

Management's Discussion and Analysis

As management of the City of Redding (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ending June 30, 2003. The management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address future challenges), (d) identify any material deviations from the financial plan (approved budget), and (e) identify individual fund issues or concerns.

We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal (beginning on page 3) and the financial statements (beginning on page 40).

FINANCIAL HIGHLIGHTS

- The City's net assets increased by \$21.7 million. The governmental net assets increased by \$15.7 million and the business-type net assets increased by \$6.0 million
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$86.5 million, an increase of \$5.8 million in comparison with the prior year. Approximately 34% of this total amount, \$29 million, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, the unreserved fund balance for the General Fund was \$8.8 million, or 17.3% of the total general fund expenditures. This is a \$5 million decrease from the prior year. The decrease is due to transferring \$10 million to a debt service fund to fund the next 10 years of debt service due to be paid from the General Fund.
- The city net debt decreased by \$8.8million. The City issued new debt totaling \$58.7million (23%) during the current fiscal year. The increase was due to issuing refunding bonds, financing a portion of the westside sewer interceptor project, borrowing for recreation projects, and new equipment capital leases. The city debt decreased by \$67.5million due to defeasing debt and regular scheduled debt service.

USING THIS FINANCIAL REPORT/ OVERVIEW OF REPORT

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements to provide the reader further understanding of the City.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The government-wide financial statements consist of the following parts:

Statement of Net Assets: This statement presents information on all the City's assets and liabilities, with the difference between the two reported as **net assets**. Over time, the change in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

Statement of Activities: This statement presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flow in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities), from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, police, fire, public works, planning, recreation and culture, and community development. The business-type activities of the City include water, wastewater, electric, transportation (airport and bus), storm drainage, solid waste, and convention center. Also included in the government-wide financial statements are the Redding Housing Authority, Redding Redevelopment Agency, Redding Area Bus Authority (RABA), and the Redding Joint Power Financing Authority. While these agencies are legally separate agencies, their governing boards consist entirely of City Council members or in the case of RABA, the majority of the board members are members of the City Council. They function for all practical purposes as departments of the City, and therefore have been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 40 - 43 of this report.

Fund Financial Statements

A fund is a group of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories as follows:

Governmental Funds: These funds are used to account for essentially the same functions reported as government activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains eighteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in governmental fund statement of revenues, expenditures, and

changes in fund balances for the General Fund and the 1915 Act Assessment District Bonds, both of which are considered to be major funds. Data from the other sixteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 44-51 of this report.

Proprietary Funds: The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water Utility, Wastewater Utility, Electric Utility, Airport Fund, Storm Drainage Utility, Solid Waste Utility, Convention Center Fund and the Redding Area Bus Authority. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for centralized activities and services performed by certain departments for other departments of the City. The City has four internal service funds; the Equipment Fund to account for all maintenance of the motorized fleet and communication system; the Information Systems Fund to account for the data processing activities of the City; the Risk Management Fund to account for the self-insurance activities of the City; and the General Support Services Fund which accounts for mail, printing, records management and building maintenance activities. Because these services predominantly benefit governmental rather than business-type functions, they have been included within government activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Electric Utility, Water Utility, Wastewater Utility and Solid Waste Utility, which are considered to be major funds of the City. Data from the other enterprise funds is combined into a single aggregated presentation. The internal service funds are also combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the nonmajor enterprise funds and internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 52-61 of this report.

Fiduciary Funds: The City only maintains agency funds. Agency funds are used to account for resources held for other parties outside the government. Agency funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. Only a separate statement of net assets is presented, since assets equal liabilities.

The basic fiduciary fund financial statement can be found on page 62 of this report.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 63-100 of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain supplemental information and statistical information that may be useful to the users of the

City's financial statements. This information can be found in the last two sections of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. During the City's fiscal year ended 2003, net assets changed as follows: (all amounts are in thousands)

	Governmental <u>Activities</u>	Business <u>Activities</u>	<u>Total</u>
Beginning net assets, restated	\$162,809	\$285,295	\$448,104
Increase in net assets	<u>\$ 15,654</u>	<u>\$ 5,995</u>	<u>\$ 21,649</u>
Ending net assets	<u>\$178,463</u>	<u>\$291,290</u>	<u>\$469,753</u>

The City's total net assets increased by 4.8% from a year ago, increasing from \$448.1 million to \$469.8 million. Net assets from governmental activities increased by 9.6% while net assets from business activities increased by 2.1%. The \$15.7 million increase in net assets from governmental activities is primarily due to approximately \$15 million being restricted to the purchase and/or construction of capital assets, which does not result in an offsetting expense in the current year government-wide financial statements.

