



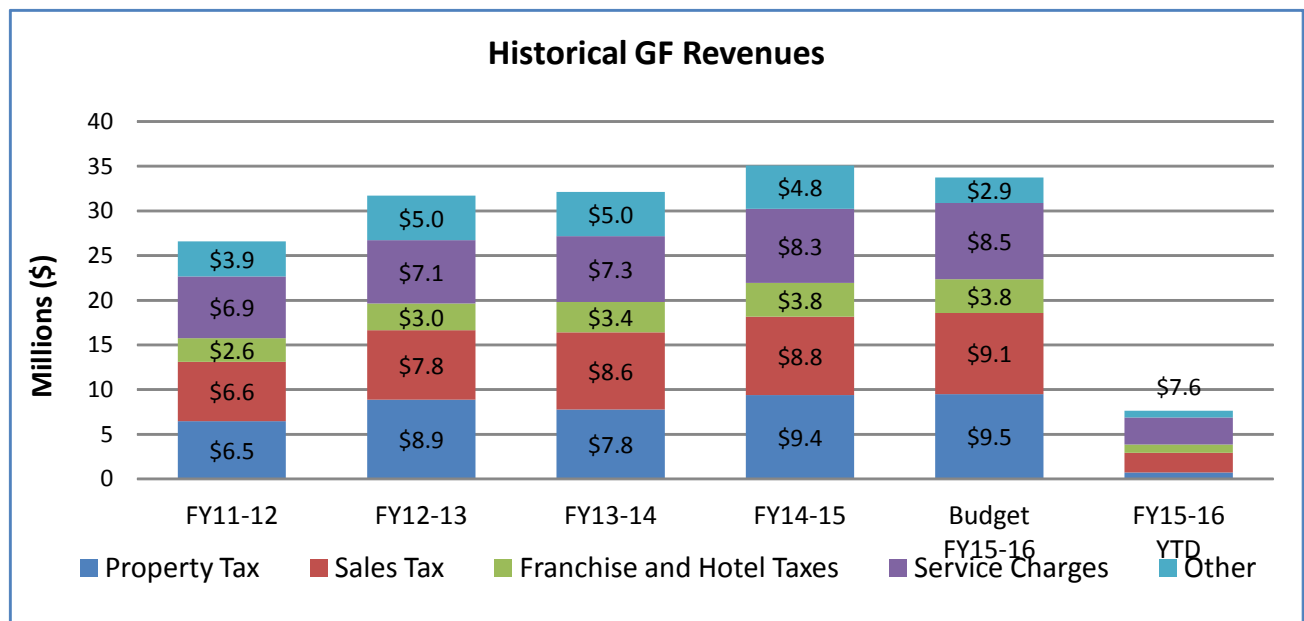
**CITY OF MORGAN HILL, CALIFORNIA**  
**FINANCIAL STATEMENT ANALYSIS - FISCAL YEAR 2015-16**  
**FOR THE MONTH ENDED OCTOBER 2015 – 33% OF YEAR COMPLETE**

- **General Fund** – Overall, revenues received through October totaled \$7.6 million, or 23% of the budgeted revenues as some of the major revenue categories such as property tax are received later in the fiscal year. The amount received is 4% higher than a year ago at this time as the economy continues to exhibit strong growth. Sales tax revenue received from the State through October was about the same as last fiscal year at this time.

The small category of business licenses was already at 81% of the budgeted amount as annual business license renewal payments are usually received in July.

For the transient occupancy tax (hotel tax), money received through October was for the first quarter, July through September occupancy, which continued strong—12% above the amount received a year ago at this time. With no new capacity having been built in the City in recent years, the hotel tax revenue surge by definition is due to a combination of increased room rates and increased occupancy levels.

General Fund expenditures and encumbrances as of October 31, 2015 totaled \$12.8 million, of which \$1.9 million is attributable to outstanding encumbrances. The chart below shows historical General Fund revenues by major revenue category from FY11-12 through FY14-15 Actual, FY15-16 Budget, and YTD as of October 31, 2015.



- **Community Services** - The Community Services Department's recreation operations through October, as reflected in the schedule presented on page 4, currently shows a negative impact to the General Fund of approximately \$974,000 for the year. Without the outstanding encumbrances, however, the operations through October 31, 2015 resulted in a net benefit to general fund of approximately \$221,000. Any net impact from the recreation operations at the end of the fiscal year increases (decreases) reserves in the General Fund.

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



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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** – Revenues through October totaled \$1.8 million or 39% of the budgeted amount. Expenditures and encumbrances totaled \$2.0 million or approximately 38% of budgeted appropriations. Without the outstanding encumbrances, however, expenditures for the first quarter amounted to \$1.5 million or 28% of the budget. After the last few years’ strong revenue performance resulted from increase in development activity, the fund’s preliminary fund balance is at \$3.5 million or 66% of FY15-16 budgeted appropriations.
- **Debt Service Funds** – Expenditures through August totaled \$560,000. Due to the timing of debt service payments, the debt service funds already reflect 70% of the budget due to debt service payments made. 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. Total CIP costs for the first quarter totaled \$5.1 million mostly for the construction 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** – Revenues from Sewer Operations through September totaled \$3.4 million or 34% of the budget. Expenditures and outstanding encumbrances through October 31, 2015 totaled \$2.6 million or 27% of the budget. 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 FY11-12 through FY14-15 Actual, FY15-16 Budget, and YTD as of October 31, 2015.



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(amount in millions)	FY11-12	FY12-13	FY13-14	FY14-15	Budget FY15-16	YTD FY15-16
Revenues	8.0	9.7	9.4	10.3	9.9	3.4
Expenditures	8.3	9.0	8.6	8.8	9.8	2.6
Operating Margin	(0.3)	0.7	0.8	1.5	0.1	0.8
Operating Margin without Encumbrances	(0.3)	0.7	0.8	1.5	0.1	1.0

- Water Operations** – Water Operations includes Utility Billing, Water Conservation, and Water Operations. Revenues from Water Operations through October 31, 2015 totaled \$3.4 million, approximately \$1.0 million or 22% less than a year ago at this time. Revenues for the current fiscal year are budgeted at approximately 13% less than 2015, on top of 20% reduction in 2015 compared to 2014, due to the drought and mandatory water reductions. Water sales revenues for the four months totaled \$3.1 million, a decrease of \$911,000 or 23% compared to prior fiscal year. The continued 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 \$4.2 million or 41% of budgeted appropriation. Without the encumbrances, however, the expenditures amounted to \$3.2 million. The difference between revenues and expenditures, including outstanding encumbrances is a net deficit of approximately \$0.8 million to Water Operations Fund. The table below shows historical Water Operations revenues and expenditures from FY11-12 through FY14-15 Actual, FY15-16 Budget, and YTD as of October 31, 2015.

(amount in millions)	FY11-12	FY12-13	FY13-14	FY14-15	Budget FY15-16	YTD FY15-16
Revenues	9.8	10.2	12.2	8.8	8.5	3.4
Expenditures	8.3	9.1	12.1	9.3	10.2	4.2
Operating Margin	1.5	1.1	0.1	(0.5)	(1.7)	(0.8)
Operating Margin without Encumbrances	1.5	1.1	0.1	(0.5)	(1.7)	0.1

- Investments** - There were two securities called and one security purchased during the month of October 2015. Total interest earnings received on investments were \$31,000 during the month.