Council Meeting of
May 22, 2012

Honorable Mayor and Members
of the City Council
City Hall
Torrance, California

Members of the Council:

Subject: **Finance – Adopt RESOLUTION approving sale and issuance of Fiscal Year 2012-2013 Tax Revenue Anticipation Notes**

RECOMMENDATION

Recommendation of the Finance Director that City Council adopt a **RESOLUTION** approving the sale and issuance of Fiscal Year 2012-2013 Tax Revenue Anticipation Notes (TRAN's) not to exceed $44,000,000.

BACKGROUND/ANALYSIS

The issuance of $44,000,000 of Tax and Revenue Anticipation Notes ("TRAN") will assist the City with its working capital needs during the first six months of the 2012-13 fiscal year. Historically, the City has negative cash flow for the first five months of the fiscal year, July through November, until the receipt of property taxes in December are received.

This City's General Fund cash flow became more volatile in the 2004-05 fiscal year due to the redirection of a portion of the City's sales tax by the State, which was typically received monthly, for the repayment of "State Budget Deficit Bonds" and backfilled with property tax which we now receive primarily in December and May. Cash flows have become even more volatile as the State added additional property tax swaps for vehicle license fees and the State delaying payments and borrowing from local government revenue streams. In the 2007-08 fiscal year, the City determined that it was economically beneficial for the City to prepay PERS costs at the beginning of the fiscal year at a discounted rate of approximately 3.7%.

Under the interpretation of Sections 53850-53858 of the California Government Code and Federal tax law by the City's bond counsel, Jones Hall, the City may borrow an amount not to exceed the maximum anticipated cash flow deficit plus five percent of working capital reserve if all note proceeds, including investment earnings, are deemed spent within 6 months of the date of the issue of the notes.

This method of financing involves the sale of a TRAN and is a traditional means used by local governments to ensure consistent cash flow during the fiscal year. The City must repay the TRAN within the same fiscal year (therefore preventing any "debt" from being carried forward). The TRAN will provide working capital for the first five months, July through November, of the fiscal year when expenditures exceed incoming revenues.

12A

During the last seven months, December thru June of the fiscal year, the TRAN will be repaid as incoming revenues exceed expenditures, mainly through property and business license taxes.

The City has been issuing an annual TRAN since the 2007-08 fiscal year. Historically, the City has undersized the TRAN and not issued the "maximum" allowable. The below chart summarizes the history of TRAN issuances:

	Max	Amt Issued	Cost of Funds
2007-08	$31.5M	$28.0	3.90%
2008-09	27.5	25.0	1.95
2009-10	29.0	23.0	0.63
2010-11	46.0	33.0	0.56
2011-12	43.5	38.0	0.47

For the fiscal year 2012-13, staff is recommending the City issue TRAN's in the amount not to exceed $44,000,000 ($50.7M max. allow.). The interest rate on the notes will depend on competitive rates at time of the sale. The projected "cost of funds" to the City for this year is between 0.50% to 0.70% well below the current yield of the City's Investment Portfolio (1.42%) and just above the State's Local Investment Fund (0.37%). The increase in the TRAN for 2012-13 by $6 million to $44.0 million more closely represents the amount of the City's "negative cash flow" in the first half of the fiscal year and to take advantage of the "low" interest rate environment.

Staff is recommending that the City Council approve a resolution defining the financial terms of the TRAN as well as the draft preliminary official statement. The preliminary official statement is the offering memorandum and disclosure document that all investors rely on for purposes of determining the credit worthiness of the City.

Respectfully submitted,

Eric E. Tsao
Finance Director

CONCUR:

LeRoy J. Jackson
City Manager

Attachments:
A. Resolution
B. **DRAFT** Preliminary Official Statement (POS)
(Limited Distribution. A copy is available for review in the City Clerk's Office.)

ATTACHMENT A

RESOLUTION NO. _______

PROVIDING FOR THE BORROWING OF FUNDS FOR FISCAL YEAR 2012-13 AND THE ISSUANCE AND SALE OF 2012-13 TAX AND REVENUE ANTICIPATION NOTES IN AN AMOUNT NOT TO EXCEED $44,000,000 THEREFOR

THE CITY COUNCIL OF THE CITY OF TORRANCE, CALIFORNIA (the "CITY") DOES RESOLVE AS FOLLOWS:

WHEREAS, pursuant to Article 7.6 (commencing with section 53850) of Chapter 4 of Part 1 of Division 2 of Title 5 of the California Government Code (the "Law"), this City Council (the "Council") has found and determined that moneys are needed for the requirements of the City, a municipal corporation and general law city duly organized and existing under the laws of the State of California, to satisfy obligations payable from the General Fund of the City (the "General Fund"), and that it is necessary that said sum be borrowed for such purpose at this time by the issuance of temporary notes therefor in anticipation of the receipt of taxes, income, revenue, cash receipts and other moneys to be received by the City for the General Fund during or allocable to the fiscal year of the City beginning July 1, 2012 and ending June 30, 2013 ("Fiscal Year 2012-13");

NOW, THEREFORE, it is hereby DETERMINED and ORDERED as follows:

Section 1. Limitation on Maximum Amount. The principal amount of notes issued pursuant hereto, when added to the interest payable thereon, shall not exceed eighty-five percent (85%) of the estimated amount of the uncollected taxes, income, revenue, cash receipts and other moneys of the City for the General Fund attributable to Fiscal Year 2012-13, and available for the payment of said notes and the interest thereon (as hereinafter provided).

Section 2. Authorization and Terms of Notes. Solely for the purpose of anticipating taxes, income, revenue, cash receipts and other moneys to be received by the City for the General Fund during or allocable to Fiscal Year 2012-13, and not pursuant to any common plan of financing, the City hereby determines to and shall borrow the principal amount of not-to-exceed Forty-Four Million Dollars ($44,000,000) by the issuance of temporary notes under the Law, designated "City of Torrance, California 2012-13 Tax and Revenue Anticipation Notes" (the "Notes"). The Notes shall be dated the date of initial delivery, shall mature (without option of prior redemption) no later than thirteen months after their date of issuance, and shall bear interest, payable at maturity and computed on a 30-day month/360-day year basis, at a rate not in excess of _______ percent per annum. Both the principal of and interest on the Notes shall be payable in lawful money of the United States of America, as described below.

Section 3. Form of Notes; Book Entry Only System. The Notes shall be issued in fully registered form, without coupons, and shall be substantially in the form and substance set forth in Exhibit A attached hereto and by reference incorporated herein, the blanks in said form to be filled in with appropriate words and figures. The Notes shall be numbered from 1 consecutively upward in order of issuance, shall be in the denomination of $5,000 each or any integral multiple thereof.

"CUSIP" identification numbers shall be imprinted on the Notes, but such numbers shall not constitute a part of the contract evidenced by the Notes and any error or omission with respect thereto shall not constitute cause for refusal of any purchaser to accept delivery of and pay for the Notes. In addition, failure on the part of the City to use such CUSIP numbers in any notice to the registered owners of the Notes shall not constitute an event of default or any violation of the City's contract with such owners and shall not impair the effectiveness of any such notice.

Except as provided below, the owner of all of the Notes shall be The Depository Trust Company, New York, New York ("DTC"), and the Notes shall be registered in the name of Cede & Co., as nominee for DTC. The Notes shall be initially executed and delivered in the form of a single fully registered Note in the full aggregate principal amount of the Notes. The City may treat DTC (or its nominee) as the sole and exclusive owner of the Notes registered in its name for all purposes of this Resolution, and the City shall not be affected by any notice to the contrary. The City shall not have any responsibility or obligation to any participant of DTC (a "Participant"), any person claiming a beneficial ownership interest in the Notes under or through DTC or a Participant (a "Beneficial Owner"), or any other person not shown on the register of the City as being an owner, with respect to the accuracy of any records maintained by DTC or any Participant or the payment by DTC or any Participant by DTC or any Participant of any amount in respect of the principal or interest with respect to the Notes. The City shall pay all principal and interest with respect to the Notes only to DTC or its nominee, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligations with respect to the principal and interest with respect to the Notes to the extent of the sum or sums so paid. Except under the conditions noted below, no person other than DTC shall receive a Note. Upon delivery by DTC to the City of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., the term "Cede & Co." in this Resolution shall refer to such new nominee of DTC.

If the City determines that it is in the best interest of the Beneficial Owners that they be able to obtain Notes and delivers a written certificate to DTC to that effect, DTC shall notify the Participants of the availability through DTC of Notes. In such event, the City shall issue, transfer and exchange Notes as requested by DTC and any other owners in appropriate amounts. DTC may determine to discontinue providing its services with respect to the Notes at any time by giving notice to the City and discharging its responsibilities with respect thereto under applicable law. Under such circumstances (if there is no successor securities depository), the City shall be obligated to deliver Notes to the Beneficial Owners as described in this Resolution. Whenever DTC requests the City to do so, the City will cooperate with DTC in taking appropriate action after reasonable notice to (a) make available one or more separate Notes evidencing the Notes to any DTC Participant having Notes credited to its DTC account or (b) arrange for another securities depository to maintain custody of Certificates evidencing the Notes.

Notwithstanding any other provision of this Resolution to the contrary, so long as any Note is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to the principal and interest with respect to such Note and all notices with respect to such Note shall be made and given, respectively, to DTC as provided as in the representation letter delivered on the date of issuance of the Notes.

Section 4. Use of Proceeds. The proceeds of the sale of the Notes shall be deposited in a segregated account in the General Fund and used and expended by the City for any purpose for which it is authorized to expend funds from the General Fund.

Section 5. Security. The principal amount of the Notes, together with the interest thereon, shall be payable from taxes, income, revenue, cash receipts and other moneys which are received by the City for the General Fund for Fiscal Year 2012-13. As security for the payment of the principal of and interest on the Notes the City hereby pledges the first "unrestricted moneys" (as hereinafter defined) to be received by the City (a) an amount equal to fifty percent (50%) of the principal amount of the Notes in the month of January, 2013; (b) an amount equal to fifty percent (50%) of the principal amount of the Notes in the month of May, 2013; and (c) an amount sufficient to pay interest as due on the Notes at their maturity, in the month of June, 2013 (such pledged amounts being hereinafter called the "Pledged Revenues"). The principal of the Notes and the interest thereon shall constitute a first lien and charge thereon and shall be payable from the Pledged Revenues. To the extent not so paid from the Pledged Revenues, the Notes shall be paid from any other moneys of the City lawfully available therefor. In the event that there are insufficient "unrestricted moneys" received by the City to permit the deposit into the Special Account (as hereinafter defined) of the full amount of the Pledged Revenues to be deposited in any month by the last business day of such month, then the amount of any deficiency shall be satisfied and made up from any other moneys of the City lawfully available for the repayment of the Notes and interest thereon. The term "unrestricted moneys" shall mean taxes, income, revenue, cash receipts, and other moneys intended as receipts for the General Fund for Fiscal Year 2012-13 and which are generally available for the payment of current expenses and other obligations of the City.

Section 6. Special Account. There is hereby created, within the General Fund, a special account to be designated the "2012-13 Tax and Revenue Anticipation Note Special Account" (the "Special Account") and applied as directed in this Resolution. Any money placed in the Special Account shall be for the benefit of the owners of the Notes and, until the Notes and all interest thereon are paid or until provision has been made for the payment of the Notes at maturity with interest to maturity, the moneys in the Special Account shall be applied solely for the purposes for which the Special Account is created.

During the months of January, May and June, 2013, the City shall deposit all Pledged Revenues in the Special Account. On the maturity date of the Notes, the City shall transfer to DTC the moneys in the Special Account necessary to pay the principal of and interest on the Notes at maturity and to the extent said moneys are insufficient therefor an amount of moneys from the General Fund which will enable payment of the full principal of and interest on the Notes at maturity. DTC will thereupon make payments of principal of and interest on the Notes to the DTC Participants who will thereupon make payments to the Beneficial Owners of the Notes. Any moneys remaining in the Special Account after the Notes and the interest thereon have been paid, or provision for such payment has been made, shall be transferred to the General Fund.

Section 7. Deposit and Investment of Special Account. All moneys held by the City in the Special Account, if not invested, shall be held in time or demand deposits as public funds and shall be secured at all times by bonds or other obligations which are authorized by law as security for public deposits, of a market value at least equal to the amount required by law.

Moneys in the Special Account shall, to the greatest extent possible, be invested by the City directly, or through an investment agreement, in investments as permitted by the laws of the State of California as now in effect and as hereafter amended, and the proceeds of any such investments shall be deposited in the Special Account.

Section 8. Execution of Notes. The Mayor of the City, the City Manager, or the Finance Director (each an "Authorized Officer") is hereby authorized to execute the Notes by manual or facsimile signature, and the City Clerk of the City is hereby authorized to countersign the same by manual or facsimile signature (although at least one of such signatures shall be manual) and to affix the seal of the City thereto by facsimile impression thereof, and said officers are hereby authorized to cause the blank spaces thereof to be filled in as may be appropriate.

Section 9. Transfer of Notes. Any Note may, in accordance with its terms, but only if the City determines to no longer maintain the book entry only status of the Notes, DTC determines to discontinue providing such services and no successor securities depository is named or DTC requests the City to deliver Note certificates to particular DTC Participants, be transferred, upon the books required to be kept pursuant to the provisions of Section 11 hereof, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Note for cancellation at the office of the City Clerk, accompanied by delivery of a written instrument of transfer in a form approved by the City, duly executed.

Whenever any Note or Notes shall be surrendered for transfer, the City shall execute and deliver a new Note or Notes, for like aggregate principal amount of the Note or Notes surrendered for transfer.

Section 10. Exchange of Notes. Any Note may, in accordance with its terms, but only if the City determines to no longer maintain the book entry only status of the Notes, DTC determines to discontinue providing such services and no successor securities depository is named or DTC requests the City to deliver Note certificates to particular DTC Participants, be exchanged at the office of the City Clerk for a like aggregate principal amount of Notes of authorized denominations and of the same maturity.

Section 11. Note Register. The City shall keep or cause to be kept sufficient books for the registration and transfer of the Notes if the book entry only system is no longer in effect and, in such case, the City Clerk shall register or transfer or cause to be registered or transferred, on said books, Notes as herein before provided. While the book entry only system is in effect, such books need not be kept as the Notes will be represented by one Note registered in the name of Cede & Co., as nominee for DTC.

Section 12. Temporary Notes. The Notes may be initially issued in temporary form exchangeable for definitive Notes when ready for delivery. The temporary Notes may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the City, and may contain such reference to any of the provisions of this Resolution as may be appropriate. Every temporary Note shall be executed by the City upon the same conditions and in substantially the same manner as the definitive Notes. If the City issues temporary Notes it will execute and furnish definitive Notes without delay, and thereupon the temporary Notes may be surrendered, for cancellation, in exchange therefor at the office of the City Clerk and the City Clerk shall deliver in exchange for such temporary Notes an equal aggregate principal amount of definitive Notes of authorized denominations. Until so exchanged, the temporary Notes shall be entitled to the same benefits pursuant to this Resolution as definitive Notes executed and delivered hereunder.

Section 13. Notes Mutilated, Lost, Destroyed or Stolen. If any Note shall become mutilated the City, at the expense of the owner of said Note, shall execute and deliver a new Note of like maturity and principal amount in exchange and substitution for the Note so mutilated, but only upon surrender to the City Clerk of the Note so mutilated. Every mutilated Note so surrendered to the City Clerk shall be canceled and delivered to, or upon the order of, the City. If any Note shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City and, if such evidence be satisfactory to the City and indemnity satisfactory to it shall be given, the City, at the expense of the owner, shall execute and deliver a new Note of like maturity and principal amount in lieu of and in substitution for the Note so lost, destroyed or stolen. The City may require payment of a sum not exceeding the actual cost of preparing each new Note issued under this Section 13 and of the expenses which may be incurred by the City in the premises. Any Note issued under the provisions of this Section 13 in lieu of any Note alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the City whether or not the Note so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Resolution with all other Notes issued pursuant to this Resolution.

Section 14. Covenants and Warranties. It is hereby covenanted and warranted by the City that all representations and recitals contained in this Resolution are true and correct, and that the City and its appropriate officials have duly taken all proceedings necessary to be taken by them, and will take any additional proceedings necessary to be taken by them, for the prompt collection and enforcement of the taxes, income, revenue, cash receipts and other moneys pledged hereunder in accordance with law and for carrying out the provisions of this Resolution.

Section 15. Tax Covenants.

(a) *No Arbitrage.* The City shall not take, nor permit nor suffer to be taken any action with respect to the proceeds of the Notes which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the Notes (the "Closing Date") would have caused the Notes to be "arbitrage bonds" within the meaning of section 148 of the Internal Revenue Code of 1986 (the "Code").

(b) *Rebate Requirement.* The City shall take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government.

(c) *Private Activity Note Limitation*. The City shall assure that proceeds of the Notes are not so used as to cause the Notes to satisfy the private business tests of section 141(b) of the Code.

(d) *Private Loan Financing Limitation*. The City shall assure that proceeds of the Notes are not so used as to cause the Notes to satisfy the private loan financing test of section 141(c) of the Code.

