

**CITY OF REDWOOD CITY**  
**Notes to Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. *Reporting Entity***

The accompanying financial statements include the financial activities of the City of Redwood City, the Redwood City Redevelopment Agency, Redwood City Facilities and Infrastructure Authority, Redwood City Public Financing Authority, and the Port of Redwood City. The financial activities presented in the accompanying financial statements include all funds, account groups, boards, and commissions that are controlled by the City Council or dependent on City resources based upon budget adoption, taxing authority, debt obligations secured by the City, or obligations of the City to fund deficits. Except as described below, no entities have been included or excluded from presentation in the accompanying financial statements.

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.

The Redwood City Redevelopment Agency, Redwood City Facility and Infrastructure Authority, and Public Financing Authority are included as component units in the accompanying financial statements. The financial activities of the foregoing entities have been aggregated and merged (termed “blending”) with those of the City in the accompanying financial statements, as each meets the criteria for inclusion as set forth in Government Accounting Standards Board Statement No. 14. Information concerning the Bay Cities Joint Powers Insurance Authority and South Bayside System Authority are presented in the notes to the financial statements as the City’s relationship to these organizations does not meet the aforementioned criteria for presenting these organizations as component units.

The Redwood City Redevelopment Agency was established in 1984 by City Council to eliminate blight within the defined project areas by encouraging and assisting planned development of low income housing and commercial projects.

Redwood City Facilities and Infrastructure Authority (RCFISA) was established in 1986 to finance the construction of certain public facilities such as the Main Fire Station, City Hall, and Main Library. After acquiring certain properties from the City, RCFISA leased them back to the City. The lease money provided the funds for the debt service for the Certificates of Participation issued by the RCFISA to acquire the properties from the City.

The Public Financing Authority was established in 1991 to finance construction of the new Police Facility, to finance the defeasance of outstanding certificates of participation issued by the RCFISA, and to issue tax increment bonds on behalf of the Redevelopment Agency.

Component unit financial statements for each of the above entities may be obtained from the City of Redwood City, P.O. Box 391, Redwood City, CA 94064.

The Port of Redwood City was established under the City Charter as a department of the City and is managed by the Port Commission of Redwood City, whose members are appointed by the City Council. This commission is a semi-autonomous body and has full authority to manage the Port. Its financial system is maintained separately from the City by the Port’s own financial staff. The Port’s Treasurer and

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Legal Counsel are the City's Finance Director and the City Attorney, respectively. The financial transactions of the Port are incorporated as an enterprise fund.

***B. Basis of Presentation - Fund Accounting***

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with separate sets of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into seven generic fund types, three broad fund categories, and two account groups as follows:

**1. Governmental Fund Types**

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds), are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. Those funds are maintained on the modified accrual basis of accounting (explained further under Basis of Accounting). The following are the City's governmental fund types:

General Fund - The general fund is the general operating fund of the City. It is used to account for all financial resources except those to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. The funds inter alia include service and maintenance type assessment districts. The property owners within specified boundary lines benefit from the services provided and are responsible for the cost.

Debt Service Funds - Debt service funds are used to account for the accumulation of resources and the payment of long-term debt principal, interest, and related costs. The primary revenue sources are interest earnings on the reserve funds and operating transfers from relevant funds which support debt service.

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

**2. Proprietary Fund Types**

Proprietary funds are accounted for on an economic resources measurement focus. All assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund measurement focus is upon determination of net income, financial position, and changes in financial position. The generally accepted

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**Notes to Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

accounting principles are those applicable to similar businesses in the private sector and therefore these funds are maintained on the accrual basis of accounting. The following are the City's proprietary fund types:

Enterprise Funds - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the City is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The acquisition, maintenance, and improvement of the physical plant facilities required to provide these goods and services are financed from existing cash revenues, issuance of bonds, and federal and state grants.

Internal Service Funds - Internal service funds are used to account for the financing of goods, services, or employee benefits provided by one department or agency to other departments or agencies of the City, or to other governments on a cost-reimbursement basis.

**3. Fiduciary Fund Types**

Fiduciary fund types are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City maintains three funds - Employee Benefit Plans Fund, Seaport Boulevard Bonds Fund, Seaport Centre Bonds, Seaport Consolidated Bonds Fund, and Pacific Shores Assessment District Fund - as an agent of the bondholders or City employees.

**4. Account Groups**

The account groups are used to establish accounting controls and accountability for the City's general fixed assets and general long-term obligations. The following are the City's account groups:

General Fixed Assets Account Group - The General Fixed Assets Account Group is used to account for all fixed assets owned by the City other than those accounted for in the proprietary funds and fiduciary funds.

General Long-Term Obligations Account Group - The General Long-Term Obligations Account Group is used to account for all long-term obligations of the City except those that are accounted for in the proprietary funds and fiduciary funds.

**C. Basis of Accounting**

The governmental type funds and agency funds are maintained on the modified accrual basis of accounting. Under the modified accrual basis of accounting, transactions are recorded in the following manner:

1. Revenues are recognized at the time they become susceptible to accrual - that is when they both are measurable and available, even if they are not yet received in cash.

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**Notes to Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

2. Expenditures are recognized when liability is incurred, if measurable, except for payments on general obligation bonds, special assessment bonds (for which the City has limited obligations), and interest thereon, which are recognized when due. Accumulated vacation and sick leave not expected to be paid within the next 12 months are recorded in general long-term obligations.

Special reporting treatment is applied to governmental fund inventories to indicate that they do not represent “available spendable resources” even though they are a component of net current assets. Such amounts are offset by Fund Balance Reserved for Inventory.

The accrual basis of accounting is followed in all proprietary funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred.

The revenues of the two utilities (water and sewer), which are based upon service rates authorized by the City Council, are determined by bi-monthly cyclical billings to customers. Earned revenues are accrued and reported in the financial statements with the exception of unbilled services at year-end.

Internal service funds focus on the measurement of “cost of service” and “capital maintenance.” Interdepartmental work orders are generally billed when the service is completed.

General fixed assets are recorded at cost with no depreciation being recognized. Depreciation is recognized in enterprise and internal service funds.

All proprietary funds follow those Financial Accounting Standards Board statements issued before November 30, 1989 which do not conflict with Governmental Accounting Standards Board statements.

***D. Combined Statements***

The “Memorandum Only” captions on the combined statements’ “Totals” column means that totals are presented for overview informational purposes only, and are not intended to present the financial position or results of operations for the governmental unit as a whole.

***E. Budgets and Budgetary Accounting***

Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, debt service funds, and capital projects funds.

Budgets for the general, special revenue, debt service, and capital projects funds (except the General Improvement District 1965 Construction and Civic Construction funds) are adopted on a basis consistent with generally accepted accounting principles (GAAP), except for capital outlay in special revenue and capital projects funds which is budgeted on a project length basis.

The City Manager submits a recommended operating budget in May each year to the City Council for the fiscal year commencing the following July 1, showing proposed expenditures by programs and the means of financing them.

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The City Council conducts budget study sessions, which are open for public comment, before adopting the budget. Once the budget is adopted, expenditures may not legally exceed appropriations at program level except when the excess is attributable to a particular activity for which the City has been reimbursed. This is especially apparent in the Community Development Program where developers reimburse the City through sub-division fees and environmental impact report fees.

At the request of the department head through the City Manager, the City Council may, by resolution, transfer appropriations between subprograms and funds, but shall not change total appropriations. Any increase or decrease to the total appropriations provided for in the budget must be carried through by ordinance passed by the City Council. The City Manager may authorize the transfer of funds between object categories within a subprogram as displayed on schedule A-4 of the Comprehensive Annual Financial Report. The adoption and administration of the Port of Redwood City budget, unless property tax revenues are requested, is exclusively under the control of the Board of Port Commissioners.

