

User's Guide

Budget and CIP Guide

Purpose of an Annual Budget

The basic purpose of the City of Santa Clarita's budget is to serve as a "blueprint" for providing City services and a working financial plan, as well as providing a communication tool, for City residents, businesses, and employees. The document is specifically designed to give clear and accurate information to the community with respect to how its local government is organized and operates. The five-year Capital Improvement Program (CIP) provides a comprehensive capital planning document and a context for future capital budget allocations.

The City of Santa Clarita's Municipal Code requires the City Manager to present a balanced budget, in which ongoing revenues match or exceed ongoing expenditures, to the City Council each year. This document authorizes appropriations or eligible expenditures for the City's fiscal year, which runs from July 1 to June 30 of the following year.

Budget & Five-Year CIP Preparation

The budget is prepared each year by the City Manager's Office and the Administrative Services Department, in cooperation with other City departments and other agencies which receive public funds. The five-year CIP is prepared each year by the Public Works Department, the City Manager's Office, and the Administrative Services Department. The CIP preparation process has been integrated into the budget process.

In January of every year, each department is presented with a *Budget Preparation Guide*. The Finance Division provides estimated revenues for the coming year, as well as year-end projected revenues for the current fiscal year. Department expenditure and CIP requests are prepared reflecting these projected revenue trends and estimates. In March, the departments then submit their proposed budgets and requests for the coming fiscal year to the City Manager. Budget review is the responsibility of a Budget Team. In March and April, the City Manager's Office analyzes each individual budget and either approves, denies, or revises the requested funding amounts.

The final product becomes part of the draft, proposed Annual Budget & Five-Year CIP document presented to the City Council.

The City Council has appointed a Council Budget Subcommittee that meets regularly during the budget process. Budget study sessions are conducted with the City Council and the Commissions during the months of January through May. Citizens have an opportunity to comment on the draft document during public hearings. During the budget study session and the public participation period, the draft Annual Budget & Five-Year CIP document may be revised or amended to reflect spending priorities that may differ from those presented in the draft document. The final Annual Budget, with the corresponding CIP Budget, is adopted by resolution of the City Council and takes effect on July 1. Once adopted, the City of Santa Clarita has a new operating budget and fiscal plan for the coming year, and a five-year program for capital spending.

The calendar below reflects the time-line and process for the planning and preparation of the Annual Budget and Five-Year CIP Document:

| Budget Calendar 2011-2012 | |
|--------------------------------------|---|
| January 10 | • Budget Kick-Off Meeting |
| January 27 | • Council Budget Subcommittee Meeting |
| February 1 | • Joint Council/Planning, Parks, Recreation & Community Services, and Arts Commissions Budget Study Session |
| March 1 | • Final Budget Package Due |
| March 22-April 4 | • Department Budget Discussions |
| March 30 | • Capital Improvement Budget Funding Meeting |
| April 26 | • Council Budget Subcommittee Meeting |
| May 3 | • Budget Study Session |
| May 17 | • Budget Presentation to Planning Commission |
| May 24 | • Public Hearing of Formal Annual Budget and CIP |
| June 14 | • Adoption of Annual Budget and CIP |

Level of Control and Changes to Adopted Budget

From the effective date of the budget, the amounts stated as proposed expenditures become appropriations for the various City departments and capital improvement projects. These formal budgets are employed as a management control device during the year for the General Revenue Fund and all Special Revenue Funds. The City has prepared a line-item detail, which lists each account group within each of the three expenditure categories. This annual budget format is designed to provide a more comprehensive management and fiscal planning system to aid in the achievement of goals and objectives at the operational levels consistent with the City Council's policies.

Additional expenditures for capital outlay items must be approved by the City Manager and City Council. Funds appropriated for salaries and benefits may not be expended for any other purpose without the approval of the City Manager.

The City Manager may transfer funds within and between programs and departments. Increases to the Travel & Training or Legal Services line-items require approval of the City Manager or designee.

Budgetary control, the level at which expenditures cannot legally exceed the appropriated amount, is exercised at the category level. Administrative policies provide guidelines on budget transfers and the authorization necessary to implement transfers. Generally, there are two types of budget transfers:

Budget Adjustment: This is a transfer that does not change the total appropriated amount within a fund and does not require Council action. Depending upon the budget category affected by the transfer, approval may be granted at the City Manager level.

