

MANAGEMENT DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Eureka, we offer readers of the City of Eureka's financial statements this narrative overview and analysis of the financial activities of the City of Eureka for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal found in the introductory section of this annual report.

Overview of the Financial Statements

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Eureka's finances, in a manner similar to private-sector business.

The statement of net assets presents information on all of the City of Eureka'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 of Eureka is improving or deteriorating.

The statement of activities presents information showing how the government'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 are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Eureka that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Eureka include general government, public safety, community development, culture-recreation, public works, interest on long-term debt and unallocated depreciation. The business-type activities of the City of Eureka include water, wastewater, transit, harbor, building, and golf operations.

The government-wide financial statements include not only the City of Eureka itself (known as the primary government), but also a legally separate redevelopment agency for which the City of Eureka is financially accountable. The redevelopment agency, although legally separate, functions for all practical purposes as a department of the City of Eureka, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found beginning on page 13 of this report.

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 of Eureka, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Eureka 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 short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's short-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 short-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Eureka maintains fifteen individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, housing and the redevelopment funds, which are considered to be major funds. Data from the other ten governmental funds are combined into a single, aggregated presentation. Individual fund data for these non-major governmental funds is provided in the form of combining statements found in the supplemental statements and schedules section of this report.

The City of Eureka adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget and is found on page 76 in the basic financial statements section of this report. The basic governmental fund financial statements can be found on pages 16-21 of this report.

Proprietary funds. The City of Eureka maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Eureka uses enterprise funds to account for its water, wastewater, transit, harbor, building, and golf operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Eureka's various functions. The City of Eureka uses internal service funds to account for its equipment operation, risk management, information technology, and redevelopment administration. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, wastewater, transit, harbor, building, and golf operations, all of which are considered to be major funds of the City of Eureka. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements found in the supplemental statements and schedules section of this report.

The basic proprietary fund financial statements can be found on pages 22-31 of this report.

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 the resources of those funds are not available to support the City of Eureka's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 32-33 of this report.

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 can be found on pages 34-75 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Eureka's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 76-81 of this report.

The combining statements and schedules referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 86-98 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Eureka, assets exceeded liabilities by \$149,763,245 at the close of the most recent fiscal year.

A large portion of the City of Eureka's net assets (78 percent) reflects its investment in capital assets (e.g., land, easements, buildings, machinery, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City of Eureka uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Eureka's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Eureka
Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 23,000,533	\$ 22,421,806	\$ 16,756,119	\$ 16,745,175	\$ 39,756,652	\$ 39,166,981
Capital assets	75,487,075	76,327,125	77,244,531	76,971,369	152,731,606	153,298,494
Total assets	<u>98,487,608</u>	<u>98,748,931</u>	<u>94,000,650</u>	<u>93,716,544</u>	<u>192,488,258</u>	<u>192,465,475</u>
Non-current liabilities	17,086,816	16,995,784	19,184,058	1,489,922	36,270,874	18,485,706
Other liabilities	3,520,696	3,750,395	2,933,443	20,826,725	6,454,139	24,577,120
Total liabilities	<u>20,607,512</u>	<u>20,746,179</u>	<u>22,117,501</u>	<u>22,316,647</u>	<u>42,725,013</u>	<u>43,062,826</u>
Net assets:						
Invested in capital assets, net of related debt	58,614,367	59,572,311	58,603,096	59,101,682	117,217,463	118,673,993
Restricted	18,420,342	16,644,657	10,355,814	2,127,767	28,776,156	18,772,424
Unrestricted	845,387	1,785,784	2,924,239	10,170,448	3,769,626	11,956,232
Total Net Assets	<u><u>\$ 77,880,096</u></u>	<u><u>\$ 78,002,752</u></u>	<u><u>\$ 71,883,149</u></u>	<u><u>\$ 71,399,897</u></u>	<u><u>\$ 149,763,245</u></u>	<u><u>\$ 149,402,649</u></u>

An additional portion of the City of Eureka's net assets (19 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$3,769,626 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Eureka is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year. Overall, total net assets increased by \$360,596.

