



C i t y o f S u i s u n C i t y **C a l i f o r n i a**

Financial Section

The Financial Section contains the:

1. Independent Auditor's Report
2. Management's Discussion and Analysis
3. Government-Wide Financial Statements



December 7, 2005

To the City Council
City of Suisun City, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of the government activities, each major fund and the aggregate remaining fund information of the City of Suisun City (the "City"), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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 for 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2005 and the respective changes in financial position thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Governmental Auditing Standards, we have also issued reports dated December 7, 2005 on our consideration of the City of Suisun City's internal control structure and on its compliance with laws and regulations and should be read in conjunction with this report in considering results of our audit.

Management's Discussion and Analysis and the PERS schedule of Funding Progress are not a required part of the basic financial statements but are supplemental information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplementary information section listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in relation to the basic financial statements taken as a whole.

The introductory section and statistical section listed in the Table of Contents 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 on this information.

Odenberg, Ullakko, Muranishi, LLP

City of Suisun City
Management's Discussion and Analysis

This is management's discussion and analysis of the City of Suisun City's financial activities and performance for the fiscal year ended June 30, 2005. Please read this in conjunction with the transmittal letter, that can be found in the introductory section at the front of this report, and with the City's financial statements, which follow this discussion and analysis.

FINANCIAL HIGHLIGHTS

Government-Wide Financial Statements

- The Government-Wide Statement of Net Assets appearing as the first statement of the Basic Financial Statements and summarized in this Management Discussion and Analysis, show the City's assets to be \$139.2 million, liabilities of \$90.8 million and net assets of \$48 million.
- Net assets, as measured in the government-wide financial statements, increased \$6.4 million. This increase is primarily attributable to total revenue of \$33.8 million, less expenditures of \$27.4 million.
- The City's long-term debt decreased by \$2,531,346. The decrease was primarily due to principal payments of about \$3.2 million and the recording of accreted interest of \$0.5 million in the 1998 Capital Appreciation Bond. Please refer Note 7, page 51 for details.
- The Government-wide statement of activities and changes in net assets is summarized on page 22-23. This statement shows an increase in net assets of \$6,424,727 for the fiscal year ended June 30, 2005, as compared to an increase of \$ 2,711,150 for the fiscal year ended June 30, 2004.

Government Funds Financial Statements

- As of the close of fiscal year 2005, the City's governmental funds reported a combined ending fund balance of \$35.4 million, an increase of \$4.8 million for the year ending June 30, 2005. The detailed components of Revenues and Expenditures can be found in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances on pages 30-31. The increase consists mainly of \$1.1 million increase in General Fund; \$1.9 million in the Housing Set-Aside; and \$1 million increase in the Redevelopment Debt Service Fund due to property tax collection.
- The core operations of the City are accounted for in the General Fund, and the General Fund balance is a key measure of the financial health of the City. As of June 30, 2005, the General Fund, fund balance was \$3,493,160 a net increase of \$1,146,600 over the balance at June 30, 2004. As of June 30, 2005, the unreserved fund balance for the General Fund was \$3,491,385 of which \$2,723,421 was designated for stabilization fund and for compensated absences.
- The \$7.5 million fund balance in Redevelopment Agency Debt Service Funds includes \$4.6 million in reserves with the trustee for the Tax Allocation Bonds.

City of Suisun City
Management's Discussion and Analysis

- The \$6 million fund balance in 1998/2003 Tax Allocation bonds is designated for redevelopment projects.
- The \$8.6 million fund balance in Redevelopment Housing Set Aside Special Revenue being held for low and moderate-income housing projects Redevelopment Agency, \$1.9 million was reserved for long-term receivable, only \$6.7 million is available for projects.
- The \$9.5 million fund balance from Non-Major Funds consist mainly of \$6.9 million in Special Revenue Funds, \$2.1 million in Capital Projects Funds and \$0.5 million in other Debt Service Funds to which details can be found on page 79.

