

**Mid-Year Financial Report**  
**Fiscal Year 2018-2019**

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**OVERVIEW**

This report summarizes the City's overall financial position for the fiscal year through December 31, 2018. Except as noted below, revenues and operating expenditures are on target compared to current year budget and prior year actuals

Adjusted Budgets: The budget numbers reflected in this report include the City Council approved budget amendments and adjustments.

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**ECONOMIC UPDATE**

**US Economy Context**

- US economic outlook continues to show slow growth in 2019.
- Gross Domestic Product for 2018 was 3.5% as of Q3 of 2018 and is expected to have slower growth of approximately 1.8%-2.3% for 2019-2020.
- Consumer sentiment in the US fell to 90.7 in January of 2019 from 98.3 in December 2018, well below market expectations of 97.
- Unemployment rate is 3.9%, down from 4.1% in the prior year and expected to drop to 3.5% in 2019.
- Inflation was at 1.9% in 2018 and is expected to remain consistent for 2019.
- The Federal Reserve committed to increasing rates over 2019, however since the short-term interest rates continue to climb, the central bank signaled that there could be only two interest rate increases instead of the three it previously projected. The federal rate was 2.5% in December 2018 and is expected to increase to 3% in 2019.
- 30 year fixed mortgage rates rose almost a full percent in 2018 and are currently around 4.7% and are expected to have a steady increase in 2019.
- Expected continued increase in consumer spending.

**Sonoma County Outlook**

- For fall 2018, the job growth matched the state average and surpasses that of similarly-sized economies in Santa Barbara, Sacramento, Santa Cruz, and Monterey Counties.
- Housing continues to be the most pressing issue due to the following:
  - Household formation is growing 4 times faster than construction of single family homes.
  - Low vacancy rates in both rentals and home sales.
  - Housing costs are half as affordable as they are across the US, which deters migration and limits the supply of working aged people to take over retiree jobs.
- Net migration to the County was negative for the first time.
- Business growth is strong, specifically in manufacturing, leisure, and healthcare.
- Cost of doing business remains relatively low, although high energy prices compared to the overall US continue to drive the cost up.
- Tourism is expected to maintain a steady growth rate into the future.
- Cotati – \$578,000 median home price up from \$538,000 in the prior year (\$638,000 Sonoma County).
- Cotati – median rent increased 35% to \$2,875 in December 2018 from \$2,125 in February 2018.
- Cotati – Taxable sales per capita was \$23,425. This figure is higher than the county average (\$17,682).



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## GENERAL FUND ANALYSIS

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### GENERAL FUND REVENUES:

(See Appendix A - Tables 1-3)

- **Development Charges for Service** – This revenue source is driven by development, construction and other permits. The primary reason for the decrease in receipts over the prior year was the prior year permits for building inspection of \$80,159 related to the Village Walk development project.
  - **Public Works Charges for Services** – These charges are primarily made up of reimbursable administrative costs and encroachment permits. These revenues have continued to increase over the same period in the prior year due to increased construction within the City.
  - **Public Safety Charges for Services** – These revenue sources are primarily driven by parking enforcement and traffic/criminal code fine issuance and have remained consistent with the prior year.
  - **Other Revenue** – These sources are other revenue streams that come into the City and Current year receipts are primarily related to recreation community classes totaling approximately \$21,000, compared to prior year which was higher due to the one-time fee received from PG&E.
  - **Investment Earnings** – These revenues represent interest earnings on investment accounts held by the City and vary based on the market conditions during the period.
  - **Contributions** – These are private contributions made to the City for specific programs. Major contributions to date have been the Back to School program which received \$3,370 and National Night Out which collected \$5,390.
  - **Transfers In** – These are revenues that are reported in other special revenue funds and then are transferred in to cover the correlating costs for the special revenues. Transfers in during the first 6 months of the fiscal year 2018-19 are from Fund 211- Public Safety.
- In summary, General Fund has received 51% of the budgeted revenue with half of the year complete. It is expected that the revenue will remain on track for the remainder of this fiscal year.

