

# CITY OF BUELLTON



## QUARTERLY FINANCIAL REPORT

*Fourth Quarter Ending June 30, 2017*

September 28, 2017

### 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 2016-17 and covers the period July 1, 2016 through June 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.

### US Economy

The U.S. economy expanded at a steady, but slow pace between April and June. The lack of inflation poses an issue, as it has not risen at its annual pace of anticipated 2% per year for the past six years. Janet L. Yellen, the federal chairwoman, told Congress this month that she expects inflation to rebound. But she said the government could change course if weakness persists, for example, not moving forward with additional interest rate increases.

The Federal Reserve raised the interest rate in June for the third consecutive quarter which indicates a strengthening economy. Lenders are seeking opportunities to take larger risks and allow for more consumers to borrow at the current low rate usually reserved for good credit consumers.

It appears the labor market has been strengthening, and economic activity has been rising. According

to the U.S. Bureau of Labor Statistics, the national unemployment rate rose to 4.4 percent from 4.3 percent. Employment rose in health care, social assistance, financial activities, and mining. The Consumer Price index (CPI) rose 1.6% compared to June 2016.

### State Economy

The California Employment Development Department says the state's unemployment rate was 4.7 percent in June, unchanged from the previous month. California's statewide median existing single home sales price increased by 2.3 percent to \$550,000 in May compared to April. This was \$44,330 lower than the pre-recession peak of \$594,530 in May 2007.

### City of Buellton

The City's General fund ended the fourth quarter of 2016-17 with about \$7.2 Million in fund balance and finished the quarter with over \$6.6 Million in cash reserves. Revenues ended at 97 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 Enterprise funds completed the year with mixed results. The Water Fund experienced a profit and Wastewater fund experienced a net operating loss during the year. Future rate increases in November 2017 are expected to reverse future operating deficits and fund planned capital improvement projects. The first of three rate increases occurred in the middle of the second fiscal quarter. The results of the increase will take a full 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 100 percent of the year complete, revenues are slightly below projections at 98 percent 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	\$ 7,500,000	\$ 6,700,000	
Revenues *	6,999,437	6,863,196	98%
Expenditures *	(6,999,937)	(6,354,780)	91%
Expenditures - Restricted Cash			
Balance, at End of Quarter	<u>\$ 7,499,500</u>	<u>\$ 7,208,416</u>	

The chart below provides summary comparison information on revenues and expenditures for the year ending June 30, 2017 versus the prior year ending June 30, 2016. Total revenues are higher in the prior year by almost \$430,000. 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.

<b>General Fund</b>	<b>2016-17</b>	<b>2015-16</b>	<b>Over (Under)</b>
<b>Revenues:</b>			
Taxes	6,023,815	6,395,579	(371,764)
Fees and Permits	10,225	31,170	(20,945)
Fines and Penalties	25,096	39,875	(14,779)
Charges For Current Services	224,498	243,718	(19,220)
Other Revenues	579,562	580,130	(568)
<b>Total Revenues</b>	<u>6,863,196</u>	<u>7,290,472</u>	<u>(427,276)</u>
<b>Expenditures:</b>			
General Government	6,300,070	11,501,829	(5,201,759)
Minor Capital	54,710	20,414	34,296
<b>Total Expenditures</b>	<u>6,354,780</u>	<u>11,522,243</u>	<u>(5,167,463)</u>

**Top Five Revenues**

Top Five Revenues	Budget	YTD Actual	Percent
Sales Tax	2,250,000	2,521,898	112%
TOT	1,850,000	1,938,720	105%
Property Tax	1,223,000	1,341,350	110%
MVLF	422,400	422,826	100%
Franchise Fees	220,000	221,847	101%
Other Revenues	1,034,037	416,555.13	40%
<b>Total Revenues</b>	<b>6,999,437</b>	<b>6,863,196</b>	<b>98%</b>

**Sales Tax**

Sales tax receipts exceeded budget amounts for the fiscal year. Sales Tax payments fluctuate 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 112 percent. Sales Tax Compensation from the County contributed to the increase in Sales Tax. This is a one-time payment as a result of the end of the Sales Tax Triple Flip Economic Recovery Bond Fund. 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 a major component of the City's General Fund. The City exceeded its goal for TOT revenue against budgeted levels. Total receipts ended the year at 105 percent of expected revenue. The increase was contributed to the Hampton Inn opening in Mid-June of the fourth quarter and an increase in hotel occupancy during the busy Spring season. Payments for the reporting period are due on the 20<sup>th</sup> of the following month, and as previously mentioned, causes revenue streams to lag one month. All TOT receipts are recorded through June 2017.