City's Highlights

- **LIGHTHOUSE CONSTRUCTION.** Suisun Harbor Lighthouse will begin construction this spring of 2006, an instant landmark that will capture the City's maritime history and provide a focal point for the Main Street West development project. The project is expected to cost \$750,000, most of which is being fronted by the Redevelopment Agency of Suisun City, but will recovered from development activity.
- **LAWLER RANCH PARK SITE.** The City has completed the construction documents (plans, specifications and cost estimate) for the Lawler Ranch Park. The park site is located on a 10-acre parcel at the southwest corner of Lawler Ranch Parkway and Mayfield Way in the Lawler Ranch Subdivision. Construction will begin in the spring of 2006 and will be completed in the fall of 2006. This park project will provide a large area of turf, automatic irrigation, landscaping, entry sign, fences, replacement of damaged curbs and gutters, concrete walkways, curb ramps, storm drainage, lighting fixtures, site furnishings and children's play areas. The construction cost will be approximately \$1.3 million, funded by impact fees.
- **AFFORDABLE MULTI-FAMILY HOUSING PROJECT.** The Redevelopment Agency authorized the Execution of an Agreement to Negotiate exclusively with Bridge Housing for the development of multi-family housing project on an Agency-owned property on Railroad Avenue near Sunset.
- **CENTRAL COUNTY BIKEWAY GAP CLOSURE.** The City has secured more than \$1.1 million dollars in grant funding for the Central County Bikeway Gap Closure. This project will provide a segregated, 10-foot wide paved multi-use recreational bike and pedestrian trail along the north side of State Route 12 from Marina Boulevard to the Amtrak Train Station/City modal terminal. This bike and pedestrian trail segment is an extension of the existing Central County Bikeway, and will the final gap in the Central County Bikeway.
- **DOWNTOWN BLIGHT REMOVAL.** The Redevelopment Agency is now looking at abandoned and dangerous building structures in downtown Suisun. The Agency will help improve these buildings to increase the volume of business in downtown Suisun.
- **EMPEROR DRIVE OVERLAY.** This project provided pavement repairs; replacement of curb ramps with ADA-compliant curb ramps, roadway striping and overlay of roadway along this arterial (Emperor Drive). The total cost of the construction was about \$200,000. This project was funded through TDA Article 8 grant allocations.

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- **WHISPERING BAY LANE STREET AND STORM DRAIN IMPROVEMENTS.** This project addressed standing water issues at existing low spots along the gutter pans on both sides of Whispering Bay Lane just north of Marina Circle by installing drainage pipes, drain inlets and manholes. The construction cost was approximately \$200,000, funded in part by TDA Article 8 funding in the amount of \$147,000 and Storm Drain Funds.
- **RAILROAD AVENUE WIDENING.** This project will complete a portion of the City's Transportation Element by relocation and widening Railroad Avenue for safety and public convenience. This will also relocate the existing Old Railroad Ave intersection with Sunset to the New Railroad Ave and Sunset signalized intersection.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

The government-wide financial statements consist of a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. They provide information about the activities of the City as a whole and present a longer-term view of the City's finances.

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

The Statement of Activities and Changes in Net Assets presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses may be reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues related to uncollected taxes and interest expense incurred but not paid.

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, like other governmental entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds of governmental entities can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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Management's Discussion and Analysis

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on (1) short-term inflows and outflows of spendable resources and (2) the remaining year-end balances available for spending. This information may be useful in evaluating a government's near-term financing requirements.

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

The City maintains 116 individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the following funds that are considered to be major funds.

Governmental Funds
Revenues, Expenditures and Other Changes in Fund Balances
For the Fiscal Year Ended June 30, 2005

	General Fund	Other Major Funds	Other Governmental Funds	Total Governmental Funds
Revenues	\$ 8,033,865	\$ 20,785,105	\$ 5,504,840	\$ 34,323,810
Current expenditures	6,913,532	7,573,273	3,776,294	18,263,099
Capital outlay	-	5,082,460	212,088	5,294,548
Debt service	-	5,454,470	946,304	6,400,774
	<u>6,913,532</u>	<u>18,110,203</u>	<u>4,934,686</u>	<u>29,958,421</u>
Net transfers including accretion of interest	26,266	(290,102)	702,160	438,324
Net change in fund balances	1,146,600	2,384,800	1,272,314	4,803,714
Fund balances, beginning of year	2,346,560	20,073,964	8,197,595	30,618,119
Fund balances, end of year	<u>\$ 3,493,160</u>	<u>\$ 22,458,764</u>	<u>\$ 9,469,909</u>	<u>\$ 35,421,832</u>

The focus of the City's government funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is

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Management's Discussion and Analysis

useful in assessing the City's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Please refer to page 3 for more detail discussion.

