

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

(14) Revenue Bonds - Primary Government, (Continued)

**Outstanding at
June 30, 2006**

interest payments are calculated. The City continues to pay interest to the bondholders at the fixed rate provided by the bonds. However, during the term of the swap agreement, the City effectively pays a variable rate on the debt. Principal is payable in annual installments ranging from \$1,590,000 to \$3,395,000 commencing August 1, 1999 to August 1, 2024. The legal recurring reserve requirement is \$5,133,000. A surety bond has been purchased to satisfy the reserve requirement. The City is in compliance with the revenue rate covenant requiring net income of the electric system to be at least equal to 1.10 times the amount necessary to pay principal and interest on the bonds and all other parity bonds.

\$ 53,720,000

2000 Paseo Colorado Taxable Revenue Bonds

On July 20, 2000, the City issued \$32,385,000 of Taxable Variable Rate Demand Revenue Bonds. Of the proceeds, \$26,000,000 was used for renovation of Paseo Colorado project and \$6,385,000 was used to cover debt service prior to operations of the Paseo Colorado parking facilities. Parking revenue from the parking facility will be used for debt service on the bonds. If the parking revenue is not sufficient, the City has agreed to cover the debt service until parking revenue is available. Interest on the bonds is due monthly at a variable rate not to exceed 12% per annum. Principal is payable in annual installments ranging from \$655,000 to \$2,560,000, commencing June 1, 2003 and ending June 1, 2025. The legal reserve requirement is \$2,715,000. One half of the legal reserve requirement, in the form of a surety bond, is credited to the reserve fund. The balance held in the reserve account as of June 30, 2006, including the surety bonds, was \$2,746,255.

29,500,000

2002 Electric Revenue Bonds

On July 15, 2002, the City issued \$82,320,000 of 2002 Electric Revenue Bonds to finance the costs of the 2002 Project which consists of two parts: Re-powering Project and the construction and installation of the San Rafael transmission line. Interest is payable semi-annually on December 1 and June 1 commencing June 1, 2003. The rate of interest varies from 3.0% to 4.75% per annum. Principal is payable in annual installments ranging from \$3,060,000 to \$5,535,000 commencing June 1, 2002 and

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

(14) Revenue Bonds - Primary Government, (Continued)

Outstanding at
June 30, 2006

ending June 1, 2022. The legal reserve requirement is \$6,906,624. The balance held in the reserve account as of June 30, 2006 was \$6,906,624. The City is in compliance with the revenue rate covenant requiring net income of the electric system to be at least equal to 1.10 times the amount necessary to pay principal and interest on the bonds and all other parity bonds.

66,230,000

2003 Electric Revenue Bonds

On August 11, 2003, the City issued \$9,905,000 of 2003 Electric Revenue Bonds to finance the costs of the Local Generation Re-powering Project (the "2003"). Interest is payable semi-annually on December 1 and June 1, commencing June 1, 2004. The rate of interest varies from 1.0% to 4.92% per annum. Principal is payable in annual installments ranging from \$450,000 to \$730,000 commencing June 1, 2004 and ending June 1, 2022. The legal reserve requirement is \$701,325. The balance held in the reserve account as of June 30, 2006 was \$738,639. The City is in compliance with the revenue rate covenant requiring net income of the electric system to be at least equal to 1.10 times the amount necessary to pay principal and interest on the bonds and all other parity bonds.

8,685,000

2003 Water Revenue Bonds

On August 4, 2003, the City issued \$47,425,000 of 2003 Water Revenue and Refunding Bonds to finance the costs of acquisition and construction of certain capital improvements to the Water System; refund all of the City's outstanding 1993 and 1994 Water Revenue. The 2003 Water Revenue and Refunding Bonds include the following: 1993 Water Bonds - \$20,815,000; 1994 Farecal - \$1,610,000 and 2003 Water revenue for \$25,000,000 for a total of \$47,425,000. The aggregate difference between the 1993 refunded debt and refunding debt is \$450,000 whereas \$10,000 for the 1994 farecal bonds. The net present value benefit for the 1993 bonds is \$585,587 and likewise \$31,507 for the 1994 Farecal issue. Interest is payable semi-annually on December 1 and June 1 commencing June 1, 2004. The rate of interest varies from 1.01% to 5.08% per annum. Principal is payable in annual installments ranging from \$1,190,000 to \$2,480,000 commencing June 1, 2004 and ending June 1, 2023. The legal

