363,000	1,990	1%
Franchise Fees	210,000	51,083	24%
Other Revenues	759,441	195,621	26%
Total Revenues	6,170,441	3,485,253	56%

Sales Tax

The City received Mid-Year Sales Tax revenue projection from HdL in January 2016. According to HdL, revenue is expected to be higher than expected at \$2,092,000. Sales Tax payments fluctuate each month but trends are expected to exceed target for the 2015-16 fiscal year. Sales tax is the top revenue source in the General Fund. The City has experienced strong revenue streams from local sales tax and increasing trends are expected. The State's reimbursement for the "Triple-Flip" wind down process will be completed in the latter half of 2015-16. Triple flip is ending and according to law, the full 1 percent rate will then return on January 1, 2016 and the 0.25 percent state Fiscal Recovery Fund rate ends.

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 56 percent at the end of the second quarter. TOT receipts have been received through November. 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 is expected to be above target with budget. The major cause is the dissolution of the Redevelopment Agency and the redistribution of property tax resulting from the recent payment to the Santa Barbara County Auditor-Controller. The City's share of property tax was redistributed to the General Fund causing the City to increase this category.

Motor Vehicle License Fees

Payments for 2015-16 are expected to be on course with budget. Payments from the State of California are received intermittently 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. This revenue source is on target with budget with timing delays in the second 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 second quarter.

Department Expenditures	Budget	YTD Actual	% Expended
City Council	142,622	66,404	47%
City Manager	213,832	99,274	46%
City Clerk	111,385	47,941	43%
City Attorney	150,000	78,830	53%
Non-Departmental	900,792	437,240	49%
Finance	312,580	146,884	47%
Police and Fire	1,977,896	911,712	46%
Library	99,741	94,275	95%
Recreation	474,058	240,890	51%
Street Lights	55,000	27,540	50%
Storm Water	184,600	43,393	24%
Public Works - Parks	320,800	97,696	30%
Public Works - Landscape	100,500	42,762	43%
Public Works - Engineering	110,000	16,402	15%
Public Works - General	584,205	255,346	44%
Planning (Comm Dev)	450,187	181,308	40%
Transfer to CIP Fund 92	464,884	103,163	22%
Total All Departments	6,653,082	2,891,060	43%

As of December 31, 2015 or 50 percent of the year expended, the General Fund budget ended at 43 percent spent (including CIP budget versus actual). Actual General Fund expenditures were approximately \$2.9 Million. Almost all Budget Units ended the quarter within budget except for the Buellton Library. This overage was due to a contract payment early in the fiscal year. The General Fund absorbed the overage because numerous departments were within appropriations and ended the quarter under-budget. The Recreation Department experienced a slight increase in maintenance costs during the quarter. The City Attorney expenditures exceeded budget by a small margin as part of legal fees associated with operations. CIP expenditures include costs for the Fundware Replacement and Storm Drains. All CIPs will be discussed later in the fiscal year. Because of the positive condition of the other General Fund budget units, there are no budget amendments required this quarter for the General Fund.

Major Expenditure Variances

Expenditures By Type	Budget	YTD Actual	% Expended
Staffing	1,633,560	675,785	41%
Contract Services	3,075,737	1,633,525	53%
Telecomm and Utilities	263,092	85,571	33%
Supplies and Materials	254,050	15,913	6%
Other Operating Costs	913,009	344,768	38%
Minor Capital & CIPs	513,634	135,497	26%
Total by Type	6,653,082	2,891,060	43%

The chart above shows General Fund operating and CIP expenditures by Expenditure Type. With 50 percent of the year expended as of the second quarter of fiscal year 2015-16, all budget categories are within budget with the exception of “Contract Services”. This category includes expenditures for Public Safety, Engineering and various Professional Services that support the City’s ongoing operations. Staff will monitor this overage and return in the third quarter to verify a the category is within budget or explain the shortfall. The overall General Fund operating expenditures are within budget.

ENTERPRISE FUNDS

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

Revenues and Expenses

Enterprise Funds	Water	Wastewater
Revenues		
Charges for Service	832,516	385,573
Interest Income		
Other Revenues*	316,090	169,582
Total Revenues	1,148,606	555,155
Expenses		
Operating	428,328	326,692
Transfers Out/CIP	342,816	117,973
State Water	500,000	-
Total Expenses	1,271,144	444,665
Profit (Loss)	(122,538)	110,490

*Connection Fees

Water Fund

Operating revenues have exceeded operating expenditures by over \$220,000 in the second quarter of Fiscal Year 2015-16 (excludes Capital Improvement Projects). The Water fund utilizes reserves to fund Capital Improvement projects (CIPs) which amount to about \$340,000 expended as of December 31, 2015. 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 planned to provide direction regarding the need for future rate increases. The Water Fund ended the second quarter with approximately \$1.8 Million in reserves.

Wastewater Fund

Operating revenues exceeded operating expenditures by about \$228,000 in the second quarter of Fiscal Year 2015-16 (excludes Capital Improvement Projects). The Sewer fund utilizes reserves to fund Capital Improvement projects (CIPs) which amount to zero expended as of December 31, 2015. 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 planned to provide direction regarding the need for future rate increases. The Sewer Fund ended the second quarter with slightly over \$1.5 Million in reserves.