

# City of Redondo Beach

Redondo Beach, California

*Comprehensive Annual Financial Report*

*For the year ended June 30, 2011*

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, 2011**

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**Financial Services**

415 Diamond Street, P.O. Box 270  
Redondo Beach, California 90277-0270  
www.redondo.org

tel 310 318-0683  
fax 310 937-6666

December 21, 2011

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, 2011. 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 66,970 as of January 1, 2011, remaining relatively flat with 2010. The City remains a highly residential, non-industrial community. It is a highly-educated, upscale community where the median cost of a home is \$613,000.

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, 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 fared better than most cities in Southern California. Locally, during FY 2010-2011, Redondo Beach realized a moderate increase of 1.79% in real property assessed valuations. Hotel occupancy rates remained flat at 75%; however, revenue increased modestly by \$63,164 due to a slight escalation in room rates. Utility users' tax revenue declined 4.68% in FY 2010-2011 from the prior year, resulting from reduced business activity caused by the recession and energy savings that decreased consumption. Still, Redondo Beach continues to exceed the countywide average in total taxable retail sales, ranking 32 out of 89 cities. Redondo Beach experienced a slight decrease in its unemployment rate from 7.2% in FY 2009-2010 to 7.0% in FY 2010-2011, which is well below the Los Angeles County and State of California FY 2010-2011 unemployment rates of 12.4% and 12.8%, respectively.

### ***Economic Development***

All sectors of the national and regional economy have been impacted by the stagnant economy. 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:

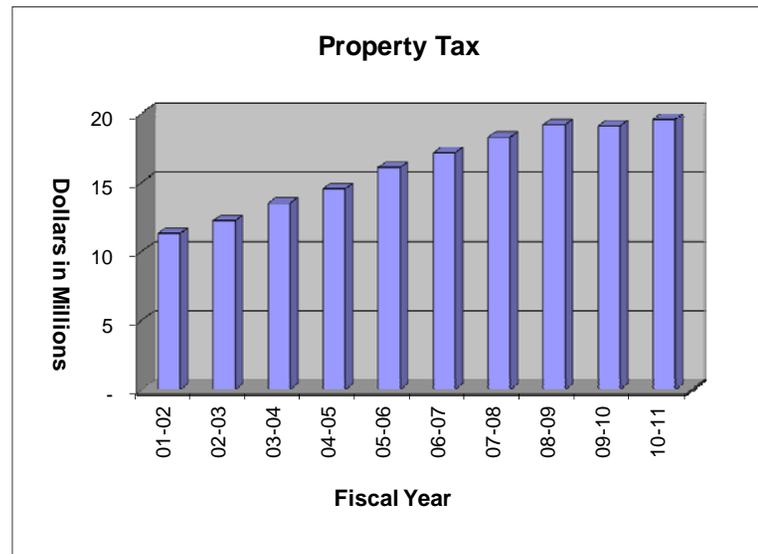
- Revitalizing the Harbor and Pier area with development of a new 45 room boutique hotel, renovation of the pier entry leasehold, enhanced signage, and public improvements, which have already been completed.
- Reinforcing the desirability of the Riviera Village as a destination for shopping, dining, and services through improved signage and enhanced streetscapes.
- Encouraging the continued success of the South Bay Galleria and Artesia Boulevard business districts with a relatively new Living Spaces replacing Expo Design Center, and the construction of the South Bay Marketplace with Nordstrom Rack, Panera Bread, Sprouts Market, Total Wine, Ulta Beauty, and an Islands restaurant.
- Attracting business opportunities through the use of economic development incentive agreements, such as that used to secure the future relocation of Internap Network Services.
- Ensuring growth in the business community through business retention, thereby enhancing the community's overall economic base.
- Making investments in infrastructure, such as new Harbor Patrol and Recreation and Community Services facilities and road improvements to support the local economy.

