



# CITY OF REDDING

## ADMINISTRATIVE SERVICES DEPARTMENT

FINANCE DIVISION

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December 23, 2013

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

Honorable Members:

In accordance with State and local statutes, the City of Redding hereby submits the Comprehensive Annual Financial Report for the year ended June 30, 2013. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe that the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and result of operations of the City in accordance with generally accepted accounting principles; and that all disclosures necessary to enable the reader to gain maximum understanding of the City's financial affairs have been made.

D. H. Scott & Company, a firm of licensed certified public accountants has issued an unqualified ("clean") opinion on the City of Redding's financial statements for fiscal year ended June 30, 2013.

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

### PROFILE OF THE CITY

The City of Redding is a general law city, incorporated under the laws of the State of California in 1887. A council of five members elected at large for alternating four-year

terms governs the City. The Mayor, Vice-Mayor, City Manager, and City Attorney are appointed by the City Council. The City Clerk and City Treasurer are also elected officials and serve four-year terms.

Redding is the county seat for Shasta County and is located on the Sacramento River approximately 160 miles north of Sacramento, the state capital, and 150 miles east of the Pacific Ocean at the northernmost end of the Sacramento Valley. The City has an estimated population of 90,670 and encompasses approximately 60 square miles within the corporate limits. Extracting timber and the processing of wood products along with agriculture, tourism and government have historically been the pillars of the local economy. Over the past few decades, there has been a general shift toward a service-based economy.

### **REPORTING ENTITY AND ITS SERVICES**

This report includes all of the funds of the City. Financial information for separate legal entities related to the City of Redding includes the Redding Housing Authority, Redding Area Bus Authority, the Redding Joint Powers Financing Authority and the Redding Capital Services Corporation. All are accounted for in the City's financial statements in accordance with Governmental Accounting and Financial Reporting Standards. Component unit financial reports are on file with the City. Under California State law all redevelopment agencies were dissolved as of January 31, 2012. The Redding Redevelopment Agency was dissolved on January 31, 2012 and all excess assets were transferred to a private purpose trust fund.

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

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

### **LOCAL ECONOMY**

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

**Population Characteristics** - The City was one of the fastest growing cities in California between 1970 and 1990, growing to 66,432 residents in 1990 from 16,659 in 1970. However, lately the City's population growth has slowed. From 2000 to 2010 the City's population grew by an average of 1.11 percent. During the last year the City's population growth was .36 percent. The City's population of 90,670 has increased 12.1% over the 2000 U.S. Census tabulation. The City's population represents approximately 50% of Shasta County's population. The following table indicates population growth for the City and Shasta County from 1970 to 2013:

Year	City of Redding		Shasta County	
	Population	Annualized Percent Change over Interval	Population	Annualized Percent Change over Interval
1970	16,659	---	77,640	---
1980	41,995	9.69%	119,449	4.40%
1990	66,432	4.69%	147,036	2.10%
2000	80,865	1.99%	163,256	1.05%
2010	89,878	1.11%	177,248	0.85%
2011	90,050	0.19%	177,516	0.15%
2012 *	90,342	0.32%	178,107	0.33%
2013	90,670	0.36%	178,601	0.28%

Source: 1970-2010 data from U.S. Census; 2011-2013 estimates from the California State Department of Finance as of January 1 (\*2012 revised estimate, May 1, 2013 report)

The City's population, over the next 10 years, is projected to grow by approximately 5,893 an increase of approximately 6.5%. The Redding area is expected to maintain approximately 50% of the total Shasta County population because of a variety of factors that will support urban development, including utilities (wastewater, storm drainage, water, electric, and solid waste), employment, regional shopping, transportation services, and reduced commuting.

**Housing Costs** - Housing in the City is less costly than in many other urban areas in the State of California and on the West Coast. The following table sets forth the median price of housing in other urban areas of California as compared to Shasta County, in which Redding is the largest city, as of June 2013:

Region	Median Home Price
Shasta County	\$192,800
Sacramento	\$247,100
Los Angeles	\$403,760
Orange County	\$661,740
San Francisco	\$855,180

Source: California Association of Realtors

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

The major non-local government employers in the City and the County include those in medical services, and retail services. Major employers in the City of Redding, their products or services, and the approximate number of their respective full time employees as of June 2013 are listed in the following table:

<u>Employer</u>	<u>Product/Services</u>	<u>Employees</u>
Shasta County (*)	County Services	1,838
Mercy Medical Center	Medical Facilities/Services	1,730
City of Redding (**)	City Services	762
Shasta Community College	Education	675
Shasta Regional Medical Center	Medical Facilities/Services	600
Walmart	Retail	442
United States Post Office	Postal Service	377
Oakdale Heights Management	Retirement Apartments/Hotels	350
Blue Shield of California	Health Care Insurance	330
Redding Rancheria	Casino/Redding Rancheria	310

(\*) Full-time equivalent budgeted positions. This includes employees who work outside of the City.

