



City of
SANTA CLARITA

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January 28, 2011

Honorable Mayor, Mayor Pro Tem, and City Councilmembers:

The Comprehensive Annual Financial Report (CAFR) of the City of Santa Clarita for fiscal year ended June 30, 2010 is hereby submitted, in accordance with Chapter 2.12 of the City of Santa Clarita Municipal Code. This report provides the City Council and the public with an understanding of the financial condition of the City of Santa Clarita as of June 30, 2010.

This report consists of management's representations concerning the finances of the City of Santa Clarita. As such, management assumes full responsibility for the completeness and reliability of the information contained in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive framework of internal controls that is designed to protect the City's assets from loss, theft or misuse, and to compile sufficient reliable information for the preparation of the City's financial statements. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City of Santa Clarita.

State Law requires the City to prepare an annual financial report. This report fulfills that obligation. Caporicci & Larson, Inc., an independent firm of certified public accountants, has issued an unqualified "clean" opinion on the City of Santa Clarita's financial statements for the year ended June 30, 2010. The independent auditor's report is located at the front of the financial section of this report. The CAFR has been prepared in conformity with Generally Accepted Accounting Principles (GAAP) and with the financial reporting requirements prescribed by the Governmental Accounting Standards Board (GASB). These reporting requirements specify that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of a Management's Discussion and Analysis (MD&A). The MD&A, which immediately follows the independent auditor's report, complements this letter of transmittal and should be read in conjunction with it.

Also, as a recipient of federal and state financial assistance, the City is required to have a "Single Audit" performed by our independent audit firm. The Single Audit was designed to meet the special needs of the federal grantor agencies. The standards governing the Single Audit engagements require that the independent auditor report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City's separately issued Single Audit Report.



CITY PROFILE

The City of Santa Clarita officially incorporated on December 15, 1987 as a General Law City, and operates under a City Council/City Manager form of government. Located 35 miles northwest of downtown Los Angeles and 40 miles east of the Pacific Ocean, between Interstate 5 and State Highway 14, Santa Clarita forms an inverted triangle with the Santa Susana and San Gabriel mountain ranges. Encompassing the communities of Canyon Country, Newhall, Saugus, and Valencia, Santa Clarita covers approximately 55 square miles. With a population of approximately 180,000, the City is the 26th largest city in the State of California and the fourth largest in Los Angeles County. Santa Clarita residents enjoy an expansive year-round parks and recreation network, featuring 20 beautiful parks totaling 250 acres, and more than 60 miles of picturesque trails and paseos designed for commuting and recreational use, including walking, riding, jogging, and skating. With its unique blend of rural, old west heritage, and urban sophistication, this fast-growing City has established an enviable balance between quality living and growth.

Santa Clarita has attracted regional and national sports events like the Amgen Tour of California, Volcom Skate Park event, Southern California Junior Olympics, and the 2010 United Soccer League Woman's Championship.

The City of Santa Clarita's five City Councilmembers are elected at large to four-year overlapping terms, with elections held bi-annually. The position of Mayor is selected from among the Councilmembers. The governing Council is responsible, among other things, for passing ordinances, adopting the budget, setting policy, and appointing committees. The City Council appoints the City Manager, who is responsible for carrying out the policies and ordinances of the Council, overseeing the day-to-day operations of the government, and for appointing the various Department Heads. The City Council also appoints the City Attorney.

The City provides, either directly or under contract, a full range of municipal services including public safety, construction, maintenance of streets and other infrastructure, public works, parks and recreation, community development, and cultural events. The City also provides services through the Santa Clarita Redevelopment Agency (RDA) and the Santa Clarita Public Financing Authority (PFA), which are blended component units of the City of Santa Clarita. The financial activities of these entities are included on this report as their activities are under the control of the City. Separate component unit reports for each entity are also available.

