

CITY OF REDDING
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 Year Ended June 30, 2003

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December 22, 2003

Honorable Mayor, Members of
City Council, and City Manager
City of Redding, California 96001

Honorable Members:

In accordance with State and local statutes, the City of Redding hereby submits the Comprehensive Annual Financial Report for the year ended June 30, 2003. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe that the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and result of operations of the City in accordance with generally accepted accounting principles; and that all disclosures necessary to enable the reader to gain maximum understanding of the City's financial affairs have been made.

The City's financial statements have been audited by Hathaway and Ksenzulak, LLP, a firm of licensed certified public accountants. 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, 2003, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based on the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2003, are fairly presented in conformity with GAAP.

The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A.) This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

GENERAL INFORMATION

The City of Redding is a general law city, incorporated under the laws of the State of California in 1887. A council of five members elected at large for staggered four-year terms governs the City. The Mayor, Vice-Mayor, City Manager, and City Attorney are appointed by the City Council. The City Clerk and City Treasurer are also elected officials and serve four-year terms.

Redding is the county seat for Shasta County and is located on the Sacramento River approximately 160 miles north of Sacramento, the state capital, and 150 miles east of the Pacific Ocean at the northernmost end of the Sacramento Valley. The City has an estimated population of 85,700 and encompasses approximately 60 square miles within the corporate limits. Extracting timber and the processing of wood byproducts along with agriculture, tourism and government have historically been the pillars of the local economy. Over the past few decades, there has been a general shift toward a service-based economy.

REPORTING ENTITY AND ITS SERVICES

This report includes all of the funds of the City. Financial information for separate legal entities related to the City of Redding includes the Redding Housing Authority, Redding Redevelopment Agency, Redding Area Bus Authority, and the Redding Joint Powers Financing Authority. All are accounted for in the City's financial statements in accordance with Governmental Accounting and Financial Reporting Standards. Component unit financial reports are on file with the City.

City Council members in separate sessions serve as the governing board of the Redding Joint Powers Financing Authority and Redding Redevelopment Agency. All five members of the City Council sit on the eight-member governing board of the Redding Area Bus Authority and the six member Housing Authority's board. City staff provides accounting and administrative services to all four agencies. Additional detail is provided in Note 1, Subparagraph A of the financial statements.

Redding is a full-service city. This includes public safety (police and fire), highways and streets, public improvements, planning and zoning, recreation and parks, airports, convention and auditorium facility, utilities (electric, water, wastewater, storm drainage, and solid waste collection and disposal), and general administrative services.

LOCAL ECONOMY

The growth and health of an area's economy can be determined by monitoring a wide variety of indicators. Listed below are some of these indicators in the Redding area:

Population Characteristics - The City was one of the fastest growing cities in California between 1970 and 1990, growing to 66,462 resident in 1990 from 16,659 in 1970. Since 1990 the City's population growth has been approximately 2% per year. The City's population of 85,703 has increased 6.0% over the 2000 U.S. Census tabulation. The City's population represents approximately 50% of Shasta County's population. The following table indicates population growth for the City and Shasta County from 1970 to 2003:

Year	<u>City of Redding</u>		<u>Shasta County</u>	
	Population	Annualized Percent Change Over Interval	Population	Annualized Percent Change Over Population
1970	16,659	3.04%	77,640	9.67%
1980	41,995	15.21	119,449	5.38
1990	66,462	5.83	147,036	2.31
2000	80,865	2.17	163,256	1.10
2001	82,543	2.08	165,669	1.48
2002	84,560	2.44	169,300	2.19
2003	85,703	1.35	172,000	1.60

Source: 1970-2000 data from U.S. Census; 2001 – 03 data from the California State Department of Finance as of January 1.

The following table sets forth a projection of the City’s population growth over the next 10 years, a projected growth for the community of approximately 16,700 representing an increase of approximately 19.5%:

<u>Year</u>	<u>Population (Rounded)</u>
2003	85,700
2008	93,880
2013	102,400

Source: Economic Sciences Corp.

The Redding area is expected to maintain approximately 50% or more of the total Shasta County population because of a variety of factors that will support urban development, including utilities (wastewater, storm drainage, water, electric, and solid waste), employment, regional shopping, recreation opportunities, transportation services, and reduced commuting.

