

*In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the 2014 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "CONCLUDING INFORMATION – Tax Matters."*

**\$60,000,000**  
**Silicon Valley Clean Water**  
**(San Mateo County, California)**  
**2014 Wastewater Revenue Bonds**

**Due:** February 1, as shown on the inside cover

**Dated:** Date of Delivery

**The Authority:** Silicon Valley Clean Water (formerly named the South Bayside System Authority) (the "Authority" or "SVCW") is a joint exercise of powers authority established to provide wastewater transmission, treatment, and effluent disposal for the cities of Belmont, Redwood City, and San Carlos, and the West Bay Sanitary District (collectively, the "Members").

**Purpose:** The captioned bonds (the "2014 Bonds") are being issued to finance the acquisition and construction of capital improvements to the Authority's wastewater system and pay costs of issuing the 2014 Bonds.

**Book-Entry; Denominations; Payment Dates:** The 2014 Bonds will bear interest at the rates shown on the inside cover, payable semiannually on February 1 and August 1 of each year, commencing on August 1, 2014, and will be issued in fully registered form without coupons in the denomination of \$5,000 or any integral multiple of \$5,000. The 2014 Bonds will be issued in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the 2014 Bonds will not receive certificates representing their interests in the 2014 Bonds. Payments of the principal of, premium, if any, and interest on the 2014 Bonds will be made by DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the 2014 Bonds. See "THE 2014 BONDS."

"Record Date" for the Bonds is defined in the Indenture as the 15th calendar day of the month immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

**Security:** The 2014 Bonds are limited obligations of the Authority, which are payable solely from and secured solely by the Revenues pledged under the Indenture, consisting primarily of payments made by the City of Redwood City, the City of San Carlos, and the West Bay Sanitary District (the "Participating Members") under the Financing Agreements. The 2014 Bonds do not constitute an indebtedness of the Authority, the Participating Members, the State of California or any political subdivision or agency thereof within the meaning of any constitutional or statutory provisions. Neither the faith and credit nor the taxing power of the State of California, nor any political corporation or subdivision or agency thereof, nor the faith and credit of the Authority or the Participating Members, is pledged to the payment of the principal of or interest on the 2014 Bonds.

The Participating Members' obligations under their respective Financing Agreements are secured by a pledge of Net Revenues derived from the respective wastewater systems of the Participating Members. The Participating Members executed and delivered these or similar Financing Agreements in connection with issuance by the Authority of its (i) \$10,000,000 initial principal amount of 2008 Wastewater Revenue Bonds (the "2008 Bonds") and (ii) \$55,855,000 initial principal amount of 2009 Wastewater Revenue Bonds (the "2009 Bonds"); under the Financing Agreements, each Participating Member's obligation with respect to the 2008 Bonds and the 2009 Bonds and its obligation with respect to the 2014 Bonds are payable on a parity basis from Net Revenues of the Participating Member's wastewater collection system. In addition, the Participating Members are authorized to incur additional obligations payable from Net Revenues on a parity basis with their obligations under the Financing Agreements.

The Authority is not funding a debt service reserve account for the 2014 Bonds.

**Redemption:** The 2014 Bonds are subject to optional and mandatory sinking fund redemption prior to their stated date of maturity.

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**MATURITY SCHEDULE**  
**(see inside cover)**

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*The 2014 Bonds will be offered when, as and if issued subject to the approval of legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Jones Hall is also acting as Disclosure Counsel to the Authority. Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, is acting as Underwriter's Counsel. Certain legal matters will be passed upon by the general counsels of the Authority and the West Bay Sanitary District, and by the city attorneys of the City of Redwood City and the City of San Carlos. It is anticipated that the 2014 Bonds in definitive form will be available for delivery to DTC on or about March 20, 2014.*



## MATURITY SCHEDULE

Base CUSIP<sup>†</sup>: 82707B

### \$35,490,000 Serial Bonds

Maturity Date (February 1)	Principal Amount	Interest Rate	Yield	CUSIP <sup>†</sup>
2015	\$820,000	3.000%	0.120%	AA7
2016	975,000	4.000	0.220	AB5
2017	1,010,000	5.000	0.400	AC3
2018	1,060,000	5.000	0.660	AD1
2019	1,115,000	4.000	0.990	AE9
2020	1,160,000	5.000	1.360	AF6
2021	1,220,000	5.000	1.770	AG4
2022	1,280,000	5.000	2.120	AH2
2023	1,345,000	5.000	2.380	AJ8
2024	1,410,000	5.000	2.600	AK5
2025	1,480,000	5.000	2.790 (C)	AL3
2026	1,555,000	5.000	2.970 (C)	AM1
2027	1,635,000	5.000	3.140 (C)	AN9
2028	1,715,000	5.000	3.270 (C)	AP4
2029	1,800,000	5.000	3.380 (C)	AQ2
2030	1,890,000	5.000	3.480 (C)	AR0
2031	1,985,000	5.000	3.600 (C)	AS8
2032	2,085,000	5.000	3.700 (C)	AT6
2033	2,190,000	5.000	3.770 (C)	AU3
2034	2,300,000	5.000	3.820 (C)	AV1
2035	2,410,000	4.000	4.000	AW9
2040	3,050,000	4.200	4.200	AY5

\$10,815,000 5.000% Term Bond due February 1, 2039 Yield 4.060% (C) CUSIP<sup>†</sup> 82708B AX7

\$13,695,000 5.000% Term Bond due February 1, 2044 Yield 4.150% (C) CUSIP<sup>†</sup> 82708B AZ2

(c) Yield to the optional redemption date of February 1, 2024.

<sup>†</sup> Copyright 2014, CUSIP Global Services, and a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, which is managed on behalf of American Bankers Association by S&P Capital IQ. None of the Authority, the Members or the Underwriter assumes any responsibility for the accuracy of the CUSIP data.

# SILICON VALLEY CLEAN WATER

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## Authority Commissioners

<u>Commissioner</u>	<u>Title</u>	<u>Member Agency Represented</u>
Ronald W. Shepherd	Chair	West Bay Sanitary District
John Seybert	Vice Chair	City of Redwood City
Robert Grassilli	Secretary	City of San Carlos
Warren Lieberman	Member	City of Belmont

## Authority Management

Daniel T. Child, *Manager*  
Teresa Herrera, *Assistant Manager/Authority Engineer*  
Monte Hamamoto, *Wastewater Superintendent*

## Professional Services

*Bond Counsel and Disclosure Counsel*  
Jones Hall, A Professional Law Corporation, San Francisco, California

*Financial Advisor*  
Bartle Wells Associates, Berkeley, California

*Authority Counsel*  
Law Offices of David E. Schricker, Sunnyvale, California

*Trustee*  
The Bank of New York Mellon Trust Company, N.A., Los Angeles, California

## GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

**Use of Official Statement.** This Official Statement is submitted in connection with the sale of the 2014 Bonds and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the 2014 Bonds.

**Estimates and Forecasts.** When used in this Official Statement and in any continuing disclosure by the Authority and the Participating Members, in any press release and in any oral statement made with the approval of an authorized officer of the Authority and the Participating Members, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify forward looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the Authority and the Participating Members since the date of this Official Statement.

**Limit of Offering.** No dealer, broker, salesperson or other person has been authorized by the Authority, the Participating Members or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2014 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

**Limited Scope of Information.** The Authority and the Participating Members have obtained certain information set forth in this Official Statement from sources which are believed to be reliable, but such information is neither guaranteed as to accuracy or completeness, nor to be construed as a representation of such by the Authority and the Participating Members. The information and expressions of opinions in this Official Statement are subject to change without notice and neither delivery of this Official Statement nor any sale of the 2014 Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority and the Participating Members since the date of this Official Statement. All summaries of or references to the documents referred to in this Official Statement are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. All capitalized terms used in this Official Statement, unless noted otherwise, have the meanings given in the Indenture.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

**Stabilization of Prices.** In connection with this offering, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the 2014 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the 2014 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside cover page and the public offering prices may be changed from time to time by the Underwriter.

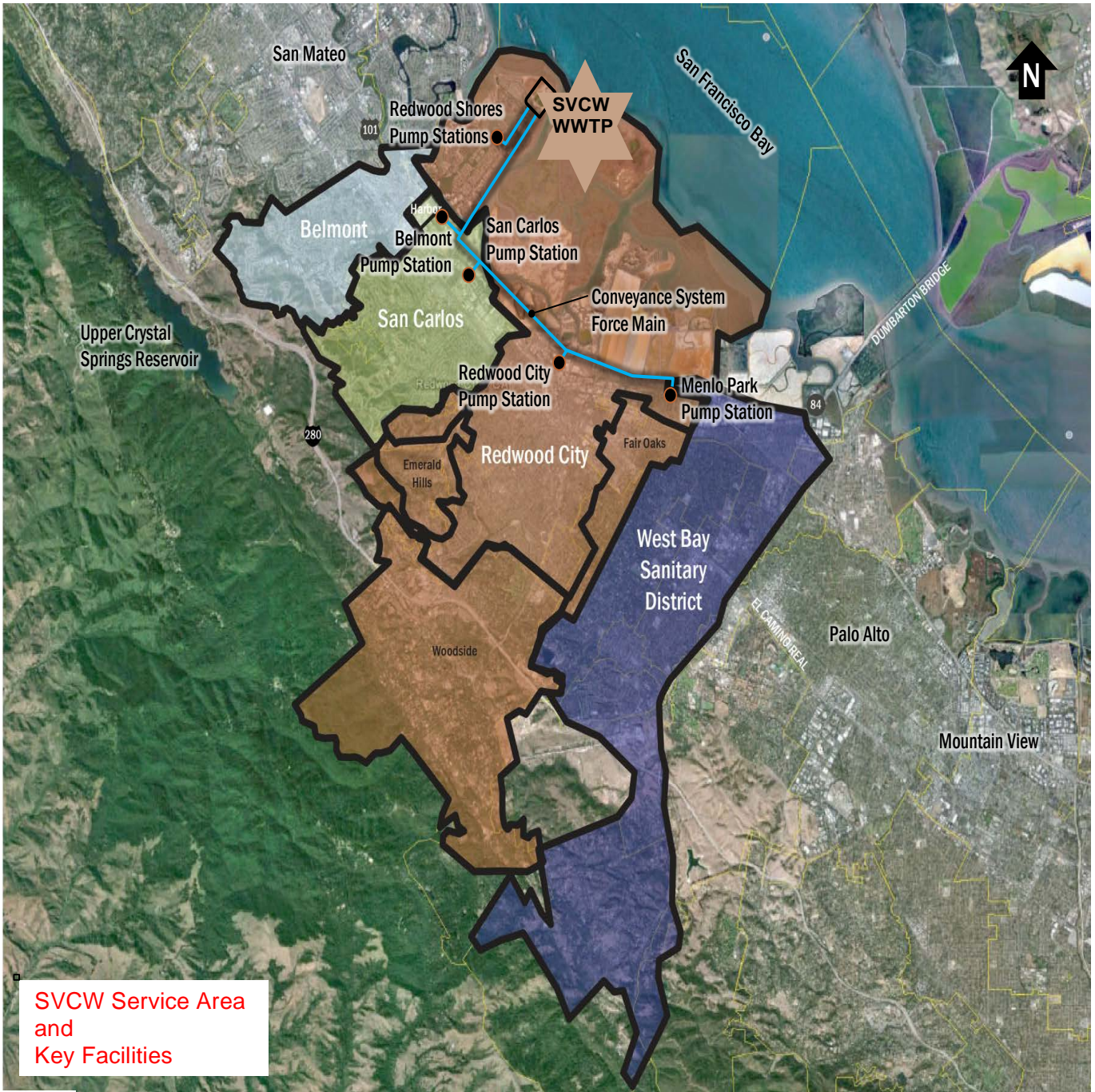
THE 2014 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE 2014 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

**Website.** The Authority and the Participating Members maintain Internet websites. The information on those websites is not incorporated by reference in this Official Statement.

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**\$60,000,000**  
**Silicon Valley Clean Water**  
**(San Mateo County, California)**  
**2014 Wastewater Revenue Bonds**

**INTRODUCTION**

*This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and attached appendices, and the documents that it summarizes or describes. A full review should be made of the entire Official Statement. Unless otherwise indicated, capitalized terms used but not defined in this Official Statement have the respective meanings ascribed to them in the Indenture (as that term is defined below).*

This Official Statement, including the cover page and attached appendices, is provided to furnish information regarding the bonds captioned above (the “**2014 Bonds**”) to be issued by Silicon Valley Clean Water (formerly the South Bayside System Authority) (the “**Authority**” or “**SVCW**”) under authority conferred by its Joint Powers Agreement (as that term is defined below).

**Silicon Valley Clean Water**

Silicon Valley Clean Water is a joint exercise of powers authority that provides wastewater transmission, treatment, and effluent disposal services to the cities of Belmont, Redwood City, and San Carlos, and the West Bay Sanitary District (collectively, the “**Members**”), all of which are located in the northern part of Silicon Valley, between the cities of San Francisco and San Jose. The Authority’s wastewater treatment plant is located in the City of Redwood City. The Authority serves more than 200,000 people and businesses located predominantly in San Mateo County, California. See “THE AUTHORITY AND THE WASTEWATER SYSTEM” below.

The Authority owns and operates a regional wastewater treatment plant with an average dry weather flow permit capacity of 29 million gallons per day, an approximately nine-mile influent force main pipeline that conveys wastewater from the Members to the Authority’s treatment plant, five wastewater pump stations, and a 1.25 mile effluent disposal pipeline that discharges treated effluent into the San Francisco Bay. The Authority also provides recycled water to the City of Redwood City.

The Authority is in the process of rebuilding, rehabilitating, and upgrading its wastewater transmission and treatment facilities, which are approaching the end of their useful operating lives. The Authority has already funded or has received funding commitments for over \$113 million to be used for capital improvements. A recent update of the Authority’s 2008 10-Year Capital Improvement Program (the “**CIP**”) identified roughly \$430 million of capital funding needed over approximately the next five years, accounting for 3% annual construction cost inflation. The Authority anticipates funding its remaining CIP costs via a combination of bonds (including the 2014 Bonds), State Revolving Fund Loans issued by the California State Water Resources Control Board, a line of credit with Bank of the West and cash funding. See “THE AUTHORITY AND THE WASTEWATER SYSTEM – Capital Improvement Program” and “THE AUTHORITY AND THE WASTEWATER SYSTEM – Financial Plan.”

The 2014 Bonds are being issued to generate funding for the next phase of the Authority's CIP. Financing Agreements adopted between the Authority and the City of Redwood City, the City of San Carlos, and the West Bay Sanitary District (the "**Participating Members**") obligate each of these agencies to make payments to the Authority for their respective allocable share of debt service on the 2014 Bonds. The City of Belmont is not a Participating Member for this financing and is not obligated to make any debt service payments on the 2014 Bonds. The Participating Members include:

- **City of Redwood City** - The City of Redwood City is located approximately 25 miles south of San Francisco and has a population of roughly 79,000. The City of Redwood City owns and operates a sanitary sewer collection system consisting of approximately 200 miles of sewer pipelines and 31 sewer lift stations. In addition to providing wastewater service within its boundaries, Redwood City also conveys wastewater from five San Mateo County sewer maintenance districts and the Town of Woodside to the Authority for treatment and effluent disposal pursuant to agreements with each agency.
- **City of San Carlos** - The City of San Carlos is located approximately 22 miles south of San Francisco and has a population of roughly 29,000. The City of San Carlos owns and operates a sanitary sewer collection system consisting of approximately 104 miles of sewer pipelines and 6 sewer lift stations. In addition to providing wastewater service within its boundaries, San Carlos also conveys wastewater from four San Mateo County sewer maintenance districts to the Authority for treatment and effluent disposal pursuant to agreements with each agency.
- **West Bay Sanitary District** - The West Bay Sanitary District is an independent special district that provides wastewater service to the City of Menlo Park and surrounding areas. The District is located approximately 26 miles south of San Francisco and serves a population of approximately 55,000. The West Bay Sanitary District owns and operates a sanitary sewer collection system consisting of approximately 200 miles of sewer pipelines and 13 sewer pump stations.

Each of the Member Agencies has been proactively raising sewer rates to support their allocable share of funding requirements for the Authority's operations and CIP, as well as their own operating and capital programs. See "THE AUTHORITY AND THE WASTEWATER SYSTEM - Participating Member Historical & Adopted Sewer Rate Increases.

### **Purpose of the 2014 Bonds**

The above-captioned bonds (the "**2014 Bonds**") are being issued to finance the acquisition and construction of capital improvements to the Authority's wastewater system (the "**Project**") and pay costs of issuing the 2014 Bonds. The Project includes capital improvements that are allocable to the City of Redwood City, the City of San Carlos, and the West Bay Sanitary District (the "**Participating Members**"). The City of Belmont will fund its share of the allocable improvements independently.

### **Security for the 2014 Bonds**

The 2014 Bonds are being issued under an Indenture of Trust, dated as of March 1, 2014 (the "**Indenture**"), between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "**Trustee**"). The 2014 Bonds are limited obligations of the Authority, payable



solely from “**Revenues**” under the Indenture consisting primarily of (i) certain amounts payable by the Participating Members under the Financing Agreements described below (the “**SVCW Bond Payments**”), representing the portion of debt service on the 2014 Bonds that is allocable to each Participating Member (the “**Allocable Share**”), and (ii) amounts on hand from time to time in the funds established under the Indenture. The 2014 Bonds are not secured by other revenues of the Authority.

Each Participating Agency is obligated to pay debt service for its approximate Allocable Share of the 2014 Bonds as follows:

<u>Participating Member</u>	<u>Allocable Share of 2014 Bonds (%)</u>	<u>Allocable Share of 2014 Bonds (\$)</u>
City of Redwood City	53.63887%	\$32,183,324.12
City of San Carlos	16.72004	10,032,026.50
West Bay Sanitary District	<u>29.64108</u>	<u>17,784,649.38</u>
Total	100.00000%	\$60,000,000.00

The Authority previously entered into or will enter into the following Financing Agreements (each, a “**Financing Agreement**”):

- Financing Agreements with the Participating Members, each dated as of December 1, 2008, as amended, in connection with issuance by the Authority of its \$10,000,000 initial principal amount 2008 Wastewater Revenue Bonds (the “**2008 Bonds**”). The Financing Agreements with the City of Redwood City and West Bay Sanitary District, as amended, obligate those parties to make payments to the Authority with respect to the 2008 Bonds, the 2009 Bonds (defined below), the 2014 Bonds, and all future bond issuances of the Authority.
- Financing Agreement, dated as of July 1, 2009, with the City of San Carlos in connection with issuance by the Authority of its \$55,855,000 initial principal amount 2009 Wastewater Revenue Bonds (the “**2009 Bonds**”). The 2009 Bonds were issued as Build America Bonds and the Authority receives (and allocates proportionate shares to each Participating Members of) payments from the federal government (“**Refundable Credits**”).
- Financing Agreement, dated as of March 1, 2014, with the City of San Carlos related to the 2014 Bonds. The City of San Carlos and the Authority entered into a separate financing agreement related each of to the 2008 Bonds and the 2009 Bonds.

Under the Financing Agreements, each Participating Member is obligated to make SVCW Bond Payments to the Authority in an amount sufficient to pay that Participating Member’s Allocable Share of debt service on (i) the 2008 Bonds, (ii) the 2009 Bonds, (iii) the 2014 Bonds and (iv) any bonds issued by the Authority in the future.

Each Participating Member’s obligation to make the SVCW Bond Payments under its Financing Agreement is secured by a lien on and pledge of Net Revenues derived from the wastewater system of the Participating Member, and is not secured by the full faith and credit or general funds of the Participating Member. Each Participating Member’s obligation to make SVCW Bond Payments with respect to the 2014 Bonds is payable on a parity basis with its

obligation to pay its Allocable Share of debt service on the 2008 Bonds and its Allocable Share of debt service on the 2009 Bonds. There is no joint or several liability among the Participating Members, and each Participating Member is obligated only for its Allocable Share.

The Authority is not funding a debt service reserve for the 2014 Bonds.

### **Parity Debt of the Participating Members**

The Participating Members are authorized under their respective Financing Agreements to incur additional obligations payable from Net Revenues, which may be on a parity with the SVCW Bond Payments that secure the 2014 Bonds. As of the date hereof, none of the Participating Members has incurred any obligations on a parity with their obligations in respect of the 2008 Bonds, the 2009 Bonds and the 2014 Bonds. See "SECURITY FOR THE 2014 BONDS – Issuance of Parity Debt by the Authority."

### **Other Debt of the Authority**

The Authority is not authorized to issue additional obligations payable from Revenues, because "Revenues" is defined to include the SVCW Bond Payments that represent debt service on the 2014 Bonds. However, the Authority has previously issued the 2008 Bonds and the 2009 Bonds, which are payable from SVCW Bond Payments that represent debt service on those bonds, and may issue bonds in the future payable from increased SVCW Bond Payments.

**SRF Loans.** The Authority has previously been awarded funding commitments for a combined total of \$46,745,835 under two loans from the California State Water Resources Control Board (each an "**SRF Loan**"). In addition, the Authority intends to borrow an additional amount of up to \$284,000,000 under future SRF Loans. The SRF Loans are payable from a source of the Authority's revenues that is separate and distinct from the source of revenues which is pledged for payment of the 2008 Bonds, the 2009 Bonds and the 2014 Bonds, but each Participating Member will be responsible for payments to the Authority for repayment of the SRF Loans pursuant to the Joint Powers Agreement (as defined below). While the SRF Loans are not direct obligations of the Participating Members, and are not secured by a pledge of Net Revenues, payments from each Participating Member are paid to the Authority pursuant to Joint Powers Agreement (as defined below). Payments made by the Participating Members with respect to the SRF Loans are not secured by a pledge of or lien on the Net Revenues from the respective wastewater systems of such Participating Members. See "SECURITY FOR THE 2014 BONDS - State Revolving Fund Loans of the Authority".

**Line of Credit.** The Authority has a short-term line of credit with Bank of the West (the "Line of Credit"), which is used to provide interim funding and facilitate the continued funding of capital projects prior to obtaining long-term financing. The Line of Credit is also payable from a source of the Authority's revenues that is separate and distinct from the source of revenues which is pledged for payment of the 2008 Bonds, the 2009 Bonds and the 2014 Bonds, and each Participating Member will be responsible for payments to the Authority for repayment of the Line of Credit pursuant to the Joint Powers Agreement (as defined below) All amounts drawn under the Line of Credit as of the date the 2014 Bonds are issued will be repaid from the proceeds of the 2014 Bonds. Payments made by the Participating Members with respect to the Line of Credit are not secured by a pledge of or lien on the Net Revenues from the respective wastewater systems of such Participating Members. See "SECURITY FOR THE 2014 BONDS – Line of Credit."

**Disclaimer**

This introduction is not a summary of this Official Statement. Information presented in this section is described more completely elsewhere in this Official Statement, which should be read in its entirety. Terms used in this Official Statement and not otherwise defined have the meanings ascribed to them in the Indenture. All references herein to the 2014 Bonds, the Indenture, the Joint Exercise of Powers Agreement, and the Financing Agreements are qualified in their entirety by reference to the actual documents. Documents referred to in this Official Statement can be obtained from the financial advisor prior to the closing, and from the Authority thereafter.

## FINANCING PLAN

### General

The 2014 Bonds are being issued to finance the acquisition and construction of capital improvements to the Authority's wastewater system (the "Project") and pay costs of issuing the 2014 Bonds.

### The Project

The Authority is in the process of rebuilding, rehabilitating, and upgrading its wastewater transmission and treatment facilities, which are approaching the end of their useful operating lives. In addition, planned technological upgrades and system-wide automation projects are designed to improve operational efficiency and reliability and are expected to reduce future operating and maintenance expenses of the facilities.

The Authority has already funded or received funding commitments for over \$113 million to be used for capital improvements, including funds from the 2008 Bonds, the 2009 Bonds, cash contributions from the City of Belmont, SRF Loans, the Line of Credit, and interest earned on project funds. A recent update of the CIP identified roughly \$430 million of additional capital funding needed over approximately the next five years, accounting for 3% annual construction cost inflation. The Authority anticipates funding its remaining capital improvement costs via a combination of bonds (including the 2014 Bonds), SRF Loans issued by the California State Water Resources Control Board, the Line of Credit and cash funding.

Under the Joint Powers Agreement, each of the Members is contractually obligated to fund its allocable share of the Authority's capital improvements. The City of Belmont anticipates providing cash for its allocable share of related capital improvements of the Authority's CIP.

See "THE AUTHORITY AND THE WASTEWATER SYSTEM – Capital Improvement Plan" and "THE AUTHORITY AND THE WASTEWATER SYSTEM – Financial Plan" for additional information about the CIP and the Authority's plans for meeting the capital funding needs.

### Anticipated Sources and Uses of Funds

The following table sets forth the estimated sources and uses of funds with respect to the 2014 Bonds.

<b>Sources:</b>	
Par Amount of Bonds	\$60,000,000.00
Plus Original Issue Premium	6,063,374.65
<i>Total Sources</i>	\$66,063,374.65
<b>Uses:</b>	
Deposit to Project Fund	\$65,232,274.90
Underwriter's Discount	526,099.75
Costs of Issuance <sup>(1)</sup>	305,000.00
<i>Total Uses</i>	\$66,063,374.65

(1) Estimate includes legal and financing costs, printing costs, initial fees of the Trustee, advertising costs, Bond Counsel and Disclosure Counsel fees, Financial Advisor fees, Rating Agency fees and certain other costs.

## DEBT SERVICE SCHEDULE

The following table presents the annual debt service on the 2008 Bonds, the 2009 Bonds and the 2014 Bonds (including sinking fund redemptions), assuming there are no optional redemptions. The Participating Members' scheduled payments under the Financing Agreements are sufficient in time and amount to pay scheduled debt service on the 2008 Bonds, the 2009 Bonds and the 2014 Bonds when due.

Period Ending	2008 Bonds	2009 Bonds <sup>(1)</sup>	2014 Bonds Principal	2014 Bonds Interest	2014 Bonds Total Debt Service	Grand Total Debt Service
6/30/14	\$774,450.00	\$5,025,837.50				\$5,800,287.50
6/30/15	774,350.00	5,009,036.00	\$ 820,000.00	\$2,517,545.00	\$ 3,337,545.00	9,120,931.00
6/30/16	773,650.00	4,990,710.50	975,000.00	2,889,600.00	3,864,600.00	9,628,960.50
6/30/17	772,350.00	4,960,560.50	1,010,000.00	2,850,600.00	3,860,600.00	9,593,510.50
6/30/18	770,450.00	4,943,389.00	1,060,000.00	2,800,100.00	3,860,100.00	9,573,939.00
6/30/19	772,287.50	4,909,805.00	1,115,000.00	2,747,100.00	3,862,100.00	9,544,192.50
6/30/20	772,737.50	4,884,536.75	1,160,000.00	2,702,500.00	3,862,500.00	9,519,774.25
6/30/21	771,725.00	4,843,597.75	1,220,000.00	2,644,500.00	3,864,500.00	9,479,822.75
6/30/22	769,225.00	4,808,281.50	1,280,000.00	2,583,500.00	3,863,500.00	9,441,006.50
6/30/23	770,445.00	4,768,265.75	1,345,000.00	2,519,500.00	3,864,500.00	9,403,210.75
6/30/24	765,097.50	4,728,369.75	1,410,000.00	2,452,250.00	3,862,250.00	9,355,717.25
6/30/25	767,722.50	4,688,232.00	1,480,000.00	2,381,750.00	3,861,750.00	9,317,704.50
6/30/26	763,445.00	4,642,190.00	1,555,000.00	2,307,750.00	3,862,750.00	9,268,385.00
6/30/27	762,500.00	4,584,815.00	1,635,000.00	2,230,000.00	3,865,000.00	9,212,315.00
6/30/28	764,625.00	4,535,571.25	1,715,000.00	2,148,250.00	3,863,250.00	9,163,446.25
6/30/29	765,000.00	4,478,870.00	1,800,000.00	2,062,500.00	3,862,500.00	9,106,370.00
6/30/30	763,625.00	4,419,515.00	1,890,000.00	1,972,500.00	3,862,500.00	9,045,640.00
6/30/31		4,359,180.00	1,985,000.00	1,878,000.00	3,863,000.00	8,222,180.00
6/30/32		4,292,132.50	2,085,000.00	1,778,750.00	3,863,750.00	8,155,882.50
6/30/33		4,220,567.50	2,190,000.00	1,674,500.00	3,864,500.00	8,085,067.50
6/30/34		4,148,877.50	2,300,000.00	1,565,000.00	3,865,000.00	8,013,877.50
6/30/35		4,066,657.50	2,410,000.00	1,450,000.00	3,860,000.00	7,926,657.50
6/30/36		3,988,300.00	2,510,000.00	1,353,600.00	3,863,600.00	7,851,900.00
6/30/37		3,902,995.00	2,635,000.00	1,228,100.00	3,863,100.00	7,766,095.00
6/30/38		3,810,337.50	2,765,000.00	1,096,350.00	3,861,350.00	7,671,687.50
6/30/39		3,714,720.00	2,905,000.00	958,100.00	3,863,100.00	7,577,820.00
6/30/40		3,610,535.00	3,050,000.00	812,850.00	3,862,850.00	7,473,385.00
6/30/41			3,175,000.00	684,750.00	3,859,750.00	3,859,750.00
6/30/42			3,335,000.00	526,000.00	3,861,000.00	3,861,000.00
6/30/43			3,505,000.00	359,250.00	3,864,250.00	3,864,250.00
6/30/44			3,680,000.00	184,000.00	3,864,000.00	3,864,000.00
<b>Total</b>	<b>\$13,073,685.00</b>	<b>\$121,335,885.75</b>	<b>\$60,000,000.00</b>	<b>\$55,359,195.00</b>	<b>\$115,359,195.00</b>	<b>\$249,768,765.75</b>

(1) Includes gross debt service on Series 2009 Bonds; does not include proportionate share of Refundable Credits.

Source: SVCW

## THE 2014 BONDS

### Authority for Issuance

The 2014 Bonds will be issued by the Authority in accordance with Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code (commencing with Section 6584) (the “**Bond Law**”) of the State of California (the “**State**”), resolutions adopted by the governing boards of the Authority and the Participating Members, and the Indenture.

### Description of the 2014 Bonds

**Bond Terms:** The 2014 Bonds will be dated their date of delivery and issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple of \$5,000. The 2014 Bonds will mature in the amounts and on the dates, and bear interest at the rates per annum, set forth on the inside cover page of this Official Statement.

**Payments of Principal and Interest:** Interest on the 2014 Bonds will be payable on February 1 and August 1 in each year, beginning August 1, 2014 (each an “**Interest Payment Date**”).

Interest on the 2014 Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless:

- (i) a 2014 Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date,
- (ii) a 2014 Bond is authenticated on or before July 15, 2014, in which event interest thereon will be payable from the Closing Date, or
- (iii) interest on any 2014 Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

Interest is payable on the 2014 Bonds on each Interest Payment Date to the persons in whose names the ownership of the 2014 Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest on any 2014 Bond which is not punctually paid or duly provided for on any Interest Payment Date is payable to the person in whose name the ownership of such 2014 Bond is registered on the Registration Books at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Trustee, notice of which is given to such Owner by first-class mail not less than 10 days prior to such special record date.

The Trustee will pay interest on the 2014 Bonds by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owners of the Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. At the written request of the Owner of 2014 Bonds in an aggregate principal amount of at least \$1,000,000, which written request is on file with the Trustee as of any Record Date, the Trustee will pay interest on such 2014 Bonds on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account of a financial institution within the United States of America as specified in such written request, which written

request will remain in effect until rescinded in writing by the Owner. The Trustee will pay principal of the Bonds in lawful money of the United States of America by check of the Trustee upon presentation and surrender thereof at the Office of the Trustee.

**Redemption**

**Optional Redemption:** The 2014 Bonds maturing on or before February 1, 2024 are not subject to optional redemption prior to maturity.

The Bonds maturing on February 1, 2035 and on February 1, 2040, are subject to redemption prior to maturity, at the option of the Authority, in whole or in part among maturities on such basis as designated by the Authority and by lot within a maturity, from any available source of funds, on February 1, 2022, and on any date thereafter, at a redemption price equal to 100% of the principal amount of Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium. The 2014 Bonds maturing on or after February 1, 2025 (other than the 2014 Bonds maturing on February 1, 2035 and February 1, 2040) may be called prior to maturity and redeemed at the option of the Authority on any date on or after February 1, 2024, as a whole or in part, from any source of available funds, at a redemption price of 100% of the of the principal amount of the 2014 Bonds to be redeemed, together with accrued interest to the date of redemption.

**Mandatory Sinking Fund Redemption:** Subject to certain provisions of the Indenture, the 2014 Bonds maturing on February 1, 2039 and February 1, 2044 are subject to mandatory redemption in whole, or in part by lot, from sinking fund payments made under the Indenture at a redemption price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest to the date of redemption, in the aggregate respective principal amounts and on August 1 in the years shown in the following tables:

**Term Bond maturing February 1, 2039**

Payment Date (February 1)	Payment Amount
2036	\$ 2,510,000
2037	2,635,000
2038	2,765,000
2039 (maturity)	2,905,000

**Term Bond maturing February 1, 2044**

Payment Date (February 1)	Payment Amount
2041	\$ 3,175,000
2042	3,335,000
2043	3,505,000
2044 (maturity)	3,680,000

**Notice of Redemption:** The Trustee will mail notice of any redemption to the respective Owners of any 2014 Bonds designated for redemption at their respective addresses appearing on the registration books, to the Securities Depositories and to the Municipal Securities Rulemaking Board, at least 30 but not more than 60 days prior to the date fixed for redemption; *provided, however,* that neither failure to receive any such notice so mailed nor any defect

therein will affect the validity of the proceedings for the redemption of such 2014 Bonds or the cessation of the accrual of interest thereon.

The Authority has the right to rescind any notice of optional redemption of the 2014 Bonds under the Indenture by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the 2014 Bonds then called for redemption, and such cancellation shall not constitute an event of default. The Authority and the Trustee have no liability to the Owners or any other party related to or arising from such rescission of redemption.

**Manner of Redemption:** Whenever provision is made in the Indenture for the redemption of less than all of the 2014 Bonds of the same maturity, the Trustee will select the 2014 Bonds to be redeemed by lot in any manner which the Trustee in its sole discretion deems appropriate. For purposes of such selection, all 2014 Bonds will be deemed to be comprised of separate \$5,000 denominations and such separate denominations will be treated as separate 2014 Bonds which may be separately redeemed.



## SECURITY FOR THE 2014 BONDS

### General

The 2014 Bonds are limited obligations of the Authority, payable solely from “**Revenues**” under the Indenture consisting primarily of (i) SVCW Bond Payments to be received by the Authority from Participating Members, and (ii) amounts on hand from time to time in the funds established under the Indenture. In conjunction with the issuance of the 2014 Bonds, and pursuant to the Financing Agreements, the Authority has directed the Participating Members to make the SVCW Bond Payments directly to the Trustee.

All SVCW Bond Payments received by the Trustee will be deposited in the Revenue Fund which will be maintained by the Trustee under the Indenture. On or before each date on which principal of or interest or premium (if any) on the 2014 Bonds becomes due and payable, the Trustee will transfer the amounts necessary to make scheduled principal and interest payments on the 2014 Bonds and pay the redemption price of any Bonds called for redemption.

### Financing Agreements

**General.** As described in this Official Statement, the Authority and each of the Participating Members originally entered into Financing Agreements concurrently with issuance of the 2008 Bonds, the City of San Carlos entered into a new Financing Agreement relating to the 2009 Bonds, and the City of San Carlos is entering into a new Financing Agreement relating to the 2014 Bonds. A more complete description of the Financing Agreements is set forth in Appendix E. Certain key provisions are summarized below.

**SVCW Bond Payments.** Each of the Participating Members is responsible for paying its Allocable Share of debt service on the 2008 Bonds, the 2009 Bonds, the 2014 Bonds and bonds the Authority may issue in the future that such Participating Member chooses to participate in. These issuances constitute SVCW Bond Payments under the Financing Agreements of the Participating Members. The Authority allocates debt service to each of the Participating Members in accordance with the Joint Powers Agreement. See “THE AUTHORITY AND THE WASTEWATER SYSTEM” below.

**Pledge of Net Revenues.** Under each Financing Agreement, the SVCW Bond Payments of a Participating Member are secured by a lien on and pledge of Net Revenues derived from the wastewater system of the Participating Member. “**Net Revenues**” consist generally of wastewater system “**Gross Revenues**” remaining after payment of “**Operation and Maintenance Costs.**” The Net Revenues from one Participating Member’s wastewater system are pledged solely to its own SVCW Bond Payments and any other indebtedness of such Participating Member secured by a lien on and pledge of Net Revenues; no Participating Member has any liability or responsibility for the SVCW Bond Payments of another Participating Member.

**Flow of Funds.** Each of the Participating Members covenants and agrees that all Gross Revenues derived from its wastewater system will be deposited in a wastewater fund, which will be maintained so long as the related Financing Agreement remains outstanding. Amounts on deposit in each Participating Member’s wastewater fund will be used to pay, in the following order of priority:

- (a) all Operation and Maintenance Costs of the Participating Member’s wastewater collection and transmission system;

- (b) the SVCW Bond Payments of such Participating Member, and payments of principal of and interest on Parity Debt (as defined below) issued by such Participating Member;
- (c) any other payments required to comply with the provisions of the Joint Powers Agreement, including payments due under SRF Loans or the Line of Credit, and any Parity Debt documents;
- (d) any other lawful expenses of the Participating Member's wastewater collection and transmission system.

**Rate Covenants.** Each of the Participating Members covenants to establish rates and charges for its wastewater system during each fiscal year, as follows:

- To yield Gross Revenues sufficient to pay Operation and Maintenance Costs of the Participating Member's wastewater collection and transmission system, fund its allocable share of debt service on the 2008 Bonds, the 2009 Bonds, the 2014 Bonds and any additional Parity Debt, and pay any other obligations payable from the Gross Revenues of its wastewater system; and
- Generate wastewater system Net Revenues equal to at least 120% of the Participating Member's allocable share of debt service on the 2008 Bonds, the 2009 Bonds, the 2014 Bonds (i.e., the Participating Member's SVCW Bond Payments) and any Parity Debt, provided that the unencumbered fund balance of the Participating Member's wastewater system as of the last day of the immediately preceding fiscal year can be counted as Net Revenues in an amount not to exceed 20% of debt service on the 2008 Bonds, the 2009 Bonds, the 2014 Bonds and any parity debt.

**No Senior Lien Debt.** Each of the Participating Members covenants that it will not issue or incur any additional bonds or other obligations which are senior to its allocable share of debt service payments for the 2014 Bonds.

**Pro Rata Nature of SVCW Bond Payments.** As described above, each Participating Member's SVCW Bond Payment obligation is equal to its Allocable Share of debt service with respect to the 2008 Bonds, the 2009 Bonds, the 2014 Bonds and any future bonds issued by the Authority that are payable from SVCW Bond Payments. SVCW Bond Payments will be allocated to the 2008 Bonds, the 2009 Bonds and the 2014 Bonds (and any such future bonds issued by the Authority) on a pro rata basis. The Participating Member's SVCW Bond Payments are scheduled to be sufficient to pay debt service on the 2008 Bonds, the 2009 Bonds, the 2014 Bonds and on bonds that may be issued in the future by the Authority that are payable from SVCW Bond Payments.

**Issuance of Parity Debt by the Participating Members.** Each of the Participating Members may issue parity debt ("**Parity Debt**") payable from the Net Revenues of its wastewater systems provided that the following conditions are met:

- (a) the Participating Member is not in default on payment of the SVCW Bond Payments or any parity debt;
- (b) the amount of Net Revenues as shown by the books of the Participating Member for the latest fiscal year for which audited statements are available, or as shown by the books of the Participating Member for any more recent 12-month period, are at

least equal to 120% of the amount of Maximum Annual Debt Service on the related SVCW Bond Payments and any parity debt issued by the Participating Member, provided that Net Revenues may be increased to reflect:

(i) any increase in wastewater system rates and charges that have been adopted prior to the issuance of parity debt and that will be in effect in any of the subsequent three fiscal years in an amount by which the Net Revenues would have increased if the increase had been in effect during that period;

(ii) unencumbered wastewater system fund balances as of the last day of the immediately preceding fiscal year, but in no case in an amount exceeding 20% of Maximum Annual Debt Service;

(iii) any additions or improvements or extensions of each Participating Member's wastewater system that were not in effect during the 12-month period in an amount equal to the estimated additional average annual Net Revenues that would be derived during first three years in which the addition, improvement, or extension is to be in operation, all as shown by the certificate of a qualified independent financial consultant employed by the Participating Member;

(c) the Participating Member shall be in compliance with all conditions for issuing parity debt as set forth in any Parity Debt documents.

**Issuance of Subordinate Debt.** Each of the Participating Members may issue unsecured or subordinate obligations.

**Third Party Beneficiaries.** The Trustee is a third party beneficiary and is entitled to the benefits of the Financing Agreements with the same force and effect as if the Trustee was a party to the agreement.

#### **No Reserve Fund**

The Authority is not establishing a debt service reserve fund for the 2014 Bonds.

#### **Issuance of Parity Debt by the Authority**

Under the Indenture, the Authority covenants that, except for the 2014 Bonds, no additional bonds, notes, or other indebtedness will be issued or incurred which are payable from Revenues in whole or in part. However, the Authority has the right to issue additional bonds, notes or other obligations that are secured by payments made by any or all of the Members, which payments may be secured by a pledge of and lien on Net Revenues of such Members on a parity with the SVCW Bond Payments. Nothing in the Indenture limits the authority of the Participating Members to issue parity obligations in accordance with their respective Financing Agreements as described under "- Financing Agreements" above.

## **State Revolving Fund Loans of the Authority**

The Authority has previously borrowed \$7,416,000 under that certain Project Finance Agreement, dated February 1, 2012, by and between SVCW and the California State Water Resources Control Board, and \$36,300,000 under that certain Project Finance Agreement, dated May 10, 2012, by and between SVCW and the California State Water Resources Control Board (each, as amended, a “**Current SRF Loan**”), which Current SRF Loans account for a combined total of \$46,745,835 of capital project funding commitments. The final amount of the Current SRF Loans may be amended depending on the amount of final project costs determined eligible for funding after the projects have been completed. The Current SRF Loans and future SRF Loans (collectively, the “**SRF Loans**”) constitute indebtedness of the Authority and do not constitute indebtedness of the Participating Members pursuant to the Financing Agreements. The Authority anticipates obtaining additional funding through SRF Loans over the next five years.

The SRF Loans are secured by a pledge of the Authority’s net revenues, which net revenues do not include the revenues securing the SVCW Bond Payments. Pursuant to the Joint Powers Agreement, the Authority is authorized to charge its Members for their proportionate share of debt service payments on the SRF Loans. This revenue source is separate and distinct from Revenues pledged to the 2014 Bonds, and the SRF Loans are accordingly not considered parity debt to the 2008 Bonds, 2009 Bonds or 2014 Bonds. The 2008 Bonds, 2009 Bonds and 2014 Bonds have priority in payment over the SRF Loans because each Participating Member’s SVCW Bond Payments are secured by a pledge of the Participating Member’s Net Revenues, while the payments made by each Participating Member to the Authority that are used to pay the SRF Loans are not secured by a pledge of the Participating Member’s Net Revenues.

## **Line of Credit**

The Authority has also obtained a \$30,000,000 short-term line of credit (the “**Line of Credit**”) with Bank of the West, which is used to provide interim financing and facilitate the continued funding of capital projects prior to securing long-term funding and is secured by a source of revenues of the Authority that is distinct from the Revenues securing the 2014 Bonds and revenues securing the 2008 Bonds and 2009 Bonds. All amounts drawn under the Line of Credit as of the date the 2014 Bonds are issued will be repaid from the proceeds of the 2014 Bonds. As of January 31, 2014, \$13,200,000 is currently outstanding under the Line of Credit.

The Authority plans to pay down the balance of the Line of Credit (as defined below) with proceeds of the 2014 Bonds, but expects to continue to use the Line of Credit as an interim funding source in expectation of the proceeds of future Authority bonds and SRF Loans. The 2008 Bonds, 2009 Bonds and 2014 Bonds have priority in payment over the Line of Credit because each Participating Member’s SVCW Bond Payments are secured by a pledge of the Participating Member’s Net Revenues, while the payments made by each Participating Member to the Authority that are used to pay the Line of Credit are not secured by a pledge of the Participating Member’s Net Revenues.

## THE AUTHORITY AND THE WASTEWATER SYSTEM

### The Authority

The Authority is a joint exercise of powers authority that provides wastewater transmission, treatment, and effluent disposal services to the Cities of Belmont, Redwood City, and San Carlos, and the West Bay Sanitary District (defined as the “**Members**” in this Official Statement), all of which are located in the northern part of Silicon Valley, between the cities of San Francisco and San Jose. The Authority’s wastewater treatment plant is located in the City of Redwood City. The Authority serves over 200,000 people and businesses located in San Mateo County.

The Authority is a distinct public entity that operates under a Joint Exercise of Powers Agreement (the “**Joint Powers Agreement**”) dated November 13, 1975, as amended, among the Members. Under the Joint Powers Agreement, the Authority owns and operates certain wastewater facilities, and the Members are obligated to pay the Authority for their allocable share of the Authority’s operating, maintenance, and capital expenses. The Authority is organized and exists under the laws of the State of California.

Authority facilities include: a wastewater treatment plant located in Redwood City, wastewater pump stations in Menlo Park, Redwood City, Belmont, and San Carlos; a booster pump station located in San Carlos; an approximately nine-mile influent force main pipeline that conveys wastewater from each of the Members to the Authority’s wastewater treatment plant; and a 1.25 mile effluent disposal pipeline that discharges treated effluent into the San Francisco Bay. The Authority also provides recycled water to the City of Redwood City. The Authority operates in full compliance with its Waste Discharge Permit issued by the State of California.

In 1996 and 2001, the Authority’s wastewater treatment plant was awarded “Plant of the Year” by the California Water Environment Association in the large wastewater treatment plant category. The awards honored the Authority for technical achievements, operations, and innovations, including empowering employees to manage key decisions that affect plant operations.

The City of Redwood City, the City of San Carlos, and the West Bay Sanitary District City are Participating Members and have each covenanted to pay their allocable share of debt service on the 2014 Bonds. The City of Belmont is not a Participating Member and has no obligation to pay any debt service on the 2014 Bonds.

- **City of Redwood City** - The City of Redwood City is located approximately 25 miles south of San Francisco and has a population of roughly 79,000. The City of Redwood City owns and operates a sanitary sewer collection system consisting of approximately 200 miles of sewer pipelines and 31 sewer lift stations. In addition to providing wastewater service within its boundaries, the City also conveys wastewater from five San Mateo County sewer maintenance districts and the Town of Woodside to the Authority for treatment and effluent disposal pursuant to agreements with each agency.
- **City of San Carlos** - The City of San Carlos is located approximately 22 miles south of San Francisco and has a population of roughly 29,000. The City of San Carlos owns and operates a sanitary sewer collection system consisting of approximately 104 miles of sewer pipelines ranging in size from 5 to 27 inches in diameter, and 6 sewer lift stations. In addition to providing wastewater service within its boundaries, the City also conveys

wastewater from four San Mateo County sewer maintenance districts to the Authority for treatment and effluent disposal pursuant to agreements with each agency.

- **West Bay Sanitary District** - The West Bay Sanitary District is an independent special district that provides wastewater service to the City of Menlo Park and surrounding areas. The District is located approximately 26 miles south of San Francisco and serves a population of approximately 55,000. The West Bay Sanitary District owns and operates a sanitary sewer collection system consisting of approximately 200 miles of sewer pipelines ranging in size from 3 to 54 inches in diameter, and 13 sewer pump stations.

See “APPENDIX A”, “APPENDIX B” and “APPENDIX C” for additional information regarding the Participating Members.

### **Governance & Management**

**Commission.** The Authority is governed by a four-member “**Commission**” consisting of one appointed member from each of the Members’ governing bodies. Current Commission Members are:

<u>Commissioner</u>	<u>Title</u>	<u>Agency Represented</u>
Ronald W. Shepherd	Chair	West Bay Sanitary District
John Seybert	Vice Chair	City of Redwood City
Bob Grassilli	Secretary	City of San Carlos
Warren Lieberman	Member	City of Belmont

Voting is proportional to the Members’ respective ownership interests in the Authority’s wastewater system. There are currently a total of 100 votes which are allocated as follows:

- City of Redwood City 42 votes
- West Bay Sanitary District 28 votes
- City of San Carlos 19 votes
- City of Belmont 11 votes

A proportionally-weighted vote of at least three-fourths of the total Commission votes is required to adopt or amend bylaws, rules, and regulations; to adopt or modify any budget; to approve any capital costs, contracts, appropriations, or transfers of more than \$50,000; to employ the manager, engineers, and certain other consultants; to sell or dispose of property; and to approve other designated items. Other actions of the Commission must be approved by a majority of total possible votes.

Any amendment of the Joint Powers Agreement requires the concurrence of all of the Members. In addition, any amendment to the Joint Powers Agreement must also be approved by a four-fifths vote by each of the Members’ governing bodies.

**Manager.** The Commission appoints a Manager who is responsible for day-to-day management of the Authority under policy guidelines set by the Commission. In 2006, the Commission appointed Daniel Child as Manager. Mr. Child has more than 30 years of experience in the management of various municipal, industrial, and public works facilities. Before joining the Authority, he served as area manager/vice president of operations for Veolia Water North America West LLC, the nation’s leading water services provider for local and federal governments and

business and industry. In that capacity, he managed the activities of more than 60 water treatment, wastewater treatment and public works operations throughout the western U.S. Before that, he served as an account manager for US Filter Corporation/Davis Products Division (which was acquired by Veolia), providing municipalities and consulting firms with products and engineering support to meet various wastewater treatment needs.

Mr. Child began his career in 1981, working six years as wastewater superintendent for the Price River Water Improvement District in Carbon County, Utah. He served as operations manager with the Victor Valley Wastewater Reclamation Authority in southern California, from September 1987 to February 1989 and also from February 1992 to August 1995. In between, he served as wastewater superintendent for the City of San Diego's Metropolitan Wastewater Division. He is a past president of the Desert and Mountain Section of the California Water Environment Association.

## **The Wastewater System**

The Authority owns and operates a wastewater conveyance, treatment, and effluent disposal system for the shared benefit of the Members. The Members each own and operate their own wastewater collection systems serving their respective service areas. Wastewater is conveyed from each of the Members to the Authority's wastewater treatment plant via the Authority's conveyance system.

**Wastewater Conveyance System: Force Mains and Pump Stations.** The conveyance system consists of approximately 9 miles of influent force main pipeline and five pump stations. The influent force main varies in diameter from 33 to 54 inches as the pipeline approaches the treatment plant. A portion of the influent force main originally served as the outfall for Redwood City's and San Carlos' wastewater systems and was converted into an influent force main when the Authority's treatment plant was constructed in 1980. This portion of the influent force main has been operating at a higher pressure than it was originally designed for.

Five pump stations pump raw wastewater through the influent force main including one pump station for each of the Members and a booster pump station benefiting West Bay Sanitary District and Redwood City, the two agencies whose wastewater travels furthest to the treatment plant. The Authority's pump stations are approximately 40 to 50 years old and need to be rehabilitated and/or replaced in the near future. See "THE AUTHORITY AND THE WASTEWATER SYSTEM – Capital Improvement Program".

**Wastewater Treatment Plant.** The Authority's wastewater treatment plant was constructed in 1980 and is located in the Redwood Shores area of Redwood City bordering the San Francisco Bay. The treatment plant processes all wastewater conveyed from each of the Members' sewer service areas. The treatment plant is comprised of liquid and solids treatment processes. Most of the treated effluent is disposed via the Authority's effluent disposal pipeline. However, a portion of the Authority's wastewater undergoes a higher level of treatment and disinfection and is used to supply recycled water to Redwood City.

**Liquid Processing.** Wastewater is delivered directly to the treatment plant's primary sedimentation tanks ("PST"). The PST provides the first step of treatment to the raw sewage. By allowing heavy material to settle and light material to float and be sent to the solids processing units. The water from the PST process is then sent to biological treatment that consists of 4 fixed film reactors and aeration in 4 aeration basins to remove biological contaminants. The water in the aeration basins is then directed to the secondary sedimentation tank ("SST") for

separation of solids from the liquid. The SST process generates fairly clear effluent that flows to the dual media filters for further removal of small solids from the water. Dual media filtration followed by disinfection with sodium hypochloride concludes the treatment of the liquid stream in the treatment plant. The disinfected and dechlorinated advanced secondary treated effluent is then pumped to the bay via a 66-inch diameter outfall.

**Solids Processing.** The primary functions of the solids handling facilities are to stabilize the organic solids in the wastewater stream, reclaim the heat value of the organic solids for power generation, and reduce the sludge volume to minimize the cost of disposal. The treatment plant processes a solids stream that is predominantly made up of a primary sludge consisting of a slurry of settled solids and primary scum (a slurry with floated oil/grease/scum) withdrawn from the primary sedimentation tanks and the waste activated sludge (“WAS”) derived from the aeration basins. In addition to the primary sludge, the primary scum and the WAS, the anaerobic digesters also receive grease and oily wastewater delivered to the septage receiving station at the treatment plant. With mixing and heating, the two designated primary digesters stabilize the sludge feed and generate sufficient digester gas to fire a co-generation facility that generates electricity to power much of the electrical demand within the treatment plant.

The digested solids are transferred periodically from the designated primary digesters to a third digester that currently functions as a holding tank. The stored sludge is eventually withdrawn and transferred to the dewatering centrifuge to reduce its volume. The centrifuge removes liquid from the stabilized sludge, transforming the liquid sludge into a loose sludge cake. The dewatered sludge cake is disposed off-site in accordance with government regulations.

**Treatment Plant Capacity & Flow.** The capacity of the Authority’s wastewater treatment plant during average dry weather and peak wet weather conditions, as measured in million gallons per day (mgd), are identified below:

- Average Dry Weather Flow, Permit Capacity 29 mgd
- Average Dry Weather Flow, Current Capacity 27 mgd
- Peak Wet Weather Capacity Rating 71 mgd



Average daily wet weather and dry weather flow is shown below for the past ten years.

	Average Dry Weather Flow (mgd) Plant Effluent	Average Wet Weather Flow (mgd) Plant Effluent
2013	11.36	14.20
2012	13.03	14.17
2011	12.82	17.02
2010	16.30	17.42
2009	13.72	15.88
2008	14.45	16.81
2007	15.35	16.55
2006	16.63	20.06
2005	16.80	19.48
2004	15.81	18.15
2003	16.47	18.31

Wastewater influent flows to the treatment plant in fiscal year 2012-13 are as shown below:

- Fiscal year 2012-13 Average Dry Weather Flow (Jul-Oct & May-June) 12.22 mgd
- Fiscal year 2012-13 Average Wet Weather Flow (November-April) 14.44 mgd
- The peak wet weather event in fiscal year 2012-13 occurred on December 23, 2012 with a peak wet weather flow during that event of 68 mgd.

The Authority has never exceeded peak wet weather capacity and has been able to handle all flows with no spills or permit violations. The Authority anticipates that additional treatment processes will be required to provide adequate capacity to handle flows for the next 25-30 years.

**Wastewater Effluent Outfall.** Approximately 1.25 miles of 66-inch diameter pipeline carries treated effluent from the treatment plant for discharge to the San Francisco Bay. The outfall is reinforced concrete pipe and extends approximately one mile into the bay for a deep-water discharge.

### **Sewer Utility Regulatory Issues**

**General.** Regulatory requirements applicable to the Authority’s wastewater conveyance, treatment and effluent disposal system are contained in or imposed by regulation pursuant to the Federal Water Pollution Control Act, as amended, and the State of California Porter Cologne Water Quality Control Act of 1969, as amended. Both federal and State regulations are administered through the San Francisco Bay Regional Water Quality Control Board (the “**Regional Board**”). The Authority is not aware of any environmental or regulatory issues that would adversely impact its ability to provide sewer collection service.

**Waste Discharge Requirements.** The Authority operates pursuant to a National Pollution Discharge Eliminations System (“**NPDES**”) Permit issued by the state (NPDES Permit No. CA0038369) which establishes effluent quality and discharge requirements for the Authority’s treated wastewater. The NPDES Permit is scheduled to expire in 2016. The Authority operates in full compliance with its discharge permit.

**Capital Improvement Program**

The Authority is in the process of rebuilding, rehabilitating, and upgrading its wastewater transmission and treatment facilities, which are approaching the end of their useful operating lives. The Authority initially developed its 10-Year Capital Improvement Program in 2008 to provide a proactive plan for addressing the Authority’s near-term and long-term capital needs. The Authority’s Engineering Division staff updated the CIP in November 2013.

The updated CIP identified roughly \$430 million of additional capital funding needed over approximately the next five years (including funding from the 2014 Bonds), accounting for 3% annual construction cost inflation. The Authority anticipates funding its remaining CIP costs via a combination of bonds, SRF Loans issued by the California State Water Resources Control Board, and cash funding.

The updated CIP identified 127 projects targeted to begin construction over approximately the next five years. These projects address all known issues with the Authority’s wastewater system and include:

- (i) substantial rehabilitation and replacement of aging infrastructure and equipment;
- (ii) improvements and additions to the treatment plant and conveyance system that will substantially enhance reliability and increase wet weather hydraulic capacity;
- (iii) technological upgrades and system-wide automation projects designed to improve operational efficiency and reliability, which are anticipated to help reduce future operating and maintenance expenses; and
- (iv) additional electricity co-generation facilities.

The CIP does not include costs for future potential regulatory requirements or future potential treatment plant expansions.

The following table shows a summary of CIP funding requirements for the various types of capital improvements identified in the CIP with projected 3% construction cost inflation.

**Table 1  
SILICON VALLEY CLEAN WATER  
Projected CIP Funding Requirements (\$ Millions)**

	<u>CIP Funding Requirements</u>
Treatment Plant Improvements	\$191.0
Conveyance System Improvements	158.1
Pump Stations Improvements	<u>83.7</u>
Total	432.8
Estimated Project Funding from 2014 Bonds	\$65.2
Remaining CIP Funding Needs	\$367.6

The Authority has already funded or has received funding commitments for over \$113 million to be used for capital improvements including funds from the 2008 Bonds, 2009 Bonds, cash contributions from the City of Belmont, SRF Loans, and interest earned on project funds. The Authority projects it will need to fund an additional \$431.8 million of capital improvements

over approximately the next five years. The 2014 Bonds are projected to finance approximately \$65.2 million of these outstanding capital improvement funding needs. After issuance of the 2014 Bonds, the Authority anticipates it will need to finance approximately an additional \$366.6 million of capital improvements.

## Financial Plan

The Authority developed a 10-Year Financial Plan (the “**Financial Plan**”) in 2008 to provide a financial roadmap for funding the CIP and ongoing operating costs. The Financial Plan was originally developed, and has been periodically updated, by Bartle Wells Associates, working in collaboration with Authority staff. The Financial Plan was most-recently updated and received by the Commission in December 2013, in response to the Authority’s updated CIP. The Authority anticipates continuing to periodically update the CIP and Financial Plan in future years.

The following table summarizes the estimated annual future funding requirements for the CIP as shown in the Financial Plan. Costs estimates are shown in future dollars assuming 3% construction cost inflation.

**Table 2**  
**SILICON VALLEY CLEAN WATER**  
**Estimated CIP Funding Requirements by Type of Improvement (Future \$, Millions)**

Year Ending June 30	2014	2015	2016	2017	2018	Total
Treatment Plant	45.3	33.0	43.2	65.7	3.8	191.0
Conveyance Force Main	26.9	23.1	50.3	57.7	0.0	158.1
Pump Stations	<u>4.6</u>	<u>8.8</u>	<u>69.3</u>	<u>0.0</u>	<u>0.0</u>	<u>82.7</u>
Total	76.8	64.9	162.9	123.4	3.8	431.8

The Financial Plan also estimates the future funding requirements from each of the Authority’s Members assuming all projects are completed as scheduled in the CIP, as summarized in the following table.

**Table 3**  
**SILICON VALLEY CLEAN WATER**  
**Estimated SVCW CIP Funding Requirements by Member Agency**  
**(Future \$, Millions)**

Year Ending June 30	Share %	2014	2015	2016	2017	2018	Total
Belmont	9.45%	7.3	6.1	15.4	11.7	0.4	40.8
Redwood City	48.57%	37.3	31.5	79.1	59.9	1.9	209.7
San Carlos	15.14%	11.6	9.8	24.7	18.7	0.6	65.4
West Bay Sanitary District	<u>26.84%</u>	<u>20.6</u>	<u>17.4</u>	<u>43.7</u>	<u>33.1</u>	<u>1.0</u>	<u>115.9</u>
Total	100.00%	76.8	64.9	162.9	123.4	3.8	431.8

The Authority anticipates funding remaining CIP costs with a combination of bonds payable from SVCW Bond Payments and SRF Loans issued by the California State Water Resources Control Board, supplemented by the Line of Credit and some pay-as-you-go cash funding.

**Table 4**  
**SILICON VALLEY CLEAN WATER**  
**Projected Sources of Funding for the SVCW CIP**  
**(Future \$, Millions)**

Year Ending June 30	2014	2015	2016	2017	Total
Bonds	60.0	28.9	31.9	12.8	133.6
SRF Loans	23.0	20.5	127.7	113.1	284.3
Cash	<u>5.1</u>	<u>4.2</u>	<u>3.3</u>	<u>1.3</u>	<u>13.9</u>
Total	108.1	33.6	162.9	127.2	431.8

**Member Agency Financial Projections**

Each of the Member Agencies has been proactively raising sewer rates to support its allocable share of funding requirements for the Authority’s operations and CIP, as well as its own operating and capital programs. Appendices A, B, and C show long-term financial projections for each Member Agency that incorporate updated CIP cost and financing projections from the Financial Plan. See “APPENDIX A”, “APPENDIX B” and “APPENDIX C”.

**Budget and Billing Process**

Each year, the Authority’s Commission adopts a budget for the upcoming fiscal year. The budget establishes the funding requirements for each of the Members. Operating and maintenance expenses are paid monthly in 12 monthly installments. Capital and reserve contributions are paid semi-annually. After the close of the fiscal year, the annual payments made by each Member are reconciled against the actual expenditures allocated to each Member, and any difference is applied toward fund reserves held by the Authority on behalf of each Member.

Currently, the Authority has an informal fund reserve target equal to 10% of each Member’s annual operating and maintenance expenses, plus \$1.0 million for unexpected emergency capital needs. If the amount of fund reserves held by the Authority on any Member’s behalf falls below the target, the Authority includes a line item in its budget to bring the reserves back up to the target level. The Authority has the ability to amend its reserve policy at any time.

The Authority receives almost all of its funding, other than interest earnings and other miscellaneous revenues, from payments made by the Members, which include payments for operations, capital repairs, capital reserves, SRF loans and SRF loan reserve requirements. To the best of the knowledge of Authority staff, there have never been any payment delinquencies by any of the Members. The Authority has no taxing power.

**Cost Allocation to Members**

The Joint Powers Agreement sets forth how the Authority’s operating and capital costs are allocated to the Members. Operating and maintenance costs are allocated to each of the Members based on a three-year average of each Member’s annual pro-rata share of total wastewater flow and strength loadings, as measured by biological oxygen demand (“**BOD**”) and suspended solids (“**SS**”).

The Budget for fiscal year 2013-14 allocates operating and maintenance costs to the Members as follows:

- City of Redwood City 45.2%
- West Bay Sanitary District 26.8
- City of San Carlos 14.8
- City of Belmont 13.2

Capital costs are generally allocated based on each Member’s share of capacity owned in various components of the wastewater system, as established in the Joint Powers Agreement. Capital improvement costs for pump stations are allocated to the Members that benefit from those pump stations. Capital improvement costs for the wastewater treatment plant and effluent disposal pipeline are allocated as follows:

- City of Redwood City 48.57%
- West Bay Sanitary District 26.84
- City of San Carlos 15.14
- City of Belmont 9.45

**Maximum Capacity Rights Owned by Members**

Under the Joint Powers Agreement, each of the Members has rights to capacity in the treatment plant as shown on the following table.

**Table 5  
SILICON VALLEY CLEAN WATER  
Maximum Capacity Rights Per Member Agency**

Member Agency	Average Daily Dry Weather Flow (mgd)	Peak Wet Weather Flow (mgd)	BOD (lbs per day)	SS (lbs per day)
Belmont	2.3	8.8	5,204	5,678
Redwood City <sup>(1)</sup>	11.4	30.5	38,727	36,510
San Carlos	3.7	14.3	6,982	9,554
West Bay SD	6.6	14.4	14,137	13,308
Total	24.0	68.0	65,050	65,050

(1) Peak Wet Weather Flow shown for Redwood City is for capacity rights in treatment plant. Redwood City’s Peak Wet Weather Flow capacity in the conveyance system is 25.9 mgd.

Source: SVCW Joint Powers Agreement

Under the Joint Powers Agreement, any of the Members can purchase or lease available capacity from any of the other Members subject to written approval from the Authority.

**Wastewater Flow**

The following table shows a history of average daily wastewater flow conveyed to the Authority’s wastewater treatment plant from each Member for the last five fiscal years.

**Table 6  
SILICON VALLEY CLEAN WATER  
Average Wastewater Flow (mgd)**

Member Agency	2008-09	2009-10	2010-11	2011-12	2012-13
Redwood City	7.1	6.2	6.8	5.9	6.4
West Bay SD	4.1	3.8	3.7	3.5	3.5
San Carlos	2.6	2.5	2.8	1.7	1.6
Belmont	1.4	1.5	1.7	1.7	1.7
Total	15.2	14.2	15.1	13.0	13.3

Source: Silicon Valley Clean Water.

**Capacity Fees for New Development**

Pursuant to the Joint Powers Agreement, the Authority has established a capacity fee to recover costs for future expansion of Authority facilities. The fee is levied on new development within the Authority’s service area and is collected by the Members on the Authority’s behalf. The current capacity fee is \$7.91 per gallon per day of estimated wastewater flow. For example, for a new single family residence with an estimated wastewater discharge of 200 gallons per day, the Authority’s capacity fee would total approximately \$1,582.

**Outstanding Debt**

The Authority has not previously issued bonds payable from the Revenues.

However, the Authority previously issued the 2008 Bonds and the 2009 Bonds, which are payable from SVCW Bond Payments under the Financing Agreements with respect to each of such bond issues.

The obligations of the Participating Members to make SVCW Bond Payments with respect to the 2008 Bonds, SVCW Bond Payments with respect to the 2009 Bonds, and SVCW Bond Payments with respect to the 2014 Bonds are secured by their respective Net Revenues on a parity basis.

The Authority has obtained two SRF Loans for a combined total of \$46,745,835 of capital project funding commitments. The SRF Loans constitute indebtedness of the Authority, payments of which are made to the Authority by the Participating Members pursuant to the Joint Powers Agreement, and do not constitute indebtedness of the Participating Members pursuant to the Financing Agreements. The Authority anticipates obtaining additional funding through SRF Loans over the next five years. See “SECURITY FOR THE 2014 BONDS - State Revolving Fund Loans of the Authority”.

The Authority has also obtained the Line of Credit to provide interim funding and facilitate the continued funding of capital projects prior to issuing the 2014 Bonds, payments of which are also made to the Authority by the Participating Members pursuant to the Joint Powers Agreement.

**Comparative Residential Sewer Charges**

**Wastewater Rates.** Each of the Participating Members’ wastewater rates has increased each year in recent history, and it is anticipated that rates will continue to increase. The following table shows the single family residential monthly sewer rates of each Participating Member in each of the past five years. See the sections entitled “Wastewater Rates” in Appendices A, B and C for information about the Participating Members’ current wastewater rates. The table below shows single family residential monthly sewer charges for each of the Participating Members for the past five years.

**Table 7  
SILICON VALLEY CLEAN WATER  
Single Family Residential Monthly Sewer Service Charges**

	2009-10	2010-11	2011-12	2012-13	2013-14
<b>City of Redwood City</b>	\$44.70	\$48.72	\$53.10	\$57.88	\$63.09
<b>City of San Carlos</b>	43.76	46.82	50.10	53.10	67.29
<b>West Bay Sanitary District</b>	46.67	54.17	57.50	62.67	68.33

**Comparative Rates.** The following table shows a comparison of regional monthly sewer service charges for a typical single family home billed as of September 30, 2013.

**Table 8  
SILICON VALLEY CLEAN WATER  
Single Family Residential Monthly Sewer Service Charges**

City of Mountain View	\$26.10
City of Palo Alto	29.31
City of Sunnyvale	33.73
City of Daly City	42.08
East Palo Alto Sanitary District	43.33
City of Foster City	46.05
City of San Mateo*	55.28
<b>City of Redwood City</b>	<b>63.09</b>
<b>City of San Carlos</b>	<b>67.26</b>
<b>West Bay Sanitary District</b>	<b>68.33</b>
City of Burlingame*	73.30
City of Millbrae*	80.98
City of San Bruno*	82.19
City of Belmont*	82.77
Montara Water & Sanitary District*	101.82
Crystal Springs County Sanitation District*	112.50
Burlingame Hills County Sanitation District*	132.92

\* Based on 800 cubic feet of monthly winter water use. All others use fixed charges that do not vary with consumption.  
Source: Prepared by Bartle Wells Associates based on data provided by each agency.

**Participating Member Historical & Adopted Sewer Rate Increases**

The Participating Members levy fixed sewer service charges for residential accounts and consumption-based charges for non-residential accounts. Sewer service charges from West Bay Sanitary District and the City of San Carlos are billed on San Mateo County’s property tax bills; San Mateo County is on the Teeter Plan, under which the County pays each agency for the full amount of sewer service charges assessed on the County’s tax rolls. The County has the option to discontinue its participation in the Teeter Plan. The City of Redwood City collects sewer charges on a combined utility bill that also includes water and garbage services.

The table below shows historical and adopted sewer rate increases for each of the Participating Members. As shown on the table below, the cities of Redwood City and San Carlos have adopted rate increases scheduled to become effective in the next two fiscal years.

**Table 9  
SILICON VALLEY CLEAN WATER  
Historical and Adopted Sewer Rate Increases**

Fiscal Year	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Redwood City	15%	9%	9%	9%	9%	9%	9%	9%
San Carlos	12	7	7	7	6	25	20	10
West Bay Sanitary District	5	5	16	6	9	9	*	*

\* West Bay Sanitary District anticipates adopting 8% to 9% rate increases in 2014-15 and 2015-16.  
Source: Prepared by Bartle Wells Associates based on data provided by each agency.



## CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS

### Article XIII B Gann Limit

Article XIII B of the California State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The "base year" for establishing such appropriation limit is the 1978-79 fiscal year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if (i) the financial responsibility for a service is transferred to another public entity or to a private entity, (ii) the financial source for the provision of services is transferred from taxes to other revenues, or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations subject to Article XIII B generally include the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions and refunds of taxes. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to an entity of government from (i) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (ii) the investment of tax revenues. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Certain expenditures are excluded from the appropriations limit including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters and payments required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the providing of existing services more costly.

Each of the Participating Members is of the opinion that its charges with respect to its wastewater system do not exceed the costs it reasonably bears in providing wastewater service and are not subject to the limits of Article XIII B.

### Articles XIII C and XIII D

**General.** On November 5, 1996, California voters approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related "fee" or "charge," which is defined as "any levy other than an ad valorem tax, a special tax or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service" (and referred to in this section as a "property-related fee or charge").

On November 2, 2010, California voters approved Proposition 26, the so-called "Supermajority Vote to Pass New Taxes and Fees Act". Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as "fees." Proposition 26 amended Articles XIII A and XIII C of the State Constitution. The

amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. Proposition 26's amendments to Article XIII C broadly define "tax," but specifically exclude, among other things:

- “(1) A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.
- (2) A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.
- ...
- (6) A charge imposed as a condition of property development.
- (7) Assessments and property-related fees imposed in accordance with the provisions of Article XIII D.”

**Property-Related Fees and Charges.** Under Article XIII D, before a municipality may impose or increase any property-related fee or charge, the entity must give written notice to the record owner of each parcel of land affected by that fee or charge. The municipality must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if a majority of the property owners of the identified parcels present written protests against the proposal, the municipality may not impose or increase the property-related fee or charge.

Further, under Article XIII D, revenues derived from a property-related fee or charge may not exceed the funds required to provide the "property-related service" and the entity may not use such fee or charge for any purpose other than that for which it imposed the fee or charge. The amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel, and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.

**Initiative Power.** In addition, Article XIII C states that "the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter shall impose a signature requirement higher than that applicable to statewide statutory initiatives."

**Judicial Interpretation of Articles XIII C and XIII D.** After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General's opinion initially indicated that fees and charges levied for water and wastewater services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIII D regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three subsequent cases have held that certain types of water and wastewater charges could be subject to the requirements of Article XIII D under certain circumstances.

In *Richmond v. Shasta Community Services District* (2004) 32 Cal.4th 409, the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of

Article XIID to certain charges related to water service. In *Richmond*, the Court held that capacity charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIID.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (2005) 127 Cal.App.4th 914, the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition 218 and a municipality must comply with Article XIID before imposing or increasing such fees. The California Supreme Court denied the City of Fresno's petition for review of the Court of Appeal's decision on June 15, 2005.

In July 2006 the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (2006) 39 Cal.4th 205, addressed the validity of a local voter initiative measure that would have (a) reduced a water agency's rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency's charges for ongoing water delivery are "fees and charges" within the meaning of Article XIID, and went on to hold that charges for ongoing water delivery are also "fees" within the meaning of Article XIIC's mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency's water rates and other water delivery charges. (However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIIC and was therefore invalid.)

The court in *Bighorn* specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was *not* determining whether the electorate's initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

***Articles XIIC and XIID and the Participating Members' Water Rates and Charges.***

The Participating Members' current sewer rates (see Appendices A, B and C) were adopted by the governing boards of the respective Participating Members following notice to property owners and a public hearing held at least 45 days after the notice had been mailed, in compliance with the *Bighorn* decision.

The Participating Members believe their sewer rates and charges do not constitute "taxes" under Article XIIC as revised by Proposition 26 because, as described in subsection 1(e)(7) of Article XIIC, they are "property-related fees imposed in accordance with the provisions of Article XIID" (and are also charges for a "property-related service" as defined in subsection 2(g) of Article XIID) and because, as described in subsection 1(e)(2) of Article XIIC, they are charged for sewer service, which is "a specific government service or product provided directly to the payor that is not provided to those not charged."

**Conclusion.** It is not possible to predict how courts will further interpret Article XIII C and Article XIII D in future judicial decisions, and what, if any, further implementing legislation will be enacted.

Under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals the Participating Members' rates and charges, though it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness, as is the case with respect to the Financing Agreements.

There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIII C and Article XIII D to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for sewer service, or to call into question previously adopted sewer rate increases.

## RISK FACTORS

The following factors, along with other information in this Official Statement, should be considered by potential investors in evaluating the risks in the purchase of the 2014 Bonds.

### **Demand for the Sewer Service**

There can be no assurance that the demand for sewer service provided by the Participating Members' wastewater systems will be maintained at current or historical levels. Reduction in the level of demand could require an increase in rates or charges in order to produce Net Revenues sufficient to comply with each Participating Member's rate covenant in their related Financing Agreement. Such rate increases could increase the likelihood of nonpayment, and could also further decrease demand.

### **Wastewater System Expenses**

There can be no assurance that the wastewater system operating and maintenance expenses of each Participating Member or the Authority will be consistent with the levels described in this Official Statement. Increases in the cost of staffing, energy, or other expenses would reduce Net Revenues, and could require substantial increases in rates or charges in order to comply with the rate covenant. Furthermore, there can be no assurance that any other entity with regulatory authority over the Participating Members' wastewater systems or the Authority's system will not adopt further restrictions on operation of those wastewater systems, leading to increased rates. Such rate increases could increase the likelihood of nonpayment, and could also decrease demand.

If costs of the Project are higher than projected in the CIP, the Authority may have additional financing needs. The CIP projections are based on current engineering and construction cost estimates.

### **Parity Debt**

The Authority will not issue bonds payable from Revenues on a parity basis with the 2014 Bonds. However, the Authority has the right to issue additional bonds, notes or other obligations that are secured by payments made by any or all of the Members, which payments may be secured by a pledge of and lien on Net Revenues of such Members on a parity with the SVCW Bond Payments.

The Participating Members are authorized by the respective Financing Agreements to issue indebtedness with a lien on Net Revenues on a parity basis with the SVCW Bond Payments, if certain financial tests are met. See "SECURITY FOR THE 2014 BONDS – Financing Agreements – Issuance of Parity Debt" above. These financial tests may involve, to some extent, projections of Net Revenues. There is no assurance that the assumptions which form the basis of such projections, if any, will be actually realized subsequent to the date of such projections. If such assumptions are not realized, the amount of future Net Revenues may be less than projected, and the actual amount of Net Revenues may be insufficient to provide for the payment of the 2014 Bonds and such additional indebtedness.

### **Natural Disasters**

**General.** The Authority and the Participating Members, like all northern California communities, are subject to unpredictable seismic activity, fires, floods, or other natural

disasters. A severe natural disaster, such as an earthquake, fire, or flood, could result in substantial damage to the Authority and/or each of the Participating Members, including their wastewater systems. Such an event—which could increase the costs of operating and maintaining the Participating Members’ wastewater systems and could reduce revenues as a result of widespread damage—could adversely impact the Participating Members’ ability to pay their SVCW Bond Payment with which the Authority will pay principal and interest on the 2014 Bonds.

***Seismic Activity.*** The Authority and/or each of the Participating Members could experience ground shaking, ground failure, landslides or fault creep related to major faults in the area. The San Andreas Fault runs near the western edge of each Participating Member’s respective service areas. Large earthquakes on the San Andreas Fault were recorded in 1838, 1865, 1890, 1906 and 1989.

***Flooding.*** A portion of each of the Participating Members’ service areas is mapped within the 100-year flood plain and could be flooded during heavy rains.

The Authority does not maintain insurance covering damage to the Project caused by earthquakes or flooding.

#### **Limitations on Remedies Available; Bankruptcy**

The enforceability of the rights and remedies of the Owners and the obligations of the Authority and/or any of the Participating Members may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or hereafter in effect; equitable principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercising of powers by the federal or State government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

#### **Limited Obligations**

The 2014 Bonds are limited obligations of the Authority payable solely from and secured solely by the Revenues pledged in the Indenture. Revenues consist primarily of the SVCW Bond Payments payable under the Financing Agreements and amounts on deposit from time to time in the funds and accounts held by the Trustee. If for any reason, the Authority does not collect sufficient Revenues to pay debt service on the 2014 Bonds, the Authority will not be obligated to utilize any other of its funds, other than certain amounts on deposit in the funds and accounts established under the Indenture, to pay debt service on the 2014 Bonds. The Authority has no taxing power. The obligation of the Authority to pay debt service on the 2014 Bonds does not constitute a debt of the Authority or the State or any of its political subdivisions, and does not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

The SVCW Bond Payments are limited obligations of the Participating Members payable solely from and secured solely by the Net Revenues of their respective wastewater systems. If for any reason, any Participating Member does not have Net Revenues available in an amount

sufficient to make its SVCW Bond Payments, the Participating Member will not be obligated to utilize any other of its funds to make SVCW Bond Payments. See “SECURITY FOR THE 2014 BONDS – Financing Agreements – Rate Covenants.”

The obligation of the Participating Members to pay the SVCW Bond Payments does not constitute an obligation of any Participating Member for which the Participating Member is obligated to levy or pledge any form of taxation or for which the Participating Member has levied or pledged any form of taxation. Each of the Participating Members has covenanted to establish rates and charges for its wastewater system to yield Gross Revenues sufficient to make the SVCW Bond Payments. See “SECURITY FOR THE 2014 BONDS – Financing Agreements – Rate Covenants.”

The obligation of each Participating Member to pay SVCW Bond Payments does not constitute a debt of that Participating Member or the State or any of its political subdivisions, and does not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

The Net Revenues from one Participating Member’s wastewater system are pledged solely to that Participating Member’s obligations under the Financing Agreement to which it is a party. No Participating Member has any liability or responsibility for the SVCW Bond Payment of another Participating Member.

### **Change in Law**

In addition to the other limitations described herein, the California electorate or Legislature could adopt a constitutional amendment, legislation, or an initiative with the effect of reducing revenues payable to or collected by the Authority and/or the Participating Members. There is no assurance that the California electorate or Legislature will not at some future time approve additional limitations that could have the effect of reducing the Net Revenues of a Participating Member and adversely affecting the security of the 2014 Bonds.

See also “-Loss of Tax Exemption” below

### **Loss of Tax Exemption**

As discussed in this Official Statement under the caption “CONCLUDING INFORMATION – Tax Matters,” interest on the 2014 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the 2014 Bonds were issued, as a result of future acts or omissions of the Authority in violation of its covenants in the Indenture or the Participating Members in violation of their covenants in the Financing Agreements.

In addition, current and future legislative proposals, if enacted into law, may cause interest on the 2014 Bonds to be subject, directly or indirectly, to federal income taxation by, for example, changing the current exclusion or deduction rules to limit the aggregate amount of interest on state and local government bonds that may be treated as tax exempt by individuals.

Should such an event of taxability occur, the 2014 Bonds are not subject to a special prepayment and will remain outstanding until maturity.

## **Secondary Market for Bonds**

There can be no guarantee that there will be a secondary market for the 2014 Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

## **Build America Bonds**

The Series 2009 Bonds were issued as taxable Build America Bonds, and as a result, the Authority is eligible for a Refundable Credit equal to 35% of each bond interest payment on the 2009 Bonds. However, as part of the federal budget sequestration, the Internal Revenue Service has announced that direct bond subsidy payments are being reduced by a federal fiscal year 2014 sequestration rate of 7.2%. The sequestration rate for federal fiscal years 2015 through 2023 will be set in the future, unless Congress takes additional action to modify the sequestration reduction. Decreased Refundable Credits increases the debt service costs of the Authority and the Participating Members on the 2009 Bonds, which could adversely impact the availability of Revenues to pay debt service on the 2014 Bonds.



## CONCLUDING INFORMATION

### Continuing Disclosure

**Authority.** Under the Indenture, the Authority has covenanted for the benefit of the holders and beneficial owners of the 2014 Bonds to provide certain information to assist the underwriter in complying with SEC Rule 15c2-12(b)5. A form of the Continuing Disclosure Certificate of the Authority is attached in Appendix F.

The Authority has not failed to comply in all material respects with any undertaking under the Rule in the past five years, except with respect to filing notice of information relating to its ratings on five occasions.

The Authority believes it has established procedures to ensure that it will comply with all material provisions of its continuing disclosure undertakings in the future.

**Participating Members.** Under the Financing Agreements, each of the Participating Members has covenanted for the benefit of the holders and beneficial owners of the 2014 Bonds to provide certain financial information and data to assist the underwriter in complying with SEC Rule 12c2-12(b)5. A form of the Continuing Disclosure Certificate of each Participating Member is attached in Appendix F.

The City of Redwood City has not failed to comply in all material respects with any undertaking under the Rule in the past five years, except that the City of Redwood City: (i) did not file certain information due in its annual reports on a timely basis on several occasions; and (ii) failed to timely file notice of information relating to its ratings on several occasions. The City of Redwood City has made remedial filings to address all material non-compliance in the past five years.

The City of San Carlos has not failed to comply in all material respects with any undertaking under the Rule in the past five years, except that the City of San Carlos: (i) did not file information due in its annual reports for its 2009 wastewater revenue bonds on a timely basis for three consecutive years, (ii) failed to include audits and all of the required financial information and operating data in its annual report for its 2008 wastewater bonds for three consecutive years, and for its 2007 revenue bonds on one occasion, and (iii) failed to file notice of information relating to its ratings on one occasion. The City of San Carlos has made remedial filings to address all material non-compliance in the past five years.

The West Bay Sanitary District has not failed to comply in all material respects with any undertaking under the Rule in the past five years, except that the West Bay Sanitary District did not file information due in its annual reports for its 2008 wastewater revenue bonds and 2009 wastewater revenue bonds on a timely basis for three consecutive years. The West Bay Sanitary District has made remedial filings to address all material non-compliance in the past five years.

### Absence of Litigation

There is no action, suit, or proceeding known to be pending or threatened, restraining or enjoining the execution or delivery of the 2014 Bonds, the Indenture, or the Financing Agreements, or in any way contesting or affecting the validity of the foregoing or any proceedings of the Authority or the Participating Members taken with respect to any of the foregoing.

## Legal Matters

Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, will render an opinion with respect to the legality and enforceability of the 2014 Bonds. The form of such legal opinion is attached in Appendix G. Jones Hall is also acting as Disclosure Counsel to the Authority. Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, is acting as Underwriter's Counsel. Certain legal matters will be passed upon by the general counsels of the Authority and the West Bay Sanitary District, and by the city attorneys of the City of Redwood City and the City of San Carlos.

Compensation of Underwriter's Counsel, Bond Counsel and Disclosure Counsel is contingent upon issuance of the 2014 Bonds.

## Tax Matters

**Federal Tax Law.** In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 2014 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the Authority and the Participating Members comply with all requirements of the Internal Revenue Code of 1986, as amended (the "**Tax Code**") that must be satisfied subsequent to the issuance of the 2014 Bonds. The Authority and the Participating Members have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the 2014 Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the 2014 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2014 Bonds who purchase the 2014 Bonds after the initial offering of

a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the 2014 Bond (said term being the shorter of the 2014 Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the 2014 Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the 2014 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Bonds.

**California Law.** In the further opinion of Bond Counsel, interest on the 2014 Bonds is exempt from California personal income taxes.

**Other Consequences.** Owners of the 2014 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2014 Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the 2014 Bonds other than as expressly described above.

**Form of Bond Counsel Opinion.** The form of Bond Counsel's opinion is attached in Appendix G.

## **Ratings**

Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("**S&P**") has assigned its municipal bond rating of "AA" to the 2014 Bonds, and Moody's Investors Service ("**Moody's**") and has assigned its municipal bond rating of "Aa3" to the 2014 Bonds.

These ratings reflect only the views of the respective rating agency, and an explanation of the significance of these ratings, and any outlook assigned to or associated with these ratings, should be obtained from the respective rating agency.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The Authority and the Participating Members have provided certain additional information and materials to the rating agencies (some of which does not appear in this Official Statement).

There is no assurance that these ratings will continue for any given period of time or that these ratings will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating on the 2014 Bonds may have an adverse effect on the market price or marketability of the 2014 Bonds.

## **Underwriting**

The 2014 Bonds are being purchased by De La Rosa & Co., as underwriter (the “**Underwriter**”). The Underwriter has agreed, subject to certain conditions, to purchase all of the 2014 Bonds described on the inside cover page of this Official Statement at an aggregate purchase price of \$65,537,274.90 (which is equal to the par amount of the 2014 Bonds, plus an original issue premium of \$6,063,374.65, less an underwriter’s discount of \$526,099.75).

The initial public offering prices stated on the inside cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the 2014 Bonds to certain dealers (including dealers depositing the 2014 Bonds into investment trusts), dealer banks, banks acting as agent and others at prices lower than such public offering prices.

De La Rosa & Co., the underwriter of the 2014 Bonds, has entered into separate agreements with Credit Suisse Securities USA LLC and City National Securities, Inc. for retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to said agreement, if applicable, De La Rosa & Co. will share a portion of its underwriting compensation with respect to the 2014 Bonds, with Credit Suisse Securities USA LLC or City National Securities, Inc.

On January 30, 2014, De La Rosa & Co. announced that it will be sold to Stifel Financial Corp. That sale is expected to be finalized after the closing date of the Bonds.

## **Miscellaneous**

This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or holders of any of the 2014 Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this official statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in affairs in the Authority or any of the Participating Members since the date thereof.

**EXECUTION OF THE OFFICIAL STATEMENT**

The Authority has duly authorized the execution and delivery of this Official Statement.

SILICON VALLEY CLEAN WATER

*/s/* \_\_\_\_\_ Daniel T. Child  
Daniel T. Child  
Manager

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## APPENDIX A

### INFORMATION ABOUT REDWOOD CITY'S WASTEWATER SYSTEM

#### City of Redwood City

The City of Redwood City is located in the northern part of Silicon Valley, approximately 25 miles south of San Francisco, roughly midway between San Francisco and San Jose. The City is the county seat of San Mateo County. The City's economy is well diversified, with a strong industrial and commercial base, including many "high-tech" companies such as Oracle Corporation. The City encompasses approximately 19 square miles within its corporate limits and has a population of approximately 79,074.

#### Form of Government

The City was incorporated in 1867 and became a charter city in 1929, under the charter laws of the State of California. The City is governed by a seven-member City Council whose members are elected at large to staggered terms of four years. The City Council selects a mayor from among its members. The current members of the City Council are:

<u>Council Member</u>	<u>Current Term Expires</u>
Jeffrey Gee, <i>Mayor</i>	November 2017
Rosanne Foust, <i>Vice-Major</i>	November 2015
Alicia C. Aguirre	November 2015
Ian Bain	November 2015
Diane Howard	November 2017
Barbara Pierce	November 2015
John D. Seybert	November 2017

The City operates under a council-manager form of government. The City Council appoints a City Manager who is responsible for the day-to-day administration and management of the City. The current City Manager is Robert Bell.

#### The Sewer Utility System

The City owns and operates a sanitary sewer collection system consisting of approximately 200 miles of sewer pipelines and 31 sewer lift stations. The City's wastewater is conveyed to the Authority for treatment and disposal. The City's sewer utility is accounted for as separate enterprise fund.

The Community Development Department's Public Works Division oversees management, maintenance and operation of the City's sewer collection system. The City's Engineering and Construction Division of the Community Development Department is responsible for the design and construction of capital improvements to the City's sewer collection system. Financial management of the City's Sewer Utility System is provided by the City's Finance Department under which the Revenue Services Division is responsible for all City utility billing and collections, including processing of connection and facilities fees.

## Wastewater Flows

The following table shows a five-year fiscal year history of the City's average daily wastewater flows to the Authority.

**Table A1**  
**Redwood City - Annual Wastewater Flow**

	2008-09	2009-10	2010-11	2011-12	2012-13
Average Daily Flow (mgd)	7.7	7.0	6.9	6.0	6.4

Source: Silicon Valley Clean Water

## Service Area and Customer Base

The City's sewer enterprise provides wastewater service to most of the incorporated area of the City as well as some surrounding adjacent areas. The City also provides wastewater conveyance and treatment services to five sewer districts as discussed later on in this section.

The following table shows a history of accounts by customer class for the City's sewer customers.

**Table A2**  
**Redwood City - Historical Sewer Accounts**

	2010-11		2011-12		2012-13	
	Accounts	% of Total	Accounts	% of Total	Accounts	Accounts
<b>City Sewer Accounts</b>						
Residential	18,080	93.5%	18,184	93.5%	18,287	93.5%
Retail Commercial	1,043	5.4	1,038	5.3	1,049	5.4
Institutional	97	0.5	98	0.5	98	0.5
Restaurants	78	0.4	82	0.4	80	0.4
Hospitals	17	0.1	17	0.1	15	0.1
Supermarkets	9	0.0	9	0.1	8	0.0
Industrial	21	0.1	22	0.1	14	0.1
Flat Rate	3	0.0	3	0.0	4	0.0
<b>Total</b>	<b>19,348</b>	<b>100.0%</b>	<b>19,453</b>	<b>100.0%</b>	<b>19,555</b>	<b>100.0%</b>

Source: City of Redwood City



The following table shows a history of service charge revenues.

**Table A3**  
**Redwood City - Historical Sewer Service Charge Revenues**

User Group	2010-11		2011-12		2012-13	
	Revenues	% of Total	Revenues	% of Total	Revenues	% of Total
<b>City Sewer Accounts</b>						
Residential	\$14,930,718	69.1%	\$16,507,321	66.5%	\$18,064,497	68.2%
Flat Rate	1,320	0.0	1,246	0.0	2,709	0.0
Hospitals	217,997	1.0	162,345	0.6	211,695	0.8
Industrial	59,321	0.3	55,624	0.2	74,361	0.3
Institutional	351,211	1.6	385,888	1.6	426,884	1.6
Restaurants	324,713	1.5	347,895	1.4	350,114	1.3
Retail Commercial	2,061,072	9.5	2,352,603	9.5	2,550,496	9.6
Other	50,073	0.2	56,681	0.2	62,280	0.2
Supermarkets	133,516	0.6	147,850	0.6	158,952	0.6
Subtotal	\$18,129,941	83.8%	\$20,017,454	80.6%	\$21,901,988	82.6%
<b>Outside Agencies Served</b>						
Fair Oaks SMD	2,662,204	12.3	3,338,139	13.5	3,354,281	12.7
Emerald Lake Heights SMD	676,610	3.1	1,209,681	4.9	1,075,561	4.1
Oak Knoll SMD	35,900	0.2	115,382	0.5	86,637	0.3
Woodside Town Ctr SAD	91,516	0.4	62,651	0.2	31,325	0.1
Kensington Square SMD	21,632	0.1	68,784	0.3	51,397	0.2
Edgewood SMD	3,218	0.0	3,508	0.0	0.0	0.0
Subtotal	\$3,491,080	16.1%	\$4,798,145	19.4%	\$4,599,202	17.4%
Total	\$21,621,021	100.0%	\$24,815,599	100.0%	26,501,189	100.0%

Source: City of Redwood City and County of San Mateo.

Note: Revenues do not include facilities and connections fees, interest income, miscellaneous income or transfers from other funds

The following table lists the City's largest sewer customers by service charge revenues for fiscal year 2012-13.

**Table A4  
Redwood City - Largest Customers, Fiscal Year 2012-13**

Description	FY 2012-13		
	Sewer Service Charges	% of Total	
<b>10 Largest City Sewer Accounts</b>			
County of San Mateo	Retail Commercial	266,404	1.0%
Redwood Shores Apt.	All Residential	211,146	0.8
The Irvine Company LLC	All Residential	202,812	0.8
Boardwalk	All Residential	143,079	0.5
Indian Creek Apartments	All Residential	128,494	0.5
Oracle USA Inc.	Retail Commercial	124,491	0.5
M.H. Podell	All Residential	118,075	0.4
Demiguel & Johnson	All Residential	113,908	0.4
Sequoia Hospital District	Hospitals	111,700	0.4
Harborside Apt	All Residential	<u>103,489</u>	<u>0.4</u>
Subtotal		1,523,598	5.7%
<b>Outside Sewer Districts</b>			
Fair Oaks SMD	Predominantly Residential	3,354,281	12.6
Emerald Lake Heights SMD	Predominantly Residential	1,075,561	4.1
Oak Knoll SMD	Predominantly Residential	86,637	0.3
Kensington Square SMD	Predominantly Residential	51,397	0.2
Woodside Town Center SMD	Predominantly Residential	31,325	0.1
Edgewood SMD <sup>[1]</sup>	Predominantly Residential	<u>0</u>	<u>0.0</u>
Subtotal		4,599,202	17.3%
<b>All Other Customers</b>		20,378,390	76.9%
<b>Total</b>		26,501,189	100.0%

Source: Based on data provided by Redwood City.

[1] There were no sewer service charges for 2014 for Edgewood SMD because payment was received late and posted in FY 2013-14.

### **Sewer Districts Served by Redwood City**

The City provides sewer service to five San Mateo County sewer maintenance districts and a small sewer assessment district that is part of the Town of Woodside. Together, these districts accounted for approximately 17% of the City's sewer charge revenues. The City provides these services pursuant to separate legal agreements with San Mateo County for each district, and the Town of Woodside. These districts provide their own local wastewater collection services and pay Redwood City for conveyance and wastewater treatment. The Authority bills Redwood City based on the City's share of wastewater flows and loading, which includes the wastewater conveyed from the six districts. Each of the districts pays Redwood City for wastewater service pursuant to each district's legal agreement with Redwood City. The sewer districts served by Redwood City are listed below along with a brief description of each district and the basis of its payments to Redwood City.

**Fair Oaks Sewer Maintenance District** – This is the largest district served by the City and accounts for approximately 12.66% of the City’s total sewer service charge revenues. Under the agreement, the district is obligated to pay the City for a pro rata share of Redwood City’s payments to the Authority based on the district’s share of total wastewater flow sent to the Authority by Redwood City. Historically, the district’s annual flows were estimated by a flow meter. In recent years, by mutual consensus between Redwood City and San Mateo County, the District’s annual wastewater flow has been estimated at 27.99% of Redwood City’s total wastewater flow to the Authority. In fiscal year 2012-13, the district billed 7,110 accounts, of which 6,435, or approximately 91%, were residential. For fiscal year 2013-14, the district’s current annual sewer rate is \$530 per residential unit or equivalent. San Mateo County collects these charges on the County’s property tax rolls. See Table A6 for further discussion of San Mateo County’s sewer charges.

**Emerald Lake Heights Sewer Maintenance District (Zone 2)** – This district includes approximately 1,455 sewer accounts of which all but 4 are residential. The district pays the City for sewer service based on the number of accounts multiplied by the City’s existing sewer rates.

**Oak Knoll Sewer Maintenance District** – This district includes approximately 123 accounts, of which all but 2 are residential. The district pays the City based on the number of accounts multiplied by the City’s existing sewer rates.

**Kensington Square Sewer Maintenance District** – This district includes approximately 74 residential accounts and pays the City based on the number of accounts multiplied by the City’s existing sewer rates.

