



City of Half Moon Bay Fiscal Year 2016/17 Third Quarter Financial Report

OVERVIEW

This report summarizes the City's overall financial position for the fiscal year through March 31, 2017. The focus of this report is the City's General Fund, and is not meant to be inclusive of all finance and accounting transactions. The intent is to provide the Council and the public with an overview of the state of the City's general fiscal condition. The General Fund is the primary operating fund of the City and is used to account for most operating activities. The revenue projections and budgets include necessary adjustments for encumbrances, carryovers, and any supplemental appropriations made by the City Council as of March 31, 2017.

GENERAL FUND

General Fund Financial Condition. With 75% of the year complete, General Fund expenditures are at 63.9% (vs. 79.6% in the prior year) of projections and revenues are at 62.2% (vs. 63.3%). These figures exclude budgeted once-a-year operating and capital transfers. The expenditure variance from the prior year is primarily due to the timing of encumbrances of various large professional service contracts. Revenues continue to normalize in the third quarter as compared to the first and second quarters due to the timing of certain key revenues such as franchise fees, property tax, and sales tax. Both expenditures and revenues are explained in more detail below.

General Fund	Budget	YTD Actual	Percent
Revenues	\$15,038,906	\$9,348,886	62.2%
Expenditures*	\$14,427,780	\$9,429,996	65.4%

**excludes operating transfers*

The General Fund balance as of March 31, 2017 is \$9.53 million. This is based on the audited fund balance as of the end of fiscal year 2015-16 and factoring in year-to-date expenditure and encumbrance activity.

Expenditures. Departmental operating expenditures (including outstanding purchase orders/encumbrances) are generally on target as of the end of the second quarter. The following chart summarizes year-to-date

combined expenditures and encumbrances by department:

General Fund Expenditures by Department	Budget	YTD Actual	% Exp/Enc
City Council	399,507	194,288	48.6%
City Manager	792,273	616,922	77.9%
City Attorney	360,500	360,500	100.0%
City Clerk	518,007	298,814	57.7%
Finance and Risk Management	948,938	582,172	61.3%
Human Resources and Administrative Services	741,469	448,107	60.4%
Public Safety	3,771,200	3,469,204	92.0%
Public Works	1,325,663	934,959	70.5%
Recreation Services	214,672	112,770	52.5%
Community Development	2,856,548	2,412,259	84.4%
Capital Outlay	2,499,003	0	0.0%
Total General Fund	14,427,780	9,429,996	65.4%

**excludes operating transfers*

There may be a higher percentage expended or encumbered in the departmental budgets as some contracts must be encumbered with a purchase order which covers extended portions of the fiscal year (e.g. City Attorney and Public Safety services).

Revenues. Following is a summary of revenues as of the end of the first quarter:

Revenues	Budget	YTD Actual	% Rec'd
Trans. Occupancy Taxes	5,933,000	3,564,552	60.1%
Property Tax	3,244,540	1,909,471	58.9%
Sales & Use Tax	2,688,837	1,661,954	61.8%
Other Revenue	1,429,698	1,216,787	85.1%
Other Taxes	821,100	487,173	59.3%
Charges for Services	910,170	500,314	55.0%
Inter-Governmental	11,560	8,636	74.7%
Total Revenues	15,038,906	9,348,886	62.2%

Transient Occupancy Taxes (TOT). TOT continues to be the largest source of revenue for the City. The City has recently contracted with an external consultant to assist in tracking and collecting TOT revenues. Since TOT is remitted approximately 30 days after the end of each month, and are generally forwarded to by the



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consultant to the City in the subsequent month, third quarter numbers reflect only seven months (July through January) of TOT receipts. Therefore, TOT revenues are performing higher than projected with a collection percentage of 60.1% covering seven months (or just over half) of the fiscal year.

Property Tax. Property Tax is the City's second largest revenue source. The first major apportionment of property taxes was received by the City in December 2016, while the second apportionment is received in April 2017. In January 2017, the City received an annual apportionment of Educational Revenue Augmentation Fund (ERAF) in the amount of \$201,350. This revenue was not originally included in the adopted budget due to uncertainty but was added in the mid-year budget adjustment.

Sales and Use Tax. Sales and Use Tax is the City's third largest revenue source. As of March 31, 2017, the City has received about 65% of our budgeted Sales Tax revenues as of the end of the second quarter. Based on discussions with the City's sales tax advisor, the local sales activities remain strong and we expect to exceed the budgeted sales tax revenue target of \$2.5 million. At the same point during the prior fiscal year, the City had received 52.7% of budgeted sales tax.

Other Revenue. The main components of this category are Golf Fees, County Credit Reimbursements, and the cost allocation transfer from the sewer fund. The golf fees are received as part of a redevelopment agreement with Ocean Colony Partners, L.P. and are calculated as a percentage of green fees from the golf courses. Golf fees are paid on a monthly basis and the City has received the projected amount after three quarters. The payments made to the County Sheriff are issued quarterly, and three payments have been received as of the third quarter. The sewer cost allocation transfer is recorded at the end of the fiscal year and has not yet been recorded. This amount includes an additional insurance settlement that was not originally budgeted.

Other Taxes. This includes Franchise Tax and Business License Tax. Only one quarter of Franchise Fee revenues have been recorded as of March 31, 2017 for the current fiscal year, which is consistent with prior fiscal years. We receive the largest components of

franchise fee revenues – payments from PG&E – in April 2017. Franchise fees from other utilities are remitted approximately 30 days after the end of each quarter.

Business licenses taxes are due in November of each year and are valid from October 1 through September 30 of the following year. The City has collected 88.3% of the taxes which were due in November, which exceeds the collection percentage at the same point in the prior year (86.3%), and expects to continue to collect into the fourth quarter.

Charges for Services. These include building permits, engineering and planning fees, and police services. Permits and planning fees tend to fluctuate based on the timing of larger projects, and are expected to come more in line with the budget as the fiscal year progresses.

Inter-governmental. This includes State Mandate reimbursements and the City's portion of motor vehicle licensing fees. The State is currently paying State Mandate claims from prior years as funds become available and we continue to monitor these revenues as the fiscal year progresses.

SUMMARY

Overall, the City's budget remains on target as of the third quarter, with expenditures where they should be at this point through the fiscal year. Certain revenues, such as sales taxes, franchise taxes and the County Credit reimbursements, reach budgeted figures when they are accrued at the end of the fiscal year, due to timing issues and the government-standard modified accrual accounting method. The City continues to experience higher than expected revenue growth which is a positive indicator of the City's economic growth and healthy fiscal condition.