

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, 2005. 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 \$312.21 million. Of this amount, \$52.4 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 31.3%, with net assets of the business-type activities increasing by \$19.6 million, or 53.3%, and net assets of the governmental activities increasing by \$54.78 million, or 27.3%.
- During the year, the City's revenues for governmental activities totaled \$8.14 million more than \$76.39 million in related expenses.
- In the City's business-type activities, transit related revenues of \$21.06 exceeded the expenses by \$5.82 million.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$74.55 million. This represents an increase of \$2.74 million as compared to the prior year.
- The unreserved portion of fund balances, which is available for spending at the government's discretion, amounts to \$31.6 million, or 42.5% of the total fund balance. This represents a 74.17% increase over the previous years unreserved fund balances of \$18.2 million.
- The general fund had \$46.4 million in fund balance as of current year-end. The increase of \$11.27 million over the prior year amounts to a 32.06% increase. This net increase in fund balance is due to increases amounting to over \$9 million in tax and fee related revenues, as well as increases in investment income and service fees.

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, 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, developer fee fund, and federal grants special revenue 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 28 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 67-72 of this report.

Governmental Funds (continued)

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 76-128 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 \$ 74.39 million, increasing from \$237.82 million to \$312.22 million.

TABLE 1
CITY OF SANTA CLARITA'S NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
<u>ASSETS:</u>						
Current and Other Assets	\$ 141,317,765	\$ 118,550,484	\$ 4,655,854	\$ 728,139	\$ 145,973,619	\$ 119,278,623
Capital assets	185,069,305	137,409,280	59,298,171	41,064,098	244,367,476	178,473,378
TOTAL ASSETS	326,387,070	255,959,764	63,954,025	41,792,237	390,341,095	297,752,001
<u>LIABILITIES:</u>						
Long Term Liabilities	24,893,838	26,570,370	1,586,318	1,919,312	26,480,156	28,489,682
Other Liabilities	45,765,139	28,439,910	5,879,495	3,005,423	51,644,634	31,445,333
TOTAL LIABILITIES	70,658,977	55,010,280	7,465,813	4,924,735	78,124,790	59,935,015
<u>NET ASSETS:</u>						
Invested in capital assets, net of related debt	160,829,971	110,924,177	57,378,860	38,827,474	218,208,831	149,751,651
Restricted	41,540,800	40,362,986	-	-	41,540,800	40,362,986
Unrestricted	53,357,322	49,662,321	(890,648)	(1,959,972)	52,466,674	47,702,349
TOTAL NET ASSETS	\$ 255,728,093	\$ 200,949,484	\$ 56,488,212	\$ 36,867,502	\$ 312,216,305	\$ 237,816,986

THE CITY AS A WHOLE (continued)

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, 2005, assets exceeded liabilities by \$312.21 million. The largest component of the City's net assets, 69.8%, is represented by its \$218.2 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 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, 13.3%, represents resources subject to external restrictions on how they may be used. The remaining 16.8% of unrestricted net assets, \$52.5 million may be used to meet the City's ongoing obligations to citizens and creditors.

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 \$54.8 million over the prior year, \$49.9 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 \$19.6 million. The unrestricted portion of the business-type activities net assets are deficit by \$890,648 however, this represents a 54.6% reduction over the prior year deficit in this category.

Governmental Activities

The City's net assets from governmental activities increased \$54.8 million in the current year accounting for over 73.6% of the total \$74.4 million growth in the City's net assets. Revenues from governmental activities were up by 25.3% to equal \$144.9 million. The cost of all governmental activities this year was \$76.4 million, an increase of 10.2% over the prior year. However, as shown in the Statement of Activities, the governmental activities expenditures were ultimately financed in part by the taxpayers as \$28.7 million in revenues were generated by service revenues received from the performance of these activities; another \$21.3 million was received from government agencies and other organizations that subsidized certain programs with operating grants and contributions; and another \$34.5 million in revenues was generated from capital grants and contributions. As in the prior year, the Public Works and Community Development programs show the generation of respective net revenues of \$.9 million and \$30.1 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 amounted to \$84.5 million, which funded the expenditures and contributed an additional \$8.1 million to the increase in net assets. The City also realized other non-program governmental revenues of \$60.3 million. Key elements contributing to the \$29.2 million increase in revenues from governmental activities are:

- The City recognized \$22.3 million more in capital grants and contributions than in the prior year.