**Woodside Town Center Sewer Assessment District** – This district includes approximately 163 accounts, of which all but 22 which are residential. Under an agreement between the City of Woodside on behalf of the district and Redwood City, the district is obligated to pay the City for a pro rata share of Redwood City’s payments to the Authority based on the district’s share of total wastewater flow sent to the Authority by Redwood City. The agreement also requires the district to pay a small sewer transmission fee and capacity rental fee. The district currently funds approximately 0.12% of the City’s total payments to the Authority.

**Edgewood Sewer Maintenance District** - This district includes approximately 7 residential accounts and pays the City based on the number of accounts multiplied by the City’s existing sewer rates.

## **Sewer Utility Regulatory Issues**

**General.** Regulatory requirements applicable to the City’s sanitary sewer collection system are contained in or imposed by regulation pursuant to the Federal Water Pollution Control Act, as amended, and the State of California Porter Cologne Water Quality Control Act of 1969, as amended. Both federal and State regulations are administered through the Regional Board. The City is not aware of any environmental or regulatory issues that would adversely impact its ability to provide sewer collection service.

**Waste Discharge Requirements.** The City is not subject to independent waste discharge requirements in connection with operation of its sanitary sewer collection system because it sends its wastewater to the Authority for treatment and discharge.

**Recent Enforcement Actions.** On August 25, 2010, a sanitary sewer overflow (“SSO”) occurred in Redwood City. The SSO was caused by a force main failure due to fatigue in the force main wall. Of the 1,058,500 gallons of sewage that could have escaped the force main, 95% of the sewage was either contained and recovered by City staff or intercepted upstream and transported to the treatment facility by City staff. The remaining 5% of the flow (or 57,107 gallons) reached the surface waters of the Redwood Shores lagoon. For violating the Clean Water Act, the California Regional Water Quality Control Board imposed a civil fine in the amount of \$95,600. To date, the City has paid the civil fine and hired a contractor to perform a pump station evaluation City-wide to evaluate the condition of all pump stations in an effort to prevent future SSOs.

**Wastewater Rates**

The City’s wastewater rates are independently established by the City Council pursuant to a rate ordinance, and do not require approval by any other legal entity. Single family residential customers are billed a flat monthly rate for sewer service. Non-residential customers pay volumetric charges based on customer class and metered water use, subject to a minimum monthly charge.

The City has increased its sewer rates each year for the past 10 years and has adopted additional rate increases for the next two fiscal years in anticipation of increased funding needs for the City’s capital improvement program, SVCW’s CIP, and operating cost inflation. The following table shows the City’s historical and adopted sewer rates. These rates were adopted pursuant to Article XIII D of the California Constitution. See “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS – Articles XIII C and XIII D”.

**Table A5  
Redwood City - Adopted and Proposed Monthly Sewer Rates**

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Rate Increase %</b>	9%	9%	9%	9%	9%	9%	9%
<b>Residential</b> (monthly charge)	\$44.70	\$48.72	\$53.10	\$57.88	\$63.09	\$68.77	\$74.95
<b>Non-Residential/Commercial</b> (charge per hcf of metered water use)							
Institutional/Public	\$3.29	\$3.59	\$3.91	\$4.26	\$4.64	\$5.06	\$5.52
Retail/Commercial	3.67	4.00	4.36	4.75	5.18	5.65	6.15
Hospitals	3.67	4.00	4.36	4.75	5.18	5.65	6.15
Restaurants	8.91	9.71	10.58	11.53	12.57	13.70	14.93
Supermarkets	8.91	9.71	10.58	11.53	12.57	13.70	14.93
Industrial	2.93	3.19	3.48	3.79	4.14	4.51	4.91

The following table shows sewer rates adopted by San Mateo County for the sewer districts served by Redwood City, which charges are collected on San Mateo County's property tax rolls. These rates were adopted pursuant to XIID of the California Constitution.

**Table A6  
San Mateo County Adopted Annual Sewer Service Charges**

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Sewer Districts Served by Redwood City	<u>Annual Charge per Residential Unit or Equivalent</u>						
Fair Oaks SMD	\$400	\$420	\$470	\$500	\$530	\$560	\$590
Emerald Lake Heights SMD (Zone 2)	750	770	810	850	890	930	970
Oak Knoll SMD	700	800	900	930	960	990	1,020
Kensington Square SMD	850	900	975	1,015	1,055	1,095	1,135
Edgewood SMD	850	900	950	1,025	1,100	1,175	1,250

**Billing and Collection**

The City issues a combined utility bill to each of its customers for water, sewer, and solid waste collection services (the City acts as the billing and collection agent for Recology of San Mateo County, a private company that performs solid waste collection services under a franchise agreement with the City). The City bills its utility customers on a bi-monthly basis for residential customers and a monthly basis for commercial customers. The utility bills are due and payable within 30 days of the bill date. If not paid within 30 days, the utility bill is delinquent, a 10 day reminder notice is mailed to the customer and assessed a 1.5% interest charge, and if still unpaid 40 days after the initial bill has been issued, a 7 day notice is mailed indicating that water will be shut off if the bill remains unpaid and another 5% interest charge is assessed. If the utility bill continues to be unpaid after the 5% interest charge, utility services will be disconnected until payment is made. Prior to disconnecting utility service, the City provides the affected customer with forty-eight hour notice of possible disconnection. The reconnection fee ranges from \$20 to \$100 if paid during business hours and \$320 is paid after business hours.

The following table shows a five-year history of sewer utility bill payment delinquencies.

**Table A7  
Redwood City - Sewer Bill Allowance for Bad Debt\***

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
<b>Amount</b>	\$31,706	\$51,627	\$51,564	\$53,913	\$44,624	\$30,528
<b>% of Revenue</b>	0.21%	0.26%	0.24%	0.22%	0.17%	0.26%

\* A reserve for delinquent payments, estimated and adjusted annually based on previous and outstanding delinquent payments. The estimate for fiscal year 2013-14 is only through November of 2013.

Source: City of Redwood City

**Issues with San Mateo County's Maguire Correctional Facility**

The Authority operates and maintains a sewage pump station that is used to send the City's wastewater to the treatment plant. The City is responsible for all costs associated with the operation and maintenance of this pump station. Since approximately 2005, the City has incurred additional expense due to the impact of the San Mateo County, Maguire Correctional Facility.

This is due to the jail's inmates placing debris into the sewer that causes disruption to the pumping facility.

In 2008, the Authority sued the County to cover the cost of these extra services. Through a mediation process, in 2009, the County agreed to pay the Authority \$2.3 million for past damages and ongoing costs related to the problem. The County also agreed to implement changes to its enforcement and monitoring of what the inmates put into the sewer. These changes have resulted in significantly reduced issues, but have not completely eliminated the issue.

The Authority is in the early planning stages for replacement of the current pump station and is incorporating processes that will allow the pump station to remove the material introduced by the jail inmates. The new pump station will not be online until approximately the fourth quarter of 2016. It is estimated that the ongoing impact of the jail adds an additional cost of operating the existing pump station of approximately \$150,000 to \$200,000 per year. These costs are covered by the settlement agreement through fiscal year 2014-15. The modifications required for the new pump station are expected to add approximately \$1.0 million to the cost of building the facility and will result in those costs being covered by the City as part of the cost of constructing the pump station.

### **Sewer Facilities Fee for New Development**

The City levies a sewer facilities fee on applicants for new (or expanded) wastewater service as a condition of obtaining a permit to connect to the sewer system. This fee is used to help fund the cost of sewer facilities that provide benefit to the new or expanded connection. The City's sewer facilities fees are established by the city council of the City. The current sewer facilities fee for a new residential connection is \$960. New non-residential connections pay a fee equal to \$960 per each 2,000 square feet of building area.

In addition, pursuant to the Joint Powers Agreement, the City also collects the Authority's connection fees and periodically remits payment of these fees to the Authority.

### **Future Capital Needs**

The City budgets funds annually for capital improvements to its sewer collection system including repairs, replacements, upgrades, and expansions. Historically, the City has budgeted approximately \$1 million annually for capital improvements to its sewer system, excluding payments made to the Authority for improvements to the Authority's wastewater system. Starting in fiscal year 2008-09, the City began increasing funding for its sewer system capital needs. The City appropriated \$6.25 million for sewer system capital funding in fiscal year 2013-14 and projects to budget between \$4.50 million and \$6.25 million annually through fiscal year 2019-20.

The City updated its 2008 Sanitary Sewer Master Plan in January 2013. The revision included an hydraulic analysis with updated flow monitoring information and land use data. These revisions resulted in an updated cost for the recommended capital improvement projects that were identified in the 2008 Sewer Master Plan. This new update identified approximately \$45,281,000 of recommended capital improvements to the City's wastewater collection system to address existing and future growth capacities. Based on priority rankings, approximately \$14,242,000 of capital projects were ranked in the highest priority categories (1 and 2). This means that the flow model projected potential overflows under existing conditions. Despite this information, the City has not experienced any overflows as projected by the model in those locations. The City has

been proactively conducting closed-circuit television inspections of the wastewater collection system to assess the conditions to identify sources of infiltration and inflow into the City's sewer system. Reductions in infiltration and inflow could reduce the potential overflow conditions and may also reduce the need for the capital improvements identified in the updated master plan.

The City currently anticipates funding its collection system capital needs on a pay-as-you-go, cash basis, and has increased its sewer rates accordingly. However, the City might consider the future use of debt financing if such financing was either needed to fund high-priority projects or if it made economic sense to construct a number of improvements in a given year rather than spread the capital improvement expenditures over a longer timeframe.

Additionally, the City could be liable for funding some additional expenditures related to the monitoring or clean-up of soil with perchloroethylene ("PCE") contamination located under Sequoia Station, a retail shopping center located next to a Caltrain station. Through mediation, the City has received approximately \$650,000 from the prior owner of a dry-cleaning business that used to be located near the site and was the source of the PCE. These funds are designated towards remedying the situation. The San Francisco Bay Area Regional Water Quality Control Board ("RWQCB") has jurisdiction over determining what actions need to be taken to remedy or monitor the situation. The RWQCB has determined that the City was partially responsible for the PCE contamination due to overflow/leaks from the City's sewer pipelines. The City anticipates that compliance with the potential RWQCB requirements could cost anywhere from a few hundred thousand dollars to potentially a few million dollars. The \$650,000 received from the settlement may or may not be adequate. The RWQCB has not yet determined what action the City will need to take.

In addition, the City anticipates financing its allocable share of costs for the Authority's CIP, equal to approximately \$174.7 million over the next five years, after taking into account proceeds from the 2014 Bonds, accounting for projected 3% annual construction cost inflation. The City anticipates financing these costs through long-term debt issued by the Authority and/or the City.

**Sewer Utility System Finances**

The City's water and sewer utilities are accounted for as separate enterprise funds. Sewer enterprise operations and capital improvements are funded predominantly by sewer service charges supplemented by interest earnings, capacity fees, and other miscellaneous revenues.

**Outstanding Sewer Utility Debt**

The City incurred obligations in connection with the issuance by the Authority of the 2008 Bonds, the 2009 Bonds, SRF Loans and the Line of Credit, as described in “THE AUTHORITY AND THE WASTEWATER SYSTEM – Outstanding Debt”. The City’s payment obligations to the Authority with respect to the SRF Loans and the Line of Credit are payable from Net Revenues on an unsecured basis.

**Table A8  
Redwood City – Sewer Utility System Outstanding Debt**

Fiscal Year Ending June 30	2008 SVCW Bond Payments	2009 SVCW Bond Payment <sup>[1]</sup>	2014 SVCW Bond Payment	SRF Loan Payments (preliminary)	Total
2014	\$458,165.00	\$2,962,066.50		\$356,774.08	\$3,777,005.58
2015	454,265.00	2,949,444.00	\$1,790,221.54	356,774.08	5,550,704.62
2016	455,065.00	2,938,048.50	2,072,927.91	356,774.08	5,822,815.49
2017	450,565.00	2,922,586.00	2,070,782.35	1,387,694.66	6,831,628.01
2018	455,665.00	2,908,052.00	2,070,514.16	1,387,694.66	6,821,925.82
2019	454,933.75	2,889,827.75	2,071,586.94	1,387,694.66	6,804,043.10
2020	453,458.75	2,872,705.25	2,071,801.49	1,387,694.66	6,785,660.15
2021	456,090.00	2,854,190.50	2,072,874.27	1,387,694.66	6,770,849.43
2022	452,815.00	2,830,085.25	2,072,337.88	1,387,694.66	6,742,932.79
2023	453,820.00	2,808,268.75	2,072,874.27	1,387,694.66	6,722,657.68
2024	448,937.50	2,783,560.25	2,071,667.40	1,387,694.66	6,691,859.81
2025	447,970.00	2,760,779.00	2,071,339.20	1,387,694.66	6,667,782.86
2026	450,820.00	2,731,628.75	2,071,935.59	1,387,694.66	6,642,079.00
2027	452,500.00	2,700,773.75	2,073,142.46	1,387,694.66	6,614,110.87
2028	453,000.00	2,670,797.50	2,072,203.78	1,387,694.66	6,583,695.94
2029	452,500.00	2,636,503.75	2,071,801.49	1,387,694.66	6,548,499.90
2030	451,000.00	2,602,696.25	2,071,801.49	1,387,694.66	6,513,192.40
2031		2,567,370.00	2,072,069.68	1,387,694.66	6,027,134.34
2032		2,525,247.50	2,072,471.98	1,387,694.66	5,985,414.14
2033		2,487,455.00	2,072,874.27	1,387,694.66	5,948,023.93
2034		2,443,587.50	2,073,142.47	1,030,920.58	5,547,650.55
2035		2,393,645.00	2,070,460.52	1,030,920.58	5,495,026.10
2036		2,347,222.50	2,072,391.52	1,030,920.58	5,450,534.60
2037		2,298,712.50	2,072,123.32		4,370,835.82
2038		2,242,912.50	2,071,184.65		4,314,097.15
2039		2,189,417.50	2,072,123.32		4,261,540.82
2040		2,127,822.50	2,071,989.23		4,199,811.73
2041			2,070,326.42		2,070,326.42
2042			2,070,996.91		2,070,996.91
2043			2,072,740.17		2,072,740.17
2044			2,072,606.07		2,072,606.07
	\$7,701,570.00	\$71,445,406.25	\$61,877,372.75	\$27,753,893.20	\$168,778,182.20

[1] Includes approximate allocated share of gross debt service on Series 2009 Bonds; does not include proportionate share of Refundable Credits.

Note: Assumes Redwood City contractual obligation of 53.64% for 2014 Bonds.



**Pension and Other Employee Benefit Costs**

The City allocates a portion of its employee expenses to its sewer utility based on employees allocated to operation of the sewer utility. In fiscal year 2012-13, the City allocated 2.6% of its total employee costs to the sewer utility.

**Pension.** A significant portion of the City’s employment costs are pension and post-retirement medical benefit costs. See Note 9 of the City’s June 30, 2013 audited financial report, which is attached to this Official Statement as Appendix I, for information as of June 30, 2013 related to the City’s pension and post-retirement medical benefit costs.

The City contributes to the California Public Employees’ Retirement System (“**PERS**”), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California.

Three-year trend information for the City’s pension plan is set forth below:

**Three-year Trend of Annual Pension Cost**

Miscellaneous

Fiscal year ended June 30	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligations
2011	\$4,459,770	100%	0
2012	4,964,308	100	0
2013	5,362,636	100	0

**Four-year Trend of Funded Status of the Plan**

Miscellaneous

Valuation Date (June 30)	Actuarial value of assets	Entry age normal accrued liability	Unfunded/ (overfunded) liability (UAAL)	Funded ratio	Annual covered payroll	UAAL as a percentage of payroll
2009	\$158,140,679	\$196,007,388	\$37,866,709	80.7%	\$30,942,372	122.4%
2010	166,816,005	207,055,196	40,239,191	80.6	29,303,730	137.3
2011	176,271,009	219,035,437	42,764,428	80.5	28,015,399	152.6
2012	181,792,644	227,332,457	45,539,813	80.0	27,247,606	167.1

As of June 30, 2012, the market value of the Miscellaneous Plan’s assets was \$151,628,115 resulting in a funded ratio of 66.7%.

**Recent Changes by CalPERS.** On March 14, 2012, the CalPERS Board of Administration voted to reduce its discount rate, which rate is attributable to its expected price inflation and investment rate of return (net of administrative expenses), from 7.75% to 7.5%. As a result of such discount rate decrease, among other things, (i) the amounts of CalPERS member state and schools employer contributions will increase by 1.2 to 1.6% for Miscellaneous plans and

2.2 to 2.4% for Safety plans beginning in fiscal year 2012-13 and (ii) the amounts of CalPERS member public agency contributions will increase by 1 to 2% for Miscellaneous plans and 2 to 3% for Safety plans beginning in fiscal year 2013-14. More information about the CalPERS discount rate adjustment can be accessed through CalPERS's web site at [www.calpers.ca.gov/index.jsp?bc=/about/press/pr-2012/mar/discount-rate.xml](http://www.calpers.ca.gov/index.jsp?bc=/about/press/pr-2012/mar/discount-rate.xml). *The reference to this internet website is shown for reference and convenience only, the information contained within the website may not be current and has not been reviewed by the City and is not incorporated in this Official Statement by reference.*

The CalPERS Board of Administration adjustment has been undertaken in order to address underfunding of the CalPERS funds, which arose from significant losses incurred as a result of the economic crisis arising in 2008 and persists due to a slower than anticipated, subsequent economic recovery. The City is unable to predict what the amount of CalPERS liabilities will be in the future, or the amount of the CalPERS contributions which the City may be required to make.

At its April 17, 2013 meeting, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy which spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. After this change, CalPERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period.

The new amortization and smoothing policy will be used for the first time in the June 30, 2013 actuarial valuations. These valuations will be performed in the fall of 2014 and will set employer contribution rates for the fiscal year 2015-16.

According to CalPERS, the current amortization and smoothing policy was designed to reduce volatility in employer contribution rates, and, although the policy accomplished this goal fairly well since its adoption, a number of concerns have developed:

- The use of an actuarial value of assets corridor can lead to significant single year increases to rates in years when there are large investment losses.
- The use of long asset smoothing periods and long rolling amortization periods result in slow progress toward full funding.
- The use of an actuarial value of assets requires the disclosure of two different funded statuses and unfunded liability numbers in actuarial valuation reports. This adds confusion and inhibits transparency.
- The use of rolling amortization and long asset smoothing periods makes it difficult for employers to predict when contribution rates will peak and how high that peak will be.
- The use of rolling amortization and asset smoothing periods may result in additional calculations for the new accounting standards. These calculations would be avoided with a quicker funded status recovery.

According to CalPERS, the adoption of the new smoothing and amortization policies will change future employer contribution rates, as follows:

- Funding levels will improve, which will reduce the funding level risk.
- Local agencies' plans will experience more rate volatility in normal years, but a much reduced chance of very large rate increases in years when there are large investment losses.
- Contribution rates in the near term will increase.
- Long-term contribution rates will be lower.
- There will be greater transparency about the timing and impact of future employer contribution rate changes.
- The new policy eliminates the need for an actuarial value of assets. As a result, there will be only one funded status and unfunded liability in actuarial reports.
- There will be less confusion when the new accounting standards are implemented since there will be no need for extra liability calculations.

***Pension Reform Act of 2013 (Assembly Bill 340).*** On September 12, 2012, Governor Brown signed AB 340, a bill that will enact the California Public Employees' Pension Reform Act of 2013 ("**PEPRA**") and that will also amend various sections of the California Education and Government Codes, including the County Employees Retirement Law of 1937. AB 340 (i) increases the retirement age for new State, school, and city and local agency employees depending on job function, (ii) caps the annual CalPERS pension benefit payout, (iii) addresses numerous abuses of the system, and (iv) requires State, school, and certain city and local agency employees to pay at least half of the costs of their CalPERS pension benefits. PEPRA will apply to all public employers *except* the University of California, charter cities and charter counties (except to the extent they contract with CalPERS).

The provisions of AB 340 went into effect on January 1, 2013 with respect to State employees hired on that date and after; local government employee associations, including employee associations of the City, will have a five-year window to negotiate compliance with AB 340 through collective bargaining. If no deal is reached by January 1, 2018, a city, public agency or school district could force employees to pay their half of the costs of CalPERS pension benefits, up to 8 percent of pay for civil workers and 11 percent or 12 percent for public safety workers.

CalPERS predicts that the impact of AB 340 on employers, including the City, and employees will vary, based on each employer's current level of benefits. To the extent that the new formulas lower retirement benefits, employer contribution rates could decrease over time as current employees retire and employees subject to the new formulas make up a larger percentage of the workforce. This change would, in some circumstances, result in a lower retirement benefit for employees than they currently earn. Additionally, CalPERS notes that changes arising from AB 340 could ultimately have an adverse impact on public sector recruitment in areas that have historically experienced recruitment challenges due to higher pay for similar jobs in the private sector.

More information about AB 340 can be accessed through PERS's website at [www.calpers.ca.gov/index.jsp?bc=/member/retirement/pension-reform-impacts.xml&pst=ACT&pca=ST](http://www.calpers.ca.gov/index.jsp?bc=/member/retirement/pension-reform-impacts.xml&pst=ACT&pca=ST). *The reference to this internet website is shown for reference and convenience only; the information contained within the website may not be current and has not been reviewed by the City and is not incorporated in this Official Statement by reference.*

**Other Post Employment Benefits.** Three-year trend information for the City's OPEB plan is set forth below:

**Three-year Trend of Annual OPEB Cost**

Fiscal year ended June 30	Annual OPEB cost (AOC)	Percentage of AOC contributed	Net OPEB obligations (Asset)
2011	\$3,944,000	98%	\$6,768,477
2012	5,018,000	98	6,868,477
2013	5,172,000	98	6,962,477

**Three-year Trend of Funded Status of the Plan**

Valuation Date (June 30)	Actuarial Value of Assets	Entry age normal accrued liability	Unfunded/ (overfunded) liability (UAAL)	Funded ratio	Annual covered payroll	UAAL as a percentage of payroll
2009	0	37,264,000	37,264,000	0.0	43,764,165	85.2
2011	4,429,000	53,083,000	48,654,000	8.3	44,961,408	108.2
2013	11,001,000	56,177,000	45,176,000	19.6	47,154,637	95.8

As of June 30, 2013, the market value of the OPEB assets was \$11,001,000, resulting in a funded ratio of 19.6%.

**Historical Revenues and Expenses**

The following table shows a history of revenues, expenses, and net revenues based on information provided in the City’s audited financial statements and by the City.

**Table A9  
Redwood City - Historical Revenues, Operating Expenses, and Net Revenues  
Fiscal Year Ended June 30**

<b>Fiscal Year Ending June 30</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Adopted Rate Increase (rounded)</b>	9%	9%	9%
<b>REVENUES</b>			
Sewer Service Charges	\$21,879,644	\$25,108,273	\$27,627,000
Investment Earnings & Other Revenues	30,311	23,750	14,735
<b>Total Revenues</b>	<b>21,909,955</b>	<b>25,132,023</b>	<b>27,641,735</b>
<b>EXPENSES</b>			
<b>Operating &amp; Maintenance</b>			
Operating Expenses from Audit	19,900,464	20,017,426	19,287,430
Less Depreciation	(487,922)	(544,154)	(525,718)
Less SVCW Bond Debt Service	(2,471,367)	(2,598,198)	(2,598,152)
Less SVCW Non-Operating Payments	(1,349,208)	(781,863)	(753,070)
<b>Net Operating Expenses</b>	<b>15,591,968</b>	<b>16,093,211</b>	<b>15,410,490</b>
<b>Net Revenues</b>	<b>6,317,987</b>	<b>9,038,812</b>	<b>12,231,245</b>
<b>Debt Service</b>			
City Share of SVCW 2008 Bonds	453,087	450,284	452,043
City Share of SVCW 2009 Bonds (Net)	2,018,280	2,147,914	2,146,109
<b>Total Debt Service</b>	<b>2,471,367</b>	<b>2,598,198</b>	<b>2,598,152</b>
<b>Debt Service Coverage</b>	<b>2.56</b>	<b>3.48</b>	<b>4.71</b>
<b>Net Revenues Remaining After Debt Service</b>	<b>3,846,621</b>	<b>6,440,614</b>	<b>9,633,093</b>
<b>Available Cash Reserves June 30</b>	<b>6,061,466</b>	<b>10,122,484</b>	<b>16,479,105</b>
<b>Days Operating Cash June 30</b>	<b>142</b>	<b>230</b>	<b>390</b>

[1] Calculated based on Available Cash Reserves divided by Operating & Maintenance Expenses, multiplied by 365 days.  
Source: Redwood City.

**Projected Revenues, Expenses, and Debt Service Coverage**

The following tables show cash flow assumptions and projections of the City’s revenues, expenses, and net revenues. The projections include the City’s estimated share of debt service for the Authority’s CIP. The projections were developed by Bartle Wells Associates based on information provided by the City and the Authority, and a number of assumptions including those listed below. While the City believes the estimates and projections shown are reasonable, no assurance can be given that the results shown will be achieved.

***General Assumptions***

- 1. Beginning fund balance as of June 30, 2013 is based on the City's fund balance analysis and excludes rollover CIP funds (budgeted in prior years for projects that are not yet complete), encumbrances, and restricted reserves.
- 2. Growth in sewer service connections is estimated at 0.25% per year or approximately 1% every four years.
- 3. SVCW wastewater treatment costs are projected based on SCVW projections, which account for roughly 5% operating cost escalation per year on average.

***Revenues***

- 1. Sewer Service Charges within the City are projected based on fiscal year 2012-13 actual revenues adjusted for adopted and projected rate increases and growth; revenues for fiscal year 2013-14 assume the fiscal year 2013-14 rate increase becomes effective August 1, with future rate increases effective July 1 of each year. Sewer Service Charge revenues projected for fiscal year 2012-13 differ from the City’s budget because they are based on more up-to-date information.
- 2. Sewer Service Charges from the contract agencies are projected based on agreements with each agency and assume a 6-month lag in payments due for each fiscal year.
- 3. Interest income is estimated based on beginning fund balances multiplied by the projected interest rate shown for each year.
- 4. Other revenues are projected as shown in the table.

***Expense Assumptions***

- 1. Operating expenses are based on the fiscal year 2013-14 budget and escalate at the annual rate of 4%.
- 2. Sanitary Sewer Maintenance expenses include \$165,000 in potential additional staffing costs starting fiscal year 2017-18.
- 3. SVCW payments are based on SVCW’s fiscal year 2013-14 Budget with operating and maintenance costs broken out separately from SCVW debt service and capital costs. SCVW payments in future years are based on SCVW projections, which account for roughly 5% operating cost escalation per year on average

4. Debt service includes the City's projected share of payments due for outstanding and projected debt issued to fund SVCW's CIP. The City's share of future debt payments to SVCW is based on updated draft projections of SVCW CIP funding needs (as of November 2013). Debt service due on the 2009 Bonds, which were issued as Build America Bonds, are offset by a federal reimbursement for 35% of the interest due on the 2009 Bonds. This reimbursement has been temporarily lowered and may be subject to further impact from the federal budget sequester.

5. Debt service projections assume approximately \$40 million of additional SVCW bonds allocable to the City over the next 3 years.

6. City capital expenditures are projected as shown in the table. Due to a temporary surplus of funds, the projections assume the City will designate additional funds for capital improvements including a second crossing of Highway 101, Master Plan projects, and addressing deferred maintenance.

7. Days Cash on Hand is based on Ending Fund Reserves divided by Operating & Maintenance Expenses, multiplied by 365 days.

8. Payments for the District's allocated share of SVCW's 2008 Bonds, 2009 Bonds and the Refundable Credits, and 2014 Bonds are rounded to the nearest \$1,000 dollars.

**Table A10**  
**Redwood City Sewer Enterprise Cash Flow Projections**  
**Fiscal Year Ending June 30**

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Rate Increase	Adopted 9%	Adopted 9%	Adopted 9%	Projected 5%	Projected 5%	Projected 5%	Projected 2%
<b>Beginning Fund Reserves</b>	\$16,479,000	\$16,049,000	\$19,455,000	\$22,793,000	\$23,304,000	\$23,782,000	\$24,276,000
<b>REVENUES</b>							
Sewer Service Charges							
Redwood City	23,750,000	26,130,000	28,540,000	30,030,000	31,600,000	33,250,000	33,990,000
Contract Agencies							
(With 6 Month Lagged Pymts)	4,761,000	5,318,000	6,345,000	7,787,000	9,305,000	10,199,000	10,515,000
Subtotal	28,511,000	31,448,000	34,885,000	37,817,000	40,905,000	43,449,000	44,505,000
Interest Income & Investment							
Gain/Loss	129,000	80,000	195,000	345,000	472,000	483,000	510,000
Facilities Fees/Connection Fees/Other	280,000	300,000	300,000	300,000	300,000	300,000	300,000
Total	28,920,000	31,828,000	35,380,000	38,462,000	41,677,000	44,232,000	45,315,000
<b>EXPENSES</b>							
<b>Operating &amp; Maintenance</b>							
City Operating Expenses	6,887,000	7,084,000	7,289,000	7,503,000	7,889,000	8,126,000	8,373,000
SVCW Operating Expenses	8,436,000	9,008,000	9,418,000	9,841,000	10,218,000	10,677,000	11,158,000
Subtotal	15,323,000	16,092,000	16,707,000	17,344,000	18,107,000	18,803,000	19,531,000
<b>Net Revenues</b>	<b>13,597,000</b>	<b>15,736,000</b>	<b>18,673,000</b>	<b>21,118,000</b>	<b>23,570,000</b>	<b>25,429,000</b>	<b>25,784,000</b>
<b>Debt Service</b>							
<b>Senior Debt Service</b>							
City Share of SVCW 2008 Bonds	458,000	454,000	455,000	451,000	456,000	455,000	453,000
City Share of SVCW 2009 Bonds (Net)	2,146,000	2,142,000	2,142,000	2,140,000	2,139,000	2,136,000	2,135,000
City Share of SVCW 2014 Bonds	0	1,790,000	2,073,000	2,071,000	2,071,000	2,072,000	2,072,000
City Share of Future SVCW Bonds	0	0	1,200,000	2,400,000	2,700,000	2,700,000	2,700,000
Total Senior Debt Service	2,604,000	4,386,000	5,870,000	7,062,000	7,366,000	7,363,000	7,360,000
<b>Senior Debt Service Coverage</b>	<b>5.22</b>	<b>3.59</b>	<b>3.18</b>	<b>2.99</b>	<b>3.20</b>	<b>3.45</b>	<b>3.50</b>
<b>Subordinate Debt Service</b>							
City Share of Outstanding SVCW SRF							
Loans	357,000	357,000	357,000	1,388,000	1,388,000	1,388,000	1,388,000
City Share of Future SVCW SRF Loans	0	0	726,000	1,392,000	5,546,000	9,227,000	9,227,000
City Share of SVCW Line of Credit							
Payments	80,000	125,000	125,000	125,000	125,000	0	0
Total Subordinate Debt Service	437,000	482,000	1,208,000	2,905,000	7,059,000	10,615,000	10,615,000
Total Combined Debt Service	3,041,000	4,868,000	7,078,000	9,967,000	14,425,000	17,978,000	17,975,000
<b>Total Debt Service Coverage</b>	<b>4.47</b>	<b>3.23</b>	<b>2.64</b>	<b>2.12</b>	<b>1.63</b>	<b>1.41</b>	<b>1.43</b>
<b>Capital &amp; Other Non-Operating</b>							
City Sewer System Capital							
Improvements	6,150,000	6,250,000	6,000,000	6,000,000	4,500,000	5,500,000	6,000,000
City Capital Carryover from Prior Year	3,862,000	0	0	0	0	0	0
SVCW Capital Projects/Reserves	974,000	486,000	486,000	486,000	486,000	1,457,000	1,457,000
SVCW SRF Reserve Contributions	0	726,000	1,771,000	4,154,000	3,681,000	0	0
Subtotal	10,986,000	7,462,000	8,257,000	10,640,000	8,667,000	6,957,000	7,457,000
Total	29,350,000	28,422,000	32,042,000	37,951,000	41,199,000	43,738,000	44,963,000
<b>Revenues Less Expenses</b>	(430,000)	3,406,000	3,338,000	511,000	478,000	494,000	352,000
<b>Ending Fund Reserves</b>	\$16,049,000	\$19,455,000	22,793,000	\$23,304,000	\$23,782,000	\$24,276,000	\$24,628,000
<b>Days Cash on Hand</b>	<b>382</b>	<b>441</b>	<b>498</b>	<b>490</b>	<b>479</b>	<b>471</b>	<b>460</b>



**Absence of Litigation**

The City is not aware of any action, suit, or proceeding known to be pending or threatened, that would affect the execution of the City's Financing Agreement with the Authority, or materially impact the finances of the City's wastewater system.

**Financial Statements**

The City's audited financial statements for the fiscal year ending June 30, 2013 are attached as Appendix I. The City's financial statements were audited by Badawi & Associates, Certified Public Accountants, independent auditors. The auditor has not been asked to consent to the inclusion of the City's audited financial statements in this Official Statement and has not reviewed this Official Statement.

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## APPENDIX B

### INFORMATION ABOUT THE CITY OF SAN CARLOS' WASTEWATER SYSTEM

#### City of San Carlos

The City of San Carlos is located in the northern part of Silicon Valley, approximately 22 miles south of San Francisco, roughly midway between San Francisco and San Jose. The City encompasses approximately six square miles within its corporate limits and has a population of approximately 28,931.

#### Form of Government

The City was incorporated in 1925 and is a general law city pursuant to the California Government Code. The City is governed by a five-member City Council whose members are elected at large to staggered terms of four years. The City Council selects a mayor from among its members. The City Treasurer is also an elected position. The current members of the City Council are:

<b>Member</b>	<b>Current Term Expires</b>
Mark Olbert, <i>Mayor</i>	November 2015
Ron Collins, <i>Vice Mayor</i>	November 2015
Robert Grassilli*	November 2017
Matthew B. Grocott**	November 2017
Cameron Johnson	November 2017

\* Appointed representative to Silicon Valley Clean Water

\*\* Appointed alternate representative to Silicon Valley Clean Water

The City operates under a council-manager form of government. The City Council appoints a City Manager who is responsible for the day-to-day administration and management of the City. The current City Manager is Jeff Maltbie, and the City's Wastewater System is managed by Jay Walter, the Public Works Director.

#### City Leadership

- Jeff D. Maltbie began serving as the City's Interim City Manager in September of 2010 and, after a national recruitment, was selected by the Council to serve as City Manager in March 2011. During his 13 years with the City, he has served as Deputy City Manager, including five years serving as the City's Administrative Services Director. As the Administrative Services Director he was responsible for all the City's business operations including Finance, Human Resources, Information Technology and Risk Management. Jeff joined the City of San Carlos in 2001 as a Senior Analyst. Prior to coming to San Carlos Jeff worked for the City of Daly City, Santa Clara County, and the City of Milpitas. Jeff attended San Diego State University and San Jose State University earning a Bachelor's of Art degree in Political Science/Public Administration.
- Jay Walter began serving as the City's Public Works Director/City Engineer in August of 2012, after having served the City of San Luis Obispo in the same capacity since 2001. Jay was the District Director for the California Department of Transportation District 5, which includes 5 California coastal counties from 1998 to 2001. He worked for Caltrans for nearly 20 years, serving in the Design, Traffic Engineering, Construction Management, and Maintenance & Operations Divisions for two different Districts. Jay attended California

Polytechnic State University at San Luis Obispo, earning a Bachelor's Degree in Civil Engineering. He is a registered Civil Engineer and Traffic Engineer in the State of California.

### The Wastewater System

The City owns and operates a sanitary sewer collection system consisting of approximately 104 miles of sewer pipelines ranging in size from 5 to 27 inches in diameter, and 6 sewer lift stations. The City's wastewater is conveyed to the Authority for treatment and disposal. The City accounts for its sewer utility as a separate enterprise fund.

### Wastewater Flow to Authority

The following table shows a five fiscal year history of the City's average daily wastewater flows to the Authority.

**Table B1**  
**City of San Carlos - Average Daily Wastewater Flow (mgd)**

	2008-09	2009-10	2010-11	2011-12	2012-13
Average Daily Flow (mgd)	2.44	2.40	2.40	2.28	1.76

Source: Silicon Valley Clean Water.

### Service Area & Customer Base

The City's sewer enterprise provides wastewater service to all of the incorporated area of the City as well as some surrounding adjacent County areas. The City provides wastewater conveyance services and subsequent treatment by SVCW to four San Mateo County sewer districts as discussed later in this section.

The following table shows a two-year history of the City's sewer customers.

**Table B2**  
**City of San Carlos - Sewer Accounts**

	2011-12		2012-13	
	Accounts	% of Total	Accounts	% of Total
Residential	9,945	86.91%	9,948	86.85%
Non-Residential	1,033	9.03%	1,041	9.09%
Outside Agencies Served <sup>(1)</sup>	465	4.06%	465	4.06%
<b>Total</b>	<b>11,443</b>	<b>100.00%</b>	<b>11,454</b>	<b>100.00%</b>

(1) Four separate sewer districts hold the 465 accounts, on which accounts the County pays charges to the City of San Carlos.

Source: City of San Carlos.

Note: Utility billing database changes may have resulted in variations in number of customer accounts.

The following table shows a two-year history of service charge revenues.

**Table B3  
City of San Carlos - Historical Sewer Service Charge Revenues**

	2011-12		2012-13	
	Revenues	% of Total	Revenues	% of Total
<b>City Sewer Accounts</b>				
Residential	\$7,299,406	79.22%	\$7,741,192	78.30%
Non-Residential	1,662,301	18.04	1,877,140	18.99
Subtotal	8,961,716	97.26	9,618,332	97.29
<b>Outside Agencies Served</b>	252,252	2.74	268,028	2.71
Total	9,213,968	100.00	9,886,360	100.00

Source: City of San Carlos.

The following table lists the City's largest sewer customers by service charge revenues for fiscal year 2012-13.

**Table B4  
City of San Carlos - Largest Customers, Fiscal Year 2012-13**

	Description	FY 2012-13	
		Sewer Service Charges	% of Total
<b>10 Largest City Sewer Accounts</b>			
TMT Associates LLC	Industrial	\$112,664	1.21%
Inns of America Lessee	Residential	78,381	0.79
BRE/HV Properties LLC	Residential	73,920	0.75
L-3 Communications Corporation	Industrial	47,173	0.48
GW Williams Co	Industrial	44,952	0.45
Black Mountain Holdings LLC	Industrial	41,258	0.42
San Carlos Retail Venture LP	Commercial	40,316	0.41
1000 El Camino Real Assoc LLC	Residential	39,509	0.40
LSP Properties LLC	Commercial	36,245	0.37
Hollyvue Apartments LLC	Residential	33,774	0.34
Subtotal		548,191	5.54
<b>Outside Sewer Districts</b>			
Devonshire County Sanitation District	Residential	131,776	1.33
Emerald Lake Heights Sewer Maint District	Residential	54,346	0.55
Scenic Heights County Sanitation District	Residential	26,451	0.27
Harbor Industrial Sewer Maintenance District	Comm/Industrial	55,455	0.56
Subtotal		268,028	2.71
All Other Customers		9,070,141	91.74

Source: City of San Carlos utility billing data.

**Sewer Districts Served by San Carlos**

The City provides sewer service to four San Mateo County sewer maintenance districts pursuant to separate legal agreements with San Mateo County for each district. These districts provide their own local wastewater collection services and pay the City of San Carlos for

conveyance and wastewater treatment. The Authority bills San Carlos based on the City's share of wastewater flows and loading, which includes the wastewater conveyed from the four County sewer districts. Each of the districts pays San Carlos for wastewater service pursuant to each district's legal agreement with the City. The sewer districts served by San Carlos are listed below along with a brief description of each district and the basis of its payments to the City.

**Devonshire County Sanitation District** – This District includes approximately 274 residential accounts, and pays the City based on the number of accounts multiplied by 80% of the City's existing sewer rate. The District also includes an institution, which is charged based on water consumption multiplied by 80% of the applicable sewer rate.

**Emerald Lake Heights Sewer Maintenance District (Zone 1)** – This District includes approximately 113 residential accounts and pays the City based on the number of accounts multiplied by 80% of the City's existing sewer rate.

**Scenic Heights County Sanitation District** – This District includes approximately 55 residential accounts and pays the City based on the number of accounts multiplied by 80% of the City's existing sewer rate.

**Harbor Industrial Sewer Maintenance District** – This District serves approximately 63 commercial and industrial customer accounts. The charges billed to this District are calculated based on 80% of the City's existing rates and annual wastewater flow from the District's customers.

### **Sewer Utility Regulatory Issues**

**General.** Regulatory requirements applicable to the City's sanitary sewer collection system are contained in or imposed by regulation pursuant to the Federal Water Pollution Control Act, as amended, and the State of California Porter Cologne Water Quality Control Act of 1969, as amended. Both federal and State regulations are administered through the San Francisco Bay Regional Water Quality Control Board (the "**Regional Board**"). The City is not aware of any environmental or regulatory issues that would adversely impact its ability to provide sewer collection service.

**Waste Discharge Requirements.** The City is not subject to independent waste discharge requirements in connection with operation of its sanitary sewer collection system because it sends its wastewater to the Authority for treatment and discharge.

**Recent Enforcement Actions.** On February 16, 2010, the City entered into a consent decree with San Francisco Baykeeper to reduce the number of sanitary sewer overflows (SSOs) from the City's wastewater collection system. The agreement sets forth a timeline for reducing SSOs from the 2010 level of 64 per 100 miles of sewer line per year to a level of 4 per 100 miles of sewer line per year in 2017. The agreement required payments of \$200,000 for an environmental mitigation project, \$95,000 for litigation fees and costs, and \$55,000 for compliance monitoring and these obligations have been met. The agreement also commits the City to certain actions regarding SSO investigation, response and reporting; sewer condition assessment rehabilitation replacement; implementation of a fats, oil and grease program; sewer cleaning, hot spots, and lateral programs; regulation of private laterals; and a chemical root control program. An annual report is required commencing on March 1, 2011 and each year thereafter. The agreement set forth stipulated payments for failure to file required reports. The City is on schedule to meet the SSO reduction target in 2017.

**Wastewater Rates**

The City’s wastewater rates are independently established by the City Council pursuant to a rate ordinance, and do not require approval by any other legal entity. Residential customers are billed a flat monthly rate for sewer service. Non-residential customers pay volumetric charges based on customer class and metered water use from April 1 to March 31 preceding each new fiscal year, subject to a minimum monthly charge.

The following table shows the City’s historical sewer rates.

**Table B5  
City of San Carlos – Historical and Adopted Sewer Rates**

	2009-10	2010-11	2011-12	2012-13
<b>Effective Rate Increase %</b>	7%	7%	7%	6%
<b>Residential</b> (annual charge)	\$525.08	\$561.84	\$601.17	\$637.24
Monthly Equivalent	43.76	46.82	50.10	53.10
<b>Commercial</b> (per hcf of metered water use)				
Bakeries & Restaurants	8.35	8.93	9.56	10.13
Markets with Disposal & Mortuaries	8.20	8.77	9.38	9.94
All Others: *	5.33	5.70	6.10	6.47
*Subject to Minimum Annual Charge	525.08	561.84	601.17	637.24
<b>Institutional</b> (per hcf of metered water use)				
Hospital	5.33	5.70	6.10	6.47
All Others	5.03	5.38	5.76	6.12
<b>Industrial</b>				
Flow (\$ per hcf)	4.56	4.88	5.22	5.53
BOD (\$ per pound)	0.3188	0.3411	0.3650	0.3869
SS (\$ per pound)	0.3350	0.3583	0.3834	0.4064

In 2013, the City adopted a series of three annual rate increases effective for fiscal years 2013-14 through 2015-16. These rate increases were adopted to support the City’s allocable share of debt service for SVCW’s CIP as well as SCVW operations and the City’s operating and capital programs. These rates were adopted in compliance with Article XIID of the California Constitution. See “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS – Articles XIIC and XIID. The following table shows the City’s current and adopted sewer rates.

**Table B6  
City of San Carlos – Current and Adopted Sewer Rates**

	2013-14	2014-15	2015-16
<b>Effective Rate Increase %</b>	25%	20%	10%
<b>Residential</b> (annual charge)	\$807.46	\$968.95	\$1,065.85
Monthly Equivalent	67.29	80.75	88.82
<b>Commercial</b> (per hcf of metered water use)			
Bakeries & Restaurants	13.05	15.66	17.23
Markets with Disposal & Mortuaries	11.14	13.37	14.71
All Others: *	8.25	9.90	10.89
*Subject to Minimum Annual Charge	605.60	726.71	799.39
<b>Institutional</b> (per hcf of metered water use)			
Hospital	8.47	10.16	11.18
All Others	7.90	9.48	10.43
<b>Industrial</b>			
Flow (\$ per hcf)	6.79	8.15	8.97
BOD (\$ per pound)	0.7543	0.9052	0.9957
SS (\$ per pound)	0.7981	0.9577	1.0535

The following table shows sewer rates adopted by San Mateo County for the sewer districts served by the City of San Carlos. These rate increases were adopted to help support each district's share of costs for the Authority's CIP. These rates were adopted pursuant to Article XIID of the California Constitution.

**Table B7  
San Mateo County Adopted Annual Sewer Service Charges**

	2009-10	2010-11	2011-12	2012-13	2013-14
<b>Sewer Districts Served by San Carlos</b>	<b>Annual Charge per Residential Unit or Equivalent</b>				
Emerald Lake Heights SMD (Zone 1)	\$1,050	\$1,100	\$1,130	\$1,160	\$1,190
Devonshire CSD	800	900	1,000	1,025	1,050
Harbor Industrial SMD	300	310	320	330	240
Scenic Heights CSD	800	950	1,050	1,080	1,110

Source: San Mateo County.

### **Billing and Collection**

Each year, the City calculates the wastewater charge for the upcoming fiscal year for each parcel in the City's service area. Beginning in 2009, San Carlos began contracting with a financial services firm to prepare the wastewater bills and to monitor trends. These charges are submitted to San Mateo County for collection on the County's property tax bills (except for governmental agencies which are billed directly). The City's wastewater charges are listed as a separate item on the tax bill and are collected at the same time and in the same manner as the County's ad valorem property taxes. The City's charges are subject to the same penalties and payment enforcement as the County's taxes, which include the potential to foreclose on properties with payment delinquencies.



San Mateo County's property tax bills are due in equal installments on November 1 and February 1 of each fiscal year and become delinquent if not paid by December 10 and April 10 respectively. San Mateo County is on the Teeter Plan under which the County pays the City the full amount of all charges assessed on the County's tax rolls, and also retains any penalties due to payment delinquency. The County pays the City for 100% of its annual wastewater billings, regardless of payment delinquencies. The County has the option to discontinue its participation in the Teeter Plan.

### **Capacity Fees for New Development**

The City levies a sewer capacity fee on applicants for new (or expanded) wastewater service as a condition of obtaining a permit to connect to the sewer system. This fee is used to help fund the cost of sewer facilities that provide benefit to the new or expanded connection. The City's sewer capacity fees are established by the City Council. The current sewer capacity fee for a new residential connection is \$4,500. New non-residential connections pay a fee equal to \$4,500 for the first 270 gallons or any fraction of estimated daily average quantity of sewage, plus \$4,500 per subsequent 270 gallons or any fraction greater than 25 gallons of daily estimated average quantity of sewage discharge, as determined by the City Engineer.

### **Future Capital Needs**

The City commissioned RMC Water and Environment to prepare a Sewer Collection System Master Plan, dated January 2013 (the "**Master Plan**"). The Master Plan reported that the City has \$8,802,000 of high priority capacity improvement projects that the City submitted to Baykeeper in compliance with the consent decree (see "-Sewer Utility Regulatory Issues" above). These projects were prioritized based on relative severity of existing capacity deficiencies and the location of historical wet weather overflows. The projects that were determined to have the maximum benefit on the existing collection system capacity have been funded by a rate increase in 2012. The first project is in construction, and the second is approximately 50% complete in design. An additional rate increase was passed in 2013 to fund projects for lateral and main line replacement starting in 2014. The Master Plan created a priority plan for addressing the system deficiencies as outlined below.

In addition, the Master Plan presented a recommended 20-year collection system capital improvement program: the program would cost -

- \$20,802,000 (including the \$8,802,000 described in the previous paragraph and another \$12 million of sewer rehabilitation) in the next 6 years if the recommended program were pursued,
- \$11,802,000 (including the \$8,802,000 described in the previous paragraph and another \$3 million of sewer rehabilitation) in the next 6 years if a "minimum point repair approach" were pursued,
- \$50,756,000 in the following 14 years if the recommended program were pursued, and
- \$29,779,000 in the following 14 years if a "minimum point repair approach" were pursued.

In addition, the City anticipates financing its 15.14% allocable share of costs for the Authority's CIP, equal to an estimated \$54.5 million (including 3% cost inflation), after taking into account proceeds from the 2014 Bonds, over approximately the next five years, through long-term debt issued by the Authority or the City.

In 2013, the City adopted three years of rate increases to fund its allocable share of debt service for the Authority's CIP and to help fund the City's capital improvement needs on a pay-as-you-go, cash basis.

### **Wastewater System Finances**

The City's sewer utility is accounted for as a separate enterprise fund. Sewer enterprise operations and capital improvements are funded predominantly by sewer service charges supplemented by interest earnings, capacity fees, and other miscellaneous revenues.

**Outstanding Wastewater System Debt**

The City incurred obligations in connection with the issuance by the Authority of the 2008 Bonds, the 2009 Bonds, SRF Loans and the Line of Credit, as described in “THE AUTHORITY AND THE WASTEWATER SYSTEM – Outstanding Debt”. The City’s payment obligations to the Authority with respect to the SRF Loans and the Line of Credit are payable from Net Revenues on an unsecured basis.

**Table B8  
City of San Carlos - Wastewater System Outstanding Debt**

Fiscal Year Ending June 30	2008 SVCW Bond Payments	2009 SCVW Bond Payments <sup>[1]</sup>	2014 SCVW Bond Payments	SRF Loan Payments (preliminary)	Total
2014	\$116,007.50	\$759,246.00		\$111,211.85	\$986,465.35
2015	118,707.50	757,203.50	\$558,039.00	111,211.85	1,545,161.85
2016	116,307.50	754,175.00	646,162.83	111,211.85	1,627,857.18
2017	118,807.50	750,112.50	645,494.03	432,565.31	1,946,979.34
2018	116,207.50	749,907.25	645,410.43	432,565.31	1,944,090.49
2019	118,420.00	743,691.00	645,744.83	432,565.31	1,940,421.14
2020	120,338.75	741,437.50	645,811.71	432,565.31	1,940,153.27
2021	117,057.50	732,596.75	646,146.10	432,565.31	1,928,365.66
2022	113,682.50	727,413.75	645,978.91	432,565.31	1,919,640.47
2023	115,155.00	721,507.75	646,146.11	432,565.31	1,915,374.17
2024	116,317.50	714,878.75	645,769.90	432,565.31	1,909,531.46
2025	117,115.00	707,526.75	645,686.31	432,565.31	1,902,893.37
2026	112,705.00	703,465.00	645,853.51	432,565.31	1,894,588.82
2027	113,125.00	692,662.50	646,229.70	432,565.31	1,884,582.51
2028	113,250.00	685,878.75	645,937.10	432,565.31	1,877,631.16
2029	113,125.00	677,917.50	645,811.71	432,565.31	1,869,419.52
2030	112,750.00	668,778.75	645,811.71	432,565.31	1,859,905.77
2031		658,050.00	645,895.30	432,565.31	1,736,510.61
2032		650,510.00	646,020.70	432,565.31	1,729,096.01
2033		636,552.50	646,146.11	432,565.31	1,715,263.92
2034		626,177.50	646,229.71	321,353.46	1,593,760.67
2035		614,182.50	645,393.70	321,353.46	1,580,929.66
2036		605,365.00	645,995.63	321,353.46	1,572,714.09
2037		589,725.00	645,912.03		1,235,637.03
2038		577,262.50	645,619.42		1,222,881.92
2039		562,775.00	645,912.02		1,208,687.02
2040		546,262.50	645,870.23		1,192,132.73
2041			645,351.90		645,351.90
2042			645,560.91		645,560.91
2043			646,104.31		646,104.31
2044			646,062.51		646,062.51
	\$1,969,078.75	\$18,355,261.50	\$19,288,108.37	\$8,651,306.20	\$48,263,754.82

[1] Represents approximate allocated share of gross debt service on Series 2009 Bonds; does not include proportionate share of Refundable Credits.

Note: Assumes San Carlos contractual obligation of 16.72% for 2014 Bonds.

**Pension and Other Employee Benefit Costs**

The City allocates a portion of its employee expenses to its sewer utility based on employees allocated to operation of the sewer utility. In fiscal year 2012-13, the City allocated approximately 10% of its total employee costs to the sewer utility.

**Pension.** A significant portion of the City’s employment costs are pension and post-retirement medical benefit costs. See Notes 12 and 13 of the City’s June 30, 2013 audited financial report, which is attached to this Official Statement as Appendix J, for information as of June 30, 2013 related to the City’s pension and post-retirement medical benefit costs.

The City contributes to the California Public Employees’ Retirement System (“**PERS**”), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California.

Three-year trend information for the Authority’s pension plan is set forth below:

**Three-year Trend of Annual Pension Cost**

Contribution Amount		Contribution Rate			
		1 <sup>st</sup> Tier	2 <sup>nd</sup> Tier	3 <sup>rd</sup> Tier	4 <sup>th</sup> Tier
2011	2,049,510	17.537%	10.790%	N/A	N/A
2012	2,000,814	20.160	13.817	10.019%	N/A
2013	2,301,816	20.433	14.383	10.197	6.5

**Three-year Trend of  
Funded Status of the Plan**

Statewide Miscellaneous Plan Tier 1

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2010	\$2,297,781,345	\$1,815,671,616	\$482,199,729	79.0%	\$434,023,381	111.1%
2011	2,486,708,579	1,981,073,089	505,635,490	79.7	427,300,419	118.3
2012	2,680,181,441	2,178,799,790	501,381,651	81.3	417,600,034	120.0

As of June 30, 2012, the market value of the Statewide Miscellaneous Plan (Tier 1) assets was \$1,849,406,219 resulting in a funded ratio of 69%.

See “APPENDIX A – Pension and Other Employee Benefit Costs – Recent Changes by CalPERS” and “APPENDIX A – Pension and Other Employee Benefit Costs - Pension Reform Act of 2013 (Assembly Bill 340)” for information about CalPERS.

**Other Post Employment Benefits.** Three-year trend information for the City’s OPEB plan is set forth below:

**Three-year Trend of Annual OPEB Cost**

Fiscal year ended June 30	Annual OPEB cost (AOC)	Actual Contribution	Percentage of AOC contributed	Net OPEB obligations (Asset)
<u>Healthcare</u>				
2011	\$420,459	\$313,873	75%	\$(1,320,235)
2012	367,514	-	0%	(346,902)
2013	414,101	175,000	42%	(107,801)
<u>Longevity</u>				
2011	\$581,702	\$93,524	16%	\$1,506,855
2012	487,300	1,225,722	252%	768,433
2013	499,704	175,000	35%	1,093,137

**Trend of  
Funded Status of the Plan**

Valuation Date (June 30)	Ending Actuarial Value of Assets	Entry Age Normal Accrued Liability	Overfunded (Underfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	Overfunded (Underfunded) Actuarial Liability (UAAL) as a Percentage of Covered Payroll
<u>Healthcare</u>						
2009	\$1,629	\$5,356	\$(3,727)	30.41%	\$8,974	-41.53%
2011	1,140	5,197	(4,057)	21.94	5,863	-69.20
<u>Longevity</u>						
2009	--	\$3,993	\$3,993)	0.00%	\$6,380	-62.59%
2011	\$1,200	4,714	(3,514)	25.46	5,863	-59.94

As of June 30, 2011, the market value of the OPEB assets was \$2,385,000, resulting in a funded ratio of 24%.

**Historical Revenues and Expenses**

The following table shows a history of revenues, expenses, and net revenues based on information provided in the City’s audited financial statements and by the City.

**Table B9  
San Carlos - Historical Revenues, Expenses, and Fund Balances  
Fiscal Year Ended June 30**

	2011	2012	2013
<b>Adopted Rate Increase (rounded)</b>	7%	7%	6%
<b>REVENUES</b>			
Sewer Service Charges	\$8,779,246	\$9,981,977	\$10,011,575
Investment Earnings & Other Revenues	36,925	45,186	45,509
<b>Total Revenues</b>	<b>8,816,171</b>	<b>10,027,163</b>	<b>10,057,084</b>
<b>EXPENSES</b>			
<b><u>Operating &amp; Maintenance</u></b>			
Operating Expenses from Audit	6,837,542	6,829,477	7,072,683
Less Depreciation	(245,142)	(283,952)	(315,341)
Less SVCW Non-Operating Payments	(389,092)	(223,271)	(213,224)
<b>Net Operating Expenses</b>	<b>6,203,308</b>	<b>6,322,254</b>	<b>6,544,118</b>
<b>Net Revenues</b>	<b>2,612,863</b>	<b>3,704,909</b>	<b>3,512,966</b>
<b><u>Debt Service</u></b>			
City Share of SVCW 2008 Bonds	116,083	114,120	116,989
City Share of SVCW 2009 Bonds (Net)	623,734	444,262	553,430
<b>Total Debt Service</b>	<b>739,817</b>	<b>558,382</b>	<b>670,419</b>
<b>Debt Service Coverage</b>	<b>3.53</b>	<b>6.64</b>	<b>5.24</b>
<b>Net Revenues Remaining After Debt Service</b>	<b>1,873,046</b>	<b>3,146,528</b>	<b>2,842,547</b>
<b>Cash &amp; Equivalents June 30</b>	<b>\$4,654,937</b>	<b>\$6,140,412</b>	<b>\$7,769,570</b>
<b>Days Operating Cash June 30<sup>[1]</sup></b>	<b>274</b>	<b>355</b>	<b>433</b>

[1] Calculated based on Cash & Equivalents divided by Operating & Maintenance Expenses, multiplied by 365 days.

**Projected Revenues, Expenses, and Debt Service Coverage**

The following tables show cash flow assumptions and projections of the City’s sewer enterprise revenues, expenses, and net revenues. The projections include the City’s estimated allocable share of debt service for the Authority’s CIP. The projections were developed by Bartle Wells Associates based on information provided by the City and the Authority, and a number of assumptions including those listed on the following table. While the City believes the estimates and projections shown are reasonable, no assurance can be given that the results shown will be achieved.

### **Revenues**

1. Sewer Service Charges are projected based on fiscal year 2012-13 actual revenues adjusted for adopted and projected rate increases and growth, estimated at 10 new single family homes or equivalents each year.
2. Other revenues are projected as shown on the table.

### **Operating & Maintenance Expenses**

1. City Operating and Maintenance Expenses are based on the City's Budget for fiscal year 2013-14 and are projected to escalate at the annual rate of 4%.
2. SVCW Operating Expenses are based on SVCW's Operating and Maintenance Budget for fiscal year 2013-14. SVCW payments in future years are based on SVCW financial projections, which account for roughly 5% operating cost escalation per year on average.

### **Non-Operating Expenses**

1. Senior Debt Service includes the City's allocable share of payments due for outstanding and projected SVCW bonds issued to help fund the Authority's CIP. Debt service due on the 2009 Bonds, which were issued as Build America Bonds, are offset by a federal reimbursement for 35% of the interest due on the 2009 Bonds. This reimbursement has temporarily been lowered and may be subject to further impact from the federal budget sequester.
2. Debt service projections assume approximately \$13 million of additional SVCW bonds allocable to the City of San Carlos over the next 3 years.
2. City Capital Improvements are projected based on the City's proposed 5-year sewer system capital improvement program budget with some minor modifications and additional contingency funding. The City anticipates funding these projects on a pay-as-you-go, cash basis.
3. SVCW Capital & SRF Reserve Payments include the City's share of projected SVCW cash-funded capital repairs and the City's allocable share of payments for debt service reserve fund requirements for projected SVCW SRF Loans.
4. Days Cash on Hand is based on Ending Fund Reserves divided by Operating & Maintenance Expenses, multiplied by 365 days.
5. Payments for the District's allocated share of SVCW's 2008 Bonds, 2009 Bonds and the Refundable Credits, and 2014 Bonds are rounded to the nearest \$1,000 dollars.



**Table B10  
City of San Carlos - Sewer Enterprise Cash Flow Projections**

	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Rate Increase	Adopted 25%	Adopted 20%	Adopted 10%	Projected 5%	Projected 5%	Projected 5%	Projected 5%
<b>Beginning Fund Reserves</b>	\$7,439,000	\$7,628,000	\$8,283,000	\$9,540,000	\$9,791,000	\$9,828,000	\$10,142,000
<b>REVENUES</b>							
Sewer Service Charges, City Customers	12,030,000	14,446,000	15,901,000	16,707,000	17,554,000	18,444,000	19,379,000
Sewer Service Charges, County Districts	517,000	620,000	682,000	716,000	752,000	790,000	829,000
Connection Fees	35,000	45,000	45,000	45,000	45,000	45,000	45,000
Investment Earnings	31,000	38,000	82,000	143,000	195,000	196,000	201,000
Transfers In	361,000	375,000	390,000	406,000	422,000	439,000	457,000
<b>Total Revenues</b>	<b>12,974,000</b>	<b>15,524,000</b>	<b>17,100,000</b>	<b>18,017,000</b>	<b>18,968,000</b>	<b>19,914,000</b>	<b>20,911,000</b>
<b>EXPENSES</b>							
<b>Operating &amp; Maintenance</b>							
City Operating Expenses	5,449,000	5,667,000	5,894,000	6,130,000	6,375,000	6,630,000	6,895,000
SVCW Operating Expenses	2,760,000	2,947,000	3,082,000	3,220,000	3,343,000	3,493,000	3,651,000
Total O&M with Transfers	8,209,000	8,614,000	8,976,000	9,350,000	9,718,000	10,123,000	10,546,000
<b>Net Revenues</b>	<b>4,765,000</b>	<b>6,910,000</b>	<b>8,124,000</b>	<b>8,667,000</b>	<b>9,250,000</b>	<b>9,791,000</b>	<b>10,365,000</b>
<b>Debt Service</b>							
<b>Senior Debt Service</b>							
City Share of SVCW 2008 Bonds	116,000	119,000	116,000	119,000	116,000	118,000	120,000
City Share of SVCW 2009 Bonds (Net)	549,000	550,000	550,000	549,000	552,000	550,000	551,000
City Share of SVCW 2014 Bonds	0	558,000	646,000	645,000	645,000	646,000	646,000
City's Share of Future SVCW Bonds	0	0	375,000	750,000	900,000	900,000	900,000
Total Senior Debt Service	665,000	1,227,000	1,687,000	2,063,000	2,213,000	2,214,000	2,217,000
<b>Senior Debt Service Coverage</b>	<b>7.17</b>	<b>5.63</b>	<b>4.82</b>	<b>4.20</b>	<b>4.18</b>	<b>4.42</b>	<b>4.68</b>
<b>Subordinate Debt Service</b>							
City Share of Existing SVCW SRF Loans	111,000	111,000	111,000	433,000	433,000	433,000	433,000
City Share of Future SVCW SRF Loans	0	0	226,000	434,000	1,729,000	2,876,000	2,876,000
City Share of SVCW Line of Credit Pymts	25,000	40,000	40,000	40,000	40,000	0	0
Total Subordinate Debt Service	136,000	151,000	377,000	907,000	2,202,000	3,309,000	3,309,000
Total Combined Debt Service	801,000	1,378,000	2,064,000	2,970,000	4,415,000	5,523,000	5,526,000
<b>Total Debt Service Coverage</b>	<b>5.95</b>	<b>5.01</b>	<b>3.94</b>	<b>2.92</b>	<b>2.10</b>	<b>1.77</b>	<b>1.88</b>
<b>Capital &amp; Other Non-Operating</b>							
City Capital Improvements	3,500,000	4,500,000	4,100,000	4,000,000	3,500,000	3,500,000	3,500,000
SVCW Capital Projects/Reserves	275,000	151,000	151,000	151,000	151,000	454,000	454,000
SVCW SRF Reserve Contributions	0	226,000	552,000	1,295,000	1,147,000	0	0
Subtotal	3,775,000	4,877,000	4,803,000	5,446,000	4,798,000	3,954,000	3,954,000
Total Expenses	12,785,000	14,869,000	15,843,000	17,766,000	18,931,000	19,600,000	20,026,000
<b>Revenues Less Expenses</b>	<b>189,000</b>	<b>655,000</b>	<b>1,257,000</b>	<b>251,000</b>	<b>37,000</b>	<b>314,000</b>	<b>885,000</b>
<b>Ending Fund Reserves</b>	<b>\$7,628,000</b>	<b>\$8,283,000</b>	<b>\$9,540,000</b>	<b>\$9,791,000</b>	<b>\$9,828,000</b>	<b>\$10,142,000</b>	<b>\$11,027,000</b>
<b>Days Cash on Hand</b>	<b>339</b>	<b>351</b>	<b>388</b>	<b>382</b>	<b>369</b>	<b>366</b>	<b>382</b>

**Absence of Litigation**

The City is not aware of any action, suit, or proceeding known to be pending or threatened, that would affect the execution of the City's Financing Agreement with the Authority, or materially impact the finances of the City's wastewater system.

**Financial Statements**

The City's most recent audited financial statements for the fiscal year ending June 30, 2013 are attached as Appendix J. The City's financial statements were audited by Lance, Soll & Lunghard, independent auditors. The auditor has not been asked to consent to the inclusion of the City's audited financial statements in this Official Statement and has not reviewed this Official Statement.

## APPENDIX C

### INFORMATION ABOUT WEST BAY SANITARY DISTRICT

#### West Bay Sanitary District

The West Bay Sanitary District is an independent special district that provides wastewater service to the City of Menlo Park surrounding areas. The District is located in the northern part of Silicon Valley approximately 26 miles south of San Francisco, between San Francisco and San Jose. The District was originally formed in December 1902 as the Menlo Park Sanitary District under the Sanitary Sewer Act of 1891. The District operated as the Menlo Park Sanitary District from 1902 until 1981 when its name was changed to the West Bay Sanitary District to more accurately reflect the service area. The powers of the District are established by the State of California Health and Safety Code. The District serves a population of approximately 55,000 via approximately 19,000 predominantly residential sewer service connections.

#### Form of Government

The District is governed by a five-member Board of Directors whose members are elected at large from the District's service area to staggered terms of four years. The current members of the Board of Directors are:

<u>Director</u>	<u>Current Term Expires</u>
Ronald Shepherd, <i>President*</i>	November 2015
David Walker, <i>Secretary</i>	November 2015
Edward P. Moritz, <i>Treasurer**</i>	November 2017
Fran Dehn	November 2015
Roy Thiele-Sardiña	November 2017

\* Appointed representative to Silicon Valley Clean Water.

\*\* Appointed alternate representative to Silicon Valley Clean Water.

Day to day activities of the District are managed by a District Manager, who is appointed by the Board of Directors and oversees a staff of approximately 26 employees.

#### District Leadership

- Phil Scott is the District Manager and reports directly to the Board of Directors. Mr. Scott manages day to day operations of the District including more than 25 employees. Mr. Scott also serves as Chief Fiscal Officer and is responsible for budgeting, forecasting revenue requirements, long range and strategic planning, facilitating Board meetings, and negotiations. Mr. Scott has 32 years of experience in the wastewater industry and has been District Manager of the District for 4 years.
- Bill Kitajima is the Projects & IT Manager: With over 16 years at the District, Mr. Kitajima manages all capital improvement projects and Collection System Master Planning, prioritizes CIP projects, and oversees engineering, bidding and construction of all CIP projects. Mr. Kitajima also manages all databases and computer/server operations and replacements and day to day technical operations.
- John Simonetti is the Regulatory and Compliance Coordinator: Mr. Simonetti has 24 years of experience at the District and manages all commercial and industrial pretreatment and discharge inspections and permitting. Mr. Simonetti ensures NPDES compliance

with all commercial customers, monitors flows and loadings of the system, and also acts as District Liaison to the Treatment Plant and serves as Safety Officer for the District.

- Liz Bahrami is an accountant with over 11 years of service with the District. Ms. Bahrami manages all accounting operations, is responsible for deposits, AP, AR, cash flow forecasting, production of Withdrawal Orders, quarterly financial statements, annual audits, final financial statements and payroll. Ms. Bahrami also produces the annual budget and provides monthly expense reports for internal controls.
- Sergio Ramirez is the Operations Superintendent, with 3 years of experience at the District and 20 years in the wastewater industry. Mr. Ramirez manages and oversees 15 employees and the collection system maintenance operations, including cleaning and repairing of sewer pipelines and CCTV inspection of sewer pipelines and pump station maintenance. Mr. Ramirez ensures that the system runs efficiently, safely and with minimal interruptions to convey wastewater (3.7MGD) to the treatment plant in Redwood City, and helped the District to achieve the Collection System of the Year award for the Santa Clara Valley Section of the California Water Environment Association for 2012.

**The Wastewater System**

The District owns and operates a sanitary sewer collection system consisting of approximately 200 miles of sewer pipelines ranging in size from 3 to 54 inches in diameter, and 13 sewer pump stations. The District’s wastewater collection system is in good operating condition and has an average age of approximately 50 years, with an estimated life of 90 years. The District also owns a flow equalization facility, which has the capacity to hold approximately 10 million gallons of untreated wastewater. The District’s wastewater is conveyed to the Authority for treatment and disposal.

**Wastewater Flow to Authority**

The following table shows a five fiscal year history of the District’s average daily wastewater flows to the Authority.

**Table C1  
West Bay Sanitary District - Average Daily Wastewater Flow (mgd)**

	2008-09	2009-10	2010-11	2011-12	2012-13
Average Daily Flow (mgd)	4.11	3.82	3.74	3.58	3.58

Source: Silicon Valley Clean Water.

**Service Area & Customer Base**

The District’s sewer service area is approximately 14 square miles and includes the City of Menlo Park, portions of the Cities of East Palo Alto, Redwood City, and Atherton, portions of the Towns of Woodside and Portola Valley, and portions of unincorporated San Mateo and Santa Clara Counties.

The following table shows a history of residential and non-residential sewer accounts. Residential accounts comprised almost 97% of the District's customer base in fiscal year 2012-13.

**Table C2**  
**West Bay Sanitary District - Historical Sewer Accounts**

	2010-11		2011-12		2012-13	
	Accounts	% of Total	Accounts	% of Total	Accounts	% of Total
Residential	18,460	97%	18,493	97%	18,507	97%
Commercial	<u>622</u>	<u>3</u>	<u>622</u>	<u>3</u>	<u>624</u>	<u>3</u>
Total	19,082	100%	19,115	100%	19,131	100%

Source: West Bay Sanitary District.

The following table shows a history of sewer service charge revenues broken down by residential and non-residential sewer accounts. In fiscal year 2012-13, residential customers will account for slightly more than 78% of the District's total sewer service charge revenues.

**Table C3**  
**West Bay Sanitary District - Historical Sewer Service Charge Revenues**

	2010-11		2011-12		2012-13	
	Revenues	% of Total	Revenues	% of Total	Revenues	% of Total
Residential	\$12,197,931	78%	\$12,975,841	77%	\$13,849,708	78%
Commercial	<u>3,395,612</u>	<u>22</u>	<u>3,779,176</u>	<u>23</u>	<u>3,940,540</u>	<u>22</u>
Total	15,593,543	100%	16,755,017	100%	17,790,248	100%

Source: Based on data provided by West Bay Sanitary District.

The following table lists the District's 10 largest accounts by revenue for fiscal year 2012-13.

**Table C4  
West Bay Sanitary District - Largest Customers, 2012-13**

Customer	Description	2012-13 Sewer Service Charges	% of Total
<b>10 Largest Customers</b>			
T.E. Connectivity	Industrial User	\$850,157	4.8%
Stanford University	Research	223,611	1.2
Bre Properties Inc.	Residential - Multi Unit	160,176	0.9
Rosewood Hotel	Hotel	156,193	0.9
North. California Pres Homes Inc.	Retirement Facility	101,758	0.6
Stanford Research Institute	Research	108,193	0.6
United States of America	Government/Medical Facility	86,324	0.5
Facebook	Office	72,542	0.4
Stanford Park Hotel Lessee	Hotel	69,809	0.4
Radin Investment Co.	Residential - Multi Unit	47,883	0.3
Subtotal		1,876,646	10.6
<b>All Other Customers</b>		<u>15,913,602</u>	<u>89.4</u>
Total		\$17,790,248	100%

Source: West Bay Sanitary District

T.E. Connectivity, formerly Tyco Electronics Corporation, is the District's largest customer and has operated a facility in the District's service area for more than 30 years. The company is a \$13 billion global provider of engineered electronic components for thousands of consumer and industrial products; network solutions and systems for telecommunications and energy markets; undersea telecommunication systems; and wireless systems for critical communications. Tyco purchased an entitlement from the District to discharge 518,622 gallons per day of wastewater for its Menlo Park site, but is currently discharging approximately half that capacity.

**Sewer Utility Regulatory Issues**

**General.** Regulatory requirements applicable to the District's sanitary sewer collection system are contained in or imposed by regulation pursuant to the Federal Water Pollution Control Act, as amended, and the State of California Porter Cologne Water Quality Control Act of 1969, as amended. Both federal and State regulations are administered through the San Francisco Bay Regional Water Quality Control Board (the "**Regional Board**"). The District is not aware of any environmental or regulatory issues that would adversely impact its ability to provide sewer collection service.

**Waste Discharge Requirements.** The District is not subject to independent waste discharge requirements in connection with operation of its sanitary sewer collection system because it sends its sewage to the Authority for treatment and discharge.

**Recent Enforcement Actions.** During fiscal year 2011-12, the District reached a settlement in a lawsuit filed under the Federal Water Pollution Control Act, in which it agreed to pay \$1.4 million to Lawyers for Clean Water. San Francisco Baykeeper claimed that the District discharged pollutants by spilling sewage in waters tributary to the San Francisco Bay. No consent decree was required. The settlement agreement expense is shown as a special item in the District’s statement of revenues and expenses summarized in “Historical Revenues and Expenses” below.

**Wastewater Rates & Billing**

The District’s wastewater rates and charges are independently established by the Board of Directors and do not require approval by any other legal entity. Single family residential customers are billed a flat annual charge for sewer service which is collected on property tax bills. Non-residential customers pay volumetric charges based on customer class and metered water use.

A five-year rate history is shown in the following table. The District adopted its rates in compliance with Article XIID of the California Constitution. See “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS – Articles XIIC and XIID.

**Table C5  
West Bay Sanitary District - Adopted Sewer Rates**

	2009-10	2010-11	2011-12	2012-13	2013-14
<b>Residential</b> (annual charge)	\$560	\$650	\$690	\$752	820
<i>Monthly Equivalent</i>	46.67	\$54.17	\$57.50	\$62.67	\$68.33
<b>Non-Residential/Commercial</b>					
Flow - \$ per hcf	\$4.77	\$5.60	\$5.97	\$6.51	\$7.10
BOD - \$ per pound	0.19450	0.19450	0.19450	0.19450	0.21200
SS - \$ per pound	0.24440	0.24440	0.24440	0.2440	0.26640
Supplemental Flow Charge - \$ per hcf	0	0	0	0	0

Each year, the District calculates the wastewater charge for the upcoming fiscal year for each parcel in the District’s service area. These charges are submitted to San Mateo County for collection on the County’s property tax bills (except for approximately six customers located in Santa Clara County and governmental agencies, which are billed directly). The District’s wastewater charges are listed as a separate item on the tax bill and are collected at the same time and in the same manner as the County’s ad valorem property taxes. The District’s charges are subject to the same penalties and payment enforcement as the County’s taxes, which includes the potential to foreclose on properties with payment delinquencies.

San Mateo County’s property tax bills are due in equal installments on November 1 and February 1 of each fiscal year and become delinquent if not paid by December 10 and April 10 respectively. San Mateo County is on the Teeter Plan under which the County pays the District the full amount of all charges assessed on the County’s tax rolls, and also retains any penalties due to payment delinquency. The County pays the District for 100% of its annual wastewater billings, regardless of payment delinquencies. The County has the option to discontinue its participation in the Teeter Plan.

## **Connection Fees for New Development**

The District levies a sewer connection charge on new applicants for wastewater service and applicants for expanded service. The purpose of the charge is to recover a proportionate share of costs of District facilities benefiting new connections to the wastewater system. The District's connection fees are established by the Board of Directors. The District's current residential connection charge is a fixed, one-time charge of \$5,596 per residential unit. The fee for non-residential connections is based on the estimated wastewater discharge for each new account, as determined by the District.

In addition, pursuant to the Joint Powers Agreement, the District also collects the Authority's connection fees and periodically remits payment of these fees to the Authority. The total connection charges collected by the District from new non-residential accounts, including both the District's and Authority's connection fees, are subject to a minimum charge of \$7,336.20 per connection or \$33.35 per gallon per day of estimated wastewater discharge.

## **Future Capital Needs**

The District anticipates spending an average of approximately \$4.0 to \$4.5 million per year for capital improvements to the District's wastewater system in upcoming years. This level of expenditures represents an increase from the amounts spent annually in recent history. These improvements primary include repairs, replacements, and other upgrades to the District's collection system pipelines, but also include some pump station improvements and construction of a new administration building, which is currently underway. The District anticipates funding these improvements on a pay-as-you-go, cash basis.

In addition, the District anticipates financing its allocable share of costs for the Authority's CIP, equal to approximately \$96.6 million through 2018, after taking into account proceeds from the 2014 Bonds, including projected 3% annual construction cost inflation. The District anticipates financing these costs through long-term debt issued by the Authority and/or the District.



## Outstanding District Debt

The District incurred obligations in connection with the issuance by the Authority of the 2008 Bonds, the 2009 Bonds, SRF Loans and the Line of Credit, as described in "THE AUTHORITY AND THE WASTEWATER SYSTEM – Outstanding Debt". The District's payment obligations to the Authority with respect to the SRF Loans and the Line of Credit are payable from Net Revenues on an unsecured basis.

**Table C6**  
**West Bay Sanitary District - Outstanding Debt**

Fiscal Year Ending June 30	2008 SCVW Bond Payments	2009 SCVW Bond Payments <sup>[1]</sup>	2014 SCVW Bond Payments	SRF Loan Payments (preliminary)	Total
2014	\$200,277.50	\$1,304,525.00		\$197,154.95	\$1,701,957.45
2015	201,377.50	1,302,388.50	\$989,284.46	197,154.95	2,690,205.41
2016	202,277.50	1,298,487.00	1,145,509.26	197,154.95	2,843,428.71
2017	202,977.50	1,287,862.00	1,144,323.62	766,846.29	3,402,009.41
2018	198,577.50	1,285,429.75	1,144,175.41	766,846.29	3,395,028.95
2019	198,933.75	1,276,286.25	1,144,768.23	766,846.29	3,386,834.52
2020	198,940.00	1,270,394.00	1,144,886.80	766,846.29	3,381,067.09
2021	198,577.50	1,256,810.50	1,145,479.63	766,846.29	3,367,713.92
2022	202,727.50	1,250,782.50	1,145,183.21	766,846.29	3,365,539.50
2023	201,470.00	1,238,489.25	1,145,479.62	766,846.29	3,352,285.16
2024	199,842.50	1,229,930.75	1,144,812.70	766,846.29	3,341,432.24
2025	202,637.50	1,219,926.25	1,144,664.49	766,846.29	3,334,074.53
2026	199,920.00	1,207,096.25	1,144,960.90	766,846.29	3,318,823.44
2027	196,875.00	1,191,378.75	1,145,627.84	766,846.29	3,300,727.88
2028	198,375.00	1,178,895.00	1,145,109.12	766,846.29	3,289,225.41
2029	199,375.00	1,164,448.75	1,144,886.80	766,846.29	3,275,556.84
2030	199,875.00	1,148,040.00	1,144,886.80	766,846.29	3,259,648.09
2031		1,133,760.00	1,145,035.02	766,846.29	3,045,641.31
2032		1,116,375.00	1,145,257.32	766,846.29	3,028,478.61
2033		1,096,560.00	1,145,479.62	766,846.29	3,008,885.91
2034		1,079,112.50	1,145,627.82	569,691.34	2,794,431.66
2035		1,058,830.00	1,144,145.78	569,691.34	2,772,667.12
2036		1,035,712.50	1,145,212.85	569,691.34	2,750,616.69
2037		1,014,557.50	1,145,064.65		2,159,622.15
2038		990,162.50	1,144,545.93		2,134,708.43
2039		962,527.50	1,145,064.66		2,107,592.16
2040		936,450.00	1,144,990.54		2,081,440.54
2041			1,144,071.68		1,144,071.68
2042			1,144,442.18		1,144,442.18
2043			1,145,405.52		1,145,405.52
2044			1,145,331.42		1,145,331.42
	\$3,403,036.25	\$31,535,218.00	\$34,193,713.88	\$15,336,925.80	\$84,468,893.93

[1] Represents approximate allocated share of gross debt service on Series 2009 Bonds; does not include proportionate share of Refundable Credits.

Note: Assumes West Bay Sanitary District contractual obligation of 29.64% for 2014 Bonds.

## Pension and Other Employee Benefit Costs

A significant portion of the District's operation costs are employee costs, including pension and post-retirement medical benefit costs. See Notes 11 and 12 of the District's June 30, 2013 audited financial report, which is attached to this Official Statement as Appendix K, for

information as of June 30, 2013 related to the District's pension and post-retirement medical benefit costs.

The District contributes to the California Public Employees' Retirement System ("PERS"), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California.

**Pension.** Three-year trend information for the District's pension plan is set forth below:

**Three-year Trend of Annual Pension Cost (Employer Portion)**

Fiscal year ended June 30	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligations
2011	\$381,680	100%	0
2012	452,679	100	0
2013	486,820	100	0

**Two-year Trend of Funded Status of the Plan**

Valuation Date (June 30)	Entry age normal accrued liability	Actuarial value of assets	Unfunded/ (overfunded) liability (UAAL)	Funded ratio	Annual covered payroll	UAAL as a percentage of payroll
2011	\$13,702,585	\$11,710,416	\$1,992,169	85.5%	\$2,159,693	92.25%
2012	13,996,289	11,977,590	2,018,699	85.6	2,217,521	91.04

As of June 30, 2012, the market value of the Plan's assets was \$10,071,875, resulting in a funded ratio of 72%.

See "APPENDIX A – Pension and Other Employee Benefit Costs – Recent Changes by CalPERS" and "APPENDIX A – Pension and Other Employee Benefit Costs - Pension Reform Act of 2013 (Assembly Bill 340)" for information about CalPERS.

**Other Post Employment Benefits.** Trend information for the District's OPEB plan is set forth below:

**Three-year Trend of Annual OPEB Cost**

Fiscal year ended June 30	Annual OPEB cost (AOC)	Percentage of AOC contributed	Net OPEB obligations (Asset)
2011	\$17,000	23.88%	\$25,561
2012	17,500	32.59	37,357
2013	24,277	16.74	57,571

**Three-year Trend of  
Funded Status of the Plan**

Valuation Date (March 1)	Actuarial Value of Assets	Entry age normal accrued liability	Unfunded/ (overfunded) liability (UAAL)	Funded ratio	Annual covered payroll	UAAL as a percentage of payroll
2010	\$0	\$137,900	\$137,900	0%	\$1,952,200	7.06%
2013	0	186,100	186,000	0	2,391,800	7.78

As of March 1, 2013, the market value of the OPEB assets was \$0, resulting in a funded ratio of 0%.

**Historical Revenues and Expenses**

The following table shows a history of revenues, expenses, and net revenues based on information provided in the District’s audited financial statements and by the District.

**Table C7  
Historical Revenues, Expenses, and Fund Balances  
Fiscal Year Ending June 30**

	2011	2012	2013
<b>Adopted Rate Increase (rounded)</b>	16%	6%	9%
<b>REVENUES</b>			
Sewer Service Charges	\$15,596,543	\$16,755,017	\$17,790,248
Investment Earnings & Other Revenues	432,065	436,999	677,695
<b>Total Revenues</b>	<b>16,028,608</b>	<b>17,192,016</b>	<b>18,467,943</b>
<b>EXPENSES</b>			
<b>Operating &amp; Maintenance</b>			
Operating Expenses from Audit	12,480,574	12,815,678	13,119,092
Less Depreciation	(872,374)	(945,733)	(1,132,035)
Less SVCW Bond Debt Service	(1,274,171)	(1,145,337)	(959,936)
Less SVCW Non-Operating Payments	(809,270)	(485,628)	(456,986)
<b>Total O&amp;M with Transfers</b>	<b>9,524,759</b>	<b>10,238,980</b>	<b>10,570,135</b>
<b>Net Revenues</b>	<b>6,503,849</b>	<b>6,953,036</b>	<b>7,897,808</b>
<b>Debt Service</b>			
District Share of SVCW 2008 Bonds	198,979	200,498	196,918
District Share of SVCW 2009 Bonds (Net)	1,075,191	944,838	763,018
<b>Total Debt Service</b>	<b>1,274,171</b>	<b>1,145,337</b>	<b>959,936</b>
<b>Debt Service Coverage</b>	<b>5.10</b>	<b>6.07</b>	<b>8.23</b>
<b>Net Revenues Remaining After Debt Service</b>	<b>5,229,678</b>	<b>5,807,699</b>	<b>6,937,872</b>
<b>Cash &amp; Investments June 30</b>	<b>\$15,074,638</b>	<b>\$14,796,198</b>	<b>\$18,287,782</b>
<b>Days Operating Cash June 30<sup>[1]</sup></b>	<b>578</b>	<b>527</b>	<b>632</b>

[1] Calculated based on Cash & Equivalents divided by Operating & Maintenance Expenses, multiplied by 365 days.

**Projected Revenues, Expenses, and Debt Service Coverage**

The following tables show cash flow assumptions and projections of the District’s revenues, expenses, and net revenues. The projections include the District’s estimated share of debt service for the Authority’s CIP. The projections were developed by Bartle Wells Associates based on information provided by the District and the Authority, and a number of assumptions including those listed on the following page. While the District believes the estimates and projections shown are reasonable, no assurance can be given that the results shown will be achieved.

**Revenues**

1. Charges for service projected based on the District's adjusted billings submitted for collection on the fiscal year 2013-14 San Mateo County property tax rolls and are adjusted

by adopted and projected rate increases. Service charge revenues do not include any additional revenues from growth.

- 2. Interest earning estimated at 2.5% of beginning fund reserves each year.
- 3. Other revenues are projected as shown on the table.

***Operating & Maintenance Expenses***

- 1. District operating expenses are based on the fiscal year 2013-14 budget and escalate at the annual rate of 3%.
- 2. SVCW operating payments account for the District's estimated share of the Authority's operating and maintenance expenses according the Authority's fiscal year 2013-14 budget, and escalate at the annual rate of 5% thereafter.
- 3. SVCW Operating Expenses are based on SVCW's Operating & Maintenance budget for fiscal year 2013-14. SVCW payments in future years are based on financial projections, which account for roughly 5% operating cost escalation per year, on average.

***Non-Operating Expenses***

- 1. Debt service includes the District's projected share of payments due for outstanding and projected debt issued to fund SVCW's CIP. The District's share of future debt payments to SVCW is based on updated draft projections of SVCW CIP funding needs (as of November 2013). Debt service due on the 2009 Bonds, which were issued as Build America Bonds, are offset by a federal reimbursement for 35% of the interest due on the 2009 Bonds. This reimbursement has been temporarily lowered and may be subject to further impact from the federal budget sequester.
- 2. Payments for the District's allocated share of SVCW's 2008 Bonds, 2009 Bonds and the Refundable Credits, and 2014 Bonds are rounded to the nearest \$1,000 dollars.
- 3. Payments for the District's share of future SVCW debt are estimated based on SVCW's Financial Plan.
- 4. The District anticipates increasing pay-as-you-go funding for sewer collection system repairs and replacements to approximately \$4.5 to 5.5 million per year; the projections assume these costs will escalate at the annual rate of 4%.
- 5. SVCW capital & reserve payments include payments for a) SVCW pay-as-you-go capital projects, which are in addition to SVCW's CIP, and b) to gradually build up SVCW fund reserves.
- 6. Debt service projections assume approximately \$22 million of additional SVCW bonds allocable to the District over the next 3 years.
- 7. Days Cash on Hand is based on Ending Fund Reserves divided by Operating & Maintenance Expenses, multiplied by 365 days.

**Table C8**  
**West Bay Sanitary District – Cash Flow Projections**

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Rate Increase	Adopted 9%	Projected 9%	Projected 9%	Projected 9%	Projected 6.5%	Projected 6.5%	Projected 6.5%
<b>Beginning Fund Reserves</b>	\$16,685,000	\$18,324,000	\$19,916,000	\$20,844,000	\$20,391,000	\$18,879,000	\$17,873,000
<b>REVENUES</b>							
Sewer Service Charges	19,117,000	20,838,000	22,713,000	24,757,000	26,366,000	28,080,000	29,905,000
Connection Fees	50,000	45,000	45,000	45,000	45,000	45,000	45,000
Investment Earnings	180,000	180,000	180,000	180,000	180,000	180,000	180,000
Other Revenues	120,000	120,000	120,000	120,000	120,000	120,000	120,000
<b>Total Revenues</b>	<b>19,467,000</b>	<b>21,183,000</b>	<b>23,058,000</b>	<b>25,102,000</b>	<b>26,711,000</b>	<b>28,425,000</b>	<b>30,250,000</b>
<b>EXPENSES</b>							
<b>Operating &amp; Maintenance</b>							
District Operating Expenses	5,892,000	6,069,000	6,251,000	6,501,000	6,761,000	7,031,000	7,312,000
SVCW Operating Expenses	5,011,000	5,350,000	5,594,000	5,845,000	6,069,000	6,341,000	6,627,000
<b>Total O&amp;M</b>	<b>10,903,000</b>	<b>11,419,000</b>	<b>11,845,000</b>	<b>12,346,000</b>	<b>12,830,000</b>	<b>13,372,000</b>	<b>13,939,000</b>
<b>Net Revenues</b>	<b>8,564,000</b>	<b>9,764,000</b>	<b>11,213,000</b>	<b>12,756,000</b>	<b>13,881,000</b>	<b>15,053,000</b>	<b>16,311,000</b>
<b>Debt Service</b>							
<b>Senior Debt Service</b>							
District Share of SVCW 2008 Bonds	200,000	201,000	202,000	203,000	199,000	199,000	199,000
District Share of SVCW 2009 Bonds (Net)	944,000	946,000	947,000	942,000	946,000	943,000	945,000
District Share of SVCW 2014 Bonds	0	989,000	1,146,000	1,144,000	1,144,000	1,145,000	1,145,000
District Share of Future SVCW Bonds	0	0	675,000	1,350,000	1,500,000	1,500,000	1,500,000
<b>Total Senior Debt Service</b>	<b>1,144,000</b>	<b>2,136,000</b>	<b>2,970,000</b>	<b>3,639,000</b>	<b>3,789,000</b>	<b>3,787,000</b>	<b>3,789,000</b>
<b>Senior Debt Service Coverage</b>	<b>7.49</b>	<b>4.57</b>	<b>3.78</b>	<b>3.51</b>	<b>3.66</b>	<b>3.97</b>	<b>4.30</b>
<b>Subordinate Debt Service</b>							
District Share of Existing SVCW SRF Loans	197,000	197,000	197,000	767,000	767,000	767,000	767,000
District Share of Future SVCW SRF Loans	0	0	401,000	769,000	3,065,000	5,100,000	5,100,000
District Share of SVCW Line of Credit Pymts	50,000	70,000	70,000	70,000	70,000	0	0
<b>Total Subordinate Debt Service</b>	<b>247,000</b>	<b>267,000</b>	<b>668,000</b>	<b>1,606,000</b>	<b>3,902,000</b>	<b>5,867,000</b>	<b>5,867,000</b>
<b>Total Combined Debt Service</b>	<b>1,391,000</b>	<b>2,403,000</b>	<b>3,638,000</b>	<b>5,245,000</b>	<b>7,691,000</b>	<b>9,654,000</b>	<b>9,656,000</b>
<b>Total Debt Service Coverage</b>	<b>6.16</b>	<b>4.06</b>	<b>3.08</b>	<b>2.43</b>	<b>1.80</b>	<b>1.56</b>	<b>1.69</b>
<b>Capital &amp; Other Non-Operating</b>							
District Capital Improvements	4,986,000	5,100,000	5,400,000	5,400,000	5,400,000	5,600,000	5,600,000
SVCW Capital Projects/Reserves	548,000	268,000	268,000	268,000	268,000	805,000	805,000
SVCW SRF Reserve Contributions	0	401,000	979,000	2,296,000	2,034,000	0	0
<b>Subtotal</b>	<b>5,534,000</b>	<b>5,769,000</b>	<b>6,647,000</b>	<b>7,964,000</b>	<b>7,702,000</b>	<b>6,405,000</b>	<b>6,405,000</b>
<b>Total Expenses</b>	<b>17,828,000</b>	<b>19,591,000</b>	<b>22,130,000</b>	<b>25,555,000</b>	<b>28,223,000</b>	<b>29,431,000</b>	<b>30,000,000</b>
<b>Revenues Less Expenses</b>	<b>1,639,000</b>	<b>1,592,000</b>	<b>928,000</b>	<b>(453,000)</b>	<b>(1,512,000)</b>	<b>(1,006,000)</b>	<b>250,000</b>
<b>Ending Fund Reserves</b>	<b>\$18,324,000</b>	<b>\$19,916,000</b>	<b>\$20,844,000</b>	<b>\$20,391,000</b>	<b>\$18,879,000</b>	<b>\$17,873,000</b>	<b>\$18,123,000</b>
<b>Days Cash on Hand</b>	<b>613</b>	<b>637</b>	<b>642</b>	<b>603</b>	<b>537</b>	<b>488</b>	<b>475</b>

**Absence of Litigation**

The District is not aware of any action, suit, or proceeding known to be pending or threatened, that would affect the execution of the District's Financing Agreement with the Authority, or materially impact the District's finances.

**Financial Statements**

The District's financial statements for the fiscal year ending June 30, 2013 are attached as Appendix K. The District's financial statements were audited by Chavan & Associates, LLP. The auditor has not been asked to consent to the inclusion of the District's audited financial statements in this Official Statement and has not reviewed this Official Statement.

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## APPENDIX D

### GENERAL DEMOGRAPHIC AND STATISTICAL INFORMATION ABOUT THE COUNTY OF SAN MATEO

#### San Mateo County

The city of Belmont, city of Redwood City, city of San Carlos, and the West Bay Sanitary District (the "Members") are all located within the County of San Mateo (the "**County**"). The County was established April 19, 1856 and encompasses roughly 741 square miles including most of the San Francisco Peninsula south of the City and the County of San Francisco. The County shares its southern borders with Santa Clara County and Santa Cruz County. San Francisco International Airport is located at the northern end of the County, and Silicon Valley stretches into the southeastern end. San Mateo County ranks as the 14th most populous county in California with a January 1, 2013 population of approximately 735,678 as estimated by the California State Department of Finance. The County includes 20 incorporated cities and 17 unincorporated communities.

#### Population

The largest cities in the County are the cities of Daly City, Redwood City, and South San Francisco. The following tables sets forth annual population figures, as of January 1, for the cities of Redwood City, San Carlos, and Menlo Park, the County and the State, for each of the years listed.

#### COUNTY OF SAN MATEO Population Estimates (Annual Averages)

Year (January 1)	City of Redwood City	City of San Carlos	City of Menlo Park	County of San Mateo	State of California
2009	76,198	28,152	31,688	96,170	36,966,713
2010	76,766	28,393	31,986	97,106	37,223,900
2011	77,299	28,494	32,201	722,372	37,427,946
2012	78,068	28,654	32,441	727,795	37,668,804
2013	79,074	28,931	32,679	735,678	37,966,471

Source: California State Department of Finance

#### Assessed Valuation

All property in San Mateo County is assessed by the County Assessor, except public property and railroads, which are assessed by the State Board of Equalization. Under the California Constitution, property is assessed at 100 percent of full cash value. Property is assessed at its market value when constructed or upon change of ownership. The value of property that does not change ownership may be adjusted annually by not more than 2 percent to account for inflation. The county assessment roll is not proportionate to market value.

The following table shows a 5-year history of assessed valuation for the County of San Mateo and each of the SVCW Members.

## Assessed Valuation

	2009-10	2010-11	2011-12	2012-13	2013-14
<b>SAN MATEO COUNTY</b>	\$142,921,792,582	\$140,930,127,456	\$142,505,805,298	\$147,256,091,428	\$156,101,044,862
Annual Change %	0.70%	(1.39)%	1.12%	3.33%	6.01%
<b><u>SVCW MEMBERS</u></b>					
<b>City of Redwood City</b>	14,973,153,793	14,724,478,604	14,737,478,812	15,149,606,839	16,243,074,154
Annual Change %	1.41	(1.66)	.09	2.80	7.22
<b>City of San Carlos</b>	6,731,630,814	6,784,367,951	6,880,824,986	7,082,568,072	7,629,813,187
Annual Change %	8.37	0.78	1.42	2.93	7.73
<b>City of Belmont</b>	4,597,890,555	4,535,727,180	4,609,050,545	4,771,022,137	5,074,811,937
Annual Change %	2.40	(1.35)	1.62	3.51	6.37
<b>West Bay Sanitary District</b>	16,819,875,232	16,955,956,503	17,204,594,982	18,133,160,764	N/A
Annual Change %	4.55	0.81	1.47	5.40	N/A
<b>Total SVCW Members</b>	\$43,122,550,394	\$43,000,530,238	\$43,431,949,325	\$45,136,357,812	N/A
Annual Change %	5.91%	(0.28)%	1.00%	3.92%	N/A

Source: County of San Mateo, Office of the Auditor-Controller; includes secured and unsecured rolls.