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

(14) Revenue Bonds - Primary Government, (Continued)

Outstanding at
June 30, 2006

reserve requirement is \$3,390,132. The balance held in the reserve account as of June 30, 2006 was \$3,546,854. The City is in compliance with the revenue rate covenant requiring net income of the electric system to be at least equal to 1.10 times the amount necessary to pay principal and interest on the bonds and all other parity bonds.

43,400,000

2006 Revenue Bonds

On February 1, 2006, the City issued the 2006 Variable Rate Demand Lease Revenue Bonds (Rose Bowl Refinancing and Improvement Projects) in the amount of \$47,300,000 to refund the 1991 and 1996 Variable Rate Demand Certificates of Participation (Rose Bowl Improvement Projects), and finance improvements to the Rose Bowl Stadium, the City's City Hall and related facilities. These certificates were issued for both governmental and component unit activities. Originally the certificates were issued at a variable rate mode not to exceed 12%; however, on December 15, 2005, the City entered into a forward swap agreement to convert to a fixed rate of 3.285% for the life of the bonds. Principal is payable in annual installments ranging from \$2,100,000 to \$3,600,000 commencing December 1, 2007 and ending December 1, 2023. The legal reserve requirement is \$3,600,000. The balance held in the reserve account as of June 30, 2006 was \$3,740,611. This advance refunding along with the swap was undertaken to fix the interest rate on the variable debts over the life of the bonds and eliminate the risk of increasing debt service due to interest rate rise. The economic benefit is the elimination of market risk and exposure to interest rate changes. The difference in debt service payments and the economic gain are undeterminable due to the variable nature of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the component unit activities column of the statement of net assets.

10,355,000

Total revenue bonds

\$211,890,000

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

(14) Revenue Bonds - Primary Government, (Continued)

The annual requirements to amortize outstanding revenue bonds as of June 30, 2006 are as follows:

| Year ending June 30 | <u>Primary Government</u> | | | | <u>Component Unit</u> | |
|------------------------|--------------------------------|------------------|---------------------------------|--------------------|-----------------------|-------------------|
| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Principal</u> | <u>Interest</u> |
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | | |
| 2007 | \$ - | 398,668 | 9,300,000 | 9,574,533 | - | 1,422,383 |
| 2008 | 460,000 | 398,668 | 9,695,000 | 9,160,170 | 1,640,000 | 1,422,383 |
| 2009 | 480,000 | 380,958 | 8,770,000 | 8,736,009 | 1,720,000 | 1,359,243 |
| 2010 | 505,000 | 362,478 | 9,170,000 | 8,328,603 | 1,795,000 | 1,293,023 |
| 2011 | 505,000 | 343,035 | 9,580,000 | 7,890,901 | 1,795,000 | 1,223,915 |
| 2012-2016 | 2,845,000 | 1,407,562 | 53,965,000 | 32,356,958 | 10,155,000 | 5,021,942 |
| 2017-2021 | 3,285,000 | 825,634 | 61,550,000 | 18,157,866 | 11,715,000 | 2,947,369 |
| 2022-2026 | 2,275,000 | 177,865 | 30,670,000 | 5,439,490 | 8,125,000 | 634,475 |
| 2027-2031 | - | - | 6,075,000 | 1,612,250 | - | - |
| 2032-2033 | - | - | 2,760,000 | 208,747 | - | - |
| Total payments | <u>\$10,355,000</u> | <u>4,294,868</u> | <u>201,535,000</u> | <u>101,465,527</u> | <u>36,945,000</u> | <u>15,324,733</u> |

(Balance of page intentionally left blank)

