

July 1, 2003

Honorable Mayor and Members of the City Council,

On behalf of the City's management team, I am pleased to submit the City of Yuba City's adopted *Budget and Capital Improvement Program* for the 2003-04 fiscal year.

The decisions of today are shaping the "Yuba City of Tomorrow." This simple notion truly has profound meaning in our current environment, an environment in which our community is experiencing significant growth. The recommended policy document that follows reflects a dedication to staying the course to building a truly premier community in this time of rapid change.

It is during these times of economic uncertainty that a community's ability to look beyond the current year becomes especially important. Yuba City's prudent financial planning has enabled it to take the long view and plan for the future. We are known not only for providing exemplary service and leadership in our daily operations but also for setting aside the necessary resources for the future needs of a fast growing community. The recommended budget stays true to this principle.

The recommended financial plan is deeply rooted in the City's strategic vision for the future as set forth in our Strategic Plan – our course of action to reach the "Yuba City of Tomorrow." Citywide strategic goals provide the framework within which each department developed their respective strategic issues. Logically, recommended budget appropriations support and promote these strategic issues. Toward that end, this document serves as an operations guide for City staff as well as a communications device to reach our citizens.

This message begins at the highest level by visiting the economic conditions in which we are currently planning, a financial overview follows, legislative issues of special concern are then addressed, and finally the key issues and priorities of the City are enumerated.

Economic Conditions

The economic outlook at the national level is in a constant state of flux. Given the quick resolution of the nation's military involvement in Iraq and rising consumer confidence, some economists point toward an increase in economic activity in late 2003. On the other hand, arguments are being made that we may face a double dip recession as unemployment rates continue to rise and corporate profits remain stale. Whatever the stimulus, be it the President's adopted tax cuts or a corporate turnaround, a recent projection for the increase in the national GDP for 2003 is 2.3% - a net gain overall for the year, yet reason for guarded optimism.

State. At the State level, private sector economic conditions have been largely overshadowed by the State government fiscal crisis (as addressed later in this message). It is worth noting, however, that different regions of the State are experiencing different situations. While the Sacramento region has fared quite well (of which we are part), the Bay Area continues to reel from the dot-com fallout. Until there is a recovery at the national level, California may continue to experience weak business investment and a struggling high-tech sector. The UCLA School of Business is not predicting a full recovery in California until 2006.

Local. Generally speaking, our local economy continues to perform quite well. As with any local economy, we have experienced both job losses (such as the closures of Avalon Bay Foods and Morningstar Packing) and job gains (as reflected in over \$90 million of commercial construction in 2002). Overall, housing continues to boom with a record 589 single-family dwelling units being built in 2002 and housing prices that continue to grow as well. As the City adopts the Housing Element, affordable

City Manager's Message

housing will need attention as land and housing prices climb taking more of our residents out of reach of home ownership.

Efforts to keep Beale Air Force Base off the Department of Defense's 2005 base closure list will be critical to the Yuba-Sutter region. It is estimated that Beale's economic impact to the region is roughly \$500 million annually. The City will play an active role in ensuring that Beale's valued contribution to the nation's military is recognized and conveyed to our congressional and military leaders.

In our role as the metropolitan hub of the Yuba-Sutter region, whether quickly or slowly, Yuba City will continue to grow. A number of major commercial developments and a General Plan update are set for consideration and adoption this year. At this juncture, revenues generated from local economic growth have provided the means to provide a desirable level of service. Ensuring that this growth brings balanced economic development while enhancing the quality of life of Yuba City residents remains a top priority.

Financial Overview

The adopted budget is a balanced one – ongoing revenues exceed ongoing expenditures. Listed below is a summary of the adopted General Fund appropriations for the 2003-04 fiscal year operating budget:

Adopted 03/04	Adopted 02/03	\$ Increase/ (Decrease)	% Increase/ (Decrease)	% Reserve 03/04
24,267,408	21,182,299	3,085,109	14.6%	10%

Revenues. In aggregate, General Fund revenues and transfers are projected to increase by 14.4% to roughly \$24.3 million. Notably, the City's two largest revenue sources, sales tax and property tax, are both projected to increase in the upcoming fiscal year. These projections take into account historical growth trends as well as considering new commercial construction. Sales and property taxes, in addition to the realized increase in building permit fees, contribute to 52% of the revenue increase.

