



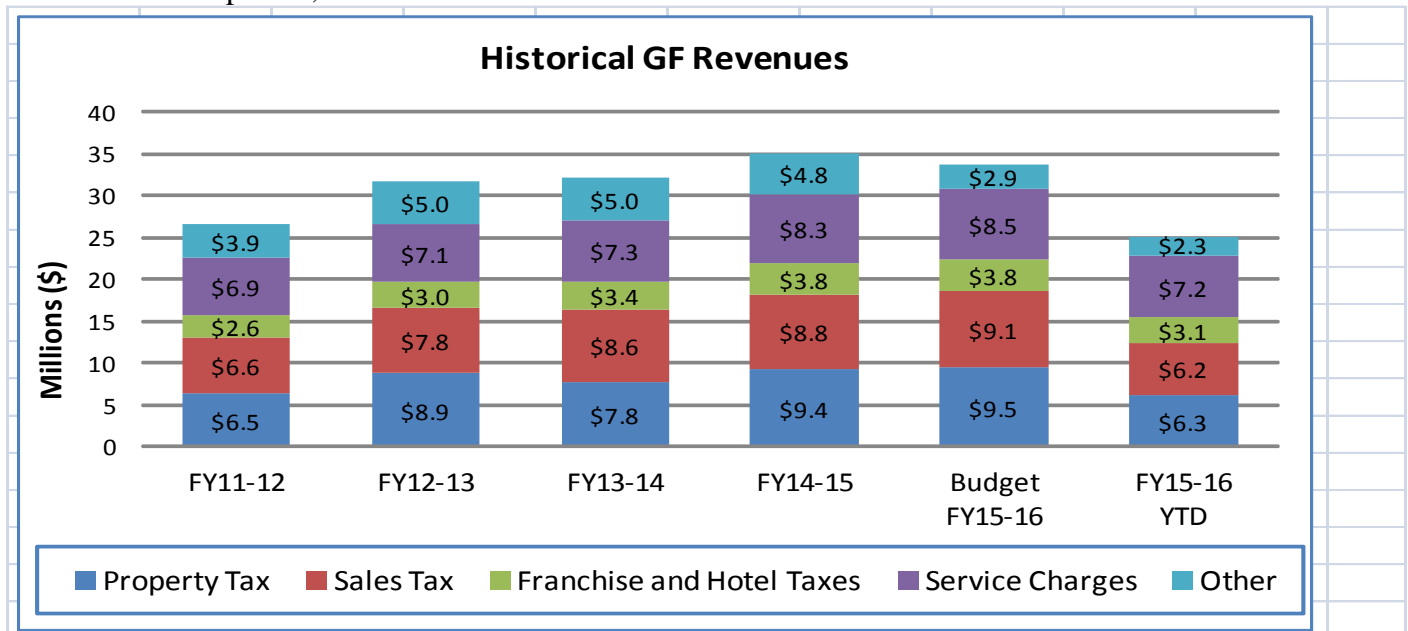
CITY OF MORGAN HILL, CALIFORNIA
FINANCIAL STATEMENT ANALYSIS - FISCAL YEAR 2015-16
FOR THE MONTH ENDED APRIL 2016 – 83% OF YEAR COMPLETE

- **General Fund** – Overall, revenues received through April totaled \$25.1 million, or 74% of the budgeted revenues. The amount received is only slightly higher than a year ago at this time led by increases in property tax and Transient Occupancy Tax (TOT), partially offset by a decrease in sales tax. The third advance for the April 10, 2016 property tax installment has been received and is 7% or approximately \$340,000 higher than a year ago at this time. Sales tax, including public safety sales tax revenue received from the State through April was lower than last fiscal year at this time due to the true-ups and timing of Triple Flip payment. Sales tax, including rebates, is projected to end the year approximately \$9.5 million. Pages 17 through 20 of this report provide the most recent information about sales tax through December 31, 2015

The small category of business licenses has exceeded the budgeted amount at \$189,009 through April. Business license renewal payments are usually received in July. Franchise tax revenue totaled \$1.4 million or 8% higher than a year ago at this time. This revenue category is expected to end the year at the budgeted amount of \$1.8 million

For the transient occupancy tax (hotel tax), money received through April was for the period July through March occupancy, which continued strong—16% above the amount received a year ago at this time and projected to exceed current year budgeted amount of \$2.0 million. 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 April 30, 2016 totaled \$29.5 million, of which \$1.2 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 April 30, 2016.



