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# City Manager's Message

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July 1, 2005

## Honorable Mayor and Members of the City Council,

On behalf of the City's executive team, I am pleased to submit the City of Yuba City's adopted *Budget and Capital Improvement Program* for the 2005-06 fiscal year.

We have begun a new era in local government. With the passage of Proposition 1A in November, 2004, the electorate of the State of California sent a clear directive to the Legislature: no more raids on local government funds. A perennial theme of State budgeting for over more than a decade has been the reliance on local revenues to balance the State budget. While their fiscal imbalance remains to the current day, the Legislature must now look elsewhere to solve their problems.

A new era for Yuba City has begun as well. The City Council defined the community's future in 2004 with the adoption of an updated General Plan. In 2005, the Council set forth Growth Policies that define how the community will achieve the future envisioned in the General Plan. The Growth Policies provide a clear policy direction: new development will enhance, and not diminish, the quality of life in Yuba City. Accordingly, new development will "pay for itself." Given their importance, the Growth Policies are included in their entirety in the Strategic Plan section of this budget document.

Several studies are currently underway as part of the General Plan implementation and in support of the City's Growth Policies. The studies address several areas of our local government. Their objective is simple: ensure that our infrastructure is appropriate, that it clearly defines the revenue sources that will pay for this infrastructure, and finally identify the

source of ongoing revenues that will fund ongoing operations and maintenance. Along similar lines, we will ensure that new development properly contributes toward the appropriate level of public safety services to serve our growing population.

The adopted budget is balanced. The significant increase in revenues and expenditures is in line with a growing city. The budget emphasizes public safety at the operational level and major projects within the capital improvement program. Each of these areas, and others, are further expanded upon in the "Key Issues and Priorities" section of this message. The budget imperative has been, and will continue to be, prudent fiscal planning.

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

**National and State.** The Federal Open Market Committee has continued to raise interest rates to fend off inflation while striving to support expansion of the national economy. The result has been a tripling of the federal funds rate in less than a year and the series of increases will likely continue. By historical standards the current three percent rate remains low. The national economy is expanding, thanks in part to these low rates and the rising productivity of workers. However, the pace of economic growth has slowed, partly because of the rise in energy prices.

After 12 quarters of economic expansion, the UCLA School of Business *Anderson Forecast* asserts that "the current expansion in the national economy is nearer its end than its beginning." For California, slower growth is expected over the next several years, as a weaker housing market offsets some of the strengths in other parts of the economy.

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**Local.** The housing market in the Sacramento region has been anything but "slow." As a result, our local economy continues to perform quite well. The tremendous boom in residential housing has brought over 2,300 new housing units to Yuba City in the past three years. Unfortunately for new buyers, the price of housing has been booming as well. The median housing price in the Yuba-Sutter region has risen to \$258,000, a 25% increase from one year ago. Regionally, median housing prices average around \$336,000 so Yuba City is looked upon as being affordable on a relative basis. A challenge to the City is to focus on how best to implement policies that will ensure that home ownership remains within the reach of our local residents.

Commercial construction has been notable as well, including new medical offices in the Town Center, general offices, warehousing, and restaurants. Construction on the Marketplace project within the Harter specific plan will bring a Super Wal-Mart and other big box stores within the next year, the new multiplex theater downtown will break ground this summer and the new connector road between Highway 99 and Walton Avenue will support a new hotel and large commercial chain stores.

Efforts to keep Beale Air Force Base off the Department of Defense's 2005 base closure list have proved successful thus far. Beale has been proposed for minimal "realignment" – the base's estimated \$1 billion annual impact to the region will continue. The City, working with our local Economic Development Corporation, played an active role in ensuring that Beale's valued contribution to the nation's military was recognized and conveyed to our congressional and military leaders.

## Financial Overview

The budget is a balanced one – ongoing revenues exceed ongoing expenditures. Listed below is a summary of the adopted appropriations for the 2005-06 fiscal year operating budget:

Adopted 05/06	Adopted 04/05	\$ Increase/ (Decrease)	% Increase/ (Decrease)	% Reserve 05/06
\$31,164,658	\$25,964,374	\$5,188,674	20.0%	10%

**Revenues.** In aggregate, General Fund revenues and transfers are projected to increase by 20% to roughly \$31.2 million. A significant share of this increase comes from our largest revenue source, sales tax, with growth that has paralleled our rising population. The current year end projection of \$9.05 million shows an 8.4% growth over the previous year actual receipt of \$8.35 million. For the budget year, sales tax revenues are projected to grow by 4.3% to \$9.44 million. The City's second largest revenue source, property tax, will continue to increase as a result of new construction and annexations (property taxes for the April, 2004, annexation of the Tierra Buena area will be received for the first time in FY 2005-06). The budget projects property taxes of \$4.9 million, an increase of 16.7%. Notably, the projected growth considers a final year of \$560,000 in State take-aways.