**Construction and Building Activity**

The following tables show historical building permits and valuation information for San Mateo County and the Cities of Redwood City, San Carlos, and Menlo Park.

**CITY OF MENLO PARK  
Total Building Permit Valuations  
(Valuations in thousands)**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<u>Permit Valuation</u>				
Residential				
Single Unit	\$8,735	\$15,031	\$9,938	\$17,293
Multiple Units	0	900	0	7,000
Alterations/Additions	<u>12,152</u>	<u>22,868</u>	<u>14,038</u>	<u>12,371</u>
Total Residential <sup>(1)</sup>	20,887	38,799	23,976	36,664
Non-Residential				
New Commercial	6,977	1,187	0	5,580
New Industrial	0	0	0	0
Other Non-Residential	1,722	2,302	0	0
Non-Res Alterations/Additions	<u>23,271</u>	<u>30,283</u>	<u>24,824</u>	<u>10,316</u>
Total Non-Residential <sup>(1)</sup>	31,970	33,772	24,824	15,896
<u>New Dwelling Units</u>				
Single Family	11	22	5	22
Multiple Family	<u>0</u>	<u>12</u>	<u>22</u>	<u>2</u>
Total	11	34	27	24

Source: Construction Industry Research Board  
(1) Totals may not add due to rounding.

**CITY OF REDWOOD CITY**  
**Total Building Permit Valuations**  
**(Valuations in thousands)**

<u>Permit Valuation</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b>Residential</b>				
Single Unit	\$9,249	\$10,002	\$9,185	\$35,517
Multiple Units	14,135	3,359	13,095	103,126
Alterations/Additions	<u>17,739</u>	<u>19,047</u>	<u>22,505</u>	<u>10,363</u>
Total Residential <sup>(1)</sup>	41,123	32,409	44,785	149,006
<b>Non-Residential</b>				
New Commercial	0	0	135	3,352
New Industrial	5,000	0	0	382
Other Non-Residential	2,081	1,015	0	18
Non-Res Alterations/Additions	<u>26,760</u>	<u>30,631</u>	<u>49,044</u>	<u>16,038</u>
Total Non-Residential <sup>(1)</sup>	33,841	31,646	49,179	19,790
<b>New Dwelling Units</b>				
Single Family	24	46	41	60
Multiple Family	<u>0</u>	<u>16</u>	<u>70</u>	<u>267</u>
Total	24	62	111	327

Source: Construction Industry Research Board  
(1) Totals may not add due to rounding.

**CITY OF SAN CARLOS**  
**Total Building Permit Valuations**  
**(Valuations in thousands)**

<u>Permit Valuation</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b>Residential</b>				
Single Unit	\$1,150	\$0	\$2,426	\$2,007
Multiple Units	0	0	0	585
Alterations/Additions	<u>16,157</u>	<u>20,918</u>	<u>20,808</u>	<u>21,177</u>
Total Residential <sup>(1)</sup>	17,307	20,918	23,234	23,769
<b>Non-Residential</b>				
New Commercial	0	0	2,345	965
New Industrial	0	0	0	45
Other Non-Residential	1,270	1,152	0	0
Non-Res Alterations/Additions	<u>3,693</u>	<u>7,767</u>	<u>7,720</u>	<u>7,874</u>
Total Non-Residential <sup>(1)</sup>	4,963	8,919	10,065	8,884
<b>New Dwelling Units</b>				
Single Family	2	0	2	3
Multiple Family	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
Total	2	0	2	5

Source: Construction Industry Research Board  
(1) Totals may not add due to rounding.

**COUNTY OF SAN MATEO**  
**Total Building Permit Valuations**  
**(Valuations in Thousands)**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<u>Permit Valuation</u>				
New Single-Family	\$147,516	\$189,297	\$194,950	\$245,164
New Multiple-Family	74,330	21,309	107,040	171,391
Res. Alterations/Additions	<u>204,482</u>	<u>262,592</u>	<u>289,620</u>	<u>201,543</u>
Total Residential <sup>(1)</sup>	426,327	473,198	591,610	618,098
New Commercial	17,942	62,511	28,248	83,374
New Industrial	5,000	0	3,359	2,022
New Other	70,410	66,275	26,029	1,976
Com. Alterations/Additions	<u>235,373</u>	<u>283,753</u>	<u>244,089</u>	<u>167,439</u>
Total Non-Residential <sup>(1)</sup>	328,726	412,538	301,725	254,811
<u>New Dwelling Units</u>				
Single Family	236	216	213	264
Multiple Family	<u>393</u>	<u>111</u>	<u>545</u>	<u>671</u>
Total	629	327	758	935

Source: Construction Industry Research Board

(1) Totals may not add due to rounding.

## Employment and Industry

The unemployment rate in the San Francisco-San Mateo-Redwood City MD was 5.1% in October 2013, unchanged from a revised 5.1% in September 2013, and below the year-ago estimate of 6.5%. This compares with an unadjusted unemployment rate of 8.3% for California and 7.0% for the nation during the same period. The unemployment rate was 4.8% in Marin County, 5.3% in San Francisco County, and 5.1% in San Mateo County.

The following table summarizes the civilian labor force, employment and unemployment in the County for the calendar years 2008 through 2012.

### SAN FRANCISCO-SAN MATEO-REDWOOD CITY METROPOLITAN DIVISION (MD) (MARIN, SAN FRANCISCO, AND SAN MATEO COUNTIES) Civilian Labor Force, Employment and Unemployment (Annual Averages)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Civilian Labor Force <sup>(1)</sup>	963,300	965,700	965,500	985,400	1,012,300
Employment	915,200	883,400	878,200	905,200	942,000
Unemployment	48,200	82,400	87,300	80,200	70,200
Unemployment Rate	5.0%	8.5%	9.0%	8.1%	6.9%
<u>Wage and Salary Employment:</u> <sup>(2)</sup>					
Agriculture	2,700	2,500	2,400	2,200	2,100
Manufacturing	42,100	38,100	37,000	36,300	35,800
Wholesale Trade	26,800	24,500	23,900	24,600	26,100
Retail Trade	94,000	87,700	86,800	87,200	88,900
Trans., Warehousing, Utilities	39,800	37,800	36,400	36,000	37,300
Information	40,800	39,600	39,100	42,100	45,900
Financial and Insurance	65,600	60,100	58,100	57,400	58,200
Real Estate, Rental & Leasing	21,200	19,500	19,000	19,500	20,300
Professional and Business Services	210,100	198,300	197,500	210,300	228,400
Educational and Health Services	107,400	108,700	109,000	110,600	113,500
Leisure and Hospitality	126,800	122,200	122,700	127,700	133,400
Other Services	39,400	38,000	37,800	38,800	40,400
Federal Government	19,200	18,900	20,200	19,100	18,700
State Government	35,600	35,400	35,500	35,800	34,900
Local Government	83,500	81,400	80,600	81,400	81,100
Total All Industries <sup>(3)</sup>	999,300	947,800	938,500	962,100	1,000,200

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

The following table lists the twenty-five largest employers within the County as of December 2013.

**SAN MATEO COUNTY**  
**Major Employers**  
**As of December 2013 - Listed Alphabetically**

<b><u>Employer Name</u></b>	<b><u>Location</u></b>	<b><u>Industry</u></b>
AB SCIEX	Foster City	Scientific Apparatus & Instruments (Mfrs)
Burlingame Millbrae Yellow Cab	Burlingame	Taxicabs & Transportation Service
Electronic Arts Inc.	Redwood City	Game Designers (Mfrs)
Forced Dump Debris Box Svc	Burlingame	Garbage Collection
Franklin Resources Inc.	San Mateo	Investment Management
Franklin Templeton Instnl LLC	San Mateo	Investments
Franklin Trust Co	San Mateo	Mutual Funds
Gilead Sciences Inc.	Foster City	Biological Products (Mfrs)
Guckenheimer Inc.	Redwood City	Food Service-Management
Health Science Library	Daly City	Services NEC
Kaiser Permanente Medical Ctr	South San Francisco	Hospitals
Kaiser Permanente Medical Ctr	Redwood City	Hospitals
Mphasis	San Mateo	Computers-System Designers & Consultants
Oracle Corp	Redwood City	Computer Software-Manufacturers
Rudolph & Sletten Inc.	Redwood City	Building Contractors
San Francisco Intl AIRPORT-SFO	San Francisco	Airports
San Mateo County Behavior	San Mateo	Government Offices-County
San Mateo County Human Svc	Belmont	County Government-Social/Human Resources
San Mateo Medical Ctr	San Mateo	Crisis Intervention Service
Seton Medical Ctr Health Sci	Daly City	Services NEC
SRI International Inc.	Menlo Park	Research Service
Stanford Linear Accelerator	Menlo Park	Research Service
US Interior Dept	Menlo Park	Federal Government-Conservation Depts
Visa Inc.	Foster City	Credit Card & Other Credit Plans
Visa International Svc Assn.	Foster City	Credit Card & Other Credit Plans
Visa USA Inc.	Foster City	Credit Card & Other Credit Plans

*Source: California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2014 1st Edition.*

**Commercial Activity**

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, retail stores data for 2009 and after is not comparable to that of prior years.

Summaries of historic taxable sales within the Cities of Menlo Park, Redwood City, San Carlos, and the County during the past five years in which data is available are shown in the following tables.

Total taxable sales during the first and second quarters of calendar year 2012 in the City of Menlo Park were reported to be \$259,480,000, a 2.91% decrease under the total taxable sales of \$267,266,000 reported during the first and second quarters of calendar year 2011. Annual figures are not yet available for 2012.

**CITY OF MENLO PARK  
Number of Permits and Taxable Transactions  
(Dollars in Thousands)**

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2007	549	\$433,829	1,276	\$650,778
2008	514	413,344	1,200	641,089
2009 <sup>(1)</sup>	696	349,316	1,161	526,055
2010 <sup>(1)</sup>	685	356,493	1,152	546,344
2011 <sup>(1)</sup>	687	379,815	1,148	543,925

(1) Not comparable to prior years. "Retail" category now includes "Food Services."  
Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Total taxable sales during the first and second quarters of calendar year 2012 in the City of Redwood City were reported to be \$795,159,000, a 7.30% increase over the total taxable sales of \$741,059,000 reported during the first and second quarters of calendar year 2011. Annual figures are not yet available for 2012.

**CITY OF REDWOOD CITY  
Number of Permits and Taxable Transactions  
(Dollars in Thousands)**

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2007	1,047	\$1,257,101	2,228	\$1,711,777
2008	1,005	1,126,550	2,138	1,600,517
2009 <sup>(1)</sup>	1,193	961,033	1,987	1,387,335
2010 <sup>(1)</sup>	1,222	1,053,741	2,009	1,451,454
2011 <sup>(1)</sup>	1,236	1,170,101	2,023	1,551,074

(1) Not comparable to prior years. "Retail" category now includes "Food Services."  
Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).



Total taxable sales during the first and second quarters of calendar year 2012 in the City of San Carlos were reported to be \$317,873,000, a 8.63% increase over the total taxable sales of \$292,607,000 reported during the first and second quarters of calendar year 2011. Annual figures are not yet available for 2012.

**CITY OF SAN CARLOS**  
**Number of Permits and Taxable Transactions**  
**(Dollars in Thousands)**

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2007	586	\$441,736	1,488	\$630,418
2008	603	442,197	1,500	655,367
2009 <sup>(1)</sup>	712	426,797	1,407	594,472
2010 <sup>(1)</sup>	707	408,356	1,399	595,583
2011 <sup>(1)</sup>	721	452,473	1,377	628,819

(1) Not comparable to prior years. "Retail" category now includes "Food Services."  
Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Total taxable sales during the first and second quarters of calendar year 2012 in the County were reported to be \$6.607 billion, a 8.22% increase over the total taxable sales of \$6.105 billion reported during the first and second quarters of calendar year 2011. Annual figures for calendar year 2012 are not yet available.

**COUNTY OF SAN MATEO**  
**Taxable Retail Sales**  
**Number of Permits and Valuation of Taxable Transactions**  
**(Dollars in thousands)**

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2007	9,278	\$8,998,981	20,202	\$13,326,306
2008	9,098	8,421,727	19,853	13,137,913
2009 <sup>(1)</sup>	11,143	7,455,767	18,840	11,327,022
2010 <sup>(1)</sup>	11,340	7,846,274	18,979	11,966,337
2011 <sup>(1)</sup>	11,470	9,536,043	18,995	13,020,643

(1) Not comparable to prior years. "Retail" category now includes "Food Services."  
Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

**Effective Buying Income**

“Effective Buying Income” is defined as personal income less personal tax and non-tax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), non-tax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income for the County of San Mateo, the State and the United States for the period 2008 through 2012.

**COUNTY OF SAN MATEO  
Effective Buying Income  
2008 through 2012**

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (in millions)</u>	<u>Median Household Effective Buying Income</u>
2008	County of San Mateo	\$23,925,603	\$67,466
	California	832,531,445	48,952
	United States	6,443,994,426	42,303
2009	County of San Mateo	\$23,835,480	\$69,276
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2010	County of San Mateo	\$23,489,013	\$66,508
	California	801,393,028	47,177
	United States	6,365,020,076	41,368
2011	County of San Mateo	\$23,717,578	\$66,434
	California	814,578,458	47,062
	United States	6,438,704,664	41,253
2012	County of San Mateo	\$26,570,648	\$68,429
	California	864,088,828	47,307
	United States	6,737,867,730	41,358

*Source: The Nielsen Company (US), Inc.*

## **Transportation**

San Mateo County is home to the San Francisco International Airport (SFO) and the Port of Redwood City. SFO is one of the largest airports in the United States with more than 33 million annual passengers in 2006. As the only deepwater port in the southern part of San Francisco Bay, the Port of Redwood City provides shipping berths and recreational opportunities for the San Francisco Peninsula. The County is traversed with major highways including U.S. Highway 101 and Interstate 280 (California), as well as Highway 1 along the Pacific Coast. The County is also served by two bridges spanning the San Francisco Bay including the San Mateo Bridge, part of State Route 92, and the Dumbarton Bridge, part of State Route 84. The County's public transit options include the Bay Area Rapid Transit District (BART) which has six stations within San Mateo County; Caltrain, commuter rail running between San Francisco and San Jose, and SamTrans, the County's bus service.

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## APPENDIX E

### SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of the provisions of the Indenture of Trust under which the Bonds are issued, and a summary of the Financing Agreements between the Authority and each of the Participating Members. Such summaries are not intended to be definitive. Reference is made to the actual documents (copies of which are available from the Authority) for the complete terms thereof.

### DEFINITIONS

The following terms have the following meanings, notwithstanding that any such terms may be elsewhere defined in this Official Statement. Any terms not expressly defined in this Summary but previously defined in this Official Statement have the respective meanings previously given.

“Authority” means Silicon Valley Clean Water, a joint powers authority duly organized and existing under the Joint Exercise of Powers Agreement dated as of November 13, 1975, as amended, among the cities of Belmont, Redwood City and San Carlos and the West Bay Sanitary District, and under the laws of the State of California.

“Bond Counsel” means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys appointed by or acceptable to the Authority of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

“Bond Year” means each twelve-month period extending from February 2 in one calendar year to February 1 of the succeeding calendar year, both dates inclusive; except that the first Bond Year begins on the Closing Date and ends on February, 2015.

“Business Day” means a day of the year, other than a Saturday or Sunday, on which banks are not closed in the city in which the principal corporate trust office of the Trustee is located.

“Closing Date” means the date of original delivery of the Bonds to the original purchasers thereof.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority relating to the authorization, issuance, sale and delivery of the Bonds, including but not limited to: printing expenses; rating agency fees; filing and recording fees; initial fees, expenses and charges of the Trustee and its counsel, including the Trustee’s first annual administrative fee; fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals; fees and charges for preparation, execution and safekeeping of the Bonds; and any other cost, charge or fee in connection with the original issuance of the Bonds.

“Event of Default” means an event of default under and as defined in the Indenture, which events are summarized below.

“Federal Securities” means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), the payment of principal of and interest on which are unconditionally and fully guaranteed by the United States of America; and (b) obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully guaranteed by the United States of America.

“Fiscal Year” means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority as its official fiscal year period.

“Financing Agreements” means, collectively, the following, in each case as originally executed and delivered together with all duly authorized and executed amendments or supplements thereto:

- (a) Financing Agreement dated as of December 1, 2008, between the Authority and the City of Redwood City;
- (b) Financing Agreement dated as of March 1, 2014, between the Authority and the City of San Carlos; and
- (c) Financing Agreement dated as of March 1, 2014, between the Authority and the West Bay Sanitary District.

“Owner”, when used with respect to any Bond, means the person in whose name the ownership of such Bond will be registered on the Registration Books.

“Participating Members” means the City of Redwood City, the City of San Carlos and the West Bay Sanitary District, and any successors thereto.

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein:

- Federal Securities;
- Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities only as stripped by the agency itself): (i) senior debt obligations of the Federal Home Loan Bank System; (ii) participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; (iii) mortgaged-backed securities and senior debt obligations of the Federal National Mortgage Association; and (iv) consolidated system-wide bonds and notes of the Farm Credit System.
- Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of at least AAm-G or AAm (such funds may include funds for which the Trustee, its affiliates, parent or subsidiaries provide investment advisory or other management services).

- Certificates of deposit (including those of the Trustee, its parent and its affiliates) which have a maturity not greater than one year from the date of investment and which are issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated “A-1+” or better by S&P.
- Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by the Federal Deposit Insurance Corporation, issued by banks having reported capital and surplus of at least \$15 million.
- Commercial paper having original maturities of not more than 27 days, rated “A-1+” or better by S&P at the time of purchase.
- Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated at least “A-” by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured obligation debt is so rated.
- Direct general short-term obligations of any state or state agency or subdivision or agency thereof described in paragraph (i) above and rated at least “A-1+” by S&P.
- Federal funds or bankers acceptances with a maximum term of one year of any bank which an unsecured, uninsured and unguaranteed obligation rating of at least “A-1+” by S&P.
- Any investment agreement (including guaranteed investment contracts, forward delivery agreements, repurchase agreements or similar obligations) with, or guaranteed by, an entity the long-term unsecured obligations or the claims paying ability of which are rated A or better by a nationally recognized rating agency (without regard to gradations or modifiers within such category) at the time of initial investment.
- The Local Agency Investment Fund which is administered by the California Treasurer for the investment of funds belonging to local agencies within the State of California, provided for investment of funds held by the Trustee, the Trustee is entitled to make investments and withdrawals in its own name as Trustee.

“Project” means the improvements to the wastewater collection, treatment and disposal system of the Authority which are acquired and constructed from amounts held in the Project Fund.

“Project Costs” means, with respect to the Project, all costs of the acquisition, construction and installation thereof which are paid from moneys on deposit in the Project Fund, including but not limited to:

- all costs required to be paid to any person under the terms of any agreement for or relating to the acquisition, construction and installation of the Project;
- obligations incurred for labor and materials in connection with the acquisition, construction and installation of the Project;
- the cost of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect in connection with the acquisition, construction and installation of the Project;
- all costs of engineering and architectural services, including the actual out-of-pocket costs for test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees, sales commissions, and for supervising construction, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the Project;
- any sums required to reimburse the Authority for advances made for any of the above items or for any other costs incurred and for work done which are properly chargeable to the acquisition, construction and installation of the Project;
- all Costs of Issuance and other financing costs incurred in connection with the acquisition, construction and installation of the Project; and
- interest on the Bonds coming due during the period of acquisition, construction and installation of the Project.

“Registration Books” means the records maintained by the Trustee under the Indenture for the registration and transfer of ownership of the Bonds.

“Revenues” means: (a) all amounts payable by the Participating Members under the respective Financing Agreements, representing the portion of debt service on the Bonds which is allocable to each Participating Member; (b) any proceeds of the Bonds originally deposited with the Trustee and all moneys deposited and held from time to time by the Trustee in the funds and accounts established under the Indenture; and (c) income and gains with respect to the investment of amounts on deposit in the funds and accounts established under the Indenture. The term “Revenues” does not include amounts payable by the Participating Members under the Financing Agreements with respect to any bonds, notes or other obligations issued by the Authority following the Closing Date.

“S&P” means Standard & Poor’s Ratings Services, its successors and assigns.

“Tax Code” means the Internal Revenue Code of 1986, as amended. Any reference to a provision of the Tax Code will include the applicable temporary and permanent regulations promulgated under or with respect to Section 103 and Sections 141 through 150, inclusive, of the Tax Code.

“Term Bonds” means the Bonds maturing on February 1 in each of the years 2039 and 2044.



“Written Certificate”, “Written Request” or “Written Requisition” mean, respectively, a certificate, request or requisition in writing signed by the General Manager of the Authority, or by any other officer of the Authority duly authorized by the Commission of the Authority for that purpose, written notice of which authorization is given to the Trustee.

### **Application of Bond Proceeds**

Deposit of Proceeds on Closing Date. Upon the receipt of payment for the Bonds on the Closing Date, the Trustee shall apply the proceeds of sale thereof as follows:

- The Trustee will deposit an amount in the Costs of Issuance Fund which is estimated to be sufficient to pay Costs of Issuance of the Bonds.
- The Trustee will deposit the remainder of such proceeds in the Project Fund.

Costs of Issuance Fund. The Trustee will establish and hold in trust a separate fund designated as the “Costs of Issuance Fund” into which the Trustee. The Trustee will disburse amounts in the Costs of Issuance Fund from time to time to pay the Costs of Issuance upon submission of a Written Requisition of the Authority. On June 1, 2014, or upon the earlier Written Request of the Authority, the Trustee shall transfer all amounts remaining in the Costs of Issuance Fund to the Project Fund, and shall thereupon close the Costs of Issuance Fund.

Project Fund. The Trustee will establish and maintain a separate fund to be known as the “Project Fund”. Amounts on deposit in the Project Fund shall be applied to pay Project Costs for Projects which are of benefit to all of the members of the Authority. The Trustee will disburse moneys in the Project Fund from time to time to pay Project Costs (or to reimburse the Authority for payment of Project Costs) in accordance with Written Requisitions filed by the Authority with the Trustee.

Each such Written Requisition must state, with respect to each payment to be made thereby, (i) the name and address of the firm or corporation to whom payment is to be made, (ii) the amount and purpose of the payment, (iii) that each payment constitutes a Project Cost, and (iv) that each payment from a particular account is for a Project the Project Costs of which are of benefit to all of the members of the Authority. Each such Written Requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts and has no responsibility for payments made in accordance with this Section. The Authority shall maintain accurate records showing all disbursements from the Project Fund.

Upon the filing with the Trustee of a Written Certificate of the Authority stating that no further amounts are intended to be requisitioned from the Project Fund, the Trustee shall thereupon close the Project Fund and shall transfer all remaining amounts therein to the Interest Account or, at the election of the Authority, be applied to redeem or defease Outstanding Bonds.

### **Security for the Bonds**

The Bonds are secured by a first lien on, pledge of and security interest in all of the Revenues, including all of the moneys in the Revenue Fund, the Interest Account and the Principal Account, and including all amounts derived from the investment of such moneys,

without priority for number, date of Bonds, date of execution or date of delivery. The Authority transfers in trust and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the right, title and interest of the Authority in the Financing Agreements.

For the security of the Bonds, the Authority grants a first pledge of and lien on, and a security interest in, all of the Revenues and all of the right, title and interest of the Authority in the Financing Agreements. Such pledge, lien and security interest are for the equal security of the Bonds without preference or priority for number, date of execution or date of delivery.

The Trustee is entitled to receive all of the Revenues, and any Revenues collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and will forthwith be paid by the Authority to the Trustee. The Trustee will also be entitled to and, subject to the provisions of the Indenture, will take all steps, actions and proceedings reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the Participating Members under the Financing Agreements.

### **Deposit and Application of Revenues**

All Revenues described in clause (a) of the definition thereof will be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Revenue Fund" which the Trustee will establish, maintain and hold in trust.

The Trustee will transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee will establish and maintain within the Revenue Fund), the following amounts at the following times in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

- Interest Account. On or before each date on which the interest on the Bonds is payable, the Trustee will deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest coming due and payable on such date on all outstanding Bonds. The Trustee will apply amounts in the Interest Account solely for the purpose of paying the interest on the Bonds when due, including accrued interest on any Bonds redeemed prior to maturity. Any amounts on deposit in the Interest Account on the first day of any Bond Year, to the extent not required to pay any interest then having come due and payable on the outstanding Bonds, will be transferred to the Revenue Fund.
- Principal Account. On or before each date on which the principal of the Bonds is payable, the Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit therein to equal the aggregate amount of principal coming due and payable on such date on the Bonds, or the redemption price of the Bonds (consisting of the principal amount thereof and any applicable redemption premiums) required to be redeemed on such date. The Trustee will apply amounts in the Principal Account for the purpose of (i) paying the principal of the Bonds at the maturity thereof, (ii) paying the principal of the Bonds upon the redemption thereof,

including the principal amount of any Term Bonds coming due upon the mandatory sinking fund redemption thereof. All amounts on deposit in the Principal Account on the first day of any Bond Year, to the extent not required to pay the principal of any outstanding Bonds then having come due and payable, will be transferred to the Revenue Fund.

### **Investment of Moneys in Funds**

The Trustee will invest moneys in the funds and accounts established and held by it under the Indenture in Permitted Investments as directed by the Authority in writing. For the purpose of determining the amount in any fund, the Trustee will value Permitted Investments credited to such fund at least annually at the fair market value thereof, determined in any manner deemed reasonable by the Trustee. For purposes of acquiring any investments, the Trustee may commingle funds held by it under the Indenture. The Trustee may (but is not obligated to) act as principal or agent in the acquisition or disposition of any investment. The Trustee has no liability for losses arising from any investments made under the Indenture.

### **Financial Covenants**

Punctual Payment. The Authority will punctually pay or cause to be paid the principal, interest and premium (if any) to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture.

Trustee Accounting Records. The Trustee will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries will be made of all transactions made by the Trustee relating to the proceeds of Bonds, the Revenues and all funds and accounts established under the Indenture. Such books of record and account will be available for inspection by the Authority during regular business hours with reasonable prior notice.

Authority Financial Statements. The Authority shall cause to be prepared annually, within 210 days after the close of each Fiscal Year so long as any of the Bonds are Outstanding, complete audited financial statements with respect to such Fiscal Year showing the Revenues and all disbursements thereof as of the end of such Fiscal Year. The Authority shall furnish a copy of such statements, upon reasonable request, to the Trustee and any Bond Owner.

Issuance of Parity Debt. Except for the Bonds, the Authority covenants that no additional bonds, notes or other indebtedness will be issued or incurred which are payable out of the Revenues in whole or in part. Nothing in this covenant limits the authority of any Participating Member to issue parity obligations in accordance with the related Financing Agreement, including parity obligations which secure additional bonds of the Authority.

Financing Agreements. The Trustee, as assignee of the Authority's rights, covenants to collect all amounts due from the Participating Members under the Financing Agreements and, subject to the provisions of the Indenture, will enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of all of the rights of the Authority under the Indenture and for the enforcement of all of the obligations of the Participating Members.

## **Amendment of Indenture**

Amendment With Bond Owner Consent. The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds may be modified or amended by the Authority and the Trustee at any time, with the written consent of the Owners of a majority in aggregate principal amount of the Bonds then outstanding.

Amendment Without Bond Owner Consent. The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds may also be modified or amended at any time, without the consent of any Owners of the Bonds, for any one or more of the following purposes:

- to add to the covenants and agreements of the Authority contained in the Indenture, other covenants and agreements required to be observed under the Indenture, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority;
- to cure any ambiguity, inconsistency or omission, or correct any defective provision, contained in the Indenture, or in any other respect whatsoever, as the Authority may deem necessary or desirable, provided that such amendment does not materially adversely affect the interests of the Bond Owners in the opinion of Bond Counsel filed with the Authority and the Trustee;
- to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute; or
- to amend any provision relating to the Tax Code, to any extent whatsoever but only if and to the extent such amendment does not adversely affect the exclusion from gross income of interest on any of the Bonds under the Tax Code, in the opinion of Bond Counsel filed with the Authority and the Trustee

## **Events of Default**

Events of Default Defined. Each of the following events constitutes an Event of Default under the Indenture:

- Default in the due and punctual payment of the principal of any Bond when and as the same will become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise.
- Default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment comes due and payable.
- Failure by the Authority to observe and perform any of the covenants, agreements or conditions on its part in the Indenture or in the Bonds

contained, other than as referred to in the preceding clauses, for a period of 30 days after written notice, specifying such failure and requesting that it be remedied has been given to the Authority by the Trustee; *provided, however*, that if in the reasonable opinion of the Authority the failure stated in such notice can be corrected, but not within such 30-day period, such failure will not constitute an Event of Default if corrective action is instituted by the Authority within such 30-day period and diligently pursued until such failure is corrected.

- Certain events relating to the insolvency or bankruptcy of the Authority.
- The failure by a Participating Member to make any payment of its pro rata share of debt service on the Bonds in full when due under the related Financing Agreement.

### **Remedies Upon Default**

Remedies of Trustee. Whenever any Event of Default has happened and is continuing, the Trustee has the right, at its option and without any further demand upon or notice to the Authority, to take any one or more of the following actions:

- *Actions at Law or in Equity.* The Trustee may take whatever action at law or in equity may appear necessary or desirable to enforce performance and observance of any obligation, agreement or covenant of the Authority under the Indenture.
- *Appointment of Receiver.* As a matter of right, in connection with the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Bond Owners, the Trustee may cause the appointment of a receiver or receivers of the Revenues and other pledged amounts, with such powers as the court making such appointment shall confer.

Power of Trustee to Control Proceedings. If the Trustee, upon the happening of an Event of Default, takes any action, by judicial proceedings or otherwise, in the performance of its duties under the Indenture, whether upon its own discretion, upon the request of the Owners of a majority in aggregate principal amount of the Bonds then outstanding, it has full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action.

Limitation on Owners' Right to Sue. No Owner of a Bond has the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless:

- said Owner has previously given to the Trustee written notice of the occurrence of an Event of Default;
- the Owners of a majority in aggregate principal amount of all the Bonds then outstanding have requested the Trustee in writing to exercise the powers

granted under the Indenture or to institute such action, suit or proceeding in its own name;

- said Owners have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and
- the Trustee has failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee.

### **Application of Funds Upon Event of Default**

All of the Revenues and all sums in the funds and accounts established and held by the Trustee under the Indenture upon the occurrence of an Event of Default, and all sums thereafter received by the Trustee thereunder, will be applied by the Trustee as follows and in the following order:

*First*, to the payment of any fees, costs and expenses incurred by the Trustee to protect the interests of the Owners of the Bonds; payment of the fees, costs and expenses of the Trustee (including fees and expenses of its counsel, including any allocated costs of internal counsel) incurred in and about the performance of its powers and duties under the Indenture and the payment of all fees, costs and expenses owing to the Trustee, together with interest on all such amounts advanced by the Trustee at the maximum rate permitted by law;

*Second*, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on such overdue amounts at the respective rates of interest borne by those Bonds, and in case such moneys will be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably to the aggregate of such interest, principal and interest on overdue amounts.

### **Defeasance of Bonds**

If the Authority pays and discharges the entire indebtedness on any Bonds in any one or more of the following ways:

- by paying or causing to be paid the principal of, and the interest and premium (if any) on, such Bonds when due and payable;
- by irrevocably depositing with the Trustee, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established with the Trustee under the Indenture and the Financing Agreements, is fully sufficient to pay such Bonds, including all principal, interest and premiums (if any); or

- by irrevocably depositing with the Trustee or any other fiduciary, in trust, non-callable Federal Securities in such amount as an independent accountant determines will, together with the interest to accrue thereon and available moneys then on deposit in the funds and accounts established with the Trustee under the Indenture and the Financing Agreements, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates;

and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption has been duly given or provision satisfactory to the Trustee has been made for the giving of such notice, then, at the election of the Authority, and notwithstanding that any such Bonds have not been surrendered for payment, the pledge of the Revenues and other funds provided for in the Indenture and all other obligations of the Trustee and the Authority under the Indenture with respect to such Bonds will terminate.

## FINANCING AGREEMENTS

### Definitions

The following terms have the following meanings when used in this Summary of the Financing Agreements between the Authority and each of the Participating Members, notwithstanding that any such terms may be elsewhere defined in this Official Statement. Any terms not expressly defined in this Summary but previously defined in this Official Statement have the respective meanings previously given.

“Allocable Share” means the portion of the debt service payments on the Bonds which is allocated to the Participating Member as determined in accordance with the Joint Powers Agreement.

“Federal Securities” means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), the payment of principal of and interest on which are unconditionally and fully guaranteed by the United States of America; and (b) any obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

“Fiscal Year” means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other 12-month period selected and designated by the Participating Member as its official fiscal year period.

“Gross Revenues” means all gross charges received for, and all other gross income and receipts derived by the Participating Member from, the ownership and operation of the Wastewater System or otherwise arising from the Wastewater System, including but not limited to investment earnings thereon and including connection or capacity charges; but excluding (a) the proceeds of any ad valorem property taxes levied for the purpose of paying general obligation bonds of the Participating Member relating to the Wastewater System, (b) the proceeds of any special assessments or special taxes levied upon real property within any improvement district for the purpose of paying special assessment bonds or special tax obligations of the Participating Member relating to the Wastewater System; and (c) customers’ deposits or any other deposits subject to refund until such deposits have become the property of the Participating Member, or contributions in aid of construction.

“Maximum Annual Debt Service” means, as of the date of any calculation, the maximum sum obtained for the current or any future Fiscal Year by totaling the following amounts for such Fiscal Year: (a) the aggregate amount of the Member Payments coming due and payable in such Fiscal Year; and (b) the amount of principal of and interest on all outstanding Parity Debt coming due and payable by their terms in such Fiscal Year.

“Member Payments” means the amounts paid by the Participating Member under the related Financing Agreement representing payments of principal of and interest and redemption premium (if any) on an Allocable Share of the Bonds.

“Net Revenues” means, for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Costs coming payable during such period.



“Operation and Maintenance Costs” means the reasonable and necessary costs paid or incurred by the Participating Member for maintaining and operating the Wastewater System, determined in accordance with generally accepted accounting principles, including but not limited to (a) all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, (b) amounts payable for operation and maintenance under the Joint Powers Agreement, and (c) all administrative costs of the Participating Member that are charged directly or apportioned to the operation of the Wastewater System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums. “Operating and Maintenance Costs” does not include (i) payments of debt service on bonds, notes or other obligations issued by the Participating Member with respect to the Wastewater System, (ii) payments made by the Participating Member under the Joint Powers Agreement in respect of debt service on notes, bonds or other obligations issued by the Authority to finance the project, (iii) depreciation, replacement and obsolescence charges or reserves therefor, and (iv) amortization of intangibles or other bookkeeping entries of a similar nature.

“Parity Debt” means any bonds, notes, leases, installment sale agreements or other obligations of the Participating Member which are payable from and secured by a pledge of and lien upon any of the Net Revenues on a parity with the Member Payments, entered into or issued under and in accordance with the related Financing Agreement.

“Parity Debt Documents” means, collectively, the indenture of trust, trust agreement, loan agreement, installment sale agreement or other document authorizing the issuance of any Parity Debt.

“Payment Schedule” means the schedule prepared by the Authority and filed with the Participating Member showing the amount and date of each Member Payment relating to the Bonds, and setting forth the provisions relating to prepayment of the Member Payments.

“Unencumbered Fund Balance” means, for any Fiscal Year, the balance of Net Revenues remaining on deposit in any of the funds and accounts of the Participating Member (including but not limited to the Wastewater Revenue Fund and any rate stabilization fund established by the Participating Member) as of the last day of such Fiscal Year, as shown on the books of the Participating Member, which may lawfully be used to pay the Member Payments. The amount of the Unencumbered Fund Balance as of the last day of any Fiscal Year does not include any funds which the Participating Member determines will be required for payment of the Member Payments or the principal of and interest on any Parity Debt during the next six months.

“Wastewater Revenue Fund” means the fund or funds established and held by the Participating Member with respect to the Wastewater System for the receipt and deposit of Gross Revenues.

“Wastewater System” means the entire system of the Participating Member for the collection and transmission of wastewater, including but not limited to all facilities, properties and improvements at any time owned, controlled or operated by the Participating Member for the collection and transmission of wastewater within the service area of the Participating Member, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the Participating Member.

**Debt Service Payments**

The Participating Member is solely responsible for payment of its Allocable Share of principal of and interest on the Bonds. Payment of Member Payments by the Participating Member will be made as follows:

- Payment Dates and Amounts. The Participating Member will pay the Member Payments in semiannual installments in the amounts and at the times set forth in the Payment Schedule.
- Payment Schedule. Upon the sale of the Bonds, the Authority will determine the Member Payments for the Participating Member. Prior to the issuance of the Bonds, the Authority will file with the Participating Member a Payment Schedule showing the amount and date of each Member Payment and setting forth the provisions relating to prepayment of such Member Payments.
- Credit for Debt Service Fund Earnings. In determining the amount of the Member Payment which the Participating Member is required to pay on any semiannual payment date or prepayment date, the Participating Member will be credited for an Allocable Share of any earnings which are received from the investment of the Principal Account and Interest Account which are established for the Bonds.
- Payments to Trustee. At the written direction of the Authority, the Participating Member will pay the Member Payments to the Trustee or other assignee of the Authority. Upon the closing of the Bonds, the Authority will file such written direction with the Participating Member.

**Pledge of Net Revenues**

The Participating Member establishes a pledge of, lien on and security interest in all of the Net Revenues to secure the Member Payments.

The Participating Member agrees to deposit all of the Gross Revenues in the Wastewater Revenue Fund immediately upon receipt. Amounts on deposit in the Wastewater Revenue Fund will be applied by the Participating Member to pay when due the following amounts in the following order of priority:

- all Operation and Maintenance Costs;
- the Member Payments and all payments of principal of and interest and premium (if any) on outstanding Parity Debt;
- any other payments required to comply with the provisions of the Joint Powers Agreement and any Parity Debt Documents; and
- any other lawful purposes of the Wastewater System.

The Participating Member will manage, conserve and apply amounts on deposit in the Wastewater Revenue Fund in such a manner that all deposits required to be made under the

Financing Agreement will be made at the times and in the amounts so required. So long as the Participating Member is not in default in the payment of the Member Payments or the payment of principal of and interest and premium (if any) on outstanding Parity Debt, the Participating Member may use and apply amounts in the Wastewater Revenue Fund for (i) the payment of any subordinate obligations or any unsecured obligations, (ii) the acquisition and construction of improvements to the Wastewater System, (iii) the establishment of a rate stabilization fund, or (iv) any other lawful purposes of the Participating Member.

### **Special Obligation of the Participating Member; Obligations Absolute**

The Participating Member's obligation to pay the Member Payments and any other amounts coming due and payable under the Financing Agreement is a special obligation of the Participating Member limited solely to the Net Revenues. Under no circumstances is the Participating Member required to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified in the Financing Agreement for the payment of the Member Payments and such other amounts. The obligations of the Participating Member to pay the Member Payments from the Net Revenues and to perform and observe the other agreements contained in the Financing Agreement are absolute and unconditional and are not subject to any defense or any right of set-off, counterclaim or recoupment whatsoever.

### **Rates and Charges.**

(a) Gross Revenue Covenant. The Participating Member covenants to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues sufficient to pay all obligations of the Participating Member which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues in such Fiscal Year, including all Member Payments and payments of principal of and interest on Parity Debt.

(b) Net Revenue Covenant. In addition, the Participating Member agrees to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year which are sufficient to yield Net Revenues at least equal to 120% of the Member Payments and payments of principal of and interest on Parity Debt coming due in such Fiscal Year. The amount of the Unencumbered Fund Balance as of the last day of the immediately preceding Fiscal Year will be credited towards the Participating Member's obligations under this covenant, in an amount not to exceed 20% of the Member Payments and payments of principal of and interest on Parity Debt.

### **No Senior Lien Debt**

So long as the Member Payments remain unpaid, the Participating Member will not issue or incur any additional bonds or other obligations which are senior to the Member Payments.

### **Issuance of Parity Debt**

The Participating Member may issue Parity Debt which is payable from and secured by a pledge of and lien on the Net Revenues on a parity with the Member Payments, upon satisfaction of the following conditions:

- The Participating Member is not then in default in the payment of the Member Payments and in the payment of principal of and interest on any Parity Debt.
- The amount of Net Revenues, calculated in accordance with sound accounting principles, as shown by the books of the Participating Member for the latest Fiscal Year for which audited financial statements are available, or as shown by the books of the Participating Member for any more recent 12-month period selected by the Participating Member, are at least equal to 120% of the amount of Maximum Annual Debt Service. For purposes of determining the amount of Net Revenues under this paragraph, the following will apply:
  - (i) the amount of Net Revenues may be increased to reflect any increase in the rates and charges levied for service from the Wastewater System which has been adopted prior to the date the Parity Debt is issued, in an amount by which the Net Revenues would have been increased if such increase in charges (based on the highest adopted rate which will be in effect for any of the next three Fiscal Years) had been in effect during the whole of such Fiscal Year or other 12-month period;
  - (ii) the amount of Net Revenues may be increased (in an amount not exceeding 20% of Maximum Annual Debt Service) by the amount of the Unencumbered Fund Balance as of the last day of the immediately preceding Fiscal Year; and
  - (iii) the amount of Net Revenues may be increased to take into account any additions or improvements to or extensions of the Wastewater System to be financed from the proceeds of such Parity Debt or from any other source but in any case which, during all or any part of such Fiscal Year or other 12-month period, were not in service, in an amount equal to the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is to be in operation, all as shown by the certificate or opinion of a qualified independent engineer or qualified independent financial consultant employed by the Participating Member.
- The Participating Member agrees to comply with all conditions to the issuance of Parity Debt as set forth in the any Parity Debt Documents.

### **Issuance of Subordinate Debt**

Nothing in the Financing Agreement limits or affects the ability of the Participating Member to issue or incur obligations which are unsecured or which are secured by an interest which is junior and subordinate to the pledge of and lien upon the Net Revenues established thereunder.

**Operation and Insurance of the Wastewater System**

The Participating Member covenants and agrees to operate the Wastewater System in an efficient and economical manner and to operate, maintain and preserve the Wastewater System in good repair and working order. The Participating Member will at all times maintain with responsible insurers all such insurance on the Wastewater System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Wastewater System. The Participating Member will also maintain, with responsible insurers, worker’s compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the Participating Member, the Authority, the Trustee and the Owners of the Bonds.

**Records and Accounts**

The Participating Member agrees to keep proper books of record and accounts of the Wastewater System in which complete and correct entries are made of all transactions relating to the Wastewater System. Said books will, upon prior written request, be subject to the reasonable inspection of the Authority and the Trustee, or their representatives authorized in writing, upon not less than two Business Days’ prior notice to the Participating Member. The Participating Member will cause the books and accounts of the Wastewater System to be audited annually by an Independent Accountant not more than nine months after the close of each Fiscal Year, and will make a copy of such report available for inspection by the Authority and the Trustee. Such report may be part of a combined financial audit or report covering all or part of the Participating Member’s finances.

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## APPENDIX F

### FORM OF CONTINUING DISCLOSURE CERTIFICATES

#### AUTHORITY CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (this “Disclosure Certificate”) is executed and delivered by SILICON VALLEY CLEAN WATER (formerly the South Bayside System Authority) (the “Authority”) in connection with the issuance of the Silicon Valley Clean Water (San Mateo County, California) 2014 Wastewater Revenue Bonds (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of March 1, 2014 (the “Indenture”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee.

The Authority covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Authority for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the Authority pursuant to, and as described in, Sections 4 and 5 of this Disclosure Certificate.

“*Annual Report Date*” means the date that is nine months after the end of the Authority’s fiscal year (currently March 31 based on the Authority’s fiscal year end of June 30).

“*Dissemination Agent*” means the Authority, or any successor Dissemination Agent designated in writing by the Authority and which has filed with the Authority a written acceptance of such designation.

“*Listed Events*” means any of the events listed in Section 3(a) of this Disclosure Certificate.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement executed by the Authority in connection with the issuance of the Bonds.

“*Participating Underwriter*” means the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

Section 3. Reporting of Significant Events.

(a) The Authority shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(7) Modifications to rights of security holders, if material.

(8) Bond calls, if material, and tender offers.

(9) Defeasances.

(10) Release, substitution, or sale of property securing repayment of the securities, if material.

(11) Rating changes.

(12) Bankruptcy, insolvency, receivership or similar event of the Authority or other obligated person.

(13) The consummation of a merger, consolidation, or acquisition involving the Authority or an obligated person, or the sale of all or substantially all of the assets of the Authority or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the Authority obtains knowledge of the occurrence of a Listed Event, the Authority shall, or shall cause the Dissemination Agent (if not the Authority) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9)



above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The Authority acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The Authority shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the Authority obtains knowledge of the occurrence of any of these Listed Events, the Authority will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the Authority will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Authority in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Authority, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Authority.

#### Section 4. Provision of Annual Reports.

(a) The Authority shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2014, with the report for the 2012-13 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 5 of this Disclosure Certificate. The Official Statement shall serve as the Annual Report for the 2012-2013 fiscal year. Not later than 15 Business Days prior to the Annual Report Date, the Authority shall provide the Annual Report to the Dissemination Agent (if other than the Authority). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the Authority ) has not received a copy of the Annual Report, the Dissemination Agent shall contact the Authority to determine if the Authority is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 5 of this Disclosure Certificate; provided that the audited financial statements of the Authority may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the Authority's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 3(c). The Authority shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the Authority hereunder.

(b) If the Authority does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the Authority shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

- (c) With respect to each Annual Report, the Dissemination Agent shall:
- (i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and
  - (ii) if the Dissemination Agent is other than the Authority, file a report with the Authority certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 5. Content of Annual Reports. The Authority's Annual Report shall contain or incorporate by reference the following:

(a) The Authority's audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Authority's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the Authority for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

- (i) remaining and anticipated sources of CIP funding, which may be provided in the same or similar form as Tables 2, 3 and 4;
- (ii) any bonds issues in the most recently completed fiscal year that are payable from SVCW Bond Payments;
- (iii) any change in the cost allocations of Members during the most recently completed fiscal year; and
- (iv) average wastewater flow for the most recently completed fiscal year, which may be provided in the same or similar form as Table 6.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the Authority shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Authority or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The Authority shall clearly identify each such other document so included by reference.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The Authority's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Authority shall give notice of such termination in the same manner as for a Listed Event under Section 3(b).

Section 8. Dissemination Agent. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Authority. Any Dissemination Agent may resign by providing 30 days' written notice to the Authority.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Authority may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Section 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual Report filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the Authority to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 3(b).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Authority shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the Authority fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Authority to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. (a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Authority agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Authority hereunder, and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Bond holders or any other party. The obligations of the Authority under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the Authority for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Authority, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: \_\_\_\_\_, 2014

SILICON VALLEY CLEAN WATER

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT A**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Silicon Valley Clean Water

Name of Issue: Silicon Valley Clean Water (San Mateo County, California) 2014 Wastewater Revenue Bonds

Date of Issuance: \_\_\_\_\_, 2014

NOTICE IS HEREBY GIVEN that the Authority has not provided an Annual Report with respect to the above-named Bonds as required by the Authority Continuing Disclosure Certificate, dated \_\_\_\_, 2014. The Authority anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

DISSEMINATION AGENT:

\_\_\_\_\_

By: \_\_\_\_\_  
Its: \_\_\_\_\_

**PARTICIPATING MEMBER  
CONTINUING DISCLOSURE CERTIFICATE**

This CONTINUING DISCLOSURE CERTIFICATE (this “Disclosure Certificate”) is executed and delivered by the Participating Member \_\_\_\_\_ (the “Participating Member”) in connection with the issuance of the Silicon Valley Clean Water (San Mate County, California) 2014 Wastewater Revenue Bonds (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of March 1, 2014 (the “Indenture”), by and between Silicon Valley Clean Water and The Bank of New York Mellon Trust Company, N.A., as trustee. The Bonds are payable from revenues, including payments to be made by the Participating Member under a Financing Agreement (the “Financing Agreement”), between the Authority and the Participating Member.

The Participating Member covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Participating Member for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the Participating Member pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Annual Report Date*” means the date that is nine months after the end of the Participating Member’s fiscal year (currently March 31 based on the Participating Member’s fiscal year end of June 30).

“*Dissemination Agent*” means \_\_\_\_\_, or any successor Dissemination Agent designated in writing by the Participating Member and which has filed with the Participating Member a written acceptance of such designation.

“*Listed Events*” means any of the events listed in Section 5(a) of this Disclosure Certificate.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement executed by the Participating Member in connection with the issuance of the Bonds.

“*Participating Underwriter*” means the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

### Section 3. Provision of Annual Reports.

(a) The Participating Member shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2014, with the report for the 2012-13 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Official Statement shall serve as the Annual Report for the 2012-13 fiscal year. Not later than 15 Business Days prior to the Annual Report Date, the Participating Member shall provide the Annual Report to the Dissemination Agent (if other than the Participating Member). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the Participating Member) has not received a copy of the Annual Report, the Dissemination Agent shall contact the Participating Member to determine if the Participating Member is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Participating Member may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the Participating Member’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The Participating Member shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the Participating Member hereunder.

(b) If the Participating Member does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the Participating Member shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the Participating Member, file a report with the Participating Member certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The Participating Member’s Annual Report shall contain or incorporate by reference the following:

(a) The Participating Member’s audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Participating Member’s audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.



(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the Participating Member for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

(i) revenues by class of user for the Sewer Utility System for the most recently completed fiscal year, which may be provided in the same or similar form as Tables A3, B3 and C3;

(ii) the largest Sewer Utility System users by revenue for the most recently completed fiscal year, which may be provided in the same or similar form as Tables A4, B4 and C4;

(iii) a description of any revisions to the wastewater rates which were adopted or which took effect during the most recently completed fiscal year;

(iv) the Sewer Utility System's revenues and expenses and Net Revenues, including debt service and coverage ratios, for the most recently completed fiscal year, which may be provided in the same or similar form as Tables A9, B9 and C7; and

(v) a description of any additional indebtedness incurred by the Participating Member during the most recently completed fiscal year which is payable from revenues of the Sewer Utility System.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the Participating Member shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Participating Member or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The Participating Member shall clearly identify each such other document so included by reference.

Section 5. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 6. Termination of Reporting Obligation. The Participating Member's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Participating Member shall give notice of such termination as follows: the Participating Member shall, or shall cause the Dissemination Agent (if not the Participating Member) to, file a notice of such termination with the MSRB, in an electronic format as prescribed by the MSRB.

Section 7. Dissemination Agent. The Participating Member may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a

successor Dissemination Agent. The initial Dissemination Agent shall be \_\_\_\_\_. Any Dissemination Agent may resign by providing 30 days' written notice to the Participating Member.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Participating Member may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a) or 4, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual Report filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the Participating Member to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section shall be filed in the same manner as for a Listed Event under Section 6.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Participating Member from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Participating Member chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Participating Member shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. If the Participating Member fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Participating Member to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Participating Member to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. (a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Participating Member agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Participating Member hereunder, and shall not be deemed to be acting in any fiduciary capacity for the Participating Member, the Bond holders or any other party. The obligations of the Participating Member under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the Participating Member for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Participating Member, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: \_\_\_\_\_, 20\_\_

[PARTICIPATING MEMBER]

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

AGREED AND ACCEPTED:  
\_\_\_\_\_,  
as Dissemination Agent

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT A**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Silicon Valley Clean Water

Name of Issue: Silicon Valley Clean Water (San Mateo County, California) 2014  
Wastewater Revenue Bonds

Date of Issuance: \_\_\_\_\_, 2014

NOTICE IS HEREBY GIVEN that the Participating Member has not provided an Annual Report with respect to the above-named Bonds as required by the Participating Member Continuing Disclosure Certificate, dated \_\_\_\_\_, 2014. The Participating Member anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

DISSEMINATION AGENT:

\_\_\_\_\_

By: \_\_\_\_\_  
Its: \_\_\_\_\_

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## APPENDIX G

### FORM OF BOND COUNSEL OPINION

March 20, 2014

Silicon Valley Clean Water  
1400 Radio Road  
Redwood Authority, California 94065

**OPINION:** \$60,000,000 Silicon Valley Clean Water  
2014 Wastewater Revenue Bonds

Members of the Authority:

We have acted as bond counsel in connection with the issuance by Silicon Valley Clean Water (the "Authority") of its \$60,000,000 aggregate principal amount of Silicon Valley Clean Water 2014 Wastewater Revenue Bonds (the "Bonds"). The Bonds have been issued by the Authority under the provisions of Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Bond Law"), an Indenture of Trust dated as of March 1, 2014 (the "Indenture") between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee, and a resolution adopted by the Commission of the Authority on January 9, 2014. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Authority contained in the Indenture and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Authority is duly organized and validly existing as a joint powers authority under the laws of the State of California, with the power to enter into the Indenture, perform the agreements on its part contained therein and issue the Bonds.

2. The Bonds constitute legal, valid and binding special obligations of the Authority enforceable in accordance with their terms and payable solely from the sources provided therefor in the Indenture.

3. The Indenture has been duly approved by the Authority and constitutes a legal, valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms.

4. Under the Bond Law, the Indenture establishes a valid lien on and pledge of the Revenues (as that term is defined in the Indenture) for the security of the Bonds.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the Authority comply with all requirements of the Internal Revenue Code of 1986 which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority has covenanted in the Indenture and in other instruments relating to the Bonds to comply with each of such requirements, and the Authority has full legal authority to make and comply with such covenants. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. Interest on the Bonds is exempt from California personal income taxation.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in accordance with principles of equity or otherwise in appropriate cases.

Respectfully submitted,

*Jones Hall,*  
A Professional Law Corporation



## APPENDIX H

### DTC AND THE BOOK-ENTRY ONLY SYSTEM

*The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the bonds described in this Official Statement (the “Bonds”), payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

*Neither the issuer of the Bonds (the “Issuer”) nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the “Agent”) take any responsibility for the information contained in this Appendix.*

*No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.*

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of

securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org). *The information contained on this Internet site is not incorporated herein by reference.*

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

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**APPENDIX I**

**Comprehensive Annual Financial Report for the City of Redwood City – Fiscal Year  
Ended June 30, 2013**

[see attached]

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# Comprehensive Annual Financial Report

FISCAL YEAR ENDED JUNE 30, 2013



**City of Redwood City  
Redwood City, California**

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Rendering of the future Crossing/900 (formerly called Redwood Tower), to be built on Middlefield Road, adjacent to the Caltrain Station, and opening up to Theatre Way.

Expected completion date in 2016.





**City of Redwood City  
Redwood City, California  
Comprehensive Annual Financial Report  
Fiscal Year Ended June 30, 2013**

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**City of Redwood City  
Redwood City, California  
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Office of Director of Finance



1017 Middlefield Road  
Redwood City, California 94063  
Telephone: (650) 780-7070  
Fax: (650) 366-2447  
E-mail: mail@redwoodcity.org

December 5, 2013

Honorable Mayor Alicia Aguirre,  
Members of the City Council,  
City Manager, and Citizens of the  
City of Redwood City  
Redwood City, California

Submitted for your information and consideration is the Comprehensive Annual Financial Report of the City for the fiscal year ended June 30, 2013.

This report has been prepared by the City's Finance Department. The responsibility for both the accuracy of the printed data and the completeness and fairness of the presentation including all disclosures rests with the City. It is our opinion that the data presented is accurate in all material respects and that it is presented in a manner designed to fairly set forth the financial positions and results of operations of the City and its related entities as measured by the financial activities of their various funds, and that all disclosures necessary for the reader to gain a full understanding of their financial activities have been included. The financial statements have been prepared following the guidelines recommended by the Government Finance Officers Association and the standards adopted by the Governmental Accounting Standards Board.

Badawi and Associates, Certified Public Accountants, has issued an unqualified ("clean") opinion of the City's financial statements for the fiscal year ended June 30, 2013. The independent auditor's report is located at the front of the financial section of this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a 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. Redwood City's MD&A can be found immediately following the report of the independent auditors.

**REPORTING ENTITY AND ITS SERVICES**

Redwood City is a full service City, which was incorporated in 1867 and became a Charter City in 1929. The City operates under a council-manager form of government and provides a range of services that include police and fire protection, recreation and parks, libraries, street maintenance and construction, infrastructure improvements, planning and zoning, water delivery, port facilities, and storm drains. Although the City maintains sewer lines and pump stations, the sewer plant and treatment services are provided by the South Bayside System Authority, a joint powers authority of which Redwood City is an equity holder.

This report includes all funds of Redwood City. The City Council serves in separate session as the governing bodies of the Successor Agency to the Redevelopment Agency of Redwood City, the Redwood City Facilities and Infrastructure Authority, and the Public Financing Authority although these agencies are legal entities apart from the City. Under the City Charter, the City Council appoints the Board of Port Commissioners who oversees the operations of the Port of Redwood City, which is considered a department of the City of Redwood City.

Debt service paid during the year is shown under debt service funds. The Port of Redwood City is an enterprise activity and is presented as an enterprise fund.

Financial information for separate legal entities related to the City including the Redwood City Facilities and Infrastructure Authority, Redwood City Public Financing Authority, and Successor Agency to the Redevelopment Agency of Redwood City is blended in the City's financial statements in accordance with Governmental Accounting Standards Board Statement No. 14.

#### **FINANCIAL INFORMATION**

##### **Accounting System and Budgetary Control**

The City's accounting records for governmental operations are maintained on a modified accrual basis, with the revenues being recorded when both measurable and available, and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's enterprises are maintained on the accrual basis.

In developing and modifying the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding:

- The safeguarding of assets against 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 a control should not exceed the benefits likely to be derived, and
- The evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that all of the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary control is maintained at the program level by encumbering estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders that result in an overrun of budget balances are not released until additional appropriations are made available.

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

#### **FACTORS AFFECTING FINANCIAL CONDITION**

##### **Local Economy**

The local economy is recovering from the "Great Recession" more robustly than the national economy with the unemployment rate in San Mateo County decreasing to 5.4% as of June 2013 from 7.1% as of June 2012. The number of employed residents in the County increased from 360,900 in June 2012 to 378,400 in June 2013.

Relatedly, the Redwood City commercial real estate market continues to exhibit signs of high demand with the vacancy rate decreasing to 9.95% as of the second quarter 2013 compared to 11% as of the second quarter 2012.

We believe these indicators paint a very positive picture of the local economy and provide a solid underpinning for future growth.

##### **Sales Taxes**

Sales tax is an important source of general fund revenue as it accounts for about 21% of total general fund revenues. Sales tax has increased 8% and 13% on a year over year basis in FY 2011/12 and FY 2012/13 respectively. Most of this increase was attributable to increased sales from new and used vehicle dealers.

The City continues to rely heavily on sales tax generated by businesses engaged in selling software. A threat to this revenue stream is the progressive migration of businesses delivering software to their customers electronically (via Internet download or over dedicated phone lines) which then, under regulations adopted by the State of California Board of Equalization, provides that such products are no longer subject to sales tax.

##### **Property Taxes**

Property tax projections for FY 2013/14 call for a 7.5% increase in secured taxes over FY 2012/13 with indications that growth will continue to increase in FY 2014/15. Based on recent job growth it appears that the housing market is strengthening and that assessed values will be increasing over the next several years.

##### **Educational Revenue Augmentation Fund Refunds**

In FY 1992/93 and FY 1993/94, the State shifted property taxes from cities, counties, and special districts to school districts to supplant funding that the State was providing to school districts. The funds shifted from cities, the county, and special districts are placed into the Educational Revenue Augmentation Fund (ERAF) by the county controller. The controller then disburses these funds to school districts based upon the formula prescribed by State law. Any funds remaining in ERAF (after the distribution to the school districts) are returned to the cities, county, and special districts in proportion to the amount they contributed to ERAF. The continued receipt of these funds, which amounted to \$3.5 million and \$4.2 million annually in FY 2011/12 and in FY 2012/13 respectively, depends upon the State's complicated school financing formula and the State legislature not redirecting these revenues elsewhere. Recent changes in school financing could result in this revenue decreasing in FY 2013/14 and future years.

##### **Long-Term Financial Planning**

Economic development remains a priority of the City Council. With the demise of its Redevelopment Agency, the City continues to move private development forward through innovative planning, efficient use of its capital improvement program, and by enabling development of City-owned property.

Zoning changes to encourage mixed use residential/commercial and high density housing reduce the time-to-market for these desirable projects. Additionally, through these zoning designations the City creates Priority Development Areas (PDAs), which focus on improving the linkage between jobs, housing, and transit. Most significantly, grant funding from the Metropolitan Transportation Commission is overwhelmingly provided to cities with PDAs. Redwood City has three such areas, providing the City access to valuable transportation funds for pedestrian and vehicular improvements in and around the Downtown.

Essential to the development community is surety of process and predictability of time to market. Since the adoption of the Downtown Precise Plan in 2010, the City has improved its project review efforts by combining Engineering, Planning, Building, and Public Works into a unified Community Development Department. Efficiencies in plan review and permitting enable the City to process development permits for large projects in the Downtown in just over three months from submittal to approval.

In August 2013 the City Council approved the Disposition and Development Agreement with the development team of Hunter Storm and its financial partner Kilroy Realty. This Agreement enabled the sale of the City's Block 2 property, located along Middlefield Road, with escrow closing in October 2013, and the beginning of construction of a 300,000 square foot, two tower office building. The City additionally benefits from this project

by the addition of 900 public parking spaces available nights and weekends, to support the evening and weekend live and movie theatre scenes, once construction is complete.

Housing continues to be the driving development in Downtown. In 2013 permits were issued for projects at: 145 Monroe Street (305 units), 601 Main Street (196 units), 525 Middlefield Road (471 units), 735 Brewster Street (18 units), and 439 Fuller Street (133 units).

The Inner Harbor Specific Plan Task Force began its public process in May 2013. This 15-member committee is expected to complete the Inner Harbor Plan by summer 2014, which, along with its Environmental Impact Report, will be presented to the Planning Commission and City Council shortly thereafter. The Inner Harbor Plan area covers approximately 100 acres of waterfront property, some of which is privately held, other is owned by either the City or San Mateo County. Graniterock sold its 20-acre Malibu Grand Prix property to the developer Jay Paul. Although the Jay Paul Company anticipates development of office buildings, they are committed to support the efforts of the Task Force and use the planning and environmental review as the springboard for their development plans.

The City Council approved the Stanford in Redwood City Precise Plan and Development Agreement in September 2013. These approvals set the stage for the transformation of the 1960s era Ampex corporate campus into a modern office development focused on Stanford's non-academic office needs. The development at build-out will move the 35-acre property from one containing 500,000 square feet of buildings to one with 1.5 million square feet of Class A office space. As part of the Development Agreement, Stanford committed funds for the study of Broadway as a potential streetcar or other such transportation corridor. This concept is anticipated in the City's General Plan and Stanford's commitment to alternative transportation modes will accelerate the City's decisions on future designs of Broadway.

**Relevant Financial Policies**

In April 1999 the City Council adopted a policy targeting the unreserved portion of the general fund's fund balance designated for subsequent year's expenditures to fall within a range from 15% to 20% of anticipated general fund revenues. As a result of implementing GASB 54 these amounts are now reported under the category "Unassigned Fund Balances" under the subcategory "City Council directed minimum balance."

In FY 2011/12 Redwood City entered into a contract to manage fire and first responder emergency medical services for the City of San Carlos, the city immediately adjacent to the north of Redwood City. All staff below the command level (Battalion Chief) being San Carlos employees with the management staff being Redwood City employees. In FY 2012/13, based upon the success of initial arrangement, Redwood City and San Carlos successfully negotiated a full merger of the two fire departments. This has resulted in all San Carlos fire department employees becoming Redwood City employees on July 1, 2013. The full merger is expected to generate both operational advantages and financial advantages for both cities.

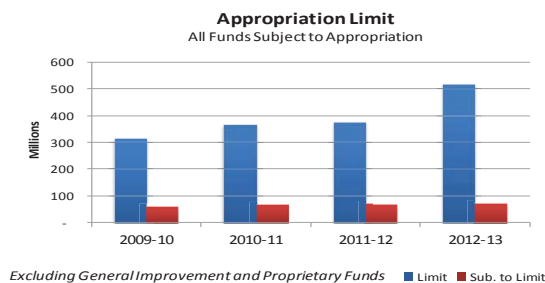
**Appropriation Limit**

Article XIII B of the California State Constitution, which became effective in FY 1979/80, and which was modified (by Proposition 111) in November 1989, establishes, by formula, an appropriation limit for governmental agencies. Using the appropriations of FY 1978/79 as the base year, the limit is modified by the change in the composite consumer price index, population, and the value of commercial property development within the City limits during each fiscal year. Article XIII B also sets the guidelines as to what is to be included in the appropriation limits.

The appropriation limit for Redwood City for FY 2012/13 was at \$515,216,485 while the actual appropriations subject to the limit amounted to \$69,000,000. The substantial increase from FY 2011/12 is primarily due to the

increase (35.8%) in the amount of the increase in assessed valuation of real property that is attributable to non-residential new construction, one of the factors used in calculating the change in the appropriation limit.

The following graph indicates the trend in appropriations subject to limitation:



Excluding General Improvement and Proprietary Funds ■ Limit ■ Sub. to Limit

**OTHER INFORMATION**

**Annual Independent Audit**

The annual audit of the books and financial records of Redwood City was completed by Badawi and Associates, certified public accountants appointed by the City Council. The independent auditor's report has been made a part of this report.

**Awards**

The Government Finance Officers Association (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City of Redwood City for its Comprehensive Annual Financial Report (CAFR) for the FY ended June 30, 2012. This is the 26<sup>th</sup> consecutive year that Redwood City has received 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 that our current CAFR continues to meet the certificate of achievement program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

**Acknowledgements**

The preparation of this report could not have been achieved without the efficient and dedicated services of the entire staff of the Finance Department. Special thanks are extended to Alison Freeman for her leadership in overseeing this process, Kyi Khin, Toni Saldou, Gita Mehirdel, Jennifer Chang, Rajesh Sewak, and Carolyne Kerans for their important contributions, and to Sylvia Peters for her relentless dedication to assembling this document.

I would also like to thank and commend Mayor Alicia Aguirre and the Redwood City Council, and City Manager Robert Bell for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner in the best interests of the residents of Redwood City.

Respectfully submitted,



Brian J. Ponty  
Director of Finance  
City of Redwood City  
Redwood City, California



*City of Redwood City  
Comprehensive Annual Financial Report  
June 30, 2013*

**CITY OF REDWOOD CITY - REDWOOD CITY, CALIFORNIA**

**PRINCIPAL OFFICIALS**

**CITY COUNCIL**

- Alicia C. Aguirre, Mayor .....November 2015
- Jeffrey Gee, Vice Mayor.....November 2013
- Ian Bain .....November 2015
- Rosanne Foust.....November 2015
- Jeff Ira.....November 2013
- Barbara Pierce.....November 2015
- John D. Seybert .....November 2013

**CITY MANAGER**

Robert B. Bell

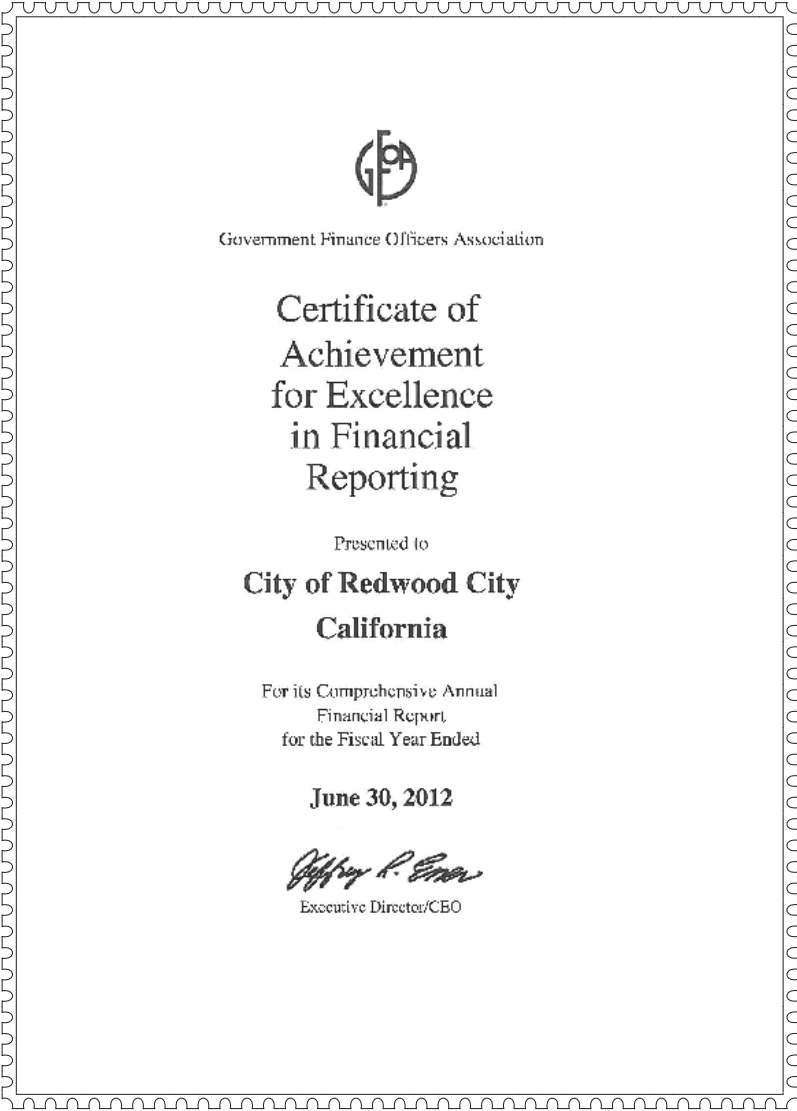
**DEPARTMENT DIRECTORS**

- Assistant City Manager .....Audrey Seymour Ramberg
- City Clerk .....Silvia Vonderlinden
- Community Development .....Bill Ekern
- Finance .....Brian Ponty
- Fire Chief .....James Skinner
- Human Resources (interim) .....Leah Lockhart
- Library .....David Genesy
- Parks, Recreation, and Community Services .....Chris Beth
- Police Chief .....JR Gamez

**CITY ATTORNEY**

Pamela Thompson

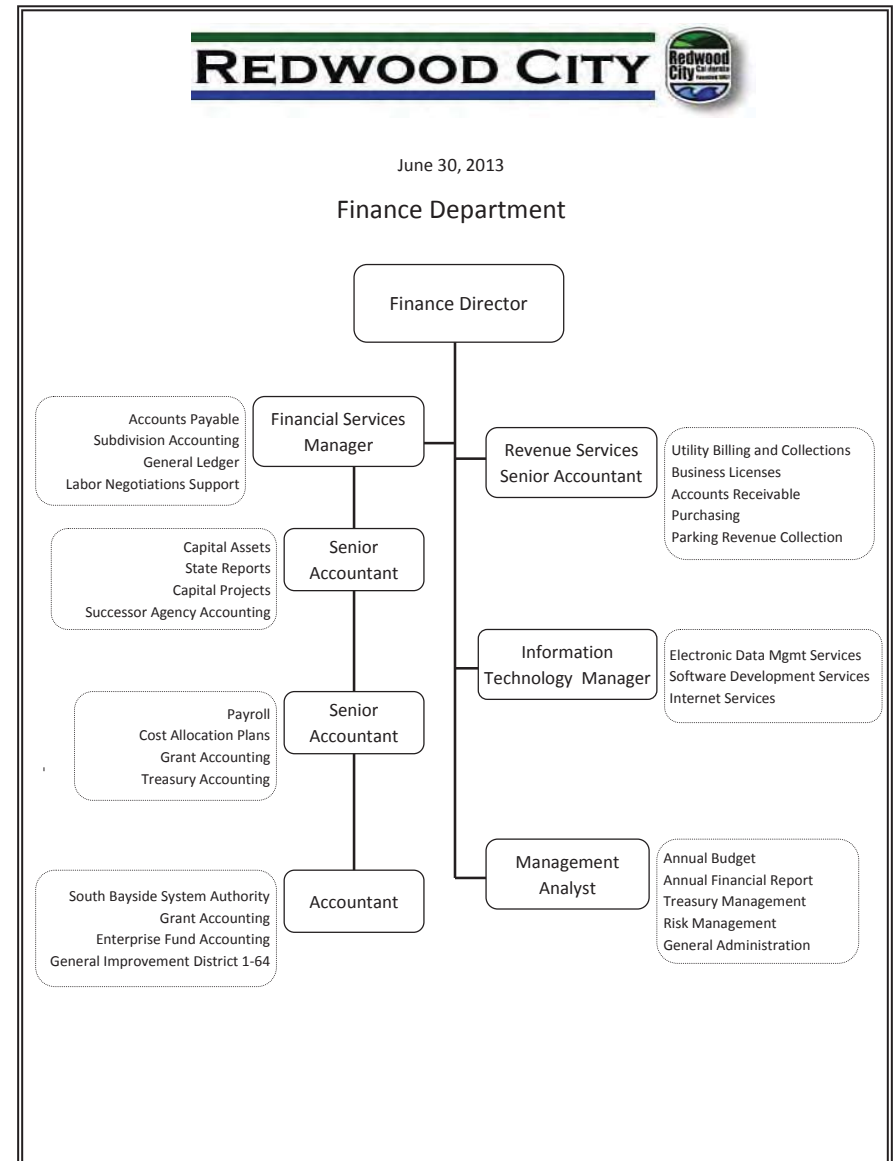
City of Redwood City  
 1017 Middlefield Road  
 Redwood City, California 94063  
 Telephone: (650) 780-7070  
 Fax: (650) 366-2447  
 E-Mail: [mail@redwoodcity.org](mailto:mail@redwoodcity.org)  
 Web Site: [www.redwoodcity.org](http://www.redwoodcity.org)



CITY OF REDWOOD CITY - REDWOOD CITY, CALIFORNIA

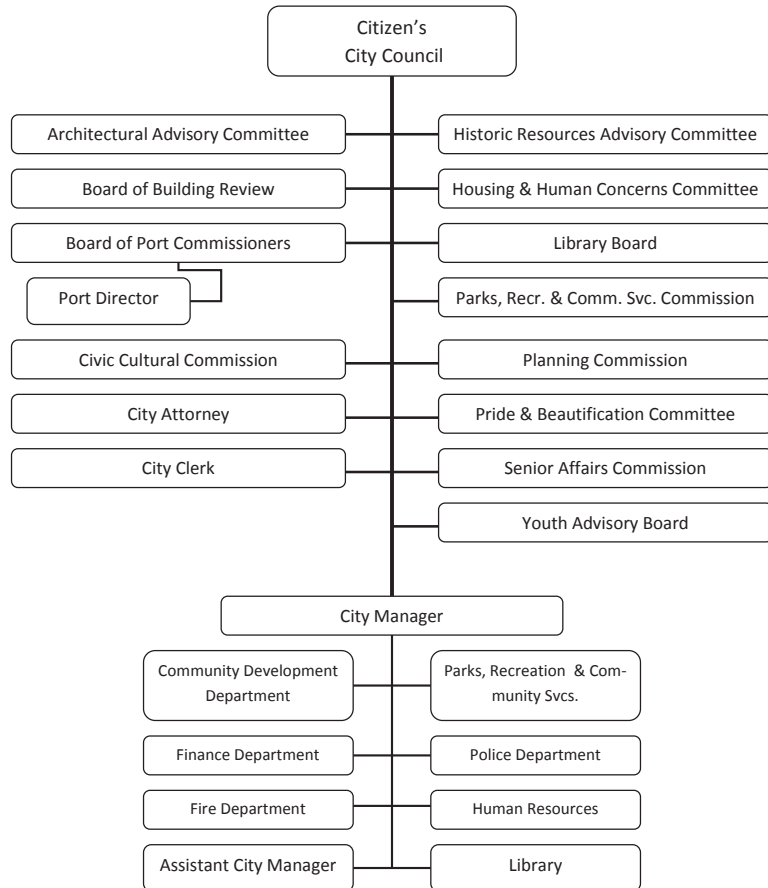
FINANCE DEPARTMENT STAFF  
June 30, 2013

Brian Ponty.....Director of Finance  
 Alison Freeman .....Financial Services Manager  
 Rajesh Sewak .....Senior Accountant  
 Jennifer Chang .....Senior Accountant  
 Gita Mehirdel .....Senior Accountant  
 Carlyne Kerans .....Accountant  
 Sylvia Bravo Peters.....Management Analyst





June 30, 2013



**CORE PURPOSE**

Build a Great Community Together

**CORE VALUES**

**Excellence:**

Passion to Do Our Best in Each Moment

**Integrity:**

Do the Right Thing, Not the Easy Thing

**Service:**

We Care and It Makes a Difference

**Creativity:**

Freedom to Imagine and Courage to Act





## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council  
of the City of Redwood City  
Redwood City, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Redwood City, California (City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



City of Redwood City  
Comprehensive Annual Financial Report  
June 30, 2013

Honorable Mayor and Members of City Council  
of the City of Redwood City  
Redwood City, California  
Page 2

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedules of funding progress for pension and other post-employment benefit plans be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, general fund comparative statements, combining and individual nonmajor fund financial statements, budgetary comparison information for non-major funds, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The general fund comparative statements, combining and individual nonmajor fund financial statements, budgetary comparison information for non-major funds, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the general fund comparative statements, combining and individual nonmajor fund financial statements, budgetary

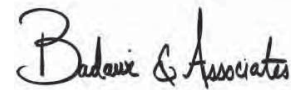
Honorable Mayor and Members of City Council  
of the City of Redwood City  
Redwood City, California  
Page 3

comparison information for non-major funds and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.



Badawi and Associates  
Certified Public Accountants  
Oakland, California  
December 5, 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City's Comprehensive Annual Financial Report presents a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with the accompanying transmittal letter and basic financial statements.

### FISCAL YEAR 2012/13 FINANCIAL HIGHLIGHTS

During fiscal year 2012/13, the City experienced growth in revenues as the local economy began to show signs of recovery from the recent recession. Financial highlights of the year include the following:

- The City's total net position increased \$20.7 million in FY 2012/13, after a \$21.1 million increase in the preceding year. At June 30, 2013, net position totaled \$476.2 million.
- Total City revenues, including program and general revenues, were \$182.7 million, an increase of \$8 million over the prior year, while total expenses were \$162 million, a decrease of \$10.7 million from FY 2011/12.
- Net position in governmental activities increased \$9.3 million, while net position in business activities increased \$11.5 million.
- Governmental program revenues were \$33.6 million, which reflected an increase of \$4.5 million over FY 2011/12.
- Governmental program expenses decreased to \$103.2 million in FY 2012/13, down \$13.6 million from the prior year.
- Revenues from business-type activities increased to \$69.7 million in FY 2012/13, up \$5 million over the prior year.
- Expenses of business-type activities increased to \$58.7 million in FY 2012/13, a \$2.9 million increase from the prior year.
- General fund revenues of \$92.4 million increased by \$4.1 million over the prior year.
- General fund balance of \$21.8 million at the fiscal year end increased by \$1.9 million from the prior year.

### OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is in seven parts:

1. Introductory section, which includes the transmittal letter and general information
2. Management's Discussion and Analysis (this part)
3. The Basic Financial Statements, which include the government-wide and the fund financial statements, along with the notes to these financial statements
4. Required supplementary information
5. Combining statements for non-major governmental funds and fiduciary funds
6. Statistical information
7. Internal Controls

### The Basic Financial Statements

The Basic Financial Statements comprise the City-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the City's financial activities and financial position.

The City-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the City's programs. The Statement of Activities explains in detail the change in Net Position for the year.

All of the City's activities are grouped into government activities and business-type activities, as explained below. All the amounts in the Statement of Net Position and the Statement of Activities are separated into governmental activities and business-type activities in order to provide a summary of these two activities of the City as a whole.

The Fund Financial Statements report the City's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the City's general fund and other major funds. The Fund Financial Statements, which are prepared using the modified accrual basis of accounting, measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt, and other long-term amounts.

Major funds account for the major financial activities of the City and are presented individually, while the activities of non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major funds are explained below.

### The Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities present information about the following:

**Governmental Activities** — All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, public works, culture-recreation, public improvements, planning and zoning, and general administration services. These services are supported by general City revenues such as taxes, and by specific program revenues such as developer fees.

**Business-type Activities** — All the City's enterprise activities are reported here, including water, sewer, parking, the Port of Redwood City, and Docktown Marina. Unlike governmental services, these services are supported by charges paid by users based on the amount of the service they use.

Government-wide financial statements are prepared on the full accrual basis, which means they measure the flow of all economic resources of the City as a whole.

*The government-wide financial statements may be found on pages 20-21 of this report.*

#### **Fund Financial Statements**

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

Fund financial statements provide detailed information about each of the City's most significant funds, called major funds. The concept of major funds, and the determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each major fund is presented individually, with all non-major funds summarized and presented only in a single column. Subordinate schedules present the detail of these non-major funds. Major funds present the major activities of the City for the year, and may change from year to year as a result of changes in the pattern of the City's activities.

Governmental fund financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the governmental fund financial statements. 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 the City'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 City's near-term financing decisions. Both the governmental fund balance sheet and the 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 of Redwood City maintains 22 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the Housing Legal Aid Society Fund, and the capital outlay fund, which are considered to be major funds. Data from the other 19 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 of Redwood City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund.

*The governmental fund financial statements may be found on pages 24-27 of this report.*

Proprietary funds are maintained in two ways. 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 water, sewer, parking, Port, and Docktown Marina operations. Internal services funds are used to account for costs of the City's equipment services, the City's insurance program, the costs of the City's telephone/communications and information technology services, maintenance and repair of buildings, custodial services, and employee benefits. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

*The proprietary fund financial statements may be found on pages 29-31 of this report.*

Since the City's internal service funds provide goods and services only to the City's governmental and business-type activities, their activities are reported only in total at the fund level. Internal service funds may not be major funds because their revenues are derived from other City funds. These revenues are eliminated in the City-wide financial statements and any related profits or losses are returned to the activities which created them, along with any residual net assets of the internal service funds.

Comparisons of budget and actual financial information are presented only for the general fund and other major funds that are special revenue funds. As the Housing Legal Aid Society Fund was created after the dissolution of the Redevelopment Agency and is currently under litigation, there is no adopted budget for this fund.

#### **Fiduciary Funds**

The City maintains fiduciary funds that consist of a Private Purpose Trust Fund and Agency Funds. The Private Purpose Trust Fund accounts for the activity of the former Redevelopment Agency of Redwood City, while the Agency Funds account for tax free employee and employer contributions made under the provisions of section 125 of the Internal Revenue Code (cafeteria benefits fund), and for transactions involving the Pacific Shores Community Facilities District, the Shores Transportation Improvement District, and the One Marina Community Facilities District. The City's fiduciary activities are reported in the separate Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, and the Agency Funds Statement of Changes in Assets and Liabilities. The accounting used for fiduciary funds is much like that used for proprietary funds. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations.

*The fiduciary fund financial statements may be found on pages 32-33 of this report.*

#### **Notes to the Financial Statements**

Notes to the Financial Statements 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 may be found on pages 34-75 of this report.*

#### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may over time serve as a useful indicator of the City's financial position. The City's assets exceeded liabilities by \$476.2 million at June 30, 2013.

	Governmental Activities		Business-type Activities		Total		Variance
	2013	2012	2013	2012	2013	2012	
	\$	\$	\$	\$	\$	\$	
Cash and investments	112.195	109.299	63.422	60.089	175.617	169.388	3.677%
Other assets	35.798	32.638	42.398	44.648	78.196	77.286	1.177%
Capital assets	193.550	191.394	183.989	175.002	377.539	366.396	3.041%
Total assets	341.543	333.331	289.809	279.739	631.352	613.070	2.982%
Long-term debt outstanding	12.896	15.764	84.073	87.008	96.969	102.772	-5.646%
Other liabilities	46.484	44.677	11.690	10.130	58.174	54.807	6.143%
Total liabilities	59.380	60.441	95.763	97.138	155.143	157.579	-1.546%
Net Position:							
Net investment in capital assets	190.191	185.513	110.901	107.037	301.092	292.550	2.920%
Restricted	43.957	39.239	6.638	5.868	50.595	45.107	12.167%
Unrestricted	48.015	48.138	76.507	69.696	124.522	117.834	5.676%
Total net position	282.163	272.890	194.046	182.601	476.209	455.491	4.548%

The largest portion (63%) of the City's net position reflects its capital assets (e.g., land, buildings, 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 residents; accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the 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 position (10.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$124.5 million) may be used to meet the government's ongoing obligations (although portions of these unrestricted net assets may by law or contract be only used for specified purposes and may not necessarily be used for any general governmental purpose) to residents and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The City's net position increased by \$20.7 million during the current fiscal year.

	Governmental Activities		Business-type Activities		Total		Variance
	2013	2012	2013	2012	2013	2012	
	\$	\$	\$	\$	\$	\$	
<b>Revenues</b>							
Program revenues:							
Community development	6.004	6.493			6.004	6.493	-7.531%
Human Services	0.511	0.478			0.511	0.478	6.904%
Public safety	6.051	5.324			6.051	5.324	13.655%
Transportation	5.589	7.326			5.589	7.326	-23.710%
Environmental support and protection	1.357	2.146			1.357	2.146	-36.766%
Leisure, cultural and information services	12.282	5.486			12.282	5.486	123.879%
Policy development and implementation	1.855	1.891			1.855	1.891	-1.904%
Water			33.202	28.465	33.202	28.465	16.641%
Sewer			28.100	26.898	28.100	26.898	4.469%
Parking			1.367	1.268	1.367	1.268	7.808%
Port of Redwood City			6.263	7.638	6.263	7.638	-18.002%
Docktown Marina			0.493		0.493		100.000%
General revenues:							
Taxes/special assessments	77.956	79.027	0.104	0.077	78.060	79.104	-1.320%
Investment earnings	0.301	0.579	0.151	0.282	0.452	0.861	-47.503%
Other	1.070	1.261	0.004	0.015	1.074	1.276	-15.831%
Total revenues	112.976	110.011	69.684	64.643	182.660	174.654	4.584%
<b>Expenses</b>							
Community development	9.090	22.954			9.090	22.954	-60.399%
Human services	1.562	1.496			1.562	1.496	4.412%
Public safety	51.355	50.621			51.355	50.621	1.450%
Transportation	11.332	11.353			11.332	11.353	-0.185%
Environmental support and protection	1.996	2.328			1.996	2.328	-14.261%
Leisure, cultural and information services	21.550	21.682			21.550	21.682	-0.609%
Policy development and implementation	6.031	4.774			6.031	4.774	26.330%
Interest on long term debt	0.314	1.615			0.314	1.615	-80.557%
Water			31.124	28.681	31.124	28.681	8.518%
Sewer			19.287	20.017	19.287	20.017	-3.647%
Parking			2.430	2.420	2.430	2.420	0.413%
Port of Redwood City			5.628	4.739	5.628	4.739	18.759%
Docktown Marina			0.243		0.243		100.000%
Total expenses	103.230	116.823	58.712	55.857	161.942	172.680	-6.218%
Change in net position before transfers and extraordinary item	9.746	(6.812)	10.972	8.786	20.718	1.974	949.544%
Transfers	(0.473)	(0.608)	0.473	0.608			
Extraordinary item - RDA dissolution		19.162				19.162	100.000%
Change in net position	9.273	11.742	11.445	9.394	20.718	21.136	-1.978%
Net position - July 1	272.890	261.148	182.601	173.207	455.491	434.355	4.866%
Net position - June 30	282.163	272.890	194.046	182.601	476.209	455.491	4.548%

**GOVERNMENTAL ACTIVITIES**

Governmental activities prior to transfers and extraordinary items increased the City's net position by \$9.7 million. Including transfers, governmental activities increased \$9.3 million. Transfers in FY 2012/13 consisted primarily of the transfer out of the general fund to the parking fund to cover parking

operations in the amount of \$0.442 million, and \$0.031 million transfer from the Transportation Grants Fund to the Sewer Utility Fund to reimburse expenses.

**Key elements of the increase/decrease in revenues for governmental activities are as follows:**

General governmental revenues decreased by 1.9%, or \$1.5 million from FY 2011/12 as all broad categories of general revenues decreased. Within the broad categories, sales taxes increased \$2.2 million, however, this increase was offset by a \$4 million decrease in property taxes resulting from the loss of property tax increment previously received by the dissolved Redevelopment Agency.

Community development revenues decreased due to the continuing decline in planning revenue related to the Saltworks project. Human services revenues increased due to an increase in grant funded programs for Fair Oaks Community Center. Public safety revenues increased due to increases in lease payments to refund bonds issued for construction of public safety facilities. Transportation revenues decreased due to the receipt of Federal Surface Transportation Program transportation grant funds and State transportation grant funds in the prior year. Environmental support and protection revenues decreased due to the receipt in the prior year of contributions related to construction of One Marina Community Facilities Districts storm drain and sewer systems. Leisure, cultural and information services increased primarily due to an increase in Parks Impact Fees received in the current year from the three large apartment construction projects. Policy, development and implementation revenue decreased slightly due to decreased revenue related to the State Mandated reimbursement program.

**Key elements of the increase/decrease in expenses for governmental activities are as follows:**

Total governmental activities expenses were down \$13.6 million or 11.6% due to decreases in community development, transportation, environmental support and protection, leisure, cultural and information services, and interest on long term debt offset by increases in human services, public safety, and policy development and implementation.

Community development expenses decreased \$13.9 million primarily due to the one-time prior year expense of \$10.3 million related to the potential takeaway of the accumulated funds set aside pursuant to the agreement with the Legal Aid Society for housing purposes, the \$2.5 million reduction in redevelopment related expenses due to the February 1, 2012 dissolution of the Redevelopment Agency, and a decline in planning services revenues as the Saltworks project became inactive. Transportation expenses decreased slightly (\$21,000) due to timing of projects. Environmental support and protection expenses decreased by \$.33 million due to a decrease in expenses related to storm drains. Leisure, cultural and information services decreased \$.132 million due to a decrease in parks and library related project expenses offset by an increase in operating expenses. Interest on long term debt decreased due to the transfer to the Successor Agency of accreted interest on the 2003 Tax Allocation bonds after the dissolution of the Redevelopment Agency on February 1, 2012.

The aforementioned decreases in governmental activities expenses were offset by a slight increase (\$66,000) in human services expenses related to Fair Oaks, a \$0.73 million increase in public safety expenses resulting from increased workers' compensation claims, and a reorganization of the police department and payout of accumulated leave balances to retiring police department employees offset by a reduction in the fire department which experienced higher costs in the previous fiscal year related to employee retirements. Policy, development and implementation increased by \$1.3 million due to an

increase in lease payments to refund the Public Financing Authority 2003 Refunding Bonds and increased expenses for new programs related to economic development and organizational efficiencies.

**BUSINESS-TYPE ACTIVITIES**

Business-type activities prior to transfers increased the City's net position by \$10.9 million in FY 2012/13.

**Key elements accounting for increases or decreases in revenues and expenses are as follows:**

Business-type revenues increased primarily due to an increase in utility rates and a new enterprise fund, Docketown Marina. Parking fund revenues increased due to increased traffic downtown as people were drawn to the downtown area by the theater, restaurants, and City sponsored events. Port revenues decreased \$1.3 million due to the receipt of grant revenue in the prior year.

The water utility's expenses were higher in FY 2012/13 primarily due to an increase in the rates charged for water by the San Francisco Public Utilities Commission, and increased expenses related to the water meter replacement program.

Sewer utility expenses decreased slightly due to a decrease in payments to South Bayside System Authority for wastewater treatment, and a decrease in expenses related to closed circuit television inspection of sewer lines.

The expenses of the parking fund remained flat at \$2.4 million.

The Port of Redwood City experienced an 18.8% increase in expenses due to a \$0.575 million loss on disposal of assets associated with the Wharves 1 & 2 replacement project, and increased interest expense associated with the 2012 revenue bonds.

During fiscal year 2012/13 the City took over the operation of the Docketown Marina, including billing tenants for boat slips, and maintenance of docks. Expenses for the partial year of operation were \$.24 million.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**

The general government functions are contained in the general, special revenue, debt service, and capital project funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources by using the modified accrual basis of accounting. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

At June 30, 2013, the City's governmental funds reported combined fund balances of \$96 million, which reflects an increase of \$4.5 million from the beginning year balance.

Governmental fund revenues increased \$3 million this year to \$111.6 million. Significant increases occurred in the general fund, the capital outlay fund, the traffic mitigation fees fund, and the parks impact and in lieu fee fund offset by decreases in the redevelopment agency fund, the low and moderate income housing fund, the transportation grants fund, and the One Marina Community Facilities District fund revenues. Expenditures, including capital outlay, decreased \$5.6 million this year to \$109.9 million. Most of the decrease was attributable to the \$10.3 million expenditure in the prior year for the potential state takeaway of the accumulated funds set aside pursuant to the agreement with the Legal Aid Society to use certain tax increment revenue for low and moderate income housing purposes, offset by increased expenditures in the capital outlay fund.

The general fund is the primary operating fund of the City. At June 30, 2013, unassigned fund balance of the general fund was \$19.4 million, while total fund balance increased to \$21.8 million from a beginning fund balance of \$19.8 million primarily due to an increase in revenues. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 23.8% of total fund expenditures, while total fund balance represents 26.7% of that same amount.

The following are the major funds that qualified under the reporting criteria for major funds selection:

**General Fund** - General fund revenues increased approximately \$4.1 million this fiscal year primarily due to increases in property taxes, sales and other taxes, and building permits, offset by declines in other categories of revenues. Sales taxes increased \$2.2 million and transient occupancy tax increased \$0.6 million due to the continued recovery from the recession and the first full year of transient occupancy tax revenue received under the voter approved increase in the transient occupancy tax rate from 10% to 12% (effective January 1, 2012). Property taxes increased \$1.9 million. The increase in property tax resulted from an increase in assessed value and an increase in revenue received in the general fund from the county as its share of the Education Revenue Augmentation Fund (ERAF) refund in FY 2012/13, an increase of \$680,312 for a total of \$4.2 million.

ERAF, which was created by state law in the early 1990's, allowed the state to shift on an ongoing basis a portion of each city, county, and special district's property taxes to school districts. This shift allowed the state to decrease the state's general fund support to schools throughout the state and concomitantly reduced state funding of schools. Within each county, ERAF revenues are allocated to schools based upon a formula that considers, among several factors, the average daily attendance and the amount of each school district's own property tax revenue. Within San Mateo County, the outcome of applying this formula was that the school districts did not require all of the funds shifted from the cities, county, and special districts. Consequently, these funds were returned to each entity in proportion to the amount that was initially collected.

Licenses and permits increased \$0.63 million due to an increase in building permits related to increased building activity.

Planning services revenues decreased \$1.5 million due to a decrease in fees related to the Saltworks project in addition to the creation of a new special revenue fund, planning cost recovery fund, to account for reimbursed planning contracts.

General fund expenditures increased \$1.2 million over the prior fiscal year. The increase partially resulted from new programs related to economic development and organizational efficiencies. Additionally, there was an increase in public safety expenditures related to a reorganization of the police department and payout of accumulated leave balances to retiring police department employees offset by a reduction in the fire department, which experienced higher costs in the previous fiscal year related to employee retirements.

General fund expenditures also increased due to a payment to the employee benefits internal service fund to reimburse the fund for prior year fire employee retirement costs, and an increase in lease payments related to the refunding of the Public Financing Authority 2003 Refunding Bonds. These increases were offset by a decrease in planning expenditures as reimbursed planning activities were moved to a new special revenue fund.

Transfers out of the general fund decreased \$4.1 million in FY 2012/13 due to the \$3.3 million transfer of land held for redevelopment to the low and moderate income housing asset fund in the prior year, along with a reduction in the transfer out to the capital outlay fund.

**Housing Legal Aid Society Fund** – This fund accounts for revenues previously deposited in the former redevelopment agency low and moderate income housing fund pursuant to an agreement with the Legal Aid Society to set aside general tax increment revenue for housing purposes. After the February 1, 2012 dissolution of the redevelopment agency, this fund was created to account for this accumulated balance. At June 30, 2013, a \$10.3 million liability is reflected as due to other governmental agencies as the City and Legal Aid Society have sued the State of California over the City's right to retain this money for housing purposes.

**Capital Outlay Fund** - This fund accounts for resources provided to finance general governmental capital projects. In FY 2012/13, the capital outlay fund generated \$1.2 million in revenue, most of which was from a FEMA grant to purchase a fire boat. This fund was also the recipient of \$7.6 million of transfers from the general fund. Total outlays were \$10.2 million of which \$6.2 million met with City's criteria for capitalization. The balance (\$4 million) was expended in FY 2012/13. Total outlays in the prior year (FY 2011/12) were \$5.6 million. Of the capital outlay fund's \$22.8 million fund balance, \$16.3 million was committed, and \$6.4 million was assigned.

