

REPORT

**To the Honorable Mayor and City Council
From the City Manager**

December 15, 2003

Subject

Comprehensive Annual Financial Report For Fiscal Year Ended June 30, 2003

Recommendation

Acknowledge receipt of and accept the Comprehensive Annual Financial Report for fiscal year ended June 30, 2003.

Background

The City's auditors, Caporicci and Larson and Associates, have completed their audit of the City's financial records and the City's Comprehensive Annual Financial Report (CAFR) for the 2002/03 fiscal year. This report (Attachment 1), which is prepared by the City's Finance Department, summarizes and presents the financial transactions for all funds and account groups of the City of Redwood City, the City of Redwood City Redevelopment Agency, and the Port of Redwood City for the fiscal year ended June 30, 2003. Moreover, this report also presents the financial position of the foregoing entities as of June 30, 2003.

The financial statements and notes thereto have been prepared in accordance with the standards set forth by the Governmental Accounting Standards Board and the guidelines established by the Government Finance Officers Association of the United States and Canada.

The 2002 version of Redwood City's report was awarded the Government Finance Officers Association Certificate of Excellence in Financial Reporting. This was the 16th consecutive year the City received this honor. This was also the first time the City published this report in the new format as prescribed by the Governmental Accounting Standards Board. We fully expect that the 2003 report will also receive this award.

This report is technical in nature; hence our staff is available to meet with you to answer any questions you may have concerning the report's contents. You are encouraged to call with any questions you may have. The Council audit committee has met with the City's independent auditors and the Finance Director and has approved submitting this report to you for approval.

Under generally accepted auditing standards, auditors are encouraged to report matters concerning an entity's internal control structure. As a result of an audit, auditors issue a Memorandum on the Internal Control Structure, which addresses areas requiring improvement. The audit committee will review this report when it becomes available and it will be sent to the City Council for approval.

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General Fund Summary

Revenues

Total general fund revenues were \$64.6 million, or 1.1%, over 2001/02 actual revenues and \$2.4 million, or 3.6%, below the amount budgeted for 2002/03. The increase over the prior year is primarily attributable to higher property taxes of \$301,000, increased sales taxes of \$152,000, and increased parking fines of \$144,000. The revenue highlights for 2002/03 are:

- Property taxes (excluding supplemental taxes and prior years taxes) increased 5.2%, or \$17.2 million to \$18.1 million;
- Transient occupancy revenues increased 3.7%, or \$57,000 to \$1.5 million;
- Building permit revenues down 30%, or \$730,000 from \$1 million;
- 1.2% increase in utility users taxes from \$6.9 million to \$7 million;
- Sales taxes increased 1%, or \$152,000 to \$15.1 million.

The City continues to rely very heavily upon property and sales taxes (exclusive of proposition 172 sales tax revenue) as almost 52% of the general fund revenue is derived from these two sources. Sales taxes provided 23% of general fund revenue while property taxes accounted for 29% of general fund revenue.

Expenditures

Total general fund expenditures for 2002/03 were \$59.5 million. This was \$5.4 million (+10%) over the amount expended in 2001/02.

Employee costs continue to represent the highest single source of expenditures accounting for 66% of all general fund expenditures.

Transfers

Each year funds are transferred out of the general fund to support the traffic safety fund. For 2002/03, \$1,087,000 was transferred to the traffic safety fund. Also, an amount equal to the utility users tax revenue less the Public Finance Authority bond payment is transferred to the capital outlay fund. This transfer amounted to \$4.8 million in 2002/03. Additionally, at Council direction, \$850,500 was transferred or committed from the general fund to provide additional resources for various capital projects. The source of the latter was the reduced contributions the City was required to make to the Public Employees Retirement System.

Fund Balance

Expenditures exceeded the revenues by \$1.7 million. The net effect of the revenues, expenditures, transfers, and changes in other fund balance reserves has been a decrease of \$765,900 in the unreserved fund balance (available for any Council designated expenditure) bringing the balance to \$16.9 million. In 1999/00, the Council adopted a Finance Committee recommendation to maintain this amount between 15% and 20% of estimated revenues. Applying this formula (using 2003/04 estimated revenues) leaves

approximately \$5 million in excess fund balance. With the slow recovery from the downturn in the local economy staff recommends that these funds be retained in the general fund to be used to sustain the organization until our revenues fully recover.

Special Revenue Funds Summary

Special revenue funds are used to account for revenue received from specific taxes or other dedicated revenue sources (other than for major capital projects) restricted by law or administrative action to expenditures for specified purposes.

Property tax increment revenues received by the Redevelopment Agency totaled \$7.7 million in 2002/03 compared to \$7.9 million in 2001/02, which represents a 2.5% decrease. The Agency's state mandated contribution of \$197,000 to the Educational Revenue Augmentation Fund and the leveling off of property values accounted for this decline in revenues.

