Yuba City Financial Condition Review

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City Financial Condition

- The **City has recovered from the Great Recession** and is able to:
  - Adopt an annual balanced budget
  - Maintain, and increase, budget reserves
  - Strategically paid down CalPERS unfunded liabilities to reduce future pension-cost increases
  - Maintain a qualified and dedicated workforce to provide citywide services

- Even with these accomplishments, the **City has several challenges that will be difficult to meet**, including:
  - Providing raises that satisfy the market demands for City positions (especially police positions)
  - Funding deferred and ongoing maintenance of City facilities and infrastructure
  - Updating and expanding facilities to meet changing community needs
  - Paying for increasing benefit costs—especially PERS and health—and materials, supplies, and services costs

Purpose of the Presentation

- Provide an overview of the City's current and past financial condition
- Review the City's future budget challenges
- Discuss options in the pursuit of continued balanced budgets while meeting community needs

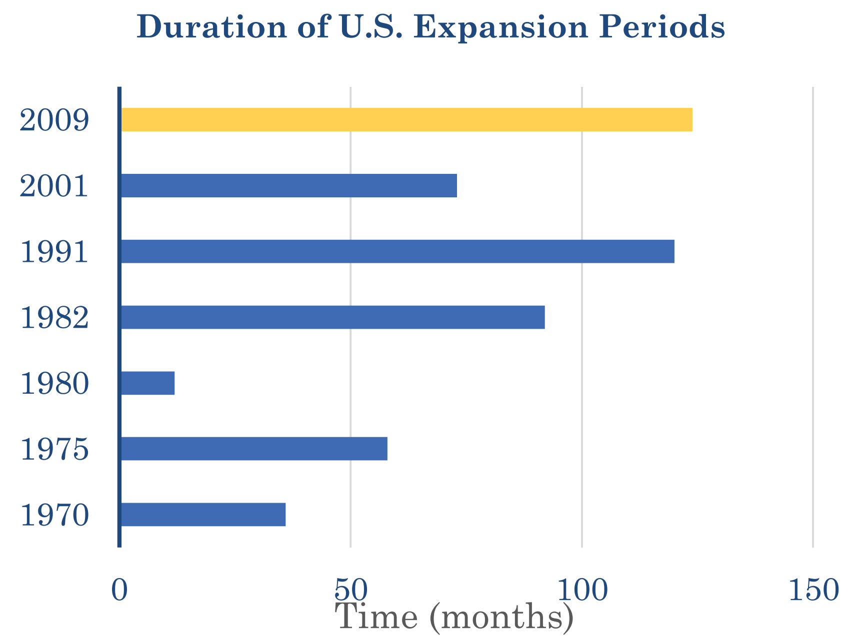
Key Economic Indicators

- Relative to Sutter County and the State of California, Yuba City lags across key economic indicators as shown in the table below, reflecting a weaker tax base than many other jurisdictions

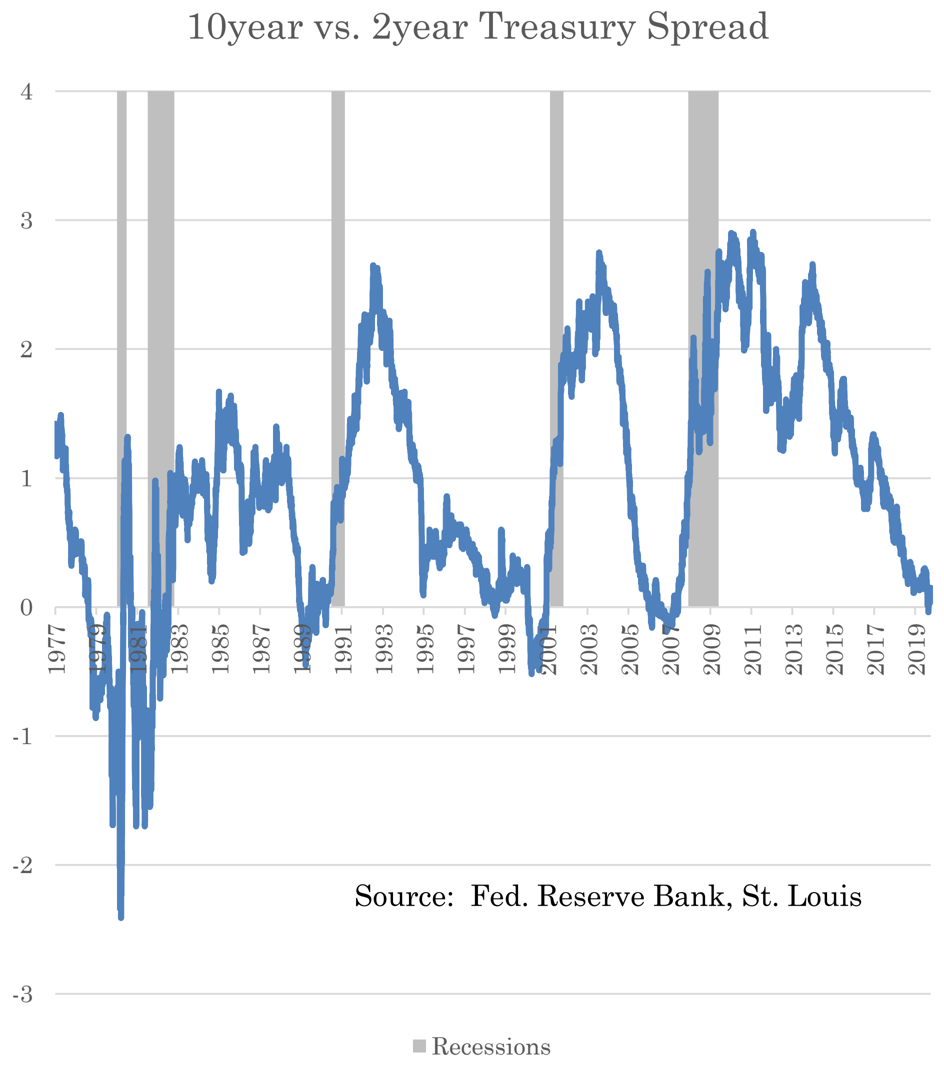
	City of Yuba City	Sutter County	State of California
Unemployment Rate (as of 2019)	5.2%	5.3%	4.0%
Median Household Income	$51,037	$54,347	$67,169
Per Capita Income	$23,375	$24,849	$33,128
Poverty Rate	17.6%	13.2%	12.8%
Median Home Value	$230,900	$234,500	$443,400

Source: US Census Bureau, 2017 American Community Survey, 5-Year Estimates; State Employment Development Dept. estimates, September 2019

Business Cycle Risk



*"The 2017 City Fiscal Conditions survey of city finance officers reveals the start of fiscal contraction in the municipal sector following several years of post-recession growth. **Several major findings taken together signal a slowdown on the horizon, including waning confidence of city finance officers, slowing local revenue and spending trends and insufficient post-recession revenue recovery…These indicators of slowing local fiscal growth come on the heels of continued national economic expansion**. Divergence between fiscal conditions and national economic indicators calls into question the alignment between city fiscal structures and the drivers of the economy, as well as the sustainability of the continued patchwork of solutions to cities' most pressing issues—namely, infrastructure."*



Source: The National Bureau of Economic Research, as of June 2018.

