
City Manager's Message



June 6, 2006

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 2006-07 fiscal year.

With the new fiscal year, it is anticipated that Yuba City will be proceeding with two of the largest capital improvement projects in its recent history, outside of the Utilities Department: the renovation of Plumas Street and the construction of an Aquatics Facility at Gauche Park. Years of planning have been dedicated to these projects. Within the next 18 months, these projects will help to put a new face on the greater downtown area and enhance the vitality of Yuba City. Along with these major central projects, a major push to study and improve the levee system will also be undertaken.

The upcoming fiscal year will also be the first in many years in which the City will not experience the State takeaway of local funds. The implementation of Proposition 1A has helped to bring stability to local government revenue.

The growth of Yuba City continues to be defined as well. The updated General Plan was adopted in 2004. Growth Policies were set forth by the City Council in 2005. The current year brings the implementation of the General Plan and Growth Policies in the form of Specific and Master Plans for development. The desired outcome is clear: *new development will enhance, and not diminish, the quality of life in Yuba City.*

The adopted budget is balanced. The City is experiencing both the increase in revenues that comes from a growing community as well as the

related increase in demand for City services. Every attempt has been made to propose a spending plan that fulfills the needs of the growing community while being fiscally prudent.

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. Whether the national economy is thriving or stumbling seems to be a matter of political opinion. Technically speaking, economic indicators continue to support an expanding economy. In support of the expansion of the national economy, the Federal Open Market Committee has continued to raise interest rates to fend off inflation. Manufacturers and other businesses have boosted employment leading to a remarkably low national jobless rate of 4.7 percent. Dampening factors include increases in energy prices (e.g., oil), higher interest rates and a weakening in the housing market. At the State level, the UCLA School of Business *Anderson Forecast* reinforces the expected slowdown in the housing market and says, "The only debate now is how hard a landing there will be and what it will mean for the general economy." In summary, while the national economy appears to be heading for more moderate but still healthy growth, the longer term outlook portends the possibility of a slowdown in early 2007.

Local. Two factors have played a significant role in our local economy: housing and job growth. In regard to housing, the booming housing market of recent years has begun to show signs of a slowdown (supporting National and State forecasts). The first four months of 2006 has brought 61 new residential housing permits. This shows the potential of leading to a year in which housing starts are significantly lower than the last three years of 800-900 per year. On the other hand, the local economy continues to support the expansion of the retail sector which has led to additional job

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opportunities in these areas. Overall, local indicators point in the direction of stability for the local economy. While it can be difficult to compare the next year against the construction boom of the past five years, the anticipated "worst case" is that we will simply enter into a stage of more normal growth by historical standards.

Financial Overview

The recommended budget is a balanced one – ongoing revenues exceed ongoing expenditures. Listed below is a summary of the adopted appropriations for the 2006-07 fiscal year operating budget:

Adopted 06/07	Adopted 05/06	\$ Increase/ (Decrease)	% Increase/ (Decrease)	% Reserve 06/07
\$34,764,730	\$31,164,658	\$3,600,072	11.5%	10%

Revenues. In aggregate, General Fund revenues and transfers are projected to increase by 11.5% to roughly \$34.8 million. A significant share of this increase comes from our largest revenue source, sales tax. The current year end projection of \$10.7 million (inclusive of property tax received "in lieu of sales tax" from the State) shows a 9.4% growth over the previous year actual receipt of \$9.7 million. For the budget year, sales tax revenues are projected to grow by 8.2% to \$11.5 million. Sales tax projections consider large retail establishments that have recently opened (for which the City has yet to receive payments from the State) as well as those that are currently under construction and anticipated to open in the new fiscal year.

The City's second largest revenue source, property tax, will continue to increase as a result of new construction and the turnover in property ownership. In the latter case, properties that have low assessed values for property tax purposes (e.g., they were originally purchased prior to the significant increase in property values) are reassessed upon transfer of ownership. The new assessments are at market value and result in increased property tax receipts by the City. The budget projects property taxes of \$10.4 million, an increase of 24.5%. Notably, \$560,000 of the increase is attributable to absence of previous year State

revenue take-aways. When adjusted for this number, the increase is 16.6%.

Past Vehicle License Fees (VLF) are now classified as property taxes and reflected in the above property tax numbers. As many will recall, the State reduced VLF fees 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.

Construction related revenues (e.g., construction permits and plan checks, engineering plan checks and inspection, zoning fees and property transfer tax), reflect the slowdown in new development that we have been experiencing, resulting in an anticipated cumulative reduction in revenue of roughly \$375,000 when compared to current year projections.

