



## FY 2013-14 Financial Report

### For the Six Months Ending 12/31/13

March 4, 2014

#### OVERVIEW

The FY 2013-14 adopted budget has a \$1.32 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 balance in the ESR as of July 1, 2013 was \$3,905,424 as shown in the City's audited Comprehensive Annual Financial Report (CAFR).

At the time of presenting this financial report to City Council, we will be approximately 32 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. Originally it was expected that at the end of the three year budget plan period, the ESR would be fully expended. Due to savings from vacant positions, and holding the line on material and supply expenditures, that is no longer expected to be the case. Instead, staff anticipates the ESR will have a balance remaining of at least \$3 million at the conclusion of the three year budget plan.

The City recognizes we would not be in as positive of a fiscal position today if not for the employee bargaining groups contributing to reducing the budget through the furlough program. The cost of furloughs is \$1.14 million to the general fund for each 5% furlough restoration. If both furloughs were restored, the projected budget deficit for FY 2014-15 would reach \$3.6 million.

Finance projections indicate that the City will continue to have financial challenges. We are projecting increases in both CalPERS and healthcare costs. These will be partially offset by increased revenues in both sales tax and property taxes. However, without reducing expenses in some other manner, the City will continue to have a need to draw on the ESR for several more years.

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

**Beginning Balances.** The City's annual independent audit is complete. We have received and included the auditor's adjustments to the City's ledgers. The beginning fund and working capital balances presented in this report are final

year end amounts from the previous year and will not change.

**Adjusted Budgets.** The revenue projections and expenditure budgets include adjustments for encumbrances, carryovers, and any supplemental appropriations made by the Council as of December 31, 2013.

#### GENERAL FUND

**General Fund Financial Condition.** With 50% of the year complete, General Fund revenues are at 21.3% of projections and expenditures are at 43.1%.

#### General Fund

|                        | Budget              | YTD Actual            | Percent  |
|------------------------|---------------------|-----------------------|----------|
| Balance, Start of Year | \$ 3,994,659        | \$ 3,994,659          | -        |
| Revenues               | 34,524,245          | 7,347,381             | 21.3%    |
| Expenditures           | (36,199,006)        | (15,604,879)          | 43.1%    |
| <b>Balance</b>         | <b>\$ 2,319,899</b> | <b>\$ (4,262,839)</b> | <b>-</b> |

The budgeted expenditures shown above include encumbrance carryovers from FY 2012-13 of just under \$304,000. Encumbrance carryovers are outstanding purchase orders as of June 30<sup>th</sup>. 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 \$605,000 added for public safety grant funded programs and \$89,900 for the police and fire operational review by ICMA.

In the YTD Actual shown above, the ending fund balance is negative as of the end of the second quarter. This balance includes only the unreserved/undesignated operating fund balance of the general fund, not the ESR. The negative balance is an indication of the typical cash flow pattern for the general fund. This happens because general fund expenditures for payroll and vendor payments are incurred 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 property tax receipt from Sutter County includes not only property tax revenue but a portion of the City's sales tax revenues. These are by far the two largest revenue sources for the City and when they are received only two times per year, it causes the

cash flows (and therefore fund balance) to go deficit until the first installment is received. 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 December 31, 2013 was compared to that of December 31, 2012, and the City is approximately \$84,000 better off (less negative) in 2013.

**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 half way through the fiscal year. More detailed information is noted below.

| Top Ten Revenues        | Budget               | YTD Actual          | % Received   |
|-------------------------|----------------------|---------------------|--------------|
| Property Taxes          | \$ 10,483,400        | \$ -                | 0.0%         |
| Sales Tax               | 10,974,250           | 2,409,127           | 22.0%        |
| Business Licenses       | 800,000              | 28,568              | 3.6%         |
| Franchise Fees          | 1,430,000            | 244,710             | 17.1%        |
| Hotel/Motel Surcharge   | 600,000              | 184,642             | 30.8%        |
| Building Permits        | 500,000              | 423,313             | 84.7%        |
| Police Special Services | 240,000              | 85,509              | 35.6%        |
| CSA "G" Fire Contract   | 600,500              | 0                   | 0.0%         |
| Recreation Fees         | 1,118,740            | 350,833             | 31.4%        |
| Operating Transfers     | 6,282,810            | 2,822,137           | 44.9%        |
| <b>Total</b>            | <b>\$ 33,029,700</b> | <b>\$ 6,548,839</b> | <b>19.8%</b> |

▪ **Property Tax.** The first apportionment of 2013-14 taxes did not occur until February, 2014. The FY 2013-14 adopted budget projected a 2.0% increase in property taxes. Based upon the final assessed valuation reports from the Sutter County Auditor-Controller's Office, general fund secured and unsecured assessed values increased by 1.95%. Therefore, total property tax revenues are anticipated to nearly equal the amounts budgeted at the end of the fiscal year.

