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Office of Director of Finance
and Financial Planning

December 8, 2000

Honorable Mayor,
Members of the City Council,
and City Manager
City of Redwood City
Redwood City, California

In accordance with the Charter of the City of Redwood City, we are submitting for your information and consideration the Comprehensive Annual Financial Report of the City for the fiscal year ended June 30, 2000.

This report has been prepared by the City's Finance Department. The responsibility for both the accuracy of the printed data and the completeness and fairness of the presentation including all disclosures rests with the City. It is our opinion that the data presented is accurate in all material respects and that it is presented in a manner designed to fairly set forth the financial positions and results of operations of the City and its related entities as measured by the financial activity of their various funds, and that all disclosures necessary for the reader to gain a full understanding of their financial activities have been included. The financial statements have been prepared following the guidelines recommended by the Government Finance Officers Association of the United States and Canada, and the standards adopted by the Governmental Accounting Standards Board. The Government Finance Officers Association of the United States and Canada (GFOA) awarded its Certificate of Achievement for Excellence in Financial Reporting to Redwood City for its 1999 Comprehensive Annual Financial Report. The California Society Of Municipal Finance Officers (CSMFO) awarded its Outstanding Financial Reporting Certificate of Award to Redwood City for the same fiscal year. It is our belief that this report fully conforms to these high standards.

In accordance with these guidelines, the accompanying report consists of three parts:

- I. Introductory Section - Letter of Transmittal; Organization Charts and Names of Principal Officials, GFOA and CSMFO Certificates of Achievement
- II. Financial Section - Auditor's Opinion, Combined Financial Statements, Notes to Financial Statements followed by Combining and Individual Fund Statements
- III. Statistical Section - Presenting ten year historical trends of financial and non-financial data

This report includes all funds and account groups of Redwood City. Redwood City provides a full range of services, including police and fire protection, planning and zoning, the construction and maintenance of highways, streets and infrastructure, water and sewer utilities, information services, recreational activities, and cultural events. The City Council serves in separate session as the governing bodies of the Redwood City Redevelopment Agency, the Redwood City Facilities and Infrastructure Authority, and the Public Financing Authority although these agencies are legal entities apart from the City. Under the City Charter, the City Council appoints the Board of Port Commissioners who oversee the operations of the Port of Redwood City, which is considered a department of the City of Redwood City.

ECONOMIC CONDITIONS AND OUTLOOK

Redwood City is located on the west shore of the San Francisco Bay peninsula midway between San Francisco, 25 miles to the north, and San Jose, 17 miles to the south.

Redwood City's unemployment rate as of June 30, 2000 was 1.6% compared to a statewide rate of 5.2%. This is an improvement over the prior year's unemployment rates of 1.9% and 5.3%, respectively, and is reflective of the strength of the local economy.

The City's economy is diversified and is not dependent on any single industry or a segment of economic activity. We have electronic and high-technology companies (Ampex, Harris Corporation/Farion Divison, InsWeb, Liquid Audio, 3 DO, Excite@Home, Broadvision, Electronic Arts, and Oracle), manufacturing (Raychem Corporation), transportation (DHL headquarters), auto dealers (both domestic and import), building materials, two hospitals (Kaiser and Sequoia), a University of California extension campus, a community college (Canada), a high school (Sequoia), and a variety of retailers (Costco, K-Mart, Mervyns, and Target). Redwood City is also the county seat for San Mateo County which results in a high daytime population from people conducting matters at the county offices and courts.

Over 300,000 square feet of commercial and retail development was completed this year. Additionally, 160 residential units were completed during the year ended June 30, 2000. Most of the residential construction occurred in the Redwood Shores area.

The Oracle Corporation, a leading database developer, maintains its world headquarters in Redwood City. Oracle presently has over 6,500 employees in Redwood City and occupies 1.5 million square feet of commercial office space. Broadvision, Liquid Audio, Excite@Home, Electronic Arts, and a growing number of other technology companies have also selected Redwood City as the site for their world headquarters. Redwood City and the surrounding communities are benefiting from the expansion in the technology sector, particularly firms developing and selling Internet applications and services. This expansion has resulted in some referring to this local area as "software valley."