A new revenue that appears in this year's budget is associated with the installation of red light cameras in Yuba City. The General Fund portion of fee revenue that will be received by red light violations is expected to be \$270,000. 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.

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 11.5%, to a total of \$34.7 million. Employee salaries and benefits are roughly 75.8% of general fund expenditures and are projected to increase by 11.7%, paralleling the increase in the overall general fund. The City is in the process of re-negotiating the multi-year contracts that have been in place. The outcome of these negotiations is not anticipated to have an adverse impact upon the adopted budget. Of the \$2.8 million in increased

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personnel costs, \$859,401 is attributable to new positions (inclusive of positions added by the City Council during the current fiscal year following budget adoption) and the remainder is in accordance with existing labor agreements. Aside from employee related costs, appropriations for services and supplies increased \$1.1 million, or 15.1% and capital acquisitions are to be approximately \$46,000. Notably, capital acquisitions within the vehicle replacement fund and technology replacement fund, both of which benefit overall general government operations, are \$1,749,700 and \$67,000, respectively.

Employee Benefit Costs. City health plan and retirement benefit costs rates have steadied and are expected to remain fairly level over future subsequent years. With regard to retirement benefits, the Public Employees' Retirement System has approved a rate stabilization policy that has helped to reduce the volatility in employer contribution rates. Accordingly, the necessity to fund the benefit stabilization fund is no longer a requirement. The City's contribution to the general liability risk sharing pool in which we participate has increased by 21% in the past year. This increase is directly related to historical experience. Workers' compensation costs have begun to level off when compared to the volatility of past years, increasing only 2.2% to \$634,680 for the upcoming year.

Level of Service Changes. The adopted budget includes the addition of 14.5 new positions. Of these positions, eight are dedicated to public safety (5 police officers and 3 firefighters), four are within the Utility departments, and the remaining 2.5 are other general fund positions. Notably, the "other" general fund positions are in support of landscape and lighting districts, wastewater operations, and recreation services, and will be funded through revenue transfers from supported funds, and related service fees. Other changes include reclassifications and position title changes.

Long-Range Outlook. As has been stated in previous years, 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. The City's Growth Policies

provide the structure to make this happen. In support of these policies, the consideration of updated fees by the City Council in the new fiscal year will greatly assist in the effort to support and enhance the quality of life in Yuba City. In regard to the existing operations of the City, prudent financial management will continue to be followed with diligence.

Reserves. The adopted budget maintains the City's 10% reserve goal, which is noteworthy considering increased appropriations require an increase in reserves of \$360,000.

The following table provides a summary of 2006-07 fiscal year projected revenues and expenditures for the City's major funds:

	FY06-07 Revenues	FY06-07 Expenditures
General Fund	\$34,764,535	\$34,740,835
Water Operating	\$12,000,000	\$10,309,273
Wastewater Oper.	\$10,597,500	\$11,208,989

The previous table reflects the inclusion of depreciation and other one-time transfers for capital items within the Water and Wastewater Operating Funds.

Legislative Issues

While Proposition 1A has set the stage for our future of local government finance, local government remains diligently involved in issues at the State level.

The most significant legislative issue of importance to local government is the recent passage of a \$37.3 billion package of bond measures to provide funding for housing, transportation, levee repairs and flood control projects, and educational facilities. The measure will be presented for voter approval on the November 2006 statewide ballot. If passed, the transportation component of the bond measure would result in approximately \$1.9 million for Yuba City. The Legislature also passed an associated State constitutional amendment to "fix" Proposition 42, by permanently dedicating the sales tax on gasoline to transportation purposes, which has

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been a key goal of the League of California Cities.

Of immediate importance to Yuba City is an urgency appropriation (AB 142) of \$500 million dedicated to levee repairs for the critical levee erosion sites identified under the Governor's Executive Order. Two of these sites are within Sutter County. While the repair of these sites is not of critical importance to the safety of Yuba City, their repair does bring recognition to the fact that local levee repair needs are of statewide importance and will ultimately require the financial resources of the State.

The strong push for a national franchise to accelerate telephone companies' "speed to market" has tremendous potential fiscal impact on local governments. The effort is to establish a national franchise for video service providers (HR 5252) that want to offer telecommunications video and internet services in communities throughout the nation. At the State level, AB 2987 is a similar reform measure. Concerns at the local level include preemption of local franchising authority and local tax and fee authority (which could threaten franchise fees and business license taxes). On an optimistic note, the legislation has the potential to bring new and robust telecommunications services to our communities that will enhance our quality of life and improve business productivity.