**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 exceed budget at 110 percent. An increase this fiscal year is due to the increase in home sale prices. The City's ongoing share of property tax is expected to increase based on new development in progress.

**Motor Vehicle License Fees**

Payments for 2016-17 are at 101 percent. Payments from the the State of California 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. All Franchise Fees exceeded budget ending the year at 101 percent.

**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 fourth quarter for all departments in total.

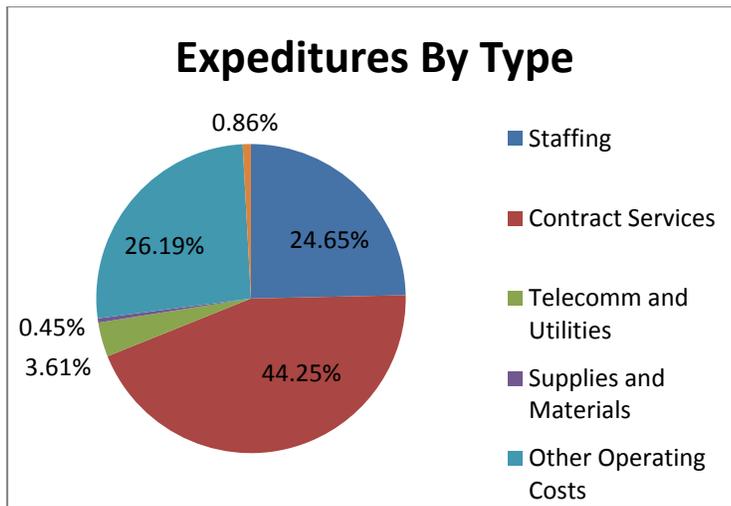
<b>Department Expenditures</b>	<b>Budget</b>	<b>YTD Actual</b>	<b>% Expended</b>
City Council	131,503	125,354	95%
City Manager	233,381	231,767	99%
City Clerk	116,525	112,612	97%
City Attorney	175,000	134,219	77%
Non-Departmental	1,608,096	919,530	57%
Finance	189,614	210,782	111%
Police and Fire	1,981,688	1,922,881	97%
Library	148,541	146,902	99%
Recreation	481,904	523,824	109%
Street Lights	55,000	65,779	120%
Storm Water	195,600	153,010	78%
Public Works - Parks	331,000	282,836	85%
Public Works - Landscape	106,000	80,923	76%
Public Works - Engineering	110,000	-	0%
Public Works - General	662,771	885,157	134%
Planning (Comm Dev)	473,314	350,580	74%
Transfer to CIP Fund 92	-	208,625	
<b>Total All Departments</b>	<b>6,999,937</b>	<b>6,354,780</b>	<b>91%</b>

As of June 30, 2017 or 100 percent of the year expended, the General Fund ended the year at 91 percent spent (including CIP). Actual General Fund expenditures were at about \$6.3 Million. Almost all Budget Units ended the quarter within budget except for Finance, Recreation, Street Lights, and Public Works-General. Finance budget overage is due to Private Project Agreed Upon Procedures as authorized by City Council and due to the addition of the Accounting Technician position in August 2016. Recreation costs exceeded budget due to increased activity and staffing requirements for seasonal employees. The Recreation Center added its first Annual Summer Teen Camp. The Public Works – General budget overage is due to the purchase of vacant land and purchase of a new vehicle. 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, 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 91% of total General Fund Revenues.*

**Major Expenditure Variances**

Expenditures By Type	Budget	YTD Actual	% Expended
Staffing	1,750,451	1,566,437	89%
Contract Services	2,897,329	2,811,824	97%
Telecomm and Utilities	228,150	229,114	100%
Supplies and Materials	27,950	28,643	102%
Other Operating Costs	2,026,557	1,664,051	82%
Minor Capital	69,500	54,710	79%
<b>Total by Type</b>	<b>6,999,937</b>	<b>6,354,780</b>	<b>91%</b>



The chart and graph above shows General Fund operating costs and minor capital expenditures summarized by type. With 100 percent of the year expended, all budget categories are within budget with the exception of Supplies and Materials. The overage was due to the increase in printer overage charges throughout the year. The overall General Fund operating and minor capital expenditures adhered to the City’s Municipal Budget throughout fiscal year 2016-17.