Changes in net assets. The statement of net assets provides a snapshot at a given point in time of the assets and liabilities of the City. The other government-wide statement provided is the Statement of Activities. This statement provides the reader with information regarding the revenues, expenses, and changes in net assets over the fiscal year. Generally, all changes to the City's net assets from one fiscal year to the next flows through the statement of activities.

The City of Eureka's net assets increased by \$360,596, which includes a prior period adjustment in the amount of (\$181,271). The change in net assets is the result of an increase of \$89,802 in governmental activities, while the change in net assets as a result of business-type activities increased by \$452,065.

Details of the City's changes in net assets are as follows:

City of Eureka
Changes in Net Assets

	Governmental		Business-type		Total	
	Activities		Activities			
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues:						
Program Revenues:						
Charges for services	\$ 3,366,328	\$ 2,714,843	\$ 12,497,436	\$ 12,965,511	\$ 15,863,764	\$ 15,680,354
Operating grants and contributions	2,126,731	2,397,762			2,126,731	2,397,762
Capital grants and contributions	3,441,840	2,275,470		127,651	3,441,840	2,403,121
General Revenues:						
Taxes:						
Property taxes	6,767,867	6,015,229			6,767,867	6,015,229
Sales taxes	8,411,860	9,863,454			8,411,860	9,863,454
Other taxes	4,539,269	4,313,737			4,539,269	4,313,737
Investment income	1,130,512	1,619,030	622,839	487,928	1,753,351	2,106,958
Other	2,722,514	2,126,459	460,824	110,211	3,183,338	2,137,480
Total revenues	32,506,921	31,325,984	13,581,099	13,592,111	46,088,020	44,918,095
Expenses:						
General government	4,783,555	4,635,673			4,783,555	4,635,673
Public safety	13,984,279	12,662,643			13,984,279	12,662,643
Community development	4,105,920	3,909,922			4,105,920	3,909,922
Culture - recreation	2,384,666	2,445,431			2,384,666	2,445,431
Public works	3,219,875	3,383,320			3,219,875	3,383,320
Interest on long-term debt	1,235,223	1,958,961	983,668	1,163,419	2,218,891	3,122,380
Unallocated depreciation	2,236,926	2,199,036			2,236,926	2,199,036
Water			3,940,290	3,683,221	3,940,290	3,683,221
Wastewater			5,303,530	5,272,981	5,303,530	5,272,981
Transit			1,748,801	1,896,892	1,748,801	1,896,892
Harbor			984,311	948,404	984,311	948,404
Building			613,222	593,859	613,222	593,859
Golf			21,887	25,800	21,887	25,800
Total expenses	31,950,444	31,194,986	13,595,709	13,584,576	45,546,153	44,779,562
Change in net assets before transfers	556,477	130,998	(14,610)	7,535	541,867	138,533
Transfers	(466,675)	(180,710)	466,675	180,710		
Change in net assets	89,802	(49,712)	452,065	188,245	541,867	138,533
Net assets - beginning	78,002,752	77,949,436	71,399,897	71,288,487	149,402,649	149,237,923
Prior period adjustments	(212,458)	103,028	31,187	(76,835)	(181,271)	26,193
Net assets - beginning, (restated)	77,790,294	78,052,464	71,431,084	71,211,652	149,221,378	149,264,116
Net assets - ending	\$ 77,880,096	\$ 78,002,752	\$ 71,883,149	\$ 71,399,897	\$ 149,763,245	\$ 149,402,649

Governmental activities: The City's largest governmental revenue source, sales tax, accounts for 26% of total governmental revenues equaling \$8,411,860 this fiscal year, which is a decrease of \$1,451,594 from last year. Property tax is the next largest governmental revenue source making up 21% of total governmental revenues equaling \$6,767,867 for an increase of \$752,638.

All our programs have charges for services most from general government, public safety and culture and recreation. The increase of \$651,485 comes primarily from state reimbursements for fire assistance and a change in how we show operating cost recovery from our enterprise funds.