THE CITY AS A WHOLE (continued)

- Total combined tax revenues which includes property tax, sales tax, transient occupancy tax, and franchise taxes increased by 5.3% during the year - a result of increased and continued growth within the city.
- Increased cash and investment balances and rising interest rates allowed investment income to increase by over 150%, providing an additional \$1million in investment earnings over the prior year.

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

	Government Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Program Revenues:						
Charges for services	\$ 28,724,845	\$ 28,041,452	\$ 5,224,575	\$ 4,581,799	\$ 33,949,420	\$ 32,623,251
Operating grants and contributions	21,301,215	18,503,221	15,834,845	8,937,213	37,136,060	27,440,434
Capital grants and contributions	34,503,830	12,239,868	-	-	34,503,830	12,239,868
General Revenues						
Taxes:						
Property taxes, levied for general purposes	9,023,363	9,452,945	-	-	9,023,363	9,452,945
Other Taxes	48,785,487	45,464,015	-	-	48,785,487	45,464,015
Grants and contributions not restricted						
to specific programs	872,475	1,279,029	93,334	-	965,809	1,279,029
Other	1,663,699	655,106	4,538	17,800	1,668,237	672,906
Total Revenues	<u>144,874,914</u>	<u>115,635,636</u>	<u>21,157,292</u>	<u>13,536,812</u>	<u>166,032,206</u>	<u>129,172,448</u>
General government	9,930,958	10,645,351	-	-	9,930,958	10,645,351
Public safety	12,437,170	12,113,853	-	-	12,437,170	12,113,853
Public works	11,754,949	8,859,452	-	-	11,754,949	8,859,452
Parks and recreation	17,637,475	15,370,145	-	-	17,637,475	15,370,145
Community development	22,371,678	20,482,573	-	-	22,371,678	20,482,573
Unallocated infrastructure						
depreciation	701,261	243,369	-	-	701,261	243,369
Interest on long term debt	1,560,223	1,608,577	-	-	1,560,223	1,608,577
Transit	-	-	15,239,173	14,557,850	15,239,173	14,557,850
Total Expenses	<u>76,393,714</u>	<u>69,323,320</u>	<u>15,239,173</u>	<u>14,557,850</u>	<u>91,632,887</u>	<u>83,881,170</u>
Increase in Net Assets before transfers	<u>68,481,200</u>	<u>46,312,316</u>	<u>5,918,119</u>	<u>(1,021,038)</u>	<u>74,399,319</u>	<u>45,291,278</u>
Transfers	(13,702,591)	(9,737,217)	13,702,591	9,737,217	-	-
Increase In Net Assets	<u>54,778,609</u>	<u>36,575,099</u>	<u>19,620,710</u>	<u>8,716,179</u>	<u>74,399,319</u>	<u>45,291,278</u>
Net Assets – Beginning of Year	<u>200,949,484</u>	<u>164,374,385</u>	<u>36,867,502</u>	<u>28,151,323</u>	<u>237,816,986</u>	<u>192,525,708</u>
Net Assets – End of Year	<u>\$ 255,728,093</u>	<u>\$ 200,949,484</u>	<u>\$ 56,488,212</u>	<u>\$ 36,867,502</u>	<u>\$ 312,216,305</u>	<u>\$ 237,816,986</u>

THE CITY AS A WHOLE (continued)

Business-Type Activities

Business-type activities increased the City's net assets by \$19.6 million for the current year ended accounting for 26.4% of the total growth in the City's net assets. Business-type activities revenues increased by \$ 7.6 million during the year for a total of \$21.2 million in revenues, not including \$13.7 of transfers in from other governmental activities. While service revenues increased by \$642,776, or 14%, contributions and grants were up over 77.2% - an increase over the prior year of \$6.9 million. Related transit activity expenses increased during the year by only 4.7% to a total of \$ 15.2 million, allowing the surplus program revenues to contribute \$5.9 million to the total increase in City net assets.

