

COMPREHENSIVE ANNUAL FINANCIAL REPORT

INTRODUCTORY SECTION

CITY OF CARSON, CALIFORNIA





CITY OF CARSON

March 28, 2011

Honorable Mayor and Council members
of the City of Carson, California:

It is my pleasure to present to you the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010 of the city of Carson, California, which consists of management's representation concerning the finances of the city. Responsibility for the completeness and reliability of all the information included in the report rests with management. To provide a reasonable basis for making these representations, management has established an internal control system which is designed to achieve reasonable, but not absolute, assurances that the assets of the City are protected from loss, theft or misuse, and that sufficient, reliable information is compiled to aid in the preparation of the City's financial statements in conformity with generally accepted accounting principles (GAAP) in the United States. The concept of reasonable assurance recognizes that the costs of internal controls should not outweigh the benefits likely to be derived, and the valuation of costs and benefits requires estimates and judgment by management. To the best of our knowledge and belief, the financial report is complete and reliable in all material respects.

THE REPORTING ENTITY

The financial reporting entity includes all the funds and capital assets of the primary government (i.e., the city of Carson as legally defined), as well as its component unit, the Carson Redevelopment Agency. Component units are legally separate entities for which the primary government is financially accountable. Component units are, in substance, part of the primary government's operations and are included as part of the primary government. Accordingly, the financial activities of the Carson Redevelopment Agency (Agency) are blended with the financial activities of the city.

CITY PROFILE

Carson was part of a Spanish Land Grant known as Rancho San Pedro deeded to Juan Jose Dominguez over 200 years ago. During the incorporation process, the community was named after George Henry Carson, a member of the Dominguez family. "Dominguez" was a close second to "Carson" as the name for the newly incorporated city. The city adopted the motto of "Future Unlimited." Part of the reason for that statement of unbridled optimism was the city's strategic location and abundant vacant land.

Located in the South Bay section of Los Angeles County, Carson has grown from a population of approximately 61,000 in 1968 to 98,047 in 2010. Over the years, three annexations have increased the city's size to 19.2 square miles. Steady and continued growth has enabled Carson to become a city of regional significance. In FY 1998/99, Carson's assessed valuation was \$7.4 billion. Ten years later, the assessed valuation on secured and unsecured properties has grown to \$13.5 billion. Carson has been included in the top 20 highest valued cities in the county since 1998, according to the annual report of the Assessor's Office of the County of Los Angeles. For 2010, the city of Carson is ranked the 10th highest in assessed value of all Los Angeles County cities, recording a total of \$13.3 billion.

Form of Government

Carson was incorporated as a General Law city on February 20, 1968. The city operates under the Council-Manager form of government. Policymaking and legislative authority are vested in the governing council, which consists of an elected Mayor and four Councilmembers. The Council is elected on a nonpartisan basis. The Mayor is elected to a four-year term. Councilmembers are elected to four-year, staggered terms with two Councilmembers elected every two years. The City Council is responsible for, among other things, setting city policies, adopting ordinances and resolutions, adopting the budget, appointing committees and hiring the City Manager and the City Attorney. The City Manager is responsible for carrying out the policies and directives of the Council, for overseeing the day-to-day operations of the city, and for appointing the general managers and officers of the city's work groups.

Services Provided by the City

The city provides a broad range of services, including construction and maintenance of highways, streets and infrastructure, planning and zoning activities, public transit, recreational activities and cultural events for all ages. The city of Carson contracts with the County of Los Angeles for police protection and building and safety services. Library services, fire protection and sewer services are provided by Special Districts of the County of Los Angeles. The city's educational needs are served by the Los Angeles Unified School District and some private schools. Solid waste collection and disposal, gas, water, electric and communication services are provided by private companies.

Of regional significance is the California State University, Dominguez Hills (CSUDH), which is located within the city of Carson. Established in 1960, CSUDH offers an impressive variety of bachelors and masters degree programs. The campus includes a privately financed 85-acre national training center known as the Home Depot Center. The center features a state-of-the-art 27,000-seat soccer stadium, a 13,000-seat professional tennis stadium, a 4,800-seat track and field facility (expandable to 20,000), 18 tennis courts, five soccer training fields, and an outdoor cycling velodrome.

