

Quarterly Financial Report

Second Quarter, 2016-17

THIS REPORT

Management of the City of Ukiah is pleased to present this quarterly financial report on the activities, condition, and budgetary highlights for the second quarter of fiscal year 2016-17 covering the period of July 1, 2016 through December 31, 2016.



City of Ukiah

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“The City budget is a comprehensive policy document and spending plan outlining the priorities of the City Council.”

To Our Community

Strategic Highlights

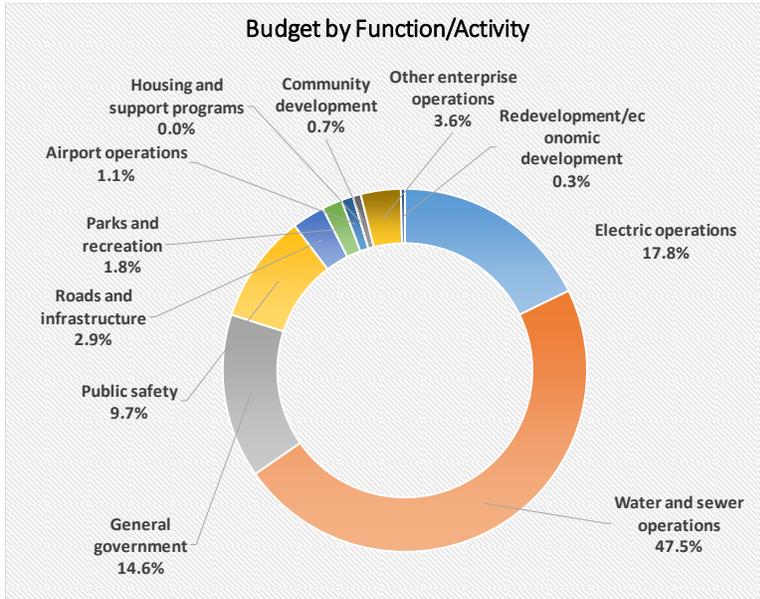
The Ukiah City Council, through a strategic process of discussion, observation, and education, has developed the following set of focused priorities that help guide the development and implementation of policies, activities, and programs. These four areas are in no way all-encompassing of the City's scope of work nor are they finite; rather, the strategic planning process is considered evolutionary and vision-based. All of these areas work to further promote the vibrancy and sustainability of the Ukiah community and the organization.

- Develop a prioritized plan for maintaining and improving public infrastructure.
- Planning valley-wide takes place based on sound planning principles.
- Facilitate the development of a sound local economy that attracts investment, promotes economic diversity, supports businesses, creates employment opportunities, and generates public revenues.
- Council and staff work together to create a more responsive and effective workplace environment.

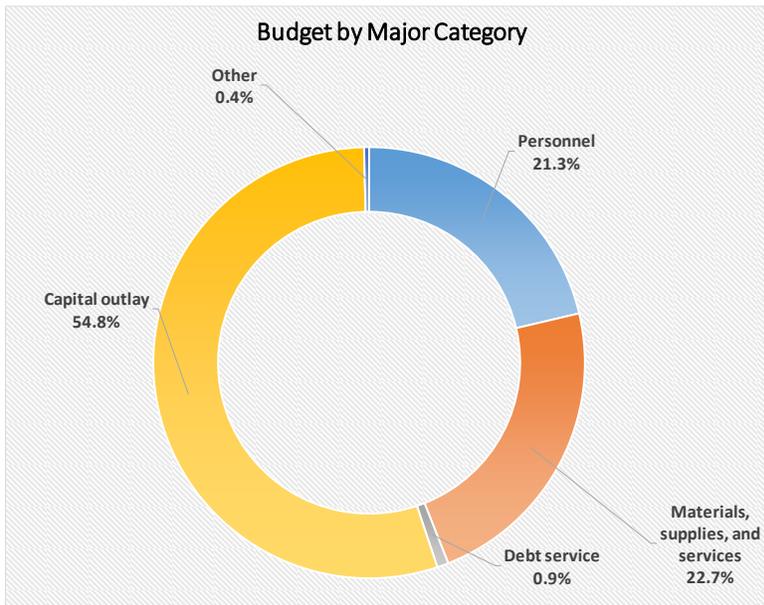
Budgetary Highlights

The City budget is a comprehensive policy document and spending plan outlining the priorities of the City Council. The original adopted operating and capital budget for fiscal year 2016-17 was \$51.6 million and \$16.4 million, respectively, for a grand total of \$67.99 million. It was since amended to include, among other things, the waste water enterprise funds and anticipated recycled water fund. The total amended budget as of December 31, 2016 was \$116.6 million.

The following graph illustrates where the City Council has appropriated resources by major function or activity. For clarification, activities classified as “general government” include capital projects and programs not related to specific functions/activities (such as electric operations or parks and recreation), internal services, special projects, and general governance (legislative and administrative).



The graph below illustrates how those same appropriations are broken down into major categories.



Operating Highlights

The City engages in numerous activities during the year, offering services and programs to its residents and the greater community as a whole. From law enforcement and public safety to recreation programs, we are a full-service City, a regional economic hub, and a municipal organization of caring and dedicated professionals. Operating highlights for the first half of the year include:

- Initiation of user rate reviews with an emphasis on long-term revenue and cost forecasting. The most substantial review initiated (and completed) was of electric user rates.
- Evaluation and strategic planning to address increased public safety concern, most notably surrounding the growing transient population in the City.
- The successful recruitment of a new Finance Director to the City and the reorganization of the Finance Department to better meet the needs of departments and functions within the organization, the City Council, and the community.
- Continued emphasis on economic development, including developing and implementing strategies to retain and attract business to the City, improving quality of life for all Ukiah citizens.
- Strong emphasis on housing:
 - Securing former redevelopment unspent housing bond proceeds to deploy in helping families and seniors find housing in the City.
 - PEP project, 42 new units of senior housing.



Our Core Values:

Core Values

Our core values are what drive us to better serve our community by creating a culture of positivity, inclusion, and professional betterment. These values are as follows:



- Professionalism. We demonstrate this through proficiency, reliability, and our drive to make opportunities happen.
- Service. We inspire confidence in our organization and our team members by consistently providing exceptional service.
- Teamwork. We believe in creating an environment that fosters teamwork and processes that support equal opportunity, collaboration, and commitment to common goals.
- Innovation. We work to discover practical solutions, challenge prevailing assumptions, and create new ideas that prove useful.
- Safety. We strive to keep our community and our workplace safe and healthy.

More information on our core values can be found on the city's website, www.cityofukiah.com/eep.

Looking Ahead

The next quarter and beyond offers many opportunities for organizational development and process improvement. One of the most important and urgent priorities will be the development and implementation of a new budget process. We are excited about the benefits it will offer, including enhancing transparency of City finances and priorities and accountability for the activities the City engages in.

Further, we will continue to emphasize the following activities:

- Housing
- Economic Development
- Public safety
- Landfill closure
- Rate review, sewer
- Redwood Business Park right-of-way improvements



Sage Sangiacomo

City Manager

March 1, 2017

Financial Summary

In this section we report on the financial activities of the City as a whole (City-wide), at the individual fund level, and at the department level. Also included is information on the status of capital improvement projects identified by the City Council.

