



FINANCIAL MANAGEMENT REVIEW

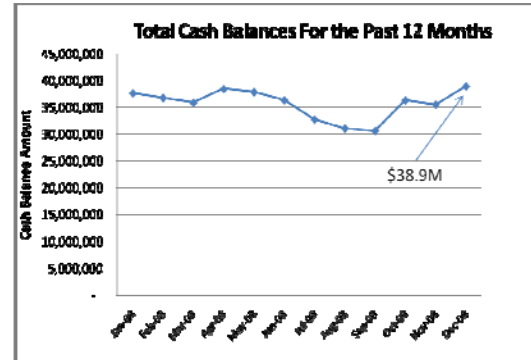
QUARTERLY REPORT (2nd Quarter FY 2008-09) Vol 4, Issue 2

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General Highlights

The second quarter of Fiscal Year 2008-09 ended with General Fund financial performance behind budget by a net of (\$85K). In terms of the City's cash balance in the General Fund, the City received \$6.6M in revenue while spending \$9.5M, resulting in a net decrease of (\$2.9M) to the General Fund, bringing its balance to \$18.1M.

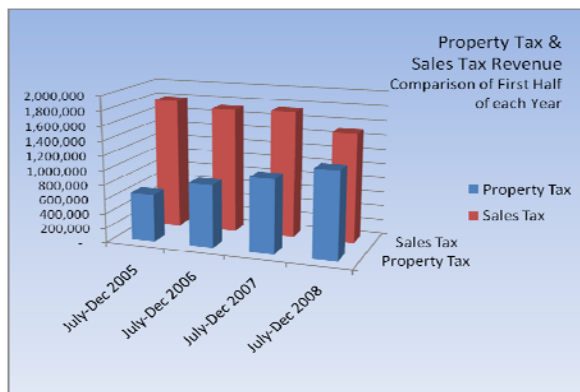
Total cash held by each of the City's funds as of December 31, 2008 totaled \$38.9M, with all but \$6M invested in the Local Agency Investment Fund (LAIF). The \$6M portion not invested in LAIF is in an investment with an annualized rate of return of over 3%. It will mature in early 2009. Current investment rates are lower now, some as low as 1%. The current LAIF rate is around 2%. The Finance Department's policy is not to put all money into LAIF unless the rates are more favorable. Currently the City is more concerned with the security of its assets, rather than emphasizing higher yielding investments. The downside to this is a reduction in the amount of interest revenue earned, which could be as much as (\$100K).



Detail of Year-to-Date Financial Performance

Revenue

During the first two quarters of the fiscal year, the City's General Fund revenue was ahead of budget by \$215K. There were two major revenue sources that were ahead of their budget, and they were Property Tax, \$219K ahead of plan, and Sales Tax, \$355K ahead of plan. The major revenue sources that were behind plan were Utility Users Tax – Telecommunications, behind by (\$150K), Interest Income, behind by (\$145K), and Transfer Tax, behind by (\$128K). A review of the City's two largest sources of revenue over the past few years (shown below) shows that Property Tax revenue has continued to increase, and Sales Tax revenue has gradually declined.



A recent transfer of \$818K was made for Sales Tax, shifting it to the prior fiscal year, due to the accrual basis of accounting required by GAAP (Generally Accepted Accounting Principles.) Likewise, at the end of FY 08/09, the same thing will happen, shifting revenue that will be received in August 2009 into FY 08/09. By June 2009,

however, sales tax revenue is expected to be roughly (\$200K) below the budgeted amount.

Expenditures

The City's General Fund expenditures during the first half of the fiscal year over-ran the budget by (\$300K). This was due primarily to the timing of payments to the Sheriff's Department running one month ahead of plan. Also, because Public Works projects such as Slurry Seal are ahead of plan, transfers to Capital from the General Fund were also ahead of plan. However, these were offset by Personnel costs running under budget by \$367K year-to-date. This was due to personnel related administrative costs and unfilled full-time positions. If General Fund expenditures continue in a similar manner, they should come in at year-end fairly close to plan.

Potential Challenges to Meeting This Year's Budget Objectives

- Transfer Tax and Transient Occupancy Tax continue to lag behind expectations, and could end the year about (\$300K) less than plan. This is offset by Property tax revenue that has the potential to go up by \$170K due to increases in property assessments, and
- Sales tax is slightly ahead of plan now, but may slow due to continuing declines in consumer spending, (\$200K) especially in the auto sales sector, and
- Unknown new costs for operations and maintenance for City Hall and Library could exceed budget by (\$100K).