Housing Costs - Housing in the City is less costly than in many other urban areas in the State of California and on the West Coast. The following table sets forth the median price of housing in other urban areas of California as compared to Redding as of June 2003:

<u>Region</u>	<u>Single Family Homes</u>
Redding	\$219,000
Sacramento	\$260,000

Los Angeles County	\$330,000
Orange County	\$425,000
San Francisco	\$570,000

Source: California Association of Realtors & Shasta County Board of Realtors

Industrial Development Cost and Lease Rates - Industrial land costs vary with the degree of available infrastructure and proximity to other related and supportive industries. A prime site is one that has readily available utilities (gas, water, wastewater, and electric) and has access to transportation systems, including a major freeway system, trucking, railway, and an airport. Following are comparative amounts for the 2003 cost per square foot for a fully improved five-acre parcel of industrial land, including all bonds and assessments:

<u>Region</u>	<u>Average Prime</u>
Redding	\$2.00 - 3.00
Chico	1.50 - 2.50
Sacramento	4.00 - 5.00
San Jose	15.00 - 20.00

Source: Coldwell Banker Commercial Properties

The monthly lease rate for industrial buildings varies with location, infrastructure, type, and square footage of the building. The following table compares monthly 2003 lease rates from several areas for a metal fabricated building of 10,000 square feet containing a small office and facilities, roll-up doors, and paved parking:

<u>Region</u>	<u>Gross Basis</u>
Sacramento	\$0.40
Redding	\$0.42
Chico	\$0.35
San Jose	\$1.00

Source: Coldwell Banker Commercial Properties

Industry and Employment - Extracting timber and the processing of wood by-products, together with agriculture, tourism, and government, have historically been the major sectors of employment in the City. Over the last decade, the City's economic base has diversified to a regional service economy supported by retail and wholesale trade plus educational, recreational, medical, and government services for an area covering several counties.

The major non-local government employers in the City and the County include those in medical services, heavy forest products, and retail services. Major private employers in the Redding area, their products or services, and the approximate number of their respective full time employees as of June 2003 are listed in the following table:

<u>Company</u>	<u>Product/Services</u>	<u>Employees</u>
Mercy Medical Center	Medical Facilities/Services	1,550

Redding Medical Center	Medical Facilities/Services	1,050
Redding Rancheria	Casino/Health Clinic	674
Sierra Pacific Industries	Manufacturing	650
J & A Food Service	Food Services/Restaurants	600
Shasta Nursery	Plants	600
Holiday Markets	Grocery	356

Source: Greater Redding Chamber of Commerce

According to the State Employment Development Department, the unemployment rate of the City's metropolitan area was 7.6% on June 30, 2003. The following table sets forth the number and rate (expressed as a percentage) of unemployed persons living within the City's metropolitan area for the month of June 1997 through June 2003:

Fiscal Year Ending June 30	Labor Force	Unemployment	
		Number	Rate
1997	74,100	6,500	8.8%
1998	72,900	6,600	9.1%
1999	73,500	5,100	6.9%
2000	76,200	5,100	6.7%
2001	75,500	4,600	6.7%
2002	77,500	5,400	7.0%
2003	81,800	6,200	7.6%

Source: State Department of Employment

Construction Activity - For the past ten calendar years ending December 2002, the City issued building permits valued at a total of \$1,089,017,248. New construction over the ten-year period represents 76% of the total construction activity. For the 2002 calendar year 3,840 building permits were issued, with a total permit valuation of \$178,620,374. The City of Redding is experiencing moderate growth at this time. Current trends indicate that the City of Redding will continue to grow at a moderate growth rate in the years to come.

The following table sets forth the value and number of permits for new single and multiple family dwellings and businesses located in the City for the last three calendar years:

	2000	2001	2002
Value Single Family*	\$62,674,665	\$79,087,448	\$96,289,276
Number of Permits	422	506	587
Value Multi-dwellings	\$12,141,711	\$ 415,756	\$6,451,892
Number of Permits	45	2	24
Number of Units	179	6	97

Value Business	\$23,413,393	\$31,697,413	\$34,446,221
Number of Permits	47	74	45

Value Total all Permits	\$119,672,542	\$136,689,172	\$178,620,374
Total permits **	2038	3349	3840

* Value of new Construction only

** Does not include number of units for multi-dwellings

Source: COR Development Services Dept.

