

**Preview of June 30, 2010  
Comprehensive Annual Financial  
Report**

**ITEM 6D**





# STAFF REPORT

## SAUSALITO CITY COUNCIL

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### AGENDA TITLE:

Preview of the June 30, 2010 Comprehensive Annual Financial Report

### RECOMMENDED MOTION:

None

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

This draft Management Discussion & Analysis (MD&A) is a preview of the MD&A that will be offered by management to the readers of the City of Sausalito's financial statements that will be published in the near future. The MD&A is a narrative overview and analysis of the financial activities of the City of Sausalito for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with all additional information that we will furnish in the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010.

### FINANCIAL HIGHLIGHTS

- The assets of the City of Sausalito exceeded its liabilities at the close of the most recent fiscal year by \$48,950,432 (*net assets*). Of this amount, \$10,176,647 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$745,585. A significant portion of this increase is a result of net revenues earned from the business-type activity, the Parking Fund, and then transferred as an Operating Transfer to the City's General Fund.
- As of the close of the current fiscal year, the City of Sausalito's governmental funds reported combined ending fund balances of \$23,172,150, a decrease of \$5,420,398 in comparison with the prior year. This decrease in fund balances is a result of budgeted and planned capital projects spending in the Public Safety Building Fund from previously issued general obligation bonds; and offset by surpluses in the City's General Fund, Tidelands Fund and other Governmental Funds. Of the \$23,172,150 in combined ending fund balances, approximately 13 percent or \$3,018,468 is *available for spending* at the government's discretion (*unreserved, undesignated fund balance*).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$1,968,773, or 15.4 percent of total general fund expenditures.

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## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Sausalito's basic financial statements. The City of Sausalito's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Sausalito's finances, in a manner similar to private-sector business.

The *Statement of Net Assets* presents information on all of the City of Sausalito's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Sausalito is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Sausalito that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Sausalito include general government, public safety, public works, community development, parks and recreation, and library. The business-type activities of the City of Sausalito include sewer services, Old City Hall building, Martin Luther King (MLK) property, and parking services.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Sausalito, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Sausalito can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

*Governmental funds.* Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

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Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Sausalito maintains seventeen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Public Safety Buildings Fund, all of which are considered to be major funds. The City of Sausalito also elected to include Tidelands Fund as a major fund. Data from the other fourteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Sausalito adopts an annual appropriated budget for all of its funds. However, a budgetary comparison statement has been provided only for the major funds: the General Fund and Tidelands Fund; to demonstrate compliance with their respective budgets.

**Proprietary funds.** The City of Sausalito maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Sausalito uses enterprise funds to account for its Sewer, Old City Hall, MLK, and Parking operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Sausalito's various functions. The City of Sausalito uses internal service funds to account for its fleet of vehicles and parking equipment. The City uses the workers compensation fund to account for outstanding claim liability. The City uses the employee benefits fund to account for compensated absences and other post-employment benefits other than pension. The City uses general liability fund to help finance other liabilities including employment. Because all of these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer, Old City Hall, MLK, and parking operation, all of which are considered to be major funds of the City of Sausalito. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Sausalito's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* providing a budgetary comparison statement for General Fund and Tidelands Special Revenue Fund

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City of Sausalito, assets exceeded liabilities by \$48,204,847 at the close of the most recent fiscal year.

By far the largest portion of the City of Sausalito’s net assets (67.1 percent) reflects its investment in capital assets (e.g., land, buildings, machine, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Sausalito uses capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Sausalito’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**City of Sausalito’s Net Assets**

City of Sausalito’s Net Assets						
	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	30,162,464	35,716,579	(1,116,649)	(618,484)	29,045,815	35,098,095
Capital assets	33,027,941	26,576,927	12,320,432	11,860,294	45,348,373	38,437,221
<b>Total assets</b>	<b>63,190,405</b>	<b>62,293,506</b>	<b>11,203,783</b>	<b>11,241,810</b>	<b>74,394,188</b>	<b>73,535,316</b>
Long-term liabilities outstanding	17,831,972	17,700,403	2,499,338	3,107,675	20,331,310	20,808,078
Other liabilities	4,402,402	3,870,163	710,044	652,228	5,112,446	4,522,391
<b>Total liabilities</b>	<b>22,234,374</b>	<b>21,570,566</b>	<b>3,209,382</b>	<b>3,759,903</b>	<b>25,443,756</b>	<b>25,330,469</b>
Net Assets:						
Invested in capital assets, net of related debt	22,575,555	22,780,292	9,821,094	8,752,619	32,396,649	31,532,911
Restricted	6,377,136	6,042,756	-	-	6,377,136	6,042,756
Unrestricted	12,003,340	11,899,892	(1,826,693)	(1,270,712)	10,176,647	10,629,180
<b>Total net assets</b>	<b>40,956,031</b>	<b>40,722,940</b>	<b>7,994,401</b>	<b>7,481,907</b>	<b>48,950,432</b>	<b>48,204,847</b>

