

# City of Redondo Beach

Redondo Beach, California

*Comprehensive Annual Financial Report*

*For the year ended June 30, 2009*

PREPARED BY THE CITY OF REDONDO BEACH, CALIFORNIA

FINANCIAL SERVICES DEPARTMENT



**City of Redondo Beach**  
**Comprehensive Annual Financial Report**  
**For the year ended June 30, 2009**

**Table of Contents**

Page

**INTRODUCTORY SECTION**

Table of Contents ..... i  
 Letter of Transmittal ..... v  
 GFOA Certificate of Achievement for Excellence in Financial Reporting ..... xviii  
 List of Principal Officials ..... xix  
 Organization Chart ..... xx

**FINANCIAL SECTION**

**Independent Auditors' Report** ..... 1

**Management's Discussion and Analysis** ..... 3

**Basic Financial Statements:**

Government-Wide Financial Statements:

Statement of Net Assets ..... 28  
 Statement of Activities and Changes in Net Assets ..... 30

Fund Financial Statements:

Government Fund Financial Statements:

Balance Sheet ..... 36  
 Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets ..... 39  
 Statement of Revenues, Expenditures and Changes in Fund Balances ..... 40  
 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes  
 in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets ..... 42

**City of Redondo Beach**  
**Comprehensive Annual Financial Report**  
**For the year ended June 30, 2009**

**Table of Contents, Continued**

---

	<u>Page</u>
Proprietary Fund Financial Statements:	
Statement of Net Assets.....	46
Statement of Revenues, Expenses and Changes in Net Assets.....	48
Statement of Cash Flows .....	50
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets.....	54
Notes to the Financial Statements.....	55
Required Supplementary Information:	
Budgetary Information.....	116
Defined Pension Plan.....	120
Other Postemployment Benefits .....	121
Modified Approach for City Streets Infrastructure Capital Assets.....	122
<b>Supplementary Information:</b>	
Major Governmental Funds:	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual:	
Capital Improvements Projects Capital Project Fund.....	130
Public Financing Authority Debt Service Fund.....	131
Redevelopment Agency Debt Service Fund.....	132
Non-Major Governmental Funds:	
Combining Balance Sheet .....	136
Combined Statement of Revenues, Expenditures and Changes in Fund Balances.....	140
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual:	
Traffic Congestion Relief Special Revenue Fund.....	143
State Gas Tax Special Revenue Fund.....	144
Parks and Recreation Facilities Special Revenue Fund .....	145

**City of Redondo Beach**  
**Comprehensive Annual Financial Report**  
**For the year ended June 30, 2009**

**Table of Contents, Continued**

---

	<u>Page</u>
<b>Supplementary Information, Continued:</b>	
Narcotic Seizure/Forfeiture Special Revenue Fund .....	146
Transit Special Revenue Fund .....	147
Proposition A Special Revenue Fund .....	148
Proposition C Special Revenue Fund .....	149
Local Transit Special Revenue Fund .....	150
Air Quality Improvement Special Revenue Fund .....	151
Storm Drain Special Revenue Fund .....	152
Street Landscaping and Lighting District Special Revenue Fund .....	153
South Bay Youth Project Special Revenue Fund .....	154
Workforce Investment Act Special Revenue Fund .....	155
Community Development Act Special Revenue Fund .....	156
Disaster Recovery Special Revenue Fund .....	157
Housing Authority Special Revenue Fund .....	158
Subdivision Park Trust Special Revenue Fund .....	159
Parking Authority Debt Service Fund .....	160
Pier Parking Structure Rehabilitation Capital Projects Fund .....	161
Redevelopment Agency Capital Projects Fund .....	162
<b>Internal Service Funds:</b>	
Combining Statement of Net Assets .....	164
Combining Statement of Activities and Changes in Net Assets .....	165
Combining Statement of Cash Flows .....	166
<b>Fiduciary Funds:</b>	
Combining Statement of Fiduciary Net Assets .....	170
Combining Statement of Changes in Assets and Liabilities .....	171

**City of Redondo Beach**  
**Comprehensive Annual Financial Report**  
**For the year ended June 30, 2009**

**Table of Contents, Continued**

---

	<u>Page</u>
<b><u>STATISTICAL SECTION</u></b>	
Net Assets by Component .....	174
Changes in Net Assets .....	175
Fund Balances of Governmental Funds.....	178
Changes in Fund Balances of Governmental .....	179
Assessed Value and Estimated Actual Value of Taxable Property .....	180
Direct and Overlapping Property Tax Rates.....	181
Principal Property Taxpayers .....	182
Property Tax Levies and Collections .....	183
Ratios of Outstanding Debt by Type.....	184
Direct and Overlapping Governmental Activities Debt .....	185
Legal Debt Margin Information .....	186
Pledged-Revenue Coverage .....	187
Demographic and Economic Statistics.....	188
Principal Employers .....	189
Full-time City Government Employees by Function .....	190
Operating Indicators by Function .....	191
Capital Assets Statistics by Function .....	192
Redondo Beach Redevelopment Agency, South Bay Center Redevelopment Project:	
- Certificate of Continuing Disclosure.....	193
- Historical Project Area Valuations .....	194
- Revenue vs. Levy Analysis .....	195
- Top Ten Taxable Property Owners .....	196
- Recent Appeals History .....	197
Redondo Beach Redevelopment Agency, Harbor Center:	
- Certification of Continuing Disclosure .....	199
- Historical Project Area Valuations .....	200
- Top Ten Taxable Property Owners .....	201
Redondo Beach Public Financing Authority, Wastewater System Financing Project:	
- Certification of Continuing Disclosure .....	202
- Sewer Rates per Month.....	203
- Sewer Connections by Type of Customer .....	204

Financial Services Department  
415 Diamond Street, P.O. Box 270  
Redondo Beach, California 90277-0270



tel 310 372-1171  
fax 310 937-6666  
[www.redondo.org](http://www.redondo.org)

December 15, 2009

Honorable Mayor, City Council and  
Citizens of the City of Redondo Beach:

The Financial Principles of the City of Redondo Beach require we issue the Comprehensive Annual Financial Report by the second Council meeting in December of each year. Pursuant to this requirement, we hereby submit the Comprehensive Annual Financial Report (CAFR) of the City of Redondo Beach, California (City), for the fiscal year ended June 30, 2009. These financial statements are presented in conformance with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by an independent firm of licensed certified public accountants.