(e) *Federal Guarantee Prohibition*. The City shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Notes to be "federally guaranteed" within the meaning of section 149(b) of the Code.

(f) *Maintenance of Tax-Exemption*. The City shall take all actions necessary to assure the exclusion of interest on the Notes from the gross income of the owners of the Notes to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the Closing Date.

Section 16. Official Statement. Jones Hall, as disclosure counsel to the City, has prepared a preliminary official statement describing the Notes (the "Preliminary Official Statement"). The City Council hereby approves the Preliminary Official Statement in the form presented to the Board at this meeting. The Authorized Officer is hereby authorized and directed to execute a certificate to the effect that the Preliminary Official Statement was deemed "final" as of its date for purposes of Rule 15c2-12 of the Securities Exchange Act of 1934, and the Authorized Officer is hereby authorized to so deem such Preliminary Official Statement final.

The execution of the final Official Statement (the "Official Statement"), which shall include such changes and additions to the Preliminary Official Statement deemed advisable by the Authorized Officer or any other qualified officer of the City and such information permitted to be excluded from the Preliminary Official Statement pursuant to the Rule, shall be conclusive evidence of the approval of the Official Statement by the City. The City Council authorizes the distribution by NHA Advisors (the "Financial Advisor") of the Official Statement to prospective purchasers of the Notes.

The Authorized Officer is authorized and directed to execute the Official Statement and a statement that the facts contained in the Official Statement, and any supplement or amendment thereto (which shall be deemed an original part thereof for the purpose of such statement) were, at the time of sale of the Notes, true and correct in all material respects and that the Official Statement did not, on the date of sale of the Notes, and does not, as of the date of delivery of the Notes, contain any untrue statement of a material fact with respect to the City or omit to state material facts with respect to the City required to be stated where necessary to make any statement made therein not misleading in the light of the circumstances under which it was made. The Authorized Officer shall take such further actions prior to the signing of the Official Statement as are deemed necessary or appropriate to verify the accuracy thereof.

Section 17. Sale of Notes. The Notes will be sold by competitive bid and awarded as set forth in an Official Notice of Sale (the "Official Notice of Sale"), which Jones Hall, A Professional Law Corporation, as bond counsel to the City ("Bond Counsel"), is hereby authorized to prepare, consistent with this Resolution. Bond Counsel is hereby directed to arrange for the publication of a notice of intention of the sale of the Notes in *The Bond Buyer*, in accordance with Section 53692 of the Government Code.

The Authorized Officer is hereby directed to execute the Official Notice of Sale. The Authorized Officer is hereby authorized and directed to open the bids at the time and place specified in the Official Notice of Sale. The Authorized Officer is hereby authorized and directed to receive and record the receipt of all bids made pursuant to the Official Notice of Sale, to cause said bids to be examined for compliance with the Official Notice of Sale, to cause computations to be made as to which bidder has bid the lowest true interest cost, as provided in the Official Notice of Sale, to announce the bidder of the lowest true interest cost, and to award the sale to said bidder.

Section 18. Engagement of Professional Services. The City hereby approves the engagement of Jones Hall, A Professional Law Corporation, as Bond Counsel and Disclosure Counsel and NHA Advisors as Financial Advisor to the City in connection with the issuance and sale of the Notes.

Section 19. Preparation of Notes; Official Action. Jones Hall, A Professional Law Corporation, as bond counsel, is directed to cause suitable Notes to be prepared showing on their face that the same bear interest at the rate specified in the offer submitted by the successful bidder or bidders, and to cause the blank spaces therein to be filled in to comply with the provisions of this Resolution, and to procure their execution by the proper officers, and to cause the Notes to be delivered when so executed to DTC on behalf of the successful bidder or bidders therefor upon the receipt of the purchase price by the City Treasurer in accordance with such successful bid or bids.

Each Authorized Officer and the City Clerk, or any of them, are further authorized and directed to make, execute and deliver such certificates, agreements and other closing documents as are necessary to consummate the transactions contemplated by this Resolution.

Section 20. Effective Date. This Resolution shall take effect upon its adoption.

The foregoing Resolution was adopted by the City Council of the City of Torrance, California on May 22, 2012, by the following vote:

AYES:

NOES:

ABSENT:

(SEAL)

Mayor

Attest:

____

Clerk

EXHIBIT A

FORM OF NOTE

No. 1 *****$____________****

CITY OF TORRANCE, CALIFORNIA

2012-13 TAX AND REVENUE ANTICIPATION NOTE

INTEREST RATE:	MATURITY DATE:	ISSUE DATE:	CUSIP:
%	July __, 2013	July __, 2012	

REGISTERED OWNER: CEDE & CO.

PRINCIPAL SUM: ****__________________ MILLION DOLLARS****

The CITY OF TORRANCE, a municipal corporation, duly organized and existing under and by virtue of the Constitution and laws of the State of California (the "City"), for value received hereby promises to pay to the Registered Owner stated above, or registered assigns (the "Owner"), on the Maturity Date stated above, the Principal Sum stated above, in lawful money of the United States of America, and to pay interest thereon in like lawful money at the rate per annum stated above, payable on the Maturity Date stated above, calculated on the basis of 360-day year composed of twelve 30-day months. Both the principal of and interest on this Note shall be payable at maturity to the Owner.

It is hereby certified, recited and declared that this Note is one of an authorized issue of Notes in the aggregate principal amount of ___________ Million Dollars ($___________), all of like tenor, issued pursuant to the provisions of Resolution No. ________ of the City Council of the City duly passed and adopted on May 22, 2012 (the "Resolution"), and pursuant to Article 7.6 (commencing with section 53850) of Chapter 4, Part 1, Division 2, Title 5, of the California Government Code, and that all things, conditions and acts required to exist, happen and be performed precedent to and in the issuance of the Notes exist, have happened and have been performed in regular and due time, form and manner as required by law, and that this Note, together with all other indebtedness and obligations of the City, does not exceed any limit prescribed by the Constitution or statutes of the State of California.

The principal amount of the Notes, together with the interest thereon, shall be payable from taxes, income, revenue, cash receipts and other moneys which are received by the City for the General Fund of the City for Fiscal Year 2012-13. As security for the payment of the principal of and interest on the Notes the City has pledged the first "unrestricted moneys" (as hereinafter defined) to be received by the City (a) an amount equal to fifty percent (50%) of the principal amount of the Notes in the month of January, 2013; (b) an amount equal to fifty percent (50%) of the principal amount of the Notes in the month of May, 2013; and (c) an amount sufficient to pay interest as due on the Notes at their maturity, in the month of June, 2013 (such pledged amounts being hereinafter called the "Pledged Revenues"). The principal of the Notes and the interest thereon shall constitute a first lien and charge thereon and shall be payable from the Pledged Revenues. To the extent not so paid from the Pledged Revenues, the Notes shall be paid from any other moneys of the City lawfully available therefor. In the event that there are insufficient "unrestricted moneys" received by the City to permit the deposit into the Special Account (as hereinafter defined) of the full amount of the Pledged Revenues to be deposited in any month by the last business day of such month, then the amount of any deficiency shall be satisfied and made up from any other moneys of the City lawfully available for the repayment of the Notes and interest thereon. The term "unrestricted moneys" shall mean taxes, income, revenue, cash receipts, and other moneys intended as receipts for the General Fund of the City for Fiscal Year 2012-13 and which are generally available for the payment of current expenses and other obligations of the City.

The Notes are issuable as fully registered Notes, without coupons, in denominations of $5,000 and any integral multiple thereof. Subject to the limitations and conditions as provided in the Resolution, Notes may be exchanged for a like aggregate principal amount of Notes of other authorized denominations and of the same maturity.

The Notes are not subject to redemption prior to maturity.

This Note is transferable by the Owner hereof, but only under the circumstances, in the manner and subject to the limitations provided in the Resolution. Upon registration of such transfer a new Note or Notes, of authorized denomination or denominations, for the same aggregate principal amount and of the same maturity will be issued to the transferee in exchange herefor.

The City may treat the Owner hereof as the absolute owner hereof for all purposes, and the City shall not be affected by any notice to the contrary.

Unless this Note is presented by an authorized representative of The Depository Trust Company to the issuer or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

IN WITNESS WHEREOF, the City of Torrance has caused this Note to be executed by the City Manager and countersigned by the City Clerk of the City, all as of the Issue Date stated above.

CITY OF TORRANCE

By ______________________________
City Manager

Countersigned:

By ______________________________
City Clerk

ASSIGNMENT

For value received the undersigned hereby sells, assigns and transfers unto

____
____
____
(Name, Address and Tax Identification or Social Security Number of Assignee)

the within-registered Note and hereby irrevocably constitute(s) and appoints(s) _____________
____ attorney, to transfer the same on the Note register of the City with full power of substitution in the premises.

Dated:____________________________________

Signature Guaranteed:

____
NOTICE: Signature(s) must be guaranteed by a qualified guarantor.

____
NOTICE: The signature(s) on this assignment must correspond with the name(s) as written on the face of the within Note in every particular without alteration or enlargement or any change whatsoever.

30009-20 JH:CKL 3-24-12
4-25-12
5-14-12

PRELIMINARY OFFICIAL STATEMENT DATED _____________, 2012

NEW ISSUE - FULL BOOK ENTRY **RATING: __________: "____"**
See "Rating."

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described in this Official Statement, under existing law, the interest on the Notes is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."

$__________________*
CITY OF TORRANCE
2012-13 TAX AND REVENUE ANTICIPATION NOTES

Dated: Date of Delivery **Due: ________ __, 2013**

The Notes are to be delivered as fully registered notes without coupons and when delivered will be registered in the name of The Depository Trust Company, New York, New York, or its nominee. DTC will act as securities depository for the Notes. Individual purchases of interest in the Notes will be made in book-entry form only in the principal amount of $5,000 or integral multiples thereof. Purchasers of Notes will not receive the physical Notes when purchased. Principal and interest are payable at maturity. The principal and interest with respect to the Notes is payable when due by the City of Torrance (the "City"), as paying agent, to DTC which will in turn remit such principal and interest to the actual purchasers of the Notes as described herein. The Notes are not subject to redemption prior to maturity.

The Notes are by statute general obligations of the City, payable solely from taxes, income, revenue, cash receipts, and other moneys intended as receipts for the General Fund for Fiscal Year 2012-13 and which are generally available for the payment of current expenses and other obligations of the City (the "Unrestricted Moneys"). The Notes are secured by a pledge of Unrestricted Moneys to be received by the City in (a) an amount equal to 50% of the principal amount of the Notes in the month of January, 2013; (b) an amount equal to 50% of the principal amount of the Notes in the month of May, 2013; and (c) an amount sufficient to pay interest as due on the Notes at their maturity, in the month of June, 2013 (such pledged amounts being hereinafter called the "Pledged Revenues"). The Pledged Revenues will be deposited and held by the City in a special account to be designated the "2012-13 Tax and Revenue Anticipation Note Special Account" (the "Special Account"), and applied as directed in the City Council's Resolution adopted __________, 2012.

The following firm, serving as financial advisor to the City, has structured this issue.

NHA | ADVISORS
Strategy. Innovation. Solutions.

Interest Rate	CUSIP
___%	891347 ___

The Notes are, to the extent more fully described herein, legal investments for commercial banks in California and are eligible to secure deposits in public monies in the State of California.

This cover page contains certain information for reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See "RISK FACTORS."

The Notes will be offered when, as and if issued and received by the Underwriter subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will also be passed upon by Jones Hall, A Professional Law Corporation, as Disclosure Counsel. It is anticipated that the Notes will be available for delivery in New York, New York for deposit with The Depository Trust Company, on or about ________ __, 2012.

Dated: _____ __, 2012

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* Preliminary, subject to change.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized by the City to give any information or to make any representations with respect to the Notes other than those contained in this Official Statement and, if given or made, such information or representation must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell nor the solicitation of an offer to buy, nor shall there be any sale of the Notes by any person to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Notes. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth in this Official Statement has been obtained from sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter. The information and expressions of opinion stated in this Official Statement are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the information or opinions set forth herein or in the affairs of the City since the date hereof. This Official Statement is submitted in connection with the sale of the Notes referred to herein and may not be reproduced or used, in whole or in part, for any purpose, unless authorized in writing by the City.

The Notes have not been registered under the Securities Act of 1933, in reliance upon an exemption contained in such Act. The Notes have not been registered under the securities laws of any state.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE NOTES TO CERTAIN DEALERS AND BANKS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 27A of the United States Securities Act of 1933, as amended (the "Securities Act"). Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

Although the City maintains an internet website for various purposes, none of the information on that website is incorporated by reference in this Official Statement or is intended to assist investors in making any investment decision or to provide any continuing information with respect to the Notes or any other bonds or obligations of the City.

CITY OF TORRANCE

CITY COUNCIL MEMBERS

Frank Scotto, *Mayor*
Gene Barnett, *Council Member*
Tom Brewer, *Council Member*
Pat Furey, *Council Member*
Cliff Numark, *Council Member*
Susan M. Rhilinger, *Council Member*
Bill Sutherland, *Council Member*

CITY STAFF

LeRoy J. Jackson, *City Manager*
John L. Fellows III, *City Attorney*
Dana Cortez, *City Treasurer*
Eric E. Tsao, *Finance Director*
Sue Herbers, *City Clerk*

PAYING AGENT

City of Torrance
Torrance, California

BOND COUNSEL and DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

FINANCIAL ADVISOR

NHA Advisors
San Rafael, California

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OFFICIAL STATEMENT

$________________[*]
CITY OF TORRANCE
2012-13 TAX AND REVENUE ANTICIPATION NOTES

INTRODUCTION

This Official Statement provides information in connection with the issuance by the City of Torrance (the **"City"**) of its 2012-13 Tax and Revenue Anticipation Notes (the **"Notes"**). Issuance of the Notes will provide funds to meet fiscal year 2012-13 General Fund expenditures, including operating expenses, capital expenditures, and the discharge of other obligations of the City.

The Notes are issued in full conformity with the Constitution and laws of the State of California (the "**State**"), including Article 7.6 (commencing with section 53850) of Chapter 4 of Part 1 of Division 2 of Title 5 of the California Government Code (the "**Law**") and are general obligations of the City payable solely from taxes, income, revenue, cash receipts, and other moneys intended as receipts for the General Fund for fiscal year 2012-13 and which are generally available for the payment of current expenses and other obligations of the City (the "**Unrestricted Moneys**"). The Notes are authorized by a resolution adopted by the City Council on __________, 2012 (the "**Resolution**"). The City may, under the Law, issue the Notes only if the principal of and interest on the Notes will not exceed 85% of the estimated amount of the uncollected Unrestricted Moneys which will be available for the payment of said Notes. Proceeds from the sale of the Notes will be used and expended by the City for any purpose for which it is authorized to expend funds from the General Fund for the fiscal year 2012-13. See "SECURITY FOR AND SOURCES OF PAYMENT OF THE NOTES," "APPENDIX A – Financial, Economic and Demographic Information for the City" and "APPENDIX B – Comprehensive Annual Financial Report of the City for the Year Ending June 30, 2011."

Brief descriptions of the Notes, the security and sources of payment for the Notes, the City and its financial status follow. Such descriptions do not purport to be comprehensive or definitive. All references herein to various documents are qualified in their entirely by reference to the forms thereof, all of which are available for inspection at the office of the Finance Director of the City.

THE NOTES

Description of the Notes

The Notes will be issued in the principal amount and bear interest at the interest rate shown on the cover page of this Official Statement. The Notes shall be delivered in the form of fully registered Notes, without coupons, in denominations of $5,000 or any integral multiple

[*] Preliminary, subject to change.

thereof, and shall be dated the date of delivery to the original purchaser thereof. The Notes will mature on the date set forth on the cover page of this Official Statement.

The Notes, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("**DTC**"). So long as DTC, or Cede & Co. as its nominee, is the registered owner of all Notes, all payments on the Notes will be made directly to DTC, and disbursement of such payments will be the responsibility of DTC, and disbursement of such payments will be the responsibility of the Direct and Indirect Participants, as more fully described in "APPENDIX D – DTC and the Book-Entry Only System."

SECURITY FOR AND SOURCES OF PAYMENT OF THE NOTES

Security for the Notes

The principal amount of the Notes, together with the interest thereon, is payable from "**Unrestricted Moneys,**" which are taxes, income, revenue, cash receipts, and other moneys intended as receipts for the General Fund for Fiscal Year 2012-13 and which are generally available for the payment of current expenses and other obligations of the City. As security for the repayment of principal of and interest on the Notes, the City has pledged to deposit in a special fund within the General Fund designated as the "2012-13 Tax and Revenue Anticipation Note Special Account" (the "**Special Account**") the first Unrestricted Moneys to be received by the City in (a) an amount equal to 50% of the principal amount of the Notes in the month of January, 2013; (b) an amount equal to 50% of the principal amount of the Notes in the month of May, 2013; and (c) an amount sufficient to pay interest as due on the Notes at their maturity, in the month of June, 2013 (collectively, the "**Pledged Revenues**"). The Notes are equally and ratably secured by the City's pledge of the Pledged Revenues.