The \$6 million increase in net assets from business-type activities is primarily due to funds being accumulated for current and future capital projects.

The following schedule displays a summary breakdown of the City's net assets as of June 30, 2003 and 2002:

Net Assets (in thousands)

	G o v e r n m e n t a l A c t i v i t i e s		B u s i n e s s - T y p e A c t i v i t i e s		T o t a l	
	2 0 0 3	2 0 0 2	2 0 0 3	2 0 0 2	2 0 0 3	2 0 0 2
R e v e n u e s						
Program Revenues						
Charges for service	\$ 7,555	\$ 7,164	\$ 130,902	\$ 141,835	\$ 138,457	\$ 148,999
Operating grants	13,883	14,410	3,235	2,958	17,118	17,368
Capital grants and contributions	14,922	8,608	10,186	13,141	25,108	21,749
General Revenues						
Sales Tax	19,327	18,005			19,327	18,005
Property Tax	13,276	12,056			13,276	12,056
In-Lieu Property Taxes	5,048	4,779			5,048	4,779
Motor Vehicle In-Lieu	4,833	4,619			4,833	4,619
Investment earnings	3,277	3,572	3,941	5,752	7,218	9,324
Other	5,269	6,849	(430)	(883)	4,839	5,966
Total Revenues	<u>87,390</u>	<u>80,062</u>	<u>147,834</u>	<u>162,803</u>	<u>235,224</u>	<u>242,865</u>
E x p e n s e s						
General Government	6,355	5,614			6,355	5,614
Police	18,637	17,233			18,637	17,233
Fire	11,675	9,031			11,675	9,031
Public Works	9,228	9,238			9,228	9,238
Planning	3,469	3,197			3,469	3,197
Recreation and Culture	7,237	8,534			7,237	8,534
Community Development	8,830	8,480			8,830	8,480
Interest on Long-term debt	3,453	3,229			3,453	3,229
Electric			101,854	102,383	101,854	102,383
Water			9,425	9,292	9,425	9,292
Wastewater			10,023	9,806	10,023	9,806
Storm Drainage			1,523	1,510	1,523	1,510
Solid Waste			12,126	11,674	12,126	11,674
Transportation			7,681	6,901	7,681	6,901
Convention Center			2,059	2,042	2,059	2,042
Total Expenses	<u>68,884</u>	<u>64,556</u>	<u>144,691</u>	<u>143,608</u>	<u>213,575</u>	<u>208,164</u>
Increase in net assets before transfers	18,506	15,505	3,143	19,195	21,649	34,700
Transfers	(2,852)	(4,274)	2,852	4,274	-	-
Increase in net assets	<u>15,654</u>	<u>11,231</u>	<u>5,995</u>	<u>23,469</u>	<u>21,649</u>	<u>34,700</u>
Net assets July 1, as restated	<u>162,809</u>	<u>151,578</u>	<u>285,294</u>	<u>259,889</u>	<u>448,103</u>	<u>411,467</u>
Net assets June 30	<u>\$ 178,463</u>	<u>\$ 162,809</u>	<u>\$ 291,289</u>	<u>\$ 283,358</u>	<u>\$ 469,752</u>	<u>\$ 446,167</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's net assets exceeded liabilities by \$470 million at the June 30, 2003. Most of the City's net assets (66%) are invested in capital assets (i.e., land, buildings, utility plants, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, (13%) represent resources that are subject to external restrictions as to how they may be used. The remaining balance of \$97 million is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors or for investments in capital assets. Only \$ 16.6 million of the unrestricted net assets pertain to governmental activities, the balance can only be used for the utilities and other business activities of the City.