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New Development Remains Consistently Low

- The number of permits issued by the city for construction have been consistently below pre-recession levels as shown in the table below for single family dwellings

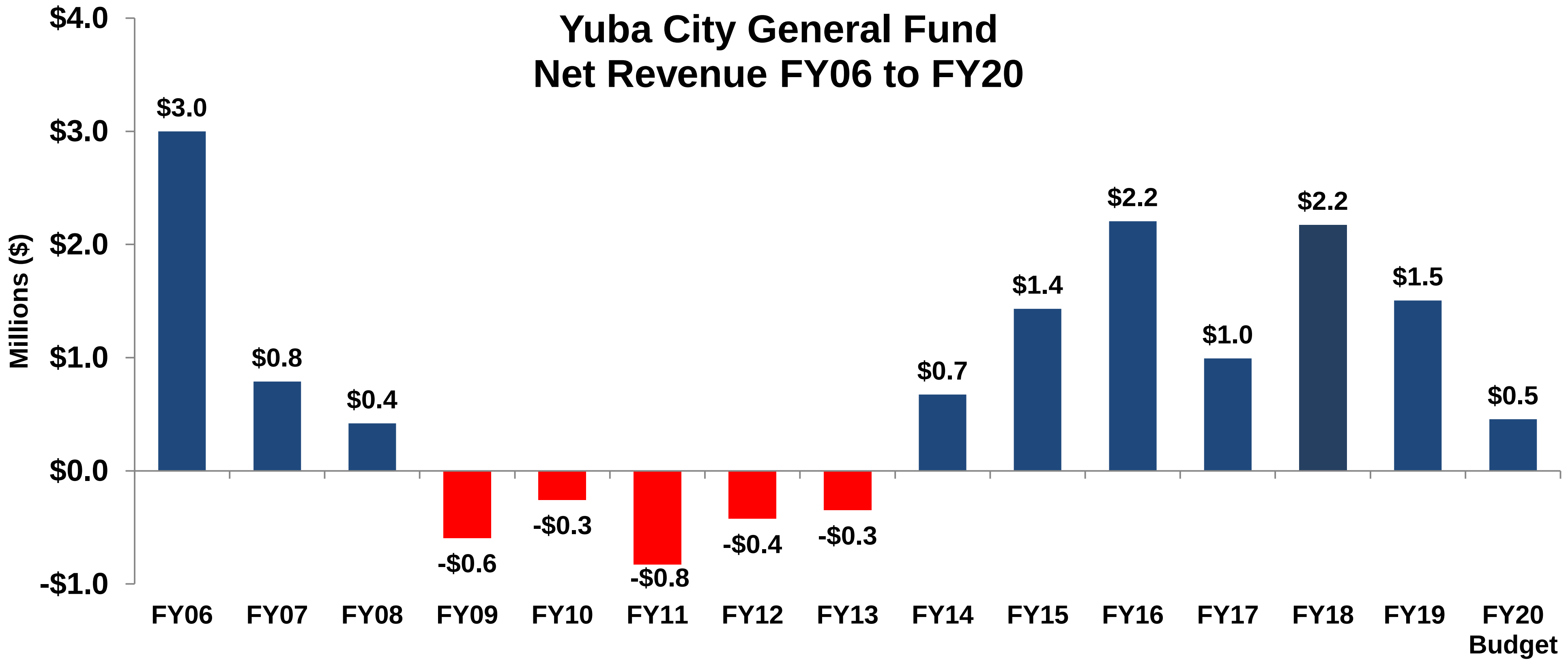
Calendar Year	Permits Issued Single Family Dwellings
2003	750
2004	991
2005	869
2006	254
2007	158
2008	53
2009	31
2010	18
2011	12
2012	14
2013	50
2014	50
2015	41
2016	47
2017	38
2018	27
2019 (through Oct.)	31

Source: Yuba City, Development Services Department

Impacts of the Great Recession

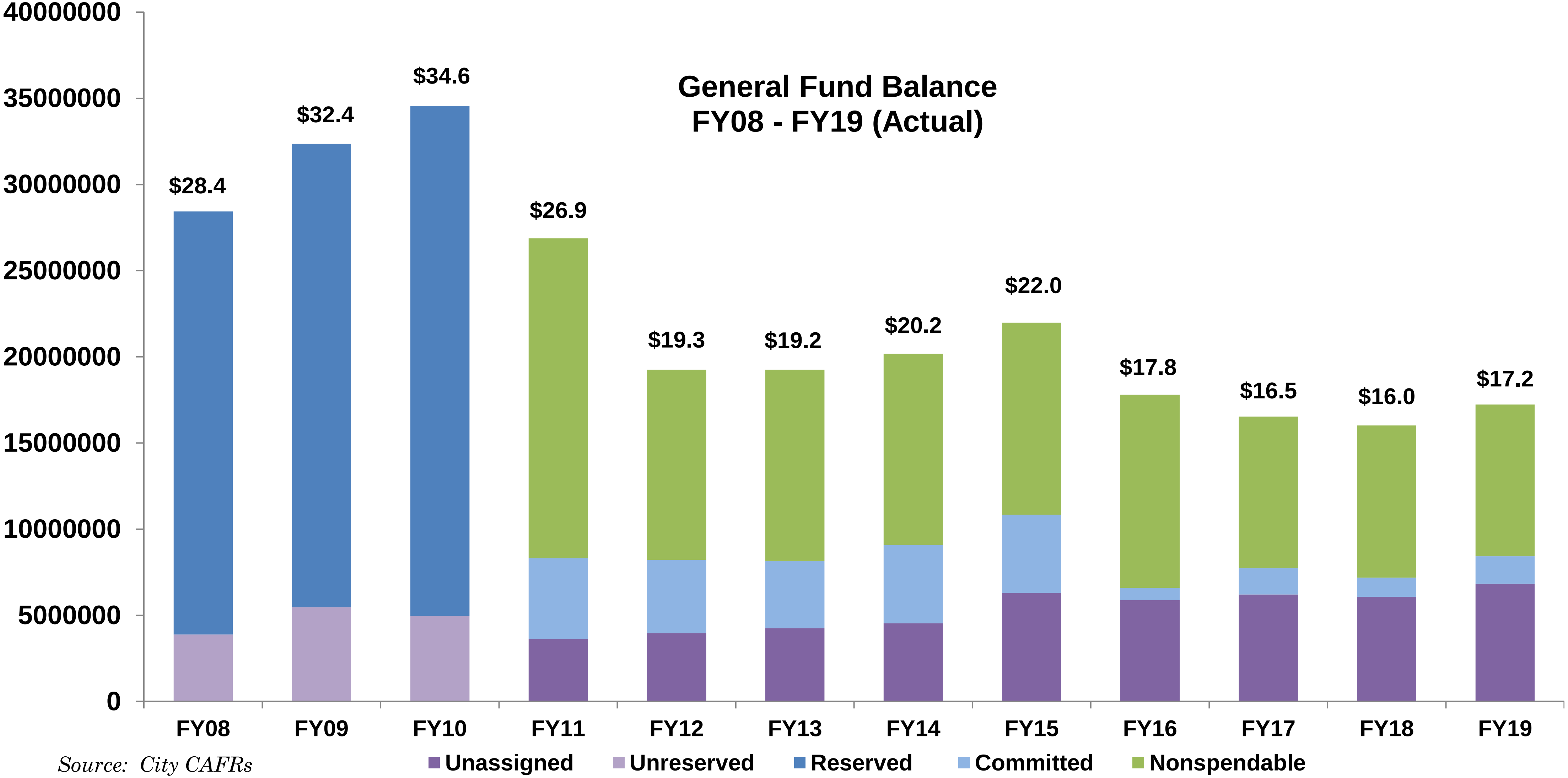
The Great Recession | GF Net Revenues

- The City was hit hard by the Great Recession, going from consistent surpluses to five years of negative net revenue
- Through conservative budgeting, staff reductions, and limited cost-of-living-adjustments, and a recovering economy the City's budget recovered and has shown positive net revenue for the last seven years



Fund Balance History

- The Unreserved/Unassigned fund balance grew from 10% to 15% based on a modified budget policy by the Council, and has grown since FY11



Source: City CAFRs

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Budget Reserves Policy

The City's adopted Council policy is to maintain budget reserves **of 15% of General Fund** operating expenses for the next fiscal year

Actual reserve levels needed should be based on specific circumstances of the City

- California-Specific Risks
  - Limited revenue flexibility with State – Increased revenues require voter approval
  - CalPERS pensions could require lower discount rates, further increasing pension costs
- Yuba City-Specific Risks
  - Deferred facility maintenance which could require emergency repairs or closure of facilities
  - Natural Disaster Exposure (e.g., fires and floods)

Funds beyond the 15% are allocated evenly to:

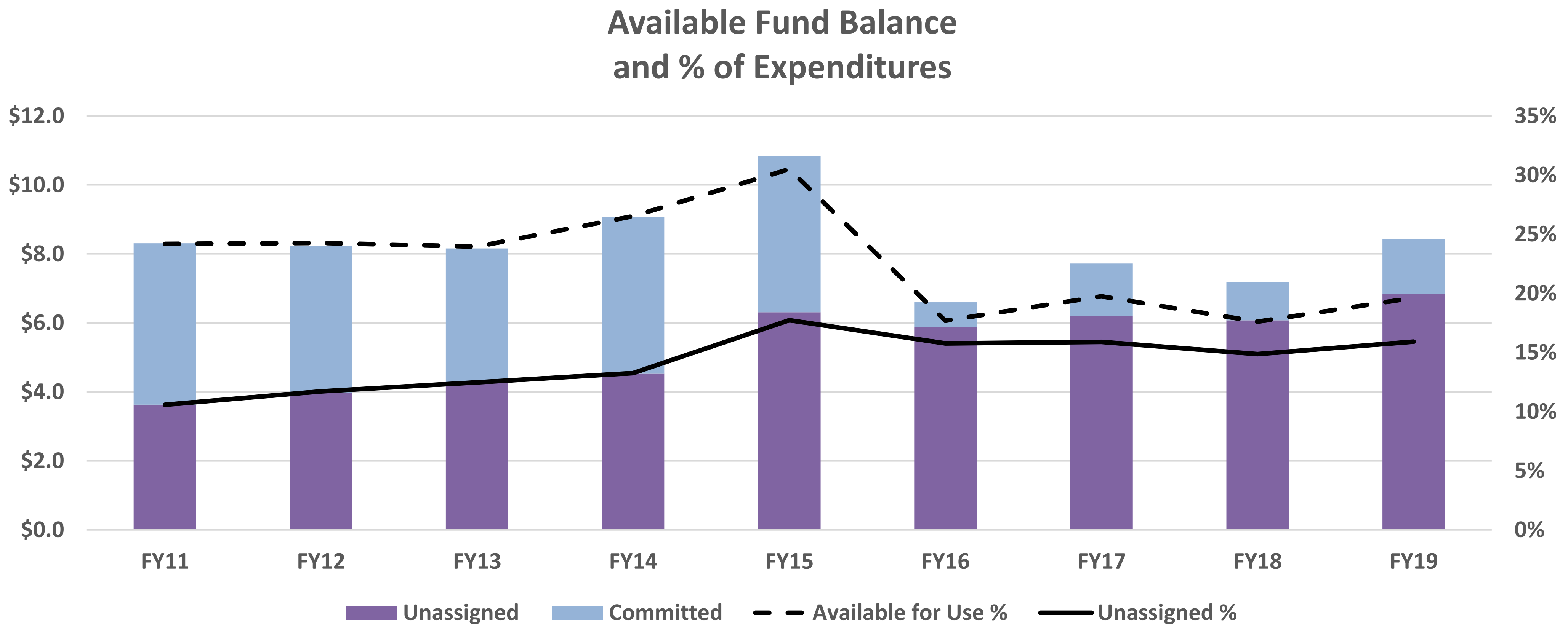
- Pension Stabilization Fund
- Capital improvement project account

The adequacy of unrestricted fund balance in the general fund should take into account each government's own unique circumstances. For example, governments that may be vulnerable to natural disasters, more dependent on a volatile revenue source, or potentially subject to cuts in state aid and/or federal grants may need to maintain a higher level in the unassigned fund balance.

- GFOA Best Practice: "Fund Balance Guidelines for the General Fund"

Reserves | Available to Spend

- A majority of the City's fund balance is classified as "unspendable"
- The portions that can be spent include "committed" (requires Council action to reclassify use) and "unassigned" (functions as City's economic reserve)
- The City has grown its unassigned fund balance to 15% of GF expenses



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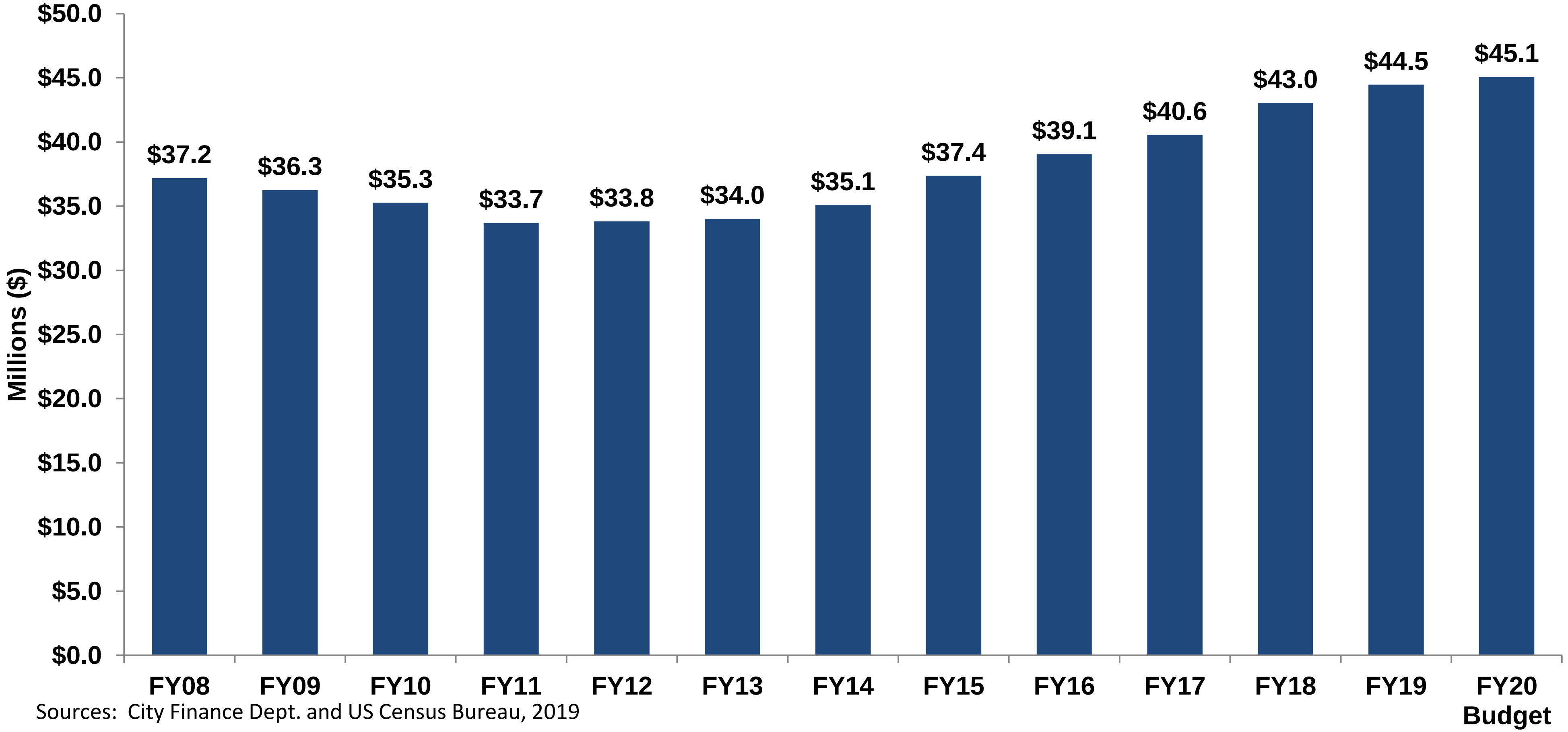
General Fund Revenues & Expenses

FY08 to FY20

General Fund | Historical Revenues

- It took the City **seven years** to surpass its peak FY08 revenues
- From FY08 to FY20, the City's revenues have grown at an **annual compounded rate of 1.6% per year**, just over CPI growth of 1.4% per year during this period

