

CITY OF BUELLTON



QUARTERLY FINANCIAL REPORT

First Quarter Ending September 30, 2017

November 9, 2017

Overview

The purpose of this financial report is to provide financial information for the City of Buellton. This report focuses on the first quarter of fiscal year 2017-18 and covers the period July 1, 2017 through September 30, 2017. 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.

U.S. Economy

Large retail stores such as Macy's, JcPenney, and Sears have closed many of their physical stores as a result of a migration to online sales. The growth of the online sales experience continues to evolve as one of the most disruptive forces in today's economy. Besides retail fallout, the U.S. Economy has been stable.

According to Economist Mark Schniepp, "There is no drama, no inflation, no runaway interest rates or even rising interest rates... and gasoline prices have remained relatively constant for the last 2 years." This predictable economy has caused the stock market to boom as it favors a steady economy.

The Bureau of Labor Statistics reports Unemployment rate fell to 4.2% in September,

Unaudited Financial Data

Consumer Price Index (CPI) rose 0.5 percent in September to 2.2 percent, and Gasoline prices increased sharply in the wake of Hurricane-related production disruptions at oil refineries in the Gulf Coast area.

State Economy

According to the California Economic Forecast Newsletter, the technology evolution in the Bay Area has created thousands of higher paying jobs, however the lack of construction of homes and apartments to house workers have driven up home and rent prices. There is less supply, and increase in demand.

California's seasonally adjusted unemployment rate rose by 0.3 percent to 5.1 percent in August 2017. Six California industries added jobs: other services, manufacturing, trade, transportation, and utilities. Five industries lost jobs: leisure, hospitality, professional and business services, and government.

City of Buellton

The City's General fund ended the first quarter of 2017-18 with about \$5.4 Million in fund balance and finished the quarter with over \$5.7 Million in cash reserves. Revenues reached 11 percent of budget while expenditures exceeded appropriations, ending the quarter at 28 percent. This reflected many annual contract payments paid during July and August and reflected payments for furniture acquisition. The Enterprise funds completed the quarter with mixed results. The Water Fund experienced a profit, and Wastewater fund experienced a net operating loss during the quarter. Future rate increases in November 2017 are expected to reverse future operating deficits and fund planned capital improvement projects. A third rate increase is expected in July 2018. Details are provided in a later discussion.

GENERAL FUND

General Fund Balance

The chart below shows that with 25 percent of the year complete, revenues are slightly below projections at 11 percent while expenditures exceeded expected projections at 28 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	\$ 6,000,000	\$ 6,688,148	
Revenues *	7,641,145	868,235	11%
Expenditures *	(7,399,056)	(2,091,274)	28%
Balance, at End of Quarter	<u>\$ 6,242,089</u>	<u>\$ 5,465,109</u>	
* Includes Transfers			

The chart below provides summary comparison information on revenues and expenditures for the quarter ending September 30, 2017 versus the prior quarter ending September 30, 2016. Total revenues are higher in the prior year by almost \$670,000. The major cause of this variance is due to timing of Franchise Fees, Sales Tax, Transient Occupancy Tax and Property Tax payments. Also, in FY 16/17, the City received higher Sales Tax receipts resulting from a one-time distribution from the Triple-Flip sales tax payment of about \$280 thousand. Revenue flows are expected to be on target with budget as the fiscal year elapses.

Expenditures are higher in this fiscal year compared to the prior year by over \$136 thousand. The increase is due to the increase in Insurance Liability, and approximately \$22 thousand was spent on new office furniture. In addition, expenditures included Budgeted Capital Improvement Projects (CIP) such as Road Maintenance projects and the Post Office fire alarm system replacement.

