

# CITY OF PASADENA

## Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

### (20) Accumulated Fund Deficits

The following funds reported accumulated deficits in their respective fund balances / net assets at June 30, 2005:

	<u>Accumulated Deficit</u>
<b>Governmental Activities:</b>	
PCDC Debt Service	\$(24,786,221)
Internal Service Funds:	
Workers' Compensation	(13,674,311)
<b>Business-type Activities:</b>	
Old Pasadena Parking	(4,970,513)
Paseo Colorado Parking	(1,514,423)

Management's plans for resolution of the accumulated fund deficits are as follows:

#### PCDC Debt Service

This deficit reflects cash advances made by the City's General Fund in order to fund start-up costs of the Commission. In addition, the City advanced funds to the Fair Oaks Redevelopment Project Area in order to cover costs associated with the development of the Fair Oaks Renaissance Plaza project. The City's General Fund has built in a \$10.5 million allowance for uncollectible long-term receivables in recognition that PCDC may not have the ability to repay all of its obligations. The balance is expected to be repaid from future cash flows from tax increment received from the various project areas.

#### Workers' Compensation

The City has established a Workers' Compensation Fund to provide for the potential claim and cost expenditures for workers' compensation claims against the City. In addition to any monies held in this Fund, the City makes an annual appropriation based upon its estimate of claim and expense payments during the fiscal year. Rates charged to the departments will be increased as part of the fiscal year 2006 budget. Although there is a deficit in fund balance, the City has cash funded 26.4% of the claims payable liability.

## CITY OF PASADENA

### Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

#### (20) Accumulated Fund Deficits, (Continued)

##### Old Pasadena Parking

When the two City-owned parking structures opened in Old Pasadena in the late 1980's, the high economic prosperity, which the area now enjoys, was not there. During the first seven years of operation, the parking structures accumulated a deficit of approximately \$6,400,000. The City anticipates the accumulated deficit to continue to decrease because of net profits each year. The rate structures are constantly under review to ensure adequate profits are generated. Profits began to be obtained allowing the payback plan to the General Fund. Beginning in fiscal year 1996, the fund began a payback to the General Fund at a rate of \$250,000 annually. In fiscal year 1998, the annual payback amount was increased to \$350,000.

##### Paseo Colorado Parking

In August 1999, the City of Pasadena and the Developer of the Paseo Colorado entered into a Parking Operation Management Agreement that both defined operating standards for the three parking facilities associated with the Paseo Colorado as well as spelled out the methodology by which the City and the Developer cover any operating shortfalls. Under the terms of the agreement, the City loans to the Paseo Colorado Parking Fund the first \$500,000 in losses, and the developer loans the next \$300,000. The City is obligated to transfer any required funds above \$800,000. All funds lent by either the City or the Developer will be repaid from future years profits and will earn 6% interest.

**CITY OF PASADENA**

**Notes to the Basic Financial Statements, (Continued)**

**Year Ended June 30, 2005**

**(21) Expenditures in Excess of Appropriations**

The following funds reported an excess of expenditures over appropriations at June 30, 2005:

	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
General Fund:			
General government			
Non-departmental	3,443,543	6,236,566	(2,793,023)
Public Safety			
Police	46,103,512	46,372,668	(269,156)
Culture and Leisure			
PCOC	4,132,657	4,611,586	(478,929)
Community Development			
Planning and Permitting	8,082,156	8,082,604	(448)
Special Revenue Funds:			
Community Facilities District No.1	-	457,841	(457,841)
Donated Funds	-	85,943	(85,943)

The general government, non-departmental expenditures exceeded appropriations due to \$3,506,741 of the expenditures being for billable projects which do not typically have budgets. This overage was partially offset by savings in other non-departmental expenditures.

**CITY OF PASADENA**  
**Notes to the Basic Financial Statements, (Continued)**  
**Year Ended June 30, 2005**

**(22) Transfers**

**Primary Government**

The following is a summary of transfers in and out within the primary government for the year ended June 30, 2005:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
General Fund	Project Management Fund	\$ 2,301,858
	2003 Variable Rate Demand COP Fund	196,132
	Nonmajor Governmental Funds	37,363,798 (1)
	Internal Service Funds	<u>48,936</u>
		<u>39,910,724</u>
Project Management Fund	Light and Power Fund	2,838,638 (2)
	Paseo Colorado Parking Fund	<u>14,014</u>
		<u>2,852,652</u>
2003 Variable Rate Demand COP Fund	Project Management Fund	12,320,239 (3)
	Nonmajor Governmental Funds	<u>120</u>
		<u>12,320,359</u>
PCDC Debt Service Fund	Nonmajor Governmental Funds	<u>1,591,780 (4)</u>
Light and Power Fund	General Fund	<u>16,657,844 (5)</u>
Water Fund	General Fund	2,455,661 (6)
	Project Management Fund	<u>52,457</u>
		<u>2,508,118</u>

**CITY OF PASADENA**

**Notes to the Basic Financial Statements, (Continued)**

**Year Ended June 30, 2005**

**(22) Transfers, (Continued)**

**Primary Government, (Continued)**

Transfers From	Transfers To	Amount
Nonmajor Governmental Funds	General Fund	40,761,680 (7)
	Project Management Fund	12,420,267 (7)
	2003 Variable Rate Demand COP Fund	254,877
	PCDC Debt Service Fund	2,698,399 (7)
	Nonmajor Governmental Funds	3,311,447 (7)
	Internal Service Funds	<u>59,869</u>
		<u>59,506,539</u>
Nonmajor Enterprise Funds	General Fund	198,240
	Internal Service Funds	<u>76,000</u>
		<u>274,240</u>
Internal Service Funds	General Fund	423,681
	Project Management Fund	1,449,078 (8)
	Nonmajor Governmental Funds	<u>112,548</u>
		<u>1,985,307</u>
Total		\$ <u><u>137,607,563</u></u>