Even with the State budget being "up in the air," it is commonly accepted that vehicle license fees (VLF), which are distributed by the State based on population, will be spared. There had been questions regarding the State's commitment to continuing to "backfill" VLF with State General Fund revenues (i.e., due to a reduction in the rate charged to vehicle owners); however, the Governor and Legislature found a political solution whereby the VLF will be brought back to historic levels to increase the fees and local VLF revenues will be maintained.

Another notable increase in revenues is in the City's recreation services, roughly \$316,000. Every effort is being made to enhance the City's recreation programs to tap into the current high level of demand and increase the quality of life in Yuba City. The remaining increase in revenue is accounted for in normal annual increases across the many revenue accounts – most of which can be attributed to the City's growth and provision of related services.

Expenditures. General Fund expenditures have increased by 14.6%, to total \$24.3 million. Remarkably, this increase comes during a year in which departments largely "held the line" on ongoing operational costs for services and supplies. The increase is principally due to employee related costs. Beyond negotiated salary adjustments (the City currently has multi-year contracts with most of its labor groups), the increase can be found in employee benefits (retirement and health benefits) and recommended service level changes.

Employee Benefit Costs. Over 50% of the increase in the General Fund budget is attributable to health plan and retirement benefit costs. Health care costs are seemingly beyond immediate control; long-term options for the City's employees have been and will continue to be explored. Further, the ailing stock market has led to negative returns on the State's pension investment pool, in which the City participates. Worker's compensation costs are another area that City staff will track closely in the year to come. This year we were fortunate to have a credit in our self-funded Worker's Compensation Plan from previous years. We

City Manager's Message

anticipate increases in the year following the 2003-04 budget year.

Service Level Changes. Fulfillment of the City's commitment to providing police services to our newly annexed residents is programmed for this budget year. It is fully anticipated that upcoming annexations to the east and west of 99 and south of Franklin will result in the Police Department beginning to provide safety services in these areas and Sheriff services transitioning out (in accordance with the City's annexation agreement with Sutter County). Toward that end, the recommended budget includes staffing and support for two additional police beats for the upcoming year. In the following budget year (i.e., 2004-05) the need for additional police services will be reviewed again and any recommendations will be once again presented to the Council for consideration. Tax revenues associated with the annexations will largely defray these additional costs. Annexation of the above territory is necessary this year to realize the revenue to fully fund the proposed two beats in 2004-05.

In order to sufficiently service our builders and developers, a building inspector position is being recommended. Administratively, a position within the Human Resources Department that was "frozen" in the early 1990s is recommended for funding. With the increase in employee base and recruitments related to our Police Department, this is a much-needed position. Within the City's vehicle maintenance function, an additional mechanic is recommended in order to appropriately service our fleet (which significantly increased as a result of the merger with the Walton Fire Protection District). Other positions are being recommended within the City's Utility Department to address maintenance and State and Federal mandates. Additionally, past-unfilled positions in Parks Maintenance and Public Works have been budgeted.

Long-Range Outlook. Prudent financial management has served Yuba City well. Our ability to provide quality programs and services is predicated on this fact. Unfortunately, the State of California has chosen not to act prudently as well. The result is a State budget

that has run afoul and a legislature that has proposed to look to local government funds as part of their solution. Absent State involvement, Yuba City will continue to do well. If the State chooses to seize our local funds, then we will need to re-address our ability to provide services.

Reserves. The effort to "hold the line" on operating expenditures also allowed the City to meet its 10% reserve goal a year early of the previous fiscal year 2004-05 target.

The following chart provides a summary of 2003-04 fiscal year projected revenues and adopted expenditures for the City's major funds.

	FY03-04 Revenues	FY03-04 Expenditures
General Fund	\$24,294,611	\$24,267,408
Water Operating	\$ 6,395,000	\$ 7,869,635
Wastewater Oper.	\$ 7,031,500	\$ 7,782,670

The above table reflects the inclusion of depreciation and other one-time transfers for capital items within the Water and Wastewater operating budgets. On an operating basis revenues do exceed expenditures for both funds.

Legislative Issues

State Budget. California is once again in the midst of a budget crisis. This year's problem, initially estimated between \$26 billion (by the legislative analyst) and \$35 billion (the governor's budget) over two years, is an even larger percentage of the State General Fund than the last crisis in the early 1990s. As of the writing of this message, the Legislature's proposed solutions change by the hour. The potential seizure of local government revenues and redevelopment funds remains unknown, but highly likely.

