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## City Manager's Message

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July 1, 2004

### **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 2004-05 fiscal year.

This is truly a defining moment in the history of Yuba City and the State of California. Recent weeks have brought an unprecedented agreement between local government leaders and Governor Arnold Schwarzenegger. The resulting compact proposes that local government provide two years of contributions to the state in order to assist with the state's severe fiscal imbalance – the result of past reliance on one-time revenues to fund ongoing operations. In return, the Governor has pledged to support a constitutional amendment that will secure local revenue streams from future state take-aways.

Notably, prior to reaching agreement with the Governor, local government had already collected 1.1 million signatures to place an initiative on the November ballot that proposes to prevent state seizure of local revenues. However, recognizing the potential fallout if the Governor did not support the initiative, local government wisely chose to accept the Governor's invitation to reach common agreement on the matter. Governor Schwarzenegger is truly a charismatic individual who has already affected great change in his short time as Governor, as demonstrated by voter support of \$15 billion in state fiscal recovery bonds and legislative support of workers' compensation reform. We are certainly in the best position by having his support of the local government initiative.

With regard to the impact of two years of contributions from Yuba City to the state (approximately \$1.2 million from the general fund and \$300,000 from the redevelopment fund), it certainly leaves the City in a position in which our focus on supporting current City services will be of primary concern. The adopted budget is balanced. Our ability to maintain that balance into the future will be more certain if the local government initiative finds favor with voters on November 2, 2004. Ultimately, its passage would provide for a renewed focus on capital projects upon the conclusion of the two years of contributions to the state, including a payback of vehicle license fees of approximately \$855,000.

Future increases in levels of service and the provision of new services to our citizens will come from both fiscal stability and the future growth of our community. The City's newly adopted general plan proposes to take the community to where we have not been before, one in which a high quality of life is sustained and continually enhanced. Every day, decisions are being made about new projects in Yuba City. Our responsibility, as stewards of the standards set forth by the community in the general plan, is to ensure that each project contributes toward the character and uniqueness of the "Yuba City of Tomorrow."

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**

Generally speaking, the national economy shows signs of continued improvement – fairly steady gross domestic product (GDP) is projected at about 3 percent per year through 2006. In addition to positive news on the employment front, retail sales and consumer prices have reported larger than forecasted gains. Federal Reserve Chairman Alan Greenspan recently acknowledged the improvements in the economy and stated the

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# City Manager's Message

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deflationary risk seems to be over. If employment gains continue, the Federal Open Market Committee may be forced to raise interest rates in the coming months.

**State.** After three years of falling or weak growth, recent data shows growth in jobs in California and a decrease in the unemployment rate. The UCLA School of Business *Anderson Forecast* projects "an improving California economy, with modest movement towards leaving the tough recession behind." The recession affected the Bay Area quite significantly (i.e., the dot-com fallout) and it remains to be seen if new technology can bring its economy back. While the *Forecast* predicts continued job growth, it assumes a loss of 25,000 jobs in state and local government sectors due to budgetary constraints.

**Local.** Our local economy continues to perform quite well. The tremendous boom in the housing market (another year of over 600 residential units) has been accompanied by a continued increase in the price of housing. Yuba City is looked upon as being affordable relative to housing in the Sacramento Region and, as such, it is expected that demand for new construction will stay high. On the other hand, our local definition of affordable housing (as set forth in our Housing Element) will need attention as land and housing prices climb, taking home ownership out of reach of our residents. Commercial construction has been notable as well, including medical offices, general offices, warehousing, and restaurants. Further, plans for hotel construction, The Marketplace project within the Harter specific plan, and Gateway office park should reach the construction phase in the next year along with a downtown movie theater and plans to revitalize Plumas Street.

Efforts to keep Beale Air Force Base off the Department of Defense's 2005 base closure list are critical to the Yuba-Sutter region. It is estimated that Beale's economic impact to the region is roughly \$500 million annually. The City is playing 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.