Department heads have discretion to reapportion funds between certain line-items within a program, but may not exceed the total appropriated amounts for each category.

Budget Amendment: This is an adjustment to the total appropriated amount within a fund which was not included in the original budget. These supplemental appropriations require formal action by the City Council.

Types of modifications can be categorized as follows:

- Unanticipated revenue, which was not projected in the budget, may be appropriated by Council for expenditure in the year received.
- Prior year reserves or fund balances may be appropriated to fund items not previously included in the adopted budget. Reserves/fund balances exceeding minimum amounts required by administrative policies may be appropriated if it is determined to be in the best interest of the City. The City Council must also appropriate reserves in case of emergencies or unusual circumstances.
- Transfers between funds require formal action by the City Council.

Unexpended appropriations automatically lapse at the end of the fiscal year, and are included in the ending fund balance calculations within each fund.

Document Organization

Introductory Sections

The first three sections of the annual budget document provide an introduction and overview of the Annual Budget and Five-Year CIP preparation process and contents.

The City Manager's Transmittal letter to the City Council outlines the key contents of the Fiscal Year Budget and the Capital Improvement Program. The fiscal health of all the fund types, as well as the City as a whole, is also discussed.

The summaries provide an easy-to-read overview of the City's revenues and expenditures, while this User's Guide provides an introduction to the City of Santa Clarita and an explanation of how to use this document.

It is important to note that the City's revenue estimates make assumptions based on actual experience and current knowledge of impending circumstances. Expenditure requests, in turn, reflect these assumed revenue trends.

Department Budget Sections

The next nine sections represent the main body of the Annual Budget. These sections contain all five City departments, Public Safety, City Attorney, Santa Clarita Redevelopment Agency, and the Santa Clarita Public Library budgets. Each of these sections begins with an overview of the department and budget summaries. Each program has a narrative page outlining the program's purpose, primary activities, performance goals, and performance measures.

Five-Year Capital Improvement Program Sections

These sections contain detailed information about the capital improvement projects that the City plans to initiate over the next five years. Each project information sheet includes the project name, number and location (written and visual), a brief description of the project, a statement of justification, a breakdown of project costs by typical expenditure category, and a breakdown of project funding by source. Examples of a department program budget and a CIP project information sheet follow.

Example of a Program Budget:

| Funding Source: General Fund | | |
|---|--------------------------------|------------------|
| Account Number: 11000 § | | |
| Personnel | | |
| 5001.001 | ① Regular Employees | 1,028,070 |
| 5003.001 | Overtime | 1,500 |
| 5004.002 | Vacation Payout | 40,986 |
| 5006.001 | Sick Leave Payout | 17,022 |
| 5011.001 | Health & Welfare | 123,990 |
| 5011.002 | Life Insurance | 2,406 |
| 5011.003 | Long-Term Disability Insurance | ② 6,579 |
| 5011.004 | Medicare | 19,139 |
| 5011.005 | Worker's Compensation | 20,352 |
| 5011.001 | PERS | 203,258 |
| 5011.007 | Deferred Compensation | 26,000 |
| Total Personnel | | 1,489,302 |
| Operations & Maintenance ③ | | |
| 5101.001 | Publications & Subscriptions | 2,450 |
| 5101.002 | Membership & Dues | 8,060 |
| 5101.003 | Office Supplies | 640 |
| 5101.004 | Printing | 3,000 |
| 5101.005 | Postage | 2,225 |
| 5111.001 | Special Supplies | 7,000 |
| 5131.003 | Telephone Utility | 3,000 |
| 5161.001 | Contractual Services | 133,000 |
| 5161.002 | Professional Services | 23,507 |
| 5191.001 | Travel & Training | 26,300 |
| 5131.004 | Auto Allowance & Mileage | 16,835 |
| 5211.001 | Computer Replacement | 12,551 |
| 5211.004 | Insurance Allocation | 54,419 |
| Total Operations & Maintenance | | 292,987 |
| Total 2011/12 Budget ④ | | 1,782,289 |

① Account Code: The first five numbers indicate the department and division or subdivision. The second set of seven numbers indicates a specific line-item.

② Appropriation: For fiscal year

③ Category: The budget is divided into three categories: Personnel, Operations & Maintenance, and Capital Outlay. Each department is required to stay within the category allocation. (The City Council program does not have a Capital Outlay category.)