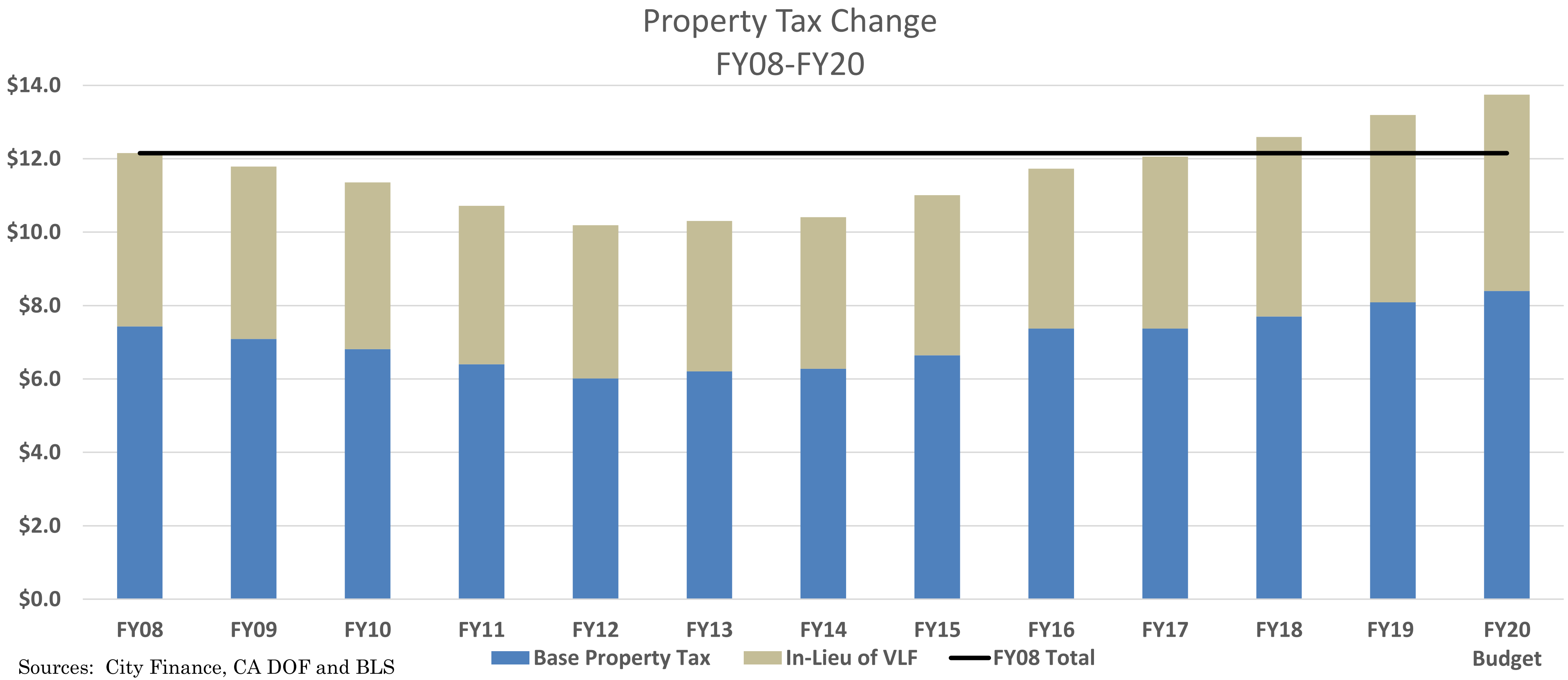


Sources: City Finance Dept. and US Census Bureau, 2019

Reflects General Fund revenues inclusive of one-time sources, but does not include one-time reserve fund infusions (such as transfers into the General Fund from the General CIP or Vehicle Replacement Plan)

Property Tax Revenue | Historical

- Property taxes did not exceed FY08 levels until FY18
- Growth between FY08 and FY20 was 13.2%, just 1.0% per year compounded, over this 12-year period, with all of that growth occurring in the last three budget years
- During this time, population grew 7.2% and consumer prices increased 17.4% (through Sept 19)-- A combined increase 24.4%



Sources: City Finance, CA DOF and BLS

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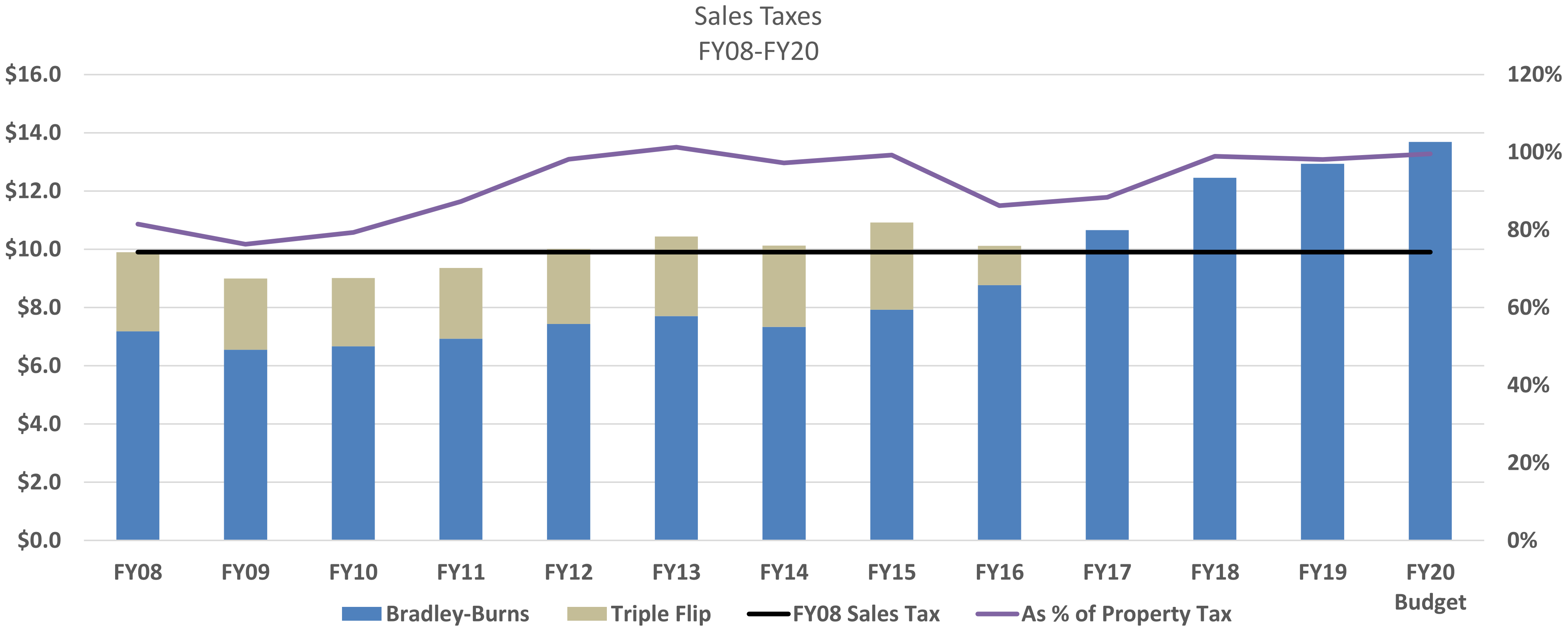
Sales Tax Revenue

- Sales tax has increased 38.4% since FY08—greater than population and inflation growth combined—averaging over 2.74% per year
- Consistent growth has only occurred over the last three years
- This growth has placed sales tax on par with property taxes for City revenues, thus increasing reliance on a volatile revenue source