\$6,377,136 of the City of Sausalito’s net assets (15.6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$12,003,340 (29.3% compared to the prior year’s 29.2%) may be used to meet the government’s ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Sausalito is able to report positive balances for all three categories of net assets related to governmental activities (net investment in capital assets, restricted and unrestricted net assets), but for business-type activities there are no restricted net assets, leaving unrestricted net assets negative. The same situation held true for the prior fiscal year.

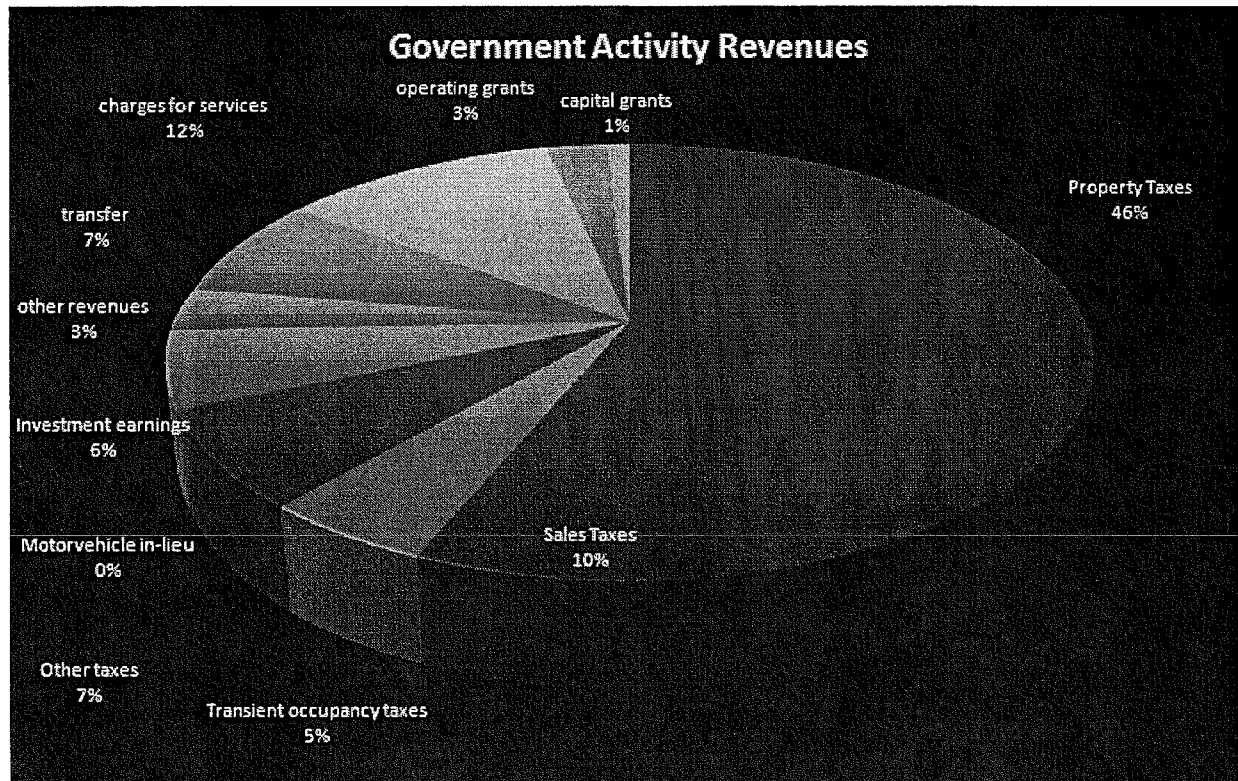
The \$(1,826,693) unrestricted net asset reported in connection with the City of Sausalito’s business-type activities resulted from the MLK acquisition and operation funded through long-term borrowings and advances from General Fund.

The City’s net assets increased \$233,091 during the current fiscal year. The increase reflects the operating results of the governmental and business-type activities as summarized below.

