



COUNCIL AGENDA REPORT

DATE: NOVEMBER 17, 2016

TO: CITY COUNCIL

FROM: JENNIFER CALLAWAY, ADMINISTRATIVE SERVICES DIRECTOR 

SUBJECT: FY 2016/17 FIRST QUARTER BUDGET PERFORMANCE AND STATUS REPORT FOR THE THREE MONTH PERIOD ENDING SEPTEMBER 30, 2016

RECOMMENDATION:

Accept the Fiscal Year (FY) 2016/17 First Quarter Budget Performance Report for the three-month period ending September 30, 2016

BACKGROUND:

The attached Quarterly Budget Report covers the first three months of the fiscal year beginning July 1, 2016 and ending September 30, 2016. The report presents analysis related to the key General Fund revenues and expenditures by category as well as analysis of the City's special Measure I fund.

Staff will be providing the City Council periodic updates on the status of the current year's adopted budget revenues and expenditures, and the projected financial condition of the City's funds, concentrating on the City's General Fund and Measure I funds. Though financial results are limited to the first three months, staff is able to provide an update based on early revenue trends for the current fiscal year, and to advise on potential future revenue and expenditure challenges which may materialize during the fiscal year.

The FY 2016/17 First Quarter Budget Report was presented to the Finance Committee on November 14, 2016. The Committee reviewed the report and asked clarifying questions on Franchise Fees and the City entering into an agreement with Air BNB, similar to the one Tuolumne County entered into with the vacation rental company. Staff will look into any additional franchise fees and an agreement with Air BNB and report back to Council when more

information is available. The Finance Committee recommended approval of the 1st Quarter report to be presented to the City Council.

DISCUSSION:

An analysis of the FY 2016/17 General Fund revenues confirms that the City is tracking well in the first quarter, ahead of prior year's first quarter results by approximately 2% or \$80,000. The City's most economically sensitive revenue sources of Sales Tax and Transient Occupancy Tax (TOT) are tracking quite well at 18% and 24% of budgeted totals, both higher than in prior years.

Staff also reviewed first quarter expenditure budget results for all City Departments and found that General Fund expenditures are trending slightly higher than in prior years due to several salary and benefit related items. In July, Council approved a \$350,000 lump-sum prepayment of the City's accrued unfunded CalPERS liability. In prior years this payment was spread across the 26 pay periods within the fiscal year. Having made the prepayment in July the City will save approximately \$10,000 in interest over the course of the year, however the prepayment does inflate the 1st quarter benefit figures when comparing them to prior years. In addition, several personnel transitions through-out the City has resulted in increased overtime, use of temporary or relief staffing and one-time lump sum leave payouts. Staff expects additional lump-sum leave payouts to occur in the second quarter however also anticipates some salary savings to help offset this. Staff will closely monitor the salaries and benefits expenditures to contain costs as much as possible.

Conversely, staff is being very cognizant of the limited funds available with operating expenditures in the supplies and materials accounts at 14% of budgeted totals. Again, staff will continue to monitor these expenditures throughout the next quarter.

In addition to the First Quarter Budget Status Report, staff has also attached a Glossary of Terms as Appendix A to the Budget Status report. The Glossary of Terms is meant to aid the Council and public in identifying how accounts have been categorized in this report, i.e. Licenses and Permits, etc. The Glossary of Terms will be elaborated upon and a more comprehensive version will be included in the FY 2017/18 proposed and adopted budget.

Conclusion

The available first quarter preliminary data cautions staff and Council to continue conservative fiscal planning and efforts to sustain the City's economically sensitive revenues. Staff will continue to examine revenue and expenditure activity and work to identify opportunities to enhance revenue to support current and future operating capital and service needs.

Attachments:

1. First Quarter FY 2016/17 Budget Performance and Status Report for period ending September 30, 2016.
 - a. Appendix A – Glossary of Terms

QUARTERLY BUDGET REPORT – 1ST QUARTER FY 2016-17

INTRODUCTION

Purpose

This is the first quarterly budget report for the Fiscal Year 2016-17, for the three-month period ending September 30, 2016. The purpose of this quarterly public reporting is twofold. First, it ensures that the City is consistently monitoring its revenues and expenditures so that it can proactively respond to unanticipated changes or emerging trends. Second, and equally important, these reports increase the transparency of City finances. The City is ultimately accountable to its residents to use the revenue it brings in efficiently and effectively to provide the highest quality services, and quarterly public reporting provides taxpayers with the information they need to hold the City to this standard.

Content

This quarterly report presents an overview of the City's operating revenues and expenditures for the quarter ending September 30, 2016, as compared to previous years, and explains any notable aberrations or trends in these numbers.

This report focuses on local fund operating revenues and expenditures, as these represent the funds used to provide essential City services.

Timeframe and Limitations

The information in this report is the most accurate and up-to-date information available at the time of publication. However, this report is not an audited financial statement and the numbers provided herein are preliminary and subject to change as the year progresses. No data on revenues and expenditures is final until the City has completed its annual comprehensive audit, which is released in the winter of each year for the prior year.

With respect to revenues: The City regularly monitors and adjusts its year-end revenue projections based on revenue performance and other developments that may affect City revenues in order to develop a more accurate picture of the City's anticipated year-end financial position.

With respect to expenditures: The expenditure information in this report is extracted directly from the City's financial management system, and adjustments are made to account for certain known payments, reimbursements, or transfers between City departments and funds that have not yet been processed in the system at the time of publication. It represents a snapshot of City expenditures at a certain point in time and does not reflect final FY 2015/16 adjustments.

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QUARTERLY BUDGET REPORT – 1ST QUARTER FY 2016-17

EXECUTIVE SUMMARY

Status of FY 2016/17 Adopted Budget

First quarter revenue trends are positive when compared to the first quarter of Fiscal Year 2015-16. Revenues are up by 2%, with increases in the most economically sensitive revenues of sales tax, Transient Occupancy Tax (TOT), Fines and Forfeitures, and Licenses and Permits. Business License Tax revenue increased by 1% while revenues from TOT collections increased by 8% when compared to the prior year's first quarter results. Other economically sensitive revenues such as franchise fees remained steady while other sources, intergovernmental and charges for services have declined.

