

Comprehensive Annual Financial Report



City of Redondo Beach, California
For the year ending June 30, 2013



City of Redondo Beach

Redondo Beach, California

Comprehensive Annual Financial Report

For the year ended June 30, 2013

PREPARED BY THE CITY OF REDONDO BEACH, CALIFORNIA
FINANCIAL SERVICES DEPARTMENT

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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 13, 2013

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, 2013. These financial statements are presented in conformance with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by an independent firm of licensed certified public accountants.

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

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

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

PROFILE OF THE CITY OF REDONDO BEACH

The City of Redondo Beach, incorporated in 1892, is located in the South Bay part of Los Angeles County and spans 6.3 square miles. According to the State of California's Department of Finance, Redondo Beach has a population of 67,396 as of January 1, 2013, remaining relatively flat with 2012. The City remains a highly residential, non-industrial community. It is a highly-educated, upscale community where the median cost of a home is \$720,500.

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

During FY 2012-2013, Redondo Beach experienced a 2.7% change in real property assessed valuations, compared to last year's 3.11%. Hotel occupancy rates decreased by 3.3%, and Transient Occupancy Tax revenue increased by 4.5%, due to improved visitation and increased days of stay. The Utility users' tax revenue reflected an increase of 3.90% in FY 2012-2013. Redondo Beach continues to exceed the countywide average in total taxable retail sales, ranking 31 out of 89 cities. Redondo Beach experienced a decrease in its unemployment rate from 6.4% in FY 2011-2012 to 5.4% in FY 2012-2013, which is well below the Los Angeles County and State of California FY 2012-2013 unemployment rates of 9.2% and 8.9%, 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:

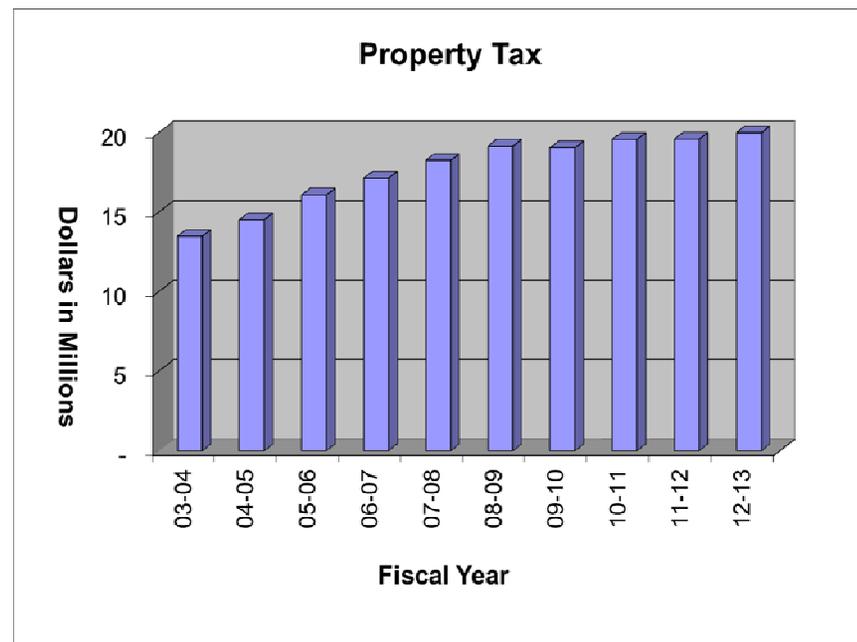
- Revitalizing the Harbor and Pier area through a public-private partnership that will renovate 15 waterfront acres.
- Reinforcing the desirability of the Riviera Village as a destination for shopping, dining, and services through improved signage and enhanced streetscapes.
- Engaging in advocacy efforts to retain funds for contracts and research and development at Northrup Grumman Corporation and Space Park area businesses.
- Encouraging the continued success of the Artesia Boulevard business district and South Bay Galleria which is poised for a major redevelopment.
- Attracting business opportunities through the use of economic development incentive agreements.
- 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 increases in each of its five major revenue categories: 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.

