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City of  
Santa Clarita

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Santa Clarita's financial performance provides a narrative overview and analysis of the financial activities of the City of Santa Clarita (City) for the fiscal year ended June 30, 2004. Our analysis includes information regarding the City's overall financial position and results of operations to assist users in evaluating the City's financial position, a discussion of significant changes that occurred in funds, and information regarding significant budget variances. In addition, it describes the activities during the year for capital assets and long-term debt. We end our discussion and analysis with a description of currently known facts, decisions, and conditions that are expected to have a significant effect on the financial position or results of operations. Please read it in conjunction with the City's financial statements and the additional information included in the transmittal letter.

### FINANCIAL HIGHLIGHTS

- The assets of the City of Santa Clarita exceeded its liabilities at the close of the most recent fiscal year by \$237.82 million. Of this amount, \$47.70 million represents unrestricted net assets that may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by 23.5%, with net assets of the business-type activities increasing by \$8.72 million, or 30.9%, and net assets of the governmental activities increasing by \$36.58 million, or 22.3%.
- During the year, the City's expenses for governmental activities totaled \$10.54 million more than \$58.78 million in related revenues.
- In the City's business-type activities, expenses were \$1.04 million more than the \$13.52 million in transit related revenues.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$71.80 million. This represents an increase of \$9.90 million as compared to the prior year.
- The unreserved portion of fund balances, that which is available for spending at the government's discretion, amounts to \$18.2 million, or 25.3% of the total fund balance. This represents a 52.9% decrease over the previous years unreserved fund balances of \$38.66 million.
- The general fund had \$35.15 million in fund balance as of current year-end. The increase of \$8.19 million over the prior year amounts to a 30.38% increase. This net increase in fund balance is due to increases in tax and fee related revenues, as well as, an overall decrease in capital outlay expenses.

## USING THIS ANNUAL REPORT

The discussion and analysis are intended to serve as an introduction to the City of Santa Clarita's basic financial statements. This annual report consists of a series of basic financial statements comprised of three components as follows:

1) **Government-Wide Financial Statements**

The Statement of Net Assets and Statement of Activities provides information about the activities of the City as a whole, and presents a long-term view of the City's finances in a manner similar to a private-sector business.

2) **Fund Financial Statements**

All of the funds of the City of Santa Clarita can be divided into three categories; governmental funds, proprietary funds, and fiduciary funds. For governmental activities, these fund statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds and other funds.

3) **Notes to the Financial Statements**

The notes provide additional information necessary to enable the user to fully understand the various financial statements.

In addition to the basic financial statements and notes, this report contains other supplementary information.

## REPORTING THE CITY AS A WHOLE – GOVERNMENT-WIDE FINANCIAL STATEMENTS

### The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole, and its activities, in a way to answer this question. These statements include all assets and liabilities of the City using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The statement of net assets reports all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Net assets are one way to measure the City's financial health or *financial position*. Over time, *increases or decreases* in the City's net assets are an indication of whether its *financial health* is improving or deteriorating. You also need to consider other non-financial factors, however, such as changes in the economy due to external factors that will cause a decrease in consumer spending.

The statement of activities presents information relating to how the City's net assets changed during the fiscal year. All activities resulting in changes in net assets are reported when earned or incurred, regardless of the receipt or disbursement of the related transaction's cash flows. Some of the revenues

## The Statement of Net Assets and the Statement of Activities (continued)

and expenses reported in this statement will result in future fiscal period cash flows, such as the receipt of uncollected taxes and the payment of interest expense or compensated absences.

In the statement of Net Assets and the Statement of Activities, we separate the City Activities as follows:

**Governmental Activities** – Most of the City’s basic services are reported in this category, including general administration (City Manager, City Clerk, finance, etc.), public safety, public works, parks and recreation, community services, economic development, planning, and engineering. These activities are distinguished due to the use of property taxes, sales tax, transient occupancy tax, user fees, interest income, franchise fees, state and federal grants, contributions from other agencies, and other revenues to finance these activities.