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

(15) Certificates of Participation

The certificates of participation outstanding at June 30, 2006 are as follows:

| | Primary Government | | Discretely Presented Component Units |
|---|----------------------------|---------------------------------|---|
| | Governmental Activities | Business- type Activities | |
| 1987 Certificates of Participation (Los Robles Avenue Parking Facilities) | \$ - | 12,000,000 | - |
| 1993 Refunding Certificates of Participation (Old Pasadena Parking Facilities Project) | - | 18,350,000 | - |
| 1993 Certificates of Participation (Refunding and Capital Projects) | 24,855,000 | - | - |
| 2001 Certificates of Participation (Refunding and Capital Projects) | 11,425,497 | - | 244,504 |
| 2003 Variable Rate Demand Certificates of Participation (City Hall and Park Improvements) | 73,790,000 | - | - |
| 2004 Auction Variable Certificates of Participation – Series A and B | <u>33,831,000</u> | <u>1,119,000</u> | - |
| Total Certificates of Participation | <u>\$143,901,497</u> | <u>31,469,000</u> | <u>244,504</u> |

1987 Certificates of Participation (Los Robles Avenue Parking Facilities)

On December 2, 1987, the Authority issued the 1987 Certificates of Participation (Los Robles Avenue Parking Facilities) in the amount of \$20,300,000 to finance the construction of a parking facility. Interest on the certificates is payable monthly on the first day of month commencing November 1, 1990. The rate of interest varies, but it is not to exceed 15% per annum. Principal is payable in annual installments ranging from \$200,000 to \$2,100,000 commencing November 1, 1990 and ending November 1, 2013. The legal reserve requirement is \$2,030,000. The balance held in the reserve account as of June 30, 2006 was \$2,705,062.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

(15) Certificates of Participation, (Continued)

1993 Refunding Certificates of Participation (Old Pasadena Parking Facilities Project)

On July 1, 1993, PCIC issued the 1993 Refunding Certificates of Participation (Old Pasadena Parking Facilities Project) in the amount of \$28,050,000 to defease the 1986 Certificates of Participation. Interest on the certificates is payable semi-annually on January 1 and July 1 commencing January 1, 1994. The rate of interest varies from 2.75% to 5.25% per annum. As with all serial bonds, the rate of interest varies according to the maturity date. Principal is payable in annual installments ranging from \$460,000 to \$2,085,000 commencing January 1, 1994 and ending January 1, 2018. The legal reserve requirement is \$2,225,000. The balance held in the reserve account as of June 30, 2006 was \$2,303,232.

1993 Certificates of Participation (Refunding and Capital Projects)

On January 1, 1994, PCIC issued the 1993 Certificates of Participation (Refunding and Capital Projects) in the amount of \$79,835,000 to defease the 1989 Public Facilities Project Certificates of Participation, the 1990 Capital Improvements Project Certificates of Participation, and finance certain improvements and renovations to City owned buildings. On March 25, 2004, these certificates were partially refunded. The rate of interest on the un-refunded balance is 5.35% per annum. Principal is payable in annual installments ranging from \$4,455,000 to \$5,515,000 commencing February 1, 2010 and ending February 1, 2014. The legal reserve requirement is met by the 2004 Certificates.

2001 Certificates of Participation (Refunding and Capital Projects)

On November 1, 2001, the City issued the 2001 Certificates of Participation (Refunding and Capital Projects) in the amount of \$21,210,000 to refund the 1992 Certificates of Participation. These certificates were issued for both governmental and component unit activities. Interest on the certificates is payable semi-annually on January 1 and July 1 commencing January 1, 2002. The rate of interest varies from 2.50% to 4.00% per annum depending on maturity date. Principal is payable in annual installments ranging from \$1,835,000 to \$2,525,000 commencing January 1, 2002 and ending January 1, 2011. The legal reserve requirement is \$2,525,000. The balance held in the reserve account as of June 30, 2006 is \$2,405,723.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

(15) Certificates of Participation, (Continued)

2003 Variable Rate Demand Certificates of Participation (City Hall & Park Improvements)

On January 1, 2003, the City issued the 2003 Variable Rate Demand Certificates of Participation (City Hall and Park Improvement Projects) in the amount of \$73,790,000. These certificates were issued to provide funds to finance a portion of the cost of the major renovations to the Pasadena City Hall, various park improvements, and to establish a reserve fund for certain outstanding certificates of participation; all which are activities of the governmental unit. Originally the certificates were issued at a variable rate not to exceed 12.20%; however, on January 28, 2003 the City entered into an agreement to convert to a fixed rate of 4.12% per annum for a period of 30 years. Principal is payable in annual installments ranging from \$1,495,000 to \$4,645,000 commencing February 1, 2008 and ending February 1, 2033. The legal reserve requirement is met by the 2004 Certificates.