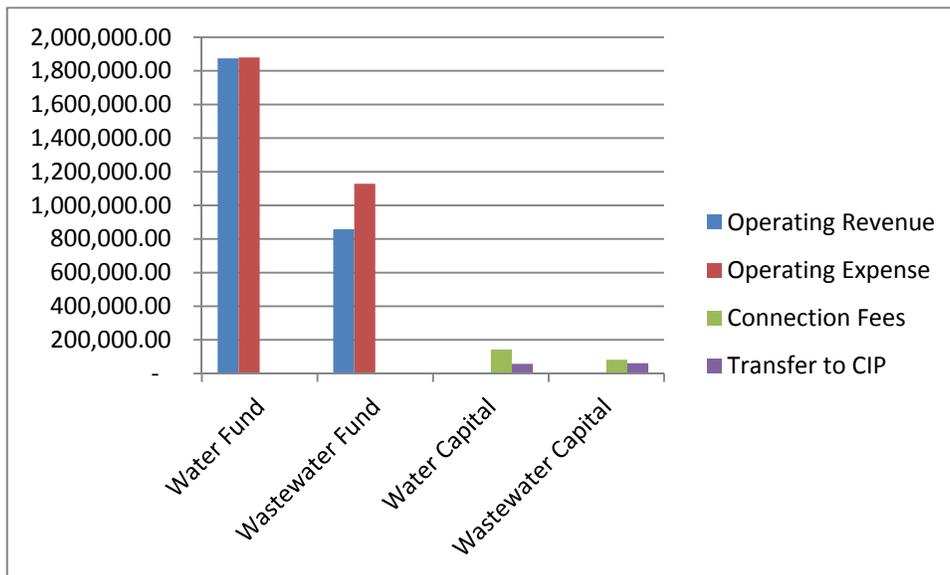
**ENTERPRISE FUNDS**

**Revenues and Expenses**

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

Enterprise Funds	Water	Wastewater	Water Capital	Wastewater Capital
<b>Revenues</b>				
Charge for Services	1,865,124	849,705	-	-
Interest Income	8,965	7,884	142	39
Connection Fees*	-	-	142,948	81,959
<b>Total Operating Revenue</b>	<b>1,874,089</b>	<b>857,589</b>	<b>143,090</b>	<b>81,998</b>
Other Revenues	52,414	5,979	-	-
<b>Total Revenues</b>	<b>1,926,503</b>	<b>863,568</b>	<b>143,090</b>	<b>81,998</b>
<b>Expenses</b>				
Operating	1,182,995	867,976	-	-
Depreciation	192,065	260,180	44	82
State Water	504,739	-	-	-
<b>Total Operating Expenses</b>	<b>1,879,799</b>	<b>1,128,156</b>	<b>44</b>	<b>82</b>
<b>Operating Profit(Loss)</b>	<b>46,704</b>	<b>(264,588)</b>	<b>143,046</b>	<b>81,916</b>
Transfers Out - CIP			(57,469)	(61,449)

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



**Water Fund**

Operating revenues have exceeded expenditures by over \$46,700 in the fourth quarter of Fiscal Year 2016-2017 (excludes Connection Fees and 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 \$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 Improvement, Water Treatment Backwash Reclamation Improvement Project, Water Distribution System Improvement, and Recycled Water Replacement Project. 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 reversed as of the fourth quarter, and is currently operating with a profit. The Water Fund ended the fourth quarter with approximately \$1.4 Million in cash reserves.

### **Wastewater Fund**

Wastewater Fund Operating expenditures exceeded operating revenues causing the Wastewater fund to experience a net operating loss of over \$264,588 in the fourth quarter of 2016-17 (excludes Connection Fee revenue and 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 \$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 fourth 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 fourth quarter with about \$1.4 Million in cash reserves.

### **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 16/17 consisted of the above mentioned in the Water Fund.

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