**GENERAL FUND EXPENDITURES (By Type):**

(See Appendix A - Tables 4 & 5)

- **Salaries and Benefits** – Mid-year amount is on track with budget with a slight increase due to the summer temporary staffing in recreation, which will trend back to budget.
- **Contract Services** – Mid-year is under budget, but is considered on track considering the scheduling of projects related to the budgeted contract services.
- **Materials and Supplies** – Mid-year expenses are in line with our budgeted expectations based on the timing of payments for required supplies.
- **Utilities** – Mid-year expenses are in line with our budgeted expectations of increased utility rates during the year.
- **Repair and Maintenance** – As of mid-year, this expenditure has been slightly above budget primarily due to the timing of vehicle repairs performed. However, the net effect is small due to the relatively small total dollar amount of this line item.
- **Other Expenses** – This line item is on budget. This includes all other operating expenses including bank and merchant fees, equipment rentals, insurance, and other miscellaneous expenditures.
- **Transfers Out** – These expenditures are made primarily to fund ongoing infrastructure related capital projects as approved in the annual budget.

In summary, the General Fund has operated at 47% of the budgeted expenses at mid-year, and is expected to continue to be on track as we move towards the second half of the fiscal year.



**CAPITAL PROJECTS SUMMARY:**

Capital projects are typically funded with a combination of general fund or water/sewer funds as well as grants and other special revenue funds. All of these projects as of mid-year are in line with budget given the variable timing of the projects. Current year projects include Falletti Building Improvement, Citywide Paving Improvements, Citywide Traffic Safety, the Park Master Planning, the Safety Lighting Project, the Civic Center Refurbishments and Improvements. Other grant and Community Development Block Grant (CDBG) partially funded projects include the Wayfinding Signage Program supported by a federal grant (TDA3), the East Cotati Ave. Paving Project supported by federal paving funding (OBAG2), and the School Street Pathway supported by CDBG.



**ENTERPRISE FUNDS**



**WATER FUND:**

(See Appendix A - Table 6 and Graphs 1 & 2)

**WATER FUND REVENUES:**

- **Charges for Services** – This is made up of charges to water customers for both the water usage and base charges. These charges are tracking on budget.
- **Connection Fees** – Mid-Year connection fees are variable based on the timing of the pending development projects.
- **Other Revenues** – Includes other miscellaneous customer fees such as backflow or late payment charges.

**Comparative Water Revenue and Usage:** The monthly water revenue earned to date compared to the same period last year increased approximately 8%, due to both the approved rate changes to support infrastructure projects, as well as increased water usage over the prior year.

**WATER FUND EXPENSES:**

The most significant elements of the operating expenses are described in more detail, as follows.

**Significant Operating Expenses:**

- **Aqueduct Water Usage** – this is at 56% of budget, which is expected. Historically the first three billing cycles of the year are considered the peak for water usage. Additionally, there continues to be increased water usage as we move farther away from the last drought.
- **Utilities** – The single most significant utility used for water is PG&E provided electricity to power the pumps and move water into the system from the City municipal wells. Expenses are consistent with budget and in line with expected increased rates.

- **Other Expenses** – A significant portion of budget is allocated annual Dues and Subscriptions and Software Licensing.

- Dues and subscriptions are approximately \$36,000, primarily due to payment made to Santa Rosa Plain Groundwater Sustainability Agency (SRPGSA).
- Software Licensing is approximately \$26,000, primarily due to the annual renewal of the software subscription services provided by Itron, which is paid in July every year.

**Significant Other Uses:**

- **Capital Improvements** – The current project budgeted for water is the continued development of the SCADA System, which includes the installation of a database system, a backup server with remote laptops, and installing chlorine analyzers at each well site. This project will continue during the next two quarters of the fiscal year.
- **Debt Payment** – The mid-year amount reported covers partial debt payment for the entire year as well as the one time additional lump sum payment of the interfund debt. The remaining budget is to be used in full in subsequent 6 months.

In summary, both the revenues and the expenses in the water fund are tracking on budget as of mid-year.



**SEWER FUND:**

(See Appendix A - Table 7)



**SEWER FUND REVENUES:**

- **Charges for Services** – Charges for services increased over the prior year by approximately 21% due to both the rate changes as well as increased sewer averaging from higher actual water usage for the two lowest billing periods during fiscal year 2017-2018.
- **Connection Fees** – The mid-year connection fees are lower than anticipated due to the timing of new development.
- **Other Development Fees** – These revenues primarily consist of the conservation fees assessed on specific development permits and are variable based on the timing.
- **Debt Proceeds** – Balance received is related to the interfund debt which is paid from the water fund to the sewer fund quarterly. Current year payments include both the first two quarters plus an additional one time lump sum payment.