Overall, we believe this activity is strong evidence that Redwood City is a very attractive area in which to conduct business and is, at least in part, reflective of the high quality of services furnished by local government.

The Port of Redwood City is the only deep water port on the San Francisco Bay south of San Francisco.

MAJOR INITIATIVES

For several years, the City Council has set a major focus and priority on Youth Development and Education. Redwood City has been an active member of Redwood City 2020, a multi-jurisdictional collaborative. Redwood City 2020's funding partners are the City of Redwood City, San Mateo County, the Redwood City Elementary School District, Sequoia Union High School District, and the Peninsula Foundation. Recently this collaborative was expanded to include Stanford University. Stanford University has recently initiated the John Gardner Center for youth development, which will be located in Redwood City. The John Gardner Center has been endowed with a \$5 million grant. The purpose of the center is to provide resources (i.e., money and expertise) for the city, county, two school districts, and Stanford to collaborate on youth development.

It is an exciting new model on how local governments and major research universities ought to collaborate for the benefit of the community. The John Gardner Center will be jointly developed by the Redwood City 2020 collaborative and Stanford University. This program represents a unique opportunity for two local governments and two school districts to collaborate with a world-class research university all of whom have the same focus and priority – the development of our youth. Redwood City is the beta site for this test. If it is as successful as we anticipate, we believe it will become a national model.

DEPARTMENT FOCUS

The Department of Public Works Services has successfully tackled two major, yet different water problems. For over 40 plus years, a section of Redwood City has flooded regularly. This Council ended years of neglect and directed Public Works Services Department to present a very workable solution to the City Council, which had the courage to focus staff time and Capital Improvement Program funds to significantly mitigate this longstanding and continuing flooding problem. The community was involved up front in 1) defining the problem and 2) working with City engineers to develop a workable solution.

On a different side of the water issue, the department has been monitoring the City use of water against our legal water allocations from San Francisco Water Department. Due to future negative gaps, the department has instituted a pilot program of using recycled water from our wastewater treatment plant to irrigate large sections of Redwood Shores landscaping. The pilot program is up and running and possible expansions are very likely. This long-range planning for water will prevent Redwood City from facing a water crisis in the future.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

The City's accounting records for general government operations are maintained on a modified accrual basis, with the revenues being recorded when both measurable and available, and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's enterprises are maintained on the accrual basis.

In developing and modifying the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding:

- the safeguarding of assets against loss from unauthorized use or disposition, and
- the reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes that:

- the cost of a control should not exceed the benefits likely to be derived, and
- the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that all of the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary control is maintained at the program level by encumbering estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders which result in an overrun of budget balances are not released until additional appropriations are made available. Open encumbrances are reported as reservations of fund balance at year-end.

As a recipient of federal, state, and county financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management and the internal audit staff of the government.

As a part of the City’s single audit, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that the City has complied with applicable laws and regulations.

As demonstrated by the statements and schedules included in the financial section of this report, the City of Redwood City continues to meet its responsibility for sound financial management.

REPORTING ENTITY AND ITS SERVICES

Financial information for separate legal entities related to the City including the Redwood City Facilities and Infrastructure Authority, Redwood City Public Financing Authority, and Redwood City Redevelopment Agency is blended in the City's financial statements in accordance with Government Accounting Standards Board Statement No. 14.

City Council members, in separate sessions, serve as the governing boards of the Redevelopment Agency, the Redwood City Facilities and Infrastructure Authority, and the Redwood City Public Financing Authority. The governing board of the Port of Redwood City does not include City Council members; however, this board is appointed by the City Council. Whereas the City provides all accounting and administrative services to the Redwood City Facilities and Infrastructure Authority, Redwood City Public Financing Authority, and Redevelopment Agency, only treasury services are provided to the Port of Redwood City which, according to the City Charter, is considered a department of the City.

