



City of
SANTA CLARITA

23920 Valencia Boulevard • Suite 300 • Santa Clarita, California 91355-2196

Phone: (661) 259-2489 • FAX: (661) 259-8125

www.santa-clarita.com

January 11, 2013

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, 2012 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, 2012.

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. Marcum LLP, 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, 2012. 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 on the fair presentation of the financial statements, and 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 Reports.

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 61.81 square miles. With a population of 203,000, the City is the 18th largest city in the State of California, and the third largest in Los Angeles County. Santa Clarita residents enjoy an expansive year-round parks and recreation network, featuring 29 beautiful park facilities totaling more than 332 acres, over 7,200 acres of City owned open space, and more than 95 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.

In recent years, Santa Clarita has attracted regional and national sports events like the Amgen Tour of California, Pac-12 Cross Country Championships, Tributefest, Southern California Sectionals Swim Meet, LA Underwater Hockey Nationals, and a variety of youth and adult sporting events. 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 by 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 libraries, public works, parks and recreation, community development, and cultural events. The City also provides services through the Santa Clarita Public Financing Authority (PFA) and the Santa Clarita Redevelopment Agency (RDA), which are blended component units of the City of Santa Clarita. The financial activities of these entities are included in this report as their activities are under the control of the City. The activities of the RDA are reported through its dissolution date of February 1, 2012. A separate component unit report for the Santa Clarita PFA is 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 2011-2012 was successful and stable for the City due to prudent fiscal planning.

Santa Clarita boasts one of the lowest unemployment rates in Los Angeles County at 6.2 percent, compared to 10.2 percent for Los Angeles County as of September 2012. Targeted employment sectors in Santa Clarita include aerospace, manufacturing, biomedical, entertainment, and technology. This past year we welcomed several new retailers to the 180,000 square foot expansion of Westfield Valencia Town Center at The Patios including, Lucille's Smokehouse BAR·B·QUE and Larsen's Steakhouse. Several new companies either expanded within or relocated to Santa Clarita, including a large accounting firm, King, King, Alleman & Jensen Accounting Corporation that relocated from Burbank to Santa Clarita.

Retail vacancy rates continue to hold at a low six to seven percent, while industrial vacancies remain around five percent. The largest area of potential growth in the City is in the area of office space, with Santa Clarita at an 18 percent vacancy rate in 3rd Quarter 2011 compared to a 15 percent vacancy rate in 3rd Quarter 2012 (however several leases for available space are currently underway and that number may decrease further by early 2013).

The City's entertainment industry was strong in Fiscal Year 2011-2012 with an economic impact of \$21.1 million to local businesses from location filming. Santa Clarita is home to more than 20 sound stages, 10 movie ranches and hundreds of film related businesses. Network television shows including CBS's "NCIS" and "Vegas," ABC Family's "Switched at Birth," and "Jane by Design," FX's "Justified," TBS's "The Wedding Band," and TNT's "Franklin and Bash" are based in Santa Clarita and regularly film on location within the City.

Tourism continues to be one of the City of Santa Clarita's largest economic generators contributing more than \$2.3 million to the general fund from Transient Occupancy Tax (TOT) in Fiscal Year 11-12. The second year of the Tourism Marketing District (TMD), a collaborative assessment program and partnership between the City and five local hotels, grew upon the successes of the initial year, over \$427,000 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 translates to dollars spent in the community and at local businesses. The following events are just a few that were attracted as part of the City's increased event attraction efforts: SCV Magic Soccer Tournament, California Superstates Chess Championship, LAVA Volleyball Foothill Invitational, Triple Crown Softball, the Mustang Challenge cross country event, and the Pac-12 Cross Country Championships.

The City of Santa Clarita continues to use business attraction and retention programs like the Santa Clarita Valley Enterprise Zone Program to support business by providing tax incentives to companies located within the zone. In January 2011, the Enterprise Zone was expanded to include businesses in unincorporated Los Angeles County. This new expanded Zone provides the opportunity for tax savings to the more than 6,000 businesses in Santa Clarita Valley. The resulted savings generated for the more than 400 Santa Clarita businesses that have taken advantage of the program since 2007 is more than \$238 million.