The following schedule shows the various components that caused the City's net assets to increase:

Changes in Net Assets
(in thousands)

	Revenue		Expense		Changes in net assets	
	2003	2002	2003	2002	2003	2002
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Electric	\$ 275	\$ 1,530	\$ 1,854	\$ 1,233	\$ (909)	\$ 297
Water	147	1,236	945	922	482	304
Water	1,104	1,141	1,003	986	308	165
Solid Waste	242	228	153	150	99	78
Solid Waste	1,492	1,436	1,216	1,164	286	272
Transportation	681	1,153	781	691	(140)	462
Construction	42	50	209	202	(157)	(142)
Interest	391	572			391	572
Gain (Loss) on Sale of Property	(40)	(83)			(40)	(83)
Taxes	282	424			282	424
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Total	<u>\$ 10,086</u>	<u>\$ 16,077</u>	<u>\$ 14,691</u>	<u>\$ 14,668</u>	<u>\$ 5,995</u>	<u>\$ 2,409</u>

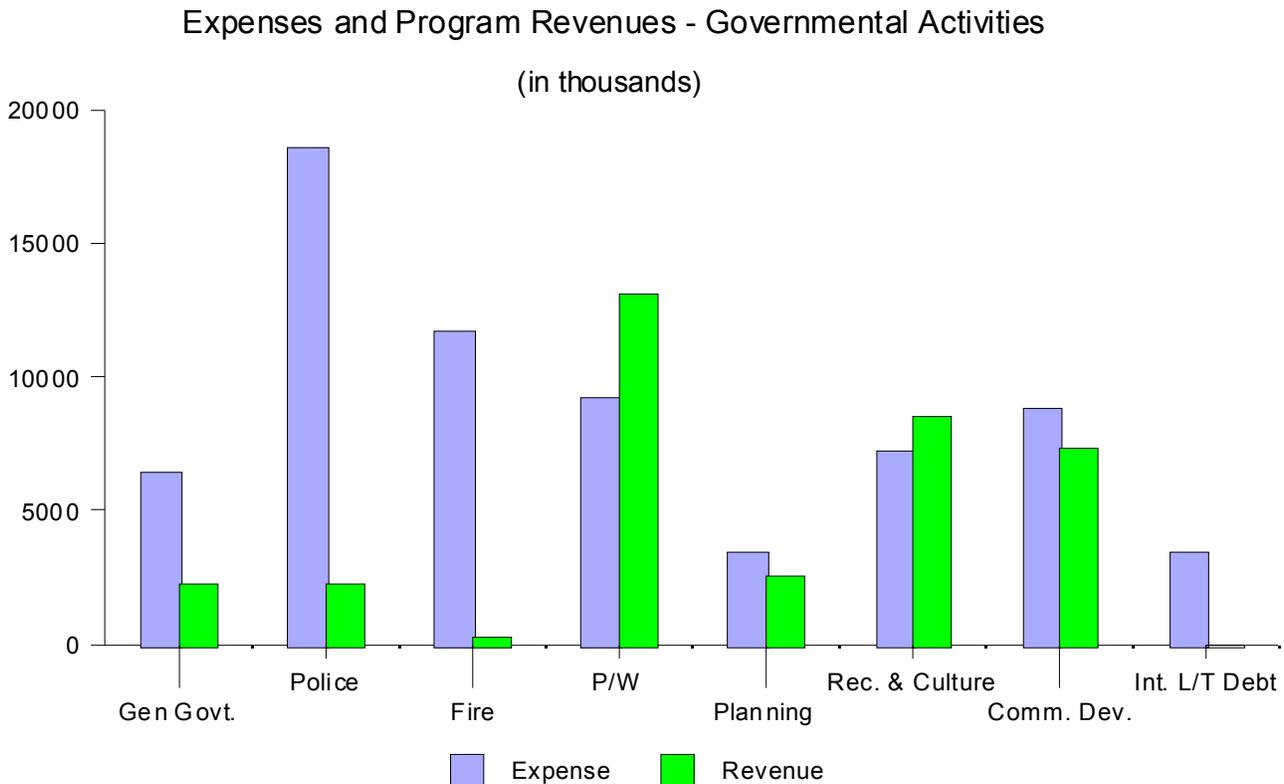
Governmental Activities

Program expenses exceed program revenues by \$32.5 million, however general revenues and transfers were \$48.2 million resulting in an increase in governmental activities net assets of \$15.7 million. This increase accounted for 72% of the total growth in the net assets of the City.