General Fund expenditure totals for the first quarter are trending high due to staffing impacts and the lump sum prepayment of the CalPERS unfunded liability in July. Staff expects personnel costs to level out through the next two quarters and will continue to monitor these costs closely to mitigate costs increases where possible. Despite the high salary and benefit costs for the first quarter, staff is doing a great job controlling operational expenditures with first quarter results at about 14% of budget. With only three months of data available, however, it is difficult to predict revenue and expenditure for the remainder of the year. In light of this, staff continues to be cautiously optimistic while monitoring fiscal developments very closely. Consequently, staff is not recommending budget adjustments for either revenues or expenditures at this time.

Prior Fiscal Year Closing Results

The Fiscal Year 2015-16 closing financial results continue to affirm the positive effects of the City's budgetary actions taken in response to the slow revenue growth. In developing the 2015-16 budget, City council approved a primarily status quo budget

that held the line of service levels. This strategy, coupled with ongoing City-wide conservative expenditure allowances, generated a favorable General Fund closing balance of approximately \$15,000 of available revenues over expenditures at fiscal year-end, June 30, 2016. This is an unaudited estimate and will be refined with completion of the City's year-end audit in December.

The City's General Fund reserves closed the year with unaudited amounts totaling approximately \$1.8 million.

QUARTERLY BUDGET REPORT – 1ST QUARTER FY 2016-17

GENERAL FUND – KEY REVENUE ANALYSIS

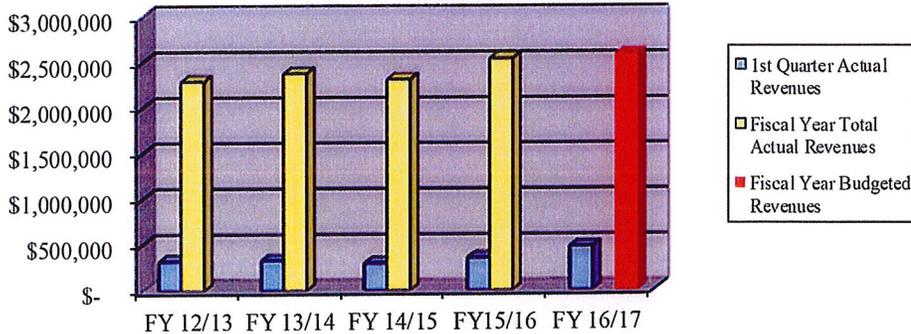
The following discussion provides a status of significant General Fund revenue sources as of the first quarter, ending September 30, 2016. Staff monitors each revenue source closely and may recommend certain revenue adjustments based on revenue actuals or state budget actions.

Sales Tax

Sales tax is the largest revenue source for the City's General Fund, accounting for 50% of budgeted General Fund revenues for FY 2016-17. The City's general fund receives 0.87 cents for every 7.5 cents of sales tax paid per dollar on retail sales and taxable services transacted within Sonora. Previously, the State Board of Equalization retained 25% of the City's 0.87-cent share, referred to as the "triple flip", requiring the Tuolumne County Auditor to replace it with an equal amount of property tax revenue. Revenues are remitted from the State to the City on a monthly basis, and from the County to the City on a biannual basis. These revenues are placed in the General Fund for unrestricted uses. The "triple flip" period ended in FY 2015/16 and is no longer impacting sales tax receipts.

Analysis – First quarter receipts are trending ahead of those in the same period in the past fiscal year, likely a result of the end of the triple flip. Staff will continue to monitor sales tax receipts and meet with the City's sales tax consultant's Muni Services to analyze trends. Any budget recommendations for adjustments will be brought forth with the mid-year update.

**Quarterly and Annual Revenues
5-Year History**



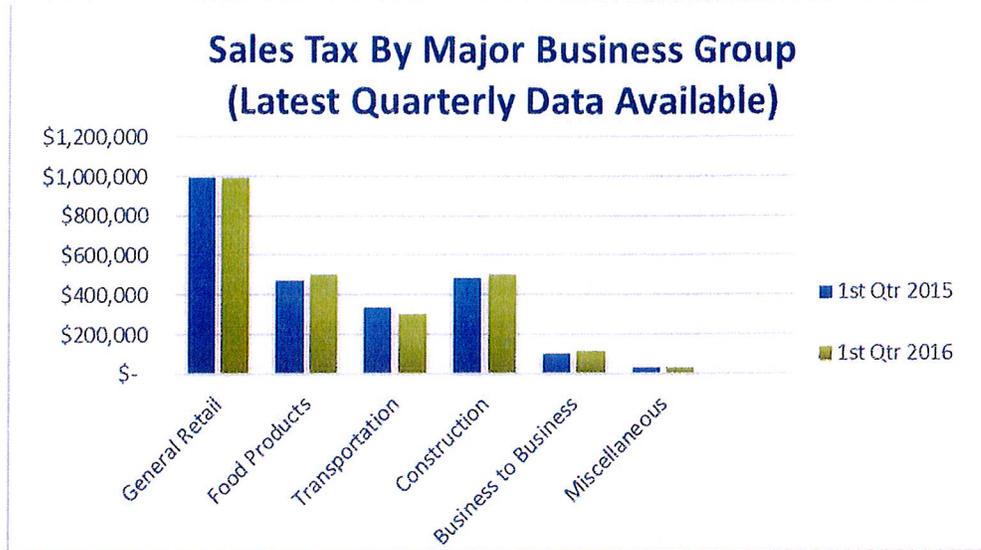
	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>
1st Quarter Actual Revenues	\$ 318,882	\$ 328,999	\$ 295,549	\$ 354,359	\$ 478,941
Fiscal Year Total Actual Revenues	\$ 2,291,620	\$ 2,376,770	\$ 2,312,217	\$ 2,539,835	
Fiscal Year Budgeted Revenues					\$ 2,590,324
1st Quarter Percent of Total	13.92%	13.84%	12.78%	13.95%	18.49%

Recommended Budget Revision

No Change

QUARTERLY BUDGET REPORT – 1ST QUARTER FY 2016-17

As depicted in the graph there is not significant change in the sales tax revenue in the general retail category; however, it should be noted that sales tax revenue has increased slightly in both the food and construction areas when compared to the same quarter results from the prior fiscal year.



Represents year over year totals or 12-month period (1st quarter 2015 covers 1st quarter of 2014 through 1st quarter 2015)

Staff will continue to monitor these revenues through the mid-year to determine if a budget adjustment will be recommended at that time.