**Proprietary Funds**

Enterprise fund net position totaled \$194 million at the end of the fiscal year, an increase of \$11.4 million over the prior year balance of \$182.6 million. Enterprise operating revenues were \$68.7 million this year, an increase of \$8.1 million over last year, while net non-operating revenues (expenses) were (\$4.2) million compared to \$0.2 million the prior year. Net non-operating revenues (expenses) experienced a \$4.4 million reduction due to the decrease in grant revenue of \$1.8 million and the decrease in investment in sewer authority.

Enterprise fund operating expenses were \$55.2 million this year, up \$2.7 million from the prior year, most of which was due to higher operating expenses in the water utility fund, and the first year of expenses for the Docktown Marina.

**Water Utility** - Net position of the water utility fund increased to \$66.2 million in the current year from \$64.1 in the prior year.

**Sewer Utility** - The sewer utility fund realized operating income of \$8.3 million in the current year, up from the operating income of \$5.1 million in the prior year. Revenues increased by \$2.5 million while expenses decreased \$0.73 million from the prior year.

**Parking Fund** - Operating revenues increased by \$99 thousand this year to \$1.37 million, while operating expenses increased slightly to \$2.426 million. The general fund transferred \$442 thousand into the parking fund to cover the operating deficit.

**Port Fund** - Operating revenues were up 2.6% while operating expenses were up 2% from FY 2011/12. Grant revenue decreased \$1.5 million. Overall, net position increased from \$31.3 million to \$32 million, or 2.1%.

**Docktown Marina** - This fund's activity began in March 2013. During this first year of operations it had \$0.251 million in operating revenues, \$0.243 in operating expenses, and \$0.242 in capital contributions resulting in net assets of \$0.250 million.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Property taxes exceeded budget by \$2.7 million primarily due to the receipt of a \$4.2 million payment from the County of San Mateo due to the over-deduction of Education Revenue Augmentation Fund amounts from the City in prior years, which exceeded the estimated amount by \$1.7 million and the receipt of residual property tax distribution attributable to the former Redevelopment Agency in the amount of \$2.5 million which exceeded the estimated amount by \$1.1 million.

Sales and other taxes were greater than budget by \$2.5 million mostly due to an unanticipated increase in sales tax revenue (\$2.2 million), property transfer tax (\$0.2 million), and business license tax (\$0.1 million).

Licenses and permits were greater than budget by \$0.7 million due to construction activity during the year exceeding expectations.

Use of money and property tax revenue was less than budget by \$0.1 million due to lower investment earnings than expected as interest rates remained low.

Intergovernmental revenue was greater than budget by \$0.1 million primarily due to receipt of unbudgeted motor vehicle license fee revenue in addition to unbudgeted State Mandated program reimbursement.

Charges for current services were less than budget by \$0.2 million due to fire services fees and recreation program fees falling below budget, offset by planning related fees which exceeded budget as planning activity exceeded expectations.

Fire Services fees were below budget due to a delay in the invoicing of fire inspection fees and less revenue related to a shared service contract with the City of San Carlos due to an unused contingency for services that were not provided.

Parks and recreation fees were below budget but adequately covered the fee based programs for which customers are charged.

Other revenue was greater than budget by \$0.4 million due to the receipt of unplanned reimbursement of prior year property tax administrative fees along with reimbursement for services provided in conjunction with bond refunding for two of the community facilities districts.

Expenditures, overall, were \$0.65 million greater than budgeted primarily due to unbudgeted payments associated with employee separations and paid public safety overtime exceeding budget, in addition to unbudgeted expenditures related to the activities of parks and recreation.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets** - At the end of FY 2012/13, the City had \$377.5 million, net of depreciation, invested in a broad range of capital assets used in governmental and business-type activities, as shown in the table below. Additional information on the City's capital assets can be found in Note 4 and Note 16 of this report.

**Capital Assets at Year-end (in Millions)**

	Governmental Activities		Business-Type Activities		Total		Variance
	2013	2012	2013	2012	2013	2012	
	\$	\$	\$	\$	\$	\$	
Land	30.978	30.978	3.448	3.448	34.426	34.426	0.000%
Streets	109.082	108.262			109.082	108.262	0.757%
Construction in progress	20.252	12.327	14.890	9.212	35.142	21.539	63.155%
Buildings	83.309	83.181	61.213	60.296	144.522	143.477	0.728%
Equipment	20.964	20.838	1.645	1.632	22.609	22.470	0.619%
Improvements	4.118	2.572	162.028	154.047	166.146	156.619	6.083%
Harbor improvements			4.045	4.202	4.045	4.202	-3.736%
Parks, bridges, etc.	29.184	29.184			29.184	29.184	0.000%
Traffic signals	2.607	2.607			2.607	2.607	0.000%
Storm drains	7.326	7.326			7.326	7.326	0.000%
Less accumulated depreciation	(114.270)	(105.881)	(63.280)	(57.835)	(177.550)	(163.716)	8.450%
Total capital assets	<u>193.550</u>	<u>191.394</u>	<u>183.989</u>	<u>175.002</u>	<u>377.539</u>	<u>366.396</u>	3.041%

**Governmental Activities**

The 64.3% increase in Construction in Progress is driven by the current project activity related to transportation and storm projects, along with construction of a grant funded fire boat. Streets increased primarily due to completion of street improvements related to Kentfield and Main Streets. Building increased due to fire station improvements. Improvements increased due to completion of the Redwood Creek wall and the Shannon Park boat ramp. Equipment increased primarily due to the purchase of information technology data storage and backup equipment.



**Business-Type Activities**

The \$5.7 million increase in Construction in Progress resulted primarily from water pump and tank projects, and the sewer rehabilitation project. Buildings and Improvements increased primarily due to completed improvements related to the recycled water program, and the water and sewer system replacement programs. Equipment increased primarily due to equipment purchased for the sewer utility.

**Long-Term Debt** - Issues described in detail in Notes 6 and 7 to Financial Statements.

**Outstanding Debt (in Millions)**

	Governmental Activities		Business-Type Activities		Total		Variance
	2013	2012	2013	2012	2013	2012	
Revenue bonds	\$	5.882	\$	84.217	\$	90.099	-9.714%
Refunding lease	3.360				3.360		100.000%
Loans			1.758	1.789	1.758	1.789	-1.733%
Accrued sick leave and vacation	9.536	9.882	0.968	1.002	10.504	10.884	-3.491%
Total long term debt	<u>12.896</u>	<u>15.764</u>	<u>84.073</u>	<u>87.008</u>	<u>96.969</u>	<u>102.772</u>	-5.646%

**SPECIAL ASSESSMENT DISTRICT DEBT**

Special assessment districts in different parts of the City have also issued debt to finance infrastructure and facilities construction in their respective districts.

At June 30, 2013, a total of \$21.59 million in special assessment district debt was outstanding, issued by three special assessment districts. This debt is secured only by special assessments on the real property in the district issuing the debt, and is not the City's responsibility, although the City does act as these Districts' agent in the collection and remittance of assessments.

**PRIVATE PURPOSE TRUST FUND DEBT**

On February 1, 2012, the Redevelopment Agency of the City of Redwood City was dissolved pursuant to California State law, and as of that date, the long-term debt associated with the former Redevelopment Agency was transferred to a private purpose trust fund for the Successor Agency. At June 30, 2013, the Successor Agency had tax allocation bonds outstanding in the amount of \$43,430,359 including unamortized premium and accreted interest payable.

**ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET**

Redwood City, like many cities, relies heavily upon property taxes and sales taxes to finance general governmental activities with these two revenues accounting for 42% and 21% of general fund revenues respectively. In FY 2012-13 the City experienced significant gains in these revenues with property taxes increasing 5% and sales taxes jumping 13%. We see the increases in each of these revenues, both of

which are sensitive to consumer confidence, reflecting the strength of the local job market. Given the continued increase in the number of local residents employed and the low unemployment rate we are hopeful that these revenues, along with other revenues that reflect strong consumer demand, will continue to grow.

The adopted FY 2013/14 general fund budget projects a surplus of \$1.2 million, or about 1.3% of anticipated revenues. In FY 2014/15 this surplus could turn into a deficit of \$1.8 million if the Educational Revenue Augmentation Fund refund, a source of property tax revenue tied to K-14 education funding, is eliminated due to the changes in the school funding formulas. In FY 2015/16 the operating deficit could widen if the California Public Employees Retirement System, as is being discussed, reduces their assumed rate of return on investments from 7.5% to 7.25% and updates their mortality assumptions to reflect the longer expected life expectancy of retirees. City staff is monitoring each of these factors very closely and is keeping the City Council apprised of significant developments.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this report should be directed to the Finance Department, at 1017 Middlefield Road, Redwood City, CA 94063.



*City of Redwood City  
Comprehensive Annual Financial Report  
June 30, 2013*

## STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

The Statement of Net Position and the Statement of Activities summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis of accounting — the effect of all the City's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Position reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Position presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the City's net position, by subtracting total liabilities from total assets.

The Statement of Net Position summarizes the financial position of the City's governmental activities in a single column, and the financial position of all City business-type activities in a single column; these columns are followed by a total column that presents the financial position of the entire City.

The City's governmental activities include the activities of its general fund, along with all its special revenue, capital projects and debt service funds. Since the City's internal service funds service these funds, their activities are consolidated with governmental activities, after eliminating inter-fund transactions and balances. The City's business-type activities include all its enterprise fund activities.

The Statement of Activities reports increases and decreases in the City's net position. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the fund financial statements, which reflect only current assets, current liabilities, available revenues, and measurable expenditures.

The Statement of Activities presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues — that is, revenues which are generated directly by these programs — are then deducted from program expenses to arrive at the net expense of each governmental and business-type activity. The City's general revenues are then listed in the governmental activities or business-type activities column, as appropriate, and the Change in Net Position is computed and reconciled with the Statement of Net Position.

CITY OF REDWOOD CITY, CALIFORNIA  
STATEMENT OF NET POSITION  
JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
<b>ASSETS</b>			
Cash and investments available for operations	105,650,110	53,306,199	158,956,309
Cash and investments, restricted	6,545,205	10,115,923	16,661,128
Receivables (net of allowance for uncollectibles):			
Taxes and assessments - current	6,658,966		6,658,966
Accounts	1,601,369	5,411,508	7,012,877
Loans	10,476,088		10,476,088
Accrued interest	860,173	23,681	883,854
Due from other governmental agencies	2,952,163	1,591,444	4,543,607
Internal balances	3,000,000	(3,000,000)	
Advances to RDA successor agency	3,957,246		3,957,246
Inventory of supplies at cost	140,555		140,555
Deposits	250,000		250,000
Prepaid items	101,483	979,735	1,081,218
Investment in land held for redevelopment	5,741,208		5,741,208
Unamortized bond issuance costs	57,645	1,433,542	1,491,187
Investment in sewer authority		35,957,560	35,957,560
Capital assets:			
Nondepreciable	51,230,052	18,337,834	69,567,886
Depreciable buildings, property, equipment and infrastructure, net	142,320,470	165,651,359	307,971,829
Total assets	341,542,733	289,808,785	631,351,518
<b>LIABILITIES</b>			
Accounts payable	7,457,854	6,773,957	14,231,811
Accrued interest payable	95,208	753,720	848,928
Accrued payroll	2,907,558		2,907,558
Deposits payable	3,913,210	1,013,964	4,927,174
Due to other governmental agencies	10,305,220		10,305,220
Insurance claims payable:			
Due in one year	2,502,850		2,502,850
Due in more than one year	10,897,502		10,897,502
Unearned revenue	1,915,790	2,534,163	4,449,953
Accrued sick leave and vacation:			
Due in one year	386,490	549,136	935,626
Due in more than one year	9,149,443	419,375	9,568,818
Net OPEB obligation due in more than one year	6,488,784	614,943	7,103,727
Long-Term Debt:			
Due in one year	324,742	2,524,244	2,848,986
Due in more than one year	3,035,258	80,579,788	83,615,046
Total liabilities	59,379,909	95,763,290	155,143,199
<b>NET POSITION</b>			
Net investment in capital assets	190,190,522	110,901,151	301,091,673
Restricted for:			
Capital projects	22,846,066	426,117	23,272,183
Debt service	(95,208)	6,211,552	6,116,344
Community development projects	15,929,859		15,929,859
Maintenance	5,124,989		5,124,989
Public safety	151,355		151,355
Total restricted	43,957,061	6,637,669	50,594,730
Unrestricted	48,015,241	76,506,675	124,521,916
Total net position	282,162,824	194,045,495	476,208,319

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Overhead Charges	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities:								
Community development	9,090,251		4,651,706	1,338,676	13,078	(3,086,791)		(53,086,791)
Human services	1,562,157			511,253		(1,050,904)		(1,050,904)
Public safety	51,355,424		3,131,805	1,073,790	1,845,984	(45,303,845)		(45,303,845)
Transportation	11,332,401		546,820	1,886,436	3,155,752	(5,743,393)		(5,743,393)
Environmental support and protection	1,978,264	17,834	1,335,544	21,182		(639,372)		(639,372)
Leisure, cultural and information services	21,525,075	23,661	2,827,087	1,821,264	7,633,541	(9,266,844)		(9,266,844)
Policy development and implementation	6,822,120	(791,463)	1,780,367	63,606	10,578	(4,176,106)		(4,176,106)
Interest on long term debt	314,022					(314,022)		(314,022)
Total Governmental Activities	103,979,714	(749,968)	14,273,329	6,716,207	12,658,933	(69,581,277)		(69,581,277)
Business-Type Activities:								
Water Utility Fund	30,693,527	430,332	33,167,498	34,696			2,078,335	2,078,335
Sewer Utility Fund	18,994,036	293,394	26,677,923		1,422,418		8,812,911	8,812,911
Parking Fund	2,404,117	26,242	1,366,984				(1,063,375)	(1,063,375)
Port of Redwood City	5,628,403		6,262,660				634,257	634,257
Docktown Marina	243,335		251,324		241,938		249,927	249,927
Total Business-Type Activities	57,963,418	749,968	67,726,389	34,696	1,664,356		10,712,055	10,712,055
<b>Total</b>	<b>161,943,132</b>		<b>81,999,718</b>	<b>6,750,903</b>	<b>14,323,289</b>	<b>(69,581,277)</b>	<b>10,712,055</b>	<b>(58,869,222)</b>
General revenues:								
Taxes:								
Property taxes						38,379,963	104,081	38,484,044
Sales taxes						19,240,290		19,240,290
Franchise taxes						4,091,773		4,091,773
Property transfer taxes						599,316		599,316
Business license taxes						1,668,370		1,668,370
Utility users taxes						9,416,498		9,416,498
Transient occupancy taxes						4,526,424		4,526,424
Motor vehicle in lieu taxes						33,547		33,547
Investment Earnings						301,171	151,041	452,212
Other						1,069,894	4,792	1,074,686
Transfers						(472,895)	472,895	
Total general revenues and transfers						78,854,351	732,809	79,587,160
Change in Net Position						9,273,074	11,444,864	20,717,938
Net position-Beginning						272,889,750	182,600,631	455,490,381
Net position-Ending						282,162,824	194,045,495	476,208,319

See accompanying notes to financial statements



*City of Redwood City  
Comprehensive Annual Financial Report  
June 30, 2013*

## GOVERNMENTAL FUND FINANCIAL STATEMENTS

Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between fund types. The governmental funds described below were determined to be major funds by the City in fiscal year 2012/13.

### **GENERAL FUND**

The general fund is the general operating fund of the City. It is used to account for all financial resources except those to be accounted for in another fund.

### **HOUSING LEGAL AID SOCIETY FUND**

This fund accounts for revenues previously deposited in the former redevelopment agency low and moderate income housing fund pursuant to an agreement with the Legal Aid Society to set aside general tax increment revenue for housing purposes. After the February 1, 2012 dissolution of the redevelopment agency, this fund was created to account for this accumulated balance.

### **CAPITAL OUTLAY FUND**

This fund accounts for all miscellaneous capital improvement projects that are financed by the general fund.

CITY OF REDWOOD CITY, CALIFORNIA  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2013

CITY OF REDWOOD CITY, CALIFORNIA  
RECONCILIATION OF THE  
GOVERNMENTAL FUNDS - BALANCE SHEET  
WITH THE STATEMENT OF NET POSITION  
JUNE 30, 2013

	General Fund	Housing Legal Aid Society Fund	Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Funds
	\$	\$	\$	\$	\$
<b>ASSETS</b>					
Cash and investments available for operations	21,460,699	10,307,070	19,387,746	32,853,974	84,009,489
Cash and investments, restricted			82,523	6,462,682	6,545,205
Receivables (net of allowance for uncollectibles):					
Taxes and assessments - current	6,380,053			278,913	6,658,966
Accounts	1,538,072			26,058	1,564,130
Loans	1,692,608		1,542,857	7,240,623	10,476,088
Accrued interest	119,895			694,704	814,599
Due from other governmental agencies	1,373,779		442,275	933,966	2,750,020
Due from other funds			811,980		811,980
Inventory of supplies at cost	164				164
Advances to RDA successor agency			2,269,543	1,687,703	3,957,246
Prepaid items	92,412				92,412
Investment in land held for redevelopment				5,741,208	5,741,208
<b>Total Assets</b>	<b>32,657,682</b>	<b>10,307,070</b>	<b>24,536,924</b>	<b>55,919,831</b>	<b>123,421,507</b>
<b>LIABILITIES</b>					
Accounts payable	2,042,937	829	1,336,172	3,466,643	6,846,581
Accrued payroll	2,907,558				2,907,558
Deposits payable	3,604,714		208,101	100,395	3,913,210
Due to other funds	811,980				811,980
Due to other governmental agencies		10,305,220			10,305,220
Deferred revenue				694,704	694,704
Unearned revenue	1,505,951		198,728	171,111	1,875,790
Accrued sick leave and vacation	30,800				30,800
<b>Total Liabilities</b>	<b>10,903,940</b>	<b>10,306,049</b>	<b>1,743,001</b>	<b>4,432,853</b>	<b>27,385,843</b>
<b>FUND BALANCES</b>					
Nonspendable:					
Loans	1,692,608				1,692,608
Inventory	164				164
Prepaid items	92,412				92,412
Restricted for:					
Community development		1,021		15,928,838	15,929,859
Public safety				151,355	151,355
Transportation				6,376,594	6,376,594
Environmental support and protection				2,811,063	2,811,063
Leisure, cultural and information services				7,658,144	7,658,144
Capital projects				10,920,160	10,920,160
Other purposes				122,571	122,571
Committed to:					
General plan	370,927				370,927
Capital projects			16,346,212	6,148,226	22,494,438
Assigned to:					
Transportation				23,247	23,247
Capital projects			6,447,711	1,346,780	7,794,491
Other purposes	148,534				148,534
Unassigned:	19,449,097				19,449,097
<b>TOTAL FUND BALANCES</b>	<b>21,753,742</b>	<b>1,021</b>	<b>22,793,923</b>	<b>51,486,978</b>	<b>96,035,664</b>
<b>Total Liabilities and Fund Balances</b>	<b>32,657,682</b>	<b>10,307,070</b>	<b>24,536,924</b>	<b>55,919,831</b>	<b>123,421,507</b>

See accompanying notes to financial statements

	\$
<b>TOTAL FUND BALANCES -- TOTAL GOVERNMENTAL FUNDS</b>	<b>96,035,664</b>
Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following:	
<b>CAPITAL ASSETS</b>	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	185,192,474
<b>ALLOCATION OF INTERNAL SERVICE FUND NET POSITION</b>	
Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance, to individual governmental funds. The assets and liabilities of the Internal Service Funds are therefore included in Governmental Activities in the Statement of Net Position.	18,140,294
<b>ACCURAL OF NON-CURRENT REVENUES AND EXPENSES</b>	
The amounts below are revenues in the statement of activities that do not provide current financial resources and therefore are not reported as revenues in the Funds:	
Interest revenue	41,855
Deferred revenue	694,704
<b>LONG TERM ASSETS AND LIABILITIES</b>	
The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:	
Unamortized bond issuance costs	57,645
Long-term debt	(3,360,000)
Interest payable	(95,208)
Accrued sick leave and vacation	(8,547,142)
Net OPEB obligation	(5,997,462)
<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>282,162,824</b>

CITY OF REDWOOD CITY, CALIFORNIA  
 GOVERNMENTAL FUNDS  
 STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE  
 FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Housing Legal Aid Society Fund	Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Funds
	\$	\$	\$	\$	\$
<b>REVENUES</b>					
Property taxes/special assessments	38,379,963			1,329,236	39,709,199
Sales and other taxes	37,072,870				37,072,870
Licenses and permits	1,897,584				1,897,584
Fines, forfeitures and penalties	549,591			649,020	1,198,611
Use of money and property	510,219	14,575	40,373	1,911,480	2,476,647
Intergovernmental	3,643,228		1,164,342	5,698,357	10,505,927
Charges for current services	9,321,628		21,958	1,067,442	10,411,028
Contributions	498,214			18,093	7,743,498
Other	541,187		1,657	14,895	557,739
<b>Total Revenues</b>	<b>92,414,484</b>	<b>14,575</b>	<b>1,246,423</b>	<b>17,897,621</b>	<b>111,573,103</b>
<b>EXPENDITURES</b>					
Current Operations:					
Community development	6,330,555	13,554	162,268	2,089,366	8,595,743
Human services	1,462,092				1,462,092
Public safety	49,043,503		40,272	284,934	49,368,709
Transportation	182,657		2,291,652	3,978,446	6,452,755
Environmental support and protection	344,716		229,992	1,385,173	1,959,881
Leisure, cultural and information services	19,448,415		330,065		19,778,480
Policy development and implementation	4,566,926		903,172		5,470,098
Capital outlay	30,616		6,240,591	4,231,131	10,502,338
Debt service:					
Principal retirement				5,880,000	5,880,000
Interest and fiscal charges				326,059	326,059
Bond issuance costs				67,252	67,252
<b>Total Expenditures</b>	<b>81,409,480</b>	<b>13,554</b>	<b>10,198,012</b>	<b>18,242,361</b>	<b>109,863,407</b>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	11,005,004	1,021	(8,951,589)	(344,740)	1,709,696
OTHER FINANCING SOURCES (USES)					
Transfers in	384,637		7,593,315	5,245,665	13,223,617
Transfers (out)	(9,460,452)		(747,873)	(3,574,071)	(13,782,396)
Refunding lease				3,360,000	3,360,000
<b>Total Other Financing Sources (Uses)</b>	<b>(9,075,815)</b>		<b>6,845,442</b>	<b>5,031,594</b>	<b>2,801,221</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,929,189</b>	<b>1,021</b>	<b>(2,106,147)</b>	<b>4,686,854</b>	<b>4,510,917</b>
Fund balances - beginning	19,824,553		24,900,070	46,800,124	91,524,747
<b>FUND BALANCES - ENDING</b>	<b>21,753,742</b>	<b>1,021</b>	<b>22,793,923</b>	<b>51,486,978</b>	<b>96,035,664</b>

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA  
 RECONCILIATION OF THE  
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS  
 WITH THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2013

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	4,510,917
Amounts reported for governmental activities in the Statement of Activities are different because of the following:	
<b>CAPITAL ASSETS TRANSACTIONS</b>	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
The capital outlay expenditures are therefore added back to fund balance. Depreciation expense is deducted from the fund balance. (Depreciation expense is net of internal service fund depreciation of \$1,176,190 which has already been allocated to serviced funds.)	10,502,338
Loss on retirements of capital assets	(7,888,456)
	(528)
<b>LONG TERM DEBT PROCEEDS AND PAYMENTS</b>	
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities.	
Repayment of debt principal is added back to fund balance.	5,880,000
Refunding Lease	(3,360,000)
Deferral of costs of issuance	67,252
<b>ACCRUAL OF NON-CURRENT ITEMS</b>	
The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):	
Change in compensated absences	212,367
Change in interest payable	12,037
Amortization of bond premium	1,999
Amortization of issuance costs	(150,878)
Interest receivable and intergovernmental revenue	71,203
Change in net OPEB obligation	(80,972)
<b>ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY</b>	
Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.	
Change in Net Position - All Internal Service Funds	(604,205)
<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>9,273,074</b>

See accompanying notes to financial statements

**PROPRIETARY FUND FINANCIAL STATEMENTS**

**ENTERPRISE FUNDS**

**WATER UTILITY FUND**

This fund is used to account for the provision of water services to the residents of Redwood City and some residents of areas adjacent to the City. All activities necessary to provide such services are accounted for in these funds, including, but not limited to, administration, operations, maintenance, capital improvements, financing, and billing/collections.

**SEWER UTILITY FUND**

This fund is used to account for the provision of sewer services to the residents of Redwood City and some residents of areas adjacent to the City. All activities necessary to provide such services are accounted for in these funds, including, but not limited to, administration, operations, maintenance, capital improvements, financing, and billing/collections.

**PARKING FUND**

This fund is used to account for on-street and off-street parking operations within the boundaries of the central business district of the City. All activities necessary to provide metered parking within the district are accounted for in these funds, including, but not limited to, administration, operations and maintenance, capital improvements, meter collection, and financing including related debt service. The authority for the formation of the district and the issuance of revenue bonds are contained in the State of California's Streets and Highway Code.

**PORT OF REDWOOD CITY (PORT FUND)**

This fund is used to account for Port activities within the Port Department as defined in the City Charter. These activities include, but are not limited to, administration, maintenance and operations, and Port improvements. Management of the Port of Redwood City is provided by the Port Commission, whose members are appointed for four-year terms by the City Council. The only limitation to the commissioner's authority is the power to levy taxes, which must be approved by the City Council. Also, the City Charter provides that the City Treasurer is the Port Treasurer and the City Attorney is the Port Attorney. This fund is included in this report because both the Bureau of Census and the State of California require the City to include a summary of the Port's financial transactions in the respective reports.

**DOCKTOWN MARINA**

This fund is used to account for the operation of the Docktown Marina including administration, operations, maintenance and billing/collections.

**INTERNAL SERVICE FUNDS**

These funds are used to account for the financing of goods and services provided by one City department to others on a cost reimbursement basis. Internal service funds are included with enterprise funds as both use the same accounting and financial reporting.

CITY OF REDWOOD CITY, CALIFORNIA  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2013

	Business-Type Activities-Enterprise Funds					Governmental
	Water Utility Fund	Sewer Utility Fund	Parking Fund	Port of Redwood City	Docktown Marina	Activities- Internal Funds
	\$	\$	\$	\$	\$	\$
<b>ASSETS</b>						
Current assets:						
Cash and investments available for operations	18,768,143	14,771,134	631,362	19,104,524	31,036	53,306,199
Receivables (net of allowance for uncollectibles):						
Accounts	3,027,262	1,398,628	35,693	884,761	65,164	5,411,508
Accrued interest	23,681					23,681
Due from other governmental agencies		1,175,852		415,592		1,591,444
Due from other funds						300,000
Inventory of supplies at cost						140,391
Deposits						250,000
Prepaid items	3,365	703,023	30,870	242,477		979,735
Total current assets	21,822,451	18,048,637	697,925	20,647,354	96,200	61,312,567
Noncurrent assets:						
Cash and investments, restricted	6,185,213			3,930,710		10,115,923
Advances to other funds						2,700,000
Unamortized bond issuance costs	1,193,281			240,261		1,433,542
Investment in sewer authority		35,557,560		400,000		35,957,560
Capital assets:						
Nondepreciable	1,008,008	1,006,063	822,913	15,500,850		18,337,834
Depreciable buildings, property, equipment and infrastructure, net	110,857,957	18,638,672	23,634,577	12,310,473	209,680	165,651,359
Total noncurrent assets	119,244,459	55,202,295	24,457,490	32,382,294	209,680	231,496,218
Total assets	141,066,910	73,250,932	25,155,415	53,029,648	305,880	292,808,785
Total assets	141,066,910	73,250,932	25,155,415	53,029,648	305,880	292,808,785
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	3,369,974	977,634	94,122	2,284,249	47,978	6,773,957
Deposits payable	847,823		33,914	124,265	7,962	1,013,964
Due to other funds	300,000					300,000
Insurance claims payable - current portion						2,502,850
Accrued sick leave and vacation - current portion	194,011	81,898	34,197	239,030		549,136
Revenue bonds payable - current portion	1,845,000			646,186		2,491,186
Loans/leases payable - current portion				33,058		33,058
Unearned revenue	2,335,750			198,413		2,534,163
Accrued interest payable	665,975			87,745		753,720
Total current liabilities	9,558,533	1,059,532	162,233	3,612,946	55,940	14,449,184
Noncurrent liabilities:						
Insurance claims payable						10,897,502
Accrued sick leave and vacation	251,067	111,285	57,023			419,375
Advances from other funds	2,700,000					2,700,000
Net OPEB obligation	306,124	115,029	52,540	141,250		614,943
Revenue bonds payable	62,014,542			16,840,756		78,855,298
Loans payable			1,300,000	424,490		1,724,490
Total noncurrent liabilities	65,271,733	226,314	1,409,563	17,406,496		84,314,106
Total liabilities	74,830,266	1,285,846	1,571,796	21,019,442	55,940	98,763,290
<b>NET POSITION</b>						
Net investment in capital assets	48,006,423	19,644,735	23,157,490	19,882,823	209,680	110,901,151
Restricted for capital projects			426,117			426,117
Restricted for debt service	4,743,296			1,468,256		6,211,552
Unrestricted	13,486,925	52,320,351	12	10,659,127	40,260	76,506,675
Total net position	66,236,644	71,965,086	23,583,619	32,010,206	249,940	194,045,495
Total net position	66,236,644	71,965,086	23,583,619	32,010,206	249,940	194,045,495

See accompanying notes to financial statements





CITY OF REDWOOD CITY  
FIDUCIARY FUNDS  
STATEMENT OF NET POSITION  
JUNE 30, 2013

	Successor Agency Private Purpose Trust Fund	Agency Funds
	\$	\$
<b>ASSETS</b>		
Cash and Investments, restricted	6,176,657	5,222,928
Accounts	8,340	
Loans	1,073,924	
Accrued Interest Receivable	283,115	39
Deposits		8,157
Depreciable capital assets, net	18,334,788	
Unamortized bond issuance costs	955,887	
	<u>26,832,711</u>	<u>5,231,124</u>
<b>LIABILITIES</b>		
Accounts payable	1,185	2,278
Deferred revenue	283,115	
Unearned revenue		
Advances from City	3,957,246	
Accrued interest payable	211,721	
Long-term debt:		
Due in one year	2,925,771	
Due in more than one year	40,504,588	
Due to Bondholders		5,170,307
Employee Benefit Plans Payable		58,539
	<u>47,883,626</u>	<u>5,231,124</u>
<b>NET POSITION</b>		
Held in trust for other governments	<u>(21,050,915)</u>	

See accompanying notes to financial statements

CITY OF REDWOOD CITY  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN NET POSITION  
JUNE 30, 2013

	Successor Agency Private Purpose Trust Fund
	\$
<b>ADDITIONS</b>	
Property taxes	7,164,925
Investment earnings	25,409
Other	
Transfers in from City	
	<u>7,190,334</u>
<b>DEDUCTIONS</b>	
Community development	305,134
Program expenses of former redevelopment agency	2,156,756
Depreciation	518,272
Interest and fiscal agency expenses of former redevelopment agency	2,268,776
	<u>5,248,938</u>
Change in net position	1,941,396
Net position - beginning	<u>(22,992,311)</u>
Net position - ending	<u>(21,050,915)</u>

See accompanying notes to financial statements

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Redwood City was incorporated in 1867, became a Charter City in 1929, and operates under a council-manager form of government. The City has defined its reporting entity in accordance with generally accepted accounting principles (“GAAP”) in the United States of America, which provide guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The primary criteria for including a potential component unit within the reporting entity are the governing body’s financial accountability and a financial benefit or burden relationship and whether it is misleading to exclude. A primary government is financially accountable and shares a financial benefit or burden relationship if it appoints a voting majority of an organization’s governing body and it is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government.

Based upon the application of these criteria, the following is a brief description of each component unit included within the City’s reporting entity. All such component units have been “blended” as though they are part of the primary government because the component unit’s governing body is substantially the same as the City’s primary government and there is a financial benefit or burden relationship between the City and the component unit, management of the City has operational responsibilities for the component unit, and/or the component units provide services entirely to the City or otherwise exclusively benefits the City, even though it does not provide services directly to it.

Redwood City Facilities and Infrastructure Authority (RCFISA) was established in 1986 to finance the construction of certain public facilities such as the Main Fire Station, City Hall, and Main Library. After acquiring certain properties from the City, RCFISA leased them back to the City. The lease money provided the funds for the debt service for the certificates of participation issued by the RCFISA to acquire the properties from the City.

The Public Financing Authority (PFA) was established in 1991 to finance construction of the new Police Facility, to finance the defeasance of outstanding certificates of participation issued by the RCFISA, and to issue tax increment bonds on behalf of the former Redevelopment Agency. The PFA has since issued various types of debt on behalf of the City and the former Redevelopment Agency.

The Port of Redwood City was established under the City Charter as a department of the City and is managed by the Port Commission of Redwood City, whose members are appointed by the City Council. This commission is a semi-autonomous body and has full authority to manage the Port. Its financial system is maintained separately from the City by the Port’s own financial staff. The Port’s treasurer and legal counsel are the City’s Finance Director and the City Attorney, respectively. The financial transactions of the Port are incorporated as an enterprise fund.

Separate financial statements are not prepared for other component units.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basis of Presentation**

The City’s basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These statements require that the financial statements described below be presented.

**Government-wide Statements:** The Statement of Net Position and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities, which are presented as internal balances and eliminated in the total primary government column. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program, and (c) fees, grants, and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the City’s funds, including fiduciary funds and blended component units. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. Operating expenses for proprietary funds are those expenses that are essential to the primary operations of the funds. All other expenses are reported as non-operating expenses.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Major Funds**

GASB Statement No. 34 defines major funds and requires that the City's major governmental and business-type funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have assets, liabilities, revenues, or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The general fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

General fund is to account for all financial resources except those to be accounted for in another fund. It is the general operating fund of the City.

Housing Legal Aid Society fund is to account for revenues previously deposited in the former redevelopment agency low and moderate income housing fund pursuant to an agreement with the Legal Aid Society.

Capital outlay fund is to account for all miscellaneous capital improvement projects that are financed by the general fund.

The City reported all its enterprise funds as major funds in the accompanying financial statements:

Water utility fund is to account for the provision of water services to the residents of Redwood City.

Sewer utility fund is to account for the provision of sewer services to the residents of Redwood City.

Parking fund is to account for on-street and off-street parking operations within the boundaries of the central business district of the City.

Port of Redwood City (Port fund) is to account for Port activities within the Port Department including, but not limited to, administration, maintenance and operations, and Port improvements.

Docktown Marina Fund is to account for administration, maintenance and operations of the Docktown Marina.

The City also reports the following fund types:

Internal Service Funds - Internal service funds are used to account for costs of the City's equipment services, the City's insurance program, the costs of the City's telephone/communications and information technology services, maintenance and repair of buildings, custodial services, and employee benefits. These services are provided to departments and other governments on a cost-reimbursement basis.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Fiduciary Funds - These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City maintains one private purpose trust fund to account for activities of the Successor Agency to the former Redevelopment Agency.

The City also maintains four agency funds - Employee Benefit Plans Fund, Pacific Shores Community Facilities District Fund, the Shores Transportation Improvement District Fund, and the One Marina Community Facilities District Fund - as an agent of the bondholders or City employees.

**D. Basis of Accounting**

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within 90 days after year-end.

The City's fiduciary funds consist of one private purpose trust fund and agency funds which use the accrual basis of accounting. The private purpose trust fund uses the economic resources measurement focus, whereas the agency funds do not have a measurement focus.

During fiscal year 2004/05, the State of California changed the distribution method of the City's sales tax allocation under a program called the "Triple Flip." Under the "Triple Flip," 25% of the City's share of sales tax is now distributed from property tax receipts, with remittance of the sales tax to the City coinciding with the semiannual collection of property tax receipts from property owners in December and April. To recognize the sales tax revenue earned as of June 30, the City has changed its availability period for sales tax revenue from 90 days after year-end to seven months after year-end.

The change in the availability period for sales tax will enable the City to accurately reflect sales tax earned in the reporting period.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured.

General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual include other taxes, intergovernmental revenues, interest, and charges for services.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures/expenses. The City's policy is to first apply restricted resources to such programs, followed by unrestricted resources if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

**E. Compensated Absences**

In compliance with Governmental Accounting Standards Board Statement No. 16, the City has established a liability for accrued sick leave and vacation in relevant funds. For governmental activities, the current liability for the payouts made after June 30, 2013 for those employees retired on or before June 30, 2013 appears in the respective funds and the long-term liability appears in the government-wide financial statements. This liability is set up for the current employees at the current rates of pay. An employee may accumulate vacation up to two years entitlement and sick leave up to 960 or 1,920 hours depending on the bargaining unit (certain Fire Department employees who work 24 hour shifts may accumulate up to 2,400 hours of sick leave).

An employee may elect to receive compensation in lieu of sick leave credits for any calendar year with payment equal to varying amounts from 25% to 50% of the year's unused sick leave, depending upon the employee's sick leave usage during the year. In addition to sick leave, payouts are made for unused administrative holidays and accrued compensatory time.

If sick leave and vacation are not used by the employee or paid out during the term of employment, compensation is payable to the employee at the time of retirement. Such compensation is calculated at the employee's prevailing rate at the time of retirement or termination. Whereas vacation is compensated at 100% of accumulated hours, sick leave is compensated at 50% of accumulated hours at retirement depending upon varying restrictions of the bargaining units. Upon termination only accrued vacations are compensated. Each year an adjustment to the liability is made based on pay rate changes and adjustments for the current portion. The general fund is primarily responsible for the repayment of the governmental portion of the compensated absences.

Individual proprietary funds are responsible for the repayment of the liability attributable to their respective funds.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Cash and Cash Equivalents**

The City pools cash resources from all funds in order to facilitate the management of cash. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentrations of Credit Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end, and other disclosures.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to the change in interest rates.

Cash equivalents are considered amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the City and are presented as "Cash and Investments" in the accompanying Basic Financial Statements.

For purposes of the statement of cash flows, cash equivalents are defined as investments with original maturities of 90 days or less, which are readily convertible to known amounts of cash. The City considers all pooled cash and investments (consisting of cash and investments and restricted cash and investments) held by the City as cash and cash equivalents because the pool is used essentially as a demand deposit account from the standpoint of the funds. The City also considers all non-pooled cash and investments (consisting of cash with fiscal agent and restricted cash and investments held by fiscal agent) as cash and cash equivalents because investments meet the criteria for cash equivalents defined above.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. Inventories and Prepaid Items**

Inventories are stated at moving average cost. The cost is recorded as an expenditure at the time an individual inventory item is consumed. As inventories must be maintained at a certain level, an amount for inventories is recorded as nonspendable in the general fund balances. Consequently, these nonspendable fund balance amounts are not available for appropriation.

General fund inventories consist of stationery. Equipment services fund inventory consists of tires, batteries, testing equipment, automotive parts, and small tools.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**H. Property Taxes**

Property taxes attach as an enforceable lien on property as of January 1, and are collected for a 12 month period effective July 1 by the San Mateo County tax collector. Taxes are billed once a year in late October and are payable in two equal installments due by December 10 and April 10 of the following year. The taxes not paid by those dates are subject to a penalty of 10%.

In September of 1993, the County of San Mateo Board of Supervisors adopted the "Teeter Plan" for secured property taxes. Under the Teeter Plan, the state law allows the county to advance to the cities all property taxes billed, regardless of whether the taxes have been paid. The county then is entitled to keep all penalties and interest accruing on delinquent taxes. Property taxes on unsecured taxable property are not affected by this change.

Under Proposition 13, adopted by the voters in a statewide ballot in 1978, assessed value is increased by the cost of living index, not to exceed 2% as of January 1 each year except for those properties that have changed ownership during the 12 month period since the lien date. City property tax revenues are recognized when levied to the extent that they result in current receivables.

**I. Unbilled Service Receivables**

In the water and sewer utilities, residential customers are billed bi-monthly and all commercial and industrial customers monthly. Revenue is recorded as billed to customers on a cyclical basis. No accrual is made for unbilled services. There were no unbilled services in Port, parking, Docketown Marina, or internal service funds as of June 30, 2013.

There is no accrual for unbilled water services as of June 30, 2013; revenues cannot be recognized since water meters are not read at such date. Management believes that the revenue from unbilled services does not have a material effect on total revenue.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**J. Capital Assets**

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. The City's policy is to capitalize all assets with costs exceeding certain minimum thresholds, \$5,000 for machinery and equipment, \$100,000 for buildings, improvements, and infrastructure, and with useful lives exceeding two years.

With the implementation of GASB Statement No. 34, the City recorded all of its public domain (infrastructure) capital assets placed in service after June 30, 1980, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems using the basic approach.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets. GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated.

The City has assigned the useful lives listed as follows to capital assets:

Buildings	20-50 Years	Storm Drains	40 Years	Traffic Signals	20 Years
Improvements	33-60 Years	Bridges	30 Years	Streets	20 Years
Equipment	2-15 Years	Parks	25 Years		

**K. Interfund Transactions**

Interfund transactions are reflected as loans, services provided or used, reimbursements, or transfers.

Loans reported as receivables and payables are referred to as either "due to/from other funds" (the current portion of interfund loans) or "advances to/from other funds" (the noncurrent portion of interfund loans) as appropriate and are subject to elimination upon consolidation. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." Advances between funds, as reported in the fund financial statements, are offset by nonspendable fund balance in the applicable governmental funds to indicate that they are not in spendable form.

Services provided or used, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses.

Reimbursements occur when the funds responsible for particular expenditures or expenses repay the funds that initially paid for them. Such reimbursements are reflected as expenditures or expenses in the reimbursing fund and reductions to expenditures or expenses in the reimbursed fund.

All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**L. Use of Estimates**

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

**M. Implementation of New GASB Pronouncements**

In FY 2012/13 the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statement:

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. The Statement renames “net assets” to “net position” to reflect the difference between assets and liabilities.

**NOTE 2 – CASH AND INVESTMENTS**

**A. Cash and Deposits**

The carrying amount of the City’s cash and deposits, including restricted cash, was \$2,428,114 at June 30, 2013. Bank balances before reconciling items were \$2,475,449 at June 30, 2013. Of the total bank balances, \$573,837 was insured or held by the City or its agent in the City’s name and \$1,901,612 was collateralized.

All cash deposits in banks are fully insured or collateralized. California state law requires that public fund deposits be collateralized by either government securities with a value equal to 110% of the deposits or first trust deed mortgage notes having a value equal to 150%. Per state law each institution must use a third party (which may be the institution’s trust department) to hold the pledged collateral in a pool to secure all the institution’s public fund deposits. The code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash is considered to be held in the City’s name. Banks and savings and loans in California are subject to state-mandated reporting requirements to ensure that the required levels of control are maintained. The City may waive collateral requirements for deposits, which are fully insured with each financial institution up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

Cash balances from all funds are combined and invested to the extent possible pursuant to the City Council approved investment policy and guidelines and state government code. The earnings from these investments are allocated monthly to each fund based on an average of monthly opening and closing balances of cash and investments. Investments are stated at fair value. All enterprise fund investments are considered to be liquid investments for cash flow purposes.

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

The following is a summary of pooled cash and investments, including cash and investments with fiscal agent at June 30, 2013:

	Government-wide Statement of Net Position			Fiduciary Fund Financial Statements	Total
	Governmental Activities	Business-Type Activities	Total	Fiduciary Funds Statement of Net Position	
	\$	\$	\$	\$	\$
Cash and Investment	105,650,110	53,306,199	158,956,309		158,956,309
Restricted Cash and Investments	6,545,205	10,115,923	16,661,128	11,399,585	28,060,713
Total Cash and Investments					187,017,022

**B. Risk Disclosures**

**Interest Rate Risk.** As a means of limiting its exposure to fair value losses arising from rising interest rates, the City’s investment policy provides that final maturities of securities cannot exceed three years. Specific maturities of investments depend on liquidity needs.

As of June 30, 2013, the City had the following cash and investments available for operations:

	Fair Value	Investment Maturities (in years)	
		1-2 Years	2-3 Years
	\$	\$	\$
Demand Accounts at Banks	1,225,768	1,225,768	
Certificates of Deposit	1,095,000	1,095,000	
Petty Cash	11,400	11,400	
County of San Mateo Investment Pool	37,520,364	37,520,364	
California Local Agency Investment Fund	56,271,177	56,271,177	
U.S. Agencies, Securities, and Corporate Notes:			
Federal Home Loan Bank	2,983,800		2,983,800
Federal National Mortgage Association	23,964,540	2,990,130	20,974,410
Federal Home Loan Mortgage Corporation	8,991,180		8,991,180
Federal Farm Credit	26,893,080	2,991,870	23,901,210
TOTAL	158,956,309	102,105,709	56,850,600

**Credit Risk** – Defined as the risk of loss of value of an investment due to a downgrade of its rating or the failure or impairment of its issuer. Credit Risk shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that failure of any one issue does not unduly harm the City’s capital base and cash flow. In order to limit loss exposure due to Credit Risk, the investment policy limits purchases of commercial paper investments to those rated A-1 by Standard and Poor’s or P-1 by Moody’s Investor’s Service, and corporate bonds to those rated A or better by Standard and Poor’s or Moody’s Investor’s Service.

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

Under the provisions of the City's investment policy, and in accordance with California Government Code, the following investments are authorized:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Certificates of Deposit	1 year	7.50%	\$3Million
Banker's acceptances	180 days	No limit	\$3Million
Treasury Bills, Notes and Bonds	3 years	No limit	No limit
Government Agency Securities	3 years	No limit	No limit
Commercial Paper	15 days	No limit	\$1Million
Local Agency Investment Fund	N/A	No limit	\$40Million
Passbook Savings Accounts	1 year	No limit	\$100,000
San Mateo County Investment Fund	N/A	No limit	\$40Million
Money Market/Mutual Funds	N/A	10%	No limit
Corporate Notes	3 years	30%	\$5Million

The City's investments are rated by the nationally recognized statistical rating organizations as follows:

	Moody's	S&P	Fitch
<b>U.S. Agencies, Securities, and Corporate Notes:</b>			
Federal Home Loan Bank	Aaa	AA+	
Federal National Mortgage Association	Aaa	AA+	AAA
Federal Home Loan Mortgage Corporation	Aaa	AA+	AAA
Federal Farm Credit	Aaa	AA+	AAA
U.S. Treasury Securities	Aaa	AA+	AAA
<b>External Investment Pools:</b>			
San Mateo County Investment Fund	Not Rated	AAAf/S1	Not Rated
California Local Agency Investment Fund	Not Rated	Not Rated	Not Rated

**Custodial Credit Risk.** For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All securities, with the exception of the County Pool and LAIF, are held by third-party custodians (Union Bank of California Trust Division, U.S. Bank and Bank of New York). Union Bank, U.S. Bank and Bank of New York are registered members of the Federal Reserve Bank. The securities held by Union Bank, U.S. Bank and Bank of New York are in street name, and an account number assigned to the City identifies ownership. None of the City's investments were subject to custodial credit risk.

In fiscal year 1997/98, the City adopted Governmental Accounting Standards Board Statement No. 31, which requires that the City's investments be carried at fair value instead of cost. Under GASB 31, the City must adjust the carrying value of its investments to reflect their fair value at each fiscal year-end, and it must include the effects of these adjustments in income for that fiscal year. Changes in value at the fiscal year ended June 30, 2013 from the fiscal year ended June 30, 2012 amounted to an unrealized loss of \$592,511

GASB 31 applies to all the City's investments, even if they are held to maturity and redeemed at full face value. Since the City's policy is to hold all investments to maturity, the fair value adjustments required by GASB 31 result in accounting gains or losses (called "recognized" gains or losses) which do not reflect actual sales of the investments (called "realized" gains or losses). Thus, recognized gains or losses on an

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

investment purchased at par will now reflect changes in its value at each succeeding fiscal year-end, but these recognized gains or losses will net to zero if the investment is held to maturity. By following the requirements of GASB 31, the City is reporting the amount of resources which would actually have been available if it had been required to liquidate all its investments at any fiscal year-end.

**C. Restricted Cash**

The City's restricted cash consisted of \$20,341,348 in cash and investments as of June 30, 2013 held by trustees or fiscal agents. The City had \$7,719,365 in restricted cash and investments held by the City. This restricted cash is pledged for the payment or security of certain bonds, certificates of participation, and lease obligations. The California government code provides that these monies, in the absence of specific statutory provisions governing the issuance of bonds, certificates, or leases, may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments its trustees or fiscal agents may make. In some situations, these investments differ from those permitted by the City investment policy. Included in these investments at June 30, 2013 is a guaranteed investment contract with a maturity date in fiscal year 2035 authorized in the bond indenture and by City Council prior to purchase.

**D. External Investment Pools**

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligation, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. These investments may include the following:

**Structured Notes** - are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

**Asset-Backed Securities** - the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2013, the City had \$56,271,177 (estimated fair value) invested in LAIF. LAIF had invested 1.96% of the pool investment funds in Structured Notes and Asset-Backed Securities. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. The City valued its investments in LAIF as of June 30, 2013, by multiplying its account balance with LAIF times a fair value factor determined by LAIF. The fair value factor was determined by dividing all LAIF participants' total aggregate fair value by total aggregate amortized costs.

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

Accordingly, as of June 30, 2013, the City's investment in LAIF at fair value amounted to \$56,271,177 using a LAIF fair value factor of 1.000273207. The fair value of the City's position in the pool is materially equivalent to the value of the pool shares.

The City is also a voluntary participant in the San Mateo County Investment Fund that is regulated by California Government Code Section 16429 under oversight of the Treasurer of the County of San Mateo. The City reports its investment in the San Mateo County Investment Fund at the fair value amount provided by County of San Mateo. Included in the San Mateo County Investment Fund investment portfolio are US Treasury Notes, Obligations issued by agencies of the United States Government, LAIF, Corporate Notes, Commercial Paper, collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

**NOTE 3 - LOANS RECEIVABLE**

As of June 30, 2013, loans receivable consist of the following:

	Government-wide	Private Purpose Trust Fund
	\$	\$
Wyndham Place First Time Homebuyer Loan Program	483,033	
City Centre Plaza Loans	371,076	1,073,924
First Time Homebuyer Silent Loan Program	364,523	
Loans with Non-profits and For Profit Organizations	1,133,153	
Housing Rehabilitation Loans	1,754,338	
Shores Childcare Loan	1,692,608	
Parking Fund Loan	1,300,000	
First Community Housing Loan	2,627,000	
PAL Loan	242,857	
Kainos Home and Training Center Loans	507,500	
Total	<u>\$ 10,476,088</u>	<u>\$ 1,073,924</u>

**A. Wyndham Place First Time Homebuyer Loan Program**

The City established a First Time Homebuyer Program during fiscal year 1995 on a specific development sponsored by the former Redevelopment Agency called Wyndham Place. The program currently involves the resale of Wyndham units where the City has First Right of Refusal. The City exercises its First Right of Refusal and markets the units to qualified buyers.

A portion of the City's Shared Appreciation is used to assist the new buyer in the Resale Program. While the initial program in 1995 made 0% interest loans, current buyers in the Resale Program are assisted according to the needs of the Borrower. Depending on the Borrower's ability to secure private financing for a first mortgage, the City loan is underwritten based on the Borrower's spendable income.

**NOTE 3 - LOANS RECEIVABLE (CONTINUED)**

These loans bear no interest and are secured by second deeds of trust on the property, and typically, no payments are due until five years after the date of purchase. As of June 30, 2013 the City has outstanding loans of \$483,033 to twelve Wyndham Place buyers. Since these loans are not currently available for expenditure, fund balance has been reserved in this amount.

**B. City Centre Plaza Loans**

The former Redevelopment Agency sold several parcels of land to the developers of the City Centre Plaza project (a residential and commercial development) for \$1,700,000 in 1996. The developers constructed City Centre Plaza, which contains 81 affordable housing units, a childcare facility, residential and commercial parking, and 17,900 square feet of retail space. The promissory note from Mezes Court Associate in the amount of \$1,445,000 is to be repaid through 2028 from surplus revenues generated by the housing project and accrued interest at 3%, with \$371,076 due to the City's Low and Moderate Income Housing Asset Fund, and \$1,073,924 due to the Successor Agency Private Purpose Trust Fund.

**C. First Time Homebuyer Silent Loan Program**

In 2000, the former Redevelopment Agency established a First Time Homebuyer Silent Loan Program. Loans are deferred for the first five years, and then amortized at 4% interest over the remaining 25 years. An Equity Participation requirement shares appreciation based on the amount of the Agency's original loan amount. At June 30, 2013 there were outstanding loans to six homebuyers totaling \$364,523. Since these loans are not currently available for expenditure, fund balance is categorized as nonspendable in this amount.

**D. Loans with Non-profits and For Profit Organizations**

The City and former Redevelopment Agency loaned \$500,000 to MP Redwood Court Associates and \$650,000 to Hallmark Apartments LLP. The MP Redwood Court Associates loan agreement was entered into in July 2003 for the repair and rehabilitation of housing units. The loan term is 55 years and bears 0% interest. The loan to Hallmark Apartments LLP has interest deferred for the first 30 years after which it bears interest at 3% until the December 2058 maturity. The outstanding balance at June 30, 2013 was \$1,133,153.

**E. Housing Rehabilitation Loans**

The City and former Redevelopment Agency have outstanding loans for housing rehabilitation in the amount of \$1,754,338.

**F. Shores Childcare Loan**

The City entered into an agreement with Shores Childcare, LLC whereby \$3,200,000 was loaned to Shores Childcare, LLC for construction of a childcare facility on City-owned land in the Redwood Shores area. The term of the loan is 20 years maturing January 2023, with interest payable quarterly and calculated based on the quarterly rate of the State of California Local Agency Investment Fund. The outstanding balance of the loan at June 30, 2013 was \$1,692,608.



**NOTE 3 - LOANS RECEIVABLE (CONTINUED)**

**G. Parking Fund Loan**

The capital outlay fund has a loan receivable in the amount of \$1,300,000 from the parking fund. Additional details of this loan agreement are outlined in Note 7.

**H. First Community Housing Loan**

The City entered into an agreement with First Community Housing whereby \$2,627,000 (\$200,000 from Community Development Block Grant, \$1,927,000 from the former Redevelopment Agency low and moderate housing fund, \$500,000 pass-through from County of San Mateo) was loaned to First Community Housing for construction of the Villa Montgomery housing development at El Camino and Vera Avenue. The portion of the loan attributable to the former Redevelopment Agency has been transferred to the City's Low and Moderate Income Housing Asset fund. The loan bears interest at 3% for 40 years. The loan will be repaid annually from 70% of the project's net cash flow. The outstanding balance of the loan at June 30, 2013 was \$2,627,000.

**I. Police Activities League Loan**

In March 2006, the City paid off a construction loan in the amount of \$1,500,000 that the Police Activities League (PAL), a separate, private, non-profit agency, entered into with Bay Area Bank to partially finance the construction of the new PAL community center at Taft School. The City Council and PAL agreed that one-half of the amount, or \$750,000, will be paid back to the City by PAL over a period of 15 years. The outstanding balance of the loan at June 30, 2013 was \$242,857.

**J. Kainos Home and Training Center Loan**

In 1997/98, the City entered into an agreement with Kainos Home and Training Center whereby \$57,500 from Community Development Block Grant was loaned to acquire property for Kainos Home and Training Center. The loan is deferred and payable upon the sale of the property, at which time the City would receive repayment of the loan plus any accrued equity based on the prorated City share.

In 2012/13 the City entered into a second agreement with Kainos Home and Training Center whereby \$450,000 from HOME grant was loaned to acquire property located at 1033 Redwood Avenue for special needs housing. The loan is deferred for a term of 30 years at 0% interest.

**NOTE 4 – CAPITAL ASSETS**

**A. Summary**

Capital assets at June 30 are comprised of the following:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
<b>Government activities</b>					
Capital assets not being depreciated:					
Land	30,977,979				30,977,979
Construction in progress	12,326,909	10,831,226		(2,906,062)	20,252,073
Total capital assets not being depreciated	43,304,888	10,831,226		(2,906,062)	51,230,052
Capital assets being depreciated:					
Buildings	83,180,790			128,225	83,309,015
Accumulated depreciation	(23,430,375)	(1,662,874)			(25,093,249)
Improvements other than buildings	2,864,553			1,253,110	4,117,663
Accumulated depreciation	(1,272,179)	(105,247)			(1,377,426)
Parks	26,936,438				26,936,438
Accumulated depreciation	(13,473,824)	(889,623)			(14,363,447)
Streets	107,969,139			1,113,304	109,082,443
Accumulated depreciation	(52,409,507)	(4,417,701)			(56,827,208)
Bridges	2,248,335				2,248,335
Accumulated depreciation	(1,675,161)	(74,945)			(1,750,106)
Traffic Signals	2,606,620				2,606,620
Accumulated depreciation	(1,821,266)	(100,952)			(1,922,218)
Storm Drains	7,326,474				7,326,474
Accumulated depreciation	(1,341,366)	(191,923)			(1,533,289)
Machinery & Equipment	20,838,244	375,454	(661,471)	411,423	20,963,650
Accumulated depreciation	(10,457,280)	(1,521,381)	575,436		(11,403,225)
Net capital assets being depreciated	148,089,635	(8,589,192)	(86,035)	2,906,062	142,320,470
Governmental activity capital assets, net	191,394,523	2,242,034	(86,035)		193,550,522
<b>Business-Type Activities</b>					
Capital assets not being depreciated:					
Land	3,447,522				3,447,522
Construction in progress	9,211,772	14,906,738	(229,453)	(8,998,745)	14,890,312
Total capital assets not being depreciated	12,659,294	14,906,738	(229,453)	(8,998,745)	18,337,834
Capital assets being depreciated					
Harbor Improvements	4,202,188	3,383	(183,460)	23,329	4,045,440
Accumulated depreciation	(2,727,863)	(114,157)	26,354		(2,815,666)
Buildings	60,295,783			916,792	61,212,575
Accumulated depreciation	(9,315,032)	(1,260,611)			(10,575,643)
Machinery and equipment	1,632,457	12,249			1,644,706
Accumulated depreciation	(1,228,121)	(93,958)			(1,322,079)
Improvements other than buildings	154,046,693	241,938	(1,045,260)	8,058,624	161,301,995
Accumulated depreciation	(44,563,860)	(3,764,894)	488,785		(47,839,969)
Net capital assets being depreciated	162,342,245	(4,976,050)	(713,581)	8,998,745	165,651,359
Business-type activity capital assets, net	175,001,539	9,930,688	(943,034)		183,989,193

**NOTE 4 – CAPITAL ASSETS (CONTINUED)**

**B. Depreciation Allocation**

Depreciation expense was charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

**Governmental Activities**

Community development	\$	217,268
Human services		84,011
Public safety		1,169,515
Transportation		4,625,785
Leisure, cultural, and information services		1,915,761
Policy development and implementation		695,652
Environmental support and protection		256,654
Total Depreciation Expense-Governmental Activities	\$	<u>8,964,646</u>

**Business-Type Activities**

Water Utility Fund	\$	2,832,510
Sewer Utility Fund		525,718
Parking Fund		579,574
Port of Redwood City		1,263,560
Docktown Marina		32,258
Total Depreciation Expense-Business-Type Activities	\$	<u>5,233,620</u>

**NOTE 5 – INVESTMENT IN SOUTH BAYSIDE SYSTEM AUTHORITY**

Redwood City has an investment of \$30,839,653 in a joint powers authority (JPA) with the cities of San Carlos and Belmont and the West Bay Sanitation District. In addition, the City and the Port of Redwood City have investments of \$4,717,907 and \$400,000, respectively, in South Bayside System Authority (SBSA) stage II construction. SBSA operates and maintains a sewer plant which was jointly constructed with federal and state grants and contributions from participating entities. The SBSA is run by its board of directors which is comprised of four members. The City Councils of each member city and the board of the West Bay Sanitation District each select one of their own members to serve on this board. No member agency has control of SBSA's budget, finances, or operations. The board acts autonomously of the respective member agencies.

Audited financial statements are available from South Bayside System Authority, 1400 Radio Road, Redwood City, CA 94065.

**NOTE 5 – INVESTMENT IN SOUTH BAYSIDE SYSTEM AUTHORITY (CONTINUED)**

The condensed unaudited financial information of the JPA as of June 30, 2013 is as follows:

Total Assets	\$	156,317,576
Total Liability		<u>82,294,405</u>
Total Net Position	\$	<u>74,023,171</u>
Total Operating Revenues	\$	25,427,682
Total Operating Expenses		<u>23,627,093</u>
Total Operating Income (loss)		1,800,589
Other Income (loss)		<u>(3,406,512)</u>
Net Income (loss)	\$	<u>(1,605,923)</u>

**Cumulative Agency Balances:**

Belmont	\$	12,281,642
San Carlos		8,991,460
Redwood City		35,053,645 <sup>(1)</sup>
West Bay Sanitation District		<u>17,696,424</u>
Total Net Position	\$	<u>74,023,171</u>

<sup>(1)</sup> SBSA financial information does not include a \$503,915 payment made by the City of Redwood City for Stage II construction out of fees collected during FY 2012/13. Due to a timing difference, SBSA will record this contribution in FY 2013/14

**NOTE 6 – GOVERNMENTAL ACTIVITIES LONG-TERM DEBT**

**A. Description**

Redwood City has no outstanding general obligation bonds. The following is the list of long-term obligations of the City.

**Revenue Bonds:**

**2003 Public Financing Authority Bonds** – In December 2003, the City issued \$11,475,000 of bonds to refund \$6,725,000 of the 1991 Public Finance Authority bonds and to provide \$4,390,000 for new projects. Principal is due in annual installments of \$670,000 to \$940,000, with total principal and interest remaining on the bonds in the amount of \$6,766,554 through July 15, 2018, payable out of the Public Financing Authority Bonds debt service fund out of lease payment revenue received from the general fund, requiring less than 10 percent of net revenues. The refunding resulted in an increase in total debt service payments of \$441,654 and an economic gain of \$415,987. These bonds were refunded in May 2013.

**NOTE 6 – GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (CONTINUED)**

**2013 Public Financing Authority Refunding lease** – In May 2013, the City entered into a lease agreement with BBVA Compass Bank in the amount of \$3,360,000 to refund the 2003 Public Financing Authority Bonds. Net proceeds of \$3,292,748 plus the 2003 Public Financing Authority Bond Reserve were utilized for the purpose of establishing an irrevocable escrow to refund \$5,880,000 of the City's 2003 Public Financing Authority Bonds. Principal is due in annual installments of \$324,742 to \$347,486, with total principal and interest remaining on the lease in the amount of \$3,507,440 through July 15, 2018, payable out of the Public Financing Authority Refunding Lease Debt Service fund out of lease payment revenue received from the general fund, requiring less than 10% of net revenues. The refunding resulted in a decrease in total debt service payments of \$347,302 and an economic gain of \$270,485.

**B. Changes in Long-Term Obligations**

As of June 30, 2013, the City had the following long-term obligations outstanding:

	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
	%	\$	\$	\$	\$	\$
<b>Governmental Activities:</b>						
<b>Revenue Bonds</b>						
2003 PFA Refunding Bonds	2.50-4.38	5,880,000		5,880,000		
2013 PFA Refunding Lease	1.51		3,360,000		3,360,000	324,742
Unamortized premiums		1,999		1,999		
Total Bonds and Loans		<u>5,881,999</u>	<u>3,360,000</u>	<u>5,881,999</u>	<u>3,360,000</u>	<u>324,742</u>
<b>Accrued Sick Leave and Vacation</b>		<u>9,882,217</u>	<u>217,322</u>	<u>563,606</u>	<u>9,535,933</u>	<u>386,490</u>
Total Governmental Activities Long-Term Debt		<u>15,764,216</u>	<u>3,577,322</u>	<u>6,445,605</u>	<u>12,895,933</u>	<u>711,232</u>

At year-end, \$957,991 of internal service fund compensated absences is included in the above amounts. For the governmental activities, compensated absences are generally liquidated by the general fund.

**C. Annual Repayment Requirements for Long-Term Debt**

**Governmental Activities:**

Year End June 30	Refunding Lease		Total	
	Principal	Interest	Principal	Interest
	\$	\$	\$	\$
2014	324,742	31,710	324,742	31,710
2015	656,858	43,362	656,858	43,362
2016	666,814	33,406	666,814	33,406
2017	676,920	23,299	676,920	23,299
2018	687,180	13,039	687,180	13,039
2019	347,486	2,624	347,486	2,624
	<u>3,360,000</u>	<u>147,440</u>	<u>3,360,000</u>	<u>147,440</u>

**NOTE 7 – BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT**

**A. Description**

**Revenue Bonds:**

**Port of Redwood City 1999 Revenue Bonds** were issued on April 1, 1999 in the amount of \$10,945,000 to finance improvements to the Port, the majority of which was expended on cleaning up hazardous waste remaining at the Port's liquid bulk terminal. The bonds are due in annual installments of \$170,000 to \$690,000 through 2030, with total principal and interest remaining of \$12,297,064. The bonds are payable out of net revenues of the Port, which are expected to equal at least 120% of the annual debt service requirement.

**Port of Redwood City 2012 Revenue Bonds** were issued on June 26, 2012 in the amount of \$10,000,000 to finance construction of the Port's Wharf 1 & 2 Redevelopment Project. The bonds are due in annual installments of \$322,509 to \$666,361 through 2032, with total principal and interest remaining of \$14,103,581. The bonds are payable out of net revenues of the Port, which are expected to equal at least 120% of the annual debt service requirement.

**Water Revenue Bonds Series 2005A** – In February 2005, Redwood City Public Financing Authority issued \$35,790,000 of bonds to finance a portion of the City's recycled water project. Principal and interest were scheduled to be paid in 29 annual installments of \$2,142,585 to \$2,157,925 from February 2006 through February 2034. The bonds were paid out of net revenues which were expected to equal at least 120% of the annual debt service requirement. These bonds were refunded in June 2013.

**Water Revenue Bonds Series 2006A** – In February 2006, Redwood City Public Financing Authority issued \$26,000,000 of bonds to finance a portion of the City's recycled water project. Principal and interest is payable in 29 annual installments of \$1,572,556 to \$1,572,725 from February 2007 through February 2035, with total principal and interest remaining of \$34,570,774. The bonds are payable out of net revenues of the water utility fund which are expected to equal at least 120% of the annual debt service requirement.

**Water Revenue Bonds Series 2007A** – In February 2007, Redwood City Public Financing Authority issued \$15,150,000 of bonds to finance a portion of the City's recycled water project. Principal and interest is payable in 28 annual installments of \$728,072 to \$950,950 from February 2008 through February 2035, with total principal and interest remaining of \$20,862,513. The bonds are payable out of net revenues of the water utility fund which are expected to equal at least 120% of the annual debt service requirement.

**Water Revenue Bonds Series 2013** – In June 2013, Redwood City Public Financing Authority issued \$26,870,000 of bonds to refund the remaining Water Revenue Bonds Series 2005A. The refunding resulted in a decrease of total debt service payments of \$2,386,569 and an economic gain of \$1,231,113. Principal and interest is payable in 21 annual installments of \$1,584,262 to \$2,058,000 from February 2014 through February 2034, with total principal and interest remaining of \$42,796,962. The bonds are payable out of net revenues of the water utility fund which are expected to equal at least 120% of the annual debt service requirement.

**NOTE 7 – BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT (CONTINUED)**

**Pledges of Future Revenues** - The pledge of future Water Utility fund revenues ends upon repayment of the \$62 million in remaining debt service on the bonds which is scheduled to occur in fiscal year 2034-35. For fiscal year 2012-13, Water Utility fund operating revenues amounted to \$33,167,498 and operating expenses excluding depreciation and amortizations amounted to \$25,992,025. Net revenues available for debt service amounted to \$7,175,473 which represented coverage ratio of 1.54 over the \$4,667,852 in debt service.

The pledge of future Port of Redwood City fund revenues ends upon repayment of the \$17.7 million in remaining debt service on the bonds which is scheduled to occur in fiscal year 2031-32. Port of Redwood City fund operating revenues amounted to \$6,262,660 and operating expenses excluding depreciation, amortizations and subvention to the City amounted to \$2,703,564. Net revenues available for debt service amounted to \$3,559,096 which represented coverage ratio of 2.34 over the \$1,519,627 in debt service.

**Loans:**

**Yacht Harbor Rehabilitation Loan** from the State of California in the original principal amount of \$880,000. The loan is payable in annual installments of principal and interest of \$53,648 through the year 2024, with total principal and interest remaining of \$590,109. The loan is payable out of net revenues of the Port, but subordinated to the Port 1999 Revenue Bonds. At June 30, 2013, the ratio of net revenues to the debt service payment due during FY 2012/13 was 2.38 (238%).

**Parking Fund Loan** agreement with the civic center construction fund in the original principal amount of \$1,300,000 to finance the construction of the parking fund's downtown parking structure. Payments are for interest only until funds are available to pay principal. All principal is to be repaid by July 1, 2023 if funds are available. In 2000/01, the civic center construction fund was closed, and the loan receivable was transferred to the capital outlay fund.

**NOTE 7 – BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT (CONTINUED)**

**B. Changes in Debt**

	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
	%	\$	\$	\$	\$	\$
<b>Business-type Activities:</b>						
<b>Revenue Bonds:</b>						
Port of Redwood City - 1999 Series	4.00-5.25	8,350,000		290,000	8,060,000	305,000
Port of Redwood City - 2012 Series	4.20-4.20	10,000,000		294,620	9,705,380	341,186
Water Revenue Bonds Series 2005A	2.75-4.25	30,195,000		30,195,000		
Water Revenue Bonds Series 2006A	3.50-4.50	22,625,000		620,000	22,005,000	640,000
Water Revenue Bonds Series 2007A	4.00-4.50	13,585,000		355,000	13,230,000	375,000
Water Revenue Refunding Bonds Series 2013	3.00-5.00		26,870,000		26,870,000	830,000
Unamortized Premium		14,497	3,640,202	166,094	3,488,605	
Unamortized Discount		(552,661)		(231,340)	(321,321)	
Deferred charge on refunding-Water Revenue Bonds			(1,771,712)	(80,532)	(1,691,180)	
		<u>84,216,836</u>	<u>28,738,490</u>	<u>31,608,842</u>	<u>81,346,484</u>	<u>2,491,186</u>
<b>Loans:</b>						
Yacht Harbor Rehabilitation Loan	4.70	489,182		31,634	457,548	33,058
Parking Fund Loan	variable	1,300,000			1,300,000	
		<u>1,789,182</u>		<u>31,634</u>	<u>1,757,548</u>	<u>33,058</u>
Total Bonds and Loans		<u>86,006,018</u>	<u>28,738,490</u>	<u>31,640,476</u>	<u>83,104,032</u>	<u>2,524,244</u>
<b>Accrued Sick Leave and Vacation</b>		<u>1,001,600</u>	<u>495,929</u>	<u>529,018</u>	<u>968,511</u>	<u>549,136</u>
Total Business-type Activities Long-Term Debt		<u>87,007,618</u>	<u>29,234,419</u>	<u>32,169,494</u>	<u>84,072,543</u>	<u>3,073,380</u>

**C. Annual Repayment Requirements for Business-type Activities Long Term Debt**

**Business-Type Activities:**

Year End	Revenue Bonds		Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
June 30	\$	\$	\$	\$	\$	\$
2014	2,491,186	3,081,697	33,058	85,590	2,524,244	3,167,287
2015	2,580,795	3,460,204	34,546	19,102	2,615,341	3,479,306
2016	2,681,029	3,360,070	36,101	17,547	2,717,130	3,377,617
2017	2,801,916	3,246,709	37,725	15,923	2,839,641	3,262,632
2018	2,918,483	3,127,341	39,423	14,225	2,957,906	3,141,566
2019-2023	16,476,838	13,746,596	1,525,375	42,864	18,002,213	13,789,460
2024-2028	20,516,352	9,714,778	51,320	2,309	20,567,672	9,717,087
2029-2033	22,718,781	4,603,817			22,718,781	4,603,817
2034-2038	6,685,000	419,302			6,685,000	419,302
	<u>79,870,380</u>	<u>44,760,514</u>	<u>1,757,548</u>	<u>197,560</u>	<u>81,627,928</u>	<u>44,958,074</u>

**NOTE 8 – DEBT WITHOUT CITY COMMITMENT**

**A. Successor Agency Private Purpose Trust Fund Debt**

**Tax Increment Bonds:**

**2003 Tax Allocation Bonds** – In October 2003, the former Redevelopment Agency issued \$33,997,448 in bonds to finance various downtown improvements. These bonds consist of current coupon bonds and capital appreciation bonds. The current coupon bonds pay interest-only through January 15, 2010. Principal on the current coupon bonds is paid in annual installments of \$1,225,000 to \$2,850,000 from July 15, 2010 to July 15, 2015. Payments reflecting interest and principal on the capital appreciation bonds are due in annual installments of \$510,000 to \$3,505,000 from July 15, 2015 through July 15, 2032. Total principal and interest remaining on the bonds is \$69,584,850. Payments are made from property tax increment generated by the former redevelopment agency fund.

**Loans:**

**Redwood City School District Loan** entered into by the former Redevelopment Agency in 1998 to finance a portion of the land and buildings located at 2107 Broadway that were acquired for the purpose of eventually being resold to a developer; original amount of \$634,815 at 0% interest due in 15 annual installments of \$42,321 through 2013 payable out of the Successor Agency Private Purpose Trust Fund. This loan was completely paid off in FY 2012/13.

**B. Community Facilities District (Mello-Roos) Bonds**

On October 17, 2000, the Community Facilities District (CFD) issued \$21,000,000 of bonds on behalf of the developer of the Pacific Shores Project to fund various transportation system improvements within the City's right-of-way that were required as a condition of the development.

In July 2012 the CFD issued \$5,555,000 Community Facilities District No. 2000-1 Pacific Shores Special Tax Refunding Bonds, Series 2012 to refund \$8,655,000 of the Series 2000A bonds. The refunding reduced annual debt service payments by approximately 25% or \$52,000, and resulted in an economic gain of \$398,000, which equates to 7.61% of the refunding bonds.

These bonds are solely obligations of the property owners in this district and are not obligations of the City, nor has any political subdivision of the State of California pledged its full faith and credit for the payment of these bonds. The City's only responsibilities with respect to any delinquent assessment installments are solely advancing funds from the reserve fund (established with bond proceeds) to the redemption fund, to the extent that such funds are available, and instituting foreclosure proceedings.

The City is not required to advance available funds of the City for payment of principal or interest or to purchase land at a delinquent foreclosure assessment sale. As of June 30, 2013, the outstanding principal amount was \$5,555,000.

On January 17, 2001, the Shores Transportation Improvement District issued \$5,045,000 of Phase I CFD bonds, and on September 3, 2003 the District issued \$7,505,000 of Phase II CFD bonds. The proceeds of these bonds were used to fund various transportation projects that are required under development agreements with commercial property owners in the Redwood Shores area of the City.

**NOTE 8 – DEBT WITHOUT CITY COMMITMENT (CONTINUED)**

In December 2012 the Shores Transportation District issued \$10,275,000 Redwood Shores Community Facilities District No. 99-1 Special Tax Refunding Bonds, Series 2012B to refund \$3,640,000 of the outstanding Series 2001A Bonds and \$6,675,000 of the outstanding Series 2003A Bonds. The refunding reduced annual debt service payments by approximately 16% or \$140,000, and resulted in an economic gain of \$1.7 million, which equates to 16.62% of the refunding bonds.

These bonds are solely obligations of the property owners in this district and are not obligations of the City, nor has any political subdivision of the State of California pledged its full faith and credit for the payment of these bonds. The City's only responsibilities with respect to any delinquent assessment installments are solely advancing funds from the reserve fund (established with bond proceeds) to the redemption fund, to the extent that such funds are available, and instituting foreclosure proceedings. The City is not required to advance available funds of the City for payment of principal or interest or to purchase land at a delinquent foreclosure assessment sale. As of June 30, 2013, the outstanding principal amount was \$10,275,000.

On April 5, 2011, the Community Facilities District (CFD) issued \$5,760,000 of bonds on behalf of the developer of the One Marina Project to fund various transportation system improvements within the City's right-of-way that were required as a condition of the development.

These bonds are solely obligations of the property owners in this district and are not obligations of the City, nor has any political subdivision of the State of California pledged its full faith and credit for the payment of these bonds. The City's only responsibilities with respect to any delinquent assessment installments are solely advancing funds from the reserve fund (established with bond proceeds) to the redemption fund, to the extent that such funds are available, and instituting foreclosure proceedings.

The City is not required to advance available funds of the City for payment of principal or interest or to purchase land at a delinquent foreclosure assessment sale. As of June 30, 2013, the outstanding principal amount was \$5,760,000.

**NOTE 9 – EMPLOYEE BENEFITS**

**A. Retirement System**

**PERS Safety and Miscellaneous Employees' Plans**

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees' Retirement System (PERS), an agent multiple-employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. The City's employees participate in the separate safety (police and fire) and miscellaneous (all other) employee plans. Benefit provisions under both plans are established by state statute and City resolution.

Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both plans are determined annually on an actuarial basis as of June 30 by PERS; the City must contribute these amounts.

**NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)**

The plans' provisions and benefits in effect at June 30, 2013 are summarized as follows:

	Public Safety Tier 1	Public Safety Tier 2	Public Safety Tier 3
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50	50
Benefit factor for each year of service, as a % of annual salary	3%	2.4% - 3%	2% - 2.7%
Required employee contribution rates	9%	9%	12%
	Miscellaneous Tier 1	Miscellaneous Tier 2	Miscellaneous Tier 3
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50	52
Benefit factor for each year of service, as a % of annual salary	2% - 2.7%	1.092% - 2.418%	1% - 2.5%
Required employee contribution rates	8%	7%	6.25%

The City's Tier 2 plans for public safety and miscellaneous cover new employees hired on or after October 13, 2011.

The City's Tier 3 plans for public safety and miscellaneous cover new employees hired on or after January 1, 2013 pursuant to the Public Employees' Pension Reform Act of 2013.

Employer contributions are determined by PERS as a percentage of covered payroll and represent the actuarially required contribution. The employer contributions for the past three years are:

	Public Safety	Miscellaneous
2011	29.936%	15.540%
2012	35.315%	18.328%
2013	35.645%	19.462%

Since the City consistently applied the employer contribution rates, as determined by PERS, the City's annual pension cost equaled the City's actuarially required contribution for the fiscal year ended June 30, 2013.

All qualified permanent and probationary employees are eligible to participate in PERS. A credited service year is one year of full time employment. In accordance with the memorandums of understanding with the various employee groups, the City may contribute a portion of the employee contribution. This contribution varies from group to group. These benefit provisions and all other requirements are established by state statute and City ordinance. Contributions necessary to fund PERS on an actuarial basis are determined by PERS and its Board of Administration.

Police and fire safety employees hired before October 13, 2011 (Tier 1) are covered under the "3% at 50" formula. Under this retirement plan, an employee's retirement earnings at age 50 are calculated by

**NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)**

multiplying 3% by the employee's years of service. This percentage factor increases with the employee's age upon retirement.

Police and fire safety employees hired on or after October 13, 2011 (Tier 2) are covered under the "3% at 55" formula. Under this retirement plan, an employee's retirement earnings at age 55 are calculated by multiplying 3% by the employee's years of service. An employee with five years of service is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of service, with the maximum percentage factor equal to 3%.

Police and fire safety employees hired on or after January 1, 2013 (Tier 3) are covered under the "2.7% at 57" formula. Under this retirement plan, an employee's retirement earnings at age 57 are calculated by multiplying 2.7% by the employee's years of service. An employee with five years of service is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of service, with a maximum percentage factor equal to 2.7% at age 57.

Miscellaneous employees hired before October 13, 2011 (Tier 1) are covered under the "2.7% at 55" formula. Under this retirement plan, an employee's retirement earnings, at age 55, are calculated by multiplying 2.7% by the employee's years of service. An employee with five years of service is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of service.

Miscellaneous employees hired on or after October 13, 2011 (Tier 2) are covered under the "2% at 60" formula. Under this retirement plan, an employee's retirement earnings at age 60 are calculated by multiplying 2% by the employee's years of service. An employee with five years of service is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of service.

Miscellaneous employees hired on or after January 1, 2013 (Tier 3) are covered under the "2% at 62" formula. Under this retirement plan, an employee's retirement earnings at age 62 are calculated by multiplying 2% by the employee's years of service. An employee with five years of service is eligible to retire at age 52 at a reduced pension amount. The pension amount increases with age and length of service, with a maximum percentage factor equal to 2.5% at age 67.

PERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities.

PERS uses the market-related value method of valuing the plan's assets. An investment rate of return of 7.5% is assumed, including inflation at 2.75%. Annual salary increases are assumed to vary by duration of service. The City's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis.

**NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)**

The remaining amortization periods for the City's plans are as follows:

Public Safety	June 30, 2041
Miscellaneous	June 30, 2030

Audited annual financial statements and ten-year trend information for the fiscal year ended June 30, 2013, the most recent available, are available from PERS at P.O. Box 942709, Sacramento, CA 94229-2709.

Total current payroll for all covered employees for the fiscal year ended June 30, 2013 was \$50,168,045. The payroll subject to retirement amounted to \$21,930,801 for public safety and \$28,237,244 for the miscellaneous group.

PERS has reported that the value of the net assets in the plan held for pension benefits changed as follows during the year ended June 30, 2012, the most recent available:

	Public Safety	Miscellaneous
	\$	\$
Beginning Balance 6/30/11	188,320,074	175,720,263
Contributions Received	9,460,165	6,738,202
Benefits and Refunds Paid	(11,114,684)	(11,120,058)
Expected Investment Earnings Credited	14,063,083	13,017,671
Expected Actuarial Value of Assets 6/30/12	<u>200,728,638</u>	<u>184,356,078</u>
Market Value of Assets 6/30/12	<u>167,275,153</u>	<u>151,628,115</u>
Actuarial Value of Assets 6/30/12	<u>199,093,142</u>	<u>181,792,644</u>

Additional disclosures will be included when made available by PERS.

Three years of trend information regarding annual pension costs for both plans is summarized as follows:

Fiscal Year	Public Safety			Miscellaneous		
	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
	\$			\$		
2011	6,379,699	100%	-	4,459,770	100%	-
2012	7,384,820	100%	-	4,964,308	100%	-
2013	7,814,972	100%	-	5,362,636	100%	-

As of June 30, 2012, the most recent actuarial valuation date, the public safety plan was 75% funded, the actuarial liability (AAL) for benefits was \$265,379,700, and the actuarial value of plan assets was \$199,093,142, resulting in an unfunded actuarial accrued liability (UAAL) of \$66,286,558. The covered payroll (annual payroll of active employees covered by the plan) was \$19,553,357 and the ratio of UAAL to the covered payroll was 339%.

For the miscellaneous plan, the plan was 80% funded, the AAL for benefits was \$227,332,457, and the actuarial value of plan assets was \$181,792,644, resulting in a UAAL of \$45,539,813. The covered payroll was \$27,247,606 and the ratio of UAAL to the covered payroll was 167.1%

**NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)**

The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**B. Post Employment Benefits**

**Redwood City:**

The City administers a single-employer defined benefit post employment healthcare plan. Permanent employees who retire under the City's retirement plan (CalPERS) are, pursuant to their respective collective bargaining agreements, eligible to have their medical insurance premiums reimbursed by the City up to the Kaiser family premium rate. Medical insurance premiums for spouses and other dependents generally are not paid by the City. In the case of public safety disability retirement, the City provides medical insurance for dependents. Currently there are 345 retirees receiving this benefit.

The City is not required by law or contractual agreement to provide funding for retiree health costs other than the pay-as-you-go amount necessary to provide current benefits to retirees. The City's retiree health plan is being managed through the California Employer's Retiree Benefits Trust (CERBT), an irrevocable trust fund that allows public employers to prefund the future cost of their retiree health insurance benefits and other post employment benefits for their covered employees or retirees.

The CERBT's administrator, CalPERS, issues a publicly available financial report consisting of financial statements and required supplementary information for CERBT in aggregate. The report may be obtained by writing to CalPERS, Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811. During FY 2012/13, the City contributed \$5,078,000, or 100%, of the actuarially required contributions to the retiree health plan.

Total current payroll for all covered employees for the fiscal year ended June 30, 2013 was \$47,154,637.

The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

**NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)**

The following table shows the components of the City’s annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation.

Annual Required Contribution	\$	5,078,000
Interest on net OPEB obligation		523,000
Adjustment to annual required contribution		<u>(429,000)</u>
Annual OPEB Cost		5,172,000
Contributions made to irrevocable trust		(2,811,288)
Benefit payments made outside of trust		<u>(2,266,712)</u>
Increase in net OPEB obligation		94,000
Net OPEB obligation - beginning of the year		<u>6,868,477</u>
Net OPEB obligation - end of the year	\$	<u><u>6,962,477</u></u>

The General Fund, the Capital Outlay fund, and other non-major funds have been used to finance the net OPEB obligation.

The City annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2013 and the two preceding years were as follows:

Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	OPEB Obligation (Asset)
	\$	%	\$
6/30/2011	3,944,000	98	6,768,477
6/30/2012	5,018,000	98	6,868,477
6/30/2013	5,172,000	98	6,962,477

As of June 30, 2013, the most recent actuarial valuation date, the plan was 19.6% funded. The actuarial accrued liability (AAL) for benefits was \$56,177,000, and the actuarial value of plan assets was \$11,001,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$45,176,000. The covered payroll (annual payroll of active employees covered by the plan) was \$47,154,637 and the ratio of UAAL to the covered payroll was 95.8%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are

**NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)**

designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013 actuarial valuation, the actuarial cost method used is Entry Age Normal (EAN) cost method. Under the EAN cost method, the plan’s Normal Cost is developed as a level percent of payroll throughout the participants’ working lifetime. Entry age is based on current age minus years of service. The Actuarial Accrued Liability (AAL) is the cumulative value on the valuation date of prior Normal Cost. For the retirees, the AAL is the present value of all projected benefits. The Unfunded AAL is being amortized as a level dollar closed 30 year basis, as a level percent of payroll with a remaining amortization period at June 30, 2013 of 28 years.

GASB 45 requires the interest rate to represent the underlying expected return for the source of funds used to pay benefits. The actuarial methods and assumptions included a 7.61% interest rate, annual inflation at 3% per annum, aggregate payroll assumed to increase at 3.25% per annum, and an annual healthcare trend rate of 8.9% for 2014, reduced gradually each year with an ultimate rate of 5% for 2021 and thereafter. The study also used assumptions for the salary merit and longevity increases, and demographic assumptions such as mortality, withdrawal, and disability based on CalPERS 1997-2007 Experience Study. Retirement assumption was also based on CalPERS 1997-2007 Experience Study. For employees hired before October 24, 2011 it was assumed Miscellaneous Plan 2.7% at 55 years, with expected retirement age of approximately 57.8, and Public Safety 3% at 50 years, with expected retirement age of approximately 54 for Police and 54.9 for Fire.

For employees hired on or after October 24, 2011 it was assumed Miscellaneous Plan 2% at 60 years, with expected retirement age of approximately 60.3 years, and Public Safety 3% at 55 years, with expected retirement age of approximately 59.1 for Police and 56.9 for Fire.

**Port of Redwood City:**

The other post-employment benefits (other than pension) offered by the Port are limited to reimbursement of medical premiums only. Eligibility extends to those employees hired before January 1, 2011 who have worked ten or more consecutive years at the Port on a full time basis, and prior to retirement are: (a) enrolled in the Port’s medical plan, (b) age 55 or older, and (c) have not been voluntarily or involuntarily terminated from employment at the Port. Spouses and/or dependents are ineligible.

The reimbursement of medical premiums is limited to the lesser of: (a) the medical insurance premium paid by the eligible retiree, or (b) the Port’s cost to provide medical coverage for an active employee of the same age as the retiree, or (c) the insurance premium for a Medicare supplement plan at the retiree’s earliest Medicare eligibility age, whether or not the retiree enrolls in Medicare.

The accounting rules governing other post-employment benefits (OPEB) do not require mandatory funding of the actuarial accrued liability or annual required contribution. During the fiscal year ended June 30, 2011, the Port adopted a comprehensive funding policy for post employment benefits other than pension. The policy addresses the selection of a Section 115 Trust, prefunding strategy, valuation frequency, valuation methodology, disbursements, and administrative matters. The Section 115 Trust selected was the CalPERS California Employer’s Retiree Benefit Trust Program (CERBT). At June 30,



**NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)**

2013, acceptance to CERBT was not yet approved. If accepted for participation in CERBT, the Port will initially fund the June 30, 2013 net OPEB obligation of \$141,250; each subsequent fiscal year's Annual Required Contribution (ARC) will be funded annually.

For the fiscal year ended June 30, 2013, the Port's annual OPEB cost was \$28,260; of this amount \$2,052 was expensed and funded by reimbursements to current retirees and the remaining \$26,208 net OPEB obligation was expensed and recorded as a liability. Combined with the \$115,042 net OPEB obligation as of June 30, 2012, the total net OPEB obligation as of June 30, 2013 was \$141,250.

The annual required contribution was determined as part of the June 30, 2011 actuarial valuation using the Entry Age Actuarial Cost Method and Assumptions consistent with the 2010 CalPERS OPEB Assumptions Model. The actuarial assumptions included: (a) salary increases of 3.25% per year, (b) a discount rate of 6.36%, (c) 100% of eligible employees assumed to elect coverage upon retirement and to remain covered for life, (d) retirement, withdrawal, and mortality rates based on CalPERS Assumption model for the classification "public agency miscellaneous 2.7% at 55", and (e) medical premium inflation rates ranging from 9% to 6% over time. The actuarial present value of future benefits was calculated for each individual using the economic assumption and specific member data, then aggregated. The amortization component of the unfunded actuarial accrued liability was based on a 30 year amortization period.

The following table shows the components of the Port's annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the Port's net OPEB obligation:

**Annual OPEB Costs and Net OPEB Obligation**

Normal cost	\$ 14,257
Amortization of unfunded actuarial accrued liability	<u>14,003</u>
Annual required contribution	28,260
Interest on beginning net OPEB obligation	
Annual required contribution adjustment	
Annual OPEB expense	<u>28,260</u>
Actual current year employer payment	<u>(2,052)</u>
Increase in OPEB obligation	26,208
Net OPEB obligation at June 30, 2012	<u>115,042</u>
Net OPEB obligation at June 30, 2013	<u>\$ 141,250</u>

**OPEB Unfunded Actuarial Accrued Liabilities**

Actuarial accrued liabilities	\$ 362,074
Actuarial value of plan assets	
Unfunded actuarial accrued liabilities (UAAL)	<u>\$ 362,074</u>
Funded ratio	0%
Covered payroll	\$ 629,034
UAAL as a % of covered payroll	57.56%

**NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)**

The Port's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan for 2013 and the two preceding fiscal years were as follows:

Year Ended	Annual OPEB Cost \$	Annual OPEB Cost Contributed %	OPEB Obligation (Asset) \$
6/30/2011	28,166	4.22	84,616
6/30/2012	32,046	5.05	115,042
6/30/2013	28,260	7.26	141,250

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the new employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan participants) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan participants to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**C. Cafeteria Benefit Plan**

The City has a cafeteria benefit plan established pursuant to section 125 of the IRS code. Under this plan eligible employees may direct a contribution, made by the City or elect to contribute pre-tax dollars, into any combination of the following three benefit categories:

1. Medical Insurance Premium Account
2. Out of Pocket Medical Spending Account
3. Dependent Care Spending Account

Under no circumstances may an employee direct more than \$5,000 annually into the Dependent Care Spending Account and \$2,500 annually into the Medical Spending Account. This cap applies to both City contributions and employee pre-tax contributions. There are no legal limits on contributions to the Health Premium Account.

All regular full-time and part-time employees employed on a regular and continuous basis, including certain contractual employees, are eligible to participate in this plan. Temporary and casual employees are not eligible. The plan year adopted by the City begins on January 1 and ends December 31.

**NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)**

To obtain reimbursement of expenses incurred within a plan year within the spending accounts (items 2 or 3), employees must submit claims within 90 days of the end of the plan year or separation of service from the City, whichever occurs first. Funds unclaimed after 90 days of the close of the plan year are then remitted to the City.

**D. Deferred Compensation Plans**

City employees may defer a portion of their compensation under four separate, optional City-sponsored deferred compensation plans created in accordance with Internal Revenue Code Section 457. Under these plans, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death, or in an emergency as defined by the plans.

Effective January 1, 1998, the City signed new deferred compensation plan administration agreements with the deferred compensation providers to provide for the administration and management of employees' deferred compensation plan assets. These agreements incorporate changes in the law governing deferred compensation plan assets which now require plan assets to be held for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these new plans are not the City's property and are not subject to claims by general creditors of the City, they have been excluded from these financial statements.

Effective January 28, 2003, the City implemented a retirement enhancement plan (401-A defined contribution plan) for certain executive management employees. In February 2005, a plan amendment was adopted to extend the 401-A plan to all members of the executive management employees. Under this plan, the City contributes 2% of the employees' compensation into the 401-A plan.

Effective October 1, 2002 for the Redwood City Management Employees Association, the City contributes an amount equal to 2% of the base monthly salary to a deferred compensation plan offered by the City to members of the Association.

**NOTE 10 – NET POSITION AND FUND BALANCES**

GASB Statement No. 63 adds the concept of net position, which is measured on the full accrual basis, to the concept of fund balance, which is measured on the modified accrual basis.

**A. Net Position**

Net position is the excess of all the City's assets over all its liabilities, regardless of fund. Net position is divided into three captions. These captions apply only to net position, which is determined only at the government-wide level and are described below:

*Net investment in capital assets* describes the portion of net position which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

**NOTE 10 – NET POSITION AND FUND BALANCES (CONTINUED)**

*Restricted* describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income purposes. At June 30, 2013, restricted net position for the governmental activities were \$43,957,061 of which all was restricted by enabling legislation.

*Unrestricted* describes the portion of net position which is not restricted as to use.

**B. Fund Balances**

In the fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2013, fund balances for governmental funds are made up of the following:

Nonspendable Fund Balance – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term loans receivable.

Restricted Fund Balance – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action, adopting a resolution, of the City's highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City adopting a resolution that imposed the constraint originally.

Assigned Fund Balance – comprises amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by the City Council or City Manager, to which the City Council has delegated the authority through a resolution, to assign amounts to be used for specific purposes.

Pursuant to the authority delegated by City Council, the City Manager determines the amount of assigned fund balances, which includes items such as encumbrances, and constrained amounts when it is the City's intent to use proceeds or collections for a specific purpose, and residual fund balances, if any, of special revenue, capital projects and debt service funds which have not been restricted or committed.

Unassigned Fund Balance – is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. In other governmental funds, if expenditures exceed amounts restricted, committed, or assigned, the negative amount is reflected as negative unassigned fund balance. Within the unassigned

**NOTE 10 – NET POSITION AND FUND BALANCES (CONTINUED)**

fund balance of the General Fund, The City Council has established a minimum balance representing a level not less than 15%, nor more than 20% of estimated General Fund revenues.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

**C. Deficit Fund Equity/Net Position**

The Successor Agency private purpose trust fund had negative net position of \$21,050,915 due to long-term debt outstanding for bonds used to finance various downtown improvements.

The self-insurance internal service fund had negative net position of \$1,417,309 due to higher worker's compensation claims than budgeted and actuarial liability adjustments.

**NOTE 11 – FUNDS WITH EXPENDITURES EXCEEDING APPROPRIATIONS**

The budgetary expenditures exceeded appropriations in the General Fund due to expenditures associated with reimbursable costs for planning and subdivision engineering which were offset by increased revenues. Additionally, Public Safety expenditures exceeded appropriations due to the retirement of public safety employees and the associated payout of accumulated leave hours which were not budgeted, in addition to unplanned public safety overtime which exceeded budget due to the requirement to backfill the vacancies created by the retirements and disability leave.

Expenditure of the Parks, Recreation and Community Services Department also exceeded appropriations due primarily to unbudgeted program expenditures for which there were sufficient revenues available.

The budgetary expenditures exceeded appropriations in the Transportation Grants Fund due to increased and unbudgeted expenditures related to the Measure M Vehicle License Fee program which were supported by an unbudgeted increase in program revenues.

The budgetary expenditures exceeded appropriations in the Transportation Fund due to increased commuter program expenditures. Sufficient revenues were available to fund these expenditures.

The budgetary expenditures exceeded appropriation in the Low and Moderate Income Housing Asset Fund due to loans which had achieved certain milestones resulting in an unbudgeted write off. Sufficient revenues were available to fund these expenditures.

The budgetary expenditures exceeded appropriations in the Public Financing Authority 2013 Refunding Lease Fund due to unbudgeted costs associated with entering into a new lease to refund bonds. Sufficient revenues were available to fund these expenditures.