Taxes increased by 8.5% from the prior year. The large increase in taxes is primarily due to the continued strong economy. Tax rates were not increased during the year. Capital grants and contributions increased by 73% from the prior year. The increase is due to one-time grants, the largest of which was a \$5 million grant for the new Sports Complex. The City also received as capital grants and contributions approximately \$1.1 million for the Clover Creek Flood Protection Project.

Governmental activity expense increased by \$4.3 million (6.3%). The primary reasons for the increases are as follows:

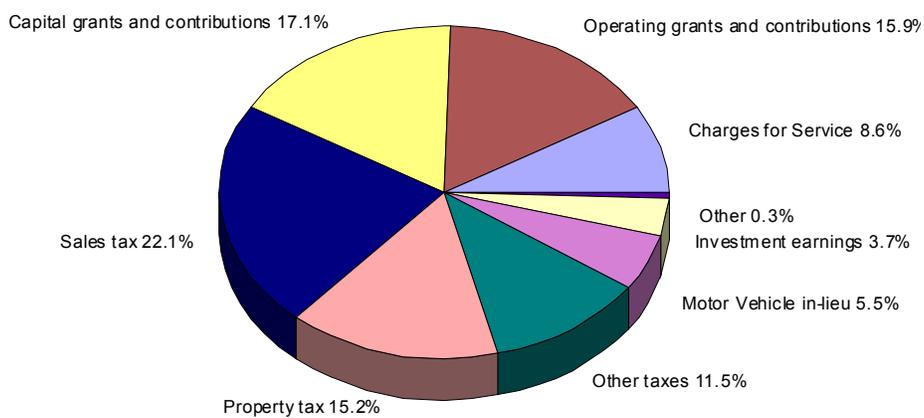
- Fire expenses increased by \$2.6 million (29.3%) primarily due to a \$1.7 million increase in personnel related costs.
- Police expenses increased by \$1.4 million (7.3%) primarily due to a \$1.2 million increase in personnel related costs.
- Other expenses have increased due to additional smaller projects, increased payroll expense and other increases.



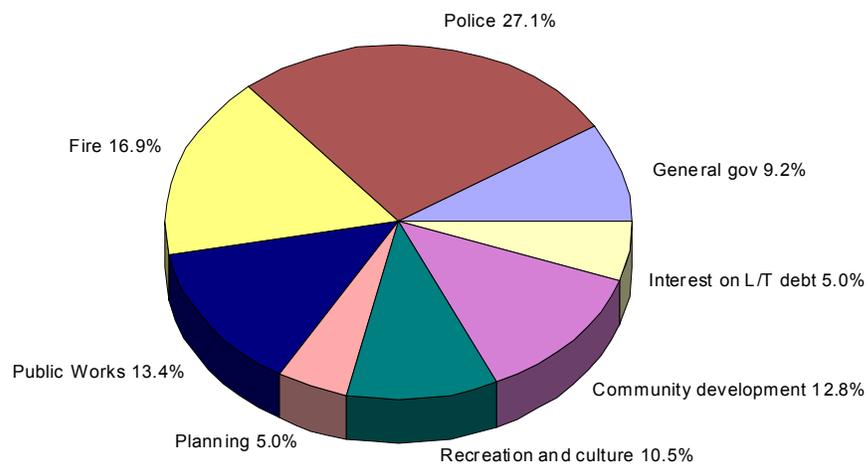
As shown in the expenses and program revenue graph on the previous page, the public works program revenues exceeded program expenses by \$3.9 million and Recreation and Culture revenues exceeded program expenses by \$1.3 million. The reason for revenues exceeding expenses is that program revenues for public works include \$7.9 million in capital grants and contributions and revenues from Recreation and Culture include \$7 million in capital grants and contributions. The capital grants and contributions were used for capital assets as they could not be used to cover operating expenses.

The following graphs show an illustrative picture of where the City funds come from and where they are spent.

Revenues by Source - Governmental Activities



Expenses by Source - Governmental Activities



Business-Type Activities

Business-type activities increased the City's net assets by \$6.0 million, accounting for 28% of the total growth in the government's net assets. Key elements of this increase are as follows:

- Revenues exceed expenses for water, wastewater, solid waste and storm drainage as funds are being accumulated for current and future capital projects. The following schedule shows business-type activities revenues and expenses.