Budgeted amounts are as originally adopted, or as amended by the City Council during the fiscal year. Individual amendments were not material in relation to the original appropriations.

All unexpended appropriations lapse at the end of fiscal year. Appropriations for capital projects carried over or encumbered are reappropriated and carried over in the following year's budget.

***F. Compensated Absences***

In compliance with Government Accounting Standards Board Statement No. 16, the City has established a liability for accrued sick leave and vacation in relevant funds. For governmental type funds, the current liability appears in the respective funds and the long-term liability appears in the long-term obligations account group. This liability is set up for the current employees at the current rates of pay. An employee may accumulate vacation up to two years entitlement and sick leave up to 960 or 1,200 hours depending on the bargaining unit (Fire Department employees who work 24 hour shifts may accumulate up to 1,920 hours of sick leave). If sick leave and vacation are not used by the employee during the term of employment, compensation is payable to the employee at the time of retirement. Such compensation is calculated at the employee's prevailing rate at the time of retirement or termination. Whereas vacation is compensated at 100% of accumulated hours, sick leave is compensated at 25% or 50% of accumulated hours at retirement depending on the bargaining unit. Upon termination only accrued vacations are compensated. Each year an adjustment to the liability is made based on pay rate changes and adjustments for the current portion. During 1999/00, the long-term liability for compensated absences increased \$532,699.

***G. Cash and Cash Equivalents***

For the purpose of the statements of cash flows for all proprietary fund types (enterprise and internal service funds), the City considers cash equivalents to be all highly liquid investments with a maturity of three months or less when purchased.

***H. Encumbrances***

The City uses the encumbrance system as a management control technique to assist in controlling expenditures. Under this procedure, encumbrances of general, special revenue, and capital project funds

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

representing purchase orders, contracts, and other commitments are reported as reservations of fund balances at year-end.

***I. Inventories***

Inventories are stated at moving average cost. The cost is recorded as an expenditure at the time an individual inventory item is consumed. As inventories must be maintained at a certain level, a reserve for inventories is set aside in the general fund balances. Consequently, these reserved funds are not available for appropriation.

General fund inventories consist of stationery, janitorial supplies, electrical supplies, switches, building maintenance supplies, fertilizers, seeds, and small tools.

Water fund inventory consists of water meters, water pipes, valves and fittings, and small tools.

Equipment services fund inventory consists of tires, batteries, testing equipment, automotive parts, and small tools.

***J. Property Taxes***

Property taxes attach as an enforceable lien on property as of January 1, and are collected for a 12 month period effective July 1 by the San Mateo County tax collector. Taxes are billed once a year in late October and are payable in two equal installments due by December 10 and April 10 of the following year. The taxes not paid by those dates are subject to a penalty of 10%.

In September of 1993, the County of San Mateo Board of Supervisors adopted the "Teeter Plan" for secured property taxes. Under the Teeter Plan, the state law allows the county to advance to the cities all property taxes billed, regardless of whether the taxes have been paid. The county then is entitled to keep all penalties and interest accruing on delinquent taxes. Property taxes on unsecured taxable property are not affected by this change.

Under Proposition 13, adopted by the voters in a statewide ballot in 1978, assessed value is increased by the Cost of Living Index, not to exceed 2%, as of January 1 each year, except for those properties that have changed ownership during the 12 month period since the lien date. City property tax revenues are recognized when levied to the extent that they result in current receivables.

***K. Unbilled Service Receivables***

In the water and sewer utilities, residential customers are billed bi-monthly and all commercial and industrial customers monthly. Revenue is recorded as billed to customers on a cyclical basis. No accrual is made for unbilled services. There were no unbilled services in Port, parking, or internal service funds as of June 30, 2000. There is no accrual for unbilled water services as of June 30, 2000; revenues cannot be recognized since water meters are not read at such date. Management believes that the revenue from unbilled services does not have a material effect on total revenue.

**CITY OF REDWOOD CITY**  
**Notes to Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***L. Revenues Susceptible to Accruals***

Under the modified accrual basis of accounting, revenues are accrued in governmental type funds at the close of the year when they are measurable and available. Measurable means the amount can be determined, and available means receivable in the current period or soon enough thereafter to be used to pay liabilities of the current period, not to exceed 60 days after the end of the current period.

Revenues accrued include property taxes (received by the county, but not yet remitted), sales taxes (received by the state, but not yet remitted), utility users' taxes (received by utility companies, but not yet remitted), transient occupancy taxes, interest accrued on investments, rents and concessions due, but not yet received, and current service charges, billed but not received. Delinquent unsecured property taxes are not recognized as revenue until they are collected.

***M. Funds Opened and Closed***

The Traffic Mitigation Fees Special Revenue Fund, the Seaport Consolidated Bonds Agency Fund, and the Pacific Shores Assessment District Agency Fund were opened during the current fiscal year.

The Seaport Boulevard Bonds Agency Fund and the Seaport Centre Bonds Agency Fund were closed during the current fiscal year.

***N. Reclassifications***

For the year ended June 30, 2000, certain account classifications have been changed to improve financial statement presentation. For comparative purposes, prior year balances have been reclassified to conform to the June 30, 2000 presentation.

**NOTE 2 - CASH AND INVESTMENTS**

***A. Investment Policy***

Cash balances from all funds are combined and invested to the extent possible pursuant to the City Council approved Investment Policy and Guidelines and State Government Code. The earnings from these investments are allocated monthly to each fund based on an average of monthly opening and closing balances of cash and investments. Investments are stated at fair value. All enterprise fund investments are considered to be liquid investments for cash flow purposes.

Authorized investments per the City's investment policy and state government code are:

Certificates of Deposit	State of California Local Agency	Government Agency Securities
Bankers Acceptances	Investment Fund (LAIF)	Treasury Bills and Notes
Commercial Paper	County of San Mateo Investment Pool	Passbook Savings Accounts
Money Market Funds	Money Market Certificates	

**CITY OF REDWOOD CITY**  
**Notes to Financial Statements**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

***B. Collateral and Categorization Requirements***

All cash deposits in banks are fully insured or collateralized. California state law requires that public fund deposits be collateralized by either government securities with a value equal to 110% of the deposits or first trust deed mortgage notes having a value equal to 150%. Per state law each institution must use a third party (which may be the institution's trust department) to hold the pledged collateral in a pool to secure all the institution's public fund deposits. The code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash is considered to be held in the City's name. Banks and savings and loans in California are subject to state-mandated reporting requirements to ensure that the required levels of control are maintained. The City may waive collateral requirements for deposits, which are fully insured with each financial institution up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

The carrying amount of the City's cash and deposits was \$7,186,129 and \$4,164,235 at June 30, 2000 and 1999, respectively. Cash on hand was \$15,205 and bank balances, before reconciling items, were \$8,278,399 at June 30, 2000. Of the total bank balances, \$494,702 was insured or held by the City or its agent in the City's name (Category 1) and \$7,783,697 was collateralized (Category 2) and no deposits were classified as Category 3.

Three categories of risk level have been developed by the Government Accounting Standards Board Statement No. 3 to disclose the risks associated with deposits and investments of public money:

- Deposits:**
- Category 1 - insured or collateralized with securities held by the entity or by its agent in the entity's name;
  - Category 2 - collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name;
  - Category 3 - uncollateralized.
- Investments :**
- Category 1 - insured or registered, or securities held by entity or its agent in the entity's name;
  - Category 2 - uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name;
  - Category 3 - uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

The foregoing categorizations do not address the risk of loss due to changes in fair value.