**Business-Type Activities** – City functions that are intended to be primarily self-supporting through the imposition of user fees and charges are reported in the business-type activity category. Business-type activities for the City of Santa Clarita consist of transit activities related to the operation of the City’s local public transportation system.

**Component Unit Activities** – The City of Santa Clarita is the primary government unit to two legally separate entities. The financial activity and data of the Santa Clarita Public Financing Authority and the Redevelopment Agency of the City of Santa Clarita have been accounted for within the funds of the City, and therefore separate component unit financial information is not presented within the financial statements.

## REPORTING THE CITY’S MOST SIGNIFICANT FUNDS – FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts used to account for and accumulate financial information related to a specific activity or objective. Some funds are required to be established by State law and bond covenants; however, management established many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other resources. The fund financial statements provide detailed information about the most significant funds and other funds – not the City as a whole. The City’s three types of funds are governmental, proprietary, and fiduciary.

**Governmental Funds** – Most of the City’s basic services are reported in governmental funds. Governmental funds financial statements focus on how money flows in and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called, “*modified accrual*” accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for the governmental activities in the government-wide financial statements. The differences between the results of the governmental fund financial statements and those of the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

## **Governmental Funds (continued)**

The City reports governmental fund financial information within 32 governmental funds. The general fund, bridge and thoroughfare fund, and developer fee fund are presented separately as major funds in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. Financial data for the remaining 29 governmental funds are combined into a single, aggregated presentation. Supporting financial information on each of the non-major governmental funds is provided elsewhere within the report.

**Proprietary Funds** –The City maintains two different types of proprietary funds. When the City charges customers for the services it provides, these services are generally reported in a type of proprietary fund known as an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statement, but the proprietary fund statements provide more detail and additional information, such as a statement of cash flows. The City uses the Transit Enterprise Fund to account for the activities related to transit operations.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City’s various functions. The City uses four internal service funds to account for costs related to self-insurance, computer replacement, and vehicle and public facilities replacement.

Proprietary funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Activities. The proprietary fund financial statements provide separate information for the Transit Enterprise Fund, which is considered to be a major fund of the City. All of the 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 elsewhere in this report.

## **THE CITY AS TRUSTEE – FIDUCIARY FUND STATEMENTS**

### **Reporting the City’s Fiduciary Responsibilities**

The City is the trustee, or *fiduciary*, for certain funds held for the benefit of other parties outside of the City. The City’s fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We exclude these activities from the City’s other financial statements, because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## **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.

## **OTHER INFORMATION**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the comparison of budget and actual results for the major governmental funds. Required supplementary information can be located on pages 65 - 68 of this report.

The combining statements referred to earlier in connection with the non-major governmental funds, internal service funds, and fiduciary funds are presented immediately following the required supplementary information described in the previous paragraph. Combining and individual fund statements and schedules, as well as schedules related to the capital assets used in the operation of governmental funds can be found on pages 69-126 of this report.

## THE CITY AS A WHOLE

Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

The City's net assets may be analyzed and used as an indicator of the City's overall financial condition. The City's combined net assets increased over the past fiscal year in the amount of \$45.29 million, increasing from \$192.5 million to \$237.8 million.