City of Sausalito's Changes in Net Assets						
	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
<b>Revenues:</b>						
Program revenues:						
Charges for services	1,778,554	1,940,202	4,180,848	3,881,773	5,959,402	5,821,975
Operating grants and contributions	396,210	347,043			396,210	347,043
Capital grants and contributions	139,678	411,134			139,678	411,134
General revenues:						
Taxes	10,635,458	10,778,660			10,635,458	10,778,660
Investment earnings	883,665	1,077,455	14,806	74,120	898,471	1,151,575
Other revenues	486,980	555,674	170	65,100	487,150	620,774
<b>Total revenues</b>	<b>14,320,545</b>	<b>15,110,168</b>	<b>4,195,824</b>	<b>4,020,993</b>	<b>18,516,369</b>	<b>19,131,161</b>
<b>Expenses:</b>						
General government	2,501,641	2,460,907			2,501,641	2,460,907
Library	705,531	648,827			705,531	648,827
Public safety:						
Police services	4,294,928	4,121,184			4,294,928	4,121,184
Fire services	3,100,259	2,958,736			3,100,259	2,958,736
Community development	1,174,708	1,065,522			1,174,708	1,065,522
Public works	2,066,838	2,286,057			2,066,838	2,286,057
Parks & Recreation	629,919	564,938			629,919	564,938
Interest on long-term debt	771,533	932,685			771,533	932,685
Sewer			1,458,226	1,478,463	1,458,226	1,478,463
Old City Hall			55,779	65,692	55,779	65,692
MLK			796,021	881,738	796,021	881,738
Parking			215,401	219,374	215,401	219,374
<b>Total expenses</b>	<b>15,245,357</b>	<b>15,038,856</b>	<b>2,525,427</b>	<b>2,645,267</b>	<b>17,770,784</b>	<b>17,684,123</b>
Increase in net assets before transfers	(924,812)	71,312	1,670,397	1,375,726	745,585	1,447,038
Transfers	1,157,903	1,302,375	(1,157,903)	(1,302,375)	-	-
Increase in net assets	233,091	1,373,687	512,494	73,351	745,585	1,447,038
Net assets - Beginning	40,722,940	39,349,253	7,481,907	7,408,556	48,204,847	46,757,809
Net assets - Ending	40,956,031	40,722,940	7,994,401	7,481,907	48,950,432	48,204,847

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**Governmental activities.** Governmental activities increased the City of Sausalito's net assets by \$233,091, thereby accounting for approximately 31 percent of the total growth in the net assets of the City of Sausalito. The following chart depicts the City's government-activities revenues:



Key observations of Government Activity Revenues are as follows:

