

QUARTERLY FINANCIAL REPORT

JANUARY 22, 2013

SECOND QUARTER, 2012-13



100 Years of pride, progress and service.

OVERVIEW

City management is pleased to present this quarterly financial report summarizing the City's overall financial activity and position through December 31, 2012.

ADJUSTED BUDGETS AND REVENUE ESTIMATES. The revenue projections and budget expenditures presented herein do not include any budget adjustments made by the City Council, as there have been none to date.

GENERAL FUND

GENERAL FUND FINANCIAL CONDITION. The City's general fund is its primary source of discretionary resources for the provision of service deemed necessary and desirable by the citizens of Lakeport and the City Council.

The City maintains a separate reserve fund for the General Fund, but for simplicity and comparability to the City's audited financial statements, the funds are combined and presented as one.

Though the general fund beginning balance was \$3.01 million - this includes resources not available for spending, including land held for resale and short-term interfund loans receivable - cash assets set aside as reserves at the beginning of the year totaled \$1.49 million. The City Manager did not recommend using this reserve in the 2012-13 fiscal year.

With 50% of the year in the books, revenue is being reported at 53% of total budget estimates. This is slightly higher than expectations for this time of year. A more detailed discussion of these sources is provided below.

TOP 10 REVENUES. The City's top ten revenue sources account for approximately 90% of total general fund income. Focusing on these sources can provide an excellent understanding of the City's revenue position.

The bar graph to the left illustrates the performance of top ten revenues as compared to a year ago.

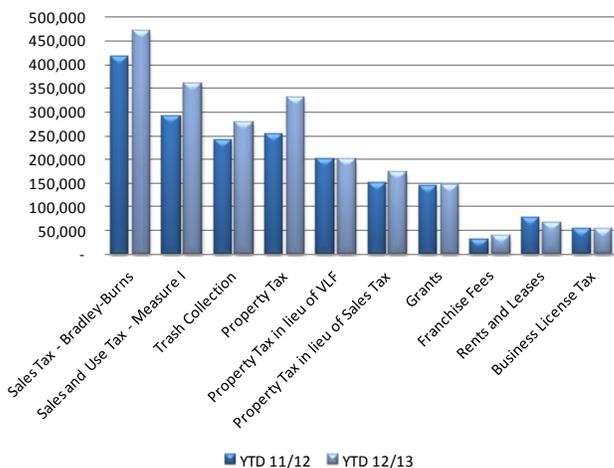
In an unfortunate change from prior reporting periods, transient and occupancy taxes (TOT) fell off the list of top ten general revenues, its relegation being a direct result of a sluggish tourism season throughout the county during the late summer and early fall. In its place interagency sources (grants) ascends into the top ten.

Overall, this year's top ten key revenues are performing better than anticipated. The strongest sources compared against budget estimates are sales and property taxes. Most of the top ten are performing better in FY 2013 than in FY 2012 for this time of year.

GENERAL FUND FINANCIAL CONDITION

General Fund Balance	Budget	YTD Actual	Percent
Revenues	4,289,375	2,266,604	53%
Expenditures	4,197,801	1,636,125	39%
Transfers, In (Out) Net	(91,574)	-	0%
Balance, start of the year	3,011,032	3,011,032	
Total operations (Rev-Exp)	-	630,479	
Balance, end of the year	3,011,032	3,641,511	

TOP TEN REVENUES COMPARED FY 11/12 TO FY 12/13



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Sales Tax. The City collects sales tax from two sources: normal Bradley-Burns sales taxes - which are shared between City, county, and the state – and a ½ cent sales and use tax, commonly referred to as Measure I and devoted entirely to the City. Both tax sources are general taxes and can be used for any regular, general government purpose.

Original analysis of this general revenue source indicated a steady increase throughout the year, despite the City's retail sensitivity to seasonal factors. We expect this trend to continue and sales tax receipts to come in strongly by year end.

