



COUNCIL AGENDA REPORT

DATE: March 4, 2019

TO: CITY COUNCIL

FROM: CHRIS GORSKY, ADMINISTRATIVE SERVICES DIRECTOR *CG*

SUBJECT: FY 2018/19 SECOND QUARTER BUDGET UPDATE AND STATUS REPORT FOR THE SIX MONTH PERIOD ENDING DECEMBER 31, 2018.

RECOMMENDATION:

Accept the Fiscal Year (FY) 2018/19 Second Quarter Budget Report for the six-month period ending December 31, 2018.

BACKGROUND:

The attached Quarterly Budget Report covers the first six months of the fiscal year beginning July 1, 2018 and ending December 31, 2018. 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 funds.

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.

DISCUSSION:

Mid-Year Budget Update: An analysis of the FY 2018/19 General Fund revenues confirms that the City is tracking similar to last year's second quarter. The City's most economically sensitive revenue sources of Sales Tax and Transient Occupancy Tax (TOT) are tracking at 44% of budgeted totals, both very similar to prior years, and within the expected range. Of the recommended budget adjustments, on page 12, includes adding a budget for cannabis revenues, a new revenue source for the City and a decrease to Rental Income.

Staff also reviewed first quarter expenditure budget results for all City Departments and found that General Fund expenditures are trending comparable to prior years. Staff will closely monitor the salaries and benefits expenditures to contain costs as much as possible.

Staff is being very cognizant of the increase in medical insurance costs in the second half of the year and, in addition to the minor budget adjustment on page 12, will continue to monitor these expenditures throughout the next quarter with any additional budget adjustment coming at the 3rd quarter and year end budget review.

In addition to the Second 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.

Conclusion

The available second 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. Second Quarter FY 2018/19 Budget Update and Status Report for period ending December 31, 2018.
 - a. Appendix A – Glossary of Terms

MID-YEAR BUDGET REPORT – 2ND QUARTER FY 2018-19

INTRODUCTION

Purpose

This is the mid-year budget report for the Fiscal Year 2018-19, for the six-month period ending December 31, 2018. The quarterly budget updates have two purposes. First, it provides regular updates to the Council regarding revenue and expenditure trends to ensure the City Council has a strong understanding of the City's current financial condition 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 December 31, 2018, 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 2018/19 adjustments.

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MID-YEAR BUDGET REPORT – 2ND QUARTER FY 2018-19

EXECUTIVE SUMMARY

Status of FY 2018/19 Adopted Budget

Mid-Year revenue trends are flat when compared to the second quarter of Fiscal Year 2017-18. Revenues are comparable in the most economically sensitive revenues of Sales Tax and Transient Occupancy Tax (TOT). Both have been affected by the area fires earlier in the summer.

General Fund expenditure totals for the 2nd quarter are trending lower than budget due to some open positions early in the year. Staff expects personnel costs to level out through the next quarters and will continue to monitor these costs closely. Staff is doing a great job controlling operational expenditures with second quarter results at about 48% of budget. With only six months of data available, however, it is difficult to predict revenue and expenditures for the second half 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.

expenditures at fiscal year-end, June 30, 2018. The City's General Fund reserves closed the year with unaudited amounts totaling approximately \$1.4 million.

Prior Fiscal Year Closing Results

The Fiscal Year 2017-18 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 2017-18 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, and several open staffing positions generated a favorable General Fund closing balance of \$357,613 of available revenues over

