

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council  
of the City of Redondo Beach  
Redondo Beach, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Redondo Beach, California (City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained further in Note 18, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the constitutionality of this legislation.

As described in Note 1 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of July 1, 2010.

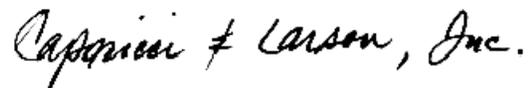
To the Honorable Mayor and Members of the City Council  
of the City of Redondo Beach  
Redondo Beach, California

As described in Note 17 to the financial statements, the City has restated its Transit Fund in the Government-Wide Financial Statements and the Fund Financial Statements in the previous year. Accordingly, the City has restated its net assets at July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison schedules, and schedules of funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants  
Irvine, California  
December 21, 2011

## CITY OF REDONDO BEACH

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the City of Redondo Beach (the "City") provides the Management Discussion and Analysis of the City's Comprehensive Annual Financial Report (CAFR) for readers of the City's financial statements. This narrative overview and analysis of the financial activities of the City is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal, which can be found preceding this narrative, and with the City's financial statements, which follow. Keep in mind that the Financial Highlights, immediately following, are strictly snapshots of information. Net assets, changes in net assets, and fund disclosures are discussed in more detail later in the report.

#### ***Financial Highlights - Primary Government***

- ♦ *Government-Wide Highlights*

Net Assets - Assets of the City exceeded its liabilities at fiscal year ending June 30, 2011 by \$220.0 million - assets for governmental activities exceeded liabilities by \$157.7 million and assets for business-type activities exceeded liabilities by \$62.3 million.

Changes in Net Assets - The City's net assets increased \$4.8 million in fiscal year 2010-2011. Net assets of governmental activities increased \$5.6 million, while net assets of business-type activities decreased \$868,883.

- ♦ *Fund Highlights*

Governmental Funds - At the close of fiscal year 2010-2011, the City's total governmental funds reported a fund balance of \$31.0 million, an increase of \$1.8 million from the prior year. Highlighted below are this year's six major funds included in this grouping.

General Fund - The fund balance of the General fund (includes Special Revenue – PERS Reserve Fund of \$4.0 million) on June 30, 2011 was \$13.7 million, an increase of \$3.8 million from the prior year.

Special Revenue – Other Intergovernmental Grants Fund - The fund balance of the Special Revenue – Other Intergovernmental Grants fund on June 30, 2011 was a negative \$3.0 million, increasing the negative fund balance by \$683,332 when compared to prior year.

Special Revenue – Redevelopment Agency Fund – The fund balance of the Special Revenue – Redevelopment Agency Fund on June 30, 2011 was \$2.9 million, a decrease of \$10.4 million from the prior year.

Special Revenue – Affordable Housing Fund – The fund balance of the Special Revenue – Affordable Housing Fund on June 30, 2011 was \$10.4 million. This fund was created during fiscal year 2010-2011 and, therefore, does not have a prior year fund balance.

Capital Projects – Capital Improvement Projects Fund - The fund balance of the Capital Projects – Capital Improvement Projects Fund on June 30, 2011, was \$4.7 million, a decrease of \$1.6 million from the prior year.

Debt Service – Public Financing Authority Fund - The fund balance of the Debt Service – Public Financing Authority Fund on June 30, 2011, was \$8.1 million, a decrease of \$291,083 from the prior year.

Debt Service - Redevelopment Agency Fund - The fund balance of the Debt Service - Redevelopment Agency Fund on June 30, 2011, was a negative \$15.0 million, decreasing the negative fund balance by \$740,493 when compared to prior year.

## OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

### ***Government-Wide Financial Statements***

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business. They are comprised of the following:

- ♦ *Statement of Net Assets*

The Statement of Net Assets presents summarized information of all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. This financial statement combines and consolidates governmental funds' current financial resources with capital assets and long-term obligations.

- ♦ *Statement of Activities and Changes in Net Assets*

The Statement of Activities and Changes in Net Assets presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused vacation leave).

Government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, cultural and leisure services and housing and community development. Business type activities include operations of the harbor, sewer (wastewater), solid waste, and new this year - transit.

The government-wide financial statements include not only the City itself (known as the primary government), but also the activities of legally separate component units: the Parking Authority of the City of Redondo Beach, the Redondo Beach Public Financing Authority (PFA), the Redevelopment Agency of the City of Redondo Beach (RDA), and the Redondo Beach Housing Authority. Because the City Council acts as the governing board for each of these component units and because they function as part of the City government, their activities are blended with those of the primary government.

The government-wide financial statements can be found behind the tab section titled Government-Wide Financial Statements.

## ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: Governmental funds, proprietary funds, and fiduciary funds.

The fund financial statements provide detail information about each of the City's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are major funds, was established by GASB Statement No. 34 (GASB 34) and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, while all Non-Major Funds are summarized and presented in a single column.

- ♦ *Governmental Funds*

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. A reconciliation of both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance with the government-wide financial statements can be found on pages behind the tab section titled Government-Wide Financial Statements.

The City has 26 governmental funds, of which seven are considered major funds for presentation purposes. Each major fund is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. The City's seven major funds are: General Fund, Special Revenue – Other Intergovernmental Grants Fund, Special Revenue – Redevelopment Agency Fund, Special Revenue – Affordable Housing Fund, Capital Projects – Capital Improvement Projects Fund, Debt Service - Public Financing Authority Fund, and Debt Service - Redevelopment Agency Fund. Data from the non-major governmental funds (e.g., State Gas Tax Fund, Local Transit Fund, Storm Drain Fund, Disaster Recovery Fund) are combined into a single, aggregated presentation. The governmental funds financial statements can be found on pages behind the tab section titled Fund Financial Statements. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements on pages behind the tab section titled Non-Major Governmental Funds.

- ◆ *Proprietary Funds*

The City maintains two types of proprietary funds: enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Enterprise funds are used to account for harbor activities, solid waste (i.e., collection, recycling and hazardous waste disposal), operations and maintenance of City sewers, and transit activities. Internal service funds are used to accumulate and account for the City's vehicles, building maintenance and repair, major facilities repair, graphics and printing, information technology, emergency communications, and insurance. Because internal services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds' financial statements provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary funds' financial statements use the accrual basis of accounting. Separate financial statements are provided for Harbor Uplands, Harbor Tidelands, Solid Waste, Wastewater, and Transit. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for each internal service fund is provided in the form of combining statements in the Internal Service Funds section of this report.

The basic proprietary funds financial statements can be found behind the tab section titled Fund Financial Statements.

- ◆ *Fiduciary Funds*

Fiduciary (Agency) funds are used to account for resources held for the benefit of parties outside the government. Agency funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support City programs.

### ***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found behind the tab section titled Notes to the Financial Statements.

### ***Required Supplementary Information***

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The required supplementary information includes disclosure of the modified approach for the city pavement infrastructure and budgetary and pension plan information. This information can be found behind the tab section titled Required Supplementary Information.