The primary purpose in providing this report, as defined by the City Charter, is to inform the Mayor and City Council of all financial and administrative activities of the previous fiscal year. In addition, this report is directed to two other groups: the citizens of Redondo Beach and the financial community. For the citizens, the report provides an opportunity to correlate City services and accomplishments with the expenditure of financial resources. For the financial community, this report provides information necessary to evaluate financial practices of the City, assure their soundness in accordance with GAAP, and determine the financial capacity of the City to incur and service debt for long-range capital planning.

Responsibility for the accuracy of the data presented and completeness and fairness of the presentation, including disclosures, rests with the City. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework 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 in conformance with GAAP. Because the cost of internal controls should not outweigh the benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

GAAP requires that management provide a narrative introduction, i.e., overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors in the financial section of the CAFR.

## **PROFILE OF THE CITY OF REDONDO BEACH**

The City of Redondo Beach, incorporated in 1892, is located in the South Bay part of Los Angeles County and spans 6.3 square miles. According to the State of California's Department of Finance, Redondo Beach has a population of 67,646 as of January 1, 2009, remaining relatively flat with 2008. The City remains a highly residential, non-industrial community. It is a highly-educated, upscale community where the median cost of a home is \$751,200.

Redondo Beach has significant concentrations of employment and retail activity in the northern industrial complex anchored by Northrop Grumann, while the South Bay Galleria anchors the east end of the City. The Harbor/Pier area also contributes to the City's economy, and an eclectic mix of specialty shops and services known as the Riviera Village is located at the south end. Based on the number of full-time employees, the top ten employers in Redondo Beach are Northrop Grumann, Beach Cities Health District, the City, Nordstrom, Redondo Beach Unified School District, Macy's, Crown Plaza, Target, DHL Global Forwarding, and the U.S. Post Office.

The City is divided into five districts and operates under a Council-Manager form of government. One councilperson is elected from each district and serves a term of four years, with a limit of two full terms. The Mayor is elected by the City at large, also limited to serving two full terms of four years each. Other elected officials are the City Treasurer, City Attorney and City Clerk - all serving terms of four years, but can be re-elected an unlimited number of times. The City Council is responsible for, among other things, passing ordinances, adopting the budget, establishing policy, appointing committees/commissions and appointing a City Manager.

In addition to sitting as the governing board of the City, the Mayor and City Council act as the Board of Directors for various component units of the City: the Redondo Beach Housing Authority, the Redondo Beach Public Financing Authority, the Parking Authority of the City of Redondo Beach, and the Redevelopment Agency of the City of Redondo Beach. The City Manager is responsible for carrying out the policies and ordinances of the City Council and for appointing the heads of the City's various departments. In May 2008, the Mayor and City Council established an audit committee to enhance the City's communication with its independent accounting firm, ensuring increased involvement by the governing board in City's accounting processes.

The City provides a full range of municipal services. These include public safety (police and fire protection), recreation and community services, library, parks, maintenance and improvement of streets and infrastructure, planning and zoning, housing, economic development, transit, and general government. The City also operates and maintains a harbor under a trust agreement with the State of California.

The annual budget serves as the foundation for the City's financial planning and control. The City Council is required to adopt an annual budget on or before June 30 of each year for the General Fund, Special Revenue Funds, Enterprise Funds, Capital Projects Fund and Internal Service Funds. The City also adopts a five-year capital improvement program and a redevelopment agency budget.

The level of appropriated budgetary control is the total adopted budget, which is defined as the total budget for all funds and divisions, and all revisions and amendments approved by the City Council subsequent to the initial budget adoption. The City Manager may authorize transfers within each fund and between line items or programs within each department; however, supplemental appropriations and transfers between funds during the budget year must be approved by four affirmative votes of the City Council. Unexpended or unencumbered appropriations expire at the end of each fiscal year. Encumbered appropriations and appropriations related to grants and donations are re-appropriated in the ensuing year's budget by action of the City Council. The City utilizes an encumbrance system, whereby commitments, such as purchase orders and unperformed contracts, are recorded as reserved fund balances at year end.

## **FACTORS AFFECTING FINANCIAL CONDITION**

### ***Economic Outlook***

Although Redondo Beach saw an increase of 1.1% in real property assessed valuations for FY 2008-2009, other areas of the local economy provided evidence of the continuing recession. For example, transient occupancy rates declined from 79% in FY 2007-2008 to 76% in FY 2008-2009, and sales tax revenue was 13.0% less than projected in the FY 2008-2009 adopted budget and 3.7% less than projected in the FY 2008-2009 revised budget, a result of reduced consumer confidence and weaker consumer spending. Still, Redondo Beach continues to exceed the countywide average in total taxable retail sales, ranking 31 out of 89 cities. Fortunately, the local economy has not seen massive job losses, as evidenced in other parts of the state. In fact, Redondo Beach experienced a slight decrease in its unemployment rate from 2.9% in 2007 to 2.6% in 2008.

### ***Economic Development***

All sectors of the national and regional economy have been impacted by the current recession. Fortunately, the South Bay region has not been impacted as nearly as other areas of Southern California. While the economy is in a recessionary period, opportunities still exist to minimize the impacts and set the stage for improvement.