Operating grants for governmental activities furnished resources to support three of the City of Eureka's functions: public safety, community development, and public works, with the greatest portion, 84% being in community development for providing home loans.

Capital grants for governmental activities increased by \$1,166,370 providing resources for all our programs, with community development and public works receiving 75%. The increase includes \$150,000, which represents a donation of public artwork.

The reduction of \$488,518 in investment income is the result of decreasing invested balances along with declining rates of return.

The increase of \$1,321,636 in public safety expenses is primarily the result of increased salaries in order to retain qualified employees.

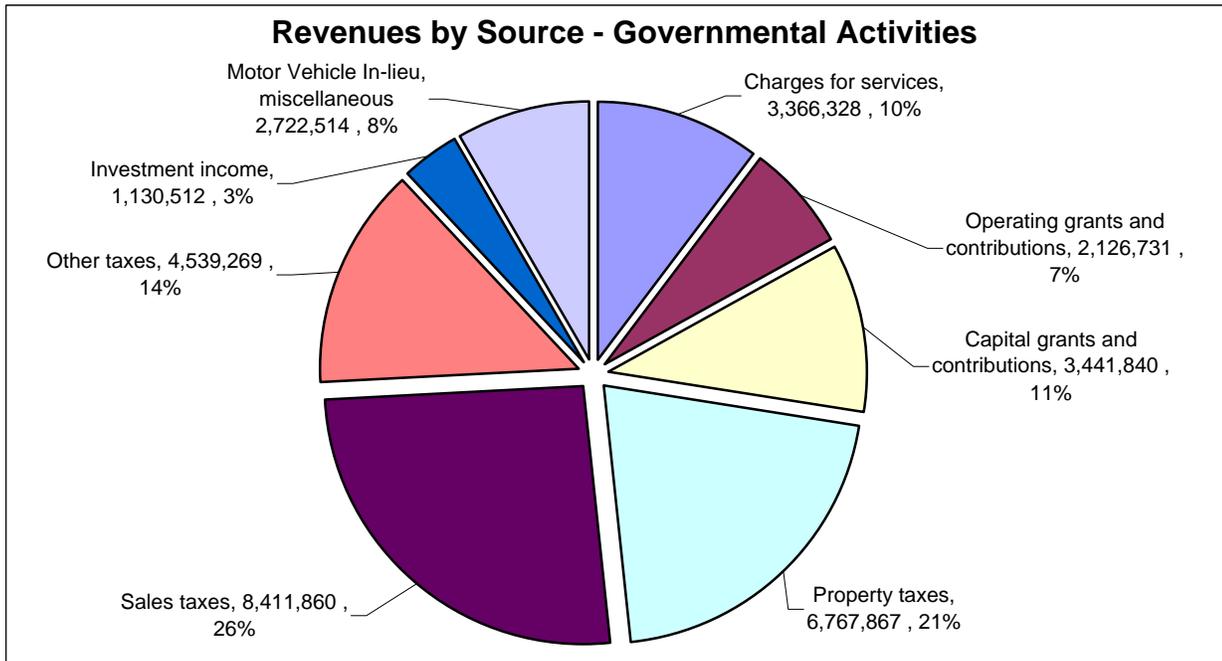
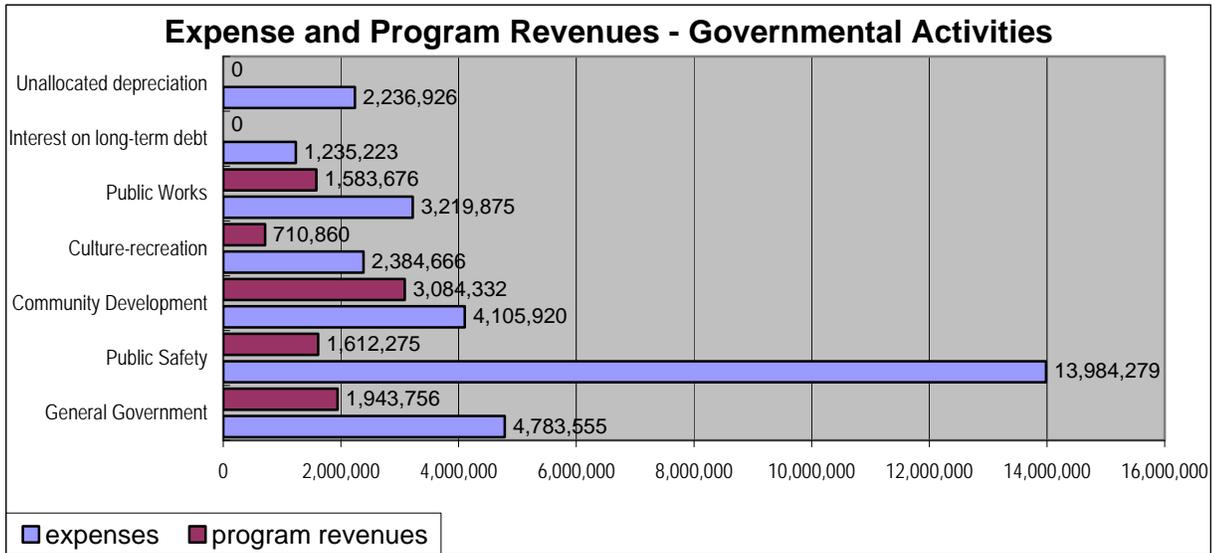
The increase of \$147,882 in expenditures for General government is primarily the result of increased salaries in order to retain qualified

