



February 14, 2014

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, 2013 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 Vavrinek, Trine, Day and Co., LLP, 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, 2013 are free of material misstatements. Vavrinek, Trine, Day and Co., LLP, has issued an unmodified ("clean") opinion on the City of Concord's financial statements.

This letter of transmittal provides a non-technical summary of City finances, services, achievements, and economic prospects. We ask that readers who wish a more detailed discussion of the City's financial results refer to Management's Discussion & Analysis (MD&A) contained in the Financial Section of the CAFR.

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 present a fair representation of the financial position and results of operations of the City as measured by the financial activity of its various funds; and that disclosures enable the reader to gain an understanding of the City's financial affairs.

The CAFR 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

Located 29 miles east of San Francisco, Concord is the largest city in Contra Costa County with a population of 123,812. The City covers 31.13 square miles and provides a full range of services including police protection; recreational activities; community and economic development; street improvements and maintenance services; parks maintenance; sewer; and general administrative and support services. In addition, the City oversees the Concord Pavilion Performing Arts Center, Diablo Creek Golf Course and Camp Concord in South Lake Tahoe, California.

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.

Each year, the Council selects one of its members to serve as Mayor and another as Vice Mayor. Beginning in December 2013, the Mayor will serve a two-year term.

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.

Concord is a major job center in Contra Costa County and is the County's strongest retail location. Concord offers the amenities that many businesses require for success. In Concord, business-friendly government policies, outstanding Class A office space values, numerous industrial parks and excellent transportation options combine with favorable home prices, an educated workforce and a dynamic retail environment to create ideal conditions for businesses to locate and expand, making 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, which features Todos Santos Square as the focal point. 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 rapid rail transit stations (Bay Area Rapid Transit (BART)), bus services and a regional airport operated by Contra Costa County, makes Concord's location convenient to the Bay area.

The CAFR includes all funds of the City; as well as all governmental organizations and activities for which the Council has financial accountability. These include the Concord Public Financing Authority (the Authority), the City of Concord Retirement System, the Concord Pleasant Hill Health Care District and Concord Sanitary Sewer Services, Inc.

The Concord Redevelopment Agency (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.

Significant Community Events and Accomplishments

Examples of significant community events and accomplishments for the fiscal year ended June 30, 2013 include the following:

- ❖ Implemented the first new auto dealership Branding Campaign promoting the slogan: “Concord has the Cars for You” on Bay Area television and radio stations.
- ❖ Adopted a new Concord Development Code on July 24, 2012. This effort included completion of the General Plan text and map amendments, the new Citywide Zoning Map, the Draft Development Code, and the Supplemental Environmental Impact report for the Development Code Project.
- ❖ Applied for and was awarded \$1.4 million in federal funds under the Highway Safety Improvement Program (HSIP) to improve the design and safety of ten signalized intersections on Concord Boulevard, Willow Pass Road, Salvio Street and Market Street, and to install a new traffic signal at Oak Grove Road and Smith Lane.
- ❖ Held a Grand Opening Event for the new Meadow Homes Spray Park. The facility received the Outstanding Facility/Park Award from the California Park & Recreation Society District 3 Agency Showcase Award program.
- ❖ Implemented Change 4 Real Change, a program created to encourage community donations to identified homeless outreach services as an alternative to giving spare change to panhandlers. An educational campaign and change collection program have resulted in additional funding for local homeless service providers.
- ❖ Received the Arbor Day Foundation designation as a TREE CITY USA for a superior urban forest as well as the Growth Award to recognize environmental improvement and high levels of tree care. This award is designed not only to recognize achievement, but also to communicate new ideas and help the leaders of all TREE CITY USAs plan for improving community tree care.
- ❖ Accepted a number of awards for the Concord Reuse Project for the former Concord Naval Weapons Station including The Northern California Chapter of the American Planning Association Merit Award for Green and Sustainable Planning, the East Bay Housing Organization's Visionary Leadership award, Save Mt. Diablo's Star Alliance Award for “incredibly visionary leadership,” and Sustainable Contra Costa's Smart Growth Award.
- ❖ Celebrated 25 years of welcoming audiences to the popular music programs and event in historic Todos Santos Plaza in downtown Concord. Over 150,000 people visit the downtown annually for music programs, the Farmers' Market and community events.

Economic Condition and Outlook

The City of Concord has been hit hard by the Great Recession of 2007-2009 and experienced significant downsizing and organizational change. Since the Fiscal Year 2007-08 budget, the organization has lost approximately 25% of its workforce. During Fiscal Year 2012-13, the City Council continued addressing its budget imbalance with 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.

On November 2, 2010, voters approved a five year temporary ½ cent use tax, Measure Q, which became effective on April 1, 2011. This temporary tax sunsets after five years on March 31, 2016. Measure Q has been instrumental in helping the City through its recovery, both maintaining services and restoring reserves. The table below provides an overview of the use of Measure Q funds through the end of FY 2012-13.

**Table 1: Annual Measure Q Use Tax Receipts and Uses
As of June 30, 2013 (Dollars in Millions)**

	Receipts	Budgeted for Operations	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	5.171	4.799
Fiscal Year 2012-13 Receipts	10.641	5.393	5.248
Total	\$22.756	\$12.708	\$10.047

There are signs the local economy is recovering. The City's unemployment rate was 7.9% in June 2013 compared to 10.2% in the previous year, slightly higher than the County's rate of 7.3% (9.4% in June 2012). The region's unemployment rates are lower than the State rate of 8.5%, which was down from 10.6% in June 2012. According to Beacon Economics, employment in East Bay region of the San Francisco Bay Area will continue to grow although at a slightly lower rate of approximately 1.2% during the upcoming year.