(1) Transfers from the General Fund to Nonmajor Governmental Funds consist in part of the following:

- a) \$8,614,007 transferred to the Library Service Fund to support the City of Pasadena's libraries.
- b) \$987,929 transferred to the Health Fund to support the City's animal control program.
- c) \$26,598,002 transferred to various debt services funds for the General Fund's portion of debt service payments on General Obligation Bonds, 1999 Pension Bonds, 1993 Certificates of Participation, 2001 Refunding and Capital Improvement Program Certificates of Participation, 2003 Certificates of Participation, and 2004 Auction Certificates of Participation.

## CITY OF PASADENA

### Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

#### (22) Transfers, (Continued)

##### Primary Government, (Continued)

- (2) The Project Management Fund transferred \$2,838,638 to the Light and Power Fund to cover costs of certain electrical undergrounding projects.
- (3) \$12,320,239 was transferred from the 2003 Variable Rate Demand Certificate of Participation Capital Project Fund to the Project Management Fund for the City Hall Seismic Retrofit Project.
- (4) The PCDC Debt Service Fund transferred \$1,591,780 to Nonmajor Governmental Funds, of which, \$1,324,111 was transferred to the Affordable Housing Fund as a housing set aside for affordable housing.
- (5) The breakdown of the \$16,657,844 contribution to the General Fund from the Light and Power Fund is as follows: \$6,262,182 or 5% of gross operating revenue used for any municipal purpose; \$4,195,662 or 3.35% of gross operating revenue for City Hall Seismic Retrofit Project; \$6.2 million additional funding for City Hall approved by City Council.
- (6) The Water Fund transferred \$2,455,661 to the General Fund. Of this amount, \$1,915,661 is based on 6% of gross operating revenue as authorized by the City's Charter, and the remaining \$540,000 is for the Hahamonga Watershed Park.
- (7) Nonmajor Governmental Funds transferred \$64,381,539 to various funds during fiscal year 2005:
  - a) \$40,000,000 of the transfer to the General Fund was from the 2004 Pension Bond Debt Service Fund to fund the City's contribution to the Fire and Police Retirement System.
  - b) Nonmajor Special Revenue and Capital Projects Funds transferred \$12,420,267 to fund various capital projects.
  - c) \$2,698,399 was transferred from Pasadena Community Development Commission Special Revenue and Capital Projects Funds to cover debt for the Pasadena Community Development Commission.

## CITY OF PASADENA

### Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

#### (22) Transfers, (Continued)

##### Primary Government, (Continued)

- d) The major components of the \$3,311,447 transferred from Nonmajor Governmental Funds to other Nonmajor Governmental Funds consist of the following:
- a. \$1,642,895 transferred from the Library Special Tax Fund to the Library Services Fund to support Pasadena's libraries.
  - b. \$844,749 transferred from Special Revenue, Capital Projects and Debt Service Funds to cover their share of debt for the 1993 Certificates of Participation, 1996 Multi-Purpose Certificates of Participation, 2001 Refunding and Capital Improvement Program Certificates of Participation, 2003 Certificates of Participation and 2004 Auction Certificates of Participation.
  - c. \$796,521 transferred from various Pasadena Community Development Commission Capital Project Funds to the Pasadena Community Development Commission Affordable Housing Fund as a housing set aside for affordable housing.
- (8) \$1,449,078 was transferred from Internal Service Funds, of which, \$8,000 was from the Fleet Maintenance Fund and \$1,441,078 from the Building Maintenance Fund to the Project Management Fund to fund various capital projects.

#### (23) Self-Insurance

The City maintains self-insurance programs for workers' compensation and general liability, which are self-administered. As of July 1, 2004, no excess policies in either liability or worker's compensation exist.

One workers' compensation claim from prior years, when the retention was 500,000, has exceeded the excess level and another is expected to exceed it. No workers' compensation injury was incurred this fiscal year that is expected to exceed \$1,000,000 over the course of succeeding years.

The Office of the City Attorney, primarily using staff counsel, controls litigated liability claims. Although several incidents created exposure to liability damages in excess of \$1,000,000 during the past year, the historical disposition results on the type of incidents tend to be a defense verdict or settlement at a fraction of the exposure.

## CITY OF PASADENA

### Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

#### (23) Self-Insurance, (Continued)

Self-Insurance losses and administrative costs are reported in the General Liability and Workers' Compensation Internal Service Funds. Losses incurred are reimbursed by departments over a period of time as part of an internal service assessment system. Legal expenses are reported in the City Attorney Department of the General Fund. A case reserve is established for each claim, monitored and adjusted by the Liability Claims Coordinator or the Workers' Compensation Claims Supervisor, including expected litigation expenses and losses that will be paid by the City Treasurer.

The City buys insurance for its helicopter fleet from Old Republic with no deductible, and liability limits of \$20,000,000. Hull insurance with a 5% deductible is purchased on helicopters if purchased with money from Certificates of Participation. There have been no claims during the past three years.

The City bought All Risk Property Insurance on all its buildings with a total scheduled insured value of \$1,024,904,621 with limits of \$1,000,000,000 per occurrence with certain sublimits, including \$25,000,000 for course of construction. The basic deductible was \$25,000. Exclusions include earthquake, corrosion, sabotage, terrorism, EDP electronic erasure, asbestos, and mold. The program has 12 insurance companies or facilities participating in the coverage, with Lexington Insurance Company (a member of the AIG group of insurance companies) being the company with the first \$10,000,000 of coverage. The City recovered on one claim for \$76,663.34 during the past fiscal year.