Financial highlights of the last six months ending December 31, 2016, include the following:

- Revenue city-wide of \$26.2 million outpaced expenses of \$24.7 million by \$1.5 million. This sustained critical reserve, working capital, and fund balance accounts, ensuring the City could fund operations meeting community needs.
- Capital expenditures were \$1.8 million, of which \$1.2 million was for infrastructure.
- The general fund and major enterprise funds remained well capitalized and able to meet its service demands.
- Top ten revenues of the general fund came in higher than the same period last year, driven by increasing sales tax and TOT revenue.
- Most departments and activities are on pace or under budget estimates. A few will be in need of further review and potential appropriation adjustments.
- Personnel expenses totaled to 48.9% of total City expenses. Materials, services, insurance, and supplies totaled to 43.5%, while interest on debt expense rounded out the remaining amount at 7.6%.

For More Information. This report is prepared by the City's Finance Department and is a summary based on detailed information produced by its financial management system. If you would like additional information, or have questions about this report, please call the Finance Department at 707.463.6220.



Daniel Buffalo, MPA, CPA, CGMA
Finance Director
March 1, 2017

Financial Statements and Schedules

The financial statements and schedules presented here are unaudited. For audited information, or to find greater detail, please refer to the City's Comprehensive Annual Financial Report (CAFR), which is released by December 31 following the end of the fiscal year.

City-wide

- Statement of Net Position
- Statement of Activities
- Capital Expenditures

Fund Schedules and Statements

- Summary of all Funds
- Major governmental and proprietary funds:
 - Balance Sheet/Working Capital
 - Statement of Changes

The General Fund

- Fund Balance
- Budget to actual
- Top Ten Revenues

The Enterprise Funds

- Changes to Working Capital
- Working Capital Over Time

Department Summary

- Budget to actual

Capital Improvement Update

- Project Budget, Schedule, and Status

City-Wide

STATEMENT OF NET POSITION

December 31, 2016

ASSETS

Cash and investments:	
Available for operations	\$ 51,999,509
Restricted cash	6,834,886
Receivables:	
Accounts, net	4,432,409
Property tax receivable	-
Interest receivable	120,283
Notes receivable	5,355,141
Grants receivable	39,753
Inventory and prepaids	1,378,946
Land held for resale	2,435,114
Capital assets not being depreciated:	
Land	4,273,008
Construction in progress	10,487,600
Capital assets, net of accumulated depreciation:	
Buildings and improvements	45,135,168
Infrastructure	100,085,334
Machinery, equipment, and vehicles	3,081,220
Total assets	235,658,371

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflow of resources related to pension	6,788,616
--------------------------------------------------	-----------

LIABILITIES

Current liabilities:	
Accounts payable	101,120
Accrued payroll liabilities	1,367,906
Interest payable	1,128,750
Deposits payable	271,599
Due within one year	-
Intergovernmental payable	-
Noncurrent liabilities:	
Due in more than one year	106,956,238
Net pension liability	39,939,090
Total liabilities	149,764,704

DEFERRED INFLOWS OF RESOURCES

Deferred inflow of resources related to pension	5,569,337
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NET POSITION

Net investment in capital assets	56,106,091
Restricted:	
Law enforcement	46,660
Fire protection	154,798
Parks and recreation	129,753
Housing programs	-
Economic development programs	-
Transportation infrastructure	365,615
Assessment district	-
Debt service reserve	-
Depreciation reserve	-
Capital purposes	-
Expansion activities	-
Unrestricted	30,310,028
Total net position	\$ 87,112,946

City-Wide
(cont.)**STATEMENT OF ACTIVITIES**

by function

Six-month Period Ended December 31, 2016

		% of Total Revenue
REVENUE		
Governmental Revenue:		
Taxes:		
Sales	\$ 3,372,145	12.6%
Property	1,486,077	5.5%
Transient occupancy	675,802	2.5%
Business license	61,495	0.2%
Licenses, permits, and franchises	1,079,141	4.0%
Fines, forfeitures, and penalties	45,380	0.2%
Intergovernmental	543,768	2.0%
Use of money and property	402,571	1.5%
Gain on sale of property	1,251	0.0%
Other Revenue	320,680	1.2%
Enterprise revenue and other charges for service:		
Water	3,709,047	13.8%
Sewer	3,712,547	13.8%
Electric	9,782,013	36.5%
Airport	498,655	1.9%
Other	1,086,611	4.1%
Grants and contributions	49,881	0.2%
Total operating revenue	26,827,065	100.0%
EXPENSES (by function)		
Electric operations	7,405,946	27.6%
Public safety	4,823,871	18.0%
General government	4,843,410	18.1%
Water and sewer operations	4,430,428	16.5%
Parks and recreation	1,067,139	4.0%
Roads and infrastructure	491,462	1.8%
Airport operations	491,270	1.8%
Community development	314,339	1.2%
Other enterprise operations	445,182	1.7%
Housing and support programs	171,590	0.6%
Redevelopment/economic development	165,609	0.6%
Total expenses	24,650,245	91.9%
Changes in net position from operations	<u>\$ 2,176,819</u>	<u>8.1%</u>

Fund
Schedules
and
Statements
(cont.)

Balance Sheet/Working Capital

Major Funds

ASSETS	General	Major Enterprise Funds		
		Water	Sewer	Electric
Current:				
Cash and investments:				
Available for operations	\$ 2,399,485	\$ 8,968,801	\$ 14,210,056	\$ 13,790,016
Restricted cash	-	3,756	1	4,077,468
Receivables:				
Accounts, net	10,703	1,062,393	789,678	2,455,003
Property tax receivable	-	-	-	-
Interest receivable	15,623	25,752	25,800	16,419
Notes receivable	152	-	-	-
Grants receivable	-	-	-	-
Due from other funds	613,037	-	-	51,424
Advances to other funds	899,246	-	-	-
Inventory and prepaids	11,183	134,232	-	1,233,531
Land held for resale	-	-	-	-
Total assets	3,949,429	10,194,934	15,025,535	21,623,861
LIABILITIES				
Current liabilities:				
Accounts payable	2,315	636	304	33,446
Accrued payroll liabilities	(68)	68,753	110,496	111,812
Interest payable	-	151,173	955,526	19,661
Deposits payable	(966)	26,859	-	239,031
Due to other funds	-	745,000	-	51,424
Advance from other funds	-	-	-	-
Due within one year	-	-	-	-
Intergovernmental payable	-	-	-	-
Total liabilities	1,281	992,421	1,066,326	455,374
FUND BALANCE/WORKING CAPITAL				
Nonspendable:				
Loans	152	-	-	-
Interfund loans	899,246	-	-	-
Restricted:				
Public safety	-	-	-	-
Fire protection	-	-	-	-
Parks and recreation	-	-	-	-
Housing programs	-	-	-	-
Economic development programs	-	-	-	-
Transportation infrastructure	-	-	-	-
Assessment district	-	-	-	-
Debt service reserve	-	1,380,377	3,786,579	4,043,341
Depreciation reserve	-	-	-	-
Capital purposes	-	-	-	2,848,748
Public benefit	-	-	-	(64,363)
Street lighting	-	-	521,438	173,958
Expansion activities	-	-	443,959	-
Committed:				
Rate stabilization	-	-	2,933,236	38,104
Assigned:				
Public safety	184,443	-	-	-
Capital purposes	-	5,141,017	715,845	-
Reserves	2,864,307	2,681,119	5,558,152	14,128,699
Unassigned	-	-	-	-
Total fund balance/working capital	3,948,148	9,202,513	13,959,209	21,168,487

Fund
Schedules
and
Statements
(cont.)