Investments in pools managed by other governments or in mutual funds are not required to be categorized pursuant to Government Accounting Standards Board Statement No. 3.

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**NOTE 2 - CASH AND INVESTMENTS (Continued)**

**C. Categorization**

Cash and investments, which are carried at fair value, consist of the following at June 30:

	2000			1999
	Category 1	Category 2	Total	
	\$	\$	\$	\$
<b>Cash and Deposits:</b>				
Demand accounts at banks	319,012	6,468,832	6,787,844	3,781,396
Certificates of Deposit	69,390		69,390	69,389
Employee Cafeteria Benefits				
Plan deposits in bank	100,000	207,390	307,390	293,045
Cash with fiscal agent	6,300		6,300	5,200
Petty cash	15,205		15,205	15,205
Total	<u>509,907</u>	<u>6,676,222</u>	<u>7,186,129</u>	<u>4,164,235</u>
<b>Categorized Investments:</b>				
U.S. Treasury Notes	14,463,432		14,463,432	9,064,230
U.S. Agency Issues	60,058,470		60,058,470	36,818,380
Total	<u>74,521,902</u>		<u>74,521,902</u>	<u>45,882,610</u>
<b>Non-Categorized Investments:</b>				
County of San Mateo Investment Pool			14,411,617	27,271,943
California Local Agency Investment Fund			24,683,140	22,589,750
California Arbitrage Management Program			138,281	140,253
Guaranteed Investment Contract			1,543,000	1,543,000
Mutual Funds - U.S. Securities			6,094,200	12,973,832
Total			<u>46,870,238</u>	<u>64,518,778</u>
<b>Total Cash and Investments</b>	<u><u>75,031,809</u></u>	<u><u>6,676,222</u></u>	<u><u>128,578,269</u></u>	<u><u>114,565,623</u></u>

The composition of cash and investments as of June 30, 2000 by fund is as follows:

	Available for Operations		
	Restricted	Total	
	\$	\$	\$
General Fund	40,459,841		40,459,841
Special Revenue Funds	15,849,288		15,849,288
Capital Projects Funds	20,463,489		20,463,489
Debt Service Funds		6,659,790	6,659,790
Enterprise Funds	22,932,081	5,920,842	28,852,923
Internal Service Funds	13,696,699		13,696,699
Fiduciary Funds		2,596,239	2,596,239
Total	<u>113,401,398</u>	<u>15,176,871</u>	<u>128,578,269</u>

Cash and investments were scheduled to mature as follows at June 30, 2000:

Available immediately	\$	52,443,977
Maturities of three years or less		72,231,732
Maturities greater than three years but less than fifteen		3,902,560
Total		<u><u>128,578,269</u></u>

**CITY OF REDWOOD CITY**  
**Notes to Financial Statements**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

***D. Funds Held by Fiscal Agents***

The City had \$10,996,943 and \$14,516,832 in cash and investments as of June 30, 2000 and 1999, respectively, held by trustees or fiscal agents pledged for the payment or security of certain bonds, certificates of participation, and lease obligations. The California Government Code provides that these monies, in the absence of specific statutory provisions governing the issuance of bonds, certificates, or leases, may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments its trustees or fiscal agents may make. In some situations these investments differ from those permitted by the City investment policy. Included in these investments at June 30, 2000 is a guaranteed investment contract maturing in fiscal year 2012 authorized in the bond indenture and by City Council prior to purchase.

***E. Marking Investments to Fair Value (GASB 31)***

In fiscal year 1997/98, the City adopted Government Accounting Standards Board Statement No. 31, which requires that the City's investments be carried at fair value instead of cost. Under GASB 31, the City must adjust the carrying value of its investments to reflect their fair value at each fiscal year end, and it must include the effects of these adjustments in income for that fiscal year.

GASB 31 applies to all the City's investments, even if they are held to maturity and redeemed at full face value. Since the City's policy is to hold all investments to maturity, the fair value adjustments required by GASB 31 result in accounting gains or losses (called "recognized" gains or losses) which do not reflect actual sales of the investments (called "realized" gains or losses). Thus, recognized gains or losses on an investment purchased at par will now reflect changes in its value at each succeeding fiscal year-end, but these recognized gains or losses will net to zero if the investment is held to maturity. By following the requirements of GASB 31, the City is reporting the amount of resources which would actually have been available if it had been required to liquidate all its investments at any fiscal year-end.

***F. State and County Investment Pools***

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which at June 30, 2000 was \$27,583 less than the City's cost. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligation, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

The City is also a voluntary participant in the San Mateo County Investment Fund (County Pool) that is regulated by California Government Code Section 53600 under the oversight of the Treasurer of the County of San Mateo. The City reports its investment in the County Pool at the fair value amount provided by the County, which at June 30, 2000 was \$348,940 less than the City's cost. The balance available for withdrawal is based on the accounting records maintained by the County Pool, which are recorded on an amortized cost basis. Included in the County Pool's investment portfolio are US Treasury Notes, Obligations issued by agencies of the United States Government, LAIF, Corporate Notes, Commercial Paper, collateralized mortgage obligations, mortgage-backed securities, other asset-backed

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**NOTE 2 - CASH AND INVESTMENTS (Continued)**

securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

**NOTE 3 - FIXED ASSETS**

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Assets acquired by capital leases are capitalized at the net present value of the total lease payments.

General Fixed Assets

No depreciation is provided for general fixed assets.

The general fixed assets in the account group as of June 30, 2000 were as follows:

Asset Type	Beginning Balance	Additions	Retirements	Ending Balance
	\$	\$	\$	\$
Land	11,221,588			11,221,588
Buildings	55,580,800	69,037		55,649,837
Improvements other than Buildings	11,915,798			11,915,798
Machinery and Equipment	2,977,146	226,690	10,751	3,193,085
Construction in Progress	58,768	2,039,459		2,098,227
	<u>81,754,100</u>	<u>2,335,186</u>	<u>10,751</u>	<u>84,078,535</u>

These assets were distributed among various programs as follows:

Program	Beginning Balance	Additions	Retirements	Ending Balance
	\$	\$	\$	\$
Community Development	726,118	148,261		874,379
Human Services	39,131	1,819		40,950
Public Safety	24,093,976	84,862		24,178,838
Transportation	206,230		10,751	195,479
Environmental Support and Protection	250,425			250,425
Leisure, Cultural and Information Services	36,541,945	47,690		36,589,635
Policy Development	51,966			51,966
Organizational Support	8,037,724			8,037,724
General Government Buildings	11,747,817	13,095		11,760,912
Construction in Progress	58,768	2,039,459		2,098,227
	<u>81,754,100</u>	<u>2,335,186</u>	<u>10,751</u>	<u>84,078,535</u>

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**NOTE 3 - FIXED ASSETS (Continued)**

Public domain (“infrastructure”) general fixed assets consisting of certain improvements other than buildings, such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, are not capitalized with other general fixed assets.

Proprietary Fund Fixed Assets

Fixed assets in the proprietary funds are capitalized in the fund in which they are utilized.