The City's property tax valuations, while slowing from pre-recession levels, continue to be positive. With Redondo Beach being a desirable location, coupled with continued low mortgage interest rates, the FY 2012-2013 citywide assessed valuation experienced a positive change of \$324 million, or 2.65%, to \$12.53 billion. The City's assessed valuation amount is derived 79.5% from single-family residential properties, 8.7% from commercial properties, 3.6% from industrial properties, and the remaining 8.2% from vacant and institutional properties. During FY 2012-2013, property tax revenue increased \$3.6 million or 18.2%, to \$23.16 million (includes homeowners' exemption). This increase was due to continuing but steady, economic growth, property reassessments, and increased housing sales. The housing market began to rebound during the first half of 2012, as home buying increased due to low interest rates and affordable prices. As a result, the annual increase in property tax revenue appears to be recovering; however, the growth rates are still well below those experienced before the recession.

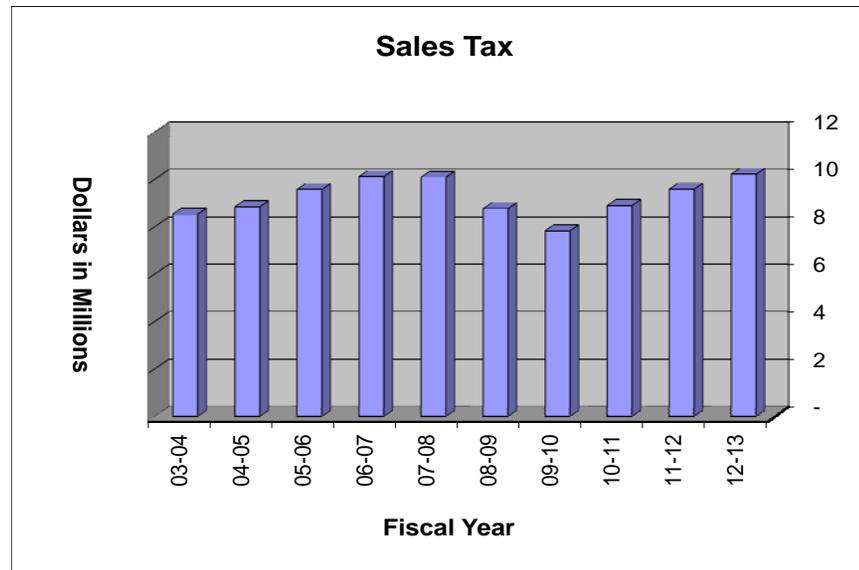


Sales Tax

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-five percent of the City's FY 2012-2013 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".

Sales tax revenue has increased following the end of the recession and this trend has continued through FY 2011-12, with the City receiving \$9.59 million in sales tax revenue, an increase of \$693,000, or 7.78%, from prior year. In FY 12-13 the City received \$10.23 million in sales tax revenue an increase of \$633,454 or 6.6% when compared to FY 11-12. Fiscal year 12-13, sales tax revenue consisted of \$7.61 million in local sales tax revenue and \$2.62 million in State "triple flip" funds. Population growth, local competition, consumer confidence, and unemployment are all factors that contribute to the volatility of this key tax-based operating revenue.

