Quarterly Financial Report

For Quarter Ending 09/30/12

December 18, 2012

OVERVIEW

The FY 2012-13 adopted budget has a $2.26 million structural deficit that was funded using the City's Economic Stabilization Reserve (ESR) in accordance with the City's three year budget plan. The ESR was replenished last year with funds to cover the City's anticipated deficit for the three year period including FY 2011-12 through FY 2013-14. The deficit was funded with a combination of carryover funds from the previous ESR, funds allocated in the FY 2010-11 budget from the Vehicle Replacement Fund and new funds from both general fund monies in the Vehicle Replacement Fund and the General CIP Fund. The balance in the ESR as of July 1, 2012 was $4,252,628.

The City's general fund structural budget deficit increased by approximately $750,000 in FY 2012-13 due to increasing expenditures. The mix of revenues changed with increases in sales tax and decreases in property taxes and motor vehicle in lieu fees being taken away by the State. Overall, total revenues didn't change by a significant amount. The increase in appropriations was largely due to increases in:

Animal Control	$ 150,000
Water & Sewer-City Facilities	$ 145,000
PERS Retirement	$ 143,000
Employee Merit Increases	$ 110,000
Net 5 Funding	$ 100,000
Pension Obligation Bond Debt	$ 90,000

Yuba City is not in a unique position with its financial challenges. Most cities throughout California are experiencing very similar financial challenges. Some cities do not have remaining reserves available to draw upon, and have had to face more dire cutback scenarios than we have. At the time of presenting this financial report to City Council, we will be approximately 18 months into the implementation of our three year budget plan to use a combination of reserves and negotiated employee concessions to reduce our budget gap. The City's plan continues to be on track despite additional unanticipated State takeaways including the elimination of narcotic task force funding throughout the State and the elimination of motor vehicle in lieu fees as a revenue source to cities. Most recently, the State adopted AB 1484 implementing the elimination of redevelopment agencies.

The elimination of redevelopment required the creation of a separate Oversight Board to wind down the affairs of the former Agency. The Successor Agency is required to file Recognized Payment Obligation Schedule (ROPS) with the State Department of Finance every six months in order to receive tax increment funding to pay the former Agency's obligations. The City has gone through three separate audit/reviews for Redevelopment. The first was an agreed upon procedures engagement, and the second two were due diligence reviews. The purpose of the due diligence reviews are for the City to advise the State how much money the former Agency is holding for both Redevelopment activities and for Housing, report any contractual commitments for which these funds must be held, and then submit the balance to the County Assessor for distribution.

The largest potential impact to the City for the foreseeable future is the State's denial of the Gauche Park Certificates of Participation debt as a valid redevelopment enforceable obligation. The annual principal and interest payments on this debt have been paid one-half by developer impact fees and one-half by redevelopment funds since 2006. If the City is unable to convince the State that this is a valid obligation of the Agency, the general fund would have to take on repayment of one-half of this debt obligation. This would impact the general fund by adding approximately $365,000 to expenditures each year. Over the remaining life of the debt issue, this amounts to approximately $3.5 million in interest and $5.6 million in principal for a combined total of $9.1 million. The City is exploring all options available for obtaining authorization and approval to continue using redevelopment funds for this debt repayment.

This report is prepared on a cash basis; therefore it describes the timing of cash flows as it relates to the City's revenues.

Beginning Balances. The City's annual independent audit is complete. We have received the auditor's adjustments to the City's ledgers. We believe the beginning fund and working capital balances presented in this report are reasonable and are not likely to change significantly due to any additional auditor adjustments prior to receipt of our final audit report.

Adjusted Budgets. The revenue projections and expenditure budgets include adjustments for encumbrances, carryovers and any supplemental appropriations made by the Council as of September 30, 2012.

GENERAL FUND

General Fund Financial Condition. With 25% of the year complete, General Fund revenues are at 8.3% of projections and expenditures are at 22.2%.

General Fund

	Budget	YTD Actual	Percent
Balance, Start of Year	$ 3,652,783	$ 3,652,783	-
Revenues	32,235,760	2,664,987	8.3%
Expenditures	(34,731,488)	(7,706,584)	22.2%
Balance	**$ 1,157,054**	**$ (1,388,815)**	**-**

The budgeted expenditures shown above include encumbrance carryovers from FY 2011-12 of just under $238,000. Encumbrance carryovers are outstanding purchase orders as of June 30th. Encumbrances are liquidated and paid from the beginning fund balance as prior year budget monies are used to pay for them (as opposed to current year revenues). In addition, budgeted expenditures include $191,500 added for public safety grant funded programs.