The general fund of the Redevelopment Agency and the agency’s low and moderate income housing fund are shown as special revenue funds. The long-term debt of the Redevelopment Agency and the Public Financing Authority is shown in the long-term debt account groups. Debt service during the year is shown under debt service funds. The Port of Redwood City is an enterprise activity and is presented as an enterprise fund.

Redwood City is a full service City, which was incorporated in 1867 and became a Charter City in 1929. The City operates under a council-manager form of government and provides services such as police, fire, recreation and parks, library, highways and streets, public improvements, planning and zoning, water, port facilities, and general administrative services. Although the City maintains the sewer lines and pump stations, the sewer plant and treatment services are provided by the South Bayside System Authority, a Joint Powers Authority of which Redwood City is an equity holder.

PROPERTY TAX RATES AND ASSESSMENTS

Following the adoption of Proposition 13, an amendment to the State Constitution, the City does not have authority to levy a property tax rate for general operations of the City. The City of Redwood City shares property taxes on a formula base from the County of San Mateo tax pool. Redwood City does not have any general obligation bonds (for which it could levy property taxes after Proposition 13).

In 1964, Redwood City established General Improvement District 1-64 for which special assessments continue to be calculated and collected based on the value of the property in the year in which the assessment installments are paid.

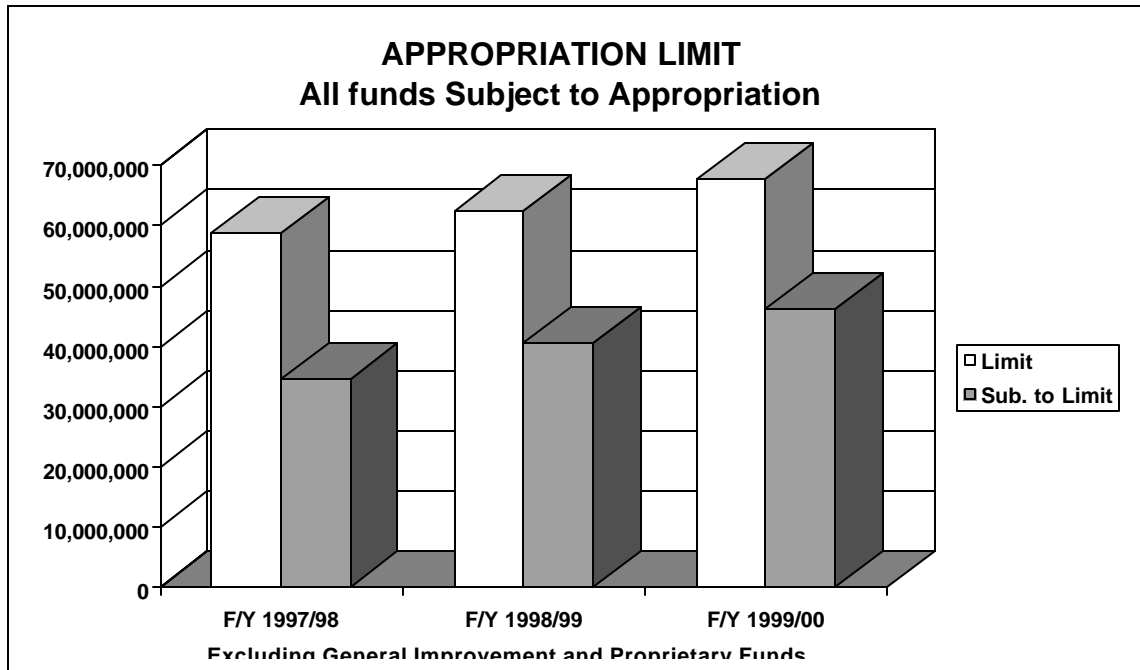
The City Council, sitting as the Board of Equalization for General Improvement District 1-64, determines the assessed values of properties, establishes the tax rate, and levies assessments each year in July. The assessments are then collected through the County of San Mateo tax collector. The tax rates for 1999/00 and the prior two years are:

	<u>1999/00</u>	<u>1998/99</u>	<u>1997/98</u>
GID-1964 Facilities	0.1760	0.2155	0.3181
GID-1964 Reclamation	0.1985	0.2282	0.3211

APPROPRIATION LIMIT

Article XIII B of the California State Constitution, which became effective in the 1979/80 fiscal year, and which was modified (by Proposition 111) in November 1989, establishes, by formula, an appropriation limit for governmental agencies. Using the appropriations of fiscal year 1978/79 as the base year, the limit is modified by the change in the composite consumer price index, population, and the value of commercial property development within the City limits during each fiscal year. Article XIII B also sets the guidelines as to what is to be included in the appropriation limits.

