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City of Concord

December 1, 2011

Honorable Mayor and City Council
City of Concord

In accordance with the Municipal Code, Chapter 2, Article IV, Section 2-223 of the City of Concord, we are pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of Concord for the fiscal year ended June 30, 2011. The City's independent auditor, Maze & Associates, Certified Public Accountants, has issued an unqualified ("clean") opinion on the City of Concord's financial statements. However, the Auditor's have included a special emphasis paragraph discussing the uncertain future of the Redevelopment Agency due to the State measures passed in June 2011. The measures affect all redevelopment agencies in California and the issue is not unique to Concord. The independent auditor's report is located on page 1 of the financial section of this report.

The CAFR was prepared by the City's Finance Department in conformance with the principles and standards for financial reporting set forth by the Governmental Accounting Standard Board (GASB). Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that has been established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. We believe the data is presented in a manner designed to set forth fairly the financial position and results of operations of the City as measured by the financial activity of its various funds; and that disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it. Further discussion of the accounting policies used by the City is found in the notes to the financial statements.

The City of Concord is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget's Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Information related to this single audit, including a schedule of federal expenditures of federal awards, the independent auditor's report on internal control and compliance with applicable laws and regulations are included in a separately issued single audit report.

Reporting Entity

The agencies included in the reporting entity are: the City of Concord, the Redevelopment Agency of the City of Concord; the Concord Sanitary Sewer Services, Inc.; the City of Concord Retirement System and the City of Concord Joint Powers Financing Authority.

The financial statements for the California Public Entity Insurance Authority, the Concord Senior Citizens Club, the Friends of Camp Concord, Concord Plaza Tower, Inc., and the Concord Pleasant Hill Aquatic Foundation are not included as they are administered by boards separate from and independent of the City.

Internal Controls

In developing and enhancing the City's accounting system, significant consideration is given to the adequacy of the City's system of internal accounting controls. Internal controls are designed to provide reasonable assurance regarding the safeguarding of assets against the loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived, and that the evaluation of costs and benefits requires estimates and judgments by management.

Concord's History

The first inhabitants of the valley were a small tribe of the Chupcan Indians. In the 1700's early Spanish explorers became the first outsiders to cross the area, upon receipt of the "Monte Del Diablo" land grant in 1834. The 17,921 acre land grant covered the majority of the valley and was used for cattle operations. Don Salvio's grand adobe, which is still located in downtown Concord, became the business, social and cultural center of the region. In 1868, Don Salvio Pacheco, his son, Don Fernando Pacheco, and his son-in-law, Don Francisco Galindo, created a new town at the center of their Rancho. They called their new town Todos Santos (All Saints) and in 1869 offered lots free of charge to merchants and residents. Within months after Todos Santos had been recorded as the official town name, "Concord" was heralded by the Contra Costa Gazette as the actual name. By 1879 a population of 300 was reported. It would double by February 1905, when incorporation of the "Town of Concord" was approved by a two-vote margin.

It would take 35 years for the population to double again. Concord began World War II with a high school, a modern hospital, five churches, two railroads, a fine library, a nationally recognized central plaza, two cinemas, a full-service downtown commercial area, tree lined streets, comfortable homes and a population of 1,400. The war years brought expansion to the area because of the proximity of naval operations. The postwar years began a population boom. By 1948, the population had grown to 6,500.

Located 29 miles east of San Francisco, Concord now is the largest city in the Contra Costa County with a population of 122,676. The City covers 31.13 square miles and provides a full range of services including police protection, recreational activities, community development, street improvements and maintenance services. Over the last 20 years, Concord has become a major job center in Contra Costa County and it is the County's strongest retail location. Concord offers the amenities that many businesses require for success. Here, business-friendly government policies, outstanding Class A office space values, numerous industrial parks and excellent transportation combine with favorable home prices, an educated workforce and a dynamic retail environment to create ideal conditions for business to expand and make Concord a premier business location.

The City's commitment to families and to the community fosters a high quality of life with attractive residential neighborhoods, abundant recreation and entertainment for all ages. Concord, the city where "Families Come First," is a community of friendly neighborhoods with an excellent park system, convenient shopping, large preserves of open space, and an exciting downtown. Concord's housing mix offers affordable home and rental prices that are among the most favorable in the Bay area, allowing residents to live where they work and play. An extensive transportation system, including easy freeway access, two BART stations, bus services and a local private aviation airport, makes Concord's location convenient to the Bay area.

Profile of the Government

Concord is a General Law city, formed under the State legislative process and structured under provisions of the California Constitution. Its governing body, the City Council, is comprised of five elected members, who serve "at-large" rather than by district, each for four-year terms. City voters also elect a City Treasurer who serves a four-year term.