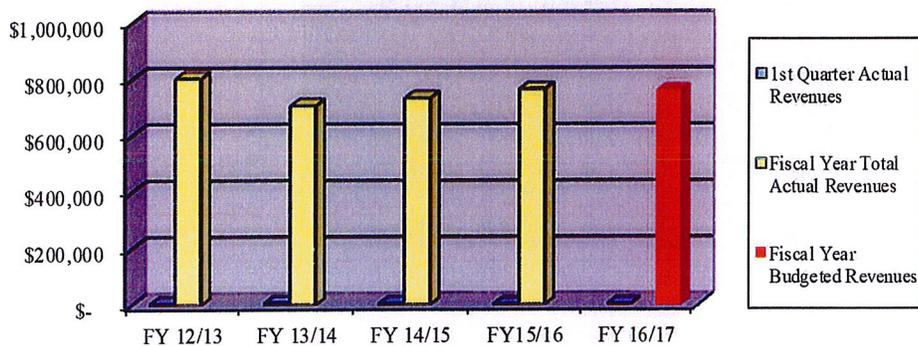
QUARTERLY BUDGET REPORT – 1ST QUARTER FY 2016-17

Property Tax

Property tax is the second largest revenue source for the City’s General Fund, accounting for 14.8% of budgeted General Fund revenues in FY 2016-17. Property tax is levied by the Tuolumne County Assessor’s Office at 1% of a property’s assessed value, of which the City receives approximately 12.4 cents per dollar paid on property located within the municipal limits of Sonora.

Analysis – Property Tax distributions are largely received in the third and fourth quarters, however the chart below depicts the 1st quarter receipts for the past four years as compared to the current fiscal year. First quarter receipts are trending consistent with prior years. Property tax revenue for FY 2016-17 was budgeted consistent with previous year’s actuals projecting relative flat real estate transactions.

**Quarterly and Annual Revenues
5-Year History**



	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>
1st Quarter Actual Revenues	\$ 4,190	\$ 6,937	\$ 3,686	\$ 2,528	\$ 3,089
Fiscal Year Total Actual Revenues	\$ 803,393	\$ 706,294	\$ 733,917	\$ 766,380	
Fiscal Year Budgeted Revenues					\$ 763,175
1st Quarter Percent of Total	0.52%	0.98%	0.50%	0.33%	0.40%

Recommended Budget Revision **No Change**

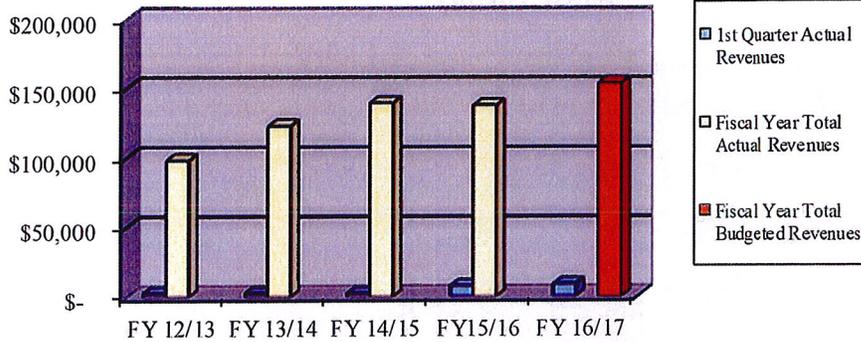
QUARTERLY BUDGET REPORT – 1ST QUARTER FY 2016-17

Franchise Fees

Franchise fees are collected by the City for the privilege of operating a utility service within Sonora, and as a fee in lieu of a business license tax. Franchise fees are currently received from Comcast for cable television, PG&E for electric services, and Waste Management for solid waste collection services. Franchise fees represent 3.0% of budgeted General Fund revenues in FY 2016-17.

Analysis – Historically, franchise payments are not remitted equally throughout the fiscal year; therefore, first quarter receipts are not necessarily predictive. Total franchise fee revenues to date are 5.8% of budgeted total receipts, consistent with the prior year’s 1st quarter results.

**Quarterly and Annual Revenues
5-Year History**



	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17
1st Quarter Actual Revenues	\$ 2,513	\$ 2,482	\$ 2,463	\$ 7,796	\$ 8,936
Fiscal Year Total Actual Revenues	\$ 98,049	\$ 122,676	\$ 139,294	\$ 137,567	
Fiscal Year Total Budgeted Revenues					\$ 153,700
1st Quarter Percent of Total	2.56%	2.02%	1.77%	5.67%	5.81%

Recommended Budget Revision **No Change**

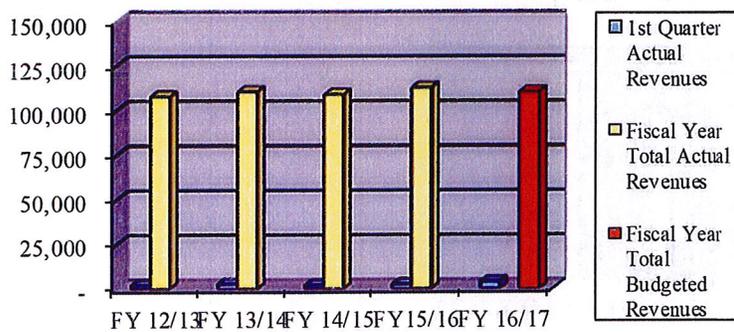
QUARTERLY BUDGET REPORT – 1ST QUARTER FY 2016-17

Business License Tax

The City requires all businesses located within Sonora, or those that operate within Sonora, to obtain a business license. The amount of business license tax paid by each business is based on the designated zone the business is in or operating in and the number of business employees. These activities account for approximately 2% of annual general fund operating revenues. Annual renewal payments are due in January of each year.

Analysis – Business license tax revenue has remained consistent over the last five years and are typically budgeted at approximately 2% of general fund total revenues. Current year first quarter revenues are trending slightly higher than those of the previous year. Annual business license tax renewal revenue is primarily received in the second and third quarter of each year, therefore, first quarter performance is not necessarily predictive. Staff will continue its auditing efforts this year to bring past due accounts current and work with business to collect fees.