The principal of the Notes and the interest thereon shall constitute a first lien and charge against and shall be paid from the first moneys received by the City from such Pledged Revenues, and to the extent not so paid shall be paid from any other moneys of the City lawfully available therefor. In the event that there are insufficient Unrestricted Moneys received by the City to permit the deposit into the Special Account of the full amount of the Pledged Revenues to be deposited in any month by the last business day of such month, then the amount of any deficiency shall be satisfied and made up from any other moneys of the City lawfully available for the repayment of the Notes and interest thereon.

All Pledged Revenues, as and when received, shall be deposited by the City in the Special Account for the payment of the principal of and interest on the Notes at maturity. Amounts deposited by the City in the Special Account shall be applied solely for the purpose of paying the principal of and interest on the Notes. All moneys held by the City in the Special Account, if not invested, shall be held in time or demand deposits as public funds and shall be secured at all times by bonds or other obligations which are authorized by law as security for public deposits, of a market value at least equal to the amount required by law. Moneys in the Special Account shall, to the greatest extent possible, be invested by the City directly, or through an investment agreement, in investments as permitted by the laws of the State, and the proceeds of any such investments shall be deposited in the Special Account. See "APPENDIX A – Financial, Economic and Demographic Information for the City" and "APPENDIX B – Comprehensive Annual Financial Report of the City for the Year Ending June 30, 2011."

Available Sources of Repayment

The Notes, in accordance with State law, are general obligations of the City, but are payable only out of Unrestricted Moneys. The City may, under existing law, issue the Notes only if the principal of, and interest on, the Notes will not exceed 85% of the estimated uncollected Unrestricted Moneys which will be available for the repayment of the Notes.

The Note coverage ratio is the ratio of estimated Unrestricted Moneys to the amount of Unrestricted Moneys needed to pay principal of and interest on the Notes. The City expects to receive a projected $___________ in Unrestricted Moneys on a cash basis (including carry-over balances and transfers, and including proceeds of the Notes). The amount needed to repay the Notes and the interest thereon is $___________. Based on an amount of Unrestricted Moneys needed to pay principal of and interest on the Notes, the Note coverage ratio is _____:1.

The table below gives detail as to the sources of Unrestricted Moneys and the Note Coverage Ratio.

City of Torrance
Estimated Unrestricted General Fund Revenues
Fiscal Year 2012-13

Source	Amount
Available Cash Balance July 1, 2012	
Taxes (Including Property Tax, Sales Tax and Other Taxes)	
Other Revenue	
Proceeds of the Notes	
Transfers From Other City Funds	
Total Unrestricted Moneys [1]	
Principal Plus Interest for Note Payment	
Note Coverage Ratio	

[1] Includes proceeds of the Notes.

See also "APPENDIX A – Financial, Economic and Demographic Information for the City" and "APPENDIX B – Comprehensive Annual Financial Report of the City for the Year Ending June 30, 2011."

Cash Flow

The City has prepared the accompanying monthly General Fund cash flow statements covering the 2011-12 fiscal year and the projected 2012-13 fiscal year. The General Fund is used to finance the ordinary operations of the City and is available for any legal authorized purposes. While expenditures generally occur evenly throughout the fiscal year, cash receipts occur unevenly. As a result the General Fund cash balance tends to show a deficit during parts of the fiscal year. The projections are based on the City's budget as well as the City's current financial condition.

City of Torrance
FY 2011-12 Actual/Projected General Fund Cash Flows*

	July	August	September	October	November	December	January	February	March	April	May	June	TOTAL
Beginning Balance	$1,048,510	$4,708,160	$0	$0	$0	$0	$0	$0	$0	$0	$7,840,508	$0	$1,048,510
CASH RECEIPTS													
Taxes	$288,910	$4,046,412	$5,816,912	$5,292,918	$7,526,723	$12,928,820	$26,614,496	$9,626,711	$6,996,878	$20,586,386	$17,547,679	$16,707,155	$133,980,000
Licenses, Fees and Permits	98,852	178,532	139,152	155,565	166,836	90,109	112,788	275,815	140,148	201,000	298,688	263,515	2,121,000
Fines, Forfeitures and Penalties	31,237	92,571	54,166	306,546	73,093	41,084	122,373	34,814	109,069	101,478	182,407	181,162	1,330,000
Use of Money and Property	203,638	282,888	215,245	525,707	245,441	190,222	575,461	283,931	180,990	55,651	58,462	42,364	2,860,000
Intergovernmental	0	0	90,860	12,684	0	50,290	97,779	0	18,480	69,200	74,960	65,747	480,000
Charges for Services	198,911	373,031	247,082	177,935	302,318	176,735	205,752	1,649,918	258,150	493,157	494,444	491,567	5,069,000
Other Revenues	274,938	315,945	274,713	263,175	266,029	293,389	233,797	225,674	273,875	290,404	293,171	287,498	3,292,608
Operating Transfers In	1,264,336	731,365	1,251,692	1,063,424	786,804	1,033,447	552,315	647,002	817,890	1,130,153	1,506,137	1,912,034	12,696,599
TRAN Proceeds	39,010,040	0	0	0	0	0	0	0	0	0	0	0	39,010,040
TOTAL RECEIPTS	$41,370,862	$6,020,744	$8,089,822	$7,797,954	$9,367,244	$14,804,096	$28,514,761	$12,743,865	$8,795,480	$22,927,429	$20,455,948	$19,951,042	$200,839,247
CASH DISBURSEMENTS													
Salaries and Employee Benefits	$35,300,845	$8,300,775	$8,493,908	$8,149,587	$8,294,529	$9,042,310	$8,267,193	$8,243,272	$8,407,845	$9,248,817	$9,262,876	$9,200,251	$130,212,208
Salaries and Benefits Reimbursements	(628,350)	(756,333)	(733,695)	(655,547)	(657,535)	(755,043)	(754,999)	(761,372)	(906,437)	(656,024)	(687,891)	(687,899)	(8,641,125)
Materials, Supplies & Maintenance	751,593	860,998	805,605	734,094	751,403	812,572	868,506	751,483	782,685	925,201	979,612	1,142,381	10,166,133
Materials Reimbursements	(209,928)	(223,222)	(294,582)	(272,095)	(204,721)	(307,246)	(237,921)	(206,143)	(252,520)	(344,482)	(376,479)	(301,158)	(3,230,497)
Reimbursements-Indirect Costs	(356,973)	(399,191)	(388,659)	(386,838)	(393,473)	(441,663)	(415,357)	(381,714)	(383,651)	(395,483)	(389,439)	(412,290)	(4,744,731)
Professional/Contract Services & Utilities	319,069	500,674	440,883	439,628	534,478	341,864	1,170,460	838,485	564,094	1,224,224	1,244,623	1,261,998	8,880,480
Training, Travel & Membership Dues	117,215	29,470	32,702	44,800	57,362	49,854	46,847	38,531	44,746	78,604	66,741	81,261	688,133
Liabilities, Settlements & Insurance	81,851	79,169	96,848	96,040	236,556	89,474	135,696	93,859	98,454	142,321	146,098	133,783	1,430,149
Interdepartmental Charges	326,589	326,589	326,589	326,589	326,589	326,589	326,589	235,288	320,058	396,888	422,589	456,444	4,117,390
Debt Service	0	752,557	0	0	0	1,318,133	0	464,409	0	0	0	1,592,005	4,127,104
Capital Acquisitions	77	3,966	14,350	4,643	6,758	6,527	17,242	20,774	7,593	1,955	2,634	21,647	108,166
Other Expenditures	10,028	6,360	12,258	24,387	21,927	6,065	15,098	10,784	7,447	2,318	1,440	313	118,425
Other Operating Transfers Out	1,999,196	1,406,320	1,405,896	1,547,122	492,369	2,346,471	1,590,540	1,381,182	1,371,790	1,029,078	1,243,307	1,302,782	17,116,053
TRANS Principal Repayment	0	0	0	0	0	0	19,000,000	0	0	0	19,000,000	0	38,000,000
TRANS Interest Repayment	0	0	0	0	0	0	0	0	0	0	0	1,136,833	1,136,833
TOTAL DISBURSEMENTS	$37,711,212	$10,888,132	$10,212,103	$10,052,410	$9,466,242	$12,835,907	$30,029,894	$10,728,838	$10,062,104	$11,653,417	$30,916,111	$14,928,351	$199,484,721
Interfund Borrowings	$0	$159,228	$2,122,281	$2,254,456	$98,998	($1,968,189)	$1,515,133	($2,015,027)	$1,266,624	($3,433,504)	$2,619,655	($2,619,655)	$0
Net Cash Flow	$3,659,650	($4,708,160)	$0	$0	$0	$0	$0	$0	$0	$7,840,508	($7,840,508)	$2,403,036	$1,354,526
Ending Balance	$4,708,160	$0	$0	$0	$0	$0	$0	$0	$0	$7,840,508	$0	$2,403,036	$2,403,036

* Actual through April, 2011
Source: City of Torrance

City of Torrance
FY 2012-13 Projected General Fund Cash Flows
(Including FY 2012-13 TRAN)

	July	August	September	October	November	December	January	February	March	April	May	June	TOTAL
Beginning Balance	$2,403,036	$10,702,700	$5,664,621	$3,483,888	$1,361,508	$1,237,332	$2,846,431	$0	$805,373	$0	$10,734,948	$0	$2,403,036
CASH RECEIPTS													
Taxes	$291,155	$4,077,852	$5,862,108	$5,334,043	$7,585,204	$13,029,275	$26,821,286	$9,701,509	$7,051,242	$20,746,338	$17,684,021	$16,836,967	$135,021,000
Licenses, Fees and Permits	95,543	172,556	134,494	150,357	161,251	87,093	109,012	266,582	135,457	194,272	288,689	254,694	2,050,000
Fines, Forfeitures and Penalties	31,237	92,571	54,166	306,546	73,093	41,084	122,373	34,814	109,069	101,478	182,407	181,162	1,330,000
Use of Money and Property	367,403	510,385	388,344	948,478	442,824	343,198	1,038,244	512,267	326,541	100,405	105,477	76,433	5,160,000
Intergovernmental	0	0	185,506	25,897	0	102,675	199,632	0	37,730	141,283	153,043	134,233	980,000
Charges for Services	198,911	373,031	247,082	177,935	302,318	176,735	205,752	1,649,918	258,150	493,157	494,444	491,567	5,069,000
Other Revenues	313,131	359,834	312,875	299,734	302,984	334,145	266,275	257,023	311,920	330,745	333,897	327,436	3,750,000
Operating Transfers In	1,138,434	658,536	1,127,049	957,529	708,455	930,537	497,316	582,574	736,445	1,017,613	1,356,157	1,721,635	11,432,279
TRAN Proceeds	44,979,480	0	0	0	0	0	0	0	0	0	0	0	44,979,480
TOTAL RECEIPTS	$47,415,294	$6,244,765	$8,311,624	$8,200,519	$9,576,129	$15,044,741	$29,259,890	$13,004,687	$8,966,555	$23,125,292	$20,598,135	$20,024,126	$209,771,759
CASH DISBURSEMENTS													
Salaries and Employee Benefits	$36,700,876	$8,629,984	$8,830,776	$8,472,799	$8,623,490	$9,400,928	$8,595,070	$8,570,200	$8,741,300	$9,615,625	$9,630,241	$9,565,133	$135,376,421
Salaries and Benefits Reimbursements	(802,969)	(966,518)	(937,589)	(837,724)	(840,264)	(964,870)	(964,813)	(972,957)	(1,158,336)	(838,333)	(879,056)	(879,066)	(11,042,495)
Materials, Supplies & Maintenance	869,910	996,538	932,425	849,656	869,690	940,489	1,005,228	869,783	905,897	1,070,848	1,133,824	1,322,217	11,766,504
Materials Reimbursements	(212,414)	(225,865)	(298,070)	(275,317)	(207,145)	(310,884)	(240,738)	(208,584)	(255,510)	(348,561)	(380,937)	(304,724)	(3,268,750)
Reimbursements-Indirect Costs	(393,398)	(439,924)	(428,317)	(426,310)	(433,622)	(486,730)	(457,739)	(420,663)	(422,798)	(435,837)	(429,177)	(454,359)	(5,228,875)
Professional/Contract Services & Utilities	287,939	451,825	397,868	396,735	482,331	308,510	1,056,262	756,677	509,057	1,104,781	1,123,190	1,138,869	8,014,043
Training, Travel & Membership Dues	140,062	35,214	39,076	53,532	68,543	59,571	55,978	46,041	53,468	93,925	79,750	97,100	822,258
Liabilities, Settlements & Insurance	92,596	89,562	109,561	108,647	267,609	101,219	153,509	106,180	111,378	161,004	165,276	151,345	1,617,886
Interdepartmental Charges	310,845	310,845	310,845	310,845	310,845	310,845	310,845	223,945	304,629	377,755	402,217	434,440	3,918,900
Debt Service	0	898,433	0	0	0	1,573,641	0	554,430	0	0	0	1,900,600	4,927,104
Capital Acquisitions	208	10,705	38,733	12,532	18,241	17,618	46,539	56,073	20,495	5,277	7,110	58,429	291,960
Other Expenditures	9,267	5,877	11,328	22,537	20,263	5,605	13,953	9,966	6,882	2,142	1,331	289	109,440
Other Operating Transfers Out	2,112,708	1,486,169	1,485,721	1,634,966	520,325	2,479,701	1,680,849	1,459,604	1,449,679	1,087,508	1,313,901	1,376,752	18,087,883
TRANS Principal Repayment	0	0	0	0	0	0	22,000,000	0	0	0	22,000,000	0	44,000,000
TRANS Interest Repayment	0	0	0	0	0	0	0	0	0	0	0	1,316,333	1,316,333
TOTAL DISBURSEMENTS	$39,115,629	$11,282,845	$10,492,357	$10,322,899	$9,700,305	$13,435,642	$33,254,942	$11,050,694	$10,266,140	$11,896,132	$34,167,670	$15,723,358	$210,708,612
Interfund Borrowings	$0	$0	$0	$0	$0	$0	$1,148,620	($1,148,620)	$494,212	($494,212)	$2,834,586	($2,834,586)	$0
Net Cash Flow	$8,299,664	($5,038,079)	($2,180,733)	($2,122,380)	($124,176)	$1,609,099	($2,846,431)	$805,373	($805,373)	$10,734,948	($10,734,948)	$1,466,183	($936,853)
Ending Balance	$10,702,700	$5,664,621	$3,483,888	$1,361,508	$1,237,332	$2,846,431	$0	$805,373	$0	$10,734,948	$0	$1,466,183	$1,466,183

Source: City of Torrance

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS

Limitations on Revenues

Article XIIIA of the California Constitution. Article XIIIA of the State Constitution, adopted and known as Proposition 13, was approved by the voters in June 1978. Section 1(a) of Article XIIIA limits the maximum ad valorem tax on real property to one percent of "full cash value," and provides that such tax shall be collected by the counties and apportioned according to State law. Section 1(b) of Article XIIIA provides that the one-percent limitation does not apply to ad valorem taxes levied to pay interest and redemption charges on (i) indebtedness approved by the voters prior to July 1, 1978, or (ii) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast on the proposition, or (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. The tax for payment of the City's general obligation bonds falls within the exception for bonds approved by a two-thirds vote.

Section 2 of Article XIIIA defines "full cash value" to mean the county assessor's valuation of real property as shown on the Fiscal Year 1975-76 tax bill, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed two percent per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIIIA provides that, notwithstanding any other law, local agencies may not levy any ad valorem property tax except the 1% base tax levied by each County and taxes to pay debt service on indebtedness approved by the voters as described above.

Since its adoption, Article XIIIA has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the City.

Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIIIA.

Article XIIIC and Article XIIID of the California Constitution. On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 adds Articles XIIIC and XIIID to the California Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

On November 2, 2010, California voters approved Proposition 26, entitled the "Supermajority Vote to Pass New Taxes and Fees Act." Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as "fees." Proposition 26 amended Articles XIIIA and XIIIC of the State Constitution. The amendments to Article XIIIA limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. The amendments to Article XIIIC define "taxes" that are subject to voter approval as "any levy, charge, or exaction of any kind imposed by a local government," with certain exceptions.

Taxes. Article XIIIC requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City ("**general taxes**") require a majority vote; taxes for specific purposes ("**special taxes**"), even if deposited in the City's General Fund, require a two-thirds vote. The voter approval requirements of Proposition 218 reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet increased expenditure needs.

Property-Related Fees, Charges and Assessments. Article XIIID also adds several provisions making it generally more difficult for local agencies to levy and maintain property-related fees, charges, and assessments for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments must confer a "special benefit," as defined in Article XIIID, over and above any general benefits conferred, (iii) a majority protest procedure for assessments which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected party, and (iv) a prohibition against fees and charges which are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners.

Reduction or Repeal of Taxes, Fees and Charges. Article XIIIC also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City's General Fund. If such repeal or reduction occurs, the City's ability to pay debt service on the Bonds could be adversely affected.

Burden of Proof. Article XIIIC provides that local government "bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity." Similarly, Article XIIID provides that in "any legal action contesting the validity of a fee or charge, the burden shall be on the agency to demonstrate compliance" with Article XIIID.

