

**1999-2000 COMPREHENSIVE ANNUAL FINANCIAL REPORT
(Including Report from Independent Auditor)**

RECOMMENDATION

It is recommended that the City Council:

Receive and file the 1999-00 Comprehensive Annual Financial Report (CAFR), which includes the report from Caporicci, Cropper and Larson, our independent auditors.

BACKGROUND

Annually the City has a financial audit performed by an independent certified public accounting firm. The auditor's report is located behind the second divider that is labeled "Financial Section".

The City again received an unqualified opinion, which indicates that the auditor believes the financial statements present a fair picture of the financial position of the City, as opposed to a qualified opinion, in which the auditor "qualifies" or limits his opinion for specific reasons, such as lack of fixed asset accounting or significant internal control deficiencies.

The report is a comprehensive report (as opposed to just financial statements) prepared in accordance with guidelines provided by the Government Finance Officers Association (GFOA) and all applicable accounting standards. The City has received the Certificate of Achievement for Excellence in Financial Reporting from the GFOA for the last seven years and the Certificate of Award for Outstanding Financial Reporting from the California Society of Municipal Finance Officers (CSMFO) for nine years. The award programs require a high level of compliance with governmental standards, inclusion of information well beyond the general-purpose financial statements and an unqualified audit opinion. The 1999-00 CAFR has been submitted to both of the associations for consideration in the award programs since the certificates are valid for one year only.

ANALYSIS

The following analysis deals with the General Fund, which is the main operating fund of the City. **Additional analysis of all governmental funds is included in the Transmittal Letter, which begins on page i at the front of the CAFR.** Some of the comments are repeated herein for the purposes of this report standing alone.

General Fund Revenue

General Fund revenue increased 14% over 1998-99 and was 4% over budget estimates. After adjusting revenue for the one time \$1 million donation, the revenue increase would be 7%.

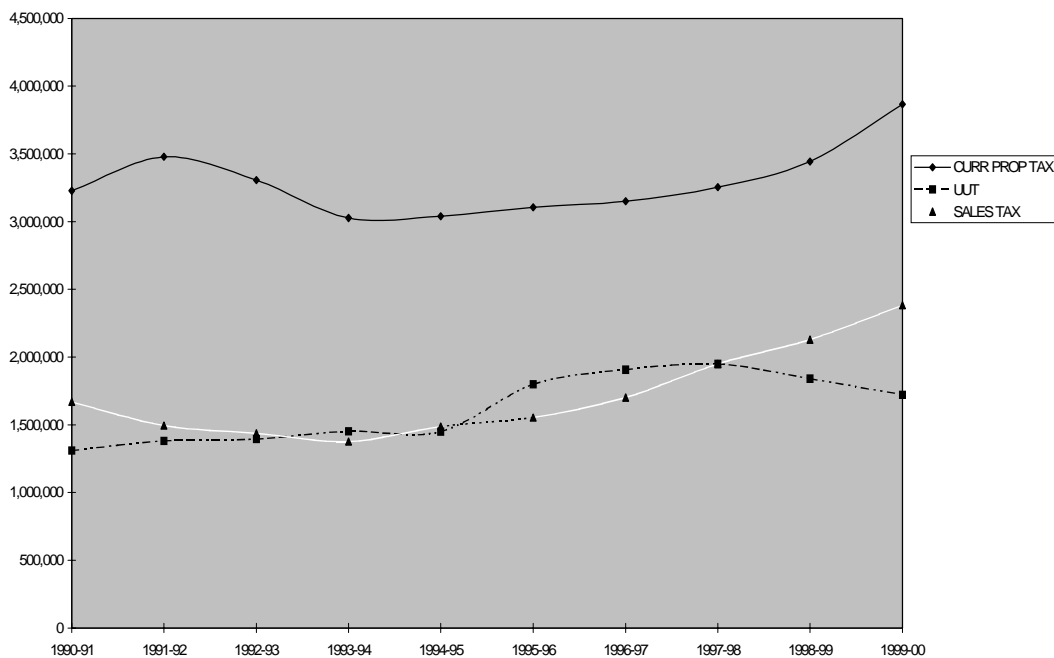
REVENUE SOURCE	Revenue FY 99-00 Amount	Increase (Decrease) over FY 98-99	% Of Inc. (Dec.)	% of Total
Property Taxes	\$3,999,291	\$413,518	11.53	27.10
Sales Tax	2,381,067	253,703	11.93	16.11
Utility User Tax	1,720,936	(119,577)	(6.50)	11.65

Other Taxes	2,122,038	219,911	11.56	14.38
Licenses & Permits	558,456	(9,151)	(1.61)	3.78
Fines & Forfeitures	195,481	(9,403)	(4.59)	1.32
Use of Money and Property	280,593	(5,055)	(1.77)	1.90
Intergovernmental Revenue	1,056,398	102,754	10.77	7.15
Charges for Services	1,015,652	(60,795)	(5.65)	6.88
Miscellaneous	1,164,390	1,048,151	901.72	7.88
Interest	274,167	25,199	10.12	1.85
Total	<u>\$14,768,469</u>	<u>\$1,859,255</u>	<u>14.40%</u>	<u>100.00%</u>

Taxes

Revenue from taxes generates 69% of General Fund revenue. The graph below tracks the three largest revenue sources over the past ten years.

General Fund - Largest Revenue Sources



Property taxes overall increased 12%. Current year secured taxes increased 13% and unsecured taxes increased 9%.

