



February 8, 2013

Honorable Mayor and Members of the City Council  
City of Concord

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of Concord (City) for the fiscal year ended June 30, 2012 in accordance with Municipal Code, Chapter 2, Article IV, Section 2-223. The financial statements are presented in conformity with generally accepted accounting principles (GAAP). These financial statements have been audited by Maze and Associates, a firm of certified public accountants, in accordance with generally accepted auditing standards. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2012 are free of material misstatements. Maze & Associates, Certified Public Accountants, has issued an unqualified ("clean") opinion on the City of Concord's financial statements.

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.

This report is divided into three sections:

- The **Introductory Section** includes this letter of transmittal, an organizational overview of the City government and prior awards received.
- The **Financial Section** consists of the independent auditors' report, Management's Discussion and Analysis, Basic Financial Statements (which include the Government-Wide Financial Statements, Fund Financial Statements, Notes to the Financial Statements and Required Supplementary Information) and a Supplementary Section containing the Combined and Individual Fund Financial Statements and Schedules.
- The **Statistical Section** includes a number of tables of unaudited data depicting the financial history of the City, demographics and other selected information about the City.

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 can be 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**

In defining the reporting entity, we have included the City's component units, which are the former Concord Redevelopment Agency (the RDA), the Concord Financing Authority (the Authority), and Concord Sanitary Sewer Services, Inc. The City Council sat as the Board of the three component units which are fiscally dependent on the City.

The RDA was dissolved on February 1, 2012, and was replaced by the Redevelopment Successor Agency (RSA). The RSA is not a component unit of the City and is instead a separate legal entity overseen by the Oversight Board and the State Department of Finance. The City's role in the RSA is fiduciary in nature. The RSA is reported as a private-public trust fund, a fiduciary fund type. Additional information about the dissolution of the RDA is included in the MD&A and the notes to the financial statements.

There are no other governmental units over which the City Council has financial accountability. 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 remains situated 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 free land parcels 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 Contra Costa County with a population of 123,206. 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 Council'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 Bay Area Rapid Transit (BART) stations, bus services and a local private airport, makes Concord's location convenient to the Bay area.

## **Profile of the Government**

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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 served as the Redevelopment Agency Board until its dissolution on January 31, 2012.

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**

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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 Policies & 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 January. City Departments prepare their budgets in January and February for review by the City Manager, Assistant City Manager, Director of Finance and the Budget Officer. 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's approval is required for 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**

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In 1995 the City of Concord implemented Ten Year Financial Planning Program 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. The Ten Year Financial Planning Program 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, and Proprietary Funds including the Post Retirement Healthcare Benefits Funds, with the exception of the Sewer Fund where twenty years of financial information is provided. The Ten Year Financial Plan also requires adequate replacement funds for buildings, vehicles, and equipment. The Ten Year Financial Plan includes 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 corrective action before or soon after 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 the period.

## **Major Initiatives and Events**

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The City successfully complied with all aspects of the Redevelopment Dissolution Acts by coordinating the City's transition into the Successor Agency of the Former Redevelopment Agency of the City of Concord and accepted the former Agency's housing program assets and obligations by becoming the Successor Housing Agency of the former Redevelopment Agency.

In November 2011, the Baldwin Off-Leash Dog Park project was completed. Additionally, the City applied for and was awarded a Measure J Transportation for Livable Communities (TLC) grant in the amount of \$2,550,000 for Central Concord Pedestrian Improvements and Streetscape project.

The City of Concord was recognized by the Northern California Chapter of the American Planning Association. The Concord Reuse Area Plan was given the 2012 Merit Award for Green and Sustainable Planning. Concord's project was selected from a field of 20 applications covering a diverse spectrum of Bay Area planning projects. The Reuse Plan also earned a Visionary Leadership award from East Bay Housing Organizations (EBHO). EBHO acknowledged the City's leadership in adopting a transit-oriented Area Plan that preserves open space and creates walkable communities and local jobs, with 25% of residential development planned as affordable, representing a major commitment to sustainable and equitable growth. Save Mt. Diablo awarded the City its Mountain Star Alliance Award for "incredibly visionary leadership" in preparation of the reuse plan.

The City of Concord has been named a Tree City USA by the National Arbor Day Foundation to honor Concord's commitment to its community forest. It is the 30<sup>th</sup> consecutive year, the City has received this national recognition. Concord is also the recipient of a Tree City USA Growth Award for the 13<sup>th</sup> consecutive year for demonstrating progress in its community forestry program. The Growth Award recognizes environmental improvement and higher levels of tree care in Tree City USA communities. The Tree City USA program is sponsored by the National Arbor Day Foundation in cooperation with the National Association of State Foresters and the USDA Forest Service.

Concord's Tuesday and Thursday music programs in Todos Santos Plaza earned the City a place in Livability.com's Top 10 Cities with Best Music Scenes. The music series in Todos Santos Plaza was recognized because it attracts thousands of people to Todos Santos Plaza every summer to enjoy the same kind of musical variety found across the bay in San Francisco, but at no cost.

## **Economic Condition and Outlook**

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The recovery from the Great Recession of 2007-2009 has been slow and erratic. While still sluggish, a variety of recent economic reports have outperformed expectations indicating that national business activity has accelerated in recent months. The local economy is also improving. Contra Costa County's (County) economy, which benefited during the real estate

boom, has been significantly impacted by job losses resulting from the real estate downturn and the resulting recession. As a result, the unemployment rate in the County has increased from an average annual rate of 4.4% in 2006 to 9.4% in June 2012 (Bureau of Labor Statistics), which is down from 10.9% in June 2011. The unemployment rate in the City has increased from an average annual rate of 5.5% in 2006 to 10.2% in June 2012 (Bureau of Labor Statistics), which is down from 11.7% in June 2011.