The City bought Boiler and Machinery insurance as part of the All Risk Property Insurance Purchasing Group for limits of \$100,000,000. The coverage is subject to certain sublimits, with variable deductibles including \$2,500 on Consequential Damage (except \$250,000 at power plants). There have been increases in property values. Lexington is the primary insurer for \$10,000,000, with CNA and foreign insurers excess. CNA will provide boiler inspections. The City made no claim during the past fiscal year.

PCOC is entitled to indemnity from the City, and losses are included in the City's general liability self-insurance program. PCOC carries statutory workers' compensation insurance with no retention. PCOC requires licensees to provide insurance or purchase Special Events Liability Insurance from PCOC. The City buys liability insurance on the parking structures at PCOC. There have been incidents during the past year which have been covered by insurance or not pursued, presenting the City with minor exposure to its self-insurance funds.

RBOC is entitled to indemnity from the City, and its losses are included in the City's general liability self-insurance program. RBOC carries statutory workers' compensation insurance with no retention. Brookside Golf Course is administered through RBOC,



**CITY OF PASADENA**

**Notes to the Basic Financial Statements, (Continued)**

**Year Ended June 30, 2005**

**(23) Self-Insurance, (Continued)**

which has contracted with American Golf to operate the facility. The Club House is leased to a restaurant and golf shop, each carrying its own liability insurance. Major Rose Bowl tenants include the Pasadena Tournament of Roses, UCLA Football, and the R. G. Canning Swap Meet. Tenants provide insurance on behalf of the City to a varying extent. Some claims are processed by American Golf or the tenants' insurance companies and are not included in the table below. The City has one claim where a Rose Bowl licensee has refused to honor its insurance agreement on a claim with a moderately serious injury.

The claims liability reported in the General Liability and Workers' Compensation Internal Service Funds is based on the requirements of GASB Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated, including incurred but not yet reported claims. As of June 30, 2005, claims payable amounted to \$21,607,490.

Changes in the claims payable liability in fiscal years 2004 and 2005 for the General Liability and Workers' Compensation Internal Service Funds are as follows:

	<b>Beginning Fiscal Year Liability</b>	<b>Current Year Claims and Prior Year Changes in Estimates</b>	<b><u>Claim Payments</u></b>	<b>Ending Fiscal Year Liability</b>
2003-04	\$21,673,348	5,101,136	5,364,906	21,400,578
2004-05	21,400,578	8,964,512	8,757,600	21,607,490

# CITY OF PASADENA

## Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

### (24) Deferred Compensation Plan

For the benefit of its employees, the City has adopted a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code. Generally, eligible employees may defer receipt of a portion of their salary, up to \$12,000, until termination, retirement, death, or an unforeseeable emergency. As a result of changes under the Small Business Job Protection Act of 1996, all amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts must be held in a trust, custodial account, or annuity contract for the exclusive benefit of the employee participants and their beneficiaries. The new law effectively repeals the requirement that a section 457 plan sponsored by a governmental entity be solely the property of the employer, subject only to the claims of the employer's general creditors.

The plan has a Plan Administrator and an oversight committee. The five member committee is comprised of three elected City employees and two members of the community appointed by the City Council. The oversight committee members basically monitor the plan activity, reviewing hardship cases and ensuring that the Plan Administrator carries out his duties and responsibilities. The Plan Administrator is the Director of Finance or his designee and is responsible for the day to day administration, has authority to sign all legal agreements with approved plan providers, and ensures proper amounts are withheld and immediately transferred to trust and invested in accordance with participants' directions. In fiscal year 1999, the City adopted GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Management of the City believes they have sufficient administrative involvement with the plan in their role as trustee, thus, plan assets were transferred from an Agency Fund to an Expendable Trust Fund.

The following is a summary of the increases and decreases of amounts in the deferred compensation plan during the fiscal year:

	<u>2005</u>	<u>2004</u>
Assets, beginning of year (market value)	\$105,991,735	88,682,923
Deferrals of compensation	12,466,787	10,049,650
Earnings and adjustments to market value	6,131,822	11,056,869
Payments to eligible employees	<u>(6,719,238)</u>	<u>(3,797,707)</u>
Assets, end of year (market value)	<u>\$117,871,106</u>	<u>105,991,735</u>

## CITY OF PASADENA

### Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

#### **(25) Pension Plans**

Each full-time employee and each part-time employee (with 1,000 hours or more of service) of the City is a member of either the FPRS or California Public Employees' Retirement System. Both plans are defined benefit pension plans and are described individually in the following notes.

##### **Pasadena Fire and Police Retirement System**

###### Plan Description

FPRS is a single-employer defined benefit plan governed by a Retirement Board (Board) under provisions of the City Charter. The plan covers all fire and police personnel who were employed by the City prior to July 1, 1977, except for those who elected to transfer to the California Public Employees' Retirement System (CalPERS) at that time. Retirement benefits for all fire and police personnel employed thereafter are provided under CalPERS. The plan provides retirement, death and disability benefits. Copies of FPRS's annual financial report may be obtained from the Department of Finance, 100 N. Garfield Avenue, Pasadena, California 91109. This annual financial report includes the required three-year trend information.