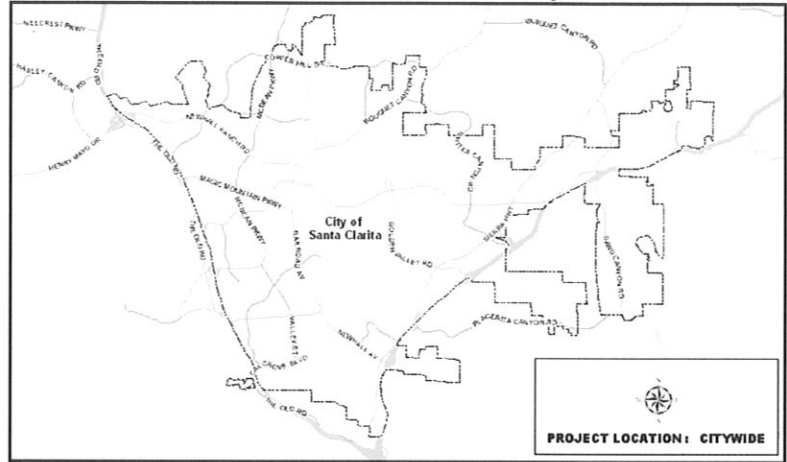
④ Bottom Line: Total appropriation for the budget program.

Capital Project Information Guide:

Project Name: 2011-12 OVERLAY AND SLURRY SEAL PROGRAM

Project Number: M0084

Project Location:
Citywide



Description: The annual Overlay and Slurry Seal Program reflects the City’s commitment to sound pavement management of the roadway infrastructure by overlaying streets in need of attention. Streets will be selected based on recommendations from the City’s pavement management survey and field inspections.

Justification: This annual effort strives to maintain the quality and viability of the City’s streets. In order to meet the Pavement Management System’s projected five-year need, the City must commit funds to the overlay program. By committing funds to the requested need, the City prevents continued roadway deterioration. Continued deterioration results in higher repair costs in future years.

Project Status: In Progress

Department: Public Works

Project Manager: Curtis Nay

Project Cost Est. (\$):

| Expend. Category: | Prior Years | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | Total |
|---------------------|-------------|------------------|-------------------|-------------------|-------------------|-------------------|----------------------|
| Environmental | \$ | 30,000 | 630,258 | 205,225 | 175,100 | 181,229 | \$1,221,812 |
| Design/Plan Review | | 200,000 | 3,151,292 | 1,026,115 | 875,500 | 906,143 | 6,159,050 |
| Right-Of-Way | | - | - | 20,522,875 | - | - | 20,522,875 |
| Construction | | 6,750,000 | 62,970,835 | - | 17,510,000 | 18,122,850 | 105,353,685 |
| Inspection & Admin. | | 320,000 | 3,047,055 | 1,026,115 | 875,500 | 906,143 | 6,174,813 |
| Contingency | | 700,000 | 6,302,585 | 2,052,230 | 1,751,000 | 1,812,285 | 12,618,100 |
| Total Costs: | \$ | 8,000,000 | 76,102,025 | 24,832,560 | 21,187,100 | 21,928,649 | \$152,050,334 |

Project Funding:

| Funding Source: | Prior Years | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | Total |
|---------------------|-------------|------------------|-------------------|-------------------|-------------------|-------------------|----------------------|
| Gas Tax | \$ | 157,711 | - | - | - | - | \$157,711 |
| General Fund | | 1,402,289 | - | - | - | - | 1,402,289 |
| STPL | | 600,000 | - | - | - | - | 600,000 |
| TDA Article 8 | | 5,840,000 | - | - | - | - | 5,840,000 |
| Priority Unfunded | | - | 76,102,025 | 24,832,560 | 21,187,100 | 21,928,649 | 144,050,334 |
| Total Costs: | \$ | 8,000,000 | 76,102,025 | 24,832,560 | 21,187,100 | 21,928,649 | \$152,050,334 |

Project Number: M0084 M = Category
 0 = The area of the City in which the project is located.
 084 = The assigned project number (assigned in order according to area).