The City's emphasis on economic development is targeted on a number of key strategic goals:

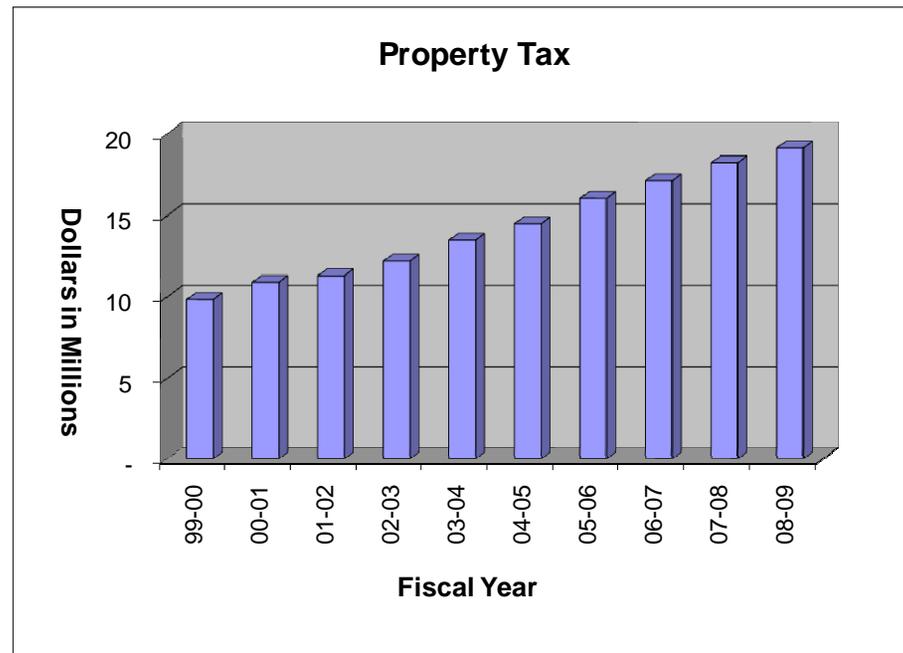
- Revitalization of the Harbor and Pier with a new lease for a boutique hotel, enhanced signage, and public improvements having been completed.
- Reinforcing the desirability of the Riviera Village as a destination for shopping, dining, and services through a variety of activities, including a pilot streetscape project.
- Encouraging the continued success of the Galleria and Artesia Boulevard business districts with a new Kohl's having replaced Mervyn's and a significant investment being planned for the southern portion of the Galleria.
- Leveraging public assets to facilitate economic development such as the proposed reuse of the City's Marine Avenue parcel to encourage the development of two new hotels.
- Ensuring growth in the business community through business retention, expansion, and attraction such as with Del Amo Motor Sports and Land Rover.
- Making investments in infrastructure such as public facilities and road improvements to support the local economy.

Redondo Beach is better off than most cities; however, the City has experienced declines in many of its major revenue categories. Five of the City's largest revenue sources are property tax, sales tax, utility users' tax, motor vehicle in lieu tax, and transient occupancy tax. These major sources are discussed in more detail below.

### **Property Tax**

The City's largest revenue source, property tax, is imposed on real property (land and permanently attached improvements, such as buildings) and tangible personal property (moveable property) located within the City. Property is initially assessed by the County Assessor at a tax rate of 1.0% of the assessed value and rising no more than 2.0% each year. The City receives revenues equal to 16.6% of the tax rate from the County of Los Angeles - Auditor/Controller's Office.

Property tax revenues and real estate sales are weakening as FY 2008-2009 citywide assessed valuation increased only \$131 million, or 1.1%, to \$11.66 billion. The City's assessed valuation is derived 84.6% from single-family residential properties, 11.1% from residential income properties, and the remaining 4.3% is derived from commercial and industrial properties. During FY 2008-2009, the growth in property tax revenue also slowed, yet still increased 4.91%, or \$897,423, to \$19.16 million. While still positive, the pace of the annual increase in property tax revenue continues to slow, influenced by the recessionary economy, tightened credit conditions, and supply demand factors. More positively, property tax valuations, while slowing, continue to be positively impacted due to the desirable location of Redondo Beach real estate, continued low mortgage interest rates, and increased levels of real estate exchange rebounding from recessionary lows.

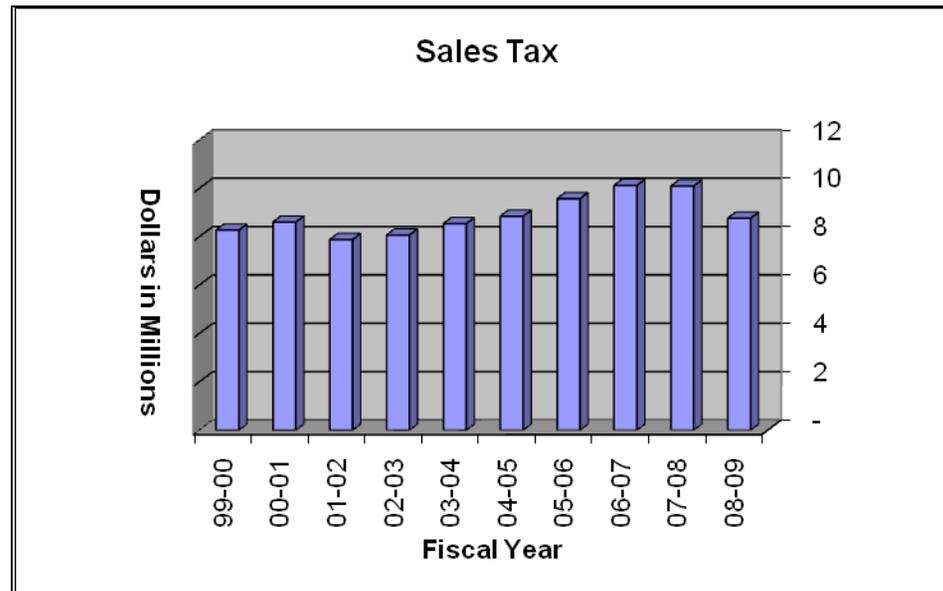


## Sales Tax

The City's second largest revenue source is sales tax. Sales tax in Los Angeles County is 9.75% of the sale price of taxable goods and services sold at retail. Redondo Beach receives 1% of taxable sales from the State Board of Equalization.