(\*\*) Full-time budgeted positions. In 2012-13 there were 717 full-time and 344 part-time/temporary positions filled.

Source: Derived from the Employment Development Department's (EDD) listing of the top employers in Shasta County.

According to the State Employment Development Department, the unemployment rate of the City's metropolitan area was 10.6 percent on June 30, 2013. The following table sets forth the number and rate (expressed as a percentage) of unemployed persons living within the City's metropolitan area for the month of June 2003 through June 2013:

Fiscal Year	Ending June 30	Labor Force	Unemployment	
			Number	Rate
2003		84,000	6,300	7.5%
2004		84,000	6,300	7.5%
2005	*	82,400	5,800	7.0%
2006	*	83,300	5,200	6.2%
2007		83,900	5,900	7.0%
2008		83,500	7,700	9.2%
2009		85,300	12,400	14.5%
2010	*	85,200	12,900	15.1%
2011	*	82,800	12,300	14.9%
2012	*	82,500	11,000	13.3%
2013		80,600	8,500	10.6%

Source: State Department of Employment  
(\*Years 2005-2006 and 2010-2012 Revised)

**Construction Activity** - For the past ten calendar years ending December 2012, the City issued building permits valued at a total of \$1,169,111,830. New construction over the ten-year period represents 66.63% of the total construction activity. For the 2012 calendar year 1,493 building permits were issued, with a total permit valuation of \$34,541,736. After four years of declining permit activity, year 2012 saw an upturn in permit and related construction activity (with the exception of Multi-family dwellings). This trend is expected to continue in the current calendar year.

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

	2009	2010	2011	2012
Value Single Family*	\$17,937,903	\$9,037,810	\$2,263,009	\$11,808,113
Number of Units	94	44	11	66
Value Multi-dwellings	\$1,455,742	\$2,321,578	\$1,007,088	\$242,233
Number of Permits(1)	8	30	4	1
Number of Units	21	21	12	2
Value Business	\$19,730,416	\$10,595,061	\$80,000	\$2,357,832
Number of Permits	17	12	1	10
Value Total all Permits	\$58,940,655	\$33,648,870	\$14,531,472	\$34,541,736
Total Permits**	2,665	1,256	1,213	1,493

\* Value of new construction only.

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

(1) Includes hotel and apartment units - "R" occupancies.

Source: City of Redding Development Services Department

**Commerce** - The City is a regional center of commerce for several Northern California counties. This is evidenced by its many shopping centers and malls. Support for retail sales is derived from a retail trade area population of approximately 181,000 in the primary trade area and approximately 250,000 in the secondary trade area. The primary trade area consists of the metropolitan urban area, including the cities of Redding, Shasta Lake, and Anderson. The secondary trade area consists of Shasta, Trinity, and Tehama counties.

Taxable transactions in the City were approximately \$1.8 billion in calendar year 2012, a 6.2% increase over the same period for 2011.

Year	Taxable Transactions (In Thousands)	Taxable Transactions Percentage Increase (Decrease)
2002	1,652,064	5.8%
2003	1,748,793	5.9%
2004	1,898,286	8.5%
2005	2,046,597	7.8%
2006	2,104,055	2.8%
2007	1,983,496	-5.7%
2008	1,835,601	-7.5%
2009	1,603,079	-12.7%
2010	1,614,631	0.7%
2011	1,732,786	7.3%
2012	1,840,953	6.2%

Source: California State Board of Equalization

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

The City is served by the Union Pacific Railroad and Amtrak for rail transportation. Greyhound serves the City with bus service. United Express Airlines provides air service from Redding Municipal Airport to San Francisco, California.

Redding Area Bus Authority (RABA) is the City's multi-bus transportation system and offers thirteen different fixed routes, rural service and demand response (curb-to-curb) services. RABA had an average total monthly ridership of approximately 72,421 for fiscal year 2012-13.

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

**Community Services** - Youth in the area attend school at one of 37 elementary schools, 9 middle/junior high schools, 12 charter schools, 2 regional occupation programs and 16 high schools. There are several higher educational institutions in the immediate area offering bachelor and master's degrees: Chico State University Center for Regional and Continuing Education (located in the Health Science & University Center, downtown Redding), National University, Simpson University, and Shasta Bible College & Graduate School. Shasta Community College, a two-year institution, offers both day and evening courses to over 12,200 students. In addition, there are several Vocational & Technical schools offering a diverse range of programs.