The City has experienced slight increases 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, City property tax valuations, while slowing from prerecession levels, continue to be positive. With Redondo Beach being a desirable location, coupled with continued low mortgage interest rates, the FY 2010-2011 citywide assessed valuation increased \$212 million, or 1.79%, to \$12.04 billion. The City's assessed valuation is derived 79.5% from single-family residential properties, 8.4% from commercial properties, 3.6% from industrial properties, and the remaining 8.5% from vacant and institutional properties. During FY 2010-2011, property tax revenue increased 2.73%, or \$520,775, to \$19.58 million. Since the recession officially ended in June 2009, the pace of economic growth and the annual increase in property tax revenue appears to be recovering; however, the growth rates are still below those experienced before the recession due to a weak labor market, tightened credit conditions, and supply demand factors.

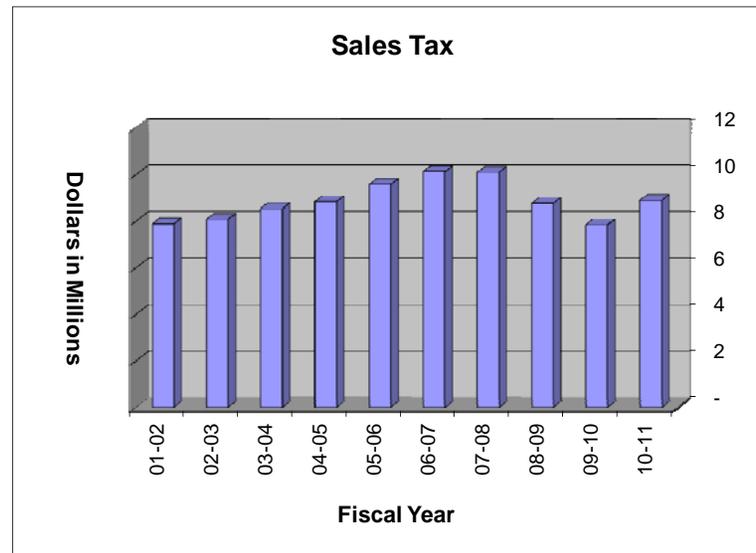


## Sales Tax

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. Twenty-seven percent of the City's FY 2010-2011 traditional sales tax base is now committed to the State for deficit reduction bonds. This amount is backfilled with, and distributed on the same basis as property tax revenue to the City with a revenue swapping procedure commonly referred to as the "triple flip".

From FY 2002-2003 through FY 2007-2008, local sales tax revenue had shown a consistent strengthening trend reflecting a booming economy that increased sales tax revenues 25.15% over the five-year period. However, with the onset of the 2008 recession and slow economic growth that followed, the City experienced a 22.37% decrease in sales tax revenue from FY 2008-2009 through FY 2009-2010. During FY 2010-2011, the City received \$8.90 million in sales tax revenue, reflecting a substantial increase of \$1.06 million, or 13.56%, from FY 2009-2010. This increase is comprised of three parts: \$458,663 due to same store sales, \$410,689 due to a substantial rise in "triple flip" backfill funds noted above, and \$193,620 due to retailers coming on line in the fiscal year. For this year, sales tax revenue consisted of \$6.75 million in local sales tax revenue and \$2.15 million in State "triple flip" funds. Stagnant population growth, local competition, persistently low consumer confidence, and continued high unemployment continue to threaten 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 a slight increase in sales tax revenue in the coming years as Living Spaces, Nordstrom Rack, Panera Bread, Sprouts Market, Total Wine, Ulta Beauty, and an Islands restaurant add to the sales tax base. 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.