Proprietary funds

Proprietary funds have as their focus the determination of operating income or cost recovery. There are two types of proprietary funds: enterprise funds and internal service funds.

- Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City has no enterprise funds.
- Internal service funds are used to accumulate and allocate costs internally among the City's various funds and departments.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because those resources are not available to support the City's own programs. Accordingly, only assets and liabilities are reported for these funds. The major fiduciary fund maintained by the City is the Suisun-Solano Water Agency Fund. The net assets of this fund totaled \$12,551,790 as of June 30, 2005. Please refer to page 36 for details.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information other than this discussion and analysis concerning the City's budgetary comparison schedules and PERS schedule of funding progress.

Other supplementary information

Budgetary comparison schedule of all non-major funds.

Statistical Section

Presentations of financial information and non-financial information, and statistical tables for the last ten years are included in this section, as an aid to understanding and evaluating the overall operation and status of the City.

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Management's Discussion and Analysis

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Assets

Net assets are a measure of a government's financial position and, over time, a trend of increasing or decreasing net assets is an indicator of the financial health of the organization. The City of Suisun's net assets, exceeded liabilities by \$48,397,518. A schedule of net assets is presented in the following table.

Net Assets
June 30, 2005 and 2004

	Governmental Activities		Total Percentage Change
	2005	2004	
Current and other assets	\$41,226,162	36,742,940	12%
Capital Assets	97,954,725	97,876,764	0%
Total Assets	139,180,887	134,619,704	3%
Current liabilities	7,532,568	6,864,766	10%
Noncurrent liabilities	83,250,801	85,782,147	-3%
Total Liabilities	90,783,369	92,646,913	-2%
Net assets:			
Invested in capital assets, net of related debt	24,607,570	23,583,975	4%
Restricted	5,104,513	5,007,205	2%
Unrestricted	18,685,436	13,381,611	40%
Total net assets	48,397,518	\$41,972,791	15%

Net assets invested in capital assets (e.g., land, buildings, equipment and infrastructure) of \$24,607,570 represent the net book value of these assets less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt must be provided from other sources other than the related assets, because the capital assets themselves cannot be used to repay these debts.

Restricted net assets of \$5,104,513 represent resources that are subject to external restrictions on how they may be used. The \$18.6 million unrestricted net assets consist mainly of \$6 million for redevelopment projects, \$8.5 million for redevelopment housing set-aside and \$4.1 for all other funds to be used to finance the day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

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Management's Discussion and Analysis

Analysis of Changes in Net Assets

The City's net assets increased by \$6.4 million during the current fiscal year. This growth in the City's net assets is principally from the governmental activities. Information about changes in net assets is presented in the summary table below:

Activities and Changes in Net Assets
For the Fiscal Years Ended June 30, 2005 and 2004