Impact on City's General Fund. The approval requirements of Articles XIIIC and XIIID reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase the taxes, fees, charges or taxes in the future that it may need to meet increased expenditure needs.

The City does not believe that any material source of General Fund revenue is subject to challenge under Articles XIIIC or XIIID.

Judicial Interpretation. The interpretation and application of Articles XIIIC and XIIID will ultimately be determined by the courts with respect to a number of the matters discussed below, and it is not possible at this time to predict with certainty the outcome of such determination.

Expenditures and Appropriations

Article XIIIB of the California Constitution. In addition to the limits Article XIIIA imposes on property taxes that may be collected by local governments, certain other revenues of the State and local governments are subject to an annual "appropriations limit" or "Gann Limit" imposed by Article XIIIB of the State Constitution, which effectively limits the amount of such revenues that government entities are permitted to spend. Article XIIIB, approved by the voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to "proceeds of taxes," which consist of tax revenues, state subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by such entity in providing the regulation, product or service." "Proceeds of taxes" exclude tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not "proceeds of taxes," such as reasonable user charges or fees, and certain other non-tax funds.

Article XIIIB also does not limit appropriation of local revenues to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990, levels. The appropriations limit may also be exceeded in cases of emergency; however, the appropriations limit for the three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services. Each school district is required to establish an appropriations limit each year. In the event that a school district's revenues exceed its spending limit, the district may increase its appropriations limit to equal its spending by taking appropriations limit from the State.

Proposition 111 requires that each agency's actual appropriations be tested against its limit every two years. If the aggregate "proceeds of taxes" for the preceding two-year period exceed the aggregate limit, the excess must be returned to the agency's taxpayers through tax rate or fee reductions over the following two years. If the State's aggregate "proceeds of taxes" for the preceding two-year period exceed the aggregate limit, 50% of the excess is transferred to fund the State's contribution to school and college districts.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC, Article XIIID and Propositions 62 and 111 were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, further affecting City revenues or the City's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the City.

RISK FACTORS

Bankruptcy Considerations

In 1994, Orange County, California issued its 1994-1995 Tax and Revenue Anticipation Notes (the **"Orange County Notes"**) under the same statutory authority as the Notes. On December 6, 1994, Orange County filed a petition in bankruptcy. Subsequently, Orange County declined to set aside the taxes and revenues it had pledged for the repayment of the Orange County Notes and a noteholder brought suit to compel Orange County to do so. A March 8, 1995 ruling of the United States Bankruptcy Court for the Central District of California, held that the lien securing the Orange County Notes did not attach to revenues received by Orange County after the filing of its bankruptcy petition on December 6, 1994, and therefore, Orange County was not required to set aside the revenues pledged under the note resolution following the bankruptcy. The Bankruptcy Court ruled that under the United States Bankruptcy Code, the lien did not attach to revenues received by Orange County after December 6, 1994 because the lien was a consensual security interest rather than a statutory lien. In July 1995, the United Stated District Court for the Central District of California reversed the decision of the Bankruptcy Court. Orange County appealed the decision of the City Court to the United States Court of Appeals for the Ninth Circuit. Before the Ninth Circuit rendered a decision the parties settled their disputes. Accordingly, if the City were to file for bankruptcy, it is not clear whether it would be required to set aside revenues pledged under the Resolution as described above.

In addition, the Pledged Revenues and other moneys that will be set aside to pay the Notes will be held in the City's General Fund, and these funds will be invested in the pooled investment fund. Should the City go into bankruptcy, a court might hold that the owners of the Notes do not have a valid lien on the Pledged Revenues. In that case, unless the owners could "trace" the funds, the owners would merely be unsecured creditors of the City. There can be no assurance that the owners of the Notes could successfully so "trace" the Pledged Revenues.

Limitations on Remedies

The rights of the owners of the Notes are subject to the limitations on legal remedies against school districts in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Additionally, enforceability of the rights and remedies of the owners of the Notes and the obligations incurred by the City, may become subject to the following: the Federal Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; and the reasonable and necessary exercise in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose.

Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Notes to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

LEGAL OPINION

The statements of law and legal conclusions set forth in this Official Statement under the heading "TAX MATTERS" have been reviewed by Bond Counsel. Bond Counsel's employment is limited to a review of the legal proceedings required for the authorization of the Notes and to rendering the opinion discussed below. Such opinion will not consider or extend to any documents, agreements, representations, offering circulars or other material of any kind concerning the Notes not mentioned in this paragraph. Bond Counsel takes no responsibility for the accuracy, completeness or fairness of this Official Statement. Bond Counsel's compensation is contingent upon the delivery of the Notes. Certain legal matters will be passed upon for the City by the City Attorney.

TAX MATTERS

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however, to the qualifications set forth below, under existing law, the interest on the Notes is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 (the "**Code**") that must be satisfied subsequent to the issuance of the Notes in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Notes.

If the initial offering price to the public (excluding bond houses and brokers) at which each Note is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. Under the Code, original issue premium is amortized on an annual basis over the term of the Note (said term being the shorter of the Note's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Note for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Note is amortized each year over the term to maturity of the Note on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). Amortized Note premium is not deductible for federal income tax purposes. Owners of Premium Notes, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Notes.

The difference between the initial offering prices to the public (excluding bond houses and brokers) at which the Notes are sold and the amount payable at maturity thereof constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. Purchasers should be aware that the Internal Revenue Service has issued Notice 94-84 which may have federal income tax consequences with respect to the Notes. This Notice provides generally that, in the case of short-term tax-exempt obligations (such as the Notes), the Service is studying whether interest payable at maturity on the obligations should, or should not, be included in stated redemption price at maturity, for purposes of the rule that original issue discount represents the excess of stated redemption price at maturity over issue price.

Notice 94-84 states that until the Internal Revenue Service provides further guidance, taxpayers may treat stated interest on certain short-term obligations, such as the Notes, either as includible in stated redemption price at maturity or as not included in stated redemption price at maturity. A taxpayer, however, must treat stated interest payable at maturity on all short-term tax-exempt bonds in a consistent manner. A short-term tax-exempt bond is defined as a tax-exempt bond with a term that is not more than one year from the date of issue.

Purchasers of the Notes are cautioned that the opinion of Bond Counsel does not identify the amount of interest that is excluded from gross income for federal income tax purposes.

Purchasers of the Notes should consult their tax advisors regarding the application of Notice 94-84 to individual tax circumstances.

Owners of the Notes should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Notes may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Notes other than as expressly described above.

In the further opinion of Bond Counsel, interest on the Notes is exempt from California personal income taxes.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX C.

LEGAL MATTERS

Bond Counsel's employment is limited to reviewing the legal proceedings required for the authorization of the Notes and to rendering the opinion set forth in Appendix C hereof. Jones Hall is also acting as Disclosure Counsel to the City. Jones Hall will receive compensation from the City contingent upon the sale and delivery of the Notes.

RATING

The City has obtained a rating of "______" on the Notes from ____________________. Certain information was supplied by the City to the rating agency to be considered in evaluating the Notes. The rating issued reflects only the views of the rating agency, and any explanation of the significance of such rating should be obtained from the rating agency. There is no assurance that any rating will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by the rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of the rating obtained may have an adverse effect on the market price of the Notes.

LITIGATION

No litigation is pending or threatened concerning the validity of the Notes. In the opinion of the City, there are no lawsuits or claims pending against the City that would impair the ability of the City to repay the Notes.

UNDERWRITING

The Notes are being purchased by ______________ (the **"Underwriter"**). The Underwriter has agreed to purchase the Notes at a price of $______________ (which is the aggregate principal amount of the Notes, *plus* a net original issue premium of $______________ *less* an Underwriter's discount of $________).

The Underwriter may offer and sell the Notes to certain dealers and others at a price lower than the offering price stated on the cover page hereof. The offering price may be changed from time to time by the Underwriter.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the holders of the Notes to provide notices of the occurrence of certain enumerated events. The notices of enumerated events will be filed by the City with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the notices of enumerated events is summarized under the caption "APPENDIX E – Form of Continuing Disclosure Certificate." These covenants have been made in order to assist the purchaser of the Notes in complying with S.E.C. Rule 15c2-12(b)(5) (the **"Rule"**).

The City has not failed to comply with an undertaking under the Rule in any material respect during the past five years.

ADDITIONAL INFORMATION

The purpose of this Official Statement is to supply information to prospective buyers of the Notes. Quotations from and summaries and explanations of the Notes, the resolutions, statutes and documents contained herein do not purport to be complete, and reference is made to said documents and statutes for full and complete statements of their provisions.

Any statement in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or owners of any of the Notes.

The delivery of this Official Statement has been duly authorized by the City.

By: ___________________________________
City Manager

APPENDIX A

FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE CITY

General

The City of Torrance (the "**City**") is situated on the western side of Los Angeles County (the "**County**"), bordered by the Palos Verdes Peninsula on the south, the Cities of Redondo Beach and Gardena on the north, the City of Carson on the east and the Pacific Ocean on the west. The City encompasses an area of approximately 21 square miles. The City provides a range of services which include police and fire protection, library services, sanitation and water services, airport and bus transit services, the construction and maintenance of streets and infrastructure and recreational activities and cultural events.

U.S. Interstate 110 (the Harbor Freeway) passes east of the City on a north-south course and provides direct connection with downtown Los Angeles, approximately 14 miles to the north and San Pedro, approximately seven miles to the south. U.S. Interstate 405 (the San Diego Freeway) traverses the north side of the City, heading north to the San Fernando Valley and south through Orange County and San Diego. About seven miles northwest of the City is Los Angeles International Airport.

The climate is generally mild with an average temperature of about 62 degrees (F). Extremes range from an average minimum temperature of 56 degrees (F) to an average high of 68 degrees (F). Annual rainfall has averaged about 14 inches.

Population

Population figures for the City, the County and the State for the last five years are shown in the following table.

Table No. 1
CITY OF TORRANCE
Population Estimates

Year	City of Torrance	County of Los Angeles	State of California
2008	144,326	9,785,474	36,704,375
2009	144,702	9,801,096	36,966,713
2010	145,392	9,822,121	37,223,900
2011	145,770	9,847,712	37,427,946
2012	146,115	9,884,632	37,678,563

Source: State Department of Finance estimates (as of January 1)

Municipal Government

The City was incorporated in 1921 and became a charter city in 1947. The City operates under the Council-Manager form of government. The seven City Council members, including the Mayor, are elected-at-large to four year terms in alternate slates of three every two years, with the Mayor being elected every four years. The members of the City Council are subject to term limits of two four-year terms.

The City Council appoints the City Manager who heads the executive branch of the government, implements City Council directives and policies, and manages the administrative and operational functions through the department directors. The City Manager appoints the department directors with the exception of the City Clerk and City Treasurer, who are elected officials, and the City Attorney and the Finance Director, who are appointed by the City Council.

CITY FINANCES

The following selected financial information provides a brief overview of the City's finances. This financial information has been extracted from the City's audited financial statements and, in some cases, from unaudited information provided by the City's Finance Department. The most recent audited financial statements of the City with an unqualified auditor's opinion is included as Appendix B hereto. See "APPENDIX B – Comprehensive Annual Financial Report for the City for the Year Ending June 30, 2011."

Accounting Policies and Financial Reporting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which the spending activities are controlled. The basis of accounting for all funds is more fully explained in the "Notes to Financial Statements" contained in Appendix B.

The City Council employs, at the beginning of each fiscal year, an independent certified public accountant who, at such time or times as specified by the City Council, at least annually, and at such other times as he or she shall determine, examines the combined financial statements of the City in accordance with generally accepted auditing standards, including such tests of the accounting records and such other auditing procedures as such accountant considers necessary. As soon as practicable after the end of the fiscal year, a final audit and report is submitted by such accountant to the City Council and a copy of the financial statements as of the close of the fiscal year is published. The City's Independent Auditor's Report for fiscal year 2010-11 was prepared by Mayer Hoffman McCann PC, Irvine, California.

The Governmental Accounting Standards Board ("**GASB**") published its Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" on June 30, 1999. Statement No. 34 provides guidelines to auditors, state and local governments and special purpose governments such as school districts and public utilities, on new requirements for financial reporting for all governmental agencies in the United States. Generally, the basic financial statements and required supplementary information should include (i) Management's Discussion and Analysis; (ii) financial statements prepared using the economic measurement focus and the accrual basis of accounting and fund financial statements prepared using the current financial resources measurement focus and the modified accrual method of accounting and (iii) required supplementary information.

The City was required to implement Statement No. 34 for the fiscal year 2001-02 audited financial statement. See "APPENDIX B – Comprehensive Annual Financial Report of the City for the Year Ending June 30, 2011 – Note (1)" for a description of the significant accounting policies of the City.

General Fund Financial Summary

The audited information contained in the following tables of revenues, expenditures and changes in fund balances, and assets, liabilities and fund equity has been derived from the City's audited financial statements for fiscal years 2008-09 through 2010-11.

Set forth below are excerpts from the City's general fund financial statements for fiscal years 2008-09 through 2010-11, the three most recent fiscal years for which audited financial statements are available.

Table No. 2
CITY OF TORRANCE
General Fund - Audited Revenues, Expenditures and Fund Balances
For Fiscal Years 2008-09 through 2010-11

	Audited Fiscal Year 2008-09	Audited Fiscal Year 2009-10	Audited Fiscal Year 2010-11
Revenues:			
Taxes	$132,711,199	$124,017,956	$130,522,827
Licenses, fees and permits	1,426,031	1,617,719	1,639,218
Fines, forfeitures and penalties	1,215,049	1,039,810	1,084,493
Use of money and property	8,137,533	5,008,322	5,853,273
Intergovernmental	868,407	827,100	1,020,138
Charges for current services	6,090,239	6,920,643	7,174,101
Other revenues	1,223,084	2,030,642	1,595,982
Total Revenues	151,671,542	141,462,192	148,890,032
Expenditures:			
Current operating:			
General government	22,866,006	22,766,134	22,361,415
Nondepartmental	5,258,458	5,439,841	8,121,363
Public safety	89,435,216	90,401,814	90,971,257
Public works	10,686,994	10,904,209	10,570,914
Cultural and recreation	13,896,096	13,791,311	13,965,663
Capital outlays	--	--	96,457
Total Expenditures	142,142,770	143,303,309	146,087,069
Excess (deficiency) of revenues over expenditures	9,528,772	(1,841,117)	2,802,963
Other financing sources (uses):			
Operating transfers in	9,899,852	10,366,367	11,451,187
Operating transfers out	(22,859,594)	(16,061,163)	(17,540,135)
Premium Tax Revenue Anticipation Notes	312,000	--	--
Total other financing sources (uses)	(12,647,742)	(5,694,796)	(6,088,948)
Excess (deficiency) of revenues and other financing sources over expenditures	(3,118,970)[(1)]	(7,535,913)	(3,285,985)
Fund balance, July 1	$61,867,330	$58,748,360	51,212,447
Fund balance, June 30	$58,748,360	$51,212,447	$47,926,462

Source: City of Torrance; Comprehensive Annual Financial Report (2008-09 through 2010-11).

Table No. 3
CITY OF TORRANCE
General Fund Balance Sheet
As of June 30 for Fiscal Years 2008-09 through 2010-11

	Audited Fiscal Year 2008-09	Audited Fiscal Year 2009-10	Audited Fiscal Year 2010-11
Assets:			
Pooled cash and investments	$63,662,006	$51,659,788	$58,260,422
Accounts receivable	4,726,853	5,243,434	6,740,258
Accrued interest receivable	1,339,175	874,907	431,279
Due from other funds	401,902	2,573,122	2,245,797
Due from other governments	3,066,926	3,076,965	6,120,539
Advances to other funds	14,858,555	15,858,555	15,516,788
Prepaids and other assets	290,745	291,197	337,552
TOTAL ASSETS	$88,346,162	$79,577,968	$89,652,635
Liabilities and Fund Balance:			
Liabilities:			
Accounts payable	$ 1,955,685	$ 2,353,551	$2,143,239
Accrued liabilities	1,968,655	2,340,384	2,153,018
Due to other funds	137	--	
Interfund advances payable	600,000	600,000	600,000
Notes Payable	25,000,000	23,000,000	33,000,000
Unearned revenue	49,100	52,846	
Deposits and guarantees	24,225	18,740	19,077
TOTAL LIABILITIES	29,597,802	28,365,521	37,915,334
Fund Balance:			
Nonspendable:			
Advances	14,858,555	15,858,555	15,516,788
Encumbrances	2,582,014	1,639,447	
Prepaids	290,745	291,197	337,552
Restricted for:			
Culture and recreation	--	--	772,425
Assigned to:			
Culture and recreation	--	--	2,851,538
Public safety	--	--	691,319
Special project reserves	--	--	9,602,211
Capital projects	--	--	7,809,103
Unreserved, reported in:			
General Fund:			
Designated for capital outlay	8,421,819	7,365,364	
Undesignated	32,595,227	26,057,884	14,156,365
Total fund balance	$58,748,360	51,212,447	51,737,301
Total liabilities and fund balance	$88,346,162	$79,577,968	$89,652,635

Source: City of Torrance; Comprehensive Annual Financial Reports (2008-09 through 2010-11).