The City operates on a fiscal year basis which begins July 1 and ends June 30. The City's Municipal Code requires the City Manager to prepare a budget and present it to the City Council each year. The budget process begins by January of each year and is carried out under the direction of the City Manager in cooperation with the various City departments. The proposed operating and capital budget is submitted by the City Manager to City Council for adoption by June 30, to take effect at the beginning of the fiscal year on July 1. Budgetary control for the City is maintained through its accounting systems. Once adopted, the budget may be amended throughout the year as necessary. Budgetary control is established at the function or program level within each fund.

LOCAL ECONOMY

Located minutes from the Bob Hope Airport in Burbank, the City of Santa Clarita enjoys a prime position in north Los Angeles County and is one of Southern California's most sought-after places to live and to do business. City officials pride themselves on the organization's ability to balance the needs of locally based companies with those of the community, resulting in an unmatched quality of life that is quintessentially California.

The instability of national and world financial markets in the last two fiscal years heightened awareness of city programs and budgets throughout the state. The City has a 100 percent track record for adopting a balanced, on-time budget, with ample reserves and contingency funds. Santa Clarita is proud to share Fiscal Year 09-10 was successful and stable for the City.

Santa Clarita boasts one of the lowest unemployment rates in Los Angeles County at 7.7 percent, compared to 12.5 for Los Angeles County and 12.2 percent for the state of California (as of September 2010). Targeted employment sectors in Santa Clarita include aerospace, biomedical, entertainment, and technology. Several noted and internationally recognized brands based in the Santa Clarita Valley opened new operation centers or expanded existing facilities in the last year including, Advanced Bionics, Boston Scientific, Bioness, Princess Cruises, Pharmavite, Aerospace Dynamics International, Santa Clarita Studios, among others. Additionally, Disney/ABC Studios recently announced the “Studios at the Ranch” project which will bring a dozen new sound stages and a production facility and an additional 3,000 jobs to the Santa Clarita Valley.

While prudent fiscal planning on behalf of the City of Santa Clarita City Council has lessened the affect of the global economic slowdown, which has devastated some local communities, the City was not immune to the hardships of the recession.

In 2009, the City of Santa Clarita was named as Los Angeles’ most business friendly city by the Los Angeles Economic Development Corporation, citing the City’s many business-friendly practices including the innovative 21-Point Business Plan for Progress, adopted by the City Council in 2009. This program, which includes more than \$18 million dollars of investment in results-driven initiatives to stimulate the economy at the local level, was developed at the request of the City Council and designed with input from several key industry liaisons and business-minded community organizations, including the Santa Clarita Chamber of Commerce, College of the Canyons, and Val Valley Industry Association.

The City’s entertainment industry enjoyed many successes in the year, with FY 09-10 resulting in an economic impact of nearly \$20 million to local businesses from location filming alone. Santa Clarita is home to more than 20 sounds stages and 10 movie ranches and hundreds of film related businesses. Five network television shows, including HBO’s “Big Love,” CBS’s “NCIS,” ABC Family’s “Make it or Break it,” FX’s “Justified,” and TNT’s “Franklin and Bash” base in Santa Clarita and regularly film on location in the City.

Tourism continues to be one of the City of Santa Clarita’s largest economic generators contributing more than \$2 million to the general fund from Transient Occupancy Tax (T.O.T.). Attraction of regional and national sports tourism events like the AT&T Champions Classic, Amgen Tour of California, Volcom Skate Park event, Southern California Junior Olympics, and the 2010 United Soccer League Woman’s Championship, generates additional visitors in Santa Clarita and increased revenue for the City and its businesses

The City of Santa Clarita continually develops and implements programs to help existing businesses succeed while also initiating programming designed to grow targeted business sectors in the coming years. Los Angeles Economic Development Corporation (LAEDC) named the City of Santa Clarita the most business-friendly city in the county. Santa Clarita has also been named one of the Top 25 City Retail Markets in California by the California Retail Survey for two consecutive years, and new retail centers such as Bridgeport Marketplace and Plaza at Golden Valley are anchored with strong tenants like California Pizza Kitchen, Southern California Orthopedic Institute, Lowe’s, Kohl’s, and Target. The City’s continued control of expenditure growth is a key factor in maintaining the City’s strong financial position.