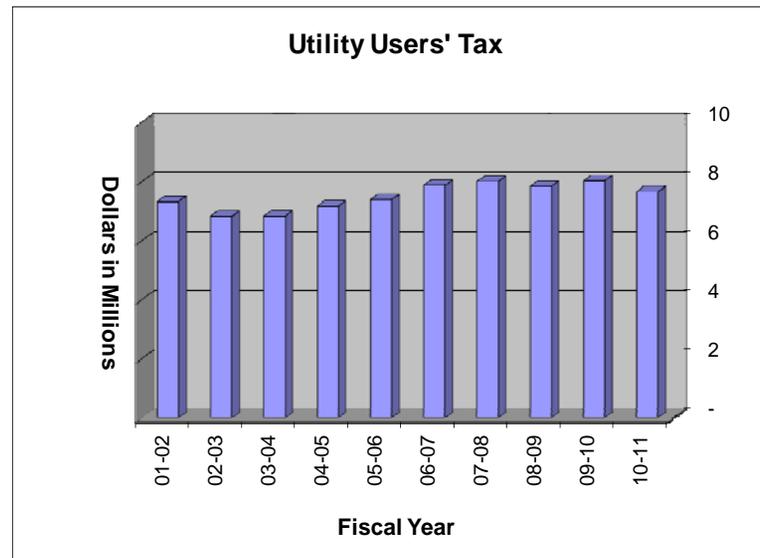


## Utility Users' Tax

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 38% telecommunications and 35% electricity. Each city sets its UUT rate, and Redondo Beach's is 4.75%.

The high level of UUT revenue for FY 2001-2002 when compared to FY 2002-2003 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. Redondo Beach's UUT rate of 4.75% has not increased since 1987; however, the booming economy during the period of FY 2005-2006 through FY 2007-2008 resulted in increased business activity that added to UUT growth. As the economy recessed in FY 2008-2009, so did UUT.

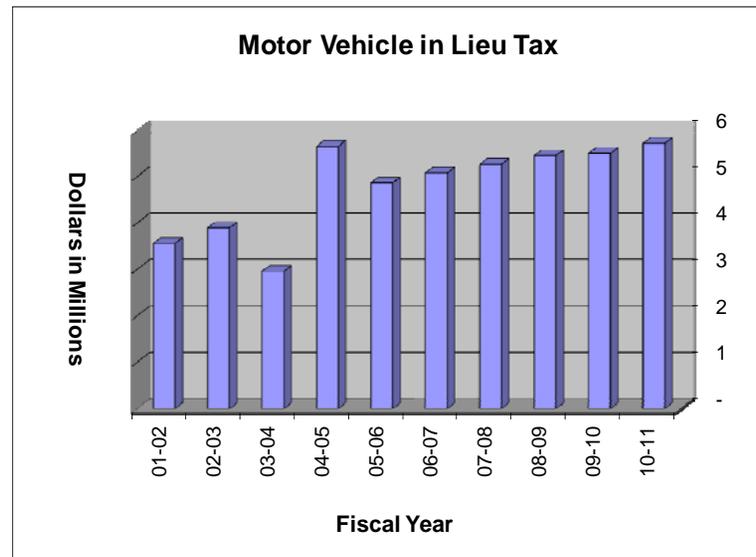
UUT revenue for FY 2010-2011 totaled \$7.67 million, reflecting a decrease from the prior year of \$376,077, or 4.68%, a result of reduced business activity caused by the recession and energy savings that decreased consumption. With 38%, or \$2.91 million of the City's UUT revenue derived from telecommunications 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.

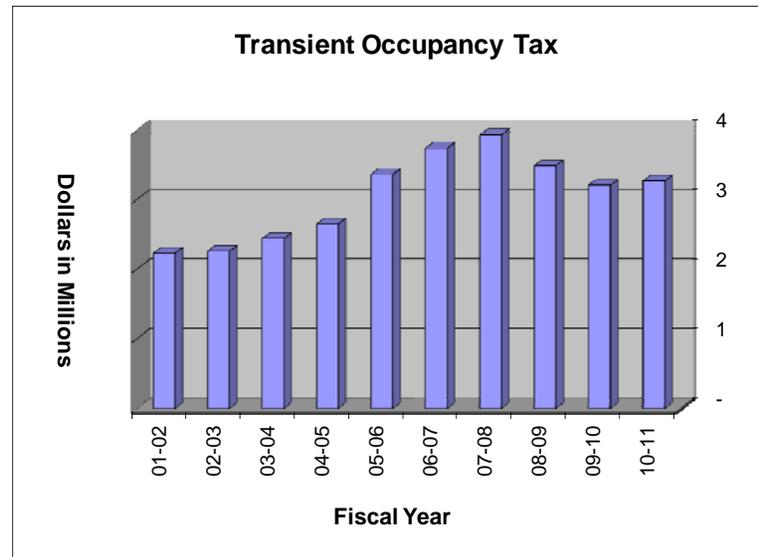
Since FY 2001-2002, the City experienced a steady increase in Vehicle Licenses Fee (VLF) until FY 2003-2004, when revenue decreased by \$937,000 as a result of State budgetary realignment reducing the VLF apportionment to a tax rate of 0.65%. In FY 2003-2004, the State Budget Act of 2004 substantially 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 2010-2011, MVIL revenue totaled \$5.71 million, increasing \$209,300 from prior year. This increase comprises gains in property tax in lieu and VLF revenues of \$97,138 and \$112,162, respectively. The total MVIL revenue of \$5.71 million consists of \$5.40 million of additional property tax revenue and \$310,907 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.