Budgetary Process

General. The City is required by its charter to adopt an annual budget for the General Fund only; however, the City develops and maintains a program budget by major goals and programs for all City functions in order to provide for effective management and budgetary control of City assets. From the effective date of the General Fund budget, the amounts stated therein as proposed expenditures become appropriations to the various City departments. The

City Council may amend the budget by motion during the fiscal year. The City Manager may make such changes within the budget totals and allocations of any department during the fiscal year as he deems reasonably necessary in order to meet the City's needs and goals, provided, however, that the City Manager may not increase the number of employee positions allocated in the budget for any department without an amendment to the budget approved by the City Council. Expenditures may not legally exceed budgeted appropriations at the program level; however, budget amounts may be transferred within departments.

Fiscal Year 2009-10 Budget. The City's two-year budget for the 2009-10 and 2010-11 fiscal years was adopted on June 23, 2009. The two-year budget eliminated a $5.7 million general fund projected deficit in fiscal year 2009-10 and addressed an additional $8 - $10 million deficit through the end of the five year forecast (fiscal year 2013-14). The recession was the most significant cause of lower tax revenues and large investment losses of pension assets.

The shortfall in revenues (2008-09 fiscal year) was primarily due to reduced consumer and business spending, reduced sales tax and utility users' tax receipts. The City resolved the projected deficit by reducing expenditures (including internal adjustments) in an amount equal to approximately 85% of the deficit and by recovering more costs from user fees in an amount equal to approximately 15% of the deficit.

For fiscal year 2009-10, revenues were projected to be below budget by approximately 4.6% at fiscal year-end 2009-10, again primarily driven by continued reduced consumer and business spending, reduced sales tax and utility users' taxes. The budget was rebalanced by only filling vacant positions on a case by case basis as well as monitoring all departmental expenditures, which generated approximately $6-7 million in one-time savings to the General Fund.

Fiscal Year 2010-11 Budget. The City Council adopted in June 2010, the second year (fiscal year 2010-11) of the 2009-11 Two Year Operating Budget. The key highlights of the 2010-11 fiscal year budget include:

- The City wrestled with a projected budget deficit of $8.9 million to balance the fiscal year 2010-11 budget. This deficit was primarily driven by the economic recession. The structural deficit was resolved through position deletions, foregone salary increases, and operational changes.

- As fiscal year 2009-10 ended and all year-end accounts were closed, revenues receipts were below budget by an additional $5.6 million. The revenue shortfall created a structural deficit for the balanced fiscal year 2010-11. Although the core revenues of the City's General Fund were within 2% of budget projections, the forecast for the non-core revenue categories were too optimistic. Core revenues are property, sales, utility users' taxes, which account for approximately 70% of the General Fund. Historically, the non-core revenues (business license tax, occupancy tax, investment earnings and miscellaneous revenues) generally offset each other at year-end, with some revenues exceeding budget and others coming in below budget. In fiscal year 2009-10, however, substantially all revenues were below budget.

- In October 2010, the City took steps to modify the adopted budget to offset this reduction and to rebalance the operating budget through internal adjustments to operating transfers, reducing overall expenditures including holding non-critical positions vacant, and further position reductions.

Fiscal Years 2011-13 Budget. The City Council adopted in June 2011, the first year (2011-12 fiscal year) of the 2011-13 Two Year Operating budget. The key highlights of the 2011-13 budget are:

- The budget as adopted is balanced for the 2011-12 and 2012-13 fiscal years and forecasts a balance budget throughout the five-year forecast period.

- The five-year projection reflects revenues growing at an average rate of 2.8% (1.7% in 2011-12; 2.3% in 2012-13; and approximately 3.3% for the remaining years of the forecast).

- The second year of the 2011-13 budget:
  - Continues funding for the police officer position funded by grant funds which expire during the 2011-12 fiscal year;

  - Restores Self-Insurance funding to the 2009-10 level of $1.4 million;

  - Restores the $1 million in funding on an actuarial basis for "post employment health benefits" from the current "pay as you go" basis;

  - Reduces the reliance on short-term borrowing to save money by making pension payments early.

State Budget and its Impact on the City

Set forth in the following paragraphs are descriptions of the State budget process, the current State budget situation, and the potential impacts on the City.

The Budget Process. Through the State budget process, the State can enact legislation that significantly impacts the source, amount and timing of the receipt of revenues by local agencies, including the City. As in recent years, State budget deficits can result in legislation that adversely impacts local agency budgets.

The State's fiscal year begins on July 1 and ends on June 30. The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "**Governor's Budget**"). Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the Legislature takes up the proposal.

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. Prior to the November 2, 2010 California General Election, the Budget Act required approval by a two-thirds majority vote of each House of the Legislature. On the November 2, 2010, California voters passed Proposition 25, which amended this legislative vote requirement to a simple majority. The Budget Act must be approved by a two-thirds majority vote of each House of the Legislature. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (except for K-14 education) must be approved by a two-thirds majority vote in each House of the Legislature and be signed by the Governor. Bills containing K-14 education appropriations only require a simple majority vote. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

Recent State Budgets. Certain information about the State budgeting process and the State Budget is available through several State of California sources. A convenient source of information is the State's website, where recent Reoffering Circulars for State bonds are posted. The references to internet websites shown below are shown for reference and convenience only; the information contained within the websites has not been reviewed by the City and is not incorporated herein by reference.

- The California State Treasurer Internet home page at www.treasurer.ca.gov, under the heading "Bond Information," posts various State of California Reoffering Circulars, many of which contain a summary of the current State Budget, past State Budgets, and the impact of those budgets on local governments in the State.

- The California State Treasurer's Office Internet home page at www.treasurer.ca.gov, under the heading "Financial Information," posts the State's audited financial statements. In addition, the Financial Information section includes the State's Rule 15c2-12 filings for State bond issues. The Financial Information section also includes the "Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation" from the State's most current Reoffering Circular, which discusses the State budget and its impact on local agencies in the State.

- The California Department of Finance's Internet home page at www.dof.ca.gov, under the heading "California Budget," includes the text of proposed and adopted State Budgets.

- The State Legislative Analyst's Office ("LAO") prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at www.lao.ca.gov under the heading "Products."

The State has not entered into any contractual commitment with the City or the owners of the Notes to provide State budget information to the City or the owners of the Notes. Although the City believes the State sources of information listed above are reliable, the City assumes not responsibility for the accuracy of the State budget information set forth or referred to herein.

Tax Shifts and Triple Flip. Assembly Bill No. 1755 ("**AB 1755**"), introduced March 10, 2003 and substantially amended June 23, 2003, requires the shifting of property taxes between redevelopment agencies and schools. On July 29, 2003, the Assembly amended Senate Bill No. 1045 to incorporate all of the provisions of AB 1755, except that the Assembly reduced the amount of the required the shift away from the Education Revenue Augmentation Fund ("ERAF") to $135 million. Legislation commonly referred to as the "Triple Flip," was approved by the voters on March 2, 2004, as part of a bond initiative formally known as the "California Economic Recovery Act." This act authorized the issuance of $15 billion in bonds to finance the 2002-03 and 2003-04 State budget deficits, which are payable from a fund established by the redirection of tax revenues through the "Triple Flip." Under the "Triple Flip," one-quarter of local governments' 1% share of the sales tax imposed on taxable transactions within their jurisdiction are redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local governments, the legislation then redirects property taxes in the ERAF to local governments. Because the ERAF monies were previously earmarked for schools, the legislation provides for schools to receive other State general fund revenues. The swap of sales taxes for property taxes will terminate once the deficit financing bonds are repaid, which is currently expected to occur by 2016.

State Economic Challenges, Prior Year State Budgets and Related Events. The City's budget has, generally, been revised after the delivery of delayed State Budgets to reflect necessary changes in budgeted revenues and expenditures. Delays in the delivery of State budgets cause an element of uncertainty for the City and its Finance Department. Delayed payments from the State to the City, which are more common during periods in which the State faces economic challenges, also subject the City to additional risk, possibly causing the City to increase the size or frequency of its cash flow borrowings, or to borrow earlier in the Fiscal Year, with concurrent, market-contingent, borrowing costs for the City.

Since the beginning of 2010, the nation and the State have been gradually recovering from the worst recession since the Great Depression. National economic output has grown slowly as has personal income in both the State and the nation, and job growth has resumed. However, because of the magnitude of the economic displacement resulting from the recession, the State continues to face significant financial challenges, and related budgetary stresses. Exacerbating the State's challenges, as the State entered the recession, annual revenues generally were less than annual expenses, resulting in a "structural" budget deficit. This structural deficit was due in part to overreliance on temporary budgetary remedies in prior State Budget years, including one-time revenues, internal borrowing, payment deferrals, accounting shifts and expenditure reduction proposals that did not materialize.

Moreover, in recent years, the State's then-seated Governors and State Legislatures have repeatedly failed to deliver a timely State budget. The Governor signed the 2010-11 Budget on October 8, 2010, the latest budget in the State's history. Prior to signing this 2010 State Budget, and as a consequence of the State's ongoing budget deficit and financial challenges, Governor Arnold Schwarzenegger undertook several extraordinary and controversial fiscal measures. On July 1, 2010, Governor Schwarzenegger reduced over 200,000 employees' pay to the federal minimum wage until the then-ongoing budget impasse ended. The State Controller refused to pay employees at this minimum wage level, and, on July 16, 2010, a Sacramento County Superior Court judge denied the Governor's administration's request for a temporary restraining order that would have forced the State Controller to begin such payment.

Thereafter, on July 28, 2010, Governor Schwarzenegger declared a financial state of emergency and ordered 150,000 State workers to take three furlough days per month. On August 23, 2010, in an effort to conserve cash and delay the need to issue State promissory notes for payment of the State's accounts, State officials elected to delay payments of $2.5 billion per month to the State's public school districts, for the months of September through December 2010. This occurred after a prior $2.5 billion deferral in July 2010.

On August 18, 2010, the California Supreme Court issued a stay of a temporary restraining order of the Alameda County Superior Court issued, which would have prohibited the Governor from imposing the three furlough days on State workers. As a result of the stay, furloughs of State workers were to continue until arguments in a larger case regarding their legality could be heard. On August 25, 2010, the Sacramento County Superior Court scheduled a hearing for November 2010 to consider the merits of the State Controller's refusal to lower pay. Despite all of these extraordinary actions and events, the 2010 legislative session ended on August 31, 2010 with all then-proposed budget plans failing to be approved by the Legislature, on party-line votes.

On October 4, 2010, the California Supreme Court upheld the Governor's authority to furlough State workers when there is no budget in place. The Legislature passed the $87.5 billion 2010-11 Budget on the morning of October 8, 2010, over 100 days late, and Governor Schwarzenegger signed it that night, exercising his line-item veto authority to reduce spending by $963 million in order to raise the reserve level from $375 million to $1.3 billion. Total 2010-11 State Budget expenditure reductions were $8.4 billion, assuming federal funds of $5.4 billion and other solutions of almost $5.5 billion. The 2010-11 State Budget included pension reform measures, suspension of the Proposition 98 minimum guaranty to provide $49.7 billion in spending on K-14 Education in 2010-11 with related settle-up measures, personnel cost reductions from savings from recent agreements with unions and reductions and the extension of a temporary suspension of businesses' ability to use net operating losses to reduce tax liabilities.

In light of such a tumultuous 2010 State Budget process, on November 2, 2010, State voters approved Propositions 22, 25 and 26 of 2010. Proposition 22 amended the State's Constitution to prohibit the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, or local government projects and services. Proposition 22 also prevents the State from temporarily shifting property taxes from cities, counties and special districts to schools, as in the ERAF program. Proposition 22 is intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes.

Proposition 25 lowered the vote threshold for lawmakers to pass the State Budget from two-thirds to a simple majority. Proposition 26 requires a two-thirds affirmative vote in the State Legislature and local governments to pass many fees, levies, charges and tax revenue allocations that under previous rules could be enacted by a simple majority vote.

2011-12 State Budget. Set forth below is a summary of the 2011-12 State Budget and budget process.

<u>Initial LAO Report on Fiscal Year 2011-12; Legislature Called into Special Session on Budget Deficit</u>. In their initial report for Fiscal Year 2011-12, the LAO forecasted that the State's general fund revenues and expenditures would show a budget deficit of $25.4 billion, consisting of a $6.1 billion projected deficit for Fiscal Year 2010-11 and a $19 billion gap between projected revenues and spending for Fiscal Year 2011-12. The LAO projected that the State will continue to face annual budget problems of approximately $20 billion each year through Fiscal Year 2015-16, and recommended that the Legislature initiate a multi-year approach to solving

the State's recurring structural budget deficit, addressing permanent revenue and expenditure actions each year, together with temporary budget solutions, until the structural deficit is eliminated. On December 6, 2010, lame-duck Governor Schwarzenegger declared a fiscal emergency and called the new Legislature into special session to address the anticipated 2010-11 general fund deficit.

2011-12 Proposed Budget Submitted by Governor Brown to Legislature. On January 3, 2011, Edmund G. Brown Jr. was sworn in as Governor and warned that his budget plan would include severe cuts to State spending. On January 10, 2011, Governor Brown submitted his 2011-12 Proposed Budget to the Legislature. The 2011-12 Proposed Budget acknowledged a $26.4 billion budget deficit, consisting of an $8.2 billion deficit that would remain at the end of Fiscal Year 2010-11 (absent budgetary action), and an estimated $17.2 billion shortfall between current-law revenues and expenditures in 2011-12, with a proposed reserve of $1 billion. The 2011-12 Proposed Budget relied on a plan to submit to the voters at a special election in June 2011 a 5-year extension of the temporary sales tax, income tax, and vehicle license fee increases and maintaining a lower dependent exemption credit that was set to expire on June 30, 2011. The 2011-12 Proposed Budget also included $8.2 billion in one-time savings and borrowing. Those savings and borrowings included $1.8 billion in borrowing from special funds, $1.7 billion in property tax shifts, shifting $1.0 billion in Proposition 10 reserves to fund children's programs, and $0.9 million from Proposition 63 moneys to fund community mental health services. The Governor proposed to restructure the state-local relationship by shifting funding and responsibility to local government for certain services, resulting in a shift of an aggregate amount of $5.9 billion in State program costs to counties. The Governor also proposed eliminating redevelopment agencies.

The 2011-12 Proposed Budget included expenditure reductions that touched nearly every area of the State budget. Proposed reductions included cuts of $1.7 billion to Medi-Cal, $1.5 billion to California's welfare-to-work program, $1 billion to the University of California and California State University, $750 million to the Department of Developmental Services, and $580 million to state operations and employee compensation. Although the Governor's revenue proposals resulted in a $2 billion increase in the Proposition 98 minimum funding guarantee for schools above the current-law level, the 2011-12 Proposed Budget would have resulted in a small funding decline for K- 12 and more significant reductions for community colleges and child care programs.

The Governor called the Legislature to refer the proposed re-instatement of temporary tax increases described above to a statewide special election in June 2011, in an attempt to gain voter approval for the Governor's proposed increases. However, on March 31, 2011, the deadline for initiating such a special election passed without an agreement in the Legislature about whether to put such a re-instatement measure on the ballot.

January 12, 2011 LAO Report. An LAO report dated January 12, 2011 stated that the 2011-12 Proposed Budget estimates were reasonable, and the proposed multiyear and ongoing solutions showed great promise of making substantial improvements to the State's overall budget health. However, the LAO report recognized that the Governor's realignment and redevelopment proposals were extremely ambitious, implicating many legal, financial and policy issues, and that $12 billion of the Governor's proposed solutions were dependent upon voter approval in June 2011.

March 2011 Legislative Action. The Governor's proposed June 2011 special election was not approved. However, the Legislature passed a package of bills resulting in $11 billion in cuts and other solutions, including $5.5 billion in cuts to health and human services, $1.2 billion in cuts to the University of California and California State University systems, $2.2 billion in transportation debt service and other reductions, $531 million in revenue proposals and $2.8 billion in loans and transfers and other solutions.

May Revision. Under California law, in May of each year the Governor issues a revised budget with changes he or she can support, based on the debate, analysis and changes in the economic forecasts (the "**May Revision**"). On May 16, 2011, Governor Brown issued his proposed May Revision of the State Budget. The May Revision reflected an assumed $6.6 billion in new state revenues over the current and budget years ($3.3 billion each year). In January 2011, the Governor had projected that, absent such solutions, budget gaps averaging more than $20 billion would continue for the next four years. By the time of the May Revision, these projected deficits had been reduced to around $10 billion per year through Fiscal Year 2014-15, as a result of permanent expenditure reductions enacted in March 2011. The Governor called for the Legislature to adopt $11 billion in new solutions to rebuild a modest reserve. The Governor planned to use almost all of the $6.6 billion in new revenues to reduce the need for some targeted tax extensions and to start paying down the State's $35 billion in debt.