Municipal elections are held in November of the even-numbered years. Council terms overlap, with three Council members elected one year and the other two elected two years later. Each year, the Council selects one of its members to serve as Mayor and another as Vice Mayor. The City Council also serves as the Redevelopment Agency Board.

Concord is operated under the Council-Manager form of government. The Council hires the City Manager, who is then responsible for all management functions of the City, including the development of the budget, delivery of services, hiring of personnel and implementation of capital projects. The City Council also directly hires the City Attorney who serves as the City's primary legal advisor.

Budgetary Control

The Concord Municipal Code requires the City Manager to present the Annual Operating Budget to the City Council for approval. The City Council has adopted a number of Policy & Procedures, including Budget and Fiscal Policies; Budget Preparation; Budget Appropriation and Transfer Controls, which provide direction in the development of the Annual Operating Budget. The City Manager has also authorized several Administrative Directives which further clarify budget policies, processes and related controls.

The annual budget kickoff meeting is conducted in November. City Departments prepare their budgets in November and December for review by the Budget Committee in January and February. The Budget Committee is comprised by the City Manager, Assistant City Manager, Director of Finance and the Budget Officer. All budget changes and recommendations are finalized in March. The proposed budget document is prepared in April and provided to the City Council. A budget workshop is conducted with the City Council in May and the City Council conducts two public hearings on the budget in June. Budget adoption occurs at the final public hearing in June.

Ultimate budgetary control resides at the fund level; however, the City has adopted a number of budgetary appropriation and transfer procedures to provide strong internal controls while encouraging improved accountability and administrative responsiveness. All budgetary transfers require Director of Finance review and approval. All transfers of appropriations affecting Personnel Services (wages & benefits) require Director of Human Resources and City Manager review and approval. Additionally, all transfers between funds and between departments require City Manager or City Council review and approval.

All project appropriation transfers require City Manager approval. Transfers in excess of $20,000 require City Council approval. The City Council must approve all new appropriations with the exception of money received for specific purposes (e.g. Developer Contributions) where the appropriation and revenue received are of equal value. Special revenue budget appropriations based on funds provided by grants, donations or contributions require City Manager and City Council approval.

Long Range Financial Planning

In 1995 the City of Concord implemented Ten-Year Financial Planning to realize its vision as "trustworthy guardians of the public's resources" and its mission to be "a cost effective government". Most importantly, it has been effectively used to attain financial stability for the City. Ten-Year Financial Planning requires that the City Manager annually present balanced Ten-Year financial plans for all major funds including the General Fund, Special Revenue Funds, Capital Improvement Funds, Proprietary Funds and also for the Redevelopment Agency. Twenty-Year financial information is presented for both the Sewer Fund and the Redevelopment Agency. Twenty-Five Year financial information is presented for Post Retirement Healthcare Benefits. The Ten-Year Plan also requires adequate replacement funds for buildings, vehicles, and equipment. The Ten-Year Plan projections include all projected sources of revenue and all projected expenditures including salaries, benefits, materials, services and capital improvement projects. Each year all plans are revisited, and assumptions are evaluated and updated.

The Ten-Year Financial Planning Program has many benefits over typical single year budgeting. It enables the City to foresee potential problems early, giving the organization time to respond and take action before a problem develops. It enables the City to determine whether today's decisions can be supported tomorrow. The long term financial impact and affordability of labor proposals can be more easily analyzed. Ten-Year Planning also increases the accountability to stakeholders by explicitly communicating the anticipated financial status of the City over a 10 year period.

Major Initiatives and Events

The Community Development Department preserved 48 affordable housing units by providing $300,000 for rehabilitation of the Riley Court Apartments.

The Community Emergency Response Team (CERT) created a Neighborhood Team Captain class and organized eleven neighborhoods to be disaster ready.

The City entered into an agreement with Chevron Energy Solutions Company (ESCO) to conduct a comprehensive energy audit and to identify improvements that will save energy, water and operational expenses at several facilities. As a result of this audit a plan was developed for several projections including street lighting retrofits and a solar photovoltaic system at Concord Community Park.

The Public Works and Engineering Department was successful in attaining over $3.8 million in grants for various projects.

In an effort to conserve water without losing beauty, the grass in the street medians was replaced with new flowering shrubs and plants which thrive with low-water use and are better able to withstand drought. The irrigation system was also upgraded. This project was a winner of the California Park & Recreation Society's 2010 Award of Excellence for Maintenance, Management and Operations.

For the thirtieth year in a row, Concord was recognized as a "Tree City U.S.A." by the National Arbor Day Foundation. This national award honors Concord's commitment to its community forest. The Park Services maintain 1,080 acres of open space and 379 acres of developed parkland.