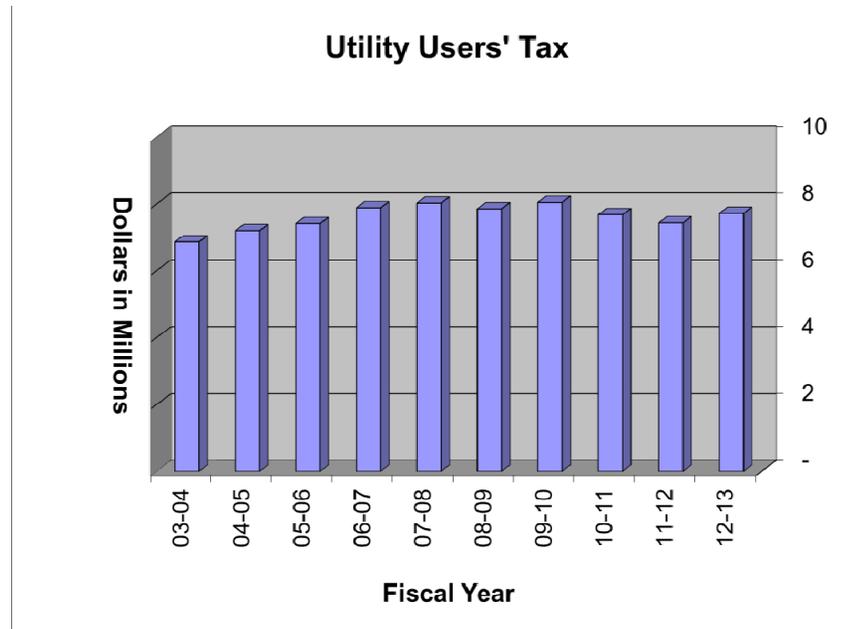
The City is committed to re-establishing a strong local economy through both business retention and business expansion, thereby enhancing the community's overall economic base. Although sales related to current retail vendors should, at least, show slight increases, the City anticipates significant contributions to sales tax revenue in the coming years as the South Bay Marketplace continues to strengthen, new investment in the Harbor's revitalization comes to fruition, and collection of sales tax by remote sellers, especially Amazon, is enforced.



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 revenue consists of approximately 38% telecommunications and 35% electricity. Each city sets its UUT rate, and Redondo Beach's is 4.75%. The City successfully protected this UUT rate by placing a measure on the March 2009 ballot to modernize the City's UUT ordinance. This important measure was strongly endorsed by the citizens, passing it by 75%. Therefore, the long-term viability of telecommunications-based UUT revenue (approximately 38% of the UUT tax) has been secured.

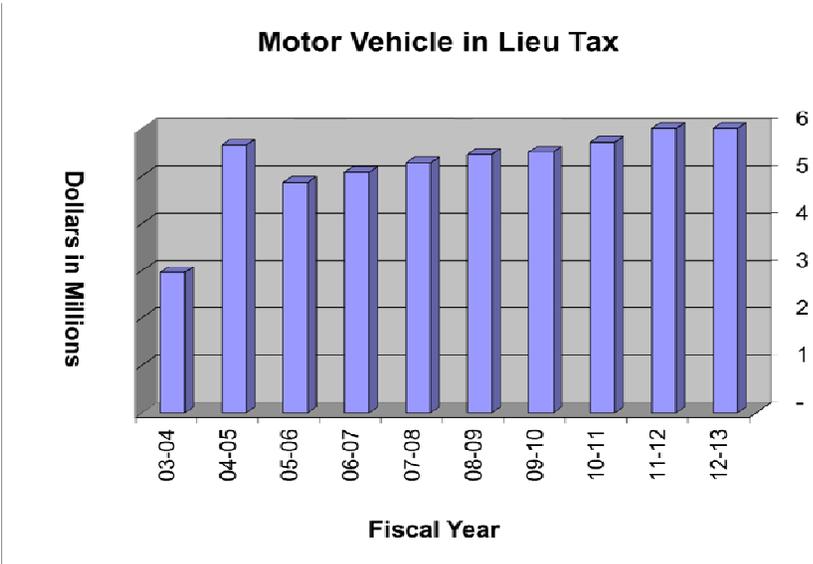
UUT revenue for FY 2012-2013 totaled \$7.71 million, reflecting an increase from the prior year of \$289,491 or 3.9%. The UUT increase is largely due to one time recovery of unpaid UUT from Verizon during calendar year 2008 to 2010 paid during FY 12-13. Excluding the one time Verizon UUT recovery, FY 12-13 UUT increased by \$22,073 or 0.30%. For FY 2013-14, the initial estimate of UUT revenue is conservatively projected to increase by \$100,000 or 1.2%. This is due to enhanced business activity coupled with anticipated increased utilization of telecommunication services.