	Governmental Activities		Total Percentage Change
	2005	2004	
Revenues:			
Program revenues:			
Charges for services	\$ 5,529,431	\$ 6,811,009	-18.82%
Operating grants & contributions	3,746,547	3,690,394	1.52%
Capital grants & contributions	4,434,073	3,330,218	33.15%
General revenues:			
Property Taxes	13,851,307	12,206,723	13.47%
Sales Tax	914,679	869,220	5.23%
Intergovernmental -unrestricted	2,181,199	1,229,820	77.36%
Intergovernmental -restricted	680,765	648,897	4.91%
Investment earnings	807,935	610,872	32.26%
Miscellaneous	1,638,781	2,031,135	-19.32%
Total revenues	33,784,717	31,428,288	7.50%
Program expenses:			
General government	4,354,512	4,036,626	7.88%
Public safety	4,685,740	4,325,490	8.33%
Public works	592,499	546,278	8.46%
Highways and streets	626,094	640,412	-2.24%
Building Services	267,083	254,554	4.92%
Culture & recreation	1,101,420	1,121,671	-1.81%
Community development	6,430,496	6,677,184	-3.69%
Interest on long-term debt	4,106,121	5,773,905	-28.88%
Depreciation - unallocated	5,196,026	5,347,123	-2.83%
Total program expenses	27,359,989	28,723,243	-4.75%
Increase/(decrease) in net assets before transfers	6,424,727	2,705,045	137.51%
Transfers	-	6,105	-100.00%
Change in net assets	6,424,727	2,711,150	136.97%
Net assets - beginning of year	41,972,791	39,199,859	7.07%
Prior period adjustment	-	61,782	-
Net assets - end of the year	\$ 48,397,518	\$ 41,972,791	15.31%

Note: For the purpose of comparison, some revenues and expenditures in 2004 were reclassified to conform to the 2005 table using the classification of typical California City Revenues Under GASB No.34.

City of Suisun City
Management's Discussion and Analysis

Change in net assets increased by \$3,713,577 was due to the following factors:

- Increase of revenue by \$2,356,429 primarily due to increase in property tax, capital grants and contributions, intergovernmental revenue and a significant decrease in charges for services primarily due to slow down in construction of residential homes that cause the building permits and all related revenue to decrease.
- Decrease of expenditure including transfers by \$1,357,149 was a net increase of all program expenditures as illustrated above.

ANALYSIS OF MAJOR GOVERNMENTAL FUNDS

General Fund

General fund revenues of \$8 million, an increase of \$1.4 million from previous fiscal year resulting from \$850,000 increase in intergovernmental revenue, \$455,625 of which was a one-time loan payback from the State, increase of \$250,000 in property tax and \$144,375 in other revenue sources. General fund expenditures of \$6.9 million, an increase of \$182,014 from previous fiscal year. The increase was attributed to Public Safety expenditure increase of \$181,014 compare to previous year.

Net transfers in were \$26,266 and consisted primarily of \$90,651 transfers in from tax increments for Culture and Recreation and transfers out of \$64,385 consisting primarily of Public Safety and Recreation.

The General Fund balance at fiscal year-end was \$3.4 million consisting of restricted \$1,775, designated \$2,723,421 and \$767,964 that were undesignated.

Local Transportation Fund

The Local Transportation Fund accounts for federal, state and local funds used for streets, pedestrian and bikeway improvements. Revenues including transfer in were \$4.6 million and expenditures of \$4.6 million were made for infrastructure.

Housing Authority Choice Vouchers

The Housing Authority Choice Voucher Fund accounts for the Section 8 Rental Assistance Voucher Program, which is a federally funded program providing rental assistance to low-income households residing in privately owned housing. Total revenue is \$3.2 million and expenditures is \$3.1 million. Fund balance as of June 30, 2005 consist of \$66,895 designated for office equipment, \$295,149 undesignated and \$5,233 reserved for long-term receivable.

RDA-Housing Set-Aside – Special Revenue Fund

This fund is used to account for the 20% tax increment revenue set-aside monies required by law to be used only for low and moderate-income housing. Expenditures of \$478,485 included \$12,896 for projects, \$220,016 for administration cost and \$245,573 of operation cost at Almond Garden apartment complex. The fund transfers out of \$626,611 was mainly for debt service.

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1998/2003 Tax Allocation Bonds – Capital Projects Fund

This fund is used to account for the bond proceeds used for capital projects. Expenditures of \$689,319 consist mainly of \$265,609 for Delta Cove, \$383,415 for Downtown Blight Removal Project, \$50,036 for Harbor Lighthouse and a prior year adjustment of \$9,741 for various projects. Fund balance as of June 30, 2005 available for redevelopment projects is \$5,980,219.