Trash Collection. This essentially is a pass-through collection for services provided by the City franchise solid waste collector, Lakeport Disposal. Revenues are reported 5% higher than in 2012 due a small CPI increase, a small increase to the tipping fee, and new customer accounts.

Property Tax. The City receives property tax from the County three times during the year (January, June, and August). Though the housing market is beginning to recover modestly, the sizable increase observed here primarily is due to the reallocation of former redevelopment housing funds, which were remitted by the City to the County and redistributed to local taxing agencies. The City's general fund is a beneficiary of this redistribution.

Property Tax in Lieu of VLF (Vehicle License Fee). These are property tax shares allocated to cities and counties beginning in FY 04-05 as compensation for the state's take of Vehicle License Fees (VLF). Collections are slightly lower than anticipated by 1% and lower than a year ago by 1%. This revenue source typically mirrors regular property tax collections, minus the redevelopment redistribution enhancement and will remain flat for the year.

Property Tax in Lieu of Sales Tax (Triple Flip). This is a mechanism used to repay the state fiscal recovery bonds pursuant to Prop 57 of 2004. Under the Triple Flip, the local sales and use tax rate is reduced from 1.00% to 0.75% with the 0.25% diverted to repay state fiscal recovery bonds. Cities and counties are reimbursed for the lost revenue from a shift of property tax revenue. Similar to regular sales tax, we expect this revenue source to continue performing strongly compared to a year ago.

Grants. Most grants received by the City are recorded in special revenue funds; however, grants received for public safety purposes can be applied to the general fund, as the Police Department is funded almost entirely by general revenues. The City receives two grants to be used to fund public safety activities, known as COPS and CHRP. Both are federal awards, but the former is administered through the state. CHRP is a reimbursement grant, meaning the City must first expend funds before it can claim grant proceeds. CHRP funds a single officer in the Department, whereas the COPS grant is used for any general public safety purpose.

Franchise Fees. This includes revenues from franchise fees paid by PG&E, MediaCom (Cable), and trash collection. Revenue from

TOP TEN GENERAL FUND REVENUES BUDGET TO ACTUAL

Top Ten Revenues	Budget	YTD Actual	Percent
Sales Tax - Bradley-Burns	965,007	470,324	49%
Sales and Use Tax - Measure I	724,157	359,331	50%
Trash Collection	500,705	252,439	50%
Property Tax	440,054	331,365	75%
Property Tax in lieu of VLF	406,782	197,980	49%
Property Tax in lieu of Sales Tax	349,277	171,877	49%
Grants	191,880	145,940	76%
Franchise Fees	126,664	38,675	31%
Rents and Leases	116,852	64,812	55%
Business License Tax	69,215	51,480	74%
Total	3,890,593	2,084,223	54%

TOP TEN GENERAL FUND REVENUES COMPARED

Top Ten Revenues Compared	YTD 11/12	YTD 12/13	Percent
Sales Tax - Bradley-Burns	416,450	470,324	13%
Sales and Use Tax - Measure I	291,644	359,331	23%
Trash Collection	239,942	252,439	5%
Property Tax	252,552	331,365	31%
Property Tax in lieu of VLF	199,403	197,980	-1%
Property Tax in lieu of Sales Tax	147,021	171,877	17%
Grants	142,500	145,940	2%
Franchise Fees	30,979	38,675	25%
Rents and Leases	76,591	64,812	-15%
Business License Tax	51,056	51,480	1%
Total	1,848,138	2,084,223	13%

this source overall is on par with estimates and modestly higher when compared to a year ago.

Rents and Leases. This is revenue collected from leasing properties to private parties and other funds/agencies, i.e. water, and sewer enterprises. This revenue has declined over the last year due to the loss of the Redevelopment Agency.

Business License Tax. Businesses that operate within City limits are required to obtain a business license. A tax is assessed for the privilege of doing so, the proceeds of which are available for unrestricted use in the general fund. Receipts are up from a year ago and on pace to meet budget estimates.

