



City of
SANTA CLARITA

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February 7, 2012

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, 2011 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, 2011.

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, Certified Public Accountants, an independent firm of certified public accountants, has issued an unqualified ("clean") opinion on the financial statements of the City of Santa for the year ended June 30, 2011. 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 was incorporated on December 15, 1987 as a General Law City, and operates under a City Council/City Manager form of government. Located minutes from Bob Hope Airport in Burbank, 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 176,971, the City is the 24th 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 23 beautiful park facilities totaling more than 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, Tributefest, Volcom Skate Park event, Southern California Junior Olympics Swim Meet, LA Underwater Hockey Nationals, and the Triple Crown Softball Tournament.

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 City 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 implementing the policies of the Council, overseeing the day-to-day operations of City government, and for appointing and managing 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 category level within each fund.

LOCAL ECONOMY

The City of Santa Clarita is one of Southern California's most desirable 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.

Recovery from the recession continues at a slow pace and is expected to hold at this rate through 2012. The City has a 100 percent track record for adopting a balanced, on-time budget, with ample reserves and contingency funds. Fiscal Year 10-11 was successful and stable for the City thanks to prudent fiscal planning.

Santa Clarita boasts one of the lowest unemployment rates in Los Angeles County at 8.2 percent, compared to 13.3 for Los Angeles County and 12.4 percent for the state of California (as of July 2011). Targeted employment sectors in Santa Clarita include aerospace, manufacturing, biomedical, entertainment, and technology. Princess Cruises renewed its lease this year. We also welcomed scores of new retailers in the last year to the 180,000 square foot expansion of Westfield Valencia Town Center at The Patios. Several new companies either expanded within or relocated to Santa Clarita, including Quallion, a custom battery manufacturer, and Palyon Medical, which moved from New York to Santa Clarita.

Retail vacancy rates continue to hold at a low six to seven percent, while industrial vacancies remain at less than two percent. The largest area of potential growth in the City is in the area of office space, with Santa Clarita holding at about a 20 percent vacancy rate (however several leases for available space are currently underway and that number may decrease by early 2012).

The City's entertainment industry was strong in FY 10-11 with an economic impact of \$18.7 million to local businesses from location filming. Santa Clarita is home to more than 20 sound stages and 10 movie ranches and hundreds of film related businesses. Five-network television shows, including CBS's "NCIS," ABC Family's "Make it or Break it" and "Switched at Birth," FX's "Justified," TBS' "The Wedding Band," 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 \$2.1 million to the general fund from Transient Occupancy Tax (T.O.T.) in FY 10-11. The first year of the Tourism Marketing District (TMD), a collaborative assessment program and partnership between the City and five local hotels, proved successful with \$379,855 collected in support of increased marketing and promotion of Santa Clarita as a tourism destination. TMD dollars are a vital component of the area's continued attraction of events and visitors, which translate to dollars spent in the community and at local businesses. The following events were attracted as part of the City's increased event attraction efforts: USL Women's Championship Games, SCV Magic Soccer Tournament, Santa Clarita Soccer Showdown, All American Bowl, and Superstates Chess Championship.

The City of Santa Clarita continues to use business attraction and retention programs like the Santa Clarita Enterprise Zone Program to support business by providing tax incentives to companies located within the zone. To date, Santa Clarita Enterprise Zone has resulted in 4,506 jobs hired, 877 new jobs created, and the participating 314 businesses have a potential savings of \$168 million as a result of the program.