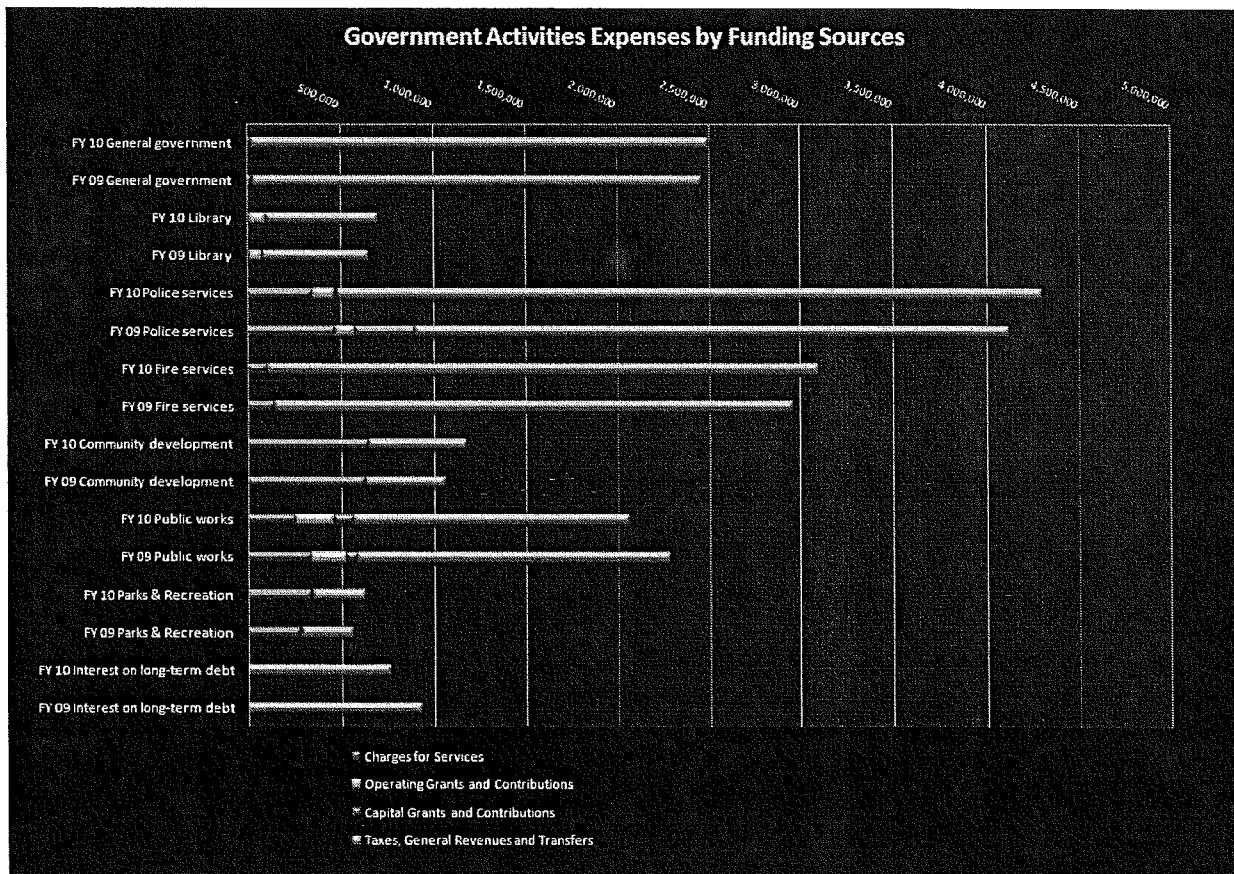
- Property taxes remained positively stable from the previous fiscal year increasing 3.4% or \$237,878. Property taxes are 50% percent of the City's total government activity revenues. Property taxes are generally inelastic and provide the City a stable revenue source to meet its ongoing levels of service that cannot be funded through charges, and operating and capital grants.
- Sales taxes declined \$158,037 or 9.3%, through the fiscal year. One reason for sales taxes declining is that the State Board of Equalization had corrected the misallocation of sales tax from a taxpaying business outside the City's jurisdiction. If the Board had properly allocated the tax, the City would have experienced a relatively stable sales tax base of elasticity that is reflective of local economic conditions.
- Transient occupancy taxes only declined \$76,013 or 11.5% during the fiscal year as a result of lower room rates and higher vacancy rates in hotels at the tail end of the 2009-10 economic recession.
- Investment earnings declined \$193,790 or 18% during the fiscal year as a result of two factors:
  - A smaller portfolio to invest because over \$6.4 million in proceeds from the general obligation bonds were converted to capital investment in infrastructure
  - The recession and stock market shocks resulted in the reduction of the FED discount rate severely reducing yields. The City maintains a very conservative portfolio and accordingly did not lose any principal, only yield was reduced from the prior fiscal year.
- Other government activity revenues decreased \$68,694 due to the recognition of one-time deferred revenues in the fiscal prior year.

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- Capital Grants and Contributions decreased \$271,456 due to a decrease of \$346,690 from capitalized interest expense contributed from the Public Safety Fund and increases from capital grants from Special Revenue Funds
- Operating grants contributed from Special Revenue Funds increased by \$49,167
- Charges for Services decreased \$161,648 due to:
  - SMEMPS decreased \$38,818
  - Fines and Forfeitures decreased \$116,411 due to an increase in fees payable to the County Courts for Courthouse Construction Improvements and a decrease in vehicular traffic due to the slow economy.
  - An increase of \$62,308 in Recreation Programs charges
  - A decrease of \$64,188 in Planning, Building and Engineering Charges resulting from the slow economy.
  - A decrease of \$4,539 in Miscellaneous Charges for Services for General Government and Library services.
- Transfers in to government activity funds from business activity funds represent 7.5% of the government activity's revenue base. These transfers decreased \$144,472 from the prior fiscal year.