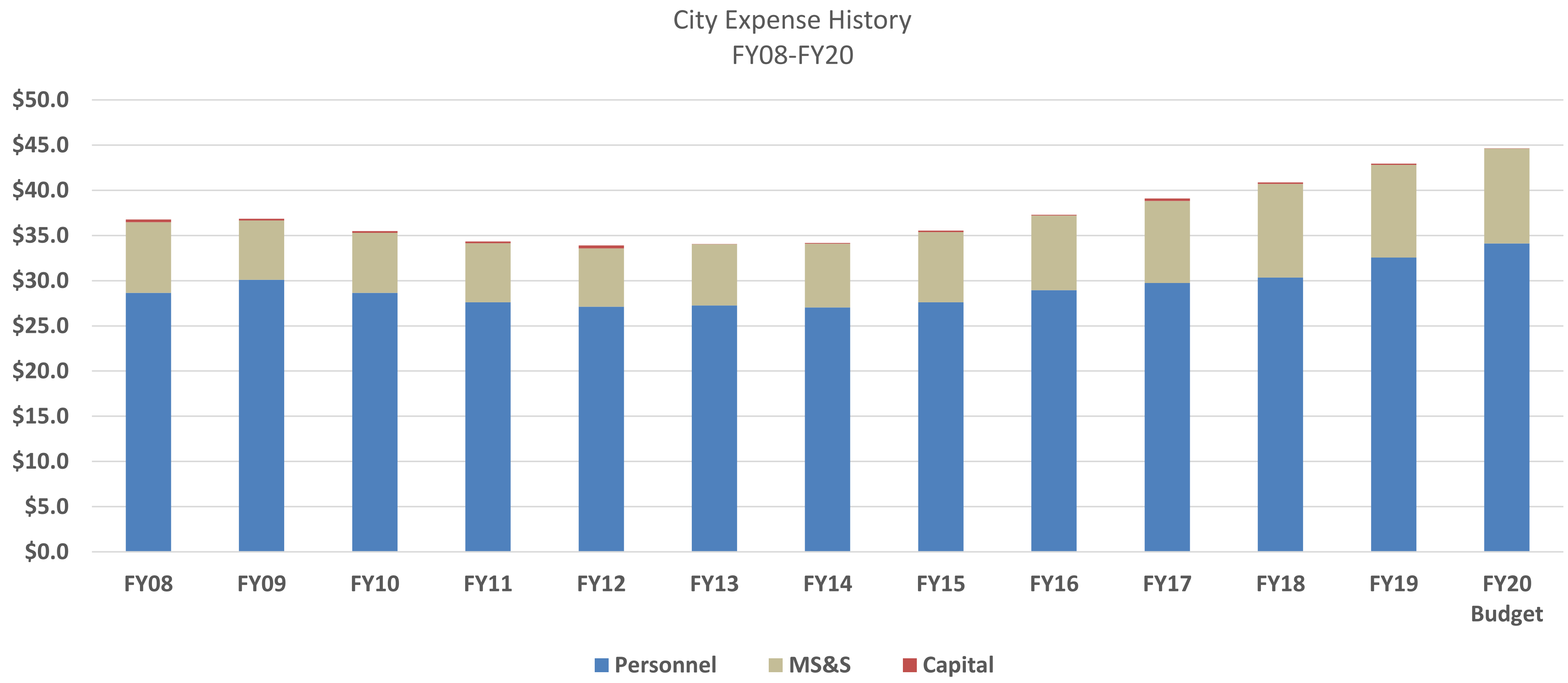


Source: City Finance

Note: Triple-Flip revenues varied year-to-year and skew annual totals

Expenses | Historical General Fund

- Expenses dropped through FY12 and then started increasing again in FY15. They have grown 4.3% per year (compounded) since
- Expense increases have been concentrated in health, other benefits, and materials and supplies costs—leaving City salaries stagnant



Source: Yuba City, Finance Department

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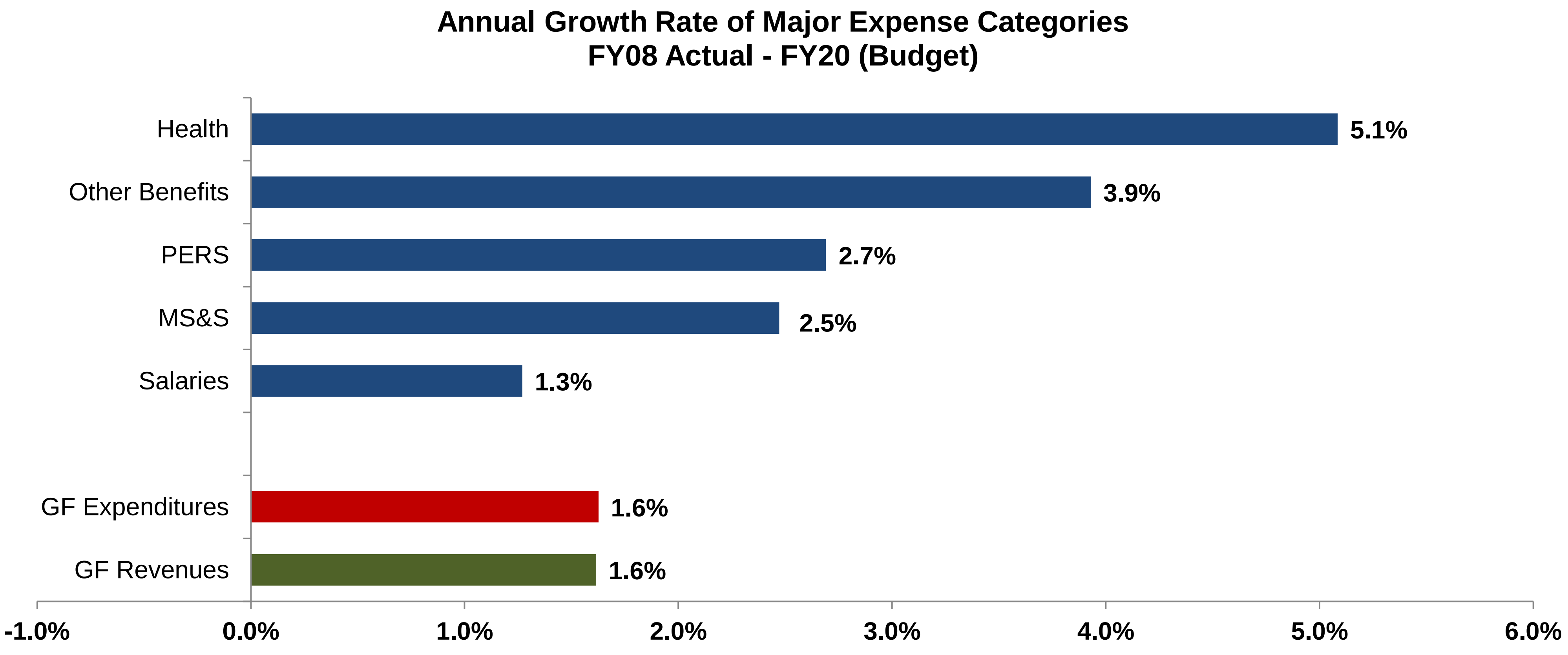
Historical Budget Growth | by Category

- The City has kept expense growth—**1.6%/ year**—equal to revenue growth— **1.6%/year** —since FY08
- Salary cost increases were relatively flat during this time period due to high staff vacancy rates and limited cost-of-living adjustments
- PERS increases were higher than wages during this time period, with health increases leading the growth factors



Source: Yuba City, Finance Department

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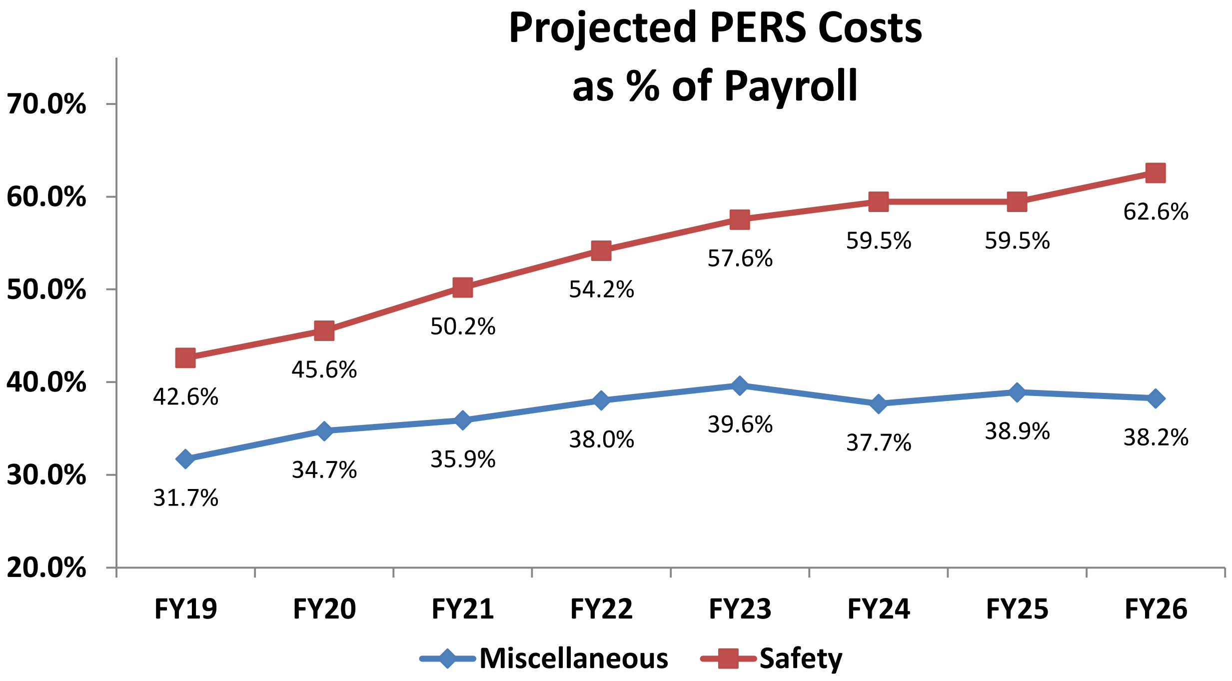
City Budget Future