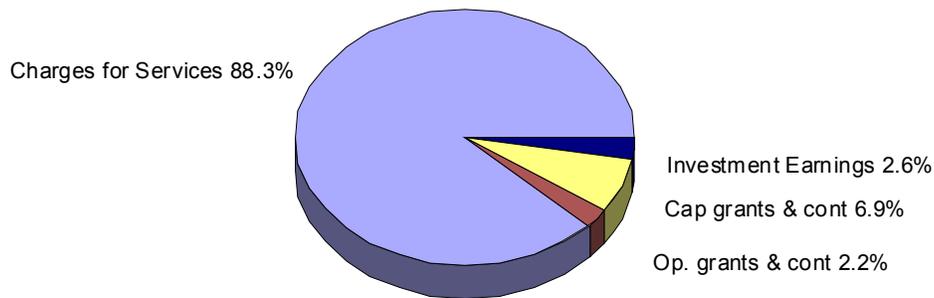
The increase in net assets discussed above was partially offset by a net decrease in the Electric Utility net assets. See below for further discussion of the decrease in Electric's net assets.

Revenues, Transfers and Expenditures - Business - Type Activities (in thousands)

	Net Assets July 1, 2002 (as restated)	Changes in Net Assets	Net Assets July 1, 2003
Electric Utility	\$ 148,166	\$ (7,287)	\$ 140,879
Water Utility	34,013	5,321	39,334
Wastewater Utility	49,354	3,650	53,004
Solid Waste Collection/Disposal	18,121	3,228	21,349

The Electric Utility change in net assets is \$12 million less than in the prior year due to a reduction in retail rates. In 1996 the City implemented a 23% interim rate surcharge to pay off some of the utilities debt to help position the Utility for deregulation. The surcharge was removed in July of 2002 and rates were rolled back to the pre-1997 amount. The surcharge accounted for approximately \$13 million of the Utility's revenues. The City Council has adopted a series of smaller rate increases to take effect in the future, which will insure the Utility maintains adequate reserves.

Revenues by Source - Business - Type Activities



Typically business-type activities charge customers for the services provided and the related necessary capital costs. As can be seen from the graph above, charges for services make up the vast majority (88.3%) of the revenues of the business-type activities.

Financial Analysis of the Government's Funds

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the fiscal year ended June 30, 2003, the City's governmental funds reported combined ending fund balances of \$86.5 million, an increase of \$5.8 million in comparison to June 30, 2002. Approximately 34% of this total (\$29 million) is considered unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate obligations that were in effect at the end of the prior period (encumbrances for such things as purchase orders or contracts) (\$15.1 million), 2) for non current advances, notes and receivables (\$21.7 million), 3) to pay debt service (\$9.2 million), 4) for capital projects (\$10.7 million), or 5) miscellaneous other items.

The General Fund is the chief operating fund of the City. At June 30, 2003, unreserved fund balance was \$8.8 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 17% of the total General Fund expenditures, while total fund balance represents 29% of total General Fund expenditures.

The fund balance of the City's General Fund decreased by \$6.6 million during the year ending June 30, 2003. The decrease in the General Fund's fund balance is due to transferring \$10 million to a debt service fund to fund the next 10 years of debt service due to be paid from the General Fund. The transfer is not required by any debt covenants, but was considered to be a prudent use of funds by the City Council and in

keeping with the City's long range 10-year plan.

General Fund revenues increased by \$2.4 million, while expenditures increased by \$5.1 million from FYE 2002 to 2003. The largest increases in revenue were in sales tax, which increased by \$1.3 million and in-lieu taxes increased by \$0.9 million. The increase in taxes is due to the strong economy in the area and the opening of several new retail outlets.

The \$5.1 million increase in expenditures is due to the following:

- Police expenditures increased by \$1.8 million, primarily due to a \$1.2 increase in wages, retirement and other related personnel costs
- Fire expenditures increased by \$2.5 million primarily due to a \$1.7 million increase in wages, retirement and other personnel costs. Of the \$1.7 million, .6 million relates to a one time expenditure.

The 1915 Act Assessment District Bonds Fund has a total fund balance of \$3.9 million, all of which is reserved for the payment of debt service. The 1915 Act Assessment District Bonds Fund makes debt service payments from assessments levied against property owners for improvements made in their area. Assessments approximate debt service payments. During the year, fund balance increased by less than \$10,000.

Proprietary Funds: The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The following schedule shows the changes in net assets of the major proprietary funds and restricted and unrestricted portions of net assets of the major proprietary funds of the City.