employees in the non-safety departments, such as Streets, Stormwater, Facilities Operations, Parks, Zoo, Finance, and Equipment Operations.

The decrease of \$723,738 in interest on long term debt was the result of an error in the classification of a transfer into the redevelopment administration fund that was correctly classified in fiscal year 2008-09.

Public safety expenses account for 44% of the total governmental activity expenses, compared to 41% in the prior fiscal year. The increase can be attributed to the higher salaries public safety employees received compared to other government employees and reflect the City Council’s desire to highly prioritize spending on public safety programs.

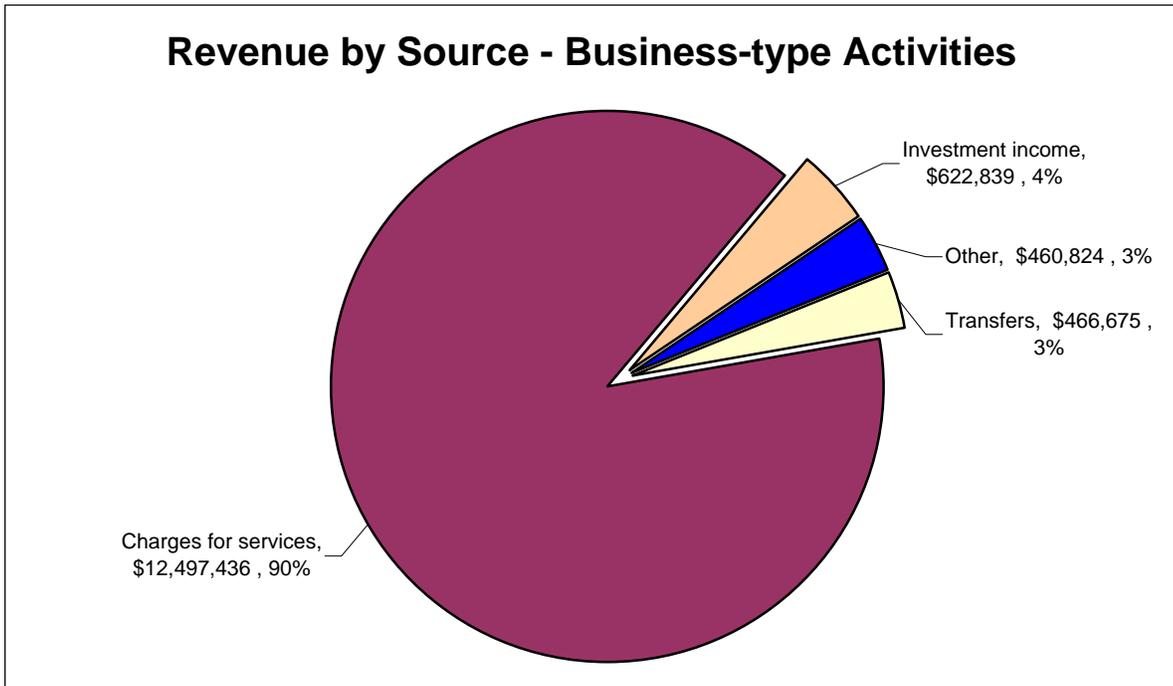
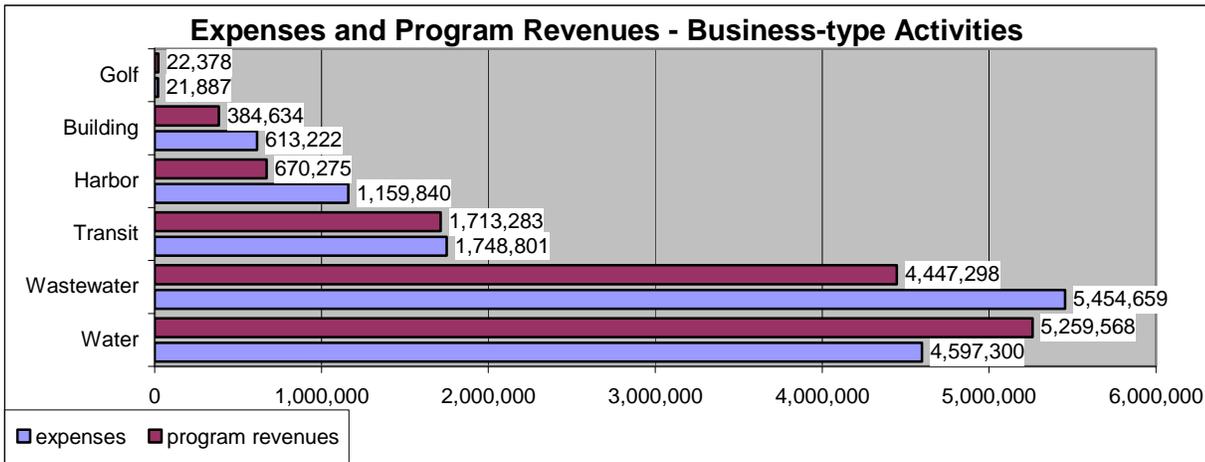
The Zoo and Youth & Recreation activities charge fees in our Culture & Recreation programs with the greatest expenditures resulting from the Parks and the Sequoia Zoo. In September 2008, during FY 2008-09, Council approved the implementation of an admission fee for the Zoo.



Business-type activities. Business-type activities increased the City of Eureka’s net assets by \$483,252. This is the net of a current year increase in business-type net assets of \$452,065 and a prior period adjustment increasing net assets by \$31,187.

Key elements of the change in net assets are:

- \$980,135 increase in the Water fund is primarily due to the regularly scheduled rate increases designed to achieve bond coverage and create reserves for future capital.
- \$257,802 loss in the Wastewater Fund. These rates were also designed to achieve bond coverage and create reserves for future capital but experience is showing the rates are insufficient. A rate study is currently in progress to study this and produce new rate recommendations before the end of FY2009-10.
- \$52,492 loss in the Harbor Fund. In our current economic climate, the operating costs and debt service continue to outpace operating revenues in this fund requiring an ongoing, growing subsidy from the City.
- \$193,882 loss in the Building Fund. The economic conditions negated the effects of our new rates, where revenues fell short of our projections by over \$100,000, while operating costs continue to outpace the revenues.
- \$34,536 loss in the Transit Fund. The current economic climate has resulted in lower funding levels from outside agencies, and operating costs that are outpacing increased fees primarily, because transit fare increases tend to reduce ridership.