MID-YEAR BUDGET REPORT – 2ND QUARTER FY 2018-19

GENERAL FUND – KEY REVENUE ANALYSIS

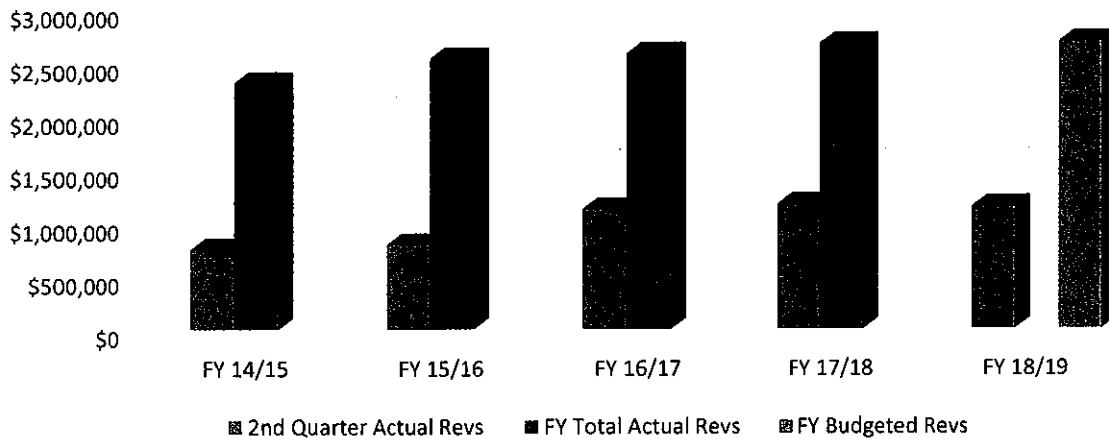
The following discussion provides a status of significant General Fund revenue sources as of the second quarter, ending December 31, 2018. Staff monitors each revenue source closely and may recommend certain revenue adjustments based on revenue actuals or state budget actions.

Sales Tax

Sales tax is the largest revenue source for the City's General Fund, accounting for 52% of budgeted General Fund revenues for FY 2018-19. 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.

Analysis – Second quarter receipts are trending slightly behind those in the same period in the past fiscal year, likely a result of the State of California's change to their new automated system of Sales Tax processing which lead to an increase in unprocessed returns in the quarter and the fires that hurt the local economy during the summer months. 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 in the second half of the year.

**Quarterly and Annual Sales Tax Revenues
5 Year History**



	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19
2nd Quarter Actual Revs	\$1,023,634	\$1,016,404	\$1,126,296	\$1,168,960	\$1,144,589
FY Total Actual Revs	\$2,312,217	\$2,539,835	\$2,590,324	\$2,678,336	\$2,696,000
FY Budgeted Revs					\$2,696,000
2nd Quarter % of Total	44.27%	40.02%	43.48%	43.65%	42.46%
Recommended Budget Revisions	No Change				

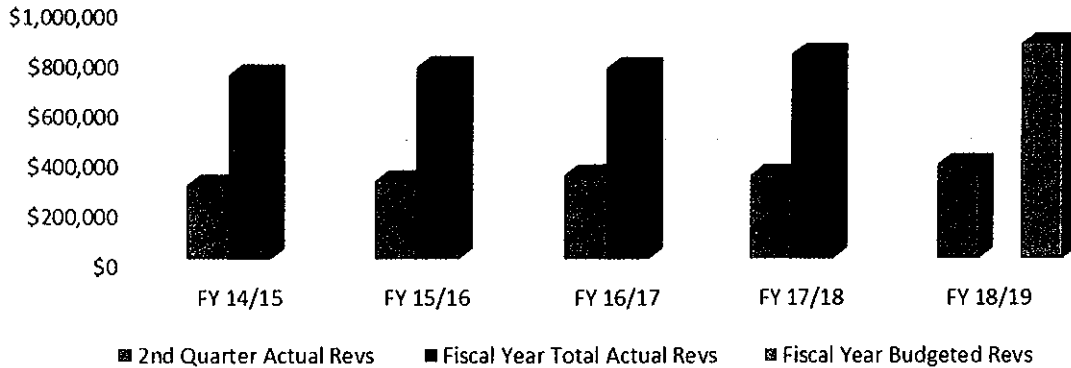
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Property Tax

Property tax is the second largest revenue source for the City’s General Fund, accounting for 16.7% of budgeted General Fund revenues in FY 2018-19. 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 12.6 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 first half receipts for the past four years as compared to the current fiscal year. Receipts for the six months are trending comparable with prior years. Property tax revenue for FY 2018-19 was budgeted consistent with previous year’s actuals projecting relative flat real estate transactions.

