

SALINAS REDEVELOPMENT AGENCY

BASIC FINANCIAL STATEMENTS **For the Fiscal Year Ended June 30, 2008**



PREPARED BY
THE FINANCE DEPARTMENT

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City of Salinas

Salinas Redevelopment Agency • 159 Main Street • Salinas, California 93901 • (831) 758-7387 • Fax (831) 771-0458

December 16, 2008

Honorable Chairperson and Members of the Salinas Redevelopment Agency Board of Directors:

We are pleased to submit the Salinas Redevelopment Agency (Agency) Annual Financial Report for the fiscal year ended June 30, 2008. State law requires that all redevelopment agencies publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP) applied to governmental units. The financial statements are to be audited by a certified public accountant in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Pursuant to that requirement, we hereby issue this annual financial report.

This is the fifth consecutive year that the Agency has produced financial statements in accordance with the Governmental Accounting Standards Board (GASB) Statement 34 reporting model. This financial reporting model is intended to improve financial reporting by adding significant additional information not previously available in local government financial statements.

In addition to the fund-by-fund financial information the report includes government-wide financial statements. The government-wide financial statements include a Statement of Net Assets that provides the total net equity of the Agency including all capital assets and long-term debt, and the Statement of Activities that shows the cost of providing governmental services by function. These statements have been prepared using the accrual basis of accounting versus the modified accrual method used in the fund financial statements. The modified accrual basis of accounting focuses on near-term inflows, outflows and balances of spendable financial resources. This report retains the short-term focus in the governmental fund financial statements while providing a long-term perspective on these same activities in the accrual based government-wide financial statements. A reconciliation report is provided as a key to understanding the differences between the two reporting methods. These new statements combined with other information are analyzed in the narrative section called Management's Discussion and Analysis (MD&A). The MD&A provides "financial highlights" and interprets the financial reports by analyzing trends and by explaining changes, fluctuations and variances in the financial data. In addition, the MD&A is intended to disclose any known significant events or decisions that affect the financial condition of the Agency.

This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Agency's MD&A can be found immediately following the report of the independent auditors.

This report consists of management's representations concerning the finances of the Agency. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the Agency has established a comprehensive internal control framework that is designed both to protect the Agency's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Agency's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Agency's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

McGilloway, Ray, Brown & Kaufman, a firm of licensed certified public accountants, has audited the Agency's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Agency for the fiscal year ended June 30, 2008, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Agency's financial statements for the fiscal year ended June 30, 2008, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Profile of the Salinas Redevelopment Agency

The City Council of the City of Salinas, acting pursuant to the provisions of the Community Redevelopment Law (California Health and Safety Code 33000, et seq.), activated the Agency on December 19, 1960. The Agency is charged with eliminating blight within designated geographic areas through the process of redevelopment. The Agency has broad authority to acquire, develop, administer, and sell or lease property, including the right of eminent domain and the right to issue long-term debt and expend proceeds.

Redevelopment activity is financed by secured and unsecured taxes collected in designated project areas that would go to other taxing entities in the absence of redevelopment. This allocation, known as tax increment revenue, is pursuant to State law. The assessed valuation (base roll) of a project area prior to redevelopment is established. Thereafter, any increases in assessed valuation over the base roll are remitted to the Agency. Of that amount, 20 percent must be set-aside in a special fund to be used for the purposes of increasing, improving and preserving low- and moderate-income housing. The remaining funds (80%) are used to pay debt of the Agency for various capital projects, statutory pass-through under Assembly Bill (AB) 1290, and any agreements with other taxing entities prior to AB 1290, including the County and public schools within a project area.

The seven members of the City Council serve as the governing body of the Agency, and exercise all rights, powers, duties and privileges of the Agency in carrying out redevelopment activities. The City Manager serves as Executive Director, the City Attorney serves as Agency Counsel, the City Finance Director serves as Agency Treasurer and the City Clerk serves as Secretary of the Agency.

The budget serves as the foundation for the Agency's financial planning and control. The Agency, having adopted the City of Salinas' administrative policies and procedures, implements a budget based on the same cycle as the City. The Agency's fiscal year is from July 1 through the following June 30. The budget is submitted each May to the Agency's Board of Directors, who, depending on the budget cycle, by June 30, adopts a budget. The appropriated budget is prepared by fund (project area) and object classification (e.g., capital). The Executive Director may make transfers of appropriations within a division. Transfers of appropriations between divisions, however, require the special approval of the Board of Directors and must be permitted by Redevelopment Law.

Transfers of appropriations between funds are prohibited. Budget to actual comparisons are provided in this report for each individual fund for which an appropriated annual budget has been adopted. This comparison is presented in the required supplementary information section of this report, which starts following the notes to the financial statements.

Cash Management Policies and Practices

The Agency's funds are invested as part of the City's investments. The City invests all idle funds daily. In accordance with the provisions of California Government Code Section 53600 et. seq., the City is restricted to certain types of legal investments including U.S. Treasury bills, notes and bonds, U.S. Government agency issues, the State Local Agency Investment Fund, banker's acceptances,

certificates of deposits, repurchase agreements, corporate medium-term notes, mortgage pass-through securities and asset-backed securities, and money market mutual funds. An investment and cash management policy is adopted annually by the City Council of Salinas.

Investment income includes changes in the fair value of investments. Calculation of gains and losses in fair value of investments is unrealized and only measures the fair value at a point in time. Decreases in fair value during the current year, however, do not necessarily represent trends that will continue. During the fiscal year ended June 30, 2008, the adjustment for changes in fair value of investments was an unrealized loss of \$504 while interest earnings from investments was \$533,943.