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE/WORKING CAPITAL
by major category

REVENUE	General	Major Enterprise Funds		
		Water	Sewer	Electric
Governmental Revenue:				
Taxes:				
Sales	\$ 3,372,145	\$ -	\$ -	\$ -
Property	1,478,882	-	-	-
Transient occupancy	675,802	-	-	-
Business license	65,929	-	-	-
Licenses, permits, and franchises	1,027,016	-	820	-
Fines, forfeitures, and penalties	18,569	-	-	-
Intergovernmental	23,411	-	-	-
Use of money and property	64,994	-	-	4,027
Other Revenue	132,130	2,545	-	1,248
Enterprise revenue and other charges for service:				
Water	-	3,709,047	-	-
Sewer	-	-	3,712,547	-
Electric	-	-	-	9,782,013
Airport	-	-	-	-
Other	590,706	21,329	2,292	17,024
Grants and contributions	-	-	-	(119)
Total operating revenue	7,449,584	3,732,921	3,715,659	9,804,193
EXPENDITURES (by function)				
Current:				
Administration and overhead	-	-	-	-
Internal services	169,192	145,974	151,243	75,552
General government	1,309,013	2,267	1,853	3,827
Public safety	4,653,678	-	-	-
Roads and infrastructure	491,462	-	-	-
Parks and recreation	986,557	-	-	-
Community development	314,339	-	-	-
Redevelopment/economic development	103,814	-	-	-
Housing and support programs	-	-	-	-
Electric	-	-	-	7,380,668
Water and sewer	-	1,104,506	1,635,805	-
Capital outlay	-	1,169,245	722,714	315,506
Debt service:				
Principal	-	475,000	-	-
Interest	-	226,759	1,425,650	21,451
Total expenditures	8,028,055	3,123,751	3,937,265	7,797,004
Excess of revenue over (under) expenditures	\$ (578,471)	\$ 609,170	\$ (221,606)	\$ 2,007,189
OTHER FINANCING SOURCES (USES)				
Transfers in	125,000	-	-	-
Transfers (out)	(108,967)	-	-	-
Total other	16,033	-	-	-
Net change in fund balance/working capital	(562,438)	609,170	(221,606)	2,007,189

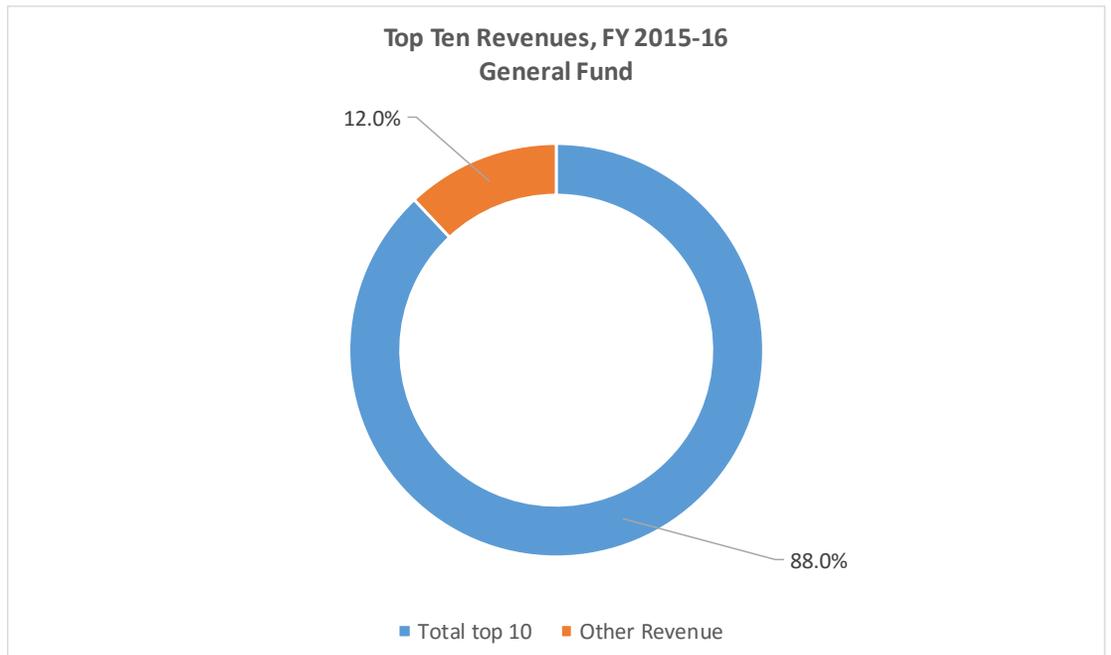
The General Fund

The City's general fund is its primary source of discretionary resources for the provision of service deemed necessary and desirable by the citizens of Ukiah and the City Council.

Revenues that are accounted for, and at the discretion of, the City Council are various and generally include:

- Taxes:
 - Bradley-Burns sales tax (1% of taxable sales)
 - Transaction and use taxes:
 - Measure P
 - Property taxes
 - TOT taxes (hotel tax)
 - Business license tax
- Licenses, permits, and franchise fees (cable, phone, garbage collection, utilities)
- Fines, forfeitures, and penalties
- Intergovernmental (grants and subventions)
- Use of money and property (interest earnings, rents, etc.)
- Other misc.

Altogether, the general fund receives revenue from 76 distinct sources. However, the majority of the revenue it receives comes from just ten of them.

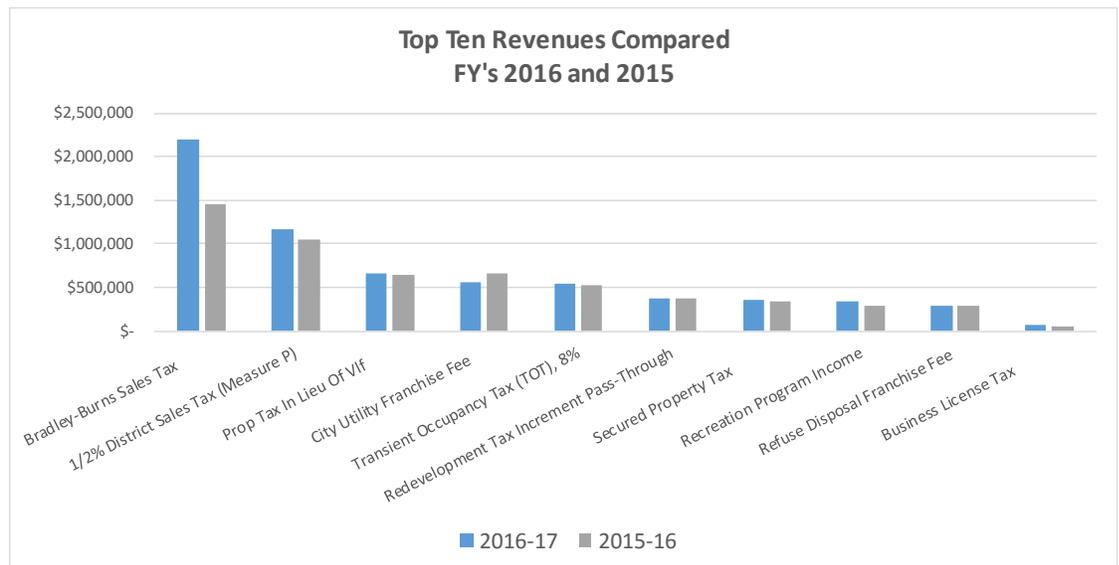


The General Fund (cont.)

Top Ten Revenues

The City's top ten revenue sources in the general fund account for approximately 88 percent of total general fund income. Focusing on these sources can provide a useful understanding of the City's revenue position.

The bar graph below illustrates the performance of top ten revenues as compared to a year ago. Overall, these revenue sources combined are up over 15 percent from the same time last year. Total general fund revenues are up nearly 14 percent.