Commerce - The City is a regional center of commerce for several Northern California counties. This is evidence by its many shopping centers and malls. Support for retail sales is derived from a retail trade area population of approximately 172,000 in the primary trade area and approximately 243,000 in the secondary trade area. The primary trade area consists of the metropolitan urban area, including the cities of Redding, Shasta Lake, and Anderson. The secondary trade area consists of Shasta, Trinity, and Tehama counties. Taxable transactions in the City reached \$1,652,064,000 in calendar year 2002, a 5.8% increase over the same period for 2001. The number of outlets reporting taxable sales to the California State Board of Equalization remained fairly constant, from 2,900 in 1997 to 2,984 in 2002 as follows:

Year	Number of Outlets	Taxable Transactions (In Thousands)	Taxable Transactions Percentage (In Thousands) Increase (Decrease)
1997	2,900	1,165,153	4.2
1998	2,884	1,198,000	2.8
1999	2,836	1,327,370	10.8
2000	2,863	1,453,052	9.5
2001	2,906	1,561,842	7.5
2002	2,984	1,652,064	5.8

Source: California State Board of Equalization

Transportation - The City enjoys a strategic location on U.S. Interstate Highway 5, the principal transportation artery running north-south from Mexico to Canada. The City is also bisected by State Highway 299 and State Route 44, key east-west transportation arteries in Northern California.

The City is served by the Union Pacific Railroad and Amtrak for rail transportation. Greyhound serves the City with bus service. United Express Airlines and Horizon Air provide air service from Redding Municipal Airport to cities throughout California and the Pacific Northwest.

“THE RIDE” is the City’s multi-bus transportation system and offers thirteen different fixed routes, rural service and demand response (curb-to-curb) services. THE RIDE had an average total monthly ridership of more than 63,776 for fiscal year 2002-03.

Utilities - Electricity, solid waste collection and disposal, water, storm drainage, and wastewater services are provided by enterprise operations owned and operated by the City. Natural gas is provided by Pacific Gas and Electric Company (PG&E); basic telephone service by SBC.

Community Services - Youth in the area attend school at one of 24 elementary schools, 9 middle schools, and 8 high schools. Shasta College, a two-year institution, offers both day and evening courses to approximately 11,000 students. Simpson College, a four-year liberal arts institution, has current enrollment of approximately 2,000 students.

The City's parks system includes 63 developed parks, encompassing 406 acres. Included in this total acreage are 68 acres of natural area parks (improved open space), and 27 miles of trails. In addition, the City has 14 special purpose facilities, including the Redding Convention Center, which hosts cultural/performing arts programs, conferences, and conventions; the Redding Big League Dreams Sports Park (under construction); the Senior Citizens Center; 3 boat ramp facilities providing access to the Sacramento River; and various community centers and special event venues such as the Martin Luther King, Jr. Center, the Teen Center, and the Civic Center's Community Room.

The City serves as the primary medical center for Northern California. The City's two general care hospitals serve approximately 360,000 people in Shasta, Tehama, Trinity, Siskiyou, and Lassen counties. The two hospitals have a total of 542 beds and employ approximately 2,600 staff members. In addition, the City also has several specialized hospitals.

Significant Events and Accomplishments Fiscal Year 2002-03

Major Zoning Ordinance Update Completed - The Redding 2000-2020 General Plan adopted in late 2000, includes new policies governing land use, neighborhood character, development, recreation amenities, economic development, and the preservation of natural areas in Redding. State law requires the community to adopt a zoning ordinance to implement these policies within a reasonable period of time after a new general plan is adopted.

After approximately two years of drafting, review, and public hearings, the City's new Zoning Ordinance went into effect on December 5, 2002. This comprehensive revision replaces the Interim Zoning Ordinance under which the City had been operating since adoption of the General Plan in October 2000.

Oasis Road Specific Plan - Work on the Oasis Road Specific Plan (Specific Plan) continued during 2002-2003 with a focus on identifying a land use plan that will be analyzed by the required EIR and serve as the basis for development of policies for the Specific Plan. The purpose in preparing a specific plan is to ensure orderly development of Redding's next major commercial area. The area of commercial land around the Oasis Road/I-5 interchange is expected to support a truly regional-scale commercial area.

Buckeye Reservoir - Prior to the completion of this project, the Buckeye Zone had a critical shortage of

storage capacity and the 7 MGD Buckeye Water Treatment Plant was incapable of operating at maximum capacity due to this limited reservoir storage. The Water Master Plan recommended the installation of a 4.0 MG water reservoir near the Buckeye Water Treatment Plant. In April of 2002, a \$1.2 million construction contract was awarded for the installation of the recommended reservoir. The completion of the Buckeye 4.0 MG reservoir in April of 2003 now allows the treatment plant to operate at maximum capacity to meet the peak water-demand periods and provide additional fire protection for the Buckeye area.