Motor Vehicle in Lieu Tax

The City's fourth largest revenue source is motor vehicle in lieu tax and is imposed by the State on owners of registered vehicles for the privilege of operating a 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 in the State (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. Since there is a discrepancy of 1.35% in what the State collects and what cities are due, the State backfills the additional 1.35% from 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.

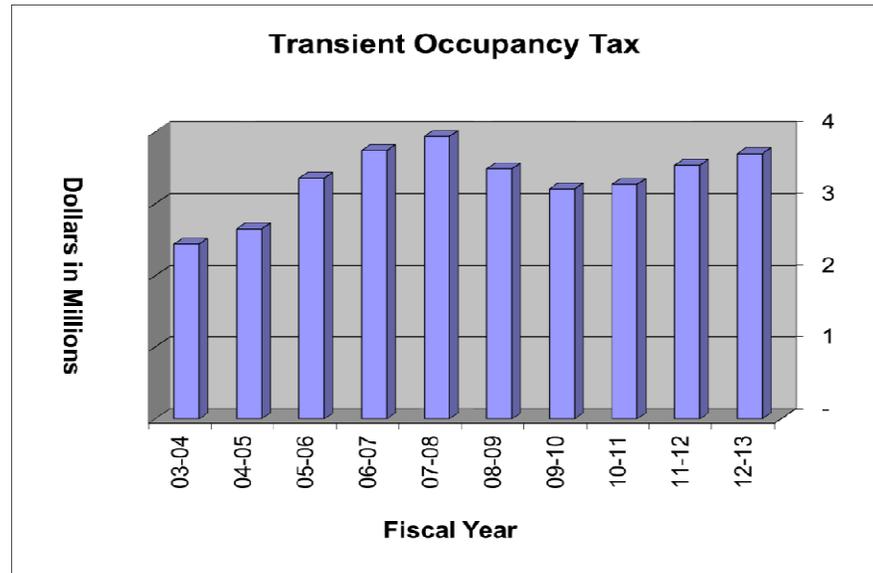
Historically, the City experienced a steady increase in Vehicle Licenses Fee (VLF) until FY 2003-2004, when revenue decreased by \$937,000 as a result of State budgetary realignment reducing the VLF apportionment to a tax rate of 0.65%. In FY 2003-2004, the State Budget Act of 2004 substantially changed 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 (MVIL). 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 due to the growth in both VLF revenues and gains in property tax in lieu. In FY 2012-2013, MVIL revenue totaled \$6.33 million, increasing \$311,783, or 5.2%, from prior year. This increase comprises gains in VLF and property tax in lieu revenues of \$161,486 and \$150,297, respectively.



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 was 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.

The City TOT revenue has been experiencing positive growth during the past two years and during FY 11-12 TOT revenue exceeded FY 10-11 revenue by \$266,000, or 8.2% to \$3.53 million. In FY 12-13 TOT revenue increased by \$159,643, or 4.52% to \$3.69 million. Although TOT revenue increased, the rate of increase experienced was at a slower pace when compared to FY 11-12. The slower growth rate was primarily due to scheduled remodeling of the Crown Plaza and Sunrise Best Western hotels.