Category Abbreviations:

B = Beautification & Landscaping
 C = Circulation
 D = Emergency
 F = Facilities & Buildings
 I = Intelligent Transportation Systems

M = Maintenance
 N = Infrastructure
 P = Parks & Recreation
 S = Streets & Bridges
 T = Trails & Transit

Area:

0 = Citywide
 1 = Valencia
 2 = Newhall
 3 = Canyon Country
 4 = Saugus

Project Cost Est. (\$): This area shows a detail of the costs of the project by year and expenditure category.

Project Funding: This area shows the detail of the estimated costs of the project by year and by funding source.

Budget Guidelines & Principles

I. City Government Reporting Entities and Services

The budget includes all of the funds and account groups of the City of Santa Clarita. The City provides the following municipal services, either directly or through contracts, with the County of Los Angeles or private entities:

- Building Permit/Plan Approval
- Community Development
- Emergency Services
- Engineering
- Parks & Trails Maintenance
- Library Services
- Planning/Zoning
- Public Safety (Police/Fire)
- Recreation Services
- Street Maintenance
- Transit Service

II. Financial Structure

A. Accounting System and Budgetary Control

In developing and evaluating the City's accounting systems, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: 1) the safeguarding of assets against loss from unauthorized use or disposition; and 2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: 1) the cost of a specific control feature should not exceed the benefits likely to be derived; and 2) the evaluation of costs and benefits require estimates and judgments by management.

All evaluations of the City's system of internal control will continue to occur within the above framework. The City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

B. Fund Descriptions

The City's accounting records are organized and operate on a "fund" basis, which is the basic fiscal accounting entity in governmental accounting. Each fund is designed by fund type and classification:

- **Governmental Funds** - General, Special Revenue, Debt Service and Capital Projects
- **Proprietary Fund** - Enterprise and Internal Service
- **Fiduciary Funds** - Trust and Agency
- **Account Groups** - General Fixed Assets and General Long-Term Debt

C. **Governmental Funds**

Governmental Funds are used to account for the City's expendable financial resources and related current liabilities, except for those accounted for in proprietary funds. The basic financial statements necessary to fairly present financial position and operating results for governmental funds are the balance sheet and the statement of revenues, expenditures, and changes in fund balance. Governmental funds are maintained using the modified accrual basis of accounting.

- **General Fund** - Accounts for all the general revenue of the City not specifically levied or collected for other City funds, and for expenditures related to the rendering of general services by the City.
- **Special Revenue Fund** - Accounts for the proceeds of specific revenue sources that are restricted by law or administrative action for specified purposes.
- **Debt Service Fund** - Accounts for accumulation of resources for, and payment of, interest and principal on long-term debt.
- **Capital Project Fund** - Accounts for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

D. **Proprietary Funds**

Generally accepted accounting principles applicable to a private commercial business are applicable to proprietary funds of a governmental entity. The accrual basis of accounting is utilized. The measurement focus is based upon a determination of net income, financial position and cash flows. Accordingly, basic financial statements are required, such as balance sheet, statement of revenues, expenses and changes in retained earnings (deficit), and the statement of cash flows.

- **Enterprise Fund** - Accounts for operations that are financed and operated in a manner similar to private enterprises, where the intent of City Council is that the cost and expense, including depreciation and amortization, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.
- **Internal Service Fund** - Accounts for activities involved in rendering services to departments within the City. Costs of materials and services used are accumulated in these funds and are charged to the user departments as such goods are delivered or services rendered.

E. **Fiduciary Funds**

Fiduciary Funds are maintained to account for assets held by the City in a trustee capacity for individuals, private organizations, other governments and other funds.

- **Expendable Trust Fund** - Accounts for assets and activities restricted to specific purpose in accordance with a trust agreement.
- **Agency Funds** - Accounts for assets held by the City as an agent for the City employees deferred compensation plan, and assets held by the City as agent for the Community Facilities District 92-1.

F. **Account Groups**

Account Groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term debt.

- **General Fixed Assets Account Group** - Accounts for long-term assets of the City, except for those accounted for in proprietary fund types.
- **General Long-Term Account Group** - Accounts for long-term debt of the City, except for debt accounted for in proprietary fund types.

G. **Fund Classifications**

On February 2009, the Governmental Accounting Standards Board issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The fund balance classifications are: Non-Spendable, Restricted, Committed, Assigned, and Unassigned.