THE CITY'S FUNDS

The governmental funds reported a combined fund balance at the end of the current fiscal year of \$74.5 million, an increase of \$2.7 million over the prior year. Approximately 42.5% of the ending fund balance amount, or \$31.7 million, is unreserved fund balance that is available for spending at the City's discretion. The remaining \$42.9 million is reserved and already committed for specific restricted purposes, including \$34.2 million to liquidate prior period contracts and purchase orders, \$7.8 million in advances to other funds, and \$0.9 million in restricted funds for low and moderate housing programs.

The total governmental fund balance includes the general fund balance of \$46.5 million, which increased by \$11.3 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 \$15.7 million in reserved general fund balance accounted for 33.7% of the total. The unreserved general fund balance of \$30.8 million, which is available for spending at the City's discretion, is \$7.7 million greater than the prior year. The 32.1% increase in overall general fund balance reflects increases of \$9.2 million in property, sales and other taxes; \$1.2 million in service charges; \$.8 million increase in investment earnings; and a corresponding 6.1% increase in total operating expenditures over the prior year. The City's general fund balance has reserved \$15.7 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 up by only \$124,701, or 1.1%. Over 92% of the bridge and thoroughfare fund revenues are comprised of developer fees, which remained on the rise throughout the year with an increase of 18.5%. The \$1.1 million increase in developer fee revenues represents new permitting and development activity continuing within the City. Additional new capital projects were undertaken or continued during the year, contributing to the \$1.1 million increase in various improvement projects within the districts. \$10.9 million of the ending \$11.1 million fund balance is reserved for outstanding purchase orders and contracts related to current district improvement projects. Partial funding of these projects was obtained through an additional \$2.9 million in advances from the general fund.

THE CITY’S FUNDS (continued)

- The \$1.09 million developer fees fund balance increased in the current year by \$126,213, or 13.04%. Although capital expenditures increased by \$1.8 million over the previous year, sufficient developer fees were collected during the year to allow for the deferred revenues balance to increase by \$1.14 million over the previous year. Despite the realized increases in both developer fees and investment earnings, the year end cash and investment balance of \$10.9 million is \$2.2 million less than the balance of developer fees deferred for use in to future street improvement projects. This is partially due to an increase of \$3.1 million in cash advanced to other city funds.
- The federal grants fund balance decreased in the current year by \$7.2 million. This reduction is primarily due to the timing differences between the recognition of grant related expenditures and the related reimbursement revenues. Over \$7.6 million in grant revenues related to various significant grant funded projects has been deferred as of fiscal year end. These revenues were earned in fiscal year 2005, but will be not be received within 60 days of fiscal year end, and therefore will be recognized as revenue of subsequent periods.

In addition to the major funds, the fund balances for the other non-major governmental funds experienced an aggregate decrease of \$1.5 million, resulting in an overall 6.2% decrease in non-major fund balances.

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 53.2%, or \$19.6 million. Over \$16.4 million of the increase is represented by investments in the acquisition and construction of capital assets. The unrestricted portion of the business-type activities net assets are deficit by \$.9 million. This deficit amount is \$1.07 million less than that of the prior year, as the \$9.3 million operating loss was offset by \$15.3 million in grant revenues, and over \$13 million in interfund transfers and contributions, representing respective increases of 85.8% and 40.7%. Internal service funds net assets increased by 15.5%, ending the fiscal year with a fund balance of \$13.4 million, of which \$12.9 million is unrestricted.

General Fund Budgetary Highlights

Comparison of the FY 2004-05 original (adopted) general fund budgeted expenditures and transfers of \$62.8 million to the final budgeted expenditures of \$79.7 million results in a net increase of \$16.9 million.

Included in this net increase is \$4.5 million in committed purchase orders and contracts from the prior June 30 balance, as well as \$760,289 of prior fiscal year operating and capital improvement projects approved for carryover into fiscal year 2004-05. The resulting beginning budget balance was equal to \$68 million.