In FY 2001-2002, TOT revenue was less than normal due to the adverse impact of 9/11, causing it to decline 15.7% from prior fiscal year. From FY 2003-2004 through FY 2007-2008, TOT revenues more than recovered from the adverse impacts of 9/11, reflecting a booming economy that increased TOT revenues 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 decreased 18.5%, or \$728,964. Although FY 2010-2011 occupancy rates remained flat when compared to prior year, TOT revenue slightly increased \$63,164 to \$3.27 million due to marginally higher room rates. The City anticipates occupancy and room rates to remain flat in the upcoming fiscal year with no significant impact to TOT revenues.



## 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 2010-2011 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. Maintenance and rehabilitation of the City’s capital assets is an ongoing effort, and we anticipate our long-range planning 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 2010-2011, the City spent \$668,500 on its multi-year residential street rehabilitation program. For FY 2011-2012, the City has budgeted \$750,000 to continue the residential resurfacing effort. In addition, the FY 2011-2012 budget includes \$250,000 in annual roadway maintenance funds to mitigate the impacts of trash hauling vehicles on City streets.
- ♦ *Arterial Street Resurfacing* - In FY 2010-2011, the City spent \$960,000 resurfacing City arterials. For FY 2011-2012, the City budget includes over \$1.9 million for additional arterial resurfacing, \$90,000 for implementing traffic calming measures, and \$193,000 for sidewalk, curb and gutter improvements.
- ♦ *Esplanade Streetscape Improvements* – The City completed a signature streetscape improvement project along the Esplanade in FY 2010-2011. The \$2.8 million project included street resurfacing, new sidewalks and seat wall, landscaping, and new storm drains. The project was recognized by the American Public Works Association as a Project of the Year.

### ***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 2011-2012 budget includes \$35,000 to implement the last of the Task Force’s recommendations – the harbor trash skimmer project.
- ♦ *Alta Vista Diversion and Re-use* – During FY 2010-2011, the City completed construction on the Alta Vista Diversion and Re-use project. The \$2.2 million project is funded with Federal stimulus funds.
- ♦ *Storm Drain Line Replacement* – In FY 2010-2011, the City spent \$119,000 on storm drain improvements and replacements. The FY 2011-2012 budget includes \$200,000 for additional storm drain improvements.

### ***Sewer Improvements***

- ♦ *Sewer Line Replacement* - In FY 2010-2011, the City spent over \$750,000 on upgrades to the City’s sewer facilities system. The FY 2011-2012 budget includes \$4.6 million in continuing funding for sewer facility improvements.

### ***Facility Improvements***

- ♦ *North Branch Library* – Construction on the new \$4.5 million 12,600 square foot North Branch Library was completed in September. The environmentally friendly state-of-the art facility received a LEED Gold Certification from the U.S. Green Building Council.
- ♦ *City Facility Improvements* - In FY 2010-2011, the City completed several projects to improve City facilities. Improvements to the Aviation Gymnasium were completed at a cost of \$125,000 and a new fleet garage roof was installed at the public works yard at a cost of \$125,000. In addition, the Recreation and Community Services Department was relocated adjacent to the North Branch Library in a \$460,000 project.
- ♦ *Park Improvements* – In FY 2010-2011, the City completed approximately \$170,000 of improvements at Dale Page and Dominguez Parks. The FY2011-2012 budget includes \$344,000 for improvements in North Redondo Beach Parks including LaPaz Parkette and Perry Park.
- ♦ *Major Public Facilities* – Construction on the new Harbor Patrol Facility began in May. Other major facilities currently under design or out to bid include the new Transit Center and the Seaside Lagoon Restroom Facilities.