The East Bay remained the most affordable location for home buyers in the region. In a report by Beacon Economics, the median home price in the East Bay is 35% and 43% below neighboring Silicon Valley and San Francisco, respectively, where prices have rebounded to near pre-recession levels. While the East Bay market is experiencing a rapid recovery, real estate values in Concord are lagging the region with total assessed value in FY 2012-13 experiencing a 4.1% drop from FY 2011-12. However, property values for FY 2013-14 increased 4.9% over the prior year.

Sales taxes increased \$2.5 million or 8% over the prior year, franchise fees increased \$490,000 or 10% and hotel taxes increased \$350,000 or 24% compared to the previous year. Other revenue sources such as business license fees, parks and recreation and licenses and permits remained stable.

The City's ability to sustain a vibrant local economy to insure future fiscal strength will depend on the City's ability to attract, retain and expand businesses while balancing the needs of the business and residential communities. The City's past success in attracting and retaining businesses has not been coincidental. Concord is a leader in providing a variety of economic development services and programs to enhance Concord's economic vitality and increase private investment in the City. The City's Economic Vitality Strategy and Action Plan promotes leveraging resources, marketing the City strengths to decision makers, partnering with interested business and community groups and engaging City Staff to facilitate economic development. Concord's award winning One-Stop Permit Center provides permit services to reduce development timelines and enable developers to complete projects efficiently thereby producing revenue sooner to the City's General Fund. Concord's Business Retention Program offers a variety of services to assist the retention and expansion of Concord businesses. The program enhances Concord's business relationships by strengthening communication, facilitating entitlements and assisting with site selection.

The City's current general obligation credit rating is Aa3 from Moody's Investor Service and is unchanged from the prior year.

Budgetary Control

The City maintains budgetary controls through the City Council's adoption of an annual budget and by maintaining an encumbrance accounting system. Expenditures for City operations and other purposes identified in the annual budget cannot legally exceed the budgeted amounts approved by the City Council.

The Concord Municipal Code requires the City Manager to present the Annual Operating Budget to the City Council for approval. A budget workshop and public hearings on the proposed budget are held during April through June with final budget adoption by the end of June. 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.

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 capital 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.

The City also uses encumbrance accounting as another technique for accomplishing budgetary control. An encumbrance is a commitment of a future expenditure earmarked for a particular purpose that reduces the amount of budgetary authority available for general spending. At the end of the fiscal year, encumbered appropriations are carried forward and become part of the following year's budget while appropriations that have not been encumbered lapse.

The City continues to meet its responsibility for sound financial management as demonstrated by the statements and schedules included in the financial section of this report.

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.

Budget and Fiscal Policies: Long Range Financial Planning

The City of Concord has utilized a Ten Year Financial Planning Program since 1995. 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 Benefits Funds, with the exception of the Sewer Fund where twenty years of financial information is maintained. 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.

Reserve Policy

To address financial uncertainties, the City's policy is to maintain General Fund reserves and contingencies to total not less than 15% of General Fund operating expenditures with a goal to return to 30% reserves as soon as is economically feasible. As of June 30, 2013, the General Fund Reserves totaled \$7.6 million, approximately 11% of actual General Fund Operating Expenditures.

In addition to the General Fund reserves identified above, a separate Measure Q designated reserve has been established to provide more time for the City to address its on-going structural budget deficit. As stated earlier, Measure Q is a temporary sales tax measure which sunsets in March 2016. Measure Q revenues in excess of those needed to maintain a 15% General Fund reserve are allocated to the designated Measure Q reserve, to be utilized after the temporary sales tax measure sunsets. As of June 30, 2013, the designated Measure Q Reserves totaled \$10.0 million, approximately 14% of General Fund Operating Expenditures. The total combined general fund reserves, including Measure Q and non-spendable assets, is \$19.6 million or 27% of General Fund Operating Expenditures, as of June 30, 2013

Awards

The Government Finance Officers Association (GFOA) of the United States and Canada awarded its Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended June 30, 2012. This was the twentieth consecutive year that the City of Concord has been recognized for excellence in financial reporting. To qualify for the Certificate of Achievement, the governmental entity must publish an easily readable and efficiently organized CAFR, the content of which conform to program standards. Such report must satisfy accounting principles generally accepted in the United States of America, as well as all applicable legal requirements.

The Certificate of Achievement is valid for only one year. The City believes this CAFR continues to conform to the Certificate of Achievement Program requirements and will be submitting it to GFOA for consideration of the annual award.

Acknowledgments

The preparation of this CAFR could not have been accomplished without the professional, efficient and dedicated services of the entire staff of the Finance Department, in particular Suzanne McDonald, Jonathan Palmer and George Villa.

In addition, staff in all City departments should be recognized for responding so positively to the requests for detailed information that accompanies each annual audit. The City also recognizes the contributions and positive working relationship with Vavrinek, Trine, Day and Co., LLP.

Finally, we wish to express our sincere appreciation to the Mayor, City Council and the City Manager for their unfailing support for maintaining the highest standards of professionalism in the financial management of the City of Concord.

Respectfully submitted,

A handwritten signature in blue ink that reads "Karan Reid". The signature is written in a cursive, slightly slanted style.

Karan Reid
Director of Finance