While Carson is well known as an industrial center with unparalleled access to transportation and the Pacific Rim, it is also a culturally diverse community that is an attractive place to live and work.

ECONOMIC CONDITION AND OUTLOOK

The city of Carson has had a healthy financial position for many years. Although the general fund balance fell 16.9% from \$30.6 million in FY 2002/03 to \$25.4 million in FY 2003/04, it should be noted that the general fund balance increased 335% from its FY 1992/93 level of \$6.4 million to \$27.8 million in FY 2006/07. Due to the continued economic downturn in the housing market and the overall economic crisis facing the nation, the general fund balance fell 13% from \$20.8 million in FY 2008/09 to \$18.2 million in FY 2009/10. Total actual 2010 general fund revenues came in at 6.1% less than projected, with total taxes registering 15.2% less than the projection. While actual utility users were 34.4% more than budget, the 24.9% decline in sales and use taxes contributed to the negative budget to actual variance in total revenues. With regards to 2010 general fund expenditures, actual totals were 2.5% less than the final budget. Public services comprised 56% of the total expenditures. As of June 30, 2010, the general fund balance stood at \$18.2 million which represents 28.3% of the \$64.4 million adopted operating budget for that year.

The financial condition of the city of Carson still faces some challenges. The new Utility Users Tax and Admissions Tax provided additional revenues to the city but only to be negated by the significant shortfalls in other major revenues. For the General Fund alone, the transient occupancy tax fell

short by 19% and interest on investments were 72.9% below the projections. Property taxes and sales taxes continue to be the major revenue source, bringing in \$41.5 million and \$15.1 million, respectively, but as mentioned earlier, total taxes came in 15.2% less than the projection. The sources of revenues were used primarily by the Public Services work group which used up \$36.7 million out of the \$156.9 million total governmental funds expenditures. This work group consists of the Public Safety, Parks and Recreation, and the Human Services Divisions, all tasked with the delivery of essential police protection, recreation, maintenance and social services, respectively.

This year, the economic downturn primarily brought about by the housing market meltdown has become a financial challenge to local governance with the widening gap between city revenues and expenditures. Therefore, tough policy decisions remain which require that we identify our highest priorities and make wise resource allocation choices.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

Public Safety

One of the City Council's top priorities continues to be public safety. This is demonstrated by the city's goal to increase the actual and perceived level of public safety and to make our neighborhoods, businesses, and parks safer for all citizens. Cognizant of the fact that the city's continued growth and prosperity depends on the realization of this goal, the city Council approved a unique, Carson-exclusive Park Safety Plan that calls for the deployment of sheriff deputies specifically at the city's parks. The park enforcement team has issued 2,122 citations and made 375 arrests, and continues to ensure a safe environment at our parks.

The city's Code Enforcement program continues to respond to and resolve numerous service requests on a daily basis. The Youth Services division, in cooperation with the Sheriff's Department, continues to promote public safety and crime prevention through the administration of a number of proactive programs such as "Youth and the Law," the "Parent Project" and "Anger Management for Teens," all designed to reduce crime through preventive and educational efforts. The city also received grant funds from the California Office of Traffic Safety for seatbelt enforcement and Driving Under the Influence (DUI) checkpoint activities. These checkpoint activities resulted in 21 DUI arrests, 315 citations issued, and 293 illegally-driven vehicles removed from city streets through checkpoints conducted throughout the year. The success in the city-wide area of law enforcement can be summarized as follows: 138 DUI arrests, 13,980 citations issued, and 2,990 illegally-driven vehicles removed from city streets throughout the year.