The changes in proprietary fund fixed assets during the fiscal year are as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
	\$	\$	\$	\$
Land:				
Water Utility	50,543			50,543
Parking	822,913			822,913
Port of Redwood City	2,587,387			2,587,387
	<u>3,460,843</u>			<u>3,460,843</u>
Harbor Improvements	<u>2,672,043</u>			<u>2,672,043</u>
Buildings:				
Water Utility	277,773			277,773
Sewer Utility	229,616			229,616
Parking	4,867,980			4,867,980
Port of Redwood City	3,953,519			3,953,519
	<u>9,328,888</u>			<u>9,328,888</u>
Improvements other than Buildings:				
Water Utility	41,087,126	2,906,278		43,993,404
Sewer Utility	14,886,440	798,450		15,684,890
Parking	1,178,673			1,178,673
Port of Redwood City	11,812,445	36,629	15,785	11,833,289
	<u>68,964,684</u>	<u>3,741,357</u>	<u>15,785</u>	<u>72,690,256</u>
Machinery and Equipment:				
Water Utility	1,046,967	41,185		1,088,152
Sewer Utility	744,882	8,452		753,334
Port of Redwood City	245,006	91,876		336,882
Equipment Services	7,965,338	1,020,846		8,986,184
Internal Services	910,075	16,324		926,399
	<u>10,912,268</u>	<u>1,178,683</u>		<u>12,090,951</u>
Construction in Progress:				
Port of Redwood City	<u>3,808,564</u>	<u>4,155,705</u>		<u>7,964,269</u>
Total fixed assets	99,147,290	<u>9,075,745</u>	<u>15,785</u>	108,207,250
Less accumulated depreciation	<u>34,121,732</u>			<u>37,084,946</u>
	<u>65,025,558</u>			<u>71,122,304</u>

**CITY OF REDWOOD CITY**  
**Notes to Financial Statements**

**NOTE 3 - FIXED ASSETS (Continued)**

Depreciation of all exhaustible fixed assets used by the proprietary funds is charged as an expense against respective operations. Accumulated depreciation is reported on proprietary fund balance sheets.

Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings	20-50	Years
Improvements	33-60	Years
Equipment	2-15	Years

**NOTE 4 - INVESTMENT IN SOUTH BAYSIDE SYSTEM AUTHORITY**

Redwood City has an investment of \$19,673,045 in a Joint Powers Authority (JPA) with the cities of San Carlos and Belmont and the West Bay Sanitation District. In addition, the City and the Port of Redwood City have investments of \$1,263,793 and \$400,000, respectively, in SBSA capacity rights. This JPA, South Bayside System Authority (SBSA), operates and maintains a sewer plant which was jointly constructed with EPA federal and state grants and contributions from participating entities. The JPA is run by its board of directors which is comprised of four members. The City Councils of each member city and the board of the West Bay Sanitation District each select one of their own members to serve on this board. No member agency has control of SBSA's budget, finances, or operations. The board acts autonomously of the respective member agencies.

Audited financial statements are available from South Bayside System Authority, 1400 Radio Road, Redwood City, CA 94065. The condensed audited financial information of the JPA as of June 30, 2000 is as follows:

Total assets	\$	52,518,030
Total liabilities		1,222,658
Total fund equity		51,295,372
Total operating revenues		7,836,777
Total operating expenses		9,830,873
Total operating income		(1,994,096)
Net income (loss)		760,966
Retained earnings		4,514,465
Contributed capital:		
Belmont	\$	4,241,655
San Carlos		6,985,588
Redwood City		20,936,835
West Bay Sanitation District		14,616,830
Fixed assets (net of depreciation)		45,817,103

**CITY OF REDWOOD CITY**  
**Notes to Financial Statements**

**NOTE 5 - GENERAL LONG-TERM DEBT**

**A. Description**

Redwood City has no outstanding general obligation bonds. One improvement district has been formed within the City limits for specific improvements within the boundaries of the district. General Improvement District Bonds (GID 1-64 Reclamation and Facilities Bonds) are limited general obligations of Redwood City confined to the district boundary. The following is the list of long-term obligations of the City.

Revenue Bonds:

**Public Financing Authority Bonds** issued in August 1991 by the Redwood City Public Financing Authority, a Joint Powers Authority consisting of the City and the Redevelopment Agency, to prepay certain existing lease obligations of the City and to provide funds for the construction of a new Police facility. The original amount of \$26,715,000 (of which \$11,280,683 was for the defeasement of the 1986 Revenue Bonds) is due in annual installments of \$839,231 to \$2,391,125 through July 1, 2011. As discussed below a portion of the Bonds were repaid in fiscal year 1998/99.

**1998 City Hall Lease Revenue Certificates of Participation** - In October 1998, the City issued \$11,700,000 of variable rate demand certificates to provide permanent funding for the new City Hall project that was completed in August 1997. Principal payments will be made over a 23-year period commencing July 1, 2002. Prior to that date, only interest payments will be made.

**1998 Lease Revenue Refunding Bonds** - In July 1998, the City issued \$12,160,000 of bonds to refund \$10,995,000 of the 1991 Public Financing Authority bonds. Principal is due in annual installments of \$695,000 to \$1,670,000 through July 15, 2011.

General Improvement District Bonds:

**General Improvement District No. 1-64 Facilities Series Bonds** due in annual installments of \$26,500 to \$1,350,000 through July 1, 2008; original amount \$18,515,000 issued in 1966 for utility lines and infrastructure improvements in the Redwood Shores area.

**General Improvement District No. 1-64 Land Reclamation Series Bonds** due in annual installments of \$300,000 to \$510,000 through July 1, 2008; original amount \$9,510,000 issued in 1966 for land reclamation in the Redwood Shores area.

Tax Increment Bonds:

**1997 Tax Allocation Refunding Bonds** issued in July 1997 by the Redwood City Redevelopment Agency to prepay a loan received by the Agency from the Redwood City Public Financing Authority. Original amount of \$15,430,000 due in annual installments of \$417,805 to \$1,525,880 through July 15, 2011.

**CITY OF REDWOOD CITY**  
**Notes to Financial Statements**

**NOTE 5 - GENERAL LONG-TERM DEBT (Continued)**

Loans

**Redwood City School District Loan** entered into by the Redevelopment Agency in 1998 to finance a portion of the land and buildings located at 2107 Broadway that were acquired for the purpose of eventually being resold to a developer; original amount of \$634,815 at 0% interest due in 15 annual installments of \$42,321 through 2013.

**B. Changes in General Long-Term Obligations**

As of June 30, 2000, the City had the following long-term obligations outstanding including the current portion:

	Interest Rate	Balance July 1, 1999	Additions	Retirements	Balance June 30, 2000
	%	\$	\$	\$	\$
<b>Revenue Bonds</b>					
Public Financing Authority Bonds	4.75-6.50	9,720,000		530,000	9,190,000
1998 Lease Revenue Refunding Bonds	4.00-5.00	12,160,000		695,000	11,465,000
1998 City Hall Lease Revenue C.O.P.'s	variable	11,700,000			11,700,000
Subtotal		33,580,000		1,225,000	32,355,000
<b>General Improvement District Bonds</b>					
Facilities Series 1-64	5.00-6.00	8,800,000		805,000	7,995,000
Reclamation Series 1-64	5.00-6.00	3,800,000		425,000	3,375,000
Subtotal		12,600,000		1,230,000	11,370,000
<b>Tax Increment Bonds</b>					
1997 Tax Allocation Refunding Bonds	3.80-5.15	14,660,000		860,000	13,800,000
<b>Loans</b>					
Redwood City School District Loan		592,494		42,321	550,173
<b>Accrued Sick Leave and Vacation</b>					
Total General Long-Term Debt		63,568,276	532,699	3,357,321	60,743,654

**C. Annual Repayment Requirements for General Long-Term Debt**

The annual repayment requirements for all fixed rate general long-term debt outstanding as of June 30, 2000, including interest payments, are as follows (variable rate City Hall Certificates of Participation are shown separately):