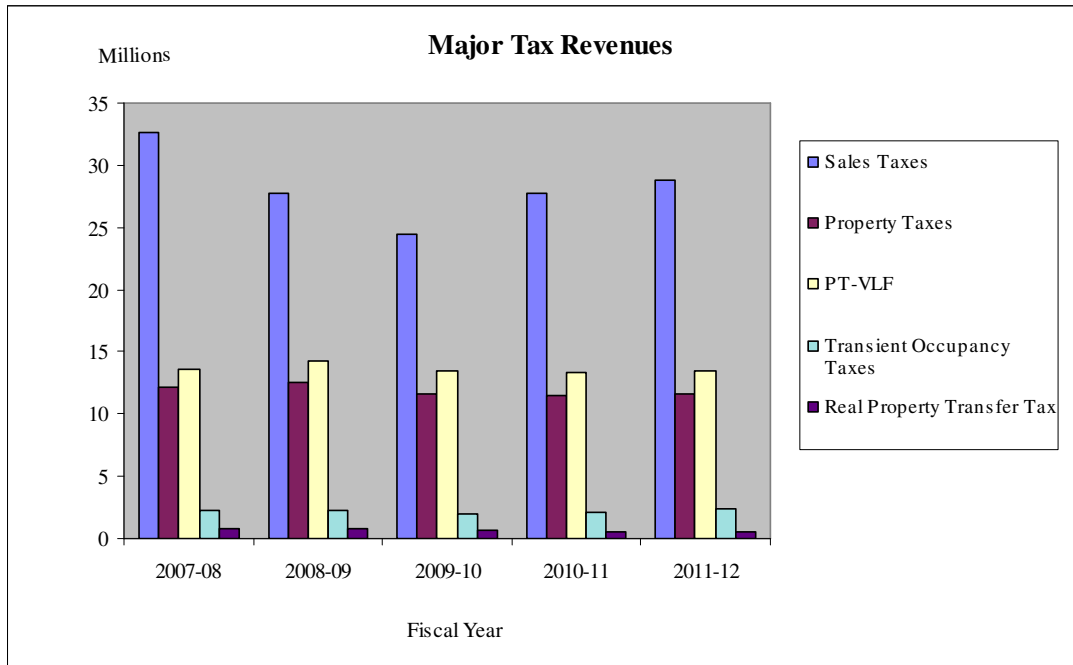
Santa Clarita recognizes the important role education plays in the success of the community. The City is home to three premier colleges, including California Institute of the Arts (CalArts), College of the Canyons, and The Masters College. These colleges offer world-class instruction and programming 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. 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. Since 2007, 1,226 people have been hired into jobs at local businesses through the Enterprise Zone program. 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 whereby providing an increased opportunity 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 TOT. Property tax, property tax in-lieu of Vehicle License Fee (PT-VLF), and real property transfer tax have remained relatively flat for Fiscal Year 2011-2012.



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 financial times, the City is well prepared for times when revenue projections do not include growth. In response to the City's proactive budgetary management, allowing it to maintain stable operations and improved available general fund reserves despite challenging economic circumstances, Standard & Poor's Ratings Services raised the City's issuer credit rating from AA+ to AAA in September 2012.

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 2011-2012

- ❖ In September 2012, Standard & Poor's Ratings Services (S&P) raised the City's issuer credit rating from AA+ to AAA. S&P also raised its rating on the City's certificates of participation and lease revenue bonds from AA to AA+. S&P's outlook on the ratings is stable based on the City's proactive budgeting approach and its ability to maintain consistent operations supported by very strong available general fund reserves. Additional rating stability is provided by the City's good financial management practices.
- ❖ On September 29, 2012, the City of Santa Clarita opened the new 30,000 square foot Old Town Newhall Library on Main Street. The Leadership in Energy and Environment Design (LEED) certified building features a children's library, teen area, ample meeting space and community rooms, laptops for use in the Library, an indoor fire-side reading area with art and photographs that pay tribute to Newhall's history. Thousands of residents came out in support of the Library's first day of operation, and since opening, the Library continues to attract more than a thousand visitors each day.
- ❖ In 2011 the City of Santa Clarita had its lowest crime rate in the city's history with a 14 percent drop in violent crimes. For 2011, the City's crime rate dropped by 7.81 percent compared to 2010, according to figures released in February 2012 by the Los Angeles County Sheriff's Department. In 2011, there were 2,833 reported incidents within the City, a decline from the 3,073 reported crimes in 2010, the data shows.
- ❖ In August 2011 the City launched an outreach campaign, *Heroin Kills: The High is a Lie*, in response to a spike in heroin related deaths and arrests in the Santa Clarita Valley. The public awareness campaign was meant to inform residents that heroin was in Santa Clarita and devastating families. The second year of the campaign included a second symposium in August 2012, attended by hundreds of local teens and their families. The City continues to work with non-profit partners to bring awareness to the issue and resources to those in need.
- ❖ In October 2012, the City celebrated the completion of the Old Town Newhall Building Improvement Grant program. The program was developed in 2010 to assist property owners in the Old Town Newhall area to make improvements to their buildings' exterior, or come into compliance with City code violations. Five property owners received \$55,000 each in grant funds through the American Recovery and Reinvestment Act, and on October 24, 2012, the City hosted a