## Financial Overview

The budget is balanced – ongoing revenues exceed ongoing expenditures. Listed below is a summary of the adopted appropriations for the 2004-05 fiscal year operating budget:

Adopted 04/05	Adopted 03/04	\$ Increase/ (Decrease)	% Increase/ (Decrease)	% Reserve 04/05
25,964,374	24,267,408	1,696,966	7.0%	10%

**Revenues.** In aggregate, General Fund revenues and transfers are projected to increase by 7.0% to roughly \$26.0 million. Notably, the projected growth considers the probability of state take-aways based on current information. Growth in our largest revenue source, sales tax, has flattened over the past year due to regional competition and a drop off in automobile sales. Nevertheless, Yuba City's per capita sales tax numbers continue to exceed state averages. We project moderate growth in sales tax next year (over current year projections). The City's second largest revenue source, property tax, will continue to increase as a result of new construction. This is especially apparent in the City's receipt of supplemental property taxes. Notably, while the City recently annexed 3,200 residents, related property tax revenues will not be received until FY 2005-06.

Vehicle license fees (VLF) dropped significantly in the FY 2003-04, reflecting the partial year impact of the VLF fee reduction from 2% to .65% of a vehicle's value. Based on current information, the state VLF backfill, which has occurred in the last six months, will continue into next year given the continued .65% rate and projections were made accordingly. Construction related revenues (e.g., building permits, engineering plan checks, zoning fees and property transfer tax), reflect the aforementioned development boom.

Fire service fees show a significant increase over last year's adopted amount due to the significant amount of mutual aid support to the state in the past year. This is not a consistent revenue, so the future year projection remains conservative. Recreation fees were over-projected in FY 2003-04, so the FY 2004-05

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## City Manager's Message

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estimate reflects the historical trend with more moderate growth. Finally, interest on investments reflects our current low interest rate environment. 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 7.0%, to total \$25.96 million. In a combined effort to reach a balanced budget, departments that are supported by the general fund reduced their "supplies and services" budgets by 5% from FY 2003-04 levels. As such, the net increase of \$1.7 million in expenditures is primarily based on employee related costs (with a nominal amount of \$84,200 for necessary capital acquisitions). Aside from negotiated salary adjustments (the City has multi-year contracts in place and is currently negotiating public safety and management contracts), the increase can be found in employee benefits (retirement and health benefits).

**Employee Benefit Costs.** Health plan and retirement benefit costs continue to increase. The City took an active role in bringing health care costs under immediate control in the past year by leaving the PERS health care system and contracting directly with Blue Cross. With regard to retirement benefits, the previously ailing stock market has seemingly turned around and positive returns on the state's pension investment pool are expected this year after several underperforming years. Unfortunately, the City will not immediately realize the cost benefit of these returns due to both the time lag in annual rate calculations and the rate smoothing formula used by PERS (which has the opposite effect during down years). Finally, the City's contribution to the worker's compensation risk sharing pool in which we participate has increased by 33% in the past year. The effect of the recent workers' compensation reform that was championed by the Governor will remain to be seen. Even with reform, we anticipate continued increases in the year following the 2004-05 budget year.

**Level of Service Changes.** While the budget does not increase the number of full-time employees, it does implement several changes among departments. Some positions will be deleted; however, none of them are currently filled, so layoffs will not occur. As demands for service increase as the City grows, the City is challenged in meeting these demands in a fiscally tight environment. In response, resources will be reallocated among departments in order to appropriately support public safety needs and positions that support development -- most notably, an associate planner and an assistant utilities director. Further, positions within the Police Department that had been held open due to budget uncertainty will begin to be filled in the next year.

**Long-Range Outlook.** Prudent financial management has served Yuba City well. The City's discipline of looking into the future and anticipating things to come is a critical component of our fiscal planning. Of specific note is the PERS rate stabilization fund that was established in recent years in anticipation of cost increases due to the underperforming state pension investment pool. The result is that the City will maintain fiscal stability at a time when other cities are posed with layoffs due to the marked increase in retirement contributions. The true harbinger of the future of Yuba City and local government in general will be the final outcome of the aforementioned agreement between the Governor and local government. As previously mentioned, its passage would provide for a renewed focus on capital projects upon the conclusion of the next two years of contributions to the state.

**Reserves.** The adopted budget maintains the City's 10% reserve goal, which is noteworthy given that increased appropriations require an increase in reserves of \$169,697, and given the revenue contribution to the state.