Parks and Recreation

The Parks and Recreation division operates 12 parks, 4 swimming pools, 3 mini-parks, a boxing center, 2 indoor sports complex, and a skate park. Recent park and recreation improvements include the operation of the Stevenson gymnasium and the redesign of the standardized irrigation system for our parks. The city has undertaken several significant park-related capital improvement projects which are delineated in the city's capital improvement master plan. This includes the Hemingway Aquatic Center, a state-of-the-art swimming complex in the north part of town.

The Congresswoman Juanita Millender-McDonald Community Center completed in 2003 is a 73,000 square foot facility used as a meeting center for community and business sponsored events. The Community Center houses both the Senior Technology Center which provides computer services for the senior populace and the improved Early Childhood Educational Center. These park and facility improvement projects, coupled with park security efforts, demonstrate the City's continued effort to provide its residents with an enhanced quality of life.

Infrastructure

On the average, about 400,000 cars travel daily by freeway through Carson's City limits and major thoroughfares. Although this provides great opportunities for community exposure, this traffic places an intense demand on the City's infrastructure. To respond to infrastructure demands, the City has undertaken several major street and transportation projects. Such projects include: the extensive street improvement on the stretch of Broadway Street from Main Street to Alondra Boulevard, and on Central Avenue from Del Amo to University Drive, and modifications of the I-405 interchange at Wilmington and Avalon to improve traffic operation and safety.

The City's Development Services Work Group continues to pursue alternate financing sources for infrastructure improvements by utilizing available Federal, State and County grants, as well as maximizing the use of its gas tax and dedicated sales tax revenues for street maintenance projects thereby making it possible to dedicate general fund monies to delivery of other essential public services.

Housing and Economic Development

Continuing to be the forefront of the City's economic development initiative is the Boulevards at South Bay, a development of up to 2 million square feet of ultra modern, mixed-used complex with a wide array of restaurant and entertainment venues, big box retail stores, a hotel with a conference center and more than 1,000 residential units either for ownership or for rent. This project is expected to generate sales tax and other revenues, and create job opportunities for the residents of the City.

The low tax rates have contributed to the marketability of Carson to businesses. There are large modern petro-chemical facilities (e.g. BP Arco, Tosco Refining, Shell), electronics manufacturers (e.g. Sony, Kenwood, Pioneer, KIA, Sansui), automobile dealers (e.g. Cormier Chevrolet, Toyota, Honda, Nissan, KIA), aerospace companies (e.g. In-Eros Corporation, Northrop), trucking companies (e.g. Southwest Trails, Proceed USA, USC Intermodal Services Inc.), retail stores (e.g. IKEA, JCPenny, Target, Home Depot, Old Navy, Children's Place and Staples) and restaurants (e.g. Chili's, Panera Bread, Tony Romas) within the City. Many have stayed and expanded (e.g. Pioneer Video, Leiner Products). The City Council's emphasis on quality developments – both commercial and residential – along with a city-wide beautification effort, have had a positive impact on the City.

In recent years, well-known builders have chosen Carson as a location for their projects. In the area of residential developments, we have the following on-going projects:

1. 8 Residential Condominium Units – 440 E. Sepulveda Blvd.
2. 20 Condominium Units – 18501-18701 S. Figueroa Street
3. 8 Condominium conversions – 175 W. 223rd Street
4. 8 Condominium conversions – 157 W. 223rd Street
5. 6 Detached condominium – 325-327-329 W. Fiat Street
6. 4 Detached condominium – 235 W. 220th Street

Carson continues to sustain the demand for commercial development. The Carson Redevelopment Agency has been involved in purchasing land and facilitating development that increases the general fund revenue, creates shopping opportunities for residents, adds to the existing housing stock and removes blighted and contaminated sites. Agency and City accomplishments toward that goal are described below.

Auto Row

The expansion of the Carson Auto Row on 223rd Street and the I-405 Freeway, formerly a Brownfield site, is in their final stage. It now includes a new Nissan franchise with a state-of-the-art facility and a new Honda franchise facility, the existing Cormier Chevrolet dealership, Cruise America, a recreational vehicle rental business, and Altman's Winnebago recreational vehicle dealership. The upgrade of Carson Toyota's showroom and service center completed the development of this site.