**Quarterly and Annual Revenues
5-Year History**



	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>
1st Quarter Actual Revenues	1,870	2,679	1,870	2,328	3,849
Fiscal Year Total Actual Revenues	\$ 107,462	\$ 110,269	\$ 108,596	\$ 112,580	\$ 110,150
Fiscal Year Total Budgeted Revenues					\$ 110,150
1st Quarter Percent of Total	1.74%	2.43%	1.72%	2.07%	3.49%

Recommended Budget Revision	No Change
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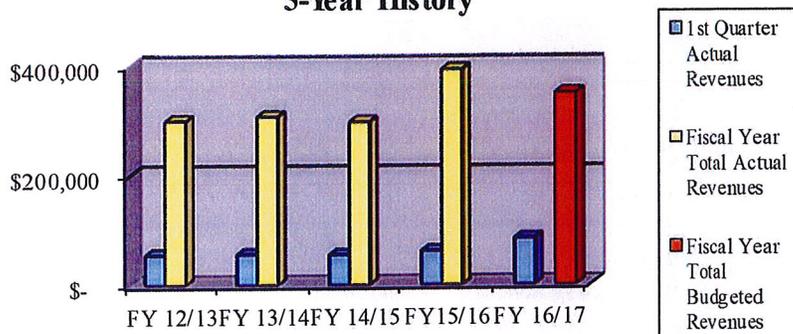
QUARTERLY BUDGET REPORT – 1ST QUARTER FY 2016-17

Transient Occupancy Tax

The City levies a 10% transient occupancy tax (TOT) on all hotel and motel rooms within the municipal limits of Sonora. This tax helps to fund City services provided to transitory visitors to Sonora and is shared with the Tuolumne County Visitors Bureau.

Analysis – Visit California, formerly the California Travel and Tourism Commission, reports that visitors to California spent \$22.5 billion, a 3.4% increase from 2015 and generated \$4.6 billion in local taxes and \$5.3 billion in state taxes. Predicative of the strong tourism environment, first quarter TOT revenues are trending higher than prior year first quarter results. TOT revenue for the current year was budgeted at 6.8% of general fund revenues, slightly less than the prior years estimated year-end actuals. Staff will continue to monitor this funding source closely to assess the need for future budget adjustments.

**Quarterly and Annual Revenues
5-Year History**



	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>
1st Quarter Actual Revenues	\$ 54,280	\$ 56,058	\$ 55,233	\$ 61,768	\$ 85,016
Fiscal Year Total Actual Revenues	\$ 298,970	\$ 307,056	\$ 297,363	\$ 392,487	
Fiscal Year Total Budgeted Revenues					\$ 350,000
1st Quarter Percent of Total	18.16%	18.26%	18.57%	15.74%	24.29%

Recommended Budget Revision **No Change**

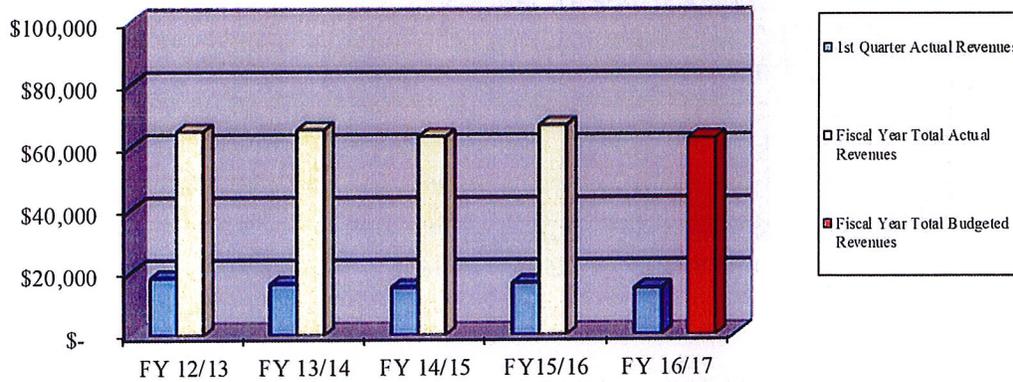
QUARTERLY BUDGET REPORT – 1ST QUARTER FY 2016-17

Charges for Services

City Service revenue consist primarily of Zoning and subdivision fees, police department services, street cleaning and banner installation fees. These fees and charges are assessed based on recovery formulas, which reflect approximate costs of providing these regulatory services.

Analysis – First quarter receipts are trending slightly below those in the same period in the prior fiscal year. Total budgeted revenues for charges for services were budgeted slightly below FY15_16 year end estimated actuals, recognizing a slowdown of regulatory services anticipated to be provided during the fiscal year. Staff will continue to monitor this revenue source; however, no budget revisions are recommended at this time.

**Quarterly and Annual Revenues
5-Year History**



	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>
1st Quarter Actual Revenues	\$ 18,267	\$ 16,401	\$ 15,283	\$ 16,684	\$ 14,883
Fiscal Year Total Actual Revenues	\$ 65,060	\$ 65,621	\$ 63,300	\$ 67,026	
Fiscal Year Total Budgeted Revenues					\$ 62,765
1st Quarter Percent of Total	28.08%	24.99%	24.14%	24.89%	23.71%

Recommended Budget Revision	No Change
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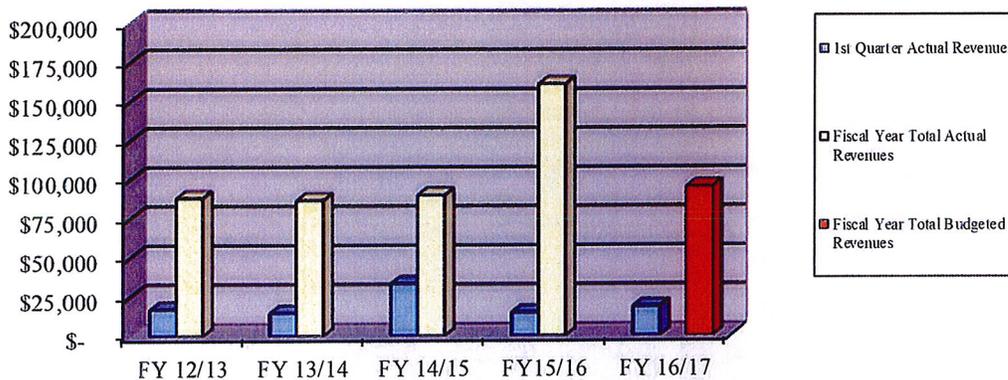
QUARTERLY BUDGET REPORT – 1ST QUARTER FY 2016-17

Licenses and Permits

Licenses and permits consist mainly of Building permits and encroachment permits which are collected by the City to offset administrative costs associated with overseeing the proper permitting aspects of development and City activities.