- **Community Services** - The Community Services Department's recreation operations through April, as reflected in the schedule presented on page 4, currently shows a negative impact to the General Fund of approximately \$426,000 for the year. Without the outstanding encumbrances, however, the operations through April 30, 2016 resulted in a net benefit to general fund of approximately \$83,000.



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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 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 April totaled \$3.4 million, a decrease of 12% or approximately \$467,000 from prior fiscal year mainly due to lower contractual services revenue. Expenditures and encumbrances totaled \$4.6 million or approximately 82% of budgeted appropriations. Without the outstanding encumbrances, however, expenditures for the first quarter amounted to \$4.0 million or 72% of the budget. The fund is budgeted to end the fiscal year with an operating deficit of approximately \$1.0 million as a result of large ticket items undertaken such as the General Plan Update and purchase and implementation of the new permitting system, TRAKiT. The fund balance is forecasted to end the fiscal year with approximately \$2.7 million or 52% of FY15-16 projected expenditures. Though it is still in excess of the Council's 30% reserve level policy, the fund is forecasted to continue to be structurally imbalanced requiring significant use of reserves in subsequent years. To address this issue, the Community Development Department is in the process of completing an updated fee study which began in fiscal year 2014-15 with plans to present to City Council an updated fee schedule in the summer 2016.
- **Debt Service Funds** – Expenditures through April totaled \$757,085. Due to the timing of debt service payments, the debt service funds already reflect 95% 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 Recognized Obligation Payment Schedule (ROPS) process, and in spending bond proceeds for the redevelopment of the downtown area. Total CIP costs through April totaled \$14.6 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 November 2013.



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- **Sewer Operations** – Revenues from Sewer Operations through April totaled \$8.4 million or 84% of the budget. Expenditures and outstanding encumbrances through April 30, 2016 totaled \$6.2 million or 62% 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 April 30, 2016.

(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	8.4
Expenditures	8.3	9.0	8.6	8.8	9.9	6.2
Operating Margin	(0.3)	0.7	0.8	1.5	(0.0)	2.2
Operating Margin without Encumbrances	(0.3)	0.7	0.8	1.5	(0.0)	2.2

- **Water Operations** – Water Operations includes Utility Billing, Water Conservation, and Water Operations. Revenues from Water Operations through April 30, 2016 totaled \$6.7 million, approximately \$873,000 or 12% 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 ten months totaled \$5.8 million, a decrease of approximately \$961,000 or 14% 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 \$8.3 million or 80% of budgeted appropriation. Without the encumbrances, however, the expenditures amounted to \$7.7 million. The difference between revenues and expenditures, including outstanding encumbrances is a net deficit of approximately \$1.6 million to Water Operations Fund. The Fund is projected to end the fiscal year with an operating deficit of approximately \$1.2 million, better than budgeted deficit of approximately \$1.8 million primarily due to the Water Revenue Adjustment recently approved by Council in January, Council savings initiated from bonds refunding and a reduction in expenditures after the budget was adopted. The table below shows historical Water Operations revenues and expenditures from FY11-12 through FY14-15 Actual, FY15-16 Budget, and YTD as of April 30, 2016.

(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	8.6	6.7
Expenditures	8.3	9.1	12.1	9.3	10.4	8.3
Operating Margin	1.5	1.1	0.1	(0.5)	(1.8)	(1.6)
Operating Margin without Encumbrances	1.5	1.1	0.1	(0.5)	(1.8)	(1.1)

- **Investments** - There was one security purchased during the month of April 2016. Total interest earnings received on investments were \$110,000 during the month.