**Quarterly and Annual Property Tax Revenues
5 Year History**



	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19
2nd Quarter Actual Revs	\$293,563	\$310,171	\$334,299	\$332,240	\$375,236
Fiscal Year Total Actual Revs	\$733,917	\$766,380	\$763,175	\$815,179	
Fiscal Year Budgeted Revs					\$856,100
2nd Quarter % of Total	40.00%	40.47%	43.80%	40.76%	43.83%
Recommended Budget Revisions	No Change				

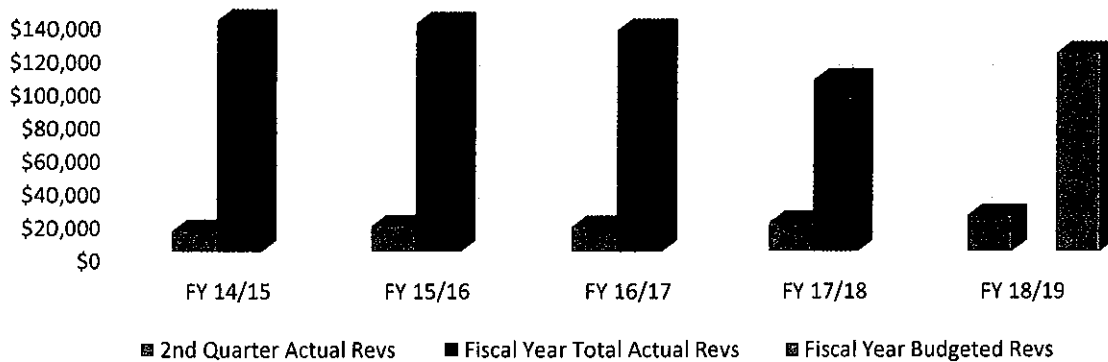
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Franchise Fees

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 2.8% of budgeted General Fund revenues in FY 2018-19.

Analysis – Historically, franchise payments are not remitted equally throughout the fiscal year; therefore, first and second quarter receipts are not necessarily predictive. Total franchise fee revenues to date are 18% of budgeted total receipts, consistent with the prior year’s 1st half results.

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



	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19
2nd Quarter Actual Revs	\$12,675	\$15,520	\$15,026	\$17,673	\$21,655
Fiscal Year Total Actual Revs	\$139,294	\$137,567	\$133,700	\$103,401	\$119,600
Fiscal Year Budgeted Revs					\$119,600
2nd Quarter % of Total	9.10%	11.28%	11.24%	17.09%	18.11%
Recommended Budget Revisions					No Change

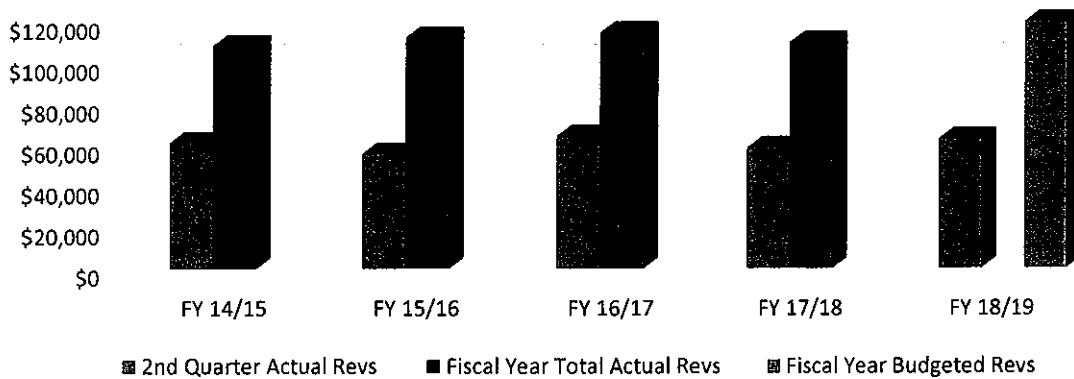
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Business License Tax

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 half revenues are comparable to 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 half 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 Business License Revenues
5-Year History**



	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19
2nd Quarter Actual Revs	\$61,472	\$56,132	\$64,843	\$59,134	\$63,208
Fiscal Year Total Actual Revs	\$108,596	\$112,580	\$115,150	\$110,150	\$110,150
Fiscal Year Budgeted Revs					\$120,000
2nd Quarter % of Total	56.61%	49.86%	56.31%	53.68%	52.67%
Recommended Budget Revisions					No Change