Analysis – First quarter licenses and permit revenue is trending higher than the first quarter results from the previous fiscal year due to an increase in 1st quarter building permits. Staff will continue to monitor this revenue source to assess the need for mid-year budget adjustments, however no budget revisions are recommended at this time.

**Quarterly and Annual Revenues
5-Year History**



	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>
1st Quarter Actual Revenues	\$ 17,041	\$ 14,795	\$ 33,430	\$ 15,058	\$ 18,758
Fiscal Year Total Actual Revenues	\$ 88,091	\$ 86,622	\$ 89,782	\$ 160,949	\$ 160,949
Fiscal Year Total Budgeted Revenues					\$ 95,150
1st Quarter Percent of Total	19.34%	17.08%	37.24%	9.36%	19.71%

Recommended Budget Revision **No Change**

QUARTERLY BUDGET REPORT – 1ST QUARTER FY 2016-17

GENERAL FUND – KEY EXPENDITURE ANALYSIS

The following discussion provides a status of significant General Fund expenditures as of the first quarter, ending September 30, 2016. Staff monitors each revenue source closely and may recommend certain expenditure adjustments based on actuals or state budget actions.

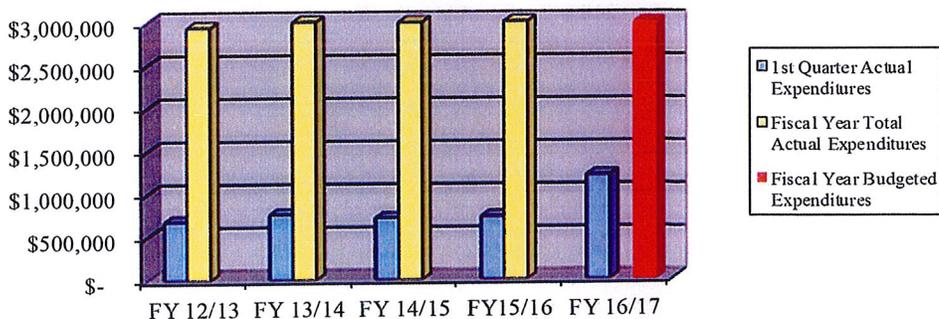
SALARIES AND BENEFITS

Salaries and Benefits includes full-time employee salaries, elected official's stipends, temporary/relief employees, overtime, other salaries and benefits. Under typical circumstances, it would be expected that Salaries and Benefits would be at approximately 25% of total budget at the end of the first quarter.

Analysis – First quarter results are trending significantly higher than those in the same period in prior years, at approximately 38% of budgeted totals. Further analysis of these expenditure details indicates that benefits are trending at approximately 37% of budgeted totals. It is expected that benefit expenditures would be high during the first quarter given lump sum prepayment to CalPERS of \$350,000 towards the City's unfunded accrued liability for the miscellaneous, fire and Public Employees' Pension Reform Act (PEPRA), new employees for both miscellaneous and fire classifications.

While salaries costs are trending consistent at 26%, both overtime and temporary and relief salaries are trending high at approximately 46% and 39% of budgeted totals respectively. This has resulted due to a number of vacancies and personnel related issues. Staff expects to see offsetting salary savings during the 2nd quarter and will closely monitor use of overtime and temporary and relief hours to mitigate increasing costs. There is no recommendation for adjustments at this time.

**Quarterly and Annual Expenditures
5-Year History**



	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17
1st Quarter Actual Expenditures	\$ 680,404	\$ 761,710	\$ 719,491	\$ 732,111	\$ 1,212,540
Fiscal Year Total Actual Expenditures	\$ 2,936,624	\$ 3,132,729	\$ 2,994,337	\$ 3,220,993	\$ 3,220,993
Fiscal Year Budgeted Expenditures					\$ 3,757,645
1st Quarter Percent of Total	23.17%	24.31%	24.03%	22.73%	32.27%

Recommended Budget Revision

No Change

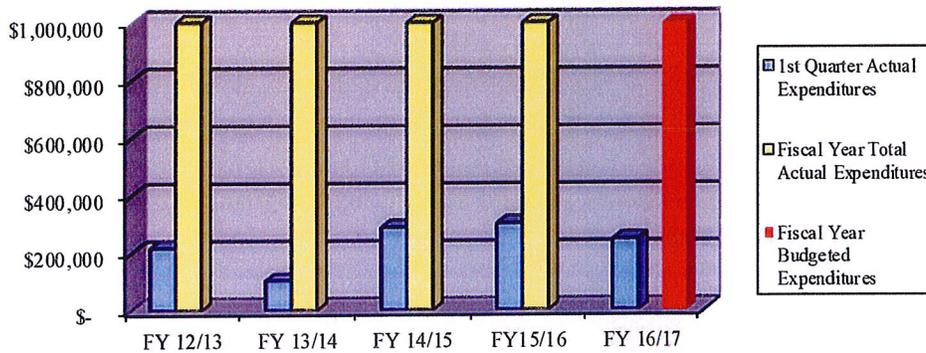
QUARTERLY BUDGET REPORT – 1ST QUARTER FY 2016-17

OPERATING EXPENDITURES

Operating expenditures consists of all general fund costs to provide services, including supplies and materials, debt service, and utilities. The categories of supplies and materials, the most controllable expenditure category, should trend around the 25% level for the first quarter. Depending on utility usage and rates, ideally utilities will trend at 25% or lower of total budgeted amounts. However, debt service is paid during the first quarter and therefore is expected to trend close to 100% of budgeted totals.

Analysis – First quarter results are trending lower than those in the same period in prior years, at approximately 18% of budgeted totals. Further analysis of these expenditure details indicates that as expected debt service is trending at about 94% of budgeted totals while both supplies and materials and utilities are trending low at 14% and 20% respectively. Staff remains very cognizant of budgeted expenditure authority and will monitor costs to mitigate exposure to the extent possible. There is no recommendation for adjustments at this time.