###### Funding Policy

Section 1509.9 of the City Charter provides that the normal member contribution rates will provide an average annuity, at age 50, equal to 1/100 of the final compensation of members for each year of service according to tables adopted by the Board. The basic benefits otherwise funded by these contributions have now been fully funded by Contribution Agreement 16,900. Pursuant to the agreement, the City contributed \$100,000,000 net proceeds from the issuance of pension bonds to the System on August 5, 1999. The net proceeds plus the existing assets of the System became sufficient to fully fund the basic benefits, the unfunded basic benefits, the 1919 benefits, and \$82,539,000 of the \$109,274,000 present value of the COLA benefits. Contributions are recognized when due. Therefore, member contributions are suspended as long as basic benefits remain fully funded.

Pursuant to Section 1509.81 of the Charter, members also contribute an additional 5% of compensation for cost-of-living benefits. Because this is a flat rate and cost-of-living benefits are not fully funded, these contributions continued. The contribution requirements of plan members and the City are established and may be amended by the Board within the provisions of the City Charter.

# CITY OF PASADENA

## Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

### (25) Pension Plans, (Continued)

#### **Pasadena Fire and Police Retirement System, (Continued)**

##### Annual Pension Cost

For fiscal year 2005, the City's annual pension cost was \$7,284,021 for FPRS. The City's required and actual fiscal year contributions were \$16,664,701 and \$26,293,452, respectively. The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return, (b) projected annual salary increases of 5.6%, and (c) 4.1% per year cost-of-living adjustments. The actuarial value of FPRS' assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period (smoothed market value). During June 2004, FPRS entered into a Settlement and Release Agreement with the City. Under the agreement, the City issued a debenture of \$13,735,616 in June 2004 and agreed to make three payments to FPRS (in addition to the Cost of Living contributions required under the City Ordinance and employer pick-up of employee contributions negotiated in a labor agreement). The debenture included a principal amount of \$12,829,096 plus interest accrued through the end of the fiscal year. The City made the first payment of \$15 million in August 2004. The second payment of \$15 million was made on November 1, 2004. A third payment of \$10 million was made on January 2, 2005. The payments in excess of the debenture are projected to be used to cover any Supplemental Contribution required under actuarial as of June 30, 2004. In exchange for these payments, the FPRS Board agreed to modify the methodology used to calculate the actuarial value of assets in this and subsequent annual valuations. The modified methodology no longer requires that the actuarial value of assets remain within a 20% corridor around the actual market value of the assets. FPRS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. Benefits and refunds are recognized when due and payable. The amortization period of the unfunded actuarial liability ends on June 30, 2007.

##### Three-Year Trend Information for FPRS (in thousands)

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contributed</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$ 10,637	212	1.993%	57,131
6/30/04	11,765	13,863	117.833%	55,033
6/30/05	7,284	26,293	360.969%	36,023

**CITY OF PASADENA**  
**Notes to the Basic Financial Statements, (Continued)**  
**Year Ended June 30, 2005**

**(25) Pension Plans, (Continued)**

**Pasadena Fire and Police Retirement System, (Continued)**

**Required Supplementary Information for FPRS – Unaudited (in thousands)**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (A)</b>	<b>Actuarial Accrued Liability (AAL) Entry Age (B)</b>	<b>Unfunded AAL (UAAL) (B-A)</b>	<b>Funded Ratio (A/B)</b>	<b>Covered Payroll (C)</b>	<b>UAAL as a % of Covered Payroll [(B-A)/C]</b>
6/30/03	\$116,353	199,152	82,799	58%	2,248	3,683%
6/30/04	117,100	186,072	68,972	63%	380	18,150%
6/30/05	132,730	185,181	52,451	72%	277	18,902%

Changes in the Net Pension Obligation (NPO) during the fiscal year ended June 30, 2005 are as follows:

<b>Beginning of year net pension obligation</b>	<b>\$55,032,710</b>
Pension Cost:	
Annual required contribution	16,664,701
Interest on beginning of year NPO less interest on mid year City contribution	4,402,617
Amortization of beginning of year NPO	<u>(13,783,297)</u>
Total pension costs	7,284,021
Less: City contribution	<u>(26,293,452)</u>
<b>End of year net pension obligation</b>	<b><u>\$36,023,279</u></b>

**California Public Employees' Retirement System**

The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their

# CITY OF PASADENA

## Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

### (25) Pension Plans, (Continued)

#### **California Public Employees' Retirement System, (Continued)**

behalf and for their account. Benefit provisions and all other requirements are established by state statute and town contract with employee bargaining groups.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2004 to June 30, 2005 has been determined by an actuarial valuation of the plan as of June 30, 2002. The contribution rate indicated for the period is 19.958% of payroll for the safety plan and 2.423% of payroll for the miscellaneous plan. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2005, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2004 to June 30, 2005.

A summary of principle assumptions and methods used to determine the ARC is shown below.

	<u>Retirement Program</u>	<u>1959 Survivor Program</u>	
		<u>Misc. Plan</u>	<u>Safety Plan</u>
Valuation Date	June 30, 2002	N/A	June 30, 2001
Actuarial Cost Method	Entry Age Actuarial Cost Method	N/A	Modified Term Insurance Method
Amortization Method	Level Percent of Payroll	N/A	Level Percent of Payroll
Average Remaining Period	22 Years as of the Valuation Date (25 years for the Safety Plan)	N/A	Rolling 5 Years
Asset Valuation Method	3 Year Smoothed Market	N/A	3 Year Smoothed Market
Actuarial Assumptions			
Investment Rate of Return	8.25% (net of admin. expenses)	N/A	8.25% (net of admin. expenses)
Projected Salary Increases	3.75% to 14.20% depending on Age, Service, and type of employment (4.27% to 11.59% for the Safety Plan)	N/A	N/A
Inflation	3.50%	N/A	N/A
Payroll Growth	3.75%	N/A	3.75%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.50% and an annual production growth of 0.25%.	N/A	N/A

**CITY OF PASADENA**

**Notes to the Basic Financial Statements, (Continued)**

**Year Ended June 30, 2005**

**(25) Pension Plans, (Continued)**

**California Public Employees' Retirement System, (Continued)**

Defined Benefit Pension Plan (PERS)

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization period may not be lower than the payment calculated over a 30 year amortization period.