The City of Santa Clarita continues to use business attraction and retention programs like the Enterprise Zone Program to support business by providing tax incentives to businesses located within the zone. The Santa Clarita Enterprise Zone encompasses 97 percent of all commercial and industrial zoned property in the

City, including both existing and proposed development areas, and has proven to be a powerful business attraction and retention tool. To date, Santa Clarita Enterprise Zone staff has issued over 2,556 employee vouchers for jobs created or retained as a result of the Enterprise Zone program, potentially saving local employers almost \$96 million because of State income tax credits.

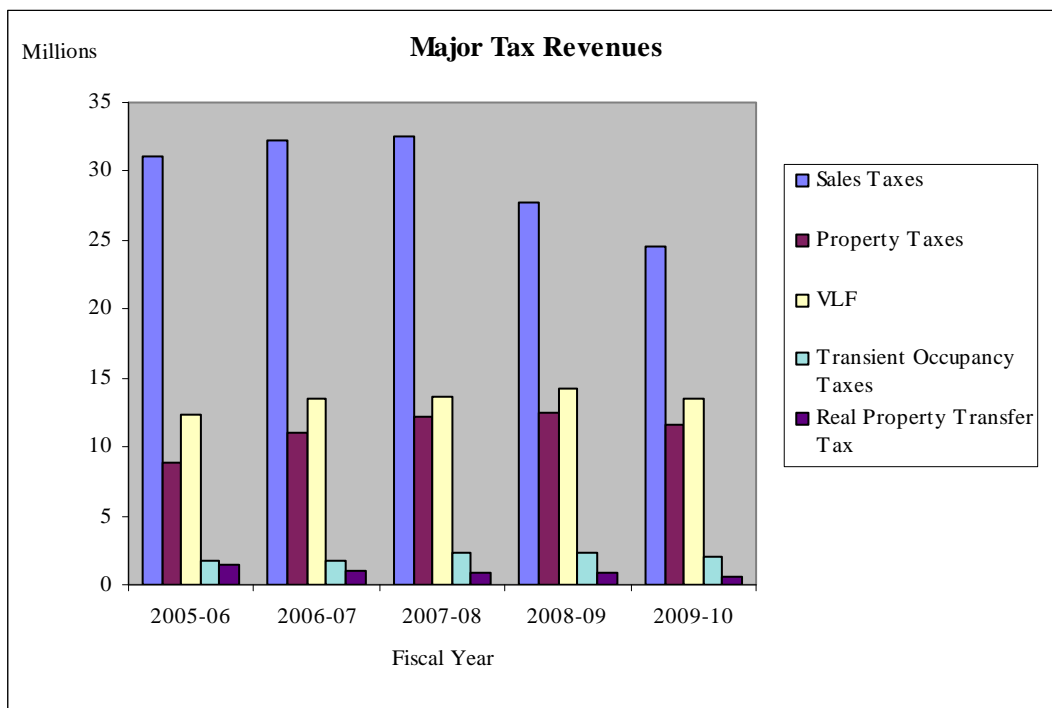
Santa Clarita recognizes the important role education plays in the success of the community. The City is home to three premier colleges, including California Institute of the Arts (CalArts), College of the Canyons, and the Masters College, all of which offer world-class instruction and programming that prepares students to become the next generation of business professionals and leaders. Santa Clarita was named one of the best communities for young people by America’s Promise, the nation’s largest private-public partnership.

LONG -TERM FINANCIAL PLANNING

Santa Clarita’s well-planned community is home to approximately 180,000 residents and is consistently ranked one of California’s model cities, boasting the essential elements needed for well-balanced living and total wellbeing. Santa Clarita ranks as one of the safest cities in California among cities with populations exceeding 150,000. Santa Clarita is home to a well-educated population, with more than 61 percent of adults over age 25 and older having attained some college or higher, as compared to Los Angeles County, which averages 43 percent.