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 2012-2013 adopted budget. These projects, however, should not be viewed as immediate resolution to existing infrastructure problems, but instead as part of “setting the table” for the future. It will take time to rehabilitate the City’s capital assets, and we anticipate our long-range replacement program will protect the City’s valuable assets for future generations. Meanwhile, the City continues to invest in a number of significant projects:

Street Resurfacing

- ♦ Residential Street Rehabilitation - In FY 2012-2013, the City awarded a contract for \$575,000 for construction of the next phase of its multi-year residential street rehabilitation program. For FY 2013-2014, the City has budgeted \$800,000 to continue the residential resurfacing effort. In addition, the FY 2013-2014 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 2012-2013, the City completed major resurfacing projects on 190th Street, Manhattan Beach Boulevard and Prospect Avenue. The total cost of those projects was \$1.86 million. For FY 2013-2014, the City budget includes over \$3.6 million for additional arterial improvements, \$21,000 for implementing measures to relieve traffic congestion, and \$143,000 for sidewalk, curb and gutter improvements.
- ♦ Citywide Curb Ramp Improvements – The City awarded a contract and began work on \$450,000 in citywide curb ramp improvements. The FY 2013-2014 budget includes \$160,000 to continue this effort.
- ♦ Riviera Village Improvements – In FY 2012-2013, the City completed Phase III of streetscape improvements along Catalina Avenue in the Riviera Village. Phase IV funding, in the amount of \$725,000, is included in the FY 2013-2014 budget.

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 FY 2013-2014 budget includes \$32,000 to implement the last of the Task Force’s recommendations – the harbor trash skimmer project. The City is working with adjoining Cities to comply with the new Municipal NPDES MS4 permit. The FY 2013-2014 budget includes \$200,000 in funding for this effort.

Sewer Improvements

- ♦ Sewer Line Replacement - In FY 2012-2013, the City spent \$375,000 on upgrades to the City’s sewer facilities system. In June, the City awarded a \$1.2 million contract to continue upgrading the City’s sewer facilities system. The FY 2013-2014 budget includes \$2.65 million in funding for sewer facility improvements including a sewer system camera inspection.
- ♦ Sewer Pump Station Rehabilitation – In FY 2012-2013, the City spent over \$140,000 on improvements to the City’s sewer pump stations. The FY 2013-2014 budget includes \$4.25 million for upgrades to the City’s sewer pump stations including stations on Portofino Way and Yacht Club Way.

Facility Improvements

- Fire Station 1 Roof Repairs – In FY 2012-2013, the City spent \$95,000 on major roof repairs at Fire Station 1. In addition, a new HVAC system was installed at the historic Veterans Park Community Center.
- Seaside Lagoon Restroom Facilities – In FY 2012-2013, vintage neon signage was installed on the recently completed Seaside Lagoon Restroom Facility. Another major facility currently in the final phases of design is the new Transit Center. The FY 2013-2014 budget includes over \$5 million for construction of the project.
- Park Improvements – In FY 2012-2013, the City completed Phase II renovations at Perry Park and a dedication ceremony was held in May. ADA and safety improvements of \$140,000 were completed on parking lots at Dominguez Park and at City Hall.
- Waterfront Improvements – In the waterfront, the City completed repairs to the Basin II Seawall and drainage repairs to the pier parking structure.

CASH MANAGEMENT POLICIES AND PRACTICES

The City invests all idle cash in various investment instruments, as authorized within the City's Statement of Investment Policy. The City Treasurer employs a buy and hold philosophy of cash management, ensuring the full return of all investment principal. In February of 2013, the City commenced utilization of FTN Financial Main Street Advisors in providing non-discretionary investment management services to the City Treasurer. Composition of the City's investment portfolio consists of a well diversified mix of Federal Agency instruments, complimented by a blend of AA rated Corporate Medium Term Notes, both investment types of which are structured along a five-year laddered maturity schedule. In addition, sufficient portfolio liquidity is maintained through continued maintenance of a significant portion of the investment portfolio's position in the State managed Local Agency Investment Fund, or LAIF.

