

CITY OF BUELLTON



QUARTERLY FINANCIAL REPORT

Third Quarter Ending March 31, 2017

April 27, 2017

Overview

The purpose of this financial report is to provide financial information for the City of Buellton. This report focuses on the third quarter of fiscal year 2016-17 and covers the period July 1, 2016 through March 31, 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.

US Economy

The U.S. economy expanded at a modest-to-moderate pace between mid-February and the end of March. Inflation pressures remained in check despite more difficulties in attracting and retaining workers, according to the Federal Reserve (Fed). "On balance, prices rose modestly," the U.S. Central Bank said in its periodic gauge of the health of the economy. It derived the conclusion from surveying business contacts nationwide. Firms mostly expected price growth to be mild to moderate over the coming months. The Fed raised its benchmark interest rate in March for the second time in three months. Many policymakers appear confident on the prospects of more tightening this year with the nation near full employment and inflation slowly rising. There is still debate within the Fed about just how rapid and sustained the pickup in inflation will be, given the struggle to reach planned targets.

State Economy

The California Economic Summit continues to work towards regional collaboration to spur economic innovation and growth. Following significant wins in 2016 and a new 2017 Roadmap to Shared Prosperity, a sharpened focus took place during the quarter. The Summit has set a goal of closing the workforce "skills gap" by supporting the formation of regional civic organizations that can align the state's expansive training and education programs with the needs of employers. The Summit is helping state and regional leaders accelerate progress toward integrated water projects within watersheds that capture stormwater and replenish groundwater, improve efficiency and reuse and reduce flooding and water pollution.

City of Buellton

The City's General fund ended the third quarter of 2016-17 with about \$6.3 Million in fund balance and finished the quarter with over \$6.2 Million in cash reserves. Revenues for the period reached 61 percent of budget while expenditures stayed within appropriations, ending the quarter at 67 percent. The Enterprise funds completed the quarter with negative results. Both funds experienced net operating losses during the quarter. Rate increases in November 2016 are expected to reverse future operating deficits and fund planned capital improvement projects. The rate increases occurred in the middle of the prior quarter and the results of the increase will take a full fiscal year to analyze and determine the degree of reversal of the negative trend in the Enterprise funds. 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 slightly below projections at 61 percent while expenditures fell below expected at 67 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	4,298,146	61%
Expenditures *	(6,999,937)	(4,687,483)	67%
Expenditures - Restricted Cash			
Balance, at End of Quarter	<u>\$ 7,499,500</u>	<u>\$ 6,310,663</u>	

The chart below provides summary comparison information on revenues and expenditures for the quarter ending March 31, 2017 versus the prior year quarter ending March 31, 2016. Total revenues are higher in the prior year by almost \$500,000. 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 \$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 first quarter.

General Fund	2016-17	2015-16	Over (Under)
Revenues:			
Taxes	3,576,320	4,236,873	(660,553)
Fees and Permits	8,625	27,310	(18,685)
Fines and Penalties	13,299	27,946	(14,647)
Charges For Current Services	376,600	144,515	232,085
Other Revenues	323,302	345,368	(22,066)
Total Revenues	<u>4,298,146</u>	<u>4,782,012</u>	<u>(483,866)</u>
Expenditures:			
General Government	4,634,042	10,311,639	(5,677,597)
Minor Capital	53,441	35,973	17,468
Total Expenditures	<u>4,687,483</u>	<u>10,347,612</u>	<u>(5,660,129)</u>

Top Five Revenues

Top Five Revenues	Budget	YTD Actual	Percent
Sales Tax	2,250,000	1,516,953	67%
TOT	1,850,000	1,177,445	64%
Property Tax	1,223,000	736,837	60%
MVLF	422,400	212,523	50%
Franchise Fees	220,000	145,085	66%
Other Revenues	1,034,037	509,303	49%
Total Revenues	6,999,437	4,298,146	61%

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 or two months behind. For example, the revenues have not been received for each of the nine months ending in the third period, resulting in a lower total sales tax to date. The City's Sales Tax is the top revenue source in the General Fund and ended the quarter at 67 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 eight months of revenue as of March and based on budgeted levels are expected to exceed target by year-end. Total receipts ended the quarter at 64 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 60 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

A portion of the fees have been received but payments for 2016-17 were not received in full by the end of the third quarter. Allocations from the State of California are paid throughout the fiscal year. The City expects funding at various intervals during the fiscal year. 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 66 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 four budget units are over budget. The General fund is within budget at the end of the third quarter for all departments in total.