Year Ending June 30	Public Financing Authority Revenue Bonds	1-64 General Improvement Bonds	1997 Tax Allocation Refunding Bonds	1998 Lease Revenue Refunding Bonds	Redwood City School District Loan	Total
	\$	\$	\$	\$	\$	\$
2001	1,137,995	1,935,300	1,524,110	1,223,383	42,321	5,863,109
2002	1,136,315	1,970,138	1,525,880	1,219,070	42,321	5,893,724
2003	1,136,637	1,949,638	1,525,020	1,218,463	42,321	5,872,079
2004	1,134,062	1,930,150	1,521,450	1,216,063	42,321	5,844,046
2005	1,133,725	1,906,488	1,524,863	1,216,713	42,321	5,824,110
2006-2013	7,375,363	4,320,849	10,595,487	8,971,626	338,568	31,601,893
	13,054,097	14,012,563	18,216,810	15,065,318	550,173	60,898,961

**CITY OF REDWOOD CITY**  
**Notes to Financial Statements**

**NOTE 5 - GENERAL LONG-TERM DEBT (Continued)**

In addition to the long-term debt shown in the table on the previous page, the City issued \$11,700,000 City Hall Certificates of Participation for which variable rate interest is calculated weekly. The rate fluctuates according to market conditions, but is capped at 12%. The average monthly interest paid in fiscal year 1999/00 was \$32,665. Beginning in fiscal year 2002/03, principal payments as shown below will be made in addition to the variable interest payments.

<u>Year Ending June 30</u>	<u>Principal Repayment City Hall Certificates of Participation</u>
2003	\$395,000
2004	410,000
2005	425,000
2006-2013	<u>10,470,000</u>
	<u>11,700,000</u>

**NOTE 6 - PROPRIETARY FUND LONG-TERM DEBT**

**A. Enterprise Funds Debt**

Capitalized Lease:

**Capitalized Lease Agreement** with AT&T Lucent Technologies in the original principal amount of \$10,000 for a new phone system for the Port payable in monthly installments of \$350 including interest, through 2001.

Revenue Bonds:

**Port of Redwood City 1999 Revenue Bonds** due in annual installments of \$170,000 to \$290,000 through 2013. On April 1, 1999, the Port issued bonds in the amount of \$10,945,000 to finance improvements to the Port, the majority of which will be expended on cleaning up hazardous waste remaining at the Port's liquid bulk terminal.

Loans:

**Yacht Harbor Rehabilitation Loan** from the State of California in the original principal amount of \$880,000. The loan is payable in annual installments of principal and interest of \$53,613 through the year 2023.

**Parking Fund Loan** agreement with the Civic Center Construction Fund in the original principal amount of \$1,300,000 to finance the construction of the parking fund's downtown parking structure. Payments are for interest only until funds are available to pay principal. All principal to be repaid by July 1, 2013.

**CITY OF REDWOOD CITY**  
**Notes to Financial Statements**

**NOTE 6 - PROPRIETARY FUND LONG-TERM DEBT (Continued)**

**B. Changes in Proprietary Fund Debt**

	Interest Rate	Beginning Balance	Retirements	Ending Balance
Enterprise Funds	%	\$	\$	\$
<b>Capitalized Lease</b>				
AT&T Lucent Technologies	15.76	8,165	3,138	5,027
		<u>8,165</u>	<u>3,138</u>	<u>5,027</u>
<b>Revenue Bonds</b>				
Port of Redwood City - 1999 Series	4.000-5.250	10,945,000		10,945,000
		<u>10,945,000</u>		<u>10,945,000</u>
<b>Loans</b>				
Yacht Harbor Rehabilitation Loan	4.700	794,967	17,839	777,128
Parking Fund Loan	none	1,300,000		1,300,000
		<u>2,094,967</u>	<u>17,839</u>	<u>2,077,128</u>
<b>Total</b>		13,048,132	<u>20,977</u>	13,027,155
Less current portion		<u>20,978</u>		<u>192,313</u>
<b>Enterprise Fund Long-Term Debt</b>		<u>13,027,154</u>		<u>12,834,842</u>

**C. Annual Repayment Requirements for Proprietary Fund Debt**

Year Ending June 30	Revenue Bonds	Loans	Total
	\$	\$	\$
2001	724,545	118,613	843,158
2002	722,745	118,613	841,358
2003	725,570	118,613	844,183
2004	722,800	118,613	841,413
2005	724,535	118,613	843,148
2006-2024	18,079,529	2,838,589	20,918,118
Total	<u>21,699,724</u>	<u>3,431,654</u>	<u>25,131,378</u>

Fiscal Year Ending June 30, 2000	Capitalized Lease Agreement
	\$
2001	4,200
2002	<u>1,400</u>
Total minimum lease payments	5,600
Less amounts representing interest	<u>(573)</u>
Present value of minimum lease payments	<u>5,027</u>

**CITY OF REDWOOD CITY**  
**Notes to Financial Statements**

**NOTE 7 - DEBT WITHOUT CITY COMMITMENT**

**A.     *Assessment District Bonds***

Assessment District Bonds (1915 Act) were issued in July 1999 to refund bonds issued in 1990 by the Seaport Centre and Seaport Boulevard Assessment Districts (that were issued to refund bonds issued in 1985). The original bonds (1985) were issued for the purpose of installing water and sewer systems within the Seaport Centre area and for improvements and landscaping to Seaport Boulevard. The principal amount issued in 1999 was \$9,430,000. The 1999 bond issue also resulted in the consolidation of the two assessment districts into one district pursuant to the Refunding Act of 1984 for 1915 Improvement Act bonds. These bonds are obligations of the property owners in this district and are not obligations of the City, nor has any political subdivision of the State of California pledged its full faith and credit for the payment of these bonds. The City's only responsibilities with respect to any delinquent assessment installments are solely advancing funds from the reserve fund (established with bond proceeds) to the redemption fund, to the extent that such funds are available, and instituting foreclosure proceedings. The City is not required to advance available funds of the City for payment of principal or interest or to purchase land at a delinquent foreclosure assessment sale. As of June 30, 2000, the outstanding principal amount was \$9,430,000. The refunding resulted in a reduction of \$1,028,138 in total debt service payments over the next 10 years and an economic gain of \$622,557.

**B.     *Multifamily Housing Revenue Bonds***

To provide for the construction of multifamily housing in Redwood City, the City issued two series of bonds, the Multifamily Housing Revenue Bonds Series 1985B (Redwood Shores Apartments Project) and the Multifamily Housing Revenue Refunding Bonds, Series A 1987 (Redwood Plaza Project). These bonds are limited obligations of the City, payable from and secured by pledge of payments under deeds of trust. The bonds do not constitute indebtedness, liability, or obligation of the City.

As of June 30, 2000, there were two series of Multifamily Housing Revenue Refunding Bonds: Series A 1987, outstanding with an aggregate principal amount of \$4,265,000; and Multifamily Housing Revenue Bonds Series 1985B, outstanding with an aggregate principal amount of \$23,170,000. Subsequent to year-end, on October 2, 2000 the Multifamily Housing Revenue Bonds Series 1985B were repaid in full and on October 18, 2000 the Multifamily Housing Revenue Series A 1987 Bonds were repaid in full.