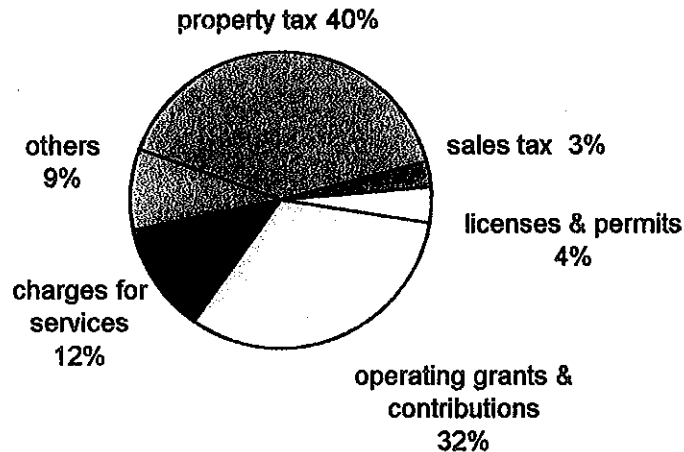
RDA Bonds Debt Service Fund

This is the principal debt service fund of the redevelopment agency, and is used to account primarily for all tax increment revenues and payment of debt service on long-term debt obligations. The bonds are secured by a pledge of all incremental tax revenues to be received by the Agency and funds held by the trustee. As of June 30, 2005, fund balance of \$7,470,419 consist of \$4,610,216 cash reserves with trustee and \$2,860,203 undesignated fund.

Analysis of All Governmental Funds

The following schedule presents a summary of general, special revenue, debt service and capital projects fund revenues for the fiscal year ended June 30, 2005 and the amount and percentage of increases and decreases in relation to prior year revenues.

Revenue by Source- Governmental Activities



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While about 40 percent of total revenues are derived from property taxes, 89 percent of these property tax revenues go to the Redevelopment Agency.

About 24 percent of the City's general governmental revenues are realized from other governmental agencies and capital contribution from developers, and in 2005 included:

State of California Motor Vehicle-in-lieu allocations	\$ 2,063,762
State of California Gas Tax	522,699
Federal HUD Section 8 Housing Assistance Program	2,865,546
Federal & State Public Safety Grants	392,671
Local Transportation –Capital Projects Grants	2,699,385
Metropolitan Transportation Commission	33,171
Developer Contribution – Capital Projects	1,761,517
All Other Intergovernmental Allocations	<u>703,834</u>
Total	\$11,042,585*

Revenues	2005	2004	% of Increase (Decrease)
Property Taxes	\$ 13,851,307	\$ 12,206,723	13.5%
Sales Tax	914,679	869,220	5.2%
License & Permits	1,363,143	1,229,456	10.9%
Fines & Forfeitures	180,576	130,013	38.9%
Investment Earnings	784,362	610,872	28.4%
Intergovernmental*	9,281,068	8,483,265	9.4%
Developer Contribution*	1,761,517	504,552	249.1%
Developer Fees	1,400,453	1,917,161	-27.0%
Charges for Services	1,574,921	1,312,337	20.0%
Special Assessments	1,010,339	931,278	8.5%
Reimbursements	590,008	1,202,276	-50.9%
Miscellaneous	1,611,438	1,898,196	-15.1%
Total	<u>\$ 34,323,810</u>	<u>\$ 31,295,349</u>	<u>9.7%</u>