General Fund	Q1 FY 2017-18	Q2 FY 2016-17	Over (Under)
Revenues:			
Taxes	769,184	1,437,260	(668,076)
Fees and Permits	5,135	5,450	(315)
Fines and Penalties	3,842	4,652	(809)
Charges For Current Services	58,036	52,792	5,244
Other Revenues	32,037	35,399	(3,362)
Total Revenues	868,235	1,535,553	(667,318)
Expenditures:			
General Government	2,011,845	1,896,591	115,253
Minor Capital	22,244	535	21,710
Total Expenditures	2,034,089	1,897,126	136,963

Top Five Revenues

Top Five Revenues	Budget	YTD Actual	Percent
Sales Tax	2,300,000	154,500	7%
TOT	1,900,000	592,769	31%
Property Tax	1,282,500	5,319	0%
MVLF Swap	427,200	-	0%
Franchise Fees	225,000		0%
Other Revenues*	1,506,445	115,647	8%
Total Revenues	7,641,145	868,235	11%

*Other Revenues include charges for current Park and Recreation Services, Grants, Interest, Rent and transfer from Reserves.

Sales Tax

The City received 7 percent of the total Sales Tax revenue as of September 30, 2017. Only July's Sales Tax payment has been received and recorded. Payments are recorded when received and applied to the corresponding month of sales; usually payment is received two months later from the State of California. Sales Tax payments fluctuate each month in conjunction with seasonal flows. Strong revenue streams from local sales tax are expected to increase as new businesses continue to open.

Transient Occupancy Tax (TOT)

TOT revenue is a major component of the City's General Fund. The City expects TOT revenue streams to exceed budgeted levels with total receipts at 31 percent at the end of the first quarter. The increase is contributed to the Hampton Inn opening in Mid-June and the busy Summer Season. Payments for the reporting period are due on the 20th of the following month, and as previously mentioned, cause revenue streams to lag one month. TOT receipts have been received through August.

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. The City can expect a greater amount of property tax due to the increase in property values. In addition, the City's ongoing share of property tax is expected to increase based on new development in progress.

Property Tax in Lieu of Motor Vehicle License Fee (MVLF Swap)

Payments for 2017-18 are expected to be on course with the budget. Payments from the Santa Barbara County Auditor-Controller are received throughout the year, usually January and June. 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. This revenue source is on target with budget timing delays in the first quarter.

Top Five Revenues for the City of Buellton' General Fund are Sales Tax, Property Tax, Transient Occupancy Tax (TOT), Motor Vehicle License Fee (MVLF) and Franchise Fees. These revenues account for almost 11% of total General Fund Revenues.

The chart below summarizes operating costs by department and shows that seven Budget Units are over budget. The General fund is over budget at the end of the First quarter for all departments in total.

Department Expenditures	Budget	YTD Actual	% Expended
City Council	125,089	37,379	30%
City Manager	237,072	58,919	25%
City Clerk	115,896	26,653	23%
City Attorney	185,000	20,787	11%
Non-Departmental	1,011,901	399,542	39%
Finance	167,673	58,627	35%
Police and Fire	2,146,260	621,316	29%
Library	173,441	143,213	83%
Recreation	504,878	167,319	33%
Street Lights	60,000	10,199	17%
Storm Water	215,600	13,548	6%
Public Works - Parks	314,250	111,608	36%
Public Works - Landscape	106,000	27,364	26%
Public Works - Engineering	-	360	-
Public Works - General	652,904	135,488	21%
Planning (Comm Dev)	354,592	88,434	25%
Transfer to CIP Fund 92	1,028,500	170,518	17%
Total All Departments	7,399,056	2,091,274	28%

As of September 30, 2017, or 25 percent of the year expended, the General Fund ended the quarter at 28 percent spent (including CIP). Actual General Fund expenditures were approximately \$ 2 Million. Many Budget Units ended the quarter within budget except for City Council, Non-departmental, Finance, Police and Fire, Library, Recreation, and Public Works-Park.

City Council experienced about a \$6 thousand overage as a result of an increase in travel to League of Cities Events. Council attended the League of Cities Annual Conference in September at Sacramento. The travel expenses for City Council should even out during the course of the fiscal year and budget unit is expected to be within budget.