**SEWER FUND EXPENSES:**

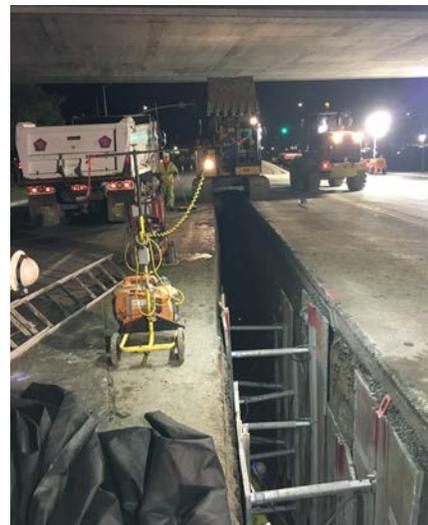
Sewer Fund operating and treatment expenses to date are \$1.3M or 49% of budget. The bulk of these expenses are related to treatment costs of wastewater at the subregional waste water treatment plant. Overall, expenses are in line with the budget and our expectations.

**Significant Other Sources/ (Uses):**

As of mid-year the Net Other Sources/ (Uses) are 91% of budget due to the timing of transfers in that are pending as discussed below. This is considered in line with management’s expectations and is anticipated to be within budget at year end.

- **Transfers In** – These are balances to be provided to the sewer fund under the terms set forth in Resolution 2018-53 for the funding of the P-1 Pipeline. These interfund debt related transfers will be performed at the issuance of the notice of completion for the project.
- **Capital Improvements** – Current projects include:
  - The P-1 Sewer Pipeline (Laguna Bypass) is a 21 inch sewer line in highway 116 under the U.S. 101 overpass, extending along Redwood Drive and connecting to the City’s trunk sewer at Helman Lane. This project is intended to relieve a key bottleneck to reduce sewer surcharging.
  - The sewer SCADA project mirrors many elements of the water SCADA project. This SCADA project includes the installation of a database system, backup server with remote laptops, and installation of equipment at the City’s master sewer billing site.

In summary, the City’s current sewer revenue and expenses are on track in anticipation of new development in the second half of the fiscal year.



## Appendix A

General Fund  
Mid-Year Revenues and Expenditures Tables

**TABLE 1 - Revenue and Expenditure Summary**

<b>GENERAL FUND</b>				
As of December 31, 2018				
GENERAL FUND BALANCE		BUDGET	MID-YEAR ACTUAL	%
REVENUES		\$ 7,394,845	\$ 3,759,599	51%
TRANSFERS IN		160,000	80,000	50%
<b>TOTAL REVENUES</b>		<b>\$ 7,554,845</b>	<b>\$ 3,839,599</b>	<b>51%</b>
EXPENDITURES		6,421,531	3,037,857	47%
TRANSFERS OUT		1,659,215	774,463	47%
<b>TOTAL EXPENDITURES</b>		<b>\$ 8,080,746</b>	<b>\$ 3,812,320</b>	<b>47%</b>

**TABLE 2 - Revenue Summary**

<b>GENERAL FUND</b>				
As of December 31, 2018				
DESCRIPTION BY TYPE		BUDGET	MID-YEAR ACTUAL	%
PROPERTY TAX		\$ 1,560,250	\$ 955,992	61%
SALES TAX		4,382,000	1,875,376	43%
OTHER TAXES		282,000	181,653	64%
LICENSES, PERMITS AND FRANCHISES		476,750	189,025	40%
RENT		63,400	37,859	60%
REVENUES FROM OTHER AGENCIES		185,500	189,576	102%
DEVELOPMENT CHARGES FOR SERVICES		240,145	107,920	45%
PUBLIC WORKS CHARGES FOR SERVICES		7,500	30,120	402%
PUBLIC SAFETY CHARGES FOR SERVICES		116,800	36,431	31%
OTHER REVENUE		45,800	87,444	191%
INVESTMENT EARNINGS		22,000	54,554	248%
CONTRIBUTIONS		12,700	13,649	107%
TRANSFERS IN		160,000	80,000	50%
<b>TOTAL</b>		<b>\$ 7,554,845</b>	<b>\$ 3,839,599</b>	<b>51%</b>