TABLE 1  
CITY OF SANTA CLARITA'S NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>ASSETS:</b>						
Current and Other Assets	\$ 118,550,484	\$ 100,398,238	\$ 728,139	\$ 1,157,904	\$ 119,278,623	\$ 101,556,142
Capital assets	137,409,280	117,012,056	41,064,098	31,765,583	178,473,378	148,777,639
<b>TOTAL ASSETS</b>	<b>255,959,764</b>	<b>217,410,294</b>	<b>41,792,237</b>	<b>32,923,487</b>	<b>297,752,001</b>	<b>250,333,781</b>
<b>LIABILITIES:</b>						
Long Term Liabilities	26,570,370	28,015,148	1,919,312	2,236,623	28,489,682	30,251,771
Other Liabilities	28,439,910	25,020,761	3,005,423	2,535,541	31,445,333	27,556,302
<b>TOTAL LIABILITIES</b>	<b>55,010,280</b>	<b>53,035,909</b>	<b>4,924,735</b>	<b>4,772,164</b>	<b>59,935,015</b>	<b>57,808,073</b>
<b>NET ASSETS:</b>						
Invested in capital assets, net of related debt	110,924,177	89,906,642	38,827,474	28,676,587	149,751,651	118,583,229
Restricted	40,362,986	41,822,380	-	567,140	40,362,986	42,389,520
Unrestricted	49,662,321	32,645,363	(1,959,972)	(1,092,404)	47,702,349	31,552,959
<b>TOTAL NET ASSETS</b>	<b>\$ 200,949,484</b>	<b>\$ 164,374,385</b>	<b>\$ 36,867,502</b>	<b>\$ 28,151,323</b>	<b>\$ 237,816,986</b>	<b>\$ 192,525,708</b>

The City's Net Assets is made up of three components: Investment in Capital Assets (Net of Related Debt), Restricted Net Assets, and Unrestricted Net Assets.

As of June 30, 2004, assets exceeded liabilities by \$237.8 million. The largest component of the City's net assets, 62.9%, is represented by its \$149.8 million investment in capital assets (e.g., land, buildings and improvements, equipment, infrastructure, and construction in progress) less any related outstanding debt used to acquire the assets. These capital assets are used to provide services to the citizens and therefore are not available to finance future operations. In addition, resources necessary to

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## THE CITY AS A WHOLE (continued)

repay the related debt must be provided by sources other than the capital assets, as the assets themselves cannot be used to satisfy these liabilities.

An additional portion of the City's net assets, 17.0%, represents resources subject to external restrictions on how they may be used. The remaining 20.1% of unrestricted net assets, \$47.7 million, may be used to meet the City's ongoing obligations to citizens and creditors.

TABLE 2  
CITY OF SANTA CLARITA'S CHANGES IN NET ASSETS

	Government Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program Revenues:						
Charges for services	\$ 28,041,452	\$ 23,605,287	\$ 4,581,799	\$ 4,362,529	\$ 32,623,251	\$ 27,967,816
Operating grants and contributions	18,503,221	19,239,884	8,937,213	2,232,947	27,440,434	21,472,831
Capital grants and contributions	12,239,868	13,236,601	-	-	12,239,868	13,236,601
General Revenues						
Taxes:						
Property taxes, levied for general purposes	9,452,945	8,323,522	-	-	9,452,945	8,323,522
Other Taxes	45,464,015	40,450,106	-	-	45,464,015	40,450,106
Grants and contributions not restricted to specific programs	1,279,029	939,559	-	-	1,279,029	939,559
Other	655,106	1,710,373	17,800	67,450	672,906	1,777,823
Total Revenues	115,635,636	107,505,332	13,536,812	6,662,926	129,172,448	114,168,258
Expenses:						
General government	10,645,351	9,033,093	-	-	10,645,351	9,033,093
Public safety	12,113,853	12,107,145	-	-	12,113,853	12,107,145
Public works	8,859,452	8,971,939	-	-	8,859,452	8,971,939
Parks and recreation	15,370,145	14,515,769	-	-	15,370,145	14,515,769
Community development	20,482,573	34,837,564	-	-	20,482,573	34,837,564
Unallocated infrastructure depreciation	243,369	82,564	-	-	243,369	82,564
Interest on long term debt	1,608,577	1,896,652	-	-	1,608,577	1,896,652
Transit	-	-	14,557,850	15,272,143	14,557,850	15,272,143
Total Expenses	69,323,320	81,444,726	14,557,850	15,272,143	83,881,170	96,716,869
Increase in Net Assets before transfers	46,312,316	26,060,606	(1,021,038)	(8,609,217)	45,291,278	17,451,389
Transfers	(9,737,217)	(8,734,050)	9,737,217	8,734,050	-	-
Increase in Net Assets	36,575,099	17,326,556	8,716,179	124,833	45,291,278	17,451,389
Net assets - Beginning of year	164,374,385	147,047,829	28,151,323	28,026,490	192,525,708	175,074,319
Net assets - End of year	\$ 200,949,484	\$ 164,374,385	\$ 36,867,502	\$ 28,151,323	\$ 237,816,986	\$ 192,525,708

