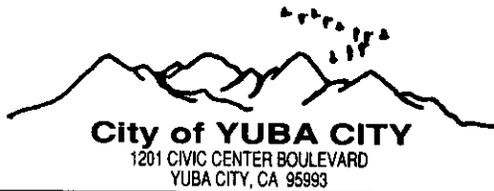

City Manager's Message



July 1, 2007

Honorable Mayor and Members of the City Council,

On behalf of the City's executive team, we are pleased to submit the City of Yuba City's adopted Operating Budget for the 2007-09 fiscal years.

This document is the City's first two-year budget. In order to better plan for the future of Yuba City, efforts during the past year have been focused on developing a long-range fiscal model. One of the immediate benefits of the model is the ability to look beyond one year and provide better information for future decision making – this adopted budget represents one such benefit.

After several years of economic growth, Yuba City experienced a flattening of resources commensurate with the local, State and national economies. This break in development has provided the City with an opportunity to re-evaluate our financial condition and related priorities. The adopted budget reflects the slowdown in growth. Static financial resources dictate a budget that strives to continue funding existing services and focus on infrastructure support and maintenance. Our employees remain committed to actively advancing the City's mission of *Quality Service, Innovation and Leadership*.

The past year has been one of change in Yuba City. This message touches upon those changes in the areas of our local economy, financial condition, legislative issues, and the key issues and priorities of the City.

Economic Conditions

The national slowdown in the housing market is reflected in our local economy as well. During the last calendar year, new home construction in

Yuba City was roughly 30 percent of the peak level experienced in the previous three years of 800-900 new residential units per year. It is anticipated that this reduced rate of construction will continue and the budget is structured on the moderate growth that we have been experiencing.

Retail sales have flattened in response to economic trends. Economists have linked the downturn in the housing market to a reduction in retail spending. The budget anticipates modest growth in sales taxes over the next two years due to the opening of new retail businesses.

While we anticipate normalized economic growth (by historical standards) over the next two years, the growth in property taxes that occurred during the previous five years should continue to provide the resources to fund existing City services.

Financial Overview

The recommended budget is balanced – ongoing revenues slightly exceed ongoing expenditures for both years of the two year budget. Listed below is a summary of the adopted appropriations for the 2007-09 fiscal years:

Adopted 07/08	Adopted 06/07	\$ Increase/ (Decrease)	% Increase/ (Decrease)	% Reserve 07/08
\$37,228,257	\$ 35,027,253	\$ 2,201,004	6.3 %	10%
Adopted 08/09	Adopted 07/08	\$ Increase/ (Decrease)	% Increase/ (Decrease)	% Reserve 08/09
\$39,112,601	\$ 37,228,257	\$1,884,344	5.1%	10%

Revenues. Overall, General Fund revenues and transfers are projected to increase by 7.4% or \$2.6 million in year 1 and by 4.9% or \$1.8 million in year 2 of the budget. The City's largest revenue sources are sales taxes and property taxes. Sales taxes are sensitive to local economic trends as previously noted. Property taxes, although robust, averaging over 10% per year increases over the last few years, are expected to level off. Accordingly, the City is projected to experience a more "normal" growth of 7% per year in the budget period. Sales taxes for the current fiscal year ending June 30, 2007, will not meet budgetary expectations. In

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considering the existing economic conditions (both locally and nationally) related to this situation, recommended growth is projected at a more modest 3.59% per year.

Expenditures. General Fund expenditures are proposed to increase by 6.3%, to a total of \$37.2 million. Being primarily a service provider, the City's major costs are associated with employee salaries and benefits. The budget includes the necessary funding to follow-through with the employee agreements that are currently in place. The City's health plan costs have not increased in recent years at the same level generally experienced by most businesses. The positive claims history of City employees has led to cost containment in this area as well.

Long-Range Outlook. The development of the long range fiscal model has allowed the City to look beyond the immediate fiscal year for planning purposes. In the next two years the revenue outlook dictates prudence in developing the proposed expenditure plan. The next important effort will be to develop a more comprehensive Capital Improvement Program that incorporates available capital funds and projected capital fees from anticipated future development. As has been stated in previous years, the City's ability to ensure that new development "pays its own way" will be of primary importance toward determining our long-range outlook.

Reserves. The adopted budget maintains the City's 10% reserve goal. Increased appropriations require an increase in reserves of \$482,425 to \$3.7 million.

The following table provides a summary of projected revenues and expenditures for the City's major funds:

	FY 07-08 Revenues	FY 07-08 Expenditures
General Fund	\$ 37,318,873	\$ 37,228,257
Water Operating	\$ 8,332,175	\$ 7,838,453
Wastewater Operating	\$ 8,581,500	\$ 8,587,431

Legislative Issues

The most significant legislative issue of importance to local government was the passage of the \$37.3 billion package of bond measures to provide funding for housing, transportation, levee repairs and flood control projects, and educational facilities. The transportation component of this bond measure will result in approximately \$1.9 million for Yuba City. The voters also passed an associated State constitutional amendment to "fix" Proposition 42, by permanently dedicating the sales tax on gasoline to transportation purposes. This has been a key goal of the League of California Cities.

Within the statewide bond package, Proposition 1E is of primary and immediate importance to Yuba City. The proposition provides roughly \$5 billion in funds for flood control measures. The City has already pledged support to the local levee district in its efforts to obtain Prop 1E funds for improvements related to Star Bend. Improvements to the levee system that protects Yuba City is a matter of both local and statewide importance. Access to the Proposition 1E funds will be critical to this on-going effort.