The appropriation limit for Redwood City for the fiscal year 1999/00 is at \$67,647,038 while the actual appropriations subject to the limit amounted to \$46,130,056. The following graph indicates the trend in appropriations subject to limitation:



FINANCIAL INFORMATION

General Governmental Revenues

Sales tax, property tax, and utility users tax are the main sources of general operating revenues (general and special revenue funds) of the City. During fiscal year 1999/00, these three taxes collectively amounted to 57% of the total general operating revenues.

Property taxes increased 9.3% compared to 1998/99 due to new construction and strengthening property values associated with an expanding local economy. Sales and other taxes were up 16.4%. This increase was driven primarily by a 19.1% increase in sales taxes and a 21.7% increase in transient occupancy tax revenues. Once again, these increases are reflective of a vibrant local economy. Licenses and permits decreased .6% largely as a result of a surge in building permit applications for residential and commercial projects in the Redwood Shores area during the prior year.

Fines and penalties decreased 3.2% as a result of fewer parking citations having been issued in 1999/00.

Developers' contributions were down 58.4% from 1998/99 due to an unusually high amount of revenue having been received in 1998/99. Intergovernmental revenues were down almost 23% primarily as the result of a decline in grants for transportation projects.

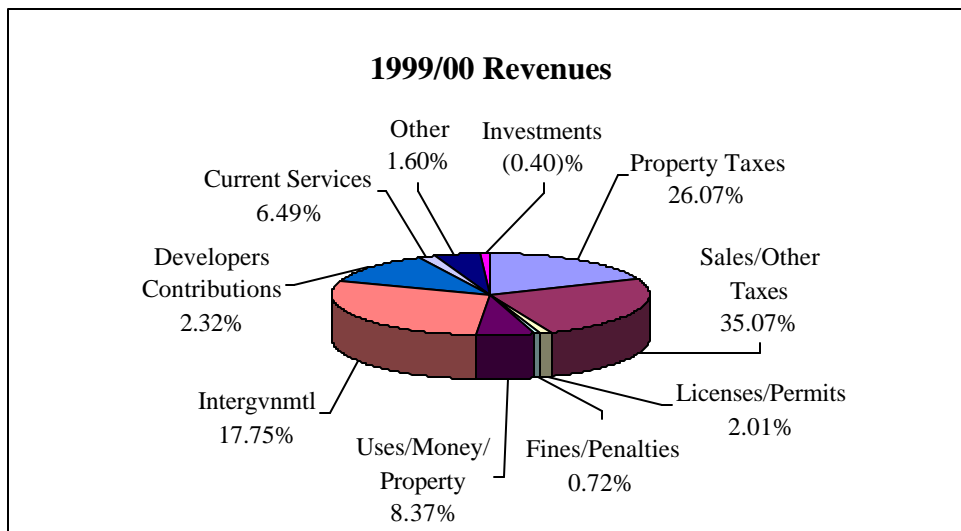
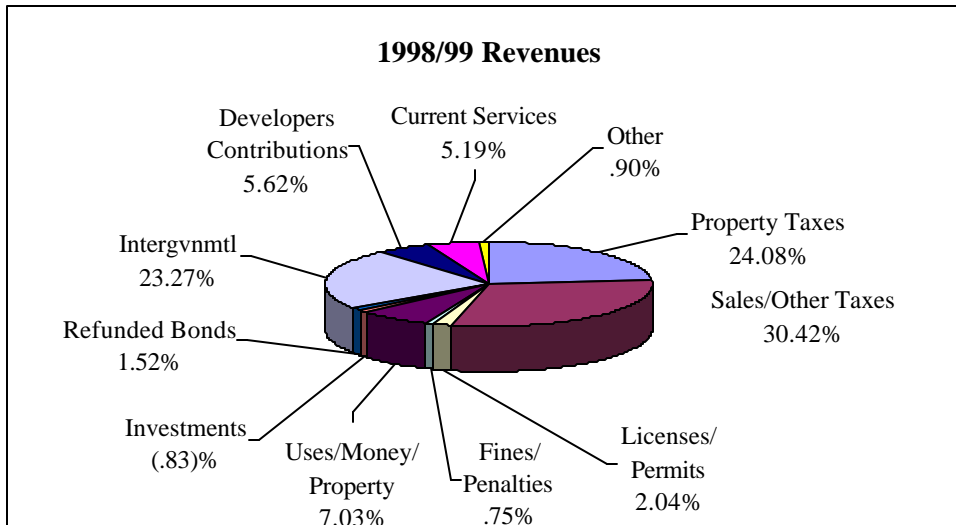
Charges for current services increased by 26% due to additional fees received for enhanced recreation programs, along with an increase in fees related to development-related services (plan checking and subdivision fees).