The City maintains an Investment Policy certified for reporting excellence by the Association of Public Treasurers – United States & Canada (APT – US&C) and has established both a written investment policy and investment procedures manual. The Investment Policy is reviewed and approved by both the City Council and the Budget and Finance Commission on an annual basis. The investment policy's established performance benchmark is the one-year moving average of the Two-Year Constant Maturity Treasury index (CMT). In the periodic purchase of investments, both the rate of return provided by LAIF and the yield on the US Treasury security of closest maturity to the purchased investment serve also as investment performance benchmarks.

The level of investments maintained with LAIF fluctuates in accordance with variations in both the City's operational and capital improvement program cash flow requirements. The LAIF balance is maintained at a level of \$15 to \$35 million, or approximately 33% of the general portfolio's assets on average, ensuring maintenance of sufficient investment portfolio liquidity. The yield provided by LAIF has declined over the past year in line with the overall reduction in short-term market interest rates. Idle investment funds above the liquidity threshold have been placed primarily in Federal Agency investments within the two to five year investment maturity range. The reduction in market interest rates experienced over the past year have been both anticipated and well managed, proactively responding to both the City's operating and capital improvement cash flow requirements. The rate of return on the City's investment portfolio consistently meets or exceeds the level of the established investment portfolio performance benchmark. As of June 30, 2013 the City's general portfolio was invested as follows:

<u>Investments</u>	<u>Market Value</u>	<u>% of Portfolio</u>	<u>Yield to Maturity</u>
Bank Certificates of Deposit	\$ 3,718,588	5.31%	1.08%
Federal Agency Issues	18,617,060	26.59%	1.04%
Corporate Medium Term Notes	17,686,935	25.26%	1.78%
Local Agency Investment Fund	30,000,000	42.84%	0.24%
Total Investments and Averages	\$70,022,583	100.00%	0.89%

Average Term of Investment

2.15 years

* As required by GASB 31, the City recorded the unrealized loss on certain investments to account for the market value at June 30, 2013. The amount, \$361,953, represents 0.51% of the current market value of the investments within the City's investment portfolio – an insignificant unrealized decrease in the City's overall level of financial resources. This unrealized loss in the value of investments results from structural factors and interest rate movements within the financial marketplace over the past year impacting the market valuation of the City's investments in both Federal Agency issues and Corporate Medium Term Notes.

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 2012-2013, the self-insurance retention (SIR) is \$750,000 for workers' compensation and \$500,000 for liability. Excess coverage up to \$100 million for each workers' compensation claim is provided by a third-party private insurer, and excess liability up to \$20 million for 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 of which a city is not yet aware, 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, 2013, the City recorded the following:

Workers' Compensation Claims

Claims payable totaled \$13.8 million representing an increase of \$1.5 million or 9.84%, from the prior period. This increase is attributable to an increase in reserves based on legislation that changed statutory benefit levels and the outcomes of future administrative proceedings and litigation.

Liability Claims

Claims payable totaled \$2.5 million representing an increase of \$37,301, or 1.4%, from the prior period. This increase is attributable to an increase in estimated reserves and the settlement of claims in previous years.

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 2012-2013, reimbursement to EDD was \$66,642.

PENSION AND OTHER POST-EMPLOYMENT BENEFITS

The City provides three Tier 1 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). Beginning July 2012, two additional Tier 2 defined benefit pension plans are provided – one for safety employees (3% at 55 with a 4.5% employee contribution for Fire and 3% at 55 for Police) and one for miscellaneous employees (2% at 60). Beginning January 2013, pursuant to the California Public Employee's Pension Reform Act of 2013 (PEPRA), Tier 3 defined benefit pension plans were added, 2.7% at 57 for safety employees and 2% at 62 for miscellaneous employees. 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 2012-2013, the City contributed the Tier 1 full-time employees' required contributions on their behalf and for their account. Tier 2 and Tier 3 plans require most employees to contribute to the cost of their employee contribution. Additionally, as part of the compensation reductions the City negotiated with employee bargaining groups, nearly all employees make a contribution toward the City's employer contribution to CalPERS.