2004 Certificates of Participation (Auction Rate) Series A & B

On March 25, 2004, the City issued the 2004 Auction Rate Certificates of Participation, Series A & B in the amount of \$40,325,000. These certificates were issued to refund a portion of the 1993 Certificates of Participation (Refunding and Capital Projects), a portion of the 1996 Certificates of Participation (Multi-Purpose Projects) and finance the costs of execution of the 2004 Certificates of Participation. The refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. Interest on Series A is due semi-annually and the rate varies from 1.45% to 3.00%. Principal is payable in annual installments ranging from \$125,000 to \$1,050,000 commencing February 1, 2006 and ending February 1, 2019. Interest on Series B is due weekly and the rate varies from 1.25% to 3.00%. Principal is payable in annual installments ranging from \$2,100,000 to \$5,800,000 commencing February 1, 2005 and ending February 1, 2019. The legal reserve requirement is \$8,742,168. The balance held in the reserve account as of June 30, 2006 was \$9,589,364.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

(15) Certificates of Participation, (Continued)

The annual requirements to amortize outstanding certificates of participation as of June 30, 2006 are as follows:

| Year ending June 30 | Governmental Activities | | Business-type Activities | | Component Unit | |
|------------------------|-------------------------|-------------------|--------------------------|-------------------|----------------|---------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2007 | \$4,937,637 | 6,056,039 | 2,362,318 | 1,829,719 | 45,045 | 9,658 |
| 2008 | 6,620,752 | 5,868,448 | 2,532,318 | 1,695,274 | 46,931 | 7,856 |
| 2009 | 6,918,271 | 5,612,088 | 2,807,913 | 1,551,104 | 48,817 | 5,979 |
| 2010 | 9,311,281 | 5,349,606 | 3,087,913 | 963,656 | 50,807 | 4,148 |
| 2011 | 9,751,389 | 4,917,686 | 3,365,710 | 879,457 | 52,904 | 2,117 |
| 2012-2016 | 39,307,703 | 18,511,236 | 13,182,299 | 2,947,711 | - | - |
| 2017-2021 | 22,694,468 | 11,486,190 | 4,130,529 | 390,384 | - | - |
| 2022-2026 | 15,725,000 | 7,899,070 | - | - | - | - |
| 2027-2031 | 19,545,000 | 4,358,754 | - | - | - | - |
| 2032-2033 | 9,089,996 | 565,882 | - | - | - | - |
| Total payments | <u>\$143,901,497</u> | <u>70,624,999</u> | <u>31,469,000</u> | <u>10,257,305</u> | <u>244,504</u> | <u>29,758</u> |

(Balance of page intentionally left blank)

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

(16) Capitalized Lease Obligations

Primary Government

Outstanding at
June 30, 2006

Property Lease

In 2001, the City of Pasadena entered into a lease purchase agreement in the amount of \$4,000,000 with Community Bank for the acquisition of the property located at 965 N. Fair Oaks Avenue, a 2.5 acre parcel of improved land. Lease payments are budgeted in the General Fund. Principal and interest are paid semi-annually. The rate of interest varies from 4.95% to 12.00%. Principal installments range from \$59,000 to \$300,053 commencing June 27, 2001, and ending December 27, 2021.

\$3,223,351

Equipment Leases

In 1999, the City of Pasadena entered into a lease-purchase agreement in the amount of \$5,918,500 with City National Bank for the acquisition of equipment, which is then leased to the City of Pasadena. Lease payments are budgeted in the department that purchased the equipment based on their share of the total financing. Principal and interest are paid quarterly. The rate of interest is 5.2%. Principal installments range from \$149,000 to \$224,000 commencing February 4, 2001 and ending November 4, 2007.