Other revenues were up 79% over the prior year primarily due to funds received pursuant to a class action lawsuit, and revenue related to the issuance of bonds.

The following schedule presents a summary of general fund, special revenue funds, debt service funds, and capital projects funds revenues for the fiscal year ended June 30, 2000 and the percentage of increases and decreases in relation to the prior year.

<u>Revenue Source</u>	<u>Amount</u> \$	<u>Percent of Total</u> %	<u>Increase/ (Decrease) from 1998/99</u> \$	<u>Percent of Increase/ (Decrease)</u> %
Property Taxes	21,512,293	26.07	1,825,193	9.27
Sales and Other Taxes	28,937,652	35.07	4,068,600	16.36
Licenses and Permits	1,658,795	2.01	(9,121)	(0.55)
Fines and Penalties	594,808	0.72	(19,586)	(3.19)
Uses of Money and Property	6,910,258	8.37	1,159,592	20.16
Net Increase (Decrease) in				
Fair Value of Investments	(332,654)	(0.40)	348,022	(51.13)
Contribution from Refunded Bonds			(1,249,075)	(100.00)
Intergovernmental	14,649,452	17.75	(4,374,671)	(23.00)
Developers Contributions	1,914,933	2.32	(2,683,579)	(58.36)
Charges for Current Service	5,355,496	6.49	1,115,242	26.30
Other	1,317,616	1.60	579,485	78.51
Total Revenues	<u>82,518,649</u>	<u>100.00</u>	<u>760,102</u>	<u>0.93</u>

The following charts compare revenues from general fund, special revenue funds, debt service funds, and capital projects funds during the past two fiscal years:



General Governmental Expenditures

Public safety continues to be the largest single program expenditure within the area of general operating (general and special revenue funds) expenditures with 42% of the 1999/00 general operations, while expenditures for Leisure, Cultural and Information Services remain as the next largest area at 22% of general operations.

Community development expenditures increased 20.3% due to increased demands for development-related services (subdivision engineering, plan checking, and building inspections) along with Redevelopment Agency costs associated with the conveyance of property for the purpose of construction of affordable housing.

Leisure, Cultural and Information Services expenditures increased 11% primarily due to enhanced recreation programs and increased landscape maintenance.

Policy Development and Implementation increased 10% resulting from increased lease payments for facility debt service.

