

Quarterly Financial Report
For Quarter Ending 09/30/08

November 4, 2008

OVERVIEW

With general fund revenues projected to be less than budgeted, City staff is establishing a list of proposed budget reductions. When the FY 2008-09 budget was adopted, it was anticipated that reserves from the economic stabilization reserve would be utilized to balance operating expenditures until revenues began increasing at a rate similar to past experience. Since that time, the world economy has experienced a significant slowing. Yuba City is also experiencing this slowdown. In an effort to respond quickly and mitigate the impact of spending reserves, City staff has proposed budget reductions to reduce general fund expenditures and bring them more closely into balance with revised revenue projections.

This report is prepared on a cash basis; therefore it describes the timing of cash flows as it relates to the City's revenues.

Interim Beginning Balances. The City's annual independent audit is complete. We have received the preliminary auditor's adjustments to the City's ledgers. We believe the beginning fund and working capital balances presented in this report are reasonable and are not likely to change significantly due to any additional auditor adjustments prior to receipt of our draft audit report.

Adjusted Budgets. The revenue projections and budgets include adjustments for encumbrances, carryovers and any supplemental appropriations made by the Council as of September 30, 2008.

GENERAL FUND

General Fund Financial Condition. With 25% of the year complete, General Fund revenues are at 8.5% of projections and expenditures are at 19.7%.

General Fund

| | Budget | YTD Actual | Percent |
|------------------------|------------------|------------------|---------|
| Balance, Start of Year | 4,244,892 | 4,244,892 | - |
| Revenues | 37,918,459 | 3,213,392 | 8.5% |
| Expenditures | (39,143,821) | (7,722,949) | 19.7% |
| Balance | 3,019,530 | (264,665) | - |

The budgeted expenditures shown above also include encumbrance carryovers from FY 2007-08 of \$397,402. Encumbrance carryovers are outstanding purchase orders as of June 30th. Encumbrances are

liquidated and paid from the beginning fund balance as prior year budget monies are used to pay for them (as opposed to current year revenues).

In the YTD Actual shown above, the ending fund balance is negative for the general fund as of the end of the first quarter. This is typical for the general fund and indicates the cash flow pattern for the general fund. Expenditures are typically incurred fairly evenly throughout the fiscal year whereas our largest revenue source is received in two large payments in February and May when property taxes are received from Sutter County.

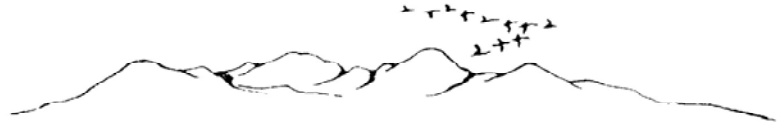
Revenues.

The City's top ten revenues account for 95% of total General Fund revenues. As a whole, they provide a good summary of our revenue position. With the exception of sales tax and property taxes to a much lesser degree, these key revenues are performing as projected based on payment schedules and past trends for the first quarter. More detailed information is noted below.

| Top Ten Revenues | Budget | Actual | % Received |
|-----------------------|-------------------|------------------|-------------|
| Property Taxes | \$ 12,235,570 | \$ - | 0.0% |
| Sales Tax | \$ 10,942,715 | \$ 654,347 | 6.0% |
| Business Licenses | \$ 728,000 | \$ 21,154 | 2.9% |
| Franchise Fees | \$ 1,379,000 | \$ - | 0.0% |
| Hotel/Motel Surcharge | \$ 736,450 | \$ - | 0.0% |
| Building Permits | \$ 750,000 | \$ 193,119 | 25.7% |
| State Motor Vehicle | \$ 346,800 | \$ 74,386 | 21.4% |
| CSA "G" Fire Contract | \$ 708,185 | \$ - | 0.0% |
| Recreation Fees | \$ 1,064,391 | \$ 383,386 | 36.0% |
| Operating Transfers | \$ 7,146,299 | \$ 1,412,887 | 19.8% |
| Total | 36,037,410 | 2,739,278 | 7.6% |

▪ **Property Tax.** The first apportionment of 2008-09 taxes will not occur until February, 2009. Based upon the final assessed valuation reports from the Sutter County Auditor-Controller's Office, property tax revenues are expected to be \$186,000 less than budgeted. Citywide assessed values decreased by 0.3% (\$13.7 million in assessed valuation). The three largest components of this change are as follows:

- Residential decreased by 1.72% due to Proposition 8 reductions (\$59.3 million in assessed valuations)
- Commercial increased by 5.05% (\$38.7 million in assessed valuations)
- Industrial increased by 3.51% (\$7.2 million in assessed valuations).



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- **Sales Tax.** When the FY 2008-09 revenue projections were made, sales tax was projected to increase 3.5%. However, the most recent quarterly sales tax results were down 7.7% on an adjusted basis from the same quarter of the previous year. If you compare the differential of a reduction of 7.7% to an expected increase of 3.5%, this results in a differential of 11.2%. If this trend continues, sales tax could be \$1.1 million less than budgeted, or more.

