



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
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November 28, 2006

To the City Council
City of Suisun City, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying 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, 2006, 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal 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 November 28, 2006 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 budgetary comparisons listed in the table of contents 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 & Co 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, 2006. Please read this in conjunction with the transmittal letter that can be found in the introductory section at the front of this report, as well as with the City's financial statements that 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, shows the City's assets to be \$144.8 million, liabilities of \$91.1 million, and net assets of \$53.7 million.
- Net assets, as measured in the government-wide financial statements, increased \$5.3 million. This increase is primarily attributable to total revenues of \$38.1 million, less total expenditures of \$32.8 million.
- The City's long-term debt decreased by \$2,405,566. The decrease was primarily due to principal payments of about \$3.2 million and the recording of accreted interest of \$0.6 million in the 1998 Capital Appreciation Bond. Please refer Note 7 on page 52 for details.
- The Government-wide statement of activities and changes in net assets is summarized on pages 22-23. This statement shows an increase in net assets of \$5,328,022 for the fiscal year ended June 30, 2006, as compared to an increase of \$ 6,424,727 for the fiscal year ended June 30, 2005.

Government Funds Financial Statements

- As of the close of fiscal year 2006, the City's governmental funds reported a combined ending fund balance of \$41 million, an increase of \$5.5 million for the year ending June 30, 2006. 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 \$0.7 million increase in General Fund; \$2.8 million in the Housing Set-Aside; and \$1.5 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, 2006, the General Fund, fund balance was \$4,234,236 a net increase of \$741,076 over the balance at June 30, 2005. As of June 30, 2006, the unreserved fund balance for the General Fund was \$4,232,462 of which \$439,751 was designated for compensated absences.
- The \$8.9 million fund balance in Redevelopment Agency Debt Service Funds includes \$5.7 million in reserves with the trustee for the Tax Allocation Bonds.

City of Suisun City
Management's Discussion and Analysis

- The \$5.3 million fund balance in 1998/2003 Tax Allocation bonds is designated for redevelopment projects.
- The \$11.4 million fund balance in Redevelopment Housing Set-Aside Special Revenue is being held for low- and moderate-income Redevelopment Agency housing projects, \$2.1 million was reserved for long-term receivable, only \$9.3 million is available for projects.
- The \$11.2 million fund balance from Non-Major Funds consists mainly of \$8.6 million in Special Revenue Funds, \$2.1 million in Capital Projects Funds and \$0.5 million in other Debt Service Funds for which details may be found on page 79.

FY 2005-06 Highlights

- **LIGHTHOUSE CONSTRUCTION** - The Suisun Harbor Lighthouse project was completed in June 2006 and dedicated on July 4, 2006; an instant landmark that captures the City's maritime history and provides a focal point for the Main Street West development project. The project's total cost of \$755,300 has been primarily advanced by the Agency, but will be totally reimbursed by current and future development in the Old Town area.
- **LAWLER RANCH PARK DEVELOPMENT** - The construction of 10-acre park site, located on the southwest corner of Lawler Ranch Parkway and Mayfield Way, began soon after the end of the 2005 rain season and is scheduled for completion in October 2006. This recreational community asset will provide the following improvements: a large turf area, landscaping, automatic irrigation system, entry sign, perimeter chain link fencing, ADA-compliant curb ramps, decorative concrete walkways, storm drainage, lighting fixtures, site furnishings, and children's play areas. Construction costs of approximately \$1.3 million were funded through park impact fees.
- **AFFORDABLE MULTI-FAMILY HOUSING PROJECT** - The Redevelopment Agency authorized an Exclusive Negotiations Agreement with Bridge Housing for the development of an affordable multi-family housing project on an Agency-owned property on Railroad Avenue west of Sunset Avenue. The project will consist of 94 units to be rented to low-income households. The Redevelopment Agency will provide a \$7.95 million loan from Housing Set-Aside funds to bring the project to fruition. The project is expected to be completed by end of 2008.
- **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 multi-modal terminal. This trail segment is an extension of the existing Central County Bikeway, and will complete the final gap in the Central County Bikeway. Agreements with the grantors and all other related paperwork are expected to be finalized by the end of the calendar year.

