



*Celebrating 20 Years of Success*

December 21, 2007

Honorable Mayor, Mayor Pro-tem and City Councilmembers:

The Comprehensive Annual Financial Report (CAFR) of the City of Santa Clarita for fiscal year ending June 30, 2007 is hereby submitted, in accordance with Chapter 2.12 of the City of Santa Clarita Municipal Code. The intent of this report is to provide the City Council and the public with an understanding of the financial condition of the City of Santa Clarita as of June 30, 2007.

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. Diehl, Evans, & Company, LLP, an independent firm of certified public accountants, has issued an unqualified ("clean") opinion on the City of Santa Clarita's financial statements for the year ended June 30, 2007. 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 at 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 is celebrating 20 years of success. Officially incorporated on December 15, 1987, as a General Law City, the City operates under a City Council/City Manager form of government. Located 35 miles northwest of downtown Los Angeles and 40 miles east of the Pacific Ocean, between Interstate 5 and State Highway 14, Santa Clarita forms an inverted triangle with the Santa Susana and San Gabriel mountain ranges. Encompassing the communities of Canyon Country, Newhall, Saugus, and Valencia, Santa Clarita covers approximately 52 square miles. With a population of over 177,000, the City is the 24<sup>th</sup> largest city in the State of California, and has consistently ranked in the top five safest cities in the United States. Santa Clarita residents enjoy an expansive year-round parks and recreation network, featuring 17 beautiful parks totaling 243 acres and more than 30 miles of picturesque, multi-use, non-motorized trails. With its unique blend of rural, old west heritage, and urban sophistication, Santa Clarita established an enviable balance between quality living and growth. This February Santa Clarita was selected as a host city for the Amgen Tour of California; a world-class cycling event often referred to as the, “West Coast version of the Tour de France.”

The City of Santa Clarita’s five City Councilmembers are elected at large to four-year overlapping terms, with elections held in April of the even number years. The position of Mayor is selected from among the Councilmembers. The governing Council is responsible, among other things, for passing ordinances, adopting the budget, and appointing committees. The City Council appoints the City Manager, who is responsible for carrying out the policies and ordinances of the Council, overseeing the day-to-day operations of the government, and appointing the various department directors. 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 in 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 in January of each year and is carried out under the direction of the City Manager in cooperation with the various City departments. The proposed operating and capital budget is submitted by the City Manager to City Council for adoption by June 30, to take effect at the beginning of the fiscal year on July 1. Budgetary control for the City is maintained through its accounting systems. Once adopted, the budget may be amended throughout the year as necessary. Budgetary control is established at the function or program level within each fund.

### **LOCAL ECONOMY**

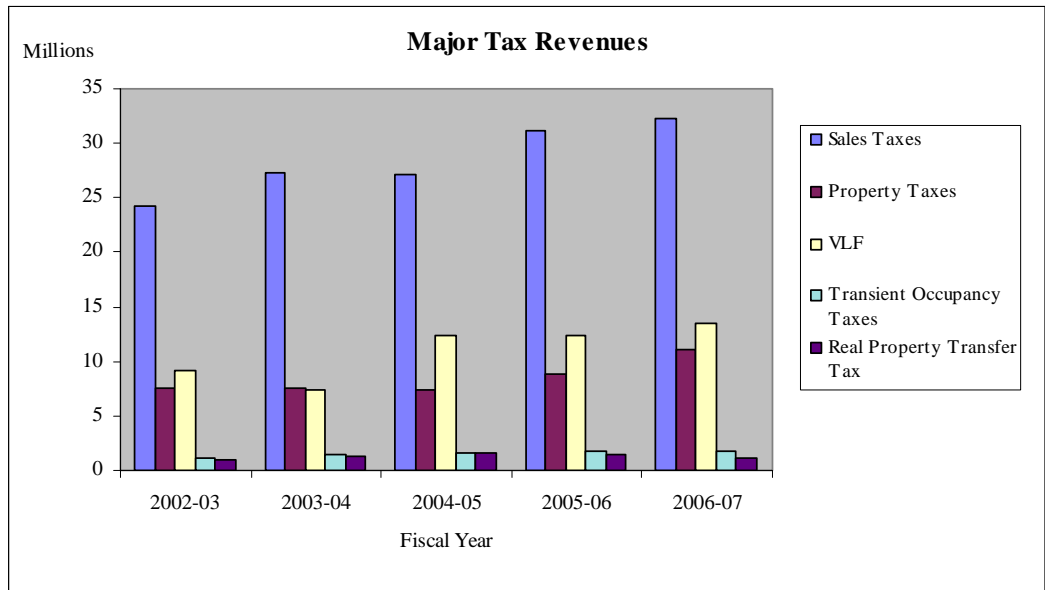
Santa Clarita remains a great place to live and work. The City is very family-friendly with schools that consistently rank in the top 10% in California. The City was named one of 100 Best Communities for Young People by America's Promise, the nation's largest private-public partnership committed to ensuring that every child receives the "Five Promises" essential for children and young adults. Santa Clarita's employment rates and job growth remain strong. Santa Clarita enjoys a low unemployment rate of 2.7% compared to 4.4% for Los Angeles County and 4.9% for the State of California. Employment within the City encompasses construction, manufacturing, professional and technical, wholesale goods distribution, finance, real estate, administrative, hospitality services, and recreation. Another major source of activity in Santa Clarita is the many motion picture sound stages and back lots. There are over 10 studios in the area which are home to numerous movies, music videos and TV shows. The City of Santa Clarita's Film Office was awarded the Grand Prize in the Economic Development Programs category by the California Association for Local Economic Development (CALED). Residents and businesses enjoy access to three colleges within the Santa Clarita Valley, as well as close proximity to the California State University campus at Northridge.