Westside Sewer Interceptor - A \$15.5 million construction contract was awarded in FY 2000/01 and construction is nearly complete. The total project is funded by Wastewater Utility funds and \$16.7 million from a State Water Resources Control Board 2.7% A.P.R. loan. The projected completion date is November 2003.

Eastside Sewer Interceptor - A \$2.4 million construction contract was awarded in FY 2000/01. Both Phase 1 of the project, which includes construction of a parallel sewer line from Highway 44 north to Boulder Creek School, and Phase 2, which extends the parallel line from Highway 44 south to the Churn Creek Lift Station, was completed in October 2002.

Airport Road 24-Inch Water Main - A \$1.51 million project was constructed in FY 2001/02, and was completed on November 27, 2002. The project was funded by the Water Utility. The project consisted of the installation of approximately 15,000 lineal feet of pipe.

Cypress Avenue Widening - This project will widen Cypress Avenue from Market Street to Athens Avenue. It is fully funded with STIP funds. The estimated cost of the project is approximately \$1.67 million. Project construction began in November 2002 and will be complete in November 2004.

Cypress Avenue Undergrounding Project - For FY02/03, the Electric Department (REU) budgeted \$500,000 for the conversion of REU overhead lines on Cypress Avenue from just east of Pine Street to just west of Athens Avenue. Work on the project began in November 2002. During FY02/03, about 95 percent of project work was completed with installation of conduits, splice boxes, pad transformers, underground power cables, and pad switchgear. Cutover of REU customers to underground electric service and removal of REU overhead facilities was completed in September 2003. The project was completed within budget. Each year, \$500,000 is proposed to be budgeted for undergrounding overhead REU distribution lines along major streets or highly visible areas of the City.

Power Supply Resources - On September 13, 2000, the City's Mayor signed a 20-year agreement with Western for the continued purchase of low-cost hydroelectricity from the Central Valley Project (CVP). Service under the new agreement will begin on January 1, 2005, and continues through 2025, with the City receiving a "slice of the system" allocation from Western. Under current projections, the City's energy allocation will drop from current levels of approximately 600 GWh to about 250 GWh delivered to the City based upon the hydrology of the CVP. In anticipation of this significant contractual change, the City has undertaken an aggressive program to add additional local generation (Unit 5 at Redding Power) and secure a long-term fixed rate contract with a major power supplier (25 MW American Electric Power [AEP]).

Redding Aquatic Center - The \$5 million dollar Redding Aquatic Center, the only pool of its kind north of Sacramento, held its grand opening gala on May 23, 2003 with more than 2,000 swimmers there to celebrate.

Redding Convention Center - Renovations of the Convention Center continued in 2003 with the addition of new carpeting and various ADA-accessibility improvements. Also launched was a new ticketing/telephone system to improve customer service. A new fee schedule was approved by City Council in September 2003 to help fund future capital improvements to the almost 35 year-old building as well as other service improvements.

Partnering on Parks, Trails and Other Amenities – The city has formed strategic partnerships with schools, service clubs, various levels of government and other organizations to foster the creation of new recreational amenities for our City. In 2003, these projects included:

- Jump River, a new children’s playground in Caldwell Park with Redding East Rotary, Shasta First Five, Shasta County Public Health and Shasta County Office of Education.
- New ball fields and playground at Manzanita School with Redding Youth Soccer, West Redding Little League, Redding School District and the Manzanita School Parents Association.
- Westside Trail Expansion, with the California Conservation Corps.

Partnerships that have been developed in 2003 for future projects include renovation of boat launches at Lake Redding, Convention Center/Turtle Bay and South Bonnyview; new trail construction and development of parkland at the Clover Creek Preserve.

Projects for Fiscal Year 2003-04 and Beyond

Security Enhancements - Redding Municipal Airport and Benton Airpark - Events of September 11, 2001 and subsequent actions necessitate a substantial strengthening of security measures at both the Redding Municipal Airport and Benton Airpark. These enhancements include: additional security fencing, access gate modifications, security cameras and emergency communications upgrades.

Railroad Over crossing/Downtown Mall - In 2002 the City Council authorized preparation of feasibility studies for the Downtown Mall circulation improvement project and a second railroad grade separation at South Street. The studies were presented to a City Council appointed Citizens Committee for evaluation and recommendation. The Citizens Committee recommended, and City Council agreed, that the City should proceed with both projects.

