

City of Redondo Beach

Redondo Beach, California

Comprehensive Annual Financial Report

For the year ended June 30, 2010

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, 2010

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December 21, 2010

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, 2010. 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 68,105 as of January 1, 2010, remaining relatively flat with 2009. The City remains a highly residential, non-industrial community. It is a highly-educated, upscale community where the median cost of a home is \$640,000.

Redondo Beach has significant concentrations of employment and retail activity in the northern industrial complex anchored by Northrop Grumman, 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 Grumman, Redondo Beach Unified School District, the City, DHL Global Forwarding, Nordstrom, Cheesecake Factory, U.S. Post Office, Von's, Crown Plaza–Redondo Beach, and Macy's.

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

Since the recession officially ended in June 2009, Redondo Beach has realized an increase of 0.99% in real property assessed valuations for FY 2009-2010; however, other areas of the local economy provided evidence of disappointingly slow economic growth. For example, transient occupancy rates declined slightly from 76% in FY 2008-2009 to 75% in FY 2009-2010, and sales tax revenue declined 10.6% in FY 2009-2010 from the prior year, a result of persistently low consumer confidence, weak consumer spending, local competition, stagnant population growth, and rising unemployment. 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. Although Redondo Beach experienced an increase in its unemployment rate from 6.2% in FY 2008-2009 to 7.2% in FY 2009-2010, this is well below the Los Angeles County and State of California FY 2009-2010 unemployment rates of 12.3% and 12.4%, respectively.

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 negatively impacted nearly as much as other areas of Southern California. Opportunities still exist to further 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:

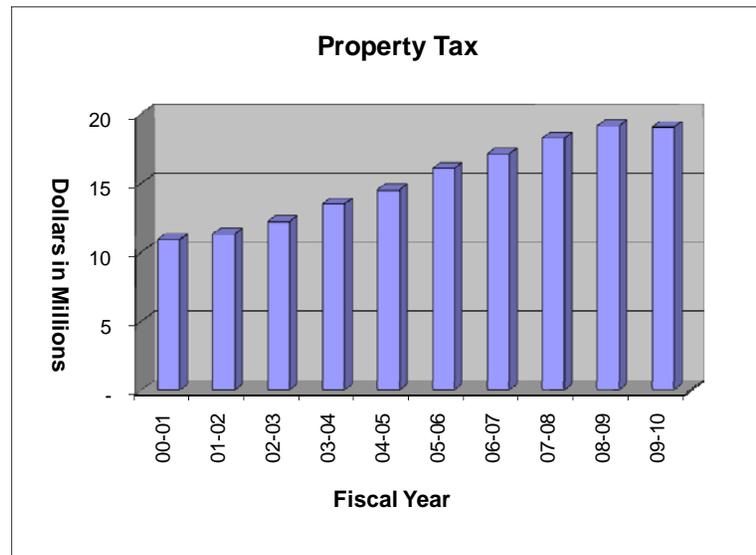
- Revitalizing the Harbor and Pier with a new lease for a boutique hotel, enhanced signage, and public improvements, which have already been completed.
- Reinforcing the desirability of the Riviera Village as a destination for shopping, dining, and services through a variety of activities, including 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, Living Spaces replacing Expo Design Center, and the construction of the South Bay South Project with Nordstrom Rack, Total Wine, and Sprouts Market.
- Leveraging public assets to facilitate economic development such as the approved reuse of the City's Marine Avenue parcel to construct a Residence Inn by Marriot and a Hilton Garden Inn.
- 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.

Although property tax revenues and real estate sales continue to reflect a general malaise in the housing market as a result of the approximately 2% GDP takedown, City property tax valuations, while slowing, continue to be positive. With Redondo Beach being a desirable location, coupled with continued low mortgage interest rates, the FY 2009-2010 citywide assessed valuation increased \$116 million, or 0.99%, to \$11.83 billion. The City's assessed valuation is derived 80.8% from single-family residential properties, 8.6% from commercial properties, 3.6% from industrial properties, and the remaining 7.0% from vacant and institutional properties. During FY 2009-2010, property tax revenue decreased 0.54%, or \$102,855, to \$19.05 million. While the recession officially ended in June 2009, the pace of economic growth and the annual increase in property tax revenue continues to slow, influenced by the weak labor market, tightened credit conditions, and supply demand factors.