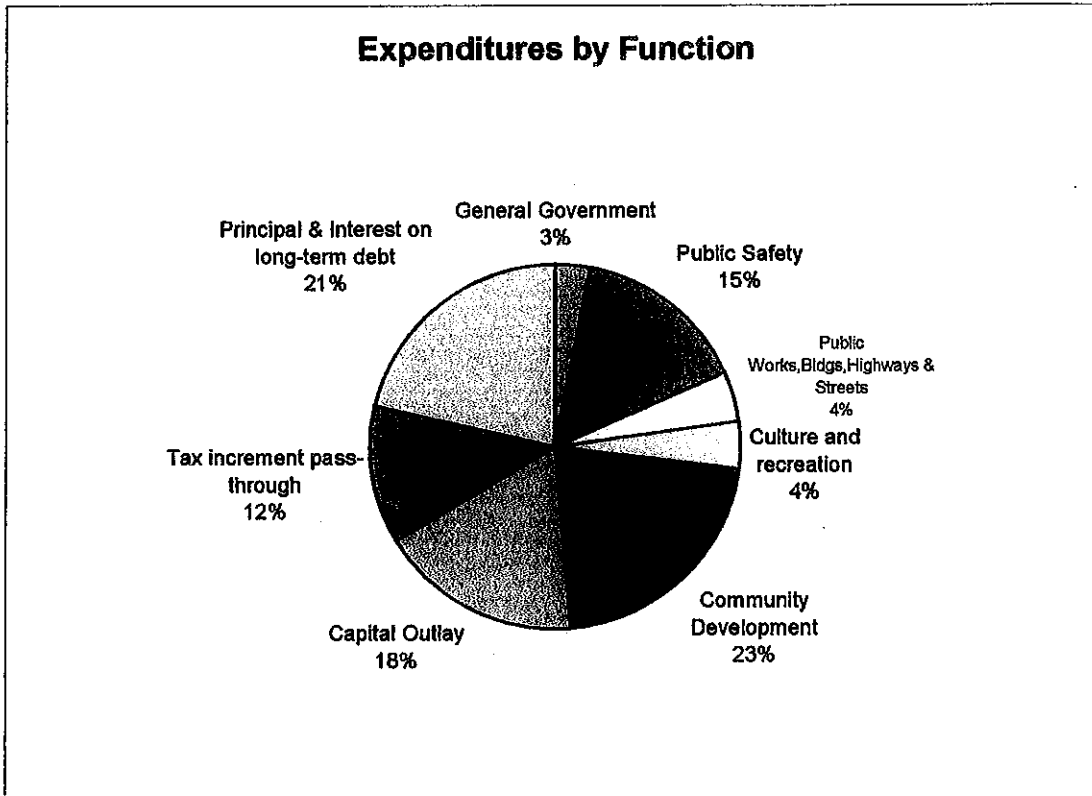
Developer fees decreased by 27% from last year and are due to the decline of new homes construction.

Developer contribution of \$1,761,517 was for Walters Road Widening construction.

Reimbursement revenues were significantly lower compared to the prior year due in part to sufficient revenue in other funds, reducing the need for reimbursements, and partly due to direct cost charging which eliminates the reimbursement process.

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The following schedule presents a summary of expenditures for the fiscal year ended June 30, 2005 and the amount of percentage of increases and decreases in relation to prior year expenditures.



Expenditures	2005	2004	% of Increase Decrease
General Government	\$ 886,094	\$ 930,961	-5%
Public Safety	4,637,904	4,325,490	7%
Public Works	545,517	438,698	24%
Highways & Streets	445,455	640,412	-30%
Building Services	289,169	254,554	14%
Culture & Recreation	1,236,637	1,321,671	-6%
Community Development	6,561,179	7,093,672	-8%
Capital Outlay	5,294,548	3,881,546	36%
Tax Increment Pass-through	3,661,145	2,905,665	26%
Principal on Long Term Debt	2,551,920	2,296,183	11%
Interest on Long Term Debt	3,848,854	5,773,905	-33%
Sub-total	29,958,421	29,862,757	0.3%
Bond Principal Pay-off	-	45,160,000	
Total Expenditures	\$ 29,958,421	\$ 75,022,757	

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Overall, governmental spending increased \$95,664 or about 1/3 of a percent compared to prior year. The table above shows the comparison. Some of the expenditures increases were also offset by revenue increases. There is no bond refunding for this fiscal year.

General Fund Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final Budget</u>
Beginning fund balances, July 1, 2004	\$ 2,346,560	\$ 2,346,560	\$ 2,346,560	\$ -
Resources:				
Revenues	8,516,010	8,516,010	8,033,865	(482,145)
Transfer in	268,070	268,070	90,651	(177,419)
Total Resources	<u>8,784,080</u>	<u>8,784,080</u>	<u>8,124,516</u>	<u>(659,564)</u>
Appropriations:				
Expenditures	7,288,700	7,288,700	6,913,532	375,168
Transfer out	120,640	120,640	64,385	56,255
Total Appropriations	<u>7,409,340</u>	<u>7,409,340</u>	<u>6,977,917</u>	<u>431,423</u>
Resources over (under) appropriations	<u>1,374,740</u>	<u>1,374,740</u>	<u>1,146,600</u>	<u>(228,140)</u>
Ending fund balances, June 30, 2005	<u>\$ 3,721,300</u>	<u>\$ 3,721,300</u>	<u>\$ 3,493,160</u>	<u>\$ (228,140)</u>

Budget Modifications

There was no need for budget modification in general fund.