1,306,392

In September 2001, the City entered into a seven-year capital lease in the amount of \$1,500,000 with Community Bank to finance the purchase of equipment needed for the operation of the Paseo Colorado Parking Garage. The terms of the lease require semi-annual interest payments from \$4,356 to \$65,259 with a rate of 4.95% per annum, maturing on September 28, 2008.

615,107

In March 2005, the City of Pasadena entered into a lease-purchase agreement in the amount of \$6,500,000 with Community Bank for the acquisition of equipment, which is then leased to the City of Pasadena. Lease payments will be budgeted in the department that purchases the equipment based on their share of the total financing. Principal and interest are due semi-annually. The rate of interest is 3.150%. Principal installments range from \$606,126 to \$688,255 commencing September 30, 2006 and ending March 31, 2011.

6,500,000

Total primary government capitalized lease obligations

\$11,644,850

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

(16) Capitalized Lease Obligations, (Continued)

Primary Government, (Continued)

The assets acquired through capital leases are as follows:

| | <u>Governmental Activities</u> | <u>Business- type Activities</u> |
|-------------------------|------------------------------------|--|
| Asset: | | |
| Land | \$4,000,000 | - |
| Machinery and Equipment | 2,984,376 | 5,875,134 |
| Furniture and Fixtures | <u>19,030</u> | <u>444,006</u> |
| Total | <u>\$7,003,406</u> | <u>6,319,140</u> |

Future minimum lease payment requirements under capitalized lease obligations as of June 30, 2006 are as follows:

| <u>Year June 30</u> | <u>Governmental Activities</u> | | | | <u>Business-type Activities</u> | |
|-------------------------|--------------------------------|------------------|------------------------|-----------------|---------------------------------|-----------------|
| | <u>Property Lease</u> | | <u>Equipment Lease</u> | | <u>Equipment Lease</u> | |
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2007 | \$ 157,582 | 161,679 | 1,246,300 | 184,471 | 1,069,145 | 99,724 |
| 2008 | 165,175 | 154,086 | 1,210,233 | 142,116 | 747,093 | 44,353 |
| 2009 | 173,984 | 145,277 | 1,169,256 | 104,638 | 262,474 | 16,111 |
| 2010 | 182,825 | 136,436 | 1,206,375 | 67,517 | 135,525 | 7,585 |
| 2011 | 192,116 | 127,145 | 1,236,227 | 29,213 | 138,871 | 3,283 |
| 2012-2016 | 1,116,755 | 479,551 | - | - | - | - |
| 2017-2021 | 1,234,914 | 164,925 | - | - | - | - |
| 2022-2025 | - | - | - | - | - | - |
| Total payments | <u>\$3,223,351</u> | <u>1,369,099</u> | <u>6,068,391</u> | <u>527,955</u> | <u>2,353,108</u> | <u>171,056</u> |

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

(17) Unreserved Fund Balances – Primary Government

Unreserved fund balances for governmental funds at June 30, 2006 consisted of the following:

| | <u>General</u> | <u>Project Management</u> | <u>PCDC Debt Service</u> | <u>Non-Major Governmental Funds</u> | <u>Total</u> |
|--|----------------------|---------------------------|--------------------------|-------------------------------------|--------------------|
| Designated for: | | | | | |
| Retirement system contributions | \$ 3,000,000 | - | - | - | 3,000,000 |
| Capital projects | - | - | - | 49,001,101 | 49,001,101 |
| Emergency/capital improvement programs | 14,505,446 | - | - | - | 14,505,446 |
| City Hall seismic retrofit | 24,179,595 | - | - | - | 24,179,595 |
| Permanent Fund purposes | - | - | - | <u>992,663</u> | <u>992,663</u> |
| Total designated | 41,685,041 | - | - | 49,993,764 | 91,678,805 |
| Undesignated: | | | | | |
| General purpose, debt service, and special revenue purpose | <u>30,715,756</u> | <u>5,845,919</u> | <u>(25,362,581)</u> | <u>44,033,108</u> | <u>55,232,202</u> |
| Total unreserved fund balances | <u>\$ 72,400,797</u> | <u>5,845,919</u> | <u>(25,362,581)</u> | <u>94,026,872</u> | <u>146,911,007</u> |