- **Non-Spendable** – That portion of fund balance that includes amounts that are not in a spendable form (inventory, for example) or are required to be maintained intact (the principal of an endowment fund, for example).
- **Restricted** – That portion of fund balance that includes amounts that can be spent only for the specific purposes stipulated by external resource providers (for example, grant providers), constitutionally, or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- **Committed** – That portion of fund balance that includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.

- **Assigned** – That portion of fund balance that comprises amounts intended to be used for specific purposes, but that are neither restricted or committed. Such intent can be expressed either by the governing body or by an official designated for that purpose.
- **Unassigned** – That portion of fund balance that includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

The City’s fund balance is classified under the five fund balance classifications.

III. Budget Policies and Procedures

A. Policy

The City Manager shall submit a proposed budget to the City Council each year. It is the stated policy of the Council and City Manager that ongoing revenues match or exceed ongoing appropriations.

B. Budget Basis

The budgets of general government type funds (for example, the general fund itself, and gas tax funds) are prepared on a modified accrual basis. Briefly, this means that obligations of the City are budgeted as expenses, but revenues are recognized only when measurable and available.

The Comprehensive Annual Financial Report (CAFR) shows the status of the City’s finances on the basis of “generally accepted accounting principles” (GAAP). In most cases, this conforms to the way the City prepares the budget. One exception is the treatment of compensated absences. Compensated absences, including accrued but unused holiday, compensatory time and vacation leave, are treated slightly different in the budget than in the CAFR.

C. Responsibility

The department heads are responsible for preparing their budgets in accordance with the guidelines provided by the City Manager and Budget Officer. The Administrative Services Department provides cost experience data as required by City departments. The Deputy City Manager/Director of Administrative Services prepares all revenue, debt service, and reserve estimates.

D. Budget Preparation

The process of developing the operating budget begins officially in January of each year. The budget preparation process provides the Executive Team an opportunity to examine programs, to propose changes in current services, to recommend revisions in organizations and methods, and to outline requirements for capital outlay items.

E. Operating Budget

Ongoing operating costs should be supported by ongoing, stable revenue sources. This protects the City from fluctuating service levels and avoids crises when one-time revenues are reduced or removed. Listed below are some corollaries to this policy:

- Fund balances or contingency accounts should be used only for one-time expenditures, such as capital equipment and capital improvements.
- Ongoing maintenance costs, such as street resurfacing and trail maintenance, should be financed through recurring operating revenues rather than through bond issuance.
- At least \$1 million of transportation related funding shall annually fund the annual overlay and slurry program.
- Fluctuating federal grants should not be used to fund ongoing programs.

F. Revenue Policies

A diversified and stable revenue system will be maintained to ensure fiscal health and absorb short run fluctuations in any one revenue source. User fees for all operations will be examined and adjusted annually to ensure that fees cover the direct and, where appropriate, indirect costs of service.

Development fees for one-time capital expenditures attributed to new development will be reviewed annually to ensure that fees match development related expenditures.

All applicable fees will be reviewed and adjusted annually according to the Consumer Price Index (CPI) to maintain cost recovery levels.

The City Manager shall review the encumbrances and continuing appropriations to be submitted to the City Council for approval from one fiscal year to the next fiscal year. These encumbrances and continuing appropriations shall become a part of the City budget.

G. Debt Management

Short-term borrowing or lease/purchase contracts should be considered for financing major operating capital equipment when the City Manager, along with the City's financial advisor, determines that this is in the City's financial interest. Significant lease/purchase decisions should have the concurrence of the appropriate department head and Administrative Services Director.

H. Cost Allocation

The purpose of the City's cost allocation from its Internal Service funds is to charge the departments for City resources that are being used by the individual departments.

Self-Insurance Fund Allocation – The self-insurance fund is used to account for the cost of the City’s insurance premiums (such as general liability, property, and automobile insurance), as well as claims adjuster services and legal costs. Cost is allocated to each division using the exposure and budget methodology.

Equipment Replacement Allocation – The equipment replacement fund is used to account for the acquisition, depreciation, and replacement of City vehicles. Charges to departments are calculated based on the actual depreciation charge for vehicles used by each department.

Computer Replacement Allocation – The computer replacement fund is used to account for the acquisition, depreciation, and replacement of computers and related equipment. Charges to departments are calculated based on the number of computer workstations supported by the Technology Services staff in each department.