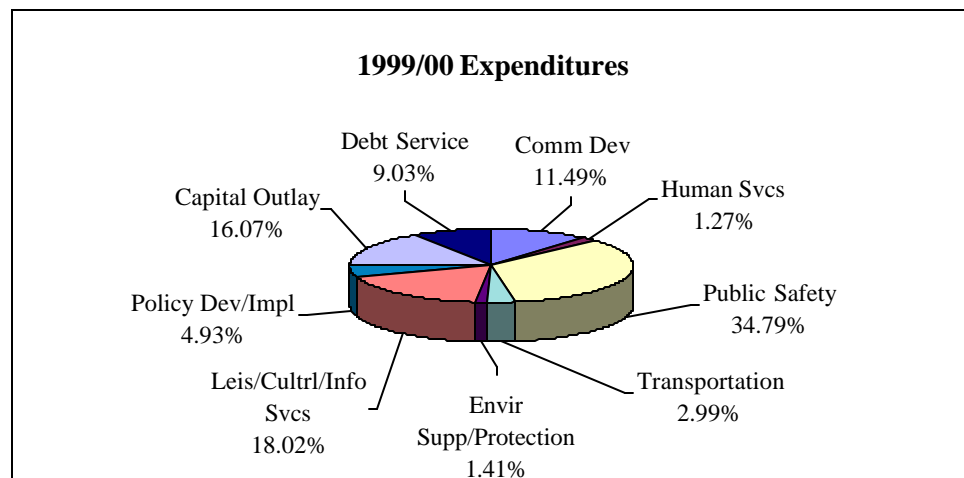
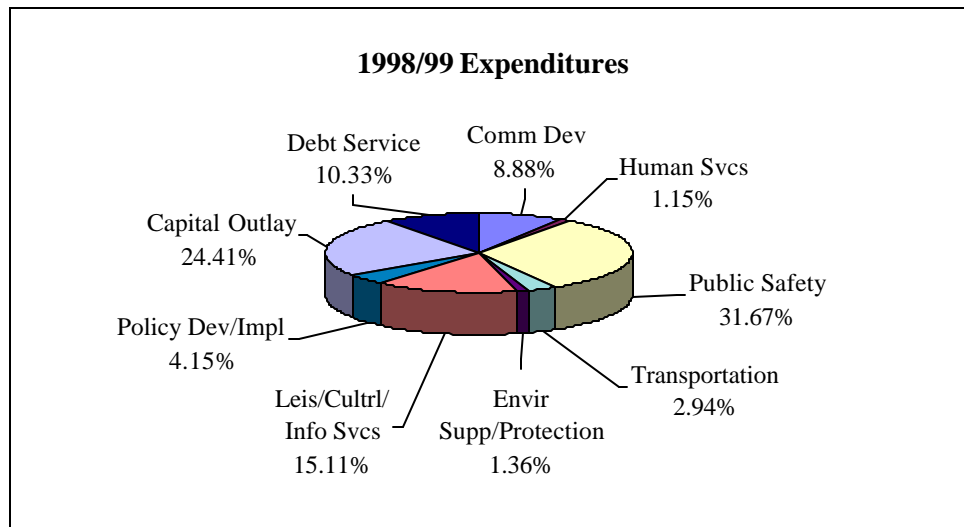
The 39% decrease in capital outlay expenditures is attributable primarily to the completion in 1998/99 of infrastructure projects totaling almost \$6.9 million directly related to major street improvements.

The 19% decrease in Debt Service is due to the partial refunding of Public Financing Authority Bonds in 1998/99 which resulted in lower annual debt service payments in subsequent fiscal years.

The following schedule presents a summary of the general fund, special revenue funds, debt service funds, and capital projects funds expenditures for the fiscal year ended June 30, 2000 and the percentage of increase and decrease in relation to prior year amounts:

<u>Expenditure-Programs</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase/ (Decrease) from 1998/99</u>	<u>Percent of Increase/ (Decrease)</u>
	\$	%	\$	%
Current				
Community Development	8,207,588	11.49	1,383,054	20.27
Human Services	905,058	1.27	23,783	2.70
Public Safety	24,858,794	34.79	519,917	2.14
Transportation	2,136,206	2.99	(121,728)	(5.39)
Environmental Support and Protection	1,010,313	1.41	(38,324)	(3.65)
Leisure, Cultural and Information Services	12,876,565	18.02	1,265,944	10.90
Policy Development and Implementation	3,521,166	4.93	331,562	10.40
Capital Outlay	11,480,015	16.07	(7,281,747)	(38.81)
Debt Service	6,452,190	9.03	(1,489,461)	(18.76)
Total Expenditures	<u>71,447,895</u>	<u>100.00</u>	<u>(5,407,000)</u>	<u>(7.04)</u>