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded accrued liability to payroll.

*Required Supplementary Information – Safety – Unaudited (in thousands)*

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL As a % of Payroll</u>
<i>Retirement Program</i>						
6/30/00	\$114,986	141,541	(26,554)	123.1%	22,521	(117.9%)
6/30/01	128,047	149,180	(21,133)	116.5%	23,873	(88.5%)
6/30/02	154,780	145,031	9,749	93.7%	25,047	38.9%
<i>1959 Survivor Program</i>						
6/30/00	\$ 41	85	(44)	205.7%	22,521	(0.2%)
6/30/01	70	89	(19)	127.9%	23,873	(0.1%)
6/30/02	28	84	(56)	295.9%	25,047	(0.2%)

**CITY OF PASADENA**

**Notes to the Basic Financial Statements, (Continued)**

**Year Ended June 30, 2005**

**(25) Pension Plans, (Continued)**

**California Public Employees' Retirement System, (Continued)**

*Required Supplementary Information – Miscellaneous – Unaudited (in thousands)*

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL As a % of Payroll</u>
<i>Retirement Program</i>						
6/30/00	\$334,239	445,967	(111,729)	133.4%	58,584	(190.7%)
6/30/01	352,926	453,018	(100,092)	128.4%	61,065	(163.9%)
6/30/02	381,780	420,214	(38,434)	110.1%	69,689	(55.2%)

*1959 Survivor Program*

6/30/00	\$ 0	0	0	-	58,584	0.0%
6/30/01	0	0	0	-	61,065	0.0%
6/30/02	0	0	0	-	69,689	0.0%

*Three-Year Trend Information*

Annual Pension Cost (Employer Contribution)

<u>Fiscal Year</u>	<u>Safety</u>	<u>Miscellaneous</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$ 4,102	6,799	100%	-
6/30/04	5,411	5,872	100%	-
6/30/05	6,272	6,994	100%	-



**CITY OF PASADENA**

**Notes to the Basic Financial Statements, (Continued)**

**Year Ended June 30, 2005**

**(25) Pension Plans, (Continued)**

**Defined Contribution Plan**

The City provides pension benefits for employees not covered by CalPERS or FPRS through the Public Agency Retirement System (PARS). This is a defined contribution plan created in accordance with Internal Revenue Code Sections 401(a) and 501, and administered by Phase II Systems. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. The plan agreement requires the City to contribute an amount equal to 4.0% of the employees' earnings and the covered employee contributes 3.5%. The City contributions for each employee are fully vested.

The City's payroll for employees covered by PARS for the year ended June 30, 2005, was \$3,494,609. Both the City and the covered employees made the total required 7.5% contributions of \$139,784 from the City and \$122,311 from the covered employees.

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## CITY OF PASADENA

### Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

#### (26) Commitments and Contingencies

##### Primary Government

##### **Jointly Governed Organizations**

##### Joint Power Agreement between the City and the County of Los Angeles

Under a Joint Powers Agreement dated November 22, 1966, both the City and the County of Los Angeles (County) participated in the construction of a parking structure at 199 North Garfield Avenue, Pasadena, California. In 1985, the County exercised an option to purchase the structure from the Retirement Board of the Los Angeles County Employees' Retirement Association, at which time the City became tenant in common, holding a 30% share of the facility.

##### "Take or Pay" Contracts

The City's electric operation has entered into six "Take or Pay" contracts to provide for current and future electric generating capacity and transmission of energy for City customers. The City is obligated to pay the amortized cost of indebtedness regardless of the ability of the contracting agency to provide electricity and/or transmission, as applicable. The original indebtedness will be amortized by adding the financing costs to purchase energy over the life of the contract.

The Intermountain Power Authority (IPA), a subdivision of the State of Utah, was formed in January 1974 to finance the construction of a 1,640-megawatt coal-fueled generating plant consisting of two generating units located near Delta, Utah. The City, through contract, is obligated for 72 megawatts or 4.409% of the generation. In addition, the City entered into an "Excess Power Sales Agreement" with IPA, agent for the Utah Municipal Purchasers and the Cooperative Purchasers, which entitles the City to an additional share of 26 megawatts or 1.591%. The City's total obligation from the Intermountain Power Project (IPP) is 98 megawatts.

The City of Pasadena Light and Power Fund joined the Southern California Public Power Authority (SCPPA) on November 1, 1980. This authority, consisting of the cities of Los Angeles, Pasadena, Anaheim, Azusa, Banning, Riverside, Colton, Vernon, Burbank, Glendale, Cerritos, San Marcos, and the Imperial Irrigation District, was formed for the purpose of planning, financing, developing, acquiring, constructing operating and maintaining future power resources. The Joint Powers Agreement has a term of fifty years. The City entered into four projects with SCPPA.

## CITY OF PASADENA

### Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

#### (26) Commitments and Contingencies, (Continued)

##### Primary Government, (Continued)

##### **Jointly Governed Organizations, (Continued)**

The first project SCPPA participated in is a 3,810-megawatt nuclear fuel generation plant in Arizona (Palo Verde). The Palo Verde Nuclear Project consists of three (3) units, each having an electric output of approximately 1,270 megawatts. Unit No. 1 began commercial operation in February 1986, Unit No. 2 was commercially operable in September 1986, and Unit No. 3 attained commercial operation in January 1988. SCPPA has purchased approximately 225 megawatts of capacity and associated energy in Palo Verde (approximately 5.9% of total output), of which the City received 9.9 megawatts or 4.4% of SCPPA's entitlement.