TOP 10 - REVENUES

Current to Prior

Six-month Period Ended December 31, 2016

REVENUE	2016-17	2015-16	Percent Change	Percent of Total 2015-16 Revenues
Top 10:				
Bradley-Burns Sales Tax	\$ 2,207,286	\$ 1,454,016	51.81%	29.63%
1/2% District Sales Tax (Measure P)	1,164,859	1,051,001	10.83%	15.64%
Prop Tax In Lieu Of Vlf	657,745	646,687	1.71%	8.83%
City Utility Franchise Fee	562,199	660,341	-14.86%	7.55%
Transient Occupancy Tax (TOT), 8%	540,642	525,664	2.85%	7.26%
Redevelopment Tax Increment Pass-Through	375,587	364,498	3.04%	5.04%
Secured Property Tax	350,773	340,306	3.08%	4.71%
Recreation Program Income	346,116	294,896	17.37%	4.65%
Refuse Disposal Franchise Fee	283,763	282,369	0.49%	3.81%
Business License Tax	65,751	43,466	51.27%	0.88%
Total top 10	6,554,722	5,663,245	15.74%	87.99%
Other Revenue	894,864	876,410	2.11%	12.01%
Total operating revenue	\$ 7,449,585	\$ 6,539,655	13.91%	100.00%

Sales Tax. The City collects sales tax from two sources: normal Bradley-Burns sales taxes (1 percent of taxable transactions) and a ½ cent sales and use tax, commonly referred to as Measure P and devoted entirely to the City. Both tax sources are distinct and considered

The General Fund (cont.)

separate sources. Each behave slightly differently given their tax base. Bradley-Burns sales taxes are referred to as "sales and use" taxes, levied on transactions based geographically in the City. Here we see this revenue source up nearly 60 percent from the same time last year. This is the result of the elimination of the State's Triple-Flip, by which the City received a portion of its sales tax through the tax roll, which was tracked and reported in a separate revenue account. The real net effect to sales tax was an increase of approximately 10 percent from the same period last year. Nearly all sectors of Ukiah's economic base are up with the biggest gains coming from its restaurants and home supply/construction businesses.

Measure P. This is what's called a "transaction and use" tax and is applied to any taxable sale in the City as well as any sale where the use of the item is in the City. For instance, a car purchased outside the City but registered to, and therefore presumed to be used at, an address within would be levied the ½ cent on the purchase price. Similar to regular Bradley-Burns sales tax, this revenue source is up nearly 11 percent from the same time last year. Both Measure P and Bradley-Burns are general taxes and can be used for any regular, general governmental purpose.

Property Tax in Lieu of VLF (Vehicle License Fee). These are property tax shares allocated to cities and counties beginning in FY 04-05 as compensation for the state's take of Vehicle License Fees (VLF). This revenue source typically follows regular property tax collections, discussed under "Secured Property Tax" below and is up slightly over 1.5 percent compared to last year.

City Utility Franchise Fees. This revenue source is a charge to the City's electric utility. Franchise fees are not taxes; rather, they are rents paid by utility providers to operate on or in City rights-of-way and City property, such as roads, sidewalks, parklands, etc. The rents are established by the City Council and typically are correlated to gross revenues generated by the utility provider. They were lower in FY 2015-16 than in the preceding year due to a Council-approved franchise fee rate decrease for the electric utility.

Transient Occupancy Tax (TOT). Commonly referred to as a "bed," "hotel," or "room" tax this revenue source has performed strongly over the last two years, up nearly 15 percent from 2014-15. Here we see it up nearly 3 percent from the same six-month period a year ago. Driven by increased tourism in the greater Ukiah Valley area and a larger volume of travelers heading north, this revenue source is poised to continue its positive growth trend for several more years. Visitors are stopping in Ukiah as a final layover before making the trek to Fort Bragg and Humboldt County and are exploring the wonder of what the Ukiah Valley has to offer.

The TOT rate in Ukiah currently is 10 percent; however, 8 percent is considered general revenue to the general fund, which is what is reported here. The remaining 2 percent funds economic development and tourism enterprise and is deposited to a special revenue fund.

The General Fund (cont.)

Redevelopment Tax Increment Pass-Through. After the dissolution of Redevelopment in California by the Legislature, the Ukiah Redevelopment Agency was sent into receivership of a successor agency. Property tax increment revenue once received by the former agency was, instead, held in trust by the County Auditor-Controller in a specific fund, affectionately known as the Redevelopment Property Tax Trust Fund (RPTTF). Property tax increment collected in this fund would first pay the County Auditor-Controller's admin costs, then pass to the successor agency of the former RDA (City of Ukiah) to satisfy the obligations of the former agency, then to the taxing entities in the project area of the former RDA, including the Ukiah Unified School District and the County of Mendocino general fund. The City also receives a share of these residuals and deposits them in a specific in the general fund, which is reported here.

This revenue source tracks relatively similar to regular (secured) property tax, although it is calculated from a slightly different derivative property tax base (tax increment).

Secured Property Tax. Traditionally, revenue from property tax was viewed as a very stable source. The housing collapse of 2008 tested that assumption. However, as the housing market continued to recover modestly in Ukiah, receipts came in higher than the year prior. This was due to a combination of factors, including retroactive Prop 8 (1978) assessment adjustments and increased assessed values from housing sales. Slightly less than 11 percent of property taxes paid by property owners within the City are allocated to the City. The majority is distributed to local schools and the County of Mendocino.

As mentioned earlier, revenue from this source will continue to trend positively over the next few years as the county continues to process Prop 8 property value adjustments and as housing prices and home sales increase.

Recreation Program Income. These are user fees for recreation and athletic programs offered to adults, children, and other in the community. They include adult softball and volleyball, adult and youth basketball, and various classes and clinics delivered by the Community Services Department. This revenue source is up over 17 percent from a year ago due to higher demand for, and greater participation in, recreation programs by the community.

Refuse Disposal Franchise Fees. This revenue source is a charge to the City's franchise solid waste hauler. As discussed earlier, franchise fees are not taxes; rather, they are rents paid by utility providers to operate on or in City rights-of-way and City property, such as roads, sidewalks, parklands, etc. The vehicles used to provide this service (garbage trucks) are heavy machines that wear roads more quickly and significantly than other commercial and non-commercial vehicles. Revenues from this source have come in slightly higher in FY 2016-17 than in the same period of the preceding year due to increased revenue by the hauler, Ukiah Waste Solutions.

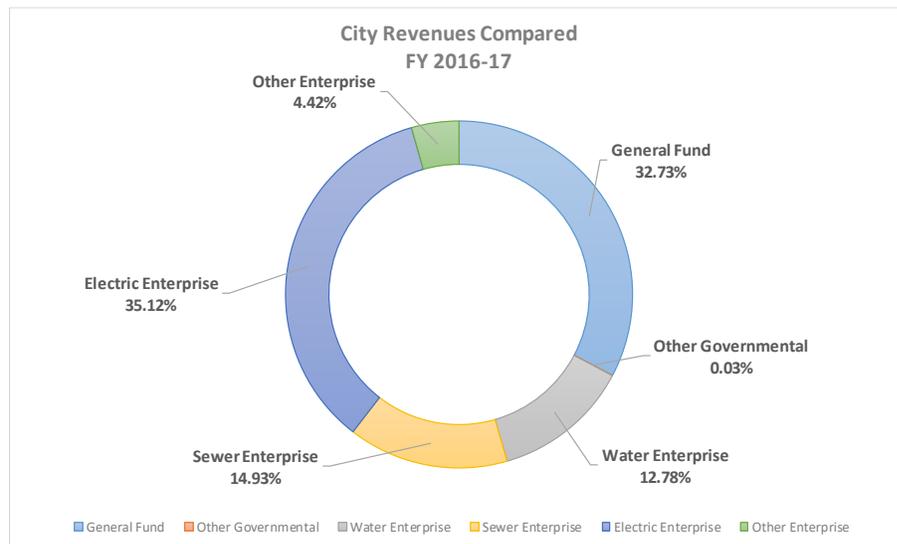
Business License Tax. Businesses that operate within City limits are required to obtain a business license. The proceeds from the tax collected are available for unrestricted use in the general

The General Fund (cont.)