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- **MAIN STREET WEST PROJECT** - The Redevelopment Agency selected Main Street West Partners for the sale and development of approximately 15 acres of Agency-owned land throughout the downtown waterfront area in the spring of 2006. A Disposition and Development Agreement was ultimately entered into during the summer of 2006. New mixed-use retail office and residential development will be the end result of this project, Construction commenced in September 2006.
- **OLD CRYSTAL MIDDLE SCHOOL REDEVELOPMENT PROJECT** - The Redevelopment Agency purchased a 7.44 acre site from the school district for \$2.5 million in the fall of 2006. A Disposition and Development Agreement has been executed between the Agency and Main Street West Partners, LLC for the development of a new single-family residential neighborhood on the site, which will at a minimum, reimburse to the Agency the purchase price of the property. This project is a key component to the financial strategy of the Main Street West project.
- **NEW LIBRARY** - In cooperation with Solano County, Fairfield Suisun Unified School District, and the Agency, a new library for Suisun City will be constructed. The Redevelopment Agency is providing \$700,000 in gap financing that will be repaid through County Development Impact Fees.
- **SUNSET AVENUE AND RAILROAD AVENUE IMPROVEMENTS** - This project will complete a portion of the City's Transportation Element by installing a traffic signal at the intersection of Sunset and Railroad Avenue for safety and public convenience. Improvements will also include relocating existing overhead utility lines under ground, reconstructing the pavement and medians on Sunset Avenue, and installing new sidewalks on both sides of Sunset Avenue to close the gap sidewalk segments. The design phase, as well as coordination with Caltrans, the Union Pacific Railroad and the City of Fairfield, is underway. The design phase is scheduled for completion the summer of 2007, and construction will begin shortly thereafter.
- **McCOY CREEK TRAIL PHASE 1** - This project will provide a 10-foot wide paved multi-use recreational bike and pedestrian trail along the west side of the McCoy Creek from the existing Central County Bikeway to Pintail Drive. The BTA and TFCA grant programs will fund this first phase of the overall McCoy Creek Trail.
- **2006 STREET SLURRY SEAL PROJECT** - As part of City's Pavement Management System (PMS) Program, a total of 32 City streets, covering a total area of approximately 115,000 square yards, will be slurry sealed. This project will require coordination with the residents, business owners, School District, local transit operators, emergency service providers, the Solano Garbage Company and those that are expected to be impacted by the slurry seal activities.

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.

City of Suisun City
Management's Discussion and Analysis

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.

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 a total of 70 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. Some funds were combined for external financial reporting purpose only.

City of Suisun City
Management's Discussion and Analysis

Governmental Funds
Revenues, Expenditures and Other Changes in Fund Balances
For the Fiscal Year Ended June 30, 2006

	General Fund	Other Major Funds	Other Governmental Funds	Total Governmental Funds
Revenues	\$ 8,581,552	\$ 20,064,033	\$ 5,597,558	\$ 34,243,143
Current expenditures	8,197,591	8,969,520	5,293,428	22,460,539
Capital outlay	-	-	1,087,217	1,087,217
Debt service	-	5,008,099	947,881	5,955,980
	<u>8,197,591</u>	<u>13,977,619</u>	<u>7,328,526</u>	<u>29,503,736</u>
Net transfers including sale of capital assets	357,114	(1,659,589)	2,128,450	825,975
Net change in fund balances	741,076	4,426,825	397,478	5,565,379
Fund balances, beginning of year	<u>3,493,160</u>	<u>25,769,359</u>	<u>6,159,316</u>	<u>35,421,835</u>
Fund balances, end of year	<u><u>\$ 4,234,236</u></u>	<u><u>\$ 30,196,184</u></u>	<u><u>\$ 6,556,794</u></u>	<u><u>\$ 40,987,213</u></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 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 \$13,065,205 as of June 30, 2006. Please refer to page 36 for details.

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Management's Discussion and Analysis

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 such as this discussion and analysis and the City's budgetary comparison schedules for major funds.