**Changes in Net Assets
Major Proprietary Funds
(in thousands)**

	Invested in Capital Assets, Net of Related Debt	Restricted Net Assets	Unrestricted Net Assets	Total Net Assets
Electric Utility	\$ 84,224	\$ 104	\$ 56,551	\$ 140,879
Water Utility	25,074	778	13,482	39,334
Wastewater Utility	46,116	9,258	(2,370)	53,004
Solid Saste Collection/Disposal	3,220	2,633	15,496	21,349

**Net Assets - Restricted and Unrestricted
Major Proprietary Funds as of June 30, 2003
(in thousands)**

	<u>O r i g i n a l</u>	<u>A m e n d e d</u>	<u>I n c r e a s e</u>
	\$ 6,529	\$ 7,571	\$ 1,042
General Government			
Public Safety:			
Police	17,676	19,745	2,069
Fire Safety	9,324	11,440	2,116
Public Works	6,891	8,171	1,280
Planning	3,863	4,111	248
Recreation and culture	6,297	6,424	127
Principal payments	1,022	1,134	112
Interest Payments	1,099	1,108	9
Total Expenditures	<u>\$ 52,701</u>	<u>\$ 59,704</u>	<u>\$ 7,003</u>

The factors affecting the above changes in net assets and other factors regarding the proprietary funds has already been addressed in the discussion of the City's business - type activities.

General Fund Budgetary Highlights

The City adopts two one-year budgets every other year. The fiscal year ending June 30, 2003 was the second year of the two-year budget process. The budget was originally adopted in June of 2001. Differences between the original General Fund budget and the amended General Fund budget expenditures are shown below:

General Fund Original and Amended Budget (in thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 16,453	\$ 1,511	\$ (524)	\$ 17,440
Construction in progress	8,378	7,162	(1,249)	14,291
Total capital assets, not being depreciated	24,831	8,673	(1,773)	31,731
Capital assets, being depreciated:				
Buildings	37,124	420	-	37,544
Improvements other than buildings	109,475	8,832	(36)	118,271
Automotive equipment	7,890	1,470	(224)	9,136
Furnishings and equipment	5,925	374	(553)	5,746
Assets under capital lease	801	-	-	801
Total capital assets, being depreciated	161,215	11,096	(813)	171,498
Less accumulated depreciation for:				
Buildings	(8,685)	(1,196)	-	(9,881)
Improvements other than buildings	(33,793)	(4,055)	36	(37,812)
Automotive equipment	(5,227)	(818)	217	(5,828)
Furnishings and equipment	(4,613)	(443)	503	(4,553)
Assets under capital lease	(304)	(81)	-	(385)
Total accumulated depreciation	(52,622)	(6,593)	756	(58,459)
Total capital assets, being depreciated, net	108,593	4,503	(57)	113,039
Governmental activities capital assets, net	\$ 133,424	\$ 13,176	\$ (1,330)	\$ 144,770
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 12,830	\$ 2,068	\$ -	\$ 14,898
Construction in progress	16,794	630	(15,096)	2,328
Total capital assets, not being depreciated	29,624	2,698	(15,096)	17,226
Capital assets, being depreciated:				
Utility plants	395,219	33,988	(645)	428,562
Buildings	39,980	-	(31)	39,949
Improvements other than buildings	25,649	458	-	26,107
Automotive equipment	21,513	1,141	(411)	22,243
Furnishings and equipment	13,995	2,083	(504)	15,574
Assets under capital lease	1,050	-	-	1,050
Total capital assets, being depreciated	497,406	37,670	(1,591)	533,485
Less accumulated depreciation for:				
Utility plants	(152,276)	(14,480)	729	(166,027)
Buildings	(15,835)	(1,243)	30	(17,048)
Improvements other than buildings	(10,979)	(1,708)	-	(12,687)
Automotive equipment	(10,676)	(1,730)	338	(12,068)
Furnishings and equipment	(7,736)	(1,840)	299	(9,277)
Assets under capital lease	(1,688)	(130)	-	(1,818)
Total accumulated depreciation	(197,679)	(21,131)	1,396	(217,414)
Total capital assets, being depreciated, net	299,736	16,539	(195)	316,080
Business-type activities capital assets, net	\$ 329,360	\$ 19,237	\$ (15,291)	\$ 333,306