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DEPARTMENT EXPENDITURES

Departmental expenditures City-wide (i.e., general fund, special revenues funds, RDA Successor Agency, water and sewer) are 30% of budgeted appropriations. A large portion of the budget is the downtown improvement project, funded by unspent former redevelopment bond proceeds. As of the date of this report, all reporting requirements have been satisfied for the City to receive authorization from the state to spend those bond funds. Authorization is expected in April.

The City maintains budget control at the fund level. However, the Finance Department monitors expenditures at the object or account level (i.e., salaries and benefits, electricity, professional services, etc.) and reports that information monthly to all departments and the City Manager. As of December 31st, departments are reporting expenditures in whole below budgeted appropriations. But several accounts in each department have been identified as nearing or exceeding budgetary estimates.

The City Manager meets with each department during the mid-year to review expenditures and requests for adjustments. Some adjustments are made by the City Manager (up to \$2,500 per account), which are reported to the City Council. Any budget adjustments in excess of this threshold require Council review and approval, and recommendations may be made to adjust items that increase appropriations to any particular fund of function.

City-wide budgeted expenditures were 33% of appropriations. A reconciliation has been provided at the bottom of the chart to the right to help understand the relationship of departmental to total City-wide expenditures.

Non-departmental expenditures include items for which the Finance Department administers but is not considered part of its operating costs. These items include, but are not limited to, most debt service, bank and merchant fees, retiree health premium payments, and miscellaneous administrative expenses.

EXPENDITURES BY DEPARTMENT CITY-WIDE – BUDGET TO ACTUAL

Expenditures by Department	Budget	YTD Actual	Percent
City Council	94,251	25,730	27%
Administration	390,763	163,051	42%
City Attorney	101,442	46,601	46%
Finance	440,039	179,581	41%
Community Development: Planning	220,398	90,715	41%
Community Development: Building	221,299	90,123	41%
Engineering and Information Technology	258,563	113,259	44%
Community Development: Housing	331,261	140,138	42%
Community Development: Econ Dev	2,272,616	1,078	0%
Police	1,625,300	717,293	44%
Public Works: Roads	2,015,565	420,954	21%
Public Works: Parks, Building, Grounds	310,439	121,907	39%
Public Works: Solid Waste Management	445,000	181,846	41%
Public Works: Westshore Pool	108,343	37,915	35%
Public Works: Water O&M	1,214,454	743,150	61%
Public Works: Sewer O&M	1,547,147	450,455	29%
Total	11,596,880	3,523,796	30%

EXPENDITURES BY MAJOR CATEGORY CITY-WIDE – BUDGET TO ACTUAL

Expenditures by Major Category	Budget	YTD Actual	Percent
Salaries and Benefits	4,459,575	2,039,766	46%
Active Employee		1,892,561	
Retiree		147,205	
Operations	3,719,560	1,170,799	31%
Departmental		1,168,650	
Non-Departmental		2,149	
Debt Service	1,168,230	676,221	58%
Capital Improvements	3,322,292	232,241	7%
Total	12,669,657	4,119,027	33%

Reconciliation to Expenditures by Department

Departmental	11,596,880	3,523,796
Non-Departmental	1,072,777	595,231
Total	12,669,657	4,119,027

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ENTERPRISE FUNDS

Unlike the General Fund, enterprise funds are proprietary in nature, meaning revenues generally must meet expenses. The City operates two enterprise activities: water and sewer, housed administratively within the Utilities Department (merged with the Public Works Department in FY 2012-2013).

Through the collection of fees and charges, these funds should collect revenues sufficient enough to finance costs associated with administration/operations, capital improvements (CIP), and debt service.

Information presented here is budgetary-based and not GAAP. The purpose of the presenting this information here is not to evaluate the fiscal condition of the City's enterprise funds, but to compare and analyze budget to actual information.

WATER ENTERPRISE

Water fund activities are on pace with budgetary estimates. Revenue is reported at 45% of initial budgetary estimates, which is lower than expected for this time of year and down slightly from a year ago. This most likely is the result of a wetter fall season with weaker demand for irrigation.