Other supplementary Information

This includes a 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. Per GASB Statement 44, a new set of financial trends information is provided under this section applicable for the last four years.

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 \$53,725,540. A schedule of net assets is presented in the following table.

City of Suisun City
Management's Discussion and Analysis

Net Assets
June 30, 2006 and 2005

	Governmental Activities		Total Percentage Change
	2006	2005	
Current and other assets	\$51,202,982	\$ 41,226,162	24%
Capital Assets	93,625,215	97,954,725	-4%
Total Assets	144,828,197	139,180,887	4%
Current liabilities	10,257,422	7,532,568	36%
Noncurrent liabilities	80,845,235	83,250,801	-3%
Total Liabilities	91,102,657	90,783,369	0%
Net assets:			
Invested in capital assets, net of related debt	24,987,074	24,607,570	2%
Restricted	6,213,218	5,104,513	22%
Unrestricted	22,525,248	18,685,436	21%
Total net assets	53,725,540	48,397,518	11%

Net assets invested in capital assets (e.g., land, buildings, equipment and infrastructure) of \$24,987,074 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 \$6,213,218 represent resources that are subject to external restrictions on how they may be used. The \$22.5 million unrestricted net assets consist mainly of \$5 million for redevelopment projects, \$9.3 million for redevelopment housing set-aside and \$8.2 for all other funds to be used to finance the day-today operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Analysis of Changes in Net Assets

The City's net assets increased by \$5.3 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:

City of Suisun City
Management's Discussion and Analysis

Activities and Changes in Net Assets
For the Fiscal Years Ended June 30, 2006 and 2005

	Governmental Activities		Total Percentage Change
	2006	2005	
Revenues:			
Program revenues:			
Charges for services	\$ 8,025,596	\$ 7,741,748	3.67%
Operating grants & contributions	4,471,342	4,427,312	0.99%
Capital grants & contributions	639,070	2,221,756	-71.24%
General revenues:			
Property Taxes	16,169,408	13,851,307	16.74%
Sales Tax	1,049,626	914,679	14.75%
Intergovernmental -unrestricted	2,133,868	2,181,199	-2.17%
Gain on sale of capital assets	2,022,353	-	0.00%
Investment earnings	1,274,550	807,935	57.75%
Miscellaneous	2,366,770	1,638,781	44.42%
Total revenues	38,152,583	33,784,717	12.93%
Program expenses:			
General government	5,692,605	4,354,512	30.73%
Public safety	5,251,632	4,685,740	12.08%
Public works	691,932	592,499	16.78%
Highways and streets	1,438,421	626,094	129.75%
Building Services	344,430	267,083	28.96%
Culture & recreation	2,011,975	1,101,420	82.67%
Community development	7,756,666	6,430,496	20.62%
Interest on long-term debt	4,042,990	4,106,121	-1.54%
Depreciation - unallocated	5,593,909	5,196,026	7.66%
Total program expenses	32,824,560	27,359,991	19.97%
Increase/(decrease) in net assets before transfers	5,328,023	6,424,727	-17.07%
Transfers	-	-	0.00%
Change in net assets	5,328,023	6,424,727	-17.07%
Net assets - beginning of year	48,397,518	41,972,791	15.31%
Prior period adjustment	-	-	-
Net assets - end of the year	\$ 53,725,540	\$ 48,397,518	11.01%

Note: For the purpose of comparison, some revenues and expenditures in 2005 were reclassified to conform to the 2006 table using the classification of typical California city revenues under GASB No.34.

Change in net assets decreased by \$1,096,704 was due to the following factors:

- Increase in revenues of \$4,367,866 primarily due to increase in property tax, gain on sale of capital assets, a significant increase in charges for services, sales tax revenue, and investment earnings.
- Increase in expenditures including transfers of \$5,464,569 was a net increase of all program expenditures as illustrated above. The increase was due to various factors such as the Lighthouse construction, the Lawler Ranch Park construction, higher

City of Suisun City
Management's Discussion and Analysis

pass through payments to various government agencies as a result of tax increment increase, and to various street rehabilitation projects.