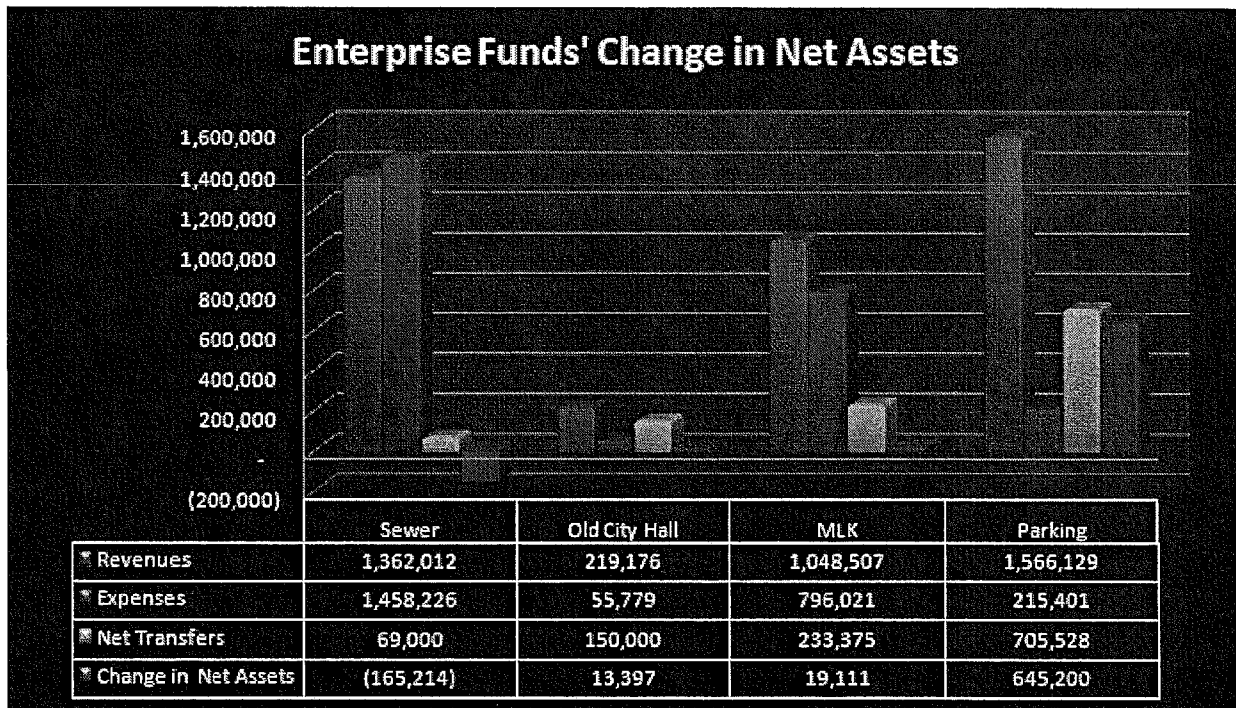
The following chart depicts the City's departmental expenses as each department is funded through charges for services, operating and capital grants and finally through general taxes and revenues:



Key observations of Government Activity Expenses by Funding Source are as follows::

- Total Government Activity Expenses moderately increased \$206,501 or 1.4% over the prior fiscal year primarily due to employee salary and benefit increases resulting from negotiated labor contracts, and PERS contribution rates.
- Net Government Activity Expenses funded by General Revenues increased 4.78% or \$590,438 over the prior fiscal year primarily because of the decreases in Charges for Services, Operating and Capital Grants as discussed the the previous section.

**Business-type activities.** Business-type activities increased the City of Sausalito’s net assets by \$512,494, accounting for 68.7 percent of the total growth in the government’s net assets. The following chart depicts the operating results of the City’s business-type activities:



Key elements of this increase are as follows:

- MLK Fund increased net assets by \$19,111 during the year compared to \$252,494 the previous year. During the year, MLK transferred \$200,000 to the City’s General Fund to repay the General Fund for tenant loans that have been repaid. Taking into account the transfer to the City’s General Fund, the increase to net assets is slightly less than the prior year’s results, primarily due to temporary rent reductions during the economic slowdown. Despite the economy, MLK maintained near full occupancy of the property and continued managing utilities and repairs operating expense at normal levels.
- Sewer Fund decreased net assets by \$165,214.during the year, compared to the \$572,527 decrease in net assets the previous fiscal year. The improvement in Sewer Fund economic performance is a result of

the new Sanitary Sewer fees increase to offset the EPA compliance requirement of increased maintenance costs and infrastructure investments.

- Parking Fund increased net assets by \$645,200 during the year, compared to the \$320,125 increase from the prior fiscal year. The increase is primarily due to transfers in from the internal service funds of monies reserved for capital replacement of parking equipment.
- The Old City Hall Fund increased net assets by \$13,397 as compared to the prior year's increase of \$73,351 as a result of rent reductions, decreased interest expense and decreased operating expenses.

### Financial Analysis of the City's Funds

As noted earlier, the City of Sausalito uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

#### **Governmental funds:**

The focus of the City of Sausalito's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Sausalito's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Sausalito's governmental funds reported combined ending fund balances of \$23,172,520, a decrease of \$5,420,398 in comparison with the prior year. Planned capital expenditures in the amount of \$6,494,997 for the new public safety facilities from General Obligation Bonds were offset by surpluses in the General Fund of \$477,074, Tidelands Fund of \$131,008 and other Governmental Funds of \$449,583.