## 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, on average, 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 July 2011. 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 \$21 million in LAIF, on average during a fiscal year. 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 2010-2011 constrained investment opportunities that would have served to improve the overall investment yield on the portfolio. As of June 30, 2011, the City's idle funds were invested as follows:

Investment	Market Value*	% of Portfolio	Yield to Maturity
Federal Agency Issues - Coupon	\$ 20,011,350	31.7%	1.83%
LAIF	26,000,000	41.3%	0.39%
Corporate Medium-Term Notes	17,313,772	27.0%	4.23%
Total Investments/Averages	\$ 63,325,122	100.0%	1.88%
Average Term of Investments			1.74 years

\*As required by GASB 31, the City recorded the unrealized gain on certain investments to account for the market value on June 30, 2011. The amount, \$315,463, represents 0.50% 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 2010-2011, 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, 2011, the City recorded the following:

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

Claims payable totaled \$11,803,030 representing an increase of \$916,451, or 8.42%, from the prior period. This increase is attributable to an increase in reserves based on future legislation or ballot initiatives that may change statutory benefit levels and the outcomes of future administrative proceedings and litigation.

### ***Liability Claims***

Claims payable totaled \$ 3,101,374 representing an increase of \$533,640, or 20.78%, from the prior period. This increase is attributable to higher reserves based on future legislation that may affect the tort liability system, and the outcomes of litigation and settlement negotiations primarily related to AES and the Police Department firing range.

### ***Unemployment Insurance***

The City participates in a direct-cost reimbursement method for unemployment insurance. This program is administered by the State Employment Development Department (EDD) to provide salary continuance for terminated employees. For fiscal year 2010-2011, reimbursement to EDD was \$74,160.

## **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. For FY 2010-2011, the City contributed 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 2010-2011 was 32.713%, up from 32.091% in 2009-2010, with the miscellaneous employees' rate increasing from 11.671% to 11.804%. Rates are projected to increase from 2010-2011 levels for the 2011-2012 fiscal year to 38.386% for safety employees and 14.080% for miscellaneous employees.

The total contribution paid by the City toward pension benefits was \$9.65 million, which includes the employer and employer-paid member contributions, along with prior-period adjustments determined by CalPERS. Approximately 81.5%, or \$7.78 million, was charged to the General Fund. The anticipated total contribution, excluding prior-period CalPERS adjustments, for fiscal year 2011-2012 is estimated to be approximately \$11.7 million, and is expected to significantly increase in fiscal year 2012-2013.

Aside from contributing to CalPERS, the City also contributes to Social Security. The fiscal year 2010-2011 total cost for Social Security and Medicare coverage was \$1.59 million, of which \$991,943, or 62.45%, 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. All post retirement healthcare benefits end at age 65. 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 2010-2011, the City contributed \$1,427,060 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, 2011, the City was providing benefits to 106 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, 2010. 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 2010-2011, 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, a subsidiary of Marcum LLP, 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, the City's Audit Committee, 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,



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WILLIAM P. WORKMAN  
City Manager



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DIANA MORENO  
Financial Services Director

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Redondo  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2010

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.