Financial Analysis of the Government's Funds

As noted earlier, the City of Eureka uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Eureka’s governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Eureka’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Eureka’s governmental funds reported combined ending fund balances of \$6,350,766, a decrease of \$574,415 in comparison with the prior year. The decrease is the net of a prior period adjustment of \$183,542 and a current year net change of (\$757,957). The prior period adjustments are discussed in detail in the Notes to the Financial Statements beginning on page 76. The majority of this fund balance is reserved to indicate that it is not available for new spending because it has already been committed for the following purposes: 1) parking enforcement; 2) prepaid items; 3) Low and Moderate income housing; 4) advances to other funds; 5) land held for resale and; 6) debt service. The current year decrease in net assets stems primarily from the General fund with a \$1,626,026 net loss and the Redevelopment Agency’s Low & Moderate Income Housing fund with a net loss of \$956,468, both of which can be explained by a planned use of reserves, yet most of the net loss stems from tax revenues falling short of budgeted amounts by \$1,505,085 in the general fund alone.

The general fund, which is the chief operating fund of the City of Eureka ended the current fiscal year with an unreserved fund balance of \$357,337, a decrease of \$654,829 in comparison with the prior year. As a measure of the general fund’s liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance at the end of the fiscal year represented 1.6% of total general fund expenditures, while total fund balance represents 17.75% of the same amount.

During the current fiscal year, the fund balance of the City of Eureka’s general fund decreased by \$1,626,026, with an additional decrease of \$78,821 resulting from prior period adjustments for a combined total decrease of \$1,704,847. A portion of the decrease was planned and represents Council’s determination to maintain services in spite of shrinking reserves and as mentioned above, the majority is due to a major budget shortfall in sales tax revenues.

The Housing and Low and Moderate Income Housing funds have a combined total fund balance of \$2,993,864, all of which will be used for specific housing activities.

The fund balances of the Eureka Redevelopment Agency Funds are a deficit of \$3,402,030, which is the combined total of a deficit of (\$8,036,205) in the Debt Service Fund that represents long term advances due to the City of Eureka; to be paid from future Tax Increment revenues and \$4,613,178 in the Capital Projects fund that is land held for resale and \$20,997 unreserved balance in the Capital Projects Fund. Extensive state regulations on coastal lands have slowed Agency efforts to market land for resale diminishing our efforts to promote redevelopment and growth.

Proprietary funds

The City of Eureka’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the proprietary funds at the end of the year amounted to \$2,924,239, of this amount the Harbor fund is the only one with a deficit balance totaling \$1,590,096. The deficit unrestricted net assets in the Harbor fund, reflects the continuing struggle to generate revenues sufficient to cover costs. One irksome component of operating costs is an obligation to pay the State of California 15% of gross fund revenues in perpetuity. This obligation was created in 1978 as a loan covenant.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget is comprised of an increase of \$934,137 in revenue and an increase of \$1,176,987 in expenditures and other financing sources. The changes can be briefly summarized as follows:

- \$84,869 increase in revenues to recognize funds received from our ERA pass-through payment.
- \$441,321 increase in revenues to recognize funds received by the Fire department for assistance with State firefighting.
- \$477,947 increase in revenues to recognize ERA transfer of \$250,000 and reimbursements for Marina Center project.

- \$70,000 decrease in revenues for the general fund to transfer into the new Parking fund.

- \$224,517 increase in expenditures to cover projects carried over from the previous fiscal year.
- \$578,920 increase in operating expenditures to cover unanticipated operating expenditures throughout all the departments.
- \$328,230 increase in expenditures in the Fire department covered by off-setting revenues for overtime related to State firefighting.
- \$76,612 increase of subsidy to transfer into our Vehicle Abatement Fund to cover ongoing operations.

- \$31,292 reduction to transfer expenditures from the general fund into the new Parking fund.

The difference between the final budget and actual budgetary expenditures is \$2,129,864 slightly less than 10%. Most operating departments used between 90% and 95% of their budgets, with the exception of the Human Resources, City Manager, City Attorney and Non-departmental departments, which averaged slightly less than 100% of their budgets.

The difference between the final budget and actual budgetary revenues is a shortage of \$3,668,570. Licenses, permits and fees revenues produced the largest amount of unexpected revenue, with \$52,463 over budget, while tax revenues were short \$1,505,085 and other revenues were short by \$1,519,130. The largest single variance was Sales Taxes, which fell short of budget by \$1,107,009.