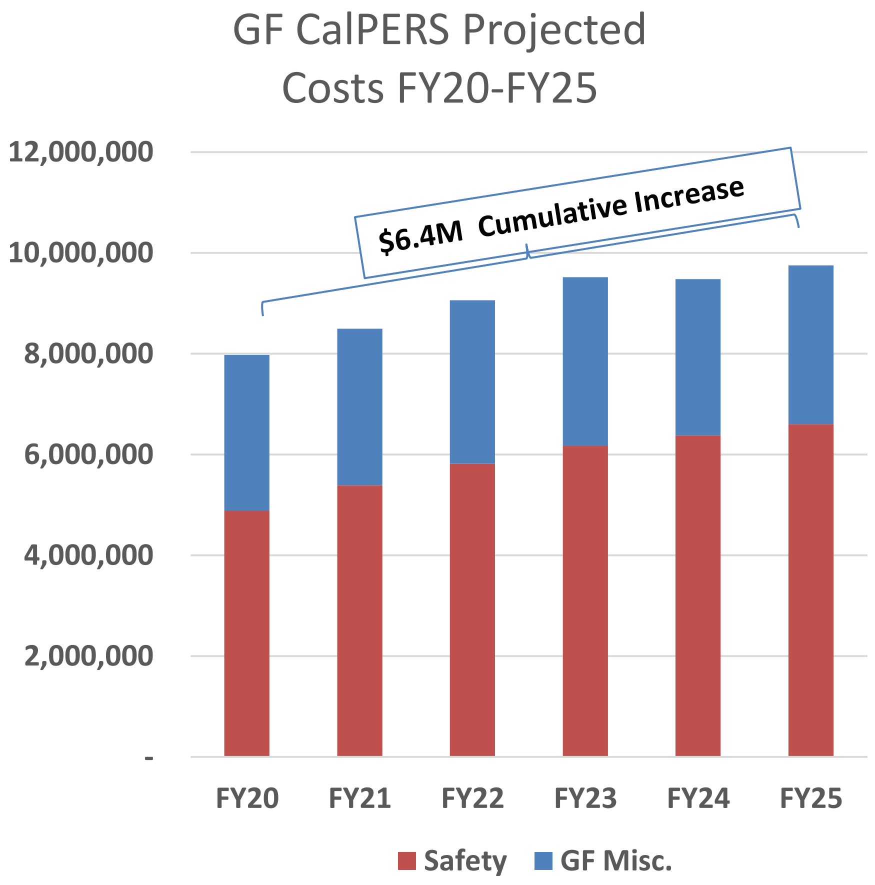
City Budget Forecast

- Each year the City Finance Director provides a five-year budget forecast
- The forecast attempts to provide the Council a realistic understanding of how the budget may evolve over the coming years assuming no major changes in economic circumstance. Major assumptions in the current forecast include:
  - Overall revenue and expenses are projected to grow at similar rates, 2.9% and 2.8%/year, respectively
  - On the **revenue side**, most revenues are projected to increase from 2.6% (fees and transfers) to 3%/per year (cost allocations). Taxes are expected to increase 2.9%/year
  - **Expenses** are dominated by personnel costs (76.4% of all expenses) and materials, supplies, and services (MS&S) (23.3%)
    - Salary expenses are projected to grow at 2% per year
    - Pension costs at 4.15% per year and health at 4% per year
    - MS&S are expected to grow at 2.6% per year
  - The budget forecast does not show the impact of different assumptions on the major revenue and expense drivers

Pension Costs | Increasing Burden

- Pension Costs will continue to pressure the City budget, adding **$1.8M in FY25** over the FY20 Costs, with a **cumulative cost of $6.4 million** for FY21-25
- At the same time, the **cost of pension as a % of payroll will hit 62.6%** for the safety units in FY25





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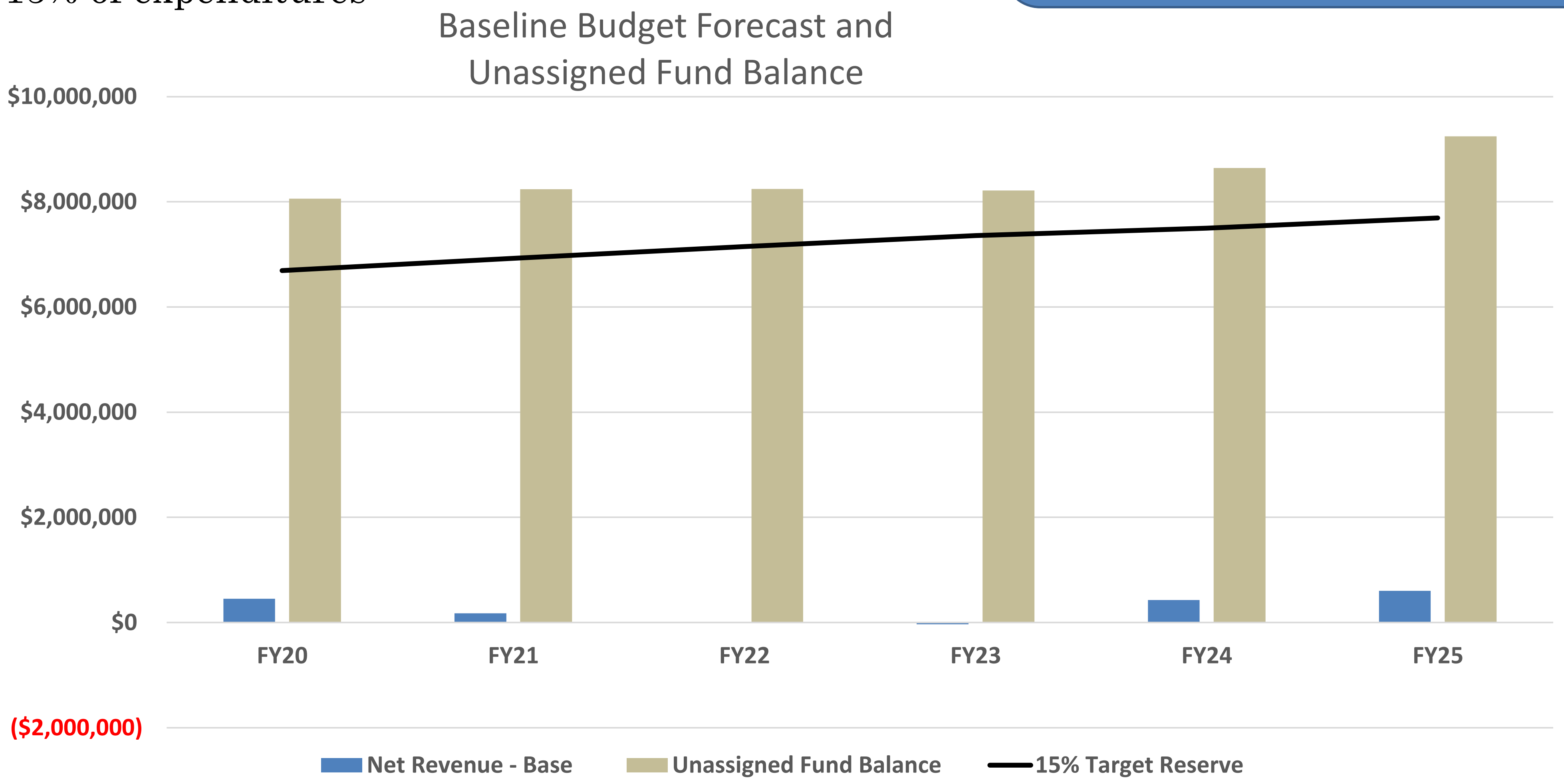
Baseline Budget Forecast