The following is a full account of ongoing activities throughout the city geared at achieving economic gains for Carson.

Carson Consolidated Project Area

Subarea: PA No. 1

- 93-acre Brownfield Site: The Phase IIs performed on the southern portion of the site are still pending review by the Department of Toxic Substance Control. Agency is continuing to pay interest on the \$5.5 million HUD Section 108 loan with a \$770,000 BEDI grant from the EPA. The Section 108 loan is to be used for acquisition and relocation within the 93-acre site. The Agency continues to work with Rand Resources for potential development of the Site, which development may include a major sports franchise.
- The Boulevards at Southbay (formerly Carson Marketplace): In FY 2008/09, Agency provided approximately \$39 million assistance for site remediation. Once completed, the development is expected to exceed a value of \$950 million. Remediation of the Boulevards site, which is located on Del Amo Boulevard west of the 405 freeway, is about 50% complete.
- South Bay Pavilion renovation Phase II: The Agency is under negotiations with Vintage Capital Group, new mall owner, for the terms of an Owner Participation Agreement that will bring new national chain restaurants to the mall. New restaurants are expected to sign leases in the last quarter of 2011.
- 17505 S. Main Street: After remediating the site and circulating a Request For Proposal (RFP), the Agency was not able to attract any qualified developers to purchase the property. The Agency however, continues to seek a qualified developer for the property.
- 401, 425, 437 E. Carson Street: The Agency entered into a Disposition and Development Agreement (DDA) with The Related Companies for development of a 65-unit workforce housing apartment complex. Along with Agency assistance, The Related Companies is seeking a tax credit allocation from the Tax Credit Allocation Committee (TCAC) to make the project financially feasible.
- 501 E. Albertoni Street: The Additional Payment for the land offer as calculated by the Agency per Attachment No. 9 to the Disposition and Development Agreement was sent to a professional mediator to negotiate. The mediation resulted in the Agency and Developer agreeing that the Developer owed the Agency \$400,000. A settlement agreement was drafted and executed and the Developer is currently making payments.
- 20802 S. Main St.: The Agency entered into an ENA with a developer for the purchase and development of the site. But, due to the developer's inability to perform as required by the ENA, it was terminated at the end of the 180 day agreement period. The site continues to be marketed.

Subarea: Merged & Amended Project Area (PA No. 2 & 3)

- **Cormier Chevrolet:** The Agency continues to own the property and leases it to Cormier. Indications are that sales are improving.
- **Nissan:** The Agency and Hilland Real Estate, LLC entered into a Disposition and Development Agreement to provide Hilland with \$3 million of warranted financial assistance to facilitate its long-term operation of a new Nissan automobile dealership at the site, the former home of Superior Nissan, located at 1505 E. 223rd Street. The Agency assistance will be repaid to the Agency via the terms of a performance promissory note, secured by a deed of trust.
- **2254 E. 223rd Street:** Agency had a license agreement with BP on the second 5.5-acre parcel of this former 10-acre site. BP also has an option to purchase this piece for a seven year period with approximately two years left. The Agency continues to seek a qualified developer for the site.
- **2403 E. 223rd Street:** The Agency had entered into an ENA with VIMCO for development of a hotel. Negotiations were unsuccessful and the ENA terminated. The Agency continues to seek a qualified developer for the site.
- **2535 East Carson Street:** In August 2009, Agency acquired the 0.92 acre site for \$1,269,044 for the purpose of developing affordable housing. In preparation for future development, the site has been demolished. The Agency continues to seek a qualified developer for the site.

Subarea: Project Area No. 4

616 E. Carson Street: Pursuant to an ENA with City View, the Agency is continuing to negotiate the terms of a Disposition and Development Agreement for development of a mixed-use commercial/retail and residential project consisting of approximately 13,000 square feet of ground floor retail space and one hundred fifty-two (152) for-sale residential units. Fifteen percent (15%) of the residential units will be sold to qualified affordable buyers.