Risk Management

The Redevelopment Agency participates in the City of Salinas' self-insurance programs for general liability and workers compensation, which affect the Agency. These insurance activities are accounted for in the City of Salinas' Risk Management Fund, an internal service fund. The Salinas Redevelopment Agency is a component unit of the City of Salinas. Additional information on the Agency's risk management activity can be found in Note 9 of the financial statements.

Community Safety Initiative

During May 2004, the Salinas Redevelopment Agency amended its implementation plan adding a policy providing for redevelopment-funded community safety initiatives within the Sunset Avenue Redevelopment project area. In order to provide a positive force for economic development in the project area, during 2007-08 the Agency contributed \$291,559 to fund the cost of two police officers assigned to the project area. The Agency's 2008-09 budget includes \$315,400 to continue the community safety initiative.

East Market Street Underground District

During June 2004, the City Council approved East Market Street (between Sherwood Drive and North Sanborn Road) as the next City underground district. The project is scheduled to begin construction in January 2009 and will be funded with \$5.4 million of California Public Utility Commission's Rule 20A funds. In addition, the Agency has set aside \$658,009 to fund the streetscape improvements within the Sunset Avenue project area.

Lincoln and Market Street Housing

During August 2005, the Agency made a \$910,000 loan from the Central City Low and Moderate Income Housing Fund to First Community Housing to acquire property on Lincoln Avenue and West Market Street for an affordable housing development. Additional amounts of \$68,553 in 2005-06 and \$311,447 in 2007-08 were loaned. The Agency's 2008-09 budget includes \$300,000 to complete loans to First Community Housing bringing the total amount loaned to \$1,590,000.

Soledad Street Affordable Housing

The Agency set aside \$1,600,000 of Central City Low and Moderate Income Housing Funds to assemble land to provide a location for a low-income senior housing development in the Soledad Street area. Remaining funds included in the Agency's 2008-09 budget total \$1,030,795.

Division Street Development

During the fiscal year 2007-08, the Agency expended \$307,799 of Sunset Avenue Low and Moderate Income Housing Funds and \$905,433 in Sunset Avenue Project Funds to assemble land (approximately 5 acres) at Division Street for a future residential and multi-use development. Included in the Agency's 2008-09 budget is an additional \$1,072,121 of Sunset Avenue Low and Moderate Income Housing Funds allocated to this project.

Church of the Nazarene

On April 22, 2008, the Agency entered into an agreement to purchase the Salinas New Life Church of the Nazarene at 331 North Sanborn Road for \$2.6 million dollars. The Agency plans converting the location to provide community services focusing on family and youth. Included in the Agency's 2008-09 budget is \$2.4 million dollars of Sunset Avenue Project Funds allocated to this project. An additional \$200,000 will be funded by a loan from the Church to the Agency.

Monterey Street Parking Structure

The Monterey Street Parking Structure is a 5-level, 435-space parking garage adjacent to the Steinbeck Center and Maya Multiplex Theater. The parking structure provides parking for Maya Cinemas, National Steinbeck Center, surrounding business and future developments.

The project was funded with tax-exempt financing and a \$2.0 million Federal grant. On December 17, 2003, the City sold Certificates of Participation (COPs) in the amount of \$16,630,000 at 4.68% interest for a term of thirty years.

Debt service payments during 2007-08 were made using \$1,050,000 of Central City Debt Service Funds. Beginning in 2007-08, maximum annual debt service payments are \$1,091,950. Pursuant to a reimbursement agreement the Salinas Redevelopment Agency (Central City Project) is responsible for debt service. The Agency's budget includes funds to make these debt service payments 2008-09.

Commitments

See Note 13, Commitments, for a discussion of Agency commitments relating to pass through tax obligations to other taxing agencies and Steinbeck Center Foundation and Monterey Street parking structure financings.

Acknowledgements

I would like to take this opportunity to thank the members of the Salinas Redevelopment Agency's Board of Directors for their interest and support in the financial operations of the Agency. It is the responsible and progressive manner in which business is conducted that makes the Agency successful. I would also like to recognize Alan Stumpf, Director of Redevelopment and his staff for their day-to-day involvement in Agency operations without whom this presentation would not be possible.

In addition, I would like to extend a special thanks to the Finance Department staff, Miguel Gutierrez, Elizabeth Mariano, and James DeVincenzi, who are primarily responsible for the preparation of the financial report. I would also like to thank the Agency's auditors McGilloway, Ray, Brown & Kaufman. It is the combined effort of all participants that resulted in the issuance of this document.

Respectfully submitted,

Tom Kever
Finance Director

SALINAS REDEVELOPMENT AGENCY



List of Principal Officials

Dennis Donohue
Chairperson

Sergio Sanchez
Board member

Gloria De La Rosa
Board member

Steven Villegas
Board member

Tony Barrera
Board member

Janet Barnes
Board member

Jyl Lutes
Board member

Artie Fields
Executive Director

Ann Camel
Secretary

Vanessa Vallarta
Agency Counsel

Tom Kever
Treasurer

Alan Stumpf
Director of Redevelopment

McGILLOWAY, RAY, BROWN & KAUFMAN

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INDEPENDENT AUDITOR'S REPORT

The Governing Board of
Salinas Redevelopment Agency
Salinas, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Salinas Redevelopment Agency, (the Agency), a component unit of the City of Salinas, California as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Salinas Redevelopment Agency's management. 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 of material misstatement. 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Daniel M. McGilloway, Jr., CPA, CVA, Gerald C. Ray, CPA, Clyde W. Brown, CPA, Patricia M. Kaufman, CPA, Larry W. Rollins, CPA

Rachelle F. Onishi, CPA, CFE, Reginald F. Pires, CPA, Sarita C. Shannon, CPA, Audrey M. Thorne, CPA