- The revenue data for the July through September quarter sales is not available from the Board of Equalization until mid December. The revenue shown above represents advance payments received from the State towards the first quarter's receipts.

- **Business Licenses.** Business licenses are renewed in January of each year, therefore most of the revenues from business licenses are received during the third quarter of the fiscal year.

- **Franchise Fees.** The City receives franchise fees from PG&E, YSDI, and Comcast; the fees are based upon a percentage of their revenues. The receipts for the first quarter of the fiscal year are not received until the end of October, henceforth, we would not expect to show any revenues during the first quarter of the fiscal year.

- **Hotel/Motel Surcharge.** Surcharge revenues for the first quarter were not received until the end of October.

- **Construction Permit Fees.** Building Permits continue to reflect the weakness in the housing market but are in line with budget expectations.

- **CSA "G" Fire Contract.** The City receives these funds for fire services to the unincorporated area that was formerly served by the Walton Fire Protection District. Since revenues are property tax based, the first apportionment will be received in February, 2008.

- **Recreation Fees.** At 36% service fees are more than the 25% expected for ¼ of the fiscal year. This is largely attributable to the popularity of aquatics programs at the GAP.

- **Operating Transfers.** The General Fund receives reimbursement for operating costs associated with support services provided to the water and wastewater utilities as well as other fund

transfers. The transfer to the economic stabilization fund has not been included as a revenue in this report as it isn't truly a revenue or a cost reimbursement; it is instead a source of funds to be utilized to fund expenditures. Transfers are well within budgetary expectations.

Expenditures. Operating costs are within budgetary expectations as summarized below.

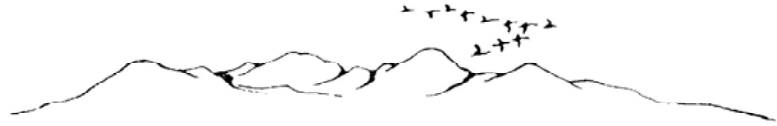
| Expenditures | Budget | YTD Actual | % Expended |
|----------------------------|-------------------|------------------|--------------|
| City Council | 163,957 | 22,885 | 14.0% |
| City Attorney | 220,000 | 25,131 | 11.4% |
| City Manager | 421,201 | 77,627 | 18.4% |
| Finance/City Treasurer | 1,915,855 | 330,779 | 17.3% |
| IT/General Services | 1,963,245 | 344,276 | 17.5% |
| Human Resources/City Clerk | 895,743 | 121,222 | 13.5% |
| Community Development | 1,502,546 | 292,299 | 19.5% |
| Public Works | 5,566,849 | 1,125,382 | 20.2% |
| Police | 13,716,134 | 2,791,367 | 20.4% |
| Fire | 9,535,535 | 2,032,485 | 21.3% |
| Animal Control Services | 375,000 | - | 0.0% |
| Economic Development | 277,838 | 35,773 | 12.9% |
| Contingency | 125,347 | 70 | 0.1% |
| Non-Departmental Misc. | 140,800 | 25,800 | 18.3% |
| Parks & Recreation | 2,323,771 | 497,852 | 21.4% |
| Total General Fund | 39,143,821 | 7,722,949 | 19.7% |

ENTERPRISE FUNDS

The following summarizes year-to-date revenues, expenditures and changes in working capital for the enterprise funds. In general, revenues and expenditures are consistent with past trends. Depreciation is included as a footnote in the budget and is therefore not included below. Revenues in the water fund exceed the 25% expected for the percentage of the year complete as they reflect the seasonal pattern of usage during the summertime. Debt service expenditures are zero as of the end of the first quarter as both water and wastewater debt service are payable on December 1st and June 1st of each year.

Water Fund

| | Budget | YTD Actual | Percent |
|------------------------|-------------------|-------------------|-------------|
| Balance, Start of Year | 15,306,429 | 15,306,429 | - |
| Revenues | 9,700,083 | 2,864,398 | 29.5% |
| Expenditures | | | |
| Operating Programs | (7,578,049) | (1,529,146) | 20.2% |
| CIP Projects | (716,000) | (716,000) | 100.0% |
| Debt Service | (1,818,894) | - | 0.0% |
| Balance | 15,609,569 | 16,641,681 | - |
| CIP Projects | 6,741,000 | 436,679 | 6.5% |



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Wastewater Fund

| | Budget | YTD Actual | Percent |
|------------------------|-------------------|-------------------|----------|
| Balance, Start of Year | 14,581,500 | 14,581,500 | - |
| Revenues | 9,964,743 | 2,212,863 | 22.2% |
| Expenditures | | | |
| Operating Programs | (10,226,367) | (3,196,186) | 31.3% |
| CIP Projects | (1,580,000) | (1,580,000) | 100.0% |
| Debt Service | (1,456,063) | - | 0.0% |
| Balance | 11,283,813 | 12,018,176 | - |

| | | | |
|---------------------|------------------|----------------|-------------|
| CIP Projects | 3,451,000 | 239,632 | 6.9% |
|---------------------|------------------|----------------|-------------|