*Linda C. Davison*

President

*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

Peter Grant  
Assistant City Manager



Michael Webb  
City Attorney



Eleanor Manzano  
City Clerk



Ernie O'Dell  
City Treasurer

Maggie Healy  
Director of Recreation & Community Services

Daniel P. Madrigal  
Fire Chief

Steve Huang  
City Engineer/Chief Building Official

Pete Carmichael  
Harbor, Business and Transit Director

Chris Benson  
Information Technology Director

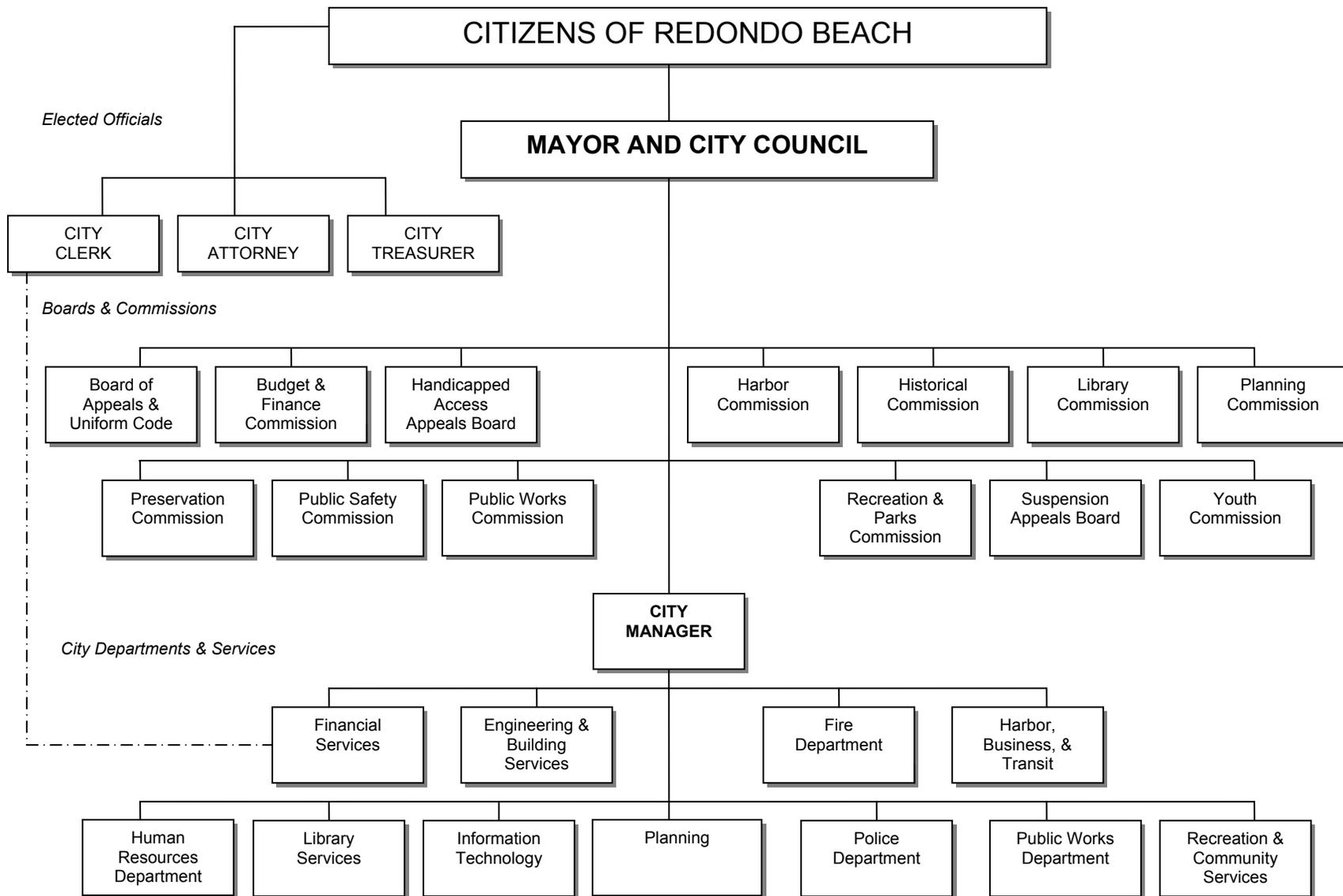
Aaron Jones  
Planning Director

W. Joseph Leonardi  
Chief of Police

Jean Scully  
Director of Library Services

Michael Witzansky  
Public Works Director

Diana Moreno  
Financial Services Director



**ORGANIZATIONAL CHART**  
**FY 2010-2011**