

# REPORT

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

January 12, 2009

**SUBJECT**

Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2008

**BACKGROUND**

The City's independent auditors, Caporicci and Larson, Certified Public Accountants, have completed their audit of the City's financial records and the City's Comprehensive Annual Financial Report (CAFR) for the 2007/08 fiscal year (Attachment 1). This report, which is prepared by the City's Finance Department, summarizes and presents the financial transactions for all funds 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, 2008. Moreover, this report also presents the financial position of the foregoing entities as of June 30, 2008.

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 2007 version of Redwood City's report was awarded the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting. This was the 21st consecutive year that the City received this honor. We fully expect that the 2008 report will also receive this award.

Under generally accepted auditing standards, independent auditors are encouraged to report matters concerning an entity's internal control structure. As a result of an audit, auditors issue a report titled *Report to Management and City Council*, which addresses areas requiring improvement. For fiscal year ended June 30, 2008, the auditors found no areas requiring improvement, and therefore, there is no report.

Staff from the Finance Department is available to respond to any questions you might have concerning the FY 2007/08 CAFR.

**General Fund Highlights**Revenues

Budgeted Revenue	Actual Revenue	Variance	% Change
\$82,222,921	\$84,487,452	\$2,264,531	2.75

General Fund Revenue Comparison (FY 2006/07 to FY 2007/08)

FY 2006/07 Actual Revenue	FY 2007/08 Actual Revenue	Variance	% Change
\$82,660,057	\$84,487,452	\$1,827,395	2.21

The revenue increases this fiscal year are primarily due to an increase in property taxes, and other taxes. Some of the general fund revenue highlights are:

- Property taxes exceeded budget by \$1.2 million primarily due to the receipt of a \$2.8 million payment from the County of San Mateo due to the over-deduction of Education Revenue Augmentation Fund amounts from the City in prior years, which exceeded the estimated amount by \$1 million.
- Sales and other taxes were below budget by \$520,000 mostly due to an unanticipated decline in sales tax revenue (\$1.1 million). The decline in sales taxes resulted primarily from a \$455,000 decline in new vehicle sales. The decrease in sales tax revenue was offset by increases in transient occupancy taxes (\$204,000) and utility users' and communications users' taxes (\$601,000).
- Licenses and permits exceed budget by \$491,000 due to higher construction activity during the year.
- Intergovernmental revenue was under budget by \$175,000 due to the unanticipated decrease in motor vehicle in lieu tax.
- Charges for services were \$665,000 more than budgeted primarily due to plan checking and planning services revenue related to unanticipated increases in construction activity, along with unanticipated increases in recreation program fees.

The City continues to rely very heavily upon property and sales taxes (exclusive of proposition 172 sales tax revenue) as almost 60% of the general fund revenue is derived from these two sources. Sales taxes provided 22% of general fund revenue while property taxes accounted for 38% of general fund revenue.

Utility Users' Tax/Communication Users' Tax Revenues

Pursuant to section 32.621 of the City's municipal code, the following information must be conveyed to the City Council.

Of the total \$9.7 million utility users' tax revenue, \$4.4 million was communication users' tax. Communication users' tax is combined with utility users' tax and utilized to first pay debt service on Public Financing Authority Bonds, with the remaining balance transferred to the Capital Outlay Fund for the City's general capital improvement program.

In FY 2007/08 there were no exemptions granted for communication users' tax.

Expenditures

Total general fund expenditures, including outstanding encumbrances, for FY 2007/08 were \$76.3 million. This was \$5.5 million, or 7.8% over the amount expended and encumbered in FY 2006/07, and \$1.1 million, or 1.5% below the adopted budget.

Employee costs continue to represent the highest single source of expenditures accounting for 79% of all general fund expenditures.

#### Transfers

Each year funds are transferred out of the general fund to support the traffic safety fund. In FY 2007/08 \$1 million was transferred to the traffic safety fund. Also, an amount equal to the utility users' tax and communication users' tax revenue less the Public Financing Authority bond payment is transferred to the capital outlay fund. This transfer amounted to \$7.3 million in FY 2007/08. In FY 2007/08 the general fund also transferred \$466,000 to the capital outlay fund as a one-time support for the construction of the new Redwood Shores Library. A \$654,000 transfer was made to the parking fund to help support an operating deficit as the new downtown parking operations have not become self-sufficient.

#### Fund Balance

The net effect of the revenues, expenditures, transfers, and changes in other fund balance reserves has been a very slight decrease of \$14,000 in the unreserved fund balance (available for any Council designated expenditure) maintaining the balance at \$23.9 million. In FY 1999/00, the Council adopted a Finance Committee recommendation to maintain this amount between 15% and 20% of estimated revenues. Applying this formula (using FY 2008/09 budgeted revenues) leaves approximately \$7.7 million in excess fund balance. In view of the rapidly deteriorating economy, staff recommends that these funds be retained in the general fund to be used to provide time to the City to financially reposition itself.

#### **Special Revenue Funds Highlights**

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 \$10.9 million in FY 2007/08 compared to \$9.5 million in FY 2006/07. This represents a 14.4% increase arising primarily from the completion of the Downtown Retail Cinema project, which is privately owned.