Capital Asset and Debt Administration

Capital assets. The capital assets of the City are those assets that are used in the performance of the City’s functions, including infrastructure. As of June 30, 2009, the City of Eureka’s net capital assets for its governmental and business-type activities amounts to \$152,731,606 (net of accumulated depreciation). The investment in capital assets includes land, easements, buildings, improvements other than buildings, machinery and equipment, infrastructure, artwork, and construction in progress. Net change to capital assets of the City in comparison to the prior year, is a reduction of \$566,888.

Major capital asset events during the current fiscal year included the following:

In the governmental funds most of the items that make up the \$566,888 decrease were insubstantial by themselves, with the most significant decrease coming from a prior period adjustment of \$396,000 that was made to reclassify a land asset from the Government-wide Capital Assets balance sheet to the Low & Mod Income Housing fund as land held for resale. This explains the reduction in Land from last fiscal year.

The most significant increases in the governmental funds come from the addition to the Fisherman’s Terminal of \$585,099 and the “C” Street Amenities project of \$256,554. Other significant increases are \$107,267 from the Parking meter project, \$105,906 from the 6th & Myrtle median and \$328,050 for the Flake Ice plant.

In the proprietary funds the most significant increases are \$576,835 from the Martin Slough project, \$905,826 from the Biosolid dewatering facility, \$312,881 from the Sewer Facilities plan and \$793,128 from the Reservoir maintenance & security.

City of Eureka
Capital Assets (net of depreciation)

	Governmental		Business-type		Total	
	Activities		Activities			
	2009	2008	2009	2008	2009	2008
Land	\$ 3,692,899	\$ 4,088,899	\$ 11,348,689	\$ 11,348,689	\$ 15,041,588	\$ 15,437,588
Infrastructure	23,922,864	23,922,864			23,922,864	23,922,864
Buildings	10,711,707	11,021,714	6,102,035	6,357,156	16,813,742	17,378,870
Improvements other than buildings	10,502,511	10,635,613	16,555,623	17,298,849	27,058,134	27,934,462
Machinery and equipment	3,713,933	3,638,023	21,274,050	22,375,372	24,987,983	26,013,395
Infrastructure	18,345,407	19,448,015	13,537,307	13,894,756	31,882,714	33,342,771
Artwork	150,000				150,000	
Construction in progress	4,447,754	3,571,995	\$ 8,426,827	5,696,546	12,874,581	9,268,541
Total capital assets	\$ 75,487,075	\$ 76,327,123	\$ 77,244,531	\$ 76,971,368	\$ 152,731,606	\$ 153,298,491

Additional information on the City of Eureka’s capital assets can be found in note 7 on pages 56-57 of this report.

Long-term debt. At the end of the current fiscal year, the City of Eureka had total bonded debt outstanding of \$30,342,905. Of this amount, \$11,639,673 comprises debt backed by revenues within the water fund, another \$3,311,023 comprises debt backed by revenues within the wastewater fund, \$555,000 comprises debt backed by revenues within the harbor fund and \$14,837,209 in tax allocation bonds backed by incremental tax revenues from the redevelopment project areas.

City of Eureka
Outstanding Debt

	Governmental		Business-type		Total	
	Activities		Activities			
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenue bonds payable, net	\$14,837,209	\$14,778,717	\$15,505,696	\$16,117,693	\$30,342,905	\$30,896,410
Capital leases	1,389,559	1,513,584	2,372,060	2,535,728	3,761,619	4,049,312
Loans payable	645,940	462,514	2,267,053	2,336,205	2,912,993	2,798,719
Net pension obligation		89,291				89,291
Compensated absences	1,270,087	978,038	136,636	153,398	1,406,723	1,131,436
	<u>\$18,142,795</u>	<u>\$17,822,144</u>	<u>\$20,281,445</u>	<u>\$21,143,024</u>	<u>\$38,424,240</u>	<u>\$38,965,168</u>

The Redevelopment Agency has one outstanding bond which carries an underlying rating of A- from Standard & Poor's. Based on a bond insurance policy issued by Financial Guarantee Insurance Company, the bonds carry a rating of AAA. The City's Water and Wastewater Revenue bonds carry AAA ratings based on bond insurance provided by Financial Security Insurance Company.