**NOTE 12 – INTERFUND TRANSFERS AND TRANSACTIONS**

**A. Transfers**

The following interfund transfers were made during the year:

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount Transferred</u>
General Fund	Non-major Governmental Funds	\$ 250,000 <sup>(1)</sup>
	Capital Outlay Fund	120,521 <sup>(2)</sup>
	Internal Service Funds	14,116 <sup>(2)</sup>
Capital Outlay Fund	General Fund	7,593,315 <sup>(3)</sup>
Non-major Governmental Funds	General Fund	1,325,565 <sup>(3) (4)</sup>
	Capital Outlay Fund	627,352 <sup>(3)</sup>
	Non-major Governmental Funds	3,292,748 <sup>(6)</sup>
Sewer Fund	Non-major Governmental Funds	31,323 <sup>(7)</sup>
Parking Fund	General Fund	441,572 <sup>(4)</sup>
Internal Services Fund	General Fund	100,000 <sup>(4)</sup>
	Internal Services Fund	1,465,345 <sup>(4)</sup>
Total Interfund Transfers		<u>\$ 15,261,857</u>

The reasons for these transfers are set forth below:

- <sup>(1)</sup> Reimburse General Fund for expenditures incurred for maintenance in the Redwood Shores area.
- <sup>(2)</sup> Reimburse General Fund for interest earned by funds supported by the General Fund.
- <sup>(3)</sup> Allocation of funds to construct/purchase general capital assets.
- <sup>(4)</sup> Allocation of funds to support operations.
- <sup>(5)</sup> Transfer of amounts required to fund debt service payments.
- <sup>(6)</sup> Transfer of refunding lease proceeds to refund bonds.
- <sup>(7)</sup> Reimburse for expenses incurred.

**B. Short-Term Due to/From other Funds**

At the end of the fiscal year the General Fund had net utility users tax receivable in the amount of \$811,980. The policy of the City Council dictates the transfer of utility users tax to the Capital Outlay Fund, and once the revenue is received, the General Fund will transfer the cash to the Capital Outlay Fund.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount Due to/From</u>
Capital Outlay Fund	General Fund	\$ 811,980

**NOTE 12 – INTERFUND TRANSFERS AND TRANSACTIONS (CONTINUED)**

**C. Long-Term Interfund Loans**

Fund Receiving Advance	Fund Making Advance	Amount of Advance
Successor Agency Fund	Capital Outlay Fund	\$ 2,269,543
	Low and Moderate Income Housing asset fund	1,687,703
Water Utility Fund	Internal Service Fund	3,000,000
Total Long-Term Interfund Loans		<u>\$ 6,957,246</u>

During FY 2004/05, the capital outlay fund advanced \$3,000,000 to the redevelopment agency fund to finance various downtown improvements. During FY 2008/09 the redevelopment agency repaid \$115,622 of the advance, during FY 2009/10 the redevelopment agency repaid \$238,439, and during FY 2010/11 the redevelopment agency repaid \$248,364. During 2011/12 the redevelopment agency was dissolved and the advance payable was transferred to the successor agency private purpose trust fund. Prior to the dissolution the redevelopment agency repaid \$128,032. During FY 2009/10, the low and moderate income housing fund advanced \$2,812,838 to the redevelopment agency fund to partially finance the amount taken away from the redevelopment agency by the State of California. During FY 2010/11 the redevelopment agency repaid \$562,568 to the low and moderate income housing fund. During FY 2011/12 the redevelopment agency was dissolved and the advance receivable was transferred to the low and moderate income housing asset fund, and the advance payable was transferred to the successor agency private purpose trust fund. During FY 2011/12 the successor agency repaid \$562,567 to the low and moderate income housing asset fund.

During FY 2012/13, the Equipment Services internal service fund advanced \$3,000,000 to the Water Utility enterprise fund for the implementation of the Automated Meter Infrastructure Project to replace water meters. As of June 30, 2013, \$300,000 of this advance is considered current.

**NOTE 13 – RISK MANAGEMENT AND SELF-INSURANCE FUND**

**A. Workers' Compensation and Property Insurance**

The City is self-insured for workers' compensation for the first \$350,000 per occurrence and has a commercial insurance policy that covers the City's exposure above the retained limits up to the statutory limits required by the State of California. The City paid \$282,401 during FY 2012/13 for the coverage.

The City's workers' compensation policy includes coverage for the Port of Redwood City. The Port carries property and liability insurance policies with limits of \$15,000,000 and \$150,000,000, respectively.

**NOTE 13 – RISK MANAGEMENT AND SELF-INSURANCE FUND (CONTINUED)**

**B. General Liability and Automobile**

The City is a member of the Bay Cities Joint Powers Insurance Authority (BCJPIA), which is a liability pool consisting of 18 San Francisco Bay Area government agencies, for general liability and auto liability coverage. In FY 2012/13 the City maintained a \$350,000 self-insured retention with coverage from \$350,000 to \$1,000,000 through the BCJPIA. The purpose of the pool is to provide certain levels of liability coverage, claims administration, and loss control support to member agencies. Annually, each agency pays an actuarially-determined premium based upon a formula which takes into account loss experience, annual payroll, and population. This premium pays for administrative costs and funds liability reserves. The premium paid in FY 2012/13 was \$641,569.

The BCJPIA belongs to the California Affiliated Risk Management Authority (CARMA) which is an excess liability pool comprised of the BCJPIA and four other local government insurance pools. CARMA provides coverage from \$1,000,001 to \$29,000,000. A layer from \$1,000,001 to \$4,000,000 is self-insured by CARMA, the layer from \$4,000,001 to \$29,000,000 is reinsured through agreements with commercial insurers.

The City also carries all risk coverage on buildings and their contents at replacement cost value.

Audited financial statements are available from the Bay Cities Joint Powers Insurance Authority at 1750 Creekside Oaks Drive, Suite 200, Sacramento, CA 95833. The following is the BCJPIA condensed audited financial results for the year ended June 30, 2013:

	\$
Assets	25,252,772
Reserves for Claims	14,328,817
Liabilities <sup>1</sup>	2,233,719
Net Position Unrestricted	8,690,236
Member Contributions	9,966,309
Other Income	88,249
Provisions for Claims and Claim Adjustment Expenses	4,137,519
Operating Expenses <sup>2</sup>	5,859,862
Change in Net Position	57,177

<sup>1</sup> Excluding claims liabilities

<sup>2</sup> Excluding provisions for claims

**C. Self-Insurance Fund**

The City maintains a self-insurance internal service fund for its workers' compensation and general liability self-insurance programs. This fund accounts for revenues from departmental charges and operating expenses, including settlements within the City's self-insured retentions. Reserves for incurred but not reported claims are maintained within this fund. These reserves are based on an actuarial analysis performed by Richard E. Sherman & Associates, Inc. in accordance with GASB 10.

**NOTE 13 – RISK MANAGEMENT AND SELF-INSURANCE FUND (CONTINUED)**

Changes in the self-insurance fund’s claims payable liability for fiscal years ended 2011, 2012, and 2013 were:

	Beginning Balance	Current Year Claims/ Changes in Estimates	Claim Payments	Ending Balance
	\$	\$	\$	\$
2010/11	11,056,326	2,051,359	(2,155,725)	10,951,960
2011/12	10,951,960	2,407,125	(1,580,295)	11,778,790
2012/13	11,778,790	4,732,771	(3,111,209)	13,400,352

Settlements have not exceeded coverage for each of the past three fiscal years.

**NOTE 14 – DISSOLUTION OF THE REDWOOD CITY REDEVELOPMENT AGENCY**

As part of the FY 2011/12 State Budget package, and in an effort to help solve the State’s budget problems, the California legislature enacted and the Governor signed two companion bills addressing redevelopment, AB X1 26 (Dissolution Act) and AB X1 27 (Voluntary Program Act), which took effect on June 29, 2011.

The Dissolution Act immediately suspended all new redevelopment activities and incurrence of indebtedness, and eliminated redevelopment agencies as of October 1, 2011.

The Voluntary Program Act allows the community that created the redevelopment agency to avoid dissolution by opting to pay a substantial community remittance beginning FY 2011/12 and each year thereafter.

On July 18, 2011, the California Redevelopment Association, the League of California Cities, and others filed a Petition for Writ of Mandate in the Supreme Court of the State of California (California Redevelopment Association, et al. v. Ana Matosantos, et al., Case No. 5194861), challenging the constitutionality of the companion bills, the Dissolution Act, and the Voluntary Program Act, on behalf of cities, counties, and redevelopment agencies, and requesting a stay of their enforcement.

On December 29, 2011, the California Supreme Court upheld the Dissolution Act and found the Voluntary Program Act to be unconstitutional and extended the date of dissolution to February 1, 2012.

The Dissolution Act provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. The City Council elected to become Successor Agency on August 22, 2011 with resolution 15141, and reconfirmed this action on January 23, 2012 with resolution 15164.

Under the Dissolution Act, redevelopment agencies in the State of California cannot enter into new projects, obligations, or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

**NOTE 14 – DISSOLUTION OF THE REDWOOD CITY REDEVELOPMENT AGENCY (CONTINUED)**

In FY 2010/11, prior to AB X1 26 becoming law, \$3.3 million of real property assets (vacant land) were transferred from the RDA’s Low and Moderate Income Housing Fund to the City in an attempt to protect these assets from being diverted for the benefit of the State. AB X1 26, however, specifically disallowed such transfers. Accordingly, the assets were transferred to the Low and Moderate Income Housing Asset Fund in FY 2011/12.

Prior to the dissolution of the redevelopment agency, under an agreement with San Mateo County to receive a cumulative \$25 million of the County’s share of tax increment and an agreement with the Legal Aid Society to deposit the first \$11.9 million of the \$25 million into the Low and Moderate Income Housing Fund, the agency had deposited \$10.3 million into the Low and Moderate Income Housing Fund as of June 30, 2011. Pursuant to the agreement with the Legal Aid Society to restrict these funds to housing, after the dissolution of the redevelopment agency these funds were deposited into a new fund, Housing Legal Aid Society Fund, to be used for housing purposes. The State Department of Finance has disputed that these funds are restricted for housing, and the City has filed a lawsuit against the State of California on this matter. The accumulated funds in the amount of \$10.3 million are reflected as a liability in the Housing Legal Aid Society Fund pending the outcome of the lawsuit.

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The City’s former Redevelopment Agency had entered into agreements with certain public entities whose jurisdictions were within the territory of the former Redevelopment Agency under which these entities received a specified share of the property tax increment received by the former Redevelopment Agency. Under Assembly Bill X1 26 the responsibility for making these payments has been shifted to the County of San Mateo.

**NOTE 15 – LITIGATION AND CONTINGENT LIABILITIES**

The City generally follows the practice of recording liabilities resulting from claims and legal actions only when they become fixed or determinable in amount.

There are lawsuits pending in which the City is a party. In the opinion of the City Attorney, the City has adequate legal defenses and/or reserves to cover such liability if it does arise.

**NOTE 16 – CONSTRUCTION, OTHER SIGNIFICANT COMMITMENTS AND ENCUMBRANCES**

As of June 30, 2013, the City has the following significant commitments:

- \$994,155 - to purchase of 7,400 new Smart Meters
- \$555,829 - for modification of City Hall Second Floor

Purchase orders are issued throughout the fiscal year to encumber the budgets in the governmental funds. Following are the outstanding encumbrances as of June 30, 2013:

Major Funds:	
General Fund	\$ 489,127
Capital Outlay Fund	<u>1,303,541</u>
Total Major Funds	1,792,668
Non-Major Funds	<u>1,267,099</u>
Total Encumbrances	<u>\$ 3,059,767</u>

**NOTE 17 – SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

The City is a member of the South Bayside Waste Management Authority (SBWMA), a joint powers authority established to purchase the solid waste transfer station located in San Carlos, California from Browning-Ferris Industries. Currently there are 12 public entities that are members of this organization. Each of these members also, by individual and separate legislative action, has entered into a franchise agreement with Recology for solid waste collection within their respective jurisdictions.

The SBWMA issued \$20 million in bonds in 1999 to provide funds for the purchase of the transfer station. The debt issued by the SBWMA is not an obligation of any of the member entities. During FY 2009/10, SBWMA issued \$58.5 million in bonds to finance improvements at the solid waste transfer station, and the remaining balance of the 1999 bonds were retired.

The SBWMA also serves as a regional forum for member entities to collectively pursue other solid waste management matters such as rate setting, solid waste reduction, and meeting recycling goals as required by state law.

Audited financial statements are available from the SBWMA, c/o the City of San Carlos, 600 Elm Street, San Carlos, CA 94070. The following is SBWMA's condensed unaudited financial results for the year-ended June 30, 2013.

Total assets	\$ 83,155,658
Total liabilities	<u>60,814,766</u>
Total net position	<u>\$ 22,340,892</u>

**NOTE 18 – RELATED PARTY TRANSACTIONS**

In June 2000, the City's former Redevelopment Agency authorized a First Time Homebuyer Program targeted to City employees and school teachers from the Redwood City Elementary School District. Under the program, the Agency offered first time homebuyers financial assistance in the purchase of a home within the City of Redwood City. These loans bear no interest and are secured by third deeds of trust on the property. No payments are due until five years after the date of purchase. This loan program is extended to City employees who meet the criteria of the program. As of June 30, 2013, one employee had a loan due to the City in the amount of \$37,404.

**Note 19 – SUBSEQUENT EVENT**

On October 30, 2013 the Superior Court Judge hearing the lawsuit filed against the State of California Department of Finance concerning the \$10.3 million the City is holding in the Housing Legal Aid Society Fund (discussed more fully in Note 14) as part of the dissolution of the former Redevelopment Agency issued a tentative ruling in favor of the State of California. On November 6, 2013 the Judge then issued a "Request for Further Briefing" to be held on November 22, 2013. As of the date of this report a final ruling has not been issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**NOTE 1 – BUDGETS AND BUDGETARY ACCOUNTING**

Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, debt service funds, and capital projects funds.

Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general, special revenue, and debt service funds. Capital projects funds' budgets are adopted on a project length basis and are not presented here. As the Housing Legal Aid Society Fund was created after the February 1, 2012 dissolution of the former Redevelopment Agency and is currently under litigation, there is no adopted budget for this fund.

The City Manager submits a recommended operating budget in May each year to the City Council for the fiscal year commencing the following July 1, showing proposed expenditures by programs and the means of financing them.

The City Council conducts budget study sessions, which are open for public comment, before adopting the budget. Once the budget is adopted, expenditures may not legally exceed appropriations at program level except when the excess is attributable to a particular activity for which the City has been reimbursed. This is especially apparent in the Community Development Program where developers reimburse the City through sub-division fees and environmental impact report fees.

At the request of the department head through the City Manager, the City Council may, by resolution, transfer appropriations between sub-programs and funds. Any increase or decrease to the total appropriations provided for in the budget must also be carried through by resolution passed by the City Council. The City Manager may authorize the transfer of funds between object categories within a sub-program of a department. The adoption and administration of the Port of Redwood City budget, unless property tax revenues are requested, is exclusively under the control of the Board of Port Commissioners.

Budgeted amounts are as originally adopted, or as amended by the City Council during the fiscal year. Individual amendments were not material in relation to the original appropriations.

All unexpended appropriations lapse at the end of the fiscal year. Appropriations for capital projects or appropriations that are encumbered are re-appropriated and carried over in the following year's budget.

CITY OF REDWOOD CITY, CALIFORNIA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
	\$	\$	\$	\$
Fund balance, July 1	19,824,553	19,824,553	19,824,553	
Resources (inflows):				
Property taxes/special assessments	35,661,621	35,661,621	38,379,963	2,718,342
Sales and other taxes	34,613,371	34,613,371	37,072,870	2,459,499
Licenses and permits	1,211,000	1,211,000	1,897,584	686,584
Fines, forfeitures and penalties	575,000	575,000	549,591	(25,409)
Use of money and property	608,500	608,500	510,219	(98,281)
Intergovernmental	3,177,485	3,502,259	3,643,228	140,969
Charges for current services	9,258,142	9,553,142	9,321,628	(231,514)
Contributions	52,206	486,206	498,214	12,008
Other	106,000	106,000	541,187	435,187
Amounts available for appropriation	85,263,325	86,317,099	92,414,484	6,097,385
Charges to appropriations (outflows):				
Current Operations:				
City Council:				
City Council	292,314	292,314	311,680	(19,366)
Human Services Assistance	93,556	93,556	93,556	
Total City Council	385,870	385,870	405,236	(19,366)
City Manager:				
Management/Policy execution/ Organizational Efficiencies	918,301	982,768	823,941	158,827
Community promotion	473,845	473,845	407,609	66,236
Economic development	217,852	217,852	210,330	7,522
Total City Manager	1,609,998	1,674,465	1,441,880	232,585
City Attorney	976,170	992,778	969,049	23,729
City Clerk:				
City Clerk	546,273	595,600	540,242	55,358
Elections	58,903	58,903	44,703	14,200
Council support	43,585	45,085	19,242	25,843
Total City Clerk	648,761	699,588	604,187	95,401

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	
	\$	\$	\$	
Community development:				
Planning	923,194	953,194	1,068,583	(115,389)
Strategic planning	218,584	218,584	116,498	102,086
Building regulation	1,717,041	1,717,041	1,795,126	(78,085)
Administration	281,766	281,766	231,049	50,717
General engineering	592,424	592,424	451,172	141,252
Subdivision engineering	288,859	288,859	429,911	(141,052)
Code enforcement	835,248	771,512	637,179	134,333
Street system maintenance	183,326	183,326	167,757	15,569
Street cleaning	104,772	104,772	104,203	569
Sidewalk maintenance/replacement	14,900	14,900	14,900	
Street tree maintenance	854,835	854,835	847,324	7,511
Downtown/Entry feature maintenance	31,889	31,889	13,035	18,854
Storm water collection/Disposal	240,513	240,513	240,513	
Downtown development program	41,622	442,072	412,111	29,961
Redevelopment	1,549,220	1,314,567	1,188,926	125,641
<b>Total Community Development</b>	<b>7,878,193</b>	<b>8,010,254</b>	<b>7,718,287</b>	<b>291,967</b>
Finance:				
Financial services	1,386,828	1,425,460	1,342,300	83,160
Administrative support services	1,768,553	3,009,027	2,882,994	126,033
Public Financing Authority lease payments	1,015,702	1,925,136	1,823,183	101,953
<b>Total Finance</b>	<b>4,171,083</b>	<b>6,359,623</b>	<b>6,048,477</b>	<b>311,146</b>
Fire:				
Administration	1,349,634	1,368,438	1,033,718	334,720
Operations	14,244,958	14,238,858	15,058,215	(819,357)
Prevention	710,047	710,047	731,040	(20,993)
Training	304,544	335,234	289,562	45,672
Emergency medical services	27,079	27,079	12,946	14,133
Emergency operations	83,128	83,128	22,260	60,868
<b>Total Fire</b>	<b>16,719,390</b>	<b>16,762,784</b>	<b>17,147,741</b>	<b>(384,957)</b>
Human Resources	1,288,515	1,230,150	1,005,597	224,553
Library:				
Administrative services unit	1,284,450	1,284,450	1,153,904	130,546
Downtown library	3,149,315	3,149,315	3,198,401	(49,086)
Literacy services unit	865,411	1,048,403	979,666	68,737
Neighborhood libraries and outreach	1,415,681	1,415,681	1,478,908	(63,227)
<b>Total Library</b>	<b>6,714,857</b>	<b>6,897,849</b>	<b>6,810,879</b>	<b>86,970</b>

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
	\$	\$		
Parks, Recreation and Community Services:				
Fair Oaks Community Center	950,929	956,929	971,054	(14,125)
Information/Referral	316,339	413,658	394,232	19,426
Fair Oaks Senior Services	3,250	3,250	3,250	
Administration	545,253	545,253	713,605	(168,352)
Civic Cultural Commission	58,896	58,896	53,932	4,964
Landscape maintenance-City	2,062,183	2,062,183	2,173,542	(111,359)
Landscape maintenance-Redwood Shores	1,095,622	1,095,622	1,108,289	(12,667)
Landscape maintenance-Downtown	719,525	719,525	716,425	3,100
Youth and teen services	282,331	282,331	334,755	(52,424)
Elementary activities	488,656	518,656	526,857	(8,201)
Teen activities	274,606	274,606	311,791	(37,185)
After school program grant	1,429,724	1,429,724	1,512,088	(82,364)
Red Morton Community Center	1,084,814	1,084,814	1,042,121	42,693
Aquatics program	168,100	168,100	179,860	(11,760)
Adult sports	122,738	122,738	139,554	(16,816)
Middle school sports	216,838	491,838	485,263	6,575
Special interest classes	781,072	860,275	760,146	100,129
Sandpiper Community Center	383,124	383,124	392,235	(9,111)
Sandpiper youth club	160,164	160,164	185,706	(25,542)
Community services	889,507	1,030,280	989,023	41,257
Senior nutrition	268,856	178,083	151,985	26,098
<b>Total Parks, Recreation and     Community Services</b>	<b>12,302,527</b>	<b>12,840,049</b>	<b>13,145,713</b>	<b>(305,664)</b>
Police:				
Administration	5,194,747	5,512,629	5,574,166	(61,537)
Records	993,830	964,827	947,565	17,262
Training	514,159	544,985	513,061	31,924
Property/Evidence	192,105	247,791	177,078	70,713
Police Activities League	125,751	125,751	84,066	41,685
Patrol services	18,436,979	19,202,406	19,888,530	(686,124)
Criminal investigation	4,172,890	4,091,284	4,711,296	(620,012)
<b>Total Police</b>	<b>29,630,461</b>	<b>30,689,673</b>	<b>31,895,762</b>	<b>(1,206,089)</b>
Reimbursement from Other Funds	(5,783,328)	(5,783,328)	(5,783,328)	
<b>Total charges to appropriations</b>	<b>76,542,497</b>	<b>80,759,755</b>	<b>81,409,480</b>	<b>(649,725)</b>
OTHER FINANCING SOURCES (USES)				
Transfers in	450,000	450,000	384,637	(65,363)
Transfers (out)	(10,711,337)	(11,011,337)	(9,460,452)	1,550,885
<b>Total Other Financing Sources (Uses)</b>	<b>(10,261,337)</b>	<b>(10,561,337)</b>	<b>(9,075,815)</b>	<b>1,485,522</b>
Fund balance, June 30	18,284,044	14,820,560	21,753,742	6,933,182



**REQUIRED SUPPLEMENTARY INFORMATION**

**NOTE 2 – PUBLIC EMPLOYEES RETIREMENT SYSTEM SCHEDULE OF FUNDING PROGRESS**

*Public Safety Plan:*

Actuarial						
Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
	\$	\$	\$	%	\$	%
2010	178,247,592	234,203,845	55,956,253	76.1	19,994,962	279.9
2011	188,706,656	249,306,267	60,599,611	75.7	20,072,380	301.9
2012	199,093,142	265,379,700	66,286,558	75.0	19,553,357	339.0

*Miscellaneous Plan:*

Actuarial						
Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
	\$	\$	\$	%	\$	%
2010	166,816,005	207,055,196	40,239,191	80.6	29,303,730	137.3
2011	176,271,009	219,035,437	42,764,428	80.5	28,015,399	152.6
2012	181,792,644	227,332,457	45,539,813	80.0	27,247,606	167.1

**REQUIRED SUPPLEMENTARY INFORMATION**

**NOTE 3 – OTHER POSTEMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS**

*City of Redwood City:*

Actuarial						
Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
	\$	\$	\$	%	\$	%
2009		37,264,000	37,264,000		43,764,165	85.2
2011	4,429,000	53,083,000	48,654,000	8.3	44,961,408	108.2
2013	11,001,000	56,177,000	45,176,000	19.6	47,154,637	95.8

*Port of Redwood City:*

Actuarial						
Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
	\$	\$	\$	%	\$	%
2011		303,153	303,153		682,637	44.4
2012		334,371	334,371		631,539	52.9
2013		362,074	362,074		629,034	57.6

**GENERAL FUND**

The general fund accounts for resources traditionally associated with governments that are not required to be accounted for in another fund. Library operations, whose expenditures must be approved by the Library Board, are accounted for as part of this fund along with the general governmental expenditures not accounted for in other funds.



*City of Redwood City  
Comprehensive Annual Financial Report  
June 30, 2013*

CITY OF REDWOOD CITY, CALIFORNIA  
GENERAL FUND  
COMPARATIVE BALANCE SHEET  
JUNE 30, 2013 AND 2012

	2013	2012
	\$	\$
<b>ASSETS</b>		
Cash and investments available for operations	21,460,699	23,392,942
Receivables (net of allowance for uncollectibles):		
Taxes and assessments - current	6,380,053	5,922,265
Accounts	1,538,072	1,423,483
Loans	1,692,608	1,867,733
Accrued interest	119,895	144,261
Due from other governmental agencies	1,373,779	1,585,045
Inventory of supplies at cost	164	452
Prepaid expenditures	92,412	34,500
	<u>32,657,682</u>	<u>34,370,681</u>
<b>Total Assets</b>		
	<u>32,657,682</u>	<u>34,370,681</u>
<b>LIABILITIES</b>		
Accounts payable	2,042,937	2,850,596
Accrued payroll	2,907,558	3,816,308
Deposits payable	3,604,714	5,172,992
Due to other funds	811,980	1,173,233
Unearned revenue	1,505,951	1,302,201
Accrued sick leave and vacation - current	30,800	230,798
	<u>10,903,940</u>	<u>14,546,128</u>
<b>Total Liabilities</b>		
	<u>10,903,940</u>	<u>14,546,128</u>
<b>FUND BALANCE</b>		
Nonspendable:		
Loans	1,692,608	1,867,733
Inventory	164	452
Prepaid items	92,412	34,500
Committed to:		
Maintenance of Sandpiper Park		284,142
General plan	370,927	267,498
Assigned to:		
Other purposes	148,534	151,178
Unassigned:		
City Council directed minimum balance	17,320,930	16,271,400
Residual balance	2,128,167	947,650
	<u>21,753,742</u>	<u>19,824,553</u>
<b>Total Fund Balance</b>		
	<u>21,753,742</u>	<u>19,824,553</u>
<b>Total Liabilities and Fund Balance</b>	<u>32,657,682</u>	<u>34,370,681</u>

CITY OF REDWOOD CITY, CALIFORNIA  
GENERAL FUND  
COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

	2013			2012		
	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>	\$	\$	\$	\$	\$	\$
Property taxes	35,661,621	38,379,963	2,718,342	33,950,774	36,435,962	2,485,188
Sales and other taxes	34,613,371	37,072,870	2,459,499	31,639,639	34,231,492	2,591,853
Licenses and permits	1,211,000	1,897,584	686,584	1,351,000	1,266,183	(84,817)
Fines, forfeitures and penalties	575,000	549,591	(25,409)	500,000	622,761	122,761
Uses of money and property	608,500	495,003	(113,497)	618,500	607,336	(11,164)
Net increases (decreases) in fair value of investments		15,216	15,216		41,169	41,169
Intergovernmental	3,502,259	3,643,228	140,969	3,776,598	3,546,303	(230,295)
Charges for current services	9,553,142	9,321,628	(231,514)	9,427,286	10,745,612	1,318,326
Other	592,206	1,039,401	447,195	1,104,821	825,981	(278,840)
	<u>86,317,099</u>	<u>92,414,484</u>	<u>6,097,385</u>	<u>82,368,618</u>	<u>88,322,799</u>	<u>5,954,181</u>
<b>Total revenues</b>						
	<u>86,317,099</u>	<u>92,414,484</u>	<u>6,097,385</u>	<u>82,368,618</u>	<u>88,322,799</u>	<u>5,954,181</u>
<b>EXPENDITURES</b>						
Community development	6,580,019	6,330,555	249,464	6,502,742	8,433,663	(1,930,921)
Human services	1,467,393	1,462,092	5,301	1,434,760	1,389,422	45,338
Public safety	47,452,457	49,043,503	(1,591,046)	45,534,865	48,707,876	(3,173,011)
Transportation	198,226	182,657	15,569	194,571	187,840	6,731
Environmental support and protection	345,285	344,716	569	304,144	304,144	
Leisure, cultural, and information services	19,250,785	19,448,415	(197,630)	18,817,776	18,948,599	(130,823)
Policy development and implementation	5,465,590	4,597,542	868,048	2,657,729	2,233,852	423,877
	<u>80,759,755</u>	<u>81,409,480</u>	<u>(649,725)</u>	<u>75,446,587</u>	<u>80,205,396</u>	<u>(4,758,809)</u>
<b>Total expenditures</b>						
	<u>80,759,755</u>	<u>81,409,480</u>	<u>(649,725)</u>	<u>75,446,587</u>	<u>80,205,396</u>	<u>(4,758,809)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	5,557,344	11,005,004	5,447,660	6,922,031	8,117,403	1,195,372
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	450,000	384,637	(65,363)	533,642	438,675	(94,967)
Transfers (out)	(11,011,337)	(9,460,452)	1,550,885	(9,845,163)	(13,581,268)	(3,736,105)
	<u>(10,561,337)</u>	<u>(9,075,815)</u>	<u>1,485,522</u>	<u>(9,311,521)</u>	<u>(13,142,593)</u>	<u>(3,831,072)</u>
<b>Total Other Financing Sources (Uses)</b>						
	<u>(10,561,337)</u>	<u>(9,075,815)</u>	<u>1,485,522</u>	<u>(9,311,521)</u>	<u>(13,142,593)</u>	<u>(3,831,072)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	(5,003,993)	1,929,189	6,933,182	(2,389,490)	(5,025,190)	(2,635,700)
<b>Fund balance at beginning of year</b>		19,824,553			24,849,743	
<b>Fund balance at end of year</b>		<u>21,753,742</u>			<u>19,824,553</u>	

CITY OF REDWOOD CITY, CALIFORNIA  
GENERAL FUND  
SCHEDULE OF REVENUES COMPARED WITH BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	2013			2012 Actual
	Budget	Actual	Variance with Final Budget Positive (Negative)	
<b>Property Taxes:</b>	\$	\$	\$	\$
Property taxes - secured and unsecured	35,661,621	38,379,963	2,718,342	36,435,962
Total Property Taxes	35,661,621	38,379,963	2,718,342	36,435,962
<b>Sales and Other Taxes:</b>				
Sales tax	17,004,172	19,240,290	2,236,118	16,998,443
Franchises	1,609,100	1,621,972	12,872	1,609,980
Transient occupancy tax	4,545,247	4,526,424	(18,823)	3,924,383
Property transfer tax	400,000	599,316	199,316	564,527
Business license tax	1,558,500	1,668,370	109,870	1,490,810
Utility users tax	9,496,352	9,416,498	(79,854)	9,643,349
Total Sales and Other Taxes	34,613,371	37,072,870	2,459,499	34,231,492
<b>Licenses and Permits:</b>				
Building permits	1,100,000	1,881,030	781,030	1,172,826
Fire and other permits	111,000	16,554	(94,446)	93,357
Total Licenses and Permits	1,211,000	1,897,584	686,584	1,266,183
<b>Fines, Forfeitures and Penalties:</b>				
Parking fines	575,000	549,591	(25,409)	622,761
Total Fines, Forfeitures and Penalties	575,000	549,591	(25,409)	622,761
<b>Uses of Money and Property:</b>				
Rent and concessions	408,500	401,823	(6,677)	407,078
Interest income	200,000	93,180	(106,820)	200,258
Total Uses of Money and Property	608,500	495,003	(113,497)	607,336
<b>Net Increase (Decrease) in Fair Value of Investments</b>		15,216	15,216	41,169
<b>Intergovernmental:</b>				
Motor vehicle in lieu tax		33,547	33,547	40,276
Public safety sales tax	640,500	659,002	18,502	614,483
Police training allowance	10,000	29,258	19,258	
Homeowners' property tax relief	185,000	178,647	(6,353)	181,363
State mandated programs grant		38,606	38,606	61,839
Grants - County, State, and Federal	2,309,239	2,246,651	(62,588)	2,216,170
Abandoned vehicle fees	40,000	81,757	41,757	66,033
Port contribution	317,520	375,760	58,240	366,139
Total Intergovernmental	3,502,259	3,643,228	140,969	3,546,303
<b>Charges for Current Services:</b>				
Fire services	2,338,727	1,693,334	(645,393)	1,570,572
Police services	165,000	223,306	58,306	198,067
Plan checking	490,000	862,129	372,129	873,033
Garbage collections - net	2,403,582	2,344,689	(58,893)	2,213,521
Engineering services	65,000	11,866	(53,134)	12,810
Planning services	153,000	539,380	386,380	2,092,409
Library fees	125,000	152,724	27,724	165,994
Recreation programs	2,335,603	2,112,047	(223,556)	2,081,301
Other current service charges	1,477,230	1,382,153	(95,077)	1,537,905
Total Charges for Current Services	9,553,142	9,321,628	(231,514)	10,745,612
<b>Other:</b>				
Contributions	486,206	498,214	12,008	130,615
Miscellaneous	106,000	541,187	435,187	695,366
Total Other	592,206	1,039,401	447,195	825,981
<b>Total Revenue</b>	<u>86,317,099</u>	<u>92,414,484</u>	<u>6,097,385</u>	<u>88,322,799</u>

CITY OF REDWOOD CITY, CALIFORNIA  
GENERAL FUND  
SCHEDULE OF EXPENDITURES COMPARED WITH BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	2013			2012 Actual
	Budget	Actual	Variance with Final Budget Positive (Negative)	
<b>Community Development:</b>	\$	\$	\$	\$
Community planning	1,171,778	1,185,081	(13,303)	2,653,500
Building regulation	1,717,041	1,795,126	(78,085)	1,598,613
Administration	281,766	231,049	50,717	218,427
Engineering services	881,283	881,083	200	889,091
Code enforcement	771,512	637,179	134,333	681,189
Redevelopment	1,756,639	1,601,037	155,602	2,392,843
Total Community Development	6,580,019	6,330,555	249,464	8,433,663
<b>Human Services:</b>				
Human services assistance program	93,556	93,556		152,311
Social services center	1,373,837	1,368,536	5,301	1,237,111
Total Human Services	1,467,393	1,462,092	5,301	1,389,422
<b>Public Safety:</b>				
Law enforcement	30,689,673	31,895,762	(1,206,089)	29,145,328
Fire safety	16,762,784	17,147,741	(384,957)	19,562,548
Total Public Safety	47,452,457	49,043,503	(1,591,046)	48,707,876
<b>Transportation:</b>				
Street system/sidewalk maintenance, repair	198,226	182,657	15,569	187,840
Total Transportation	198,226	182,657	15,569	187,840
<b>Environmental Support and Protection:</b>				
Street cleaning/storm water collection, disposal	345,285	344,716	569	304,144
Total Environmental Support and Protection	345,285	344,716	569	304,144
<b>Leisure, Cultural, and Information Services:</b>				
Parks and recreation	12,352,936	12,637,536	(284,600)	12,066,611
Information services	6,897,849	6,810,879	86,970	6,881,988
Total Leisure, Cultural, and Information Services	19,250,785	19,448,415	(197,630)	18,948,599
<b>Policy Development and Implementation:</b>				
Legislative/policy determination	292,314	311,680	(19,366)	300,083
Management/policy execution	1,674,465	1,441,880	232,585	1,076,396
Legislative services/records management	699,588	604,187	95,401	634,627
Financial services	1,425,460	1,342,300	83,160	1,325,272
Legal services	992,778	969,049	23,729	912,149
Human Resources	1,230,150	1,005,597	224,553	1,189,256
Other administrative support services	4,934,163	4,706,177	227,986	2,768,703
Less reimbursements from other funds	(5,783,328)	(5,783,328)		(5,972,634)
Total Policy Development and Implementation	5,465,590	4,597,542	868,048	2,233,852
Total Expenditures	<u>80,759,755</u>	<u>81,409,480</u>	<u>(649,725)</u>	<u>80,205,396</u>

## NON-MAJOR GOVERNMENTAL FUNDS

### SPECIAL REVENUE FUNDS

Special revenue funds are used to account for revenue derived from specific taxes or other dedicated revenue sources (other than for major capital projects) that are restricted by law or administrative action to expenditures for specified purposes.

**Special Gas Tax Street Improvement Fund** – This fund accounts for revenue received from the State of California derived from gasoline taxes. These funds may only be used for street purposes as specified in the State of California Streets and Highway Code.

**Transportation Grants Fund** – This fund accounts for grants and developer contributions received for specific transportation projects.

**Grants Fund** – This fund accounts for grants received for specific purposes. These include funds received under the Housing and Community Development Act.

**Traffic Safety Fund** – This fund accounts for revenues received from traffic fines and used for traffic safety programs.

**Transportation Fund** – This fund accounts for the City's share of special sales tax for transportation. Expenditures from this fund may only be incurred on transportation-related programs.

**Seaport Landscape Maintenance Fund** – This fund accounts for funds to be provided by property owners in the Seaport Boulevard area for maintenance of landscaping on Seaport Boulevard.

**Seaport Centre Maintenance Fund** – This fund accounts for funds provided by property owners in the Seaport Centre area for the maintenance and repair of drains and sewer lines connecting the Centre facilities to the public facilities.

**Redwood Shores Maintenance Fund** – This fund accounts for funds collected from property owners in the Redwood Shores area for the maintenance of various public areas.

**Redwood Shores Landscape Maintenance Fund** – This fund accounts for funds collected from property owners for landscape maintenance of certain areas in Redwood Shores.

**Supplemental Law Enforcement Services Fund** – This fund accounts for funds from the State of California "Citizens Option for Public Safety" program.

**Traffic Mitigation Fees Fund** – This fund accounts for developer contributions received for general transportation projects.

**Low and Moderate Income Housing Asset Fund** – This fund accounts for the restricted and obligated balances (other than the Legal Aid Society balance) of the former redevelopment agency low and moderate income housing fund that were transferred to the City after the dissolution of the redevelopment agency on February 1, 2012.

**Planning Cost Recovery Fund** – This fund accounts for fees charged for reimbursement of the expenditures associated with processing planning applications related to major projects.

### DEBT SERVICE FUNDS

Debt service funds are used to account for the payment of interest and principal on general debt of the City and related entities.

**Public Financing Authority Bonds Fund** – This fund was created in 1991 as a financing mechanism to provide for the defeasement of the Facilities and Infrastructure Authority bonds (issued in 1986) and for funds to construct a new police facility. Lease/leaseback bonds were issued in July 1991 and were completely refunded in fiscal year 2003/04 through the issuance of 2003 Public Financing Authority bonds. The 2003 bonds were issued for the refunding and to provide funding for new projects. These bonds are guaranteed by lease payments from the City and were refunded in FY 2012/13. The City Council sits as the Authority's governing board.

**Public Financing Authority 2013 Refunding Lease Fund** – This fund accounts for a lease entered into to refund the 2003 Public Financing Authority bonds. This lease is secured by lease payment from the City.

### CAPITAL PROJECTS FUNDS

Capital projects funds are established to account for resources used for the acquisition and construction of capital facilities by the City except for those financed by the proprietary funds or special revenue funds. Funding for these projects is provided by the general fund and by special assessment districts. Currently the City has the following funds:

**Facilities Fee Construction Fund** – This fund derives its revenue from fees collected from the developers in the Redwood Shores area. Funds are used for improvements to roads, drainage, water, traffic lights, canals, etc. in the area.

**Parks Impact and In Lieu Fee Fund** – This fund accounts for parks impact fees and Quimby Act in lieu fees charged to developers on new development projects, to enable the City to expand and improve its system of parks, parkland, and recreational facilities to provide services to future development.

**Shores Transportation Improvement District Fund** – This fund accounts for community facility district bonds that were issued and developer contributions that were received by the City to fund various transportation projects in the Redwood Shores area.

**One Marina Community Facilities District Fund** – This fund accounts for certain public infrastructure improvements within the One Marina district that are financed by community facilities district bonds.

CITY OF REDWOOD CITY, CALIFORNIA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS  
JUNE 30, 2013

SPECIAL REVENUE FUNDS

	Special Gas Tax Street Improvement Fund \$	Transportation Grants Fund \$	Grants Fund \$	Traffic Safety Fund \$	Transportation Fund \$	Seaport Landscape Maintenance Fund \$
<b>ASSETS</b>						
Cash and investments available for operations	7,859,294	4,473,214	2,110,353	4,615	1,866,198	522,832
Cash and investments, restricted			95,947			
Receivables (net of allowance for uncollectibles):						
Taxes and assessments - current	157,250				121,663	
Accounts			12,442	8,976		
Loans			3,056,239			
Accrued interest			42,197			
Due from other governmental agencies	876	693,835	135,515	77,486		
Advances to RDA successor agency						
Investment in land held for redevelopment			2,410,000			
<b>Total Assets</b>	<b>8,017,420</b>	<b>5,167,049</b>	<b>7,862,693</b>	<b>91,077</b>	<b>1,987,861</b>	<b>522,832</b>
<b>LIABILITIES</b>						
Accounts payable	390,830	31,280	327,301	67,830	868,585	265
Deposits payable						
Deferred revenue			42,197			
Unearned revenue						
<b>Total Liabilities</b>	<b>390,830</b>	<b>31,280</b>	<b>369,498</b>	<b>67,830</b>	<b>868,585</b>	<b>265</b>
<b>FUND BALANCES</b>						
Restricted for:						
Community development			6,237,065			
Public safety						151,355
Transportation	131,584	3,312,899			400,418	2,442,744
Environmental support and protection						481,804
Leisure, cultural and information services			375,804			
Capital projects		1,822,870	880,326		718,858	40,763
Other purposes						
Committed to:						
Capital projects	6,148,226					
Assigned to:						
Transportation				23,247		
Capital projects	1,346,780					
<b>Total Fund Balances</b>	<b>7,626,590</b>	<b>5,135,769</b>	<b>7,493,195</b>	<b>23,247</b>	<b>1,119,276</b>	<b>522,567</b>
<b>Total Liabilities and Fund Balances</b>	<b>8,017,420</b>	<b>5,167,049</b>	<b>7,862,693</b>	<b>91,077</b>	<b>1,987,861</b>	<b>522,832</b>

SPECIAL REVENUE FUNDS

	Seaport Centre Maintenance Fund \$	Redwood Shores Maintenance Fund \$	Redwood Shores Landscape Mtc. Fund \$	Supplemental Law Enforcement Services Fund \$	Traffic Mitigation Fees Fund \$
Cash and investments available for operations	1,643,731	1,181,327	57,902	171,422	2,306,099
Cash and investments, restricted					6,366,735
Receivables (net of allowance for uncollectibles):					
Taxes and assessments - current					
Accounts					
Loans					
Accrued interest					
Due from other governmental agencies				26,254	
Advances to RDA successor agency					
Investment in land held for redevelopment					
<b>Total Assets</b>	<b>1,643,731</b>	<b>1,181,327</b>	<b>57,902</b>	<b>197,676</b>	<b>8,672,834</b>
<b>LIABILITIES</b>					
Accounts payable	94	62,398	6,178	46,321	221,466
Deposits payable					11,088
Deferred revenue					
Unearned revenue					
<b>Total Liabilities</b>	<b>94</b>	<b>62,398</b>	<b>6,178</b>	<b>46,321</b>	<b>232,554</b>
<b>FUND BALANCES</b>					
Restricted for:					
Community development					
Public safety				151,355	
Transportation	1,613,617	663,918	51,724		2,442,744
Environmental support and protection					481,804
Leisure, cultural and information services					
Capital projects	30,020	455,011			5,997,536
Other purposes					
Committed to:					
Capital projects	6,148,226				
Assigned to:					
Transportation					
Capital projects	1,346,780				
<b>Total Fund Balances</b>	<b>1,643,637</b>	<b>1,118,929</b>	<b>51,724</b>	<b>151,355</b>	<b>8,440,280</b>
<b>Total Liabilities and Fund Balances</b>	<b>1,643,731</b>	<b>1,181,327</b>	<b>57,902</b>	<b>197,676</b>	<b>8,672,834</b>

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS  
JUNE 30, 2013

	SPECIAL REVENUE FUNDS		DEBT SERVICE FUNDS		CAPITAL PROJECTS FUNDS				Total
	Low & Moderate Income Housing Asset Fund	Planning Cost Recovery Fund	Public Financing Authority Bonds Fund	Public Financing Authority 2013 Refunding Lease Fund	Facilities Fee Construction Fund	Parks Impact and In Lieu Fee Fund	Shores Transportation Improvement District Fund	One Marina Community Facilities District Fund	Nonmajor Governmental Funds
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>ASSETS</b>									
Cash and investments available for operations	993,072	1,007,760			486,538	7,582,340	587,277		32,853,974
Cash and investments, restricted									6,462,682
Receivables (net of allowance for uncollectibles):									
Taxes and assessments - current									278,913
Accounts	4,640								26,058
Loans	4,184,384								7,240,623
Accrued interest	652,507								694,704
Due from other governmental agencies									933,966
Advances to RDA successor agency	1,687,703								1,687,703
Investment in land held for redevelopment	3,331,208								5,741,208
<b>Total Assets</b>	<b>10,853,514</b>	<b>1,007,760</b>			<b>486,538</b>	<b>7,582,340</b>	<b>587,277</b>		<b>55,919,831</b>
<b>LIABILITIES</b>									
Accounts payable	500,000	927,687			16,408				3,466,643
Deposits payable	9,234	80,073							100,395
Deferred revenue	652,507								694,704
Unearned revenue					171,111				171,111
<b>Total Liabilities</b>	<b>1,161,741</b>	<b>1,007,760</b>			<b>187,519</b>				<b>4,432,853</b>
<b>FUND BALANCES</b>									
Restricted for:									
Community development	9,691,773								15,928,838
Public safety									151,355
Transportation							88,949		6,376,594
Environmental support and protection									2,811,063
Leisure, cultural and information services						7,282,340			7,658,144
Capital projects					176,448	300,000	498,328		10,920,160
Other purposes					122,571				122,571
Committed to:									
Capital projects									6,148,226
Assigned to:									
Transportation									23,247
Capital projects									1,346,780
<b>Total Fund Balances</b>	<b>9,691,773</b>				<b>299,019</b>	<b>7,582,340</b>	<b>587,277</b>		<b>51,486,978</b>
<b>Total Liabilities and Fund Balances</b>	<b>10,853,514</b>	<b>1,007,760</b>			<b>486,538</b>	<b>7,582,340</b>	<b>587,277</b>		<b>55,919,831</b>

CITY OF REDWOOD CITY, CALIFORNIA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2013

	SPECIAL REVENUE FUNDS				
	Special Gas Tax Street Improvement Fund	Transportation Grants Fund	Grants Fund	Traffic Safety Fund	Transportation Fund
	\$	\$	\$	\$	\$
<b>REVENUES</b>					
Property taxes/special assessments				649,020	
Fines, forfeitures and penalties					2,774
Use of money and property		10,548	72,061		
Intergovernmental	1,816,236	831,277	1,326,402		1,609,578
Contributions					
Charges for current services	286,056		1,170	270	
Other			950	13,620	
<b>Total Revenues</b>	<b>2,102,292</b>	<b>841,825</b>	<b>1,400,583</b>	<b>662,910</b>	<b>1,612,352</b>
<b>EXPENDITURES</b>					
Current Operations:					
Community development			1,289,420		
Public safety			195,370		
Transportation	1,502,516	151,230		1,606,553	434,210
Environmental support and protection	332,061	287,455			
Capital outlay	661,955	489,267	24,201		1,971,947
Debt service:					
Principal retirement					
Interest and fiscal charges					
<b>Total Expenditures</b>	<b>2,496,532</b>	<b>927,952</b>	<b>1,313,621</b>	<b>1,801,923</b>	<b>2,406,157</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(394,240)</b>	<b>(86,127)</b>	<b>86,962</b>	<b>(1,139,013)</b>	<b>(793,805)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	627,352			1,096,643	
Transfers (out)		(31,323)			
Refunding lease					
<b>Total Other Financing Sources (Uses)</b>	<b>627,352</b>	<b>(31,323)</b>		<b>1,096,643</b>	
<b>Net change in fund balances</b>	<b>233,112</b>	<b>(117,450)</b>	<b>86,962</b>	<b>(42,370)</b>	<b>(793,805)</b>
Fund balances - beginning	7,393,478	5,253,219	7,406,233	65,617	1,913,081
<b>FUND BALANCES - ENDING</b>	<b>7,626,590</b>	<b>5,135,769</b>	<b>7,493,195</b>	<b>23,247</b>	<b>1,119,276</b>

	SPECIAL REVENUE FUNDS					
	Seaport Landscape Maintenance Fund	Seaport Centre Maintenance Fund	Redwood Shores Maintenance Fund	Redwood Shores Landscape Maintenance Fund	Supplemental Law Enforcement Services Fund	Traffic Mitigation Fees Fund
	\$	\$	\$	\$	\$	\$
	212,441	186,951	718,599	211,245		
	921	3,037	2,296	54	184	8,736
					114,864	
						700,505
<b>Total Revenues</b>	<b>213,362</b>	<b>189,988</b>	<b>720,895</b>	<b>211,299</b>	<b>115,048</b>	<b>709,241</b>
	197,537	67,104	284,912	216,104		276,795
			338,757			396,133
<b>Total Expenditures</b>	<b>197,537</b>	<b>67,104</b>	<b>623,669</b>	<b>216,104</b>	<b>89,564</b>	<b>672,928</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>15,825</b>	<b>122,884</b>	<b>97,226</b>	<b>(4,805)</b>	<b>25,484</b>	<b>36,313</b>
			(250,000)	28,922		
<b>Total Other Financing Sources (Uses)</b>			<b>(250,000)</b>	<b>28,922</b>		
<b>Net change in fund balances</b>	<b>15,825</b>	<b>122,884</b>	<b>(152,774)</b>	<b>24,117</b>	<b>25,484</b>	<b>36,313</b>
Fund balances - beginning	506,742	1,520,753	1,271,703	27,607	125,871	8,403,967
<b>FUND BALANCES - ENDING</b>	<b>522,567</b>	<b>1,643,637</b>	<b>1,118,929</b>	<b>51,724</b>	<b>151,355</b>	<b>8,440,280</b>

(Continued)



CITY OF REDWOOD CITY, CALIFORNIA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2013

	SPECIAL REVENUE FUNDS		DEBT SERVICE FUNDS		CAPITAL PROJECTS FUNDS				Total
	Low & Moderate Income Housing Asset Fund	Planning Cost Recovery Fund	Public Financing Authority Bonds Fund	Public Financing Authority 2013 Refunding Lease Fund	Facilities Fee Construction Fund	Parks Impact and In Lieu Fee Fund	Shores Transportation Improvement District Fund	One Marina Community Facilities District Fund	
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>REVENUES</b>									
Property taxes/special assessments									1,329,236
Fines, forfeitures and penalties									649,020
Use of money and property	16,960		1,784,560		3,937	4,342	1,070		1,911,480
Intergovernmental									5,698,357
Contributions						6,526,686			7,227,191
Charges for current services		779,946							1,067,442
Other	325								14,895
<b>Total Revenues</b>	<b>17,285</b>	<b>779,946</b>	<b>1,784,560</b>		<b>3,937</b>	<b>6,531,028</b>	<b>1,070</b>		<b>17,897,621</b>
<b>EXPENDITURES</b>									
Current Operations:									
Community development	20,000	779,946							2,089,366
Public safety									284,934
Transportation							7,142		3,978,446
Environmental support and protection									1,385,173
Capital outlay					348,871				4,231,131
Debt service:									
Principal retirement			5,880,000						5,880,000
Interest and fiscal charges			326,059						326,059
Bond issuance costs				67,252					67,252
<b>Total Expenditures</b>	<b>20,000</b>	<b>779,946</b>	<b>6,206,059</b>	<b>67,252</b>	<b>348,871</b>		<b>7,142</b>		<b>18,242,361</b>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,715)		(4,421,499)	(67,252)	(344,934)	6,531,028	(6,072)		(344,740)
OTHER FINANCING SOURCES (USES)									
Transfers in	200,000		3,292,748						5,245,665
Transfers (out)				(3,292,748)					(3,574,071)
Refunding lease				3,360,000					3,360,000
<b>Total Other Financing Sources (Uses)</b>	<b>200,000</b>		<b>3,292,748</b>	<b>67,252</b>					<b>5,031,594</b>
Net change in fund balances	197,285		(1,128,751)		(344,934)	6,531,028	(6,072)		4,686,854
Fund balances - beginning	9,494,488		1,128,751		643,953	1,051,312	593,349		46,800,124
<b>FUND BALANCES - ENDING</b>	<b>9,691,773</b>				<b>299,019</b>	<b>7,582,340</b>	<b>587,277</b>		<b>51,486,978</b>

CITY OF REDWOOD CITY, CALIFORNIA  
 BUDGETED NON-MAJOR FUNDS  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	SPECIAL GAS TAX STREET IMPROVEMENT FUND			TRANSPORTATION GRANTS FUND			GRANTS FUND			TRAFFIC SAFETY FUND			TRANSPORTATION FUND		
	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>REVENUES</b>															
Property taxes/special assessments															
Fines, forfeitures and penalties				50,000	10,548	(39,452)									
Use of money and property				887,603	831,277	(56,326)	253,807	72,061	(181,746)				620,000	649,020	29,020
Intergovernmental	2,043,880	1,816,236	(227,644)				901,286	1,326,402	425,116						
Contributions													1,474,450	1,609,578	135,128
Charges for current services		286,056	286,056					1,170	1,170		270	270			
Other								950	950		13,620	13,620			
<b>Total Revenues</b>	<b>2,043,880</b>	<b>2,102,292</b>	<b>58,412</b>	<b>937,603</b>	<b>841,825</b>	<b>(95,778)</b>	<b>1,155,093</b>	<b>1,400,583</b>	<b>245,490</b>	<b>620,000</b>	<b>662,910</b>	<b>42,910</b>	<b>1,492,250</b>	<b>1,612,352</b>	<b>120,102</b>
<b>EXPENDITURES</b>															
Current operations:															
Community development							1,511,630	1,289,420	222,210						
Public safety										248,829	195,370	53,459			
Transportation	1,529,221	1,502,516	26,705	150,704	151,230	(526)				1,583,127	1,606,553	(23,426)	434,172	434,210	(38)
Environmental support and protection	374,212	332,061	42,151	280,747	287,455	(6,708)									
Debt service:															
Principal retirement															
Interest and fiscal charges															
Bond issuance costs															
<b>Total Expenditures</b>	<b>1,903,433</b>	<b>1,834,577</b>	<b>68,856</b>	<b>431,451</b>	<b>438,685</b>	<b>(7,234)</b>	<b>1,511,630</b>	<b>1,289,420</b>	<b>222,210</b>	<b>1,831,956</b>	<b>1,801,923</b>	<b>30,033</b>	<b>434,172</b>	<b>434,210</b>	<b>(38)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>140,447</b>	<b>267,715</b>	<b>127,268</b>	<b>506,152</b>	<b>403,140</b>	<b>(103,012)</b>	<b>(356,537)</b>	<b>111,163</b>	<b>467,700</b>	<b>(1,211,956)</b>	<b>(1,139,013)</b>	<b>72,943</b>	<b>1,058,078</b>	<b>1,178,142</b>	<b>120,064</b>
<b>OTHER FINANCING SOURCES (USES)</b>															
Transfers in	627,352	627,352								1,187,700	1,096,643	(91,057)			
Transfers (out)					(31,323)	(31,323)									
Refunding lease															
<b>Total Other Financing Sources (Uses)</b>	<b>627,352</b>	<b>627,352</b>			<b>(31,323)</b>	<b>(31,323)</b>				<b>1,187,700</b>	<b>1,096,643</b>	<b>(91,057)</b>			
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>767,799</b>	<b>895,067</b>	<b>127,268</b>	<b>506,152</b>	<b>371,817</b>	<b>(134,335)</b>	<b>(356,537)</b>	<b>111,163</b>	<b>467,700</b>	<b>(24,256)</b>	<b>(42,370)</b>	<b>(18,114)</b>	<b>1,058,078</b>	<b>1,178,142</b>	<b>120,064</b>
Adjustments to budgetary basis:															
Capital outlay		(661,955)			(489,267)			(24,201)						(1,971,947)	
Funds not budgeted:															
Facilities Fee Construction Fund															
Parks Impact and In Lieu Fee Fund															
Shores Transportation Improvement District															
One Marina Community Facilities District															
<b>Fund balances - beginning</b>	<b>7,393,478</b>			<b>5,253,219</b>			<b>7,406,233</b>			<b>65,617</b>			<b>1,913,081</b>		
<b>Fund balances - ending</b>	<b>7,626,590</b>			<b>5,135,769</b>			<b>7,493,195</b>			<b>23,247</b>			<b>1,119,276</b>		

There were no material changes between the original and final budgeted amounts.

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA  
 BUDGETED NON-MAJOR FUNDS  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	SEAPORT LANDSCAPE MAINTENANCE FUND			SEAPORT CENTRE MAINTENANCE FUND			REDWOOD SHORES MAINTENANCE FUND			REDWOOD SHORES LANDSCAPE MAINTENANCE FUND			SUPPLEMENTAL LAW ENFORCEMENT SERVICES FUND		
	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>REVENUES</b>															
Property taxes/special assessments	212,500	212,441	(59)	187,000	186,951	(49)	700,251	718,599	18,348	212,095	211,245	(850)			
Fines, forfeitures and penalties															
Use of money and property	4,554	921	(3,633)	15,700	3,037	(12,663)	13,184	2,296	(10,888)		54	54		184	184
Intergovernmental Contributions													100,000	114,864	14,864
Charges for current services															
Other															
<b>Total Revenues</b>	<b>217,054</b>	<b>213,362</b>	<b>(3,692)</b>	<b>202,700</b>	<b>189,988</b>	<b>(12,712)</b>	<b>713,435</b>	<b>720,895</b>	<b>7,460</b>	<b>212,095</b>	<b>211,299</b>	<b>(796)</b>	<b>100,000</b>	<b>115,048</b>	<b>15,048</b>
<b>Current operations:</b>															
Community development															
Public safety													107,439	89,564	17,875
Transportation															
Environmental support and protection	230,835	197,537	33,298	126,386	67,104	59,282	571,492	284,912	286,580	241,017	216,104	24,913			
Debt service:															
Principal retirement															
Interest and fiscal charges															
Bond issuance costs															
<b>Total Expenditures</b>	<b>230,835</b>	<b>197,537</b>	<b>33,298</b>	<b>126,386</b>	<b>67,104</b>	<b>59,282</b>	<b>571,492</b>	<b>284,912</b>	<b>286,580</b>	<b>241,017</b>	<b>216,104</b>	<b>24,913</b>	<b>107,439</b>	<b>89,564</b>	<b>17,875</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(13,781)</b>	<b>15,825</b>	<b>29,606</b>	<b>76,314</b>	<b>122,884</b>	<b>46,570</b>	<b>141,943</b>	<b>435,983</b>	<b>294,040</b>	<b>(28,922)</b>	<b>(4,805)</b>	<b>24,117</b>	<b>(7,439)</b>	<b>25,484</b>	<b>32,923</b>
<b>OTHER FINANCING SOURCES (USES)</b>															
Transfers in										28,922	28,922				
Transfers (out)							(250,000)	(250,000)							
Refunding lease															
<b>Total Other Financing Sources (Uses)</b>							<b>(250,000)</b>	<b>(250,000)</b>		<b>28,922</b>	<b>28,922</b>				
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>(13,781)</b>	<b>15,825</b>	<b>29,606</b>	<b>76,314</b>	<b>122,884</b>	<b>46,570</b>	<b>(108,057)</b>	<b>185,983</b>	<b>294,040</b>	<b></b>	<b>24,117</b>	<b>24,117</b>	<b>(7,439)</b>	<b>25,484</b>	<b>32,923</b>
<b>Adjustments to budgetary basis:</b>															
Capital outlay								(338,757)							
<b>Funds not budgeted:</b>															
Facilities Fee Construction Fund															
Parks Impact and In Lieu Fee Fund															
Shores Transportation Improvement District															
One Marina Community Facilities District															
<b>Fund balances - beginning</b>	<b>506,742</b>			<b>1,520,753</b>			<b>1,271,703</b>			<b>27,607</b>			<b>125,871</b>		
<b>Fund balances - ending</b>	<b>522,567</b>			<b>1,643,637</b>			<b>1,118,929</b>			<b>51,724</b>			<b>151,355</b>		

There were no material changes between the original and final budgeted amounts.

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA  
 BUDGETED NON-MAJOR FUNDS  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	TRAFFIC MITIGATION FEES FUND			LOW AND MODERATE INCOME HOUSING ASSET FUND			PLANNING COST RECOVERY FUND			PUBLIC FINANCING AUTHORITY BONDS FUND			PUBLIC FINANCING AUTHORITY 2013 REFUNDING LEASE FUND			
	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
<b>REVENUES</b>																
Property taxes/special assessments																
Fines, forfeitures and penalties																
Use of money and property	53,100	8,736	(44,364)		16,960	16,960				1,850,309	1,784,560	(65,749)				
Intergovernmental																
Contributions	250,000	700,505	450,505													
Charges for current services																
Other					325	325										
<b>Total Revenues</b>	<b>303,100</b>	<b>709,241</b>	<b>406,141</b>		<b>17,285</b>	<b>17,285</b>		<b>2,802,273</b>	<b>779,946</b>	<b>(2,022,327)</b>	<b>1,850,309</b>	<b>1,784,560</b>	<b>(65,749)</b>			
<b>Current operations:</b>																
Community development					20,000	(20,000)		2,802,273	779,946	2,022,327						
Public safety																
Transportation	676,480	276,795	399,685													
Environmental support and protection																
<b>Debt service:</b>																
Principal retirement											5,880,000	5,880,000				
Interest and fiscal charges											405,729	326,059	79,670			
Bond issuance costs														67,252	(67,252)	
<b>Total Expenditures</b>	<b>676,480</b>	<b>276,795</b>	<b>399,685</b>		<b>20,000</b>	<b>(20,000)</b>		<b>2,802,273</b>	<b>779,946</b>	<b>2,022,327</b>	<b>6,285,729</b>	<b>6,206,059</b>	<b>79,670</b>		<b>67,252</b>	<b>(67,252)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(373,380)</b>	<b>432,446</b>	<b>805,826</b>		<b>(2,715)</b>	<b>(2,715)</b>					<b>(4,435,420)</b>	<b>(4,421,499)</b>	<b>13,921</b>		<b>(67,252)</b>	<b>(67,252)</b>
<b>OTHER FINANCING SOURCES (USES)</b>																
Transfers in				200,000	200,000						3,305,000	3,292,748	(12,252)			
Transfers (out)														(3,305,000)	(3,292,748)	12,252
Refunding lease														3,305,000	3,360,000	55,000
<b>Total Other Financing Sources (Uses)</b>				<b>200,000</b>	<b>200,000</b>						<b>3,305,000</b>	<b>3,292,748</b>	<b>(12,252)</b>		<b>67,252</b>	<b>67,252</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>(373,380)</b>	<b>432,446</b>	<b>805,826</b>	<b>200,000</b>	<b>197,285</b>	<b>(2,715)</b>					<b>(1,130,420)</b>	<b>(1,128,751)</b>	<b>1,669</b>			
<b>Adjustments to budgetary basis:</b>																
Capital outlay		(396,133)														
<b>Funds not budgeted:</b>																
Facilities Fee Construction Fund																
Parks Impact and In Lieu Fee Fund																
Shores Transportation Improvement District																
One Marina Community Facilities District																
<b>Fund balances - beginning</b>	<b>8,403,967</b>			<b>9,494,488</b>							<b>1,128,751</b>					
<b>Fund balances - ending</b>	<b>8,440,280</b>			<b>9,691,773</b>												

There were no material changes between the original and final budgeted amounts.

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA  
 BUDGETED NON-MAJOR FUNDS  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	TOTALS		
	Budget	Actual	Variance with Final Budget Positive (Negative)
	\$	\$	\$
<b>REVENUES</b>			
Property taxes/special assessments	1,311,846	1,329,236	17,390
Fines, forfeitures and penalties	620,000	649,020	29,020
Use of money and property	2,258,454	1,902,131	(356,323)
Intergovernmental	5,407,219	5,698,357	291,138
Contributions	250,000	700,505	450,505
Charges for current services	2,802,273	1,067,442	(1,734,831)
Other		14,895	14,895
<b>Total Revenues</b>	<b>12,649,792</b>	<b>11,361,586</b>	<b>(1,288,206)</b>
<b>Current operations:</b>			
Community development	4,313,903	2,089,366	2,224,537
Public safety	356,268	284,934	71,334
Transportation	4,373,704	3,971,304	402,400
Environmental support and protection	1,824,689	1,385,173	439,516
<b>Debt service:</b>			
Principal retirement	5,880,000	5,880,000	
Interest and fiscal charges	405,729	326,059	79,670
Bond issuance costs		67,252	(67,252)
<b>Total Expenditures</b>	<b>17,154,293</b>	<b>14,004,088</b>	<b>3,150,205</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OVER EXPENDITURES</b>	<b>(4,504,501)</b>	<b>(2,642,502)</b>	<b>1,861,999</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	5,348,974	5,245,665	(103,309)
Transfers (out)	(3,555,000)	(3,574,071)	(19,071)
Refunding lease	3,305,000	3,360,000	55,000
<b>Total Other Financing Sources (Uses)</b>	<b>5,098,974</b>	<b>5,031,594</b>	<b>(67,380)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>594,473</b>	<b>2,389,092</b>	<b>1,794,619</b>
<b>Adjustments to budgetary basis:</b>			
Capital outlay		(3,882,260)	
<b>Funds not budgeted:</b>			
Facilities Fee Construction Fund		299,019	
Parks Impact and In Lieu Fee Fund		7,582,340	
Shores Transportation Improvement District		587,277	
One Marina Community Facilities District			
<b>Fund balances - beginning</b>	<b>44,511,510</b>		
<b>Fund balances - ending</b>	<b>51,486,978</b>		

There were no material changes between the original and final budgeted amounts.



*City of Redwood City  
 Comprehensive Annual Financial Report  
 June 30, 2013*

**INTERNAL SERVICE FUNDS**

Internal service funds are used to account for the financing of goods and services provided by one City department to others on a cost reimbursement basis.

**Equipment Services Fund** – This fund accounts for the costs of operation, maintenance, and replacement of automotive equipment used by other departments. Such costs are billed to the consuming departments at a rate that includes operation, maintenance, and an amount necessary to provide replacement of the equipment at a future date. Additional equipment is budgeted by the consuming department and is then transferred to the equipment services fund after purchase.

**Self-Insurance Fund** – This fund accounts for the City’s total insurance program which includes, but is not limited to, workers’ compensation, comprehensive automobile and general liability, and property and crime insurance. Included are administrative costs and costs associated with self-insurance and the purchase of excess insurance to adequately protect the City. User departments are charged for workers’ compensation insurance at rates based on loss experience and on departmental budget size.

**Internal Services Fund** – This fund accounts for the costs of operation of the City’s telephone/communications service, maintenance and repair of buildings, custodial services, and information technology services. The costs are billed to the user departments based on actual use by the departments.

**Employee Benefits Fund** – This fund is used to account for providing City workers with self-insured dental benefits and unemployment insurance, and health insurance to retired City employees

CITY OF REDWOOD CITY, CALIFORNIA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF NET POSITION  
JUNE 30, 2013

	Equipment Services Fund	Self Insurance Fund	Internal Services Fund	Employee Benefits Fund	Total
	\$	\$	\$	\$	\$
<b>ASSETS</b>					
Current assets:					
Cash and investments available for operations	7,221,741	11,995,530	2,085,182	338,168	21,640,621
Receivables (net of allowance for uncollectibles):					
Accounts	36,784			455	37,239
Accrued interest	3,719				3,719
Due from other governmental agencies	79,919		122,224		202,143
Due from other funds	300,000				300,000
Inventory of supplies at cost	140,391				140,391
Deposits		250,000			250,000
Prepaid items			9,071		9,071
Total current assets	<u>7,782,554</u>	<u>12,245,530</u>	<u>2,216,477</u>	<u>338,623</u>	<u>22,583,184</u>
Noncurrent assets:					
Advances to other funds	2,700,000				2,700,000
Capital assets:					
Equipment, net	<u>7,669,100</u>		<u>688,948</u>		<u>8,358,048</u>
Net capital assets	<u>7,669,100</u>		<u>688,948</u>		<u>8,358,048</u>
Total noncurrent assets	<u>10,369,100</u>		<u>688,948</u>		<u>11,058,048</u>
Total assets	<u>18,151,654</u>	<u>12,245,530</u>	<u>2,905,425</u>	<u>338,623</u>	<u>33,641,232</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	153,456	236,493	221,324		611,273
Insurance claims payable - current portion		2,502,850			2,502,850
Accrued sick leave and vacation - current portion	48,446		307,244		355,690
Unearned revenue	40,000				40,000
Total current liabilities	<u>241,902</u>	<u>2,739,343</u>	<u>528,568</u>		<u>3,509,813</u>
Noncurrent liabilities:					
Insurance claims payable		10,897,502			10,897,502
Accrued sick leave and vacation	116,268		486,033		602,301
Net OPEB obligation	74,492	25,994	390,836		491,322
Total noncurrent liabilities	<u>190,760</u>	<u>10,923,496</u>	<u>876,869</u>		<u>11,991,125</u>
Total liabilities	<u>432,662</u>	<u>13,662,839</u>	<u>1,405,437</u>		<u>15,500,938</u>
NET POSITION					
Invested in capital assets	7,669,100		688,948		8,358,048
Unrestricted	<u>10,049,892</u>	<u>(1,417,309)</u>	<u>811,040</u>	<u>338,623</u>	<u>9,782,246</u>
Total net position	<u>17,718,992</u>	<u>(1,417,309)</u>	<u>1,499,988</u>	<u>338,623</u>	<u>18,140,294</u>

CITY OF REDWOOD CITY, CALIFORNIA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES,  
EXPENSES, AND CHANGES IN FUND NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2013

	Equipment Services Fund \$	Self Insurance Fund \$	Internal Services Fund \$	Employee Benefits Fund \$	Total \$
<b>OPERATING REVENUES</b>					
Charges for services	4,233,520	3,764,227	8,651,166	6,044,402	22,693,315
<b>OPERATING EXPENSES</b>					
Employee services	845,865	366,150	6,883,363		8,095,378
Maintenance	1,144,608		906,076		2,050,684
Utilities	19,032	2,760	39,984		61,776
Contractual services	27,001	517,381	12,496	34,738	591,616
Supplies and services	213,630	358,800	994,680		1,567,110
Depreciation	1,032,386		143,804		1,176,190
Insurance and claims		5,556,512		5,828,054	11,384,566
Total operating expenses	3,282,522	6,801,603	8,980,403	5,862,792	24,927,320
Operating Income (Loss)	950,998	(3,037,376)	(329,237)	181,610	(2,234,005)
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Gain (loss) on disposal of equipment	(8,340)		(24,110)		(32,450)
Investment earnings	19,138	22,645	4,224	3,657	49,664
Insurance recovery			2,225		2,225
Contributions				1,256,097	1,256,097
Net Nonoperating Revenues (Expenses)	10,798	22,645	(17,661)	1,259,754	1,275,536
Net Income (Loss) Before Capital Contributions and Transfers	961,796	(3,014,731)	(346,898)	1,441,364	(958,469)
Capital contributions			268,380		268,380
Transfers in		1,565,345			1,565,345
Transfers (out)			(14,116)	(1,465,345)	(1,479,461)
Total Capital Contributions and Transfers		1,565,345	254,264	(1,465,345)	354,264
Change in net position	961,796	(1,449,386)	(92,634)	(23,981)	(604,205)
Net position - beginning	16,757,196	32,077	1,592,622	362,604	18,744,499
Net position - ending	17,718,992	(1,417,309)	1,499,988	338,623	18,140,294

CITY OF REDWOOD CITY, CALIFORNIA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF CASH FLOWS  
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Equipment Services Fund \$	Self Insurance Fund \$	Internal Services Fund \$	Employee Benefits Fund \$	Total \$
<b>Cash flows from operating activities:</b>					
Cash received from interfund services provided	4,209,541	3,764,227	8,776,688	6,044,402	22,794,858
Cash payments to suppliers for goods and services	(1,429,363)	(4,842,793)	(1,819,713)	(6,415,765)	(14,507,634)
Cash payments to employees for services	(833,078)	(365,799)	(6,823,788)		(8,022,665)
Net cash provided by (used in) operating activities	1,947,100	(1,444,365)	133,187	(371,363)	264,559
<b>Cash flows from noncapital financing activities:</b>					
Insurance recovery			2,225		2,225
Transfers in		1,565,345			1,565,345
Transfers out			(14,116)	(1,465,345)	(1,479,461)
Advances to other funds	(3,000,000)				(3,000,000)
Contributions				1,256,097	1,256,097
Net cash provided by (used in) non-capital financing activities	(3,000,000)	1,565,345	(11,891)	(209,248)	(1,655,794)
<b>Cash flows from capital and related financing activities:</b>					
Acquisition and construction of capital assets	(435,962)				(435,962)
Proceeds from sale of equipment	53,058				53,058
Net cash used in capital and related financing activities	(382,904)				(382,904)
<b>Cash flows from investing activities:</b>					
Interest on investments	15,418	22,645	4,224	3,657	45,944
Net cash provided by investing activities	15,418	22,645	4,224	3,657	45,944
Net increase (decrease) in cash and cash equivalents	(1,420,386)	143,625	125,520	(576,954)	(1,728,195)
Cash and cash equivalents at beginning of year	8,642,127	11,851,905	1,959,662	915,122	23,368,816
Cash and cash equivalents at end of year	7,221,741	11,995,530	2,085,182	338,168	21,640,621
<b>Reconciliation of Net Cash Flow from Operating Activities</b>					
Operating income (loss)	950,998	(3,037,376)	(329,237)	181,610	(2,234,005)
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:					
Depreciation	1,032,386		143,804		1,176,190
Change in assets and liabilities:					
Decrease (increase) in accounts receivable	(18,358)		407		(17,951)
Decrease (increase) in due from other governmental agencies	(45,621)		125,115		79,494
Decrease (increase) in inventory/prepaid expense/deposits	10,316		(9,071)		1,245
Increase (decrease) in vacation & sick leave payable	11,782		54,298		66,080
Increase (decrease) in accounts payable	(35,408)	(28,902)	142,594	(552,973)	(474,689)
Increase (decrease) in unearned revenue	40,000				40,000
Increase (decrease) in net OPEB obligation	1,005	351	5,277		6,633
Increase (decrease) in insurance claims payable		1,621,562			1,621,562
Total adjustments	996,102	1,593,011	462,424	(552,973)	2,498,564
Net cash provided by (used in) operating activities	1,947,100	(1,444,365)	133,187	(371,363)	264,559
<b>Noncash investing, capital and financing activities:</b>					
Noncash capital contributions			268,380		268,380
Gain (loss) on disposal of equipment	(61,398)		(24,110)		(85,508)

**AGENCY FUNDS**

Agency funds are used to account for assets held by government in a trustee capacity or as an agent for an individual.

**Employee Benefit Plans Fund** – This fund is used to account for contributions to certain employee benefit categories established by the City under Section 125 of the Internal Revenue Code for the employees and their dependents and for an employee-funded retiree medical insurance program.

**Pacific Shores Community Facilities District Fund** – This fund accounts for the Mello-Roos Pacific Shores project special tax bonds that were issued to fund various transportation system improvements within the City's right-of-way in the Pacific Shores district.

**Shores Transportation Improvement District Fund** – This fund accounts for the Mello-Roos Shores transportation improvement special tax bonds that were issued to fund various transportation projects in the Redwood Shores area.

**One Marina Community Facilities District Fund** – This fund accounts for the Mello-Roos One Marina project special tax bonds that were issued to fund certain public infrastructure improvements projects within the One Marina district.

CITY OF REDWOOD CITY, CALIFORNIA  
 AGENCY FUNDS  
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Balance July 1, 2012	Additions	Withdrawals	Balance June 30, 2013
	\$	\$	\$	\$
<b>EMPLOYEE BENEFIT PLANS</b>				
<b>ASSETS</b>				
Cash and Investments, restricted				
Cafeteria Benefits Plan	13,659	325,132	288,409	50,382
Deposits	44,940		36,783	8,157
Total Assets	<u>58,599</u>	<u>325,132</u>	<u>325,192</u>	<u>58,539</u>
<b>LIABILITIES</b>				
Cafeteria Benefits Plan Payable	58,599	325,132	325,192	58,539
Total Liabilities	<u>58,599</u>	<u>325,132</u>	<u>325,192</u>	<u>58,539</u>
<b>PACIFIC SHORES COMMUNITY FACILITIES DISTRICT</b>				
<b>ASSETS</b>				
Cash and Investments, restricted	4,158,889	7,591,569	9,290,281	2,460,177
Accrued interest receivable	104		104	
Total Assets	<u>4,158,993</u>	<u>7,591,569</u>	<u>9,290,385</u>	<u>2,460,177</u>
<b>LIABILITIES</b>				
Due to Bondholders	4,158,993	7,591,569	9,290,385	2,460,177
Total Liabilities	<u>4,158,993</u>	<u>7,591,569</u>	<u>9,290,385</u>	<u>2,460,177</u>
<b>SHORES TRANSPORTATION IMPROVEMENT DISTRICT</b>				
<b>ASSETS</b>				
Cash and Investments, restricted	1,526,531	11,674,314	11,672,915	1,527,930
Accrued interest receivable	171	24	171	24
Total Assets	<u>1,526,702</u>	<u>11,674,338</u>	<u>11,673,086</u>	<u>1,527,954</u>
<b>LIABILITIES</b>				
Due to Bondholders	1,526,702	11,674,338	11,673,086	1,527,954
Total Liabilities	<u>1,526,702</u>	<u>11,674,338</u>	<u>11,673,086</u>	<u>1,527,954</u>
<b>ONE MARINA COMMUNITY FACILITIES DISTRICT</b>				
<b>ASSETS</b>				
Cash and Investments, restricted	1,300,690	378,036	494,287	1,184,439
Accrued interest receivable	40	15	40	15
Total Assets	<u>1,300,730</u>	<u>378,051</u>	<u>494,327</u>	<u>1,184,454</u>
<b>LIABILITIES</b>				
Accounts payable	2,066	2,278	2,066	2,278
Due to Bondholders	1,298,664	375,773	492,261	1,182,176
Total Liabilities	<u>1,300,730</u>	<u>378,051</u>	<u>494,327</u>	<u>1,184,454</u>
<b>TOTAL FOR ALL FUNDS</b>				
<b>ASSETS</b>				
Cash and Investments, restricted	6,999,769	19,969,051	21,745,892	5,222,928
Accrued interest receivable	315	39	315	39
Deposits	44,940		36,783	8,157
Total Assets	<u>7,045,024</u>	<u>19,969,090</u>	<u>21,782,990</u>	<u>5,231,124</u>
<b>LIABILITIES</b>				
Accounts payable	2,066	2,278	2,066	2,278
Due to Bondholders	6,984,359	19,641,680	21,455,732	5,170,307
Employee Benefit Plans Payable	58,599	325,132	325,192	58,539
Total Liabilities	<u>7,045,024</u>	<u>19,969,090</u>	<u>21,782,990</u>	<u>5,231,124</u>





**Statistical Section**

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This part of the City of Redwood City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<u>Contents</u>	<u>Pages</u>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	114-121
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.	122-125
<b>Debt Capacity</b> These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	126-130
<b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.	131-133
<b>Operating Information</b> These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.	134-136

**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

**Schedule 1**  
**CITY OF REDWOOD CITY, CALIFORNIA**  
**NET POSITION BY COMPONENT**  
**Last Ten Fiscal Years**  
*(accrual basis of accounting)*

	Fiscal Years				
	2004	2005	2006	2007	2008
	\$	\$	\$	\$	\$
Governmental activities					
Net investment in capital assets	113,368,966	141,068,539	158,410,981	156,907,578	156,560,228
Restricted	99,314,585	85,744,834	64,855,313	54,756,987	50,323,338
Unrestricted	26,475,064	29,809,721	39,583,698	62,441,526	63,104,332
Total governmental activities net position	<u>239,158,615</u>	<u>256,623,094</u>	<u>262,849,992</u>	<u>274,106,091</u>	<u>269,987,898</u>
Business-type activities					
Net investment in capital assets	67,463,967	38,599,000	28,718,115	70,506,885	78,785,990
Restricted	1,565,104	27,422,661	36,638,784	6,139,177	5,785,576
Unrestricted	49,966,932	52,654,580	55,293,919	49,663,838	66,030,719
Total business-type activities net position	<u>118,996,003</u>	<u>118,676,241</u>	<u>120,650,818</u>	<u>126,309,900</u>	<u>150,602,285</u>
Primary government					
Net investment in capital assets	180,832,933	179,667,539	187,129,096	227,414,463	235,346,218
Restricted	100,879,689	113,167,495	101,494,097	60,896,164	56,108,914
Unrestricted	76,441,996	82,464,301	94,877,617	112,105,364	129,135,051
Total primary government net position	<u>358,154,618</u>	<u>375,299,335</u>	<u>383,500,810</u>	<u>400,415,991</u>	<u>420,590,183</u>

**Schedule 1 (Continued)**  
**CITY OF REDWOOD CITY, CALIFORNIA**  
**NET POSITION BY COMPONENT**  
**Last Ten Fiscal Years**  
*(accrual basis of accounting)*

	Fiscal Years				
	2009	2010	2011	2012	2013
	\$	\$	\$	\$	\$
Governmental activities					
Net investment in capital assets	161,627,155	169,093,206	169,197,701	185,512,524	190,190,522
Restricted	52,368,702	54,628,813	48,959,550	39,238,667	43,957,061
Unrestricted	49,292,416	37,166,449	42,990,998	48,138,559	48,015,241
Total governmental activities net position	<u>263,288,273</u>	<u>260,888,468</u>	<u>261,148,249</u>	<u>272,889,750</u>	<u>282,162,824</u>
Business-type activities					
Net investment in capital assets	81,617,178	90,877,809	101,835,656	107,036,885	110,901,151
Restricted	5,548,281	5,660,219	5,838,632	5,868,399	6,637,669
Unrestricted	55,230,314	64,022,824	65,532,636	69,695,347	76,506,675
Total business-type activities net position	<u>142,395,773</u>	<u>160,560,852</u>	<u>173,206,924</u>	<u>182,600,631</u>	<u>194,045,495</u>
Primary government					
Net investment in capital assets	243,244,333	259,971,015	271,033,357	292,549,409	301,091,673
Restricted	57,916,983	60,289,032	54,798,182	45,107,066	50,594,730
Unrestricted	104,522,730	101,189,273	108,523,634	117,833,906	124,521,916
Total primary government net position	<u>405,684,046</u>	<u>421,449,320</u>	<u>434,355,173</u>	<u>455,490,381</u>	<u>476,208,319</u>

Schedule 2  
**CITY OF REDWOOD CITY, CALIFORNIA**  
**CHANGES IN NET POSITION**  
**Last Ten Fiscal Years**  
*(accrual basis of accounting)*

	Fiscal Years				
	2004	2005	2006	2007	2008
	\$	\$	\$	\$	\$
<b>Expenses</b>					
Governmental Activities:					
Community development	13,888,121	13,922,037	15,653,209	13,744,289	16,263,530
Human services	1,255,484	1,260,521	1,279,535	1,351,113	1,518,333
Public safety	34,737,587	39,677,167	41,264,413	42,600,983	45,450,681
Transportation	8,626,048	10,007,929	9,683,728	13,302,505	10,620,489
Environmental support and protection	1,907,457	2,804,327	3,715,183	2,930,603	2,010,545
Leisure, cultural and information services	18,107,209	18,186,423	18,879,833	19,520,000	20,994,657
Policy development and implementation	3,380,711	2,599,708	2,646,873	2,653,677	2,792,115
Interest on long term debt	3,344,344	3,702,727	3,599,533	3,450,169	3,251,324
Total governmental activities expenses	85,246,961	92,160,839	96,722,307	99,553,339	102,901,674
Business-type activities					
Water utility fund	16,773,116	16,692,690	19,846,801	19,341,678	22,594,685
Sewer utility fund	10,786,333	12,742,427	12,785,043	16,299,485	15,828,257
Parking fund	448,598	457,482	595,559	1,794,044	2,195,805
Port of Redwood City	4,113,896	4,468,366	4,207,224	4,053,686	3,937,037
Docktown Marina					
Total business-type activities expenses	32,121,943	34,360,965	37,434,627	41,488,893	44,555,784
Total primary government expenses	117,368,904	126,521,804	134,156,934	141,042,232	147,457,458
<b>Program Revenues</b>					
Governmental activities:					
Charges for services:					
Community Development	2,524,334	2,658,444	1,984,721	3,981,057	3,777,584
Public Safety	1,630,877	1,884,219	1,836,985	1,741,393	1,861,194
Transportation	184,981	87,945	161,112	250,265	522,453
Environmental support and protection	1,135,294	1,251,622	1,210,222	1,296,745	1,380,110
Leisure, cultural, and information services	2,751,650	2,709,142	3,023,953	3,169,556	2,515,117
Policy development and implementation	646,589	729,524	583,237	609,683	1,604,897
Operating grants and contributions	6,570,329	5,740,716	6,337,751	6,364,633	5,302,686
Capital grants and contributions	13,625,850	24,469,000	10,170,784	10,223,691	12,778,701
Total governmental activities program revenues	29,069,904	39,530,612	25,308,765	27,637,023	29,742,742
Business-type activities:					
Water utility fund	16,352,876	16,311,364	18,704,466	20,879,685	23,318,628
Sewer utility fund	10,306,213	10,274,952	11,772,513	14,104,270	16,818,581
Parking fund	412,521	550,611	607,515	862,328	1,098,340
Port of Redwood City	5,558,597	5,950,512	6,254,362	5,676,604	5,689,697
Docktown Marina					
Total business-type activities program revenues	32,630,207	33,087,439	37,338,856	41,522,887	46,925,246
<b>Net (Expense)/Revenue</b>					
Governmental activities	(56,177,057)	(52,630,227)	(71,413,542)	(71,916,316)	(73,158,932)
Business-type activities	508,264	(1,273,526)	(95,771)	33,994	2,369,462
Total primary government net expense	(55,668,793)	(53,903,753)	(71,509,313)	(71,882,322)	(70,789,470)
<b>General Revenues and Other Changes in Net Position</b>					
Governmental activities:					
Taxes:					
Property taxes	28,435,572	29,831,476	36,256,452	39,899,711	43,329,876
Sales taxes	15,745,034	16,476,894	17,902,816	19,208,709	18,136,670
Other taxes	17,458,115	19,545,345	18,370,347	17,165,197	18,636,208
Investment Earnings	484,019	2,432,000	3,321,134	4,844,480	5,371,665
Other	1,687,645	1,774,027	1,751,381	1,710,333	1,630,933
Extraordinary item					
Transfers	39,536	34,964	38,310	(343,138)	(18,064,613)
Total governmental activities	63,849,921	70,094,706	77,640,440	82,485,292	69,040,739
Business-type activities:					
Property taxes	26,095	34,081	50,583	60,688	27,358
Investment Earnings	215,312	951,375	2,058,075	2,509,321	3,117,508
Incr. (decr.) in investment in sewer authority	(651,467)	3,272			
Other	231,730			230,215	713,444
Extraordinary item - pollution remediation					
Transfers	(39,536)	(34,964)	(38,310)	343,138	18,064,613
Total business-type activities	(217,866)	953,764	2,070,348	3,143,362	21,922,923
Total primary government	63,632,055	71,048,470	79,710,788	85,628,654	90,963,662
<b>Change in Net Position</b>					
Governmental activities	7,672,864	17,464,479	6,226,898	10,568,976	4,118,193
Business-type activities	290,398	(319,762)	1,974,577	3,177,356	24,292,385
Total primary government	7,963,262	17,144,717	8,201,475	13,746,332	20,174,192

Schedule 2 (Continued)  
**CITY OF REDWOOD CITY, CALIFORNIA**  
**CHANGES IN NET POSITION**  
**Last Ten Fiscal Years**  
*(accrual basis of accounting)*

	2009	2010	2011	2012	2013
	\$	\$	\$	\$	\$
<b>Expenses</b>					
Governmental Activities:					
Community development	15,808,848	18,412,550	17,702,202	22,954,181	9,090,251
Human services	1,623,102	1,554,411	1,582,251	1,495,964	1,562,157
Public safety	48,500,457	46,099,823	46,022,760	50,621,439	51,355,424
Transportation	19,930,238	13,535,438	11,650,032	11,352,844	11,332,401
Environmental support and protection	2,890,119	4,124,316	2,919,735	2,327,751	1,996,098
Leisure, cultural and information services	23,947,621	22,168,928	21,547,087	21,681,720	21,548,736
Policy development and implementation	4,766,661	4,726,541	5,528,602	4,773,768	6,030,657
Interest on long term debt	2,986,613	2,762,933	2,551,146	1,616,333	314,022
Total governmental activities expenses	114,453,659	113,378,940	109,503,815	116,824,000	103,229,746
Business-type activities					
Water utility fund	21,595,698	20,702,048	21,889,834	28,680,794	31,123,859
Sewer utility fund	16,125,292	17,776,510	19,900,464	20,017,426	19,287,430
Parking fund	2,561,896	2,476,991	2,420,716	2,420,029	2,430,359
Port of Redwood City	3,896,043	4,038,336	4,251,855	4,739,397	5,628,403
Docktown Marina					243,335
Total business-type activities expenses	44,178,929	44,993,885	48,462,869	55,857,646	58,713,386
Total primary government expenses	158,632,588	158,372,825	157,966,684	172,681,646	161,943,132
<b>Program Revenues</b>					
Governmental activities:					
Charges for services:					
Community Development	2,760,718	3,996,401	6,503,254	4,852,265	4,651,706
Public Safety	1,807,675	1,995,853	2,345,175	3,199,818	3,131,805
Transportation	298,955	304,275	256,929	404,042	546,820
Environmental support and protection	1,371,562	1,351,354	1,328,009	1,330,208	1,335,544
Leisure, cultural, and information services	2,508,597	2,430,818	2,632,930	2,843,954	2,827,087
Policy development and implementation	1,534,944	1,626,141	1,656,917	1,817,823	1,780,367
Operating grants and contributions	6,741,821	7,380,584	6,159,842	6,193,090	6,716,207
Capital grants and contributions	6,987,681	7,978,474	6,243,279	8,503,363	12,658,933
Total governmental activities program revenues	24,011,953	27,063,900	27,126,335	29,144,563	33,648,469
Business-type activities:					
Water utility fund	25,578,282	23,255,926	26,038,320	28,465,337	33,202,194
Sewer utility fund	20,259,668	22,241,030	24,156,749	26,898,440	28,100,341
Parking fund	840,414	1,005,328	1,100,304	1,267,531	1,366,984
Port of Redwood City	6,702,772	6,073,755	7,674,030	7,638,585	6,262,660
Docktown Marina					493,262
Total business-type activities program revenues	53,381,136	52,576,039	58,969,403	64,269,893	69,425,441
<b>Net (Expense)/Revenue</b>					
Governmental activities	(90,441,706)	(86,315,040)	(82,377,480)	(87,679,437)	(69,581,277)
Business-type activities	9,202,207	7,582,154	10,506,534	8,412,247	10,712,055
Total primary government net expense	(81,239,499)	(78,732,886)	(71,870,946)	(79,267,190)	(58,869,222)
<b>General Revenues and Other Changes in Net Position</b>					
Governmental activities:					
Taxes:					
Property taxes	47,082,041	48,052,021	46,614,369	42,432,818	38,379,963
Sales taxes	15,552,681	15,023,882	15,671,238	16,998,443	19,240,290
Other taxes	18,325,098	18,034,397	18,440,213	19,595,982	20,335,928
Investment Earnings	2,036,661	1,629,298	1,042,032	579,394	301,171
Other	1,813,256	2,093,288	1,598,452	1,260,652	1,069,894
Extraordinary item					19,161,516
Transfers	(1,067,656)	(917,651)	(729,043)	(607,867)	(472,895)
Total governmental activities	83,742,081	83,915,235	82,637,261	99,420,938	78,854,351
Business-type activities:					
Property taxes	28,390	25,904	28,080	77,425	104,081
Investment Earnings	1,264,220	435,559	327,435	281,583	151,041
Incr. (decr.) in investment in sewer authority					
Other	27,537	2,885	17,324	14,585	4,792
Extraordinary item - pollution remediation	(19,796,522)				
Transfers	917,651	729,043	729,043	607,867	472,895
Total business-type activities	(17,408,719)	1,381,999	1,101,882	981,460	732,809
Total primary government	66,333,362	85,297,234	83,739,143	100,402,398	79,587,160
<b>Change in Net Position</b>					
Governmental activities	(6,699,625)	(2,399,805)	259,781	11,741,501	9,273,074
Business-type activities	(8,206,512)	8,964,153	11,608,416	9,393,707	11,444,864
Total primary government	(14,906,137)	(3,435,652)	11,868,197	21,135,208	20,717,938

Schedule 3  
CITY OF REDWOOD CITY, CALIFORNIA  
FUND BALANCES - GOVERNMENTAL FUNDS  
Last Ten Fiscal Years  
(modified accrual basis of accounting)

	Fiscal Years			
	2004	2005	2006	2007
	\$	\$	\$	\$
<b>General Fund</b>				
Reserved	4,533,209	4,215,063	3,872,498	4,177,832
Unreserved	34,338,695	34,381,730	39,266,188	40,827,073
Total general fund	<u>38,871,904</u>	<u>38,596,793</u>	<u>43,138,686</u>	<u>45,004,905</u>
<b>All Other Governmental Funds</b>				
Reserved	59,518,306	38,919,889	35,256,257	40,323,695
Unreserved, reported in:				
Special revenue funds	25,556,577	21,745,503	17,875,037	19,220,633
Debt service funds	4,912	(29,697)	(50,285)	(41,058)
Capital projects funds	26,577,262	38,852,090	29,329,795	18,892,346
Total all other governmental funds	<u>111,657,057</u>	<u>99,487,785</u>	<u>82,410,804</u>	<u>78,395,616</u>
Total governmental funds	<u>150,528,961</u>	<u>138,084,578</u>	<u>125,549,490</u>	<u>123,400,521</u>
	<u>2011</u>	<u>2012</u>	<u>2013</u>	
	\$	\$	\$	
<b>General Fund</b>				
Nonspendable	5,522,056	1,902,685	1,785,184	
Restricted				
Committed	864,057	551,640	370,927	
Assigned	775,772	151,178	148,534	
Unassigned	17,687,858	17,219,050	19,449,097	
Total general fund	<u>24,849,743</u>	<u>19,824,553</u>	<u>21,753,742</u>	
<b>All Other Governmental Funds</b>				
Nonspendable	16,740,323			
Restricted	39,829,153	39,468,697	43,969,746	
Committed	22,014,259	24,806,534	22,494,438	
Assigned	3,064,843	7,424,963	7,817,738	
Unassigned	(3,181,518)			
Total all other governmental funds	<u>78,467,060</u>	<u>71,700,194</u>	<u>74,281,922</u>	
Total governmental funds	<u>103,316,803</u>	<u>91,524,747</u>	<u>96,035,664</u>	

Notes:  
The City began to classify fund balances into specifically defined classifications when it implemented GASB Statement No. 54 in FY 2010/11.