The one-time fixes enacted by the Legislature in response to last year's budgetary shortfall have reduced the most politically palatable options. While Vehicle License Fees (VLF) were "triggered" back to historical levels (raising

City Manager's Message

another \$4 billion), such revenue only begins to address the enormity of the shortfall.

Similar to last year's budget, we assume that booking fee reimbursements will not be received. Further, while the State continues to "defer" reimbursement of state mandated costs incurred by the City, their actual receipt is questionable even in the long-term and therefore related revenues are not programmed.

Legislation. Two bills are of specific importance to Yuba City, both of them being carried by Sacramento Assemblyman Darrell Steinberg. After last year's failure of his AB 680, which proposed to alter the distribution of sales taxes in the Sacramento region, two new bills of equal concern have been introduced.

As written, AB 1426 would effectively shift land use decisions to the State level by mandating production standards for affordable housing. Set as a pilot program for the Sacramento region, the proposed program lacks sufficient resources and thus would create a divisive climate within the region. Punishment for not meeting Assemblyman Steinberg's mandate is clear but the offered incentives remain unclear.

AB 1221 proposes the swap of a portion of locally levied sales tax for an equal dollar amount of property tax. Given Yuba City's historical growth in these taxes, preliminary analysis shows that if this bill becomes law, our City could lose up to \$1 million in its first year of implementation.

The City participates with a regional coalition that is proposing alternatives to these legislative bills, and Mayor Barkhouse has personally met with Assemblyman Steinberg in order to share the City's concerns and shed light on the potentially damaging effects on levels of service in Yuba City. City staff actively tracks these legislative bills, as well as others, and will continuously advise Council of significant changes.

Key Issues and Priorities

The "Yuba City of Tomorrow" is reflected in the key issues and priorities that follow. For a complete list of departmental strategic issues, I encourage you to refer to the *Strategic Plan & Fiscal Policies* chapter of this document. Further, the budget sections for each department provide additional detail with respect to implementation plans. Some of the strategic issues are proposed to be funded with bond proceeds. However, unless noted otherwise in each narrative, funding sources are from on-going revenues.

Organizational Structure. Our ability to serve the needs of our growing city has been served well in recent years through continuously reviewing and modifying our organizational structure. In order to ensure that our organization will meet the needs of our growing population, the City's executive staff has developed plans of what will be needed to serve a population of 60,000. At this time it is being recommended that the City take a step toward this end by restructuring and renaming the City Administrator's office into a configuration that is common among our counterpart cities of similar size – a City Manager and an Assistant City Manager (currently the Administrative Services Director). As city issues on the local, regional and statewide level become more complex, this new structure will allow the City Manager to spend more time on such issues while the daily operational needs of the City can be addressed by the assistant position. Expanding responsibilities, without expanding our staff, will increase the City's span of control over issues both within our organization and those issues of importance around us.

General Plan Update. The community's vision of the future of Yuba City is being established as we conclude the General Plan update process. As currently drafted, a key element of the proposed plan concepts is the idea of livability – creating major parks, pedestrian-oriented neighborhoods and commercial areas and a village concept, not "cookie-cutter" subdivisions. The final adopted General Plan is scheduled for fall of this year followed by corresponding zone changes and development impact fees. As we

City Manager's Message

grow westward, the implementation of the master plan for our community, including the necessary fees to support quality infrastructure, is critical.

Annexation Westward. Annexations will continue throughout the next year. Our relationship with the County, and the acknowledgement that the City will eventually include all areas within our sphere of influence (SOI), has supported logical annexations. The City is already the provider of both fire and water services in the SOI. Further annexations will allow residents to receive urban services from one provider, without any increase in property taxes. The City is looking to annex the Southland Village area as well as Tierra Buena this year.

Water Quality. Since the City's acquisition of the Hillcrest Water Company (HWC) in 2001, former HWC groundwater wells in the unincorporated Tierra Buena area have continued to produce nitrate levels that exceed allowable health standards along with high arsenic levels. City staff has been conducting community meetings and exploring options with our customers in the area. At this time, it appears that connection to the City's surface water system is the most economically viable solution. This solution, which will include annexation to the City, will be fulfilled by the end of the calendar year. Addressing water quality concerns in the remainder of the former HWC area, and working towards converting all HWC to City surface water is a priority for the coming years.