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

- Properties were adjusted by a CPI factor of 2% between 2012-13 and 2013-14 (an increase of \$33 million in assessed valuations).
- Residential increased by 2.8% (\$77 million).
- Unsecured decreased by 6.4% (\$23 million) in assessed valuations (the largest drop was for the co-generation plant owned by Greenleaf Unit Two Associates which declined by \$8.8 million).
- Commercial decreased by 2.7% (\$21 million) mostly due to two major appeals. One was for the Yuba City Mall in excess of \$11 million and the other for the shopping center parcels that are next to Home Depot which fell by \$5.9 million.

The City received the benefit of \$55 million in assessed value increases during FY 2013-14 when a total of 5,226 residential parcels were increased due to increases in market value compared to prior years when there had been decreases in assessed values pursuant to Proposition 8. An additional 6,963 parcels remain under Proposition 8 status, with a total potential recapture of \$589 million. The City will see these increases in assessed value translate to increases in property tax revenues if housing sales prices continue to escalate. The potential recapture is eliminated when and if a home under Proposition 8 status is sold for less than the recapture value.

• **Sales Tax.** When the FY 2013-14 revenue projections were developed, sales tax was projected to increase 2.0%. The most recent quarterly sales tax results were down 4.2% on a cash basis and up 4.7% on an adjusted basis (July - September, 2013 sales) and up 0.5% on cash basis and 5.7% on an adjusted basis (April - June, 2013). Sales tax has been unpredictable and volatile, but has shown overall increases. There is a lengthy lag time between the time that sales occur and when the City receives the information regarding the sales tax revenues in order to compare the data to the same quarter of the previous year. As of the date of this report, Finance staff is still waiting for the Christmas quarter results. Finance continues to be cautiously optimistic because overall sales tax revenues have been increasing for the past 12 quarters (10 out of 12 have been positive on a cash basis).

As stated, the revenue data for the October through December quarter sales has not yet been released by the Board of Equalization. The revenue shown here represents the first quarter payments received from the State and advance payments received towards the second quarter revenues.

- **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 second quarter of the fiscal year are not received until the end of January and PG&E pays theirs annually in April. Therefore, we would not expect Franchise fees to be near the 50% mark during the first two quarters of the fiscal year.
- **Hotel/Motel Surcharge.** Surcharge revenues for the first quarter are included in the amount shown, but second quarter receipts are not due or paid until the end of January and are therefore not included here.
- **Construction Permit Fees.** Building Permits are much higher than anticipated at 84.7% received only half way through the fiscal year. This is an indication of the increase in construction and development activities.

▪ **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 was received in February, 2014.

▪ **Recreation Fees.** At 31.4% of budgeted revenues, service fees from recreation programs appear to be lower than anticipated halfway through the year. This is typical due to the seasonal nature of the programs offered.

▪ **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 all within budgetary expectations as summarized below.

| Expenditures              | Budget               | YTD Actual           | % Expended   |
|---------------------------|----------------------|----------------------|--------------|
| City Council              | \$ 130,214           | \$ 61,255            | 47.0%        |
| City Attorney             | 150,000              | 58,123               | 38.7%        |
| City Manager              | 657,859              | 310,055              | 47.1%        |
| Finance/IT                | 2,252,864            | 946,447              | 42.0%        |
| City Treasurer/City Clerk | 35,331               | 3,831                | 10.8%        |
| Human Resources           | 528,714              | 210,041              | 39.7%        |
| Community Development     | 802,270              | 336,495              | 41.9%        |
| Public Works              | 3,980,216            | 1,643,316            | 41.3%        |
| Police                    | 13,639,907           | 5,748,009            | 42.1%        |
| Fire                      | 9,208,491            | 4,397,892            | 47.8%        |
| Animal Control Services   | 641,386              | 152,628              | 23.8%        |
| Economic Development      | 221,531              | 89,145               | 40.2%        |
| Contingency               | 198,023              | 25,537               | 12.9%        |
| Non-Departmental Misc.    | 278,458              | 136,756              | 49.1%        |
| Parks & Recreation        | 3,473,742            | 1,485,352            | 42.8%        |
| <b>Total General Fund</b> | <b>\$ 36,199,006</b> | <b>\$ 15,604,879</b> | <b>43.1%</b> |

## 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 50% expected for the percentage of the year complete as they reflect the seasonal pattern of usage during the summertime months. Capital connection fee revenues exceed the 50% expected for receipts similar to those in the general fund again due to the increase in construction and development activities. Debt service expenditures are less than half for the first two quarters for both Water and Wastewater as they include only an interest payment because the payment that includes both principal and interest is not due until June 1<sup>st</sup> of each year.