Shasta View Drive - This project will construct the portion of Shasta View Drive between

Galaxy and Saturn Skyway. It is currently in final design and scheduled to be complete in June 2004. The project is funded by the City and is estimated to cost \$823,000.

Browning Street - The connection of Browning Street to Canby and Hilltop was a project identified in the Hilltop/Dana Specific Plan. The initial phase of the project includes one lane in each direction, a left turn lane, a shoulder to accommodate bicycle traffic and a signal at Hilltop and Browning. The ultimate configuration after more development occurs in the area will be two lanes in each direction. This project will greatly improve traffic circulation in the Hilltop/Data area and construction will be completed in November 2003.

Clover Creek Flood Protection and Environmental Enhancement Project - Proposition 13 approved in March of 2000, provides \$5 million toward the Clover Creek Flood Protection and Environmental Enhancement Project; staff completed an agreement with the state for the funds. Another \$2 million is being made available from the SHASTEC Redevelopment Agency. The preliminary project cost is estimated at \$8.2 million. The project design is complete. Due to delayed permits from the Army Corps of Engineers construction began in August 2003. A winter suspension will be required with construction to be completed by October 2004.

Cypress Avenue Bridge Widening - This is a multi-year project to rehabilitate and widen the Cypress Bridges over the Sacramento River. The construction cost estimates for the bridge widening and intersection improvements at Athens and Hartnell range from \$23,660,000 to \$31,747,054. There is \$24,000,000 currently available for the project from the California Department of Transportation. The City is providing the additional funding to cover the difference between the available funding and the cost estimates. The environmental process for this project is underway. Once this process is complete, design and right of way acquisition can proceed. Construction could take from 36 to 48 months.

Dana On-Ramp/Sacramento River Bridge Widening - This project will construct an additional westbound lane over SR299 from I-5 to Auditorium Drive to add a third travel lane. It will also make the connection for the extension of Dana Drive from Hilltop to the SR299 on-ramp. Caltrans is the lead agency for the project, and funding is provided through the state highway account. The estimated project cost is \$33.4 million. The environmental assessment is expected to be complete in January 2004. Construction is scheduled to start by January 2007.

Moore Road Substation 115/12kV Transformer Addition - In recent years, significant electrical load growth has occurred in the east and southwest Redding areas. To assure continued reliable City of Redding electric service, it is proposed to install a second 115/12kV transformer at the Moore Road Substation prior to the summer of 2005. To meet project time lines, design and ordering of long lead-time material will need to occur in fiscal year FY2004. Construction will then follow during FY2005. Project cost is currently estimated at \$2 million.

Clover Creek Flood Protection and Environmental Enhancement Project - As part of Redding's ongoing efforts to improve the Clover Creek drainage basin, Redding Electric Utility will be sponsoring the development and construction of a caretaker's home at the site that will be used to demonstrate the benefits of energy-efficient construction techniques, applications and

measures. This project will be complete by the fourth quarter of 2004.

REU Geo-Thermal Demonstration Project - Redding Electric Utility partnered with a local residential contractor to install state-of-the-art Geo-Thermal heating and cooling systems in a 25 home subdivision in east Redding. This renewable energy demonstration project began in early 2003 and is expected to be completed by late 2004.

Redding Fire Station #8 - The new fire station in the Northeast area of the City will be located at 131 Churn Creek Rd. (Just south of College View-Hwy 299). The anticipated completion date is November 2004. The Station will house one fire engine staffed with two firefighters on duty at all times. This will greatly improve the emergency response times to that area of the City.

Redding Municipal Airport Aircraft Fire Rescue Fire Station #7 - The Federal Aviation Administration is requiring and funding the construction of a new Aircraft Firefighting/Rescue fire station at the airport. Two very large and very specialized aircraft firefighting and rescue response vehicles will be housed in the new station. The City will take advantage of the FAA funding of the station and partner with them in building what will be a “joint use” fire station, serving the City of Redding residents in the Southeast portion of the City as well as the Airport proper.

New Shasta County Library - Planning continued in 2002-03 on the New Shasta County Library project, with site-selection and preliminary designs submitted for public input. In October 2003, the project was awarded \$12.2 million in funding from the State of California. The library will be built just south of Tiger Field, adjacent to South City Park and the Civic Center. When completed in 2005-06, the library will be a key component of the Civic Center campus.