Parks - Now and Future. Planning for the City's newest park in the Buttes Vista Neighborhood Specific Plan is underway – construction will begin in the spring of 2004. Along with the "new development," the City continues to focus on the rebuilding of the "heart" of the City in the downtown area. An indoor sports center is currently programmed for Gauche Park and plans for an aquatics park are being developed (replacing our existing 40-year old pool in Sam Brannan Park). The proposed General Plan calls for an increase in park space recognizing that exceptional cities create great parks for their residents. Accordingly, the City

will need to begin exploring financing options for the acquisition of parkland to the west.

The "Heart" of Yuba City. Many important components contribute toward the continued revitalization of the greater downtown area. Notable among them are the reconstruction and extension of Plumas Street, an Aquatics Park at Gauche Park, a downtown movie complex, planning for the Recreation/Community Center in the Town Center, and development of the Feather River Parkway. The Downtown Specific Plan sets forth a progressive development plan, which includes major capital improvements. The planning stage for these improvements has begun; community meetings discussing the planned reconstruction of Plumas Street from Colusa to B Street have been held and community input received. Funding for implementation is expected to come from Redevelopment bonds and general fund certificates of participation. The greater downtown is the heart of the City, and our investment in this area will strengthen Yuba City's sense of community and further improve the economic vitality of this area.

Economic Development. We continue to make a concerted effort to encourage positive economic development in Yuba City while never losing sight of our existing business base. Next year will bring a new traffic signal on Highway 99 between Colusa Avenue and Bridge Street. This intersection will ultimately connect Highway 99 with Walton Avenue – setting the stage for development in a blighted area of the City. In support of the City's existing business base, the City Council recently adopted an ordinance requiring that any new movie theaters be located in the greater downtown area. A development plan has since been submitted to the City and staff is actively working with the developer to make the theater complex a reality. Accompanying the new Home Depot Store is a 30-acre commercial development within the Harter Specific Plan. The overall 180-acre plan includes large commercial box stores, a business park, housing and a park. A new Hampton Inn and other commercial eateries will also commence construction this year along with new building and commercial office ventures in the Downtown. We anticipate a grocery

City Manager's Message

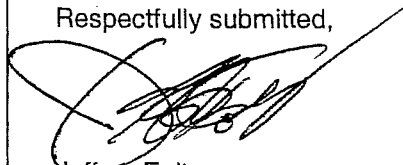
store/commercial center in the south part of town. The School District has started construction on the new Sutter Buttes High School and is looking to build a K-8 to the north and south and open a Walton K-5 this summer. We continue to work with the Yuba-Sutter Economic Development Corporation to attract and expand our office and industrial base.

Infrastructure Investment. Ongoing implementation of the City's water and wastewater master plans continues to be a top priority. With regard to wastewater treatment improvements, financing is in place, contracts have been awarded and construction is underway to upgrade the plant. Water plant improvements include expansion of the existing system to provide increased water quality to City residents as we move west (e.g., conversion of the Tierra Buena system to surface water). The City's Water Master Plan will be updated to reflect the needed infrastructure to provide surface water to all of the old Hillcrest Water System and provide expansion to the west. Another mile of 30-inch water line will be installed, improving the delivery capacity of our water transmission system. For public safety facilities, funds have been programmed for the reconstruction or relocation of Fire Station No. 4 and eventual expansion of the Police Department. We have continued to program funds for the reconstruction of Bridge Street, and proposed the study of a new auto bridge over the Union Pacific railroad tracks on 5th Street. The City will also be improving roadways, signals and resurfacing streets throughout the City, including studying an interchange at Pease Road, widening Highway 99 and continuing to upgrade our technology. In the coming years, the City will need to address new state and federal regulations regarding storm water.

Conclusion and Acknowledgements

Many individuals on staff contributed their knowledge and expertise to the development of this budget. I wish to specifically express my appreciation and thanks to the Department Heads, Steve Kroeger, Administrative Services Director, Robin Bertagna, Finance Officer, and Terrel Locke, Administrative Services Technician, for their many hours of dedication, long weekends and hard work in coordinating, developing and publishing this fiscal year 2003-04 budget document. As always, without Council's leadership and dedicated fiscal conservatism, the needs of the community for today and in the future could not be addressed.

Respectfully submitted,



Jeffrey Foltz
City Manager