General Fund  
Mid-Year Revenue and Expenditures Tables, Continued:

**TABLE 3 - Revenue Summary vs. Prior Mid-Year 2017-2018**

<b>GENERAL FUND</b>						
As of December 31, 2018						
DESCRIPTION BY TYPE	CURRENT YEAR		PRIOR YEAR		INCREASE/(DECREASE)	
	MID-YEAR	MID-YEAR	MID-YEAR	MID-YEAR	\$	%
PROPERTY TAX	\$ 955,992	\$ 847,349	\$ 108,643		11%	
SALES TAX	1,875,376	2,126,087	(250,711)		-13%	
OTHER TAXES	181,653	18,497	163,156		90%	
LICENSES, PERMITS AND FRANCHISES	189,025	207,727	(18,702)		-10%	
RENT	37,859	23,426	14,433		38%	
REVENUES FROM OTHER AGENCIES	189,576	1,813	187,763		99%	
DEVELOPMENT CHARGES FOR SERVICES	107,920	255,340	(147,421)		-137%	
PUBLIC WORKS CHARGES FOR SERVICES	30,120	25,298	4,822		16%	
PUBLIC SAFETY SERVICE CHARGES	36,431	36,049	382		1%	
OTHER REVENUE	87,444	164,093	(76,649)		-88%	
INVESTMENT EARNINGS	54,554	20,433	34,121		63%	
CONTRIBUTIONS	13,649	9,162	4,487		33%	
TRANSFERS IN	80,000	72,000	8,000		10%	
<b>TOTAL</b>	<b>\$ 3,839,599</b>	<b>\$ 3,807,274</b>	<b>\$ 32,325</b>		<b>1%</b>	

**TABLE 4 - Expenditure Summary**

<b>GENERAL FUND</b>				
As of December 31, 2018				
EXPENDITURE BY TYPE	BUDGET	MID-YEAR ACTUAL	%	
SALARIES AND BENEFITS	\$ 4,235,237	\$ 2,173,031	51%	
CONTRACT SERVICES	1,239,798	377,236	30%	
MATERIALS & SUPPLIES	50,900	27,386	54%	
UTILITIES	249,515	115,278	46%	
REPAIR & MAINTENANCE	39,414	26,963	68%	
OTHER EXPENSES	610,416	317,964	52%	
TRANSFERS OUT	1,659,215	774,463	47%	
<b>TOTAL</b>	<b>\$ 8,084,495</b>	<b>\$ 3,812,320</b>	<b>47%</b>	

General Fund  
Mid-Year Revenue and Expenditures Tables, Continued:

**TABLE 5 - Expenditure Summary by Department**

<b>GENERAL FUND</b>				
As of December 31, 2018				
EXPENDITURE BY DEPARTMENT	BUDGET	MID-YEAR ACTUAL	%	
CITY COUNCIL	\$ 153,213	\$ 57,655	38%	
CITY MANAGER	522,897	267,147	51%	
ADMIN SERVICES	207,702	95,033	46%	
COMMUNITY DEVELOPMENT	638,572	252,374	40%	
PUBLIC WORKS	1,005,298	428,557	43%	
POLICE	3,564,393	1,793,875	50%	
RECREATION	296,720	133,286	45%	
TRANSFERS OUT	1,695,700	774,463	46%	
<b>TOTAL</b>	<b>\$ 8,084,495</b>	<b>\$ 3,802,389</b>	<b>47%</b>	