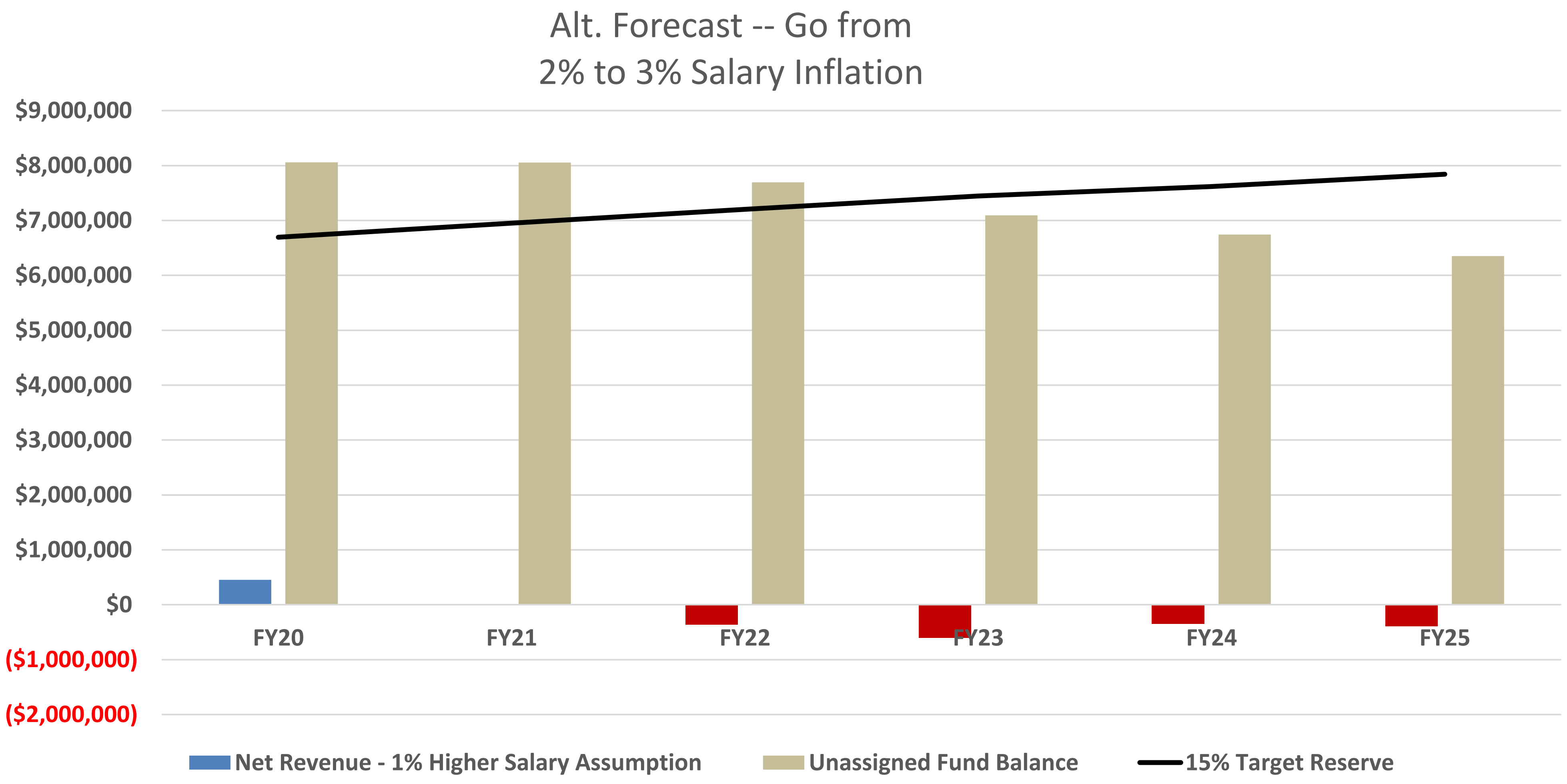
- Assuming no major revenue or expense changes, the City should maintain a balanced budget over the next five years
- Fund Balances will remain above Reserve Policy levels of 15% of expenditures

Does not account for maintaining SAFER-grant Fire positions after end of grant—estimated at $1.1 million per year in 2023



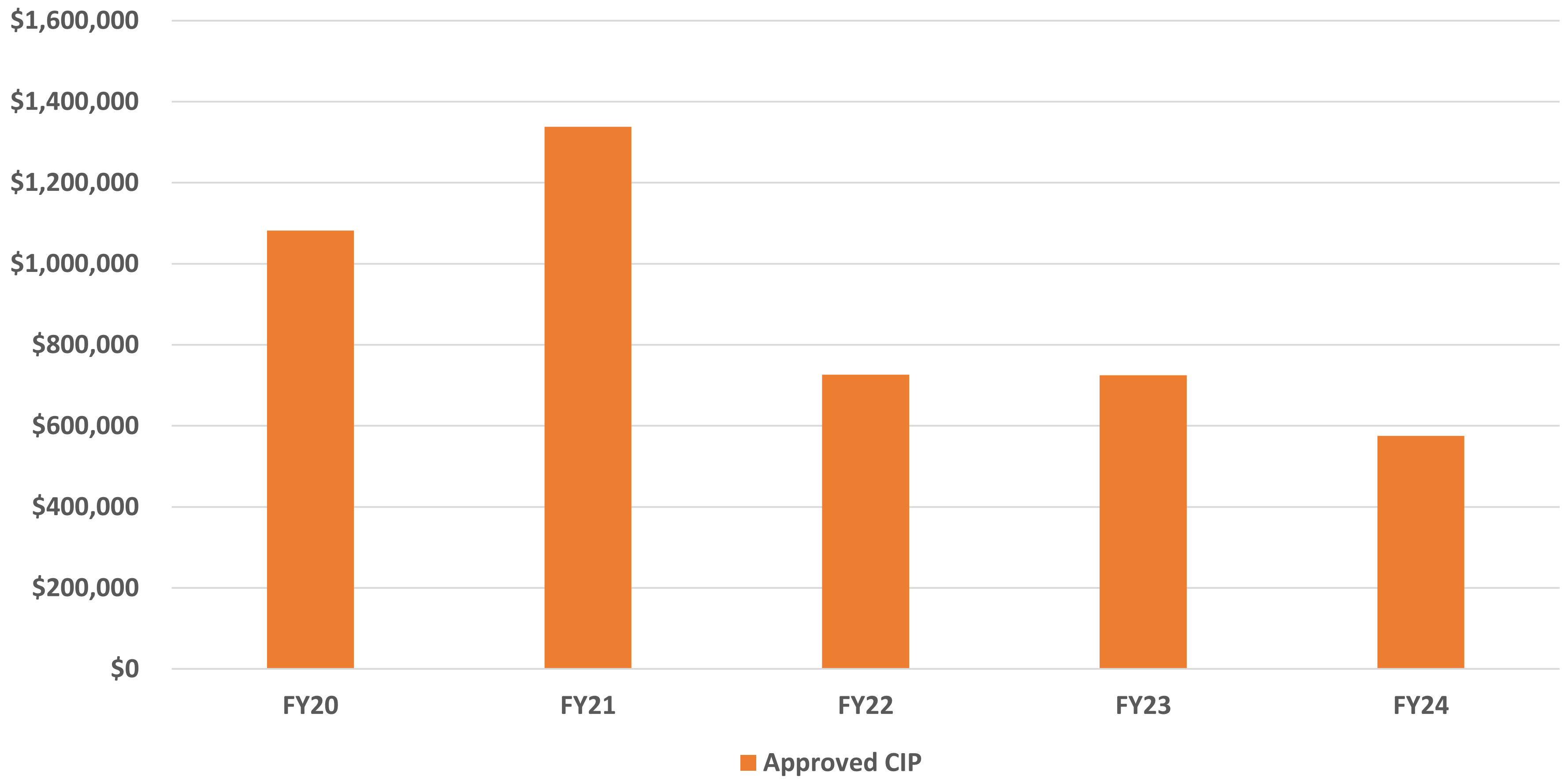
Alt Forecast | Higher Salary Inflation

- Small changes in the City's expenditure decisions, can quickly change the City's fiscal outlook
- If salary inflation goes from the Baseline of 2% to 3%, the City does not maintain positive net revenue and cannot maintain its minimum policy reserve level