During the five-year period spanning FY 2002-2003 through FY 2007-2008, local sales tax revenue had shown a consistent strengthening trend, increasing from \$8.07 million in FY 2002-2003 to \$10.10 million in FY 2007-2008, an increase of 25.15%. During FY 2008-2009, the City received only \$8.77 million in sales tax revenue, reflecting a reduction of \$1.33 million, or 13.18%, from FY 2007-2008. Components of sales tax revenue for this year consisted of \$6.38 million in local sales tax revenue and \$2.39 million in State "triple flip" sales tax in lieu from education relief augmentation funds. Twenty-seven percent of the City's FY 2008-2009 traditional sales tax base is now committed by State legislative action to secure State deficit reduction bonds. Stagnant population growth, declines in consumer confidence, and rising unemployment have negatively impacted this key tax-based operating revenue.

The City is committed to re-establishing a strong local economy through both business retention and business expansion, thereby enhancing the community's overall economic base. Retail businesses are likely to realize a reduction in sales as the economy remains in a recession, decreasing City sales tax revenue further in the coming year. The City continues to closely monitor progress with respect to the streamlined sales tax project, designed to simplify and modernize sales and use tax collection and administration for both traditional "Main Street" and remote sellers for all types of commerce, with particular attention to internet sales transactions.

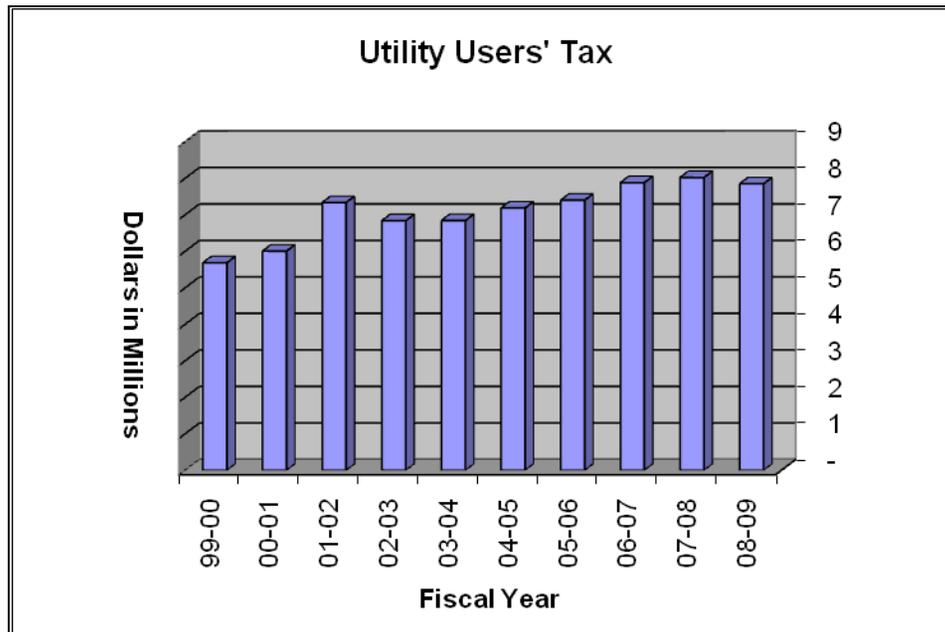


### Utility Users' Tax

The City's third largest revenue source, utility users' tax (UUT), is imposed on consumers of electric, gas, cable services, water and telephone services. Federal and state governmental agencies and pay telephone users are exempt. UUT consists of approximately 34% telecommunications and 37% electricity. Redondo Beach's UUT rate is 4.75%.

For fiscal years 1999 through 2001, revenues derived from UUT were fairly level. The spike in UUT revenue for FY 2001-2002 reflects the impact of the energy shortage in California and the corresponding dramatic short term increase in energy rates. UUT revenue was reduced in FY 2002-2003 due to utility rate reductions and State mandated energy rebates to consumers. During FY 2003-2004, increases in UUT telecommunications revenue resulted from application of UUT to wireless communications services. These increases were offset by reductions in energy-related UUT sources, flattening the overall performance of UUT for FY 2003-2004.

UUT revenue for FY 2008-2009 totaled \$7.85 million, reflecting a slight decrease of \$170,407, or 2.13%. With 34%, or \$2.67 million of the City's UUT revenue derived from telecommunications services, this source has faced a number of threats challenging the continuing viability of these revenues. The combination of hostile litigation, technology changes, and adverse legislation placed UUT telecommunications-based revenues at risk. The City successfully addressed these challenges by placing a measure on the March 2009 ballot to modernize the City's UUT ordinance, therefore, securing these important tax-based resources. This important ballot measure protecting the long-term viability of telecommunications-based UUT revenue was strongly endorsed by the citizens, who passed it by 75%.



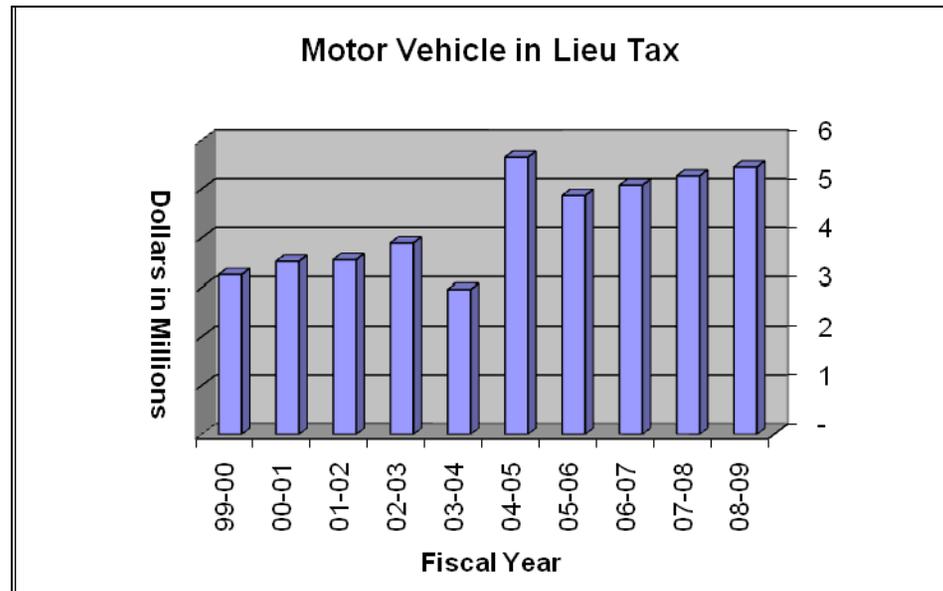
### **Motor Vehicle in Lieu Tax**

The City's fourth largest revenue source (including property tax in lieu) is motor vehicle in lieu tax (MVIL) and is imposed on ownership of a registered vehicle for the privilege of operating the vehicle on public highways. A portion of the tax is disbursed to the cities based on the proportion that the population of each city bears to the total population of all cities (a per capita formula). The license fee paid to the state by vehicle owners is 0.65% of the market value of the motor vehicle; however, the City is due 2% of the market value of the motor vehicle. Therefore, the State backfills the additional 1.35% out of its General Fund in the form of MVIL. For each year the vehicle is owned, the assessed fee declines in accordance with a depreciation schedule reflecting the decreased value of the vehicle.