I. Capital Budget

The Five-Year Capital Improvement Program shall be prepared and updated each year. Although this plan may include “unfunded” projects that carry out the City’s strategic and general plans, it must also include a capital spending plan that identifies projects that can be completed with known funding sources. Each department must, when planning capital projects, estimate the project’s impact on the City’s operating budget.

Amendments to capital appropriations fall under the same guidelines as changes to the operating budget, with one exception: any project change exceeding 20 percent of the original contract price or \$100,000 must receive specific City Council approval. This approval can be made by motion rather than resolution, and may accompany a recommendation for award of bid, change order, or other Council action. While this approval is not a strict legal requirement, it serves to keep the Council informed on capital activity and funding, and ensures that revisions of project priorities are in line with Council expectations.

J. Budget Review

During the budget review phase, the City Manager’s Office, in conjunction with Department of Administrative Services, analyzes new positions, and operating and capital budget requests. This information is then compiled and presented to the Budget Officer. The budget team, comprised of the City Manager, Assistant City Manager, Assistant to the City Manager/Budget Officer, Deputy City Manager/Director of Administrative Services, Finance Manager, and Senior Financial Analyst, conduct meetings with each department to review their estimated expenditures for the current fiscal year and the proposed base-line requests and enhancements for the proposed budget year. At the completion of these meetings, the Department of Administrative Services again compiles all the financial data and presents the proposed budget to the Assistant to the City Manager/Budget Officer for final review and budget preparation.

K. Budget Adoption

The City Manager presents, via publicly noticed study sessions, the budget to the City Council. A public hearing is held and, after modifications and revisions, the budget is adopted by resolution.

L. Budget Implementation

A budgetary control system will be maintained to ensure compliance with the budget. The Department of Administrative Services is responsible for setting up the budget for tracking purposes, and is charged with ensuring fund availability during the year to cover expenditures and appropriations. Reports comparing the budget with expenditures are generated and sent to departments on a monthly basis.

M. Budget Revision

The City Council approves total budgeted appropriations throughout the year. Actual expenditures may not exceed budgeted appropriations at the category level (e.g., Personnel, Operations & Maintenance and Capital Outlay). The City Manager or his designee is authorized to transfer budgeted amounts at the category level. The City has the following programs accounted for through its governmental funds: general government; public safety; parks and recreation; community development; public works; and capital expenditures. Use of unappropriated reserves must be specifically approved by the City Council.

IV. Financial Policies

A. General

The financial policies establish the framework for overall fiscal planning and management. The policies set forth guidelines for both current activities and long range planning. The policies will be reviewed annually to assure the highest standards of fiscal management.

B. Overall Goals

The overall financial goals underlying these financial policies are:

Fiscal Conservatism: To ensure that the City is at all times in a solid financial condition. This can be defined as:

- **Cash solvency** - ability to pay bills
- **Budgetary solvency** - ability to balance the budget
- **Long run solvency** - ability to pay future costs
- **Service level solvency** - ability to provide needed and desired services

Flexibility: To ensure that the City is in a position to respond to changes in the economy or new service challenges without an undue amount of financial stress.

Adherence to the Highest Accounting and Management Practices: As set by the Government's Finance Officers' Association standards for financial reporting and budgeting, by the Governmental Accounting Standards Board and other professional standards.

C. Cash Management

1. Purpose

An investment policy has been adopted by resolution and is reviewed each year. The investment policy provides guidelines for the prudent investment of temporary idle cash, and outlines the policies for maximizing the efficiency of the cash management system. The ultimate goal is to enhance the economic status of the City, while protecting its pooled cash.

2. Objective

The cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City to invest funds to the fullest extent possible. The City attempts to obtain the highest possible yield, as long as investments meet the criteria established for safety and liquidity.

3. Policy

In order to maximize interest earnings, the City commingles the cash of all funds, except those funds held in trust for the City by various financial institutions in accordance with applicable trust agreements related to debt issues. Interest revenue derived from commingled cash is allocated monthly to the participating funds based on the relative cash balance of each fund.

4. Procedures

Criteria for selecting investments and the order of priority are:

- Safety: The safety and risk associated with an investment refers to the potential loss of principal, interest, or a combination of these amounts. The City only operates in those investments that are considered very safe and are allowable under Government Code Section 53601.
- Liquidity: This refers to the ability to "cash in" at any moment in time, with a minimal chance of losing some portion of principal or interest. Liquidity is an important investment quality, especially when the need for unexpected funds occasionally occurs.
- Yield: This is the dollar earnings an investment can provide, and sometimes is described as the rate of return.