- 21208 Shearer Street: The Agency received a No Further Action letter from the Regional Water Quality Control Board (RWQCB) to allow for the development of a passive park on site. Through the request for proposals to process a qualified landscape, architect AHBE was selected to design the passive park for the site. The new park is expected to be completed in Summer 2012.
- 21009 S. Prospect Ave.: The property is being held for assemblage.
- 21521 Avalon Blvd.: The Agency assembled the site with another Agency-owned property at the NW corner of Carson & Avalon. The assembled sites were included in an RFQ/RFP process for development as a mixed-use residential development. Only two developers were short-listed to provide proposals and neither proposal was considered acceptable. Thus, developers will be sought in the future when the market is more appropriate.
- Carson City Center: Phase I construction (85-unit senior affordable housing development, underground parking and first floor retail) is expected to be completed by mid March 2011. The International House of Pancakes (IHOP) signed a lease for 5,000 sq. ft. on the first floor.

Phase II (to be known as The Renaissance at City Center) began construction in Fall 2010 and includes: 150 market-rate rental housing units (1, 2 and 3 bedroom), 25,000 square feet of lifestyle-oriented shops, and subterranean parking. Phase II construction is slated for completion in Spring 2012.

Efficiency in City Government

In FY 1999/00, City staff took a major step towards furthering efficiency within city government by implementing a citywide functional reorganization. The reorganization plan was structured to better manage current and future opportunities and challenges. The plan essentially took seven operating departments and consolidated them into four work groups that focus on simplifying and better coordinating group goals. Some of the intended results of the reorganization are to more comprehensively develop core values of high quality customer service, accountability, productivity and teamwork.

Community Awareness and Communication

Recognizing that an informed citizenry is an asset to city government, the City of Carson has been proactive in providing public access to information. The Public Information division of the City Manager's office supplies a variety of information to Carson residents, including information on transit and demographics, information on upcoming events, as well as production and distribution of publications pertaining to Carson. Major publications include the quarterly issues of the Carson Report, which presents both information about city government and the community. Additionally, the City maintains a website at <http://ci.carson.ca.us>, which contains a wealth of information about the City, including information about employment opportunities, job training, youth services and local events, council and commission meetings, as well as providing links to other related websites. Moreover, through the website, anyone can watch the live broadcast of City Council meetings on videostream, practically from anywhere in the world.

Beautification / Green Task Force

As no economy can thrive without an effective infrastructure, no community can continue to grow and prosper without continual efforts to imbue a sense of pride in its citizenry. To this end, Public Works staff of the Development Services Work Group has been working diligently to improve the City's appearance. For example, street maintenance crews routinely replace street name signs, remove weeds on City property, maintain and monitor approximately 2,000 City trees, and strive to maintain zero potholes throughout the City. The Landscape and Building Maintenance Division of the Public Services Work Group is responsible for the City's graffiti abatement program, as well as the maintenance of all of the City's buildings, facilities and landscaped grounds. These crews are out daily making sure that all City facilities and landscaped grounds are kept in tip-top shape. The Economic Development Work Group also strives to create a more beautiful Carson by administering such programs as "Neighborhood Pride" and the "Business Beautification Program." Additionally, Economic Development staff is working with numerous developers and landowners to revitalize old and/or build new commercial, industrial and housing projects in the City.

The city's Green Task Force participates in efforts to help support the local and global environment. For example, city employees are asked to recycle and maximize the use of both the front and back sides of the paper. Local residents and businesses are encouraged to turn off all non-essential lights during low peak hours. The city also participated in Earth Hour 2010, a global event led by the World Wildlife Fund. The city of Carson encourages residents and businesses to go dark for one hour on March 27, 2010 at 8:30 p.m. These events are examples of the continued effort to help educate and keep the city "green".

FINANCIAL INFORMATION

The officials having direct responsibility for the financial administration and management of the City are the City Treasurer, the Administrative Services General Manager and the Finance Officer. Fiscal operations include general accounting, financial reporting, treasury and investment management, business license, payroll, accounts payable, accounts receivable, procurement of supplies and service contracts, and budget preparation and monitoring.