Vehicle license fees (VLF) dropped nearly \$700,000 in FY 2003-04, reflecting the partial year impact of the VLF fee reduction from 2% to .65% of a vehicle's value. The State subsequently agreed to "backfill" the lost revenues with property taxes. This arrangement continues to the current day and, as a result, the budget shows "Property Taxes In Lieu – VLF Swap" which provides roughly 91% of the previous VLF receipts coming in the form of increased property taxes. The remaining 9% continues as traditional vehicle license fees. The State has created a convoluted system of public finance that defies logic. Nonetheless, these revenues are projected to increase next year by 6.3%, to \$3.69 million.

Construction related revenues (e.g., building permits, engineering plan checks, zoning fees and property transfer tax), reflect continued development. The non-recurring "Sale of Property" revenue of \$3.5 million projected for FY 2004-05 is attributable to the sale of property in the Garden Highway area. 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. The remaining increase in revenue is accounted for in normal annual increases across the many

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revenue accounts – most of which can be attributed to the City's growth and provision of related services.

The Governor's proposed budget includes \$1.3 billion in restored transportation funds for Proposition 42, which would equate to about \$216,000 in road funds for Yuba City. He also proposes paying back one half of the VLF due to cities (from the FY 2003-04 reduction), which would provide roughly \$400,000 in one-time monies to the general fund. This year's State budget process promises to be contentious so neither of these amounts are included in the adopted budget.

Additional information on non-general fund revenues can be found in the *Revenue Highlights* section within the *Revenue* chapter of this document.

**Expenditures.** General Fund expenditures have increased by 20%, to a total of \$31.2 million. Employee salaries and benefits are roughly 75% of general fund expenditures. As one might expect, the increase in general fund expenditures is largely due to increases in personnel costs. The City has multi-year contracts in place that address salary adjustments. Of the \$3.6 million in increased personnel costs, \$1.3 million is attributable to new positions (inclusive of positions added by the City Council in January 2005) and the remainder is in accordance with existing labor agreements. Aside from employee related costs, appropriations for services and supplies increased \$1.3 million and capital acquisitions are to be approximately \$322,500.

**Employee Benefit Costs.** Health plan and retirement benefit costs continue to increase, albeit at a slower pace than in the recent past (much of the increase shown in the adopted budget is related to new positions). Notwithstanding the increase, the City has reaped a positive benefit from its decision to leave the PERS health care system and contract directly with Blue Cross. With regard to retirement benefits, the Public Employees' Retirement System has approved a rate stabilization policy that will help reduce the volatility in employer contribution rates. City

rates have steadied and are expected to remain level and even decrease over future subsequent years. Finally, the City's contribution to the general liability risk sharing pool in which we participate has increased by 47.4% in the past year. This is a significant increase but directly related to historical experience. Workers' compensation costs have begun to level off but still reflect a more than six-fold increase when compared to two years ago.

**Level of Service Changes.** The addition of staff makes this budget remarkably different from the previous year's budget. The FY 2004-05 budget did not include any increase in the number of full-time employees. The FY 2005-06 budget proposes a net increase of 25 new full-time employees. Of these positions, half are within the Police Department, including seven new beat officers. These positions are necessary as the City prepares to assume responsibility for the two incorporated areas that are currently serviced by the Sheriff, in accordance with the Master Tax Exchange Agreement with the County (notably, a comparable amount of staffing will need to be added again in the next budget year in order to complete the transition of these areas to police service by December, 2006). Nine positions are added to support operations within the City's expanding water, wastewater, streets and underground utilities. Other changes include reclassifications and restructurings in order to better staff required needs (e.g., the replacement of vacant parks maintenance positions with less expensive groundskeepers). The addition of analyst positions within the City Manager's office and Administrative Services will not have a general fund impact. These positions will be funded by redevelopment revenues and dedicated fees from new development.

**Long-Range Outlook.** The City's ability to ensure that new development "pays its own way" will be the single most important determination of our long-range outlook. Prudent financial management has served Yuba City well in the past. Maintaining this approach in a fast growth environment is essential. The City's Growth Policies provide the structure to make this happen. The fact that the City is

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requiring specific plans and master plans for new development furthers our ability to advance toward the "Yuba City of the future" envisioned in the General Plan. The fee studies that are currently underway will ensure that we can support this new development in terms of both necessary infrastructure and operations. We are at a point in time that we are clearly in control of our future.

**Reserves.** The adopted budget maintains the City's 10% reserve goal, which is noteworthy given that increased appropriations require an increase in reserves of \$557,763.

The following chart provides a summary of 2005-06 fiscal year projected revenues and expenditures for the City's major funds:

	FY05-06 Revenues	FY05-06 Expenditures
General Fund	\$31,187,750	\$31,164,658
Water Operating	\$13,119,000	\$8,635,260
Wastewater Oper.	\$11,622,500	\$9,869,299

The previous table does not include anticipated Water bond proceeds in the amount of \$15,000,000, which are not part of operating revenues.