The employer rate for safety employees in FY 2012-2013 was 40.4%, up from 38.4% in FY 2011-2012, with the miscellaneous employees' rate increasing from 14.1% to 14.5%. Rates are projected to increase from FY 2012-2013 levels for the 2013-2014 fiscal year to 40.6% for safety employees and 14.9% for miscellaneous employees. Further increases are expected in the coming years as a result of CalPERS decision to lower the discount rate (rate of return) on its investment portfolio, its announced demographic and actuarial adjustments, and its decision to smooth investment losses from 2008 and 2009 over a period of time.

The total contribution paid by the City toward pension benefits was \$10.1 million, which includes the employer and employer-paid member contributions. Approximately 82.3%, or \$8.3 million, was charged to the General Fund. The anticipated total City contribution for FY 2013-2014 is estimated to be approximately \$10.8 million and is expected to increase again in FY 2014-2015.

Aside from contributing to CalPERS, the City also contributes to Social Security. The FY2012-2013 total cost for Social Security and Medicare coverage was \$1.6 million, of which \$1.0 million, or 65.3%, is from the General Fund. Safety employees do not participate in Social Security and Medicare, except for those employees hired after 1986, who 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 FY 2012-2013, the City contributed \$1.3 million 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, 2013, the City was providing benefits to 105 participants.

SIGNIFICANT EVENTS AND ACCOMPLISHMENTS

During FY 2012-2013 the City achieved many accomplishments that may not be evident from a review of the financial statements. One of the more important accomplishments is the result of the Los Angeles County Grand Jury financial evaluation of the 88 cities in Los Angeles County. The City of Redondo Beach received a #1 ranking on benchmark financial policies, best practices and governance. The City received a score of 97, missing a perfect 100 because we do not have two months of dedicated General Reserve, only one month.

The Grand Jury assessed revenues, expenditures, fund balances, net assets and liabilities. A #41 ranking was attributed to the City based on their evaluation on the City's financial condition. This would be about what one would expect as we have only now begun recovery from the financial havoc caused by the Great Recession and the State's takeaway of local revenues. Additionally, this ranking is consistent with the recent HDL per capita revenue comparison showing that Redondo Beach is not in the top tier of revenue generating cities in Los Angeles County.

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, 2012. 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 2012-2013, 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 and exceed the criteria to receive this certificate, and we will be submitting it to GFOA for consideration.

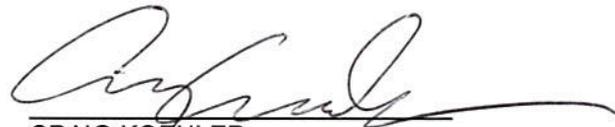
ACKNOWLEDGMENTS

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, Rogers, Anderson, Malody & Scott, LLP, Certified Public Accountants, for their assistance and expertise and all City departments for their cooperation during the audit engagement and their participation in preparing this report. We would like to express our appreciation to the Mayor and City Council, 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,



WILLIAM P. WORKMAN
City Manager



CRAIG KOEHLER
Finance Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Redondo Beach
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

