

Quarterly Financial Report
For Quarter Ending 09/30/09

November 17, 2009

OVERVIEW

The FY 2009-10 adopted budget has a \$2.5 million structural deficit that was funded with a combination of one-time reserve funds. Approximately \$600,000 of the deficit is funded from the Economic Stabilization Reserve that was set up as part of the FY 2008-09 adopted budget and the remainder was funded with prior year reserves from the City's various internal service funds. The City is further addressing this deficit by leaving positions vacant unless they are critical to the City's priority focus of public safety and infrastructure maintenance. City staff has also been meeting with bargaining unit representatives to determine if employees are willing to agree to any additional concessions in order to avoid layoffs. If further concessions with bargaining units are not reached, it is the City's intent to implement layoffs effective July 1, 2010. The City has developed a draft layoff list which will be further refined based upon City priorities. Additionally, the City will analyze opportunities for restructuring, contracting out for services and/or possible service level reductions in order to achieve a budget that will be structurally in balance as we moved into FY 2010-11.

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

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 expenditure budgets include adjustments for encumbrances, carryovers and any supplemental appropriations made by the Council as of September 30, 2009.

GENERAL FUND

General Fund Financial Condition. With 25% of the year complete, General Fund revenues are at 9.4% of projections and expenditures are at 19.4%.

General Fund

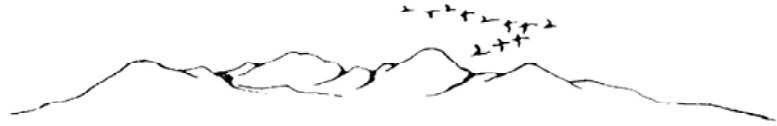
	Budget	YTD Actual	Percent
Balance, Start of Year	\$ 4,086,073	\$ 4,086,073	-
Revenues	34,657,883	3,257,247	9.4%
Expenditures	(37,529,578)	(7,277,933)	19.4%
Balance	\$ 1,214,378	\$ 65,387	-

The budgeted expenditures shown above include encumbrance carryovers from FY 2009-10 of \$244,704. 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 addition, budgeted expenditures include \$163,777 added for grant funded programs and \$50,000 in supplemental appropriations.

In the YTD Actual shown above, the ending fund balance is very low 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 for payroll and vendor payments are 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 96.5% of total General Fund revenues. As such, they provide a very good summary of our revenue position. With the exception of sales tax, these key revenues are performing as projected based on payment schedules and past trends for the first quarter. More detailed information is noted below.



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Top Ten Revenues	Budget	Actual	% Received
Property Taxes	\$ 11,235,630	\$ -	0.0%
Sales Tax	9,478,239	1,050,594	11.1%
Business Licenses	732,000	16,151	2.2%
Franchise Fees	1,417,000	0	0.0%
Hotel/Motel Surcharge	692,000	7,974	1.2%
Building Permits	600,000	139,664	23.3%
State Motor Vehicle	225,500	36,082	16.0%
CSA "G" Fire Contract	654,233	0	0.0%
Recreation Fees	1,304,668	319,400	24.5%
Operating Transfers	7,073,768	1,449,923	20.5%
Total	\$ 33,413,038	\$ 3,019,788	9.0%

▪ **Property Tax.** The first apportionment of 2009-10 taxes will not occur until February, 2010. The FY 2009-10 adopted budget projected a 4% decline in property taxes. Based upon the final assessed valuation reports from the Sutter County Auditor-Controller's Office, general fund assessed values decreased by 3.8% so the City is right on track with projections. The three largest components of the change in values are as follows:

- Residential decreased by 6.85% due to Proposition 8 reductions (\$232 million in assessed valuations)
- Commercial increased by 6.03% (\$49.5 million in assessed valuations)
- Industrial increased by 3.39% (\$7.1 million in assessed valuations).

The State declared a fiscal emergency under the terms outlined in Proposition 1A approved by the voters in 2004. This allows the State to borrow 8% of property taxes from cities, counties and special districts throughout California. The City participated in a securitization process through California Communities whereby we sold our receivable of \$1,148,688 and will obtain payment from the bond proceeds in January and May instead of waiting until 2013 to receive repayment of these funds from the State.

▪ **Sales Tax.** When the FY 2009-10 revenue projections were made, sales tax was projected to decrease 4.0. The most recent quarterly sales tax results were down 12.4% (January – March, 2009) and 13.2% (April - June, 2009) on a cash basis. Local sales tax revenues performed significantly better than the State average which was down 16.5% and 20.6% for the same quarters. If this trend

continues, sales tax revenues could be \$500,000 to \$1 million less than budgeted.

▪ 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.

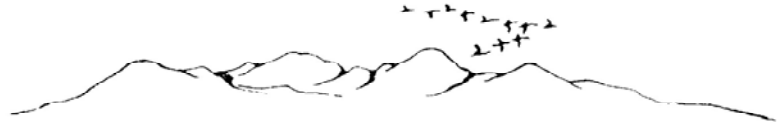
▪ **Construction Permit Fees.** Building Permits continue to reflect the weakness in the housing market but are in line with budget expectations.

▪ **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 24.5% of budgeted revenues, service fees from recreation programs are on track with projections.

▪ **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 transfers from the City's internal service funds totaling \$1,850,000 for FY 2009-10 have not been included as a revenue in this report as they are not truly a revenue or a cost reimbursement; they are 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.



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Expenditures	Budget	YTD Actual	% Expended
City Council	\$ 135,612	\$ 21,290	15.7%
City Attorney	203,500	18,434	9.1%
City Manager	697,170	143,649	20.6%
Finance	1,458,237	264,047	18.1%
City Treasurer/City Clerk	30,043	3,649	12.1%
IT/General Services	1,661,683	266,184	16.0%
Human Resources	600,984	104,015	17.3%
Community Development	1,137,365	219,768	19.3%
Public Works	5,071,835	1,041,245	20.5%
Police	13,866,322	2,569,845	18.5%
Fire	9,452,586	2,031,645	21.5%
Animal Control Services	375,000	68,083	18.2%
Economic Development	264,980	29,208	11.0%
Contingency	187,000	-	0.0%
Non-Departmental Misc.	221,800	28,668	12.9%
Parks & Recreation	2,165,461	468,202	21.6%
Total General Fund	\$ 37,529,578	\$ 7,277,933	19.4%

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	\$ 9,726,864	\$ 9,726,864	-
Revenues	9,365,200	2,653,774	28.3%
Expenditures			
Operating Programs	(7,644,929)	(1,500,011)	19.6%
CIP Projects	(3,520,000)	(880,000)	25.0%
Debt Service	(1,817,283)	-	0.0%
Balance	\$ 9,629,853	\$ 10,880,627	-
CIP Projects	\$ 6,963,000	\$ 938,204	13.5%

Wastewater Fund

	Budget	YTD Actual	Percent
Balance, Start of Year	\$ 10,190,311	\$ 10,190,311	-
Revenues	10,492,183	2,443,837	23.3%
Expenditures			
Operating Programs	(8,441,439)	(1,377,179)	16.3%
CIP Projects	-	-	N/A
Debt Service	(1,452,688)	-	0.0%
Balance	\$ 10,788,367	\$ 11,256,969	-
CIP Projects	\$ 2,237,000	\$ 602,715	26.9%