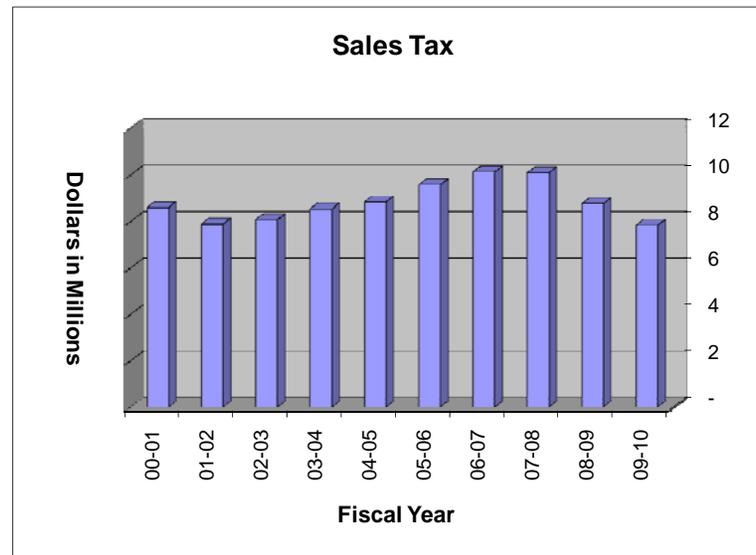


Sales Tax

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%. However, with the onset of the 2008 recession and slow economic growth that has followed, the City has experienced a 22.37% decrease in sales tax revenue from FY 2008-2009 through FY 2009-2010. During FY 2009-2010, the City received only \$7.84 million in sales tax revenue, reflecting a reduction of \$929,073, or 10.60%, from FY 2008-2009. Although twenty-seven percent of the City's FY 2009-2010 traditional sales tax base is now committed to the State for deficit reduction bonds, this amount is backfilled by the State to the City with a revenue swapping procedure commonly referred to as the "triple flip". For this year, sales tax revenue consisted of \$6.10 million in local sales tax revenue and \$1.74 million in State "triple flip" funds. Stagnant population growth, local competition, declines in consumer confidence, and rising unemployment has 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. Although sales related to current retail vendors are likely to remain flat or show slight increases as the pace of economic growth remains disappointingly slow, the City anticipates an increase in sales tax revenue in the coming years. This anticipated increase is mainly due to the opening of new retail stores, such as Living Spaces, Nordstrom Rack, Sprouts, and Total Wine. 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.

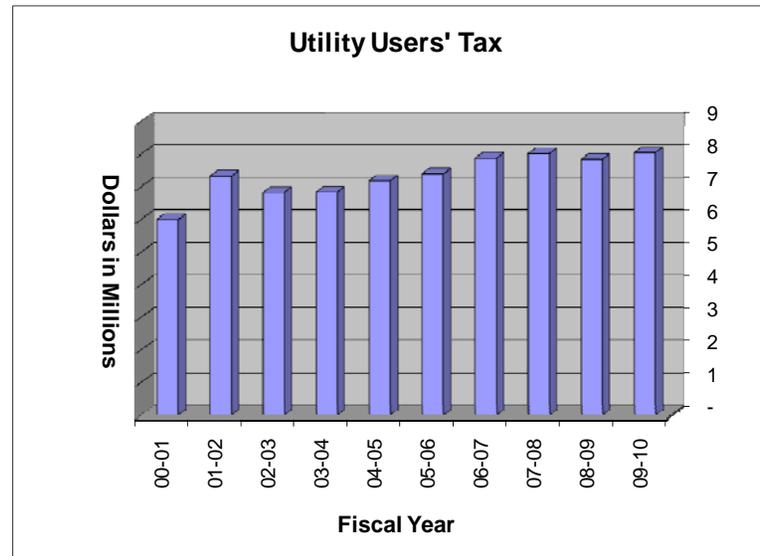


Utility Users' Tax

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. Each city sets its UUT rate, and Redondo Beach's 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. Although there were increases in UUT telecommunications revenue in FY 2003-2004 due to the 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.