The Non-Departmental fund overage is due to annual payments paid early in the fiscal year. About \$11 thousand more than budgeted was paid to CalPERS Unfunded liability this fiscal year prior to last year. This amount is expected to increase in the next fiscal years. Even with the current quarter overage, appropriations are expected to be within budget at the end of the fiscal year.

The Finance Department purchased cubicle dividers for about \$4 thousand dollars. The overage was also contributed to increase in Finance Hourly Employee wages. This amount will decrease by the second quarter of FY 17/18, and is expected to be within budget.

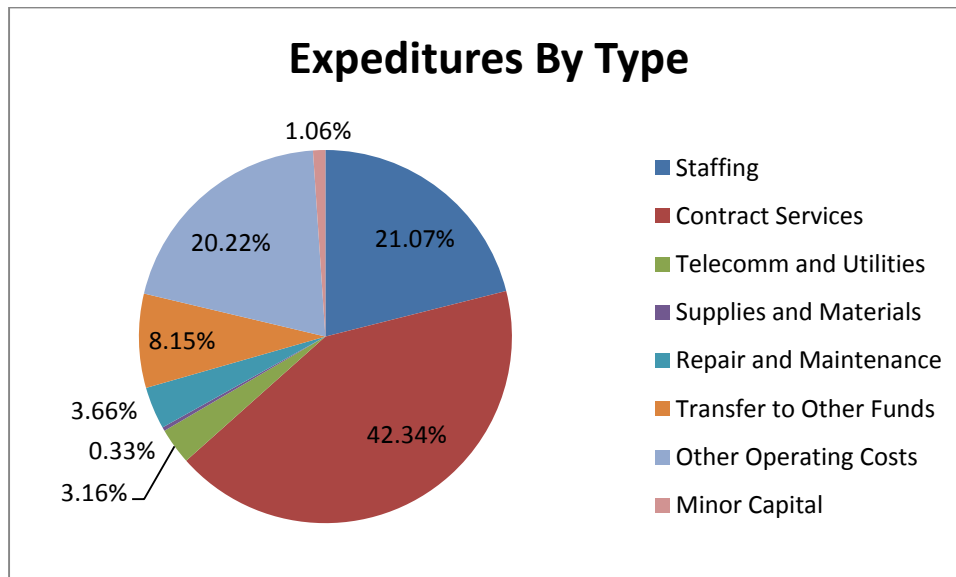
The Police and Fire, and Library Departments experienced an overage because contract payments were made early in the quarter. The Police and Fire Department budget will even-out by the end of the fiscal year. The Library Department should not experience much activity, as the whole contract amount was paid in August 2017.

The Recreation Department experienced an increase in operating activities during the summer. The Recreation Department hired new seasonal employees to run their first annual Teen Camp, and offered more trips as part of their Summer Camp. Offsetting this seasonal trend, an increase in recreation program revenue was noted for the same period. At the end of first quarter, 61 percent of hourly salaries were expended.

Hourly employee salaries were under estimated for FY 17/18, and a budget adjustment will be needed to better reflect the remaining Hourly employee salaries.

Major Expenditure Variances

Expenditures By Type	Budget	YTD Actual	% Expended
Staffing	1,569,505	440,635	28%
Contract Services	3,128,401	885,424	28%
Telecomm and Utilities	227,250	66,033	29%
Supplies and Materials	38,900	6,992	18%
Repair and Maintenance	232,700	76,499	33%
Transfer to Other Funds	1,178,500	170,518	14%
Other Operating Costs	964,300	422,929	44%
Minor Capital	59,500	22,243	37%
Total by Type	7,399,056	2,091,274	28%



The chart and graph above shows General Fund operating costs and minor capital expenditures summarized by type. With 25 percent of the year expended, all budget categories are not within budget with the exception of Supplies and Materials, and Transfer to Other Funds. The overage in Staffing is as a result of seasonal Part-time employees as mentioned earlier in the report. The variance in Contract Services is due to the Library lump-sum contract payment and other contract payments paid at the beginning of the fiscal year. The Telecomm and Utilities overage resulted from a water leak at one of the medians on Avenue of Flags. In addition, this repair contributes to the overage in Repair and Maintenance among other irrigation repairs.