Financial Report Preparation

The City has presented its CAFR in accordance with Governmental Accounting Standards Board's (GASB) Statement No. 34 - Basic Financial Statements for State and Local Governments since June of 2003. The GASB is the authoritative body in establishing U.S. generally accepted accounting principles for state and local governments. GASB 34 financial reporting requirement for state and local governments throughout the United States aims to make annual reports more comprehensive, easier to understand and more useful. In addition, this financial reporting model hopes to improve government's accountability in financial reporting and provide additional information for decision-making.

GASB also issued Statement No. 44 which applies to state and local governments preparing a statistical section accompanying basic financial statements. In compliance with this requirement, the City has included the following information categories in the Statistical Section of its CAFR: (1) financial trends, (2) revenue capacity, (3) debt capacity, (4) demographic and economic information, and (5) operating information. While the City was not able to present the 10-year historical information on some schedules, it was able to provide data extracted from government-wide financial statements retroactively from the City's year of GASB implementation in June 2003.

Beginning FY 2008/09, the City was required to comply with another GASB pronouncement, GASB 45, which required accrual accounting for the expensing of other post-employment benefits (OPEB). The expense is generally accrued over the working career of employees, rather than on a pay-as-you-go basis. Based on the analysis prepared by an actuarial consultant, the City's increase in net OPEB obligation at June 30, 2010 is \$5,053,740 after applying the contributions made during the fiscal year of \$1,079,791 from the annual OPEB cost of \$6,133,531. The net OPEB obligation at June 30, 2010 is \$9,735,207.

Single Audit

The City is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act, as amended, and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Information related to this single audit, including a schedule of Federal financial assistance, the independent auditors' reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings are included in a separately issued single audit report.

As a recipient of Federal, State and local financial assistance, the City's internal control structure must also ensure, as well as document, compliance with applicable laws and regulations related to these programs. This internal control structure is subject to periodic evaluation by management, staff and the independent auditors.

Independent Audit

The Carson Municipal Code requires an annual audit by independent certified public accountants. Through a selection process, the City awarded the audit contract to Vasquez & Company, LLP. The firm commenced the annual audit for the fiscal year ended June 30, 2010. The auditors' report on the government-wide financial statements, individual fund statements and schedules is included in the financial section of this comprehensive annual financial report. The report expresses the auditor's unqualified opinion as to the fair presentation, in all material respects, of the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2010, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

ACKNOWLEDGMENTS

The Finance staff of the Administrative Services Work Group continuously strives to enhance the quality and ensure the integrity of the financial information provided to elected officials, management and staff, as well as to the citizens of the great City of Carson. I would also like to sincerely thank Vasquez & Company, LLP. staff for their technical expertise, their sage advice and their assistance in the preparation of this document. Finally, I would like to express my gratitude to the Mayor, the members of the City Council and the City Manager for their interest and support towards conducting the financial operations of the City in a fiscally responsible manner.

Respectfully submitted,

A handwritten signature in cursive script that reads "Jacquelyn Acosta". The signature is written in black ink and is positioned above the printed name.

Jacquelyn Acosta

Administrative Services General Manager

(This page intentionally left blank.)

CITY OF CARSON, CALIFORNIA

Directory of City Officials June 30, 2010

Elected Officials

Jim Dear
Mayor

Lula Davis-Holmes
Mayor Pro Tem

Elito M. Santarina
Councilmember

Mike A. Gipson
Councilmember

Julie Ruiz-Raber
Councilmember

Karen Avilla
City Treasurer

Helen Kawagoe
City Clerk

Appointed Officials

Jerome G. Grooms
City Manager

William Wynder
City Attorney

Management Team

Jacquelyn Acosta, Administrative Services General Manager
Raymond R. Cruz, Public Services General Manager
Clifford Graves, Economic Development General Manager
Victor Rollinger, Development Services General Manager

CITY OF CARSON