- ribbon-cutting ceremony on Main Street to commemorate the completion of the program.
- ❖ The City's Film Office celebrated another record year in Fiscal Year 2011-2012, with an eight percent increase in film permits over last year. Film days are also up a record four percent. The City's film friendly permitting system, a responsive film staff and the City's film incentive programs contribute to these successes. Over the past year, filming contributed an estimated \$21 million dollars in economic impact to the community through jobs and business sales. In March, the City Council approved a three year extension of the City's Film Incentive Program, which is dedicated to retaining and increasing feature and television production by reducing the costs of safety personnel and subsidizing permit fees and location fees for city-owned properties.
 - ❖ In November, 2012 Santa Clarita became the first City in the 30-Mile Zone to approve a new zoning designation that supports filming at local movie ranches. The Movie Ranch Overlay Zone (MOZ) designation assigns certain areas where location filming and related facilities, including soundstages, are permitted by right.
 - ❖ Installation of On the Go Real Time Bus Information placards began in June, 2012 at all of the City's 750 bus stops. The program allows transit riders to track their bus location in real time in variety of ways using their mobile devices.
 - ❖ The City's Arts Commission, in conjunction with staff from the Parks, Recreation and Community Services Department, completed the Arts Blueprint, which is intended to serve as a guiding document for the next three years for five art subject areas.
 - ❖ The City's Parks, Recreation, and Community Services Department won a California Parks and Recreation Society Award of Excellence recognizing environmental stewardship for the City's Open Space Preservation program. In Fiscal Year 2011-2012, the City passed the 7,200 acre mark for open space acquisitions.
 - ❖ The City annexed three new communities into the City in the last year, including Copperstone, Jake's Way, and Fair Oaks Ranch, in addition to assuming control of maintenance and programming for three parks within City limits: Chesebrough Park, Northbridge Park, and an undeveloped park property at the corner McBean Parkway and Summerhill Lane. The most recent annexation was of the North Copper Hill community that occurred in November 2012.
 - ❖ Acquiring open space through the Open Space Preservation District and construction of new trails throughout the community continued to be priorities for the City. In June 2012, the City hosted a dedication for the new Iron Horse Trail,

and in July 2012, the City hosted another dedication event celebrating the acquisition of more than 800 acres of land in Elsmere Canyon.

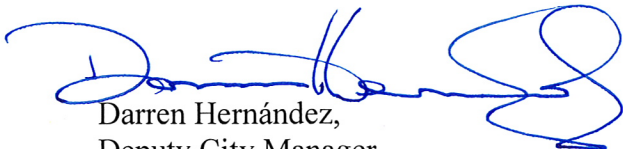
AWARDS AND ACKNOWLEDGMENTS

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, 2011. This was the twenty-third 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, Finance Manager Carmen Magana, and Financial Analysts Clint Osorio, Susan Crowsigt, Mary Ann Ruprecht, Jan Downey, Eric Herrera, and Paul Chung. 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 Striplin, Director of Public Works & Interim Director of Community Development Robert Newman, and Director of Parks, Recreation and Community Services Rick Gould for their continuing efforts in administering the financial operations of the City in a conservative and responsible manner.

Sincerely,


Darren Hernández,
Deputy City Manager

DH:cm