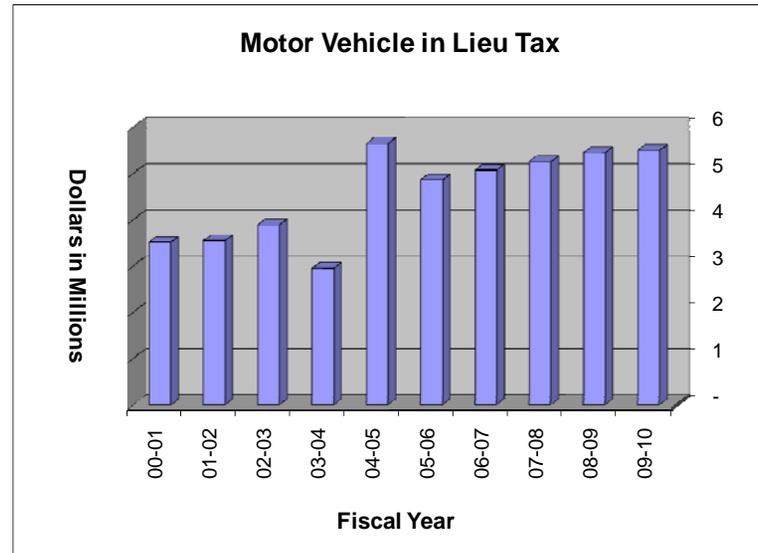
UUT revenue for FY 2009-2010 totaled \$8.04 million, reflecting a slight increase from the prior year of \$195,051, or 2.49%. With 34%, or \$2.73 million of the City's UUT revenue derived from telecommunications services, the City successfully protected the long-term viability of telecommunications-based UUT revenue by placing a measure on the March 2009 ballot to modernize the City's UUT ordinance. This important ballot measure was strongly endorsed by the citizens, who passed it by 75%.



Motor Vehicle in Lieu Tax (previously Vehicle License Fees)

The City's fourth largest revenue source is motor vehicle in lieu tax (MVIL) and is imposed by the State on ownership of a registered vehicle for the privilege of operating the vehicle on public highways. A portion of the tax is disbursed to 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, cities are 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 property tax revenue. For each year the vehicle is owned, the assessed fee declines in accordance with a depreciation schedule reflecting the decreased value of the vehicle.

Since FY 2000-2001, the City experienced a steady increase in Vehicle License Fee (VLF) until FY 2003-2004, when revenue decreased by \$937,000 as a result of State budgetary realignment reducing the VLF apportionment to a tax rate of 0.65%. In FY 2003-2004, the State Budget Act of 2004 substantially changed the allocation of VLF revenues to cities and counties. With this, the backfill of 1.35% referenced above was distributed in the form of property tax revenues and the official name of the tax was changed to Motor Vehicle in Lieu Tax. 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 the revised State allocation formula. Since FY 2005-2006, the City has experienced steady increases in MVIL revenue, primarily due to the growth in the property tax portion of the vehicle license fees. In FY 2009-2010, MVIL revenue totaled \$5.50 million, increasing \$53,288 from prior year and consisting of \$5.31 million of additional property tax revenue and \$198,745 in VLF revenue.