## City of Redondo Beach's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010-2011	2009-2010	2010-2011	2009-2010	2010-2011	2009-2010
Current and Other Assets	\$ 63,939,007	\$ 63,085,693	\$ 36,203,044	\$ 35,999,882	\$ 100,142,051	\$ 99,085,575
Capital Assets, net depre	141,193,839	136,160,683 *	40,272,197	41,309,463 *	181,466,036	177,470,146
Total assets	205,132,846	199,246,376	76,475,241	77,309,345	281,608,087	276,555,721
Long-Term Liabilities						
Outstanding	40,640,634	38,765,368	12,421,556	12,890,738	53,062,190	51,656,106
Other Liabilities	6,738,720	8,354,326	1,782,357	1,215,666	8,521,077	9,569,992
Total Liabilities	47,379,354	47,119,694	14,203,913	14,106,404	61,583,267	61,226,098
Investments in Capital Assets						
Net of Related Debt	140,306,635	136,139,997 *	34,790,325	37,589,322 *	175,096,960	173,729,319
Restricted	29,890,049	16,803,437	-	-	29,890,049	16,803,437
Unrestricted	(12,443,192)	(816,752)	27,481,003	25,550,889	15,037,811	24,734,137
Total Net Assets, as Restated	\$ 157,753,492	\$ 152,126,682	\$ 62,271,328	\$ 63,140,211	\$ 220,024,820	\$ 215,266,893

**Total Assets:**

Current and Other Assets include: Cash and Investments; Accounts Receivable and Receivables for Taxes, Interest, and Loans; Prepaid costs;

Unamortized debt issuance costs; Deposits; Due from other governments; and Restricted assets of Cash with fiscal agent; and Internal Balances (Due to/from and Advances between the business activities and governmental activities).

Capital Assets include: Assets net of depreciation as well as assets not being depreciated (e.g., Streets, Land, Construction in progress).

**Total Liabilities:**

Long-Term Liabilities Outstanding include: Compensated absences payable, Claims and judgments payable, and Long-term debt payable.

Other Liabilities include: Accounts payable; Accrued interest; Unearned revenue; Deposits Payable; Due to other governments.

\* NOTE: Balances were adjusted to reflect reclassification of the Transit Fund from Governmental Activities to Business-Type Activities.

## **Net Assets**

The chart above reflects the City's combined net assets (governmental and business-type activities) of \$220.0 million at the close of fiscal year ending June 30, 2011.

The largest portion of the City's total net assets (79.6%) reflects investment in capital assets (e.g., land, streets, sewers, buildings, machinery, and equipment) net of outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining City net assets (20.4%) represent resources that are either unrestricted or subject to external restrictions (e.g., certain capital projects, community development, debt services).

## **Changes in Net Assets**

Also noted in the chart above, the City's fiscal year 2010-2011 total net assets increased by \$4.8 million, or 2.2%, from the prior year. The governmental activities net assets increased \$5.6 million, or 3.7%, while the business-type activities net assets decreased \$868,883, or 1.4%.

The increase in net assets of governmental activities of \$5.6 million was due to an increase in total assets of \$5.9 million offset by a slight increase in liabilities of \$259,660. Within total assets, the increase in capital assets, net of accumulated depreciation, was primarily attributable to the completion of the North Branch Library, Fleet Garage Roof Replacement, and Aviation Gym Equipment Replacement, all of which are new capital assets with essentially no depreciation. These capital asset additions also resulted in a corresponding increase in Investments in Capital Assets, Net of Related Debt. Other liabilities, specifically accounts payable, decreased mainly due to the timing of payments to vendors. Long-term liabilities, specifically claims and judgments payable, increased due to higher reserves related to workers' compensation and general liability claims. Increases in workers' compensation claims are 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. Increases in general liability claims are 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. The substantial increase in restricted, and corresponding decrease in unrestricted, is due to the implementation of Governmental Accounting Standards Board (GASB) Statement 54. GASB 54 requires the portion of fund balance classified as restricted in the fund financial statements be classified as restricted net assets in the government-wide statements.

Business-type activities showed a 1.4% decrease in net assets primarily due to the reclassification of transit operations from a governmental activity to a business-type activity to better account for services which are operated in a manner similar to a private business. In fiscal year 2010-2011, \$2.0 million of bond proceeds was withdrawn from the original bond amount and reimbursed to the City for capital invested in wastewater infrastructure in prior years. When bond proceeds are withdrawn, debt is then tied to the infrastructure reducing investments in capital assets net of related debt. Conversely, cash is increased with the draw down, but this cash at year-end is considered unrestricted.

City of Redondo Beach's Changes in Net Assets  
Fiscal Year Ended June 30, 2011 and 2010

	Governmental Activities		Business-Type Activities		Total	
	2010-2011	2009-2010	2010-2011	2009-2010	2010-2011	2009-2010
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 17,075,115	\$ 16,592,335	\$ 15,565,861	\$ 15,138,056	\$ 32,640,976	\$ 31,730,391
Operating grants and contributions	8,928,050	8,715,661	1,231,111	17,769	10,159,161	8,733,430
Capital grants and contributions	6,976,620	6,605,139	-	-	6,976,620	6,605,139
Total program revenues	<u>32,979,785</u>	<u>31,913,135</u>	<u>16,796,972</u>	<u>15,155,825</u>	<u>49,776,757</u>	<u>47,068,960</u>
General revenues:						
Property taxes	28,320,076	29,598,821	-	-	28,320,076	29,598,821
Sales taxes	8,902,151	7,839,179	-	-	8,902,151	7,839,179
Utilities users taxes	7,667,130	8,043,207	-	-	7,667,130	8,043,207
Motor vehicle license	310,907	198,745	-	-	310,907	198,745
Transient occupancy taxes	3,267,209	3,204,045	-	-	3,267,209	3,204,045
Franchise taxes	1,816,314	1,673,632	-	-	1,816,314	1,673,632
Business license taxes	1,240,024	1,256,462	-	-	1,240,024	1,256,462
Use of money and property <sup>1</sup>	3,585,902	5,118,217	408,915	801,184	3,994,817	5,919,401
Other revenues	1,601,333	1,089,627	307,915	176,052	1,909,248	1,265,679
Gain (loss) on sale of capital asset	54,076	26,396	-	(16,398)	54,076	9,998
Total general revenues	<u>56,765,122</u>	<u>58,048,331</u>	<u>716,830</u>	<u>960,838</u>	<u>57,481,952</u>	<u>59,009,169</u>
Total revenue	<u>89,744,907</u>	<u>89,961,466</u>	<u>17,513,802</u>	<u>16,116,663</u>	<u>107,258,709</u>	<u>106,078,129</u>
<b>Expenses:</b>						
General government	7,951,800	7,618,055	-	-	7,951,800	7,618,055
Public safety	41,849,863	40,737,832	-	-	41,849,863	40,737,832
Public works	12,381,276	17,980,811	-	-	12,381,276	17,980,811
Cultural and leisure services	7,002,619	6,543,884	-	-	7,002,619	6,543,884
Housing and community development	13,159,622	16,227,602	-	-	13,159,622	16,227,602
Interest on long-term debt	1,014,572	1,077,588	-	-	1,014,572	1,077,588
Harbor Tidelands	-	-	5,415,810	5,372,721	5,415,810	5,372,721
Harbor Uplands	-	-	4,571,399	4,441,227	4,571,399	4,441,227
Wastewater	-	-	2,476,972	3,364,549	2,476,972	3,364,549
Solid Waste	-	-	3,574,516	2,207,319	3,574,516	2,207,319
Transit	-	-	3,102,333	-	3,102,333	-
Total expenses	<u>83,359,752</u>	<u>90,185,772</u>	<u>19,141,030</u>	<u>15,385,816</u>	<u>102,500,782</u>	<u>105,571,588</u>
Change in net assets before transfers	<u>6,385,155</u>	<u>(224,306)</u>	<u>(1,627,228)</u>	<u>730,847</u>	<u>4,757,927</u>	<u>506,541</u>
Transfers	(758,345)	79,000	758,345	(79,000)	-	-
Change in net assets	5,626,810	(145,306)	(868,883)	651,847	4,757,927	506,541
Net assets, beginning of year as restated	<u>152,126,682</u>	<u>153,875,358</u>	<u>63,140,211</u>	<u>60,884,994</u>	<u>215,266,893</u>	<u>214,760,352</u>
Net assets, end of year	<u>\$ 157,753,492</u>	<u>\$ 153,730,052</u>	<u>\$ 62,271,328</u>	<u>\$ 61,536,841</u>	<u>\$ 220,024,820</u>	<u>\$ 215,266,893</u>