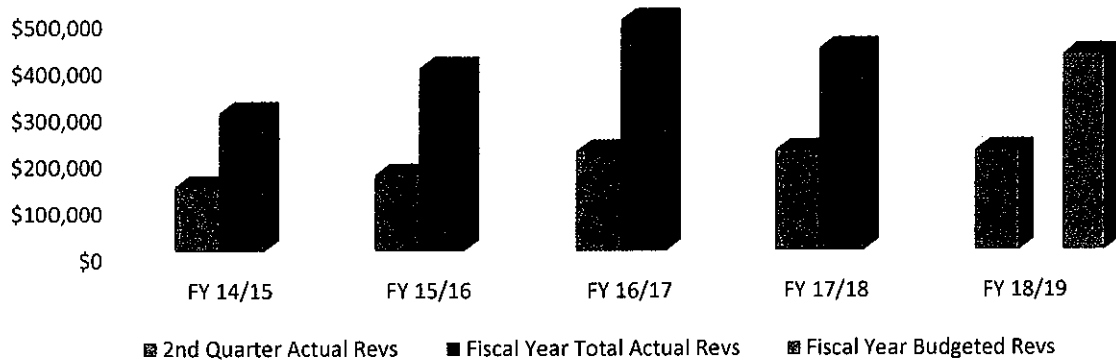
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Transient Occupancy Tax

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 – The Tuolumne County Visitors Bureau’s data showed that visitor spending increased 13% in 2017 over 2016 and direct travel spending increased to \$253.3 million. This would be predictive of the strong tourism environment but the local fires during the summer had a negative effect. The mid-year TOT revenues are trending equal with the prior year first half results. TOT revenue for the current year was budgeted at 8% of general fund revenues, the same as the prior year’s estimated year-end actuals. Staff will continue to monitor this funding source closely to assess the need for future budget adjustments.

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



	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19
2nd Quarter Actual Revs	\$140,297	\$165,176	\$215,367	\$215,302	\$215,611
Fiscal Year Total Actual Revs	\$297,363	\$392,487	\$495,864	\$433,539	
Fiscal Year Budgeted Revs					\$420,000
2nd Quarter % of Total	47.18%	42.08%	43.43%	49.66%	51.34%
Recommended Budget Revisions					No Change

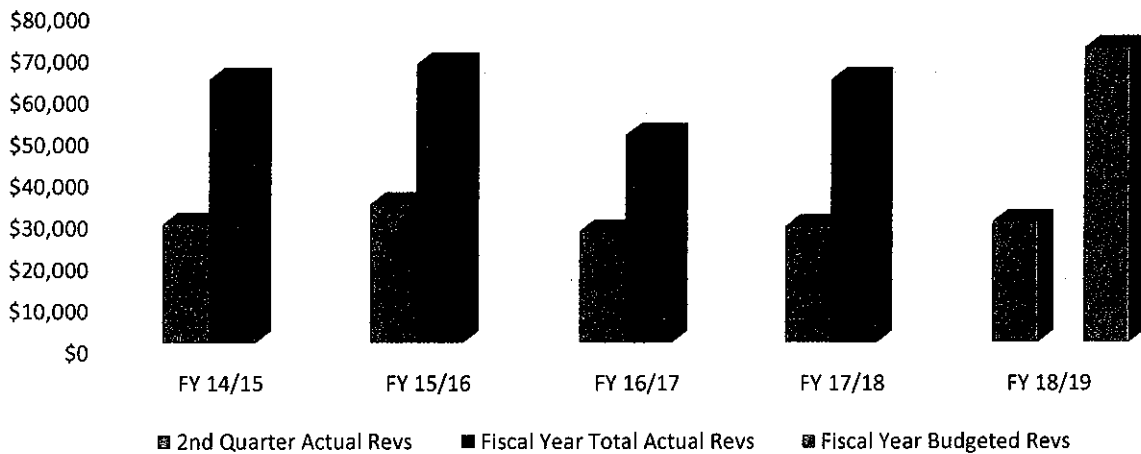
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Charges for Services

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 half receipts are trending similar to those in the same period in the prior fiscal year. Total budgeted revenues for charges for services were budgeted slightly higher from FY17/18 year end estimated actuals, recognizing a pickup in 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 Services Revenues
5-Year History**