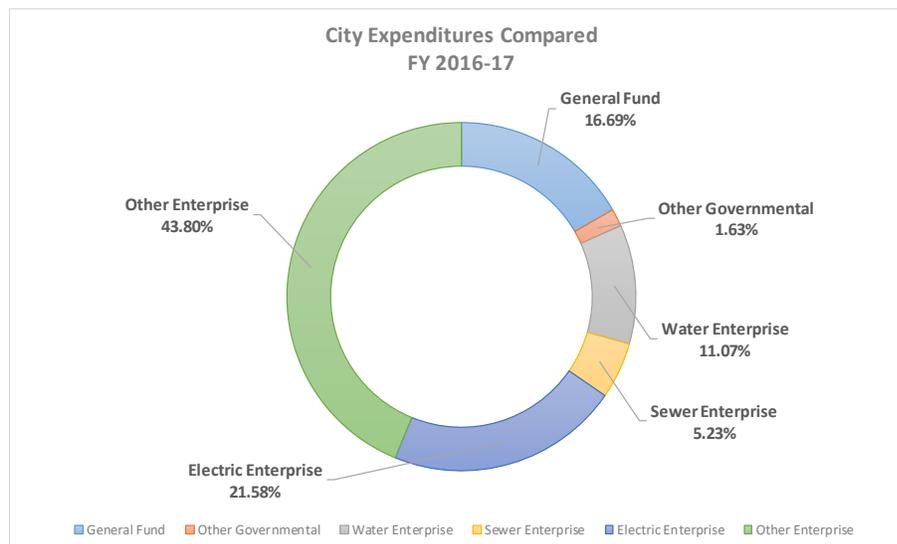
fund. Receipts for this period are up significantly from a year ago likely due to timing differences of payments to the City and to the normal business cycle.

Revenues and Expenditures Compared

Compared to all other revenue sources of the City, the general fund accounts for around one-third of the total.



Compared to all other expenditures of the City, the general fund typically accounts for about one-quarter of the total. In the current fiscal year, capital projects in other funds reduce that total share to around 16 percent.



Enterprise Funds

The City provides various enterprise services, including electric, water, and sewer. Water and sewer are housed administratively within the Public Works Department but are accounted for, like electric, in a proprietary, enterprise fund. Through the collection of fees and charges, these funds should collect revenues sufficient enough to finance costs associated with administration, operations, capital improvements (CIP), and debt service.

Enterprise activities are accounted for like a business in the private sector using the full accrual basis. This is starkly different than governmental fund accounting, which uses the modified accrual basis and is concerned only with current spendable resources, what we call fund balance. Drawing comparisons of information between the two methods can be challenging.

Although the City accounts and reports on these funds using full accrual accounting basis, here we present the activities of the water, sewer, and electric enterprise funds in terms of working capital. Working capital is defined as the difference between current assets and current liabilities, which is closely approximate to the definition of fund balance in governmental funds. In other words, it's the resources available to meet ongoing operating, debt service, and capital activities in the near term. Non-cash expenses, such as depreciation and typically part of full accrual accounting, are excluded from this presentation.

Electric Enterprise

Revenues from rates through the first six months of the year outpaced expenditures by \$2.1 million. However, revenues are down from the same period last year by nearly .08 percent. Operating expenditures were also lower than the same period last year primarily due to timing differences for power purchases. Debt service expenditures were lower than last year as well due to the timing differences of when payments are made.

The schedule and graph below illustrate the utility's working capital trend for the first half of the year of each the last five years. The performance of the fund overall has experienced continual decreases in working capital, with the exception of 2016, during which cash balances held by Northern California Power Agency (NCPA) on behalf of the City were formally recognized on the City's books. Given this past erosion, however, the electric enterprise maintained a healthy reserve and working capital of 216 percent of current revenue for the year. Of that, \$14.5 million (148 percent) was available to support operations.

As of the date of this report, the City Council has taken steps to better provide resources to the electric utility by addressing service rates. The Council moved to begin a phased-in approach to electric rates beginning in January, 2017. Annual rate adjustments averaging three percent will occur over the next four years.

Additionally, the City maintains a public benefit program to assist low income customers with the cost of their electric service. This program in fiscal year 2015-16, however, expended more resources than were available, requiring a short-term loan of \$51,424 from the electric operating

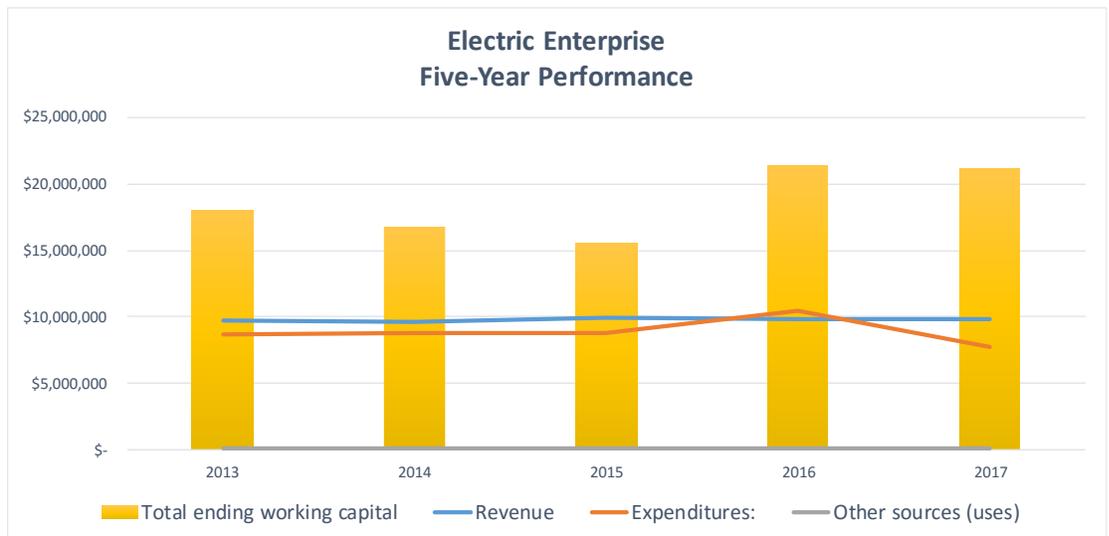
Enterprise Funds (cont.)

fund. The program is scheduled to repay that loan to the operating fund in the third quarter. The public benefit fund maintained a working capital balance of \$5,888 as of December 31, 2016. Management is developing a strategy to correct this imbalance and will make a subsequent recommendation to Council by June, 2017.