<sup>1</sup> Includes investment earnings

Levels of revenues and expenditures also impact current assets and other liabilities and, therefore, cause changes in net assets. As reflected above, total revenues increased in fiscal year 2010-2011 by \$1.2 million, or 1.1%. Increases in revenue are reflected mainly in:

- charges for services due to a \$1.3 million reclassification of parking citation revenue from use of money and property, growth in parking meter fees, and higher enrollment in recreation and community services programs;
- operating grants and contributions due to the receipt of two ARRA grants reimbursing the City for the following two projects: Inglewood Avenue Resurfacing and Prospect Avenue Resurfacing; and
- sales tax due to three components: \$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.

These increases were offset by decreases in property tax, UUT, and use of money and property. The substantial decrease in property tax is due to taxpayer refunds in the South Bay Center and Aviation High School Redevelopment project areas and a reduction in property transfer tax. UUT decreased due to reduced business activity caused by the prior recession and energy savings that decreased consumption. The substantial decrease in use of money and property is due to the reclassification of \$1.3 million in parking citations to charges for services mentioned above.

Citywide total expenses decreased \$3.1 million, or 2.9%, when compared to fiscal year 2009-2010. The substantial decrease in public works is due to the completion of the North Branch Library, Fleet Garage Roof Replacement, and Aviation Gym Equipment Replacement projects. The decrease in housing and community development is due to the reclassification of transit operations from a governmental activity to a business-type activity. This decrease is offset by the \$3.1 million increase in Transit below. Offsetting these decreases are increases in general government, public safety, and cultural and leisure services expenses. Although personnel costs were lower resulting from a citywide hiring freeze, employee concessions, and elimination of funding for selected filled and vacant positions, these program expenses increased due to rises in workers’ compensation and general liability claims. Increases in workers’ compensation claims are 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. Increases in general liability claims are 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.

Transfers into the business-type activities from the governmental activities are mostly comprised of an \$837,345 transfer from the Proposition A Fund to the Transit Fund to cover transit expenditures, offset by a \$79,000 transfer from the Harbor Tidelands Fund to the General Fund for payment of the property tax in lieu fee.

**Governmental Activities**

As reflected in the Changes in Net Assets schedule above, the total governmental activity expenses were \$83.4 million in fiscal year 2010-2011; and total revenues from governmental activities were \$89.7 million, of which 36.7% were derived from program revenues consisting of charges for services and grants.

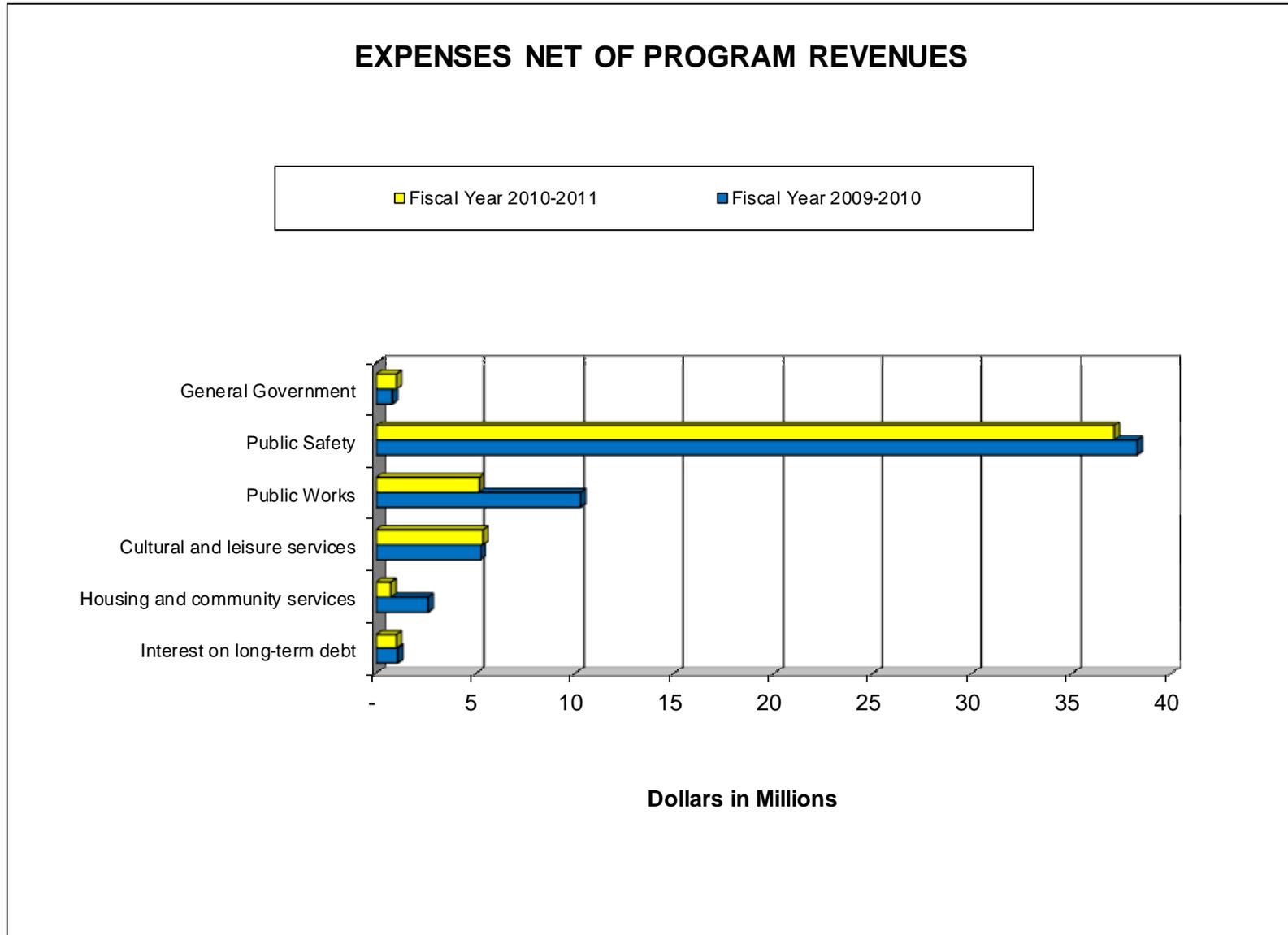
On the following chart, the governmental activity expenses net of program revenues, decreased \$7.9 million, or 13.5%, in fiscal year 2010-2011. Net expenses related to public safety decreased due reduced personnel expenses and the reclassification of parking citation revenue, although the decrease was moderated by an increase in the allocation of escalations in workers' compensation and general liability claims. Public works net expenses decreased considerably due to the substantial completion of, and therefore reduced construction expenses related to, the North Branch Library, Council Chambers Audio/Video Upgrade, Franklin and Anderson Park projects, combined with reductions in personnel expenses. The decrease in housing and community development net expenses are primarily due to the reclassification of transit operations from a governmental activity to a business-type activity to better account for services which are operated in a manner similar to a private business. Interest on long-term debt decreased due to the FY 09-10 termination of the Public Financing Authority's loan with South Bay Bank. The loan was then refinanced with the City and is reflected as a long-term advance.