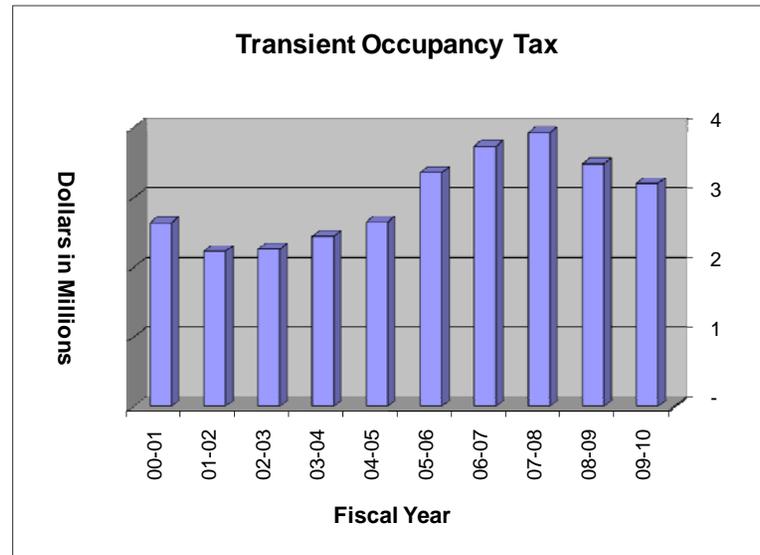


Transient Occupancy Tax

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.

Redondo Beach experienced steady increases in TOT revenue year-over-year through FY 2000-2001; however, this favorable trend was hampered 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. In 2008, Redondo Beach tourism demand did not escape the affect of the global recession. From FY 2007-2008 to FY 2009-2010, TOT revenues reflected a decrease of 18.5%, or \$728,964. Although the current pace of economic growth has been disappointingly slow, occupancy rates are anticipated to increase; however, both business and leisure travelers are still bargain conscious, resulting in a reduction of average room rates. The City anticipates that these two factors will offset one another and not significantly impact TOT revenues in the upcoming fiscal year. At this time, we do not believe the positive impacts to TOT from the Shade Hotel, Residence Inn by Marriot, and Hilton Garden Inn will be felt until FY 2012-2013.



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 2009-2010 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 2009-2010, the City spent \$804,000 on its multi-year residential street rehabilitation program. For FY 2010-2011, the City budgeted \$682,726 to continue the residential resurfacing effort, and \$154,000 to continue the citywide curb ramp improvement program.
- ♦ *Arterial Street Resurfacing* - In FY 2009-2010, the City spent over \$3 million resurfacing City arterials, which included \$1 million in federal stimulus funds for the Inglewood Avenue project. During FY 2009-2010, the City awarded a contract for the Prospect Avenue project, funded by Federal stimulus in the amount of \$920,000. For FY 2010-2011, the City budget includes almost \$2.5 million for additional arterial resurfacing.
- ♦ *School Safety Zone Improvements* - In FY 2009-2010, the City spent over \$150,000 on school area traffic controls. Improvements included the installation of high visibility signs, solar powered flashing beacons, and new striping and pavement markings. In addition, the City spent \$19,000 implementing traffic calming projects, and plans to spend \$40,000 more in FY 2010-2011.

Storm Drain System Improvements

- ♦ *Water Quality Improvements* - The City is continuing to implement an aggressive program to improve the quality of water discharged from the City’s storm drain system. In FY 2005-2006, a “Water Quality Task Force” was formed to recommend solutions to recurring “red tides” and water quality issues in the City’s harbor. The Task Force developed an extensive list of short and long-term action recommendations, with several items considered in the City’s Capital Improvement Program. In FY 2009-2010 the City spent \$115,000 to implement two of the Task Force’s recommendations –the pier building gutter rerouting project and the parking lot debris catchers project.
- ♦ *Alta Vista Diversion and Re-use* – In FY 2009-2010, construction was completed on the \$700,000 Sapphire storm drain diversion project. Also, construction began on the Alta Vista Diversion and Re-use project. This \$2.2 million project is funded with Federal stimulus funds.
- ♦ *Storm Drain Line Replacement* – In FY 2009-2010, the City spent \$170,000 on storm drain improvements and replacements. The FY 2010-2011 budget includes approximately \$120,000 for additional storm drain improvements.