During Fiscal Year 2011-12, the City Council continued its plan to bring the City's General Fund budget back into balance with additional cost reductions consisting of ongoing employee concessions, mandatory furloughs, and program reductions. General Fund core 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 significant budget reductions to core services, the City Council authorized a measure to be placed on the November 2, 2010 ballot for a five year temporary ½ cent use tax, beginning April 1, 2011. Fortunately the citizens of the City realized the significant strides taken on behalf of the City to rein in costs and to preserve resources. Measure Q passed with 56% voter approval. The use tax became effective April 1, 2011, thus providing three months of revenue in Fiscal Year 2010-11. Oversight of the use of these funds are subject to a citizen committee. The committee has established three criteria for the reviewing the use of these funds:

1. Does the annual audit reflect that the Measure Q was collected and appropriately spent?
2. Does the City's proposed General Fund Budget protect the City's core services?
3. Does the City's proposed General Fund Budget rebuild the City's reserves?

This temporary tax sunsets after five years on March 31, 2016. The Measure Q Committee reviewed the Preliminary Operating Budget for FY 2012-13 and will review the Comprehensive Annual Financial Report (this document) for the Fiscal Year ended June 30, 2012. The table below provides an overview of the use of Measure Q funds through the end of FY 2011-12.

**Table 1: Annual Measure Q Use Tax Receipts and Uses As of June 30, 2012 (Dollars in Millions)**

	Receipts	General Fund Programs	Measure Q Stability Reserves
Fiscal Year 2010-11 Receipts (April 1 through June 30)	\$2.144	\$2.144	\$0.000
Fiscal Year 2011-12 Receipts	9.971	2.968	7.003
<b>Total</b>	<b>\$12.115</b>	<b>\$5.112</b>	<b>\$7.003</b>

Despite the severe economic downturn of the last several years, the City of Concord has fared 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 program, 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 revenue 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, reduces construction costs and enables developers to open establishments 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 such as law enforcement, vital infrastructure, 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 improved, the State continued to increase spending and the revenues have not been returned to local agencies.

Although the passage of Proposition 1A in 2004 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 Agencies in Fiscal Year 2010-11, taking approximately \$1.2 million from the Redevelopment Agency.

In the November 2010 election, the voters of California overwhelmingly passed Proposition 22 which further protected local revenues, both of the City and of the Redevelopment Agency (RDA). Unfortunately, the State continued to face significant structural budget shortfalls and virtually ignored the wishes of the population and took local funds to deal with their shortfall in FY 2011-12. While Governor Brown has made significant strides in reducing the State budget deficit, the State continues to rely on a number of one-time solutions and gimmicks rather than focusing on aligning ongoing revenue with ongoing program expenditures to eliminate the structural deficit.

On June 28, 2011, the State of California adopted the Redevelopment Dissolution Act (ABx1 26 and ABx1 27) as part of the FY 2011-12 State Budget. In December 2012, the California Supreme Court upheld ABx1 26 and struck down ABx1 27, resulting in the dissolution of the RDA on February 1, 2012 and the formation of a Successor Agency and Housing Successor Agency to the former RDA to wind down the affairs of the RDA. The approved activities to wind down RDA affairs include paying off existing obligations, disposing of properties, and liquidation of reserves, which were accumulated over many years to forward the former RDA's goals and objectives including the preservation and creation of low and moderate housing within the City of Concord. The process is overseen by a seven member oversight board

consisting of appointed representatives of local taxing entities including education and county interests and two City appointments

The dissolution effort has required a significant amount of time from City staff in order to learn and implement the significant and complex rules and adhere to the tight compliance deadlines. The elimination of the RDA has had a significant fiscal impact to the City and its future development, especially in relation to the Concord Naval Weapons Station area.

## **Reserves**

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To address the financial uncertainties discussed above, the City policy directs General Fund Reserves and contingencies currently be maintained at a minimum of 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 four 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, 2012, the General Fund Reserves totaled \$12.6 million, approximately 15% of actual General Fund Operating Expenditures.

## **Cash Management**

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Cash temporarily idle during the year was invested in U.S. Government and Agency Securities, Corporate Notes, Commercial Paper, Money Market and Mutual Funds, and the California State Local Agency Investment Fund, in accordance with the City of Concord's adopted Investment Policy. As of June 30, 2012, maturity of the investments ranged from 0 days to 4 years with an average maturity of 555 days. The effective yield on investments was 1.04%, down from 1.38% in fiscal 2011. 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**

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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. In addition, the City is covered for Property loss and coverage includes Flood and Earthquake losses.

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 employee 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. The plan is primarily funded by investment returns and contributions from the City. CCRS investments and benefit payments are 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 379 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 address the City's obligation for Other Post Employment Benefits (OPEB).

## **Awards**

This is the twentieth 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, 2012 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**

The preparation of this Comprehensive Annual Financial Report could not have been accomplished without the professional, efficient, and dedicated service of the Finance Department. In particular, I would like to express my appreciation to the following members of the Financial Operations staff who contributed to the development of this report: Suzanne McDonald, Jonathan Palmer, Linda Wong, and George Villa, Accountants; and Carole Wilson, Financial Operations Manager.

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,



William Zenoni  
Interim Director of Finance