5. Debt Administration

In October 1991, the Public Financing Authority Revenue Bonds - Series 1991 were issued in the amount of \$22,940,000. This was the City's first rated bond issue in which Standard and Poor assigned an A- Bond rating to the City of Santa Clarita. In August 1997, the City refinanced these bonds. In July 2005, the City refinanced the 1997 Series Bonds which were insured with an AAA rating. As of June 30, 2011, the City's obligation for Public Financing Authority Revenue Bonds, Series 2005, is \$12,700,000.

In December 1999, the City entered into a loan with the Secretary of Housing and Urban Development for the amount of \$2 million. The purpose of this loan was for installation of curbs, gutters and sidewalks in the West Newhall area. In July 2010, the City refinanced this debt with a term of four years. As of June 30, 2011, the balance of this loan is \$570,000.

In June 2002, the City entered into a lease with an option to purchase agreement in the amount of \$1,200,000 for the lease of a parking lot through the Public Financing Authority. The term of the agreement is 15 years, with semi-annual payments of approximately \$76,000 beginning in September 2002. As of June 30, 2011, the balance of this lease is \$147,124.

In August 2002, the City entered into a loan with the Secretary of Housing and Urban Development in the amount of \$350,000, to provide partial funding of a much needed youth center. The project was in collaboration with the William S. Hart School District, City of Santa Clarita, and the Boys & Girls Club. The term of the agreement is 15 years, with annual payments of approximately \$35,000 beginning in February 2003. The balance as of June 30, 2011 is \$166,000.

In August 2002, the City entered into a second loan with the Secretary of Housing and Urban Development in the amount of \$1,150,000. The funds were used to make infrastructure improvements in the Canyon Country area of Santa Clarita. Work began in FY 2003-04 and includes sewers, sidewalks, curbs and gutters to upper Scherzinger Lane. The term of this agreement is 15 years. The balance as of June 30, 2011 is \$534,000.

In January 2007, the Santa Clarita Public Financing Authority issued \$13,785,000 in Lease Revenue Bonds for the purpose of financing the costs of acquiring right-of-way for a portion of Golden Valley Road, in connection with the payment of a judicial order by the City of Santa Clarita to purchase a Qualified Reserve Account Credit Instrument. Under a Lease Agreement between the City and the Authority, the City will pay to the Authority lease payments in the amounts equal to the scheduled debt service on the bonds. Payments are deposited into a Lease Payment Fund managed by the Fiscal Agent, Bank of New York. As of June 30, 2011, the City obligation for Public Financing Authority Revenue Bonds, series 2007, is \$12,085,000.

In December 2007, the Santa Clarita Public Financing Authority issued \$15,525,000 in Lease Revenue Bonds for the purpose of financing the costs of the acquisition of open space lands, parks, and parkland, both inside and outside the City, in accordance with the City's open space, park, and parkland program. Under a Lease Agreement between the City and the Authority, the City will pay to the Authority lease payments in the amounts equal to the scheduled debt service on the bonds. Payments are deposited into a Lease Payment Fund managed by the Fiscal Agent, Bank of New York. As of June 30, 2011, the balance of this lease is \$15,525,000.

In June 2008, The City of Santa Clarita Redevelopment Agency (the "Agency") issued tax allocation bonds for the gross amount of \$29,860,000. The Agency functions as, and has the power and jurisdiction of, the redevelopment agency of the City of Santa Clarita. The Agency will use the proceeds of the sale of the bonds to fund certain redevelopment projects within the Newhall Redevelopment Project Area, fund a reserve fund, and to pay the costs of issuance of the bonds, including the premium of a financial guaranty insurance policy. Currently, these funds are being managed by the fiscal agent, Bank of New York. The term of the agreement is 35 years, with annual payments of approximately \$1,780,000 beginning in October 2008. As of June 30, 2011, the balance of this tax allocation bonds is \$29,040,000.

In June 2008, the City of Santa Clarita Redevelopment Agency (the "Agency") issued its Housing Set-Aside Tax Allocation Bonds for the gross amount of \$8,850,000. Proceeds of the bonds will be used to finance low and moderate income housing projects and programs, fund a reserve fund, and pay costs incurred in connection with the issuance, sale, and delivery of the bonds, including the premium of a financial guaranty insurance policy. Currently, these funds are being managed by the fiscal agent, Bank of New York. The term of the agreement is 35 years, with annual payments of approximately \$535,000 beginning in October 2008. As of June 30, 2011, the balance of this tax allocation bonds is \$8,605,000.