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## **THE CITY AS A WHOLE (continued)**

Consistent with the prior year, at the end of the current fiscal year, the City is able to report positive balances in both categories of governmental and business-type net assets. Net assets for governmental activities increased by \$36.5 million over the prior year, \$21.0 million of which is represented by increased capital assets and reductions in their related debt. Increases in capital assets also accounted for the majority of the overall increase in net assets for business-type activities of \$8.72 million; however, the unrestricted portion of the business-type activities net assets are deficit by \$1.96 million. This deficit amount is \$867,568, or 79.4% greater than that of the prior year, primarily due to increased liabilities for deferred program revenues and advances of cash at year end from other governmental funds.

### **Governmental Activities**

The City's net assets from governmental activities increased \$36.58 million in the current year, accounting for over 80.8% of the total \$45.29 million growth in the City's net assets. Revenues from governmental activities were up by 7.6% at \$115.6 million. The cost of all governmental activities this year was \$69.32 million, a decrease of 14.9% over the prior year. However, as shown in the Statement of Activities, the amount that the taxpayers ultimately financed for these activities was only \$10.5 million, because some of the cost was paid by those who directly benefited from the programs (\$28.0 million), or by other governments and organizations that subsidized certain programs with operating grants and contributions (\$18.5 million), and capital grants and contributions (\$12.2 million). The Public Works and Community Development programs show respective net revenues of \$3.13 million and \$20.89 million at year-end, primarily due to timing differences in the completion of capital projects and the additional building of revenues in anticipation of upcoming capital projects. Overall, the City's governmental program revenues were \$58.8 million. The City paid for the remaining "public benefit" portion of the governmental activities with \$56.8 million of other revenues. Key elements contributing to the total \$115.6 million increase in revenues from governmental activities are:

- The City realized an increase of 18.8% in program revenues from services provided, primarily in the area of community development.
- Property taxes increased by 13.6% during the year, a result of increased assessment valuation and continued growth.
- Increased retail activity and the addition of significant new retail businesses within the city provided an additional \$2.9 million in sales tax revenues over the previous year, amounting to a 12.3 % rate of increase.

### **Business-Type Activities**

Business-type activities increased the City's net assets by \$8.7 million for the current year ended, accounting for 19.2% of the total growth in the City's net assets. Business-type activities revenues increased by \$6.9 million during the year for a total of \$13.5 million in revenues, not including \$9.7 of transfers in from other governmental activities. While service revenues remained constant with only a slight increase of less than 1%, contributions and grants were up over 300%, an increase over the prior year of \$6.7 million. Expenses related to business-type activities decreased during the year by 4.6% to a total of \$14.5 million - an amount that still exceeded program revenues by \$1.0 million.

## THE CITY'S FUNDS

The governmental funds reported a combined fund balance at the end of the current fiscal year of \$71.8 million, an increase of \$9.9 million over the prior year. Approximately 25.3% of the ending fund balance amount, or \$18.2 million, is unreserved fund balance that is available for spending at the City's discretion. The remaining \$53.6 million is reserved and already committed for specific restricted purposes, including \$45.5 million to liquidate prior period contracts and purchase orders, \$7.4 million in advances to other funds, and \$0.6 million in restricted funds for low and moderate housing programs.