Offsetting the above decreases are modest increases in general government and cultural and leisure services expenses. Although personnel costs were lower resulting from a citywide hiring freeze, employee concessions, and elimination of funding for selected filled and vacant positions, these program expenses increased due to more than offsetting rises in workers' compensation and general liability claims.

Governmental Activities:	Impact to Net Assets		Percent Increase (Decrease)
	2010-2011	2009-2010	
<i>Expenses Net of Program Revenues*</i>			
General government	\$ (1,010,323)	\$ (813,713)	24.2%
Public safety	(37,072,886)	(38,289,774)	(3.2%)
Public works	(5,154,946)	(10,254,869)	(49.7%)
Cultural and leisure services	(5,393,751)	(5,247,332)	2.8%
Housing and community development	(733,489)	(2,589,361)	(71.7%)
Interest on long-term debt	(1,014,572)	(1,077,588)	(5.8%)
<b>Total Governmental Activity Expenses</b>			
<b>Net of Program Revenues</b>	<u>\$ (50,379,967)</u>	<u>\$ (58,272,637)</u>	(13.5%)

\*Program revenues are derived directly from the program itself or from parties outside the reporting government's taxpayers or citizenry. They reduce the net cost of the function to be financed from the government's general revenues.

The chart below is a graphical representation of the schedule above.



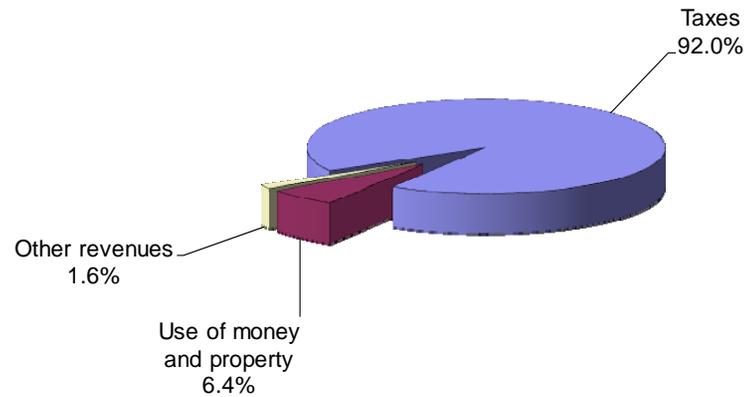
**General Revenues Related to Governmental Activities**

<u>General Revenues</u>	<u>2010-2011</u>	<u>2009-2010</u>
Taxes	\$ 51,523,811	\$ 51,825,291
Use of money and property <sup>1</sup>	3,585,902	5,118,217
Other revenues <sup>2</sup>	897,064	1,183,823
Total General Revenues	<u>\$ 56,006,777</u>	<u>\$ 58,127,331</u>

<sup>1</sup> Includes investment earnings  
<sup>2</sup> Includes gain (loss) on sale of assets and transfers

General revenues are all other revenues not attributable to a specific program and, therefore, not categorized as program revenues. These revenues include taxes, use of money and property, and other revenues. Total general 28.9% over the prior year. The largest decrease was experienced in use of money and property, primarily resulting from the reclassification of \$1.3 million in parking citations to charges for services. This reclassification is also the reason for the substantial drop in total general revenues.

**GENERAL REVENUES**



### ***Business-Type Activities***

The City has five business-type activities: Harbor Tidelands, Harbor Uplands, Solid Waste, Wastewater, and new this year - Transit. Transit, formerly a special revenue fund, was reclassified as a business-type activity during fiscal year 2010-2011 to better account for services which are operated in a manner similar to a private business. The total net assets of the business-type activities decreased by \$868,883 from the prior year.

Harbor Tidelands is used for the operations of small boat harbor facilities available to the general public, including related pier activities. This fund is restricted under the City Tidelands Trust Agreement with the State of California. In fiscal year 2010-2011, the total net assets of the Harbor Tidelands increased \$289,631 from prior year.

Harbor Uplands is also used for the operations of small boat harbor facilities available to the general public, including related pier activities. However, the use of these funds is subject only to the decisions of the City Council. In fiscal year 2010-2011, the total net assets of Harbor Uplands decreased by \$835,837 from prior year. The major causes for the decrease were due to reductions in harbor rentals, lower investment earnings, and Pier Parking Structure repairs.

Wastewater is funded by a capital facility charge, or more commonly referred to as a sewer user fee. These funds are used to support the operations of the wastewater fund, which is restricted to sewer infrastructure improvements. The total net assets of Wastewater increased \$59,193 from the prior year.

Solid Waste is the City's comprehensive solid waste program, which includes refuse collection, recycling, and hazardous waste disposal services. The solid waste program is supported through user service fees. The total net assets of Solid Waste increased \$133,801 from prior year.