The following charts compare the expenditures of general governmental operations by major program during the past two years (general, special revenue, debt service, and capital projects funds):



General Fund Balance

Fund balance in the general fund increased \$6.2 million from \$29.6 million to \$35.8 million. The portion designated for subsequent year's expenditures increased from \$10.8 million to \$18.4 million. The City Council has formally directed staff to maintain general fund reserves between 15% and 20% of estimated revenues.

Enterprise Funds

Redwood City's enterprise operations consist of four distinct activities: water, sewer, parking, and the Port. The Port is managed by the Port Commission, which is appointed by the City Council. All City-owned lands at the Port are under the management of the Port Commission. All rentals collected from this area from private tenants (\$1.6 million in 1999/00) are used to support the Port activities. Retained earnings for the Port increased by \$1.9 million for the fiscal year ended June 30, 2000 to \$17.6 million.

The City does not operate a water purification plant. Potable water is purchased from the City of San Francisco. Redwood City owns and operates water pump stations and distribution lines. The City provides water service to all the residents and commercial customers within the City limits and also provides water service to adjoining areas within the jurisdiction of the County of San Mateo. As of June 30, 2000, the City had 19,745 water customers within the City and 3,014 outside the City limits. For the fiscal year ended June 30, 2000, water enterprise retained earnings increased by \$3.4 million to \$24.2 million. Water fund operating revenues increased \$831,934 (6.5%) while operating expenses increased \$1,588,725 (17%). Net cash generated by operations in 1999/00 totaled \$3.6 million.

The sewer enterprise posted a \$1.5 million (18%) increase in operating revenues while operating expenses increased by \$717,402 (9%) over the prior year. Operating income was \$1.4 million. Net cash generated by operations totaled \$1.4 million.

Redwood City maintains on-street and off-street parking spaces within the downtown area. The parking fund had a net operating loss of \$7,239 for the year ending June 30, 2000. Net cash generated by operations was \$100,943.

DEBT ADMINISTRATION

At the end of the 1999/00 fiscal year, the City of Redwood City had no direct debt outstanding supported by the general tax rate of the City. The Public Financing Authority Bonds (\$9,190,000 of principal outstanding as of June 30, 2000), 1998 Lease Revenue Bonds (\$11,465,000 of principal as of June 30, 2000), and the City Hall Lease Revenue Certificates of Participation (\$11,700,000 of principal outstanding as of June 30, 2000) are supported by lease payments from general fund revenues. The City is the paying agent for special assessment bonds (for which the City has no legal obligations), and has issued voter-approved General Improvement District Bonds in prior years. Moreover, the City's general fund had an accrued sick leave and vacation liability total of \$1,950,426 as of June 30, 2000. The Port is the only enterprise fund with debt outstanding at June 30, 2000. All of this debt (capitalized leases, loans, and revenue bonds) was related to the acquisition of capital items and improvements. The proprietary funds also have accrued sick leave and vacation liabilities.

Detailed information on all long-term liabilities is presented in the *Notes to the Financial Statements*.

FIDUCIARY FUNDS

The City maintains a fiduciary fund that accounts for tax free employee and employer contributions made under the provisions of section 125 of the Internal Revenue Code (cafeteria benefits fund) and for employer contributions to a retiree medical insurance fund. The City also maintains two fiduciary funds, which account for transactions involving the Seaport Consolidated assessment district and the Pacific Shores assessment district.

CASH MANAGEMENT

The City treasurer invests temporarily idle funds in accordance with the state government code and the investment policy adopted by the City Council. During the year, funds were invested in certificates of deposits of banks, U.S. agency securities, U.S. government securities, the Local Agency Investment Fund of the State of California (LAIF), and the County of San Mateo investment pool. Bond proceeds are invested in the California Arbitrage Management Program (CAMP). Total investment earnings during the fiscal year amounted to \$6.4 million. At the end of fiscal year 1999/00, the total investments, including cash with fiscal agents, cash at banks, and petty cash, stood at \$128,578,269.