Sewer Improvements

- ♦ *Sewer Line Replacement* - In FY 2009-2010, the City spent \$1.05 million on upgrades to the City’s sewer facilities system. The FY 2010-2011 budget includes \$5.4 million in continuing funding for sewer facility improvements.

Facility Improvements

- ♦ *City Facility Improvements* - In FY 2009-2010, several projects were completed to improve City facilities. The repairs to the City Council Chambers were completed at a cost of \$94,000. Also, the City Channel Broadcast Facility Retrofit was completed at a cost of \$104,000.
- ♦ *Park Improvements* – In FY 2009-2010, the City completed improvements at Anderson Park and Franklin Park at a cost of \$400,000 and \$165,000, respectively.

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 continued reduction in market interest rates experienced during fiscal year 2009-2010 constrained investment opportunities that would have served to improve the overall investment yield on the portfolio. As of June 30, 2010, the City's idle funds were invested as follows:

Investment	Market Value*	% of Portfolio	Yield to Maturity
Federal Agency Issues - Coupon	\$ 23,159,751	38.8%	2.27%
LAIF	20,000,000	33.6%	0.53%
Corporate Medium-Term Notes	16,444,757	27.6%	4.71%
Total Investments/Averages	\$ 59,604,508	100.0%	2.34%
Average Term of Investments			1.83 years

*As required by GASB 31, the City recorded the unrealized gain on certain investments to account for the market value on June 30, 2010. The amount, \$833,734, represents 1.40% of the current market value of the investments within the City's investment portfolio – an insignificant unrealized increase in the City's overall level of financial resources. This unrealized gain in the value of investments results from structural improvements and lower interest rates within 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, when qualified, in the California Statewide Communities Development Authority Tax and Revenue Anticipation Note (TRAN) financing program.

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 2009-2010, 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, 2010, the City recorded the following:

Workers' Compensation Claim

Claims payable totaled \$10,886,580, representing a decrease of \$2.9 million, or 19.82%, from the prior period. This decrease is attributable to a decrease in estimated reserves.

Liability Claims

Claims payable totaled \$ 2,567,734, representing an increase of \$232,028, or 8.93%, from the prior period. This increase is attributable to an increase 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 2009-2010, the total reimbursed cost was \$138,074.

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 2009-2010 was 32.091%, up from 32.849% in 2008-2009, with the miscellaneous employees' rate increasing from 11.485% to 11.671%. Rates are projected to increase from 2009-2010 levels for the 2010-2011 fiscal year to 32.713% for safety employees and 11.804% for miscellaneous employees.

The total contribution paid by the City toward pension benefits was \$10.0 million, which includes the employer and employer-paid member contributions, along with prior-period adjustments determined by CalPERS. Approximately 79.0%, or \$7.9 million, was charged to the General Fund. The anticipated total contribution, excluding prior-period CalPERS adjustments, for fiscal year 2010-2011 is estimated to be approximately \$10.8 million, and is expected to significantly increase in fiscal year 2011-2012.

Aside from contributing to CalPERS, the City also contributes to Social Security. The fiscal year 2009-2010 total cost for Social Security and Medicare coverage was \$1.6 million, of which \$1.0 million, or 62.5%, 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 paid through an Other Post Employment Benefits (OPEB) trust, which was established by the City in FY 2009-2010 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. In fiscal year 2009-2010, the City contributed \$992,809 to the OPEB trust to cover current and future retiree medical benefits; however, future contributions may vary based on future actuarial studies. As of June 30, 2010, the City was providing benefits to 214 participants.

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, 2009. 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 2009-2010, 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, 2009

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 "JEFFREY R. EMER".

President

A handwritten signature in black ink, appearing to read "JEFFREY R. EMER".