ELECTRIC ENTERPRISE

Second Quarter Ended December 31, 2016

Five-Year Trend	2013	2014	2015	2016	2017	Change from Prior Year
Revenue	9,678,317	9,661,676	9,971,064	9,882,740	9,804,193	-0.79%
Expenditures:						
Operating	8,274,621	8,283,141	8,384,571	9,422,777	7,460,046	-20.83%
Debt service	337,683	293,620	246,745	196,433	21,451	-89.08%
Capital outlay	60,334	218,966	161,707	818,825	315,506	-61.47%
Total expenditures	8,672,638	8,795,727	8,793,023	10,438,035	7,797,003	-171.38%
Excess (deficiency)	1,005,679	865,949	1,178,041	(555,295)	2,007,190	170.58%
Other sources (uses)	114,173	93,618	142,221	140,159	137,910	-1.60%
Change in working capital	\$ 1,119,852	\$ 959,567	\$ 1,320,262	\$ (415,136)	\$ 2,145,100	-616.72%
Beginning working capital	16,873,088	15,853,203	14,178,988	21,754,608	19,023,386	-12.55%
Ending working capital, reserved for:						
Rate stabilization	1,479,322	1,490,438	1,501,111	1,519,577	1,537,844	1.20%
Restricted	510,951	505,073	480,361	253,075	137,938	-45.50%
Debt service	5,794,593	4,561,554	3,393,076	3,164,562	4,041,793	27.72%
Capital	1,337,404	1,337,404	1,337,404	1,223,212	925,020	-24.38%
Operations	8,870,670	8,918,301	8,787,298	15,179,046	14,525,891	-4.30%
Total ending working capital	\$ 17,992,940	\$ 16,812,770	\$ 15,499,250	\$ 21,339,472	\$ 21,168,486	-0.80%



Enterprise Funds (cont.)

Water Enterprise

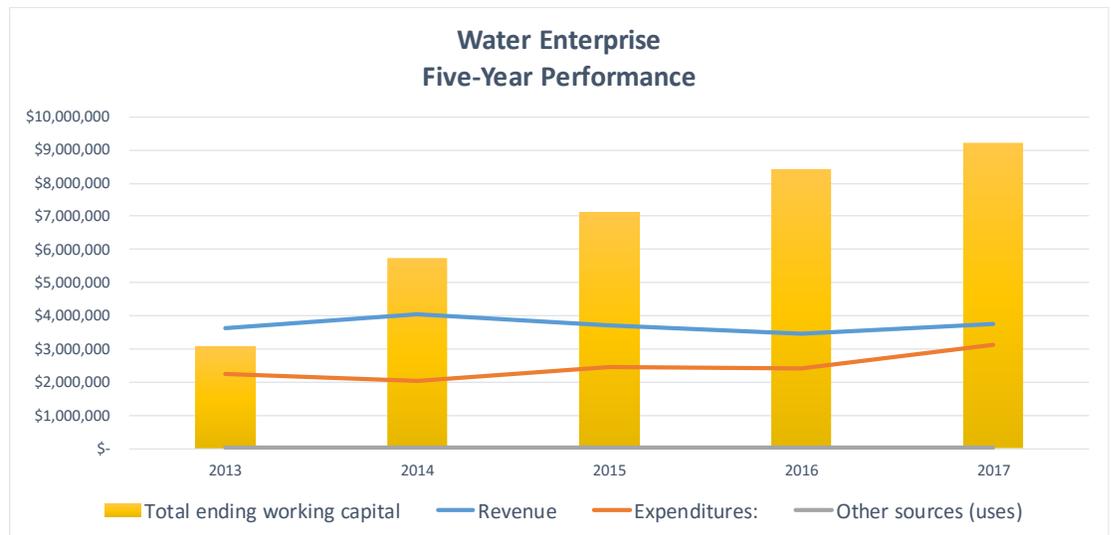
Revenues from rates exceeded expenditures by \$609,170. Transfers and other uses into the fund added to its working capital by \$24,981, bringing its total to \$9.2 million, or 247 percent of current revenue for the year, most of which was available to support operations, a comfortable cushion to protect the enterprise from adverse conditions.

The schedule and graph below illustrate the utility's working capital trend for the first half of the year of each the last five years. The performance of the fund overall has experienced a resurgence in working capital due to a recent rate adjustment in June, 2016. Revenue compared to the same period last year was up 8.25 percent.

The fund has performed well over the last five years, but expenditures relative to revenue have been increasing. We see that trend slowing somewhat in 2017, but it is something we will be watching closely, making appropriate recommended adjustments to operational spending where necessary.

WATER ENTERPRISE		Second Quarter Ended December 31, 2016					Change from
Five-Year Trend	2013	2014	2015	2016	2017	Prior Year	
Revenue	3,607,241	4,035,552	3,702,937	3,448,383	3,732,921	8.25%	
Expenditures:							
Operating	2,080,500	1,737,341	1,922,859	2,093,818	1,727,747	-17.48%	
Debt service	-	297,642	288,536	278,868	226,759	-18.69%	
Capital outlay	170,185	17,873	243,337	55,653	1,169,245	2000.96%	
Total expenditures	2,250,685	2,052,856	2,454,732	2,428,339	3,123,751	1964.79%	
Excess (deficiency)	1,356,556	1,982,696	1,248,205	1,020,044	609,170	-1956.54%	
Other sources (uses)	26,013	31,727	38,815	40,180	24,981	-37.83%	
Change in working capital	\$ 1,382,569	\$ 2,014,423	\$ 1,287,020	\$ 1,060,224	\$ 634,151	-40.19%	
Beginning working capital	1,672,162	3,707,337	5,834,838	7,350,543	8,568,362	16.57%	
Ending working capital, reserved for:							
Rate stabilization	-	-	-	-	-	0.00%	
Restricted	-	-	-	-	-	0.00%	
Debt service	-	-	-	-	-	0.00%	
Capital	-	-	-	-	-	0.00%	
Operations	3,054,731	5,721,760	7,121,858	8,410,767	9,202,513	9.41%	
Total ending working capital	\$ 3,054,731	\$ 5,721,760	\$ 7,121,858	\$ 8,410,767	\$ 9,202,513	9.41%	

Enterprise Funds (cont.)



Sewer Enterprise

Expenditures exceeded revenue from rates by \$221,605. Transfers and other uses into the fund lessened the impact to working capital by \$4,425, bringing its total to \$13.96 million or 376 percent of current revenue for the year. Of that, \$8.2 million (220 percent) of was available to support operations.

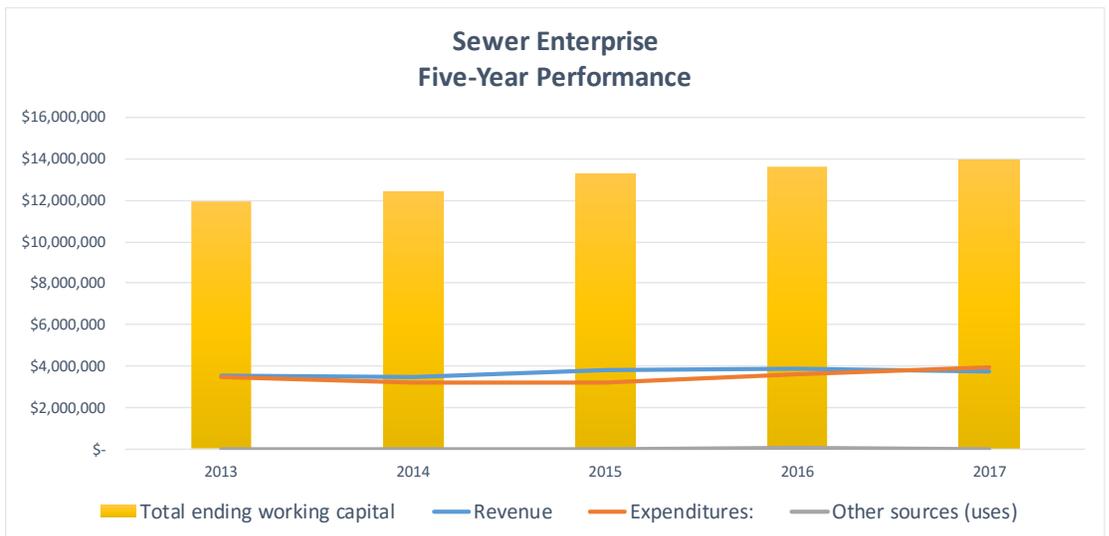
The schedule and graph below illustrate the utility's working capital trend for the first half of the year of each the last five years. The performance of the fund overall has experienced relative stability in working capital.