On a long-term basis, the City continues to make strides in economic development and business retention, which has already developed a strong and diverse retail base. This retail base has provided the City with its current strong financial position. Santa Clarita was named as one of the Top 25 City Retail Markets in California by the California Retail Survey. The City's continued control over expenditure growth has been and will continue to be a key factor in maintaining the City's strong financial position.

## LONG-TERM FINANCIAL PLANNING

Santa Clarita's serene and attractive well-planned community of over 177,000 is a model City containing all elements needed for well-balanced living and working conditions. Among cities with population over 100,000, Santa Clarita has consistently ranked in the top five safest cities in the Los Angeles County and the United States. Santa Clarita's adult population over the age of 25 is highly educated. This setting of safety, along with a highly qualified population, continually attracts and retains world-class corporations.

The City of Santa Clarita has experienced continuous growth since its incorporation in 1987, in economic as well as demographic measures. In 1988, the City's land area encompassed 39.4 square miles with a population of just over 147,000. As of 2007, the population has increased by 20.4% to just over 177,000, and land area has grown by 32% up to 52.04 square miles. The City directly works with private and public sectors to attract new business to the Santa Clarita Valley, assist in the retention and expansion of business already located in the Santa Clarita Valley, and to create new jobs. The continued increases in business development, land area, and demographic growth have had a direct affect on the City's revenue growth, producing overall increases in property tax revenues, property tax in-lieu of Vehicle License Fee (VLF), sales tax, and transit occupancy tax for the five-year period ending June 30, 2007.



The City provides necessary funding for essential services and 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 continued General Fund revenue growth over the next five years,

primarily due to projected increases in sales, property taxes and property taxes in-lieu of VLF. This revenue growth, along with the City's balanced budget policy, will provide for continued maintenance of the General Fund balance and reserves.

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 2007**

This year, the City opened a critical 1.6 mile portion of the Cross Valley Connector Road, the "gap closure," providing a new eight-lane access from I-5 to the area's commerce center. The Cross Valley Connector (CVC) is the City's plan to ease traffic and is achieved by the seamless connection between the I-5/SR126 on the Westside of the City to the SR-14/Golden Valley Interchange on the East. This eight-and-a-half mile, \$245 million road will provide a new way to travel across Santa Clarita Valley and ease traffic congestion valley-wide.

The City of Santa Clarita was successful in receiving \$20,666,000 in grants from the Metropolitan Transportation Authority 2007 Call for Projects. This additional funding will allow the City to continue its multiple projects.

Phase IV of the 38-acre Sports Complex is currently under way. This project will complete the design and construction of the 15-acre area for state-of-the-art-skate park, an 18,000 square foot gymnasium, and an additional 80 car parking lot to serve the facilities. This project enhances the existing facilities, such as the Aquatics Center, which features a 50-meter Olympic-sized pool, and other amenities.

In July 2006, Santa Clarita's 28<sup>th</sup> annexation added 1,800 residents to the City. Residents of this community are now entitled to a higher level of services as City residents.

In May 2007, the City of Santa Clarita mailed ballots to property owners asking them to vote on the creation of an Open Space Preservation District (OSPD) to enable the City to purchase and preserve various undeveloped land parcels within and surrounding the City. Subsequently, the proposed OSPD was approved by a margin of 69% (\$409,974 of weighted assessment ballots) in favor and 31% (\$182,672 of weighted assessment ballots) opposed.

In December, the community received a tremendous birthday present from the City with the grand opening of the 32-acre Todd Longshore Park in Canyon Country. The new parksite includes two children's play areas, restrooms, covered picnic areas, walking paths, a turf area, and a parking lot.


### **AWARDS AND ACKNOWLEDGMENTS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate for Excellence in Financial Reporting, to the City of Santa Clarita for its Comprehensive Annual Financial Report (CAFR) for fiscal year ending June 30, 2006. This was the eighteenth consecutive year that the City has achieved these prestigious awards. In order to be awarded a Certificate of Achievement or Certificate of Award for Outstanding 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 and Certificate of Award for Outstanding Financial Reporting is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the requirements of the GFOA Certificate of Achievement Program, and we are submitting it to GFOA to determine its eligibility for another certificate.

This report is a joint effort by many people from many different areas of responsibility. The preparation of this report could not have been accomplished without the hard work and team effort of the Finance Division. I would like to express my appreciation to all members of the Division who assisted and contributed to its preparation, in particular, Carmen Magaña, Interim Finance Manager; Mary Ann Ruprecht, Senior Financial Analyst; Jan Downey and Joseph Lillio, Financial Analysts; Larivee, Project Technician; and Lesley Cummins, Graphics Project Technician. I would also like to thank the Mayor, Mayor Pro Tem, Councilmembers, City Manager Ken Pulskamp, Assistant City Manager Ken Striplin, Director of Public Works Robert Newman, Director of Parks, Recreation and Community Service Rick Gould, and Director of Community Services Paul Brotzman, for their continuing efforts in administering the financial operations of the City in a conservative and responsible manner.

Sincerely,



Darren Hernández,  
Deputy City Manager and Director of Administrative Services

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