As shown in the above table, the General Fund's original budget was increased by \$7 million or approximately 13%. The reasons for this increase are as follows:

- \$3 million was appropriated for grants and grant -type revenue obtained by the City after the budget was adopted.
- The City does not budget for certain equipment (primarily rolling stock) in the General Fund, but transfers cash from another fund and appropriates the amounts in the General Fund when the equipment is purchased. Additional equipment appropriations totaled \$1.2 million
- An additional \$2.2 million was appropriated for Police and Fire due to additional costs under their new union contracts. These amounts had been included in the prior General fund's Ten-Year Plan, but not officially appropriated until the union contracts were finalized.
- An additional \$0.7 million was appropriated to cover accumulated vacation, sick leave and other related costs to retirements. The City experienced more retirements than planned for in the original budget.
- The Fire Department appropriations were increased by \$0.4 million due to overtime being higher than expected when the original budget was developed. The increase in overtime was due primarily to industrial injuries that required the department to backfill with overtime and compensatory

overtime that generated additional overtime.

- The original budget was reduced by \$0.8 million due to lower retirement program costs than original anticipated
- Other miscellaneous appropriations totaled \$0.3 million or 0.6% of original adopted budget.

During the year revenues exceeding budgetary estimates and expenditures were less than budgetary estimates, thus eliminating the need to draw upon existing fund balances.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2003, totaled \$478 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, utility plants, collections, generation, distributions and transmissions systems, improvements, machinery and equipment, park facilities, roads, and bridges. The total increase in the City's investment in capital assets for the current year was \$15 million (a 8.5% increase for governmental activities and 1.2% for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Work continued on two wastewater interceptor projects. Construction in progress cost during the year totaled \$8.5 million.
- Developers added an estimated \$1.8 million of water, wastewater, electric and storm drainage improvements.
- Developers added an estimated \$2.9 million of streets and sidewalks.
- Solid waste further enhanced its automated collection and recycling program at a cost of \$2.3 million.
- Construction work on the new Aquatic Center was completed. During the year \$2.4 million was spent on the project. The total project cost was approximately \$5 million.
- Work continued on the Clover Creek Preserve, which when completed at an estimated cost of \$10 million will serve as a water retention holding area for storm drainage runoff and as park and preserve area. The current year cost of the project is \$1.5 million.
- Work was started on a \$16 million sports park. When completed in the spring of 2004 it will have replicas of big league baseball park fields, three baseball fields, indoor multi-purpose sports room, restaurant and other amenities. The current year cost of the project was \$4.6 million.
- Work continued on the buckeye Reservoir. The current year cost was \$1.2 million

Changes in capital assets consist of the following:

Changes in Capital Assets
(in thousands)

	<u>Balance</u> <u>June 30, 2002</u>	<u>Additions/ Transfers</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2003</u>
Governmental activities:				
Capital Leases Payable	\$ 973	\$ 235	\$ 199	\$ 1,009
Lease revenue bonds	12,336	7,978	2,136	18,178
1993 revenue bonds	7,890	-	215	7,675
Redevelopment bonds	31,445	-	1,080	30,365
Special assessment debt	10,694	-	877	9,817
State Loans	511	-	265	246
Total governmental activities	<u>63,849</u>	<u>8,213</u>	<u>4,742</u>	<u>67,320</u>
Business-Type Activities				
General Obligation debt (payable from enterprise funds)	1,629	0	929	700
State loans payable	5,241	10,382	87	15,536
Revenue bonds	56,089	40,090	40,536	55,643
Certificates of participation	127,648	-	21,048	106,600
Capital leases	796	-	115	681
Special Assessment debt (payable from enterprise funds)	253	0	26	227
Total Business-type activities	<u>191,656</u>	<u>50,472</u>	<u>62,741</u>	<u>179,387</u>
Total outstanding long term debt	<u>\$ 255,505</u>	<u>\$ 58,685</u>	<u>\$ 67,483</u>	<u>\$ 246,707</u>

See Note 5 to the Financial Statements for additional information regarding capital assets.