City Ability to Fund Capital

- The City's current budget does not include revenue sufficient to fund the Council's adopted Capital Improvement Plan projects
- This lack of funding puts unseen pressure on the budget as City facilities and infrastructure are not maintained at proper levels



Unfundedd Capital Projects | Improve Pavement Condition in City

- Like most cities, there is an ongoing struggle to program enough funding for ongoing road maintenance
- The City falls well short of needed funding to raise its Pavement Condition Index (PCI) from 61 (“Fair”) to 70 (“Good”)
- Public Works calculates an annual spending need of $7.8 million per year to meet this goal
- Based on the City’s adopted CIP, Current Funding includes:
  - $1.15 million per year from SB1 gas taxes
  - $750,000 in FY20 for “Road Rehabilitation”

Unfunded Capital Projects |
Fire Facilities

Fire Station No. 2

- The City recently bid a renovation of Fire Station No. 2
- The low bid for this project was **$2.3 million** (double City funding available) and all bids were rejected

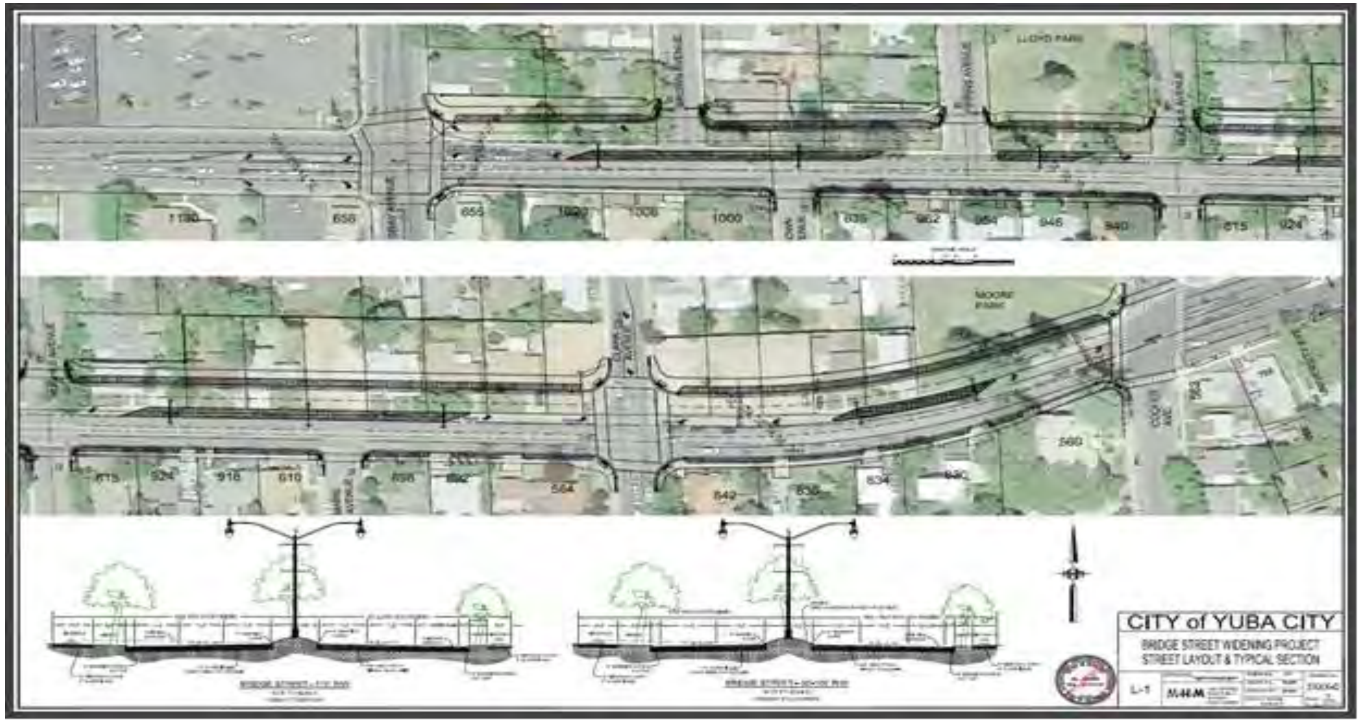
Fire Station Headquarters

- The City commissioned a feasibility study to replace the City's Fire Station No. 1
- Fire Station No. 1 was built in 1960 and has had little improvement since
- Based on modern operating standards and construction costs, this facility has an estimated budget of **$15.9 million**

Unfunded Capital Projects | Identified Needs

There are several facilities that have been identified as a need for the City, but have no corresponding funding:

- Community Center
- Highway 99/20 Interchange
- Bridge Street Expansion
- Increased annual contributions to Vehicle Replacement Fund (a minimum of $350,000 more should be budgeted by the general fund each year)
- Increased annual contributions to the Technology Replacement Fund for the following items:
  - Police Body Cameras
  - Pentamation software replacement
  - Police, Fire & Public Works radio infrastructure
  - Phone systems
  - Access control systems to City Facilities (City badge card access)
  - HVAC systems (some facilities were replaced between 2008 and 2010 using grant funds, no funds set aside for future replacement)



Unfundded Capital Projects | Ongoing Maintenance

- The City has significant investment in buildings, parks, maintenance buildings, water and wastewater facilities, etc.—totaling over 570,000 square feet with an insurance value of $220 million
- If not kept in good repair, replacement or rehabilitation of these facilities will be significant (ex. Fire Stations No. 1 and 2).
- Additional examples of current needs are:
  - The **Parks projects** below (**over $11 million identified**) will be needed within the next 12 years.
    - Turf and Irrigation Replacement for all active spaces in the 25 current parks ($6.4 million)
    - Playground Replacement for 14 current parks in the next 12 years ($1.9 million)
    - Senior Center Re-Modernization ($220,000)
    - Gauche Aquatic Park Amenity Updates ($2.8 million)

City Options In Pursuing Balanced Budget

Elements of a Strong Financial Condition

1. Ability to provide services needed by the community at a level desired by the community
2. Ability to maintain investments in City buildings, parks, infrastructure, technology, and equipment
3. Ability to attract and retain high-quality staff
4. Ability to make new investments in the community as the needs and condition of the community change
5. Ability to address unfunded pension liabilities
6. Willingness to engage the community in a dialogue about City services and needs
   - Reduce services if they can't be afforded
   - Provide a community option to increase taxes if needed to maintain or expand services and City investments

State Constitutional Revenue Limitations

- **Proposition 13 (1978)**
  - Limits property tax rate to 1.0% of assessed value (AV) and locks City in to their share of the taxes generated—16% on average across the City. Additional property taxes for voter-approved bonded indebtedness

- **Proposition 218 (1996)**
  - Further restricts local government ability to raise revenue by requiring majority vote for general tax increase and two-thirds vote for special taxes. Eliminates general benefit from assessment districts and requires protest "vote" of property owners

- **Proposition 26 (2010)**
  - Restricts a government's ability to raise revenue through fee and charges for service. In general, fees for service cannot exceed the reasonable costs of conferring benefits. Amounts above the reasonable costs are considered taxes and must be approved by voters to impose

Source: Triskaidekaphobia: A Primer on Proposition 13, League of California Cities; League of California Cities, Living with Proposition 26 of 2010

Options to Balance Budget

1. **Status Quo Budget—Focused on Cost Control**
   - Limit spending on MS&S
   - Keep salary COLAs low
   - Fund what you can for deferred facility & infrastructure maintenance
   - Fund what you can for annual CIP program

2. **Fully-Funded Budget—Focused on Increasing Revenues**
   - Salaries provided at market levels
   - Fund full capital needs
   - Fund streets & roads maintenance to raise PCI levels to minimum of 70 ("good" condition)

Fully-funded budget requires an increased tax base

- Through new development and growth of sales and property taxes
- Ask voters to increase tax base through add-on sales tax, parcel tax, etc.

Questions?