ANALYSIS OF MAJOR GOVERNMENTAL FUNDS

General Fund

General Fund revenues of \$8.5 million were generated, which included an increase of \$0.5 million from previous fiscal year resulting from \$150,000 increase in property tax, \$135,000 from sales tax, \$100,000 from investment earnings and \$135,000 from reimbursements. General Fund expenditures of \$8.2 million were made, including an increase of \$1.3 million from previous fiscal year. The increase was attributed mainly to increase in general government expenditures of \$550,000, Public Safety expenditure increase of \$258,000 and an increase in Culture & Recreation of \$274,000.

Other financing sources include sale of the Twin Sister property and sale of Morgan Street lot parcel to Redevelopment Agency, totaling \$681,150. Only the down payment from the Twin Sister Property sale was recorded for government fund accounting purpose. A one-time transfer out of \$338,000 to Victorian Harbor Maintenance Assessment District Zone C to cover deficit mainly makes up the total transfer out of \$397,786.

The General Fund balance at fiscal year-end was \$4.2 million, consisting of restricted \$1,775, \$ 439,751 designated for compensated absences, and \$3.793 million that were undesignated.

Off-Site Street Improvement

The Off-Site Street Improvements (OSSIP) Fund is receives capital improvement fees generated by new development that are expended on street improvements citywide.

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 \$2.9million. The fund balance as of June 30, 2006 consisted of \$7,301 reserved for a long-term receivable, \$110,210 designated for development, and \$555,828 undesignated.

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 \$743,272 included \$153,794 for projects, \$219,101 for administration cost and \$370,377 of operation cost at Almond Garden apartment complex. The fund transfers out of \$765,221 were mainly for debt service.

1998/2003 Tax Allocation Bonds – Capital Projects Fund

This fund is used to account for the bond proceeds used for capital projects. Expenditures of \$908,660 consist mainly of \$705,264 for Harbor Lighthouse construction and \$203,396 for

City of Suisun City
Management's Discussion and Analysis

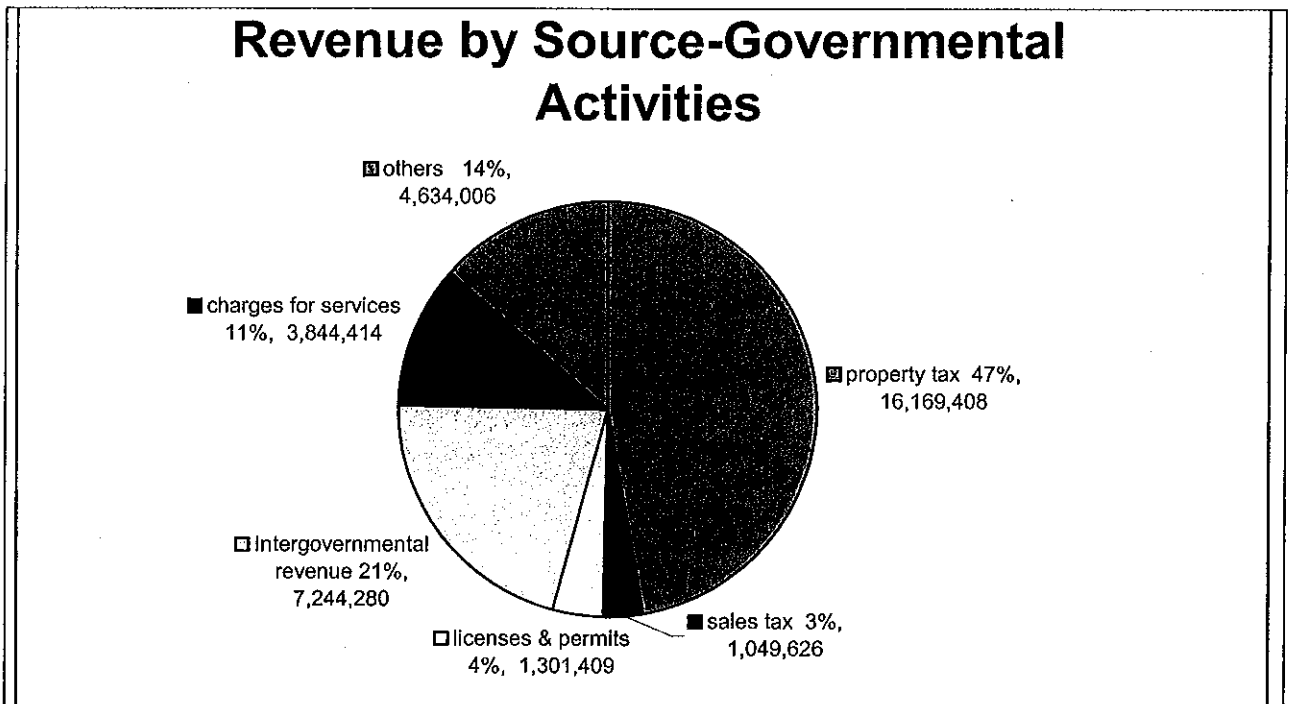
various Downtown Blight Removal and Main Street West projects. Fund balance as of June 30, 2006 available for redevelopment projects was \$5,331,024