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

(18) Restricted Net Assets – Proprietary Fund

In 1998, the City Council established a Reserve for Stranded Investment (Reserve) and imposed a Stranded Investment Surcharge (SIS) on all electric utility bills. Several sources of funding along with the SIS, were identified and funding for the Reserve began. As of June 30, 2002, it was determined that the Reserve was fully funded with no additional contributions required and the SIS was discontinued. All funds deposited into the Reserve, including investment earnings, were recorded as income during the year collected or realized. As of July 1, 2005, the market value of the Reserve was \$144,188,768. This amount was reflected on the Statement of Net Assets for the Light and Power Fund as restricted cash. The following chart reflects additions and subtractions from the Reserve that occurred during fiscal year 2006. The withdrawal of \$359,000 from the Reserve represents an “internal” transfer of cash from the Reserve to unrestricted net assets, all within the Light and Power fund. This also frees up a comparable dollar amount of restricted cash.

From an accounting perspective, this transaction only impacts the Statement of Net Assets and is not reflected on the statement of revenues and expenses. The fact that the cost of purchase power exceeded the revenues associated with purchase power only reduces operating income for the fiscal year. In any given fiscal year, this fact could result in a net operating loss; a fact contemplated at the time the Reserve was established.

As of June 30, 2006, the City has calculated its Stranded Investment to be \$81.5 million, while the market value of the Reserve is \$145.5 million.

Light and Power-Stranded Investments:

| | |
|------------------------------------|----------------------|
| Beginning Balance July 1, 2005 | \$144,188,768 |
| Interest Earnings | 6,333,958 |
| Market gain/losses | (4,659,604) |
| Release to unrestricted net assets | <u>(359,000)</u> |
| Ending Balance on June 30, 2006 | <u>\$145,504,122</u> |

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

(19) Accumulated Fund Deficits

The following funds reported accumulated deficits in their respective fund balances / net assets at June 30, 2006:

| | <u>Accumulated Deficit</u> |
|---|----------------------------|
| Governmental Activities: | |
| PCDC Debt Service | \$(25,362,581) |
| Internal Service Funds: | |
| Workers' Compensation | (9,519,966) |
| 2004 Auction Certificate of Participation | |
| Capital Project Fund | (2,025) |
| Business-type Activities: | |
| Old Pasadena Parking | (3,143,140) |
| Paseo Colorado Parking | (1,976,247) |

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 2007 budget. Although there is a deficit in fund balance, the City has cash funded 39.86% of the claims payable liability.

2004 Auction Certificate of Participation Capital Project Fund

This deficit reflects accrued liabilities at June 30, 2006.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

(19) 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, 2006

(20) Expenditures in Excess of Appropriations

The following funds reported an excess of expenditures over appropriations at June 30, 2006:

| | <u>Budget</u> | <u>Actual</u> | <u>Variance- with Final Budget Positive (Negative)</u> |
|------------------------|---------------|---------------|--|
| General Fund: | | | |
| General government | | | |
| Non-departmental | 6,539,712 | 8,301,282 | (1,761,570) |
| Culture and Leisure | | | |
| PCOC | 4,598,100 | 5,317,863 | (719,763) |
| Special Revenue Funds: | | | |
| Donated Funds | - | 162,204 | (162,204) |

The general government, non-departmental expenditures exceeded appropriations due to \$2,160,581 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, 2006

(21) Transfers

Primary Government

The following is a summary of transfers in and out within the primary government for the year ended June 30, 2006:

| <u>Transfers From</u> | <u>Transfers To</u> | <u>Amount</u> |
|-----------------------------|-----------------------------|-----------------------|
| General Fund | Project Management Fund | \$ 3,953,530 |
| | Nonmajor Governmental Funds | 36,865,359 (1) |
| | Internal Service Funds | 150,143 |
| | | <u>40,969,032</u> |
| Project Management Fund | Light and Power Fund | <u>1,047,152 (2)</u> |
| PCDC Debt Service Fund | Nonmajor Governmental Funds | <u>1,495,522 (3)</u> |
| Light and Power Fund | General Fund | <u>21,166,679 (4)</u> |
| Water Fund | General Fund | <u>2,596,466 (5)</u> |
| Nonmajor Governmental Funds | General Fund | 2,927,088 (6) |
| | Project Management Fund | 61,484,845 (6) |
| | PCDC Debt Service Fund | 1,044,082 (6) |
| | Nonmajor Governmental Funds | <u>3,276,751 (6)</u> |
| | | <u>68,732,766</u> |
| Nonmajor Enterprise Funds | General Fund | <u>198,240</u> |
| Internal Service Funds | General Fund | 52,000 |
| | Project Management Fund | 1,315,538 (7) |
| | Nonmajor Governmental Funds | <u>27,800</u> |
| | | <u>1,395,338</u> |
| Total | | \$ <u>137,601,195</u> |