## Water Fund

|                        | Budget               | YTD Actual           | Percent  |
|------------------------|----------------------|----------------------|----------|
| Balance, Start of Year | \$ 13,544,283        | \$ 13,544,283        | -        |
| Revenues               |                      |                      |          |
| Operating              | 10,435,308           | 5,655,001            | 54.2%    |
| Capital                | 177,260              | 342,029              | 193.0%   |
| Expenditures           |                      |                      |          |
| Operating Programs     | (7,297,659)          | (3,490,215)          | 47.8%    |
| Capital Equipment      | (69,500)             | (26,518)             | 38.2%    |
| CIP Contributions      | (515,490)            | (515,490)            | 100.0%   |
| Debt Service           | (2,298,670)          | (303,395)            | 13.2%    |
| <b>Balance</b>         | <b>\$ 13,975,532</b> | <b>\$ 15,205,696</b> | <b>-</b> |

|                     |                      |                     |              |
|---------------------|----------------------|---------------------|--------------|
| <b>CIP Projects</b> | <b>\$ 10,092,000</b> | <b>\$ 1,294,584</b> | <b>12.8%</b> |
|---------------------|----------------------|---------------------|--------------|

## Wastewater Fund

|                        | Budget               | YTD Actual           | Percent  |
|------------------------|----------------------|----------------------|----------|
| Balance, Start of Year | \$ 10,964,646        | \$ 10,964,646        | -        |
| Revenues               |                      |                      |          |
| Operating              | 11,213,480           | 5,703,620            | 50.9%    |
| Capital                | 265,730              | 211,477              | 79.6%    |
| Expenditures           |                      |                      |          |
| Operating Programs     | (8,994,827)          | (3,316,550)          | 36.9%    |
| Capital Equipment      | (5,399)              | (12,273)             | 227.3%   |
| CIP Contributions      | (15,200)             | (15,200)             | 100.0%   |
| Debt Service           | (1,583,484)          | (180,333)            | 11.4%    |
| <b>Balance</b>         | <b>\$ 11,844,947</b> | <b>\$ 13,355,387</b> | <b>-</b> |

|                     |                      |                     |              |
|---------------------|----------------------|---------------------|--------------|
| <b>CIP Projects</b> | <b>\$ 14,650,000</b> | <b>\$ 1,508,425</b> | <b>10.3%</b> |
|---------------------|----------------------|---------------------|--------------|

Finance staff accounts for the operating funds and capital connection fee funds for both the Water and Wastewater operations separately. Debt service payments are allocated to the capital connection fee funds based upon how the debt proceeds were used to finance projects at the time the debt was issued. Repayments for bond principal and interest are charged accordingly. Public Works/Utilities advises Finance when a Water or Wastewater project is approved how much should be paid from operating funds vs. capital connection fee funds. In recent years with the decline in development activities, City Council has been advised that at some point Finance staff may draw the connection fee fund reserves into a negative position in order to make debt service payments. Council concurred that this was an acceptable practice as long as Finance kept track of the funds separately, and replenished the cash flows as development activities increased. As of December 31, 2013, Finance reviewed the available cash balance in both the Water and Wastewater connection fee/capital funds and provides the following:

|                                  | Water       | Wastewater  |
|----------------------------------|-------------|-------------|
| Cash available @ 12/31/13        | \$2,383,384 | \$2,419,386 |
| Annual D/S from connection fees  | \$1,504,275 | \$879,098   |
| # of years of coverage available | 1.58        | 2.75        |

What this table shows is the amount of cash reserves available in each of the capital connection fee accounts compared to the total annual debt service currently being allocated to and paid from capital connection fees. Those

two amounts are then compared to calculate a ratio of how long, in terms of years, the City will be able to pay debt service without drawing capital connection fee funds into a deficit position. This calculation does not consider amounts used from capital connection fees for future capital projects or future revenues received; it is a snapshot in time of where the funds stand as of December 31, 2013. The Wastewater fund is in a better position to cover debt service than the Water fund, but without additional development to increase revenues, both will be in a difficult position to cover debt service without borrowing funds from the operating funds activities to do so.