The Other Operating Costs category consists of payments to Community Support and various membership fees, as well as the CalPERS Unfunded Liability. These payments are paid at the beginning of the Fiscal year. The minor capital category’s variance is due to the purchase of the new desks for the Planning Department and Finance Department’s cubicle panels. Staff will monitor these overages and return in the second quarter to verify the categories are within budget.

ENTERPRISE FUNDS

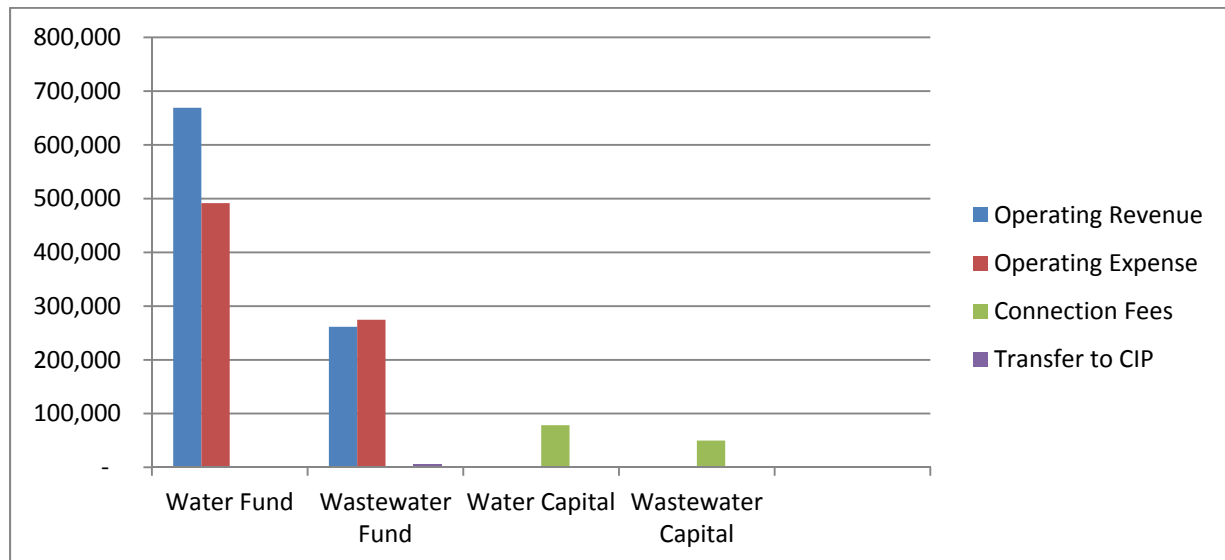
The Statement of Revenues and Expenses for the First quarter of Fiscal Year 2017-18 are shown below.

Revenues and Expenses

Enterprise Funds	Water	Wastewater	Water Capital	Wastewater Capital
Revenues				
Charge for Services	669,008	261,361	-	-
Interest Income	-	-	-	-
Connection Fees*	-	-	78,420	49,976
Total Operating Revenue	669,008	261,361	78,420	49,976
Other Revenues	18,673	3,188	-	-
Total Revenues	687,680	264,549	78,420	49,976
Expenses				
Operating	213,557	212,230	-	-
Depreciation**	42,500	62,500	-	-
State Water	235,646	-	-	-
Total Operating Expenses	491,703	274,730	-	-
Operating Profit(Loss)	195,977	(10,181)	78,420	49,976
Transfers Out - CIP		(5,000)		-

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

** Depreciation is estimated. Actual amount is posted at the end of the fiscal year.



Water Fund

Operating revenues have exceeded expenditures by over \$195,000 in the first quarter of Fiscal Year 2017-2018 (excludes Capital Improvement expenses which are recorded in the Water Capital Fund). The Water fund utilizes reserves to fund Capital Improvement projects (CIPs) which are budgeted at \$230,000 in the current fiscal year. The total CIP budget for fiscal year 2017-18 includes Water Treatment Plant Facilities Improvement, Water Treatment Backwash Reclamation Improvement Project, Water Meter Upgrades, Water Treatment Plant Booster Power Reliability, Water Distribution System Improvement, and Recycled Water Replacement Project.