In FY 2003-2004, the State Budget Act of 2004 substantially changed the allocation of Vehicle Licenses Fee (VLF) revenues to cities and counties. The state VLF backfill was eliminated and the formula allocating the remaining VLF revenues to cities and counties was altered. A new revenue, the Property Tax In Lieu of VLF, effectively compensated cities and counties for the funding they would have received at the full 2% VLF tax rate.

The formula for allocating the remaining VLF revenues consists of a monthly allocation to cities and counties in proportion to population. The total VLF revenue collected by the State under the 0.65% tax rate for FY 2008-2009 was \$2.1 billion, with state and county programs receiving over 75% of these revenues.

Since FY 1998-1999, the City experienced a steady increase in VLF until FY 2003-2004, when revenue decreased by \$937,000 as the result of State budgetary realignment reducing the MVIL apportionment. In FY 2004-2005, the MVIL revenue increased by \$2.7 million to \$5.7 million. This increase was attributed to the State's advance repayment of \$1.1 million in MVIL funds loaned to the State from prior year, adjustments to prior period apportionments, and implementation of a revised State VLF allocation formula establishing the Property Tax in Lieu of VLF revenue. In FY 2008-2009, MVIL revenue totaled \$5.45 million, increasing \$181,610 from prior year and consisting of \$5.25 million of property tax in lieu of VLF revenue and \$205,000 in MVIL revenue.

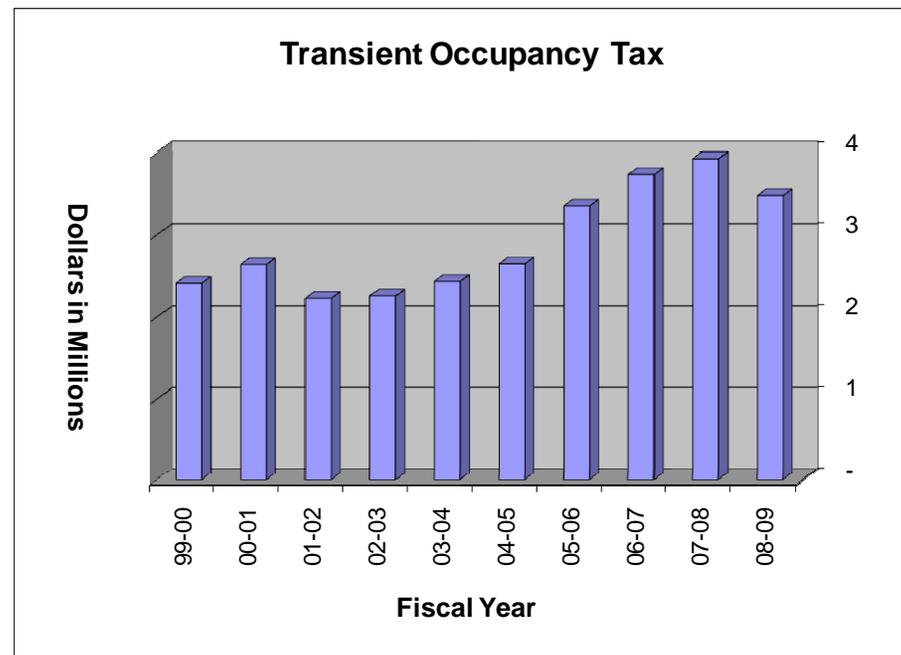


### ***Transient Occupancy Tax***

The City's fifth largest revenue source, transient occupancy tax (TOT), is imposed on occupants of hotel, motel, inn, tourist home or other lodging facilities unless such occupancy is for 30 days or longer. The tax is applied to the customer's lodging bill at a rate of 12%, which increased 2% in July 2005, and substantially enhanced revenues. One percent (1%) of the TOT collected is contributed to the Redondo Beach Chamber of Commerce and Visitors Bureau to support marketing and tourism in the City. This 1% is not netted against revenues, but rather reflected in the City's expenditures.

In FY 1995-1996, the City revised the TOT ordinance to streamline collection and reporting on hotel room rentals associated with the airline industry. This ordinance revision served to significantly enhance the performance of this tax-based operating revenue. This favorable trend was offset by the adverse impact of 9/11 during FY 2001-2002, in which TOT revenue declined by 15.7% from the prior fiscal year.

From FY 2003-2004 through FY 2007-2008, TOT revenues more than recovered from the adverse impacts of 9/11, reflecting an increase of 61.2% over the five-year period. However, in FY 2008-2009, Redondo Beach tourism demand did not escape the affect of the global recession. From FY 2007-2008 to FY 2008-2009, TOT revenues reflected a decrease of 11.4%, or \$447,719. The current recessionary economy, although improving, will continue to impact hotel room rates and occupancy, especially from the business traveler segment of the market.