Redding Sports Complex - Construction on the \$17-million Redding Sports Complex continued in anticipation of a Spring 2004 completion date. The project, being built on a 100-acre site in east Redding just north of Highway 44 at the Viking Way and Old Oregon Trail intersection, will ultimately feature the following amenities:

- Three youth baseball/adult softball fields built to replicate major-league baseball stadiums (Chicago’s Wrigley Field, Boston’s Fenway Park and New York’s Yankee Stadium),
- Two non-replica softball fields;
- A 20,000 square foot indoor multi-sport field house -- designed to accommodate inline hockey, basketball, indoor soccer, indoor volleyball, and corporate and special events with concession stand;
- Other features such as nine batting cages, four sand volleyball courts, a tiny tot playground, concession stands picnic areas;
- A future site for the Shasta Sports Hall of Fame; and
- The Stadium Club, a food and beverage family-style restaurant, designed and operated to attract and accommodate league, tournament and corporate users.

The complex is being built to the specifications of Big League Dreams, a private sports complex management company whom the City has partnered with to operate the facility. This unique partnership ensures professional maintenance for the facility while also generating an income

stream for the City that will help pay the construction costs.

Future phases of the project will include soccer fields, walking trails, manicured parkland and other recreational amenities.

Turtle Bay Sundial Bridge - With the raising of the spire in Summer 2003, work is nearing completion on the glass-decked Sundial pedestrian bridge designed by world-renowned architect Santiago Calatrava. When finished in early-2004, the bridge will be part of the City of Redding's nationally recognized Sacramento River Trail system, and link all 300-acres of the Turtle Bay Exploration Park.

CASH MANAGEMENT

The City follows the practice of pooling temporarily idle cash during the year. Monies not required for immediate expenditure are invested in accordance with the State code and the City's formal investment policy. These monies were invested in time certificates of deposit, commercial paper, demand deposits, U.S. Government securities, medium term Corporate notes, and the State of California Local Agencies Investment Fund.

RISK MANAGEMENT

The City is self-insured for employee health, worker's compensation, and liability insurance coverages. These programs are administered through private contractors. The City is self-insured up to \$300,000 for workers' compensation, up to \$500,000 and over \$25 million for liability insurance, and up to \$25,000 for property damage insurance. The City is co-insured for workers' compensation claims of \$300,001 or more, for liability claims of \$500,001 to \$25 million, and for property damage claims over \$25,000.

Health insurance, workers' compensation, liability and property insurance activities are reported in the risk management internal service fund. The cost of workers' compensation claims as employee benefits is charged to the fund that employs the claimant. Funds determined to be at risk for liability and property insurance are charged a percentage of the estimated total cost of the insurance program. Percentages are based upon loss experience and are reported as quasi-external transactions. The estimated liability for pending and incurred but not reported claims is \$8,590,000 and are included in year-end accruals.

FEDERAL GRANTS SINGLE AUDIT APPROACH

The City of Redding is required to undergo a single audit in conformity with the provisions of the Single Audit Act of 1984 and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. This report has been prepared under the "single audit" concept. Under this approach, one agency is recognized as the oversight agency or oversight agency of the Office of Management and Budget. In the case of the City of Redding, the Housing and Urban Development Office has been assigned as the single audit oversight agency. The financial report will be reviewed by the oversight agency for compliance

with all Federal grant requirements, and notification of the results will be provided to other Federal agencies. A separate schedule of Federal financial assistance is available upon request.

As a recipient of Federal, State, and County financial assistance, the City of Redding is responsible for implementing an adequate internal control structure to ensure compliance with applicable laws and regulations related to those programs. The results of the City of Redding's single audit for the fiscal year ended June 30, 2003 provided no instances of material weaknesses in the internal control structure or significant violation of applicable laws and regulations.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Redding for its comprehensive annual financial report for the fiscal year ended June 30, 2002. This was the 19th consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

I would like to take this opportunity to thank the members of the Audit Committee and the City Council for their cooperation and support in conducting the financial operations of the City in a responsible and progressive manner. Appreciation is also expressed to all City departments who contributed information provided in this financial report and the City's professional and accounting staff who made this presentation possible. In addition, I would like to extend a special thanks and recognition to Dennice Maxwell, Assistant Finance Officer, who was primarily responsible for the coordination of the audit and preparation of the financial report. It is the combined effort of all participants that resulted in the issuance of this document.

Stephen W. Strong
Finance Officer