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 FY 2007/08, the City received \$1.351 million in "Measure A" revenue compared to \$1.314 million in FY 2006/07. This represents a 2.8% increase.

Gas tax revenues (received from the state through gasoline taxes paid by motorists) declined 2% to \$1.404 million in FY 2007/08 compared to \$1.438 million in FY 2006/07. 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. According to the State Board of Equalization there is a slight downward trend in consumption as gasoline prices increased through FY 2007/08.

## Debt Service Funds Highlights

### General Fund (Public Financing Authority Bonds and Lease Revenue Refunding Bonds)

The City issued \$26.7 million in 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 Police Facility. In 1998, \$12.2 million of these bonds was refunded to realize savings from lower interest rates. In FY 2003/04, the City issued \$11.5 million of bonds to refund the balance (\$6.7 million) of the 1991 bonds and to provide \$4.4 million for new projects. The annual debt service for both of these bond issues is paid by proceeds from the utility users' tax and communications users' tax. During FY 2007/08, a total of \$1.7 million of principal for both bond issues was retired, leaving a combined balance of \$13.4 million of debt outstanding as of June 30, 2008. The 1998 bonds will be paid off in July of 2011 and the 2003 bonds will be paid off by July 2018.

### Redevelopment Agency

The Redevelopment Agency issued \$16.9 million 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. These bonds, which were refunded in 1997 to obtain savings from lower interest rates, will be paid off in 2011. During FY 2007/08, \$1.2 million of principal was retired leaving a balance of \$5.5 million of debt outstanding as of June 30, 2008.

Additionally, in FY 2003/04 the Redevelopment Agency issued \$34 million of bonds to finance various downtown improvements. These bonds are also the sole responsibility of the Redevelopment Agency and will be paid off by 2032. No principal from the 2003 bonds was paid in FY 2007/08 and will not begin to be paid until FY 2010/11.

## Capital Projects Funds Highlights

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 \$12.9 million in FY 2007/08 for general capital projects. The more visible projects on which funds were expended in FY 2007/08 are: the Redwood Shores Library (\$9.4 million), the Sidewalk Replacement Program (\$659,000), Computer Aided Dispatch System (\$390,000), and the Fifth Avenue Bay Front Storm Drain (\$100,000).

During the year ended June 30, 2008, General Improvement District 1-64 facilities fee fund revenue was \$380,000 compared to \$397,000 for the year ended June 30, 2007.

## Enterprise Funds Highlights

### Water Fund

For the fiscal year ended June 30, 2008, the water enterprise fund had retained earnings available for appropriation of \$10.9 million, including \$8.3 million in the water

rate stabilization fund. The net amount of the water rate stabilization fund leaves a balance of \$2.6 million which is \$100,000 greater than 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 to keep total annual revenues and expenses in balance, cash basis revenues of \$23.1 million including interest earnings were less than cash operating expenses (including debt service payments) of \$24.3 million. Operating expenses exceeded revenues primarily due to increased rates for water charged to the City by SFPUC, and actual water usage exceeding projected usage by 9%.

#### Sewer Fund

The same Council policy of total annual revenues and expenses in balance applies to the sewer fund as well. Cash basis revenues of \$16.6 million were more than cash operating and capital outlays of \$16.2 million.

For fiscal year ended June 30, 2008, the sewer enterprise fund ended with a balance of \$789,000 in retained earnings available for appropriation.

#### Parking Fund

Redwood City maintains on-street and off-street parking spaces within the downtown area including the downtown underground parking garage which opened in May 2006. In FY 2007/08 operating revenues increased to \$1.1 million compared to \$860,000 in FY 2006/07, while operating expenses increased to \$2.2 million, an increase of \$500,000 from FY 2006/07. The increase in operating expenses is attributed to costs associated with the maintenance and operations of the new parking garage and costs associated with increased public safety patrol in the downtown area. The general fund also transferred \$654,000 to the parking fund to cover the operating deficit. During FY 2007/08, the City transferred the public underground parking garage from the Redevelopment Agency to the parking fund in the amount of \$21.5 million.

#### Port

The net assets for the Port increased by \$2.4 million for the fiscal year ended June 30, 2008. Operating revenues increased slightly from \$5.52 million in FY 2006/07 to \$5.59 million in FY 2007/08 while operating expenses decreased from \$3.5 million in FY 2006/07 to \$3.4 million in FY 2007/08.

#### **Self-Insurance Fund Highlights**

The self-insurance internal service fund had positive net cash provided by operating activities of \$1 million resulting from a decline in general liability and workers' compensation claims payments.

#### **ALTERNATIVES**

Council could elect not to accept the financial report which would result in additional costs associated with additional field work required to be completed by Caporicci & Larson. The additional field work is required to comply with new auditing guidelines which require that financial reports be published soon after field work is completed.

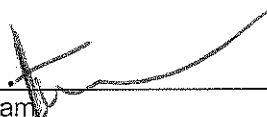
**FISCAL IMPACT**

The costs associated with not accepting the financial report will range from \$2,000 to \$3,000 depending on how much additional field work is required. These amounts are currently not budgeted; a budget amendment would be required.



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Brian Ponty  
Director of Finance



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Peter Ingram  
City Manager

**ATTACHMENTS**

None

**RELATED DOCUMENTS IN CITY CLERK'S OFFICE**

None