The May Revision proposed that the Legislature act by the end of June 2011 to approve and the voters ratify in November 2011 the extension of current sales tax and vehicle license fee rates and the dependent credit exemption level for five years. If these tax extensions were approved, the budget provides an additional $3 billion to schools in 2011-12. This $3 billion was over and above the 2011-12 $49.4 billion Proposition 98 guarantee and funding level approved by the Legislature in March 2011. It was approximately $1 billion above the $51.3 billion funding level included in the Governor's January budget. However, the Governor proposed that $2.85 billion of the $3 billion go toward eliminating deferrals, not toward increased revenue limit funding. Additional revenues generated by the tax extensions would fund a major realignment of public safety programs.

The Governor proposed that the remaining savings from revenue increases and future revenue growth above current program funding be dedicated to paying off the State's $35 billion in debt. Under the Governor's proposal, at least $29 billion in deferrals and debt would be paid off by Fiscal Year 2014-15. The Governor's May Revision removed the proposed income tax extension and his proposal to eliminate the enterprise tax credit. The Governor continued to push for the elimination of redevelopment agencies.

May 19, 2011 LAO Report. The LAO's May 19, 2011 report on the Governor's May Revision concludes that the Governor's budget estimates in the May Revision were based on reasonable assumptions. However, the LAO notes, school districts, counties and the State faced uncertainty as to funding levels in the Fiscal Year because the Governor's revenue assumptions rely on the extension of temporary increases in personal income tax, sales and use tax and vehicle license fees to be approved by the voters. The LAO deemed the Governor's proposals worthy of legislative consideration, noting that in past budgets the State was unable to make significant inroads into its underlying operating shortfall due to a reliance on one-time and short-term solutions. In 2011, an estimated $6.6 billion improvement in state tax collections, and $13 billion in budgetary solutions already adopted by the Legislature, put the State in the position to dramatically reduce its budget problem in coming years.

Budget Bills Passed by Legislature; Vetoed by Governor. On June 15, 2011, the Legislature, with Democrats representing a majority thereof, passed a series of bills, including two budget bills without Republican support. On June 16, 2011, Governor Brown vetoed both budget bills. A series of trailer bills to the budget bills, including a set of bills that would redirect funds away from or terminate the existence of redevelopment agencies (ABX1 27 and ABX1 26, respectively), were passed by the Legislature and signed by the Governor.

June 28, 2011 Legislative Action. On June 28, 2011, the Legislature passed an $86 billion General Fund State Budget that closed the State's remaining $9.6 billion deficit. The 2011-12 Budget relied on $4 billion of additional revenue, which if not realized, will automatically trigger further cuts to universities, welfare, and schools. The 2011-12 Budget is also premised on $2.8 billion in deferrals to K-12 schools and community colleges and $1.7 billion in a controversial plan to direct funds away from redevelopment agencies pursuant to ABX1 27. The University of California and California State University funding allocations have been cut by $150 million each, and state courts also faced significant cuts. $650 million in new revenues was anticipated to come from enforcement of sales taxes collected by online merchants, rural fire fees, and a $12 car registration fee increase. Governor Brown signed the budget on June 30, 2011.

The complete 2011-12 State Budget is available from the California Department of Finance website at www.dof.ca.gov. The City can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by such reference. The information referred to above should not be relied upon in making an investment decision with respect to the Bonds.

Changes in 2011-12 State Budget; Trigger Cuts; Redevelopment. As noted above, on May 16, 2011, at the time the Governor issued the May Revision of his proposed 2011-12 budget, the Governor asked the State Legislature to act by the end of June 2011 and the voters to ratify in November 2011 the extension of then-current sales tax and vehicle license fee rates and the dependent credit tax exemption level for the following five years. These tax extensions were neither submitted to the voters nor approved. On December 13, 2011, Governor Brown announced that the State will cut nearly $1 billion from the 2011-12 Budget, as triggered by a $2.2 billion shortfall in projected revenue. The mid-year cuts are to be made in education, school busing, childcare, health programs, public safety and library programs. The California State University and University of California systems, In-Home Supportive Services and the Department of Developmental Services each will see their budgets slashed by $100 million.

Also as also noted above, the 2011-12 State Budget included a set of bills that provided for $1.7 billion in additional payments from communities with redevelopment agencies to fund school expenditures (ABX1 27) and that restricted redevelopment agency actions to create new debt (ABX 26) and that then will dissolve them (ABX1 26). Under the legislation, communities had until October 2011 to opt into the payments under ABX1 27, or the redevelopment agencies became subject to the dissolution provisions of ABX1 26. On July 18, 2011, *California Redevelopment Assoc. v. Matosantos* was filed in the first instance in the California Supreme Court. In this action, the California Redevelopment Association ("**CRA**") requested the Court to nullify ABX1 26 and ABX1 27 (principally on the grounds that the bills violate Proposition 22 of the State Constitution) and to stay the effectiveness of the two bills. On December 29, 2011, the Supreme Court issued its decision in this case, ruling that ABX1 26 was constitutional and ABX1 27 was not. Redevelopment agencies faced a deadline of February 1, 2012 to cease operations and dismantle, and no additional payments from communities with redevelopment agencies to fund school expenditures are constitutionally permissible. The CRA, together with the California League of Cities, counties and cities, was not successful in lobbying the

Legislature to delay the February 2012 deadline. As a consequence of the *California Redevelopment Assoc. v. Matosantos* decision, both the 2011-12 State Budget and the City's Budget for Fiscal Year 2011-12 may be revised.

The execution of the 2011-12 State Budget may be affected by national and State economic conditions and other factors, possibly causing the revenue projections made in the 2011-12 State Budget to fall short. The City cannot predict the impact that the 2011-12 State Budget, or subsequent budgets, will have on its own finances and operations. Additionally, the City cannot predict the accuracy of any projections made in the State's Fiscal Year 2011-12 State Budget.

2012-13 State Budget. Set forth below is a summary of the 2012-13 State Budget and budget process.

Initial LAO Report on Fiscal Year 2012-13. In their initial report for Fiscal Year 2012-13, the LAO forecasted that the State's general fund revenues and expenditures would show a budget deficit of $12.8 billion, consisting of a $3 billion projected deficit for Fiscal Year 2011-12 and a $9.8 billion gap between projected revenues and spending for Fiscal Year 2012-13. A significant decrease in the State general fund budget deficit from the prior year was calculated assuming that $2 billion of trigger cuts to various state programs contained in the provision of the 2011-12 budget will be implemented and maintained through the forecast period. The LAO projected that the State will continue to face annual operating shortfalls of between $8 billion and $9 billion per year in 2013-14 and 2014-15, and then such shortfalls will decline gradually to about $5 billion in 2016-17. The LAO noted that the remaining work of eliminating the State's persistent, annual deficit will require more difficult cuts in expenditures and/or increases in revenues, and it recommended that the Legislature and the Governor (i) strive to eliminate the State's ongoing annual budget deficit this year or over the course of the next few years (ii) then focus efforts upon the serious long-term fiscal issues of the State's accumulated budgetary obligations and unfunded retirement liabilities.

2012-13 Proposed Budget Submitted by Governor Brown to Legislature. On January 5, 2012, Governor Brown submitted his 2012-13 Proposed Budget to the Legislature. The 2012-13 Proposed Budget acknowledged a $9.2 billion budget deficit, consisting of an $4.1 billion deficit that would remain at the end of Fiscal Year 2012-13 (absent budgetary action), and a $5.1 billion shortfall between current-law revenues and expenditures in 2012-13, with a proposed reserve of $1.1 billion. The 2012-13 Proposed Budget relies on a plan to submit to the voters at a regular election in November 2012 a $6.9 billion tax increase, including a higher rate for personal income over $250,000 and a half-cent sales tax hike. If the voters do not approve such revenue-raising measures, the 2012-13 Proposed Budget specifies $5.4 billion in additional trigger cuts affecting funding for each of: schools and community colleges ($4.8 billion cut, likely eliminating three weeks of instruction from the school year), the University of California and California State University ($200 million cut), State courts ($125 million cut, equivalent to court closures of three days per month), Parks and Recreation and Fish and Game (number of safety officers and lifeguards decreased), Forestry and Fire Prevention (substantial reduction in firefighting capability and emergency air response program, closure of fire stations), Department of Water (flood control programs cut) and Department of Justice (law enforcement programs reduced).

The 2012-13 Proposed Budget includes additional expense reducing measures as follows: Changes to CalWORKs and subsidized child care to, among other things, reduce assistance to families not meeting work requirements ($1.4 billion reduction), merging service delivery for those who are eligible for both Medi-Cal and Medicare ($842 million reduction), eliminating In-Home Supportive Services in shared living arrangements ($164 million reduction), eliminating supplemental funding for schools associated with the elimination of the sales tax on gasoline ($544 million reduction), reducing grants for students of private institutions ($302 million reduction), suspending state mandates on local governments ($828 million reduction) and expanding the alternative custody program for female prison inmates (millions of dollars reduced in future years). The 2012-13 also includes continuation of the use of weight fees to offset future State general fund costs connected with transportation expenses ($350 million savings) and a one-time shift of monies from the State's Unemployment Compensation Disability Fund to pay the federal government for interest costs on the State's outstanding Unemployment Insurance loan.

Additionally, concurrently with the 2012-13 Proposed Budget, the Governor has proposed a constitutional amendment, to be submitted to the voters at the November 2012 general election, to secure funding for local governments so they can provide public services recently shifted to them under the State's "realignment" plan. Voter approval of such an amendment might give the State less budget flexibility, but could also strengthen local support for current and additional realignment.

January 11, 2012 LAO Report. An LAO report dated January 11, 2012 stated that the 2012-13 Proposed Budget were reasonable, and either of (i) the proposed multiyear tax increases and significant reductions in social services and subsidized child care programs or (ii) larger cuts, aimed largely at schools, move the State budget much closer to balance over the next several years. However, the LAO noted that its revenue estimates—including estimates of state revenue gains from the Governor's proposed tax raising initiatives—are lower than the Governor's and that if LAO estimates are correct, the Legislature will have to pursue billions of dollars more in budget-balancing solutions. The LAO was supportive of major restructuring of the school finance system, community college categorical funding, and education mandates, but suggested that alternatives to reforms in the CalWORKs program should be considered. The LAO further encouraged caution in setting the size of the trigger cuts; determining the specific education reductions to impose; and designing tools to help schools, community colleges, and universities respond to the trigger cuts.

February 17, 2012 LAO Report. An LAO report dated February 27, 2012 found California's economy to be clearly improving in many ways, including employment growth. However, significant impediments block the State's path to a more robust recovery from the economic downturn. Predicting State revenues has also become more difficult due to recent weakness in income tax payments accompanied by speculation concerning a future bonanza of tax revenues due to the possible initial public offering of stock by Facebook, Inc. The LAO report predicts that the Legislature and the Governor will have to identify additional budgetary solutions to bring the 2012-13 State spending plan into balance; the amount of such solutions will depend on how economic improvement affects the Proposition 98 minimum guarantee for schools and community colleges and on analysis of tax payments received in April 2012 (when those become due),

May Revision. On May 14, 2012, Governor Brown issued his proposed May Revision of the 2012-13 State Budget. The May Revision estimated that the State budget deficit had increased from $9.2 billion to $15.7 billion, and predicted that, absent actions to eliminate the State's structural deficit, the State would face approximately an $8 billion budget shortfall each year. The increase in the amount of the State budget deficit was attributed to an overly optimistic forecast of revenue to be received by April 2012 (which is tied to an ongoing modest economic recovery), year-over-year increases in Proposition 98 funding for K-14 education, and the U.S. Federal Government and certain courts rejecting certain cuts proposed in the Governor's initial State Budget. The May Revision proposed $16.7 billion in aggregate budget balancing measures and to build a $1 billion reserve. Under the May Revision, forthcoming budgets would be balanced on an ongoing basis, thereby enabling the State to pay down $33 billion in outstanding borrowing that has accumulated since 2002. The May Revision suggests that the State's outstanding debt could be reduced to $6.6 billion by the end of fiscal year 2015-16.

To bridge the State budget gap, the Governor proposed an additional $4.1 billion in spending reductions, including (i) shifting of the source of payment for local trial courts, (ii) implementing various reductions to hospital, nursing home and in home care funding, (iii) establishing standards for participation in the Cal Grant Program, (iv) reducing the cost of state employee compensation by 5% through a reduced workweek or a commensurate reduction ion work hours and pay, (v) transferring cash assets previously held by redevelopment agencies to cities, counties and special districts to fund core public services, (vi) using proceeds from the National Mortgage Settlement to offset existing State general fund costs, and (vii) making various other adjustments.

The May Revision also assumes passage of the Governor's proposed revenue-generating initiatives at the November 2012 election. The Governor's measures increase the personal income tax on the State's highest income generating taxpayers for seven years and increase the State sales tax by .25% for four years, guaranteeing the revenue generated thereby will be allocated to schools. If the Governor's measures were to fail, the May Revision provides for an additional $6.1 billion in trigger cuts, effective January 1, 2013, which are to include, a $5.5 billion reduction in funding for schools and community colleges (equivalent to the cost of three weeks instruction), $250 million reductions to each of the University of California and California State University, and reductions to numerous public safety programs. The May Revision also notes that, even assuming passage of the Governor's measures, the State may face long-term cost increases that could take future budgets out of balance, including, but not limited to, costs associated with actions to reduce the Federal deficit, Federal government and court decisions, the pace of economic recovery, an aging population and rising health care costs.

Future State Budgets. The City cannot predict what actions will be taken in future years by the State Legislature and Governor to address the State's then-current or future budget deficits, whether they will be similar to those actions proposed or undertaken in prior State Budget years, and the nature of length of future State Budget negotiation processes. Future State Budgets will be affected by national and state economic conditions and other factors over which the City has no control. To the extent that the State Budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. Decreases in such revenues may have an adverse impact on the City's ability to pay the Bonds.

Comparison of Budget to Actual Performance

For purposes of comparison, the following table summarizes the City's adopted budgets for fiscal years 2009-10 and 2010-11 and sets forth audited revenues and expenditures for fiscal years 2008-09 and 2009-10; it also includes the City's adopted budget for fiscal year 2011-12.

Table No. 4
CITY OF TORRANCE
General Fund - Comparison of Budgeted and Actual Revenues, Expenditures and Fund Balances
For Fiscal Years 2009-10 through 2011-12

	Budgeted Fiscal Year 2009-10	Audited Fiscal Year 2009-10	Budgeted Fiscal Year 2010-11	Audited Fiscal Year 2010-11	Budgeted Fiscal Year 2011-12
Fund Balance, July 1 (1)	$58,748,360	$58,748,360	$51,212,447	$51,212,447	$54,015,410
Revenues:					
Taxes	139,476,127	124,017,956	133,109,000	130,522,827	135,021,000
Licenses, fees and permits	2,333,910	1,617,719	2,014,000	1,639,218	2,050,000
Fines, forfeitures and penalties	1,966,047	1,039,810	1,475,000	1,084,493	1,330,000
Use of money and property	7,282,761	5,008,322	4,926,500	5,853,273	5,160,000
Intergovernmental	617,221	827,100	980,000	1,020,138	980,000
Charges for current services	5,033,406	6,920,643	4,869,200	7,174,101	5,069,000
Other revenues	3,065,300	2,030,642	3,016,019	1,595,982	3,750,000
Transfers in	12,001,476		16,492,705		11,432,279
Liquidation of fund balance	1,990,650		1,840,175		600,000
Total Revenues	$173,766,898	141,462,192	168,722,599	148,890,032	165,392,279
Expenditures:					
Current operating:					
General government	$27,353,183	22,766,134	21,690,754	22,361,415	24,109,239
Nondepartmental	7,778,330	5,439,841	10,398,732	8,121,363	6,571,149
Transfers out	21,311,789		21,820,158		18,087,883
Public safety	90,396,196	90,401,814	88,430,095	90,971,257	90,833,422
Public works	12,343,116	10,904,209	12,189,428	10,570,914	11,743,557
Cultural and recreation	14,584,284	13,791,311	14,193,432	13,965,663	14,047,029
Capital outlays	--	--	--	96,457	--
Total Expenditures	$173,766,898	$143,303,309	$168,722,599	$146,087,069	165,392,279
Fund Balance, June 30	$58,748,360	$51,212,447	$51,212,447	$54,015,410	$54,015,410

(1) The City's adopted budgets do not include fund balances because, at the time the City Council adopts the budgets, the City does know the June 30 Fund Balance for the most recently completed fiscal year, either on an audited or an unaudited basis. For purposes of this table, therefore, the July 1 Fund Balance for (a) the fiscal year 2009-10 budget column is the June 30, 2009 Fund Balance based on the City's audited financial statements, (b) the fiscal year 2010-11 budget column is the June 30, 2010 Fund Balance based on the City's June 30, 2011 audited financial statements and (c) the fiscal year 2011-12 budget column in the June 30, 2011 Fund Balance based on the City's June 30, 2011 audited financial statements. In each case, the June 30 Fund Balance reflects the impact of budgeted revenues and expenditures on the July 1 Fund Balance.
Source: City of Torrance.