The fund has performed nominally over the last five years, with expenditures and revenues tracking closely. This is problematic for the fund, however, as it makes continued investments in capital outlay increasingly challenging. This is something we will be watching closely and making appropriate recommended adjustments to operational spending where necessary.

Further, it is a high priority of management to engage in a review of the sewer rate schedule by the end of the fiscal year to ensure the enterprise has sufficient resources to maintain operations, fund capital improvements, meet debt service requirements, and sustain adequate reserves.

Enterprise Funds (cont.)

SEWER ENTERPRISE		Second Quarter Ended December 31, 2016					Change from
Five-Year Trend	2013	2014	2015	2016	2017	Prior Year	
Revenue	3,514,018	3,499,934	3,841,940	3,848,240	3,715,660	-3.45%	
Expenditures:							
Operating	3,445,381	1,661,880	1,651,027	2,105,541	1,788,901	-15.04%	
Debt service	-	1,536,850	1,501,250	1,464,250	1,425,650	-2.64%	
Capital outlay	57,751	20,739	79,663	62,009	722,714	1065.50%	
Total expenditures	3,503,132	3,219,469	3,231,940	3,631,800	3,937,265	1047.82%	
Excess (deficiency)	10,886	280,465	610,000	216,440	(221,605)	-1051.27%	
Other sources (uses)	1	1,687	4,133	70,834	4,425	-93.75%	
Change in working capital	\$ 10,887	\$ 282,152	\$ 614,133	\$ 287,274	\$ (217,180)	-175.60%	
Beginning working capital	11,925,631	12,158,433	12,641,528	13,363,511	14,176,390	6.08%	
Ending working capital, reserved for:							
Rate stabilization	3,485,312	2,865,913	2,885,442	2,898,394	2,933,236	1.20%	
Restricted	554,290	314,997	346,580	415,904	524,173	26.03%	
Debt service	2,074,866	2,124,941	2,211,785	2,293,724	2,360,930	2.93%	
Capital	-	-	-	-	(51,028)	0.00%	
Operations	5,822,050	7,134,734	7,811,854	8,042,763	8,191,899	1.85%	
Total ending working capital	\$ 11,936,518	\$ 12,440,585	\$ 13,255,661	\$ 13,650,785	\$ 13,959,210	2.26%	



Department Summary

DEPARTMENT SUMMARY

Budget to Actual

Fiscal Year 2016-17

EXPENDITURES (by department/division)	Budget	Actual	Variance Favorable (Unfavorable)	% Variance Favorable (Unfavorable)	% of Total Expenditures
Non-Departmental	\$ -	\$ 2,400	\$ (2,400)	0.00%	0.01%
City Council	137,759	42,352	95,407	69.26%	0.14%
City Clerk:					
City Clerk	241,612	113,376	128,236	53.08%	0.38%
Elections	15,000	-	15,000	100.00%	0.00%
City Manager'S Office:					
City Manager	468,992	192,471	276,521	58.96%	0.65%
Information Technology	1,164,772	544,346	620,426	53.27%	1.84%
Administrative Support	89,167	25,453	63,714	71.45%	0.09%
Miscellaneous General Government	1,620,382	1,001,676	618,706	38.18%	3.39%
Finance:					
Utility Billing	1,012,427	358,672	653,755	64.57%	1.21%
Accounting	789,517	490,665	298,852	37.85%	1.66%
Purchasing	266,682	150,000	116,682	43.75%	0.51%
City Attorney	201,645	131,139	70,506	34.97%	0.44%
City Treasurer	91,454	30,801	60,653	66.32%	0.10%
Human Resources/Risk Management:					
Human Resources	496,408	290,667	205,741	41.45%	0.98%
Risk Management	-	-	-	0.00%	0.00%
Grant Administration:					
Economic Development	389,944	158,152	231,792	59.44%	0.53%
Successor Agency	23,034	10,432	12,601	54.71%	0.04%
Grants Division	134,164	168,615	(34,451)	-25.68%	0.57%
Community Outreach/Public Information	27,450	2,624	24,826	90.44%	0.01%
Police:					
Police Operations	9,463,175	4,653,921	4,809,253	50.82%	15.73%
Fire:					
Fire Administration	3,452,238	1,161,881	2,290,357	66.34%	3.93%
Community Services:					
Parks	1,191,086	624,081	567,005	47.60%	2.11%
Park Development	18,000	671	17,329	96.27%	0.00%
Aquatics	196,838	109,637	87,201	44.30%	0.37%
Golf	48,015	16,650	31,365	65.32%	0.06%
Building Maintenance	693,079	269,545	423,534	61.11%	0.91%
Conference Center	364,740	154,241	210,499	57.71%	0.52%
Museum	3,136,090	1,114,570	2,021,519	64.46%	3.77%
Recreation	926,947	424,473	502,474	54.21%	1.43%
Community Development:					
Community Planning	498,906	198,912	299,994	60.13%	0.67%
Building Inspection	319,612	115,427	204,184	63.88%	0.39%
Public Works:					
Garage	667,511	324,966	342,545	51.32%	1.10%
Engineering/Streets	3,038,538	632,665	2,405,873	79.18%	2.14%
Corporation Yard	79,412	35,242	44,170	55.62%	0.12%
Water & Sewer	57,796,231	7,181,808	50,614,424	87.57%	24.27%
Landfill	3,884,848	287,935	3,596,912	92.59%	0.97%
Airport:					
Airport Operations	905,135	505,077	400,058	44.20%	1.71%
Electric:					
Electric Distribution	8,279,897	1,366,228	6,913,669	83.50%	4.62%
Electric Metering	246,932	120,005	126,927	51.40%	0.41%
Electric Generation	9,050,062	5,147,559	3,902,503	43.12%	17.40%
Electric Administration	3,809,027	915,939	2,893,088	75.95%	3.10%
Public Benefit	437,270	193,185	244,085	55.82%	0.65%
Electric Services	417,401	144,996	272,406	65.26%	0.49%
Total expenditures	\$ 116,624,831	\$ 29,587,754	\$ 87,037,076	74.63%	100.00%