\$3,018,468, approximately 13% of the \$23,170,520 in combined ending fund balances, constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved or designated* to indicate that it is not available for new spending because it has already been committed for 1) to build two new public safety buildings (\$4,539,726), 2) to pay debt service (\$333,628), 3) to pay for general capital improvement projects (\$1,483,113), 4) to account for the advance to the MLK Fund (\$6,007,890) or 4) to pay for other designated or restricted purposes.

**General Fund.** The general fund is the chief operating fund of the City of Sausalito. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$1,968,773, while total fund balance reached \$8,701,451. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 15.4 percent of the total general fund expenditures, while total fund balance represents 67.9 percent of that same amount.

Fund balance for the City of Sausalito's general fund increased by \$477,074 during the fiscal year. This was primarily because transfers-in from other funds exceeded transfers-out to other funds by \$987,136 during the year.

**Tidelands Special Revenue Fund** is dedicated for the construction, maintenance, and operation of the water front parcels granted to the City of Sausalito by the State of California. The Tidelands Special Revenue Fund has a total fund balance of \$2,684,422, an increase of \$131,008 over the previous fiscal year.

**Public Safety Buildings Capital Projects Fund** has a total fund balance of \$4,534,726, all of which is reserved for the construction of a police building and a fire station. The pre-construction costs to-date has been paid for through some private donations and a \$1,132,000 advance from general capital project fund. \$15.5 million general obligation bond sale was approved by the citizens of Sausalito in August of 2006 to pay for the construction.

**Proprietary funds.** The City of Sausalito’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

**General Fund Budgetary Highlights**

During the year there was a \$17,946 decrease in appropriations between the original and final amended budget. Following are the main components of the decrease:

Department	Mid Year Expenditure Projections			
	Budget	Projected	Supplemental Appropriation	% of Budget
Admin. and Finance	1,125,561	1,162,681	\$37,120	103.30%
Inform. Tech.	510,026	468,039	(\$41,987)	91.77%
Planning	575,258	604,858	\$29,600	105.15%
Building	396,820	383,939	(\$12,881)	96.75%
Engineering	217,644	221,937	\$4,293	101.97%
Non- Departmental	826,908	826,908	\$0	100.00%
Police	4,111,318	4,039,318	(\$72,000)	98.25%
Fire	3,012,011	2,979,931	(\$32,080)	98.93%
Public Works	1,198,576	1,198,576	\$0	100.00%
Recreation	681,383	651,383	(\$30,000)	95.60%
Library	681,649	681,638	(\$11)	100.00%
Transfers Out	596,809	696,809	\$100,000	116.76%
<b>Total Expenditures</b>	<b>\$13,933,963</b>	<b>\$13,916,017</b>	<b>(\$17,946)</b>	<b>99.87%</b>

**Capital Assets and Debt Administration**

**Capital assets.** The City of Sausalito’s investment in capital assets for its governmental and business-type activities as of June 30, 2010, amounts to \$45,348,373 (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings, furniture and fixtures, machinery and equipment, vehicles, streets, drainage systems, and construction in progress. The increase in the City of

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Sausalito's investment in capital assets for the current fiscal year is primarily a result of the increase in construction-in-progress. This is due to the ongoing construction of the police building and fire station financed through the general obligation bonds issued and sold in November 2006.

City of Sausalito's Capital Assets						
<i>(net of depreciation)</i>						
	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Land and improvements	15,014,662	15,014,662	3,796,001	3,796,001	18,810,663	18,810,663
Construction in progress	13,024,446	6,075,045	698,051		13,722,497	6,075,045
Building and improvements	355,937	380,450	3,526,869	3,627,101	3,882,806	4,007,551
MLK Bus Barn			209,005	214,505	209,005	214,505
Vehicles and equipment	277,068	611,583	233,268	234,711	510,336	846,294
Machinery and equipment	549,255	142,322			549,255	142,322
Infrastructure	3,806,573	4,352,865	3,857,238	3,987,976	7,663,811	8,340,841
<b>Total</b>	<b>33,027,941</b>	<b>26,576,927</b>	<b>12,320,432</b>	<b>11,860,294</b>	<b>45,348,373</b>	<b>38,437,221</b>

**Long-term debt.** At the end of the current fiscal year, the City of Sausalito has total debt outstanding of \$20,331,310.

City of Sausalito's Outstanding Debt						
	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Short-term debt	894,739	982,307			894,739	982,307
Notes payable	16,643,845	16,354,939			16,643,845	16,354,939
Capital leases	293,388	363,157	2,499,338	3,107,675	2,792,726	3,470,832
<b>Total</b>	<b>17,831,972</b>	<b>17,700,403</b>	<b>2,499,338</b>	<b>3,107,675</b>	<b>20,331,310</b>	<b>20,808,078</b>

In November 2006, the City of Sausalito issued and sold \$15.5 million of general obligation bonds for the construction of a police building and fire station.