Transfers

Transfers to the general Fund are generally made to match restricted revenue with related cost that has been recorded in the General Fund and vice versa.

Operating Variances

The City experienced negative results for the year in a comparison of actual revenue and expenditures to the final budget. The budget projected an increase in fund balance of \$1,374,740, and the actual results were a net increase of \$1,146,600 a negative variance of \$228,140. Despite the fact that the sale of the City's "twin sister property" which was part of the budget did not materialize this fiscal year, the impact was offset by the increase in VLF revenue receipts and property tax.

Departmental expenditures came in under budget by \$375,168. Transfers out were \$56,255 less than budget, mostly attributable to lower than anticipated transfers to the special revenue funds. Most departments came in under budget, however Public Safety-Fire exceeded the budget by about \$27,000 and the City Manager's department budget has a

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negative variance \$27,164 and is due to the high cost of temporary professional consultant hired to temporary fill the vacant positions in the management level.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's net capital assets for its governmental funds as of June 30, 2005 amount to \$97.9 million, net of accumulated depreciation of \$5.1 million. This investment in capital assets includes land and improvements, buildings and improvements, machinery and equipment, construction in progress, current year infrastructure additions and prior year infrastructure outlays for the City's Pavement Sub-System.

Additional information on the City's capital assets can be found in Note 6, page 49-50, of the accompanying basic financial statements.

Debt Administration

At the end of the current fiscal year, the City had \$85.4 million in debt outstanding compared to \$87.3 million last year, a 3% decrease. The decrease is primarily due principal payments.

At June 30, 2005, the City had total long-term debts and obligations as summarized below.

Tax Allocation Bonds	\$63,908,237	75%
Redevelopment Loans	10,250,809	12%
Redevelopments Notes	1,226,851	1%
General Obligation Bonds	3,155,000	4%
Certificates of Participation	2,310,000	3%
Capital Leases	2,214,938	3%
North Bay Aqueduct Agreement	<u>2,338,270</u>	3%
Sub-total	85,404,105	100%
Compensated Absences	420,976	
Victorian Harbor Limited Obligation	<u>545,000</u>	
Total Outstanding Debt	<u>\$ 86,370,081</u>	

The City has met all required debt service payments and is maintaining required reserve funds with bond trustees. The \$63.9 million in tax allocation bonds and \$11.4 million in redevelopment loans and notes are repayable from tax increment revenues received by the City's Redevelopment Agency. The \$3.2 million in general obligation bonds are repayable from a voter-approved property tax, and the remaining \$7.8 million City of Suisun City obligations are repayable from special assessments, lease revenues and general fund revenues.

Additional information on the City's long-term debt obligations can be found in Note 7, page 51, of the accompanying basic financial statements.

City of Suisun City
Management's Discussion and Analysis

ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET

The City, while financially stable, has a number of issues to address in the future. These are dependent, in large part, upon how the economy fares over the next few years. Among the issues are:

- Funding the rising cost of employment benefits such as retirement costs and medical benefits for current employees, while recognizing the need to remain competitive in the market place in order to recruit and retain a strong workforce.
- Covering the significant increase in workers compensation and claims liability.
- Maintaining community services to Suisun City residents such as Police, Fire, Planning and Recreation considering limited General Fund revenues. The City has more than adequate reserves to maintain current services in the short run, however, it has an imbalance between ongoing general fund revenue and ongoing expenditures, which will need to be addressed unless new funding sources can be identified.