Redwood City's investment objectives are to maintain liquidity and to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, deposits were either insured by federal depository insurance or collateralized.

GENERAL FIXED ASSETS

The general fixed assets are those assets used in the performance of general governmental functions. General fixed assets totaled \$84,078,535 on June 30, 2000. This amount represents accumulated actual costs and is substantially less than the assets' replacement value. Infrastructure such as streets, curbs and gutters, roadways, drainage systems, and similar types of assets are not capitalized. Depreciation is not recognized in accounting for general fixed assets. Depreciation is calculated only on proprietary fund assets, for which the straight line depreciation method is employed.

RISK MANAGEMENT AND SELF-INSURANCE FUNDS

In July 1990, the City joined the Bay Cities Joint Powers Insurance Authority to meet its general liability insurance needs. Bay Cities is a general liability insurance pool consisting of 16 San Francisco Bay Area public agencies. The pool provides, through reinsurance, \$1,000,000 of coverage in excess of the City's \$250,000 self-insurance retention, claims administration, and loss control support to member agencies. Bay Cities belongs to the California Affiliated Risk Management Authority (CARMA) which is an excess liability pool founded by Bay Cities and two other local government insurance pools. CARMA provides coverage from \$1,000,001 to \$10,000,000. CARMA enters into a reinsurance agreement for the coverage from \$3,000,001 to \$10,000,000. CARMA retains 75% of the risk for the layer from \$1,000,001 to \$3,000,000, and reinsures the remaining 25% with a commercial reinsurer. To minimize accident-related losses, the City employs various risk control techniques including employee accident prevention training and hazard recognition and mitigation training.

FINANCIAL PERFORMANCE

Compared to last year, the financial performance of the City is as follows:

	<u>2000</u>	<u>1999</u>
	\$	\$
Total City Assets	385,348,663	368,573,037
Total Cash and Investments	128,578,269	114,565,623
Total City Equity	287,348,202	267,248,558
Total Annual Revenue for Governmental and Enterprise Funds	111,771,822	110,009,129

FUTURE PROSPECTS

Approval has been granted for several large commercial and residential projects. A 300 unit residential project along with a 100 slip marina were recently completed in the Bair Island area. Also, over the next several years, over 500 residential units are expected to be completed as part of the Franklin area project in downtown Redwood City.

The Pacific Shores project, adjacent to the Port, is under construction. When complete, this project will add over 1.5 million square feet of high-end commercial office space to Redwood City and have a total daytime population of 4,000. This development may also contain up to 1,000 residential units.

Speiker Properties is proposing to construct 340,000 square feet of office space in Redwood Shores. Another 80,000 square feet of commercial office space is being constructed in Redwood Shores, with an additional 140,000 square feet planned elsewhere in Redwood City.

ANNUAL INDEPENDENT AUDIT

The annual audit of the books and financial records of Redwood City was completed by Maze & Associates, Certified Public Accountants appointed by the City Council. The auditor's opinion letter has been made a part of this report.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City of Redwood City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 1999. This is the thirteenth consecutive year that Redwood City has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The City was also awarded the California Society of Municipal Finance Officers (CSMFO) "*Outstanding Financial Reporting*" certificate for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 1999. This was the fourteenth consecutive award to Redwood City from CSMFO.

ACKNOWLEDGEMENTS

The preparation of this report could not have been achieved without the efficient and dedicated services of the entire staff of the Finance Department. Special thanks are extended to Alison Freeman for her leadership in overseeing this process, Irv Weinstock for his diligent and relentless proofreading, and to Sandy Jennings for her dedication to assembling and publishing this document.

I would also like to thank and commend the Redwood City Council and Ed Everett, City Manager, for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner in the best interests of the residents of Redwood City.

Respectfully submitted,

Brian J. Ponty
Director of Finance and Financial Planning
City of Redwood City
Redwood City, California