Schedule 3 (Continued)  
CITY OF REDWOOD CITY, CALIFORNIA  
FUND BALANCES - GOVERNMENTAL FUNDS  
Last Ten Fiscal Years  
(modified accrual basis of accounting)

	Fiscal Years		
	2008	2009	2010
	\$	\$	\$
Reserved	5,554,149	4,630,992	3,732,535
Unreserved	40,900,734	34,464,505	20,991,436
Total general fund	<u>46,454,883</u>	<u>39,095,497</u>	<u>24,723,971</u>
Reserved	25,925,282	25,660,144	26,067,203
Unreserved, reported in:			
Special revenue funds	24,369,952	28,419,218	32,706,733
Debt service funds	46,511	78,418	40,589
Capital projects funds	26,565,268	21,189,395	18,520,889
Total all other governmental funds	<u>76,907,013</u>	<u>75,347,175</u>	<u>77,335,414</u>
Total governmental funds	<u>123,361,896</u>	<u>114,442,672</u>	<u>102,059,385</u>

Schedule 4  
**CITY OF REDWOOD CITY, CALIFORNIA**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**Last Ten Fiscal Years**

	Fiscal Years				
	2004	2005	2006	2007	2008
	\$	\$	\$	\$	\$
<b>REVENUES</b>					
Property taxes/special assessments	31,561,507	33,007,808	39,392,649	42,495,915	44,573,382
Sales and other taxes	28,165,797	29,920,574	32,954,880	34,234,028	34,567,051
Licenses and permits	938,403	1,086,454	1,167,735	1,519,504	1,557,547
Fines, forfeitures and penalties	845,765	1,012,208	948,858	972,557	977,774
Use of money and property	6,015,632	5,896,426	6,499,826	8,447,097	8,445,701
Intergovernmental	16,716,189	17,029,762	13,503,927	11,068,009	13,523,007
Contributions	184,278	13,265,096	182,492	736,549	1,190,376
Charges for current services	6,228,010	5,918,790	6,051,971	7,431,181	7,843,245
Other	2,218,332	1,297,216	1,193,120	1,281,626	1,166,364
<b>Total Revenues</b>	<b>89,967,680</b>	<b>108,434,334</b>	<b>101,895,458</b>	<b>108,186,466</b>	<b>113,844,447</b>
<b>EXPENDITURES</b>					
Current Operations:					
Community development	13,523,550	13,639,528	15,574,342	13,752,526	15,866,328
Human services	1,168,728	1,153,640	1,195,315	1,287,907	1,433,258
Public safety	33,358,785	37,901,952	40,631,780	40,929,708	44,390,736
Transportation	5,414,455	6,715,527	6,294,030	7,216,139	6,158,706
Environmental support and protection	1,897,796	2,778,068	3,699,378	2,954,547	1,958,690
Leisure, cultural and information services	16,374,283	16,149,697	16,844,333	17,804,190	19,236,180
Policy development and implementation	2,800,134	1,877,692	1,704,545	2,338,164	918,430
Capital outlay	19,541,360	33,524,241	22,341,941	15,600,102	17,326,293
Debt service:					
Principal retirement	4,497,321	4,662,321	4,887,321	4,822,321	4,067,321
Interest and fiscal charges	2,222,417	2,757,238	2,426,923	2,213,040	1,945,514
Bond issuance costs	1,756,732				
<b>Total Expenditures</b>	<b>102,555,561</b>	<b>121,159,904</b>	<b>115,599,908</b>	<b>108,918,644</b>	<b>113,301,456</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(12,587,881)</b>	<b>(12,725,570)</b>	<b>(13,704,450)</b>	<b>(732,178)</b>	<b>542,991</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	17,362,991	18,731,139	14,945,169	14,819,568	13,557,675
Transfers (out)	(17,257,760)	(18,706,330)	(15,234,654)	(16,236,359)	(14,139,291)
Sale of property	4,700	25,387	5,100		
Bond proceeds/Refunding Lease	46,400,161				
Contribution from (to) other funds	2,173,188				
Gain from sale of land held for redevelopment		230,991			
Payment to bond refunding excrow agent	(6,725,000)				
<b>Total Other Financing Sources (Uses)</b>	<b>41,958,280</b>	<b>281,187</b>	<b>(284,385)</b>	<b>(1,416,791)</b>	<b>(581,616)</b>
Extraordinary gain (loss)					
<b>NET CHANGE IN FUND BALANCES</b>	<b>29,370,399</b>	<b>(12,444,383)</b>	<b>(13,988,835)</b>	<b>(2,148,969)</b>	<b>(38,625)</b>
Debt service as a percentage of non-capital expenditures	8.09%	8.47%	7.84%	7.54%	6.26%

Schedule 4 (Continued)  
**CITY OF REDWOOD CITY, CALIFORNIA**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**Last Ten Fiscal Years**

	Fiscal Years				
	2009	2010	2011	2012	2013
	\$	\$	\$	\$	\$
Property taxes/special assessments	48,371,857	49,351,469	47,906,240	43,732,410	39,709,199
Sales and other taxes	31,674,430	30,964,483	31,575,135	34,231,492	37,072,870
Licenses and permits	902,723	875,019	1,097,906	1,266,183	1,897,584
Fines, forfeitures and penalties	921,566	1,216,604	1,404,168	1,313,826	1,198,611
Use of money and property	4,995,104	4,264,447	3,813,336	2,302,262	2,476,647
Intergovernmental	10,397,158	13,711,717	9,126,252	10,223,281	10,505,927
Contributions	540,186	829,561	1,850,469	3,971,547	10,411,028
Charges for current services	7,326,776	8,395,583	11,227,564	10,830,462	7,743,498
Other	2,173,942	1,608,439	1,028,902	750,414	557,739
<b>Total Revenues</b>	<b>107,303,742</b>	<b>111,217,322</b>	<b>109,029,972</b>	<b>108,621,877</b>	<b>111,573,103</b>
Current Operations:					
Community development	15,305,951	18,155,500	17,440,348	22,125,748	8,595,743
Human services	1,511,733	1,465,105	1,504,568	1,389,422	1,462,092
Public safety	46,713,987	45,500,450	45,470,647	49,175,285	49,368,709
Transportation	8,866,814	8,552,901	6,729,077	6,472,378	6,452,755
Environmental support and protection	2,863,738	4,152,609	2,916,577	2,260,457	1,959,881
Leisure, cultural and information services	21,873,848	20,479,455	19,876,261	19,585,039	19,778,480
Policy development and implementation	2,785,266	3,299,086	3,979,560	2,617,522	5,470,098
Capital outlay	9,894,551	5,025,308	4,902,938	7,665,302	10,502,338
Debt service:					
Principal retirement	3,747,321	14,657,321	3,182,321	3,275,000	5,880,000
Interest and fiscal charges	1,608,310	1,378,637	1,007,650	930,487	326,059
Bond issuance costs					67,252
<b>Total Expenditures</b>	<b>115,171,519</b>	<b>122,666,372</b>	<b>107,009,947</b>	<b>115,496,640</b>	<b>109,863,407</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(7,867,777)</b>	<b>(11,449,050)</b>	<b>2,020,025</b>	<b>(6,874,763)</b>	<b>1,709,696</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	14,275,221	28,655,915	13,288,203	18,062,351	13,223,617
Transfers (out)	(15,326,668)	(29,590,152)	(14,050,840)	(18,655,801)	(13,782,396)
Sale of property			30		
Bond proceeds/Refunding Lease					3,360,000
Contribution from (to) other funds					
Gain from sale of land held for redevelopment					
Payment to bond refunding excrow agent					
<b>Total Other Financing Sources (Uses)</b>	<b>(1,051,447)</b>	<b>(934,237)</b>	<b>(762,607)</b>	<b>(593,450)</b>	<b>2,801,221</b>
Extraordinary gain (loss)				(4,323,843)	
<b>NET CHANGE IN FUND BALANCES</b>	<b>(8,919,224)</b>	<b>(12,383,287)</b>	<b>1,257,418</b>	<b>(11,792,056)</b>	<b>4,510,917</b>
Debt service as a percentage of non-capital expenditures	5.09%	13.63%	4.10%	3.90%	6.25%

Schedule 5  
**CITY OF REDWOOD CITY, CALIFORNIA**  
**ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY**  
**Last Ten Fiscal Years**

Fiscal Year	Real Property		Personal Property		Less: Tax Exempt Property	Total Taxable Assessed Value	% Increase/ (Decrease) Over Prior Year	Effective Direct Tax Rate*
	State Assessed	Locally Assessed	Locally Assessed	Property				
	\$	\$	\$	\$	\$	\$	%	%
2004	11,266,243	10,467,971,049	669,230,156	349,724,840	10,798,742,608	1.18	0.2420	
2005	11,069,324	10,978,316,191	577,189,796	358,123,641	11,208,451,670	3.79	0.2429	
2006	4,454,190	11,577,635,719	527,383,171	365,930,032	11,743,543,048	4.77	0.2389	
2007	4,342,506	12,521,555,794	579,933,721	441,803,730	12,664,028,291	7.84	0.2420	
2008	5,003,014	13,671,991,606	586,031,204	541,024,340	13,722,001,484	8.35	0.2439	
2009	5,003,014	14,734,164,661	676,178,812	642,703,087	14,772,643,400	7.66	0.2350	
2010	5,003,014	14,885,525,123	757,610,502	664,018,869	14,984,119,770	1.43	0.2397	
2011	5,003,014	14,673,871,469	770,364,641	704,940,601	14,744,298,523	(1.60)	0.2373	
2012	1,466,946	14,712,120,582	674,899,038	646,459,575	14,742,026,991	(0.02)	0.2030	
2013	1,466,946	15,154,966,352	763,901,657	766,118,316	15,154,216,639	2.80	0.2101	

Note: In 1978 the voters of the State of California passed Proposition 13 which limited basic property tax to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is the purchase price. The estimated market value of taxable property is not available.

The amount shown above includes assessed value data for both the City and the Redevelopment Agency.

\* The direct tax rate calculation does not include the property tax amount that is shifted from local agencies by the State of California to the Educational Revenue Augmentation Fund used to support K-14 education.

Source: San Mateo County Assessor's records

Schedule 6  
**CITY OF REDWOOD CITY, CALIFORNIA**  
**DIRECT AND OVERLAPPING PROPERTY TAX RATES**  
**Last Ten Fiscal Years**  
*(rate per \$100 of assessed values)*

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Direct Rates</b>										
County	0.2272	0.2272	0.2272	0.2272	0.2272	0.2272	0.2272	0.2272	0.2272	0.2272
City	0.2588	0.2588	0.2588	0.2588	0.2588	0.2588	0.2588	0.2588	0.2588	0.2588
Elementary School	0.2266	0.2266	0.2266	0.2266	0.2266	0.2266	0.2266	0.2266	0.2266	0.2266
High School	0.1497	0.1497	0.1497	0.1497	0.1497	0.1497	0.1497	0.1497	0.1497	0.1497
Community College	0.0650	0.0650	0.0650	0.0650	0.0650	0.0650	0.0650	0.0650	0.0650	0.0650
All others*	0.0727	0.0727	0.0727	0.0727	0.0727	0.0727	0.0727	0.0727	0.0727	0.0727
Total Direct Rate	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
<b>Overlapping Rates</b>										
Elementary School	0.0295	0.0065	0.0279	0.0265	0.0250	0.0229	0.0238	0.0249	0.0255	0.0256
High School	0.0238	0.0164	0.0223	0.0208	0.0205	0.0282	0.0277	0.0311	0.0358	0.0356
Community College	0.0065	0.0282	0.0065	0.0184	0.0171	0.0165	0.0182	0.0193	0.0199	0.0194
Total Overlapping Rate	0.0598	0.0511	0.0567	0.0657	0.0626	0.0676	0.0697	0.0753	0.0812	0.0806
<b>Total Direct and Overlapping Rate</b>	<b>1.0598</b>	<b>1.0511</b>	<b>1.0567</b>	<b>1.0657</b>	<b>1.0626</b>	<b>1.0676</b>	<b>1.0697</b>	<b>1.0753</b>	<b>1.0812</b>	<b>1.0806</b>

Source: San Mateo County Assessor's records (tax rate area 9-001)

\* MidPeninsula Open Space District, Bay Area Air Pollution, County Harbor District, Mosquito Abatement District, Sequoia Hospital District, and County Education tax.

Schedule 7  
 CITY OF REDWOOD CITY, CALIFORNIA  
 PRINCIPAL PROPERTY TAX PAYERS  
 Current Year and Nine Years Ago

Taxpayer	2013			2004		
	Taxable Assessed	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed	Rank	Percentage of Total Taxable Assessed Value
	Value			Value		
	\$			\$		
Oracle Corporation	547,022,754	1	3.61%	723,356,570	1	6.70%
Pacific Shores Investors LLC	393,786,420	2	2.60%	489,034,231	2	4.53%
Westport Office Park LLC	261,235,597	3	1.72%			
Slough Redwood City LLC	237,238,235	4	1.57%			
Electronic Arts Inc	203,004,576	5	1.34%			
SPK - Redwood Shores	189,226,341	6	1.25%	197,000,000	7	1.82%
SRI Eight Pacific Shores LLC	177,333,212	7	1.17%			
Informatica Corp.	144,201,385	8	0.95%			
California Shorebreeze Offices LTD	138,267,492	9	0.91%			
Irvine Co. LLC	133,373,174	10	0.88%	236,327,688	6	
Metropolitan Life Insurance Co. Calyon				185,384,377	8	
				275,417,132	5	
Perry Public Investment Company				324,321,907	3	3.00%
Selco Service Corporation				291,474,563	4	
EOP - Seaport Centre LLC				172,663,654	9	1.60%
Security Capital Pacific Trust				115,874,693	10	1.07%
	<u>2,424,689,186</u>		<u>16.00%</u>	<u>3,010,854,815</u>		<u>18.73%</u>

Source: San Mateo County Assessor via MuniServices, LLC. and the City's previous audited financials.

Schedule 8  
 CITY OF REDWOOD CITY, CALIFORNIA  
 PROPERTY TAX LEVIES AND COLLECTIONS  
 Last Ten Fiscal Years

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy			Total Collections	
		Amount <sup>1</sup>	Percentage of Levy	Delinquent Tax Collections <sup>2</sup>	Amount	Percentage of Levy
		\$	%		\$	%
2004	18,623,675	18,497,670	99.32	NA	18,497,670	99.32
2005	19,306,928	19,289,656	99.91	NA	19,289,656	99.91
2006	20,217,010	19,687,100	97.38	NA	19,687,100	97.38
2007	21,825,495	21,688,365	99.37	NA	21,688,365	99.37
2008	23,599,098	23,230,333	98.44	NA	23,230,333	98.44
2009	25,185,881	24,732,667	98.20	NA	24,732,667	98.20
2010	25,402,023	25,081,429	98.74	NA	25,081,429	98.74
2011	25,027,079	24,734,718	98.83	NA	24,734,718	98.83
2012	25,004,405	24,713,562	98.84	NA	24,713,562	98.84
2013	25,724,570	25,478,547	99.04	NA	25,478,547	99.04

Source: Audited City financial records - general fund

<sup>1</sup> Amount collected is less than levy as refunds are deducted from the current year tax apportionment and tax roll adjustments are initiated by the County of San Mateo after the levy has been established.

<sup>2</sup> San Mateo County assesses properties and bills, collects, and distributes property taxes to all taxing entities including the City. Under State law, known as the Teeter Plan, the County remits the entire amount levied for secured property taxes and handles all delinquencies, retaining interest and penalties.

Schedule 9

CITY OF REDWOOD CITY, CALIFORNIA  
RATIOS OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

(amounts expressed in thousands, except per capita amount)

	Governmental Activities					Business-Type Activities				
	Revenue Bonds	Refunding Lease	GID Bonds	Tax Increment Bonds*	Loans*	Revenue Bonds	Loans	Total Primary Govt	Per Capita	Debt/Personal Income
2004	\$ 30,774	\$	\$ 5,625	\$ 44,890	\$ 381	\$ 10,225	\$ 1,997	\$ 93,892	\$ 1,239	3.53
2005	28,834		4,005	44,694	339	45,815	1,975	125,662	1,659	4.58
2006	26,794		2,305	45,780	296	70,775	1,952	147,902	1,944	5.20
2007	24,679		800	45,878	254	84,403	1,928	157,942	2,059	5.35
2008	22,493		170	45,998	212	81,981	1,903	152,757	1,977	4.95
2009	20,228			46,133	169	80,141	1,876	148,547	1,909	4.79
2010	9,807			43,423	127	78,236	1,848	133,441	1,698	4.37
2011	7,892			43,767	85	76,266	1,819	129,829	1,671	4.20
2012	5,882					84,217	1,789	91,888	1,174	2.90
2013		3,360				81,346	1,758	86,464	1,093	NA

\*Tax Increment Bonds and Loans were transferred from Governmental Funds to a Private Purpose Trust Fund in 2012.

Schedule 10

CITY OF REDWOOD CITY, CALIFORNIA  
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

As of June 30, 2013

Governmental Unit	Estimated Percentage Applicable <sup>1</sup>	Estimated Share of Direct and Overlapping Debt
	%	\$
<b>City Overlapping Debt</b>		
Debt Repaid with Property Taxes		
San Mateo Community College District	10.281	59,697,654
Sequoia Union High School District	24.967	83,974,008
Belmont-Redwood Shores School District	44.297	14,688,596
Belmont-Redwood Shores School District School Facilities Improvement Distr.	92.993	21,653,420
Redwood City School District	60.966	26,639,683
San Carlos School District	1.309	1,033,161
Redwood City Community Facilities District 2000-1	100.000	5,555,000
Redwood City Redwood Shores Community Facilities District No. 99-1	100.000	10,275,000
Redwood City Community Facilities District 2010-1	100.000	5,760,000
<b>TOTAL DEBT REPAID WITH PROPERTY TAXES</b>		<b>229,276,522</b>
<b>Other Debt</b>		
San Mateo County General Fund Obligations	10.281	32,048,942
San Mateo County Board of Education Certificates of Participation	10.281	1,177,689
Belmont-Redwood Shores School District Certificates of Participation	60.966	919,987
Midpeninsula Regional Park District General Fund Obligations	8.512	11,546,504
Menlo Park Fire Protection District	0.026	3,056
<b>TOTAL OTHER DEBT</b>		<b>45,696,178</b>
<b>Total City Overlapping Debt</b>		<b>274,972,700</b>
<b>City Direct Debt</b>		
City of Redwood City General Fund Obligations	100.000	3,360,000
<b>Total City Direct Debt</b>		<b>3,360,000</b>
<b>Total Overlapping and Direct Debt</b>		<b>278,332,700</b>

Source: California Municipal Statistics and City's Audited Financials

**Note:** Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Redwood City. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt of each overlapping government.

<sup>1</sup> The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the county's taxable assessed value that is within the government's boundaries and dividing it by the county's total taxable assessed value.



Schedule 11  
 CITY OF REDWOOD CITY, CALIFORNIA  
 LEGAL DEBT MARGIN INFORMATION  
 Last Ten Fiscal Years

Fiscal Year	Debt Limit \$	Total Net Debt Applicable to Limit \$	Total Legal Debt Margin \$	Total Net Debt Applicable to Limit as % of Debt Limit %
2003/04	418,067,529		418,067,529	
2004/05	433,746,574		433,746,574	
2005/06	454,105,241		454,105,241	
2006/07	491,468,701		491,468,701	
2007/08	534,863,468		534,863,468	
2008/09	578,075,493		578,075,493	
2009/10	586,805,199		586,805,199	
2010/11	579,346,467		579,346,467	
2011/12	577,068,246		577,068,246	
2012/13	597,012,561		597,012,561	

Legal Debt Margin Calculation for FY 2012/13

Assessed value	15,154,216,639
Add back: exempt real property	<u>766,118,316</u>
Total assessed value	<u>15,920,334,955</u>
Debt limit (3.75% of total assessed value)	597,012,561
Debt applicable to limit:	
General obligation bonds	
Less: Amount set aside for repayment of general obligation debt	<u>                    </u>
Total net debt applicable to limit	<u>                    </u>
Legal debt margin	<u>597,012,561</u>

**Note:** Under state finance law, the city's outstanding general obligation debt should not exceed 15% of total assessed property value. However, the city has established a more conservative internal limit of not more than 3.75%. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

Schedule 12  
 CITY OF REDWOOD CITY, CALIFORNIA  
 PLEDGED-REVENUE COVERAGE  
 Last Ten Fiscal Years

Fiscal Year	Water Revenue Bonds					
	Gross Revenue \$	Less: Operating Expenses \$	Net Available Revenue \$	Debt Service Principal \$	Debt Service Interest \$	Coverage Ratio
2004						
2005	16,664,486	13,838,208	2,826,278			N/A
2006	19,096,962	14,064,659	5,032,303	830,000	1,198,016	2.48
2007	21,573,646	16,216,165	5,357,481	1,325,000	2,207,065	1.52
2008	23,440,411	17,862,037	5,578,374	1,560,000	2,690,956	1.31
2009	23,631,719	17,304,434	6,327,285	1,620,000	2,754,920	1.45
2010	23,232,886	17,421,424	5,811,462	1,675,000	2,938,691	1.26
2011	26,119,782	18,597,779	7,522,003	1,730,000	2,930,765	1.61
2012	28,234,480	22,103,449	6,131,031	1,795,000	2,868,003	1.31
2013	33,167,498	25,992,025	7,175,473	1,865,000	2,802,852	1.54

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation, or amortization expenses. Special assessment bonds were paid off in 2008.

Schedule 12 (Continued)  
**CITY OF REDWOOD CITY, CALIFORNIA**  
**PLEDGED-REVENUE COVERAGE**  
**Last Ten Fiscal Years**

Fiscal Year	Port Revenue Bonds					
	Gross Revenues	Less: Operating Expenses*	Net Available Revenue	Debt Service		Coverage Ratio**
	\$	\$	\$	Principal	Interest	
2004	5,380,204	2,406,807	2,973,397	211,274	565,139	3.83
2005	6,079,416	2,576,993	3,502,423	222,231	555,917	4.50
2006	6,665,761	2,367,549	4,298,212	233,246	545,937	5.52
2007	6,443,530	2,505,950	3,937,580	239,292	535,231	5.08
2008	6,188,729	2,529,213	3,659,516	250,385	524,033	4.73
2009	5,967,743	2,516,939	3,450,804	266,528	512,090	4.43
2010	5,729,278	2,648,046	3,081,232	277,721	499,137	3.97
2011	5,820,715	2,561,439	3,259,276	288,969	485,389	4.21
2012	6,159,871	2,746,082	3,413,789	305,273	471,085	4.40
2013	6,262,660	2,703,564	3,559,096	644,144	875,483	2.34

	Tax Increment Bonds			
	Property Tax Increment	Debt Service		Coverage Ratio
	\$	Principal	Interest	
2004	6,083,483	1,060,000	952,334	3.02
2005	6,169,024	1,105,000	1,094,898	2.80
2006	6,422,792	1,160,000	1,043,515	2.91
2007	7,346,699	1,210,000	988,415	3.34
2008	8,416,294	1,270,000	929,730	3.83
2009	7,921,159	1,330,000	838,615	3.65
2010	7,953,318	1,225,000	654,150	4.23
2011	7,552,777	1,265,000	611,275	4.03
2012***		2,480,000	560,675	
2013***		2,895,000	461,475	

\*Port operating expenses above exclude \$375,760 subvention to the City and depreciation.

\*\* Debt service coverage is calculated using maximum annual debt service as required for the annual disclosure report.

\*\*\* As a result of the California Supreme Court upholding AB X1 26, Redevelopment Agencies were eliminated as of January 31, 2012. Consequently, all former tax increment revenue is retained by the County of San Mateo Controller's Office and deposited into the "Redevelopment Property Tax Trust Fund" (RPTTF) and is disbursed according to the provisions of AB X1 26 and AB 1484, the clean-up legislation that became law effective June 27, 2012. Under these laws the Successor Agencies to the Redevelopment Agencies now receive funding from the RPTTF to pay these types of debt obligations as the Redevelopment Agency is no longer in existence to receive tax increment revenue.

Schedule 13  
**CITY OF REDWOOD CITY, CALIFORNIA**  
**DEMOGRAPHIC AND ECONOMIC STATISTICS**  
**Last Ten Fiscal Years**

Calendar Year	Population	Personal Income (\$000)	Per Capita Personal Income	Unemployment Rate	Number of Water System Customers
2004	75,763	\$ 2,656,327	\$ 35,061	3.30	23,538
2005	75,763	2,746,333	36,249	4.50	23,520
2006	76,086	2,846,986	37,418	3.90	23,566
2007	76,695	2,951,530	38,484	3.90	23,650
2008	77,269	3,087,824	39,962	5.00	23,710
2009	77,819	3,098,753	39,820	8.90	23,718
2010	78,568	3,052,053	38,846	9.10	23,784
2011	77,712	3,091,772	39,785	8.70	23,972
2012	78,244	3,170,995	40,527	7.10	24,119
2013	79,074	N/A	N/A	5.4	24,296

**Sources:**

Population is provided by the State of California Department of Finance. Population numbers in this schedule reflect the Department of Finance's annual adjustments.

Personal income and per capita personal income is provided by United States Census Data via MuniServices, LLC and is adjusted for inflation.

The unemployment rate for the City of Redwood City is provided by the State of California Employee Development Department and is not seasonally adjusted.

The number of water system customers is provided by the City's utility billing system.

**Note:**

The most recent fiscal year personal income and per capita income figures are not available until the following fiscal year.

**Schedule 14**  
**CITY OF REDWOOD CITY, CALIFORNIA**  
**PRINCIPAL EMPLOYERS**  
**Current and Seven Years Ago (Historical data not available)**

Employer	2013			2006		
	Employees*	Rank	% of Total City Employment	Employees**	Rank	% of Total City Employment
Oracle Corporation	6,524	1	15.57%	8,000	1	20.73%
Electronic Arts	1,320	2	3.15%	1,826	3	4.73%
Kaiser Permanente	817	3	1.95%	1,800	4	4.66%
Silver Spring Networks	614	4	1.47%			
Stanford Hospital & Group	601	4	1.43%			
Pacific Data Images (Dreamworks)	553	5	1.32%			
Geonomic Health	447	7	1.07%			
Abbott Vascular	327	8	0.78%			
Shutterfly.com, Inc	283	9	0.68%			
Western Athletics Club, LLC	239	10	0.57%			
County of San Mateo				2,200	2	5.70%
Sequoia Hospital				1,154	5	2.99%
Redwood City School District				1,050	6	2.72%
Informatica				1,000	7	2.59%
OpenWave Systems				900	8	2.33%
Broad Vision				759	9	1.97%
Sequoia Union High School District				700	10	1.81%

Source: \*2013 Data from City of Redwood City Business License Database; non-profit organizations' data is not available.

\*\*2006 Data from Redwood City Chamber of Commerce.

Notes: The top ten principal employers for previous years are not available, but will be memorialized from 2006 going forward in this document.

**Schedule 15**  
**CITY OF REDWOOD CITY, CALIFORNIA**  
**FULL TIME EQUIVALENT EMPLOYEES BY FUNCTION**  
**Last Ten Fiscal Years**

Function	Fiscal Years									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Community Development	67.76	68.45	70.25	71.00	71.63	73.48	72.68	71.53	69.33	62.63
Human Services	7.08	7.08	7.08	7.20	7.20	7.92	7.92	7.82	7.82	7.82
Public Safety	209.00	202.00	202.00	202.00	203.42	204.32	194.57	178.50	180.34	181.84
Transportation	25.30	20.45	20.45	20.90	22.90	23.10	18.85	17.15	16.05	16.05
Environmental Support/Protection	8.88	8.25	15.00	8.25	8.25	8.25	7.95	5.95	5.85	3.15
Leisure/Cultural/Information Services	149.84	131.85	131.35	131.24	135.16	156.96	142.08	128.65	127.94	124.74
Policy Development/Implementation	64.90	61.46	53.02	62.95	63.57	65.54	63.94	59.52	60.42	59.57
Water	28.90	36.05	36.69	35.90	35.90	35.35	35.45	32.45	30.85	35.05
Sewer	15.05	15.35	15.35	15.20	15.20	16.20	16.20	16.20	15.7	18.4
Parking	1.70	1.90	2.65	5.20	5.47	5.55	5.45	5.35	5.65	5.65
Port	9.00	9.00	9.00	9.00	11.00	10.00	10.00	10.00	10.00	10.00
<b>Total</b>	<b>587.41</b>	<b>561.84</b>	<b>562.84</b>	<b>568.84</b>	<b>579.70</b>	<b>606.67</b>	<b>575.09</b>	<b>533.12</b>	<b>529.95</b>	<b>524.90</b>

Source: Redwood City Adopted Budget

**Schedule 16**  
**CITY OF REDWOOD CITY, CALIFORNIA**  
**OPERATING INDICATORS BY FUNCTION/PROGRAM**  
**Last Ten Fiscal Years**

Function/Program	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Community Development:</b>										
Building permits	2,760	2,437	2,349	2,366	2,143	2,038	2,003	2,191	1,972	2,320
Building inspections conducted	16,000	16,200	16,415	15,422	14,283	13,122	10,732	13,502	13,391	11,844
<b>Public Safety:</b>										
<b>Police:</b>										
Moving citations (per 1,000 population)	196	163	202	217	217	170	131	114	112	94
<b>Fire:</b>										
Emergency responses - all calls	6,518	6,492	6,738	6,688	7,073	6,671	6,683	6,733	7,111	7,656
<b>Leisure/Cultural/Information Services:</b>										
Number of items in collection	243,776	263,198	291,270	335,590	336,339	329,296	324,672	295,444	326,251	332,776
<b>Water:</b>										
Average daily consumption (thousands of gallons)	11,524	10,614	10,295	10,879	10,465	9,962	9,193	9,337	9,446	9,402

Sources: Various City departments

**Schedule 17**  
**CITY OF REDWOOD CITY, CALIFORNIA**  
**CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM**  
**Last Ten Fiscal Years**

Function/Program	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Public Safety:</b>										
<b>Police:</b>										
Number of stations	1	1	1	1	1	1	1	1	1	1
<b>Fire:</b>										
Number of stations	5	5	5	5	5	5	5	5	5	5
<b>Transportation</b>										
Miles of streets	154	154	154	155	155	155	155	155	155	155
Number of street lights*	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	4,512	4,512
<b>Leisure/Cultural/Information Services</b>										
Number of parks	30	30	30	30	37	23	23	24	24	24
Number of libraries	4	4	4	4	4	4	4	4	4	4
Number of recreation center facilities	8	8	8	8	5	5	5	5	5	5
<b>Water</b>										
Miles of water mains	261	263	264	264	264	264	264	264	264	264
Miles of recycled water system lines**				3	13	15	15	15	15	15
<b>Sewer</b>										
Miles of sanitary sewers	184	185	185	185	185	193	193	193	193	193
Miles of storm sewers	102	103	103	103	103	129	129	129	129	129

Sources: Various city departments

**Notes:**

\*In 2012 the Public Works Services division employed a consultant to create a physical inventory of street lights. Criteria was updated and applied for a more accurate count of the number of street lights in the City's right-of-way.

\*\*The recycled water system lines were built starting in FY 2006/07.

Schedule 18  
 CITY OF REDWOOD CITY, CALIFORNIA  
 CONSTRUCTION VALUES  
 Last Ten Fiscal Years

Fiscal Year	Residential Construction		All Other Construction		Residences/Additions and Alterations		Other Buildings Additions/Alterations		Total Property Values
	Number of Units	Property Value	Number of Permits Issued	Property Value	Number of Permits Issued	Property Value	Number of Permits Issued	Property Value	
		\$		\$		\$		\$	\$
2004	12	3,905,556	14	20,171,356	1,517	30,718,914	351	22,583,528	77,379,354
2005	15	5,557,587	5	16,168,717	1,375	28,805,766	252	36,685,451	87,217,521
2006	63	14,557,510	10	7,028,000	1,209	29,180,052	287	53,593,643	104,359,205
2007	21	6,466,202	14	20,756,000	1,196	32,351,149	320	113,440,767	173,014,118
2008	33	10,698,818	14	38,772,000	1,002	24,882,578	291	79,925,295	154,278,691
2009	36	17,739,134	2	590,000	1,028	20,000,165	972	36,405,222	74,734,521
2010	39	15,495,398	5	6,048,354	1,098	21,065,615	861	26,436,017	69,045,384
2011	47	25,629,952	5	1,078,000	1,088	25,554,042	1,051	35,938,801	88,200,795
2012	200	40,914,805	22	402,509	912	21,119,778	1,011	64,738,238	127,175,330
2013	605	126,141,306	3	19,333,650	1,226	28,200,872	1,041	56,330,964	230,006,792

Source: Redwood City's Community Development Department



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and Members of City Council  
 of the City of Redwood City  
 Redwood City, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Redwood City, California (City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated December 5, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

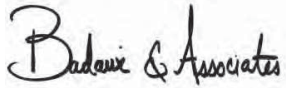
Honorable Mayor and Members of City Council  
of the City of Redwood City  
Redwood City, California  
Page 2

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Badawi and Associates  
Certified Public Accountants  
Oakland, California  
December 5, 2013

**APPENDIX J**

**Comprehensive Annual Financial Report for the City of San Carlos – Fiscal Year Ended  
June 30, 2013**

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# City of San Carlos

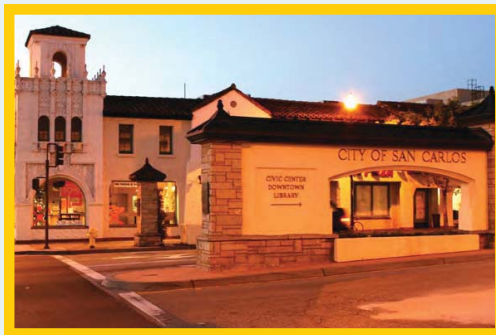
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## COMPREHENSIVE ANNUAL

## FINANCIAL

## REPORT



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For the Fiscal  
Year Ended  
June 30, 2013

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CITY OF SAN CARLOS, CALIFORNIA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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 CITY OF SAN CARLOS FINANCE DIVISION

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# CITY OF SAN CARLOS

## CITY COUNCIL

ROBERT GRASSILLI, MAYOR  
MARK OLBERT, VICE MAYOR  
KAREN CLAPPER  
RON COLLINS  
MATTHEW GROCCOTT



## ADMINISTRATIVE SERVICES DEPT

600 ELM STREET  
SAN CARLOS, CALIFORNIA 94070-1309  
Email: [rmendenhall@cityofsanarlos.org](mailto:rmendenhall@cityofsanarlos.org)  
TELEPHONE (650) 802-4213  
FAX (650) 595-6767

November 26, 2013

To the Members of the City Council and Citizens of the City of San Carlos:

It is the policy of the City of San Carlos to annually publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by an independent firm of certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial statements of the City of San Carlos ("the City") for the fiscal year ended June 30, 2013.

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This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficiently reliable information for the preparation of the City's financial statements in conformity with the Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Lance Soll & Lunghard, LLP, a firm of certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2013, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for the fiscal year ended June 30, 2013, were fairly presented in conformity

with generally accepted accounting principles. The independent auditor's report is presented as the first component of the financial section of this report.

Generally accepted accounting principles require 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.

### **Profile of the Government**

The City, incorporated in 1925, is located in the San Francisco Bay Area region of the State of California, which is considered to be one of the most expensive areas of the State and country in which to live. The area also is renowned worldwide for technological innovation as home to Silicon Valley. The City currently occupies a land area of 5.92 square miles and serves a population of approximately 28,900. The City is a General Law city, and empowered to levy a transient occupancy tax on hotel/motel stays and a business registration fee on for-profit businesses within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.

The City has operated under the council-manager form of government since 1925. Policy-making and legislative authority are vested in a City Council consisting of the Mayor, selected by the Council, and four other Council Members. The City Council is responsible for, among other things, passing ordinances, adopting the budget, appointing advisory commissions/committees, and hiring both the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The City Council is elected on a non-partisan, at large basis. Council Members serve four-year staggered terms, with two or three Council Members elected every two years. The Mayor and Vice-mayor are selected from among the five Council Members to serve one-year terms.

The City provides a full range of services, including police and fire; the construction and maintenance of highways, streets and other infrastructure; and recreational activities and cultural events.

### **Budget Process**

The biennial budget serves as the foundation for the City's financial planning and control. Twice a year, the City Council participates in a Strategic Planning Session with the City department heads. Together the Council and staff develop the work plan for the following six months. All departments of the City are required to submit requests for appropriation to the City Manager each spring. The City Manager uses these requests to develop a proposed budget. The City Manager then presents this proposed budget to the Council for review prior to the end of May.

The Council holds a public hearing on the proposed budget and adopts a final budget by the end of June, the close of the City's fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., Community Development). Department heads may make transfers of appropriations within a department. Transfers of appropriations between departments, but within the same fund, can be approved administratively (by the Administrative Services Director or City Manager). Transfers between funds require the approval of the City Council. Budget-to-actual comparisons are presented in the supplementary section of the accompanying financial statements for each individual governmental fund for which an appropriated annual budget has been adopted.

After seven years of preparing annual budgets, the City converted back to a two-year budget cycle that began in the fiscal year 2012-2013 and has begun the process of migrating to a program and performance based budget. The transition from the traditional budget model to this new program and performance based structure will take approximately three years.

### **Economic Condition and Outlook**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment of which the City operates.

#### **Local economy**

The unemployment rate in San Mateo County has fallen from 6.4% in 2012 to 5.4% in 2013. The San Carlos unemployment rate has dropped from 4.8% to 3.6%. This compares with an unemployment rate of 8.5% for California and 7.6% for the nation during the same period. As of June 2013, there were an estimated 378,300 jobs in the County, an increase of 12,300 jobs from a year earlier. According to the California Employment Development Department, the total number of jobs located in the West Bay counties of Marin, San Francisco, and San Mateo expanded by 14,900 to total 1,026,000 between June 2012 and June 2013.

The National Association of Realtors released a report that shows the national median existing home price of \$214,200 in June 2013. This number reflects an increase of 13.5% from June 2012. However, the median sales price of existing homes in San Carlos is \$1,182,500, a 29% increase from the same period a year ago.

While unemployment and real estate markets reflect a local economy that is improving, it is improving very gradually. Going forward we expect solid and steady growth that will over time translate into higher municipal revenues.

#### **Sales Tax**

Sales tax is a critical general fund revenue as it accounts for approximately 20% of total general fund revenues. Local general sales tax in FY 2013 was \$5.71 million, a 9.6% increase as compared to FY 2012, reflecting a gradual economic recovery and an expanded sales tax base from a new State mandate requiring certain out-of-state internet retailers to collect sales tax.

Based on the latest sales tax data, sales tax growth will be higher in the coming year than the prior year. Receipts from building and construction categories show steady gains, reflecting the beginning of a recovery in new construction and remodeling activity. Other categories, such as restaurants and general consumer goods, are also projected to have modest growth. Tax revenues from fuel, however, are expected to decrease as more fuel efficient vehicles are purchased, pushing fuel consumption downward.

### **Property Tax**

Property tax projections for FY 2014 include a 3.3% increase in revenue based on the 2% annual inflationary factor on the property tax assessment rolls in January 2013 and the improved conditions in the real estate market. According to the information from our independent third-party consultant, while the median existing home prices have increased dramatically, the inventory of homes available for sale remains tight, keeping the growth at moderate level. Commercial/Industrial property reassessments and Prop 8 adjustments will also impact the City's property tax revenues. The speed and extent of the recovery will depend on the overall economy. The gross assessed values of properties in the City of San Carlos have increased by 2.9% in 2013 as compared to the 3.3% increase countywide. The reasons for the City's smaller increase than countywide are: two properties with a total assessed valuation of approximately \$33 million were removed from the tax roll because they became exempt after being purchased by the County and the City; and an industrial property was granted an assessed valuation reduction because it was purchased at the peak of the market in 2007. The annual median single family residential sales price in 2013 was 20% higher than the 2012 median price.

### **Long-term Financial Planning and Major Initiatives**

#### **Long-term financial planning**

The City Council and City management continue to emphasize "structural balance" in the City's financial planning. The City has established economic reserves to meet future opportunities and unexpected changes. The City has structurally aligned its revenues and expenditures to provide for a sustainable financial balance. To that end, the City has taken the following steps over the years:

- Budget revenues conservatively and expenditures at full cost;
- Maintain the condition of City facilities and infrastructure in order to optimize the use, as well as minimize future repair/replacement costs;
- Maintain a highly motivated, talented and well trained workforce to serve the needs of the community;
- Retain municipal ownership of commercial properties and utilize ground leases to diversify the City's revenue stream;
- Secure outside funding and/or low-cost debt financing, and set aside City resources to pay for capital improvement projects;
- Limit the growth of on-going expenses for City services to a financially sustainable level.

### **Major events and initiatives**

Highlights of the City's major events and initiatives that were completed or in progress as of June 30, 2013 or soon after the year-end are as follows:

- At the meeting on June 24, 2013, the City Council approved outsourcing the fire and emergency services to the City of Redwood City as an ongoing effort to implement cost saving measures. The transition took effect on July 1. The City's fire personnel were also transferred to the City of Redwood City as part of the transition processes.
- The FY2012-13 Sidewalk Repair Project has been completed. This project was funded, in part, with gas tax funds and is used to replace damaged sidewalk, and reduce trip and fall hazards. Through this project, approximately 5,027 square-feet of sidewalk, 1840 square-feet of driveway approach, 204 linear-feet of curb and gutter, and 184 linear-feet of root barrier have been fixed.
- Arundel Safe Routes to School – This project is completely funded with federal grant to improve pedestrian safety on routes to Arundel School. The scope of work included construction of new curb, gutter, and sidewalk, access ramps, in-pavement lighted crosswalk, underground conduits, and pavement restoration and striping. The project was completed in September, just in time for the start of the new school year.
- The City's Library renovation project – This project focused on reconfiguring the existing layout to create a more functional library and incorporated environmentally friendly materials consistent with the City's sustainable guidelines. In addition to the City's Library Improvement fund, this project was funded by the contributions from the County's Library Joint Powers Authority, the Friends of the San Carlos Library, and a major bequest. Construction began in early June and was completed the first part of November.
- Burton Park Phase II – This project includes construction of bocce ball courts and a permanent stage for outdoor concerts and performances. It also includes resurfacing the existing basketball courts and installing new benches adjacent to the courts. This project is funded with the City's general capital project fund, Park In-Lieu fund, and Parks and Recreation Foundation contributions. Construction began in early September, with substantial completion expected in late December.
- Transit Village project – Although this is not a City initiated project, the City has been and will continue to evaluate the project for consistency with approved conditions of approval and environmental mitigation measures. Since the project inception in 2004, there have been over 50 public meetings held in various forums that included formal public hearings. At the most recent public hearings held in November, the City Council adopted a resolution regarding the CEQA findings and Mitigation Monitoring and Reporting program, and approved the project Planned Development Permit. The next step is a Design Review of the project.

Fiscal Year 2013 Transmittal Letter  
November 26, 2013

**Awards and Acknowledgements**

The Government Finance Officers Association (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2012. This was the 19th consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both Generally Accepted Accounting Principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

This report represents the culmination of months of work by dedicated staff in the Administrative Services Department-Finance Division. Special thanks go to Financial Services Manager, Tracy Kwok, Senior Accountants Tammy Mak and Deepa Gopalan, Accounting Technicians Linda Navarro, and Mary Nakamura, Administrative Assistant Melissa Keefe, City Treasurer Michael Galvin, as well as Brian Gruber and the audit staff at Lance, Soll & Lunghard, LLP. Credit also must be given to City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully submitted,



Jeff D. Maltbie  
City Manager



Rebecca Mendenhall  
Administrative Services Director

**City of San Carlos**

**Directory of Officials**

**June 30, 2013**

**CITY COUNCIL**

Bob Grassilli, Mayor  
Mark Olbert, Vice Mayor  
Karen Clapper, Councilmember  
Ron Collins, Councilmember  
Matthew Grocott, Councilmember

**CITY CLERK**

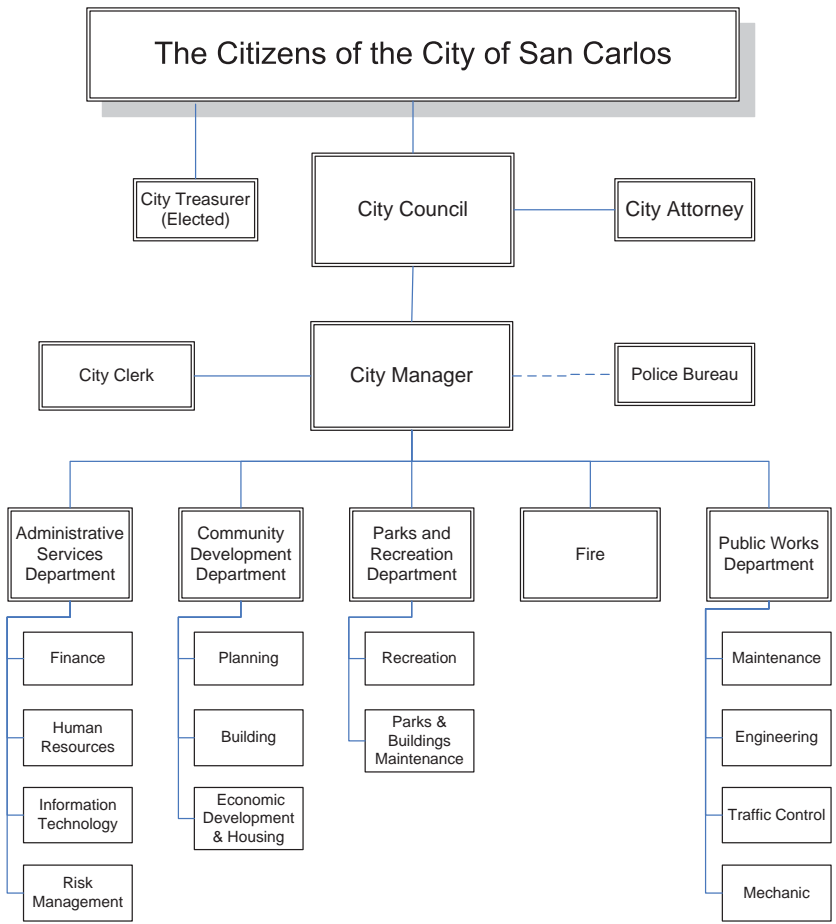
Crystal Mui, Acting City Clerk

**CITY TREASURER**

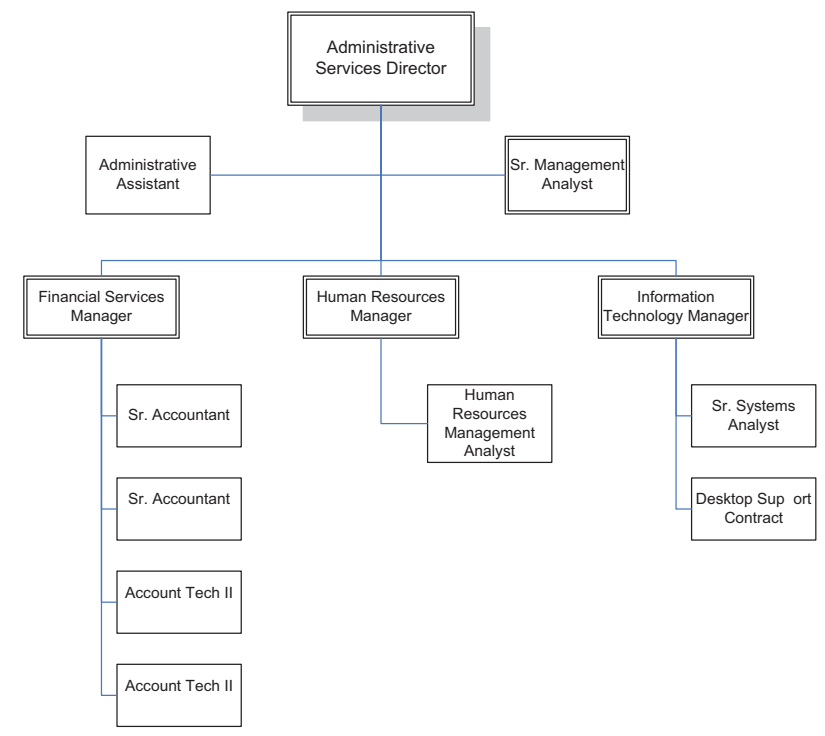
Michael J. Galvin, City Treasurer

**ADMINISTRATION**

Jeff Maltbie, City Manager  
Brian A. Moura, Assistant City Manager  
Gregory J. Rubens, City Attorney  
Greg Rothaus, Police Chief  
Rebecca Mendenhall, Administrative Services Director  
Christine Boland, Acting Parks & Recreation Director  
Jay Walter, Public Works Director  
Mark Sawicki, Economic Development & Housing Manager  
Al Savay, Community Development Director  
Jim Skinner, Fire Chief



## Administrative Services Department







Government Finance Officers Association

# Certificate of Achievement for Excellence in Financial Reporting

Presented to  
**City of San Carlos  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2012**

Executive Director/CEO



- David E. Hale, CPA, CFP
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, CPA
- Deborah A. Harper, CPA
- Gary A. Cates, CPA
- Michael D. Mangold, CPA
- David S. Myers, CPA

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council  
City of San Carlos, California

### Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of San Carlos, California, (the City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



To the Honorable Mayor and Members of the City Council  
City of San Carlos, California  
Page 2

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of San Carlos, California, as of June 30, 2013, and, the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

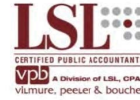
Accounting principles generally accepted in the United States of America require that the management's discussion be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



To the Honorable Mayor and Members of the City Council  
City of San Carlos, California  
Page 3

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Brea, California  
November 26, 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City's Comprehensive Annual Financial Report presents an overview and analysis of the City's financial activities for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with the accompanying transmittal letter and basic financial statements.

### FINANCIAL HIGHLIGHTS

- The City's total net position increased by \$8.64 million or 4.79%, primarily due to the increase in revenues from taxes, one-time rebates and litigation settlement, housing in-lieu fees, and loan interest. The rebates are associated with prior years' law enforcement services and property tax administration provided by the County. The settlement relates to the San Carlos Redevelopment Agency (RDA) dissolution.
- The total expenses for governmental programs increased by \$0.57 million or 1.88% over the prior year mainly due to an increase in capital project related expenses. The total revenues for governmental programs increased by \$0.07 million or 0.19%. Although there were increases in almost all of the revenue categories in the current fiscal year, the total revenues for the year remained at the same level as in the prior year because the City no longer received any property tax revenues associated with the former RDA after January 2012.
- In the business-type activities, the revenues and expenses remained virtually unchanged from the prior year.
- At the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$44.2 million, an increase of \$7.5 million or 20.46% in comparison with the prior year. Approximately \$3 million of this amount is classified as unassigned fund balance in the General Fund.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of four parts – *management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, and an optional section that presents *combining statements* for non-major governmental funds and internal service funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the City government, reporting the City's operations in *more detail* than the government-wide statements.
  - The *governmental funds* statements tell how *general government* services like public safety were financed in the *short term* as well as what remains for future spending.
  - *Proprietary fund* statements offer *short-* and *long-term* financial information about the activities the government operates like businesses, such as the sewer system.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

- *Fiduciary fund* statements provide information about fiduciary relationships – like the agency funds of the City – in which the City acts solely as *agent* or *trustee* for the benefit of others, to whom the resources in question belong.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that provides additional financial and budgetary information.

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1  
City of San Carlos Comprehensive Annual Financial Report (CAFR)

Comprehensive Annual Financial Report (CAFR)	Introductory Section	Introductory Sections			
	Financial Section	Management's Discussion and Analysis			
		Government-wide Financial Statements	Fund Financial Statements		
		Statement of Net Position	Governmental Funds	Proprietary Funds	Fiduciary Funds
			Balance Sheet	Statement of Net Position	Statement of Fiduciary Net Position
			Reconciliation of the Governmental Funds Balance Sheet	Statement of Revenue, Expenses and changes in Fund Net Position	
			Statement of Revenues, Expenditures and Changes in Fund Balance	Statement of Cash Flows	
		Reconciliation of the Net Changes in Fund Balances			
		Statement of Activities			
	NOTES TO THE FINANCIAL STATEMENTS				
REQUIRED SUPPLEMENTAL INFORMATION					
INFORMATION ON INDIVIDUAL NON-MAJOR FUNDS AND OTHER SUPPLEMENTARY INFORMATION					
Statistical Section	STATISTICAL SECTION				

**Reporting the City as a Whole**

The accompanying **government-wide financial statements** include two statements that present financial data for the City as a whole. One of the most important questions asked about the City's finances is, "Is the City, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in them. You can think of the City's net position – the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources – as one way to measure the City's financial health, or *financial position*. Over

MANAGEMENT'S DISCUSSION AND ANALYSIS

time, *increases and decreases* in the City's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City services into two kinds of activities:

- **Governmental activities** – Most of the City's basic services are reported here. Sales taxes, property taxes, state subventions, and other revenues finance most of these activities.
- **Business-type activities** – The City charges a fee to customers to help it cover all or most of the cost of the services accounted for in these funds.

Reporting the City's Most Significant Funds

The **fund financial statements** provide detailed information about the City's most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting administrative responsibilities for using certain taxes, grants, or other money. The City's two kinds of funds – *governmental* and *proprietary* – use different accounting approaches.

- **Governmental funds** – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *current financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship or differences between *governmental activities* (reported in the Statement of Net Position and the Statement of Activities) and *governmental funds* in the reconciliation at the bottom of the fund financial statements.
- **Proprietary funds** – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities.

Reporting the City's Fiduciary Responsibilities

The City is an agent for certain assets held for, and under the control of, other organizations and individuals. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Agency Funds include: the Pulgas Drainage Assessment District Special Tax Bonds; the City/County Association of Governments; and

the South Bayside Waste Management Authority (SBSA). Private Purpose Trust Fund is used to report resources held in trust for the Successor Agency of the former RDA.

#### Government-Wide Statement Summaries

Net position may over time serve as a useful indicator of a City's financial position. The City's assets exceeded liabilities by \$188.87 million at June 30, 2013 (see Table 1 below).

Table 1  
City's Comparative Statement of Net Position  
June 30, 2012 to June 30, 2013  
(Amounts in Millions)

	Governmental Activities		Business - Type Activities		All Government		Total % Change
	2012	2013	2012	2013	2012	2013	
Current and other assets	\$ 48.23	\$ 55.34	\$ 6.65	\$ 8.07	\$ 54.88	\$ 63.41	15.54%
Capital assets, net of depreciation	126.38	125.86	22.38	22.70	148.76	148.56	-0.13%
<b>Total Assets</b>	<b>\$ 174.61</b>	<b>\$ 181.20</b>	<b>\$ 29.03</b>	<b>\$ 30.77</b>	<b>\$ 203.64</b>	<b>\$ 211.97</b>	<b>4.09%</b>
Long-term debt outstanding	6.96	6.69	9.59	9.37	16.55	16.06	-2.96%
Other liabilities	6.42	6.53	0.44	0.51	6.86	7.04	2.62%
<b>Total Liabilities</b>	<b>\$ 13.38</b>	<b>\$ 13.22</b>	<b>\$ 10.03</b>	<b>\$ 9.88</b>	<b>\$ 23.41</b>	<b>\$ 23.10</b>	<b>-1.32%</b>
Net Position:							
Invested in capital assets- net of related debt	\$ 119.43	\$ 119.17	\$ 12.80	\$ 13.33	\$ 132.23	\$ 132.50	0.20%
Restricted	7.32	8.87	-	-	7.32	8.87	21.17%
Unrestricted	34.47	39.94	6.21	7.56	40.68	47.50	16.76%
<b>Total Net Position</b>	<b>\$ 161.22</b>	<b>\$ 167.98</b>	<b>\$ 19.01</b>	<b>\$ 20.89</b>	<b>\$ 180.23</b>	<b>\$ 188.87</b>	<b>4.79%</b>

#### Analysis of Net Position

The largest portion of the net position (70.15%) reflects the City's \$132.50 million investment in capital assets less any related outstanding debt. Capital assets are the aggregated value of land, buildings and improvements that are used to provide services. Their value is reported net of related debt because the funds to repay the debt come from other sources. The City's capital assets cannot be sold and used to liquidate liabilities. This portion remains virtually unchanged from prior year mainly because the current year capital assets addition was offset by the increase in depreciation and retirement of capital assets.

Another portion of the City's net position is subject to external restrictions, such as debt covenants, grantor's stipulations, or enabling legislation, on how they may be used. As of June 30, 2013, the restricted assets were 4.70% or \$8.87 million of the total net position. Of this amount, \$4 million is restricted for low and moderate income housing, \$1.95 million for street repair and maintenance, and \$1.87 million for debt services. The unrestricted Net Position of \$47.5 million represent the remaining balance of the net position. This portion of the net position may be used to meet the government's ongoing and unexpected expenses, including sewer expenses, facility and

infrastructure improvements, pension related liabilities, property acquisition, and emergency repairs and replacement.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The City's net position increased by \$8.64 million during the current fiscal year as indicated in the Statement of Activities and Changes in Net Position (see Table 2 below).

Table 2  
Statement of Activities and Changes in Net Position  
June 30, 2013  
(Amounts in Millions)

	Governmental Activities		Business-Type Activities		All Government		% change
	2012	2013	2012	2013	2012	2013	
<b>Program Revenues:</b>							
Charges for Services	\$ 7.85	\$ 6.32	\$ 9.98	\$ 10.01	\$ 17.83	\$ 16.33	-8.41%
Operating Grants & Contributions	1.26	1.59	0.21	0.21	1.47	1.80	22.45%
Capital Grants & Contributions	1.05	1.07	-	-	1.05	1.07	1.90%
<b>General Revenues:</b>							
Property Taxes	12.62	11.23	-	-	12.62	11.23	-11.01%
Other Taxes	9.81	10.79	-	-	9.81	10.79	9.99%
Other General Revenues	4.47	6.13	0.05	0.04	4.52	6.17	36.50%
<b>Total Revenues</b>	<b>\$ 37.06</b>	<b>\$ 37.13</b>	<b>\$ 10.24</b>	<b>\$ 10.26</b>	<b>\$ 47.30</b>	<b>\$ 47.39</b>	<b>0.19%</b>
<b>Program Expenses:</b>							
General Government	\$ 5.04	\$ 6.47	\$ -	\$ -	\$ 5.04	\$ 6.47	28.37%
Community Development	4.08	2.77	-	-	4.08	2.77	-32.11%
Public Safety	14.07	14.57	-	-	14.07	14.57	3.55%
Public Works	2.49	2.69	-	-	2.49	2.69	8.03%
Parks & Recreation	4.02	4.12	-	-	4.02	4.12	2.49%
Sewer Operations	-	-	7.89	7.87	7.89	7.87	-0.25%
Interest Expenses	0.61	0.26	-	-	0.61	0.26	-57.38%
<b>Total Expenses</b>	<b>\$ 30.31</b>	<b>\$ 30.88</b>	<b>\$ 7.89</b>	<b>\$ 7.87</b>	<b>\$ 38.20</b>	<b>\$ 38.75</b>	<b>1.44%</b>
Inc/(Dec) in Net Position							
before transfers	\$ 6.75	\$ 6.25	\$ 2.35	\$ 2.39	\$ 9.10	\$ 8.64	-5.05%
Transfers	0.59	0.51	(0.59)	(0.51)	-	-	-
Extraordinary gain/loss dissolutin of RDA	2.18	-	-	-	2.18	-	-
<b>Change in Net Position</b>	<b>\$ 9.52</b>	<b>\$ 6.76</b>	<b>\$ 1.76</b>	<b>\$ 1.88</b>	<b>\$ 11.28</b>	<b>\$ 8.64</b>	<b>-23.40%</b>
Beginning Net Position	\$ 152.30	\$ 161.22	\$ 17.25	\$ 19.01	\$ 169.55	\$ 180.23	6.30%
Restatement of Net Position	(0.60)	-	-	-	(0.60)	-	-
<b>Ending Net Position</b>	<b>\$ 161.22</b>	<b>\$ 167.98</b>	<b>\$ 19.01</b>	<b>\$ 20.89</b>	<b>\$ 180.23</b>	<b>\$ 188.87</b>	<b>4.79%</b>

**Statement of Activities and Changes in Net Position**

The Statement of Activities presents program revenues and expenses, and general revenues in detail. All of these are elements in the Changes in Governmental Net Position summarized in Table 2 of the previous page.

As of June 30, 2013 the City's total net position was \$188.87 million. This is an increase of \$8.64 million or 4.79% over the prior year. The changes in net position are explained in the following paragraphs. Total revenue for all government-wide activities was \$47.39 million, an increase of \$0.09 million or 0.19%, while the total expense of all government-wide activities rose by \$0.55 million or 1.44% to \$38.75 million.

Governmental Activities

Net position in the governmental activities totaled \$167.98 million, an increase of \$6.76 million or 4.19% over the prior year. The increase is a result of higher total revenue generated from taxes, grants, one-time rebates and litigation settlement.

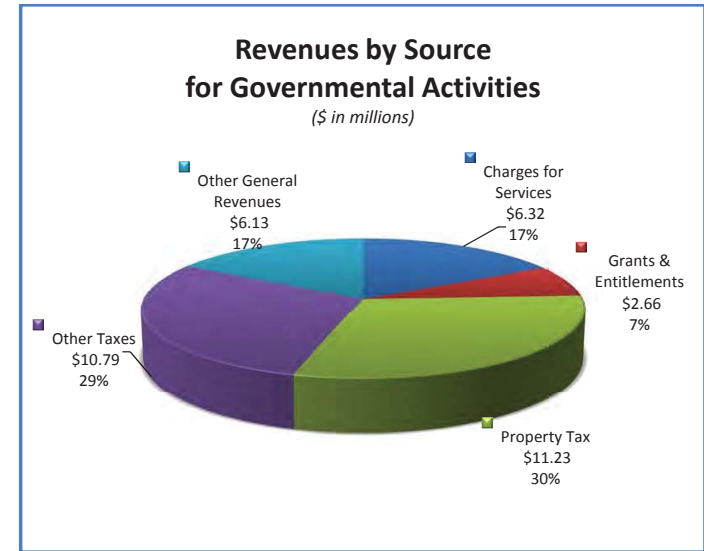
Total revenue for the City's governmental activities before transfers and extraordinary item has increased by 0.19% to \$37.13 million. Total governmental activity expenses increased by 1.88% or \$0.57 million to \$30.88 million.

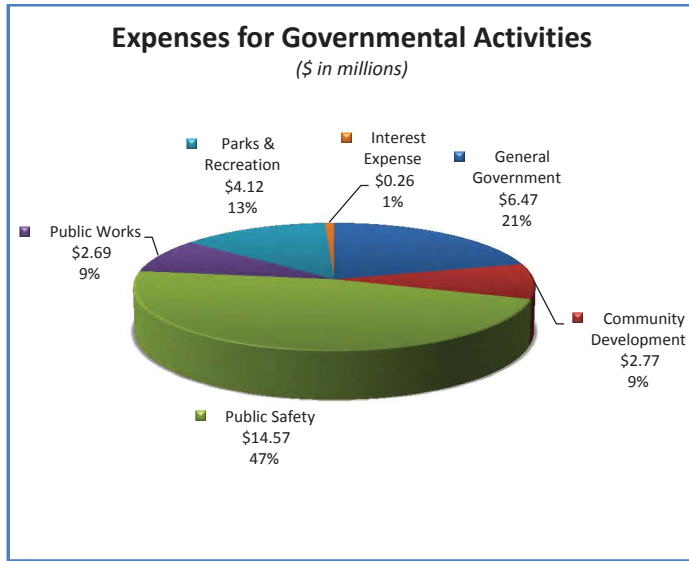
As shown in the Statement of Activities, the amount that taxpayers ultimately financed for these activities through City taxes was \$22.02 million as some of the cost was paid by those who directly benefited from the programs (\$6.32 million), or by other governments and organizations that subsidized certain programs with grants and contributions (\$2.66 million), or by other general revenues (\$6.13 million).

The reasons for significant changes in the revenues and expenses of the City's governmental activities are as follows:

- Other general revenues increased by \$1.66 million or 37.14% from prior year. The increase is primarily due to one-time receipts that included \$0.91 million in rebates from the County Sheriff's Office for lower actual costs to provide law enforcement services in prior fiscal years, \$0.5 million in settlement with the school districts after the dissolution of the former RDA, and \$0.1 million refund from the County for excess property tax administration fees charged in the prior years.
- The overall increase in other taxes that include sales taxes, transient occupancy taxes, and franchise taxes was \$0.98 million. Sales tax revenue rose by \$0.56 million or 9.54% because of higher receipts from general consumer goods and restaurants as well as a new state mandate requiring certain out-of-state internet retailers to collect sales tax. Franchise taxes increased by \$0.24 million primarily due to increased utility rates and higher garbage rates. Transient occupancy taxes increased by \$0.18 million which represents a 19.15% increase over the prior year as a result of higher occupancy rates.
- The combined amount of operating and capital grants and contributions received in the fiscal year 2012-2013 is \$0.35 million more than in the prior year. The increase is mainly due to a housing in-lieu payment received as a result of a residential project at 665 Prospect Street.
- Property taxes decreased by \$1.39 million or 11.01% in comparison with the prior year because of the dissolution of the RDA. The City no longer receives the property tax apportionment associated with the former RDA after January 31, 2012. However, the City has received \$0.36 million more in the general property tax apportionment than in the previous fiscal year.

- Charges for Services decreased by \$1.53 million or 19.5% to \$6.32 million. Unlike in the fiscal year 2011-12 when the City collected over \$2 million in traffic mitigation fee for the Holly Street/101 Interchange project, and zoning and plan check fees for the Palo Alto Medical Foundation (PAMF) construction project, there were no similar large scale construction projects in the current fiscal year.
- Governmental expenses totaled \$30.88 million in the fiscal year 2012-2013, a slight increase of \$0.57 million from the prior year's expenses of \$30.31 million. The increase is mainly associated with capital project related expenses.





**Business-Type Activities**

Business-type activities' total net position for the fiscal year 2012-2013 was \$20.89 million, an increase of \$1.88 million or 9.89% from the prior fiscal year. This increase in fund balance is mainly due to higher sewer revenue collection as a result of the Proposition 218 sewer rate increase. The sewer rates were increased to fund reconstruction of the wastewater treatment plant, to reduce the number of sanitary sewer overflows from the wastewater collection system, and to build up the reserves for emergencies and unforeseen repairs. Similar to the prior year, the current year expenses reflect the ongoing operating expenses such as personnel costs, payments to SBSA for wastewater treatment, and other regular maintenance and repairs. The expenses for major construction projects such as the sewer system rehabilitation project and the wastewater capacity assurance project, totaling \$0.41 million in the current fiscal year, have been capitalized.

The City uses internal service funds to account for risk management including worker's compensation and general liability and property insurances. The longevity benefits fund is used to account for other post-employment benefits (OPEB) for retired employees.

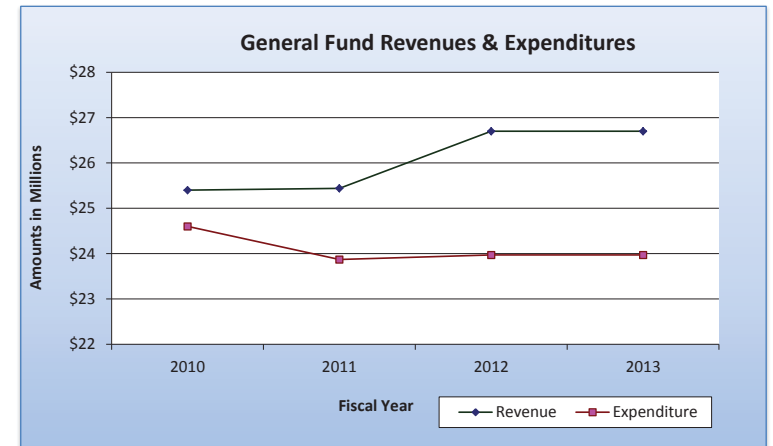
**Financial Analysis of the City's Funds**

As noted earlier, the City uses fund accounting to provide proper financial management of the City's resources and to demonstrate compliance with finance-related legal requirements.

**Governmental Funds**

The **General Fund** is the chief operating fund of the City. At the end of the current fiscal year, total fund balance of the general fund was \$21.01 million, representing an increase of \$1.27 million or 6.43% over the fiscal year 2011-2012 fund balance of \$19.74 million. This increase is explained in the following paragraphs.

Revenues and expenditures are monitored year-round to maintain a balanced budget. Total general fund revenues this year were \$29.05 million, an increase of \$2.35 million or 8.80% from prior year. Expenditures totaled \$25 million, an increase of \$1.03 million or 4.30% increase from prior year expenditures of \$23.97 million. As a comparison, the increase in revenue between the 2011 and the 2012 fiscal year was 4.96%, and the increase in expenditures was 0.40%.



**General Fund Actual Revenues**  
(Amounts in Millions)

	FY 10	FY 11	FY 12	FY 13
Total Revenue	\$ 25.40	\$ 25.44	\$ 26.70	\$ 29.05
Dollar Change	N/A	\$ 0.04	\$ 1.26	\$ 2.35
Percentage Change	N/A	0.16%	4.95%	8.80%

Significant changes in the revenues of the City's General Fund from prior year are as follows:

- Other revenue increased by \$1.57 million due to a rebate (\$0.91 million) from the County Sheriff's Office for lower actual costs to provide law enforcement services in the prior years, a settlement (\$0.5 million) with school districts after the RDA dissolution, and a refund (\$0.1 million) from the County Controller's Office for excess property tax administration fees charged in the prior years.

- Sales tax revenue has an increase of \$0.50 million or 9.6% from the prior year. The increase is primarily due to higher receipts from general consumer goods and restaurants, and the new state mandate requiring certain out-of-state internet retailers to collect sales tax.
- Charges for services increased by 13.67% or \$0.35 million. These increases are associated with recreation class registrations and programs. This year the City started providing middle school athletic programs which contributed to the increase. The increase also reflects revenues from plan check fees for the residential project at 665 Prospect Street and commercial building improvements.
- Transient occupancy tax revenue has increased by \$0.17 million or 19.15% as a result of higher occupancy rates.
- Property tax revenue was \$0.17 million or 1.83% higher than last year. The increase is a result of higher the total assessed value and higher receipts associated with property transfers.
- Revenues from licenses and permits decreased by 16.67% or \$0.24 million. The prior year revenues included fees collected for the PAMF medical facility construction project while there was no similar large scale construction project in the current fiscal year.
- Investment and property rental revenues were \$0.30 million or 25% less than the prior year mainly due to lower interest rates.

**General Fund Actual Expenditures**  
(Amounts in Millions)

	FY 10	FY 11	FY 12	FY 13
<b>Total Expenditures</b>	\$ 24.60	\$ 23.87	\$ 23.97	\$ 25.00
<b>Dollar Change</b>	N/A	\$ (0.73)	\$ 0.10	\$ 1.03
<b>Percentage Change</b>	N/A	-2.97%	0.42%	4.30%

Significant changes in the expenditures of the City's General Fund from the prior year are as follows:

- Public Safety expenditures increased by \$1.31 million or 10.16%, primarily due to the \$0.9 million of City's share of pension costs related to the dissolution of the Belmont-San Carlos Fire JPA and \$0.4 million in additional motorcycle patrol and detective services.
- Community Development expenditures rose by \$0.45 million or 23.08% as a result of additional plan checks services associated with increased volume of building permit applications and the PAMF construction project. This cost increase was offset by fees collected. The increased economic development activities and the Wheeler Plaza project also contributed to the higher expenditures.
- Parks & Recreation expenditures increased by \$0.14 million, primarily due to the increase in professional services associated with the Half Moon Bay recreation programs, adult community services, youth sports programs, and park maintenance.
- Public Works and General Government expenditures remained flat as compared to the prior fiscal year.
- Capital Outlay decreased by \$0.29 million. The prior year expenditures included purchases of the fire engine from the Belmont-San Carlos Fire dissolution and new portable radios for police while the current year expenditures mainly relates to smaller scale items such as safety equipment, information technology related hardware, and furniture for the Adult Community Center.

**Capital Improvement Capital Projects Fund** has a fund balance of \$10.94 million at the close of fiscal year 2012-2013, which represents an increase of \$4.7 million over the prior year. The increase is primarily due to a \$3 million transfer from the General Fund reserve to fund infrastructure projects. Other factors contributed to the increase include receipts of cost reimbursements and grants for various capital projects, and collection of traffic mitigation fees for the residential project at 665 Prospect Street and commercial building improvements.

**Housing Capital Projects Fund** is used to account for affordable housing related financial activities. As of June 30, 2013, it has a fund balance of \$4.05 million; of which, \$1.51 million is restricted for housing purposes and the remaining \$2.54 million is non-spendable as it is in the form of housing loans receivables and property held for resale. See Note 17 for additional information.

**Other Governmental Funds** increased by \$0.53 million this fiscal year. The increase mainly relates to the Park-in-lieu fee collected for the residential project at 665 Prospect Street, higher Measure A allocation, and Library related property tax and rents.

**Major Enterprise Fund** - The City's proprietary fund statements provide the same type of information found in the governmental wide financial statements. The Sewer Fund is the only enterprise fund reported in the proprietary funds Statement of Revenues, Expenses and Changes in Fund Net Position.

The Sewer Fund's total net position at the end of the fiscal year was \$20.78 million, an increase of \$2.02 million over the prior year. The increase reflects higher sewer revenue collection as a result of Proposition 218 sewer rate increase. The sewer rates were increased to fund the sewer treatment plant and sewer system networks improvements as well as to build up the reserve level. The current expenses reflect ongoing operating expenses including sewer treatment costs, personnel costs, and regular maintenance and repairs. The costs of the major construction projects such as the sewer system rehabilitation and the wastewater capacity assurance have been capitalized.

**General Fund Budgetary Highlights**

The final General Fund budget differs \$0.21 million from the original budget that was adopted due to amendments approved by City Council during the year. The increase consisted of the following changes:

- Increase in fire department costs in the amount of \$0.07 million for the City's share of the increased pension costs associated with Belmont-San Carlos Fire dissolution.
- Other increases include \$0.05 million for improvements of various City facilities, \$0.05 million for enhancement of emergency 911 phone system and the point-of-sale system, and \$0.04 million for professional services related to San Carlos Fire dissolution, safety equipment and supplies.

Major deviations between the final budget of the General Fund and its actual operating results were as follows: (see accompanying financial statements)

Total revenues were greater than the final budget by \$2.49 million or 9.36%. The City's policy is to budget conservatively. Revenues are estimated using accepted standards and estimates provided by the State, other governmental agencies and outside consultants.



MANAGEMENT'S DISCUSSION AND ANALYSIS

- Other revenues exceeded budget by \$1.63 million or 131%. The increase mainly due to the following one-time receipts:
  - \$0.91 million rebate from the County Sheriff's Office for the difference between actual costs of providing law enforcement services and the total contract payments in the prior fiscal years;
  - \$0.5 million in litigation settlement with the school districts after the dissolution of the RDA; and
  - \$0.1 million refund from the County Controller's Office for excess property tax administration fees charged in the prior years.
- Sales taxes exceeded budget by \$0.49 million or 9.37%. This is primarily due to some regional economic recovery. The general consumer goods and restaurants posted higher receipts. The new State law requiring certain out-of-state internet retailers to collect sales tax also contributed to the increase.
- Transient occupancy taxes exceeded budget by \$0.35 million or 45.45% from higher hotel occupancy. This is due to higher occupancy rates resulting from the improving economy.
- Property taxes exceeded budget by \$0.35 million or 3.85%. The increases reflect higher secured tax rolls and property transfer activities.
- Franchise taxes exceeded budget by \$0.26 million or 17.22% due to the utility rate increase and higher garbage rates.

Total expenditures were under budget by \$2.04 million or 7.54%.

- Salaries and benefits were under budget by \$0.7 million due to the salary and benefit savings realized from vacant positions in the first part of the fiscal year.
- Operating and capital outlay expenses were under budget by \$1.34 million, primarily due to \$0.37 million credit received from the San Mateo County because of lower actual costs of providing law enforcement services than the original billings in the current fiscal year. Other factors for the actual expenses to be less than the budget include reduction in worker's compensation and general liability transfers to internal service fund as well as reduction in professional services spending.

**Capital Assets and Debt Administration**

Capital Assets

The City's investment in capital assets for government and business-type activities amounts to \$132.50 million as of June 30, 2013. The investment in capital assets includes land, buildings, machinery and equipment, park facilities, roads and streets. The total decrease in capital assets for FY13 is 0.13%. The decrease relates to the current year capital assets addition in the governmental activity that was offset by the increase in depreciation and retirement of capital assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS							
June 30, 2013							
(Amounts in Millions)							
	Governmental Activities		Business Type Activities		All Government		% Change
	2012	2013	2012	2013	2012	2013	
Land and other assets not being depreciated	\$ 65.94	\$ 66.62	\$ 10.45	\$ 10.85	\$ 76.39	\$ 77.47	1.41%
Facilities, infrastructure and equipment, net of depreciation	60.44	59.24	11.93	11.85	72.37	71.09	-1.77%
<b>Total</b>	<b>\$ 126.38</b>	<b>\$ 125.86</b>	<b>\$ 22.38</b>	<b>\$ 22.70</b>	<b>\$ 148.76</b>	<b>\$ 148.56</b>	<b>-0.13%</b>

For the government-wide statement of net position presentation all depreciable capital assets are depreciated from the acquisition date to the end of the current fiscal year.

Governmental fund financial statements record capital asset purchases as expenditures. Ongoing infrastructure projects are accounted for in construction-in-progress. Additional information about the City's capital assets can be found in Note 7 to the financial statements.

Long-Term Obligations

At the end of the current fiscal year, the City had total outstanding long-term obligations of \$16.06 million, a decrease of \$0.49 million or 2.96% from prior fiscal year. The decrease is due to reduction in debt obligations as the City makes its normal annual principal and interest payment on outstanding debt.

Outstanding Long-Term Obligations							
June 30, 2013							
(Amounts in Millions)							
	Governmental Activities		Business-Type Activities		Total Government		Change
	2012	2013	2012	2013	2012	2013	
2005 GO Bond	\$ 6.96	\$ 6.69			\$ 6.96	\$ 6.69	-3.88%
2008 Financing Agreement			1.41	1.36	1.41	1.36	-3.55%
2009 Financing Agreement			8.18	8.01	8.18	8.01	-2.08%
<b>Total</b>	<b>\$ 6.96</b>	<b>\$ 6.69</b>	<b>\$ 9.59</b>	<b>\$ 9.37</b>	<b>\$ 16.55</b>	<b>\$ 16.06</b>	<b>-2.96%</b>

The City maintains an "AA+" rating from Standard & Poor's on the General Obligation debt. As of June 30, 2013, the City's general obligation limit is \$267 million, 3.75% of total assessed valuation subject to taxation. With outstanding debt of \$6.69 million is subject to the legal debt limit, the City is not at risk of exceeding its legal debt limit.

Additional information on the City's long-term debt can be found in Note 9 to the accompanying financial statements.

**Economic Factors and Next Year's Budgets and Rates**

The following key economic factors were considered in developing the FY2013-14 budget:

- **Revenue Projections:** The overall growth of the general fund revenue is projected to be approximately 4.4% higher in FY13-14 based on the steady recovery of the local housing market, the increased construction and remodeling activities, the upward sales tax trends.
- **Expenditures:** The overall general fund expenditure is budget to be 5.2% higher than the revised budget for FY12-13. The salary and benefits are based on the known MOU provisions negotiated with bargaining groups. To respond to the rising cost of employee pensions, the City has made several changes to retirement benefits in prior years. The employee costs in FY13-14 budget continue to reflect these changes as well as the changes resulted from the passage of the State's Pension Reform Act.
- **Fire Services:** As an ongoing effort to implement cost saving measures, the City Council approved outsourcing the fire and emergency services to the City of Redwood City. The transition takes effect on July 1, 2013. The City's fire personnel were also transferred to the City of Redwood City on July 1, 2013.
- **Capital Improvement Project Funds:** An update of the five-year capital improvement plan was included as part of the FY13-14 budget process. Changes to the existing project budget as well as addition of new projects totaling \$9 million were approved. The new projects include (1) Grand Boulevard project that enhances connectivity and improve existing bikeways and pedestrian access; (2) Recreation Facility Usage Plan to fund the development of a master plan that include needs assessment; and the Wheeler Plaza project that was previously a redevelopment project prior to the dissolution of RDA.
- **Sewer Rate Adjustments:** The City Council has approved three-year sewer rate increases for FY2013-14 through FY2015-16. These increases are approximately 25% in FY13-14, approximately 20% in FY14-15, and approximately 10% in FY15-16. These increases will be used to pay for the sewer system rehabilitation and the City's share of the SBSA's sewer treatment plant improvements.

**Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrative Services Department. All inquiries can be made to:

City of San Carlos  
Administrative Services Department  
600 Elm Street  
San Carlos, CA 94070.

**CITY OF SAN CARLOS**

**STATEMENT OF NET POSITION  
JUNE 30, 2013**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>Assets:</b>			
Cash and investments	\$ 45,880,894	\$ 7,769,570	\$ 53,650,464
Receivables:			
Accounts	2,788,147	281,657	3,069,804
Notes	1,107,124	-	1,107,124
San Carlos Development Corporation	3,800,000	-	3,800,000
Down payment assistance loan program	1,072,607	-	1,072,607
Prepaid items	352,700	-	352,700
Internal balances	(17,244)	17,244	-
Property held for resale	358,870	-	358,870
Capital assets, not being depreciated			
Land	62,243,493	153,734	62,397,227
Rights of way	2,341,714	-	2,341,714
Participation rights	-	9,960,000	9,960,000
Construction in progress	2,030,784	739,837	2,770,621
Capital assets, net of depreciation	59,245,608	11,853,788	71,099,396
<b>Total Assets</b>	<b>181,204,697</b>	<b>30,775,830</b>	<b>211,980,527</b>
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	3,069,957	432,243	3,502,200
Accrued benefits	137,367	-	137,367
Deposits payable	720,861	-	720,861
Unearned revenue	405,748	-	405,748
Claims payable			
Due within one year	212,348	-	212,348
Due in more than one year	364,548	-	364,548
Compensated absences			
Due within one year	343,982	47,779	391,761
Due in more than one year	114,660	31,853	146,513
Bonds, notes and loans			
Due within one year	285,000	215,000	500,000
Due in more than one year	6,405,000	9,155,000	15,560,000
Net OPEB liability due more than one year			
Healthcare	67,199	-	67,199
Longevity	1,093,137	-	1,093,137
<b>Total Liabilities</b>	<b>13,219,807</b>	<b>9,881,875</b>	<b>23,101,682</b>
<b>Net Position:</b>			
Net investment in capital assets	119,171,599	13,337,359	132,508,958
Restricted for:			
Public safety	527,721	-	527,721
Parks and recreation	469,169	-	469,169
Public works	1,950,020	-	1,950,020
Debt service	1,874,887	-	1,874,887
Housing	4,049,438	-	4,049,438
Unrestricted	39,942,056	7,556,596	47,498,652
<b>Total Net Position</b>	<b>\$ 167,984,890</b>	<b>\$ 20,893,955</b>	<b>\$ 188,878,845</b>

CITY OF SAN CARLOS

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2013

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Functions/Programs</b>							
Governmental Activities:							
General government	\$ 6,475,824	\$ 1,074,928	\$ 66,212	\$ -	\$ (5,334,684)	\$ -	\$ (5,334,684)
Public safety	14,574,275	505,948	80,273	-	(13,988,054)	-	(13,988,054)
Community development	2,766,720	2,017,110	527,537	55,390	(166,683)	-	(166,683)
Parks and recreation	4,117,692	2,122,207	36,530	157,598	(1,801,357)	-	(1,801,357)
Public works	2,687,707	597,220	880,450	857,563	(352,474)	-	(352,474)
Interest on long-term debt	264,260	-	-	-	(264,260)	-	(264,260)
<b>Total Governmental Activities</b>	<b>30,886,478</b>	<b>6,317,413</b>	<b>1,591,002</b>	<b>1,070,551</b>	<b>(21,907,512)</b>	<b>-</b>	<b>(21,907,512)</b>
Business-Type Activities:							
Sewer	7,874,008	10,011,575	211,041	-	-	2,348,608	2,348,608
<b>Total Primary Government</b>	<b>\$ 38,760,486</b>	<b>\$ 16,328,988</b>	<b>\$ 1,802,043</b>	<b>\$ 1,070,551</b>	<b>(21,907,512)</b>	<b>2,348,608</b>	<b>(19,558,904)</b>
<b>General Revenues:</b>							
Taxes:							
Property taxes, levied for general purpose					11,231,717	-	11,231,717
Transient occupancy taxes					1,120,864	-	1,120,864
Sales taxes					6,427,400	-	6,427,400
Franchise taxes					3,240,864	-	3,240,864
Motor vehicle in lieu - unrestricted					2,155,983	-	2,155,983
Use of money and property					1,552,992	45,509	1,598,501
Other					2,429,874	-	2,429,874
<b>Transfers</b>					510,000	(510,000)	-
<b>Total General Revenues and Transfers</b>					<b>28,669,694</b>	<b>(464,491)</b>	<b>28,205,203</b>
Change in Net Position					6,762,182	1,884,117	8,646,299
Net Position at Beginning of Year					161,222,708	19,009,838	180,232,546
<b>Net Position at End of Year</b>					<b>\$ 167,984,890</b>	<b>\$ 20,893,955</b>	<b>\$ 188,878,845</b>

#### **FUND FINANCIAL STATEMENTS**

Only individual major funds are presented in the Fund Financial Statements, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year.

#### **MAJOR GOVERNMENTAL FUNDS**

The funds described below were determined to be Major Funds by the City. Individual non-major funds may be found in the Supplemental section.

**GENERAL FUND** – This is the primary fund of the City and is used to account for all revenues and expenditures of the City not legally restricted as to use. A broad range of municipal activities are provided through this fund including City Manager, City Attorney, Administrative Services, City Clerk, Community Development, Public Safety, Public Works, and Parks and Recreation.

**CAPITAL IMPROVEMENT CAPITAL PROJECTS FUND** - This fund is used to account for major capital projects not provided for in one of the other capital projects funds.

**HOUSING CAPITAL PROJECTS FUND** - This fund is used to account for development fees which must be used to finance affordable housing for City residents and the housing activities assumed by the City when the former redevelopment agency was dissolved.

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CITY OF SAN CARLOS

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2013

	Capital Projects Funds			Other Governmental Funds	Total Governmental Funds
	General	Capital Improvement	Housing		
<b>Assets:</b>					
Cash and investments	\$21,288,595	\$10,857,153	\$ 2,656,006	\$ 9,252,825	\$44,054,579
Receivables:					
Accounts	2,314,197	232,156	72,585	167,954	2,786,892
Notes	-	-	1,107,124	-	1,107,124
San Carlos Development Corporation	-	-	3,800,000	-	3,800,000
Down payment assistance loan program	-	-	1,072,607	-	1,072,607
Prepaid items	352,700	-	-	-	352,700
Advances to other funds	710,000	-	-	-	710,000
Property held for resale	-	-	358,870	-	358,870
<b>Total Assets</b>	<b>\$24,665,492</b>	<b>\$11,089,309</b>	<b>\$ 9,067,192</b>	<b>\$ 9,420,779</b>	<b>\$54,242,772</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances:</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 2,304,352	\$ 70,815	\$ 51,001	\$ 535,111	\$ 2,961,279
Accrued benefits	137,367	-	-	-	137,367
Deposits payable	711,590	-	9,271	-	720,861
Unearned revenues	405,748	-	-	-	405,748
Advances from other funds	-	-	-	610,000	610,000
<b>Total Liabilities</b>	<b>3,559,057</b>	<b>70,815</b>	<b>60,272</b>	<b>1,145,111</b>	<b>4,835,255</b>
<b>Deferred Inflows of Resources:</b>					
Unavailable revenues	98,046	77,756	4,957,482	67,362	5,200,646
<b>Total Deferred Inflows of Resources</b>	<b>98,046</b>	<b>77,756</b>	<b>4,957,482</b>	<b>67,362</b>	<b>5,200,646</b>
<b>Fund Balances:</b>					
<b>Nonspendable:</b>					
Prepaid items	352,700	-	-	-	352,700
Property held for resale	-	-	358,870	-	358,870
Notes and loans	-	-	2,179,731	-	2,179,731
Advances to other funds	710,000	-	-	-	710,000
<b>Restricted for:</b>					
Public safety	-	-	-	527,721	527,721
Parks and recreation	42,000	-	-	427,169	469,169
Public works	-	-	-	1,950,020	1,950,020
Debt service	-	-	-	1,874,887	1,874,887
Housing	-	-	1,510,837	-	1,510,837
<b>Committed to:</b>					
Community development	-	-	-	69,260	69,260
Parks and recreation	-	-	-	1,280,700	1,280,700
Capital projects	-	10,940,738	-	2,078,549	13,019,287
Emergency reserve	2,900,000	-	-	-	2,900,000
Strategic property acquisition	4,251,565	-	-	-	4,251,565
<b>Assigned to:</b>					
Unfunded liabilities	3,200,000	-	-	-	3,200,000
Facility/infrastructure improvements	3,500,000	-	-	-	3,500,000
Property acquisitions	3,000,000	-	-	-	3,000,000
<b>Unassigned</b>	<b>3,052,124</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,052,124</b>
<b>Total Fund Balances</b>	<b>21,008,389</b>	<b>10,940,738</b>	<b>4,049,438</b>	<b>8,208,306</b>	<b>44,206,871</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$24,665,492</b>	<b>\$11,089,309</b>	<b>\$ 9,067,192</b>	<b>\$ 9,420,779</b>	<b>\$54,242,772</b>

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CITY OF SAN CARLOS

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2013

Fund balances of governmental funds	\$ 44,206,871
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.	125,861,599
Long-term debt and compensated absences that have not been included in governmental fund activity.	
Bonds payable	(6,690,000)
Compensated Absences	(458,642)
Governmental funds report all OPEB contributions as expenditures, however in the statement of net position any excesses or deficiencies in contributions in relation to the Annual Required Contribution (ARC) are recorded as a asset or liability.	(1,093,137)
Longevity	(67,199)
Healthcare	
Accrued interest payable for the current portion of interest due on long-term debt has not been reported in the governmental funds.	(107,502)
Revenues reported as unavailable revenue in the governmental funds and recognized in the statement of activities. These are included in the intergovernmental revenues in the governmental fund activity.	5,200,646
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The assets and liabilities of the internal service funds must be added to the statement of net position.	1,132,254
<b>Net Position of governmental activities</b>	<b><u>\$ 167,984,890</u></b>

CITY OF SAN CARLOS

STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2013

	Capital Projects Funds			Other Governmental Funds	Total Governmental Funds
	General	Capital Improvement	Housing		
<b>Revenues:</b>					
Sales taxes	\$ 5,712,385	\$ -	\$ -	\$ 715,015	\$ 6,427,400
Property taxes	9,451,484	1,110,424	-	669,809	11,231,717
Transient occupancy taxes	1,120,864	-	-	-	1,120,864
Franchise taxes	1,767,099	1,473,765	-	-	3,240,864
Vehicle in-lieu	2,155,983	-	-	-	2,155,983
Business registration	671,145	-	-	-	671,145
Licenses and permits	1,201,045	86,620	-	65,469	1,353,134
From other agencies	58,980	48,386	-	1,717,201	1,824,567
Charges for services	2,912,353	-	-	-	2,912,353
Fines and forfeitures	234,218	-	-	-	234,218
Use of money and property	900,463	-	714,801	190,202	1,805,466
Other revenue	2,866,255	197,578	518,716	295,773	3,878,322
<b>Total Revenues</b>	<b><u>29,052,274</u></b>	<b><u>2,916,773</u></b>	<b><u>1,233,517</u></b>	<b><u>3,653,469</u></b>	<b><u>36,856,033</u></b>
<b>Expenditures:</b>					
Current:					
General government	3,915,033	-	-	250,216	4,165,249
Community development	2,397,049	-	218,325	50,758	2,666,132
Public safety	14,211,302	-	-	199,467	14,410,769
Public works	748,925	-	-	893,030	1,641,955
Parks and recreation	3,597,600	-	-	-	3,597,600
Capital outlay	134,205	1,255,685	-	1,451,193	2,841,083
Debt service:					
Principal	-	-	-	265,000	265,000
Interest and fiscal charges	-	-	-	268,300	268,300
<b>Total Expenditures</b>	<b><u>25,004,114</u></b>	<b><u>1,255,685</u></b>	<b><u>218,325</u></b>	<b><u>3,377,964</u></b>	<b><u>29,856,088</u></b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,048,160	1,661,088	1,015,192	275,505	6,999,945
<b>Other Financing Sources (Uses):</b>					
Transfers in	510,000	3,039,815	-	753,600	4,303,415
Transfers out	(3,293,615)	-	-	(499,800)	(3,793,415)
<b>Total Other Financing Sources (Uses)</b>	<b><u>(2,783,615)</u></b>	<b><u>3,039,815</u></b>	<b><u>-</u></b>	<b><u>253,800</u></b>	<b><u>510,000</u></b>
Net Change in Fund Balances	1,264,545	4,700,903	1,015,192	529,305	7,509,945
Fund Balances, Beginning of Year	19,743,844	6,239,835	3,034,246	7,679,001	36,696,926
<b>Fund Balances, End of Year</b>	<b><u>\$21,008,389</u></b>	<b><u>\$10,940,738</u></b>	<b><u>\$ 4,049,438</u></b>	<b><u>\$ 8,208,306</u></b>	<b><u>\$44,206,871</u></b>

CITY OF SAN CARLOS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2013

Net change in fund balances - total governmental funds	\$ 7,509,945
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital outlay	2,476,497
Depreciation expense	(2,367,401)
Retirement of capital assets	(629,210)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Principal repaid on bonds	265,000
Accrued interest for long-term liabilities. This is the net change in accrued interest for the current period.	
	4,040
Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
	69,345
Governmental funds report all contributions in relation to the annual required contribution (ARC) for OPEB as expenditures, however in the statement of activities only the ARC is an expense.	
	(738,805)
Revenues reported as unavailable revenue in the governmental funds and recognized in the statement of activities. These are included in the intergovernmental revenues in the governmental fund activity.	
	236,651
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The net revenues (expenses) of the internal service funds is reported with governmental activities.	
	(63,880)
<b>Change in net position of governmental activities</b>	<b><u>\$ 6,762,182</u></b>

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CITY OF SAN CARLOS

BUDGETARY COMPARISON STATEMENT BY DEPARTMENT  
GENERAL FUND  
YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Sales taxes	\$ 5,225,700	\$ 5,225,700	\$ 5,712,385	\$ 486,685
Property taxes	9,103,400	9,103,400	9,451,484	348,084
Transient occupancy taxes	767,500	767,500	1,120,864	353,364
Franchise taxes	1,510,600	1,510,600	1,767,099	256,499
Vehicle in lieu	2,200,000	2,200,000	2,155,983	(44,017)
Business regulation	646,800	646,800	671,145	24,345
Licenses and permits	1,258,100	1,258,100	1,201,045	(57,055)
From other agencies	37,000	37,000	58,980	21,980
Charges for services	2,915,400	2,915,400	2,912,353	(3,047)
Fines and forfeitures	322,000	322,000	234,218	(87,782)
Use of money and property	1,336,400	1,336,400	900,463	(435,937)
Other revenue	1,241,900	1,241,900	2,866,255	1,624,355
<b>Total Revenues</b>	<b>26,564,800</b>	<b>26,564,800</b>	<b>29,052,274</b>	<b>2,487,474</b>
<b>Expenditures:</b>				
General government:				
City Council	144,200	144,200	109,479	34,721
City Manager	610,500	623,998	547,477	76,521
City Clerk	415,650	415,650	270,687	144,963
Administrative services	2,332,500	2,373,625	1,972,866	400,759
City Treasurer	11,700	11,700	9,375	2,325
City Attorney	314,700	316,098	265,234	50,864
Building maintenance	621,000	675,986	636,562	39,424
General government	132,600	152,930	103,353	49,577
Total general government	4,582,850	4,714,187	3,915,033	799,154
Community development:				
Administration	400,500	400,500	385,741	14,759
Building	1,083,900	1,083,900	1,060,544	23,356
Planning	571,700	571,700	530,312	41,388
Economic development	452,700	452,700	420,452	32,248
Total community development	2,508,800	2,508,800	2,397,049	111,751
Public safety:				
Police patrol	5,200	5,200	4,560	640
Police investigation	43,100	43,100	43,335	(235)
Police administration	7,631,800	7,668,779	7,428,262	240,517
Fire	6,577,810	6,598,626	6,398,898	199,728
Communications	566,500	566,500	336,247	230,253
Total public safety	14,824,410	14,882,205	14,211,302	670,903
Public works:				
Public works	564,900	573,633	393,494	180,139
Garage	75,000	75,100	42,449	32,651
Street maintenance	111,700	111,700	84,485	27,215
Traffic control	264,200	264,200	228,497	35,703
Total public works	1,015,800	1,024,633	748,925	275,708

CITY OF SAN CARLOS

BUDGETARY COMPARISON STATEMENT BY DEPARTMENT  
GENERAL FUND  
YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Parks and recreation:				
Administration	366,100	367,100	372,263	(5,163)
Maintenance	1,100,900	1,102,015	1,076,676	25,339
Recreation	2,312,500	2,312,500	2,148,661	163,839
Total parks and recreation	3,779,500	3,781,615	3,597,600	184,015
Capital outlay	119,800	132,008	134,205	(2,197)
<b>Total expenditures</b>	<b>26,831,160</b>	<b>27,043,448</b>	<b>25,004,114</b>	<b>2,039,334</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(266,360)	(478,648)	4,048,160	4,526,808
<b>Other Financing Sources (Uses):</b>				
Transfers out	(3,299,600)	(3,299,600)	(3,293,615)	5,985
Transfers in	510,000	510,000	510,000	-
<b>Total other financing sources (uses)</b>	<b>(2,789,600)</b>	<b>(2,789,600)</b>	<b>(2,783,615)</b>	<b>5,985</b>
Net Change in Fund Balance	\$ (3,055,960)	\$ (3,268,248)	1,264,545	\$ 4,532,793
Beginning Fund Balance			19,743,844	
<b>Ending Fund Balance</b>			<b>\$ 21,008,389</b>	



**MAJOR PROPRIETARY FUND**

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The concept of major funds extends to Proprietary Funds.

Budget versus actual comparisons regarding proprietary funds that are major funds are not presented.

**SEWER ENTERPRISE FUND** - This fund is used to account for sewage treatment, transmission, major replacements and improvements to the City's sewer system.