Transit operations provide transportation services mainly to the cities of Redondo Beach, Hermosa Beach, and Manhattan Beach. The transit system is supported through bus passes, passenger fares, contributions from other local jurisdictions, Transportation Development Act Article 4 funding, and Propositions A and C discretionary funding. In fiscal year 2010-2011, the total net assets of Transit decreased \$515,671 from prior year. NOTE: The first year a fund moves from a non-enterprise to an enterprise fund requires a one-time recognition of prior years depreciation expense. For Transit, this amount was \$1.1 million. If this adjustment were not required, total net assets of transit would have decreased only \$272,440.

### **INTERNAL SERVICE FUNDS**

The City has seven internal service funds, as well as overhead. The internal service funds are: Vehicle Replacement, Building Occupancy, Information Technology, Self-Insurance Program, Printing and Graphics, Emergency Communications, and Major Facilities Repair. These funds are used to account for interdepartmental operations where service providers (e.g., fleet, IT, building maintenance) recoup costs by charging user departments.

### **FINANCIAL ANALYSIS OF INDIVIDUAL FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Please note that unlike the Government-Wide financial statements displayed previously, the fund financial statements which follow are not reflected on a full accrual basis. Therefore, amounts reflected in the fund financial statements versus the Government-Wide statements may differ due to this change in accounting methodology.

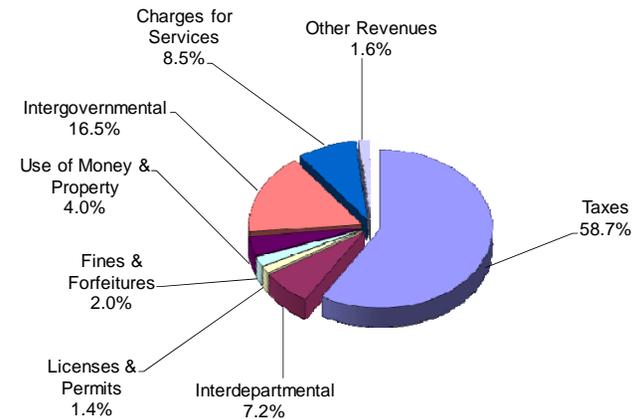
**Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financial requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Governmental Funds - The following schedule is a summary of governmental fund revenues for fiscal year ended June 30, 2011, and includes Major and Non-Major Funds. It reflects the amount and percent of increase or decrease of each source of revenue compared to the prior year.

**GOVERNMENTAL FUNDS  
SOURCE OF REVENUE  
FISCAL YEAR 2010-2011**

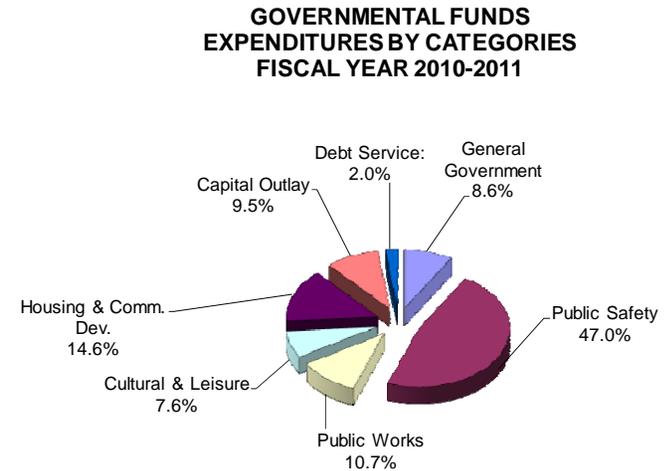
Source of Revenue	Amount FY 10-11	Percent of Total	Increase (Decrease) FY 09-10	Percent Increase (Decrease)
Taxes	\$ 51,768,825	58.7%	\$ 1,822,326	3.6%
Interdepartmental	6,383,731	7.2%	(297,546)	(4.5%)
Licenses & permits	1,248,916	1.4%	318,393	34.2%
Fines & forfeitures	1,785,067	2.0%	(90,220)	(4.8%)
Use of money & property	3,512,619	4.0%	(1,417,226)	(28.7%)
Intergovernmental	14,545,341	16.5%	(1,074,649)	(6.9%)
Charges for services	7,485,670	8.5%	206,506	2.8%
Other revenues	1,447,680	1.6%	447,764	44.8%
<b>Total</b>	<b>\$ 88,177,849</b>	<b>100.0%</b>	<b>\$ (84,652)</b>	<b>(0.1%)</b>



Total governmental fund revenues decreased \$84,652, or 0.1%, from fiscal year 2009-2010. The largest source of revenue was taxes, which increased \$1.8 million, or 3.6%, which was primarily due to increases in property tax, sales tax, and motor vehicle in lieu tax resulting from greater assessed values and growth in same store sales. Interdepartmental decreased \$297,546, or 4.5%, due to reductions in personnel costs. Licenses and permits revenue substantially increased \$318,393, or 34.2%, due entirely to increases in building, electric, plumbing, mechanical, and street and curb permit fees. Fines and forfeitures decreased \$90,220, or 4.8%, due primarily to reductions in parking citations and vehicle code fines. Use of money and property revenue substantially decreased \$1,417,226, or 28.7%, due to declines in investment earnings and rents and percentages. Intergovernmental decreased \$1.1 million, or 6.9%, due to the reclassification of Transit operations from a governmental fund to an enterprise fund. Charges for services increased \$206,506, or 2.8%, due to increases in parking meter fees and plan check fees. Other revenues increased \$447,764, or 44.8%, due primarily to a contribution from the Redondo Beach Library Foundation towards the construction of the North Branch Library.

The following schedule is a summary of governmental fund expenditures by function for fiscal year ended June 30, 2011, and includes both Major and Non-Major Funds. It reflects the amount and percent of increase or decrease for each functional category of expenditures compared to the prior year.

Expenditures	Amount FY 10-11	Percent Total	Increase (Decrease) FY 09-10	Percent Increase (Decrease)
Current:				
General government	\$ 7,582,969	8.6%	\$ (318,389)	(4.0%)
Public safety	41,450,374	47.0%	(514,260)	(1.2%)
Public works	9,450,771	10.7%	613,071	6.9%
Cultural and leisure services	6,671,934	7.6%	(755,489)	(10.2%)
Housing and community development	12,882,944	14.6%	(3,509,497)	(21.4%)
Capital outlay	8,384,700	9.5%	(3,177,915)	(27.5%)
Debt service	1,795,378	2.0%	(1,765,717)	(49.6%)
<b>Total</b>	<b>\$ 88,219,070</b>	<b>100.0%</b>	<b>\$ (9,428,196)</b>	<b>(9.7%)</b>



Total governmental fund expenditures decreased \$9.4 million, or 9.7%, from fiscal year 2009-2010. As mentioned earlier, the variances are attributable to:

- General government decreased by \$318,389, or 4.0%, and Public safety decreased by \$514,260, or 1.2%, and due to reduced personnel costs resulting from a citywide hiring freeze, employee concessions, and elimination of funding for selected filled and vacant positions.
- Cultural and leisure services decreased by \$755,489, or 10.2%, due to reduced personnel costs, as well as reduced building occupancy costs resulting from the closure of the Franklin Center Playhouse and dance rooms.
- Housing and community development decreased by \$3.5 million, or 21.4%, due to the reclassification of transit operations from a governmental fund to an enterprise fund.
- Capital outlay expenditures substantially decreased by \$3.2 million, or 27.5%, primarily due to substantial completion of and, therefore, reduced construction expenses related to the North Branch Library, Council Chambers Audio/Video Upgrade, Franklin and Anderson Park projects, and the reclassification of transit operations from a governmental fund to an enterprise fund.
- Debt service expenditures decreased by \$1.8 million, or 49.6%. The substantial decrease is due to the fiscal year 2009-2010 termination of the Public Financing Authority's loan with South Bay Bank. The loan was then refinanced with the City and is reflected as a long-term advance.