RDA Bonds Debt Service Fund

This is the principal debt service fund of the redevelopment agency that 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, 2006, the fund balance was \$8,921,313, which consisted of \$5,724,430 cash reserves with trustee and \$3,196,883 in undesignated funds.

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, 2006 and the amount and percentage of increases and decreases in relation to prior year revenues.



While about 47 percent of total revenues are derived from property taxes, 89 percent of these property tax revenues go to the Redevelopment Agency.

About 21 percent of the City's general governmental revenues are realized from other governmental agencies and capital contribution from developers. In 2005-06 these included:

State of California Motor Vehicle-in-lieu allocations	\$ 2,056,406
State of California Gas Tax	517,019
Federal HUD Section 8 Housing Assistance Program	3,156,613

City of Suisun City
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Federal & State Public Safety Grants	280,356
Local Transportation –Capital Projects Grants	559,727
Developer Contribution – Capital Projects	401,428
All Other Intergovernmental Allocations	<u>272,731</u>
Total	<u>\$ 7,244,280</u>

Revenues	2006	2005	% of Increase (Decrease)
Property Taxes	\$ 16,169,408	\$ 13,851,307	16.7%
Sales Tax	1,049,626	914,679	14.8%
License & Permits	1,301,409	1,363,143	-4.5%
Fines & Forfeitures	214,948	180,576	19.0%
Investment Earnings	1,289,785	784,362	64.4%
Intergovernmental	7,244,280	9,281,068	-21.9%
Developer Fees	984,385	1,400,453	-29.7%
Charges for Services	1,673,418	1,574,921	6.3%
Special Assessments	1,074,125	1,010,339	6.3%
Reimbursements	881,923	590,008	49.5%
Miscellaneous	2,359,838	3,372,955	-30.0%
Total	<u>\$ 34,243,143</u>	<u>\$ 34,323,811</u>	<u>-0.2%</u>

Developer fees (impact fees) decreased by 29% from last year due to the decline of new homes construction. The Peterson Ranch development resumed construction of the 150 remaining residential homes on February 2006 and had pulled 74 building permits as of June 30, 2006

Completion of the Walters Road Widening project caused the significant decrease in the Intergovernmental revenue.

