

Quarterly Financial Report

For Quarter Ending 12/31/08

February 17, 2009

OVERVIEW

In December, 2008, the City implemented Round 1 of Budget reductions. After Round 1 of reductions, a structural deficit of \$1.3 million remains in the General Fund for FY 2008-2009. The table below shows "how we got there:"

Description	Amount
Adopted Budget Deficit FY 08-09	(556,000)
Supplemental Appropriations	(468,000)
One Time Funding for Gang Unit	250,000
Reduced Sales Tax Revenues	(1,126,000)
Reduced Property Tax Revenues	(185,000)
Reduced Investment Earnings	(200,000)
Round 1 Expenditure Reductions	956,000
Net General Fund Deficit	(1,329,000)

The \$1.3 million deficit shown above grows to \$2.3 million in FY 2009-2010 if salary increases that are contained in bargaining unit contracts are implemented. The City has a healthy level of reserves, but cannot sustain this level of deficit spending; nor would it be recommended. The City Manager's office has been holding on-going meetings with representatives from the City's bargaining units to discuss their willingness to forgo cost of living adjustments and/or flat rate increases that would go into effect as of July 1st. Additionally, the City Manager and the Finance Department have requested that the bargaining units give back 5% of existing compensation in order to avoid staffing level reductions. While discussions are on-going, in the event concessions are not reached, the Executive Team is compiling both a 5.0% and a 7.5% reduction scenario to be submitted to the City Manager by February 17th. The City Manager is scheduled to receive responses regarding any voluntary concessions by the bargaining units no later than February 24th.

If concessions with the City's bargaining units are reached, the deficit described above is minimized. The above estimates do not take into consideration further declines of the City's sales tax or property tax revenues, nor any potential State takeaways. Even with employee concessions, it is expected that the

City will utilize approximately \$0.7 million of its Economic Stabilization Reserve in FY 09-10.

Half of the fiscal year is now complete. Revenues for the City are cyclical in that we receive our largest revenue stream from Sutter County in January and May of each year. Expenditures, on the other hand, follow a more regular pattern with accounts payable checks issued to vendors each week and payroll checks issued to City employees bi-weekly. This report is prepared on a cash basis; therefore it describes the timing of cash flows as it relates to the City's revenues.

Adjusted Budgets. The amounts listed as Budget include adjustments for encumbrances, grant carryovers, supplemental appropriations, and revenue budget adjustments. Specifically, the amounts listed as Budget also include implementation of the budget reductions approved by City Council during Round 1 in December, 2008.

GENERAL FUND

General Fund Financial Condition. With 50% of the year complete, General Fund revenues are at 21.3% of budget and expenditures are at 45.5%.

General Fund

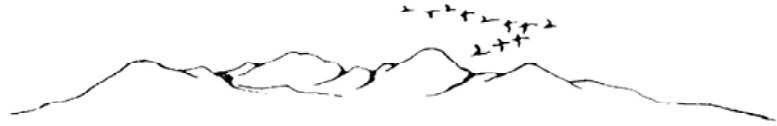
	Budget	YTD Actual	Percent
Balance, Start of Year	4,294,628	4,294,628	-
Revenues	36,909,001	7,863,034	21.3%
Expenditures	(38,635,110)	(17,591,694)	45.5%
Balance	2,568,519	(5,434,032)	-

The budgeted expenditures shown above exceed revenues by the general fund deficit of \$1.3 million in addition to 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 second quarter. This is typical for the general fund and indicates the cyclical cash flow pattern of revenues vs. expenditures described above.

Revenues.

The City's top ten revenues account for 95% of total General Fund revenues. As a whole, they provide a



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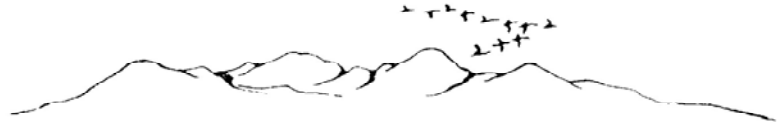
good summary of our revenue position. After reducing projected revenues from sales tax, property taxes and investment earnings by \$1.5 million as described above, the City's other key revenues are performing as projected based on payment schedules and past trends for the second quarter. More specific information is described below.