The total governmental fund balance includes the general fund balance of \$35.2 million, which increased by \$8.2 million over the prior year. The general fund is the chief operating fund of the City of Santa Clarita. At the end of the current fiscal year, the \$12.0 million in reserved general fund balance accounted for 34.3% of the total. The unreserved general fund balance of \$23.1 million, which is available for spending at the City's discretion, is \$10.2 million greater than the prior year. The 30.4% increase in overall general fund balance represents increases of \$3.8 million in property, sales and other taxes, \$1.8 million in license and permit fees, \$1.3 million in service charges, and a 1.9% decrease in total operating expenditures from the prior year. The City's general fund balance has reserved \$12.0 million for advances, encumbrances, and prepaid items. More detailed information about the combined fund balance reserves is presented in Note 11 to the financial statements.

Other major fund balance changes are noted below:

- The Bridge and Thoroughfare fund balance has realized little change from the prior year, with current year ending fund balance down by only \$172,326, or 1.5%. Over 97% of the Bridge and Thoroughfare fund revenues are comprised of developer fees, which remained on the rise throughout the year with an increase of 26.5%. The \$1.2 million increase in developer fee revenues represents new permitting and development activity continuing within the City. Alternately, the City's project expenditures decreased during the current year by \$7.6 million as prior period improvement projects have been completed and the life cycle of additional city and developer constructed district improvements has changed during the year. The \$14.2 million reservation of ending fund balance for outstanding purchase orders and contracts related to current district improvement projects exceeds the available year end fund balance by \$3.2 million, and has been funded with advances from the general fund.

The Developer Fees fund balance of \$967,506 was increased by only \$73,659 in the current year, amounting to an 8.2% increase. The deferred revenues balance increased by \$2.1 million during the year, resulting in like increases in cash. Despite the increased cash available for investment during the year, the developer fees fund revenues were down in large part due to the significant reduction in investment income returns in the current year. Although increased recognition of previously deferred developer fees resulted in developer fee revenues in the current year increasing by \$282,173, this increase was offset by the \$381,462 reduction to investment income. The ending deferred revenues balance of \$11.9 million represents funds to be used for future street improvement projects. In addition to the major funds, the fund balances for the other non-major governmental funds experienced an aggregate increase of \$1.8 million, or 7.9%, over the prior year.



**THE CITY’S FUNDS (continued)**

The City’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The total net assets for the Transit Enterprise fund increased over the prior year by 30.9% due to an increased net investment in capital assets of \$10.1 million. The unrestricted portion of the business-type activities net assets are deficit by \$1.96 million. This deficit amount is \$882,972, or 81.5% greater than that of the prior year, as operating expenses are in excess of operating revenues by over \$9.5 million. These operational losses were offset by transfers from other funds and grant revenues. Internal service funds net assets increased by 25.9%, due to increased transfers from other funds and investment income.

**General Fund Budgetary Highlights**

Comparing the FY 2003-04 original (adopted) general fund budgeted expenditures and transfers of \$59.6 million to the final budgeted expenditures of \$72.64 million, shows a net increase of \$13.1 million.

Included in this net increase is \$4.9 million in committed purchase orders and contracts from the prior June 30 balance, as well as \$.5 million of prior fiscal year operating and capital improvement projects approved for carryover into fiscal year 2003-04. The resulting beginning budget balance was equal to \$65 million.

<b>Original Budget +</b>	<b>Cont. Appropriations +</b>	<b>Encumbrances =</b>	<b>Beg. Balance +</b>	<b>Supplemental Changes =</b>	<b>Final Budget</b>
\$59,566,592 +	\$519,449 +	\$4,887,806 =	\$64,973,847+	\$7,672,196 =	\$72,646,043

Comparing the beginning budget of \$59.6 million with the final budget of \$72.6 million indicates the general fund had supplemental budgetary appropriations of \$7.7 million during the 2003-04 fiscal year. Included in the supplemental appropriations are the results of the mid-year budget review.

At the mid-year budget review, the City Council approved additional appropriations for non-represented employee cost-of-living salary increases of 3.3%, as well as increased costs related to the City’s contribution towards employee health benefits. An additional \$2.6 million was appropriated for transfer to the City’s Facility Replacement Reserve Fund.