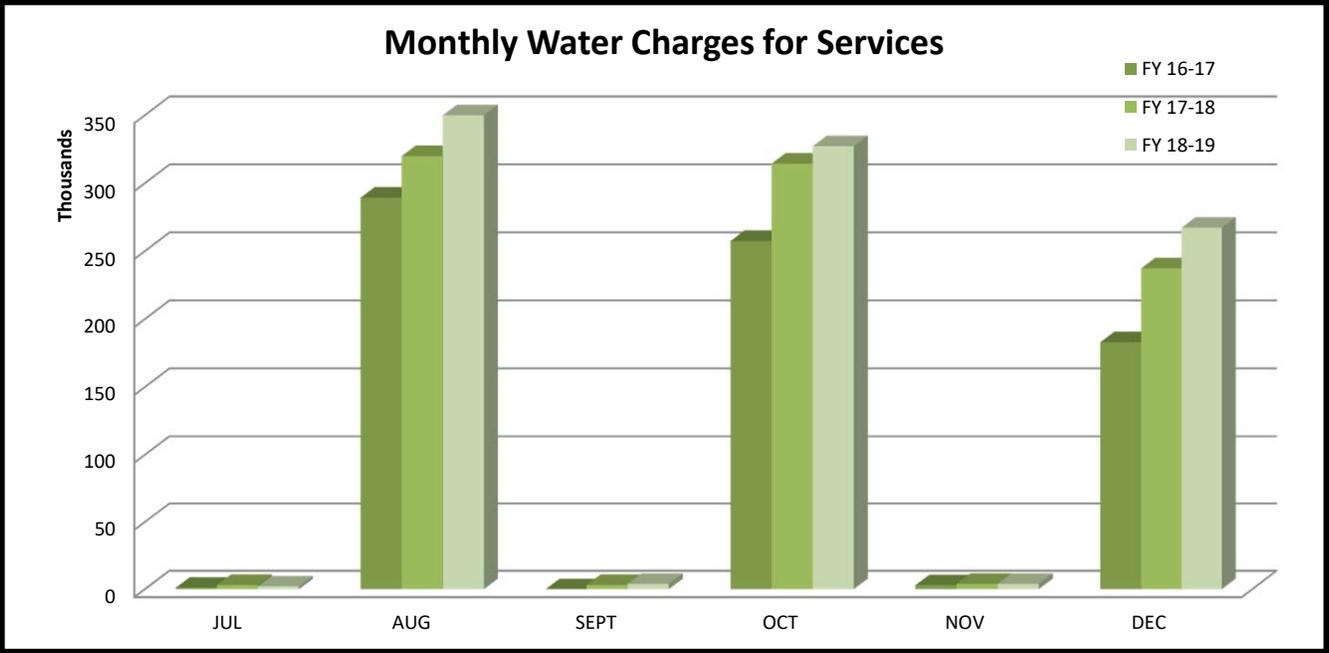
Water Funds  
Mid-Year Revenues and Expenses Tables