**NOTE 8 - EMPLOYEE BENEFITS**

**A.     *Retirement System***

**PERS Safety and Miscellaneous Employees' Plans**

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees' Retirement System (PERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. The City's employees participate in the separate safety (police and fire) and miscellaneous (all other) employee plans. Benefit provisions under both plans are established by state statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both plans are determined annually on an actuarial basis as of June 30 by PERS; the City must contribute these amounts. The plans' provisions and benefits in effect at June 30, 2000 are summarized as follows:

**CITY OF REDWOOD CITY**  
**Notes to Financial Statements**

**NOTE 8 - EMPLOYEE BENEFITS (Continued)**

	<u>Police Safety</u>	<u>Fire Safety</u>	<u>Miscellaneous</u>
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50	55
Monthly benefits, as a % of annual salary	2% - 2.7%	2% - 2.7%	1.426% - 2.418%
Required employee contribution rates	9%	9%	7%

Employer contributions are determined by PERS as a percentage of covered payroll and represent the actuarially required contribution. The employer contributions for the past three years are:

	<u>Police Safety</u>	<u>Fire Safety</u>	<u>Miscellaneous</u>
1998	16.270%	15.744%	5.635%
1999	17.812%	18.916%	0.000%
2000	10.451%	11.243%	0.000%

Since the City consistently applied the employer contribution rates, as determined by PERS, the City's annual pension cost equaled the City's actuarially required contribution for the fiscal year ended June 30, 2000 and the City has no net pension obligation. The City also did not have any such obligation in 1998 or 1999.

All qualified permanent and probationary employees are eligible to participate in PERS. A credited service year is one year of full time employment. In accordance with the memorandum of understandings with the various employee groups, the City may contribute a portion of the employee contribution. This contribution varies from group to group. These benefit provisions and all other requirements are established by state statute and City ordinance. Contributions necessary to fund PERS on an actuarial basis are determined by PERS and its Board of Administration.

Police and fire safety employees are covered under the "2% at 50" formula. Under this retirement plan, an employee's retirement earnings at age 50 is calculated by multiplying 2% by the employee's years of service. This percentage factor increases with the employee's age upon retirement.

Miscellaneous employees are covered under the "2% at 55" formula. Under this retirement plan, an employee's retirement earnings, at age 55, is calculated by multiplying 2% by the employee's years of service. An employee with five years of service is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of service.

PERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the pension benefit obligation.

**CITY OF REDWOOD CITY**  
**Notes to Financial Statements**

**NOTE 8 - EMPLOYEE BENEFITS (Continued)**

PERS uses the market-related value method of valuing the plan's assets. An investment rate of return of 8.25% is assumed, including inflation at 3.50%. Annual salary increases are assumed to vary by duration of service. The City's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period for the City's plans are as follows:

Police Safety	June 30, 2015
Fire Safety	June 30, 2015
Miscellaneous	June 30, 2041

The plans' actuarial value (which differs from market value) and funding progress over the three most recently available years is set forth below at their actuarial valuation date of June 30, 1999:

*Police Safety Plan:*

Actuarial						
Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
1997	33,354,077	32,882,704	(417,373)	101.4%	5,261,011	(8.960)%
1998	42,173,258	37,654,826	(4,518,432)	112.0%	6,116,997	(73.867)%
1999	47,478,704	40,662,133	(6,816,571)	116.8%	6,653,689	(102.448)%

*Fire Safety Plan:*

Actuarial						
Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
1997	38,500,364	39,556,514	1,056,150	97.3%	4,365,238	24.195%
1998	47,816,949	44,580,961	(3,235,988)	107.3%	4,402,612	(73.502)%
1999	52,881,926	48,547,101	(4,334,825)	108.9%	5,111,793	(84.800)%

*Miscellaneous Plan:*

Actuarial						
Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
1997	67,807,986	59,678,192	(8,129,794)	113.6%	17,236,144	(47.167)%
1998	85,346,167	64,251,396	(21,094,771)	132.8%	18,190,848	(115.964)%
1999	93,776,319	69,322,451	(24,453,868)	135.3%	19,658,694	(124.392)%

Audited annual financial statements and ten-year trend information are available from PERS at P.O. Box 942709, Sacramento, CA 94229-2709.

Total current payroll for all covered employees for the fiscal year ended June 30, 2000 was \$31,970,844. The payroll subject to retirement amounted to \$6,790,335 for police safety, \$5,271,685 for fire safety, and \$19,908,824 for the miscellaneous group.

**CITY OF REDWOOD CITY**  
**Notes to Financial Statements**

**NOTE 8 - EMPLOYEE BENEFITS (Continued)**

PERS has reported that the value of the net assets in the Plan held for pension benefits changed as follows during the year ended June 30, 1999, the most recent available:

	<u>Police Safety</u>	<u>Fire Safety</u>	<u>Miscellaneous</u>
Beginning Balance 6/30/98	\$42,173,258	\$47,816,949	\$85,346,167
Contributions Received	1,783,178	1,394,037	1,348,114
Benefits and Refunds Paid	(1,487,410)	(1,917,757)	(2,923,257)
Expected Investment Earnings Credited	<u>5,826,522</u>	<u>6,401,637</u>	<u>11,744,316</u>
Expected Actuarial Value of Assets 6/30/99	<u>\$48,295,548</u>	<u>\$53,694,866</u>	<u>\$95,515,340</u>
Market Value of Assets 6/30/99	<u>\$50,515,193</u>	<u>\$56,211,547</u>	<u>\$100,007,243</u>
Actuarial Value of Assets 6/30/99	<u>\$47,478,704</u>	<u>\$52,881,926</u>	<u>\$93,776,319</u>

Additional disclosures will be included when made available by PERS.

Actuarially required contributions for fiscal years 2000, 1999, and 1998 were, \$1,162,110, \$1,963,840, and \$2,522,138, respectively. The City made these contributions as required, together with certain immaterial amounts required as the result of the payment of overtime and other additional employee compensation.

**B. Post Employment Benefits**

Permanent employees who retire under the City's retirement plan (PERS) are, pursuant to their respective collective bargaining agreements, eligible to have their medical insurance premiums paid by the City. Medical insurance premiums for spouses and other dependents generally are not paid by the City. In the case of public safety disability retirement, the City provides medical insurance for dependents. This benefit is financed on a pay-as-you-go basis.

Retirees medical insurance premium expenses for the past three fiscal years ended June 30, 1998, 1999, and 2000 are as follows:

1998	249,818
1999	287,052
2000	347,241

As of June 30, 2000, there were 188 retirees having their medical insurance premiums paid by the City.

**C. Cafeteria Benefit Plan**

The City has a cafeteria benefit plan established pursuant to section 125 of the IRS code. Under this plan eligible employees may direct a contribution, made by the City, into any combination of the following three benefit categories:

1. Medical Insurance Premium Account
2. Out of Pocket Medical Spending Account
3. Dependent Care Spending Account

**CITY OF REDWOOD CITY**  
**Notes to Financial Statements**

**NOTE 8 - EMPLOYEE BENEFITS (Continued)**

In addition to directing the City's contribution to the above categories, eligible employees may elect to contribute pre-tax dollars to these categories. Under no circumstances may an employee direct more than \$5,000 annually into the Dependent Care Spending Account. This cap applies to both City contributions and employee pre-tax contributions. There are no legal limits on contributions to the Medical Spending Account or Health Premium Account.

All regular full-time and part-time employees employed on a regular and continuous basis, including certain contractual employees, are eligible to participate in this plan. Temporary and casual employees are not eligible. The plan year adopted by the City begins on January 1 and ends December 31. To obtain reimbursement of expenses incurred within a plan year within the spending accounts (items 2 or 3), employees must submit claims within 90 days of the end of the plan year or separation of service from the City, whichever occurs first. Funds unclaimed after 90 days of the close of the plan year are then remitted to the City.

***D. Deferred Compensation Plans***

City employees may defer a portion of their compensation under four separate, optional City-sponsored deferred compensation plans created in accordance with Internal Revenue Code Section 457. Under these plans, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death, or in an emergency as defined by the plans.

