



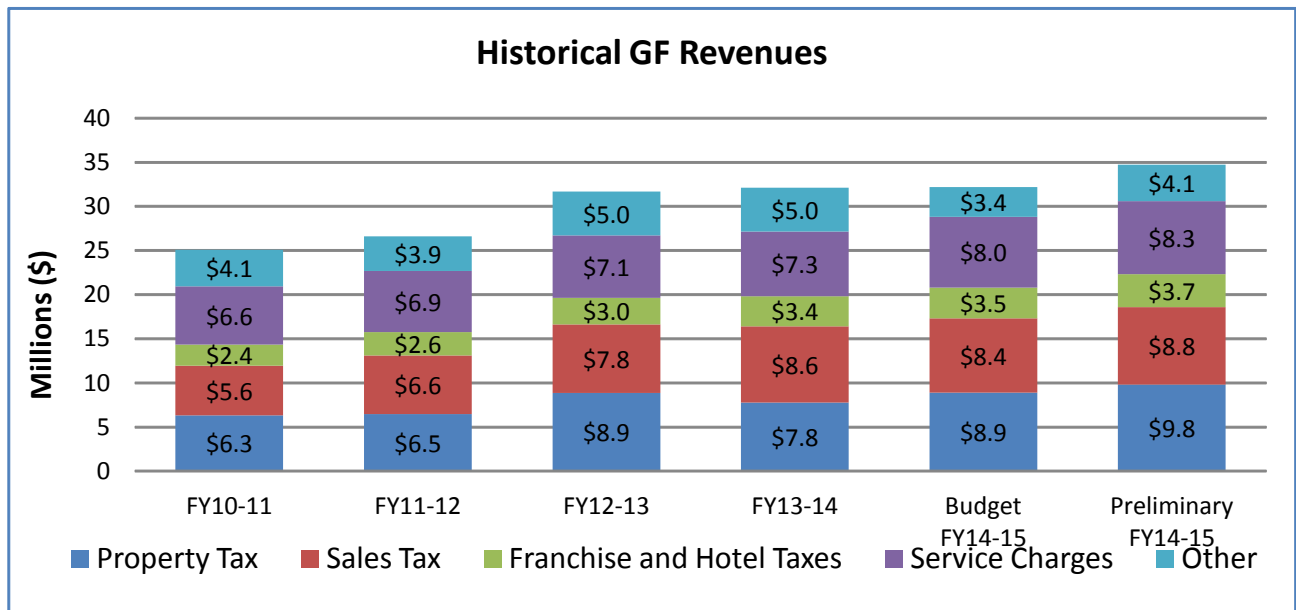
CITY OF MORGAN HILL, CALIFORNIA
FINANCIAL STATEMENT ANALYSIS - FISCAL YEAR 2014-15 - UNAUDITED
FOR THE MONTH ENDED JUNE 2015 – 100% OF YEAR COMPLETE

- **General Fund** – The preliminary total revenues for the fiscal year exceeded the budgeted revenues by approximately \$2.5 million, 9% more than amount received last fiscal year. The biggest contributors for the increase came from property tax, sales tax and transient occupancy tax (hotel tax). Total property tax revenue collected is approximately \$9.8 million and is 20% more than last fiscal year. The increase is primarily due to new housing units and restoration of Prop 8 temporary reduction.

Sales tax revenue received from the State is approximately \$8.8 million, an all-time high for the City, and is 4% more than anticipated.

For the transient occupancy tax (hotel tax), the amount received through twelve months ended June 30, 2015 exceeds the amount budgeted by approximately \$334,000, also an all-time high, and is 21% above the amount received last fiscal year. The business licenses and other permit collections, while representing only small amounts of the overall General Fund budget, also exceeded their budgeted amount.

Preliminary year end General Fund expenditures and encumbrances came in under budget, totaling 96% of budgeted appropriations. The chart below shows historical General Fund revenues by major revenue category from FY10-11 through FY13-14 Actual, FY14-15 Budget, and Preliminary FY14-15 Actual.



- **Community Services** - The preliminary year end Community Services Department's recreation operations, as reflected in the schedule presented on page 4, shows a negative impact to the General Fund of approximately \$154,000 for the year. However, the amount is better than budgeted by approximately \$189,000. Any net impact from the recreation operations at the end of the fiscal year increases (decreases) reserves in the General Fund.