CITY OF REDONDO BEACH

MAYOR AND CITY COUNCIL



Steve Aspel
Mayor



Jeff Ginsburg
Councilmember
District 1



Bill Brand
Councilmember
District 2



Pat Aust
Councilmember
District 3



Stephen Sammarco
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



Stephen Diels
City Treasurer

Joesph Hoefgen
Recreation, Transit and Community Services Director

Robert Metzger
Fire Chief

Peter Carmichael
Waterfront and Economic Development Director

Chris Benson
Information Technology Director

Kym Vieira
Human Resources Director

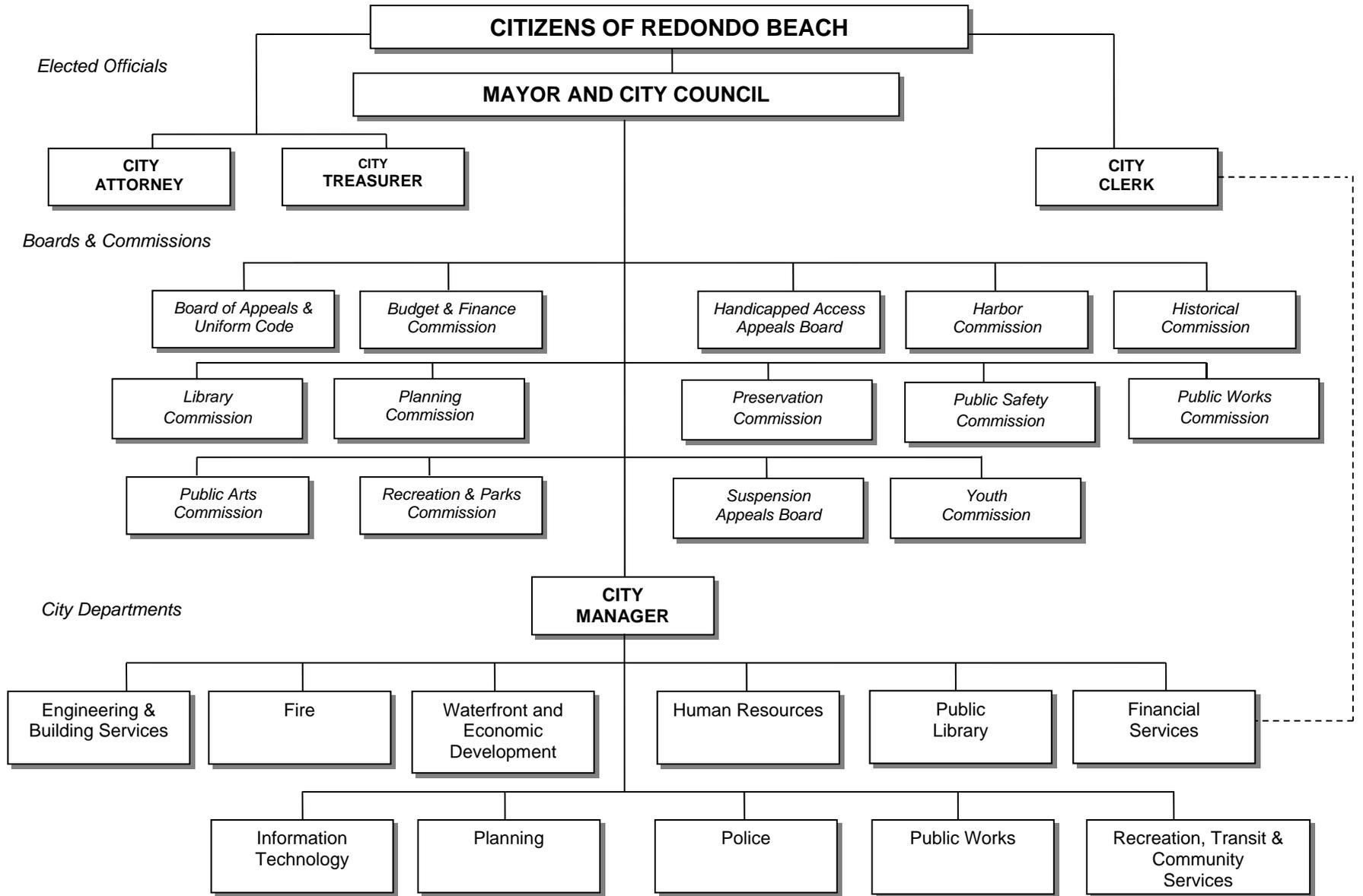
Aaron Jones
Community Development Director

W. Joseph Leonardi
Chief of Police

Christine Hach
Iterim Director of Library Services

Michael Witzansky
Public Works Director

Craig Koehler
Finance Director



**ORGANIZATIONAL CHART
FY 2012-13**