

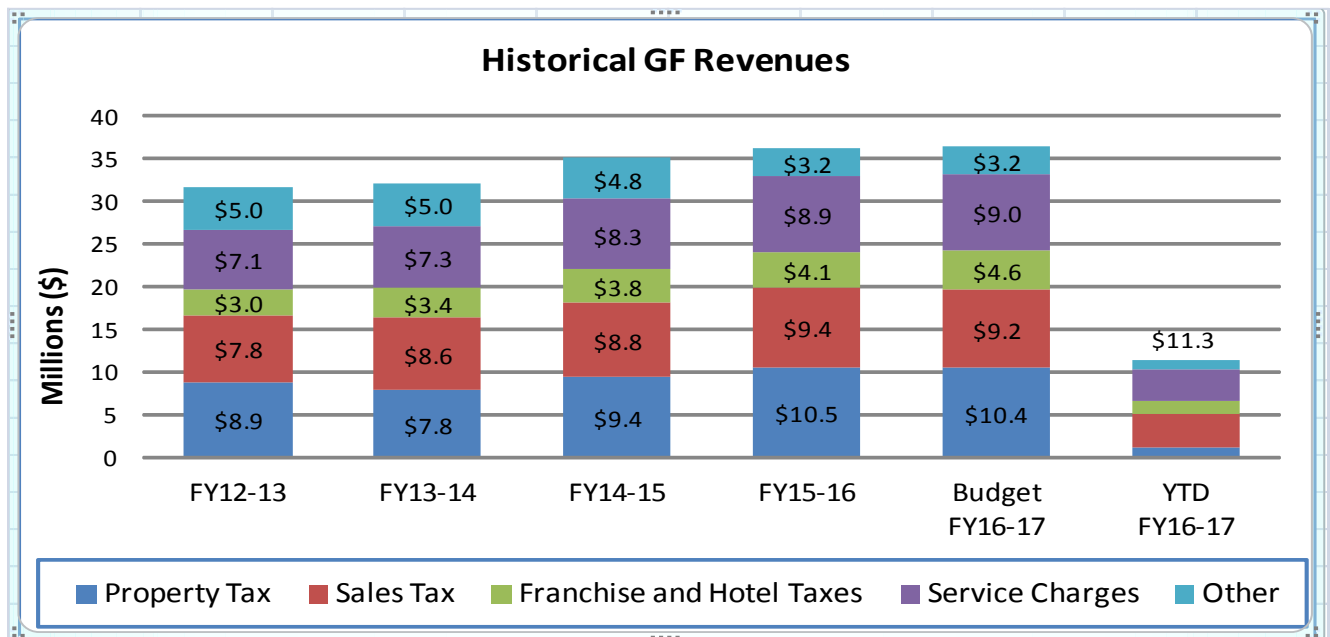


CITY OF MORGAN HILL, CALIFORNIA
FINANCIAL STATEMENT ANALYSIS - FISCAL YEAR 2016-17
FOR THE MONTH ENDED NOVEMBER 2016 – 42% OF YEAR COMPLETE

- **General Fund** – Overall, revenues received through November totaled \$11.3 million, or 31% of the budgeted revenues as some of the major revenue categories such as property tax are received later in the fiscal year. With respect to the property tax revenue forecast, at the recent Cities Property Tax Meeting, County staff projected Morgan Hill property tax revenue, excluding the property transfer tax, at \$10.7 million for the fiscal year 2016-17, which is approximately \$700,000 more than the adopted budget. Property tax is the largest source of Morgan Hill's General Fund revenue. However, it accounts for only 27.4% of the approximately \$36.3 million General Fund revenue. Although property tax tends to be a more predictable revenue source, other major revenue categories such as sales tax and transient occupancy tax, which account for a large portion of the City's General Fund revenue, are more volatile and tend to fluctuate more with swings in the economy.

The small category of licenses was already at 80% of the budgeted amount as annual business license renewal payments are usually received in July.

The chart below shows historical General Fund revenues by major revenue category from FY12-13 through FY15-16 Actual, FY16-17 Budget, and YTD as of November 30, 2016.



General Fund expenditures and encumbrances as of November 30, 2016 totaled \$18.3 million, of which approximately \$2.0 million is attributable to outstanding encumbrances.

- **Community Services** - The Community Services Department's recreation operations, as reflected in the schedule presented on page 4 of the Monthly Financial and Investments Reports, shows a negative impact to the General Fund of approximately \$1.3 million through November. Without the carry-over encumbrances, operations through November resulted in a much smaller net negative impact to the general fund of approximately \$20,000. Any net impact from the recreation operations 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 November totaled \$1.9 million, or approximately 43% of the budget. Expenditures and encumbrances totaled \$2.4 million, or approximately 45% of the budgeted appropriation. Without the outstanding encumbrances, however, expenditures through November amounted to \$1.9 million. The fund is budgeted to end the fiscal year with an operating deficit of approximately \$1.0 million and a fund balance of approximately \$1.8 million.
- **Debt Service Funds** – Expenditures through November totaled \$492,000. Due to the timing of debt service payments, the debt service funds already reflect 73% of the budget due to debt service payments made. The debt service for the first half of the year includes both interest and principal, while the second half of the year 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.
- **Sewer Operations** – Revenues from Sewer Operations through November totaled \$4.2 million. Expenditures and outstanding encumbrances totaled \$4.1 million or 38% of the budget. The table below shows historical Sewer Operations revenues and expenditures from FY12-13 through FY15-16 Actual, FY16-17 Budget, and YTD as of November 30, 2016.

(amount in millions)	FY12-13	FY13-14	FY14-15	FY15-16	Budget FY16-17	YTD FY16-17
Revenues	9.7	9.4	10.3	10.2	10.4	4.2
Expenditures	9.0	8.6	8.8	12.0	10.6	4.1
Operating Margin	0.7	0.8	1.5	(1.8)	(0.2)	0.1
Operating Margin without Encumbrances	0.7	0.8	1.5	(1.8)	(0.2)	0.2

- **Water Operations** – Water Operations includes Utility Billing, Water Conservation, and Water Operations. Revenues from Water Operations through November totaled \$5.2 million, approximately \$1.0 million more than a year ago at this time primarily due to the rate adjustment and increased water consumption compared to prior year. Revenues for the current fiscal year are budgeted at approximately 16% more than the prior fiscal year primarily due to the Water Revenue Adjustment approved by Council in January. Water Operations expenditures, including outstanding encumbrances, through November 30, 2016 totaled \$5.0 million. Without the encumbrances, however, the expenditures amounted to \$4.0 million. The table below shows Water Operations revenues and expenditures from FY12-13 through FY15-16 Actual, FY16-17 Budget, and YTD as of November 30, 2016.



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(amount in millions)	FY12-13	FY13-14	FY14-15	FY15-16	Budget FY16-17	YTD FY16-17
Revenues	10.2	12.2	8.8	8.5	10.0	5.2
Expenditures	9.1	12.1	9.3	9.7	11.2	5.0
Operating Margin	1.1	0.1	(0.5)	(1.2)	(1.2)	0.2
Operating Margin without Encumbrances	1.1	0.1	(0.5)	(1.2)	(0.8)	1.2

- **Investments** - There were five securities purchased and one security called during the month of November 2016. Total interest earnings received on investments were \$42,000 during the month.