The seven major funds are Special Revenue – Other Intergovernmental Grants Fund, Special Revenue – Redevelopment Agency Fund, Special Revenue – Affordable Housing Fund, Capital Projects – Capital Improvement Projects Fund, Debt Service - Public Financing Authority Fund, Debt Service - Redevelopment Agency Fund, and General Fund.

Special Revenue – Other Intergovernmental Grants Fund - The fund balance of the Special Revenue – Other Intergovernmental Grants fund on June 30, 2011 was a negative \$3.0 million, increasing the negative fund balance by \$683,332 when compared to prior year. The increase in negative fund balance is due to an increase in capital outlay related to ARRA funded street improvement projects, such as the LED Streetlight Replacement Project and the Esplanade Streetscapes Project, for which we have not yet been reimbursed.

Special Revenue – Redevelopment Agency Fund – The fund balance of the Special Revenue – Redevelopment Agency Fund on June 30, 2011 was \$2.9 million, a decrease of \$10.4 million from the prior year. The decrease is due to a transfer of Low and Moderate Income Housing Funds to the Special Revenue – Affordable Housing Fund. The primary purpose of the transfer is to allow the Redevelopment Agency to fulfill affordable housing obligations imposed by the Community Redevelopment Law of California (CRL).

Special Revenue – Affordable Housing Fund – The fund balance of the Special Revenue – Affordable Housing Fund on June 30, 2011 was \$10.4 million, and does not have a prior year fund balance. This fund was created during fiscal year 2010-2011 through the transfer of Low and Moderate Income Housing Funds to allow the Redevelopment Agency to fulfill affordable housing obligations imposed by the Community Redevelopment Law of California (CRL).

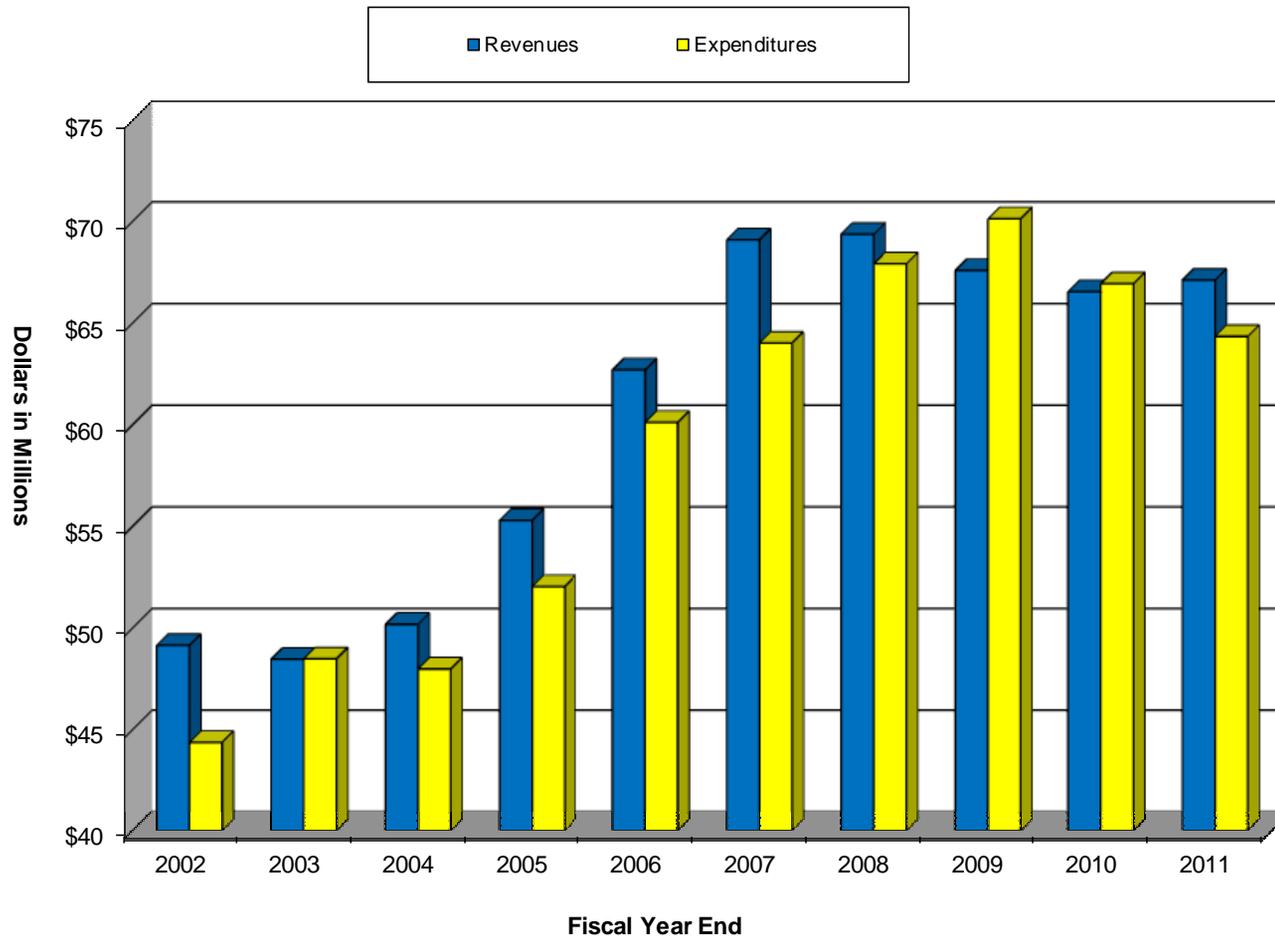
Capital Projects – Capital Improvement Projects Fund - The fund balance of the Capital Projects – Capital Improvement Projects Fund on June 30, 2011, was \$4.7 million, a decrease of \$1.6 million from the prior year. Although expenses decreased in fiscal year 2010-2011 due to substantial completion of North Branch Library, Council Chambers Audio/Video Upgrade, Franklin and Anderson Park projects, the fund balance decreased \$1.6 million. The reason for this is the ending balance of fiscal year 2009-2010 and, therefore, the beginning balance in fiscal year 2010-2011 was lower than the prior year, while revenues remained flat.