## Legislative Issues

As previously mentioned, Proposition 1A has set the stage for our future. While Prop 1A provides certain constitutional assurances with regard to the inability of the State to seize major local government revenues, local governments must continue to be aware of the tendency of the legislature to find a means of seizing local government funds. As the old adage goes, "where there's a will, there's a way." We will remain diligent in ensuring that local funds remain local.

The City signed on to the Sacramento Area Council of Governments' (SACOG) Affordable Housing Compact, which 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 four

percent of all new housing construction will be affordable to very low-income households, four percent for low-income and two percent for moderate income. While implementation of the Compact is not dependent on approval by the State Legislature, its impact on Yuba City is significant as the Council works toward its implementation. Staff will be presenting implementation alternatives in the upcoming year.

Legislation of tremendous potential fiscal impact on the State and local governments has been proposed within AB 260, a reincarnation of last year's 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 City's strategic vision for the future as set forth in our Strategic Plan provides the foundation for the recommended financial 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.

**Plumas Street & Town Center Improvements.** There are several important components of the renewal of Yuba City's greater downtown that

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will be underway in the year to come. The 15-screen movie theater will break ground this summer, the reconstruction of Plumas Street is scheduled for next spring, the plans and specifications for the renovation of Gauche Park into an aquatics facility and accompanying community center are under development with a construction date set for next spring on the aquatics center, the private development of a Fujishiro Gardens banquet facility continues to be planned, and additional medical offices are being built. Redevelopment bonds that were sold in August, 2004, will finance Plumas Street. With regard to the financing of the aquatics park and community center, options are being developed and will be presented to the City Council for consideration. 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.

**City Growth Westward – Specific Plans.** The requirement that new development westward be master planned or specific planned provides assurance that the community's standards and expectations as set forth in the General Plan will be fulfilled. The City is currently working on a specific plan with property owners of roughly 1,100 acres. The master development of large areas will provide a means of ensuring balanced development that includes the dedication of supporting public infrastructure (e.g., parkways and roads). The City has proceeded with updating the zoning code and sign ordinance; developing a fiscal impact analysis, a storm water plan, and traffic circulation model; and completing an evaluation of development impact fees and utility connection fees.

**Organizational Restructuring.** 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 meet the needs of our citizens, builders and developers, the City Council approved the creation of a Development Services Department. The Development Services concept brings planning, building and engineering functions together with common purpose and direction. FY 2005-06 will be the first full budget year for the new department.

**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. In addition to planning for an aquatics park and community center in the downtown area (enhancing the core of the City), parks in new areas are underway as well. Regency Park, a seven-acre neighborhood park in the northern section of the City, will be dedicated this summer. Also notable is the Feather River Parkway feasibility study, which provides for future development along one of the City's greatest assets, the Feather River, with future walkways, trails, picnic areas, fishing facilities and swimming holes.

**Water System Expansion and Wastewater Plant Permit.** 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 water treatment facility will be upgraded from 24 million gallons per day (mgd) to 32 mgd, with design underway for an ultimate capacity of 48 mgd. The award for the first phase is expected this summer with funding through the sale of bonds and connection fees. The City continues to struggle with the State Water Resources Board over our wastewater permit application and meetings have been scheduled to work through the permit issues. Addressing water quality concerns in the remainder of the groundwater system in order to continue to meet federal and state standards will remain a challenge. Ensuring that additional surface water contracts are secured, 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. In support of infill development, a new traffic signal will be installed on Highway 99 between Colusa Avenue and Bridge Street. This intersection will ultimately connect Highway 99 with Walton Avenue – creating parcels for new commercial development aside a planned Hampton Inn. As previously mentioned, the Plumas Street and Town Center improvements are being actively pursued in support of

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economic development in the downtown area. The Harter Specific Plan, which has experienced a temporary setback due to a lawsuit being filed related to the project's environmental impacts, encompasses 180-acres and 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 in the fall of this year. The reconstruction of Butte Vista School is also underway and the District 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 & Facilities.** Planning for growth, funds are programmed for the relocation of Fire Station No. 4 and the eventual expansion of the Police Department. Improvements to several of our existing facilities are also programmed. 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, the widening and improvement of Bridge Street from the river to Highway 99 and acquisition of the railroad right-of-way through the City. The widening of 99 also continues. Not included in the budget, but anticipated for funding, is 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 reports. The widening of Walton Avenue and construction of westerly parkways will need to remain a priority as we move west. Also of great importance is addressing the levees which protect Yuba City. The City has set aside \$500,000 for studies or improvements to our levee system. The Department of Water Resources and the Army Corps of Engineers are conducting studies of our levee systems which will have long term impacts on Yuba City.

## 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, late nights, and hard work in coordinating, developing and publishing this fiscal year 2005-06 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