Tax Receipts

Taxes received by the City include property taxes, sales and use taxes, utility user's taxes, business license taxes, occupancy taxes, franchise taxes and other miscellaneous taxes. In fiscal year 2010-11 sales and use taxes constituted approximately 17.0% of tax revenues, utility users' taxes constituted approximately 23.1% of tax revenues and property taxes constituted approximately 31.6% of tax revenues.

The following table sets forth tax revenues received by the City for fiscal years 2006-07 through 2010-11 by source:

Table No. 5
CITY OF TORRANCE
General Fund Tax Revenues by Source
For Fiscal Years 2005-06 through 2010-11
(Dollars in thousands)

Source:	2006-07	2007-08	2008-09	2009-10	2010-11
Property taxes (1), (2)	$46,798	$48,361	$48,693	$47,110	$48,184
Sales and use tax	31,936	31,545	29,357	25,104	26,000
Utility Users Tax	33,169	35,374	32,654	31,348	35,240
Other taxes (2)	23,721	23,435	22,007	20,456	23,055
Licenses, fees, permits	2,671,	1,962	1,426	1,618	2,014
Fines, forfeitures, penalties	1,580	1,641	1,215	1,040	1,475
Use of money and property	6,025	7,907	8,138	5,008	6,799
Intergovernmental	1,493	1,089	868	827	980
Current service charges and other revenues	8,386	7,679	7,625	8,952	8,882
Total	$155,779	$158,993	$151,983	$141,463	$152,629

(1) Property tax revenue includes secured, unsecured and supplemental property tax revenue along with penalties and interest.
(2) Other taxes include business license tax, business permit tax, construction tax, real property transfer tax, franchise tax, occupancy tax, oil severance tax, cogeneration tax and water utility late charge.
Source: City of Torrance Finance Department.

Sales Taxes

General. Sales tax represents the third largest source of revenue to the City, although it has historically been the largest (see "Impact of State Budget" below). The City's sales tax revenue represents the City's 1% share of the sales and use tax imposed on taxable transactions occurring within the City's boundaries. A sales tax is imposed on retail sales or consumption of personal property. The tax rate is established by the State Legislature. Effective July 1, 2011, the statewide tax rate is 6.25%. An additional 1.50% is collected in Los Angeles County for transportation purposes.

The State collects and administers the tax, and makes distributions on taxes collected within the City as follows:

Table No. 6
CITY OF TORRANCE
Sales Tax Rates

State General Fund	6.25%
County	0.25
City	0.75 [(1)]
Los Angeles County Transportation Commission	1.50
Total	8.75%

(1) See "RISK FACTORS – Impact of Sales and Use Tax Redirection."

Sales Tax Collection Procedures. Collection of the sales and use tax is administered by the California State Board of Equalization. According to the State Board of Equalization, it distributes quarterly tax revenues to cities, counties and special districts using the following method:

Using the prior year's like quarterly tax allocation as a starting point, the Board first eliminates nonrecurring transactions such as fund transfers, audit payments and refunds, and then adjusts for growth, in order to establish the estimated base amount. The State Board of Equalization disburses 90% to each local jurisdiction in three monthly installments (advances) prior to the final computation of the quarter's actual receipts. Ten percent is withheld as a reserve against unexpected occurrences that can affect tax collections (such as earthquakes, fire or other natural disaster) or distributions of revenue such as unusually large refunds or negative fund transfers. The first and second advances each represent 30% of the 90% distribution, while the third advance represents 40%. One advance payment is made each month, and the quarterly reconciliation payment (clean-up) is distributed in conjunction with the first advance for the subsequent quarter. Statements showing total collections, administrative costs, prior advances and the current advance are provided with each quarterly clean-up payment.

Under the Sales and Use Tax Law, all sales and use taxes collected by the State Board of Equalization under contract with any city, city and county, redevelopment agency, or county are required to be transmitted by the Board of Equalization to such city, city and county, redevelopment agency, or county periodically as promptly as feasible. These transmittals are required to be made at least twice in each calendar quarter.

Under its procedures, the State Board of Equalization projects receipts of the sales and use tax on a quarterly basis and remits an advance of the receipts of the sales and use tax to the City on a monthly basis. The amount of each monthly advance is based upon the State Board of Equalization's quarterly projection. During the last month of each quarter, the State Board of Equalization adjusts the amount remitted to reflect the actual receipts of the sales and use tax for the previous quarter.

The Board of Equalization receives an administrative fee based on the cost of services provided by the Board to the City in administering the City's sales tax, which is deducted from revenue generated by the sales and use tax before it is distributed to the City.

Impact of State Budget. On March 2, 2004, the State's voters approved the California Economic Recovery Bond Act ("**Proposition 57**"), which authorized the State to issue up to $15 billion of economic recovery bonds to finance the negative State General Fund reserve balance as of June 30, 2004 and other State General Fund obligations undertaken prior to June 30, 2004. Proposition 57 also called for local sales and use taxes to be redirected to the State, including 0.25% that would otherwise be available to the City, to pay debt service on the "economic recovery" bonds, and for an increase in local governments' share of local property tax by a like amount.

Given the short maturity date of the Notes, the City does not anticipate that the State's Budget situation will negatively impact the City's ability to pay debt service on the Notes.

History of Taxable Transactions. In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, retail stores data for 2009 and 2010 is not comparable to that of prior years.

A summary of historic taxable sales within the City during the past five years in which data is available is shown in the following table. Total taxable sales during calendar year 2010 in the City were reported to be $3,348,424,000, a 2.01% increase over the total taxable sales of $3,282,585,000 reported during calendar year 2009.

Table No. 7
CITY OF TORRANCE
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2006	3,934	$3,132,949	9,284	$3,972,829
2007	4,115	3,140,063	9,075	4,040,028
2008	4,404	2,878,568	9,337	3,851,825
2009 (1)	6,364	2,549,533	8,363	3,282,585
2010 (1)	6,457	2,612,076	8,476	3,348,424

(1) Not comparable to prior years. "Retail" category now includes "Food Services."
Source: State Board of Equalization. Taxable Sales in California (Sales & Use Tax).

Utility Users' Tax

The Utility Users' Tax is imposed on all users of natural gas, electricity, water, wastewater, cable television and telephone services within the City's limits. The tax rate is 6.5% of all utility charges except water (which is 6.0%). This tax rate has been in effect since July 1991, and the Utility Users' Tax has been in effect since 1969. Effective July 1988, the City expanded the Utility Users' Tax to include cogeneration facilities based upon the value of electricity generated, and, effective July 1989, the City expanded the Utility Users' Tax to include interstate and international long distance calls. On June 3, 2008, the voters ratified an ordinance to maintain the City's existing Utility Users' Tax that has been in place since 1972, and confirming that the Utility User's Tax should cover cell phone service and other telecommunications services.

An exemption from the Utility Users' Tax is available to senior citizens over the age of 62 and to permanently disabled individuals, provided that the combined adjusted gross income of all household members is below $27,225. As provided by the State Constitution, insurance companies are exempt from the Utility Users' Tax. In addition, county, state, federal and foreign governments within the City are not subject to this tax, as the City has no authority to impose a tax on these entities. Exemptions account for a minor amount of the total Utility Users' Tax base.

Utility companies collect and transmit the Utility Tax monthly to the City's Finance Department which then deposits the tax revenues into the General Fund.

Property Taxes

The City currently receives property taxes in lieu of sales taxes as a result of Proposition 57 (See "Sales Taxes" and "Impact of State Budget" above). It has been the primary revenue source affected by voter initiatives and legislative actions. With approval of Proposition 13, property tax revenues were first curtailed almost 20 years ago when they were reduced by two-thirds and thereafter limited to 2% annual increases or the CPI, whichever was less.

More recently, the California and local economies have been revitalized, property values have risen, and new construction has increased, all of which has been reflected in a higher level of property tax collections.

Assessed Valuation. All property is assessed using full cash value as defined by Article XIIIA of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS," above.

Future assessed valuation growth allowed under Article XIIIA (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

For assessment and collection purposes, property is classified as either "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Unsecured property comprises all property not attached to land such as personal property or business property. Boats and airplanes are examples of unsecured property. Unsecured property is assessed on the unsecured roll.

Proposition 8 Reductions. As reported by the Los Angeles County Assessor, Proposition 8, enacted in 1978, allows for a temporary reduction in assessed value when a property suffers a "decline-in-value." As of January 1st (lien date) each year, the Assessor must enroll either a property's Proposition 13 value (adjusted annually for inflation by no more than 2%) or its current market value, whichever is less. When the current market value replaces the higher Proposition 13 value, the lower value is commonly referred to as a "Proposition 8 Value."

The County's 2011-12 tax roll of $1.105 trillion showed a $16.2 billion increase (1.49%) from the 2010-11 tax year. Assessments based on residential sales and changes of ownership increased the tax roll by $12.8 billion in value. New construction contributed an additional $3.9 billion. These increases offset reduced assessments resulting from the housing market, which is still struggling to correct, as well as reductions in personal business property and fixtures assessments.

The City continues to be the city with the fourth highest assessed value in Los Angeles County. The City's total assessed value increased by more than $270.1 million or an increase of 1.1% over the City's 2010-11 assessed value.

Historical Assessed Valuation Information. Set forth below is a listing of the City's assessed valuations, net of homeowners' and other exemptions, for the past ten fiscal years.

Table No. 8
CITY OF TORRANCE
Historical Assessed Valuation
For Fiscal Year 2002-03 through 2011-12
(Dollars in thousands)

	Local Secured [1]	Utility	Unsecured	Total	% Change
2002-03	$14,551,227	$6,665	$1,083,605	$15,641,497	4.6%
2003-04	15,679,472	8,426	1,055,908	16,743,806	7.1
2004-05	16,526,405	8,416	1,017,446	17,552,267	4.8
2005-06	17,836,645	6,264	995,440	18,838,349	7.3
2006-07	19,513,907	5,418	1,012,554	20,531,879	9.0
2007-08	20,963,740	2,270	1,037,399	22,003,409	7.2
2008-09	22,121,340	2,270	1,076,589	23,200,199	5.4
2009-10	22,804,439	13,724 [2]	1,127,722	23,945,884	3.2
2010-11	22,571,189	2,656	1,059,580	23,633,424	(1.3)
2011-12	22,829,175	2,571	1,072,555	23,904,302	1.1

(1) Less real and secured personal property exemptions.
(2) A portion of the increase reflects the purchase of property by AT&T with a land value of approximately $2.3 million. Because the purchase was not reported on a timely basis and, consequently, there was an "escaped assessment" for three years, the County has reported the fiscal year 2009-10 land value as three times the actual value, which allows the County to collect the tax for the two years of escaped assessments. In fiscal year 2010-11, the County will reduce the value to the proper value (approximately $2.3 million) plus any increase allowed under California Constitution Article XIIIA. Most of the remaining increase is attributable to a non-operating plant and building reported by AT&T.
Source: Los Angeles County Auditor-Controller's Office; California Municipal Statistics for fiscal years 2009-10 through 2011-12.

The following table shows property tax levies and tax collections for fiscal years 2006-07 through 2010-11. The amounts shown are for City property taxes only; Redevelopment Agency tax increment is not included. Los Angeles County has not implemented the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "**Teeter Plan**"), which allows each entity levying property taxes in the County to draw on the amount of property taxes levied rather than the amount actually collected. Therefore, the City's property tax revenues reflect actual collections.

Table No. 9
CITY OF TORRANCE
Property Tax Levies and Tax Collections
Fiscal Years 2006-07 through 2010-11
(Dollars in thousands)

Fiscal Year	Total Tax Levy for Fiscal Year	Collections within Fiscal Year	Percent of Levy Collected in Fiscal Year	Collections in Subsequent Years	Total Collections as of June 30, 2010	Percentage of Levy
2006-07	$23,763	$22,745	95.72%	$141	$22,886	96.31%
2007-08	25,765	24,374	94.60	123	24,497	95.08
2008-09	26,937	25,552	94.86	267	25,819	95.85
2009-10	27,657	26,601	96.18	255	26,856	97.10
2010-11	27,264	26,487	97.15	241	26,728	98.03

Source: City of Torrance; Comprehensive Annual Financial Report; Finance Dept.

The following table lists the top 20 local secured taxpayers in the City of Torrance for fiscal year 2011-12.

Table No. 10
CITY OF TORRANCE
Top 20 Local Secured Taxpayers
Fiscal Year 2011-12

	Property Owner	Primary Land Use	2011-12 Assessed Valuation	% of Total (1)
1.	Exxon Mobil Oil Corporation	Oil & Gas	$1,507,942,984	6.61%
2.	Del Amo Fashion Center Operating Co. LLC	Shopping Center/Mall	516,280,755	2.26
3.	Toyota Motor Sales USA Inc.	Office Building	434,263,798	1.90
4.	American Honda Motor Co. Inc.	Office Building	344,965,175	1.51
5.	Allied Signal Inc.	Industrial	102,684,446	0.45
6.	Prologis MacQuarie US LLC	Industrial	84,401,520	0.37
7.	Rreef America REIT III Corp. GG2	Industrial	60,643,998	0.27
8.	Del Amo Financial Center LP	Bank	60,518,521	0.27
9.	Diamondrock Torrance Owner LLC	Hotel	58,430,000	0.26
10.	Torrance Health Association Inc.	Industrial	56,844,350	0.25
11.	Sears Roebuck and Co.	Shopping Center	54,898,280	0.24
12.	Alcoa Global Fasteners Inc.	Industrial	52,393,784	0.23
13.	Del Amo Associates LLC	Shopping Center	51,326,259	0.22
14.	Continental Skypark LLC	Office Building	49,271,883	0.22
15.	Ball Metal Beverage Container Corp.	Industrial	47,359,761	0.21
16.	KIR Torrance LP	Shopping Center	47,328,211	0.21
17.	Sunrider Corp.	Office Building	46,000,000	0.20
18.	Rock Lomita LLC	Industrial	44,925,762	0.20
19.	TIC RI Torrance 22 LLC	Hotel	44,140,000	0.19
20.	TA Western LLC	Office Building	43,790,000	0.19
			$3,708,409,487	16.24%

(1) 2011-12 Local Secured Assessed Valuation: $22,829,175,448.
Source: California Municipal Statistics, Inc.

Retirement System

City's Defined Benefit Pension Plan. The City's Defined Benefit Pension Plan ("**Plan**") provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to Plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees' Retirement System ("**CalPERS**"), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State.

Eligibility. All full-time and part-time benefited City employees are eligible to participate in CalPERS. Benefits vest after five years of service. City employees who retire at or after age 50 with 5 years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount equal to the following:

Police – 3% of their average salary during their last year of employment, if they retire at or after age 50

Fire – 3% of their average salary during their last year of employment, if they retire at or after age 50

Miscellaneous – 2% of their average salary during their last year of employment, if they retire at or after age 55.

This percentage increases incrementally after each year of credited service up to 30 years for Safety (Fire, Policy) employees and no limits for Miscellaneous employees. The system also provides for death and disability benefits. The retirement benefit for each group is calculated by multiplying the number of years of service times the percentages set forth above with a maximum cap for Safety employees at 90% of salary and no cap for Miscellaneous employees. These benefit provisions and all other requirements are established by statute and City ordinance.

Funding Policy. Safety and Miscellaneous members in the Plan are required to contribute 9% and 7%, respectively, of their annual covered salary, which the City has opted to assume on behalf of substantially all of its employees. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members.

The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2011 was 10.468% for Miscellaneous employees, 33.917% for Fire employees and 37.926% for Police employees. The contribution requirements of the Plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS.

For the fiscal year ended June 30, 2011 the City's annual pension cost and its actual contributions were $30,245,722. The City contributed $22,011,379 on behalf of its employees. Employees directly contributed $8,234,343. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2011, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2010 to June 30, 2011.

The annual required contribution ("**ARC**") for the year ended June 30, 2011 was determined as part of the June 30, 2008 actuarial valuation using the entry-age-normal-actuarial-cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.55% to 14.45% for miscellaneous members and from 3.55% to 13.15% for safety members; (c) 3.25% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.0% and an annual production growth of 0.25%. See Appendix B, Note 8 for additional information about determination of actuarial value and amortization of unfunded liabilities.

Table No. 11
Three-year Trend Information for the Plan

Fiscal year ended June 30	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligations
2009	$29,513,612	100%	--
2010	30,280,728	100	--
2011	30,245,722	100	--

Table No. 12
Funded Status of the
City's Defined Benefit Pension Plan (Fire, Safety, Miscellaneous)
(Dollars in millions)

Valuation Date (June 30)	Entry age normal accrued liability	Actuarial value of assets	Unfunded/ (overfunded) liability (UAAL)	Funded ratio	Annual covered payroll	UAAL as a percentage of payroll
2008	$964.7	$824.9	$139.8	85.5%	98.8%	141.5%
2009	1,044.1	853.5	190.6	81.7	103.2	184.6
2010	1,086.6	884.5	202.1	81.4	104.1	194.2

Source: Comprehensive Annual Financial Report (fiscal year 2010-11).

Post-Employment Health Benefits

The City adopted Government Accounting Standards Board Statement 45 beginning with its fiscal year 2007-08. See Appendix B, Note 9 for information about the City's Post-Employment Health Benefit liabilities.