Debt Service – Public Financing Authority Fund - The fund balance of the Debt Service – Public Financing Authority Fund on June 30, 2011, was \$8.1 million, a decrease of \$291,083 from the prior year. The decrease is primarily due to lower investment earnings and a reduction in rents and percentages.

Debt Service - Redevelopment Agency Fund - The fund balance of the Debt Service - Redevelopment Agency Fund on June 30, 2011, was a negative \$15.0 million, decreasing the negative fund balance by \$740,493 when compared to prior year. The decrease in negative fund balance is due to a one-time balloon payment in fiscal year 2009-2010 to the State's Supplemental Educational Revenue Augmentation Fund (SERAF) as required by Assembly Trailer Bill ABX4 26. Redondo Beach's Redevelopment Agency's required payments were \$1.4 million in fiscal year 2009-2010 and \$288,991 in fiscal year 2010-2011.

General Fund - The following graph illustrates the ten-year trend of General Fund revenues and expenditures. Interfund transfers have been excluded from this graphic presentation. The discussion which follows focuses on changes from fiscal year 2009-2010 to fiscal year 2010-2011.

### REVENUES VS. EXPENDITURES General Fund – Last Ten Years



Impacts of both increases and decreases to General Fund revenues resulted in a net increase of \$565,594, or 0.8%, from fiscal year 2009-2010. The majority of the increase in revenue was due to growth in taxes, specifically property tax, sales tax, and motor vehicle in lieu tax resulting from greater assessed values and increases in same store sales. The increase in these revenues was slightly offset by a decrease in revenues related to lower investment earnings.

General Fund expenditures decreased by \$2.6 million, or 3.9%. As mentioned earlier, decreases were due primarily to reduced personnel costs resulting from a citywide hiring freeze, employee concessions, and elimination of funding for selected filled and vacant positions.

### **General Fund Balance**

The fund balance of the General Fund, which includes net transfers in of \$989,167, as of June 30, 2011 was \$13.7 million (includes Special Revenue – PERS Reserve Fund of \$4.0 million), an increase of \$3.8, when compared to the prior year. The City Council approved the constraints of the General Fund balance reflected below.

#### **GENERAL FUND CONSTRAINTS**

	<u>FY 08-09</u>	<u>FY 09-10</u>	<u>FY 10-11</u>
General Fund Contingency	\$ 5,673,587	\$ 5,570,473	\$ 5,595,596
Compensated Absences	1,004,104	972,424	1,088,635
Carryover Designations	814,129	990,746	1,283,994
Encumbrances	517,416	431,762	428,183
Legal Fees	-	313,000	313,000
Self-Insurance Program Fund Allocation	1,010,000	-	350,000
Health Ins Premium Increases	180,000	160,000	65,000
MUNIS Upgrades	-	-	50,000
Future Years' Appropriations	653,982	-	-
AB1805 - Booking Fees Paid to Sheriff	-	5,000	-
PERS	-	1,333,167	4,007,236
Unassigned Balance	37,327	21,644	25,258

As part of year-end activities, the City Council reviews the General Fund balance and determines how the City should commit/assign the unrestricted portion. As illustrated above, Council constraints of General Fund balance over the past several years reflect the City's Strategic Plan. Aside from policy-designated amounts (i.e., General Fund Contingency and Compensated Absences), much of the money is committed or assigned to accomplish strategic goals.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

The final amended fiscal year 2010-2011 budget totaled \$67.8 million, including net amendments of \$924,293 to the originally adopted budget. The City Council adopts budget adjustments during the year to reflect both changed priorities and consideration of events that took place subsequent to the budget adoption. The amendments can be briefly summarized as follows:

- Appropriation of \$88,082 for the Police Officers Association wage and benefit concessions.
- Reduced appropriation of \$6,240 in regards to the Alta Vista tennis court resurfacing.
- Appropriation of \$380,000 for employee concession restoration.
- Appropriation of \$186,750 for employee recognition rewards.
- Funding of prior-year encumbrances of \$413,313.
- Funding of carry-over appropriations of \$1,308,746.
- Reduced mid-year appropriations by \$1,464,358.

Budget amendments were funded from/credited to available fund balance. During the year, however, revenues exceeded budgetary estimates by approximately \$1.0 million and expenditures were \$3.0 million less than budgetary estimates, primarily due to contractual services that were not completed by year-end.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### ***Capital Assets***

Capital assets of the City, including infrastructure assets are those assets used in the performance of the City's functions. At June 30, 2011, net capital assets of the governmental and business-type activities totaled \$141.2 million and \$40.3 million, respectively. Depreciation on capital assets is recognized in the Government-Wide financial statements.

The City has elected to use the "Modified Approach" as defined by GASB 34 for infrastructure reporting for its paving system (streets). Under GASB 34, eligible infrastructure capital assets are not required to be depreciated as long as:

- The City manages the eligible infrastructure capital assets using an asset management system with characteristics of: 1) an up-to-date inventory, 2) condition assessments which summarize the results using a measurement scale, and 3) estimated annual amounts budgeted to maintain and preserve an established condition assessment level.
- The City documents the eligible infrastructure capital assets being preserved approximately at the established and disclosed condition assessment level.

Prior to FY 2008-2009, the City's PQI rating, an amalgam of the PCR and the International Roughness Index (IRI) established by the World Bank, was based on a 10.0 scale. In fiscal year 2008-2009, the PQI rating was converted to a 100 point scale to make it comparable to alternative pavement rating methods. City policy was to achieve an average rating of 80 for all streets by fiscal year 2008-2009 and maintain this rating on a go-forward basis. This rating allows minor cracking and raveling of the pavement along with minor roughness that could be noticeable to drivers traveling at posted speeds. As of June 30, 2010 the City's street system was rated at a PQI of 85.

The City's budget for street maintenance for the fiscal year ended June 30, 2011 was \$9.3 million. Actual expenditures were \$5.3 million, with the remaining budget carried forward as continuing appropriations. The City is judiciously investing in this infrastructure asset as part of the five-year Capital Improvement Program and will continue to rehabilitate and maintain its streets in order to achieve this goal. The expenditure required to maintain and improve the overall condition of the streets from July 1, 2011 through June 30, 2013 is a minimum of \$5.2 million.

More information on the modified approach for City streets infrastructure capital assets is behind the tab section titled Required Supplementary Information.

Description	Original Cost	Accumulated Depreciation	Book Value
<b>Capital Assets - Governmental Activities</b>			
Land	\$ 16,522,947	\$ -	\$ 16,522,947
Buildings and Improvements	43,430,667	(14,879,753)	28,550,914
Equipment, Vehicles, Machinery	19,203,480	(13,014,712)	6,188,769
Work in Progress	1,003,491	-	1,003,491
Construction in Progress	4,442,544	-	4,442,544
Infrastructure	125,972,010	(41,486,846)	84,485,163
<b>Total</b>	<b>\$ 210,575,140</b>	<b>\$ (69,381,311)</b>	<b>\$ 141,193,829</b>
<b>Capital Assets - Business-Type Activities</b>			
Land	\$ 11,323,255	\$ -	\$ 11,323,255
Buildings and Improvements	28,006,413	(14,036,339)	13,970,074
Equipment, Vehicles, Machinery	3,796,782	(2,211,156)	1,585,626
Infrastructure	23,532,845	(10,139,603)	13,393,242
<b>Total</b>	<b>\$ 66,659,295</b>	<b>\$ (26,387,098)</b>	<b>\$ 40,272,197</b>

For more information on the City's capital assets, refer to Note 6 of the Notes to Financial Statements and also the tab section titled Capital Assets Used in the Operation of Governmental Funds.