Original Budget +	Cont. Appropriations +	Encumbrances =	Beg. Balance +	Supplemental Changes =	Final Budget
\$62,775,177 +	\$760,289 +	\$4,513,332 =	\$68,048,798+	\$11,667,355 =	\$79,716,153

Comparing the beginning budget of \$68.0 million with the final budget of \$79.7 million indicates the general fund had supplemental budgetary appropriations of \$11.7 million during the 2004-05 fiscal year. Included in the supplemental appropriations are the results of the mid-year budget review.

THE CITY'S FUNDS (continued)

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. Additional midyear appropriations included \$1 million for transfer to the City's facility replacement reserve fund, \$500,000 for the capital projects reserve, and another \$1 million for the council contingency reserve. In addition, \$2 million of general fund balance was appropriated for the 2004-05 Street Overlay Program and another \$1.7 million was appropriated to various capital improvement projects.

Major differences between the City's general fund adopted budgeted revenues and transfers of \$59.7 million and the final amended budgeted revenues of \$69.2 million are the results of changes made at the mid-year budget review. Based on updated information and increased development within the City, budgeted general fund revenues were increased at mid-year by a total of \$7.2 million. Included in these increases were \$6.0 million for sales and property tax revenues and \$.5 million for development related fees.

At year end, the City's actual revenues for the year exceeded the final budgetary estimates by over \$7 million. Actual expenditures were less than the final budgetary estimates by over \$14 million. The City's general fund experienced a net increase in fund balance of \$11.3 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2004-05, the City had \$244.4 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	
	2005	2004	2005	2004	2005	2004
Land	\$ 57,389,548	\$ 45,311,601	\$ 10,787,880	\$ 10,787,880	\$ 68,177,428	\$ 56,099,481
Construction in progress	40,510,738	38,391,194	21,194,759	6,586,824	61,705,497	44,978,018
Infrastructure, net	48,907,564	18,821,435	-	-	48,907,564	18,821,435
Depreciable site improvements, net	8,572,946	4,386,172	-	-	8,572,946	4,386,172
Depreciable buildings and improvements, net	27,275,195	27,823,162	10,793,127	11,237,534	38,068,322	39,060,696
Depreciable equipment, net	2,413,314	2,675,716	16,522,405	12,451,860	18,935,719	15,127,576
TOTALS	\$ 185,069,305	\$ 137,409,280	\$ 59,298,171	\$ 41,064,098	\$ 244,367,476	\$ 178,473,378

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Major capital asset events during the year included:

- Significant progress in the construction of the City's new environmentally friendly Transit Maintenance Facility with anticipated completion set for March 2006.
- Completion of additional phases of the Cross Valley Connector, including completion of the State Route 14 / Golden Valley Road segment of the roadway and near completion of the construction of the Golden Valley Road and Soledad Canyon Interchange.
- Opening of the new 17-acre Valencia Heritage Park.
- Completion of the Veterans Historical Plaza, which provides a park setting and historical commemoration of the City's veterans.
- Completion of a new sewer system for the Placerita Canyon area of the city.
- Reparation and clean up of over \$2 million in improvements related to 11 different storm damaged project sites.
- Significant progress in the construction of the City's Newhall Community Center, which will service over 1,200 of the City's children each month upon opening in January 2006.

Additional information on the City of Santa Clarita's capital assets can be located in Note 3 to the financial statements on pages 48 thorough 50.

Debt

At year-end, the City's total debt amounted to \$29.2 million in bonds, notes, capital leases, contracts, claims payable, and compensated absences as shown in Table 4. A summary of debt activity for the year follows.