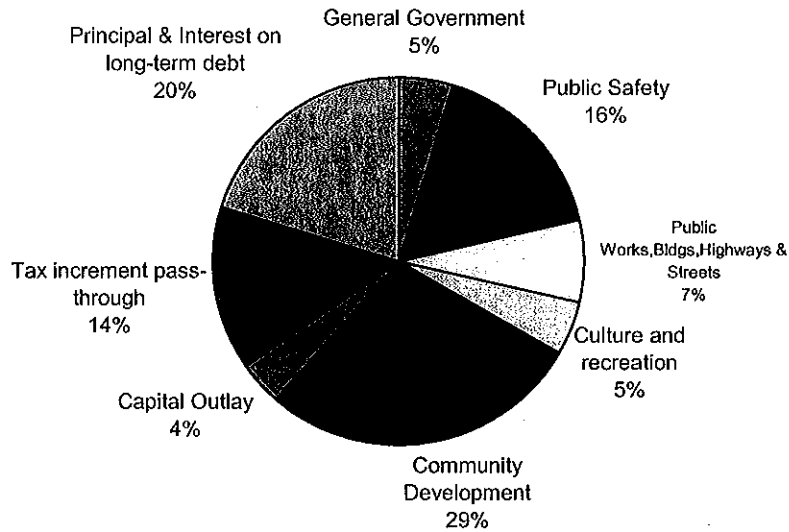
Reimbursement revenues were significantly higher compared to prior year due in part to reclassification of transfers in, between a blended component unit and the primary government. Transfers in from Redevelopment Agency, were now recorded as reimbursements.

Miscellaneous revenues were significantly low, due to decrease in Developer's contribution for Walters Road Widening project.

The following schedule presents a summary of expenditures for the fiscal year ended June 30, 2006 and the percentage increases and decreases in relation to prior year expenditures.

**City of Suisun City
Management's Discussion and Analysis**

Expenditures by Function



Expenditures	2006	2005	% of Increase Decrease
General Government	\$ 1,425,900	\$ 886,094	61%
Public Safety	4,861,839	4,637,904	5%
Public Works	503,832	545,517	-8%
Highways & Streets	1,290,203	445,455	190%
Building Services	326,663	289,169	13%
Culture & Recreation	1,433,707	1,236,637	16%
Community Development	8,288,167	6,561,179	26%
Capital Outlay	1,163,087	5,294,548	-78%
Tax Increment Pass-through	4,254,358	3,661,145	16%
Principal on Long Term Debt	2,711,640	2,551,920	6%
Interest on Long Term Debt	3,244,340	3,848,854	-16%
Sub-total	<u>29,503,736</u>	<u>29,958,422</u>	-1.5%
Total Expenditures	<u>\$ 29,503,736</u>	<u>\$ 29,958,422</u>	

Overall, governmental spending decreased by \$454,686 or about 1.5% compared to prior year. The table above shows the comparison. Some of the expenditures increases were also offset by revenue increases. There was no bond refunding for this fiscal year.

City of Suisun City
Management's Discussion and Analysis

General Fund Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Final Budget
Beginning fund balances, July 1, 2005	\$ 3,493,160	\$ 3,493,160	\$ 3,493,160	\$ -
Resources:				
Revenues	7,863,370	7,832,290	8,581,552	749,262
Transfer in/other	649,100	810,970	754,900	(56,070)
Total Resources	<u>8,512,470</u>	<u>8,643,260</u>	<u>9,336,452</u>	<u>693,192</u>
Appropriations:				
Expenditures	8,495,820	8,668,250	8,197,591	470,659
Transfer out	16,650	399,990	397,786	2,204
Total Appropriations	<u>8,512,470</u>	<u>9,068,240</u>	<u>8,595,377</u>	<u>472,863</u>
Resources over (under) appropriations	<u>-</u>	<u>(424,980)</u>	<u>741,076</u>	<u>1,166,056</u>
Ending fund balances, June 30, 2006	<u>\$ 3,493,160</u>	<u>\$ 3,068,180</u>	<u>\$ 4,234,237</u>	<u>\$ 1,166,056</u>

Budget Modifications

For fiscal year 2005-06, appropriations were adopted by fund. The total actual expenditures in General Fund per above table exceeded total original budget. Some individual departments have exceeded their budgets, and budget amendments were approved by the City Council. For more detailed information, please refer to page 71.

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 positive results for the year in a comparison of actual revenue and expenditures to the final budget. The final budget projected a decrease in fund balance of \$424,980, and the actual result was a net increase of \$741,046 a positive variance of \$1,166,056.