6. Risk Management

The City of Santa Clarita is covered for Property, Liability and Worker's Compensation by Special District Risk Management Authority (SDRMA), a not-for-profit public agency. Limits for third-party claims consist of \$10 million by SDRMA and \$5 million in excess by Evanston Insurance Company. Risk Management administers the funding of the self-insured portions of the program, manages the administration general liability claims, works in conjunction with the City Attorney's Office and outside counsel to monitor, control, and resolve litigated matters, and provides training to minimize the risk of future losses.

The Risk Management program provides centralized services to all City departments for risk management, loss control, and safety. Primary activities includes a yearly review of the City's comprehensive insurance program, including coverage for property/casualty, professional administration of the City's self-insured retention, loss prevention and control, and safety programs. Risk Management also administers the City's Contract Management system and provides yearly training on contract routing and City contractual policies.

7. Annual Audit

Sound accounting practices suggest that an annual audit is a prudent business decision. The City requires an annual audit by a qualified independent accountant of the books of account, financial records, inventories and reports of all City officers and employees involved in the handling of financial matters. In compliance with the requirement of an annual audit, Caporicci and Larson, CPA, a firm of Certified Public Accountants, completed the audit for the fiscal year ending June 30, 2010.

Annual Appropriations Limit

The Appropriations Limit, established by the State of California per Article XIII B of the California State Constitution, sets a limit for the annual appropriations of tax proceeds for all municipalities.

Article XIII B was recently amended by Proposition 111 to change the method of calculating the annual appropriations limit. Prior to Proposition 111, the annual appropriations limit was adjusted annually by the change in the cost of living or by the change in California per capita personal income, whichever was less, and by the percentage change in the population of the City.

Under the new guidelines set forth by Proposition 111, the annual appropriations limit will not exceed a base year adjusted by the change in population of the City or the County combined with either the change in California per capita personal income or the change in the local assessment roll, due to local nonresidential construction. Proposition 111 also changed the base year for all municipalities to 1986-87.

Starting with a base year limit of \$47,350,022 for 1986-87 and increasing it to the 2011-2012 limits by using the guidelines set forth in Proposition 111, the calculation would be as follows:

| Fiscal Year | Prior Year's Limit | Add Change in Personal Income | New Base | Add Change in Population | Appropriations Limit |
|-------------|--------------------|-------------------------------|-------------|--------------------------|----------------------|
| 1997-98 | 108,118,037 | 4.67% | 5,049,112 | 1.13% | 114,445,938 |
| 1998-99 | 114,455,938 | 4.15% | 4,749,921 | 9.69% | 130,756,907 |
| 1999-00 | 130,756,907 | 4.53% | 5,923,288 | 2.37% | 139,919,516 |
| 2000-01 | 139,919,516 | 4.91% | 6,870,048 | 3.39% | 151,765,730 |
| 2001-02 | 151,765,730 | 7.82% | 11,868,080 | 2.18% | 167,201,027 |
| 2002-03 | 167,201,027 | (1.27%) | (2,123,453) | 2.93% | 169,914,347 |
| 2003-04 | 169,914,347 | 2.31% | 3,925,021 | 2.99% | 179,037,166 |
| 2004-05 | 179,037,166 | 3.28% | 5,872,419 | 1.35% | 187,405,864 |
| 2005-06 | 187,405,864 | 5.26% | 9,857,548 | 1.80% | 200,814,154 |
| 2006-07 | 200,814,154 | 3.96% | 7,952,240 | .27% | 209,330,064 |
| 2007-08 | 209,330,064 | 4.42% | 9,252,389 | 5.68% | 230,997,936 |
| 2008-09 | 230,997,936 | 4.29% | 9,909,811 | .50% | 242,112,286 |
| 2009-10 | 242,112,286 | .62% | 1,501,096 | .64% | 245,172,508 |
| 2010-11 | 245,172,508 | (2.54%) | (6,227,382) | .65% | 240,498,270 |
| 2011-12 | 240,498,270 | 2.51% | 6,036,507 | .35% | 247,397,648 |