SCPPA financed a second project called the Southern Transmission System (STS), which transmits power from the IPP to Southern California. The 500 kV DC is rated at 1,920 megawatts. The City's share of the line is 5.883% or approximately 113 megawatts. STS commenced commercial operations in July 1986.

SCPPA financed a third project called the Mead-Adelanto Transmission System consisting of a 202 mile long 500 kV AC transmission line extending between the Adelanto substation in Southern California and the Marketplace substation in Nevada. Commercial operations commenced in April 1996. Nine members own one-third of Mead-Adelanto through SCPPA. SCPPA members are entitled to 815 megawatts. The City is obligated for 70 megawatts or 8.589% of the SCPPA entitlement.

SCPPA financed a fourth project called the Mead-Phoenix Transmission System consisting of a 256 mile long 500 kV AC transmission line extending between the Westwing substation in Arizona and the Marketplace substation in Nevada. Commercial operations commenced in April 1996. Nine members own one-fifth of Mead-Phoenix through SCPPA. The City is obligated for 33 megawatts from the Mead-Phoenix project or 13.806% of the SCPPA entitlement.

SCPPA financed a fifth project called the "Magnolia Power Project" consisting of a natural gas-fired generating facility with a nominally rated net base capacity of 242 MW to be located on an existing generating site in the City of Burbank, California, including necessary and appurtenant facilities and equipment thereto, the applicable portion of any common facilities and interconnection facilities. The Project is being constructed for the primary purpose of providing the participants in the Project with firm capacity and

## CITY OF PASADENA

### Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

#### **(26) Commitments and Contingencies, (Continued)**

##### **Primary Government, (Continued)**

##### **Jointly Governed Organizations, (Continued)**

energy to help meet their power and energy requirements in 2005 and thereafter. SCPPA owns the Magnolia Power Project, and six SCPPA members have contracted with SCPPA for 100% of its output. The City of Pasadena's share is 6.1307% or 15 MW of base capacity.

Deregulation of the electric industry in California continues to be one of the most significant issues facing the City. The City has long-term contracts with IPA and SCPPA, most of which obligate the City to purchase power and/or services at cost, which is projected to be higher than market in a deregulated environment.

The City opened its market to competition on January 1, 2000. As a result, the City is faced with a "stranded investment" with a present value estimated to be approximately \$141.7 million in 2004. California Assembly Bill 1890 provides for the recovery of this stranded investment through a "competitive transaction charge" on each customer's utility bill. Since July 1, 2003, the City stopped collecting this charge.

A competitive financial strategy, which includes a ten-year financial planning model developed in 1996 and updated annually, serves as the blue print for managing the Utility through the open market transition. The strategy includes recovery and elimination of the stranded investment with minimal impact on customer rates over approximately five years. As of June 30, 2005, the City's Reserve for Stranded Investment fund balance was approximately \$144.2 million, which exceeds the estimated future stranded costs. In addition, labor groups and management have jointly addressed appropriate actions in view of deregulation, and processes and procedures to reduce operating and capital expenses.

A summary of the City of Pasadena "Take or Pay" contracts by project as of June 30, 2005, and its estimated contractual obligations through 2024, based on projected energy prices (in millions) are as follows:

## CITY OF PASADENA

### Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

#### (26) Commitments and Contingencies, (Continued)

##### Primary Government, (Continued)

##### **Jointly Governed Organizations, (Continued)**

	Unaudited (in millions)					
	IPA Project	SCPPA Palo Verde	SCPPA Southern Transmission System	SCPPA Mead- Adelanto	SCPPA Mead- Phoenix	SCPPA Magnolia
Bonds and Notes sold (outstanding)	3,446	148	929	229	72	313
Interest	<u>1,655</u>	<u>59</u>	<u>468</u>	<u>95</u>	<u>30</u>	<u>334</u>
Combined total debt service	5,101	207	1,397	324	102	647
City percentage	<u>6%</u>	<u>4.4%</u>	<u>5.883%</u>	<u>8.589%</u>	<u>13.806%</u>	<u>6.130%</u>
City obligations	<u>\$ 306</u>	<u>9</u>	<u>82</u>	<u>28</u>	<u>14</u>	<u>40</u>

##### SCPPA Natural Gas Development Project

In early 2004, Pasadena, along with eight other Southern California Public Power Authority (SCPPA) members, became alarmed about the volatility of price and supply forecasts of natural gas which is used to fuel our on-site and Magnolia generators. Furthermore, prices were projected to rise steadily as demand for natural gas continues to grow while supply remains stagnant or even falls. In order to mitigate some of the risk of the price and supply uncertainty, SCPPA was asked to look into a few different options for securing reliable and low cost sources of natural gas. After reviewing the options, the members decided to investigate further the purchase of a share in a natural gas reserve field. On July 1, 2004, nine SCPPA members signed a Development Agreement to jointly examine the feasibility and economics of purchasing a share in a natural gas reserves field. After almost a year of studying the financial and operational risks as well as the backgrounds of a number of gas drilling operations, Pasadena agreed to go forward and participate in the SCPPA Natural Gas Development Project and purchase property and up to a 1,000 MMBtu/day output share of natural gas reserves. Pasadena, along with five out of the original eight interested members, signed its first agreement with SCPPA effective July 1, 2005.