Major differences between the City’s general fund adopted budgeted revenues and transfers of \$59.4 million and the final amended budgeted revenues of \$65.2 million are the results of changes made at the mid-year budget review. Budgeted revenues for vehicle license fees were adjusted upwards by \$2.0 million at mid-year based on revised and updated information available at that time. In addition, the budget for development related fees and service revenues were increased by a total of \$0.6 million, based on the related increases in the residential and commercial development within the City.

Even though, the City’s general fund appropriations increased by \$ 13 million, the actual revenues for the year exceeded the final budgetary estimates by \$6.1 million and actual expenditures were less than the final budgetary estimates by \$9.5 million. The City’s general fund experienced a net increase in fund balance of \$ 8.2 million.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal year 2003-04, the City had \$178.5 million (net of accumulated depreciation) invested in a broad range of capital assets. This investment in capital assets includes land, buildings and related improvements, vehicles and equipment, and infrastructure, such as streets, bridges, traffic lights, sewer and drainage systems. (See Table 3)

TABLE 3  
CITY OF SANTA CLARITA'S CAPITAL ASSETS ( net of depreciation)

	Governmental Activities		Business Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 45,311,601	\$ 42,526,051	\$ 10,787,880	\$ 10,787,880	\$ 56,099,481	\$ 53,313,931
Construction in progress	38,391,194	40,881,359	6,586,824	1,924,996	44,978,018	42,806,355
Infrastructure, net	18,821,435	8,261,878	-	-	18,821,435	8,261,878
Depreciable site improvements, net	4,386,172	4,674,535	-	-	4,386,172	4,674,535
Depreciable buildings and improvements, net	27,823,162	17,755,253	11,237,534	11,183,774	39,060,696	28,939,027
Depreciable equipment, net	2,675,716	2,912,980	12,451,860	7,868,933	15,127,576	10,781,913
<b>TOTALS</b>	<b>\$ 137,409,280</b>	<b>\$ 117,012,056</b>	<b>\$ 41,064,098</b>	<b>\$ 31,765,583</b>	<b>\$ 178,473,378</b>	<b>\$ 148,777,639</b>

Major capital asset events during the year included:

- Development of a master site plan for the Santa Clarita Sports Complex expansion.
- Start of construction of the City's new Transit Maintenance Facility.
- Completion of additional phases of the Cross Valley Connector, including completion of the State Route 14/Soledad Canyon portion of the roadway and beginning construction of the Golden Valley Road and Soledad Canyon Interchange.
- Completion of the Valley-Calgrove Landscaping project.
- Removal of the Sand Canyon Swales.
- Completion of lighting improvements for Phase II of Central Park.

Additional information on the City of Santa Clarita's capital assets can be located in Note 3 to the financial statements, on pages 43 through 45.

### Debt

At year-end, the City's total debt amounted to \$31.1 million in bonds, notes, capital leases, contracts, and compensated absences as shown in Table 4. A summary of debt activity for the year follows.

**CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)**

**TABLE 4  
CITY OF SANTA CLARITA'S OUTSTANDING DEBT**

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Refunded certificates of participation	\$ 18,335,000	\$ 18,975,000	\$ -	\$ -	\$ 18,335,000	\$ 18,975,000
Certificates of participation	2,040,000	2,665,000	-	-	2,040,000	2,665,000
Notes payable	-	2,507,371	-	-	-	2,507,371
Contract and leases payable	6,437,103	4,397,822	2,236,624	3,088,996	8,673,727	7,486,818
Compensated absences	1,253,637	1,146,333	-	-	1,253,637	1,146,333
Claims Payable	813,432	1,124,927	-	-	813,432	1,124,927
<b>TOTALS</b>	<u>\$ 28,879,172</u>	<u>\$ 30,816,453</u>	<u>\$ 2,236,624</u>	<u>\$ 3,088,996</u>	<u>\$ 31,115,796</u>	<u>\$ 33,905,449</u>