Sales tax receipts grew by 12%. The tables below display sales tax information for the top ten classes of business (representing 77% of sales tax) and sales tax by geographic area for major accounts.

The decline in UUT receipts is due to discontinuing collection of the tax on interstate and international calls.

The 12% increase in the Other Taxes category is due to higher Transient Occupancy tax receipts, mainly from the new beachfront hotel. 1999-00 was the first full year of operation for the hotel.

1999-00 Sales Tax By Class

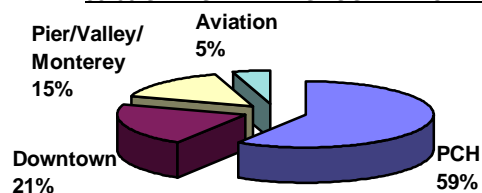
Top Ten Categories

RANK/BUSINESS CLASS	Sales Tax 1999-00	Inc./(Dec)	% Of Change Prev. Yr.	% of Total
1. AUTO DEALERS AND SUPPLIES	\$551,623	\$98,552	21.75%	30.12%
2. EATING/DRINKING PLACES	499,264	\$35,883	7.74%	27.26%
3. GROCERY/LIQUOR STORES	208,518	(\$6,735)	-3.13%	11.39%
4. AUTO LEASE	134,033	\$29,508	28.23%	7.32%
5. LUMBER/BUILDING MATERIALS	115,043	\$2,469	2.19%	6.28%
6. SPORTING GOODS/BICYCLES	74,743	\$7,206	10.67%	4.08%
7. SPECIALTY STORES	71,528	(\$239)	-0.33%	3.91%
8. SERVICE STATIONS	71,185	\$8,879	14.25%	3.89%
9. HOUSEHOLD/HOME FURNISHINGS	53,806	\$17,305	47.41%	2.94%
10. WHOLESALE TEXTILES FURNISHINGS	51,736	(\$1,584)	-2.97%	2.81%

Sales Tax by Geographic Area

LOCATION	Revenue 98-99	% Of Total	% Chg	Revenue 99-00	% Of Total
PCH	951,240	58%	12%	1,065,941	59%
Downtown	366,676	22%	5%	383,264	21%
Pier/Valley/Monterey	256,596	16%	8%	277,046	15%
Aviation	79,177	5%	5%	83,145	5%

99-00 SALES TAX BY GEOGRAPHIC AREA



Fines and Forfeitures decreased 5%. This category fluctuates based on the number of traffic violations and fines imposed for violations such as driving under the influence (DUI).

Intergovernmental Revenue increased because of higher motor vehicle license fee collections.

The decline in Licenses and Permits and Charges for Services reflects somewhat lower building activity for the year, although the level of activity and valuations for the past three years exceeds the previous three years.

Miscellaneous Revenue was higher due to increased donations, in particular a \$1 million dollar donation for pier improvements.

Interest revenue increased because of higher interest rates and availability of more funds for investment.

General Fund Expenditures

General Fund expenditures increased 3% from 1998-99 and were 4% under budget, after adjustment for amounts being reappropriated and two capital projects (Pier and City Hall remodel) which carry over to 2000-01. Negotiated salary increases affect all categories.

GENERAL FUND	Expenditures FY 99-00 Amount	Increase (Decrease) Over FY 98-99	% Of Inc. (Dec.)	% of Total
Legislative & Legal	\$ 638,121	(\$83,940)	(11.63)	5.15
General Government	894,738	(43,811)	(4.67)	7.20
Public Safety	7,762,479	240,371	3.20	62.53
Community Development	793,365	48,939	6.57	6.39
Culture & Recreation	744,245	81,807	12.35	5.99
Public Works	1,554,492	101,295	6.97	12.52
Capital Outlay	27,409	23,909	683.11	0.22
Debt Service: Principal	0	(5,758)	(100.00)	0.00
Interest	0	(78)	(100.00)	0.00
Total	<u>\$12,414,849</u>	<u>\$362,734</u>	<u>3.01%</u>	<u>100.00%</u>

The Legislative/Legal category increase reflects decreased costs related to litigation.

In the General Government category, Data Processing costs were moved to an internal service fund, which resulted in a decrease in expenditures from the prior year. Actually, costs increased 6% due to additional recruitment costs and disciplinary appeals.

The increase in Public Safety is primarily attributable to negotiated salary increases.

The Community Development Category includes the addition of a new Planning Assistant.

Supervision costs for a new skateboard park and a summer concert on the beach series increased Culture/Leisure expenditures. The concert series was fully funded with corporate donations; the skate track supervision was partially funded by donations.

Public Works expenditures increased primarily because of building roof repairs and increased janitorial services.

General Fund Surplus

The policy of transferring any unexpended funds in the General Fund to the Equipment Replacement Fund (ERF), Insurance Fund and the Capital Improvement Fund was implemented to build equity in the funds and provide much-needed funds for capital improvements.

Progress has been made in the ERF and the Insurance Fund, but desired levels of funding have not yet been achieved. Most of the anticipated funds in the Capital Improvement Fund have already been budgeted for 2000-01.

General Fund, Fund Balance

Fund balance as a percent of expenditures is a measure of the City's cushion against economic uncertainties or revenue shortfalls. Bond rating agencies have historically considered at least a 5% reserve "prudent", however, level of reserves should be decided based on individual circumstances and the economic climate. The General Fund contingency balance is 13% of expenditures.

Midyear Budget Review, conducted next month, will provide the next opportunity to review our financial picture.

Gary Caporicci, the partner in charge of our audit, will be present at the meeting.