The City's parks system includes 67 developed parks and facilities, encompassing over 635 developed acres. Included in this total acreage are 175 acres of natural area parks (improved open space), 63.46 miles of trails, and 15 special purpose facilities. Among these special purpose facilities are the Redding Convention Center, which hosts cultural/performing arts programs, conferences, and conventions; the Redding Aquatic Center; the Redding Big League Dreams Sports Park; the Redding Soccer Park; the Senior Citizens Center; the Benton Dog Park; 3 boat ramp facilities that provide access to the Sacramento River; and various community centers and special event venues such as the Martin Luther King, Jr. Community Center, and the Caldwell Recreation Center.

The City serves as the primary medical center for Northern California. The City's two general care hospitals serve approximately 360,000 people in Shasta, Tehama, Trinity, Siskiyou, and Lassen counties. The two largest hospitals have a total of 510 beds and employ approximately 2,330 staff members. In addition, the City also has several specialized hospitals.

### **LONG-TERM FINANCIAL PLANNING**

The City has long range financial plans (typically ten years) for all of its major funds. It is the policy of the City Council that all funds except Electric maintain a minimum of 5% of expenditures in cash reserves in all years of their financial plans. Due to the dynamic industry, it is Council policy that the Electric Fund maintain a minimum of 20% of expenditures in cash reserve. All of the City's long range financial plans meet these criteria.

### **ACCOUNTING SYSTEM AND BUDGETARY CONTROL**

The City's accounting records are maintained on the modified accrual basis for governmental fund types and on the accrual basis for proprietary fund types. In developing the City's accounting system, consideration is given to the adequacy of internal accounting controls which are designed to provide reasonable, but not absolute, assurance regarding:

1. The safeguarding of assets against losses from unauthorized use or disposition.
2. The reliability of financial records for preparing financial statements and maintaining accountability of assets.

The concept of reasonable assurance recognized that the cost of a control procedure should not exceed the benefits likely to be derived and that the evaluation of costs and benefits require estimates and judgments of management.

All internal control evaluations occur within the above framework. We believe 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 department and fund level. The City Manager may transfer appropriations between divisions within a department within a fund; however, any revision that increases total fund expenditures without providing additional revenue to cover the total expenditure must be approved by City Council.

The City utilizes the encumbrance system as a management control technique to assist in controlling expenditures.

#### **FEDERAL GRANTS SINGLE AUDIT APPROACH**

The City of Redding is required to undergo a single audit in conformity with the provisions of the Single Audit Act of 1984 and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. This report has been prepared under the "single audit" concept. Under this approach, one agency is recognized as the cognizant agency or oversight agency of the Office of Management and Budget. In the case of the City of Redding, the State of California acts as the single audit oversight agency. The financial report will be reviewed by the oversight agency for compliance with all Federal grant requirements, and notification of the results will be provided to other Federal agencies. A separate schedule of Federal financial assistance is available upon request.

As a recipient of Federal, State, and County financial assistance, the City of Redding is responsible for implementing an adequate internal control structure to ensure compliance with applicable laws and regulations related to those programs. The results of the City of Redding's single audit for the fiscal year ended June 30, 2013, provided no instances of material weaknesses in the internal control structure or significant violation of applicable laws and regulations.

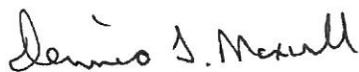
## CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Redding for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2012. This was the 29th consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

## ACKNOWLEDGMENTS

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



Dennice L. Maxwell  
Director of Finance



**D. H. SCOTT & COMPANY**  
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— A LIMITED LIABILITY PARTNERSHIP —

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**INDEPENDENT AUDITORS' REPORT**

Honorable Mayor and Members  
of the City Council  
City of Redding, 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 Redding, 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.

***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 auditors' 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.

### ***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 and budgetary comparison information on pages 21 - 39 and 137 - 141 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 and 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 budgetary schedules, and Schedule of Passenger Facility Charges Collected and Expended and Interest Collected, 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 budgetary schedules, and Schedule of Passenger Facility Charges Collected and Expended and Interest Collected 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 budgetary schedules, and Schedule of Passenger Facility Charges Collected and Expended and Interest Collected 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*  
and the Transportation Development Act**

In accordance with *Government Auditing Standards* and the Transportation Development Act, we have also issued our report dated December 20, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the Transportation Development Act in considering the City's internal control over financial reporting and compliance.

*D.A. Scott & Company LLP*

Redding, California  
December 20, 2013