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CITY OF SAN CARLOS

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 JUNE 30, 2013

	Business-Type Activities - Enterprise Funds	Governmental Activities - Internal Service Funds
	Sewer	Service Funds
<b>Assets:</b>		
Current:		
Cash and investments	\$ 7,769,570	\$ 1,826,315
Receivables:		
Accounts	281,657	1,255
<b>Total Current Assets</b>	<b>8,051,227</b>	<b>1,827,570</b>
Noncurrent:		
Capital assets, net		
Land	153,734	-
Participation rights	9,960,000	-
Construction in progress	739,837	-
Depreciable capital assets, net	11,853,788	-
<b>Total Noncurrent Assets</b>	<b>22,707,359</b>	<b>-</b>
<b>Total Assets</b>	<b>\$ 30,758,586</b>	<b>\$ 1,827,570</b>
<b>Liabilities and Net Position:</b>		
<b>Liabilities:</b>		
Current:		
Accounts payable	\$ 432,243	\$ 1,176
Compensated absences	47,779	-
Claims payable	-	212,348
Bonds, notes and loans, due in one year	215,000	-
<b>Total Current Liabilities</b>	<b>695,022</b>	<b>213,524</b>
Noncurrent:		
Advances from other funds	100,000	-
Compensated absences	31,853	-
Claims payable	-	364,548
Bonds, notes and loans, due in more than one year	9,155,000	-
<b>Total Noncurrent Liabilities</b>	<b>9,286,853</b>	<b>364,548</b>
<b>Total Liabilities</b>	<b>9,981,875</b>	<b>578,072</b>
<b>Net Position:</b>		
Net investment in capital assets	13,337,359	-
Unrestricted	7,439,352	1,249,498
<b>Total Net Position</b>	<b>20,776,711</b>	<b>1,249,498</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 30,758,586</b>	<b>\$ 1,827,570</b>
<b>Reconciliation of Net Position to the Statement of Net Position</b>		
Accumulated adjustment to reflect the consolidation of internal service funds activities related to the enterprise funds	117,244	
<b>Net Position per Statement of Net Position</b>	<b>\$ 20,893,955</b>	

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CITY OF SAN CARLOS

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2013

	Business-Type	
	Activities - Enterprise Funds	Governmental Activities - Internal Service Funds
	Sewer	
<b>Operating Revenues:</b>		
Charges for services	\$ 10,011,575	\$ 287,365
Cost reimbursement	-	523,600
<b>Total Operating Revenues</b>	<b>10,011,575</b>	<b>810,965</b>
<b>Operating Expenses:</b>		
Salaries and benefits	1,440,478	-
Sewer operations	3,569,089	-
Insurance premiums	-	547,755
Claims expense	-	467,485
Depreciation expense	315,341	-
Miscellaneous	1,747,775	42,260
<b>Total Operating Expenses</b>	<b>7,072,683</b>	<b>1,057,500</b>
Operating Income (Loss)	2,938,892	(246,535)
<b>Nonoperating Revenues (Expenses):</b>		
From other agencies	211,041	34,108
Investment income	45,509	11,868
Interest expense	(664,646)	-
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(408,096)</b>	<b>45,976</b>
Income (Loss) Before Transfers	2,530,796	(200,559)
Transfers out	(510,000)	-
Changes in Net Position	2,020,796	(200,559)
<b>Net Position:</b>		
Beginning of Year	18,755,915	1,450,057
<b>End of Fiscal Year</b>	<b>\$ 20,776,711</b>	<b>\$ 1,249,498</b>
<b>Reconciliation of Changes in Net Position to the Statement of Activities:</b>		
Changes in Net Position, per the Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	\$ 2,020,796	
Adjustment to reflect the consolidation of current fiscal year internal service funds activities related to enterprise funds	(136,679)	
<b>Changes in Net Position of Business-Type Activities per Statement of Activities</b>	<b>\$ 1,884,117</b>	

CITY OF SAN CARLOS

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2013

	Business-Type	
	Activities - Enterprise Funds	Governmental Activities - Internal Service Funds
	Sewer	
<b>Cash Flows from Operating Activities:</b>		
Cash received from customers and users	\$ 10,088,228	\$ -
Cash received from/(paid to) interfund service provided	-	809,710
Cash paid to suppliers for goods and services	(5,221,017)	(1,031,246)
Cash paid to employees for services	(1,466,219)	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>3,400,992</b>	<b>(221,536)</b>
<b>Cash Flows from Non-Capital Financing Activities:</b>		
Cash transfers out	(510,000)	-
From other agencies	211,041	34,108
<b>Net Cash Provided (Used) by Non-Capital Financing Activities</b>	<b>(298,959)</b>	<b>34,108</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Acquisition and construction of capital assets	(638,738)	-
Principal paid on capital debt	(215,000)	-
Interest paid on capital debt	(664,646)	-
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>(1,518,384)</b>	<b>-</b>
<b>Cash Flows from Investing Activities:</b>		
Interest received	45,509	11,868
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>45,509</b>	<b>11,868</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>1,629,158</b>	<b>(175,560)</b>
Cash and Cash Equivalents at Beginning of Year	6,140,412	2,001,875
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 7,769,570</b>	<b>\$ 1,826,315</b>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>		
Operating income (loss)	2,938,892	(246,535)
<b>Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:</b>		
Depreciation	315,341	-
(Increase) decrease in accounts receivable	76,653	(1,255)
Increase (decrease) in accounts payable	95,847	1,176
Increase (decrease) in claims and judgments	-	25,078
Increase (decrease) in compensated absences	(25,741)	-
<b>Total Adjustments</b>	<b>462,100</b>	<b>24,999</b>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 3,400,992</b>	<b>\$ (221,536)</b>

There were no non cash items.

#### **FIDUCIARY FUNDS**

Fiduciary Funds are presented separately from the Government-wide and Fund Financial Statements.

Agency Funds account for assets held by the City as agent for individuals, governmental entities, and non-public organizations. These funds include the following:

**AGENCY FUNDS** - Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Entity-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

**SUCCESSOR AGENCY OF THE FORMER RDA PRIVATE PURPOSE TRUST FUND** – This fund is used to account for the activities related to the dissolution of the former San Carlos Redevelopment Agency.

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CITY OF SAN CARLOS

STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 JUNE 30, 2013

	Agency Funds	Private- Purpose Trust Fund Successor Agency of the Former RDA
<b>Assets:</b>		
Cash and investments	\$ 33,755,065	\$ 1,222,701
Cash and investments with fiscal agents	6,223,842	3,845,507
Receivables:		
Accounts	9,296,173	-
Prepaid items	23,919	-
Capital assets:		
Capital assets, not being depreciated	-	1,531,347
Capital assets, net of accumulated depreciation	-	3,754,877
<b>Total Assets</b>	<b>\$ 49,298,999</b>	<b>10,354,432</b>
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 11,911,431	238,658
Due to members	36,100,643	-
Deposits payable	1,275,135	-
Due to assessment district bondholders	11,790	-
Long-term liabilities:		
Due in one year	-	461,439
Due in more than one year	-	17,082,637
<b>Total Liabilities</b>	<b>\$ 49,298,999</b>	<b>17,782,734</b>
<b>Net Position:</b>		
Held in trust for other purposes		(7,428,302)
<b>Total Net Position</b>		<b>\$ (7,428,302)</b>

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CITY OF SAN CARLOS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2013

	Private- Purpose Trust Fund Successor Agency of the Former RDA
<b>Additions:</b>	
Taxes	\$ 2,649,506
Use of money and property	31,238
Miscellaneous	2,708
<b>Total Additions</b>	<b>2,683,452</b>
<b>Deductions:</b>	
Administrative expenses	210,282
Contractual services	220,290
Interest expense	1,000,694
Depreciation expense	79,006
Litigation settlement	6,300,000
<b>Total Deductions</b>	<b>7,810,272</b>
Extraordinary gain/(loss) on dissolution of redevelopment agency (Note 17)	<b>(342,540)</b>
<b>Changes in Net Position</b>	<b>(5,469,360)</b>
Net Position - Beginning of the Year	(1,958,942)
<b>Net Position - End of the Year</b>	<b>\$ (7,428,302)</b>

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

Note 1: Summary of Significant Accounting Policies

a. Reporting Entity

The **City of San Carlos** ("City") is a general-law City which operates under the Council-Manager form of government, with five elected Council members served by a full time City Manager and staff. The City provides many services including public safety, streets and roads, parks and recreation and planning and community development. The accounting policies of the City conform to generally accepted accounting principles as applicable to governments. The financial statements include the City and its component units, entities for which the City is financially accountable. Blended component units, although legally separate entities, are in substance part of the City's operations and data from these units are combined with data of the City. Their financial activities have been aggregated and merged (termed "blending") with those of the City in the accompanying financial statements.

The **San Carlos Housing Authority** ("Housing Authority") is a separate government entity whose purpose is to provide housing to low and moderate income families within certain areas of the City. The Housing Authority is controlled by the City and has the same governing board as the City, which also performs all accounting and administrative functions for the Housing Authority. The Housing Authority is financially dependent on the City. The financial activities of the Housing Authority have been included in these financial statements.

Separate statements for the Housing Authority are not prepared.

b. Basis of Presentation

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The *Government Accounting Standards* Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America. These Statements require that the financial statements described below be presented.

**Government-wide Statements:** The Statement of Net Position and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. All fiduciary activities are reported only in the fund financial statements. Eliminations have been made to minimize the double counting of internal activities; however, interfund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2013

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**Note 1: Summary of Significant Accounting Policies (Continued)**

contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category - *governmental*, *proprietary*, and *fiduciary* are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues and expenses, such as charges for services and salaries & benefits, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues and expenses, such as investment earnings and interest expense, result from nonexchange transactions or ancillary activities.

**c. Major Funds**

The City's major governmental and business-type funds are identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column.

Major funds are defined as funds that have either assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

**General Fund** is the primary fund of the City which is used to account for all revenues and expenditures of the City not legally restricted as to use. A broad range of municipal activities are provided through this fund including City Council, City Manager, City Attorney, Administrative Services, City Clerk, Community Development, Public Safety, Public Works, and Parks and Recreation.

**Capital Improvement Capital Projects Fund** is used to account for major capital projects not provided for in one of the other capital projects funds.

**Housing Capital Projects Fund** is used to account for development fees which must be used to finance affordable housing for City residents and the housing activities assumed by the City when the former redevelopment agency was dissolved.

The City reports the following major enterprise funding the accompanying financial statements:

**Sewer Enterprise Fund** is used to account for sewage treatment, transmission, major replacements and improvements to the City's sewer system.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2013

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**Note 1: Summary of Significant Accounting Policies (Continued)**

The City also reports the following fund types:

**Internal Service Fund:** The funds account for worker's compensation, general liability and retirement benefits; all of which are provided to other departments on a cost-reimbursement basis.

**Fiduciary Funds:** Agency Funds are used to account for assets held by the City as an agent for 1988 Special Tax Bonds Assessment Districts, City/County Association of Governments of San Mateo County (C/CAG) and South Bayside Waste Management Authority (SBWMA). Private-purpose trust funds are used to account for the assets and liabilities of the former redevelopment agency and the allocated revenue to pay estimated installment payments of enforceable obligations until the obligations of the former redevelopment agency are paid in full and assets have been liquidated. All fiduciary funds, including agency funds, use the accrual, rather than the modified accrual, basis of accounting.

The financial activities of these funds are excluded from the Government-wide financial statement, but are presented in separate Fiduciary Fund financial statements.

**d. Basis of Accounting**

The government-wide, proprietary fund and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are property, sales and use, transient occupancy, franchise and gas taxes, intergovernmental revenues, grants and interest revenue. Fines, licenses and permits, and charges for services are not susceptible to accrual because they are not measurable until collected.

Non-exchange transactions, are those in which the City gives or receives value without directly, receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The City may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The City's policy is to first

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

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**Note 1: Summary of Significant Accounting Policies (Continued)**

apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

**e. Property Taxes and Sewer Charges**

Revenue is recognized in the period for which the tax and assessment is levied. The County of San Mateo levies, bills and collects property taxes and sewer charges for the City; the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1 and becomes delinquent on August 31.

The term "unsecured" refers to taxes on personal property other than real estate, land, and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed provided they become available as defined above, generally within 60 days.

**f. Assets, Liabilities, Deferred inflows/outflows, and Net Position or Equity**

**Investments**

For financial reporting purposes, investments are adjusted to their fair value. Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments. Some investments are valued on an unamortized cost basis. For these investments, there is no material difference from fair value.

The City pools cash and investments of all funds, except for assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as *cash and investments*. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents also represent the proprietary fund's share in the cash and investment pool of the City. Cash equivalents have an original maturity date

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

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**Note 1: Summary of Significant Accounting Policies (Continued)**

of three months or less from the date of purchase. For purposes of the statement of cash flows, the entire balance of cash and investments on the combined balance sheet for the proprietary funds is considered cash and cash equivalents.

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets**

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City's policy is to capitalize all assets with costs exceeding the \$5,000 threshold and a useful life of more than one year.

All capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets:

Building and Improvements	10-50 years
Equipment	5-10 years
Infrastructure and Sewer System Network	75-100 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of the business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

**Deferred outflows/inflows of resources**

In addition to assets, the statement of net position and governmental fund balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of net position and governmental fund balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.



NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

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Note 1: Summary of Significant Accounting Policies (Continued)

**Compensated Absences**

Compensated absences comprise unpaid vacation which is accrued as earned. All employees who hold full-time regular positions are entitled to 12 working days of vacation pay upon successful completion of their first year of continuous service. The accrual rate increases as length of service exceeds 4 years. Maximum accumulation of vacation is two years of vacation accrual. Upon termination or retirement, full-time employees are entitled to receive compensation at their current base salary for all unused vacation leave. The City's liability for compensated absences is recorded in various Governmental funds or Proprietary funds as appropriate. The compensated absences are reported in governmental funds only if they are matured. The liability for compensated absences is determined annually. For governmental funds, the portion expected to be permanently liquidated is recorded as fund liabilities.

Compensated absences are liquidated by the fund that has recorded the liability, primarily the General Fund.

**Fund Balance**

In the fund financial statements, governmental funds report the following fund balance classification:

*Nonspendable* include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

*Restricted* include amounts that are constrained on the use of resources by either (a) external creditors, grantors, contributors, or laws of regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

*Committed* include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest authority, City Council. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is Council resolution.

*Assigned* include amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The City Manager is authorized to assign amounts to a specific purpose, which was established by the governing body by resolution.

*Unassigned* include the residual amounts that have not been restricted, committed, or assigned to specific purposes.

The City Council adopts and amends committed fund balance amounts through resolution. The City Council authorizes assigned amounts for specific purposes pursuant to the policy-making powers granted through resolution. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted amounts to be used first, then unrestricted. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, they are considered to be spent in the order as follows: unassigned, assigned then committed.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

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Note 1: Summary of Significant Accounting Policies (Continued)

**Fund Balance Flow Assumption**

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**Net Position**

Net position is the excess of all the City's assets and deferred outflows over all its liabilities and deferred inflows, regardless of fund. Net position is divided into three captions. These captions apply only to net position, which is determined only at the government-wide level, and are described below:

*Net investment in capital assets* describes the portion of net position which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted* describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and funds restricted to low and moderate income purposes.

*Unrestricted* describes the portion of net position which is not restricted to use.

**Net Position Flow Assumption**

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**g. Budgets and Budgetary Accounting**

The City adopts an annual operating budget on or before June 30 for the ensuing fiscal year for the General Fund, all Special Revenue Funds, and all Debt Service Funds. Expenditures for the Capital Projects Fund are budgeted and managed on a project length basis and budget to actual comparisons for these expenditures have been excluded from the accompanying financial statements. The City follows a budgeting process in which the City's plans and objectives are outlined and budgeted. This work program is reviewed with the City Council to determine the priority and timing of plans and objectives. Revisions are made to the work program, which in its final form, is adopted by the City Council as an operating budget, effective July 1 for the ensuing fiscal year. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the various funds.

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

Note 1: Summary of Significant Accounting Policies (Continued)

City Council may amend the budget by resolution during the fiscal year. The City Manager may transfer appropriations from one program, activity, or object to another within the same department or between departments. However, transfers of appropriations which change total fund appropriations must be approved by the City Council. Expenditures which exceed appropriations at the fund level must be approved by the City Council. Budgets are adopted on a basis consistent with generally accepted accounting principles.

h. Expenditures in Excess of Budget

For the year ended June 30, 2013, there were no expenditures exceeding the budgeted amounts in the General Fund.

Note 2: Cash and Investments

The City pools cash from all sources and all funds except cash and investments held by trustees so that it can be invested at the maximum yield consistent with safety and liquidity, while individual funds can make expenditures at any time.

a. Policies

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the City's name and places the City ahead of general creditors of the institution. The City Treasurer may waive the collateral requirement for deposits that are fully insured up to \$250,000 by the FDIC.

The City invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to increase security, the City employs the trust department of a bank as the custodian of certain City managed investments, regardless of their form.

The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

b. Classification

Cash and investments as of June 30, 2013, are classified in the following financial statements as follows:

Statements of Net Position:	
Cash and investments	\$ 53,650,464
Subtotal	<u>53,650,464</u>
Fiduciary Funds:	
Cash and investments	34,977,766
Cash and investments with fiscal agent	10,069,349
Subtotal	<u>45,047,115</u>
Total cash and investments	<u>\$ 98,697,579</u>

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

Note 2: Cash and Investments (Continued)

Cash and investments as of June 30, 2013, consist of the following:

Cash on hand	\$ 6,000
Deposits with financial institutions	5,235,192
Investments	<u>93,456,387</u>
Total cash and investments	<u>\$ 98,697,579</u>

c. Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of bond indentures of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund	Upon Demand	N/A	\$40,000,000 per account	N/A
San Mateo County Investment Pool	Upon Demand	N/A	40,000,000 per account	N/A
U.S. Treasury Bonds/Notes/Bills	5 Years	N/A	100%	N/A
U.S. Government Agency and Federal Agency Securities	5 Years	N/A	100%	N/A
Bankers Acceptances	180 Days	N/A	30%	(A),(B)
Commercial Paper	270 Days	AA	25%	(A),(B)
Negotiable Certificates of Deposit	5 Years	N/A	30%	(A),(B)
Time Certificates of Deposit - Banks or Savings and Loans	5 Years	N/A	25%	(A),(B)
Medium Term Corporate Notes	5 Years	AA	30%	(A),(B)

A) 5% of outstanding paper of issuing corporation  
B) 5% of the portfolio in one corporation

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

Note 2: Cash and Investments (Continued)

d. Investments Authorized by Debt Agreements

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Minimum Credit Quality
Securities of the U.S. government or its agencies	None
Time certificates of deposit	None
Bankers acceptances	None
Commercial paper	A1+
California Local Agency Investment Fund	None
Repurchase agreements	None
Reverse repurchase agreements	None
Small Business Administration loans	None
Money market funds	AA-m
Negotiable certificates of deposit	None
Investment agreement	None
Shares in California common law trust	None
Tax-exempt obligations	None

e. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City's investment policy is to hold investments to maturity to mitigate the interest rate risk.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity or earliest call date:

Investment Type	6 Months or Less	6 Months to 1 Year	1 to 3 Years	Total
San Mateo County Investment Pool	\$ 32,269,239	\$ -	\$ -	\$ 32,269,239
California Local Agency Investment	51,118,634	-	-	51,118,634
California Asset Management Program	1,064,738	-	-	1,064,738
Money market mutual funds	6,771,776	-	-	6,771,776
Certificates of Deposit	2,232,000	-	-	2,232,000
Total Investments	\$ 93,456,387	\$ -	\$ -	93,456,387
Cash in bank and cash on hand				5,241,192
Total Cash and Investments				\$ 98,697,579

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

Note 2: Cash and Investments (Continued)

f. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating, by Standards and Poor, as of June 30, 2013, for each investment type:

Investment Type	AAA	Total
Money market (U.S. Securities)	\$ 6,771,776	\$ 6,771,776
Totals	\$ 6,771,776	6,771,776
Not rated:		
San Mateo County Investment Pool		32,269,239
California Local Agency Investment Fund		51,118,634
California Asset Management Program		1,064,738
Certificates of deposit		2,232,000
Total Investments		93,456,387
Cash on hand and cash in bank		5,241,192
Total Cash and Investments		\$ 98,697,579

g. Local Agency Investment Fund

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations.

h. San Mateo County Investment Fund

The City is a voluntary participant in the San Mateo County Investment Fund (SMCIF) that is regulated by California Government Code Section 53600 under the oversight of the treasurer of the County of San Mateo. The City reports its investment in SMCIF at the fair value amount provided by SMCIF. The balance available for withdrawal is based on the accounting records maintained by SMCIF, which are recorded on an amortized cost basis. Included in SMCIF's investment portfolio are U.S. Treasury Notes, obligations issued by agencies of the U.S. Government, LAIF, corporate notes, commercial paper, collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. The City reports its investments in SMCIF at the fair value amounts provided by SMCIF, which is the same as the value of the pool share.

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

**Note 2: Cash and Investments (Continued)**

**i. California Asset Management Program**

The City is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the "Act") for the purpose of exercising the common power of its Participants to invest certain proceeds of debt issues and surplus funds. The Pool's investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code.

The City reports its investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share. At June 30, 2013, the fair value approximated is the City's cost.

**Note 3: San Carlos Development Corporation Receivable**

The San Carlos Development Corporation (SCDC) operates a senior care residential facility for low and moderate income residents of the City. In September 2003, the Agency issued a Residual Receipts Note in connection with an FHA-issued mortgage loan being made to refinance the San Carlos Elms. The terms of the note called for interest only payments at a rate of 9.75% per year with the entire amount of principal due August 1, 2037. On February 1, 2012 this receivable was transferred to the City who took over the housing function of the Agency upon dissolution. As of June 30, 2013, the balance owed to the City by SCDC totaled \$3,800,000.

**Note 4: Down Payment Assistance Loan (DAL) Program Receivable**

The Agency offers first time home buyers who qualify as having low and moderate income loans for use as a down payment on the purchase of a home. These loans bear interest at 3% and are secured by second deeds of trust on the underlying property. No payments are due until five years after the date of purchase, at which time the buyer has the option of converting the loan into shared equity in the property or extending the loan for an additional ten years with monthly payments and a balloon payment for the unpaid balance at the end of the ten year term. On February 1, 2012 this receivable was transferred to the City when it took over the housing function of the Agency upon dissolution. At June 30, 2013, the City has recorded a receivable totaling \$463,764 for loans given out to 8 buyers, consisting of \$397,202 principal and \$66,562 in accrued interest.

On April 27, 2009 the City Council approved revisions to the terms of DAL for the first time home buyer program. Payments are deferred for the term of the loan. Homeowners of units other than a Below Market Rate unit and/or any unit subject to a resale restriction agreement will be required to pay shared appreciation in addition to the repayment of principal and accrued interest at the time the DAL Program loan repayment is due. Interest rate and loan term remain unchanged. At June 30, 2013, the City has recorded a receivable totaling \$608,843 for loans given out to 11 buyers, consisting of \$558,600 principal and \$50,243 in accrued interest.

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

**Note 5: Employee Housing Assistance Loans**

In accordance with Council resolution, the City has assisted several employees in purchasing new residences through a loan program. These loans become due within 90 days if employment is terminated. The loans bear interest of 4.80%. Some loans have rates which are adjusted annually to equal the Local Agency Investment Fund rate earned as of July 1. The loans are secured by a second deed of trust on the underlying residence. Interest only is due bi-weekly until the sixth year, when principal and interest payments are due. The unpaid balance is due in the eighth year of the loan. In fiscal year 2013, no employees participated in the program.

**Note 6: Interfund Transactions**

**a. Transfers Between Funds**

The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund. Less often, a transfer may be made to open or close a fund.

Transfers between funds during the fiscal year ended June 30, 2013, were as follows:

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred
General Fund	Sewer Enterprise Fund	\$ 510,000 A
Capital Improvement Fund	General Fund	3,039,815 B
Non-Major Governmental Funds	General Fund	253,800 B
	Non-Major Governmental Funds	499,800 B
		<u>\$ 4,303,415</u>

- (A) Administration overhead
- (B) Capital projects

**b. Interfund Advances**

At June 30, 2013, the amounts of interfund advances were as follows:

Fund Receiving Advance	Fund Making Advance	Amount
Non-Major Governmental Fund	General Fund	\$ 610,000
Sewer Enterprise Fund	General Fund	100,000
Total		<u>\$ 710,000</u>

General Fund has advanced non-major governmental funds to cover storm drain maintenance. The advance does not bear interest.

General Fund has advanced Sewer Enterprise Fund to cover OPEB trust contribution payment. The advance does not bear interest.

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

Note 7: Capital Assets

Capital assets as of June 30, 2013, consisted of the following:

	Balance June 30, 2012	Additions	Retirements	Transfers	Balance June 30, 2013
<b>Governmental Activities:</b>					
Capital assets not depreciated:					
Land	\$ 62,243,493	\$ -	\$ -	\$ -	\$ 62,243,493
Rights of way	2,341,714	-	-	-	2,341,714
Construction in progress	1,354,866	2,107,323	(629,210)	(802,195)	2,030,784
Total capital assets not depreciated	65,940,073	2,107,323	(629,210)	(802,195)	66,615,991
Capital assets being depreciated:					
Buildings and improvements	30,324,065	-	-	-	30,324,065
Equipment	4,120,174	369,174	(36,428)	613,116	5,066,036
Infrastructure	55,490,766	-	-	189,079	55,679,845
Total capital assets being depreciated	89,935,005	369,174	(36,428)	802,195	91,069,946
Less accumulated depreciation:					
Buildings and improvements	(11,311,234)	(817,000)	-	-	(12,128,234)
Equipment	(3,135,965)	(921,063)	36,428	-	(4,020,600)
Infrastructure	(15,046,166)	(629,338)	-	-	(15,675,504)
Total accumulated depreciation	(29,493,365)	(2,367,401)	36,428	-	(31,824,338)
Depreciable capital assets, net	60,441,640	(1,998,227)	-	802,195	59,245,608
Capital assets, net	\$ 126,381,713	\$ 109,096	\$ (629,210)	\$ -	\$ 125,861,599

Depreciation expense was charged to governmental functions based on their usage of the related assets. The amounts allocated to each function or program as follows:

<b>Governmental Activities:</b>	
General government	\$ 906,771
Public safety	202,067
Public works	657,770
Community development	94,442
Park and recreation	506,351
Total Governmental Activities	\$ 2,367,401

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

Note 7: Capital Assets (Continued)

	Balance June 30, 2012	Additions	Retirements	Transfers	Balance June 30, 2013
<b>Business-type Activities:</b>					
Capital assets not depreciated:					
Land	\$ 153,734	\$ -	\$ -	\$ -	\$ 153,734
Participation rights	9,960,000	-	-	-	9,960,000
Construction in progress	333,700	406,137	-	-	739,837
Total capital assets not depreciated	10,447,434	406,137	-	-	10,853,571
Capital assets being depreciated:					
Equipment	1,045,614	232,601	(30,471)	-	1,247,744
Sewer network system	16,262,695	-	-	-	16,262,695
Total capital assets being depreciated	17,308,309	232,601	(30,471)	-	17,510,439
Less accumulated depreciation:					
Equipment	(461,933)	(118,410)	30,471	-	(549,872)
Sewer network system	(4,909,848)	(196,931)	-	-	(5,106,779)
Total accumulated depreciation	(5,371,781)	(315,341)	30,471	-	(5,656,651)
Depreciable capital assets, net	11,936,528	(82,740)	-	-	11,853,788
Capital assets, net	\$ 22,383,962	\$ 323,397	\$ -	\$ -	\$ 22,707,359

Depreciation expense of \$315,341 was charged to the Sewer enterprise fund as of June 30, 2013.

Note 8: Property Held for Resale

Property held for resale is stated at the lower of historical cost or net realizable value (equal to agreed-upon sales price if a disposition and development agreement has been reached with a developer).

In October 2009, the Agency purchased a low income housing unit property. On February 1, 2012 this property was transferred to the City when it took over the housing function of the Agency upon dissolution. The unit is being held for future resale to an individual who is eligible for the low income housing program. The balance at June 30, 2013, including costs to maintain the property, was \$358,870.

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

Note 9: Long-Term Debt

The City's debt issues and transactions are summarized below and discussed in detail thereafter.

	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013	Due Within One Year
<b>Governmental Activities:</b>					
2005 Refunding General Obligation Bonds	\$ 6,955,000	\$ -	\$ (265,000)	\$ 6,690,000	\$ 285,000
<b>Total Governmental Activities</b>	<b>\$ 6,955,000</b>	<b>\$ -</b>	<b>\$ (265,000)</b>	<b>\$ 6,690,000</b>	<b>\$ 285,000</b>
<b>Business-type Activities:</b>					
2008 Financing Agreement	\$ 1,410,000	\$ -	\$ (55,000)	\$ 1,355,000	\$ 55,000
2009 Financing Agreement	8,175,000	-	(160,000)	8,015,000	160,000
<b>Total Business-type Activities</b>	<b>\$ 9,585,000</b>	<b>\$ -</b>	<b>\$ (215,000)</b>	<b>\$ 9,370,000</b>	<b>\$ 215,000</b>

a. General Obligation Bonds

On December 6, 2005, the City issued \$8,115,000 of general obligation bonds (2005 Refunding Bonds). The 1996 Public Library Bonds were defeased by placing the proceeds from the 2005 Refunding Bonds in an irrevocable trust to provide for future debt payments. Accordingly, the trust account assets and the liability for the defeased 1996 Public Library Bonds are not included in the financial statements. On August 1, 2006, all outstanding principal of the 1996 Public library Bonds were repaid.

Principal payments for the 2005 Refunding Bonds are due annually on August 1. Interest payments are due semi-annually on February 1 and August 1 ranging from 3.50% to 4.15%. These bonds are payable from the proceeds of ad valorem property taxes.

b. South Bayside System Authority Financing Agreements

The City is a member of the South Bayside System Authority (SBSA), a joint exercise of powers authority established to provide wastewater transmission, treatment, and effluent disposal for members. SBSA issued two revenue bonds in 2008 and 2009 to finance the acquisition and construction of capital improvements to SBSA's wastewater system, fund a debt service reserve fund, and pay issuance costs. Under the joint powers agreement, the City is obligated to pay its allocated share of debt services. The City entered two Financing Agreements with SBSA to repay its share of the 2008 and 2009 Bonds.

2008 Financing Agreement

In December 2008, SBSA issued the 2008 revenue bonds in the amount of \$10 million. The City entered into a Financing Agreement with SBSA in December 2008 for repayment of its allocated share of \$1,510,000 and to provide adequate security for the 2008 Bonds. Principal payments are payable annually on August 1, commencing in 2010. Interest payments are due semi-annually on August 1 and February 1; commencing in August 2009.

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

Note 9: Long-Term Debt (Continued)

2009 Financing Agreement

In July 2009, SBSA issued the 2009 revenue bonds in the amount of \$55,855,000. The City's obligation in respect of the Bonds is intended to be on parity with its obligation under the Financing Agreement dated as of December 1, 2008 (the "2008 Financing Agreement). In July 2009, the City entered into a Financing Agreement with SBSA for repayment of its allocated share of the 2009 Bonds in the amount of \$8,450,000; and to provide adequate security for the 2009 Bonds. Principal payments are payable annually on August 1, commencing in 2010. Interest payments are due semiannually on August 1 and February 1; commencing in February 2010.

Revenue Pledge

The financing agreements are secured by a pledge of the City's Sewer Enterprise Fund Net Revenue as defined under the financing agreements. For the 2008 Financing Agreement, the pledge of future Net Revenue ends upon repayment of all the remaining debt service which is scheduled to occur on August 1, 2029. For the 2009 Financing Agreement, the pledge of future Net Revenue ends upon repayment of all the remaining debt service which is scheduled to occur on August 1, 2039.

For the fiscal year 2012-2013, gross Sewer Fund Revenues including operating revenues and non-operating interest earnings amounted to \$10,268,125. The operating and maintenance costs, including operating expenses, transfers out for overhead and administrative cost but excluding interest, and depreciation or amortization amounted to \$7,267,342. Net revenues available for debt service amounted to \$3,000,783 which represented coverage of 3.4 times over the total of two debt services of \$883,486.

c. Debt Service Requirements

Annual debt service requirements are shown below for all long-term debt with specified repayment terms:

For the Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 285,000	\$ 258,004	\$ 215,000	\$ 660,254
2015	310,000	247,288	225,000	650,912
2016	330,000	235,525	230,000	640,483
2017	365,000	222,576	240,000	628,921
2018	385,000	208,514	250,000	616,115
2019-2023	2,405,000	786,660	1,410,000	2,841,301
2024-2028	2,610,000	223,948	1,755,000	2,321,925
2029-2033	-	-	1,875,000	1,642,684
2034-2038	-	-	2,145,000	867,713
2039-2043	-	-	1,025,000	84,038
Total	<b>\$ 6,690,000</b>	<b>\$ 2,182,515</b>	<b>\$ 9,370,000</b>	<b>\$ 10,954,346</b>

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

**Note 10: Compensated Absences**

The changes in compensated absences for the year ending June 30, 2013, are as follows:

	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013	Due Within One Year
<b>Governmental Activities:</b>					
Compensated absences	\$ 527,987	\$ 300,342	\$ (369,687)	\$ 458,642	\$ 343,982
<b>Total Governmental Activities</b>	<b>\$ 527,987</b>	<b>\$ 300,342</b>	<b>\$ (369,687)</b>	<b>\$ 458,642</b>	<b>\$ 343,982</b>
<b>Business-Type Activities:</b>					
Compensated absences	\$ 105,373	\$ 54,011	\$ (79,752)	\$ 79,632	\$ 47,779
<b>Total Business-type Activities</b>	<b>\$ 105,373</b>	<b>\$ 54,011</b>	<b>\$ (79,752)</b>	<b>\$ 79,632</b>	<b>\$ 47,779</b>

**Note 11: Fund Balances**

**a. Fund Balance Commitments**

The City has the following committed fund balance shown on the governmental balance sheet:

Committed to emergency reserve - the City established the amount of 10% of the General Fund expenditures with a target of increasing to 20% of General Fund expenditures. Appropriations and access to these funds will be reserved for emergency situations. Examples of such emergencies include, but are not limited to: catastrophic disaster (declared by Governor), budgeted revenue taken by another government entity, or a more than 5% drop in projected revenue to the General Fund. The balance as of June 30, 2013, was \$2,900,000.

The City also has commitments for community development projects, parks and recreation, capital projects and strategic property acquisition totaling \$18,620,812.

**Note 12: Retirement Benefits**

**a. CALPERS Safety and Miscellaneous Plans**

All employees meeting membership requirements must participate in pension plans offered by California Public Employees Retirement System (CALPERS) an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (fire services) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 2013, are summarized as follows:

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

**Note 12: Retirement Benefits (Continued)**

	Safety (Fire)		Miscellaneous			
	1st Tier	1st Tier	2nd Tier	3rd Tier	(4th Tier)PEPRA	
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service	5 years service	
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life	monthly for life	
Retirement age	50	55	55	55	62	
Monthly benefits, as a % of annual salary	2%	2.70%	2.50%	2.00%	2.00%	
Required employee contribution rates	9.0%	8.0%	8.0%	7.0%	6.5%	
Required employer contribution rates	19.204%	20.433%	14.383%	10.197%	6.500%	

Effective July 1, 2012, the City consolidated its safety plan to achieve a reduced employer contribution rate.

The City Council adopted resolution authorizing an amendment to the contract between the City and the Board of Administration of the California Public Employees' Retirement System to provide a 2% at 55 supplemental formula (3<sup>rd</sup> Tier) for local miscellaneous members entering membership in the miscellaneous classification. The change took effect on April 23, 2012.

On September 12, 2012, Governor Brown signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA takes effect January 1, 2013. The new defined retirement formula for all new miscellaneous members hired after January 1, 2013 is 2% at age 62. With an early retirement age of 52 and a maximum benefit factor of 2.5% at age 67. New employees are required to pay least 50 percent of annual normal costs. Employers are precluded from paying any part of the required employee contribution.

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. The City uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. This results in no net pension obligations or unpaid contributions. The required contributions, representing annual pension cost, and related rates for the year ended June 30 were as follows:

Contribution Amount	Contribution Rate							
	Safety			Miscellaneous				
	Police		Fire	1st Tier	2nd Tier	3rd Tier	4th Tier (PEPRA)	
2011	\$ 2,049,510	38.056%						18.175%
2012	2,000,814	N/A	N/A	19.169%	20.160%	13.817%	10.019%	N/A
2013	2,301,816	N/A	N/A	19.204%	20.433%	14.383%	10.197%	6.500%

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

Note 12: Retirement Benefits (Continued)

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 2.75%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and amortized over a rolling thirty year period.

The Miscellaneous Plan Tier I actuarial value (which differs from market value) and funding progress over the past three years is set forth below at their latest available actuarial valuation date of June 30:

State-wide Miscellaneous Plan Tier I:

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2009	\$ 2,140,438,884	\$ 1,674,260,302	\$ 466,178,582	78.2%	\$ 440,071,499	105.9%
2010	2,297,871,345	1,815,671,616	482,199,729	79.0%	434,023,381	111.1%
2011	2,486,708,579	1,981,073,089	505,635,490	79.7%	427,300,410	118.3%

As required by State law, effective July 1, 2005, the City's Safety Plan was terminated, and the employees in the plan were required by CALPERS to join a new State-wide pool. One of the conditions of entry was that the City true-up any unfunded liabilities or overfunded assets in the former Plan, either by paying cash or by increasing or decreasing its future contribution rates through a Side Fund offered by CALPERS.

The latest available actuarial values of the Safety Plan State-wide pools (which differs from market value) and funding progress were set forth as follow. The information presented below relates to the Safety Plan State-wide pools as a whole, of which the City is one of the participating employers:

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2009	\$ 9,721,675,347	\$ 8,027,158,724	\$ 1,694,516,623	82.6%	\$ 973,814,168	174.0%
2010	10,165,475,166	8,470,235,152	1,695,240,014	83.3%	955,980,815	177.3%
2011	10,951,705,049	9,135,654,246	1,816,090,803	83.4%	949,833,090	191.2%

State-wide Safety Plan Tier II:

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2009	\$ 1,802,882,330	\$ 1,520,081,328	\$ 282,801,002	84.3%	\$ 221,600,192	127.6%
2010	1,915,095,826	1,628,915,283	286,180,543	85.1%	224,562,335	127.4%
2011	2,061,923,933	1,759,286,797	302,637,136	85.3%	225,026,216	134.5%

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

Note 12: Retirement Benefits (Continued)

Audited annual financial statements and ten-year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

The 2013 Actuarial data for the above retirement plan are not made available by CALPERS at the time this financial statement was issued.

Note 13: Post-Employment Benefits

a. Provisions and Benefits

**OPEB Healthcare** – During fiscal year 2008-2009, the City joined the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer plan administered by CALPERS, consisting of an aggregation of single-employer plans. City Council authorized a deposit of \$1,575,000 with CERBT on October 10, 2008 to begin funding its OPEB liability.

By Council resolution and through agreements with its labor units, the City provides certain health care benefits for retired employees (spouse and dependents are not included) under Public Employees' Medical Healthcare Act (PEMHCA). A summary of eligibility and retiree contribution requirements are shown below by bargaining unit:

Miscellaneous	Safety (Police)
- PEMHCA Minimum	- \$718.11/month in 2013
- \$115/month in 2013	- City reimburses retiree-only premium up to active employee single
- Indexed with CPI medical component	

As of June 30, 2013, 70 retired employees participated in the retiree healthcare benefits. Additionally, 88 current employees have met the criteria for the retiree healthcare benefits and are eligible to participate in the program if they retire from the City of San Carlos in future years.

**OPEB Longevity Recognition Program (Program)** - The Program's provisions and benefits in effect at June 30, 2013, are summarized as follows:

Miscellaneous				Safety
AFSCME			Management and Confidential	Fire
Clerical	MID Management	Teamsters		
- Hired before 1/1/2009 and 10 years City Service				*Not Eligible
*2013: \$675.57/month *Adjusted annually by same % as Section 125 plan for active single employee				
- Hired after 1/1/2009 and retire with 15 years continuous City Service			-Hired after 1/1/2009: *Not Eligible	
*\$350/month *No future increases				
-Hired after 2/28/2011:	-Hired after 12/13/2010:	-Hired after 3/28/2011:		
*Not Eligible	*Not Eligible	*Not Eligible		



CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

Note 13: Post-Employment Benefits (Continued)

As of June 30, 2013, 21 retired employees were eligible to receive the longevity recognition benefits. Additionally, 36 current employees have met the criteria for this program and will receive benefits from this program if they retire from the City of San Carlos in future years.

b. Funding Policy and Actuarial Assumptions

**OPEB Healthcare** - The annual required contribution (ARC) was determined as part of a January 1, 2011 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.25% investment rate of return, (b) 3.25% projected annual salary increase, and (c) 3.0% health inflation increases. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The City's OPEB prefunded asset is being amortized as a level percentage of projected payroll using a 30-year amortization period.

In accordance with the City's budget, the ARC is to be funded throughout the year as a percentage of payroll. During the fiscal year 2008-2009, the City Council passed a resolution to participate in the California Employers Retirees Benefit Trust (CERBT), an irrevocable trust established to fund OPEB. CERBT is administrated by CalPERS, and is managed by an appointed board not under the control of the City Council. This Trust is not considered a component unit by the City and has been excluded from these financial statements. Separately issued financial statements for CERBT may be obtained from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

**OPEB Longevity Recognition Program (Program)** - The annual required contribution (ARC) was determined as part of a January 1, 2011 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 6.25% investment rate of return, (b) 3.25% projected annual salary increase, and (c) 3.0% inflation increases. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 30-year (closed period) amortization period.

On September 12, 2011 the City amended the agreement with the Public Agency Retirement Services (PARS) to include the longevity Recognition Program (OPEB program), and Renaming the Existing Plan to the City of San Carlos PARS Supplementary Retirement Plan. To complete this change and amend the Services Agreement with PARS, the City transferred funds of \$1,200,000 on September 12, 2011 to PARS and set up an irrevocable trust to fund future benefit costs.

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

Note 13: Post-Employment Benefits (Continued)

c. Funding Progress and Funded Status

Generally accepted accounting principles permit contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability (AAL) when such contributions are placed in an irrevocable trust or equivalent arrangement. In fiscal year 2013, the City made contribution and amortized its net OPEB asset and obligation as presented below:

	Healthcare	Longevity
Annual required contribution (ARC)	\$ 407,000	\$ 523,000
Interest on net OPEB asset	(14,743)	11,526
Adjustment to annual required contribution	21,844	(34,822)
Annual OPEB cost (expense)	414,101	499,704
Contributions	-	175,000
Increase (decrease) in net OPEB asset	414,101	324,704
Net OPEB obligation (asset) - beginning of year	(346,902)	768,433
Net OPEB obligation (asset) - end of year	\$ 67,199	\$ 1,093,137

The City's annual required contributions and actual contributions for the three most recent fiscal years are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost	Net OPEB Obligation (Asset)
<b>Healthcare</b>				
6/30/2011	\$ 420,459	\$ 313,873	75%	\$ (1,320,235)
6/30/2012	367,514	-	0%	(346,902)
6/30/2013	414,101	-	0%	67,199
<b>Longevity</b>				
6/30/2011	581,702	93,524	16%	1,506,855
6/30/2012	487,300	1,225,722	252%	768,433
6/30/2013	499,704	175,000	35%	1,093,137

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the January 1, 2009 and 2011 actuarial study are presented below:

Actuarial Valuation Date	Ending Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	(in Thousands)			Covered Payroll (C)	Overfunded (Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A-B)/C]
			Overfunded (Underfunded) Actuarial Liability (A-B)	Funded Ratio (A/B)			
<b>Healthcare</b>							
6/30/2009	\$ 1,629	\$ 5,356	\$ (3,727)	30.41%	\$ 8,974	-41.53%	
6/30/2011	1,140	5,197	(4,057)	21.94%	5,863	-69.20%	
<b>Longevity</b>							
6/30/2009	-	3,993	(3,993)	0.00%	6,380	-62.59%	
6/30/2011	1,200	4,714	(3,514)	25.46%	5,863	-59.94%	

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

Note 14: Risk Management

a. Liability Coverage

The City participates in the Association of Bay Area Governments (ABAG), a non-profit public benefit corporation established to provide liability insurance coverage, claims and risk management, and legal defense to its participating members. ABAG Plan provides \$5,000,000 of general and automobile liability coverage per occurrence and 20,000,000 excess liability coverage per occurrence and is responsible for paying claims in excess of the City's \$100,000 deductible. For the year ended June 30, 2013, the City paid ABAG Plan \$360,966 in premiums.

Financial statements may be obtained from ABAG Services, PO Box 2050, Oakland, CA 94604-2050.

b. Workers' Compensation Coverage

The City participates in the Cities Group, created by a joint powers agreement to provide workers compensation coverage of up to \$10,000,000 per occurrence in excess of \$1,500,000 for safety officers and \$1,000,000 for miscellaneous employees. The Group acts as administrator, claim adjuster and provides other risk management services as required by State law. Each member of the Group pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the Group. During the year ended June 30, 2013, the City paid the Group \$186,789 in premiums. At June 30, 2013, the Group reported that the City's equity for Workers' Compensation program amounted to \$124,865.

Financial statements may be obtained from the Cities Group, P.O. Box 111, Burlingame, CA 94011-0111.

c. Liability for Uninsured Claims

The City's liability for uninsured claims at June 30, 2013, was estimated by management based on ABAG Plan's claims experience and recorded in the Liability Insurance Internal Service Fund.

For the years ended June 30, 2013 and 2012, the amount of settlements did not exceed insurance coverage.

The City's liability for uninsured claims is limited to workers' compensation and general liability claims, as discussed above, and was estimated by management based on prior years' claims experience as follows for the year's ended June 30:

	2013	2012
Balance, July 1	\$ 551,818	\$ 551,818
Net change in liability for claims and claims paid but not reported	335,919	104,093
Claims paid	(310,841)	(104,093)
Balance, June 30	576,896	551,818
Current Portion	212,348	187,270
Long-term Portion	<u>\$ 364,548</u>	<u>\$ 364,548</u>

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

Note 15: Joint Ventures

The City participates in joint ventures through formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these entities exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each joint venture is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective joint venture, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on that board. Obligations and liabilities of these joint ventures are not the City's responsibility and the City does not have an equity interest in the assets of each joint venture except upon dissolution of the joint venture.

a. Belmont-San Carlos Fire Department

South County Fire Authority was formed in 1979 between the Cities of San Carlos and Belmont on an equal basis to provide more efficient fire protection services for the two cities. Any assets used by the Fire Authority but owned by the member agencies prior to the creation of the Fire Authority remain the property of the members. Each member contributes its pro rata share of operating costs to the Fire Authority.

On April 12, 2010, the City Council adopted a resolution authorizing the City Manager to send notice to Belmont Fire Protection District of the City's intent to dissolve the joint powers authority establishing Belmont-San Carlos Fire Department. The service termination of the Belmont-San Carlos Fire Department took effect on October 1, 2011 at which time the City of San Carlos formed its own hybrid fire department. The San Carlos Fire Department is now staffed with firefighters, firefighter/paramedics and fire captains. The Fire Chief and command staff oversight are provided by the City of Redwood City.

As a result of the termination service with the Belmont-San Carlos Fire Department, the City is required to make the annual contribution paying for other post-employment benefits for retirees who have earned lifetime medical coverage; unfunded liabilities of the safety and miscellaneous retirement plans with CALPERS; outstanding workers compensation claims from past employees and liability claims or other obligations of the former Fire Department. The City's contribution during the year ended June 30, 2013, was \$904,416.

b. Fire and Emergency Services Agreement with the City of Redwood City

In July 2011 the City of San Carlos and the City of Redwood City entered into an agreement for fire and emergency services. The agreement provides for the City of San Carlos to maintain a fire department, including personnel and infrastructure, at its sole cost sufficient to provide certain emergency and non-emergency services. The City of Redwood City provides certain fire and emergency services such as fire administration and support, fire prevention, investigation, and training. The City of San Carlos pays the City of Redwood City a fee for the services provided which will be reviewed in January of each year and amended to reflect actual increases or decreases in cost, not to exceed 3% each year. This agreement expires on September 30, 2016 unless terminated earlier.

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

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**Note 15: Joint Ventures (Continued)**

**c. South Bayside System Authority**

South Bayside System Authority was formed in 1975 between the cities of San Carlos, Belmont, Redwood City and the Menlo Park Sanitary District to operate a wastewater treatment facility commonly known as South Bayside System Authority. The cost of operating and maintaining the facility is divided in proportion to the volume of sewage entering from each member entity. The City's contribution toward the cost of operating and maintaining the facility during the year ended June 30, 2013, was \$3,211,599.

Financial statements may be obtained by mailing a request to the South Bayside System Authority, 1400 Radio Road, Redwood City, CA 94065.

**d. City/County Association of Governments of San Mateo County (C/CAG)**

City/County Association of Governments of San Mateo County was formed in 1990 between the various cities in San Mateo County to prepare, adopt, monitor and enforce state mandated plans for the management of traffic congestion, integrated solid waste, airport land use and hazardous waste. The City's contribution to C/CAG was \$113,265 for the year ended June 30, 2013. Financial statements may be obtained by mailing a request to the City of San Carlos, 600 Elm Street, San Carlos, CA 94070.

**e. South Bayside Waste Management Authority (SBWMA)**

The South Bayside Waste Management Authority (the Authority) is a joint powers agreement formed in October 13, 1999. Members of the Authority currently include the cities of Atherton, Belmont, Burlingame, East Palo Alto, Foster City, Hillsborough, Menlo Park, Redwood City, San Carlos, San Mateo, as well as the West Bay Sanitary District and the County of San Mateo. The Members are required by AB939 to reduce, recycle and reuse solid waste generated within their respective jurisdictions and to provide source reduction, recycling and composting activities. The Authority's purpose is to assist its members in meeting these requirements. Financial statements may be obtained by mailing a request to the City of San Carlos, 600 Elm Street, San Carlos, CA 94070.

**Note 16: Commitments and Contingent Liabilities**

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation, which is likely to have a material adverse effect on the financial position of the City.

The City participates in Federal, State and local grant programs. These programs have been audited by the City's independent accountants in accordance with the provisions of the Federal Single Audit Act of 1984 including 1996 amendments and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

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**Note 16: Commitments and Contingent Liabilities (Continued)**

**a. Palo Alto Medical Foundation Development Agreement**

After an extensive 3 1/2 year process, on October 8, 2007, the City Council approved a proposal by the Palo Alto Medical Foundation (PAMF) to develop a regional Medical Clinic, Medical Office Building and Hospital on an 18 acre site at 301 Industrial Road in San Carlos that formerly housed the Varian - CPI Eimac plant.

The purchase and transfer of the 18-acre site at 301 Industrial Road took a major parcel in San Carlos off of the property tax rolls of the City. This occurred when the title to the site passed from 301 Industrial LLC (the entity performing the site clearance and remediation activities) to PAMF, which is a tax-exempt entity. In addition, the PAMF San Carlos Center would generate very little in sales tax revenue to the City.

To offset this impact, a Development Agreement with PAMF was entered into to ensure that the City would be placed in substantially the same position financially as the City would likely have been with use of the Project Site instead for another, economically productive use.

The key components of the Development Agreement are described in the table below. In short, the Development Agreement guarantees the City nearly \$91,000,000 in revenue over a 50-year period. When factoring in costs for City services, the Development Agreement would net the City \$43,939,000 over 50 years, resulting in a positive net present value of \$11,642,000. The net amount does not include one-time payments of \$1 million to the City for athletic fields and \$1.5 million to the San Carlos Education Foundation for educational purposes. This amount also does not include the City's share of any excess returns of the \$9 million principal amount to be funded by PAMF under the agreement, which could be substantial depending on the investment returns received on the fund. The revenue sources contained in the Development Agreement are summarized in the following table:

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

Note 16: Commitments and Contingent Liabilities (Continued)

Funding Source	Summary Description	Current Status
A \$9 million endowment fund (called the Designated Fund)	At the end of 50 years, the Designated Fund becomes the City's to administer	No change
B 50% of excess returns on the Designated Fund at the end of the payment term	In addition to receiving the \$9 million Designated Fund at the end of the term of the agreement, the City will then receive 50% of the amount of the Designated Fund that exceeds \$9 million	No change
C Guaranteed minimum payments from the revenue on the Designated Fund	\$250,000 in each of Years 1 and 2 \$630,000 in Year 3 \$630,000 inflated by 2.5% per year for the next 49 years	Received - \$250,000 received in Years 1 and 2; \$630,000 received in Year 3, \$645,800 received in Year 4 and \$661,900 received in Year 5. Future unchanged. City will receive the Year 6 payment of \$678,450 in April 2014 as scheduled.
D Guaranteed minimum construction-related use tax revenue	\$722,000 for the principal construction period	Upcoming - \$722,000 of "construction period revenue" is dependent on the construction of the facility. With the start of construction in May 2012, these funds (use tax assigned to the project by the contractors) will begin to flow to the City's sales tax account by the State during 2012 and will continue until the end of the project's construction period.
E Guaranteed minimum annual operational use tax revenue	\$152,000/year inflated by 3% per year for 50 years	Deferred — \$152,000 per year is guaranteed for 50 years starting 1 year after construction of both the Medical Clinic and Hospital facilities are completed.
F \$1.5 million	One-time payment to the San Carlos Education Foundation for health-related school programs	Received - by San Carlos Education Foundation on Feb 5, 2008.
G \$1 million	One-time payment to the City to improve athletic facilities and fields	Received — by City of San Carlos on Feb 5, 2008 and the funds were used to install a synthetic turf field at Lower Highlands Park Field.

Total: \$90,804,000 (minimum) over 50 years

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

Note 16: Commitments and Contingent Liabilities (Continued)

In May 2009, in their annual report to the City, PAMF stated that funding for the San Carlos project had been temporarily frozen as a result of the economic environment. In late 2011, Sutter Health, PAMF's parent organization approved funding for the first phase of their medical facility in San Carlos. This phase includes the Medical Center including urgent care services, a parking garage to serve the full facility, and site improvements such as loop access road, landscaping. A second phase of the project, which would construct the Hospital on this site has not been scheduled. In May 2012, PAMF received permits from the City and began construction work including grading and pile installation on the site. Construction work is well underway and expected to be completed in the fall of 2014 when equipment and furnishings will be installed and tested.

The financial impacts of these developments are beneficial to the City. The Guaranteed Minimum Payments (item "C" in the table above) began in 2010-11 with a payment of \$630,000 in April 2011 after receipt of \$250,000 per year payments in the two years prior as described in the development agreement. Guaranteed Minimum Payments continued the following year with a payment of \$645,800 in April 2012 and \$661,900 in April 2013. The next guaranteed payment will be \$678,450 in April 2014.

In addition to receiving the Year 3 Guaranteed Minimum Payments payment of \$630,000 in April 2011 as specified in the development agreement, the start of construction triggers two more events.

First, the City will receive the construction use tax for certain out of state materials purchased for the PAMF development during the Phase I construction period (see item "D" in the table above). Members of the City's Administrative Services and City Manager Departments have met with PAMF, Skanska (PAMF's project management firm) and HdL Companies (the City's Sales Tax audit and consultant) to review the mechanics of this process. PAMF and Skanska are now implementing systems needed to comply with these provisions of the development agreement.

Under the terms of the Development Agreement, PAMF is obligated to deliver a quarterly report on construction use tax payments by their contractors to the City, 90 days after the end of each quarter. The City will review these reports to verify the amounts of use tax paid to the City and report the findings to PAMF. Use tax payments made to San Carlos from the project's contractors will be credited to PAMF and will reduce the amount of Use Tax (\$722,000) that will be received by the City by the end of the project construction. This is shown as item "D" in the table above.

Second, the start of construction will trigger payment to the City of the "guaranteed minimum annual operational use tax revenue" one year after construction is completed (see item "E" in the table above).

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

Note 16: Commitments and Contingent Liabilities (Continued)

c. San Francisco Baykeeper Commitment

On February 16, 2010, the City entered into a consent decree with San Francisco Baykeeper to reduce the number of sanitary sewer overflows (SSOs) from the wastewater collection system. The agreement sets forth a timeline for reducing SSOs from the 2010 level of 64 per 100 miles of sewer line per year to a level of 4 per 100 miles of sewer line per year in 2017. The agreement required payments of \$200,000 for an environmental mitigation project, \$95,000 for litigation fees and costs, and \$55,000 for compliance monitoring and these obligations have been met. The agreement also commits the City to certain actions regarding SSO investigation, response and reporting; sewer condition assessment rehabilitation replacement; implementation of a fats, oil and grease program; sewer cleaning, hot spots, and lateral programs; regulation of private laterals; and a chemical root control program. An annual report is required commencing on March 1, 2011 and each year thereafter. The agreement set forth stipulates payments for failure to file required reports.

d. Construction Commitments

Construction commitments as of June 30, 2013, consisted of the following projects:

Major Project	Authorized	Expended	Future Commitment
<b>Governmental Activities:</b>			
Street resurfacing expenses	\$ 16,105,792	\$ 12,505,792	\$ 3,600,000
<b>Business-type Activities:</b>			
Sewer system rehabilitation	\$ 25,444,106	\$ 16,944,106	\$ 8,500,000

Note 17: Successor Agency Trust for Assets of Former Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provided for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of San Carlos that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provided that upon dissolution of a redevelopment agency, either the City or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On January 9, 2012 the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

Note 17: Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directed the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

As a result of the State Controller's review of the transfers of the Successor Agency's Trust for assets of the former redevelopment agency during the current year an extraordinary loss of \$342,540 was recorded in the Private Purpose Trust Funds.

Additional Information for the Successor Agency of the Former RDA

a. Cash and Investments

Cash and investments reported in the Successor Agency in the accompanying financial statements consisted of the following:

Cash and investments	\$ 1,222,701
Cash and investments with fiscal agent	3,845,507
	<u>\$ 5,068,208</u>

b. Capital Assets

Capital assets of the Successor Agency as of June 30, 2013, consisted of the following:

	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013
<b>Fiduciary Funds:</b>				
Capital assets not depreciated				
Land	\$ 1,050,075	\$ -	\$ -	\$ 1,050,075
Construction in progress	481,272	-	-	481,272
Total capital assets not depreciated	<u>1,531,347</u>	<u>-</u>	<u>-</u>	<u>1,531,347</u>
Capital assets being depreciated:				
Buildings and improvements	3,950,285	-	-	3,950,285
Total capital assets being depreciated	<u>3,950,285</u>	<u>-</u>	<u>-</u>	<u>3,950,285</u>
Less accumulated depreciation:				
Buildings and improvements	(116,402)	(79,006)	-	(195,408)
Total accumulated depreciation	<u>(116,402)</u>	<u>(79,006)</u>	<u>-</u>	<u>(195,408)</u>
Depreciable capital assets, net	<u>3,833,883</u>	<u>(79,006)</u>	<u>-</u>	<u>3,754,877</u>
Capital assets, net	<u>\$ 5,365,230</u>	<u>\$ (79,006)</u>	<u>\$ -</u>	<u>\$ 5,286,224</u>

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

Note 17: Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

c. Long-term Debt

Long-term debt for the Successor Agency as of June 30, 2013, was as follows:

A description of individual issues of bonds of the Successor Agency of the former redevelopment agency outstanding as of June 30, 2013, follows:

	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013	Due Within One Year
<b>Fiduciary Funds:</b>					
Installment Purchase Agreement	\$ 2,795,653		\$ (34,331)	\$ 2,761,322	\$ 37,832
Richard A. Berghella Trust Agreement	640,132		(12,378)	627,754	13,607
2007 Non-Taxable Revenue Bonds, Series A	12,360,000		(130,000)	12,230,000	130,000
2007 Taxable Revenue Bonds, Series B	2,190,000		(265,000)	1,925,000	280,000
<b>Total Fiduciary Funds</b>	<b>\$ 17,985,785</b>	<b>\$ -</b>	<b>\$ (441,709)</b>	<b>\$ 17,544,076</b>	<b>\$ 461,439</b>

Installment Purchase Agreement

On October 1, 1994, the Redevelopment Agency purchased real property and provided the bulk of the financing required to construct and equip an 85 unit residential care facility for elderly low income persons. As part of the transaction, the San Carlos Development Corporation (SCDC) agreed to purchase and operate the facility, as discussed in Note 3. The Agency signed an Installment Purchase Agreement in the amount of \$2,800,000 to finance its purchase of the land. Payments are made out of receipts from SCDC. Interest payments on the Installment Agreement are due monthly and principal payments will commence on May 1, 2012 through June 1, 2035, bearing interest of 10.9%.

Richard A. Berghella Trust Agreement

In October 2001, the Agency entered into a purchase agreement for \$720,156 to purchase a parcel of land to be used for the construction of a residential facility for low and moderate income residents of the City. The agreement calls for monthly principal and interest payments of \$6,055 due on the 15<sup>th</sup> day of each month through August 15, 2032, bearing interest at 9.50% per annum.

Tax Allocation Bonds

In December 2007, the Redevelopment Agency issued \$12,875,000 of 2007 Series A Revenue Bonds, and \$3,135,000 of 2007 Series B Taxable Revenue Bonds, to refinance the 1995 and 1997 Tax Allocation Bonds and to finance various Redevelopment activities within or of benefit to the Project area. The refunding resulted in an overall debt service increase of \$75,767. The net present value of the savings resulted in an economic gain of \$416,051. The 1995 and 1997 Tax Allocation Revenue Bonds were subsequently retired in December 2007.

The 2007 Series A and Series B Bonds are special obligations of the Redevelopment Agency payable solely from and secured by a pledge of tax revenues, including *ad valorem* taxes and incremental taxes that are required to be deposited into the housing fund, generated within the project area. Principal payments are payable annually

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

Note 17: Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

on September 1. Interest payments are due semi-annually on September 1 and March 1 and bear interest between 3.25% and 5.5%. The pledge of future tax revenue ends upon repayment of the total 2007 Series A and Series B in the amount of \$27 million in remaining debt service on the bonds which is scheduled to occur in 2033.

On February 1, 2012 this debt was transferred to the Successor Agency which took over responsibility of winding down the operations of the former Agency upon dissolution.

The Agency pledged, as security for bonds issued, either directly or through the Financing Authority, a portion of tax increment revenue that it receives. The bonds were issued to provide financing for various capital projects. Assembly Bill 1X 26 provided that upon dissolution of the Redevelopment Agency, property taxes allocated to redevelopment agencies no longer are deemed tax increment but rather property tax revenues and will be allocated first to successor agencies to make payments on the indebtedness incurred by the dissolved redevelopment agency. Total principal and interest remaining on the debt is \$22,314,565 with annual debt service requirements as included below. For the current year, the total property tax revenue recognized by the Successor Agency for the payment of indebtedness incurred by the dissolved redevelopment agency was \$2,649,506 and the debt service obligation on the bonds was \$1,064,338.

In the prior fiscal year, Moody's Investors Service ("Moody's") downgraded all California tax allocation bonds rated 'Baa3' and above. As such, the Bonds' insured rating was downgraded from 'A3' to 'Ba1' and underlying rating was downgraded from 'A3' to 'Ba1'. According to Moody's, all California tax allocation bond ratings remain on review for possible withdrawal.

Debt Service Requirements

The following schedule illustrates the debt service requirements to maturity for the debt outstanding as of June 30:

	Principal	Interest	Total
2014	\$ 461,439	\$ 983,609	\$ 1,445,048
2015	486,647	958,081	1,444,728
2016	517,383	930,807	1,448,190
2017	543,700	901,815	1,445,515
2018	575,656	870,853	1,446,509
2019-2023	3,364,942	3,850,548	7,215,490
2024-2028	4,381,009	2,826,706	7,207,715
2029-2033	5,643,067	1,395,719	7,038,786
2034-2038	1,570,233	81,876	1,652,109
<b>Total</b>	<b>\$ 17,544,076</b>	<b>\$ 12,800,014</b>	<b>\$ 30,344,090</b>

d. Commitments and Contingent Liabilities

The Successor Agency is subject to litigation arising in the normal course of business. In the opinion of the Attorney there is no pending litigation, which is likely to have a material adverse effect on the financial position of the Successor Agency.

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

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**Note 18: Subsequent Events**

On June 24, 2013, the City Council adopted the resolution to the execution of the amended and restated agreement between the Cities of Redwood City and San Carlos on full service model for fire and emergency services. The restated agreement also includes the transfer of fire services personnel from the City of San Carlos to City of Redwood City. The full fire services agreement takes effect as of July 1, 2013.

**NONMAJOR GOVERNMENTAL FUNDS**

**SPECIAL REVENUE FUNDS:**

**NPDES FUND** - Used to account for revenues received from assessments levied by the county on property and disburses funds in compliance with the provisions of the National Pollutant Discharge Elimination System.

**POLICE GRANTS FUND** - Used to account for grant activities and services paid for and reimbursed by grant funding. This fund includes grants from the following funding sources:

- **Supplemental Law Enforcement Services Funds (SLESF)** - Under the SLESF program, cities and counties receive state funds to augment public safety expenditures.
- **Office of Traffic Safety (OTS) state funding** - The program funds a variety of traffic related projects including equipment, personnel and overhead reimbursement.

**SAN CARLOS LIBRARY TENANT FUND** - Used to account for the San Carlos Library tenants activities.

**CAPITAL PROJECTS FUNDS:**

**EQUIPMENT REPLACEMENT FUND** - Used to account for the anticipated replacement of general equipment needs.

**MEASURE A FUND** - Used to account for the City's share of a one-half cent sales tax restricted for transportation purposes.

**GAS TAX FUND** - Used to account for revenue received and expended under the State of California, Street and Highways Code Sections 2106, 2107, and 2107.5. These revenues must be expended for maintenance or construction of streets.

**PARK FEE FUND** - Used to account for development fees collected and used to finance the acquisition and construction of City parks.

**PARKING IN-LIEU FUND** - Used to account for fees charged to business in lieu or required parking. These revenues are used to pay for parking lot improvements and repairs.

**DEBT SERVICE FUND:**

**SAN CARLOS LIBRARY BONDS FUND** - Used to accumulate the annual tax levies earmarked for payment of principle and interest on the general obligation bonds.

CITY OF SAN CARLOS

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2013

	Special Revenue Funds			Capital Projects Funds	
	NPDES	Police Grants	San Carlos Library Tenant	Equipment Replacement	Measure A
<b>Assets:</b>					
Cash and investments	\$ 625,215	\$ 229,087	\$ 1,453,462	\$ 2,085,055	\$ 304,561
Receivables:					
Accounts receivable	66,577	-	12,323	-	-
<b>Total Assets</b>	<b>\$ 691,792</b>	<b>\$ 229,087</b>	<b>\$ 1,465,785</b>	<b>\$ 2,085,055</b>	<b>\$ 304,561</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances:</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 15,445	\$ 5,927	\$ 185,085	\$ 6,506	\$ -
Advances from other funds	610,000	-	-	-	-
<b>Total Liabilities</b>	<b>625,445</b>	<b>5,927</b>	<b>185,085</b>	<b>6,506</b>	<b>-</b>
<b>Deferred inflows of resources:</b>					
Unavailable revenues	-	-	-	-	-
<b>Total Deferred Inflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balances:</b>					
<b>Restricted for:</b>					
Public safety	-	223,160	-	-	304,561
Parks and recreation	-	-	-	-	-
Public works	66,347	-	-	-	-
Debt service	-	-	-	-	-
<b>Committed to:</b>					
Community development	-	-	-	-	-
Parks and recreation	-	-	1,280,700	-	-
Capital projects	-	-	-	2,078,549	-
<b>Total Fund Balances</b>	<b>66,347</b>	<b>223,160</b>	<b>1,280,700</b>	<b>2,078,549</b>	<b>304,561</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 691,792</b>	<b>\$ 229,087</b>	<b>\$ 1,465,785</b>	<b>\$ 2,085,055</b>	<b>\$ 304,561</b>

CITY OF SAN CARLOS

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2013

	Capital Projects Funds			Debt Service Funds	Total Governmental Funds
	Gas Tax	Park Fee	Parking In-Lieu	San Carlos Library Bonds	
<b>Assets:</b>					
Cash and investments	\$ 2,176,499	\$ 427,169	\$ 76,890	\$ 1,874,887	\$ 9,252,825
Receivables:					
Accounts receivable	89,054	-	-	-	167,954
<b>Total Assets</b>	<b>\$ 2,265,553</b>	<b>\$ 427,169</b>	<b>\$ 76,890</b>	<b>\$ 1,874,887</b>	<b>\$ 9,420,779</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances:</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 314,518	\$ -	\$ 7,630	\$ -	\$ 535,111
Advances from other funds	-	-	-	-	610,000
<b>Total Liabilities</b>	<b>314,518</b>	<b>-</b>	<b>7,630</b>	<b>-</b>	<b>1,145,111</b>
<b>Deferred inflows of resources:</b>					
Unavailable revenues	67,362	-	-	-	67,362
<b>Total Deferred Inflows of Resources</b>	<b>67,362</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>67,362</b>
<b>Fund Balances:</b>					
<b>Restricted for:</b>					
Public safety	-	-	-	-	527,721
Parks and recreation	-	427,169	-	-	427,169
Public works	1,883,673	-	-	-	1,950,020
Debt service	-	-	-	1,874,887	1,874,887
<b>Committed to:</b>					
Community development	-	-	69,260	-	69,260
Parks and recreation	-	-	-	-	1,280,700
Capital projects	-	-	-	-	2,078,549
<b>Total Fund Balances</b>	<b>1,883,673</b>	<b>427,169</b>	<b>69,260</b>	<b>1,874,887</b>	<b>8,208,306</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 2,265,553</b>	<b>\$ 427,169</b>	<b>\$ 76,890</b>	<b>\$ 1,874,887</b>	<b>\$ 9,420,779</b>



CITY OF SAN CARLOS

COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2013

	Special Revenue Funds			Capital Projects Funds	
	NPDES	Police Grants	San Carlos	Equipment Replacement	Measure A
			Library Tenant		
<b>Revenues:</b>					
Sales taxes	\$ -	\$ -	\$ -	\$ -	\$ 715,015
Property taxes	-	-	-	-	-
Licenses and permits	-	-	-	-	-
From other agencies	494,892	71,185	-	-	-
Use of money and property	3,520	-	159,581	-	1,726
Other revenue	68,175	-	-	-	-
<b>Total Revenues</b>	<b>566,587</b>	<b>71,185</b>	<b>159,581</b>	<b>-</b>	<b>716,741</b>
<b>Expenditures:</b>					
Current:					
General government	-	-	250,216	-	-
Community development	-	-	-	-	-
Public safety	-	95,962	-	-	103,505
Public works	477,630	-	-	-	-
Capital outlay	-	-	-	107,570	-
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
<b>Total Expenditures</b>	<b>477,630</b>	<b>95,962</b>	<b>250,216</b>	<b>107,570</b>	<b>103,505</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	88,957	(24,777)	(90,635)	(107,570)	613,236
<b>Other Financing Sources (Uses):</b>					
Transfers in	-	-	-	253,800	-
Transfers out	-	-	-	-	(499,800)
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>253,800</b>	<b>(499,800)</b>
Net Change in Fund Balances	88,957	(24,777)	(90,635)	146,230	113,436
Fund Balances, Beginning of Year	(22,610)	247,937	1,371,335	1,932,319	191,125
<b>Fund Balances, End of Year</b>	<b>\$ 66,347</b>	<b>\$ 223,160</b>	<b>\$ 1,280,700</b>	<b>\$ 2,078,549</b>	<b>\$ 304,561</b>

CITY OF SAN CARLOS

COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2013

	Capital Projects Funds			Debt Service Funds	Total
	Gas Tax	Park Fee	Parking In-Lieu	San Carlos	Governmental Funds
				Library Bonds	
<b>Revenues:</b>					
Sales taxes	\$ -	\$ -	\$ -	\$ -	\$ 715,015
Property taxes	-	-	-	669,809	669,809
Licenses and permits	55,099	-	10,370	-	65,469
From other agencies	1,151,124	-	-	-	1,717,201
Use of money and property	12,050	2,406	359	10,560	190,202
Other revenue	-	227,598	-	-	295,773
<b>Total Revenues</b>	<b>1,218,273</b>	<b>230,004</b>	<b>10,729</b>	<b>680,369</b>	<b>3,653,469</b>
<b>Expenditures:</b>					
Current:					
General government	-	-	-	-	250,216
Community development	-	-	50,758	-	50,758
Public safety	-	-	-	-	199,467
Public works	415,400	-	-	-	893,030
Capital outlay	1,343,490	133	-	-	1,451,193
Debt service:					
Principal	-	-	-	265,000	265,000
Interest and fiscal charges	-	-	-	268,300	268,300
<b>Total Expenditures</b>	<b>1,758,890</b>	<b>133</b>	<b>50,758</b>	<b>533,300</b>	<b>3,377,964</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(540,617)	229,871	(40,029)	147,069	275,505
<b>Other Financing Sources (Uses):</b>					
Transfers in	499,800	-	-	-	753,600
Transfers out	-	-	-	-	(499,800)
<b>Total Other Financing Sources (Uses)</b>	<b>499,800</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>253,800</b>
Net Change in Fund Balances	(40,817)	229,871	(40,029)	147,069	529,305
Fund Balances, Beginning of Year	1,924,490	197,298	109,289	1,727,818	7,679,001
<b>Fund Balances, End of Year</b>	<b>\$ 1,883,673</b>	<b>\$ 427,169</b>	<b>\$ 69,260</b>	<b>\$ 1,874,887</b>	<b>\$ 8,208,306</b>

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE  
NPDES  
YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
From other agencies	\$ 524,000	\$ 524,000	\$ 494,892	\$ (29,108)
Use of money and property	2,000	2,000	3,520	1,520
Other revenue	5,300	5,300	68,175	62,875
<b>Total revenues</b>	<b>531,300</b>	<b>531,300</b>	<b>566,587</b>	<b>35,287</b>
<b>Expenditures:</b>				
Public works	523,300	532,776	477,630	55,146
<b>Total expenditures</b>	<b>523,300</b>	<b>532,776</b>	<b>477,630</b>	<b>55,146</b>
Net Change in Fund Balance	<u>\$ 8,000</u>	<u>\$ (1,476)</u>	88,957	<u>\$ 90,433</u>
Beginning Fund Balance			(22,610)	
<b>Ending Fund Balance</b>			<u>\$ 66,347</u>	

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE  
POLICE GRANTS  
YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
From other agencies	\$ -	\$ -	\$ 71,185	\$ 71,185
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>71,185</b>	<b>71,185</b>
<b>Expenditures:</b>				
Public safety	100,000	100,000	95,962	4,038
<b>Total expenditures</b>	<b>100,000</b>	<b>100,000</b>	<b>95,962</b>	<b>4,038</b>
Net Change in Fund Balance	<u>\$ (100,000)</u>	<u>\$ (100,000)</u>	(24,777)	<u>\$ 75,223</u>
Beginning Fund Balance			247,937	
<b>Ending Fund Balance</b>			<u>\$ 223,160</u>	

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE  
 SAN CARLOS LIBRARY TENANT  
 YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Use of money and property	\$ 200,900	\$ 200,900	\$ 159,581	\$ (41,319)
<b>Total revenues</b>	<b>200,900</b>	<b>200,900</b>	<b>159,581</b>	<b>(41,319)</b>
<b>Expenditures:</b>				
General government	90,000	570,000	250,216	319,784
<b>Total expenditures</b>	<b>90,000</b>	<b>570,000</b>	<b>250,216</b>	<b>319,784</b>
Net Change in Fund Balance	\$ 110,900	\$ (369,100)	(90,635)	\$ 278,465
Beginning Fund Balance			1,371,335	
<b>Ending Fund Balance</b>			<b>\$ 1,280,700</b>	

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE  
 CAPITAL IMPROVEMENT  
 YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Property taxes	\$ 700,000	\$ 700,000	\$ 1,110,424	\$ 410,424
Franchise taxes	1,300,000	1,300,000	1,473,765	173,765
Licenses and permits	30,600	30,600	86,620	56,020
From other agencies	740,000	2,896,000	48,386	(2,847,614)
Other revenue	1,154,000	1,154,000	197,578	(956,422)
<b>Total revenues</b>	<b>3,924,600</b>	<b>6,080,600</b>	<b>2,916,773</b>	<b>(3,163,827)</b>
<b>Expenditures:</b>				
Capital outlay	6,283,500	11,489,505	1,255,685	10,233,820
<b>Total expenditures</b>	<b>6,283,500</b>	<b>11,489,505</b>	<b>1,255,685</b>	<b>10,233,820</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,358,900)	(5,408,905)	1,661,088	7,069,993
<b>Other Financing Sources (Uses):</b>				
Transfers in	3,274,300	3,324,300	3,039,815	(284,485)
<b>Total other financing sources (uses)</b>	<b>3,274,300</b>	<b>3,324,300</b>	<b>3,039,815</b>	<b>(284,485)</b>
Net Change in Fund Balance	\$ 915,400	\$ (2,084,605)	4,700,903	\$ 6,785,508
Beginning Fund Balance			6,239,835	
<b>Ending Fund Balance</b>			<b>\$ 10,940,738</b>	

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE  
HOUSING  
YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Use of money and property	\$ 468,100	\$ 468,100	\$ 714,801	\$ 246,701
Other revenue	75,000	75,000	518,716	443,716
<b>Total revenues</b>	<b>543,100</b>	<b>543,100</b>	<b>1,233,517</b>	<b>690,417</b>
<b>Expenditures:</b>				
Community development	1,522,200	1,522,200	218,325	1,303,875
<b>Total expenditures</b>	<b>1,522,200</b>	<b>1,522,200</b>	<b>218,325</b>	<b>1,303,875</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(979,100)	(979,100)	1,015,192	1,994,292
Net Change in Fund Balance	\$ (979,100)	\$ (979,100)	1,015,192	\$ 1,994,292
Beginning Fund Balance			3,034,246	
<b>Ending Fund Balance</b>			<b>\$ 4,049,438</b>	

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE  
EQUIPMENT REPLACEMENT  
YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Expenditures:</b>				
Capital outlay	\$ 742,600	\$ 819,861	\$ 107,570	\$ 712,291
<b>Total expenditures</b>	<b>742,600</b>	<b>819,861</b>	<b>107,570</b>	<b>712,291</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(742,600)	(819,861)	(107,570)	712,291
<b>Other Financing Sources (Uses):</b>				
Transfers in	350,700	298,600	253,800	(44,800)
<b>Total other financing sources (uses)</b>	<b>350,700</b>	<b>298,600</b>	<b>253,800</b>	<b>(44,800)</b>
Net Change in Fund Balance	\$ (391,900)	\$ (521,261)	146,230	\$ 667,491
Beginning Fund Balance			1,932,319	
<b>Ending Fund Balance</b>			<b>\$ 2,078,549</b>	

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE  
MEASURE A  
YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Sales taxes	\$ 606,400	\$ 606,400	\$ 715,015	\$ 108,615
Use of money and property	-	-	1,726	1,726
<b>Total revenues</b>	<b>606,400</b>	<b>606,400</b>	<b>716,741</b>	<b>110,341</b>
<b>Expenditures:</b>				
Public safety	107,200	107,200	103,505	3,695
<b>Total expenditures</b>	<b>107,200</b>	<b>107,200</b>	<b>103,505</b>	<b>3,695</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	499,200	499,200	613,236	114,036
<b>Other Financing Sources (Uses):</b>				
Transfers out	(499,800)	(499,800)	(499,800)	-
<b>Total other financing sources (uses)</b>	<b>(499,800)</b>	<b>(499,800)</b>	<b>(499,800)</b>	<b>-</b>
Net Change in Fund Balance	\$ (600)	\$ (600)	113,436	\$ 114,036
Beginning Fund Balance			191,125	
<b>Ending Fund Balance</b>			<b>\$ 304,561</b>	

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE  
GAS TAX  
YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Licenses and permits	\$ -	\$ -	\$ 55,099	\$ 55,099
From other agencies	1,571,400	1,852,900	1,151,124	(701,776)
Use of money and property	-	-	12,050	12,050
<b>Total revenues</b>	<b>1,571,400</b>	<b>1,852,900</b>	<b>1,218,273</b>	<b>(634,627)</b>
<b>Expenditures:</b>				
Public works	485,800	485,800	415,400	70,400
Capital outlay	1,560,800	2,759,300	1,343,490	1,415,810
<b>Total expenditures</b>	<b>2,046,600</b>	<b>3,245,100</b>	<b>1,758,890</b>	<b>1,486,210</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(475,200)	(1,392,200)	(540,617)	851,583
<b>Other Financing Sources (Uses):</b>				
Transfers in	499,800	499,800	499,800	-
Transfers out	(38,000)	(38,000)	-	38,000
<b>Total other financing sources (uses)</b>	<b>461,800</b>	<b>461,800</b>	<b>499,800</b>	<b>38,000</b>
Net Change in Fund Balance	\$ (13,400)	\$ (930,400)	(40,817)	\$ 889,583
Beginning Fund Balance			1,924,490	
<b>Ending Fund Balance</b>			<b>\$ 1,883,673</b>	

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE  
PARK FEE  
YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Use of money and property	\$ 2,000	\$ 2,000	\$ 2,406	\$ 406
Other revenue	61,200	61,200	227,598	166,398
<b>Total revenues</b>	<b>63,200</b>	<b>63,200</b>	<b>230,004</b>	<b>166,804</b>
<b>Expenditures:</b>				
Capital outlay	-	50,000	133	49,867
<b>Total expenditures</b>	<b>-</b>	<b>50,000</b>	<b>133</b>	<b>49,867</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	63,200	13,200	229,871	216,671
<b>Other Financing Sources (Uses):</b>				
Transfers out	(190,500)	(190,500)	-	190,500
<b>Total other financing sources (uses)</b>	<b>(190,500)</b>	<b>(190,500)</b>	<b>-</b>	<b>190,500</b>
Net Change in Fund Balance	\$ (127,300)	\$ (177,300)	229,871	\$ 407,171
Beginning Fund Balance			197,298	
<b>Ending Fund Balance</b>			<b>\$ 427,169</b>	

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE  
PARKING IN-LIEU  
YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Licenses and permits	\$ 7,700	\$ 7,700	\$ 10,370	\$ 2,670
Use of money and property	400	400	359	(41)
<b>Total revenues</b>	<b>8,100</b>	<b>8,100</b>	<b>10,729</b>	<b>2,629</b>
<b>Expenditures:</b>				
Community development	6,100	101,100	50,758	50,342
<b>Total expenditures</b>	<b>6,100</b>	<b>101,100</b>	<b>50,758</b>	<b>50,342</b>
Net Change in Fund Balance	\$ 2,000	\$ (93,000)	(40,029)	\$ 52,971
Beginning Fund Balance			109,289	
<b>Ending Fund Balance</b>			<b>\$ 69,260</b>	

CITY OF SAN CARLOS

**BUDGETARY COMPARISON SCHEDULE  
SAN CARLOS LIBRARY BONDS  
YEAR ENDED JUNE 30, 2013**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Property taxes	\$ 624,600	\$ 624,600	\$ 669,809	\$ 45,209
Use of money and property	-	-	10,560	10,560
<b>Total revenues</b>	<b>624,600</b>	<b>624,600</b>	<b>680,369</b>	<b>55,769</b>
<b>Expenditures</b>				
Debt service:				
Principal retirement	265,000	265,000	265,000	-
Interest and fiscal charges	267,700	267,700	268,300	(600)
<b>Total expenditures</b>	<b>532,700</b>	<b>532,700</b>	<b>533,300</b>	<b>(600)</b>
Net Change in Fund Balances	\$ 91,900	\$ 91,900	147,069	\$ 55,169
Beginning Fund Balance			1,727,818	
<b>Ending Fund Balance</b>			<b>\$ 1,874,887</b>	

**INTERNAL SERVICE FUNDS**

Internal Service Funds are used to finance and account for special activities and services performed by a designated department for other departments in the City on a cost reimbursement basis.

The concept of major funds does not extend to internal service funds because they do not do business with outside parties. The Statement of Activities, the net revenues or expenses of each internal service fund is eliminated by netting them against the operations of the other City departments, which generated them. The remaining balance sheet items are consolidated with these same funds in the Statement of Net Assets.

However, internal service funds are still presented separately in the Fund Financial Statements, including the funds below:

**WORKERS' COMPENSATION FUND** - Used to account for activities relating workers' compensation claims and the premiums for coverage.

**LIABILITY INSURANCE FUND** - Used to account for activities relating to general liability claims against the City and premiums for coverage above the City's risk retention level.

**LONGEVITY BENEFITS FUND** - Used to account for activities relating to health care benefits for retired employees.

CITY OF SAN CARLOS

COMBINING STATEMENT OF NET POSITION  
INTERNAL SERVICE FUNDS  
JUNE 30, 2013

	Governmental Activities - Internal Service Funds			
	Workers' Compensation	Liability Insurance	Longevity Benefits	Totals
<b>Assets:</b>				
Current:				
Cash and investments	\$ 560,115	\$ 952,038	\$ 314,162	\$ 1,826,315
Receivables:				
Accounts	-	1,255	-	1,255
<b>Total Current Assets</b>	<b>560,115</b>	<b>953,293</b>	<b>314,162</b>	<b>1,827,570</b>
<b>Total Assets</b>	<b>\$ 560,115</b>	<b>\$ 953,293</b>	<b>\$ 314,162</b>	<b>\$ 1,827,570</b>
<b>Liabilities and Net Position:</b>				
<b>Liabilities:</b>				
Current:				
Accounts payable	\$ 1,000	\$ 176	\$ -	\$ 1,176
Claims payable	110,486	101,862	-	212,348
<b>Total Current Liabilities</b>	<b>111,486</b>	<b>102,038</b>	<b>-</b>	<b>213,524</b>
Noncurrent:				
Claims payable	-	364,548	-	364,548
<b>Total Noncurrent Liabilities</b>	<b>-</b>	<b>364,548</b>	<b>-</b>	<b>364,548</b>
<b>Total Liabilities</b>	<b>111,486</b>	<b>466,586</b>	<b>-</b>	<b>578,072</b>
<b>Net Position:</b>				
Unrestricted	448,629	486,707	314,162	1,249,498
<b>Total Net Position</b>	<b>448,629</b>	<b>486,707</b>	<b>314,162</b>	<b>1,249,498</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 560,115</b>	<b>\$ 953,293</b>	<b>\$ 314,162</b>	<b>\$ 1,827,570</b>

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CITY OF SAN CARLOS

COMBINING STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION  
INTERNAL SERVICE FUNDS  
YEAR ENDED JUNE 30, 2013

	Governmental Activities - Internal Service Funds			
	Workers' Compensation	Liability Insurance	Longevity Benefits	Totals
<b>Operating Revenues:</b>				
Charges for services	\$ 19,527	\$ 10,663	\$ 257,175	\$ 287,365
Cost reimbursements	149,000	374,600	-	523,600
<b>Total Operating Revenues</b>	<b>168,527</b>	<b>385,263</b>	<b>257,175</b>	<b>810,965</b>
<b>Operating Expenses:</b>				
Insurance premiums	186,789	360,966	-	547,755
Claims expense	117,482	3	350,000	467,485
Miscellaneous	14,493	27,767	-	42,260
<b>Total Operating Expenses</b>	<b>318,764</b>	<b>388,736</b>	<b>350,000</b>	<b>1,057,500</b>
Operating Income (Loss)	(150,237)	(3,473)	(92,825)	(246,535)
<b>Nonoperating Revenues (Expenses):</b>				
From other agencies	-	34,108	-	34,108
Investment income	3,164	6,923	1,781	11,868
<b>Total Nonoperating Revenues (Expenses)</b>	<b>3,164</b>	<b>41,031</b>	<b>1,781</b>	<b>45,976</b>
Changes in Net Position	(147,073)	37,558	(91,044)	(200,559)
<b>Net Position:</b>				
Beginning of Year	595,702	449,149	405,206	1,450,057
<b>End of Fiscal Year</b>	<b>\$ 448,629</b>	<b>\$ 486,707</b>	<b>\$ 314,162</b>	<b>\$ 1,249,498</b>

CITY OF SAN CARLOS

COMBINING STATEMENT OF CASH FLOWS  
INTERNAL SERVICE FUNDS  
YEAR ENDED JUNE 30, 2013

	Governmental Activities - Internal Service Funds			
	Workers' Compensation	Liability Insurance	Longevity Benefits	Totals
<b>Cash Flows from Operating Activities:</b>				
Cash received from/(paid to) interfund service provided	\$ 168,527	\$ 384,008	\$ 257,175	\$ 809,710
Cash paid to suppliers for goods and services	(207,278)	(473,968)	(350,000)	(1,031,246)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(38,751)</b>	<b>(89,960)</b>	<b>(92,825)</b>	<b>(221,536)</b>
<b>Cash Flows from Non-Capital Financing Activities:</b>				
From other agencies	-	34,108	-	34,108
<b>Net Cash Provided (Used) by Non-Capital Financing Activities</b>	<b>-</b>	<b>34,108</b>	<b>-</b>	<b>34,108</b>
<b>Cash Flows from Investing Activities:</b>				
Interest received	3,164	6,923	1,781	11,868
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>3,164</b>	<b>6,923</b>	<b>1,781</b>	<b>11,868</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(35,587)</b>	<b>(48,929)</b>	<b>(91,044)</b>	<b>(175,560)</b>
Cash and Cash Equivalents at Beginning of Year	595,702	1,000,967	405,206	2,001,875
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 560,115</b>	<b>\$ 952,038</b>	<b>\$ 314,162</b>	<b>\$ 1,826,315</b>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>				
Operating income (loss)	\$ (150,237)	\$ (3,473)	\$ (92,825)	\$ (246,535)
<b>Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:</b>				
(Increase) decrease in accounts receivable	-	(1,255)	-	(1,255)
Increase (decrease) in accounts payable	1,000	176	-	1,176
Increase (decrease) in claims and judgments	110,486	(85,408)	-	25,078
<b>Total Adjustments</b>	<b>111,486</b>	<b>(86,487)</b>	<b>-</b>	<b>24,999</b>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ (38,751)</b>	<b>\$ (89,960)</b>	<b>\$ (92,825)</b>	<b>\$ (221,536)</b>

There were no non cash items.

#### **AGENCY FUNDS**

Agency Funds are presented separately from the Government-wide and Fund Financial Statements.

Agency Funds account for assets held by the City as agent for individuals, governmental entities, and non-public organizations. These funds include the following:

**ASSESSMENT DISTRICT FUND** - Used to account for the collection and payment to holders of the 1988 Special Tax Bonds.

**CITY/COUNTY ASSOCIATION OF GOVERNMENTS OF SAN MATEO COUNTY (C/CAG)** - Used to account for City/County Association of Governments of San Mateo County's activities. The City acts as fiscal agent for this entity.

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY (SBWMA)** - Used to account for the South Bayside Waste Management Authority's activities. The City acts as fiscal agent for this entity.

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CITY OF SAN CARLOS

COMBINING STATEMENT OF NET POSITION  
 ALL AGENCY FUNDS  
 JUNE 30, 2013

	Assessment Districts	City/County Association of Government of San Mateo County	South Bayside Waste Management Authority	Totals
<b>Assets:</b>				
Cash and investments	\$ 11,790	\$ 19,418,887	\$ 14,324,388	\$ 33,755,065
Cash and investments with fiscal agents	-	-	6,223,842	6,223,842
Receivables:				
Accounts	-	5,568,592	3,727,581	9,296,173
Prepaid items	-	-	23,919	23,919
<b>Total Assets</b>	<b>\$ 11,790</b>	<b>\$ 24,987,479</b>	<b>\$ 24,299,730</b>	<b>\$ 49,298,999</b>
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ -	\$ 7,917,788	\$ 3,993,643	\$ 11,911,431
Due to members	-	17,069,691	19,030,952	36,100,643
Deposits payable	-	-	1,275,135	1,275,135
Due to assessment district bondholders	11,790	-	-	11,790
<b>Total Liabilities</b>	<b>\$ 11,790</b>	<b>\$ 24,987,479</b>	<b>\$ 24,299,730</b>	<b>\$ 49,298,999</b>

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CITY OF SAN CARLOS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
YEAR ENDED JUNE 30, 2013

	Balance 7/1/2012	Additions	Deductions	Balance 6/30/2013
<b>Assessment Districts</b>				
<b>Assets:</b>				
Cash and investments	\$ 11,790	\$ -	\$ -	\$ 11,790
<b>Total Assets</b>	<b>\$ 11,790</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 11,790</b>
<b>Liabilities:</b>				
Due to assessment district bondholders	\$ 11,790	\$ -	\$ -	\$ 11,790
<b>Total Liabilities</b>	<b>\$ 11,790</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 11,790</b>
<b>City/County Association of Government of San Mateo County</b>				
<b>Assets:</b>				
Cash and investments	\$ 17,032,289	\$ 2,386,598	\$ -	\$ 19,418,887
Accounts receivable	3,227,981	2,340,611	-	5,568,592
<b>Total Assets</b>	<b>\$ 20,260,270</b>	<b>\$ 4,727,209</b>	<b>\$ -</b>	<b>\$ 24,987,479</b>
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 3,980,321	\$ 3,937,467	\$ -	\$ 7,917,788
Due to members	16,279,949	789,742	-	17,069,691
<b>Total Liabilities</b>	<b>\$ 20,260,270</b>	<b>\$ 4,727,209</b>	<b>\$ -</b>	<b>\$ 24,987,479</b>
<b>South Bayside Waste Management Authority</b>				
<b>Assets:</b>				
Cash and investments	\$ 13,905,471	\$ 418,917	\$ -	\$ 14,324,388
Accounts receivable	3,531,234	196,347	-	3,727,581
Prepaid items	3,352	20,567	-	23,919
Restricted assets:				
Cash and investments with fiscal agents	6,193,483	30,359	-	6,223,842
<b>Total Assets</b>	<b>\$ 23,633,540</b>	<b>\$ 666,190</b>	<b>\$ -</b>	<b>\$ 24,299,730</b>
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 4,939,220	\$ -	\$ 945,577	\$ 3,993,643
Due to members	17,300,082	1,730,870	-	19,030,952
Deposits payable	1,394,238	-	119,103	1,275,135
<b>Total Liabilities</b>	<b>\$ 23,633,540</b>	<b>\$ 1,730,870</b>	<b>\$ 1,064,680</b>	<b>\$ 24,299,730</b>
<b>Totals - All Agency Funds</b>				
<b>Assets:</b>				
Cash and investments	\$ 30,949,550	\$ 2,805,515	\$ -	\$ 33,755,065
Accounts receivable	6,759,215	2,536,958	-	9,296,173
Prepaid items	3,352	20,567	-	23,919
Restricted assets:				
Cash and investments with fiscal agents	6,193,483	30,359	-	6,223,842
<b>Total Assets</b>	<b>\$ 43,905,600</b>	<b>\$ 5,393,399</b>	<b>\$ -</b>	<b>\$ 49,298,999</b>
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 8,919,541	\$ 3,937,467	\$ 945,577	\$ 11,911,431
Due to members	33,580,031	2,520,612	-	36,100,643
Deposits payable	1,394,238	-	119,103	1,275,135
Due to assessment district bondholders	11,790	-	-	11,790
<b>Total Liabilities</b>	<b>\$ 43,905,600</b>	<b>\$ 6,458,079</b>	<b>\$ 1,064,680</b>	<b>\$ 49,298,999</b>

STATISTICAL SECTION

This part of the City's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. In contrast to the financial section, the statistical section information is not subject to independent audit.