Top Ten Revenues	Budget	Actual	% Received
Property Taxes	12,050,570	0	0.0%
Sales Tax	9,816,715	2,594,042	26.4%
Business Licenses	728,000	28,402	3.9%
Franchise Fees	1,379,000	228,094	16.5%
Hotel/Motel Surcharge	736,450	185,470	25.2%
Building Permits	750,000	325,254	43.4%
State Motor Vehicle	346,800	79,532	22.9%
CSA "G" Fire Contract	708,185	0	0.0%
Recreation Fees	1,064,391	586,143	55.1%
Operating Transfers	7,396,299	3,012,736	40.7%
Total	34,976,410	7,039,673	20.1%

- **Property Tax.** The first apportionment of 2008-09 taxes was received in January, 2009. As stated above, projected property tax revenues were adjusted downward by \$185,000 due to declines in the City's assessed values. Citywide assessed values decreased by 0.3% (\$13.7 million in assessed valuation).
- **Sales Tax.** The Adopted Budget for FY 08-09 included a projected increase in sales tax of 3.5%. Instead, recent quarterly receipts show declines in sales tax revenues. Revenue expectations were reduced by \$1,126,000 as part of the Round 1 Budget reductions. The reduction was estimated at 7.7% and was based upon the adjusted 2nd quarter sales tax receipts (April-June). 3rd quarter sales tax receipts were known in December; they were down 11.8% on an unadjusted basis and 3.9% on an adjusted basis.
- It is hoped that further reductions in sales tax projections are not necessary; however given all of the negative economic data in the news, it is impossible to predict. Therefore, receipts will continue to be monitored on a quarterly basis as soon as they are available from the Board of Equalization. The quarterly "Sales Tax Update" provided by the City's sales tax auditors, HDL Companies, is available on the Finance page of the City's website and provides insightful

information relating to the City's sales tax revenues.

- **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 revenues shown here include only the first quarter from YSDI and Comcast as the second quarter's revenues are not received until the end of January. Additionally, PG&E's franchise fees are received on an annual basis (instead of quarterly) in April. In reviewing the first two quarters of receipts for preparation of this report, overall they show an increase of 7.3% compared to the same two quarters of the prior year.
 - **Hotel/Motel Surcharge.** Surcharge revenues shown are for the first quarter only. The second quarter was not received until the end of January.
 - **Construction Permit Fees.** Building Permits continue to reflect the weakness in the housing market but are on track with projected revenues for this fiscal year.
 - **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 was received in January, 2008.
 - **Recreation Fees.** Service fees received are less than the expected 50%, but coincide with the timing of Recreation programs.
 - **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. Transfers are well within budgetary expectations.
- Expenditures.** Operating costs are generally within budgetary expectations as summarized below.



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Expenditures	Budget	YTD Actual	% Expended
City Council	151,557	52,098	34.4%
City Attorney	203,500	109,669	53.9%
City Manager	393,201	180,808	46.0%
Finance/City Treasurer	1,800,005	806,073	44.8%
IT/General Services	1,894,282	843,382	44.5%
Human Resources	819,256	274,956	33.6%
City Clerk	74,037	7,072	9.6%
Community Development	1,420,912	628,418	44.2%
Public Works	3,814,997	1,611,164	42.2%
Police	13,731,155	6,413,591	46.7%
Fire	9,558,913	4,585,261	48.0%
Animal Control Services	375,000	178,205	47.5%
Economic Development	212,634	75,059	35.3%
Non-Departmental & Contingency	227,147	65,796	29.0%
Parks & Recreation	3,958,515	1,760,141	44.5%
Total General Fund	38,635,110	17,591,694	45.5%

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. Service fee revenues for water sales are at 54% of the amount budgeted for the surface water fund, 49% for the groundwater fund and 49% for the wastewater fund. Connection fee revenues are at 94% of the amount budgeted for water and 55% for wastewater.

Debt service expenditures are not at 50% of budget at the end of the second quarter due to the timing of these payments. Water and wastewater bonds have semi-annual interest payable on December 1st and June 1st each year. The annual principal payment is paid 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	5,012,314	51.7%
Expenditures			
Operating Programs	(7,579,496)	(3,431,386)	45.3%
CIP Projects	(716,000)	(716,000)	100.0%
Debt Service	(1,818,894)	(613,962)	33.8%
Balance	15,608,122	16,273,394	-
CIP Projects	6,741,000	1,338,005	19.8%

Wastewater Fund

	Budget	YTD Actual	Percent
Balance, Start of Year	14,581,500	14,581,500	-
Revenues	10,209,743	4,655,550	45.6%
Expenditures			
Operating Programs	(9,737,814)	(4,908,344)	50.4%
CIP Projects	(1,580,000)	(1,580,000)	100.0%
Debt Service	(1,456,063)	(450,525)	30.9%
Balance	12,017,366	12,298,181	-
CIP Projects	3,451,000	459,175	13.3%