**Quarterly and Annual Expenditures
5-Year History**



	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>
1st Quarter Actual Expenditures	\$ 218,342	\$ 104,606	\$ 288,535	\$ 302,599	\$ 246,934
Fiscal Year Total Actual Expenditures	\$ 1,176,810	\$ 1,196,228	\$ 1,160,969	\$ 1,299,363	
Fiscal Year Budgeted Expenditures					\$ 1,376,022
1st Quarter Percent of Total	18.55%	8.74%	24.85%	23.29%	17.95%

Recommended Budget Revision

No Change

QUARTERLY BUDGET REPORT – 1ST QUARTER FY 2016-17

FINANCIAL SUMMARIES, PROJECTIONS AND RECOMMENDATIONS

General Fund

The following table is the *Schedule of General Fund Operating Revenues. Vs. Operating Expenditures* for the first quarter of FY 2016-17, which includes comparison information from the prior year. In the last column are projections of final balances for the current fiscal year based upon the early trends observed through the first quarter.

City of Sonora
Schedule of General Fund
Operating Revenues vs. Operating Expenditures
For the period ended September 30, 2016

	Unaudited FY15/16 Final Balance	FY15/16 1st Qtr Actuals	FY15/16 % YTD	FY16/17 Adopted Budget	FY16/17 1st Qtr Actuals	FY16/17 % YTD
Revenues						
Sales and use Tax	\$ 2,539,835	\$ 354,359	14%	\$ 2,590,324	\$ 478,941	18%
Property Tax	766,380	2,528	0%	763,175	3,089	0%
VLF Backfill Property Tax	359,583	-	0%	371,800	-	0%
Franchise Fees	137,567	7,796	6%	153,700	8,936	6%
Business License	112,580	2,328	2%	110,150	3,849	3%
Transient Occupancy Tax	392,487	61,768	16%	350,000	85,016	24%
Licenses & Permits	160,949	15,058	9%	95,150	18,758	20%
Intergovernmental	50,786	21,257	42%	49,020	4,918	10%
Charges for Services	67,026	16,684	25%	62,765	14,883	24%
Fines & Forfeitures	74,280	11,429	15%	70,770	13,571	19%
Interest	5,066	(807)	-16%	5,150	1,611	31%
Other Sources	158,682	62,854	40%	133,322	24,877	19%
Fund Transfers	176,549	24,970	14%	97,000	-	0%
Total Revenues	5,001,770	580,223	12%	4,852,326	658,449	14%
Use of Other Funding Sources:						
Deferred Revenue				194,000	6,963	
General Fund Reserves				110,000	25,000	
Total Other Funding Sources	-	-		304,000	31,963	
Total Revenues plus Reserves	\$ 5,001,770	\$ 580,223	12%	\$ 5,156,326	\$ 690,412	13%
Expenditures						
Salaries	1,627,493	362,503	22%	1,808,459	481,367	27%
Overtime	229,747	53,524	23%	147,500	67,272	46%
Temporary and Relief	121,592	34,501	28%	94,970	36,665	39%
Other Salaries	61,094	19,049	31%	86,410	20,560	24%
Benefits	1,181,067	262,533	22%	1,620,307	606,789	37%
Supplies and Materials	1,049,688	214,870	20%	1,124,579	161,136	14%
Utilities	202,114	44,339	22%	203,826	41,248	20%
Debt Service	47,561	43,390	91%	47,617	44,550	94%
Total Expenses	\$ 4,520,357	\$ 1,034,709	23%	\$ 5,133,669	\$ 1,459,587	28%
Transfers In/Out	434,873	114,110	26%	21,320	-	0%
Total Operating Expenditures	\$ 4,955,230	\$ 1,148,819	23%	\$ 5,154,989	\$ 1,459,587	28%

QUARTERLY BUDGET REPORT – 1ST QUARTER FY 2016-17

The groups of financial summaries on the following pages present data by governmental fund type: For purposes of this 1st quarter report we have focused on the Measure I Special Revenue Fund. The fund information starts with a beginning fund balance, adds current year revenues, and subtracts current year expenditures, resulting in an ending fund balance. Adopted budget amounts are provided as a basis for comparison of actuals to date.

Special Revenue Fund

Special Revenue Funds account for the proceeds derived from specific revenue sources that are legally restricted or assigned to special purposes. The City's Special Revenue Funds include the Measure I which is the focus of the information provided in this 1st quarter report. The Measure I fund was established as a result of a 2004 voter approved ½% increase to sales tax within the City limits. With approval of the ballot measure, the sales tax increase which took effect January 1, 2005. The purpose of the initiative was to improve city services for residents, businesses, and visitors to the City of Sonora.

Measure I revenues for the first quarter are trending at 20% of total budgeted revenues and across the three Departments expenditures are at 26% of budget.

Measure I Fund Budget to Actuals Comparisons

	Police	1st Qtr %	Fire	1st Qtr %	Public Works	1st Qtr %
Beginning Fund Balance (Pre-audit)	208,971		208,772		291,056	
Budgeted Revenues	992,443		413,557		249,392	
Total Actual Revenues - 1st Qtr	198,238	20%	81,894	20%	49,361	20%
Budgeted Expenditures	1,204,888		453,999		202,953	
Total Actual Expenditures - 1st Qtr	284,453	24%	135,706	30%	63,748	31%
1st Quarter Ending Fund Balance	122,756		154,960		276,669	

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The Police Department receives 60% of this revenue for the purpose of hiring additional law enforcement and support personnel; updating safety equipment, providing educational funding; replacing expired vehicles; and expanding Police facilities allowing for departmental growth. FY 16/17 1st quarter results are trending consistent with the same period in prior years as illustrated in the chart below.

Police Measure I

	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY15/16</u>	<u>FY 16/17</u>
1st Quarter Actual Revenues	\$ 165,709	\$ 156,356	\$ 156,583	\$ 190,895	\$ 198,238
Fiscal Year Total Actual Revenues	\$ 890,881	\$ 948,434	\$ 970,871	\$ 983,490	
Fiscal Year Total Budgeted Revenues					\$ 992,433
1st Quarter Percent of Total	18.60%	16.49%	16.13%	19.41%	19.97%
1st Quarter Actual Expenditures	\$ 156,244	\$ 193,444	\$ 199,726	\$ 239,964	\$ 284,453
Fiscal Year Total Actual Expenditures	\$ 812,160	\$ 953,382	\$ 908,493	\$ 1,165,327	
Fiscal Year Total Budgeted Expenditures					\$ 1,204,888
1st Quarter Percent of Total	19.24%	20.29%	21.98%	20.59%	23.61%
Recommended Budget Revision					No Change

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The Fire Department receives 25% of the Measure I generated revenue which provides funding for Engineer and Volunteer Firefighter positions, increased stipends for Intern Firefighters and benefit increases. FY 16/17 1st quarter revenues are trending consistent with the same period in prior years as illustrated in the chart below.