Economic Condition and Outlook

The National and State economies reflect unprecedented challenges in a time of major changes in the traditional ways in which money and credit are used. The financial markets have been struggling to overcome problems related to collapse in the global financial system and the subprime mortgage market, high unemployment rate and the economic recession. Virtually every sector of the economy has experienced negative trends. As these downward trends have rippled throughout the world economy, the City of Concord is not exempt. The declining real estate values, property and sales tax revenues over the past few years have placed fiscal constraints on the City that are expected to last several years. Fortunately, though, the trend seems to be leveling out, albeit at a new, lower level. General Fund revenues increase 3% or $1.9 million from the prior year because of the use tax approved and enacted by the citizens of Concord (discussed below). The City's assessed valued decreased 1.5% from the prior year.

During Fiscal Year 2010-11, the City continued its plan to bring the City's budget back into balance with additional cost reductions made up of employee concessions, reduction of programs, continued mandatory furloughs. Key City services, including public safety and maintenance of public facilities and infrastructure, still continue to receive high priority, but reductions have affected these programs also.

In an effort to forestall additional budget reductions in the near future, the City Council authorized a measure to be placed on the November 2, 2010 ballot for a temporary use tax of 0.5% for five years, beginning April 1, 2011. The voters of the City of Concord approved Measure Q which allows the City time both for the economy to begin to recover and for staff to resolve the remaining structural deficit of approximately $4 million. One of the provisions of the ballot measure is for the establishment of an oversight committee to review the City's plans and use for the funds. The Measure Q Committee reviewed the Preliminary Operating Budget for FY 2011-12 and will review the Comprehensive Annual Financial Report (this document) for the Fiscal Year ended June 30, 2011.

Despite financial market volatility, the City of Concord has faired comparatively well, though we anticipate that revenues will reflect little or no growth. Our diversified economy, strong job base, diverse sales tax base, successful efforts to retain and attract new businesses and the City's ten-year financial planning policy, have contributed to the City's financial stability and leave the City comparatively well positioned to face the challenges ahead. While development has slowed, Concord's reductions are more moderate than the decline experienced by cities which have been in a more aggressive pattern of expansion.

The City's ability to sustain a vibrant local economy to insure future fiscal strength will continue to depend on the City's ability to attract the business community and to balance business and residential needs to the benefit of both. The City's past success in attracting and retaining successful businesses has not been coincidental. Concord devotes considerable energy to providing a variety of services and programs to attract new quality businesses as well as help existing companies to achieve sustained growth. The City's Economic Vitality Strategy promotes partnerships among businesses, merchants, residents, community groups and City Departments to anticipate needs and solve problems when they occur. The Strategy guides City policy to enable Concord to provide efficient and timely local services to maximize a new company's success. Concord's award winning One-Stop Permit Center at City Hall provides expedient permit processing, cuts red tape, cuts construction costs and enables developers to open earlier and produce revenue sooner. Concord's Business Retention Program offers a variety of services to assist the retention and expansion of Concord businesses. The program enhances Concord's relationship with businesses by strengthening communication, providing education workshops and assisting with site selection and permit facilitation.

While the projected success in the development area eventually points to a positive outlook, the City is facing the same uncertainties as other agencies in the State, including the rise in cost for salaries and benefits including retirement, health insurance, workers compensation, as well as the continuing State budget crisis. For over 20 years, the State legislature has been taking local tax dollars that local governments use to provide vital services like fire protection, law enforcement, healthcare, parks and libraries. The State has taken more than $40 billion from cities, counties and special districts in the last 15 years. The State justified these diversions as "temporary" that would lapse when the economy improved, however, as the economy has improved the State has continued to increase spending and the revenues have not been returned to local agencies.

Although the passage of Proposition 1A in 2004 has restored some predictability to our budget, it was not a guarantee that cities will not experience cash flow impacts due to future loans to the State. The State suspended Proposition 1A with regard to Redevelopment in Fiscal Year 2010-11, taking approximately $1.2 million from the Redevelopment Agency.

In the November, 2010, election, the voters of California overwhelming passed Proposition 22 which further protected local revenues both of the City and of the Redevelopment Agency. Unfortunately, the State continues to face structural budget shortfalls, and for FY 2011-12 has virtually ignored the wishes of the population and has again taken local funds to deal with their shortfall. The State has not yet dealt with its structural financial issues and continues to rely on a number of one-time solutions and gimmicks rather than focusing on aligning ongoing revenue with ongoing program expenditure to fix their structural deficit.

The November, 2010, election also included a local, City of Concord, temporary ½ cent use tax measure. Fortunately the citizens of the City have realized the measures taken on behalf of the City to reign in costs and to preserve resources. Measure Q passed with a 56% approval. The use tax became effective April 1, 2011, thus providing three months of revenue to Fiscal Year 2010-2011. The collection and use of these funds are subject to an oversight committee, tasked by the City Council to ensure that the funds are used for the stated purpose of preventing further reductions to services and replenishing the City's reserves. The tax sunsets in five years.