The City of Santa Clarita has experienced continuous growth since its inception in 1987 and City officials work directly with the private and public sectors to attract new businesses to the Santa Clarita Valley. This year the City was successful in attracting Advanced Bionics to locate in the City that added 350 high-paying jobs. Through the Enterprise Zone, the City’s new job growth totals 750. The City of Santa Clarita is focused on retaining existing companies and encouraging their growth within the City, while working to attract new business, thereby creating new jobs for residents. Santa Clarita has set an aggressive goal of creating two jobs for every household, providing increased opportunities for residents to work close to home.

The current economic downturn has directly affected the City’s revenue growth, producing decreases in sales tax, property tax, property tax in-lieu of Vehicle License Fee (VLF), Transient Occupancy Tax (TOT), and real property transfer tax revenues for Fiscal Year 09-10.



The City provides necessary funding for essential services for City Council and community identified priorities, while taking steps to ensure the City remains in good financial health. Annually, the City prepares extended forecasts for the General Fund to determine the future impact of current actions. These forecasts indicate a flat or stable General Fund over the next few years, primarily due to projected decreases in sales, property taxes, and property taxes in lieu of VLF. However, because the City of Santa Clarita has practiced smart growth in successful times, the City is well prepared for these times when revenue projections do not include growth.

The City maintains a General Fund balance sufficient to provide for various identified contingencies, as well as an established operating reserve. In addition, the General Fund contributes annually to the City's facilities replacement fund, which provides for major maintenance and replacement of infrastructure and capital improvements. The City's Capital Improvement Program (CIP) is a component of the annual budget process that addresses the City's short-and-long-term capital needs. Just as important, the CIP emphasizes a plan of action that effectively maintains the existing infrastructure to a sound physical standard, as well as providing new facilities to support current growth and complement new development.

MAJOR MILESTONES IN FISCAL YEAR 2009-2010

- ❖ On March 20, 2010, the City of Santa Clarita held the grand opening of the Cross Valley Connector project. The Cross Valley Connector is a network of roadways which has taken over 10 years to complete and at a cost of approximately \$245 million. The Santa Clarita City Council hosted the event and was attended by approximately 400-500 people.
- ❖ The City of Santa Clarita marks a new chapter for Old Town Newhall with a groundbreaking event for the new Old Town Newhall library on March 16, 2010. The new Old Town Newhall Library will house a book and media capacity of more than 135,000 items, 190 reader seats, 68 public computers, and 110 meeting seats. This new building will mark the City's second LEED-certified building.
- ❖ On February 13, 2009, Congress passed the American Recovery and Reinvestment Act of 2009 and was later signed into law by President Obama. The City of Santa Clarita received a total of \$16.79 million in funding. The funds awarded to the City will be used to fund various road maintenance projects, the McBean Park and Ride Project, the Neighborhood Stabilization Program, and significant Transit improvements including the Transit Maintenance Facility Solar Canopies, and the Transit Information Network Project, to name a few.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting, to the City of Santa Clarita for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009. This was the twenty-first consecutive year the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement for Excellence in Financial Reporting, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy GAAP and applicable legal requirements.

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

This report is a joint effort by many people from many different areas of responsibility. The preparation of this report could not have been accomplished without the hard work and team effort of the Finance Division. I would like to express my appreciation to all members of the Division who assisted and contributed to its preparation. I would also like to thank the Mayor, Mayor Pro Tem, Councilmembers, City Manager Ken Pulskamp, Assistant City Manager Ken Striplin, Director of Public Works Robert Newman, Director of Parks, Recreation and Community Service Rick Gould, and Director of Community Services Paul Brotzman, for their continuing efforts in administering the financial operations of the City in a conservative and responsible manner.

Sincerely,

A handwritten signature in blue ink, appearing to read "Darren Hernández", with a stylized flourish at the end.

Darren Hernández,
Deputy City Manager

DH:cm