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Due to longstanding governmental accounting and budgeting convention, the City's recreation operations are not charged for indirect costs (known in Morgan Hill as "General Fund Administration") from the central services departments of City Attorney, City Manager, and Administrative Services. The City's other governmental funds, such as Community Development, and the proprietary funds, such as Water and Wastewater, and the Information Services Fund, are assessed such charges through the City's indirect cost allocation plan, prepared in compliance with the Federal government's OMB Circular No. A-87, which mandates certain calculation and cost allocation practices that must be followed in order to qualify for Federal grant funding, but which also represent best practice for non-grant funded City operations like utilities and information services.

- **Community Development Fund** – Preliminary revenues for the fiscal year totaled \$4.9 million, 14% higher than the budgeted amount. Expenditures and encumbrances totaled \$5.1 million. After the last few years' strong revenue performance resulted from increase in development activity, the fund's fund balance is at \$3.1 million or 67% of FY14-15 budgeted appropriations.
- **Debt Service Funds** – Expenditures for the fiscal year totaled \$790,000. The first half of the year payment includes both interest and principal, while the second half of the year the payment will include interest only. Debt service payments were all scheduled when the bonds were issued, and are budgeted for in the months delineated in the underlying bond documents.
- **Successor Agency to the Former Redevelopment Agency Fund** - The Successor Agency continues down the path of meeting its debt and long range property management plan obligations through the ROPS process, and in spending bond proceeds for the redevelopment of the downtown area. Preliminary CIP costs for FY14-15 totaled \$7.4 million, mostly for the design/construction phase of the parking structure.

From a fiscal policy perspective, Successor Agency revenues and most expenditures simply represent the fulfillment of remaining enforceable obligations of the former redevelopment agency, expenditures which are ultimately controlled by the Oversight Board and the State Department of Finance, rather than by the City Council as governing body of the Successor Agency. The Successor Agency has been relegated by the California accounting profession to the status of a "private purpose trust fund" in the City's audited financial statements, which denotes that it is not included on the City's own books. One policy area where Fund 250 Successor Agency expenditures are relevant is capital spending from remaining bond proceeds of the original 2008 redevelopment bonds, which were refunded in December 2013. Spending of available bond funds will reach its peak in calendar year 2015.

- **Sewer Operations** – Excluding bond proceeds, revenues from Sewer Operations for the fiscal year totaled \$10.2 million, approximately \$600,000 more than budgeted amount. Expenditures and outstanding encumbrances, excluding 2002 sewer bonds refunding activities totaled \$8.8 million, a savings of approximately \$960,000 from budgeted appropriations attributable to vacancy savings and deferred of maintenance and improvements. To date, the impact of the drought and mandatory water conservation to the Sewer Operations Fund has been nominal because sewer service charges to residential consumers are established by measuring water consumption based on the three lowest months of water consumption in a year. The table below shows historical Sewer Operations revenues and expenditures from FY10-11 through FY13-14 Actual, FY14-15 Budget, and Preliminary FY14-15 Actual.



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(amount in millions)	FY10-11	FY11-12	FY12-13	FY13-14	Budget FY14-15	Preliminary FY14-15
Revenues	7.3	8.0	9.7	9.4	9.6	10.2
Expenditures	7.9	8.3	9.0	8.6	9.7	8.8
Operating Margin	(0.6)	(0.3)	0.7	0.8	(0.1)	1.5

- Water Operations** – Water Operations includes Utility Billing, Water Conservation, and Water Operations. Preliminary revenues from Water Operations for the fiscal year totaled \$8.8 million. Revenues for the current fiscal year are budgeted at approximately 20% less than the prior year due to the drought and mandatory water reductions. Water sales revenues totaled \$7.8 million or 88% of the budgeted amount, a decrease of \$1.6 million or 17% compared to prior fiscal year. The revenue shortfall is a result of water conservation efforts being met by the community and consequently driving down water consumption. Water Operations expenditures, including outstanding encumbrances totaled \$9.7 million, as budgeted. The difference between revenues and expenditures, including outstanding encumbrances is a net deficit of approximately \$900,000 to Water Operations Fund. The table below shows historical Water Operations revenues and expenditures from FY10-11 through FY13-14 Actual, FY14-15 Budget, and Preliminary FY14-15 Actual.

(amount in millions)	FY10-11	FY11-12	FY12-13	FY13-14	Budget FY14-15	Preliminary FY14-15
Revenues	7.4	9.8	10.2	12.2	9.8	8.8
Expenditures	8.7	8.3	9.1	12.1	9.7	9.7
Operating Margin	(1.3)	1.5	1.1	0.1	0.1	(0.9)

- Investments** - There were five securities called and four securities purchased during the month of June 2015. Total interest earnings received on investments were \$71,000 during the month.