On June 28, 2011, the State of California adopted ABx1 26 and ABx1 27 which dissolve all Redevelopment Agencies in the State and replaces them with an alternative voluntary redevelopment program. A lawsuit was filled to challenge these new laws with a decision expected in mid-January, 2012. Should the state prevail in this lawsuit, the impact of these changes will be significant upon the City of Concord as a whole and on the Redevelopment Agency in particular. This activity on the part of the State is further evidence that it is unable to resolve its structural deficit by making the hard decisions to align ongoing revenue with ongoing expenditure.

Reserves

To address the financial uncertainties discussed above, the City maintains General Fund Reserves and contingencies to total not less than 15% of operating expenditures. Given the effects of the recession which have affected all entities, both governmental and private, reserves have been used significantly in the past three years. In accordance with the foresight of the City Council, the original requirement of 30% reserves and contingencies has been temporarily reduced to 15% with the admonition that a return to 30% as soon as possible is desired.

As of June 30, 2011, the available liquid General Fund Reserves totaled approximately $8 million, approximately 11% of actual General Fund Operating Expenditures. This balance compares favorably with the original 4.9% balance projected at the adoption of the FY 2010-2011 budget and has benefited from one quarter's receipts of the Measure Q use tax.

Cash Management

Cash temporarily idle during the year was invested, in accordance with the City of Concord's adopted Investment Policy, in U.S. Government and Agency Securities, Corporate Notes, Commercial Paper, Money Market and Mutual Funds, and the California State Local Agency Investment Fund. As of June 30, 2011, maturity of the investments ranged from 0 days to 4 years with an average maturity of 455 days. The effective yield on investments was 1.38%. Interest rates on new investments continued to fall during the past year. Investment income also included gains in the fair market value of investments. Increases in fair market value during the current year, however, do not mean that these gains will be realized unless the investments are sold before maturity. The City of Concord holds investments to maturity, thus gains due to changes in the fair market value should not be realized unless the investment is sold. The City of Concord's Investment Policy is certified by the Association of Public Treasurers, U.S. & Canada.

Risk Management

The City is a member of California State Association of Counties - Excess Insurance Authority (CSAC-EIA). The coverage has a self-insured limit of $500,000 for Workers' Compensation; and $500,000 to a maximum of $35 million for general liability.

The City provides fully-insured health plans through the Public Employees Retirement System, a fully-insured dental and life insurance program, an Employee Assistant Program (EAP), and a self-insured short term and long term disability program through Reliance Standard Life Insurance Company.

Pension Plan and Other Post-Employment Benefits

The City participates in two distinct retirement funds. The City entered the California Public Employee Retirement System (PERS) beginning with Fiscal Year 1993-94. On June 28, 1999, Concord funded prior service credit in PERS for all the current employees. PERS is a multiple-employer public employees defined benefit pension plan for safety and non-safety personnel. PERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and their beneficiaries.

The City of Concord Retirement System (CCRS) is a closed plan and is a single employer defined benefit pension plan covering all full time employees of the City who retired or left service prior to June 28, 1999. Participants are divided into two primary groups for coverage: general employees and safety employees. Funding for the CCRS is administered by Public Agency Retirement Services (PARS).
The City of Concord also provides post-retirement health benefits for its retired employees and their eligible dependents. At the end of the fiscal year, there were 346 retired employees and their dependents receiving these benefits which are currently financed on a pay as you go basis. A funding plan has been developed and incorporated into the City's Ten-Year Plan to fund the City's obligation for Other Post Employment Benefits (OPEB) as identified in the Governmental Accounting Standards Board (GASB) Statement 45.

Awards

This is the nineteenth consecutive year that the City of Concord has been recognized for excellence in financial reporting. This year's Comprehensive Annual Financial Report (CAFR) has again been submitted to the Government Finance Officers Association (GFOA) for evaluation. I believe the June 30, 2011 CAFR exceeds the high standards set by the previous year's report. Suggestions by the GFOA for further improvement of the CAFR have been included in this report. The fact that GFOA continues to present the Finance Department with this award is especially gratifying.

Acknowledgments

I wish to express my appreciation to the entire staff of the Finance Department whose dedication and efficiency are responsible for the preparation of this report in a timely and accurate manner. Without their hard work, the prompt submission of this report would not have been possible. Credit also must be given to the Mayor, City Council and the City Manager for their support in maintaining the highest standards of professionalism in the management of the City of Concord's finances.

Respectfully submitted,

Margaret Lefebvre
Director of Finance