**Economic Factors and Future Years' Budgets**

***National, State and Local Economic Recoveries***

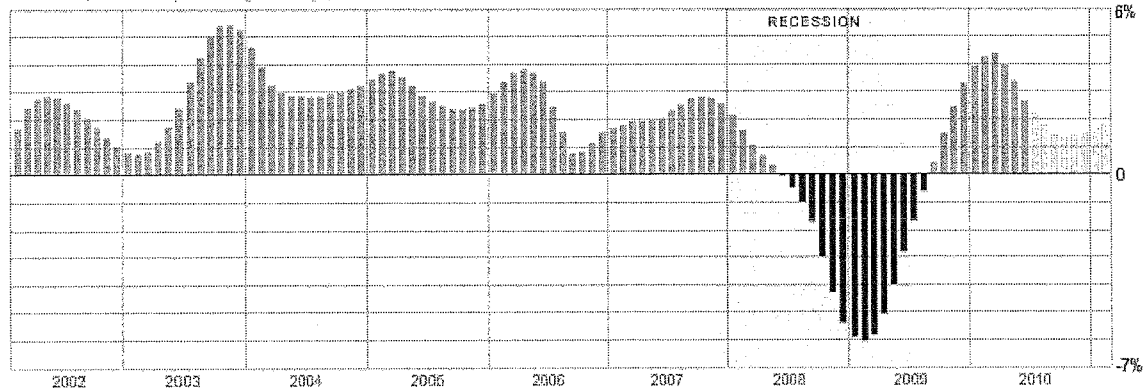
At the date of publication of this Comprehensive Annual financial Report, *the U.S. economy is still in recovery* from the financial crisis of 2008 where jobs disappeared, domestic consumption screeched to a halt, and US households began to deleverage (pay down its debt).

In response to the crisis, The U.S. government used stimulus policies to support domestic demand. Stimulus packages aren't designed to replace a real recovery; they are intended to push government spending into a stagnant economy to kick-start confidence and get more money flowing through the system. As a result, rising consumer demand did have a strong role in recovery, but some observers have been quick to point out that it is an unsustainable surge. The recovery process will require a sustained uptick in consumer spending, investor and consumer confidence -- and, of course, job growth.

The September update of the USA TODAY/IHS Global Insight Economic Outlook Index shows real GDP growth, at a six-month annualized growth rate, slowing to 1.4% in October and November, then increasing in December, and returning to a 1.9% rate in February as housing and employment slowly recover.

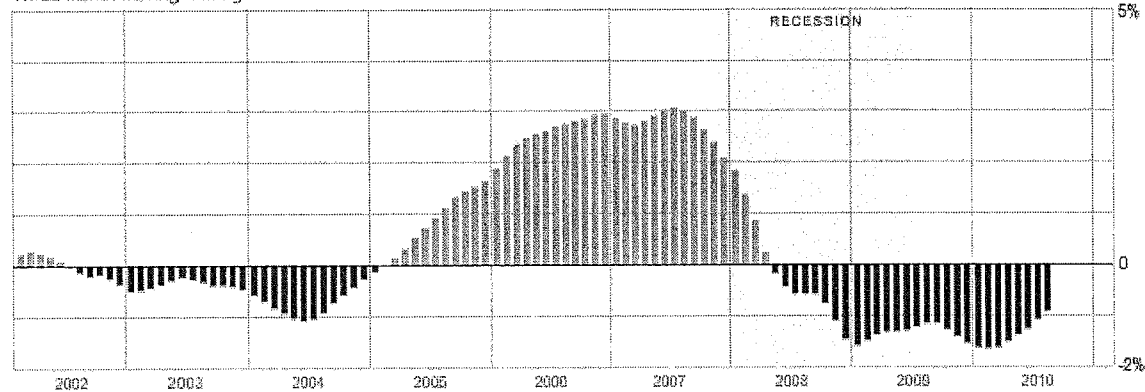
### The USA TODAY / IHS Global Insight Economic Outlook Index...