Recognizing these challenges, a number of efforts have been completed or are underway to address the longer-term General Fund imbalance:

- Adoption, by City Council, of a policy supporting the establishment of Community Facilities Districts (CFD) for new development to ensure that such development pays its fair share of General Fund supported services such as police, fire, parks, landscape maintenance and the like; this policy went into effect in the fall of 2005.
- A review and update of development impact fees and user fees is underway, as well as a review of options to reduce retirement rates by buying-down the City's unfunded liability.
- Retention of a Master Developer to develop 13 Agency-owned parcels to bring a mix of retail, hotel, entertainment, office and housing uses to the downtown; the entitlement process is underway with ground-breaking anticipated for summer 2006 on the first phase of the project, which includes 64,000 square feet of commercial and office uses.
- Facilitation of a major annexation west of town that will provide for up to 750,000 square feet of commercial space and a strong compliment of residential units; the annexation application is anticipated to be through LAFCO by the fall of 2006.
- Retention of an economic consultant to assess the revenue-generating potential of commercially zoned properties within the city-limits to assist in both marketing efforts to the development community and the preparation of a longer-term financial plan for the City; this analysis is anticipated to be completed in the spring of 2006.
- Retention of a consultant to complete a full classification and compensation study in the spring of 2006 in order to begin to address issues regarding recruitment and retention of employees; while it is not anticipated that the study findings will be able to be implemented immediately, the analysis will provide the City with a factual basis of where it stands and what needs to be accomplished in the short and long term in order to maintain a skilled workforce.

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In addition, the City just closed the sale of its roughly 170 acre Twin Sisters property for nearly \$2.4 million, which will be paid to the City over five years; this one-time money will help cover General Fund imbalance until new sales tax generating properties come on-line.

Outside the General Fund, as of June 30, 2005, the City has two funds with a deficit fund balance. The first fund is the Victorian Harbor Maintenance Assessment District and is intended to be a self-supporting entity, however the district was established before Proposition 218 without an inflation escalator. Some of the zones within the district have been balloted for increases, but the commercial zone where most of the costs are incurred has not. The City plans to ballot for an increase to cover this deficit fund balance.

The second is the YMCA Construction Fund. This fund was set up to remodel and expand an existing City building in order to lease it to YMCA and provide recreational programs. Currently, the YMCA is paying a lease amount sufficient to cover the debt service on the facility. Once the principal is paid off, the building will be leased and the negative fund balance will be covered.

The Fiscal year 2005-2006 Budget includes a number of changes designed to meet the on-going fiscal challenges from economic conditions as highlighted above. The economy has improved over the past year resulting in much better than anticipated revenues for 2004-2005, and an improved revenue outlook for 2005-2006. The City is anticipating greater revenues in the years ahead as it plans for a future annexation of the Gentry property west of the current City limits and major development activity downtown.

The budget for FY 2005-2006 incorporates multiple transportation projects and some capital projects for the Redevelopment Agency. The council approved combined expenditures of \$19 million in all City funds and it includes over \$5 million in City capital projects. In addition, the Redevelopment Agency will earmark \$2 million in Housing Projects.

The General Fund operational expenditures budget is \$8.0 million for fiscal year 2005-2006, an increase of \$885,100, or 12% over fiscal year 2004-2005's budget. This budget does not include any cost of living adjustments (COLA) for employees, but does include a benefit enhancement for medical costs of approximately \$154,060. The Public Employees Retirement System (PERS) benefit costs are increasing by \$129,540 due to PERS increases to improve the City's unfunded liability balance.

The remainder of the General Fund Operational expenditures increase is due to indirect pass through for Public Works Service Fees, expansion of a part-time Computer Technician to full-time status, and an increase in temporary employees needed to staff increased Recreation Programs and to provide assistance to the Deputy City Clerk.

The Redevelopment Agency's tax increments revenue is budgeted at \$12.8 million for fiscal year 2005-2006. Of that amount, 20% is transferred to Housing Set-Aside fund and another 30.2% is passed through to other agencies. Also, this is the last year of the State's drain for Educational Relief Act Funds III (ERAF).

City of Suisun City
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REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, creditors and government regulators with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Below is the contact address for questions about this report or requests for additional financial information.

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