Long Term Debt

The following schedule shows the changes in long-term debt for the year not including unamortized deferred loss on defeasance, bond discounts and bond premiums. (amounts are in thousands)

	Balance June 30, 2002	Additions/ Transfers	Reductions	Balance June 30, 2003
Governmental activities:				
Capital Leases Payable	\$ 973	\$ 235	\$ 199	\$ 1,009
Lease revenue bonds	12,336	7,978	2,136	18,178
1993 revenue bonds	7,890	-	215	7,675
Redevelopment bonds	31,445	-	1,050	30,395
Special assessment debt	10,694	-	877	9,817
State Loans	511	-	265	246
Total governmental activities	<u>63,849</u>	<u>8,213</u>	<u>4,742</u>	<u>67,320</u>
Business -Type Activities				
General Obligation debt (payable from enterprise funds)	1,629	0	929	700
State loans payable	5,241	10,382	87	15,536
Revenue bonds	56,089	40,090	40,536	55,643
Certificates of participation	127,648	-	21,048	106,600
Capital leases	796	-	115	681
Special Assessment debt (payable from enterprise funds)	253	0	26	227
Total Business-type activities	<u>191,656</u>	<u>50,472</u>	<u>62,741</u>	<u>179,387</u>
Total outstanding long term debt	<u>\$ 255,505</u>	<u>\$ 58,685</u>	<u>\$ 67,483</u>	<u>\$ 246,707</u>

The City's total debt increased by \$58.7million during the year ending June 30, 2003. The increase is due primarily to the following:

- A state loan was obtained to finance a major wastewater interceptor project. \$10.4 million was borrowed during the year. It is anticipated that the total loan will be \$16.8 million when the project is completed.
- Lease revenue bonds were issued in the amount of \$9.1 million (\$8 million for governmental activities and \$1.1 for business-type activities) to refinance \$3 million of bonds issued in 1993 and to provide \$5.4 million to partially fund the \$5 million Aquatic enter project at the \$16 million Sports Complex project.
- \$15.4 million in Water bonds were issued to refinance \$15 million in previously issued Water Bonds.
- \$23 million in Wastewater bonds were issued to refinance \$23.9 million in previously issued Wastewater bonds.
- Capital leases for equipment were issued totaling \$0.2 million.

Currently, the City's legal debt margin is \$178 million. However, this relates only to general obligation type bonds. Other factors such as available revenues, special assessment pledges, etc. will affect the City's actual capacity to issue future debt.

As a result of the implementation of Governmental Accounting Standards Board Statement No. 6, it was determined that the City is obligated in some manner on the 1915 Act Assessment District Bonds. The obligation is a result of the City management's prior practice of temporarily advancing funds to the assessment districts when delinquencies exceed the amounts available in the assessment district's cash reserve fund, if directed by Council. In 1999, Council directed staff not to advance funds to assessment districts unless legally obligated to do so. As a result, during the year, some principle and interest payments on two special assessment bond issues were not made due to a high delinquency rate in those assessment districts. The City is not liable for these bonds. The security for the bondholders is the property on which assessments have been levied and not paid. The City has no obligation to advance funds to these assessment districts. See note 21 to the Financial Statement for further discussion.

Additional information on the City's long-term debt can be found in note 9 on pages 80 - 87 of this report.

Economic Factors and Next Year's Budgets and Rates

- The City of Redding has experienced a steady increase in population since 1996 of one to four percent per year while the unemployment rate has decreased from 9.9% in 1996 to 7.6% in 2003.
- Inflationary trends in the region compare favorably to national indices.
- The assessed valuation within the City increased by \$251 million or (6%) in the current year.
- Overall tax revenue for the City has increased by 8.5% during the year. The City expects this growth rate to return to approximately 4% during the fiscal year 2002-03.

All of these factors were considered in preparing the City's budget for 2003-04 fiscal year.

During the current fiscal year, unreserved fund balance in the General Fund decreased to \$8.8 million. The City did not appropriate any of this amount for spending in the 2003-04 fiscal year budget. This amount, adjusted for certain known factors, has been included in the City's 10-year financial plan and the City continues to maintain above a 5% reserve in all years.

The Electric, Water and Wastewater Utilities all have scheduled rate increases that their budgets were built on for the fiscal year 2003-04. The Water rate increase is approximately 3.6% effective January 1, 2004 while Wastewater's rate increase is approximately 2%, also effective January 1, 2004. The Electric rate increase is 4% effective January 1, 2004.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any information provided in this report or request for additional financial information should be directed to:

The City of Redding
Finance Division
777 Cypress Avenue
Redding, CA 96001