On July 1, 2005, SCPPA has successfully closed the first transaction to purchase an interest in natural gas reserves under the SCPPA gas development project to help ensure a

## CITY OF PASADENA

### Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

#### (26) Commitments and Contingencies, (Continued)

##### Primary Government, (Continued)

##### **Jointly Governed Organizations, (Continued)**

stable fuel supply for Pasadena Water and Power's (PWP) power plants. The acquisition, which includes 38 operating oil and gas wells expected to yield about 112 billion cubic feet of natural gas over the life of the field, is believed to be the largest natural gas field owned by public power utilities. It will help ensure a stable supply for PWP's power plants and stabilize the most volatile component of PWP's operating expenses.

SCPPA and other participants, including Los Angeles Department of Water and Power and the Turlock Irrigation District, signed a purchase agreement with Anschutz Pinedale Corp. in Denver to buy a portion of the company's natural gas reserves in Wyoming for \$300 million. Pasadena's SCPPA partners include the cities of Anaheim, Burbank, Colton and Glendale.

The agreement gives PWP a 2.13% ownership in the acquisition at a total cost of \$6.5 million including development and transaction costs. On July 1, 2005, PWP began scheduling net gas flow deliveries of 402 MMBtu/day to the local power plant at a substantial discount from today's \$7.50/MMBtu market prices. Daily deliveries are expected to nearly double over the next five years as a result of additional drilling investments.

Additional financial information on the SCPPA may be obtained by contacting Steve Endo, Power Engineer, with the Energy Contracts and Planning Division of the City of Pasadena Department of Water and Power, 45 E. Glenarm Street, Pasadena, CA 91105.

##### **Other**

Certain Federal and State revenues are received for specific purposes and are subject to audit by the grantor agencies. City management is of the opinion that adjustments, if any, resulting from such audits will not be significant.

##### **Litigation**

A number of suits and claims are pending against the City, RBOC and PCOC arising in the normal course of operations. In the opinion of management, the results of such legal actions will not have a material adverse effect on the financial position or results of operations of the City, RBOC and PCOC.

# CITY OF PASADENA

## Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

### (27) Defeasance of Debt

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old debt issues. Accordingly, the trust account assets and the liability for the defeased debt issues are not included in the City's financial statements.

As of June 30, 2005 the following defeased debt issues are outstanding:

	<b>Outstanding Balance at June 30, 2005</b>
1987 Police Building and Jail General Obligation Bonds (Partial refunding)	\$2,995,000
Electric Works Revenue Bonds, 1980 Series	6,770,000
Electric Works Revenue Bonds, 1985 Series	2,020,000
Electric Works Revenue Bonds, 1990 Series	9,565,000
Electric Works Revenue Bonds, 1992 Series	20,345,000
Electric Works Revenue Refunding Bonds, 1986 Series	2,025,000
Electric Works Revenue Refunding Bonds, 1993 Series	1,760,000
1991 Water Revenue Bonds	5,245,000
Financing Authority for Resource Efficiency - Power Revenue Bonds, 1994 Series	540,000
1994 Financing Authority for Resource – Water	1,535,000
1993 Water Revenue Bonds	20,325,000
Fair Oaks 1985 Tax Allocation Bonds	890,000
Villa-Parke 1985 Tax Allocation Bonds	1,120,000
Lake/Washington, 1985 Tax Allocation Bonds	265,000
Orange Grove 1985 Tax Allocation Bonds	75,000
Orange Grove 1989 Subordinate Tax Allocation Bonds	1,615,000
Villa Parke 1989 Subordinate Tax Allocation Bonds	1,310,000
1985 Certificates of Participation (Old Pasadena Parking Facilities Project of 1985)	17,130,000
1986 Refunding Certificates of Participation (Old Pasadena Parking Facilities Project of 1986)	18,980,000
1987 Certificates of Participation (Capital Improvement Projects)	12,745,000
1989 Certificates of Participation (Public Facilities Project)	19,305,000
1990 Certificates of Participation	25,520,000

## CITY OF PASADENA

### Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

#### **(27) Defeasance of Debt, (Continued)**

1992 Certificates of Participation (Refunding and Capital Project)	15,635,000
1993 Certificates of Participation (Refunding and Capital Project), Partial Refunding	25,075,000
1996 Certificates of Participation (Multi-Purpose Project), Partial Refunding	<u>8,465,000</u>
Total defeased debt issues outstanding	<u>\$221,255,000</u>

#### **(28) Private Property Financing Assistance – Primary Government**

The City served as a conduit for the Collis P. and Howard Huntington Memorial Hospital Trust, a 501(c)3 public benefit corporation for the financing of the acquisition of computers and related equipment for Huntington Memorial Hospital. The maximum amount of debt was \$10 million, disbursed through several loans and to be repaid over a maximum term of eight years. Wells Fargo is privately placing the notes. Repayment of the notes is the sole responsibility of the trust, not an obligation of the City, and is therefore excluded from the City's financial statements.

The City also participates in private property financing arrangements between lenders and property owners under the Marks Historical Rehabilitation Act of 1976. Such financing arrangements were issued by the City in 1984 in an aggregate amount of \$4,000,000 and are due in December 2014. These are not obligations of the City, and are therefore excluded from the City's financial statements.



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# CITY OF PASADENA

## Notes to the Required Supplementary Information

Year Ended June 30, 2005

### (1) Budgets and Budgetary Data

The City Council is required to adopt an annual budget resolution by June 30 of each fiscal year. The budgets are adopted on a basis that does not differ materially from GAAP.

An appropriated annual budget is legally adopted for the General and Special Revenue Governmental Funds. Annual appropriated budgets are not adopted for Debt Service Funds because bond indentures are used as the method for adequate budgetary control. Capital Projects Funds do not have annual appropriated budgets. Instead, control over projects is maintained by means of a project-length capital improvement budget. This project-length budget authorizes total expenditures over the duration of a construction project, rather than year by year.