Changes to the City's long-term debt included:

- A decrease to bonds payables of \$553,505 from regular bi-annual payments;
- A decrease to capital leases payables of \$287,693, from regular annual payments and also includes an increase of \$107,266 from a parking meter lease and a reduction of \$67,043 from the retirement of our accounting software lease (Incode);
- An increase to loans payables of \$114,274 mostly from Security National for our Marina Center project, which is a small portion of the overall cost of the project;
- And a reduction in pension obligations of \$89,291;
- A net increase to the liability for compensated absences of \$275,287.

State statutes limit the amount of general obligation debt a governmental entity may issue to 3.75 percent of its total assessed valuation. The current debt limitation for the City of Eureka is \$70,200,793, which is significantly in excess of the City of Eureka's outstanding general obligation debt, which is currently zero.

Additional information on the City of Eureka's long-term debt can be found in note 9 on pages 59-65 of this report.

Economic Factors and Next Year's Budgets and Rates

- At the time the budget was prepared, May 2008, the unemployment rate for the City of Eureka was 6.1 percent, which was an increase from the rate of 5.4 the prior year. Unemployment has steadily increased during FY 2008-09 ending on June 30, 2009 at 11.8%, which shows a net loss of jobs that signal an uncertain direction for our economy.
- At the time the budget was prepared, home sales were slowing and prices were already falling in Eureka. The assessed value of Eureka properties are expected to be reduced, resulting in a decrease in property tax revenues. Property tax is a major revenue source representing 21% of the general fund revenues.
- Retail sales, which directly affect the City's Sales Tax revenues, suffered a major downturn, causing the City Council to make a mid-year adjustment to decrease the budget by \$1,100,000, from \$7,200,000 down to a projection of \$6,100,000. The actual revenues were \$6,092,991, a shortfall of 15.38% of the original budget. This gives us cause for concern, since Sales Tax revenues make up 26% of the total general fund revenues.
- Overall, PERS rates continue to rise, with the FY08-09 rates for Police increasing from to 33.935% to 34.395%; the rates for Fire increasing from 33.518% to 34.819% and the rates for Non-Public Safety employees increasing from 16.928% to 17.064%.
- Fortunately our Transient Occupancy Tax revenues, which constitute only 8.65% of the general fund, were budgeted to be \$1,680,000, yet the actual amount was \$1,787,558, that is \$107,558 or 6.4% over budget is an increase over last year by \$44,829.

All of these factors were considered in preparing the City of Eureka's budget for the fiscal year 2009-10.

During the current fiscal year, the unreserved fund balance in the general fund decreased to \$357,337 which is available in the 2009-10 fiscal year for appropriation. This amount is an insufficient reserve for unanticipated needs leaving the City of Eureka to face the hard choices of raising revenues or cutting costs in FY 2009-10. The City has successfully negotiated reduced compensation with its Union groups, collected on it's notes with the Redevelopment Agency and is still working on further options to keep FY 2009-10 in the black with a solid reserve.

The City is still working on increasing user fees for Water and Sewer customers in FY 2009-10 in order to meet the ongoing needs for infrastructure improvements and maintenance. If passed, the rate increases will allow the City to secure more grant funding for badly needed capital projects. In the 2008-09 budget year the water rates were increased by 1% for residential customers. These rate increases were necessary to finance debt service and meet coverage requirements on the debt issued during the 2002-03 and 2005-06 fiscal years within the water fund. User fee rates for wastewater were increased by 3.9% in the 2008-09 budget year for residential customers to finance debt issued during the 2002-03 fiscal year within the wastewater fund.

Requests for Information

This financial report is designed to provide a general overview of the City of Eureka's finances for all those with an interest in the government's finances, and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, City of Eureka, 531 K Street, Eureka, California, 95501.