## **LONG-TERM CAPITAL IMPROVEMENT PLANNING**

The City annually adopts a Five-Year Capital Improvement Program. The first year funding of capital improvement projects is included in the fiscal year 2008-2009 adopted budget. These projects, however, should not be viewed as immediate resolution to existing infrastructure problems, but instead as part of “setting the table” for the future. It will take time to rehabilitate the City’s capital assets, and we anticipate our long-range replacement program will protect the City’s valuable assets for future generations. Meanwhile, the City continues to invest in a number of significant projects:

### ***Street Resurfacing***

- ♦ Residential Street Rehabilitation - In FY 2008-2009, the City spent \$1.3 million on its multi-year residential street rehabilitation program. In addition, the City spent \$158,000 to improve sidewalks and curb ramps throughout the City. For FY 2009-2010, the City has budgeted an additional \$575,000 to continue the residential resurfacing effort.
- ♦ Arterial Street Resurfacing - In FY 2008-2009, the City spent over \$450,000 resurfacing City arterials. For FY 2009-2010, the City budget includes almost \$6 million for additional arterial resurfacing, including \$2 million in federal stimulus funds.
- ♦ Traffic Calming – The City spent over \$300,000 on traffic calming projects in FY 2008-2009, including Axenty Way and the intersection at PCH/Sapphire/Francisca. In addition, the City’s first traffic circle was completed at Calle Miramar and Paseo de la Playa. The FY 2009-2010 budget includes \$50,000 for additional traffic calming projects.
- ♦ Pacific Coast Highway/Catalina Avenue Intersection Improvements – In February 2005, work began to restore the five point intersection at Pacific Coast Highway and Catalina Avenue. The project landscaping component was completed in February 2009.

### ***Storm Drain System Improvements***

- ♦ Water Quality Improvements - The City is continuing to implement an aggressive program to improve the quality of the water discharged from the City’s storm drain system. In FY 2005-2006, a “Water Quality Task Force” was formed to find solutions to recurring “red tides” and water quality issues in the City’s harbor. The Task Force completed an extensive list of short and long-term action recommendations, with several items considered in the City’s Capital Improvement Program. The FY 2008-2009 budget included \$175,000 to implement three of the Task Force’s recommendations. Plans for two of the projects have been finalized and construction will be completed in FY 2009-2010.
- ♦ Storm Drain Line Replacement – In FY 2008-2009, the City awarded a contract for \$100,000 for storm drain improvements and replacements. The FY 2009-2010 budget includes roughly \$2.4 million for additional storm drain improvements, including \$1.7 million in federal stimulus funds.

### ***Sewer Improvements***

- ♦ Sewer Line Replacement - In FY 2008-2009, the City spent \$445,000 to install smart manhole covers. The City also awarded a contract for \$946,227 to continue upgrading the City’s sewer system. The FY 2009-2010 budget includes over \$7 million in new and continuing funding for sewer facility improvements.

### ***Facility Improvements***

- ♦ City Facility Improvements - In FY 2008-2009, the City completed several projects to improve City facilities. The roof on the Veterans Park Historic Library was replaced at a cost of \$85,000. Also, the City spent over \$225,000 to replace the carpeting in the Main Library. \$140,000 in major renovations were completed at the Historical Museum using community volunteers.
- ♦ Park Improvements – In FY 2008-2009, the City completed \$478,000 of improvements at Aviation Park. In addition, volunteers completed \$100,000 in improvements at the Alta Vista Concession building.

## CASH MANAGEMENT POLICIES AND PRACTICES

Under the direction of the elected City Treasurer, cash temporarily idle during the year is invested in securities as specified in the City's investment policy. The Treasurer's cash management philosophy is to buy and hold both Federal Agency instruments and high-grade Corporate Medium-Term notes within a structured investment maturity ladder of one to five years. Complimenting these investment instruments, the Treasurer ensures sufficient investment portfolio liquidity by maintaining approximately 33% of the portfolio's assets in the state managed Local Agency Investment Fund (LAIF).

All investments comply with state law and the City's Statement of Investment Policy, which is reviewed and approved by the City Council and the Budget and Finance Commission on an annual basis. In addition, the City's Statement of Investment Policy was recertified for excellence by the Association of Public Treasurers of the United States and Canada (APT-US&C) in August 2007. This recertification insures that the investment policy is in full legal and reporting compliance.

The policy's established investment performance benchmark is the one-year moving average of the Constant Maturity Treasury (CMT) index. In the periodic purchase of investments, the rate of return provided by LAIF, and the yield on the U.S. Treasury Security of closest maturity to the purchased investment, also serve as investment performance indicators. The Treasurer is required to submit a quarterly investment report to the City Council and Budget and Finance Commission that provides a summary of the status of the current portfolio and material transactions.

In order to ensure liquidity within the investment portfolio, the City maintains \$15 million to \$30 million in LAIF, on average. The yield provided by LAIF over the past year has decreased in line with the overall decline in interest rates available in the marketplace. Excess investment funds above the liquidity threshold are placed primarily in Federal Agency investments within the one-to-five-year investment maturity range. The decrease in market interest rates experienced during fiscal year 2008-2009 constrained investment opportunities that would have served to improve the overall investment yield on the portfolio. As of June 30, 2009, the City's idle funds were invested as follows:

Investment	Market Value*	% of Portfolio	Yield to Maturity
Federal Agency Issues - Coupon	\$ 16,111,640	24.8%	3.42%
LAIF	32,000,000	49.3%	1.26%
Corporate Medium-Term Notes	16,645,230	25.6%	4.77%
Municipal Bonds	175,000	00.3%	5.42%
Total Investments/Averages	\$ 64,931,870	100.0%	2.72%
Average Term of Investments			1.54 years

\*As required by GASB 31, the City recorded the unrealized loss on certain investments to account for the market value on June 30, 2009. The amount, \$325,423, represents less than 5/10ths of 1% of the current market value of the investments within the City's investment portfolio – an insignificant unrealized diminishment in the City's overall level of financial resources. This unrealized diminishment in the value of investments results from the uncertainty facing the financial marketplace over the past year impacting the market valuation of the City's Federal Agency and Corporate Medium Term Notes. The value of the City's fixed income investments have an inverse relationship to market interest rates, i.e., when market rates rise, investment valuations fall. As stated in the City's Investment Policy, the City utilizes a buy and hold investment strategy, whereby fixed income investments are held to maturity. This results in the return of the full value of the original investment, including associated interest, at the maturity date of the investment.