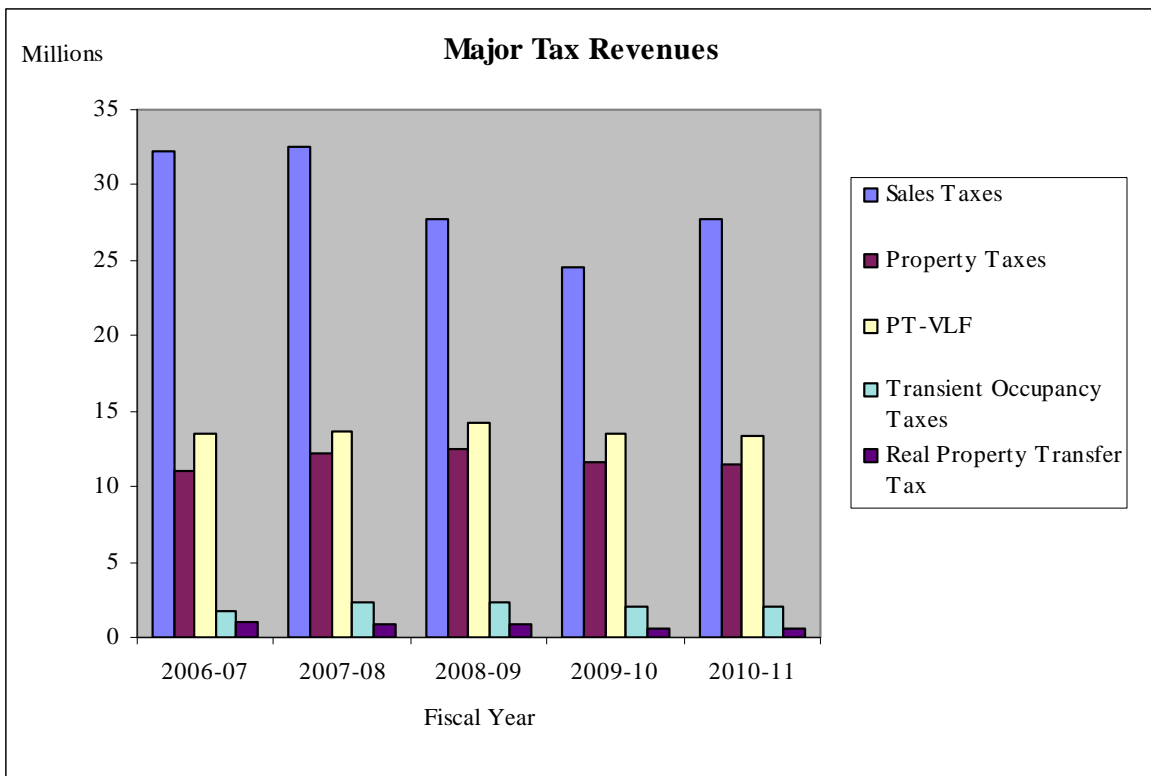
Santa Clarita recognizes the important role education plays in the success of the community. The City is home to three premier colleges, including California Institute of the Arts (CalArts), College of the Canyons, and The Masters College. These colleges offer world-class instruction and programming to prepare students to become the next generation of business professionals and leaders.

LONG -TERM FINANCIAL PLANNING

Santa Clarita is one of California's model cities, boasting the essential elements needed for well-balanced living and total wellbeing. Santa Clarita remains one of the safest cities in California among cities with populations exceeding 150,000. In fact, 2011 was one of the safest years on record with the lowest annual crime rate since incorporation. Santa Clarita is home to a well-educated population, with more than 65 percent of adults over age 25 and older having attained some college or higher, as compared to Los Angeles County, which averages 54 percent.

The City of Santa Clarita has experienced steady 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 Quallion and Palyon, while Princess Cruises signed a 15-year lease renewal, maintaining its position as the City's largest employer. Through the Enterprise Zone, the City's new job growth totals 877. 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 slight recovery in our economy has directly affected the City's revenue growth, producing increases in sales tax and Transient Occupancy Tax (TOT), while property tax, property tax in-lieu of Vehicle License Fee (PT-VLF), and real property transfer tax have remained relatively flat for Fiscal Year 10-11.



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 stable General Fund over the next few years, primarily due to projected marginal increases 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 2010-2011

- ❖ In July 2011, the City hosted the grand opening of the new Santa Clarita Public Library, transitioning the Canyon Country, Newhall and Valencia branches from Los Angeles County to City operation. The City infused the branches with more than \$900,000 in new books and media, upgraded facilities, extended operating hours and added new technology. The three branches serve approximately 20,000 people per week.
- ❖ The City of Santa Clarita continued to place a high priority on revitalization of Old Town Newhall. Construction of the Newhall Library progressed with the topping out ceremony and 50-year time capsule dedication in August. Monthly events, including the Farmer's Market, SENSES block party, and Art Walk attracted thousands to the area each week, while five Main Street businesses participated in the Building Improvement Grant (BIG) program, which allocated funds for renovating storefronts and for other aesthetic building improvements.
- ❖ The City's investment in infrastructure and green offerings for residents continued with the opening of the first community garden project at Central Park. The garden includes 80 plots for residents and local groups to grow fresh vegetables and fruits, with surplus supplies donated to the SCV Food Pantry. Senator Barbara Boxer joined the City at a dedication for the new Federally-funded solar panel project now at the City's Transit Maintenance Facility, which provides 97 percent of the energy needed to power the facility.

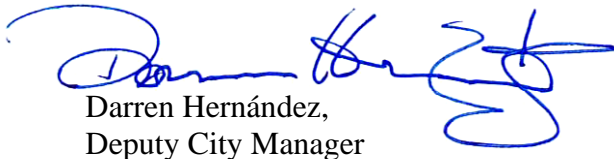
AWARDS AND ACKNOWLEDGMENTS

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, 2010. This was the twenty-second 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 staff of the Finance Division, in particular Carmen Magana, Finance Manager, and Clint Osorio, Susan Crowsigt, Mary Ann Ruprecht, Jan Downey, Eric Herrera , Financial Analysts. 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 Puskamp, 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,



Darren Hernández,
Deputy City Manager

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