The City's governmental activities had \$28.9 million in debt at year-end. Governmental Activities long-term debt decreased by \$1.9 million during the year. A summary of the activity follows:

- During the year the City used funds from the upfront payment of rental revenues from the Santa Clarita Public Financing Authority to satisfy \$2.52 million in outstanding principal and accrued annual interest at the rate of 10% related to an existing Note Payable with Price Enterprise, Inc. The upfront rental revenues received by the City were authorized under terms of a new \$2.6 million fixed rate lease/leaseback transaction between the City and the Santa Clarita Public Finance Authority, who in turn assigned all rights to Zions First Nation Bank. The new lease/leaseback transaction bears interest at a fixed rate of 3.64%.
- Compensated absences liability for that portion of unused, earned vacation compensation that is not expected to be paid within the coming fiscal year, increased by \$107,304.

Debts issued in prior years have been used to finance land acquisitions and various capital projects.

The City's business-type activities debt decreased by \$852,372, from \$3,088,996 to \$ 2,236,624. No new debt related to business-type activities was issued or refinanced during the current fiscal year. Debt in the business-type activities is for capital leasing of buses and other transit-related equipment.

During the fiscal year ended June 30, 2004, the City was able to meet its current year debt obligation in a timely matter. State statutes limit the amount of general obligation debt a governmental entity may issue to 15% of its total assessed valuation. The debt limitation for the City as of June 30, 2004 was \$2,041,030,304.

Additional information on the City of Santa Clarita's debt can be located in Note 4 to the financial statements, on pages 46 through 54.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

In preparing the budget for FY 2004-05, management looked at the following economic factors:

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS (CONTINUED)**

- Sales tax revenues, which are the City's largest general fund revenue source, are anticipated to increase by 5%, due to anticipated increases in local consumer spending and completion of new retail sales centers within the City.
- New housing and increases in property sales are expected to contribute to an increase of approximately 7% in property taxes.
- At the time of budget adoption, the state budget deficit was still causing uncertainty in regard to the potential impact to the City. The Motor Vehicles License Fee (VLF) "backfill" was again being considered as the most likely potential revenue loss the City considered when evaluating the possible fall out from the State deficit, and therefore the city reduced budgeted VLF revenues by \$6 million dollars for the coming year.
- In light of the general uncertainty regarding the State's budget crisis, the City has continued to take a conservative approach to estimating revenues and provided for increases to build up the general fund balance operating reserves in order to lessen the immediate impact of future State revenue losses.

Compared to the June 30, 2004 fiscal year adopted budget, the City's general fund operating and capital expenditures for the coming year are budgeted at \$62.77 million, which represents an increase of 5.4%. In comparison, the budgeted general fund revenues for fiscal year June 30, 2005 are budgeted at \$59.77 million, which represents an increase less than 1% over the prior year. Included in the 2004-05 general fund operating budget are; additional reserves for operations, TMC mining project opposition, South Santa Clarita Annexation, capital projects and MTA grant matches. Additionally, appropriations in 2004-05 are provided for the One Valley One Vision joint general plan, the Shop Local Campaign, traffic signal timing throughout the city, the Newhall Farmer's Market, operational funds for the new Community Center and Transit Maintenance Facility, and a 4.5 % increase for police services.

The City's 2004-05 operating budget for all funds decreased by 3.4% to a total of \$92.3 million.

The City continues to grow with new commercial and residential development, street improvements, park construction, and various other projects. The 2004-05 budget is a reflection of the City's commitment to the residents of Santa Clarita. The City has adopted a conservative approach to the 2004-05 budget, yet has also provided for a consistent high level of service. The City has made a commitment to allocate resources for public safety, cultural/social programs, and infrastructure improvements. A copy of the City's 2004-05 budget can be obtained by contacting the City Finance Division.

## **CONTACTING THE CITY'S FINANCIAL DIVISION**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the City's Finance Division, at the City of Santa Clarita, 23920 Valencia Boulevard, Suite 295, Santa Clarita, California 91355, or (661) 255-4377.

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See independent auditors report