Outstanding General Fund Debt and Lease Obligations

The City currently has outstanding general fund debt and lease obligations described below. The City has never defaulted on the payment of principal of or interest on any of its indebtedness. The City has complied with all significant bond covenants relating to reserve and sinking fund requirements, proofs of insurance, and budgeted revenues and maintenance costs.

1998 Refunding Certificates of Participation. In December 1998, the City issued $10.3 million of 1998 Refunding Certificates of Participation, to advance refund two issues of certificates of participation that were issued in 1991. As of May 1, 2012, the outstanding principal amount of the 1998 Certificates was $6,300,000.

2004 Certificates. As of May 1, 2012, $13,150,000 principal amount was outstanding of the 2004A Refunding Certificates of Participation and $23,915,000 principal amount was outstanding of the 2004B Refunding Certificates of Participation.

2009 Certificates. In December 2009 the City issued $18,880,000 Certificates of participation, Series 2009 (Land Acquisition Project) As of May 1, 2012, $18,255,000 principal amount was outstanding of the 2009 Certificates of Participation.

Direct and Overlapping Debt

Contained within the City are overlapping local agencies providing public services which have issued general obligation Certificates and other types of indebtedness. Direct and overlapping bonded indebtedness is shown in the following table.

Table No. 13
CITY OF TORRANCE
Statement of Direct and Overlapping Debt As of April 1, 2012
(Unaudited)

2011-12 Assessed Valuation:	$23,904,301,938
Redevelopment Incremental Valuation:	822,287,648
Adjusted Assessed Valuation:	$23,082,014,290

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 4/1/12	
Los Angeles County Flood Control District	2.477%	$ 921,320	
Metropolitan Water District	1.294	2,543,292	
El Camino Community College District	30.701	51,185,921	
Los Angeles Community College District	0.003	105,147	
Los Angeles Unified School District	0.004	451,309	
Torrance Unified School District	99.997	194,002,713	
Los Angeles County Regional Park and Open Space Assessment District	2.487	4,245,931	
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		$253,455,633	
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Los Angeles County General Fund Obligations	2.487%	$37,001,779	
Los Angeles County Superintendent of Schools Certificates of Participation	2.487	280,277	
Los Angeles County Sanitation District No. 5 Authority	29.125	14,533,305	
Los Angeles County Sanitation South Bay Cities Authority	4.700	399,589	
Los Angeles Unified School District Certificates of Participation	0.004	18,566	
Torrance Unified School District General Fund Obligations	99.997	2,319,930	
City of Torrance General Fund Obligations	**100.000**	**61,620,000**	(1)
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		$116,173,446	
Less: Los Angeles County General Fund Obligations supported by landfill revenues		442,821	
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$115,730,625	
GROSS COMBINED TOTAL DEBT		$369,629,079	(2)
NET COMBINED TOTAL DEBT		$369,186,258	

(1) Excludes issue to be sold.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to 2011-12 Assessed Valuation:
Total Overlapping Tax and Assessment Debt........ 1.06%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt ($61,620,000) 0.27%
Gross Combined Total Debt 1.60%
Net Combined Total Debt 1.60%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11: $0

Source: California Municipal Statistics, Inc.

Investment of City Funds

The City may invest moneys not immediately required for operations in a manner consistent with the City's Statement of Investment Policy (the "**Investment Policy**").

The Investment Policy. The Investment Policy, adopted by the City Council on December 20, 2011, applies to all financial assets, investment activities and debt issues of the City (including funds which are invested by trustees appointed under debt trust indentures, with direction from the City Treasurer). The Investment Policy is reviewed annually by an independent advisory committee (the "**Investment Advisory Committee**") and by the City Council to ensure its consistency with the overall objectives and relevance to current financial and economic trend, and by the City Attorney to ensure compliance with state law. The Investment Advisory Committee, which consists of the City Manager, Finance Director and City Attorney or their appointed designees, meets monthly and reviews investment and strategy status. Amendments to the Investment Policy may only be made with the approval of the City Council. The City Treasurer is required to render a monthly report to the Investment Advisory Committee and the City Council showing the type of investment, issuing institution, dates of maturity, amount of deposit, current market value for all securities with a maturity of more than twelve months, rate of interest and such other data as required by law and as may be requested by the City Council. The City Treasurer is also required to make quarterly presentations to the City Council analyzing the portfolio and market trends.

The Investment Policy establishes three objectives for City investment, in the following order of priority:

(1) Safety of principal: to ensure that capital losses are avoided, and to preserve principal by mitigating credit risk (risk of loss due to failure of an issuer of a security) and market risk (risk of market value fluctuations due to overall changes in interest rates).

(2) Liquidity: to ensure that an investment contains the feature of being easily sold at any time with a minimal risk of loss of principal or interest. To the extent possible, investments should be made so that maturities are compatible with City cash flow requirements. No single investment may be purchased with a term to maturity at the date of purchase which exceeds five years.

(3) Return of Investment: to attain a market-average rate of return through economic cycles. Whenever possible, and consistent with risk limitations as defined in the Investment Policy, the City Treasurer may seek to augment returns above the market average rate of return.

Specific Investment Restrictions. The City is governed by Section 53600 et seq. of the California Government Code. Within the context of these limitations, the Investment Policy mandates avoidance in "any investment transaction that might impair public confidence in the City government." The Investment Policy lists the following investments as being permitted investments, and the maximum allowable percentage of total City investments for each investment category:

(a) United States Treasury bills, notes and bonds (no maximum);

(b) Obligations issued by a federal agency or a United States government-sponsored enterprise (maximum of 75%);

(c) Bonds issued by the local agency (maximum of 10%)

(d) Banker's acceptances (maximum of 20%);

(e) Negotiable certificates of deposit (maximum of 20%);

(f) Time deposits (maximum of 10%);

(g) Repurchase agreements (maximum of 10%);

(h) Commercial paper (maximum of 15%);

(i) Medium term notes of maximum five years maturity (maximum of 20%) and

j) Local Agency Investment Fund (maximum of $50 million per agency).

The above investment categories are more fully described in the Investment Policy. The Investment Policy does not permit investment in equity securities, bond mutual funds, reverse repurchase agreements, derivative contracts (forwards, futures and options), securities with high price volatility or limited marketability, common stocks or shares of beneficial interest otherwise known as mutual funds.

The Monthly Report. As described above, the City Treasurer submits a monthly report to the City Council detailing and summarizing all transactions and stating the present status of City investments (the "**Monthly Report**"). As of March 31, 2012, the City Treasurer reports that the yield of the City's investment portfolio was 1.446% (based on a 365-day year) and the average days to maturity is 1,020 days.

The following table summarizes certain information relating to the City's investment portfolio as of March 31, 2012:

Table No. 14
CITY OF TORRANCE
Investment Portfolio Summary
(as of March 31, 2012)

Type of Investment	Book Value	Market Value (1)	% of Portfolio (2)
LAIF	$ 25,800,000	$ 25,800,000	15.71%
Municipal bonds-coupons	169,300	169,300	0.10
Federal Agency issues	103,151,849	103,789,564	62.81
CD Collateralized-insured	1,960,000	1,981,073	1.19
Medium Term notes	30,148,942	30,666,178	18.36
Money Market Sweep Account	2,999,250	2,999,250	1.83
Total	$164,229,341	$165,405,365	100.00%

(1) Market Value as of March 31, 2012
(2) Numbers may not add because of rounding.
Source: City of Torrance.

Employee Relations and Collective Bargaining

City has 18 employee groups of which 12 are represented. The employee groups are shown below. Pursuant to the City's Employee Relations Ordinance and the Meyers-Millias-Brown-Act, the City and the employee represented groups negotiate wages, hours and conditions of employment.

Employee Group	Employees	Contract Expires
Certain Full-Time Salaried & Hourly Employees	51	Continuous
Certain Part-Time Hourly Employees	103	Continuous
Crossing Guards	31	06/30/2012
Elected Officials	9	Continuous
Engineers and Torrance Fiscal Employees Assn	93	06/30/2012
Executive & Management	56	Continuous
Police & Fire Trainees	0	Continuous
Safety Management	5	Continuous
Torrance City Employees Assn	93	06/30/2012
Torrance Fire Fighters Assn	142	12/31/2013
Torrance Fire Chief Officers Assn	5	12/31/2013
Torrance Library Employees Assn	97	06/30/2012
Torrance Municipal Employees Organization (AFSCME Local 1117)	390	06/30/2012
Torrance Police Officers Assn	193	12/31/2013
Torrance Police Commanders Assn	12	12/31/2013
Torrance Professional Parks & Recreation Employees Organization	12	06/30/2012
Torrance Recurrent Recreational Employees Organization	558	06/30/2012
Torrance Professional & Supervisory Association	110	06/30/2012

Employment and Industry

The City is included in the Los Angeles–Long Beach–Glendale Metropolitan Division. The following table summarizes the civilian labor force, employment and unemployment in the County for the calendar years 2007 through 2011. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the City.

Table No. 15
LOS ANGELES-LONG BEACH-GLENDALE METROPOLITAN DIVISION
(LOS ANGELES COUNTY)
Civilian Labor Force, Employment and Unemployment
(Annual Averages)
2007 through 2011

	2007	2008	2009	2010	2011
Civilian Labor Force	4,872,500	4,934,800	4,904,300	4,910,500	4,924,400
Employment	4,625,600	4,565,500	4,335,200	4,291,400	4,318,900
Unemployment	246,900	369,300	569,000	619,100	605,500
Unemployment Rate	5.1%	7.5%	11.6%	12.6%	12.3%
Wage and Salary Employment: (1)					
Agriculture	7,500	6,900	6,200	6,200	5,500
Natural Resources and Mining	4,400	4,400	4,100	4,100	4,000
Construction	157,600	145,200	117,300	104,500	103,500
Manufacturing	449,200	434,500	389,200	373,200	365,400
Wholesale Trade	227,000	223,700	204,500	203,300	207,200
Retail Trade	426,000	416,500	387,000	386,000	390,900
Trans., Warehousing, Utilities	165,600	163,100	151,200	150,600	149,900
Information	209,800	210,300	191,200	191,500	195,600
Financial and Insurance	163,600	153,900	142,300	137,800	137,500
Real Estate, Rental & Leasing	80,300	79,400	73,800	71,700	71,900
Professional and Business Services	605,400	582,600	529,800	527,500	540,400
Educational and Health Services	492,700	505,800	514,600	522,000	534,800
Leisure and Hospitality	397,900	401,600	385,600	384,800	392,800
Other Services	147,100	146,100	137,900	136,700	135,000
Federal Government	51,100	51,100	48,700	51,600	49,000
State Government	81,000	82,400	82,000	80,700	82,700
Local Government	463,700	470,300	465,200	447,300	433,500
Total All Industries (2)	4,129,600	4,077,600	3,830,300	3,779,300	3,799,600

(1) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(2) May not add due to rounding.
Source: State of California Employment Development Department.

Largest Employers

The following table lists the largest private employers within the City and their estimated number of employees:

Table No. 16
CITY OF TORRANCE, CALIFORNIA
Largest Private Sector Taxpayers/Employers
(Excluding Public Utilities)
June 30, 2011
(Unaudited)

Company	Number of Employees
Toyota Motor Sales	3,379
American Honda	2,095
Honeywell International	1,161
Robinson Helicopter Co.	968
Hi Shear Corporation	898
Alcoa Fastening Systems	878
Exxon Mobil Oil Corporation	713
L-3 Communications Electron Tech, Inc.	647
Pelican Products, Inc.	592
Adecco	422

Source: City of Torrance Finance Department; State of California Employment Development Dept.

Effective Buying Income

"Effective Buying Income" is defined as personal income less personal tax and nontax payments, a number often referred to as "disposable" or "after-tax" income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as "disposable personal income."

The following table summarizes the total effective buying income for the City, the County, the State and the United States for the period 2006 through 2010.

Table No. 17
CITY OF TORRANCE
Effective Buying Income
As of January 1, 2006 through 2010

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2006	City of Torrance	$ 3,712,903	$53,381
	Los Angeles County	190,915,435	41,683
	California	764,120,963	46,275
	United States	6,107,092,244	41,255
2007	City of Torrance	$ 3,955,608	$56,131
	Los Angeles County	202,646,560	43,710
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	City of Torrance	$ 3,993,535	$56,670
	Los Angeles County	206,127,855	44,653
	California	832,531,445	48,952
	United States	6,443,994,426	42,303
2009	City of Torrance	$ 4,081,873	$58,531
	Los Angeles County	207,077,609	45,390
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2010	City of Torrance	$ 3,846,953	$55,684
	Los Angeles County	196,757,991	43,133
	California	801,393,028	47,177
	United States	6,365,020,076	41,368

Source: The Nielsen Company (US), Inc.

Construction Activity

Building activity for the past five years in the City is shown in the following table.

Table No. 18
CITY OF TORRANCE
Total Building Permit Valuations
(valuations in thousands)
Calendar Year 2006 to 2010

	2006	2007	2008	2009	2010
Permit Valuation					
New Single-family	$28,018.6	$16,705.0	$7,950.0	$3,714.5	$8,467.7
New Multi-family	46,598.6	25,413.7	3,258.9	1,995.5	1,526.0
Res. Alterations/Additions	30,404.6	26,933.8	20,944.1	18,496.5	18,815.8
Total Residential	$105,021.8	$69,052.5	$32,152.9	$24,206.5	28,809.4
New Commercial	$58,507.2	$5,783.7	$25,952.0	$5,054.7	0.0
New Industrial	0.0	0.0	8,000.0	1,515.1	0.0
New Other	7,891.5	2,120.0	10,972.7	944.9	2,092.4
Com. Alterations/Additions	54,085.3	54,591.6	39,559.7	25,797.9	49,616.2
Total Nonresidential	$120,484.1	$62,495.3	$84,484.5	$33,312.6	$51,708.6
New Dwelling Units					
Single Family	109	73	29	14	37
Multiple Family	271	146	25	10	8
Total	380	219	54	24	45

Source: Economic Sciences Corporation, California Building Permit Activity.

Utilities

The City is the primary source of water service within the City, providing water service to over 70% of the City's developed area, including the greatest portion of its industrial tracts. The two private purveyors that provide water service to the remainder of the City are Dominquez Water Corporation and California Water Service Company. The City of Torrance Collection System, with a capacity of 350 million gallons per day, supplies sewer service. Gas and electric service are provided by Southern California Gas Company and Southern California Edison, respectively. Telephone service is provided by General Telephone and Pacific Bell to the western and eastern portions of the City, respectively.

APPENDIX B

COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2011

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

APPENDIX D

DTC AND THE BOOK-ENTRY ONLY SYSTEM

*The following description of the Depository Trust Company ("**DTC**"), the procedures and record keeping with respect to beneficial ownership interests in the Notes, payment of principal, interest and other payments on the Notes to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Notes and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

*Neither the issuer of the Notes (the "**Issuer**") nor the trustee, fiscal agent or paying agent appointed with respect to the Notes (the "**Agent**") take any responsibility for the information contained in this Appendix.*

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Notes, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Notes, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Notes, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is

a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI

Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Torrance (the "City") in connection with the issuance by the City of the $__________________ City of Torrance 2012-13 Tax and Revenue Anticipation Notes (the "Notes"). The Notes are being issued pursuant to a resolution adopted by the City Council of the City on ___________, 2012, (the "Resolution"). The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Notes and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"*Dissemination Agent*" shall mean the City, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"*Listed Events*" shall mean any of the events listed in Section 3(a) of this Disclosure Certificate.

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule.

"*Participating Underwriter*" shall mean any of the original underwriters of the Notes required to comply with the Rule in connection with offering of the Notes.

"*Rule*" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 3, the City shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Notes:

(1) Principal and interest payment delinquencies.

(2) Non-payment related defaults, if material.

(3) Unscheduled draws on debt service reserves reflecting financial difficulties.

(4) Unscheduled draws on credit enhancements reflecting financial difficulties.

(5) Substitution of credit or liquidity providers, or their failure to perform.

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(7) Modifications to rights of security holders, if material.

(8) Bond calls, if material, and tender offers.

(9) Defeasances.

(10) Release, substitution, or sale of property securing repayment of the securities, if material.

(11) Rating changes.

(12) Bankruptcy, insolvency, receivership or similar event of the City or other obligated person.

(13) The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Resolution.

(c) The City acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier "if material." The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the City determines the event's occurrence is material for purposes of U.S. federal securities law.

Section 4. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Notes. If such termination occurs prior to the final maturity of the Notes, the City shall give notice of such termination in the same manner as for a Listed Event under Section 3(c).

Section 5. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the City.

Section 6. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Section 3(a) it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Notes, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized Bond Counsel, have complied with the requirements of the Rule at the time of the primary offering of the Notes, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Notes, or (ii) does not, in the opinion of the Trustee or nationally recognized Bond Counsel, materially impair the interests of the holders or beneficial owners of the Notes.

Section 7. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

Section 8. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate any holder or beneficial owner of the Notes may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 9. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Notes.

Section 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Notes, and shall create no rights in any other person or entity.

Date: ________ __, 2012

CITY OF TORRANCE

By ______________________________

City Manager