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

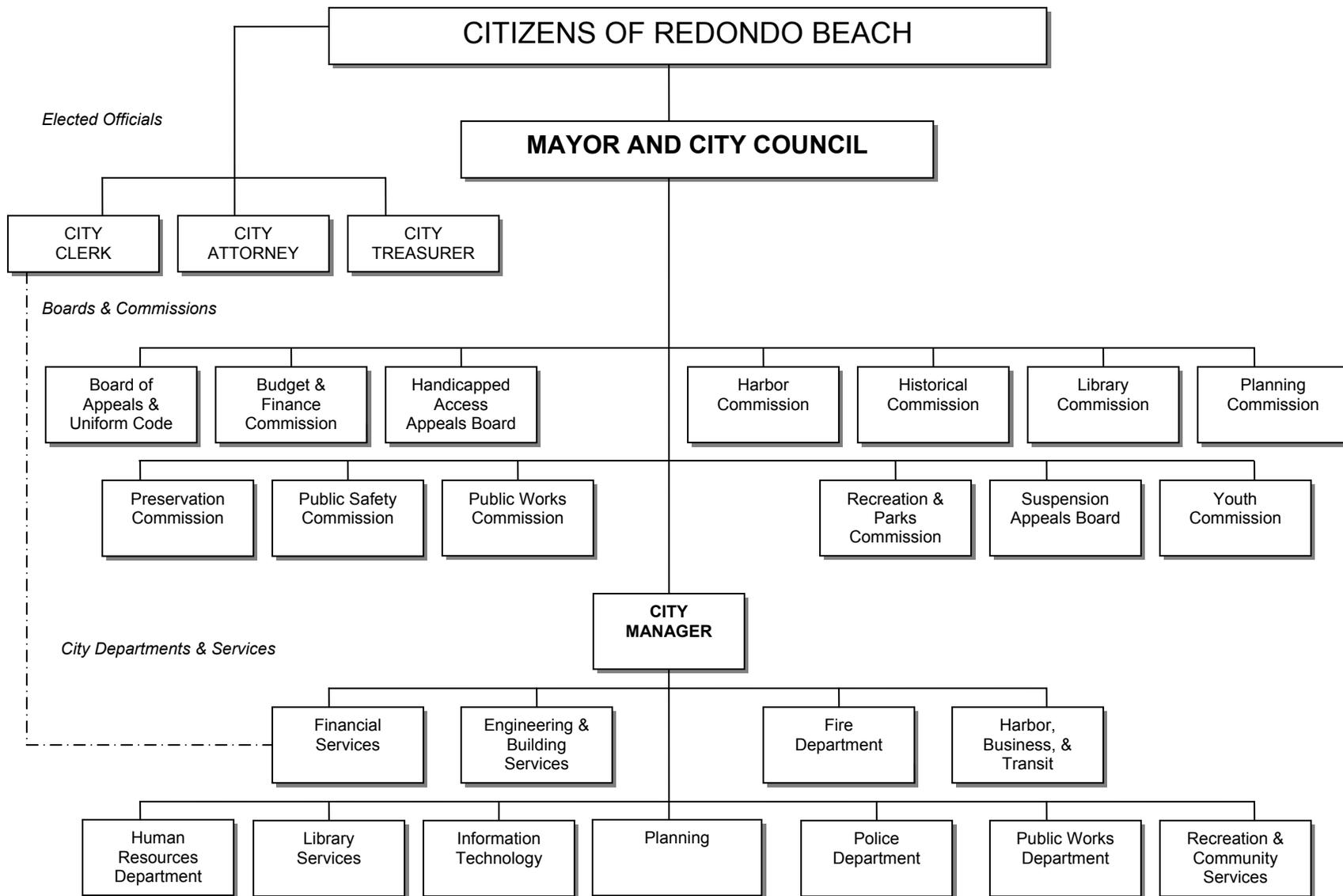
Aaron Jones
Planning Director

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 2009-2010