



City of Half Moon Bay Fiscal Year 2016/17

Second Quarter Financial Report

OVERVIEW

This report summarizes the City's overall financial position for the fiscal year through December 31, 2016. 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 December 31, 2016.

GENERAL FUND

General Fund Financial Condition. With 25% of the year complete, General Fund expenditures are at 53.2% (vs. 64.0% in the prior year) of projections and revenues are at 42.4% (vs. 44.0%). 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 are beginning to normalize in the second quarter as compared to lower activity in the first quarter 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	\$14,629,516	\$6,199,349	42.4%
Expenditures*	\$13,918,295	\$7,410,012	53.2%

**excludes operating and capital transfers*

The General Fund balance as of December 31, 2016 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	385,507	163,310	42.4%
City Manager	792,273	310,814	39.2%
City Attorney	360,500	360,500	100.0%
City Clerk	487,907	170,783	35.0%
Finance and Risk Management	948,938	421,669	44.4%
Human Resources and Administrative Services	730,469	343,736	47.1%
Public Safety	3,771,200	3,213,497	85.2%
Public Works	1,325,663	627,195	47.3%
Recreation Services	214,672	51,671	24.1%
Community Development	2,856,548	1,746,837	61.2%
Capital Outlay	2,044,618	0	0.0%
Total General Fund	13,918,295	7,410,012	53.2%

**excludes operating and capital 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	2,457,864	41.4%
Property Tax	3,042,150	1,146,294	37.7%
Sales & Use Tax	2,521,837	1,361,261	54.0%
Other Revenue	1,429,698	519,372	36.3%
Other Taxes	821,100	356,302	43.4%
Charges for Services	870,170	355,727	40.9%
Inter-Governmental	11,560	2,529	21.9%
Total Revenues	14,629,516	6,199,349	42.4%

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



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days after the end of each month, and are generally forwarded to by the consultant to the City in the subsequent month, second quarter numbers reflect only four months (July through October) of TOT receipts. Therefore, TOT revenues are performing higher than projected with a collection percentage of 41.4% covering four months (or one-third) 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, however a significant portion of approximately \$360,000 was not received until January 2017. When the late payment is included, property taxes are at approximately 50% of budget, which is on schedule for the midpoint of the fiscal year.

Sales and Use Tax. Sales and Use Tax is the City's third largest revenue source. As of December 31, 2016, the City has received about 54% 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.

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 two quarters. The payments made to the County Sheriff are issued quarterly, and two payments have been received as of the second quarter. The sewer cost allocation transfer will be recorded closer to the end of the fiscal year and has not yet been recorded. When this is factored in, this revenue category is approximately at the expected level at this point of the fiscal year.

Other Taxes. This includes Franchise Tax and Business License Tax. Only one quarter of Franchise Fee revenues have been recorded as of December 31,

2016 for the current fiscal year, which is consistent with prior fiscal years. We expect to 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, and therefore payments for only one quarter have been received as of December 31, 2016.

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 82.6% of the taxes which were due in November, which greatly exceeds the collection percentage at the same point in the prior year (52.6%), and expects to continue to collect substantial amounts well into the third and fourth quarters.

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 will continue to monitor these revenues as the fiscal year progresses.

SUMMARY

Overall, the City's budget remains on target as of the second quarter, with expenditures where they should be halfway through the fiscal year. Certain revenues, such as sales taxes, franchise taxes and the County Credit reimbursements, will only 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.