Expenditures are trending slightly higher due to the lump sum prepayment of the unfunded liability that was approved by Council in July.

Fire Measure I

	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY15/16</u>	<u>FY 16/17</u>
1st Quarter Actual Revenues	\$ 69,045	\$ 65,148	\$ 65,199	\$ 76,883	\$ 81,894
Fiscal Year Total Actual Revenues	\$ 371,074	\$ 393,845	\$ 400,707	\$ 405,449	
Fiscal Year Total Budgeted Revenues					\$ 413,557
1st Quarter Percent of Total	18.61%	16.54%	16.27%	18.96%	19.80%
1st Quarter Actual Expenditures	\$ 54,441	\$ 82,854	\$ 66,066	\$ 102,108	\$ 135,706
Fiscal Year Total Actual Expenditures	\$ 265,301	\$ 327,778	\$ 278,806	\$ 405,649	
Fiscal Year Total Budgeted Expenditures					\$ 453,999
1st Quarter Percent of Total	20.52%	25.28%	23.70%	25.17%	29.89%
Recommended Budget Revision					No Change

QUARTERLY BUDGET REPORT – 1ST QUARTER FY 2016-17

The Public Works Department receives 15% of the Measure I generated revenue for the purpose of hiring additional personnel; equipment and facility enhancements and infrastructure improvements. FY 16/17 1st quarter revenues are trending consistent with the same period in prior years as illustrated in the chart below. As with the Fire Department, expenditures are trending slightly higher due to the lump sum prepayment of the unfunded liability that was approved by Council in July.

PW Measure I

	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY15/16</u>	<u>FY 16/17</u>
1st Quarter Actual Revenues	\$ 41,427	\$ 39,089	\$ 39,194	\$ 45,764	\$ 49,361
Fiscal Year Total Actual Revenues	\$ 224,376	\$ 236,634	\$ 240,680	\$ 243,531	
Fiscal Year Total Budgeted Revenues					\$ 248,392
1st Quarter Percent of Total	18.46%	16.52%	16.28%	18.79%	19.87%
1st Quarter Actual Expenditures	\$ 44,751	\$ 50,574	\$ 34,737	\$ 38,487	\$ 63,748
Fiscal Year Total Actual Expenditures	\$ 221,145	\$ 240,670	\$ 134,211	\$ 204,766	
Fiscal Year Total Budgeted Expenditures					\$ 202,952
1st Quarter Percent of Total	20.24%	21.01%	25.88%	18.80%	31.41%
Recommended Budget Revision					No Change

QUARTERLY BUDGET REPORT – 1ST QUARTER FY 2016-17

CONCLUSION

The financial results from the prior fiscal year, coupled with the FY 2016-17 first quarter data, confirms the City's continued conservative fiscal planning and efforts to sustain its economically sensitive revenues while containing costs. As the fiscal year progresses, staff will continue to closely monitor revenue and expenditure activity and work to identify opportunities to enhance revenue to support current and future operating capital needs.

GLOSSARY OF TERMS

Annual Budget - A budget applicable to a single fiscal year.

Appropriation - An authorization made by the City Council, which permits officials to incur obligations against and to make expenditures of government resources. Appropriations are typically granted for a one-year period.

Audit - Prepared by an independent Certified Public Accountant (CPA), the primary objective of an audit is to determine if the City's Financial Statements present fairly the City's financial position and results of operations in conformity with generally accepted accounting principles. In conjunction with their performance of an audit, it is customary for an independent auditor to issue a Management Letter stating the adequacy of the City's internal controls as well as recommending improvements to the City's financial management practices.

Balanced Budget - Balanced budget is a budget with operating revenues equal to operating expenditures and neither a budget deficit nor a budget surplus. More generally, it refers to a budget with no deficit, but possible with surplus.

Budget - As the City's financial operating plan for the fiscal year, the budget displays the estimated expenditures (costs) for providing services and the estimated sources of revenue (income) to pay for them. Once the City Council adopts the budget, the total becomes the maximum spending limit. Sonora' budget encompasses fiscal year (July 1, through June 30).

Budget Amendment - The Council has the sole responsibility for adopting the City's budget, and may amend or supplement the budget at any time after adoption. The City Manager has the authority to approve administrative adjustments to the budget as outlined in the Financial and Administrative Policies set by Council.

Budget Document - The official financial spending and resource plan submitted by the City Manager and adopted by the City Council explaining the approved budget to the public and City Council.

Budget Message - Included in the opening section of the budget, the Budget Message provides the Council and the Public with a general summary of the most important aspects of the budget, comparative data from previous fiscal years, goals and objectives, and the views and recommendations of the City Manager.

Budget Overview - This section provides an overview of the changes adopted in the budget. Additionally, the significant impacts of budgetary changes are outlined along with dollar amounts (increase/decrease).

Building Permit - Fee required for new construction or for any alteration or addition to a residence or commercial building. The fee is based on square footage and valuation. Electrical or plumbing/mechanical work will require a similar permit.

Business License Tax - A tax imposed on those conducting business within the City limits. Business License Tax is a non-regulatory tax implemented for the purpose of raising revenue to support General Fund activities.

☞ GLOSSARY ☞

Debt Service - Payment of the principal and interest on an obligation resulting from the issuance of bonds, notes, or Certificates of Participation (COPs).

Deficit - The excess of liabilities over assets.

Department - A major organizational unit of the City, which has been assigned overall management responsibility for an operation, or a group of related operations within a functional area. In Los Gatos, Department Heads are the chief administrators within a department.

Expenditure - The outflow of funds paid or to be paid for an asset obtained or goods and services obtained. Note: An encumbrance is not expenditure; an encumbrance reserves funds to be expended. (See encumbrances.)

