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December 18, 2015

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, 2015 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, 2015 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.

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 126,069. 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 management of the Concord Pavilion, 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. Concord's 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.

Every two years, the Council selects one of its members to serve as Mayor and annually one of its members is selected to serve as Vice Mayor.

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 the job center of 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. These qualities 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, and abundant recreational and entertainment opportunities 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 Plaza 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 San Francisco and other Bay area cities.

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 (SA). The SA 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 SA is fiduciary in nature. The SA 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, 2015 include the following:

- Established and opened the Central County Family Justice Center in downtown Concord to provide wrap around service for victims of domestic violence.
- Completed a Parks Systems Infrastructure Condition Assessment. The project included a comprehensive inventory and conditional assessment of park assets, including: playgrounds, irrigation systems, pathway/hardscapes, sports facilities, ornamental landscapes, natural areas, landscaped medians and other special amenities.
- Implemented a new taxi-script program for senior 65+ to help seniors remain independent and socially connected with the community.
- Featured two new aquatic inflatables as a new attraction at Concord Community Pool.
- Led a County initiative to establish and implement a County Leadership Academy
- Led a Central County response to PG&E Pipelines Pathway Project that resulted in the saving of hundreds of trees in Concord and neighboring cities
- Produced list of two final Master Developer candidates for the Naval Weapons Station project
- Successfully transitioned the City's radios to the new East Bay Regional Communications System (EBRCS)
- Completed two debt financings: $38.4 million in redevelopment refunding bonds that will save Contra Costa County taxing entities $1.0 million on average through 2025, with the City's General Fund receiving annual savings of roughly $100,000 each year; $22.6 million private placement lease financing to fund street and road improvements at an extremely favorable interest rate of 1.91%
- Facilitated the attraction of many new businesses to Concord including: Eureka! Restaurant, Ike's Sandwich Shop, Ulta and Rick's Ice Cream, Buffalo Wild Wings and Habit Burger
- Secured $550,000 in regional grant funds for long range Planning projects to conduct the Bicycle and Pedestrian Master Plan, the Downtown Corridors Plan, and the Salvio Streetscape Project design.
- Adoption of 2015-2022 Housing Element by City Council and subsequent certification for the State Housing and Community Development Department (HCD).

Economic Condition and Outlook

The City of Concord has experienced a sustained, but slow recovery from the Great Recession that began in Fiscal Year 2007-08. Unemployment rates are declining, retail sales are growing and property values are returning to pre-recession levels. Additionally, for the first time since Fiscal Year 2007-08, the City has restored its reserves and begun to address a portion of the City's deferred maintenance in streets and buildings.

However, the City continues to rely on Measure Q revenues for day-to-day City operations, although the amount of support is decreasing. Measure Q is a voter approved half-cent use and transaction tax that provides revenue to the City that was originally approved by voters in 2010 with a five year sunset. On November 4, 2014, voters approved a nine year extension to the temporary use and transactions tax and it now will sunset in March 2025. This extension of Measure Q ensures that the City will be able to maintain essential City services and begin to address the City's remaining fiscal challenges. The table below provides an overview of the use of Measure Q funds through the end of FY 2014-15.

Table 1: Annual Measure Q Use Tax Receipts and Uses As of June 30, 2015 (Dollars in Millions)

	Receipts	General Fund Programs & Reserves	Measure Q Stability Reserves
Fiscal Year 2010-11 Activity (April 1 through June 30)	$2.144	$2.144	$0.000
Fiscal Year 2011-12 Activity	9.971	5.171	4.799
Fiscal Year 2012-13 Activity	10.641	5.393	5.248
Fiscal Year 2013-14 Activity	11.432	9.109	2.323
Fiscal Year 2014-15 Activity	11.554	10.843	0.711
Total	**$45.742**	**$32.660**	**$13.081**

While an economic recovery is underway in Concord, the City continues to face many fiscal challenges including rising costs for employee benefits, rising salary costs, the lack of adequate funding for infrastructure maintenance, decreasing support from the State for roadway maintenance, decreasing gas tax funding and increasing stormwater costs. Though the fiscal outlook is improving, the City needs to continue to control costs, enhance economic development and develop new revenue streams in order be fiscally sustainable without Measure Q revenues by March 2025.

Sales tax revenue remains the largest General Fund revenue source and provides for 46 percent of general municipal services such as public safety, street maintenance, and parks and recreation programs. While the City experienced a decline in sales tax revenues during the recession, the strengthening of the local economy is evident as sales tax revenue has steadily increased since then. Sales taxes increased $1.8 million to $41.9 million or 5% over the prior year.

Property tax revenue represents the second most significant General Fund revenue source making up 24% of total General Fund revenues. Property taxes increased $2.5 or 12% over fiscal year 2013-14. The City's net taxable assessed value increased 9.8% in fiscal year 2014-

15, comparable to the countywide increase of 9.1%. Residential properties represent about 75% of the City's net taxable assessed value and increased 12.2%. The median home price in the City increased to $440,000 as of October 2015 compared to $400,000 in the prior year, representing a 10% increase. Although housing prices continue to rebound, the median single family home price in the City is still well below the 2006 median home price of $523,800. Further signs of a strengthening housing recovery are reflected in the fiscal year 2015-16 County Property Tax Assessment Roll released in August 2015, in which the City's net taxable assessed value increased 7.5%.

The City's unemployment rate was 5.3% in June 2015 compared to 6.6% in the previous year, slightly higher than the County's rate of 4.9% (6.1% in June 2014). The region's unemployment rates are lower than the State rate of 6.2% which was down from 7.4% in June 2014. According to Beacon Economics, employment in the East Bay region of the San Francisco Bay Area is increasing as companies from local regions continue to relocate in the East Bay Region to take advantage of lower rents. The corporate migration to the East Bay is expected to continue and spur additional employment growth.

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. In June 2015, the City Council adopted its first biennial budget encompassing Fiscal Years 2015-16 and 2016-17. 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 Forecasting

The City of Concord has utilized a Ten Year Financial Forecast Program since 1995. The Ten Year Financial Forecast Program requires that the City Manager annually present balanced ten year financial forecasts 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 Forecast includes all projected sources of revenue and all projected expenditures including salaries, benefits, materials, services and capital improvement projects. Each year all forecasts 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, 2015, the General Fund Reserves totaled $14.3 million, approximately 18% 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 2025. Under the City's Fiscal Sustainability Ordinance, Measure Q revenues allocated to fund annual operating shortfalls are limited to no more than $8 million per fiscal year, and this amount is intended to decrease over time, reducing the reliance on this limited term revenue. Measure Q revenues in excess of the amount used to cover operating shortfalls require Council approval for use in one of the following categories: funding long-term financial liabilities, capital projects that meet specific criteria, infrastructure maintenance backlog, debt service for infrastructure improvements, maintaining City General Fund reserves and other one-time expenditures that advance the Council's priority focus areas and that do not create new ongoing expenditure requirements. As of June 30, 2015, the designated Measure Q Reserves totaled $13.1 million, approximately 16% of General Fund Operating Expenditures.

The total combined general fund reserves including Measure Q is $27.4 million or 34% of General Fund Operating Expenditures, as of June 30, 2015.

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, 2014. This was the twenty-first 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, Deborah Yamamoto, Jonathan Palmer, George Villa, Pamela Spero and Helen Zhu.

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,

Karan Reid
Director of Finance