Real GDP, six-month percentage change, annual rate

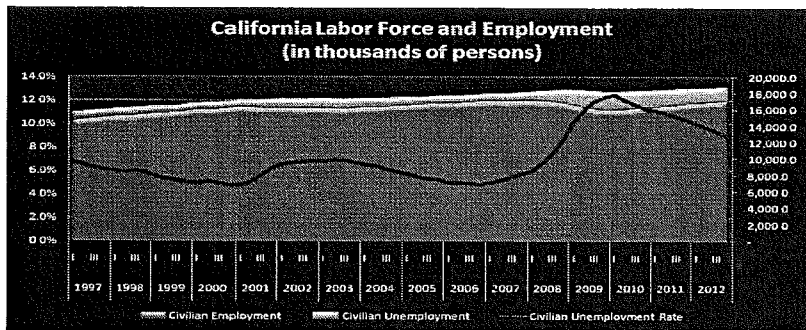


### ...and its 11 component indicators

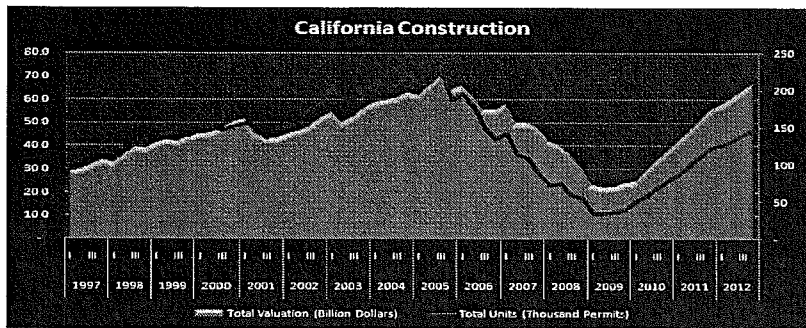
Real federal funds rate  
Three-month moving average



The index predicts future real GDP growth (gross domestic product, adjusted for inflation) based on 11 leading economic and financial indicators.



*The economic recovery for California will be delayed until the end of 2011.* There is going to be a lag from the US recovery due to the unique problems facing California, resulting from the moribund market for residential construction and skittish consumers. This is not to say that California will slip back into a recession. All evidence suggests that California is ever so slowly coming out of the recession.



There are key metrics that indicate that California will fare better than the United States. California's job base should grow by 1.7 percent during 2011. Personal income increases will outpace the rest of the nation particularly in the Bay Area. The high technology sector is performing particularly well, and the Bay Area will benefit from this.



*The City of Sausalito continues to experience geo-economic benefits* from: its unique residential community blended with "charm" to its commercial and industrial sectors; and world-class scenic tourist base. This yields a more stable tax and revenue base than other California cities experiencing severe economic stress, structural imbalances, and non-sustainable budget policies. Sausalito's economic decline was mild and lagged the state and the nation. In a similar fashion, Sausalito's recovery will respectively be moderate and lag the state and nation.

## ***Future Years Budgets***

The city closely monitors its tax base. Property taxes comprise over 54% of the General Fund revenues and it appears that this will remain a stable source of revenue into the coming year. Other City taxes, such as sales and transient occupancy taxes are more elastic and dependent on the national, state and local economies.

The City must maintain a certain capacity to serve its citizens. Therefore, revenues generated from applications for planning, community development and construction review permits, similar to fees generated by recreation activities, and other charges for services are not fully recovering all of the costs to provide the associated services, during slow economic periods. With a lagging recovery, there will be some slight improvement in cost recovery for the City.

This is not to say that there are not potential financial challenges ahead. The global and national economy faces numerous economic pitfalls. California's state budget is still structurally unsound and faces political challenges as well. Finally, although the City expects to be able to maintain its moderate and responsible fiscal policies related to operating expenditures, there are threats to the city's fiscal sustainability and resilience. To address these challenges, the City has implemented a series of strategies in order to continue to provide the current excellent level of services and meeting Sausalito's capital infrastructure needs. Those strategies include: long-term financial planning, revenue optimization, expenditure control, economic development planning, and regionalizing fire safety services.

## ***REQUESTS FOR INFORMATION***

This MD&A is designed to provide a general overview of the City of Sausalito's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Administrative Services/Treasurer, 420 Litho Street, Sausalito, CA 94965 or [www.ci.sausalito.ca.us](http://www.ci.sausalito.ca.us).

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**FISCAL IMPACT**

None

**STAFF RECOMMENDATIONS**

None

**ATTACHMENTS**

None

PREPARED BY:

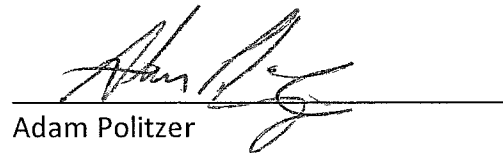
REVIEWED BY:



Charles D. Francis  
Director of Administrative Services / Treasurer

\_\_\_\_\_  
Mary Wagner  
City Attorney

SUBMITTED BY:



Adam Politzer  
City Manager

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