Key Issues and Priorities

The current services provided by the City provide the foundation for the adopted financial plan. This budget focuses on the retention of existing services and the maintenance of the City roads, buildings, water, sewer, and parks infrastructure. The following key issues have been identified in advancing the City's priorities for services.

Flood Control. Identification of improvements needed to the levee system protecting Yuba City and the development of a plan to fund such improvements is a top priority. The assessment of the levees by the Department of Water Resources and the Corps of Engineers is currently underway. Information related to their condition is anticipated by the end of 2007. In order to identify the local funding that will be necessary in order to tap into State and federal funding, the City Council recently made

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appointments to a county-wide citizens committee that will be providing a recommendation as to how best to raise local funds. The "remapping" of flood zones in Sutter County by FEMA will likely have a significant effect on Yuba City requiring mandatory flood insurance for most residents. Staff remains active toward ensuring that the best interests of our community are set forth as part of this process.

Economic Development. The adopted budget includes funding for the development of an Economic Development Strategy. This effort will identify the economic assets of our community and provide a strategy for capitalizing on these assets for the long-term economic advancement of the community. The strategy will capture the existing breadth of knowledge within the community, both public and private sectors. The first year of the budget includes development of the strategy and the second year includes an Economic Development Manager position to implement the plan of action.

Public Safety. In recent years, the Council has placed a priority on public safety, as demonstrated by the addition of staff within the police and fire departments. The adopted budget proposes to maintain and redeploy existing police resources to pick up police services for Yuba City residents in the Tierra Buena annexation area. The Police Department will continue to explore opportunities to assume control of services for City residents in the Walton area. Revenues for the Master Tax Exchange Agreement will be forwarded but payments will lag by 18 months for revenue purposes. In addition, the Police will be upgrading Red Light Camera Safety along Colusa Highway over the next year.

The Fire Department is looking to advance services in all stations to three person crews. This budget begins the implementation of additional firefighters to meet the objective by the end of the second year of the budget.

Staffing Priorities. This budget includes the deletion of 8 vacant positions and the un-funding of 6 additional positions. This resulted in an organizational savings of approximately \$1.15

million that was reprogrammed into priority services and increased costs. The major shift in resources has been in Community Development in recognition of reduced revenues in the area of development services. Additional positions have been added to Police, Fire, Economic Development and Utilities.

Gauche Park. Gauche Park is expected to open this fall - September 22, 2007. Residents will be able to enjoy this new facility for a shortened swim season this year. The cost of operating Gauche Park will increase the funding for the City's aquatics program by \$182,000 per year. The existing pool at Sam Brannan Park is scheduled to close with the opening of Gauche Park.

Cost Allocation. The City conducted a cost allocation plan over the last few months, which identified the need to shift cost centers in transportation, utilities and the capital improvement program to ensure these funds pay their fair share of the general overhead of services cost. Approximately \$1.5 million per year has been shifted in cost from the General Fund freeing up much needed resources for other City priority needs.

Staff Reorganization. A restructuring of key staff is proposed in light of recent vacancies and to flatten the management structure in Finance. The Assistant City Manager will assume a greater role and responsibilities in the City Manager's office, including Redevelopment. The Finance functions and consolidated Information Technology / General Services functions will assume independent management. The transition calls for the creation of a Chief Financial Officer and a General Services/Information Technology Director over the two years of the new budget. Accordingly, the budget includes under filling proposed Chief Financial Officer and General Services/IT Director positions with the incumbents and elimination of the Administrative Services Director function. By January 1, 2008 it is intended that the transition would be complete. While the restructuring relies on the addition of an IT technician position, the overall reorganization has an immediate positive fiscal

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impact on the General Fund resulting in projected savings of \$140,000.

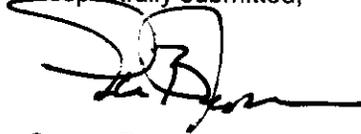
Capital Improvements. The development of a more comprehensive Capital Improvement Program is a priority. The update of the City's development impact fees, which is currently underway, has highlighted the significant capital projects that will be needed to support the community in light of anticipated future growth. The Plumas Streetscape project and improvements to the City's existing streets, and water and sewer facilities remain a focus of the 5 year Capital Improvement Program. The issuance of \$16 million in Redevelopment Bonds has allowed for the restructuring of funding for Plumas Street, Gauche Park and Bridge Street freeing up necessary General Fund resources to advance the expansion of the Police Station, Fire Station 4 and improvements to upgrade existing fire stations to meet the demands of new development. It is anticipated the Police and Fire facilities will be constructed within the next two years of the Capital Budget.

Conclusion

The City Council is to be commended for their positive guidance and the setting of overall priorities for operations and capital facilities at a workshop earlier this year. This year's budget, although austere, provides for the maintenance of critical service, the expansion of key safety services, and the reorganization of internal services to improve efficiencies. The Capital Budget focuses on the maintenance of our existing infrastructure while beautifying downtown Yuba City and providing for critical Police and Fire Facilities.

The Executive staff is to be commended for their unselfish team efforts to facilitate this budget in challenging economic times. The Finance team also should be recognized for their dedicated efforts and countless hours to pull together Yuba City's restructured and first two year budget document.

Respectfully submitted,



Steven R. Jepsen
City Manager