## DEBT ADMINISTRATION

Debt service funds are used to account for the accumulation of resources for payment of interest and principal on bonds issued by the City. The ratio of net bonded debt to assessed valuation and the amount of bonded debt per capita for the fiscal year 2010-2011 are provided below. These indicators provide important information for management and concerned citizens, as well as potential investors.

	<u>Amount</u>	<u>to Assessed Value of Property</u>	<u>Debt per Capita</u>
Net Direct: Bonded Debt	\$ 16,935,000	0.14%	\$ 252.87

Bonds issued by the Public Financing Authority (PFA), also a component unit of the City, were originally issued to provide funds to acquire the 1996 Tax Allocation Bonds of the Redevelopment Agency, to finance certain redevelopment activities with respect to the South Bay Center project area and to provide new monies for certain public capital improvements within the City. In addition, bonds were issued to refinance the Redevelopment Agency's Pier Reconstruction bonds and to finance various improvements to, and to remedy a variety of deficiencies in the facilities of the Wastewater Enterprise. The City has no general obligation bond indebtedness.

For a complete listing of the City's long-term debt obligations, refer to Note 8 of the notes to financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Fiscal year 2011-2012 finds the City's finances have stabilized, but at a much lower level than we would have forecast. More work has to be done as we maneuver through the next financial and economic challenges. We face strong headwinds from high unemployment, high oil prices, high housing defaults, high pension and health care costs, high regional and global competition, high state and federal deficits, high business failures, and high doubt in government. General Fund revenues from outside sources are projected to increase \$1.0 million from the fiscal year 2010-2011 midyear budget. Budgetary expectations reflect:

- Property Tax revenue for fiscal year 2011-2012 is projected to increase by \$400,000, or 2.2%, to \$19,000,000, excluding property tax in lieu of VLF and homeowners' exemptions. This increase has its roots in a recovering economy reflecting improvement in the housing market. As well, to comply with Proposition 13, the fiscal year 2011-2012 includes a positive CPI adjustment, while the midyear FY 2010-11 includes a negative. The positive fiscal year 2011-2012 CPI adjustment also favorably impacts the State's allocation of a specific amount of sales tax currently classified as property tax. Redondo Beach's housing market has been fairly stable through the housing downturn due to its coastal location. Property tax revenue is the City's number one source of operating revenue.
- Sales and Use Tax revenue is projected to increase \$433,062, or 5.1%, to \$9,013,062. Sales tax revenue is generally up due to new businesses replacing closures and an increase in consumer spending. Continued increases in consumer spending are expected with a decline in the Los Angeles county unemployment rate and an increase in personal income. This projection is conservatively based on analysis of current trends, including annual adjustments to the State "triple flip" sales tax apportionment, receipts from the City's largest sales tax sources, levels of consumer disposable income, heightened regional sales tax competition and the ups and downs of consumer confidence.
- Utility Users' Tax (UUT) revenue is projected to increase by \$300,000 to \$8,000,000, mainly attributable to an increase in energy costs and a growth in overall demand. This estimate is based upon analysis of the projected performance from each of the categorical components of the City's UUT tax base, including electricity, natural gas, telecommunications, water, and cable television. UUT revenue provides support for essential City operational services.

- Franchise Fees are projected to increase by \$70,000, or 3.8%, to \$1,895,000 for fiscal year 2011-2012. Components of franchise fee revenue include Time Warner cable television operations, Southern California Edison electricity franchise, Southern California Gas operations, Verizon, and taxicab franchise operations. With the exception of revenues from Southern California Gas, revenues from franchise fees reflect moderate increases, which is in line with growth in local operations. Cable television franchise fees represent 48% of the overall franchise fee revenue estimate for fiscal year 2011-2012, while projected revenue from the electricity franchise represents 22%. The franchise revenue generated from the sale and transport of natural gas utilized to power the local AES power plant represents 26% of the total franchise fee estimate. Cyclical uncertainties of the deregulated energy environment and their impacts upon the productive utilization rate of the AES power plant require a conservative estimate from this revenue source.
- Investment Earnings for the General Fund for fiscal year 2011-2012 are projected to decrease by \$100,000, or 12.3%, to \$710,000. This decline is attributable to lower interest rates within the investment marketplace, a reduction in the overall size of the portfolio and the financial unfeasibility of the annual TRANs program. The three major components of the portfolio are: liquid investments with the State Local Agency Investment Fund, and both Federal Agency and high-grade corporate Medium-Term Note Investments structured with a 1 to 5 year investment maturity matrix. Enhanced cash management activities serve as core elements of the City Treasurer's comprehensive cash management program.

Budgeted General Fund appropriations decreased 0.4%, or \$251,363, to \$67,165,356, from the midyear budget. Personnel costs increased 5.0%, primarily due to the Public Employees Retirement System (PERS) employer contribution rate increases from 11.804% to 14.080% for the miscellaneous group and from 32.713% to 38.386% for public safety. When added to the employee contribution rates of 7% and 9% for the miscellaneous and public safety groups, respectively, the total rates used in calculating the fiscal year 2011-2012 personnel amounts are 21.080% and 47.386%. Internal service fund allocations remained the same; however, the allocation will be adjusted at the midyear review. There is a significant decrease in maintenance and operations expenditures of 26.4% from the midyear budget due to the prior year's final budget reflecting carryover appropriations of \$1.4 million, including carryover encumbrances of about \$432,000. Carryovers are not included in the fiscal year 2011-2012 budget. While longer term projections indicate that the City must continue to keep a tight rein on spending, no reductions in City services are anticipated.

Since the recession officially ended in June 2009, Redondo Beach has fared better than most cities in Southern California. Locally, during fiscal year 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 fiscal year 2010-2011, which is well below the Los Angeles County and State of California fiscal year 2010-2011 unemployment rates of 12.4% and 12.8%, respectively.

All sectors of the national and regional economy are still feeling the impact of the past recession. Fortunately, the South Bay region is fairing better than many other areas of Southern California. Opportunities still exist to further minimize the impacts and set the stage for improvement.

In order to continue to retain and attract business and stimulate tourism, the City must strive to maintain a business friendly attitude and to provide the highest quality in municipal services.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Financial Services Department at 415 Diamond Street, Redondo Beach CA 90277, phone 310-318-0683, or e-mail [FinanceMail@redondo.org](mailto:FinanceMail@redondo.org)

***This page intentionally left blank.***