Effective January 1, 1998, the City signed new deferred compensation plan administration agreements with the deferred compensation providers to provide for the administration and management of employees' deferred compensation plan assets. These agreements incorporate changes in the law governing deferred compensation plan assets which now require plan assets to be held for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these new plans are not the City's property and are not subject to claims by general creditors of the City, they have been excluded from these financial statements.

**NOTE 9 - FUND EQUITY AND CONTRIBUTED CAPITAL**

Fund balance and retained earnings consist of reserved and unreserved amounts.

***A. Reserves***

Portions of fund balance have been reserved for specific purposes as follows:

**Encumbrances** - A reservation is reported for encumbrances outstanding at year-end since they are not considered an expenditure or liability and are reappropriated in the subsequent year.

**Loans** - An amount equal to the non-current portion of loans is reserved as it is not available to finance current operations. The non-current portion is that principal portion of a loan which is not expected to be repaid within 12 months.

**Land Held for Redevelopment** - Land held by governmental funds for redevelopment is reserved as it is not available to finance current operations.

**CITY OF REDWOOD CITY**  
**Notes to Financial Statements**

**NOTE 9 - FUND EQUITY AND CONTRIBUTED CAPITAL (Continued)**

**Low Income Housing** - Pursuant to California Health and Safety Code, Division 24, Section 3334.2, 20% of all property tax increment revenues received by the Redevelopment Agency must be set aside and used exclusively for projects related to low and moderate income housing.

**Inventory** - Inventory held within governmental funds is reserved as it is not available to finance current operations.

**Prepaid Expenditures** - Expenditures that are paid in the current fiscal year for services or products to be provided in the following fiscal year.

**Debt Service** - Funds which legally may only be used for debt service are reserved within the appropriate fund.

**Advances to Other Funds** - Long-term amounts to be repaid by other funds are reserved.

**General Reserve** - Under Section 61 of the City Charter, a general reserve of \$250,000 is to be maintained in the general fund titled for emergency cash flow needs.

**B. Designations**

**Subsequent Year's Expenditures** - In accordance with Article XIII B of the California Constitution, any unspent funds at the year-end should either be returned to the taxpayers or designated for expenditures in the subsequent year. It is the Council's desire to appropriate this money in the following year.

**Street Projects** - The City maintains a reserve for unexpended appropriations for capital outlay projects within the general fund. Since these projects are funded by transfers from the general fund, the City desires to ensure that sufficient resources will be available to transfer to the special gas tax fund when capital outlay expenditures are incurred.

**Capital Projects** - The City maintains reserves for unexpended appropriations for capital outlay projects within the fund in which these projects have been appropriated.

**Sandpiper Park** - Funds received from the sale of land to the Belmont/Redwood Shores School District are held in reserve and will be expended over a 15-year period to supplement funding for the maintenance of Sandpiper Park.

**CITY OF REDWOOD CITY**  
**Notes to Financial Statements**

**NOTE 9 - FUND EQUITY AND CONTRIBUTED CAPITAL (Continued)**

**C. Reconciliation of Contributed Capital**

During the year, enterprise fund and internal service fund contributed capital increased or decreased by the following amounts:

<u>Enterprise Funds</u>	Contributed Capital July 1, 1999	Contributions from Other Funds or Other Sources (1)	Depreciation (2)	Contributed Capital June 30, 2000
	\$	\$	\$	\$
Water Utility	17,450,583			17,450,583
Sewer Utility	17,253,913	326,384	948,243	16,632,054
Parking	3,877,496			3,877,496
Port of Redwood City	4,070,758			4,070,758
Total	<u>42,652,750</u>	<u>326,384</u>	<u>948,243</u>	<u>42,030,891</u>

  

<u>Internal Service Funds</u>	Contributed Capital July 1, 1999	Contributions from Other Funds (3)	Contributed Capital June 30, 2000
	\$	\$	\$
Equipment Services Fund	3,119,776	193,967	3,313,743
Internal Services Fund	681,556		681,556
Total	<u>3,801,332</u>	<u>193,967</u>	<u>3,995,299</u>

- (1) Contributions to the sewer fund include fixed assets (\$152,715) from the facilities fees construction fund and sewer capacity fees collected from property owners for sewer connections and paid to South Bayside System Authority for investment in sewerage capacity rights (\$173,669).
- (2) The depreciation closed to contributed capital represents the City's share of South Bayside System Authority contributed assets. The City does not close depreciation to its contributed assets.
- (3) Contributions to the equipment services fund (\$193,967) consist of equipment purchased by other funds.

**NOTE 10 - FUNDS WITH EXPENDITURES EXCEEDING APPROPRIATIONS**

The following individual fund and department (program) expenditures exceeded appropriations during the fiscal year:

**General Fund**

Community Planning	31,594
Engineering Services	153,703
Code Enforcement	7,618
Management/Policy Execution	30,729
Other Administrative Support Services	45,085

**Debt Service Funds**

Public Financing Authority Bonds	1,791
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**CITY OF REDWOOD CITY**  
**Notes to Financial Statements**

**NOTE 10 - FUNDS WITH EXPENDITURES EXCEEDING APPROPRIATIONS (Continued)**

**General Fund**

Community Planning - Expenditures exceeded budget as there were additional costs for professional services for work on the Administrative Citation system, the Sign Ordinance, and the proposed Boat and Recreational Vehicle Ordinance.

Engineering Services - Expenditures exceeded budget as subdivision activity was stronger than expected thereby requiring more review, which resulted in higher expenditures. The increased expenditures are partially offset by increased developer fees.

Code Enforcement - Expenditures exceeded budget due to higher energy costs.

Management/Policy Execution - Expenditures exceeded budget as the amount originally forecasted for casual labor was not adequate to support the City Manager and Reception counters.

Other Administrative Support Services - Expenditures exceeded budget as closing entries to adjust inventory balances were not included in the budget.

**Debt Service Funds**

Public Financing Authority Bonds - Expenditures exceeded budget due to higher than anticipated fiscal charges.

**NOTE 11 - INTERFUND TRANSFERS AND TRANSACTIONS**

**A. *Transfers***

The following interfund operating transfers were made during the year:

Funds	General Fund		Special Revenue Fund		Debt Service Fund		Capital Projects Fund		Internal Services Fund	
	In	Out	In	Out	In	Out	In	Out	In	Out
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Capital Projects	404,803	6,516,181					6,516,181	404,803		
Traffic Safety		770,000	770,000							
Special Gas Tax		1,173,000	1,173,000							
Redwood Shores Mtc.	200,000			200,000						
Redev. Agency				1,145,282						
Low & Moderate Income Housing			816,020	286,320						
Grants Fund		147,737	147,737	816,020						
1997 Tax Allocation					1,431,602					
Bonds										
1998 City Hall Lease										
Revenue C.O.P.s: I&R		452,453			452,453					
Internal Services	140,875									140,875
<b>Total</b>	<b>745,678</b>	<b>9,059,371</b>	<b>2,906,757</b>	<b>2,447,622</b>	<b>1,884,055</b>		<b>6,516,181</b>	<b>404,803</b>		<b>140,875</b>

**CITY OF REDWOOD CITY**  
**Notes to Financial Statements**

**NOTE 11 - INTERFUND TRANSFERS AND TRANSACTIONS (Continued)**

***B. Advances***

During 1996/97, the general fund advanced \$1,125,700 to the transportation grant special revenue fund. \$140,000 was repaid in fiscal year 1998, and \$820,000 was repaid in fiscal year 2000. During 1998/99, the general fund advanced \$210,470 to the civic construction capital projects fund and \$32,576 in 1999/00. This advance will be repaid when the City receives the payment of South Bayside System Authority's share of the Redwood Shores maintenance facility.