CIP Update

Capital Improvement Program
Expenditure Plan - Current
Fiscal Year 2016-17

	Status	% Completed	Current FY Budget	Current Expenditures to Date	Project Expenditures to Date
STREETS AND RIGHTS-OF-WAY					
Special Project Reserve Fund 251					
Smith Street Sidewalk - curb, gutter, pavement	Engineering	95.00%	\$ 21,951	\$ 8,188	\$ 9,188
Street reconstruction (Luce, Washington, Observatory)*	Construction	0.00%	661,019	-	26,460
Congestion Relief Fund 510					
Slurry Seal Various Streets	Engineering	50.00%	200,000	-	137,564
Overlay Streets	Engineering	50.00%	200,000	-	-
Smith Street Sidewalk, Curb, Gutter, Pavement	Engineering	95.00%	250,000	-	-
STIP Augmentation Fund 507					
Gobbi/Waugh Traffic Signal	Conceptual	0.00%	112,000	-	-
SB 325 Reimbursement Fund 508					
City Speed Zone Reports	Engineering	50.00%	40,000	-	-
State STP Fund 509					
N. State St. & Empire Dr/Ford Rd. Signal Coordination	Conceptual	25.00%	25,000	-	-
Total			1,509,970	8,188	173,212
INFRASTRUCTURE					
Parks and Related Facilities Fund 301					
Anton Stadium infrastructure	Planning	20.00%	18,000	-	-
Building Maintenance 208					
Civic Center Facility Improvements	N/A	N/A	-	-	-
Civic Center Annex Facia Renovations	Planning	5.00%	30,000	-	1,050
Civic Center Front Lobby Redesign	Planning	5.00%	45,000	-	-
Civic Center Entryway Renovation	Conceptual	1.00%	25,000	-	-
Civic Center HVAC	N/A	N/A	-	-	-
Museum Prop 84 & Habitat Conservation Grants 310					
Museum	Construction	90.00%	1,509,011	-	-
State STP Fund 509					
N. State St. & Empire Dr/Ford Rd. Signal Coordination	Conceptual	25.00%	32,380	-	-
Airport FAA Grants 777					
Runway 15-33 Pavement Rehab & Taxiway Alignment	Procurement	10.00%	190,000	41,890	41,890
Concrete slab for fuel tank project	Construction		11,340	134,847	207,044
Pavement Management & PCN	Procurement	10.00%	34,700	980	980
Electric 801					
Automated Meter Reading Upgrade - AMI (Electric System)	Planning	5.00%	1,900,000	-	4,593
Distribtuon - transformer replacements	Completed	100.00%	50,000	1,967	1,967
Utility poll testing and replacement	N/A	N/A	50,000	1,967	1,967
Conductor upgrades	Completed	100.00%	20,000	-	-
Design Build 1350 Hastings Rd. consulting services	Completed	100.00%	120,000	-	806,922
System loading and fault monitoring	Completed	100.00%	50,000	10,352	28,158
Communication upgade	Planning	5.00%	25,000	4,788	4,788
Facility Improvements (Electric Utility Service Center)	Engineering	5.00%	800,000	11,601	18,388
Community Solar (renewable resource development)	Conceptual	3.00%	750,000	11,601	18,388
Water 822					
Well #4	Construction	60.00%	1,397,900	350,621	679,860
Well #9	Construction	60.00%	1,635,800	600,770	782,729
Pipeline Improvements	Construction	0.00%	1,150,000	-	-
Replace PZ2s Reservoir	Engineering	30.00%	1,000,000	13,209	13,209
Millview/Ukiah Intertie	Planning	10.00%	125,000	-	-
Willow/Ukiah Intertie	Planning	10.00%	125,000	-	-
Connect Chlorine at WTP (switch to liquid chlorine)	Conceptual	60.00%	200,000	-	-
Water Meter Replacement	N/A	0.00%	1,040,000	-	-
Well #3 Roof	Planning	50.00%	15,000	-	-
Wastewater 840					
Replace AWWT Feed Pump Motors	Planning	50.00%	90,000	-	-
Chlorine Mixer	Planning	50.00%	40,000	-	-
Manhole Replacement	N/A	N/A	15,000	-	-
Online Ammonia & Nitrate Analyzer	Engineering	50.00%	50,000	-	-
Recycled Water 830					
Recycled Water System Phases 1 & 2	Engineering	100000.00%	37,650,191	-	-
Total			50,194,322	1,184,594	2,611,932

CIP Update
(cont.)

EQUIPMENT/OTHER	Status	% Completed	Current FY Budget	Current Expenditures to Date	Project Expenditures to Date
Equipment Reserve Fund 220					
Police patrol vehicles	Procurement	50.00%	120,000	78,319	92,422
Police portable radios	Completed	100.00%	60,000	-	-
Replace SCBA	Planning	40.00%	15,000	-	14,962
Replace defibrillator	Planning	25.00%	25,000	-	28,010
New Type I fire engine	Planning	20.00%	325,000	-	-
Garage 203					
Truck Replacement	Planning	50.00%	114,000	-	-
Information Technology 209					
Council Chambers Electronic Renovation	Planning	10.00%	75,000	-	-
Access Point Wi-Fi and Switches	Engineering	75.00%	30,000	-	-
Cardlock System Phase II	Planning	25.00%	85,000	-	33,695
Veeam Backup and Replication, disaster recovery software	Cancelled	0.00%	18,300	-	-
Host Cluster Server VM-Host	Cancelled	0.00%	10,000	-	-
Point Multipoint Communications	Cancelled	0.00%	50,000	-	-
Asset Forfeiture Fund 638					
Body cameras	N/A	N/A	21,684	-	-
Airport FAA Grants 777					
Fuel Tank, Upgrades and Self service tank	Procurement	50.00%	172,200	134,847	207,044
Electric 801					
Equipment Replacements (trucks, equipment etc.)	Completed	100.00%	495,000	-	-
Control System Upgrades (Hydro & Substation)	Planning	10.00%	75,000	4,788	4,788
Tainter Valve and Penstock Repair (Hydro)	Completed	100.00%	225,000	727	15,170
11/12 Bushing & Gasket Replacement (Orchard Substation)	Construction	30.00%	250,000	-	4,001
Primary & Secondary Conductor Repair/Replacement	Completed	100.00%	50,000	-	-
Undergrounding Phase 3 & 4: Overhead to Underground	N/A	N/A	20,000	-	-
Water 820					
Truck Replacement (Ford Ranger, shared with wastewater)	Procurement	90.00%	10,000	-	-
Service Truck	N/A	N/A	45,000	-	45,943
Portion of Service Truck (50% Wastewater Fund)	N/A	N/A	30,000	-	45,943
Vactor Replacement (50% Wastewater Fund)	N/A	N/A	200,000	423,111	423,111
Asset Management Software (GIS system)	Completed	100.00%	15,000	-	-
Genie Lift (personnel lift for cleaning/maintenance at water plant)	Planning	90.00%	12,000	-	-
Wastewater 840					
Vac-Trailer	Conceptual	50.00%	70,000	-	-
Replace 2006 Prius	Procurement	90.00%	30,000	-	-
Replace 3/4 Ton Dodge	Planning	90.00%	45,000	-	-
Replace Ford Ranger	Procurement	90.00%	10,000	-	-
Garage 203					
Truck Replacement	Planning	50.00%	114,000	-	-
Information Technology 209					
Council Chambers Electronic Renovation	Planning	10.00%	75,000	-	-
Access Point Wi-Fi and Switches	Engineering	75.00%	30,000	-	-
Cardlock System Phase II	Planning	25.00%	85,000	-	33,695
Veeam Backup and Replication, disaster recovery software	Cancelled	0.00%	18,300	-	-
Host Cluster Server VM-Host	Cancelled	0.00%	10,000	-	-
Point Multipoint Communications	Cancelled	0.00%	50,000	-	-
Total			3,085,484	641,792	948,784
Total capital			\$ 54,789,776	\$ 1,834,574	\$ 3,733,928

Areas marked "N/A" indicate that information was not available at the time this report was compiled.



Notes to Financial Statements

New Funds

No new funds were created during this quarter.

Significant Changes

No significant accounting or budgeting changes were made this quarter or since the start of the fiscal year.

City-Wide Notes

None.

Department Notes

Several departments have or are approaching their budget appropriation limit earlier than anticipated. Management will address those issues with the Council, pursuant to adopted budget policy, if additional appropriation is needed for a particular department that requires an increase to a fund.

Takeaways

- City revenues are trending positively
- Expenditures City-wide are within budgeted appropriations
- Most departments are within budget estimates

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