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 wherein each department develops 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.

Both the reconstruction of Plumas Street and the renovation of Gauche Park into an aquatics facility are out to bid and scheduled to begin this summer. Redevelopment bonds that were sold in August, 2004, will help finance Plumas Street along with unallocated capital dollars. With regard to the financing of the aquatics park, funding will come from the sale of excess land, development impact fees, and the sale of certificates of participation. The 15-screen multiplex continues to be a planned addition to the downtown area and the future community center is in conceptual design. 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 and Master Plans.

City staff continues to work closely with the development community toward implementing both specific and master plans - ultimately ensuring that the community's standards and expectations as set forth in the General Plan and the City's Growth policies are fulfilled. Community workshops related to the Lincoln East Specific Plan, which covers roughly 1,100 acres, have been held and a final configuration will be determined in the near future. 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, schools, and parks).

Fiscal Planning and Fee Updates -

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. Most pressing among these

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studies is the update of the City's development impact fees which will fund much needed capital improvements. At the operational level, we will ensure that new development properly contributes toward the appropriate level of public safety services to serve our growing population. Additionally, new zoning code/residential design standards will support the implementation of the General Plan.

Organizational Staffing. The new fiscal year will bring changes at the highest level within the organization as a new City Manager begins upon my retirement. Another key position, the Assistant City Manager for Development Services, is also anticipated to be filled by the City Manager. The future is bright: the current members of the Executive Team have nearly 100 years of combined experience in Yuba City and are prepared to support new leadership and continue to advance the goals of the City Council.

Levee Protection. The terrible disaster in New Orleans in the wake of Hurricane Katrina has heightened California's awareness to the need to evaluate our levee system and plan for needed improvements. As mentioned earlier, the Governor made an Emergency Declaration to immediately address certain levee repairs and the bond measure on November's election begins to address the issue. In the last budget, the City set-aside \$500,000 for studies or improvements to our levee system; the adopted budget includes another \$250,000. Current estimates for levee repair county-wide are in the neighborhood of \$250 million. The share of this estimate, which would be attributable to Yuba City, has yet to be determined. On a related note, 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. The issues with levee studies and repairs will need to stay on the forefront of the Council as the City moves through the process of FEMA mapping and ultimate funding of improvements.

Water System Expansion and Wastewater Plant Permit. The City continues to invest heavily in its water and wastewater systems. The Water Treatment Plant is in the process of

being upgraded from 24 million gallons per day (mgd) to 32 mgd, with design underway for an ultimate capacity of 48 mgd. Funding for the expansion comes from both the sale of bonds and connection fees. The City continues to work with the State Water Resources Board over our wastewater permit application and meetings to work through the permit issues continue with, hopefully, a permit being issued in the early fall for 10.5 mgd. Ensuring that additional surface water contracts are secured, and maintaining adequate revenues to operate the systems are priorities for the coming years as well.

Economic Development. All signs point toward continued economic growth in Yuba City. Significant retail development has been experienced in the Harter Specific Plan, which includes a new Super Wal-Mart and other big box retail establishments. In support of infill development, a new traffic signal will be installed on Highway 99 between Colusa Avenue and Bridge Street. This intersection will connect Highway 99 with Walton Avenue and support the new Kohl's store, Hampton Inn and other stores. As previously mentioned, the Plumas Street and Town Center improvements are being actively pursued in support of economic development in the downtown area and the City continuing to see interest for other retail sights along the 20/99 corridor. 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 future growth, funds will need to be identified in the upcoming year for the relocation of Fire Station No. 4 and the eventual expansion of the Police Department. These projects underscore the need to update the City's impact fees. Improvements to several of our existing facilities are also programmed. 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 though the City. The reconfiguration of the railroad trestle adjacent to the Fifth Street Bridge for additional vehicular traffic is being studied by the County with the benefit of Federal Transportation funds. The widening of Walton Avenue and construction of

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westerly parkways will need to remain a priority as we move west.

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 Analyst, for their many hours of dedication, long weekends, late nights, and hard work in coordinating, developing and publishing this fiscal year 2006-07 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.

My career with Yuba City has been extremely rewarding. I can look back on the many accomplishments that were achieved through the hard work of the City Council and dedicated City Employees to public service, all in an effort to make Yuba City a better place to live and work.

Best of luck and success to the Council, staff, and citizens of Yuba City. *Yuba City is truly the best of the best!*

Respectfully submitted,

Jeffrey Foltz
City Manager (retiring)