	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19
2nd Quarter Actual Revs	\$28,530	\$33,379	\$26,768	\$27,919	\$28,993
Fiscal Year Total Actual Revs	\$63,300	\$67,026	\$50,014	\$63,247	
Fiscal Year Budgeted Revs					\$70,800
2nd Quarter % of Total	45.07%	49.80%	53.52%	44.14%	40.95%
Recommended Budget Revisions					No Change

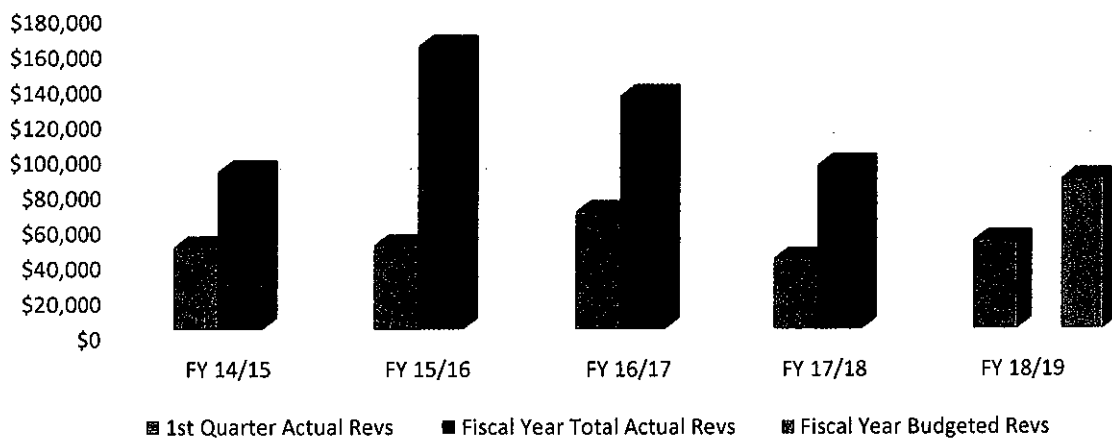
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Licenses and Permits

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 – 2nd Quarter licenses and permit revenue is trending higher than the 2nd quarter results from the previous fiscal year due to an increase in 2nd 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 Permits Revenues
5-Year History**



	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19
2nd Quarter Actual Revs	\$46,903	\$47,882	\$67,172	\$40,077	\$50,523
Fiscal Year Total Actual Revs	\$89,782	\$160,949	\$133,030	\$93,456	\$93,456
Fiscal Year Budgeted Revs					\$85,500
2nd Quarter % of Total	52.24%	29.75%	50.49%	42.88%	59.09%
Recommended Budget Revisions					No Change

MID-YEAR BUDGET REPORT – 2ND QUARTER FY 2018-19

GENERAL FUND – KEY EXPENDITURE ANALYSIS

The following discussion provides a status of significant General Fund expenditures as of the 2nd quarter, ending December 31, 2018. Staff monitors each revenue source closely and may recommend certain expenditure adjustments based on actuals or state budget actions.

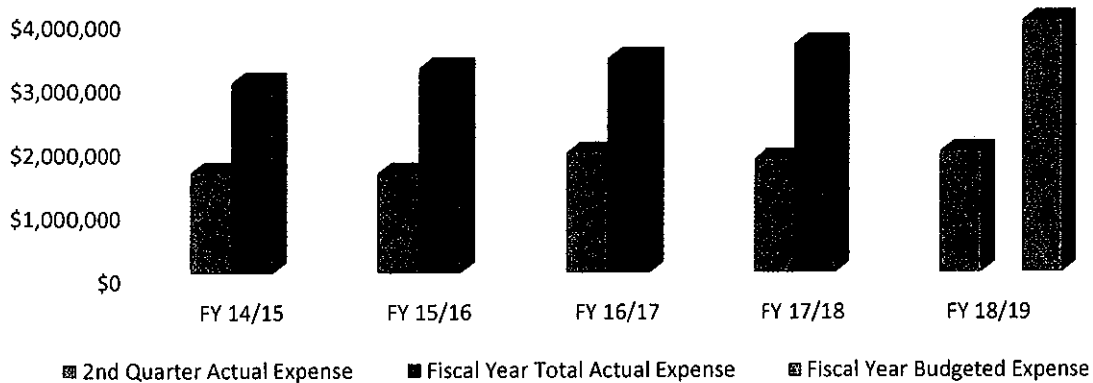
SALARIES AND BENEFITS

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 50% of total budget at the end of the second quarter.