Department Expenditures	Budget	YTD Actual	% Expended
City Council	131,503	91,171	69%
City Manager	233,381	170,877	73%
City Clerk	116,525	83,791	72%
City Attorney	175,000	90,424	52%
Non-Departmental	1,608,096	674,141	42%
Finance	189,614	136,509	72%
Police and Fire	1,981,688	1,584,680	80%
Library	148,541	144,014	97%
Recreation	481,904	386,219	80%
Street Lights	55,000	45,255	82%
Storm Water	195,600	90,770	46%
Public Works - Parks	331,000	194,017	59%
Public Works - Landscape	106,000	42,752	40%
Public Works - Engineering	110,000	71,315	65%
Public Works - General	662,771	435,017	66%
Planning (Comm Dev)	473,314	245,235	52%
Transfer to CIP Fund 92	-	201,296	
Total All Departments	6,999,937	4,687,483	67%

As of March 31, 2017 or 75 percent of the year expended, the General Fund ended the quarter at 67 percent spent. Actual General Fund expenditures were at about \$4.7 Million. Almost all Budget Units ended the quarter within budget except for Police/Fire, Street Lights, Recreation and Library. The Public Safety budget overage is due to Sheriff overtime during City events and payment for helmet damages sustained by the motor officer (reimbursement expected from parties involved in incident). Recreation 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. An increase in electrical costs for Street Lights caused a budget overage for the period. The overall General Fund experienced a budget surplus 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.

Major Expenditure Variances

Expenditures By Type	Budget	YTD Actual	% Expended
Staffing	1,750,451	1,144,067	65%
Contract Services	2,897,329	2,292,873	79%
Telecomm and Utilities	228,150	88,824	39%
Supplies and Materials	27,950	21,917	78%
Other Operating Costs	2,026,557	1,086,360	54%
Minor Capital	69,500	53,441	77%
Total by Type	6,999,937	4,687,483	67%

The chart above shows General Fund operating costs and minor capital expenditures summarized by type. With 75 percent of the year expended, all budget categories are within budget with the exception of contract services. This variance is due to the Public Safety and Library contract payments. The Library is paid in a lump sum at the beginning of the fiscal year. The Public Safety costs increased due to incurred overtime at various events and a one-time helmet replacement which is expected to be reimbursed by an outside party. The overall General Fund operating and minor capital expenditures adhered to the City's Municipal Budget through the third quarter of 2016-17.

ENTERPRISE FUNDS

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

Revenues and Expenses

Enterprise Funds	Water	Wastewater
Revenues		
Charges for Service	1,237,592	607,253
Interest Income	6,748	5,458
Total Operating Revenues	1,244,340	612,711
Other Revenues*	21,528	11,548
Total Revenues	1,265,868	624,259
Expenses		
Operating	610,773	626,174
Depreciation	132,000	185,000
State Water	666,770	-0-
Total Operating Expenses	1,409,553	811,174
Operating Profit (Loss)	(165,203)	(198,463)
Transfers Out - CIP	54,256	31,318

*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 \$165,000 in the third 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 almost half way through the fiscal year, in November 2016. The rate increases will help reverse the operating deficit and fund the capital improvement projects. The operating loss has not reversed as of the third quarter report, however, the trend is expected to improve once the Water fund experiences a full fiscal year of the rate increase. The Water Fund ended the third quarter with approximately \$1.75 Million in cash reserves.

Wastewater Fund

Operating expenditures exceeded operating revenues causing the Wastewater fund to experience a net operating loss of over \$198,000 in the third 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 operating loss has not reversed as of the third 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 third quarter with about \$1.4 Million in cash reserves.