Investment Portfolio value is enhanced by maintaining a well diversified mix of investments consisting of AAA rated Federal Agency Issues, AA rated Corporate Medium-Term Notes, liquid investments within the state's LAIF Investment pool, and participation in the California Statewide Communities Development Authority Tax and Revenue Anticipation Note (TRAN) financing program. TRAN allows participants the opportunity to borrow funds at tax exempt market rates to increase cash resources needed to fund temporary cash shortfalls in the General Fund. These shortfalls arise due to the timing differential of monthly cash receipts and disbursements. The financing program provides an additional source of revenue for the City because the cost of borrowing is less than the reinvestment earnings generated by TRAN. For the fiscal year 2008-2009 the City issued \$5 million in TRAN, maturing on June 30, generating additional interest income of \$265,383.

## **RISK MANAGEMENT**

The City maintains a self-insurance program for workers' compensation and liability claims. The program accumulates resources in the Self-Insurance Program internal service fund to meet potential losses. For fiscal year 2008-2009, the self-insurance retention (SIR) is \$750,000 for workers' compensation and \$500,000 for liability. Excess coverage up to \$100,000,000 for each workers' compensation claim is provided by a third-party private insurer, and excess liability up to \$20,000,000 each occurrence is covered by the Independent Cities Risk Management Authority (ICRMA).

ICRMA is a joint powers authority for medium-sized California municipalities which have agreed to pool risks and losses. Each member's share of pooled costs depends on the losses of all members as well as the member's own loss experience. Both the workers' compensation and liability claims programs are managed by a third-party claims administrator under the direction of the Risk Management Division of the Human Resources Department.

The amounts included in the Self-Insurance Program internal service fund are significant partly due to requirements of Government Accounting Standards Board (GASB) Statement No.10. In complying with GASB 10, the City must record as a liability and expenditure not only actual risk/loss experienced in the areas of workers' compensation and liability, but also claims incurred but not reported (IBNR). IBNR claims include exposure for losses that a city is not yet aware of, as well as any statistically probable increase in costs for accidents that are already known to the City. The appropriate amount to include on the financial statements for IBNR claims is typically developed by an actuary.

As of June 30, 2009, the City recorded the following:

### ***Workers' Compensation Claim***

Claims payable totaled \$13,827,918, representing a decrease of \$1.0 million, or 6.84%, from the prior period. This decrease is attributable to a decrease in reserves and IBNR over a one-year period.

### ***Liability Claims***

Claims payable totaled \$ 2,335,705, representing a decrease of \$262,932, or 10.12%, from the prior period. This decrease is attributable to a decrease in estimated reserves.

## ***Unemployment Insurance***

The City participates in a direct-cost reimbursement method for unemployment insurance. This program is administered by the State Employment Development Department to provide salary continuance for employees who were terminated involuntarily. For fiscal year 2008-2009, the total reimbursed cost was \$33,927.

## **PENSION AND OTHER POST-EMPLOYMENT BENEFITS**

The City provides three defined benefit pension plans - two for safety employees (3% at 55 for Fire and 3% at 50 for Police) and one for miscellaneous employees (2% at 55). These plans are part of the California Public Employees Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. The City makes contributions to the plans based on amounts determined by CalPERS actuaries. The City also contributes the employees' required contributions on their behalf and for their account.

After a number of years of rate volatility given a variety of causes, the CalPERS Board adopted a Rate Stabilization Plan in April, 2005. This Rate Stabilization Plan provides for a more manageable ability to fund pension obligations over short and long terms. The Rate Stabilization Plan features an asset smoothing method, an amortization period for gains and losses, and a minimum contribution when the Plan has a surplus. The Rate Stabilization Plan resulted in a reduction in the City's PERS employer contribution rates, after a number of years with significant increases. The rate for safety employees in fiscal year 2008-2009 was 32.849%, up from 32.210% in 2007-2008, with the miscellaneous employees' rate decreasing from 11.610% to 11.485%. Rates are projected to increase from 2008-2009 levels for the 2009-2010 and 2010-2011 fiscal years to 32.091% and 32.713% respectively for safety employees and 11.671% and 11.804% respectively for miscellaneous employees.

The total contribution paid by the City toward pension benefits was \$10.6 million, which includes the employer and employer-paid member contributions, along with prior-period adjustments determined by CalPERS. Approximately 79.2%, or \$8.4 million, was charged to the General Fund. The anticipated total contribution, excluding prior-period CalPERS adjustments, for fiscal year 2009-2010 is estimated to be approximately \$10.1 million.

Aside from contributing to CalPERS, the City also contributes to Social Security. The fiscal year 2008-2009 total cost for Social Security and Medicare coverage was \$1.7 million, of which \$1.2 million, or 67.1%, is from the General Fund. Safety employees do not participate in Social Security and Medicare, except for those employees hired after 1986, which are required to participate in Medicare.

The City also provides post-retirement health care benefits to its employees in accordance with agreements reached with various employee bargaining groups. The City pays for retirees' health care premiums in these plans up to limits established in the agreements with the bargaining units. These payments are financed through a drawdown of the City's Other Post Employment Benefits (OPEB) trust. Established in FY 2008-2009 to comply with GASB 45, the OPEB trust allows the City to prefund actuarially derived OPEB costs that are expected to be incurred in future periods. As of June 30, 2009, the City was providing benefits to an average of 99 participants at an annualized cost of \$540,237.

## **AWARDS**

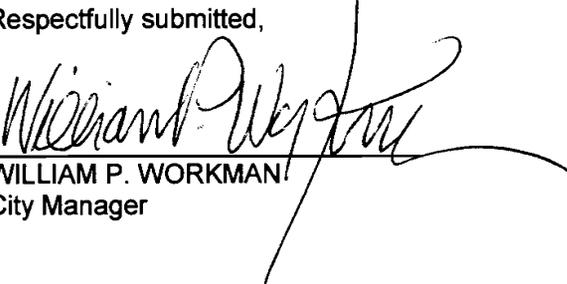
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Redondo Beach for its Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2008. In order to be awarded this certificate, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

For FY 2008-2009, the City will again apply to the GFOA for the Certificate of Achievement for Excellence in Financial Reporting. We believe that our current comprehensive annual financial report continues to meet the criteria to receive this certificate, and we will be submitting it to GFOA for consideration.