The transportation fund receives revenue from the San Mateo County Transportation Authority based on the voter approved (Measure A) countywide one-half of one percent sales and use tax levied for transportation-related programs and projects. In 2002/03, the City received \$1,047,081 in "Measure A" revenue compared to \$1,119,000 in 2001/02. This represents a 6.4% decrease.

Gas tax revenues (received from the state through gasoline taxes paid by motorists) showed a minor decrease (1.5%) from \$1.501 million in 2001/02 to \$1.478 million. These funds may only be used for roadway maintenance and construction purposes as defined in sections 2105, 2106, and 2107 of the State Streets and Highway Codes.

Debt Service Funds Summary

General Fund (Public Finance Authority Bonds and Lease Revenue Refunding Bonds)

The City issued bonds in 1991 to refinance (at a lower interest rate) the 1986 bonds (issued to fund construction of the Main Fire Station and Main Library) and to provide funds for constructing the new Police Facility. The total amount issued was \$26,715,000. The annual debt service on these bonds is paid from proceeds of the utility user's tax. During 2002/03, \$1,415,000 of principal was retired, leaving a balance of \$16,610,000 of debt outstanding as of June 30, 2003. This principal will be refinanced as part of the Public Financing Authority bond issue approved by council on November 3, 2003.

Redevelopment Agency (Public Finance Authority Series -B- Bonds)

The Redevelopment Agency issued \$16,950,000 of bonds in 1991 to provide funding for capital projects undertaken by the Agency and to satisfy legal requirements that the Agency have sufficient debt to receive the annual property tax increment revenue from the County. During 2002/03, \$970,000 of principal was retired leaving a balance of \$11,010,000 of debt outstanding as of June 30, 2003. This amount does not include the Agency bonds recently sold to finance the downtown revitalization. These bonds are the sole responsibility of the Redevelopment Agency and will be paid off by 2011.

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Capital Projects Funds Summary

Capital projects funds are used to account for the resources dedicated to the construction and acquisition of capital facilities except those capital facilities financed by enterprise funds.

The City expended over \$8.3 million in 2002/03 for general capital projects. Some of the more visible projects on which funds were expended in FY2002/03 include: the sidewalk replacement program (\$1 million), Police Department voice radio (\$.9 million), Roosevelt reconstruction (\$1.1 million), and Hoover play field renovations (\$1.4 million).

During the year ended June 30, 2003, GID 1-64 facilities fee fund revenue was \$705,700 compared to \$3.1 million for the year ended June 30, 2002. The decrease was due to less building activity in the Redwood Shores area and will likely remain low due to almost complete build-out of the Redwood Shores peninsula.

Enterprise Funds Summary

Water Fund

For the fiscal year ended June 30, 2003, the water enterprise fund had retained earnings available for appropriation of \$3.5 million. This amount is in addition to the \$2.0 million emergency reserve and \$500,000 operating reserve that the Council has directed staff to maintain.

In terms of the City Council's adopted policy of total annual revenues and expenses in balance, **cash** basis revenues of \$14.5 million were less than cash operating and capital outlays of \$14.6 million.

Sewer Fund

The sewer enterprise fund ended 2002/03 with \$659,000 in retained earnings available for appropriation.

The same Council policy of total annual revenues and expenses in balance applies to the sewer fund as well. **Cash basis** revenues of \$8.5 million were less than **cash** operating and capital outlays of \$10.3 million. A substantial component to the decrease in cash was a shortfall in revenues. When revenues were estimated in the spring of 2002, the perception of the affects of the local economy on the flow-based commercial revenues did not reflect the degree to which commercial facilities were becoming vacant. We were too optimistic about the growth in new connections, even though we had begun reducing estimates in 2001. Thus connection fees and on-going, additional revenues were lower than anticipated.

Parking Fund

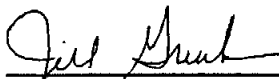
Redwood City maintains on-street and off-street parking spaces within the downtown area. The parking fund had net income of \$19,000 for the year ending June 30, 2003 while generating \$130,000 of cash in 2002/03. The reason behind this apparent contradiction is that the parking fund is required to recognize non-cash expenses primarily depreciation for the parking structure.

Port

The net assets for the Port increased by \$2.6 million for the fiscal year ended June 30, 2003. Operating revenues increased 14.3% from \$4.2 million to \$4.8 million while operating expenses increased from \$2.5 million to \$2.8 million, or 12%.



Brian Ponty
Director of Finance and
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Jill Greenhorn
Accountant



Edward P. Everett
City Manager

Attachments

Attachment 1 - Comprehensive Annual Financial Report for Year Ended June 30, 2003