Analysis – Second quarter results are trending in line with those in similar periods in prior years, at approximately 47.9% of budgeted totals. Further analysis of these expenditure details indicates that benefits are trending at approximately 49.9% of budgeted totals in line with total personnel costs. It is expected that benefit expenditures will be higher in the 2nd half of the year with fewer open positions and Medical Insurance costs increasing in January 2019 by 12%.

While salaries costs are trending consistent at 46.3%, both overtime, temporary and relief salaries are slightly over at approximately 58.6% of budget. This has resulted due to a number of vacancies and staff expects to see these return to budget by the end of the 3rd and 4th quarters. There is no recommendation for adjustments at this time.

**Quarterly and Annual Salaries & Benefits
5-Year History**



	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19
2nd Quarter Actual Expense	\$1,574,567	\$1,568,549	\$1,890,414	\$1,780,449	\$1,899,982
Fiscal Year Total Actual Expense	\$2,994,337	\$3,220,993	\$3,593,835	\$3,587,710	\$3,587,710
Fiscal Year Budgeted Expense					\$3,963,704
2nd Quarter % of Total	52.58%	48.70%	52.60%	49.63%	47.93%
Recommended Budget Revisions					No Change

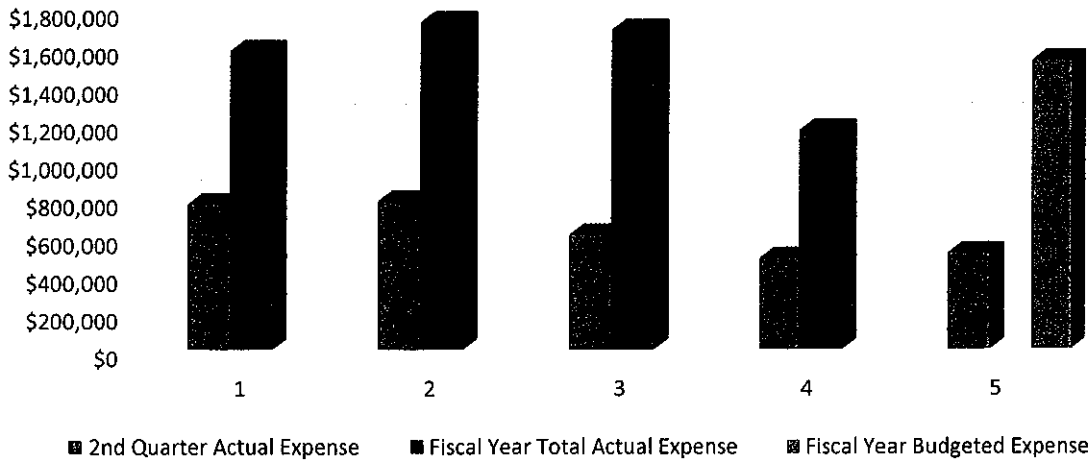
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OPERATING EXPENDITURES

Operating expenditures consists of all general fund costs to provide services, including supplies and materials and utilities. The categories of supplies and materials, the most controllable expenditure category, should trend around the 50% level for the first quarter. Depending on utility usage and rates, ideally utilities will trend at 50% or lower of total budgeted amounts.

Analysis – Second quarter results are trending slightly lower than the same period in prior years, at approximately 34% of budgeted totals. Further analysis of these expenditure details indicates that both supplies/materials and utilities are trending low at 32% and 45% 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 Operations
5-Year History**



	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19
2nd Quarter Actual Expense	\$773,756	\$789,922	\$611,927	\$479,026	\$512,908
Fiscal Year Total Actual Expense	\$1,581,241	\$1,734,237	\$1,692,543	\$1,162,353	
Fiscal Year Budgeted Expense					\$1,527,876
2nd Quarter % of Total	48.93%	45.55%	36.15%	41.21%	33.57%
Recommended Budget Revisions					No Change