The following chart provides a summary of 2004-05 fiscal year projected revenues and appropriations for the City's major funds:

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# City Manager's Message

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	FY04-05 Revenues	FY04-05 Appropriation
General Fund	\$25,990,347	\$25,964,374
Water Operating	\$ 8,518,000	\$ 7,998,156
Wastewater Oper.	\$ 9,093,000	\$ 9,188,598

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

## Legislative Issues

A matter of primary concern has been the state's worsening fiscal condition and the potential impacts on local government. The Governor has proposed a worthy solution. While its short-term impact will be challenging, the potential long-term stability bodes well for local government. Furthermore, the current agreement with the Governor requires state repayment in 2006-07 of the 2003-04 vehicle license fee backfill loan (\$855,000 that was withheld from Yuba City in the past year). Since the Governor's proposed budget is subject to approval by the Legislature, the ultimate outcome is unknown at this time.

State legislation continues to be proposed regarding affordable housing in the Sacramento Region. In a proactive effort, the Sacramento Area Council of Governments (SACOG) adopted an Affordable Housing Compact in March of this year. The Compact is a voluntary membership program that gives incentives to participating cities and counties that meet the Compact's affordable housing production standard. The standard is that at least 4 percent of all new housing construction will be affordable to very low-income households, 4 percent for low-income and 2 percent for moderate income. Implementation of the Compact is not dependent on approval by the State Legislature; however, legislation will be sought to provide specific state incentives. Yuba City should seriously evaluate the Compact in light of such potential future incentives.

Legislation of tremendous potential fiscal impact on the state and local governments has been proposed within AB 2406. The bill would impose mandated reporting requirements from fire departments and create a perception of increased liability for cities and counties by comparing response times and staffing performance objectives with those set forth in Standard 1710 of the National Fire Protection Association. In short, local governments would be measured against an arbitrary standard of a four minute response time as set forth by NFPA 1710.

City staff actively tracks these legislative bills, as well as others, and continuously advises Council of significant changes.

## Key Issues and Priorities

The recommended financial plan is deeply rooted in the City's strategic vision for the future as set forth in our Strategic Plan. Citywide strategic goals provide the framework within which each department developed their respective strategic issues (for a complete list of departmental strategic issues, I encourage you to refer to the *Strategic Plan & Fiscal Policies* chapter of this document as well as departmental narratives).

Some of the strategic issues will be funded with bond proceeds. However, unless noted otherwise in each narrative, funding sources are from on-going revenues.

**General Plan Implementation.** The vision has been set. The community's standards and expectations for the future growth of Yuba City were adopted by the City Council in April. The new plan establishes major parks, pedestrian-oriented neighborhoods, commercial areas, and a village concept; not "cookie-cutter" subdivisions. Reorienting our focus toward the new vision has already begun. The City has proceeded with the update of the zoning code, a fiscal impact analysis, and will soon begin with an evaluation of development impact fees, utility connection fees and a storm water plan. It will be important that these fees are appropriately set so as to support the long-term vision

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## City Manager's Message

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adopted by the community. Further, the City Council has made it clear that new development must pay its own way and that it must enhance, not degrade, our quality of life. Toward that end, the new general plan will present both challenges and opportunities.

**Annexation.** The annexation activity of recent years continues. The Tierra Buena annexation added 3,200 residents to the City in April, bringing the City population to roughly 55,000. In November, voters will go to the polls to consider another significant annexation in the area of South Yuba City. Another 3,500 citizens will be served by Yuba City if this annexation is approved. Since the City already provides both fire protection and water delivery services to the majority of homes outside the City limits and within our sphere of influence, the annexation of these populated areas will allow residents to receive urban services from one provider, without any increase in property taxes.

**High Performance Organization.** The City continues to support and advance a work culture that emphasizes continuous improvement in support of the City's mission of *Quality Service, Innovation and Leadership*. City staff actively participates in a team environment in which the City's business processes are continuously evaluated for improvement. A joint group of employees serve on the City's Quality Action Team (QAT), which assists teams in meeting their goals.