Although the actual expenditures and transfers out were only \$82,907 higher than the original budget, the original appropriations were still amended due to some departments that have exceeded their original budgets. The City Council approved budget amendments which includes a one-time transfer to Victorian Harbor Zone C-MAD to fund deficit and to Police and Fire departments for equipment purchases.

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CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's net capital assets for its governmental funds as of June 30, 2006 amount to \$93.6 million, net of accumulated depreciation of \$86.6 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 on pages 50-51 of the accompanying basic financial statements.

Debt Administration

At the end of the current fiscal year, the City had \$83.6 million in debt outstanding compared to \$85.4 million last year, a 2% decrease. The decrease is primarily due principal payments.

At June 30, 2006, the City had total long-term debts and obligations as summarized below.

Tax Allocation Bonds	\$62,720,806	75%
Redevelopment Loans	10,069,244	12%
Redevelopments Notes	1,141,976	1%
General Obligation Bonds	3,005,000	4%
Certificates of Participation	2,130,000	3%
Capital Leases	2,242,941	3%
North Bay Aqueduct Agreement	<u>2,269,242</u>	3%
Sub-total	83,579,209	100%
Compensated Absences	439,751	
Victorian Harbor Limited Obligation	<u>515,000</u>	
Total Outstanding Debt	<u>\$ 84,533,960</u>	

The City has met all required debt service payments and is maintaining required reserve funds with bond trustees. The \$62.7 million in tax allocation bonds and \$11.2 million in redevelopment loans and notes are repayable from tax increment revenues received by the City's Redevelopment Agency. The \$3 million in general obligation Highway 12 bonds and the \$2.2 million for North Bay Aqueduct are repayable from a voter-approved property tax. The remaining \$4.4 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 on page 52, of the accompanying basic financial statements.

ECONOMIC FACTORS 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:

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- Funding the rising cost of employee salaries and 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 within the constraints of limited General Fund resources. The City has more than adequate reserves to maintain current services in the short run, and has addressed an imbalance between ongoing General Fund revenues and ongoing expenditures.

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

- The adoption by the 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.
- The 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 through pension obligation bonds.
- The selection 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 complete, and the ground-breaking for phase one (which includes 64,000 square feet of commercial and office uses) occurred this past summer.
- The 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 approved by LAFCO by the summer of 2007.
- The retention of an economic consultant to assess the revenue-generating potential of commercially zoned properties within the City-limits has resulted in the development of an econometric model that can be used to assess proposed projects, as well as to assist in both marketing efforts to the development community and the preparation of a longer-term financial plan for the City.
- The completion of a full classification and compensation study in the spring of 2006 resulted in the adoption by the City Council of a group of agencies to survey to determine the local labor market, internal relationships among job classes, and a policy goal of achieving 90 percent of the compensation of the local labor market.
- Completion of the sale of the 170-acre Twin Sisters property for nearly \$2.4 million. The proceeds will be paid to the City over five years. This one-time money will help to bolster General Fund reserves.

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Outside the General Fund, as of June 30, 2006, the City has two funds with a significant deficit in 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, or reduce services to match resources. For fiscal year 2005-2006, the General Fund transferred \$338,097 to cover the escalating deficit of this fund.

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 FY 2006-07 Annual Budget includes a number of changes designed to meet the ongoing fiscal challenges from economic conditions as highlighted above. The economy has improved over the past year resulting in much better than anticipated revenues for FY 2005-2006, and an improved revenue outlook for FY 2006-07. 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 2006-07 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 Housing Set-Aside will earmark \$6 million in Housing Projects.

The FY 2006-07 General Fund operating budget is \$8.3 million, an increase of \$0.6 million, or 7.8 percent over FY 2005-06. This budget includes cost-of-living adjustments (\$350,000) for employees for the first time in three years, as well as a benefit enhancement for medical costs. The Public Employees Retirement System (PERS) benefit costs are increasing by \$69,000 due to PERS increases to improve the City's unfunded liability balance.

The Redevelopment Agency's tax increment revenue is budgeted at \$14.6 million for FY 2006-07. Of that amount, 20% is transferred to the Housing Set-Aside Fund and another 30.2% is passed through to other agencies.

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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