In the YTD Actual shown above, the ending fund balance is negative as of the end of the first quarter. Please note this balance includes only the unreserved/undesignated operating fund balance of the general fund, not the ESR. The negative balance is an indication of both the cash flow pattern for the general fund and the downturn in the economy. As it relates to cash flows, general fund expenditures for payroll and vendor payments are incurred fairly evenly throughout the fiscal year whereas our largest revenue source is received in two large payments in February and May when property taxes are received from Sutter County. The downturn in the economy has caused some of the revenues we receive monthly or quarterly to decline, thus creating a deficit fund balance for this quarter of the fiscal year. It is fully expected that when additional sales tax is received from the State and property taxes are received from Sutter County, this will turn around and fund balance will end the fiscal year with a positive balance. The negative fund balance as of September 30, 2012 was compared to that of September 30, 2011, and the City is approximately $173,000 better off (less negative) in 2012.

Revenues.

The City's top ten revenues account for approximately 95% of total General Fund revenues. As such, they provide a very good summary of our revenue position. Key revenues are performing as projected based on payment schedules and past trends for the first quarter. More detailed information is noted below.

Top Ten Revenues	Budget	YTD Actual	% Received
Property Taxes	$ 9,788,357	$ -	0.0%
Sales Tax	10,181,600	622,828	6.1%
Business Licenses	750,000	13,934	1.9%
Franchise Fees	1,370,000	0	0.0%
Hotel/Motel Surcharge	600,000	0	0.0%
Building Permits	500,000	118,471	23.7%
Police Special Services	225,000	17,267	7.7%
CSA "G" Fire Contract	571,200	0	0.0%
Recreation Fees	1,208,487	291,777	24.1%
Operating Transfers	6,055,617	1,506,897	24.9%
Total	**$ 31,250,261**	**$ 2,571,173**	**8.2%**

- **Property Tax.** The first apportionment of 2012-13 taxes will not occur until February, 2013. The FY 2012-13 adopted budget projected a 3.5% decline in property taxes. Based upon the final assessed valuation reports from the Sutter County Auditor-Controller's Office, general fund secured assessed values decreased by 2.2%. The additional 1.3% that values did not decline as anticipated is expected to generate an additional $61,000 in property tax revenues during FY 2012-13.

Four of the largest components of the change in values are as follows:

- Properties were adjusted by a CPI factor of 2% between 2011-12 and 2012-13 (an increase of $76.1 million in assessed valuations).
- Residential decreased by 3.15% due to Proposition 8 reductions ($88.9 million in assessed valuations).
- Unsecured increased by 3.59% ($12.7 million in assessed valuations).
- Commercial decreased by 1.34% ($10.6 million in assessed valuations).

Property tax revenue projections were also reduced by $178,400 in FY 2012-13 due to a change in how property tax administration fees were allocated. Most counties in California had increased charges for administration of property taxes to cities after implementation of the triple flip many years back. Sutter County did not implement the increase in charges until FY 2011-12 as there was a pending lawsuit in the California Supreme Court regarding the methodology used in allocating costs. This lawsuit was settled in favor of cities in early December, 2012. The County of Los Angeles has requested that the California Supreme Court revisit this decision. If upheld, this decision will result in the City receiving the $178,400 that Sutter County withheld in FY 2011-12 (one-time money) plus an equal amount for FY 2012-13 that will not be charged to the City (on-going revenue).

- **Sales Tax.** When the FY 2012-13 revenue projections were developed, sales tax was projected to increase 2.0%. The most recent quarterly sales tax results were up 11.0% on a cash basis and 9.7% on an adjusted basis (April - June, 2012) and up 4.4% on cash basis and 6.2% on an adjusted basis (January - March, 2012). If we continue to see larger than 2.0% increases in sales tax, projections for FY 2012-13 revenues will be updated. However, due to the lag time in receiving sales tax result information we do not yet have any data for sales that have occurred during FY 2012-13. Finance is optimistic, but it is still too early to increase revenue projections when evaluating the volatility in sales tax results over the past four years. The sustainability of recent positive trends will be the focus.