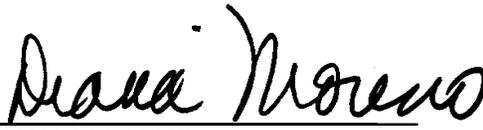
## **ACKNOWLEDGMENTS**

The timely preparation of this report has been accomplished with the efficient and dedicated services of the staff of the Financial Services and Treasury Departments. We also thank the City's independent auditors, Caporicci & Larson Certified Public Accountants, for their assistance and expertise and all City departments for their cooperation during the audit engagement and their participation in preparing this report. We would like to express our appreciation to the Mayor and City Council and the Budget and Finance Commission for their interest and support in planning and conducting the City's financial affairs in a responsible and progressive manner.

Respectfully submitted,



WILLIAM P. WORKMAN  
City Manager



DIANA MORENO  
Financial Services Director

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Redondo Beach  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "M. L. R. M.", written in a cursive style.

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Egan", written in a cursive style.

Executive Director

# CITY OF REDONDO BEACH

## MAYOR AND CITY COUNCIL



Michael A. Gin  
Mayor



Steve Aspel  
Councilmember  
District 1



Bill Brand  
Councilmember  
District 2



Pat Aust  
Councilmember  
District 3



Steven Diels  
Councilmember  
District 4



Matt Kilroy  
Councilmember  
District 5

### CITY OFFICIALS

William P. Workman  
City Manager

David Biggs  
Assistant City Manager



Michael Webb  
City Attorney



Eleanor Manzano  
City Clerk



Ernie O'Dell  
City Treasurer

Michael Witzansky  
Director of Recreation & Community Services

Daniel P. Madrigal  
Fire Chief

Steve Huang  
City Engineer/Chief Building Official

Gwendolyn Parker  
Harbor, Business and Transit Director

Chris Benson  
Information Technology Director

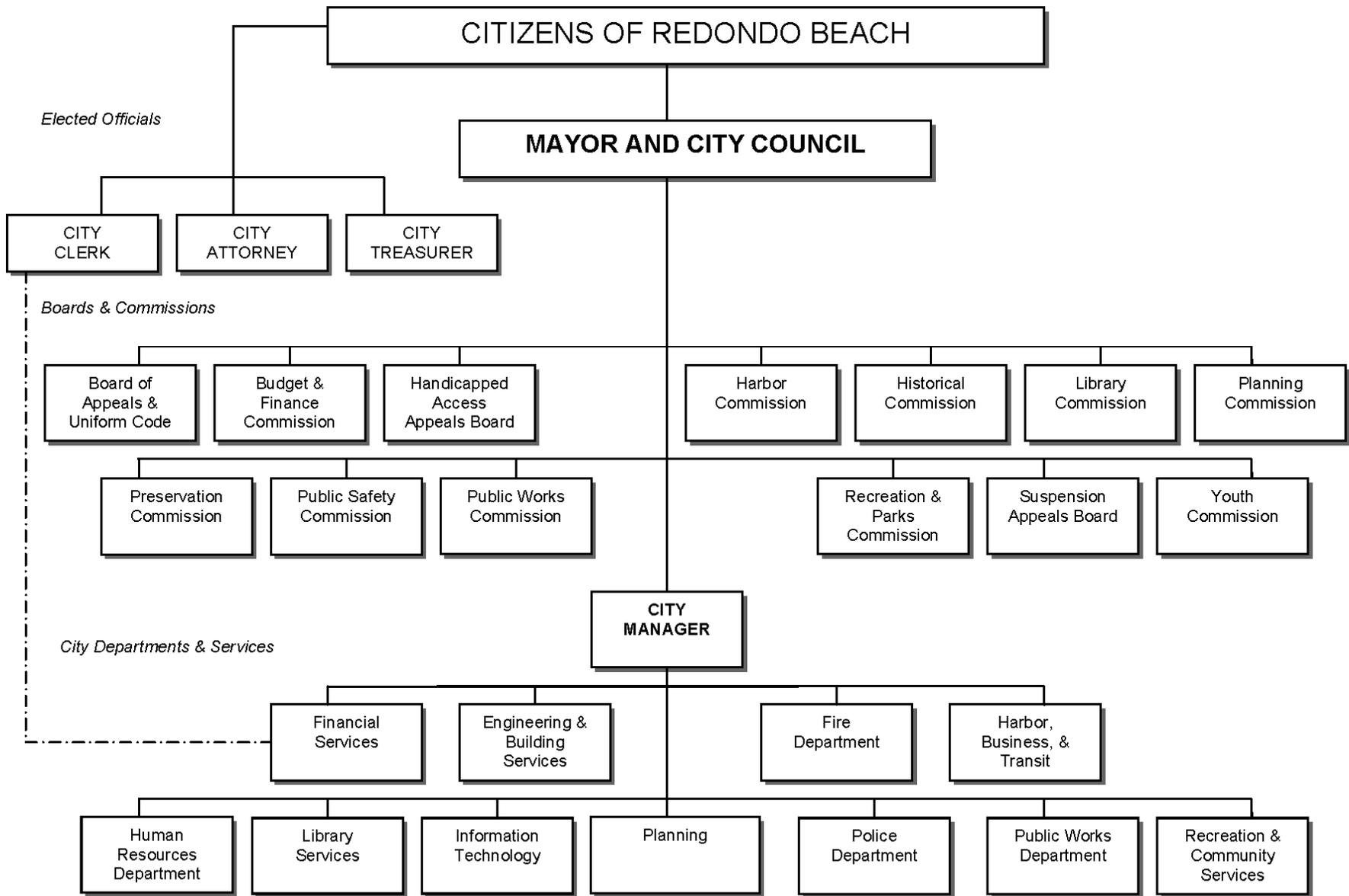
Aaron Jones  
Planning Director

W. Joseph Leonardi  
Chief of Police

Jean Scully  
Director of Library Services

Sylvia Glazer  
Public Works Director

Diana Moreno  
Financial Services Director



ORGANIZATIONAL CHART  
FY 2008-2009