On November 1, 2016, the first stage of water rate increases took effect, with the second phase becoming effective November 1, 2017. The rate increases will help reverse the operating deficit and fund the capital improvement projects. The operating loss has reversed as of the First quarter, and is currently operating with a profit. The Water Fund ended the First quarter with approximately \$1.8 Million in cash reserves.

Water Fund 020	FY 17/18 Budget	FY 17/18 YTD	Percent
Revenues			
Charge for Services	1,798,000	667,808	37%
Interest Income	8,500	-	0%
Total Operating Revenue	1,806,500	667,808	37%
Other Revenues	11,500	19,873	173%
Transfer from Reserves	679,255	0	0%
Total Revenues	2,497,255	687,680	28%
Expenses			
Operating	1,160,256	213,557	18%
Depreciation**	177,000	42,500	24%
State Water	1,390,000	235,646	17%
Total Operating Expenses	2,727,256	491,703	18%
Transfers Out - CIP	(230,000)	-	0%

Water Capital

Water Capital Fund is a new fund to record Connection Fees and CIP expenditures. The change in fund balance is due to planned expenditures for CIPs exceeding estimated Connection Fee revenue and offset by any existing fund balance. CIP expenditures for FY 17/18 consisted of the above mentioned in the Water Fund.

Water Capital 021	FY 17/18 Budget	FY 17/18 YTD	Percent
Revenues			
Connection Fees	400,000	261,361	65%
Transfer In from Fund 020	230,000	-	0%
Total Revenue	630,000	261,361	41%
Expenses			
Transfer to CIP Projects	680,000	-	0%

Wastewater Fund

Wastewater Fund Operating expenditures exceeded operating revenues causing the Wastewater fund to experience a net operating loss of over \$10,000 in the First quarter of 2017-18 (excludes Capital Improvement Project expenses which are recorded in the Wastewater Capital Fund). The Wastewater fund utilizes reserves to fund Capital Improvement projects (CIPs) which are budgeted at \$435,000 in 2017-18. The total CIP budget for fiscal year 2017-18 includes Wastewater Treatment Plant Facilities Improvements, Sewer Collection System Clean (CCTV) and Sewer Line Replacement.

On November 1, 2016, the first stage of water rate increases took effect, with the second phase becoming effective November 1, 2017. The rate increases will help reverse the operating deficit and fund the capital improvement projects. The operating loss has not reversed as of the First quarter report; however, the trend is expected to improve once the Wastewater fund experiences a full fiscal year of the rate increase. The Wastewater fund ended the First quarter with about \$1.4 Million in cash reserves.

Sewer Fund 005	FY 17/18 Budget	FY 17/18 YTD	Percent
Revenues			
Charge for Services	876,000	261,361	30%
Interest Income	7,000	-	0%
Total Operating Revenue	883,000	261,361	30%
Other Revenues	5,500	3,188	58%
Transfer from Reserves	300,308	0	0%
Total Revenues	1,188,808	264,549	22%
Expenses			
Operating	1,373,808	212,230	15%
Depreciation**	250,000	62,500	25%
Total Operating Expenses	1,623,808	274,730	17%
Transfers Out - CIP	(435,000)	(5,000)	1%

Wastewater Capital

Wastewater Capital Fund is a new fund to record Connection Fees and CIP expenditures. The change in fund balance is due to planned expenditures for CIPs exceeding estimated Connection Fee revenue and offset by any existing fund balance. CIP expenditures for FY 17/18 consisted of the above mentioned in the Wastewater Fund.

Wastewater Capital 006	FY 17/18 Budget	FY 17/18 YTD	Percent
Revenues			
Connection Fees	200,000	49,976	25%
Transfer In from Fund 005	435,000	-	0%
Total Revenue	635,000	49,976	8%
Expenses			
Transfer to CIP Projects	650,000	-	0%