MID-YEAR BUDGET REPORT – 2ND QUARTER FY 2018-19

FY 2018/19 RECOMMENDED BUDGET ADJUSTMENTS

General Fund Budget adjustments are recommended for the following revenue accounts as of the mid-year budget as described below:

<u>Fund</u>	<u>Acct</u>	<u>Sub</u>	<u>Description</u>	<u>Change</u>
Revenues:				
	303	– 04108 – 020	Medical Cannabis Revenues	+ \$55,000
	303	– 04105 – 002	Rental Income	- \$50,000
Expenditures:				
	303	– 10204 –	Medical Ins. Premiums	+ \$5,000
				<hr/>
			Net Change	\$0.00

SUMMARY OF BUDGET ADJUSTMENTS

General Fund:

- New revenue source: medical cannabis dispensary.
- Rental Income down: Vacant Visitors Bureau and reduction in rent from Education Center.
- Increased Expenditures for Medical Insurance.

MID-YEAR BUDGET REPORT – 2ND QUARTER FY 2018-19

FINANCIAL SUMMARIES, PROJECTIONS AND RECOMMENDATIONS

General Fund

The following table is the *Schedule of General Fund Operating Revenues. Vs. Operating Expenditures* for the 2nd quarter of FY 2018-19, which includes comparison information from the prior year's 2nd quarter results are trending consistent with those in the same period in the prior year.

City of Sonora Schedule of General Fund Operating Revenues vs. Operating Expenditures For the Period Ending Dec. 31, 2018						
	Unaudited FY17/18 Final Balance	FY17/18 2nd Qtr Actual	FY17/18 % YTD	FY18/19 Adopted Budget	FY18/19 2nd Qtr Actual	FY18/19 % YTD
Revenues						
Sales and Use Tax	2,678,336	1,168,960	44%	2,696,000	1,144,589	42%
Property Tax	595,582	93,589	16%	856,100	356,922	42%
VLF Backfill Property Tax	389,517	-	0%	405,100	-	-
Franchise Fees	144,704	2,657	2%	148,600	-	-
Business License	119,053	59,159	50%	120,000	63,208	53%
Transient Occupancy Tax	433,539	215,302	50%	420,000	215,611	51%
Licenses & Permits	95,126	40,077	42%	85,500	50,523	59%
InterGovernmental	232,145	32,112	14%	27,300	44,150	162%
Charges for Services	63,278	27,919	44%	70,800	28,993	41%
Fines & Forfeitures	73,253	33,913	46%	56,700	19,417	34%
Interest	13,377	3,414	26%	9,500	5,547	58%
Other Sources	172,393	78,893	46%	156,952	58,051	37%
Fund Transfers	97,373	-	0%	94,000	-	-
Total Revenues	5,107,676	1,755,994	34%	5,146,552	1,987,012	39%
Use of Other Funding Sources:						
General Fund Reserves	-	-	-	362,600	-	-
Total Other Funding Sources	-	-	-	362,600	-	-
Total Revenues plus Reserves	5,107,676	1,755,994	34%	5,509,152	1,987,012	36%
Expenditures						
Salaries	1,641,142	827,792	50%	1,877,913	835,246	44%
Overtime	218,134	98,402	45%	145,500	93,116	64%
Temporary and Relief	143,596	59,632	42%	118,450	61,716	52%
Other Salaries	67,688	53,995	80%	84,341	53,492	63%
Benefits	1,537,183	751,361	49%	1,790,400	871,892	49%
Supplies, Materials and Other	797,312	321,113	40%	1,222,546	378,365	31%
Utilities	228,690	100,137	44%	228,907	106,682	47%
Debt Service	48,214	47,043	98%	-	-	-
Total Expenditures	4,681,959	2,259,474	48%	5,468,057	2,400,509	44%
Transfers In/Out	47,474	7,998	17%	23,523	12,381	53%
Total Operating Expenditures	4,729,433	2,267,473	48%	5,491,580	2,412,890	44%

MID-YEAR BUDGET REPORT – 2ND QUARTER FY 2018-19

The groups of financial summaries on the following pages present data by governmental fund type: For purposes of this 2nd 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 2nd 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 second quarter are trending at 45% of total budgeted revenues and across the three Departments expenditures are at 46% of budget.