**Parks and Our Quality of Life.** The newly adopted general plan calls for an increase in park space, recognizing that exceptional cities create great parks for their residents. The City has already set aside funds from the recent sale of surplus property toward the acquisition of parkland to the west. Current planning includes an aquatics park and gymnasium in the downtown area – construction is likely to be extended into the future given the current fiscal environment. In the more immediate future, a seven-acre neighborhood park in the northern section of the City, named *Regency Park*, will begin construction late summer.

**Plumas Street and Town Center Improvements.** There are several important

components of the renewal of Yuba City's greater downtown including a 14-screen movie theater, the reconstruction of Plumas Street, an aquatics park at Gauche Park, Fujishiro Gardens, a banquet facility and additional medical offices. These projects are in various stages of planning and implementation. The City committed itself to the movie theater project by using redevelopment funds to acquire the necessary land in the downtown area. With regard to Plumas Street, design criteria are being finalized. Funding for implementation is expected to come from redevelopment bonds being sold early summer. State take-aways will affect the timing of the aquatics park construction. It is likely that Fujishiro Gardens will be developed in coordination with the plans of a private developer to build an adjacent facility. It is intended that proceeds from the sale of land for the facility will be used to seed development of the Gardens. 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.

**Water System Expansion.** We will connect our newest citizens in Tierra Buena to the City's surface water system later this year, which will resolve past water quality issues in that area. The \$12 million project is being funded through both assessment district proceeds and water revenue bonds. Addressing water quality concerns in the remainder of the groundwater system in order to continue to meet federal and state standards, ensuring that surface water plant capacity is available, and maintaining adequate revenues to operate the system are priorities for the coming years.

**Economic Development.** All signs point toward continued economic growth in Yuba City. The update of City fees in light of the new general plan will need to ensure that development "pays for itself" while being balanced so that Yuba City continues to attract quality development. In support of infill development, we continue to work on a new traffic signal on Highway 99 between Colusa Avenue and Bridge Street. This intersection will ultimately connect Highway 99 with Walton Avenue – creating parcels for new commercial

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## City Manager's Message

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development aside a planned Hampton Inn. We will continue to meet the goals of the Downtown Specific Plan, which include property acquisition and infrastructure improvements. City and staff are actively working with a developer to begin construction of the downtown theater complex this year. Also in the upcoming year, several new buildings will bring us one step closer to the eventual build-out of the Town Center. The Harter Specific Plan sets forth a 180-acre plan that includes large commercial box stores, a business park, housing and a park. The Yuba City Unified School District is completing construction of the new River Valley High School, which is scheduled to open fall of 2005. The District is also beginning reconstruction of Butte Vista School this year, and is looking to build a new K-8 in the south. We continue to work with the Yuba-Sutter Economic Development Corporation to attract and expand our office and industrial base. Ensuring that growth brings balanced economic development while enhancing the quality of life of Yuba City residents remains a top priority.

**Infrastructure Investment.** The City continues to invest heavily in its water and wastewater systems. Recognizing that the City's population is expected to double in the next twenty years, master plans have been updated to ensure the adequacy of plant capacity and service lines. The City continues to struggle with the State Water Resources Control Board (SWQCB) over our wastewater permit application. Planning for growth, funds are once again programmed for the relocation of Fire Station No. 4 and the eventual expansion of the Police Department, as has been done in previous years. By the year 2009, it is anticipated that the entire stretch of Highway 99 from Sacramento to Yuba City (with the exception of the Feather River bridge) will be four-laned. While a third bridge is planned but unfunded at this time, construction of a local bridge at Lincoln Road is being studied. Other transportation studies include an interchange at Pease Road, and the reconfiguration of the railroad trestle adjacent to the Fifth Street Bridge for additional vehicular traffic with \$5 million in funding proposed in this year's Federal Transportation Budget for bridge design and environmental impact report.

### 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 Steve Kroeger, Assistant City Manager, Robin Bertagna, Finance Officer, Spencer Morrison, Accountant, Becky Hudson, Customer Service Manager, and Terrel Locke, Administrative Assistant, for their many hours of dedication, long weekends and hard work in coordinating, developing and publishing this fiscal year 2004-05 budget document. As always, it is through the leadership and dedication of the City Council that the needs of the community for today and in the future are being addressed.

Respectfully submitted,

Jeffrey Foltz  
City Manager