Budget estimates for revenue were based on a rate structure that has since been revised by the Council. New rates will go into effect January 1, 2013. The Finance Department is revising these estimates to include in the next quarterly report.

Expenditures to date are lower than was anticipated due to unfilled vacancies in the water division and less demand on the system.

SEWER ENTERPRISE

Sewer fund activities are following a similar trend to the water fund. Revenue is reported at 43% of budget estimates, which (similar to water) were not based on the current, increased rate structure adopted by the City Council in September and effective July 1, 2013. The rate increase will not affect this current fiscal year due to its delayed effective date.

Expenditures to date are reported lower than anticipated, due to some cost savings from unfilled, budgeted positions. Electricity and propane costs are also lower than anticipated.

DEPARTMENTAL USE

Most City departments draw financial resources from the enterprise funds in the performance of administrative, financial, programmatic, and operational functions. The chart to the right illustrates this activity.

WATER ENTERPRISE OPERATIONS

Water Fund Working Capital	Budget	YTD Actual	Percent
Revenues	1,414,535	640,023	45%
Operating expenditures			
Salaries and benefits	667,463	295,225	44%
Materials, supplies and service costs	524,569	221,222	42%
CIP	500	1,496	299%
Debt Service	253,884	247,875	98%
Transfers (net)	(35,000)	-	0%
Total Operations (Rev-Exp)	(66,881)	(125,795)	

SEWER ENTERPRISE OPERATIONS

Sewer Fund Working Capital	Budget	YTD Actual	Percent
Revenues	2,010,581	871,138	43%
Operating expenditures			
Salaries and benefits	790,309	295,225	37%
Materials, supplies and service costs	787,689	245,493	31%
CIP	88,800	1,233	1%
Debt Service	190,560	125,580	66%
Transfers (net)	(40,000)	-	0%
Total Operations (Rev-Exp)	113,223	203,607	

DEPARTMENTAL USE OF ENTERPRISE FUNDS

Department	Function	Water	Sewer
City Council	Legislative	X	X
Administration	Admin	X	X
City Attorney	Admin	X	X
Finance	Financial	X	X
Community Development: Planning	Planning	X	X
Community Development: Building	Capital	X	X
Engineering and Information Technology	Engineering	X	X
Community Development: Housing	Program		
Community Development: Econ Dev	Program		
Police	Safety		
Public Works: Roads	Capital	X	X
Public Works: Parks, Building, Grounds	Capital		
Public Works: Solid Waste Management	Health		
Public Works: Westshore Pool	Recreation		
Public Works: Water O&M	Operations	X	
Public Works: Sewer O&M	Operations		X
Total Departments		9	9

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REDEVELOPMENT

The Lakeport Redevelopment Agency was officially dissolved February 1, 2012. The City retained the function as the Successor Agency to both the housing and non-housing assets for the purpose of winding down the former agency's affairs, while an oversight board was established, pursuant to AB1X 26 – and further revised under AB 1484 – to review and oversee the dissolution process.

The primary duties of the oversight board are to review and approve a Recognized Obligation Payment Schedule (ROPS), dispose of all remaining, former agency assets, and approve an administrative budget for the Successor Agency (provided to the right).

Under AB1X 26 and AB 1484, the City is due an annual administrative cost allowance of \$250,000. As of December 31, 2012, the City has expended \$97,283 of that allowance in the performance of dissolution activities and in the planning of remaining projects identified in the most recent Recognized Obligation Payment Schedule (ROPS).