**TABLE 6 - Water Enterprise Revenue & Expense Summary**

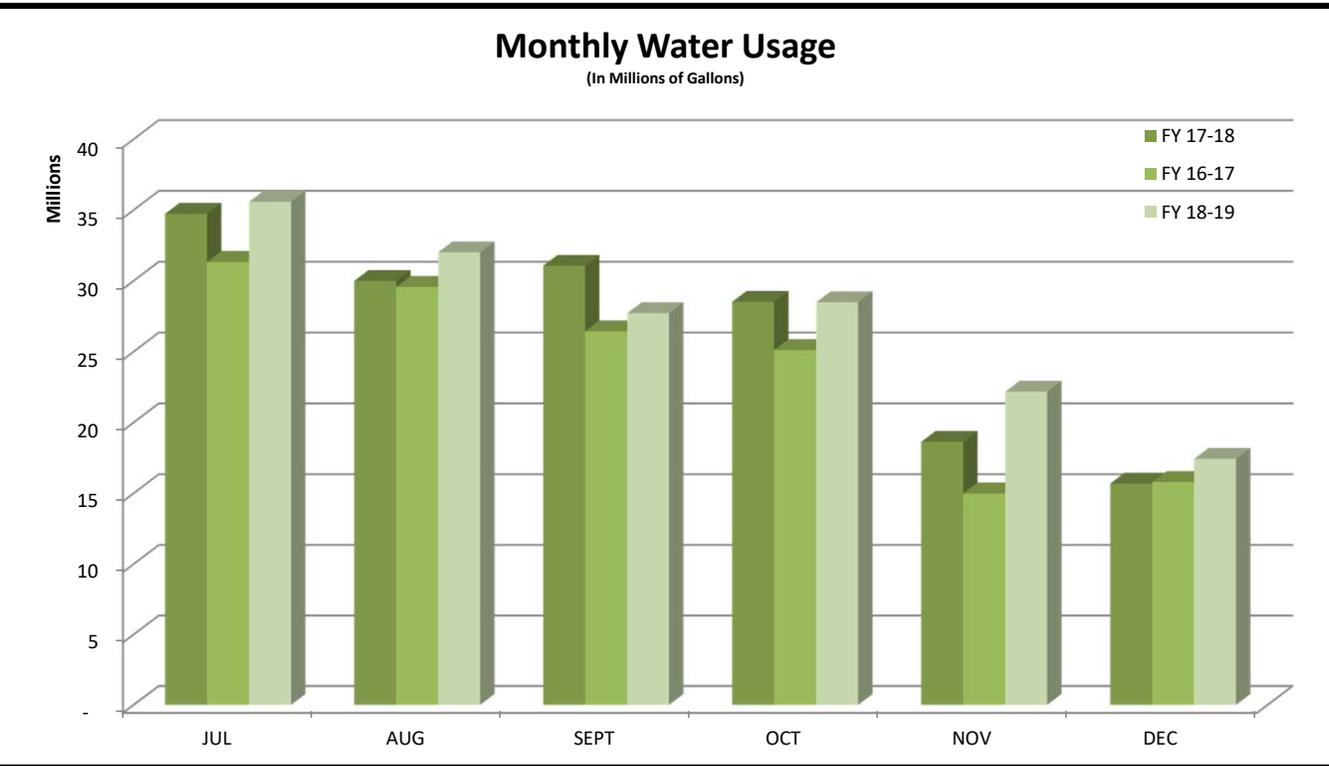
<b>WATER FUNDS</b>			
As of December 31, 2018			
	BUDGET	MID-YEAR ACTUAL	%
<b>REVENUES</b>			
Charges for Services	\$ 1,712,800	\$ 966,214	56%
Connection Fees	\$ 260,000	195	0%
Other Revenue	\$ -	4,098	100%
<b>Total Revenues</b>	<b>\$ 1,972,800</b>	<b>\$ 970,507</b>	<b>49%</b>
<b>EXPENSES</b>			
Operations	\$ 1,799,117	\$ 787,589	44%
<b>Total Expenses</b>	<b>\$ 1,799,117</b>	<b>\$ 787,589</b>	<b>44%</b>
<b>OTHER SOURCES</b>			
Interest Earnings	\$ 4,000	\$ 18,890	472%
<b>OTHER USES</b>			
Capital Improvements	(30,000)	-	0%
Debt Payments	(254,469)	(202,235)	79%
<b>Other Sources/(Uses)</b>	<b>\$ (284,469)</b>	<b>\$ (202,235)</b>	<b>71%</b>

Water Funds  
Mid-Year Monthly Water Charges and Usage Graphs

**Graph 1**



**Graph 2**



Sewer Funds  
Mid-Year Revenues and Expenses Tables

**TABLE 7 - Sewer Enterprise Revenue & Expense Summary**

<b>SEWER FUNDS</b>			
As of December 31, 2018			
	BUDGET	MID-YEAR ACTUAL	%
<b>REVENUES</b>			
Charges for Services	\$ 2,119,500	\$ 1,193,963	56%
Connection Fees	465,000	383	0%
Other Development Fees	78,400	19,570	25%
Debt & Lease Loan Proceeds	254,469	202,235	79%
<b>Total Revenues</b>	<b>2,917,369</b>	<b>1,416,151</b>	<b>49%</b>
<b>EXPENSES</b>			
City Sewer Operations	794,864	393,631	50%
Wastewater Treatment Operations	971,842	469,848	48%
Capital-Subregional	826,034	413,017	50%
<b>Total Expenses</b>	<b>\$ 2,592,740</b>	<b>\$ 1,276,496</b>	<b>49%</b>
<b>OTHER SOURCES</b>			
Transfers In	2,665,516	-	0%
Interest Earnings	17,131	61,387	358%
<b>OTHER USES</b>			
Capital Improvements	(4,806,843)	(1,985,300)	41%
<b>Other Sources/(Uses)</b>	<b>\$ (2,124,196)</b>	<b>\$ (1,923,913)</b>	<b>91%</b>