**Financial Trends**

These schedules contain trend information to help the reader understand how the City's financial performance and well being have changed over time:

1. Net Position by Component
2. Changes in Net Position
3. Fund Balances of Governmental Funds
4. Changes in Fund Balance of Governmental Funds

**Revenue Capacity**

These schedules contain information to help the reader assess the City's most significant local revenue source, property tax:

1. Assessed Value and Estimated Value of Taxable Property
2. Property Tax Rates
3. Top Ten Property Tax Payers
4. Property Tax Levies and Collections

**Debt Capacity**

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

1. Ratio of Outstanding Debt by Type
2. Ratio of General Bonded Debt Outstanding
3. Revenue Bond Coverage
4. Computation of Direct and Overlapping Debt
5. Computation of Legal Bonded Debt Margin

**Demographic and Economic Information**

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

1. Demographic and Economic Statistics
2. Principal Employers
3. Full Time Equivalent City government Employees by Function

**Operating Information**

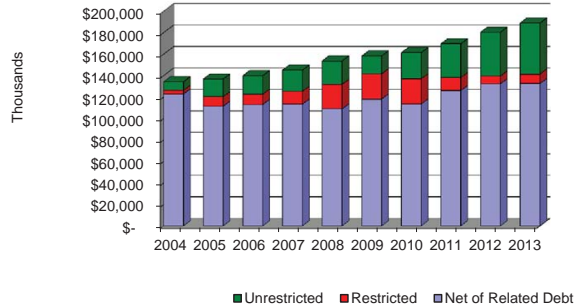
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

1. Operating Indicators by Function/Program
2. Capital Asset Statistics by Function/Program

**Sources**

Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

**CITY OF SAN CARLOS**  
**Net Position by Component**  
**Last Ten Fiscal Years**  
**(Accrual Basis of Accounting)**

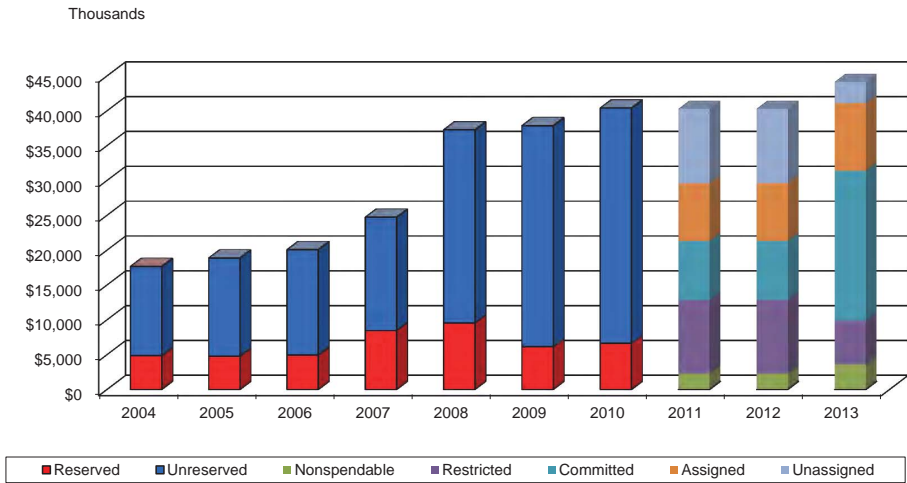


	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Governmental activities</b>										
Capital assets net of related debt	\$ 114,665,798	\$ 101,789,141	\$ 103,315,207	\$ 103,630,566	\$ 98,247,695	\$ 107,041,257	\$ 101,975,928	\$ 113,903,786	\$ 119,426,713	\$ 119,171,599
Restricted	3,413,103	8,906,061	9,745,567	12,058,499	22,849,602	23,426,300	23,500,466	12,143,894	7,322,914	8,871,235
Unrestricted	3,252,893	12,819,766	14,181,560	16,869,176	18,741,036	12,724,651	19,737,818	26,256,514	34,473,081	39,942,056
Total governmental activities net position	<u>\$ 121,331,794</u>	<u>\$ 123,514,968</u>	<u>\$ 127,242,334</u>	<u>\$ 132,558,241</u>	<u>\$ 139,838,333</u>	<u>\$ 143,192,208</u>	<u>\$ 145,214,212</u>	<u>\$ 152,304,194</u>	<u>\$ 161,222,708</u>	<u>\$ 167,984,890</u>
<b>Business-type activities</b>										
Capital assets net of related debt	\$ 8,167,609	\$ 9,573,561	\$ 9,610,494	\$ 9,660,645	\$ 10,667,232	\$ 11,097,233	\$ 11,528,037	\$ 12,133,706	\$ 12,798,962	\$ 13,337,359
Unrestricted	4,715,502	3,664,410	3,096,886	2,845,772	3,064,709	3,985,755	4,591,798	5,117,936	6,210,876	7,556,596
Total business-type activities net position	<u>\$ 12,883,111</u>	<u>\$ 13,237,971</u>	<u>\$ 12,707,380</u>	<u>\$ 12,506,417</u>	<u>\$ 13,731,941</u>	<u>\$ 15,082,988</u>	<u>\$ 16,119,835</u>	<u>\$ 17,251,642</u>	<u>\$ 19,009,838</u>	<u>\$ 20,893,955</u>
<b>Primary government</b>										
Capital assets net of related debt	\$ 122,833,407	\$ 111,362,702	\$ 112,925,701	\$ 113,291,211	\$ 108,914,927	\$ 118,138,490	\$ 113,503,965	\$ 126,037,492	\$ 132,225,675	\$ 132,508,958
Restricted	3,413,103	8,906,061	9,745,567	12,058,499	22,849,602	23,426,300	23,500,466	12,143,894	7,322,914	8,871,235
Unrestricted	7,968,395	16,484,176	17,278,446	19,714,948	21,805,745	16,710,406	24,329,616	31,374,450	40,683,957	47,498,652
Total primary government net position	<u>\$ 134,214,905</u>	<u>\$ 136,752,939</u>	<u>\$ 139,949,714</u>	<u>\$ 145,064,658</u>	<u>\$ 153,570,274</u>	<u>\$ 158,275,196</u>	<u>\$ 161,334,047</u>	<u>\$ 169,555,836</u>	<u>\$ 180,232,546</u>	<u>\$ 188,878,845</u>

**CITY OF SAN CARLOS**  
**Changes in Net Position**  
**Last Ten Fiscal Years**  
**(Accrual Basis of Accounting)**

	Fiscal Year Ended June 30,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Expenses</b>										
Governmental Activities:										
General Government	\$ 4,761,599	\$ 5,213,466	\$ 5,951,198	\$ 5,459,439	\$ 5,665,910	\$ 5,627,987	\$ 5,167,150	\$ 3,950,791	\$ 5,683,863	\$ 6,475,624
Public Safety	12,518,808	11,846,317	12,559,004	13,598,466	13,464,481	14,188,879	14,590,515	15,074,068	13,449,771	14,574,275
Public Works	3,077,490	2,646,942	2,202,707	2,028,532	2,196,710	2,028,532	2,398,325	2,843,488	2,493,488	2,887,707
Community Development	1,424,901	2,514,455	2,633,326	3,054,052	4,044,214	3,668,176	3,763,475	3,611,287	4,081,250	2,766,720
Parks and Recreation	4,282,703	4,371,090	4,611,480	4,988,742	4,773,362	4,616,697	4,798,963	3,707,647	4,016,025	4,117,682
Interest on Long Term Debt	3,359,255	3,324,972	1,111,062	1,538,912	2,712,432	2,815,650	3,353,563	3,707,647	4,016,025	4,117,682
Total Governmental Activities Expenses	\$ 27,470,796	\$ 27,951,182	\$ 29,062,297	\$ 30,541,152	\$ 31,145,481	\$ 31,666,389	\$ 32,108,981	\$ 29,824,632	\$ 30,519,181	\$ 30,936,470
Business-Type Activities:										
Sewer	3,481,700	3,697,138	4,501,159	4,775,915	4,801,406	5,187,771	6,696,224	7,314,132	7,887,064	7,874,008
Total Business-Type Activities Expenses	\$ 3,481,700	\$ 3,697,138	\$ 4,501,159	\$ 4,775,915	\$ 4,801,406	\$ 5,187,771	\$ 6,696,224	\$ 7,314,132	\$ 7,887,064	\$ 7,874,008
Total Primary Government Expenses	\$ 30,952,496	\$ 31,648,320	\$ 33,570,446	\$ 35,324,070	\$ 35,950,837	\$ 36,884,310	\$ 38,799,205	\$ 37,168,764	\$ 38,202,245	\$ 38,760,488
<b>Program Revenues</b>										
Governmental Activities:										
Charges for Services:										
General Government	\$ 1,149,695	\$ 1,036,936	\$ 2,894,422	\$ 2,165,049	\$ 1,770,930	\$ 1,463,589	\$ 1,485,737	\$ 1,848,137	\$ 1,027,189	\$ 1,874,628
Public Safety	406,191	355,428	437,622	421,381	432,566	432,566	453,280	669,330	551,343	654,944
Public Works	513,497	498,356	699,990	628,830	642,518	571,365	693,230	626,538	2,230,306	597,220
Community Development	1,493,571	2,298,660	2,420,980	2,398,167	2,570,665	1,997,363	2,194,437	1,909,598	2,125,361	2,017,110
Parks and Recreation	1,569,124	1,598,020	1,894,200	2,027,135	2,604,797	2,228,688	2,027,398	1,722,864	1,951,859	2,122,027
Operating Grants and Contributions	1,694,996	804,325	846,745	1,002,118	1,210,826	925,265	1,303,320	1,621,920	1,257,912	1,591,002
Capital Grants and Contributions	4,177,710	669,488	926,015	549,129	499,261	293,889	270,875	594,081	1,054,103	1,070,551
Total Governmental Activities Program Revenues	\$ 10,988,724	\$ 7,840,714	\$ 10,005,138	\$ 9,091,809	\$ 9,656,892	\$ 7,915,300	\$ 8,428,266	\$ 8,291,216	\$ 10,162,475	\$ 8,978,966
Business-Type Activities:										
Charges for Services:										
Sewer	\$ 4,692,491	\$ 4,681,318	\$ 4,516,248	\$ 5,709,952	\$ 7,007,480	\$ 7,756,952	\$ 8,020,388	\$ 8,993,614	\$ 10,185,074	\$ 10,222,616
Total Business-Type Activities Program Revenue	\$ 4,692,491	\$ 4,681,318	\$ 4,516,248	\$ 5,709,952	\$ 7,007,480	\$ 7,756,952	\$ 8,020,388	\$ 8,993,614	\$ 10,185,074	\$ 10,222,616
Total Primary Government Program Revenues	\$ 15,581,225	\$ 12,422,032	\$ 14,521,446	\$ 14,801,761	\$ 16,724,362	\$ 15,672,252	\$ 16,448,654	\$ 17,284,830	\$ 20,357,549	\$ 19,201,582
<b>Net (Expense)/Revenue</b>	\$ (16,482,062)	\$ (20,089,431)	\$ (19,064,089)	\$ (21,456,346)	\$ (21,492,539)	\$ (23,781,239)	\$ (23,674,715)	\$ (21,663,416)	\$ (20,152,706)	\$ (21,907,512)
Governmental Activities:										
Business-Type Activities	1,110,791	884,180	15,089	4,937	2,276,084	2,565,181	1,324,164	1,679,482	2,308,010	2,348,608
Total Primary Government Net Expense	\$ (15,371,271)	\$ (19,196,251)	\$ (19,049,000)	\$ (20,522,309)	\$ (19,216,455)	\$ (21,212,059)	\$ (22,350,551)	\$ (19,983,934)	\$ (17,844,696)	\$ (19,558,904)
<b>General Revenues and Other Changes in Net Assets</b>										
Governmental Activities:										
Taxes:										
Property Taxes	\$ 6,685,950	\$ 10,539,320	\$ 11,150,320	\$ 12,909,094	\$ 13,876,227	\$ 14,247,207	\$ 12,795,913	\$ 14,414,923	\$ 12,615,467	\$ 11,231,717
Sales Taxes	5,768,249	5,237,707	5,458,154	5,620,178	5,503,729	5,669,333	5,697,574	5,752,468	5,670,214	6,427,400
Motor Vehicle In-Lieu	1,397,129	1,680,961	2,429,662	2,019,204	2,105,682	2,176,235	2,230,987	2,316,671	2,205,199	2,155,983
Transient Occupancy Tax	429,221	470,650	625,985	765,974	625,070	750,175	662,790	615,197	893,513	1,120,884
Nonregulatory Franchise	1,824,610	2,186,952	1,824,469	2,186,952	2,186,952	2,186,952	2,186,952	2,186,952	3,149,587	3,149,587
Use of Money & Property	688,187	482,787	637,573	1,831,365	1,337,638	287,928	313,444	853,307	1,443,228	1,652,984
Other	562,673	529,320	545,680	1,135,000	1,138,799	1,183,000	540,000	584,600	595,000	2,429,874
Transfers	19,611,219	22,263,605	22,791,455	26,772,253	28,772,631	27,135,114	25,696,719	28,843,110	2,184,427	28,669,694
Extraordinary gain/(loss) on dissolution of RDA	-	-	-	-	-	-	-	-	-	-
Total Governmental Activities	\$ 38,464,008	\$ 49,891,504	\$ 53,976,636	\$ 60,407,656	\$ 62,901,668	\$ 62,142,876	\$ 58,522,925	\$ 66,677,120	\$ 63,424,700	\$ 72,654,676
Business-Type Activities:										
Use of Money & Property	-	-	-	-	-	-	-	-	-	-
Miscellaneous revenues	652,673	629,320	654,680	(1,135,000)	(1,138,799)	(1,183,000)	214,440	(694,600)	(695,000)	(610,000)
Transfers	(652,673)	(629,320)	(654,680)	(1,135,000)	(1,050,560)	(1,216,134)	(287,317)	(547,675)	(649,814)	(864,481)
Total Business-Type Activities	\$ (19,046,546)	\$ (21,734,295)	\$ (22,246,775)	\$ (25,632,263)	\$ (27,722,071)	\$ (25,918,980)	\$ (28,295,435)	\$ (29,127,225)	\$ (29,127,225)	\$ (28,935,203)
Total Primary Government	\$ 3,129,157	\$ 2,183,174	\$ 3,727,366	\$ 5,315,907	\$ 7,280,092	\$ 3,953,875	\$ 2,022,004	\$ 7,279,694	\$ 9,624,333	\$ 6,762,182
<b>Change in Net Assets</b>	\$ 488,118	\$ 354,860	\$ (530,591)	\$ (200,963)	\$ 1,225,524	\$ 1,351,047	\$ 1,036,847	\$ 1,131,807	\$ 1,758,196	\$ 1,884,117
Business-Type Activities	\$ 3,677,275	\$ 2,538,034	\$ 3,196,775	\$ 5,114,944	\$ 8,505,616	\$ 4,704,922	\$ 3,058,851	\$ 8,411,501	\$ 11,282,529	\$ 8,646,299
Total Primary Government	\$ 4,165,433	\$ 2,892,204	\$ 2,660,581	\$ 5,429,851	\$ 9,785,708	\$ 6,658,797	\$ 5,080,855	\$ 9,691,201	\$ 12,936,925	\$ 10,548,481

**CITY OF SAN CARLOS**  
**Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
**(Modified Accrual Basis of Accounting)**



	Fiscal Year Ended June 30,				
	2004	2005	2006	2007	2008
<b>General Fund</b>					
Reserved	\$ 838,198	\$ 544,916	\$ 535,053	\$ 1,110,377	\$ 1,607,405
Unreserved	6,374,728	6,287,360	6,076,082	6,757,319	7,339,240
Nondspendable	-	-	-	-	-
Restricted	-	-	-	-	-
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
<b>Total General Fund</b>	<b>\$ 7,212,926</b>	<b>\$ 6,832,276</b>	<b>\$ 6,611,135</b>	<b>\$ 7,867,696</b>	<b>\$ 8,946,645</b>
<b>All Other Governmental Funds</b>					
Reserved	\$ 4,031,903	\$ 4,244,233	\$ 4,426,102	\$ 7,356,498	\$ 7,950,925
Unreserved, reported in:					
Special revenue funds	(380,490)	(401,813)	(415,711)	697,046	986,318
Capital project funds	6,806,158	8,202,854	9,453,218	8,815,326	19,391,338
Nondspendable	-	-	-	-	-
Restricted	-	-	-	-	-
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
<b>Total all other governmental funds</b>	<b>\$ 10,457,571</b>	<b>\$ 12,045,274</b>	<b>\$ 13,463,609</b>	<b>\$ 16,868,870</b>	<b>\$ 28,328,581</b>

	Fiscal Year Ended June 30,				
	2009	2010	2011	2012	2013
<b>General Fund</b>					
Reserved	\$ 1,433,666	\$ 2,556,020	\$ -	\$ -	\$ -
Unreserved	8,455,536	9,207,477	-	-	-
Nondspendable	-	-	712,160	713,300	1,062,700
Restricted	-	-	-	-	42,000
Committed	-	-	2,706,600	6,853,165	7,151,565
Assigned	-	-	2,728,704	9,175,000	9,700,000
Unassigned	-	-	10,694,918	3,002,379	3,052,124
<b>Total General Fund</b>	<b>\$ 9,889,202</b>	<b>\$ 11,763,497</b>	<b>\$ 16,842,382</b>	<b>\$ 19,743,844</b>	<b>\$ 21,008,389</b>
<b>All Other Governmental Funds</b>					
Reserved	\$ 4,725,179	\$ 4,093,846	\$ -	\$ -	\$ -
Unreserved, reported in:					
Special revenue funds	1,038,590	1,228,197	-	-	-
Capital project funds	22,213,798	23,313,352	-	-	-
Nondspendable	-	-	1,587,305	1,585,662	2,538,601
Restricted	-	-	10,556,589	5,737,252	6,290,634
Committed	-	-	5,760,066	9,652,778	14,369,247
Assigned	-	-	5,578,686	-	-
Unassigned	-	-	(22,835)	(22,610)	-
<b>Total all other governmental funds</b>	<b>\$ 27,977,567</b>	<b>\$ 28,635,395</b>	<b>\$ 23,459,811</b>	<b>\$ 16,953,082</b>	<b>\$ 23,198,482</b>

In fiscal year 2011, the City implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The classifications have been changed to accommodate the implementation of this statement.

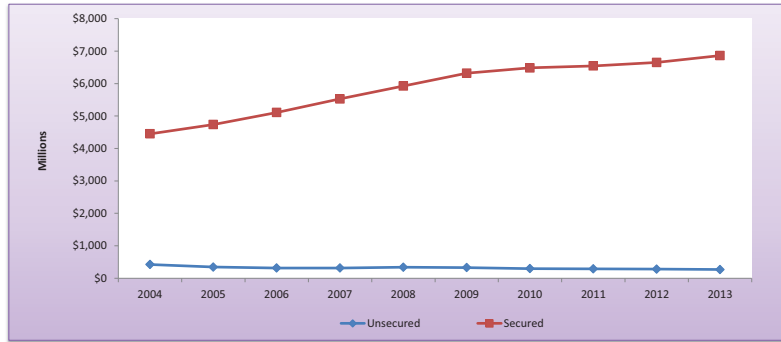
**CITY OF SAN CARLOS**  
**Changes in Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
**(Modified Accrual Basis of Accounting)**

	Fiscal Year Ended June 30,			
	2004	2005	2006	2007
<b>Revenues</b>				
Taxes	\$16,684,975	\$17,693,351	\$21,110,223	\$23,625,877
Licenses, permits and fees	2,480,857	2,695,016	1,578,599	1,698,221
Fines and forfeitures	265,501	255,296	241,987	256,093
Use of money and property	1,323,882	1,539,309	1,744,581	2,401,578
From other agencies	3,511,284	3,200,388	1,888,670	1,747,099
Charges for services	5,288,140	2,516,049	2,434,215	2,733,524
Other revenues	724,702	1,681,963	2,630,406	1,766,054
<b>Total Revenues</b>	<b>30,279,341</b>	<b>29,581,372</b>	<b>31,628,681</b>	<b>34,228,446</b>
<b>Expenditures</b>				
Current:				
General government	4,523,616	4,475,860	5,114,705	4,670,435
Public safety	11,224,640	11,659,584	12,584,782	13,418,417
Public works	2,359,596	1,178,101	1,284,486	1,053,956
Community development	1,366,113	2,461,802	2,559,046	2,967,028
Culture and recreation	4,020,014	4,179,292	4,248,547	4,416,144
Capital outlay	6,737,919	3,270,625	3,654,871	2,687,793
Debt service:				
Principal repayment	329,477	356,680	388,975	446,316
Interest and fiscal charges	1,403,464	1,366,332	1,179,371	1,088,535
<b>Total Expenditures</b>	<b>31,964,839</b>	<b>28,948,276</b>	<b>31,014,783</b>	<b>30,748,624</b>
Excess (deficiency) of revenues over (under) expenditures	(1,685,498)	633,096	613,898	3,479,822
<b>Other Financing Sources (Uses)</b>				
Transfers in	3,269,232	2,640,121	3,700,979	5,680,660
Transfers (out)	(2,663,639)	(2,066,164)	(3,108,876)	(4,498,660)
Proceeds from sale of capital assets	-	-	-	-
Proceeds of Debt	-	-	8,115,000	-
Payments to refunded bond escrow	-	-	(8,123,807)	-
<b>Total other financing sources (uses)</b>	<b>605,593</b>	<b>573,957</b>	<b>583,296</b>	<b>1,182,000</b>
Extraordinary gain/(loss) on dissolution of RDA	-	-	-	-
<b>Net Change in fund balances</b>	<b>\$ (1,079,905)</b>	<b>\$ 1,207,053</b>	<b>\$ 1,197,194</b>	<b>\$ 4,661,822</b>
Debt service as a percentage of noncapital expenditures	5.7%	6.8%	5.9%	5.5%

	Fiscal Year Ended June 30,					
	2008	2009	2010	2011	2012	2013
<b>Revenues</b>						
Taxes	\$24,670,497	\$25,363,673	\$24,060,951	\$26,868,250	\$25,282,782	\$24,176,828
Licenses, permits and fees	1,927,307	1,541,665	1,607,864	1,020,215	3,198,769	2,024,279
Fines and forfeitures	260,020	312,853	397,210	299,364	265,091	234,218
Use of money and property	2,471,935	1,248,692	1,693,320	2,004,508	1,864,401	1,805,466
From other agencies	1,496,292	987,347	1,385,530	2,125,347	2,048,990	1,824,567
Charges for services	2,727,931	2,561,133	2,725,768	2,532,268	2,557,464	2,912,353
Other revenues	3,557,546	1,861,965	1,621,224	1,594,824	1,674,507	3,878,322
<b>Total Revenues</b>	<b>37,111,528</b>	<b>33,877,328</b>	<b>33,491,867</b>	<b>36,444,776</b>	<b>36,892,004</b>	<b>36,856,033</b>
<b>Expenditures</b>						
Current:						
General government	4,475,515	5,886,424	3,736,126	3,031,272	4,555,802	4,165,249
Public safety	13,451,291	14,130,234	14,521,349	15,298,099	13,119,914	14,410,769
Public works	1,236,673	1,200,883	1,178,543	1,223,829	1,673,870	1,641,955
Community development	3,932,143	3,581,043	3,656,015	3,542,118	3,932,661	2,666,132
Culture and recreation	4,347,834	4,225,018	4,226,263	3,379,167	3,438,598	3,597,600
Capital outlay	3,699,266	3,556,380	2,165,396	9,854,906	2,465,296	2,841,083
Debt service:						
Principal repayment	1,298,643	636,421	624,164	662,049	700,264	265,000
Interest and fiscal charges	1,229,101	1,417,182	1,391,888	1,574,187	843,435	268,300
<b>Total Expenditures</b>	<b>33,670,466</b>	<b>34,633,585</b>	<b>31,499,744</b>	<b>38,565,627</b>	<b>30,729,840</b>	<b>29,856,088</b>
Excess (deficiency) of revenues over (under) expenditures	3,441,062	(756,257)	1,992,123	(2,120,851)	6,162,164	6,999,945
<b>Other Financing Sources (Uses)</b>						
Transfers in	7,401,745	8,380,752	3,981,090	4,283,631	2,938,040	4,303,415
Transfers (out)	(6,214,006)	(7,077,952)	(3,441,090)	(3,699,031)	(2,293,040)	(3,793,415)
Proceeds from sale of capital assets	-	45,000	-	1,509,424	-	-
Proceeds of Debt	16,010,000	-	-	-	-	-
Payments to refunded bond escrow	(8,100,141)	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>9,097,598</b>	<b>1,347,800</b>	<b>540,000</b>	<b>2,094,024</b>	<b>645,000</b>	<b>510,000</b>
Extraordinary gain/(loss) on dissolution of RDA	-	-	-	-	(10,412,431)	-
<b>Net Change in fund balances</b>	<b>\$ 12,538,660</b>	<b>\$ 591,543</b>	<b>\$ 2,532,123</b>	<b>\$ (26,827)</b>	<b>\$ (3,605,267)</b>	<b>\$ 7,509,945</b>
Debt service as a percentage of noncapital expenditures	8.9%	6.5%	6.6%	7.5%	5.3%	1.9%



**CITY OF SAN CARLOS**  
**Assessed and Estimated Actual**  
**Value of Taxable Property**  
**Last Ten Fiscal Years**



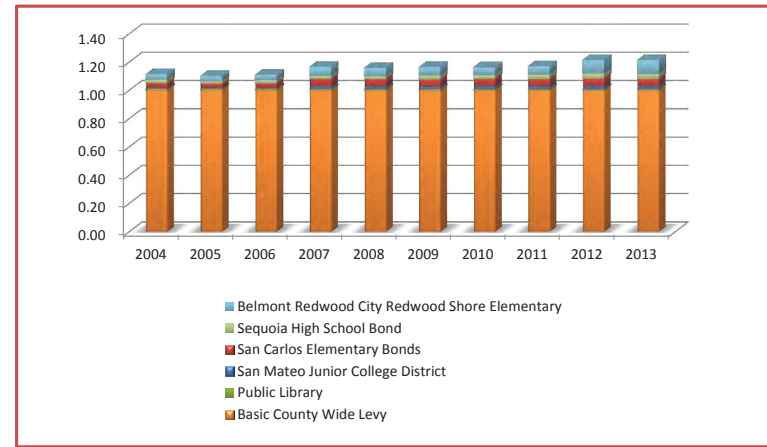
Fiscal Year	Real Property				Total Real Secured Property	Unsecured Property	Total Assessed (a)	Estimated Full Market (a)	Total Direct Tax Rate (b)
	Residential Property	Commercial Property	Industrial Property	Other					
2004	\$ 3,618,042,444	\$ 248,095,291	\$ 373,755,174	\$ 211,159,784	\$ 4,451,052,693	\$ 425,875,216	\$ 4,876,927,909	0.19088%	
2005	3,911,496,602	373,753,915	408,475,375	45,270,826	4,738,996,718	345,106,310	5,084,103,028	0.18798%	
2006	4,254,256,916	391,089,865	412,066,652	51,364,640	5,108,778,073	316,187,349	5,424,965,422	0.18285%	
2007	4,593,999,057	420,186,971	455,972,060	55,698,472	5,525,856,560	316,693,245	5,842,549,805	0.18836%	
2008	4,907,682,878	480,488,543	480,178,708	56,711,565	5,925,061,694	337,894,181	6,262,955,875	0.19223%	
2009	5,237,194,752	530,328,970	493,030,102	58,254,703	6,318,808,527	329,100,047	6,647,908,574	0.19262%	
2010	5,385,051,647	537,954,158	510,871,559	49,573,684	6,483,451,048	299,137,744	6,782,588,792	0.1958%	
2011	5,438,326,043	532,479,578	524,446,802	50,382,008	6,545,634,431	289,541,082	6,835,175,513	0.1960%	
2012	5,532,457,020	530,784,713	530,206,176	57,106,808	6,650,554,717	280,928,376	6,931,483,093	0.1948%	
2013	5,717,858,710	516,269,311	559,907,761	69,214,632	6,863,250,414	269,345,842	7,132,596,256	0.2013%	

Source: San Mateo County Assessor 2003/04 - 2012/13 Combined Tax Rolls

(a) The State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any local over-rides. These values are considered to be full market values.

(b) California cities do not set their own direct tax rate. The state constitution establishes the rate at 1% and allocates a portion of that amount, by an annual calculation, to all the taxing entities within a tax rate area.

**CITY OF SAN CARLOS**  
**Direct and Overlapping Property Tax Rates**  
**(Rate per \$100 of Taxable Value)**  
**Last Ten Fiscal Years**



Fiscal Year	City Direct Rates				Overlapping Rates			Belmont Redwood City Redwood Shore Elementary	Total Direct Tax Rate	Total* Direct Rate
	Basic County Wide Levy	City's share of 1% Levy Per Prop 13	Public Library	San Mateo Junior College District	San Carlos Elementary Bonds	Sequoia High School Bond				
2004	1.0000	0.13273	0.0111	0.0065	0.0333	0.0238	0.0398	1.1145	0.19088	
2005	1.0000	0.13273	0.0106	0.0065	0.0303	0.0164	0.0381	1.1019	0.18798	
2006	1.0000	0.13273	0.0102	0.0065	0.0327	0.0223	0.0386	1.1103	0.18285	
2007	1.0000	0.13273	0.0098	0.0184	0.0532	0.0208	0.0656	1.1678	0.18836	
2008	1.0000	0.13273	0.0092	0.0171	0.0520	0.0205	0.0612	1.1600	0.19223	
2009	1.0000	0.13273	0.0089	0.0165	0.0517	0.0282	0.0601	1.1654	0.19262	
2010	1.0000	0.13273	0.0088	0.0182	0.0531	0.0277	0.0568	1.1646	0.19582	
2011	1.0000	0.13273	0.0089	0.0193	0.0528	0.0311	0.0598	1.1719	0.19600	
2012	1.0000	0.13273	0.0089	0.0199	0.0535	0.0358	0.0971	1.2152	0.19481	
2013	1.0000	0.13273	0.0088	0.0194	0.0528	0.0356	0.0981	1.2147	0.20129	

\*City's share of 1% Levy is based on the City's share of the general fund tax rate area with the largest net taxable value within the city.

\*Total Direct Rate is the weighted average of all individual direct rates applied by the government preparing the statistical section information

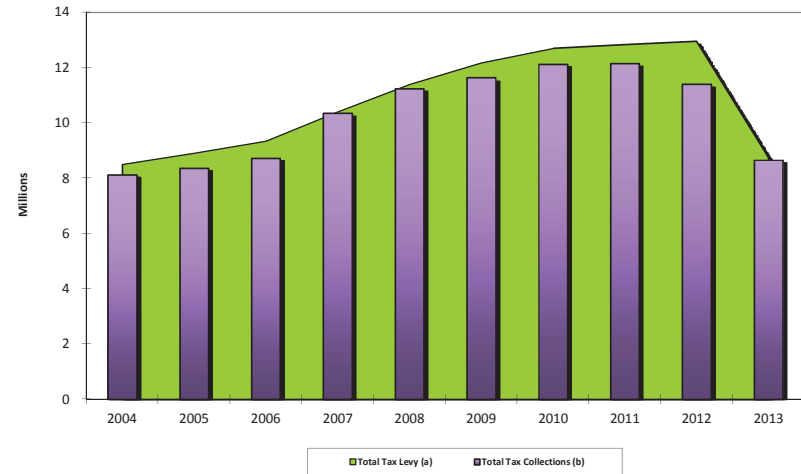
**CITY OF SAN CARLOS**  
**Top Ten Property Tax Payers**  
**Current Year and Ten Years Ago**

Taxpayer	2012-2013			2003-2004		
	Assessed Value	Rank	Percentage of Total City Assessed Value	Assessed Value	Rank	Percentage of Total City Assessed Value
Inhale Therapeutic Systems Inc				\$112,140,504	1	2.30%
SPK-Skyway Landing LLC	\$64,400,000	1	0.90%	50,500,000	2	1.04%
Circle Star Center Associates LP				34,500,000	3	0.71%
Mickesson Corporation				29,072,648	4	0.60%
L-3 Communications Corp	38,361,491	4	0.54%	28,991,261	5	0.59%
Kelly Moore Paint Company Inc	24,593,738	6	0.34%	22,568,276	6	0.46%
Communications and Power Industrials				22,192,522	7	0.46%
Pacific Hacienda LLC				19,012,414	8	0.39%
Brittan Corners Shopping Center LLC	23,763,556	8	0.33%	16,045,464	9	0.33%
Home Depot Inc				15,035,432	10	0.31%
Novartis Pharmaceuticals	43,273,713	2	0.61%			
BMR-201 Industrial RD LLC	38,877,875	3	0.55%			
Palo Alto Medical Foundation	25,359,710	5	0.36%			
Black Mountain Holdings LLC	24,544,268	7	0.34%			
San Carlos Retail Venture LP	21,390,017	9	0.30%			
ECI Two San Carlos LLC	19,038,960	10	0.27%			
Subtotal	\$323,603,328		4.54%	\$350,058,521		7.18%

Total Net Assessed Valuation:	
Fiscal Year 2012-2013	\$7,132,596,256
Fiscal Year 2003-2004	\$4,876,927,909

Source: San Mateo County Assessor 2012/13 Combined Tax Rolls.  
 Top Property Owners Based on Net Values

**CITY OF SAN CARLOS**  
**Property Tax Levies and Collections**  
**Last Ten Fiscal Years**

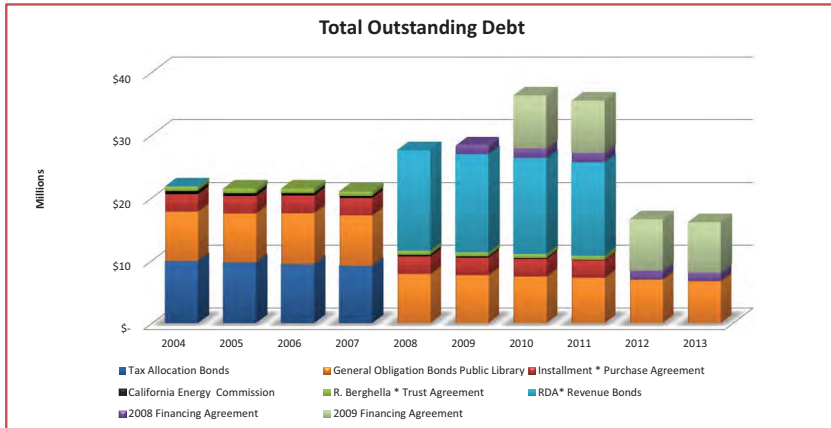


Fiscal Year	Total Tax Levy (a)	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections (c)	Total Tax Collections (b)	Percent of Total Tax Collections to Tax Levy
2004	8,496,169	8,122,420	95.60%	N/A	\$ 8,122,420	95.60%
2005	8,908,366	8,365,797	93.91%	N/A	8,365,797	93.91%
2006	9,341,401	8,724,926	93.40%	N/A	8,724,926	93.40%
2007	10,408,503	10,350,198	99.44%	N/A	10,350,198	99.44%
2008	11,389,746	11,234,055	98.63%	N/A	11,234,055	98.63%
2009	12,171,289	11,641,072	95.64%	N/A	11,641,072	95.64%
2010	12,695,894	12,124,097	95.50%	N/A	12,124,097	95.50%
2011	12,829,443	12,155,993	94.75%	N/A	12,155,993	94.75%
2012	12,955,911	11,398,356	87.98%	N/A	11,398,356	87.98%
2013	8,744,150	8,651,732	98.94%	N/A	8,651,732	98.94%

Source: San Mateo County Assessor 2003/04 - 2011/12 Combined Tax Rolls 2012/13 County of San Mateo Estimated property tax revenue

- NOTE: Current tax collections beginning in 1993 have been reduced by a mandatory tax reallocation imposed by the State of California
- (a) Prior to the dissolution of Redevelopment Agency in FY 2012; the data in this table includes the general fund property taxes debt service tax and Redevelopment Agency tax increments. Beginning FY 2013, the amount presented are the secured and unsecured estimated property tax revenue provided by the County at the beginning of the fiscal year. The tax levy is subject to adjustment for all increases, decreases and refunds processed throughout the fiscal year.
  - (b) Prior to the dissolution of Redevelopment Agency in FY 2012; the data in this table includes the basic and supplemental property taxes, debt service tax and Redevelopment Agency tax increments. Beginning FY 2013, the amount presented includes only the City's general secured and unsecured property taxes collections. The tax collection is subject to adjustment for all increases, decreases and refunds processed throughout the fiscal year.
  - (c) Beginning fiscal year 1995, the County entered a "Teeter Plan" agreement with the City which allows the City to keep 100% of the secured taxes and the County to keep all interest and delinquency charges collected. Delinquent tax collection data is not available.

**CITY OF SAN CARLOS**  
**Ratio of Outstanding Debt by Type**  
**Last Ten Fiscal Years**



Fiscal Year	Governmental Activities						Business Type Activities			Total Primary Government	Percentage of Personal Income (a)	Per Capita
	Tax Allocation Bonds	General Obligation Bonds Public Library	Installment * Purchase Agreement	California Energy Commission	R. Berghella * Trust Agreement	RDA* Revenue Bonds	2008 Financing Agreement	2009 Financing Agreement				
2004	\$ 9,890,000	\$ 7,870,000	\$ 2,800,000	\$ 497,233	\$ 706,398				\$ 21,763,631	1.39%	786.71	
2005	9,660,000	7,805,000	2,800,000	441,359	700,592				21,406,951	1.22%	762.60	
2006	9,415,000	8,115,000	2,800,000	383,795	694,210				21,408,005	1.13%	757.40	
2007	9,160,000	7,990,000	2,800,000	324,488	687,193				20,961,681	1.14%	731.93	
2008		7,820,000	2,800,000	263,415	679,432	\$ 16,010,000			27,572,847	1.46%	966.04	
2009		7,630,000	2,800,000	200,475	671,009	15,635,000	\$ 1,510,000		28,446,484	1.55%	986.73	
2010		7,425,000	2,800,000	135,627	661,683	15,290,000	1,510,000	\$ 8,450,000	36,272,310	2.38%	1,276.92	
2011		7,200,000	2,800,000	68,822	651,439	14,930,000	1,460,000	8,330,000	35,440,261	2.19%	1,243.78	
2012		6,955,000				1,410,000	1,410,000	8,175,000	16,540,000	0.97%	577.23	
2013		6,690,000					1,355,000	8,015,000	16,060,000	(a)	555.11	

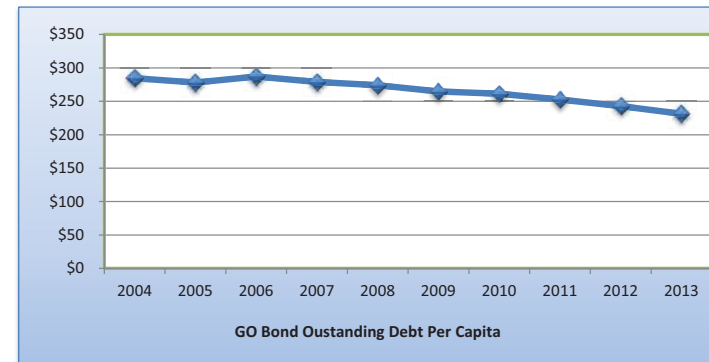
Note : Debt amounts exclude any premiums, discounts, or other amortization amounts.

Sources: City of San Carlos Debt Schedule  
 State of California, Department of Finance (population)  
 U.S. Department of commerce, Bureau of the Census (income)

(a) See Schedule (Demographic Statistics) for personal income and population data.  
 Data for 2013 is not available

\* As a result of the dissolution of Redevelopment Agency on February 1, 2012, long-term debt of the former Redevelopment Agency were transferred to the Successor Agency

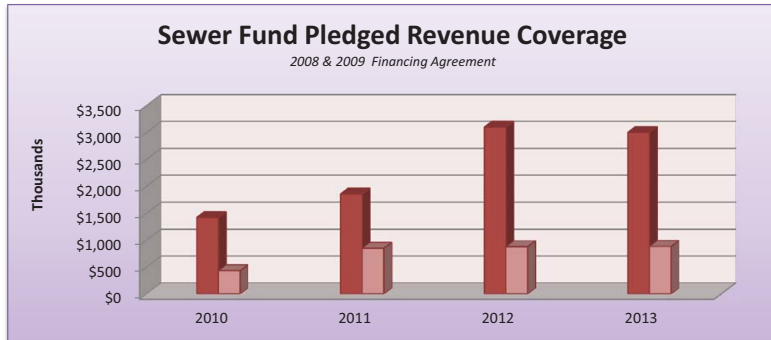
**CITY OF SAN CARLOS**  
**Ratio of General Bonded Debt Outstanding**  
**Last Ten Fiscal Years**



Fiscal Year	General Bonded Debt Outstanding		Percentage of Assessed Value (1)	Per Capita
	2005 General Obligation Debt	Total		
2004	\$7,870,000	\$7,870,000	0.16%	\$284.49
2005	7,805,000	7,805,000	0.15%	\$278.04
2006	8,115,000	8,115,000	0.15%	\$287.10
2007	7,990,000	7,990,000	0.14%	\$278.99
2008	7,820,000	7,820,000	0.12%	\$273.98
2009	7,630,000	7,630,000	0.11%	\$264.66
2010	7,425,000	7,425,000	0.11%	\$261.39
2011	7,200,000	7,200,000	0.11%	\$252.68
2012	6,955,000	6,955,000	0.10%	\$242.72
2013	6,690,000	6,690,000	0.09%	\$231.24

1. Assessed value has been used because the actual value of taxable property is not readily available in the State of California

**CITY OF SAN CARLOS**  
**Pledged-Revenue Coverage**  
**Last Four Fiscal Years**



Fiscal Year	San Carlos Sewer Fund - SBSA 2008 & 2009 Financing Agreement				Coverage
	Tax Revenue Available for Debt Service	Financing Agreement		Total	
		2008	2009		
2010	\$1,422,489	\$74,190	\$356,691	\$430,881	3.30
2011	1,853,539	117,308	733,352	850,660	2.18
2012	3,099,735	115,308	765,177	880,485	3.52
2013	3,000,783	118,208	765,278	883,486	3.40

Source: City of San Carlos Annual Financial Statements

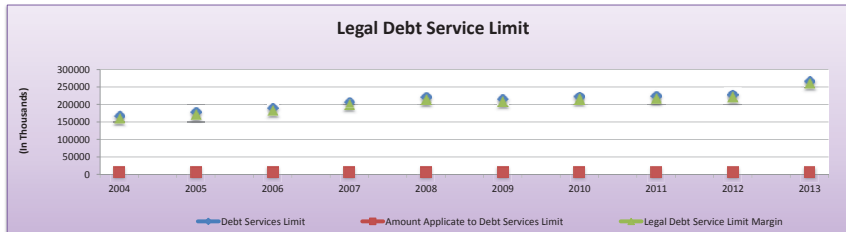
**CITY OF SAN CARLOS**  
**Computation of Direct and Overlapping Debt**  
**June 30, 2013**

2012-13 Assessed Valuation	\$7,132,596,256
Redevelopment Incremental Valuation	613,565,118
Adjusted Assessed Valuation	\$6,519,031,138

	Total Debt 6/30/2013	(1) Percentage Applicable	City's Share of Debt 6/30/2013
<b>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>			
San Mateo Community College District	\$580,659,994	4.813%	\$27,947,166
Sequoia Union High School District	336,340,000	11.688%	39,311,419
Belmont-Redwood Shores School District	33,159,348	3.460%	1,147,313
Belmont-Redwood Shores School Facilities Improvement District	34,965,000	6.521%	2,280,068
Belmont-Redwood Shores School Facilities Improvement District	23,285,000	0.386%	89,880
Redwood City School District	43,695,967	2.813%	1,229,168
San Carlos School District	72,210,786	95.885%	69,239,312
City of San Carlos	<u>6,690,000</u>	100%	<u>6,690,000</u>
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>	<b>\$1,131,006,095</b>		<b>\$ 147,934,326</b>
<b>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</b>			
San Mateo County General Fund Obligations	\$311,729,816	4.813%	\$ 15,003,556
San Mateo County Board of Education Certificates of Participation	11,455,000	4.813%	551,329
Belmont-Redwood Shores School District Certificates of Participation	1,509,017	2.813%	42,449
Midpeninsula Regional Park District General Fund Obligations	<u>135,649,717</u>	3.946%	<u>5,352,738</u>
<b>TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT</b>	<b>\$460,343,550</b>		<b>\$ 20,950,072</b>
OVERLAPPING TAX INCREMENT DEBT (SUCCESSOR AGENCY)	\$ 14,155,000	100%	\$ 14,155,000
<b>CITY DIRECT DEBT</b>			<b>\$6,690,000</b>
<b>TOTAL OVERLAPPING DEBT</b>			<b>\$176,349,397</b>
<b>COMBINED TOTAL DEBT</b>			<b>\$183,039,397 (2)</b>
(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.			
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.			
<b>RATIOS TO 2012-13 ASSESSED VALUATION:</b>			
<b>Direct Debt (\$6,690,000)</b>			<b>0.09%</b>
Total Gross Direct and Overlapping Tax Assessment Debt			2.07%
Combined Total Debts			2.57%
<b>RATIOS TO REDEVELOPMENT INCREMENTAL VALUATION (\$613,565,228):</b>			
Total Overlapping Tax Increment Debt			2.31%

Source: California Municipal Statistics, Inc.

CITY OF SAN CARLOS  
COMPUTATION OF LEGAL BONDED DEBT MARGIN  
JUNE 30, 2013



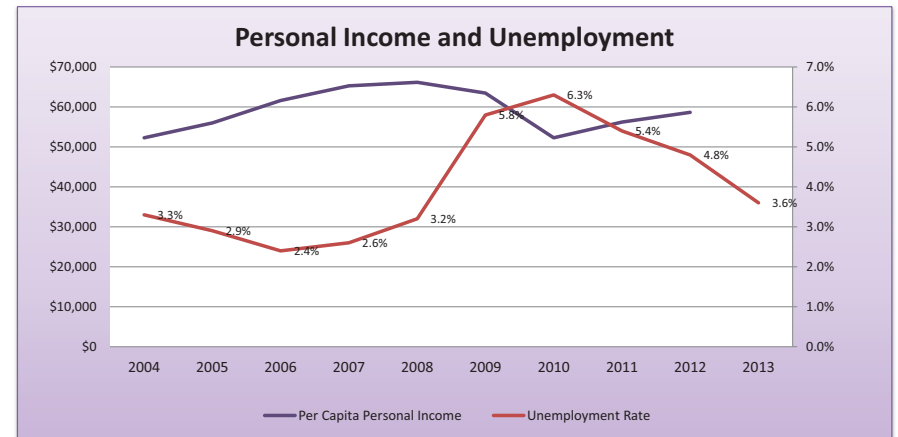
	Fiscal Year In Thousand									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Secured property assessed value, net of exempt real property	4,502,496	4,790,023	5,108,778	5,525,277	5,925,055	5,781,085	5,940,600	5,988,768	6,085,726	7,132,596
<b>Legal Debt Limit</b>										
Debt service limit (3.75% of property assessed value)(a)	\$168,844	\$179,626	\$191,579	\$207,198	\$222,190	\$216,791	\$222,773	\$224,579	\$228,215	\$267,472
Less: amount applicable to debt service limit(b)	7,870	7,805	8,115	7,990	7,820	7,630	7,425	7,200	6,955	6,690
Legal debt margin	<u>\$160,974</u>	<u>\$171,821</u>	<u>\$183,464</u>	<u>\$199,208</u>	<u>\$214,370</u>	<u>\$209,161</u>	<u>\$215,348</u>	<u>\$217,379</u>	<u>\$221,260</u>	<u>\$260,782</u>
Total net debt applicable to the limit as a percentage of debt limit	4.89%	4.54%	4.42%	4.01%	3.65%	3.65%	3.45%	3.31%	3.14%	2.57%

NOTE:

- (a) California Government Code, Section 43605 sets the debt limit at 15%. The Code section was enacted prior to the change in basing assessed value to full market value when it was previously 25% of market value. Thus, the limit shown as 3.75% is one-fourth the limit to account for the adjustment of showing assessed valuation at full cash value.
- (b) The amount applicable to debt service limit represents the amount of debt services payment that is the obligation of the City

Source: City Finance Department  
San Mateo County Tax Assessor's Office

CITY OF SAN CARLOS  
Demographic and Economic Statistics  
Last Ten Fiscal Years



Fiscal Year	City Population	Total Personal Income (amount express in thousands)	Per Capita Personal Income	Unemployment Rate	San Mateo County Population	City Population % of County
2004	27,696	\$ 1,447,722	\$ 52,272	3.3%	720,691	3.84%
2005	27,882	1,562,124	56,026	2.9%	719,655	3.90%
2006	28,012	1,725,673	61,605	2.4%	724,104	3.90%
2007	28,216	1,842,850	65,312	2.6%	733,496	3.90%
2008	28,542	1,888,601	66,169	3.2%	739,469	3.90%
2009	28,829	1,830,173	63,484	5.8%	745,858	3.87%
2010	28,406	1,524,777	52,299	6.3%	754,285	3.77%
2011	28,494	1,614,668	56,223	5.4%	724,702	3.93%
2012	28,654	1,696,601	58,643	4.8%	729,443	3.93%
2013	28,931	(a)	(a)	3.6%	735,678	3.93%

Data Source:

Population: California state Department of finance  
Unemployment Data: California Employment Development Department  
Income Data : ESRI - Demographic Estimates are based on the last available census.  
Demographic Data is totaled from census Block Groups that overlap the City's boundaries

Note: (a) Information is not available

**CITY OF SAN CARLOS**

**Principal Employers**

**Current Year ( A )**

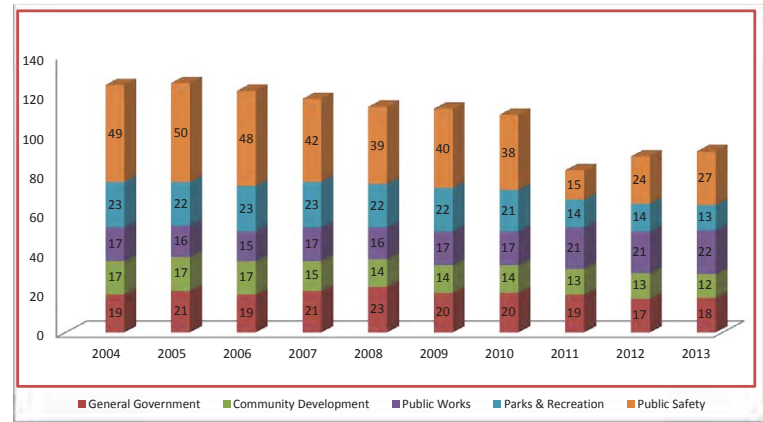
Employer	2013	
	Number of Employees	Percent of Total Employment
L-3 COMMUNICATIONS CORP	389	2.46%
PACIFIC GAS & ELECTRIC	350	2.22%
KELLY-MOORE PAINT CO INC	267	1.69%
NATERA INC	205	1.30%
DELTA STAR INC	188	1.19%
WELLS FARGO INSURANCE SERVICES	185	1.17%
NOVARTIS PHARMACEUTICALS	172	1.09%
CHECK POINT SOFTWARE TECH INC	170	1.08%
THE HOME DEPOT	165	1.04%
GEORGE P JOHNSON CO	150	0.95%
BEST BUY INC	110	0.70%
PARCA	95	0.60%
ASTER DATA SYSTEMS INC	94	0.59%
NATUS MEDICAL	78	0.49%
FLEXTRONICS INTERNATIONAL USA INC	76	0.48%
	<b>2,694</b>	<b>17.05%</b>

"Total Employment (15,800) \*" as used above represents the total employment of all employers located within City limits.

Data Source : City Business License Record  
Information is not available for 2004

**CITY OF SAN CARLOS**

**Full Time Equivalent City Government Employees by Function**



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Government	19	21	19	21	23	20	20	19	17	18
Community Development	17	17	17	15	14	14	14	13	13	12
Public Works	17	16	15	17	16	17	17	21	21	22
Parks & Recreation	23	22	23	23	22	22	21	14	14	13
Public Safety	49	50	48	42	39	40	38	15	24	27

\*\*\* San Carlos begins Only in FY 2012

\*\*Police services are provided by County of San Mateo Sheriff's Office

<b>Total Number Employees</b>	<b>125</b>	<b>126</b>	<b>122</b>	<b>118</b>	<b>114</b>	<b>113</b>	<b>110</b>	<b>82</b>	<b>89</b>	<b>92</b>
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Source: City budget document

\*\* On October 31, 2010, The County of San Mateo Sheriff's Office assumed law enforcement responsibilities for the City of San Carlos.

\*\*\* On October 12, 2011 the Belmont-San Carlos Fire Department dissolved; and re-establishing a City of San Carlos Fire Department with Fire Command staff contracted with the City of Redwood City.

**CITY OF SAN CARLOS**  
**Operating Indicators by Function/Program**  
**Last Ten Fiscal Years**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Function/Program</b>										
Public safety:										
* Fire									992	1,896
Fire calls for service									240	465
Primary fire inspections conducted										
Police:										
Communication Center calls answered										
Police calls for Service	N/A	N/A	13,568	13,856	14,769	14,434	13,638	12,236	11,058	13,490
Law violations:										
Part I and Part II crimes	N/A	N/A	1,737	2,885	2,126	2,638	2,843	2,446	2,132	1,780
Physical arrests (adult and juvenile)	N/A	N/A	793	934	864	1,005	1,060	912	704	657
Traffic violations	N/A	N/A	1,041	749	1,783	2,916	4,660	3,701	2,932	3,666
Parking violations	N/A	N/A	3,594	2,922	4,698	4,357	5,103	4,573	4,533	4,558
Street										
Pavement Condition Index	64	65	N/A	N/A	64	64	64	67	64	64
Sewer										
Sewer service connections	10,840	10,880	10,900	11,050	11,061	11,192	11,309	11,309	11,335	11,355
Average daily flow (millions of gallons)	2.69	2.71	2.93	2.50	2.76	2.45	N/A	2.60	1.75	1.66
Maximum Allocated Treatment Capacity,										
Average Dry Weather Flow (Millions of Gallons)	4.47	4.47	4.47	4.47	4.47	4.47	4.47	4.47	4.47	4.47
Maximum Allocated Treatment Capacity, Peak Wet										
Weather Flow (Millions of Gallons)	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.30	14.30	14.30
Culture and recreation:										
Community Services:										
Adult Registrations	4,946	5,116	5,200	4,520	4,373	3,304	3,086	2,312	2,585	2,481
Tot/Youth Registrations	9,283	9,773	9,029	7,761	9,267	7,577	6,262	6,189	7,117	7,646
Facility Rentals	74	68	151	60	62	94	158	185	178	189
Picnic Rentals	159	135	146	162	150	184	146	N/A *	144	166
Organized Play Participants	7,468	7,446	7,299	8,692	8,724	6,742	6,620	5,454	8,005	7,184
Organized Play Hours Permitted	18,065	18,775	18,085	19,640	18,326	19,329	17,228	17,368	18,611	17,212

Note: N/A denotes information not available.

Due to the Wastewater Treatment Plant had problems with its flow meters last year, the data for average daily flow is not available.

N/A\* Due to the budget cut, picnic rental program halted in FY 2011, will reinstate in FY 2012

\* The Belmont-San Carlos Fire Department dissolved on October 12, 2011. City reestablished the Fire Department in October 2011.

Information prior to the FY 2011 is not available.

Source: Various city department records

**CITY OF SAN CARLOS**  
**Capital Asset Statistics by Function/Program**  
**Last Ten Fiscal Years**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Function/Program</b>										
Public safety:										
Fire stations	2	2	2	2	2	2	2	2	2	2
Police stations	1	1	1	1	1	1	1	1	1	1
Streets										
Total Length (Miles)	87	87	87	87	87	87	87	87	87	87
Street lights	1,740	1,740	1,740	1,740	1,740	1,740	1,888	1,888	1,888	1,888
Traffic Signals	19	19	19	19	19	20	20	20	20	20
Parking Lots										
Number of City Parking Lots	4	4	4	4	4	4	4	4	4	4
Number of Public Parking Spaces	356	356	356	356	356	356	356	356	356	356
Number of Employee Permit	94	94	94	94	94	94	94	94	91	91
Wastewater										
Total Sewer Main Length (Miles)	106	106	106	106	106	106	106	106	104	104
Sewer Pump Stations	6	6	6	6	6	6	6	6	6	6
Storm water										
Catch basins/inlets	1,324	1,324	1,324	1,324	1,324	1,324	1,324	1,324	1,324	1,324
Stormwater Pump Stations	3	3	3	3	3	3	3	3	3	3
Manholes	3,205	3,205	3,205	3,205	3,205	3,205	3,205	3,205	3,205	3,205
General government:										
City Hall	1	1	1	1	1	1	1	1	1	1
City Museum	1	1	1	1	1	1	1	1	1	1
Parks and recreation:										
Parks (and associated buildings)	13	13	13	13	13	13	13	13	13	13
Community centers	2	2	2	2	2	2	2	2	2	2

Source: Various city department records

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**APPENDIX K**

**Financial Statements and Independent Auditor's Report for West Bay Sanitary District –  
Fiscal Year Ended June 30, 2013**

[see attached]

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**WEST BAY SANITARY DISTRICT**  
**FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITOR'S REPORT**  
**JUNE 30, 2013**

\* \* \*



**CHAVAN & ASSOCIATES LLP**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**1475 SARATOGA AVE, SUITE 180**  
**SAN JOSE, CA 95129**

**West Bay Sanitary District**

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June 30, 2013

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
West Bay Sanitary District  
Menlo Park, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the West Bay Sanitary District (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

The District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of business-type activities of the West Bay Sanitary District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress for the retiree health benefit plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

### *Other Information*

As discussed in Note 1 to the financial statements, the District adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective July 1, 2012.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*C & A LLP*

September 12, 2013  
San Jose, California

*Management's Discussion and Analysis*

**West Bay Sanitary District**  
Management's Discussion and Analysis  
June 30, 2013

---

The West Bay Sanitary District (the District) has issued its financial statements for the fiscal year ended June 30, 2013, in conformity with the format prescribed by the provisions of Governmental Accounting Standards. The Management's Discussion and Analysis is an overview of the District's financial activities for the fiscal year and is an integral part of the accompanying Basic Financial Statements. Readers are encouraged to consider the information presented herein with those statements.

**FINANCIAL HIGHLIGHTS**

- The District's net position increased by \$4,759,035 or 7%.
- The District's operating expenses increased by \$303,414 or 2%.
- The District's total operating revenue increased by \$1,043,719 or 6%.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report includes the Management's discussion and analysis report, the independent auditor's report and the basic financial statements of the District. The financial statements also include notes that explain the information in the financial statements in more detail.

**BASIC FINANCIAL STATEMENTS**

The Financial Statements of the District report information about the District's accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Position includes all of the District's assets, deferred inflows, deferred outflows, and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Activities and Changes in Net Position. These statements reflect the result of the District's operations over the past year.

The final required Financial Statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations and investments. It also provides answers to questions such as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

**FINANCIAL ANALYSIS OF THE DISTRICT**

One of the most important questions asked about the District's finances is "Is the District better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District and changes in them. You can think of the District's net position – the difference between assets and liabilities – as one way to measure the financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.



**West Bay Sanitary District**  
**Management's Discussion and Analysis**  
**June 30, 2013**

**NET POSITION**

To begin our analysis, a summary of the District's Statement of Net Position is presented in Table 1.

<b>Table 1 - Summary of Net Position</b>				
	2013	2012	Dollar Change	Percent Change
<b>Assets</b>				
Current Assets	\$ 13,977,214	\$ 10,226,767	\$ 3,750,447	36.7%
Noncurrent Assets	60,913,365	59,121,760	1,791,605	3.0%
<b>Total Assets</b>	<b>\$ 74,890,579</b>	<b>\$ 69,348,527</b>	<b>\$ 5,542,052</b>	<b>8.0%</b>
<b>Liabilities</b>				
Current Liabilities	\$ 2,112,462	\$ 1,323,971	\$ 788,491	59.6%
Noncurrent Liabilities	170,544	176,018	(5,474)	-3.1%
<b>Total Liabilities</b>	<b>\$ 2,283,006</b>	<b>\$ 1,499,989</b>	<b>\$ 783,017</b>	<b>52.2%</b>
<b>Net Position</b>				
Net Investment in Capital Assets	\$ 38,066,320	\$ 35,629,074	\$ 2,437,246	6.8%
Unrestricted	34,541,253	32,219,464	2,321,789	7.2%
<b>Total Net Position</b>	<b>\$ 72,607,573</b>	<b>\$ 67,848,538</b>	<b>\$ 4,759,035</b>	<b>7.0%</b>

As seen above, the District's total net position increased by \$4,759,035, or 7%, from fiscal year 2011-12 to 2012-13. The District's total current assets, which do not include capital assets, increased by \$3,750,447. Noncurrent Assets increased by \$1,791,605 due to capital spending net of the loss from investment in SBSA. Total Liabilities increased by \$783,017.

**West Bay Sanitary District**  
**Management's Discussion and Analysis**  
**June 30, 2013**

Table 2 below summarizes the District's changes in net position for the year.

<b>Table 2 - Change in Net Position</b>				
	2013	2012	Dollar Change	Percent Change
<b>Revenues</b>				
Operating Revenue	\$17,989,781	\$16,946,062	\$ 1,043,719	6%
<b>Operating Expenses</b>				
Sewage treatment	6,679,537	6,721,527	(41,990)	-1%
Sewage collection and general administration	5,307,520	5,148,418	159,102	3%
Depreciation	1,132,035	945,733	186,302	20%
<b>Total Operating Expenses</b>	<b>13,119,092</b>	<b>12,815,678</b>	<b>303,414</b>	<b>2%</b>
<b>Operating Income (Loss)</b>	<b>4,870,689</b>	<b>4,130,384</b>	<b>740,305</b>	<b>18%</b>
Nonoperating Revenue (Expense)	237,066	119,823	117,243	98%
Increase (decrease) of equity in SBSA	(589,816)	862,056	(1,451,872)	-168%
Settlement expenses	-	(1,400,000)	1,400,000	-100%
Connection Fees	241,096	126,131	114,965	91%
<b>Change in Net Position</b>	<b>\$ 4,759,035</b>	<b>\$ 3,838,394</b>	<b>\$ 920,641</b>	<b>24%</b>

While the Statement of Net Position shows the change in financial position, the Statement of Activities and Changes in Net Position (Table 2 above) provides answers as to the nature and sources of the changes. Net position increased by \$4,759,035. This resulted from a significant increase in total revenues of \$1,043,719 (6%) over the prior year due primarily to a 9% increase in sewer service charges. Total operating expenses increased \$303,414, or 2% over the prior year.

Sewage treatment expense decreased by 1% from prior year, resulting primarily from a slight reduction of the semi-annual capital reserve payment over the prior year. Sewage treatment is provided by the South Bayside System Authority which was created in 1975 under a Joint exercise of Powers Agreement to construct and operate a sewage treatment facility at Redwood Shores for the District and the cities of Belmont, San Carlos, and Redwood City. As a member of the JPA the District is liable for its share of SBSA operating expenses. For the year ending June 30, 2013, the District's share is approximately 24%. For FY2012-13 the District's share of SBSA bond debt totaled \$1,124,956 which was in line with the bond expense for the prior year. However, bond debt is expected to increase in future years to pay the District's share of the SBSA 10 year, \$400 million CIP plan that began in 2009. Starting in FY2012-13, SBSA expenses also include funding of the SBSA retiree medical liability of which the District pays \$266,723 per year for their share of the expense.

Sewage collection and general administration expenses, which are the costs related to the management and maintenance of the sewer collection system increased slightly over the prior year by 3%.

Going forward it is anticipated that SBSA related sewage treatment expenses will rise significantly as their bond debt increases, whereas sewage collection and general administration expenses are expected to remain stable and generally reflect CPI increases.

**West Bay Sanitary District**  
**Management's Discussion and Analysis**  
**June 30, 2013**

**BUDGETARY HIGHLIGHTS**

The District adopts an annual budget which provides for the general operations. Budgets are prepared on the accrual basis of accounting. Project-length financial plans are adopted for capital projects. The Capital Improvement Program provides an annual forecast of capital requirements. Table 3 shows a comparison of actual to budget for general operations for the year ended June 30, 2013.

<b>Table 3 - Budget Summary</b>				
	Budget	Actual	Budget Variance	Percent Variance
<b>Revenues</b>				
Operating Revenue	\$ 17,653,486	\$ 17,989,781	\$ 336,295	2%
<b>Operating Expenses</b>				
Sewage treatment	7,466,306	6,679,537	786,769	11%
Sewage collection and general administration	5,597,962	5,307,520	290,442	5%
Depreciation	1,025,000	1,132,035	(107,035)	-10%
<b>Total Operating Expenses</b>	<b>14,089,268</b>	<b>13,119,092</b>	<b>970,176</b>	<b>7%</b>
<b>Operating Income (Loss)</b>	<b>3,564,218</b>	<b>4,870,689</b>	<b>1,306,471</b>	<b>37%</b>
Nonoperating Revenue	101,000	237,066	136,066	135%
Decrease of Equity in SBSA	-	(589,816)	(589,816)	-100%
Connection Fees	50,000	241,096	191,096	382%
<b>Change in Net Position</b>	<b>\$ 3,715,218</b>	<b>\$ 4,759,035</b>	<b>\$ 1,043,817</b>	<b>28%</b>

The District reported \$336,295 more in operating revenue than budgeted primarily resulting from the 9% rate increase of sewer service fees. Non-operating revenue was \$136,071 favorable to Budget due primarily to higher than Budgeted interest earnings. Equity in SBSA declined by \$589,916 due to an increase in depreciation expense resulting from increased capital assets as well as changes to SBSA's capitalization policy.

Table 4 summarizes the capital budget for the fiscal year ended June 30, 2013:

<b>Table 4 - Capital Fund Budget Summary</b>				
	Budget	Actual	Variance	Percent Variance
Transfer from Operations	\$ 4,657,218	\$ 5,453,641	\$ 796,423	17%
Capital Expenditures	(5,067,500)	(3,569,280)	1,498,220	-30%
Connection Charges	50,000	241,096	191,096	382%
Capital Projects Reserve	(350,000)	(350,000)	-	0%
Emergency Capital Fund	(350,000)	(350,000)	-	0%
Change in Capital Asset Fund	(1,060,282)	1,425,457	2,485,739	234%
Beginning Fund Balance	3,258,576	6,449,873	3,191,297	98%
Ending Fund Balance	\$ 2,198,294	\$ 7,875,330	\$ 5,677,036	258%

Actual Capital expenditures of \$3,569,280 were \$1,498,220 less than Budget and the District spent \$645,119 less than the prior year. The District also set aside \$350,000 for emergency capital repairs and \$350,000 for future capital projects, with plans to build the reserve funds gradually over the next several

**West Bay Sanitary District**  
**Management's Discussion and Analysis**  
**June 30, 2013**

years. As a result of favorable variances in Total Revenue and Total Expenses to Budget, the District was able to transfer nearly \$1 million more to the Capital Asset Fund at year end which contributed to an ending Fund balance that is \$5.7 million higher than budgeted.

**CAPITAL ASSETS**

Table 5 shows a summary of capital assets owned by the District as of June 30, 2013.

<b>Table 5 - Summary of Capital Assets Net of Depreciation</b>				
Capital Asset	2013	2012	Dollar Change	Percent Change
Land	\$ 44,467	\$ 44,467	\$ -	0.00%
Construction in Progress	3,457,350	4,459,118	(1,001,768)	-22.47%
Pump stations	3,247,600	3,168,195	79,405	2.51%
Fleet	745,809	541,654	204,155	37.69%
Plant and administration facilities	260,065	274,952	(14,887)	-5.41%
Buildings	2,189,288	2,266,674	(77,386)	-3.41%
Flow equalization facilities	908,417	998,601	(90,184)	-9.03%
Subsurface lines	27,213,324	23,875,413	3,337,911	13.98%
<b>Net Capital Assets</b>	<b>\$38,066,320</b>	<b>\$35,629,074</b>	<b>\$2,437,246</b>	<b>6.84%</b>

**ECONOMIC FACTORS**

The District is governed in part by provisions of the California Constitution that require the District to set rates that cover only the costs of operation, maintenance and recurring capital replacement (OM&R). The District is not subject to general economic conditions such as increases or declines in property tax values or other types of revenues that vary with economic conditions. Accordingly, the District sets its rates to its users to cover the costs of OM&R plus any increments for known or anticipated changes in program costs. As in previous years, the District has maintained operating costs by carefully managing every expense.

**CONTACTING THE DISTRICT**

This financial report is designed to provide a general overview of the District's Finances and demonstrate the District's accountability for the money it receives. If you have any questions about this, or any other matter related to the District, please contact the District at 500 Laurel Street, Menlo Park, CA 94025 or (650) 321-0384.

## **BASIC FINANCIAL STATEMENTS**

**West Bay Sanitary District**  
Statement of Net Position  
June 30, 2013  
(With Comparative Totals as of June 30, 2012)

	2013	2012
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 13,297,447	\$ 9,750,038
Accounts receivable	609,553	411,589
Interest receivable	37,633	24,808
Prepaid expenses and other current assets	32,581	40,332
Total Current Assets	<u>13,977,214</u>	<u>10,226,767</u>
Noncurrent Assets:		
Investments	4,990,335	5,046,160
Investment in South Bayside System Authority	17,856,710	18,446,526
Capital assets:		
Non-depreciable	3,501,817	4,503,585
Depreciable net of accumulated depreciation	34,564,503	31,125,489
Total Capital Assets - Net	<u>38,066,320</u>	<u>35,629,074</u>
Total Noncurrent Assets - Net	<u>60,913,365</u>	<u>59,121,760</u>
Total Assets	<u>\$ 74,890,579</u>	<u>\$ 69,348,527</u>
<b>Liabilities</b>		
Current Liabilities:		
Accounts payable	\$ 1,822,658	\$ 1,063,456
Payroll and related liabilities	4,452	2,764
Construction deposits	115,455	115,455
Compensated absences payable - current	169,897	142,296
Total Current Liabilities	<u>2,112,462</u>	<u>1,323,971</u>
Noncurrent Liabilities:		
Net OPEB obligation	57,571	37,357
Compensated absences payable - noncurrent	112,973	138,661
Total Noncurrent Liabilities	<u>170,544</u>	<u>176,018</u>
Total Liabilities	<u>\$ 2,283,006</u>	<u>\$ 1,499,989</u>
<b>Net Position</b>		
Net Investment in Capital Assets	\$ 38,066,320	\$ 35,629,074
Unrestricted	34,541,253	32,219,464
Total Net Position	<u>\$ 72,607,573</u>	<u>\$ 67,848,538</u>

The notes to the financial statements are an integral part of this statement.

**West Bay Sanitary District**  
Statement of Revenues, Expenses and Changes in Net Position  
For the Fiscal Year Ended June 30, 2013  
(With Comparative Totals for the Fiscal Year Ended June 30, 2012)

	2013	2012
<b>Operating Revenues:</b>		
Service charges	\$ 17,790,248	\$ 16,755,017
Flow equalization uses	47,916	43,560
Permit and inspection fees and other services	66,494	78,989
Other operating revenues	85,123	68,496
Total operating revenues	<u>17,989,781</u>	<u>16,946,062</u>
<b>Operating Expenses:</b>		
Sewage treatment	6,679,537	6,721,527
Sewage collection and general administration:		
Salaries and benefits	3,714,067	3,459,424
Materials and supplies	397,048	395,475
Insurance	67,081	65,288
Contract services	291,449	206,875
Professional services	247,960	514,921
Repairs and maintenance	220,902	181,825
Utilities	121,299	118,825
Other operating expenses	247,714	205,785
Total sewage collection and general administration	<u>5,307,520</u>	<u>5,148,418</u>
Depreciation	1,132,035	945,733
Total operating expenses	<u>13,119,092</u>	<u>12,815,678</u>
Operating Income (Loss)	<u>4,870,689</u>	<u>4,130,384</u>
<b>Nonoperating Revenues (Expenses):</b>		
Investment income	224,231	98,146
Increase (decrease) of equity in South Bayside Systems Authority	(589,816)	862,056
Other nonoperating revenues	12,835	21,677
Total nonoperating revenues (expenses)	<u>(352,750)</u>	<u>981,879</u>
Income before contributions	<u>4,517,939</u>	<u>5,112,263</u>
<b>Capital Contributions and Special Items:</b>		
Capital contributions - connection fees	241,096	126,131
Settlement expense	-	(1,400,000)
Total contributions and special items	<u>241,096</u>	<u>(1,273,869)</u>
Change in NetPosition	4,759,035	3,838,394
Beginning Net Position	<u>67,848,538</u>	<u>64,010,144</u>
Ending Net Position	<u>\$ 72,607,573</u>	<u>\$ 67,848,538</u>

The notes to the financial statements are an integral part of this statement.

**West Bay Sanitary District**  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2013  
(With Comparative Totals for the Fiscal Year Ended June 30, 2012)

	2013	2012
<b>Cash Flows from Operating Activities:</b>		
Cash received from customers	\$ 17,791,817	\$ 16,939,172
Cash payments to suppliers for goods and services	(7,506,037)	(8,448,502)
Cash payments to employees for services	(2,564,281)	(2,413,815)
Cash payments of benefits on behalf of employees	(1,125,971)	(1,016,271)
Net Cash Provided (Used) by Operating Activities	<u>6,595,528</u>	<u>5,060,584</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Cash received from connection fees	241,096	126,131
Cash received on the sale of capital assets	7,565	6,700
Purchases and construction of capital assets	(3,576,846)	(4,214,399)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(3,328,185)</u>	<u>(4,081,568)</u>
<b>Cash Flows from Non-Capital and Related Financing Activities:</b>		
Legal settlement claims paid	-	(1,400,000)
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	<u>-</u>	<u>(1,400,000)</u>
<b>Cash Flows from Investing Activities:</b>		
Sales and redemption of investments	55,825	(81,018)
Investment income	211,406	121,633
Other income (expense)	12,835	20,911
Net Cash Provided (Used) by Investing Activities	<u>280,066</u>	<u>61,526</u>
Net Increase (Decrease) in Cash and Cash Equivalents	3,547,409	(359,458)
Cash and Cash Equivalents Beginning	<u>9,750,038</u>	<u>10,109,496</u>
Cash and Cash Equivalents Ending	<u>\$ 13,297,447</u>	<u>\$ 9,750,038</u>
<b>Reconciliation of Operating Income to Cash Flows Provided by Operating Activities:</b>		
Operating Income (Loss)	\$ 4,870,689	\$ 4,130,384
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,132,035	945,733
Net change in:		
Accounts receivable	(197,964)	(6,890)
Prepaid expenses and other current assets	7,751	10,305
Accounts payable	759,202	(48,286)
Payroll and related liabilities	1,688	(2,486)
Net OPEB obligation	20,214	11,796
Compensated absences	1,913	20,028
Net Cash Provided (Used) by Operating Activities	<u>\$ 6,595,528</u>	<u>\$ 5,060,584</u>

The notes to the financial statements are an integral part of this statement.



**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2013

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**NOTE 1 - NATURE OF ORGANIZATION**

West Bay Sanitary District (District) is a political subdivision of the State of California, and was formed for the purpose of protecting water quality and the associated public health. The District is responsible for wastewater collections, treatment, reclamation and disposal. The District performs the services of wastewater collection, and together with three other public entities is part of a Joint Powers Authority for the treatment, disposal and reclamation of wastewater. The District is also responsible for refuse (solid waste) collection, treatment, disposal and reclamation. It franchises with other organizations to perform these refuse services.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation and Accounting*

The District's Basic Financial Statements are prepared in accordance with the policies and procedures for California special districts. The accounting policies of the District conform to accounting principles generally accepted in the United States of America, and as prescribed by the Governmental Accounting Standards Board and Audits of State and Local Governmental Units, issued by the American Institute of Certified Public Accountants.

The District is accounted for as an enterprise fund because the intent of the governing body is that the cost (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

An enterprise fund is used to account for activities similar to those in the private sector, where the proper matching of revenues and costs is important and the full accrual basis of accounting is required. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the enterprise are recorded on its statement of net position, and under the full accrual basis of accounting, all revenues are recognized when earned and all expenses, including depreciation, are recognized when incurred.

Enterprise funds are accounted for on a cost of services or economic resources measurement focus, which means that all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with their activity are included on their balance sheets. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

Deferred outflow of resources is a consumption of net assets by the District that is applicable to a future reporting period. For example, prepaid items and deferred charges. Deferred inflow of resources is an acquisition of net assets by the District that is applicable to a future reporting period. For example, unearned revenue and advance collections.

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue.

The District applies all applicable GASB pronouncements for certain accounting and financial reporting guidance. In December of 2010, GASB issued *GASBS No. 62, Codification of Accounting*

**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2013

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*and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. This includes pronouncements by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB), and the Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, unless those pronouncements conflict with or contradict with GASB pronouncements.

*Statement of Net Position*

The statement of net position is designed to display the financial position of the District. The District's net position are classified into three categories as follows:

- Net Investment in Capital Assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position, as applicable.
- Restricted - This component of net position consists of constraints placed on an assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law and regulations of other governments, and reduced by liabilities and deferred inflows of resources related to those assets. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation
- Unrestricted - This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

*Statement of Revenues, Expenses, and Changes in Net Position*

The statement of revenues, expenses, and changes in net position is the operating statement for proprietary funds. This statement distinguishes between operating and non-operating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for services. Operating expenses for the District include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

*Service Charges*

Service charges are billed and collected on the District's behalf by the County of San Mateo in

**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2013

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conjunction with the County's annual property tax billings. The majority of revenues are collected through the County system with only small amounts billed directly by the District.

*Connection Fees*

Connection fees are reported as revenue only to the extent the amount equals the costs of the physical connection to the system.

*Budgets and Budgetary Accounting*

Budgets are prepared on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted by the Board of Directors. Project-length financial plans are adopted for all capital projects funds.

*Cash and Cash Equivalents*

For the purposes of the statement of cash flows, cash represents balances that can be readily withdrawn without substantial notice or penalty. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of three months or less.

*Investments*

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No.3)*, certain disclosure requirements for Deposits and Investment Risks were made in the areas of interest rate risk and credit risk. The credit risk disclosures include the following components; overall credit risk, custodial credit risk and concentrations of credit risk. In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

Investments are reported in the statement of net position at fair value. Changes in fair market value that occur during the fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

The District participates in an investment pool managed by the State of California known as the Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, the structured notes and asset-backed securities are subject to market risk as to change in interest rates.

*Receivables*

Receivables include amounts due from collection services and other assessments or resources. All receivables are current and reported net of an allowance for uncollectible accounts as applicable. The allowance for uncollectible accounts was zero as of June 30, 2013.

**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2013

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*Capital Assets*

Property, plant and equipment contributed to the District are stated at estimated fair value at the time of contribution. District policy has set the capitalization threshold for reporting capital assets at \$5,000 if an asset has an estimated useful life in excess of three years. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The purpose of depreciation is to spread the cost of plant and equipment equitably among all customers over the life of these assets, so that each customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of plant and equipment cost.

Depreciation of all plant and equipment in service is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the statement of net position as a reduction in the book value of the capital assets.

The District has assigned the useful lives listed below to plant and equipment:

Pump Stations	5-30 years
Fleet	5-10 years
Plant and administration facilities	3-10 years
Buildings	10-30 years
Flow equalization facilities	10-30 years
Subsurface lines	10-50 years

*Compensated Absences*

Compensated absences include vacation leave and sick leave. Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to the employees. A liability is recognized for that portion of accumulated sick leave that has been vested.

*Accounting Estimates*

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

*Subsequent Events*

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

*Implemented New Accounting Pronouncements*

**Summary of Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (Issued 06/11).** This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts

**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2013

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Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than Net Position. The provisions of this Statement were effective as of July 1, 2012.

**Summary of Statement No. 65, Items Previously Reported as Assets and Liabilities (Issued 03/12).** This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. However, the District has chosen to implement these reporting requirements as of July 1, 2012.

*Upcoming New Accounting Pronouncements*

**Summary of Statement No. 67 Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25 (Issued 06/12).** This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement also details the note disclosure requirements for defined contribution pension plans administered through trusts that meet the identified criteria. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged. The determination of the impact on the District's financial statements from the implementation of this standard is pending as of the issuance date of this report.

**Summary of Statement No. 68 Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (Issued 06/12).** The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to

**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2013

as trusts) that meet certain criteria. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged. The determination of the impact on the District's financial statements from the implementation of this standard is pending as of the issuance date of this report.

**NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

The District's cash, cash equivalents and investments consisted of the following as of June 30, 2013 and 2012:

Cash, Cash Equivalents and Investments	Fair Value			Investment Rating
	2013	2012	Change	
Cash and Cash Equivalents:				
Cash on hand and in banks	\$ 381,286	\$ 666,178	\$ (284,892)	N/A
Bank of the West - Money Market	11,645,542	8,073,765	3,571,777	N/A
Bank of the West Investment Trust	257,206	-	257,206	See Page 17
California Local Agency Investment Fund (L.A.I.F.)	1,012,313	1,008,995	3,318	Not Rated
Petty Cash	1,100	1,100	-	N/A
Total cash and cash equivalents	13,297,447	9,750,038	3,547,409	
Investments:				
Bank of the West Investment Trust	4,990,335	5,046,160	(55,825)	See Page 17
Total Investments	4,990,335	5,046,160	(55,825)	
Total Cash, Cash Equivalents and Investments	18,287,782	14,796,198	\$ 3,491,584	

*Cash Deposits*

As of June 30, 2013, the District's cash deposits have little to no exposure since they were fully insured and collateralized as noted in the *Collateral and Categorization Requirements* disclosure on page 17. Bank balances are insured up to \$250,000 per bank by the Federal Deposit Insurance Company ("FDIC") for interest bearing accounts. Coverage on noninterest bearing accounts is unlimited.

*Collateral and Categorization Requirements*

The California Government Code requires California banks and savings and loan associations to secure an agency's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of at least 150% of an agency's total deposits.

*Investment Policy*

The District's investment guidelines as defined by its written investment policy were approved by the Board of Directors. Implementation and direction is established by an internal finance committee. Monthly, the Board ratifies the investments that have been made.

**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2013

The District's investment policy follows the California Government Code which authorizes the District to invest in the following:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

*Local Agency Investment Fund*

LAIF allows local agencies such as the Authority to participate in a Pooled Money Investment Account managed by the State Treasurer Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. A Local Agency Investment Advisory Board oversees LAIF. The investments with LAIF are not classified for credit risk due to their diverse nature and are stated at cost, which approximates fair value. The total amount invested by all public agencies in LAIF, as of June 30, 2013, was approximately \$58.8 billion. Of that amount, 99.05% is invested in non-derivative financial products and .82% in structured notes and asset-backed securities. The average maturity for the investment in LAIF was 278 days and the effective interest rate was .25%.

*Risk Disclosures*

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

- *Interest Rate Risk* - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. In order to limit loss exposure due to Interest Rate Risk, the investment policy limits the length of maturity of investments
- *Credit Risk* - Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2013

In order to limit loss exposure due to Credit Risk, the investment policy limits purchases of investments to those rated A-1 by Standard & Poor's or P-1 by Moody's Investors Service.

- *Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. Or, in the case of investments, the risk of loss of the investment due failure, impairment or malfeasance of the third party whose name in which the investment is held and who has physical possession of the instrument. In order to limit loss exposure due to Custodial Credit Risk, the investment policy requires all securities be received and delivered using the standard delivery versus payment (DVP) procedure, and all securities be held by a third party bank or trust department under the terms of a custody or trustee agreement. None of the District's investments were subject to custodial credit risk.
- *Concentration of Credit Risk* - See the chart on page 17 for the District's limitations on the amount that can be invested in any one issuer.

The following schedule summarized the District's investment maturities and concentrations with Bank of the West as of June 30, 2013:

Investment Type	Rating	Fair Value	Maturities				Concentrations
			12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months	
California Municipal Bonds	AA+/Aa2	\$ 130,195	\$ -	\$ -	\$ -	\$ 130,195	0.73%
	AA+/Aa3	345,499	-	15,135	-	330,364	1.93%
	Govt	65,240	-	-	-	65,240	0.36%
<b>Subtotal California Municipal Bonds</b>		<b>540,934</b>	<b>-</b>	<b>15,135</b>	<b>-</b>	<b>525,799</b>	<b>3.02%</b>
Corporate Bonds	A/A2	160,422	-	-	-	160,422	0.90%
	A/A3	353,945	-	-	168,704	185,241	1.98%
	A-/A3	545,711	-	-	-	545,711	3.05%
	A/Baa1	274,645	-	-	-	274,645	1.53%
	A-/Baa1	294,690	-	-	-	294,690	1.65%
	A-/Baa2	248,253	-	-	248,253	-	1.39%
	A/NR	121,703	-	-	-	121,703	0.68%
	AA-/A1	100,023	100,023	-	-	-	0.56%
	BBB+/A3	273,055	-	-	-	273,055	1.52%
<b>Subtotal Corporate Bonds</b>		<b>2,372,447</b>	<b>100,023</b>	<b>-</b>	<b>416,957</b>	<b>1,855,467</b>	<b>13.25%</b>
US Agency Obligations	Govt	2,334,160	157,180	-	365,636	1,811,344	13.04%
<b>Total BOW Investments</b>	<b>AAA</b>	<b>5,247,541</b>	<b>257,203</b>	<b>15,135</b>	<b>782,593</b>	<b>4,192,610</b>	<b>29.31%</b>
<b>Money Market</b>	<b>N/A</b>	<b>11,645,542</b>	<b>11,645,542</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>65.04%</b>
<b>LAIF</b>	<b>N/A</b>	<b>1,012,313</b>	<b>1,012,313</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5.65%</b>
<b>Total Investments</b>		<b>\$17,905,396</b>	<b>\$12,915,058</b>	<b>\$15,135</b>	<b>\$ 782,593</b>	<b>\$4,192,610</b>	<b>100.00%</b>

**NOTE 4 - INVESTMENT IN THE SOUTH BAYSIDE SYSTEM AUTHORITY**

The South Bayside System Authority (SBSA) was created in 1975, under a Joint Exercise of Powers Agreement, to construct and operate a sewage treatment facility at Redwood Shores for the District and the cities of Belmont, San Carlos, and Redwood City. At June 30, 2013 and 2012, the District had approximately 24% equity interest in SBSA, which is reported using the equity method of accounting. The District's investment in SBSA at June 30, 2013 and 2012 was \$17,856,710 and \$18,446,526, respectively, as reflected on the statement of net position. The change in the investment for the years ended June 30, 2013 and 2012 was a decrease of \$589,819 and an increase of \$862,056, respectively, as reflected in the statement of revenues, expenses and changes in net position. SBSA's governing commission consists of four members, one appointed from each of the four participating agencies.



**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2013

SBSA's condensed audited financial information is presented below for the year ended June 30, 2013, (most recent information available):

	June 30, 2013
Total Assets	\$ 155,278,576
Total Liabilities	81,255,403
Total Equity	74,023,173
Total Revenues	26,468,612
Total Expenditures	28,074,538

**NOTE 5 - CAPITAL ASSETS (PROPERTY, PLANT AND EQUIPMENT)**

The District's capital assets consisted of the following as of June 30, 2013:

Description	Balance		Deletions	Transfers	Balance	
	June 30, 2012	Additions			June 30, 2013	
<b>Non-depreciable Capital Assets:</b>						
Land	\$ 44,467	\$ -	\$ -	\$ -	\$ 44,467	
Construction in progress	4,459,118	3,018,106	-	(4,019,874)	3,457,350	
Total non-depreciable capital assets	4,503,585	3,018,106	-	(4,019,874)	3,501,817	
<b>Depreciable Capital Assets:</b>						
Pump stations	4,993,203	57,589	-	109,871	5,160,663	
Fleet	1,585,511	359,255	(263,946)	-	1,680,820	
Plant and administration facilities	1,324,553	67,548	(7,250)	-	1,384,851	
Buildings	2,921,423	9,479	-	-	2,930,902	
Flow equalization facilities	2,901,072	-	-	-	2,901,072	
Subsurface lines	37,492,351	57,303	(11,188)	3,910,003	41,448,469	
Total depreciable capital assets	51,218,113	551,174	(282,384)	4,019,874	55,506,777	
Less accumulated depreciation for:						
Pump stations	(1,825,008)	(88,055)	-	-	(1,913,063)	
Fleet	(1,043,857)	(155,100)	263,946	-	(935,011)	
Plant and administration facilities	(1,049,601)	(81,639)	6,454	-	(1,124,786)	
Buildings	(654,749)	(86,865)	-	-	(741,614)	
Flow equalization facilities	(1,902,471)	(90,184)	-	-	(1,992,655)	
Subsurface lines	(13,616,938)	(621,657)	3,450	-	(14,235,145)	
Total accumulated depreciation	(20,092,624)	(1,123,500)	273,850	-	(20,942,274)	
Total depreciable capital assets - net	31,125,489	(572,326)	(8,534)	4,019,874	34,564,503	
Total capital assets - net	\$ 35,629,074	\$ 2,445,780	\$ (8,534)	\$ -	\$ 38,066,320	

Depreciation expense for the year ended June 30, 2013 and 2012 was \$1,132,035 and \$945,733, respectively.

**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2013

Construction in progress consisted of the following as of June 30, 2013:

Project	Balance June 30, 2013
Fair Oaks	\$ 10,598
Oak Grove	12,110
Easement Design Projects	78,598
Sausal Vista PS	52,372
MasterPlan	302,984
GIS Map Update	25,020
FEF Metal Storage Building	23,460
30-Inch CMP	1,049,136
Haven, Marsh, Middlefield & James	50,191
Suburban Park & Frederick	1,667,281
Flow Monitoring Study	139,500
NPA Pipe Replace. & Burns Easement	46,100
<b>Total Construction in Progress</b>	<b>\$ 3,457,350</b>

**NOTE 6 - NONCURRENT LIABILITIES**

The District's noncurrent liabilities consisted of the following as of June 30, 2013:

Noncurrent Debt	Balance July 01, 2012	Additions	Deductions	Balance June 30, 2013	Due Within One Year
Net OPEB Obligation	\$ 37,357	\$ 24,277	\$ 4,063	\$ 57,571	\$ -
Compensated Absences	280,957	1,913	-	282,870	169,897
<b>Total Noncurrent Debt</b>	<b>\$ 318,314</b>	<b>\$ 26,190</b>	<b>\$ 4,063</b>	<b>\$ 340,441</b>	<b>\$ 169,897</b>

**NOTE 7 - SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

On October 25, 1999, the South Bayside Waste Management Authority (SBWMA) was created under the Joint Exercise of Powers Agreement. The purpose of the JPA was to issue bonds to purchase a transfer station, which are repaid by franchise fees.

In fiscal 2004-05, SBWMA approved a 15 year contract with Allied Waste Management (formerly BFI) for the disposal of solid waste subject to all members of SBWMA approving their franchise collection agreements. As part of the agreement, Allied Waste Management agreed to make cash payments of \$11.6 million to SBWMA over four years. The Board of SBWMA approved distributing these payments to each member once all members approve their franchise collection agreements. The District received total distributions of \$128,540 over five years as of June 30, 2010. No distributions were received in fiscal year ended June 30, 2013.

**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2013

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**NOTE 8 - BOARD COMMITMENTS OF NET POSITION**

Commitments are imposed by the District's Board to reflect future spending plans or concerns about the availability of future resources. Commitments may be modified, amended or removed by Board action. Commitments for future capital assets replacement is the portion of net position to be used for new equipment and for emergency and scheduled replacement of capital facilities paid from connection fees. Commitments for operations has been set-aside to reserve approximately five months of operating expenses.

The Board committed the following unrestricted net position as of June 30, 2013:

Commitment	Balance
Future capital assets replacement	\$ 7,875,330
Invested in South Bayside System Authority	17,856,710
Operations	8,809,213
Total Unrestricted Net Position	\$ 34,541,253

**NOTE 9 - DEFERRED COMPENSATION PLAN**

District employees may defer a portion of their compensation under a District-sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this Plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency defined by the Plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefits of plan participants and their beneficiaries. Since the assets held under these plans are not the District's property and are not subject to District control, they are not included in these financial statements.

**NOTE 10 - RISK MANAGEMENT**

The District joined together with other sanitary districts in the State to form California Sanitation Risk Management Authority (CSRMA), a public entity risk pool currently operating as a common risk management and insurance program. The District is insured for the costs of claims through CSRMA and commercial insurance carriers for the following:

Type of Coverage	Limits	Deductibles
General Liability	15,750,000	25,000
Employment Practices Liability	15,750,000	25,000
Worker's Compensation	750,000	None
Excess Worker's Compensation Liability	Statutory Limits	None
Mobile Equipment	767,005	2,000
Special Form Property	1,003,385	5,000
Public Official Bond	100,000	None

**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2013

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The District has not incurred a claim that has exceeded its insurance coverage limits in any of the last three years.

Audited condensed financial information for CSRMA is presented below for the year ended June 30, 2012 (most recent information available):

	June 30, 2012
Total Assets	\$ 30,047,691
Total Liabilities	17,709,465
Total Equity	12,338,226
Total Revenues	8,879,110
Total Expenditures	12,460,997

**NOTE 11 - DEFINED BENEFIT PENSION PLAN**

*Plan Description*

Substantially all District employees are eligible to participate in pension plans offered by California Public Employees Retirement Systems (CalPERS) a cost sharing multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participant member employers. CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The District's employees participate in the Miscellaneous (all. other) Employee Plan. Benefit provisions under the Plan are established by State statute and District resolution. Benefits are based on years of credited service, equal to one year of full-time employment. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

*Funding Policy*

For the Fiscal Year 2013, the employer's required contribution rate for CalPERS was 13.307% of covered payroll. This rate was established by CalPERS to fund contracted benefits using the actuarial methods and assumptions adopted by the CalPERS Board of Administration. CalPERS may amend employee and employer contribution requirements. Additionally, the District makes a contribution toward the employee's portion of the CalPERS local miscellaneous plan as specified by the existing labor agreements with its bargaining units. Generally, the District contributes on behalf of its employees 6% of their salary towards the employee's required CalPERS contribution. During the fiscal year, the employees contributed 3.12% of their salary toward the combined required contribution of 21.307%, leaving the District's total contribution at 18.187% for 2012-13.

*Annual Pension Cost*

For the fiscal year ended June 30, 2013, the District's annual pension cost of \$486,820 equaled or exceeded the annual required contribution. The required contribution was determined as part of the June 30, 2010, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.75% investment rate of return (net of administrative expenses); (b) projected annual salary increases from 3.55% to 14.45% that vary by age, duration of service, and

**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2013

type of employment; (c) 3.0% inflation; (d) 3.25% payroll growth; and (e) individual salary growth based on a merit scale varying by duration of employment coupled with an assumed annual inflation of 3.00% and an annual production growth of 0.25%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a period three years.

*Three Year Trend Information (Employer Portion)*

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/11	\$ 381,680	100%	0
6/30/12	452,679	100%	0
6/30/13	486,820	100%	0

*Required Supplementary Information*

Valuation Date Ending June 30,	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2006	913	788	125	86.3%	200	62.5%
2007	1,315	1,149	166	87.4%	289	57.5%
2008	1,538	1,338	200	87.0%	333	60.1%
2009	1,834	1,493	341	81.4%	355	96.0%
2010	1,973	1,603	369	81.3%	353	104.8%

*\*\* In Millions \*\**

**NOTE 12 - OTHER POST EMPLOYMENT BENEFITS**

*Plan Description*

The District's single employer defined benefit postemployment healthcare plan provides health care benefits to eligible retirees in accordance with a Board resolution. Eligible employees retiring at or after age 50 with a minimum of 5 years of service may opt to continue health care coverage, with a portion of the monthly premium paid for by the District. Coverage discontinues either at the request of the retiree or by defaulting on the employee portion of the premium.

The District contracts with CalPERS to administer its retiree health benefit plan. A menu of benefit provisions as well as other requirements is established by State statute within the Public Employees' Retirement Law. The District chooses among the menu of benefit provisions and adopts certain benefit provisions by Board resolution.

**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2013

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*Funding Policy*

There is no statutory requirement for the District to prefund its OPEB obligation. The District has currently chosen to pay plan benefits on a pay-as-you-go basis. There are no employee contributions. For fiscal year ending June 30, 2013, the District paid approximately \$4,063 for retiree healthcare plan benefits. The Annual Required Contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC is equal to the normal cost plus a 30-year amortization of the unfunded actuarial liability.

*Annual OPEB Cost and Net OPEB Obligation*

The following table, based on the District's actuarial valuation dated March 1, 2013, shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's Net OPEB obligation:

Annual required contribution	\$ 24,200
Interest on net OPEB obligation	1,868
Adjustment to annual required contribution	(1,791)
Annual OPEB cost (expense)	24,277
Contributions made	(4,063)
Increase in net OPEB obligation	20,214
Net OPEB obligation - beginning of year	37,357
Net OPEB obligation - end of year	\$ 57,571

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending June 30, 2013, are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
June 30, 2011	\$17,000	23.88%	\$25,561
June 30, 2012	17,500	32.59%	37,357
June 30, 2013	24,277	16.74%	57,571

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2013

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*Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are consistent with the long-term perspective of the calculations.

In the March 1, 2013 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 5% investment rate of return, which is the expected long-term investment return on District investments, a 3% general inflation assumption, and an annual aggregate payroll increase rate of 3%.

*Required Supplementary Information*

Schedule of Funding Progress - Postemployment Healthcare Plan						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c))
3/1/2010	\$ -	\$ 137,900	\$ 137,900	0.00%	\$ 1,952,200	7.06%
3/1/2013	\$ -	\$ 186,100	\$ 186,100	0.00%	\$ 2,391,800	7.78%

**NOTE 13 - COMMITMENTS AND CONTINGENCIES**

The District is at risk to be a defendant in certain lawsuits which arise in the normal course of business. District management is of the opinion that the ultimate outcome of such matters will not have a significant effect on the financial position of the District.

**SUPPLEMENTARY INFORMATION**



**West Bay Sanitary District**  
**Budgetary Comparison Schedule**  
For the Fiscal Year Ended June 30, 2013

	Budget Amounts	Actual (Budget Basis)	Variance
<b>Operating Revenues:</b>			
Service charges	\$ 17,486,926	\$ 17,790,248	\$ 303,322
Flow equalization uses	43,560	47,916	4,356
Permit and inspection fees and other services	50,000	66,494	16,494
Other operating revenues	73,000	85,123	12,123
Total operating revenues	<u>17,653,486</u>	<u>17,989,781</u>	<u>336,295</u>
<b>Operating Expenses:</b>			
Sewage treatment	7,466,306	6,679,537	786,769
Sewage collection and general administration:			
Salaries and benefits	3,646,810	3,714,067	(67,257)
Materials and supplies	327,577	397,048	(69,471)
Insurance	86,600	67,081	19,519
Contract services	323,000	291,449	31,551
Professional services	386,350	247,960	138,390
Repairs and maintenance	253,525	220,902	32,623
Utilities	132,500	121,299	11,201
Other operating expenses	441,600	247,714	193,886
Total sewage collection and general administration	<u>5,597,962</u>	<u>5,307,520</u>	<u>290,442</u>
Depreciation	1,025,000	1,132,035	(107,035)
Total operating expenses	<u>14,089,268</u>	<u>13,119,092</u>	<u>970,176</u>
Operating Income (Loss)	<u>3,564,218</u>	<u>4,870,689</u>	<u>1,306,471</u>
<b>Nonoperating Revenues (Expenses):</b>			
Investment income	100,000	224,231	124,231
Increase (decrease) of equity in South Bayside Systems Authority	-	(589,816)	(589,816)
Other nonoperating revenues	1,000	12,835	11,835
Total nonoperating revenues (expenses)	<u>101,000</u>	<u>(352,750)</u>	<u>(453,750)</u>
Income before contributions	3,665,218	4,517,939	852,721
<b>Capital Contributions</b>	<u>50,000</u>	<u>241,096</u>	<u>191,096</u>
Change in Net Position	3,715,218	4,759,035	1,043,817
Beginning Net Position	67,848,538	67,848,538	-
Ending Net Position	<u>\$ 71,563,756</u>	<u>\$ 72,607,573</u>	<u>\$ 1,043,817</u>

**INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
West Bay Sanitary District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the West Bay Sanitary District (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 12, 2013.

**Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not



express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

September 12, 2013  
San Jose, California