The cash assets of the former agency's housing fund – totaling \$395,956 – have been surrendered to the county. Of this amount, the City's general fund received a portion, as did the other taxing entities within the former agency's jurisdiction. The Lakeport Unified School District received the largest share of this redistribution, as indicated in the table below, followed by the County, ERAF (additional amount to the local school

FORMER RDA - LAKEPORT LOW-MOD HOUSING FUNDS REDISTRIBUTION

Housing Funds Available for Remittance:		<u>395,956</u>
Lakeport Unified School District	31.85%	126,110
Lake County	22.37%	<u>\$ 88,558</u>
County General Fund	20.41%	80,814
Library	1.08%	4,265
Fish & Game	0.09%	359
Flood General	0.79%	<u>3,120</u>
ERAF (Education Augmentation Fund)	15.00%	59,390
City of Lakeport	10.41%	41,208
Lakeport Co Fire	7.45%	29,486
Mendocino College	6.20%	24,534
County Office of Education	2.75%	10,900
Lake Co Vector Control	1.69%	6,706
Lakeport Muni Sewer	1.33%	5,254
Hartley Cemetery	0.96%	3,810
	<u>77.63%</u>	<u>\$ 395,956</u>

SUCCESSOR AGENCY ACTIVITIES

SUCCESSOR AGENCY ACTIVITIES

July 1, 2012 - December 31, 2013

EXPENSES

General administration	\$ 97,283
Remittance to County Auditor-Controller	395,956
Debt service	186,730
Other obligations	-
Total	<u>\$ 679,969</u>

SUCCESSOR AGENCY ADMINISTRATIVE BUDGET TO ACTUAL

SUCCESSOR AGENCY ADMINISTRATIVE BUDGET

July 1, 2012 - June 30, 2013

	Budget	Actual
ADMINISTRATIVE COSTS BY FUNCTION		
General administration	53,056	29,151
Oversight Board operational costs	30,907	5,934
Financial management and debt administration	67,253	23,169
Planning and Engineering for dissolution	98,784	39,029
Project and contract completion	-	-
Total	<u>250,000</u>	<u>97,283</u>
SOURCES OF FUNDING		
Low and moderate income housing fund	-	-
Bond proceeds	-	-
Reserve balances	-	-
Administrative cost allowance	250,000	54,504
Redevelopment Property Tax Trust Fund	-	-
Total	<u>250,000</u>	<u>54,504</u>
Funding sufficiency (deficiency)	<u>-</u>	<u>(42,779)</u>

district), and the City.

In addition to this redistribution, the non-housing cash assets of the former agency also will be redistributed. The City has completed the reporting requirements with the state and is awaiting instructions for remittance of those funds (totaling \$284,582) to the County. Based on the allocation formula used to redistribute the housing funds, we expect the City to receive approximately \$29,600.

In total, the City's general fund will receive approximately \$70,808 in additional property taxes in the current fiscal year from this one-time bump, and the City will receive increased property taxes in perpetuity as a result of the former redevelopment agency's dissolution.

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CITY COUNCIL, REDEVELOPMENT SUCCESSOR AGENCY BOARD, CLMSD BOARD OF DIRECTORS



TOM ENGSTROM
MAYOR AND BOARDS
CHAIR



STACEY MATTINA
MAYOR PRO TEM
BOARDS VICE CHAIR



KENNETH PARLET



MARTIN SCHEEL



MARC SPILLMAN

CITY MANAGEMENT TEAM

CITY MANAGER

MARGARET SILVEIRA 263.5615, EXT 32



FINANCE DIRECTOR

DANIEL BUFFALO 263.5615, EXT 16



CITY CLERK

JANEL CHAPMAN 263.5615, EXT 12



CHIEF OF POLICE

BRAD RASMUSSEN 263.5615, EXT 13



CITY ATTORNEY

STEVEN BROOKES 263.5615, EXT 44



CITY ENGINEER & IT DIRECTOR

SCOTT HARTER 263.5615, EXT 11



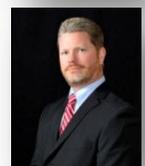
ADMINISTRATIVE SERVICES DIRECTOR

KELLY BUENDIA 263.5615, EXT 30



PUBLIC WORKS DIRECTOR

MARK BRANNIGAN 263.263.3578, EXT 104



For More Information. This summary is based on detailed information produced by the City's financial management system. If you would like additional information, or have questions about this report, please call the Finance Department at 263.5615, ext 16.

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