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the City Council. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is the department level and within a single fund. The City Manager may authorize transfers of appropriations within a department so long as it is within a single fund. For budgeting purposes, the General Fund is composed of several departments while all other budgeted funds are each considered a single department. Supplemental appropriations during the year must be approved by the City Council. There were no significant budget amendments during the fiscal year. All unencumbered appropriations lapse at fiscal year end. In order to be an encumbered appropriation there must be either an approved purchase order or contract in force as of June 30.

### (2) Expenditures in Excess of Appropriations

The general fund reported an excess of expenditures over appropriations at June 30, 2005:

	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
General Fund:			
General government			
Non-departmental	2,085,621	6,236,566	(4,150,945)
Public safety			
Police	46,106,736	46,372,668	(265,932)
Culture and leisure			
PCOC	4,132,657	4,611,586	(478,929)

**CITY OF PASADENA**

**Notes to the Required Supplementary Information**

**Year Ended June 30, 2005**

**(2) Expenditures in Excess of Appropriations, (Continued)**

Community Development Planning and Permitting	8,082,156	8,082,604	(448)
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The general government, non-departmental expenditures exceeded appropriations due to \$3,506,741 of the expenditures being for billable projects which do not typically have budgets. This overage was partially offset by savings in other non-departmental expenditures.

**CITY OF PASADENA**  
**General Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Year Ended June 30, 2005**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with</u>	<u>Prior</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>	<u>Year</u>
				<u>Positive (Negative)</u>	<u>Actual</u>
<b>Revenues:</b>					
Taxes	\$ 106,788,712	106,788,712	103,263,885	(3,524,827)	102,320,301
Licenses and permits	1,859,193	1,859,193	2,422,590	563,397	1,787,937
Intergovernmental revenues	2,136,900	2,502,744	12,513,767	10,011,023	7,920,958
Charges for services	22,837,822	22,837,822	26,212,130	3,374,308	24,848,812
Fines and forfeits	6,206,000	6,206,000	6,541,630	335,630	5,273,955
Investment earnings	14,940,781	14,940,781	16,527,891	1,587,110	15,677,643
Net change in fair value of investments	-	-	(85,675)	(85,675)	(1,028,792)
Rental income	1,406,200	1,406,200	1,632,951	226,751	1,667,430
Miscellaneous revenues	1,880,798	1,880,798	2,186,348	305,550	2,949,067
Total revenues	<u>158,056,406</u>	<u>158,422,250</u>	<u>171,215,517</u>	<u>12,793,267</u>	<u>161,417,311</u>
<b>Expenditures:</b>					
Current:					
General government:					
City Attorney	3,554,353	3,630,894	3,007,231	623,663	3,617,026
City Clerk	1,770,614	1,786,099	1,683,509	102,590	1,070,094
City Council	2,916,648	2,916,648	1,502,486	1,414,162	1,447,370
City Manager	1,945,307	2,149,064	2,022,071	126,993	1,929,914
City Prosecutor	1,674,589	1,713,271	1,578,205	135,066	1,500,970
Finance	8,321,163	8,363,712	8,099,339	264,373	7,388,583
Human Resources	2,359,163	2,426,774	2,310,369	116,405	2,282,105
Non-departmental	1,750,231	2,085,621	6,236,566	(4,150,945)	5,135,467
Public safety:					
Fire	29,756,814	30,806,281	29,067,944	1,738,337	26,777,615
Police	44,920,652	46,106,736	46,372,668	(265,932)	40,928,818
Transportation:					
Public Works and Transportation	22,355,372	22,565,062	21,886,752	678,310	21,382,039
Culture and leisure:					
Human Services, Recreation and Neighborhoods	8,234,332	8,329,151	7,737,714	591,437	7,739,007
Non-departmental - PCOC	4,132,657	4,132,657	4,611,586	(478,929)	4,312,155
Community development:					
Planning and Permitting	7,882,433	8,082,156	8,082,604	(448)	7,808,328
Debt Service					
Principal retirement	-	40,000,000	40,000,000	-	-
Total expenditures	<u>141,574,328</u>	<u>185,094,126</u>	<u>184,199,044</u>	<u>895,082</u>	<u>133,319,491</u>
Excess (deficiency) of revenues over (under) expenditures	<u>16,482,078</u>	<u>(26,671,876)</u>	<u>(12,983,527)</u>	<u>13,688,349</u>	<u>28,097,820</u>
<b>Other financing sources (uses):</b>					
Issuance of long-term debt	-	-	2,181,479	2,181,479	-
Transfers in	15,264,787	55,399,563	60,497,106	5,097,543	16,802,725
Transfers out	(36,594,706)	(36,625,704)	(39,910,724)	(3,285,020)	(36,052,151)
Total other financing sources (uses)	<u>(21,329,919)</u>	<u>18,773,859</u>	<u>22,767,861</u>	<u>3,994,002</u>	<u>(19,249,426)</u>
Change in fund balances	(4,847,841)	(7,898,017)	9,784,334	17,682,351	8,848,394
<b>Fund balances at beginning of year</b>	<u>59,297,092</u>	<u>59,297,092</u>	<u>59,297,092</u>	<u>-</u>	<u>50,448,698</u>
<b>Fund balances at end of year</b>	<u>\$ 54,449,251</u>	<u>51,399,075</u>	<u>69,081,426</u>	<u>17,682,351</u>	<u>59,297,092</u>

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## SUPPLEMENTARY INFORMATION