TABLE 4
CITY OF SANTA CLARITA'S OUTSTANDING DEBT

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Refunded certificates of participation	\$ 17,640,000	\$ 18,335,000	\$ -	\$ -	\$ 17,640,000	\$ 18,335,000
Certificates of participation	1,390,000	2,040,000	-	-	1,390,000	2,040,000
Notes payable	-	-	-	-	-	-
Contract and leases payable	5,721,990	6,437,103	1,919,311	2,236,624	7,641,301	8,673,727
Compensated absences	1,381,872	1,253,637	-	-	1,381,872	1,253,637
Claims Payable	1,148,067	813,432	-	-	1,148,067	813,432
TOTALS	\$ 27,281,929	\$ 28,879,172	\$ 1,919,311	\$ 2,236,624	\$ 29,201,240	\$ 31,115,796

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

The City's governmental activities had \$27.3 million in debt at year-end. Governmental Activities long-term debt decreased overall by \$1.6 million during the year. A summary of the activity giving rise to new increases in debt is as follows:

- 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 \$128,235.
- Claims payable liability for that portion of incurred and reported claims as well as incurred but unreported claims that a not expected to be paid within the coming fiscal year, increased by \$334,635.

No other new debt related to governmental activities was issued or refinanced during the current fiscal year. 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 \$317,313, from \$ 2,236,624 to \$1,919,311. 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, 2005, 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, 2005 was \$2,211,339,681.

Additional information on the City of Santa Clarita's debt can be located in Note 4 to the financial statements, on pages 51 through 58.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In preparing the budget for FY 2005-06, management looked at the following economic factors:

- Sales tax revenues, which are the City's largest general fund revenue source, are anticipated to increase by approximately 12%. The city has benefited from a successful campaign to encourage citizen spending to remain local. In addition, increases in sales tax revenues have been generated from new retail sales centers within the City.
- New housing and increases in property sales have continued the upward trend in property tax revenues and related transfer fees. Total property tax revenues for Fiscal Year 2005-06 are budgeted at 5% greater than the realized property tax revenues for the June 30, 2005 fiscal year.
- With the stabilization of the prior year's State's budget crisis and the passage of Proposition 1A in 2004, the City has still maintained a conservative approach to budgeting revenues, but has taken a step back from the very conservative approach that was used in prior years. Budgeted general fund revenues for fiscal year 2005-06 are 25% greater than the original budgeted revenues of the prior year; however, budgeted revenues are still lower than actual revenues realized in the prior year by less than 1%. Aside from the major areas of sales and property tax

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS (CONTINUED)

addressed above, budgeted revenues for license and permits are almost \$1 million greater than the adopted prior year budget, due to anticipation of increased building permit and map filing activity. Investment revenues, plan check fees and fees generated from parks and recreation activities are other major revenue areas that are the city anticipates will realize material increases in the 2005-06 year.

While the general fund revenues for fiscal year June 30, 2006 are budgeted at \$75.9 million, which represents an increase of 26.9% over the prior year, the City's general fund operating and capital expenditures for the coming year are budgeted at \$80.65 million, which represents an increase of 28.5%. While the operational expenditures for fiscal year 2006 have increased by almost 14%, it is the "one-time" capital project expenditures that give rise to the majority of the expenditure increase, with a budget that is almost \$8 million more, or 3 times the adopted amount of the prior year. Included in the 2005-06 general fund operating budget is over \$5.01 million in budgeted reserves, including an increase of \$2.1 million for capital project reserves and TMC mining project opposition. Additionally, general fund appropriations in 2005-06 are provided for the 2006 City Elections, a Historic Preservation Ordinance, the SCV Senior Center expansion project, the Community Median Project, the Red Light Enforcement program, and a 10 % overall increase for public safety services.

The City's 2005-06 operating budget for all funds increased by 11.16% to a total of \$103.8 million.

The City continues to grow with new commercial and residential development, street improvements, park construction, and various other projects. The 2005-06 budgets are a reflection of the City's commitment to the residents of Santa Clarita. With the completion last year of "The Big Picture" process, the City now has a community developed tangible plan to provide guidance in making the strategic and budgetary decisions that bring us closer to the outlined vision for the City and those specified "Big Picture" goals. The 2005-06 budget also continues the provision of consistent high levels of service to the community through the allocation of resources for public safety, cultural and social programs, and continued infrastructure improvements and maintenance. A copy of the City's 2005-06 budgets 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) 255-4386.