Fines & Forfeitures - Collections received by the City for violation of local code and ordinance provisions. Accounts include Vehicle Code Fines, Parking Ordinance Fines, Court Fines, Parking tickets - Collection Agency and Collection Agency Booking Fees.

Fiscal Year - A 12-month period to which the annual operating budget applies and at the end of which the City determines its financial position and results of its operations. The City's fiscal year runs from July 1st to June 30th.

Franchise Fees - Imposed on utility companies for the privilege of doing business in the City. Fees are usually based upon a percentage of gross revenue derived from business conducted in the City. Accounts include PG&E, Cable TV and Solid Waste.

Fund - An independent fiscal and accounting entity with a self-balancing set of accounts in which cities record financial transactions relating to revenues, expenditures, assets and liabilities. Each fund type typically has a unique funding source and purpose. Establishing funds enables the City to account for the use of restricted revenue sources and carry on specific activities or pursue specific objectives.

Fund Accounting - System used by non-profit organizations, particularly governments. Since there is no profit motive, accountability is measured instead of profitability. The main purpose is stewardship of financial resources received and expended in compliance with legal requirements.

Fund Balance - Also known as financial position, fund balance is the excess of current assets over current liabilities, and represents the cumulative effect of revenues and other financing sources over expenditure and other financing uses.

GAAP (Generally Accepted Accounting Principles) - Uniform minimum standards for financial accounting and reporting. They govern the form and content of the basic financial statements of the City.

General Fund - In governmental accounting, fund used to account for all assets and liabilities of a non-profit entity, except those particularly assigned for other purposes in another more specialized fund. It is the primary operating fund of the City.

General Government - City Council, City Administrator, City Attorney, Human Resources, Finance, Community Development, Police, Fire and Public Works.

☞ GLOSSARY ☜

Governmental Funds - the fund used to account for all assets and liabilities of a government agency, except those particularly assigned for other purposes in another more specialized fund. There are five different types of governmental funds: the general fund (which is the primary operating fund), special revenue funds, debt service funds, capital project funds, and permanent funds.

Grant - External contributions, and/or gifts of cash, or other assets typically from another governmental entity to be used or expended for a specific purpose, activity, or facility. An example is Community Development Block grant funding from the Federal Government.

Interest Income - The prudent investment of idle funds. The types of investments that can be made are limited by the Government Code to protect the safety of taxpayers' money. The City's funds are invested in the Local Area Investment Fund (LAIF) Account.

Intergovernmental Revenue - Revenue received from other governmental agencies and municipalities, such as grants from the State or Federal government. Accounts include Proposition 172 – Public Safety, State Mandated Costs Refund, Post/Training Reimbursement and Motor Vehicle in Lieu Tax.

Internal Services Fund - The Internal Service Funds are used to finance and account for special activities and services performed by a designated City department for other departments on a cost reimbursement basis.

Inter-Fund Transfers - When the City moves money between its various funds, it makes an inter-fund transfer, referred to as transfers-in and transfers-out. In aggregate, transfers in and out offset each other for the fiscal year.

Licenses and Permits - Revenues earned by the issuance of licenses or permits levied in accordance with the benefits conferred by the license or permit. Accounts include Intermittent Vendor permits, Portable Food Vendor Permits, Building Permits, Parking Permits, Street, Curb, and Encroachment Permits.

Line-Item Budget - A budget that lists detailed expenditure categories (salaries & benefits, office supplies, travel, dues, rents, etc.) separately, along with the amount budgeted for each specified category. The Summary Budget reflects the program rather than line item budgets. The Detail Budget reflects the line-item detail.

Major Fund – Major funds are funds whose revenues, expenditures/expenses, assets, or liabilities are at least 10 percent of corresponding totals for all governmental or enterprise funds and at least 5 percent of the aggregate amount for all governmental and enterprise funds for the same item. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

Motor Vehicle in Lieu Fee - A State fee charged for the privilege of operating a vehicle on public streets. A VLF is levied annually against the market value of a motor vehicle and is imposed by the State “in lieu” of local property taxes.

Non-major Fund – Non-major funds are all governmental and enterprises funds that are not classified as major funds.

Operating Budget - The operating budget is the primary means by which most of the financing of acquisition, spending and service delivery activities of a government are controlled. The use of annual operating budgets is required by law.

☪ GLOSSARY ☪

Other Revenues - Revenues from sources other than those specifically identified that are too immaterial in amount to justify the creation of new revenue account line items. Accounts include Rental Income, Parking Lot Rental income, Sale of Property, Cemetery receipts, Insurance/Accident Reimbursement, FEMA/OES/CDR Reimbursement, Insurance Premium Reimbursement, Opera Hall Facility Rental, Insurance Administration Fee, Opera Hall Piano Rental.

Personnel Benefits - Those benefits paid by the City as conditions of employment.

Personnel - City employees.

Property Tax - Imposed on real property (land and permanently attached improvements). The tax is based upon the assessed value of such property. Accounts include Secured and Unsecured property taxes, other property taxes, homeowners exemption, real property transfer tax and pass through from RDA.

Public Employees' Retirement System (PERS) - Provided for the City's employees, by the State of California.

Resources - Total amounts available for appropriation including estimated revenues, inter-fund transfers, and beginning fund balances.

Revenue - Sources of income, which the City receives during a fiscal year. Examples of revenue include taxes, intergovernmental grants, charges for services, resources forward from the prior year, operating transfers for other funds, and other financing sources such as the proceeds derived from the sales of fixed assets.

Sales Tax - .87% is returned to the City by the State Board of Equalization on a monthly direct deposit basis.

Service Charge - Charges for specific services rendered. Accounts include Zoning and Subdivision Fees, Sale of Maps & Publications, Fingerprint Services – PD, Police Department Services, Street Cleaning – State Highway, Fire Department Services, Debris Pick-up, Banner Installation, Sunrise Hills Admin Fee/Assessment Collection.

Services and Supplies - Expenditures for services and supplies which are directly related to a department's primary service activities.

Supplies - An expenditure classification for articles and commodities purchased for consumption or resale.

Taxes - Compulsory charges levied by the City, County and State for the purpose of financing services performed for the common benefit.

Transient Occupancy Tax - Imposed on hotels, motels, inns or other lodging facilities. The rate in Sonora is 10%.

Transfers In/Out - Money transferred from one City fund to another. Differs from revenues and expenses - see definition of these terms.