Measure I Funds						
Budget to Actual Comparison						
	<u>Police</u>	<u>2nd Qtr %</u>	<u>Fire</u>	<u>2nd Qtr %</u>	<u>Public Works</u>	<u>2nd Qtr %</u>
Beginning Fund Balance (Audited)	455,943		152,512		412,406	
Budgeted Revenues	1,049,400		437,250		262,350	
Total Actual Revenues - 2nd Qtr	476,118	45%	197,397	45%	120,179	46%
Budgeted Expenditures	1,079,735		494,719		278,913	
Total Actual Expenditures - 2nd Qtr	472,491	44%	250,276	51%	138,489	50%
2nd Quarter Ending Fund Balance	459,570		99,633		394,096	

MID-YEAR BUDGET REPORT – 2ND QUARTER FY 2018-19

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 18/19 2nd quarter results are trending consistent with the same period in prior years as illustrated in the chart below. There are no budget recommendations at this time.

Police Measure I

	FY 14/15	FY15/16	FY16/17	FY17/18	FY18/19
2nd Quarter Actual Revenues	417,784	437,811	456,449	478,927	476,118
Fiscal Year Total Actual Revenues	970,871	983,490	1,043,339	1,099,908	
Fiscal Year Total Budgeted Revenues					1,049,400
2nd Quarter Percent of Total	43.0%	44.5%	43.7%	43.5%	45.4%
2nd Quarter Actual Expenditures	430,907	541,361	541,969	422,863	472,491
Fiscal Year Total Actual Expenditures	908,493	1,195,323	1,031,047	866,275	
Fiscal Year Total Budgeted Expenditures					1,079,735
2nd Quarter Percent of Total	47.4%	45.3%	52.6%	48.8%	43.8%
Recommended Budget Revision					No Change

MID-YEAR BUDGET REPORT – 2ND QUARTER FY 2018-19

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 18/19 2nd 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 use of services in the fire season. There are no budget recommendations at this time.

Fire Measure I

	FY 14/15	FY15/16	FY16/17	FY17/18	FY18/19
2nd Quarter Actual Revenues	173,505	178,565	188,640	199,347	197,397
Fiscal Year Total Actual Revenues	400,707	405,449	435,211	457,505	
Fiscal Year Total Budgeted Revenues					437,250
2nd Quarter Percent of Total	43.3%	44.0%	43.3%	43.6%	45.1%
2nd Quarter Actual Expenditures	139,153	196,160	217,819	250,794	250,276
Fiscal Year Total Actual Expenditures	278,806	405,649	436,025	520,257	
Fiscal Year Total Budgeted Expenditures					494,719
2nd Quarter Percent of Total	49.9%	48.4%	50.0%	48.2%	50.6%
Recommended Budget Revision					No Change

MID-YEAR BUDGET REPORT – 2ND QUARTER FY 2018-19

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 18/19 2nd quarter revenues are trending consistent with the same period in prior years as illustrated in the chart below. There are no budget recommendations at this time.

PW Measure I

	FY 14/15	FY15/16	FY16/17	FY17/18	FY18/19
2nd Quarter Actual Revenues	104,239	106,892	113,682	120,205	120,179
Fiscal Year Total Actual Revenues	240,680	243,531	261,722	278,460	
Fiscal Year Total Budgeted Revenues					262,350
2nd Quarter Percent of Total	43.3%	43.9%	43.4%	43.2%	45.8%
2nd Quarter Actual Expenditures	68,478	107,409	105,340	80,669	138,489
Fiscal Year Total Actual Expenditures	134,211	204,766	215,749	208,451	
Fiscal Year Total Budgeted Expenditures					278,913
2nd Quarter Percent of Total	51.0%	52.5%	48.8%	38.7%	49.7%
Recommended Budget Revision					No Change

MID-YEAR BUDGET REPORT – 2ND QUARTER FY 2018-19

CONCLUSION

The financial results from the prior fiscal year, coupled with the FY 2018-19 first half data, confirms the City's continued conservative fiscal planning and efforts to sustain its economically sensitive revenues while containing costs. In the second half of the year medical insurance expense will be increasing 12%. As we look toward the second part of the budget year that additional expense can be partly absorbed within the existing budgets adopted by Council in June 2018, with any needed adjustments to budgets coming in the 3rd and year end budget reviews. 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.

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.

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.