As stated, the revenue data for the July through September quarter sales has not yet been released by the Board of Equalization. The revenue shown above represents advance payments received from the State towards the first quarter's receipts.

- **Business Licenses**. Business licenses are renewed in January of each year, therefore most of the revenues from business licenses are received during the third quarter of the fiscal year.

- **Franchise Fees.** The City receives franchise fees from PG&E, Recology, AT&T and Comcast; the fees are based upon a percentage of their revenues. The receipts for the first quarter of the fiscal year are not received until the end of October. Therefore, we would not expect to show any revenues during the first quarter of the fiscal year.

- **Hotel/Motel Surcharge.** Surcharge revenues for the first quarter were not received until the end of October.

- **Construction Permit Fees.** Building Permits are right on track with 24% of revenue received for the first quarter. Staff will continue to monitor this revenue source for the remainder of the fiscal year.

- **CSA "G" Fire Contract.** The City receives these funds for fire services to the unincorporated area that was formerly served by the Walton Fire Protection District. Since revenues are property tax based, the first apportionment will be received in February, 2012.

- **Recreation Fees.** At 24.1% of budgeted revenues, service fees from recreation programs are on track with projections.

- **Operating Transfers.** The General Fund receives reimbursement for operating costs associated with support services provided to the water and wastewater utilities as well as other fund transfers. Transfers are well within budgetary expectations.

Expenditures. Operating costs are within budgetary expectations as summarized below.

Expenditures	Budget	YTD Actual	% Expended
City Council	$ 126,951	$ 25,017	19.7%
City Attorney	150,000	15,527	10.4%
City Manager	639,557	142,471	22.3%
Finance/IT	2,182,088	440,602	20.2%
City Treasurer/City Clerk	56,527	953	1.7%
Human Resources	471,910	87,743	18.6%
Community Development	779,066	174,853	22.4%
Public Works	5,178,946	1,123,718	21.7%
Police	13,076,749	2,925,676	22.4%
Fire	8,912,767	2,249,691	25.2%
Animal Control Services	664,991	5,763	0.9%
Economic Development	209,936	37,534	17.9%
Contingency	195,800	547	0.3%
Non-Departmental Misc.	167,341	10,789	6.4%
Parks & Recreation	1,918,857	465,700	24.3%
Total General Fund	**$ 34,731,488**	**$ 7,706,584**	**22.2%**

ENTERPRISE FUNDS

The following summarizes year-to-date revenues, expenditures and changes in current assets net of current liabilities for the enterprise funds. In general, revenues and expenditures are consistent with past trends. Depreciation is included as a footnote in the budget and is therefore not included below. Revenues in the water fund exceed the 25% expected for the percentage of the year complete as they reflect the seasonal pattern of usage during the summertime months. Debt service expenditures are zero as of the end of the first quarter as both water and wastewater debt service are payable on December 1st and June 1st of each year.

Water Fund

	Budget	YTD Actual	Percent
Balance, Start of Year	$ 14,635,450	$ 14,635,450	-
Revenues			
Operating	11,063,600	3,183,568	28.8%
Capital Grant Revenue	7,350,000	-	
Capital	340,000	31,426	9.2%
Expenditures			
Operating Programs	(7,122,451)	(1,439,596)	20.2%
Capital Equipment	(40,000)	(7,750)	N/A
CIP Contributions	(1,555,000)	-	0.0%
Debt Service	(2,364,612)	-	0.0%
Balance	**$ 22,306,987**	**$ 16,403,097**	**-**

CIP Projects	**$ 12,767,000**	**$ 893,677**	**7.0%**

Wastewater Fund

	Budget	YTD Actual	Percent
Balance, Start of Year	$11,399,861	$11,399,861	-
Revenues			
Operating	10,150,800	2,231,752	22.0%
Capital	410,000	53,966	13.2%
Expenditures			
Operating Programs	(8,265,944)	(1,601,886)	19.4%
Capital Equipment	(413,000)	-	N/A
CIP Contributions	(2,100,000)	-	N/A
Debt Service	(1,367,519)	-	0.0%
Balance	**$ 9,814,197**	**$12,083,692**	**-**

CIP Projects	**$ 3,559,000**	**$ 313,132**	**8.8%**