During 1993/94, the parking enterprise fund paid, on behalf of the Redevelopment Agency, \$434,203 to the County of San Mateo. This payment represented the Agency's state-mandated contribution to the educational revenue augmentation fund. Since this was the Agency's obligation, the transaction has been classified as an advance from the parking fund to the Agency. \$409,925 has been repaid as of June 30, 2000.

**NOTE 12 - RISK MANAGEMENT AND SELF-INSURANCE FUND**

***A. Workers' Compensation and Property Insurance***

The City is self-insured for workers' compensation for the first \$350,000 per occurrence and has a commercial insurance policy that covers the City's exposure above the retained limits up to \$10,000,000. The City paid \$27,187 during fiscal year 2000 for the coverage.

The Port of Redwood City is included in the City's policy for workers' compensation only. The Port carries \$10,000,000 all risk insurance on property and comprehensive liability insurance varying between \$1,000,000 and \$150,000,000 dependent on type of risk.

Payments made for workers' compensation in 1999/00 (claims, legal costs, and excess workers' compensation coverage) totaled \$1,122,558.

***B. General and Automobile***

The City is a member of the Bay Cities Joint Powers Insurance Authority for general liability and auto liability coverage. The City maintains a \$250,000 self-insured retention with coverage from \$250,000 to \$1,000,000 through Bay Cities, which is a liability pool consisting of 16 San Francisco Bay Area government agencies. The purpose of the pool is to provide certain levels of liability coverage, claims administration, and loss control support to member agencies. Annually, each agency pays an actuarially determined premium based upon a formula which takes into account the prior three years' loss experience, annual payroll, and population. This premium pays for administrative costs and funds liability reserves. The premium paid in 1999/00 was \$231,447.

Bay Cities belongs to the California Affiliated Risk Management Authority (CARMA) which is an excess liability pool comprised of funding by Bay Cities and two other local government insurance pools. CARMA provides coverage from \$1,000,001 to \$10,000,000. A layer from \$1,000,001 to \$3,000,000 is self-insured by CARMA, while the layer from \$3,000,001 to \$10,000,000 is insured by a commercial insurer.

The City also carries all risk coverage on buildings and their contents at current appraised value.

**CITY OF REDWOOD CITY**  
**Notes to Financial Statements**

**NOTE 12 - RISK MANAGEMENT AND SELF-INSURANCE FUND (Continued)**

Audited financial statements are available from the Bay Cities Joint Powers Insurance Authority at 1020 19<sup>th</sup> Street, Sacramento, California 95814. The following is the Bay Cities JPIA condensed audited financial results for the year ended June 30, 2000:

Assets	\$7,956,406
Reserves for Claims	3,357,008
Liabilities	514,312
Retained Earnings	4,085,086
Member Contributions	2,975,563
Other Income	435,421
Provisions for Claims and Claim Adjustment Expenses	(222,026)
Operating Expenses	3,483,869
Net Income	149,141

**C. Self-Insurance Fund**

The City maintains a self-insurance internal service fund for its workers' compensation and general liability self-insurance programs. This fund accounts for revenues from departmental charges and operating expenses, including settlements within the City's self-insured retentions. Reserves for incurred but not reported claims are maintained within this fund. These reserves are based on an actuarial analysis performed by Richard E. Sherman & Associates, Inc., in accordance with GASB 10.

Changes in the self-insurance fund's claims payable liability for fiscal years ended 2000 and 1999 were:

	Beginning Balance	Current Year Claims/ Changes in Estimates	Claim Payments	Ending Balance
	\$	\$	\$	\$
1998/99	3,733,750	2,044,258	(881,458)	4,896,550
1999/00	4,896,550	832,226	(804,536)	4,924,240

**NOTE 13 - ENTERPRISE FUND SEGMENT INFORMATION**

The City maintains enterprise funds which account for transactions of the water utility, sewer utility, parking fund, and Port of Redwood City. Segment information for the year ended June 30, 2000 is as follows:

	Water	Sewer	Parking	Port of RWC	Total
	\$	\$	\$	\$	\$
Operating Revenues	13,629,705	9,796,528	474,562	3,721,268	27,622,063
Depreciation and Amortization Expenses	946,660	448,165	97,360	473,393	1,965,578
Operating Income (Loss)	2,721,401	1,424,459	(7,239)	1,327,667	5,466,288
Non-Operating Revenues	780,106	187,700	45,449	617,855	1,631,110
Net Income (Loss)	3,415,741	815,187	(43,711)	1,909,418	6,096,635
Contributed Capital - Current		326,384			326,384
Contributed Capital - Depreciation		(948,243)			(948,243)
Property:					
Plant and Equipment Additions - Net	2,947,463	806,902		4,268,425	8,022,790
Net Working Capital	14,084,969	3,735,919	352,512	4,721,767	22,895,167
Total Assets	42,604,797	37,801,666	6,687,604	34,384,199	121,478,266
Bonds and Other Long-Term Liabilities					
Payable from Operating Revenues			1,300,000	11,534,842	12,834,842
Total Equity	41,624,043	37,279,200	5,364,060	21,647,642	105,914,945

**CITY OF REDWOOD CITY**  
**Notes to Financial Statements**

**NOTE 14 - REDWOOD CITY REDEVELOPMENT AGENCY**

The Agency has purchased parcels of land for redevelopment in order to develop or redevelop blighted properties within the city limits of Redwood City. Such land parcels are accounted for at the lower of cost, estimated net realizable value, or agreed-upon sales price if a disposition agreement has been made with a developer.

The Agency has entered into agreements with developers and other government entities for the purpose of ensuring the redevelopment of properties in its area. The Agency's agreements with developers - termed Disposition and Development Agreements or Owner Participation Agreements - generally require the Agency to assist in financing land acquisition or operating costs of a specific project, but are based on the developer's performance on that project as measured by increases in property taxes and sales taxes generated by the project or to provide affordable housing to the community. The increases in these taxes are the only source of Agency assistance for the project.

The Agency has agreements termed pass-throughs with government entities. These agreements require the Agency to pass through to these entities a portion of the property tax increases it collects, representing the increases these entities would have expected to collect if the Agency had not been formed.

**NOTE 15 - LITIGATION AND CONTINGENT LIABILITIES**

The City generally follows the practice of recording liabilities resulting from claims and legal actions only when they become fixed or determinable in amount.

There are lawsuits pending in which the City is a party. In the opinion of the City Attorney, the City has adequate legal defenses and/or reserves to cover such liability if it does arise.

**NOTE 16 - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS**

As of June 30, 2000, the City had the following commitments (which were encumbered):

\$1,469,363 for construction of a new fire station, and \$641,437 for improvements to the storm drain collection system.

**NOTE 17 - SUBSEQUENT EVENT**

On October 17, 2000, the City issued the Pacific Shores Project Special Tax Bonds, Series 2000A, in the amount of \$21,000,000. The proceeds of these bonds will be used to pay the costs of construction of specified public improvements to be built in conjunction with the development of Pacific Shores Center, a proposed master planned, waterfront office campus. The City relied upon the State of California Community Facilities District Law (Mello-Roos statutes) to form this district. Principal and interest payments on the bonds are to be paid from the collection of special taxes, which are levied on the district property owners. In the event that the Special Taxes are not paid when due, the only source of funds to repay the bonds are the amounts held by the fiscal agent and the proceeds, if any, from foreclosure sales of land within the district. No City funds are pledged to support these bonds.