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

(21) Transfers, (Continued)

Primary Government, (Continued)

- (1) Transfers from the General Fund to Nonmajor Governmental Funds consist in part of the following:
 - a) \$8,584,620 transferred to the Library Service Fund to support the City of Pasadena's libraries.
 - b) \$1,021,761 transferred to the Health Fund to support the City's animal control program.
 - c) \$26,085,971 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, 2004 Auction Certificates of Participation, and the 2006 Lease Revenue Bonds.
- (2) The Project Management Fund transferred \$1,047,152 to the Light and Power Fund to cover costs of certain electrical undergrounding projects.
- (3) The PCDC Debt Service Fund transferred \$1,490,522 to Nonmajor Governmental Funds, of which, \$1,318,147 was transferred to the Affordable Housing Fund as a housing set aside for affordable housing.
- (4) The breakdown of the \$21,166,679 contribution to the General Fund from the Light and Power Fund is as follows: \$6,271,715 or 5% of gross operating revenue used for any municipal purpose; \$8,802,049 or 7% of gross operating revenue for City Hall Seismic Retrofit Project, of which \$1.1 million is from the Public Benefit Charge Fund; \$6,092,915 additional funding for City Hall approved by City Council.
- (5) The Water Fund transferred \$2,596,466 to the General Fund. Of this amount, \$2,056,466 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.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

(21) Transfers, (Continued)

Primary Government, (Continued)

- (6) Nonmajor Governmental Funds transferred \$68,732,766 to various funds during fiscal year 2006:
- a) \$1,407,378 of the transfer to the General Fund was from the 1999 Pension Bond Debt Service Fund to fund an additional City contribution to the Fire and Police Retirement System. In addition, \$649,791 was transferred from the 1996 Multi Purpose Certificates of Participation Fund to reimburse the General Fund for payments made on behalf of the Pasadena Community Development Commission for their debt service advance from the 1996 Multi Purpose Certificates of Participation.
 - b) Nonmajor Special Revenue and Capital Projects Funds transferred \$61,484,845 to fund various capital projects. This includes \$51,441,860 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.
 - c) \$1,044,082 was transferred from Pasadena Community Development Commission Special Revenue and Capital Projects Funds to cover debt for the Pasadena Community Development Commission.
 - d) The major components of the \$3,021,874 transferred from Nonmajor Governmental Funds to other Nonmajor Governmental Funds consist of the following:
 - a. \$1,977,540 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, 2004 Auction Certificates of Participation and 2006 Lease Revenue Bonds.
 - b. \$949,217 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.
- (7) \$1,315,538 was transferred from Internal Service Funds, of which, \$39,271 was from the Fleet Maintenance Fund, \$2,250 was from the Computing and Communication Fund and \$1,274,017 from the Building Maintenance Fund to the Project Management Fund to fund various capital projects.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

(22) Self-Insurance

The City maintains self-insurance programs for workers' compensation and general liability, which are self-administered. As of July 1, 2005, no excess policies in either liability or worker's compensation exist. Liability claims are self-administered. Workers' compensation claims are partially self-administered with the Public Safety Departments' claims now processed by a 3rd Party Administrator.

One workers' compensation claim from prior years, when the retention was 500,000, has exceeded the excess level and five others are expected to eventually 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.

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 \$1,033,506,227 with limits of \$350,000,000 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 13 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 has two claims pending that occurred during the past fiscal year; it will recover \$123,097 on one claim and an undetermined amount, probably under \$100,000, on the other.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

(22) Self-Insurance, (Continued)

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 one claim during the past fiscal year which has not been concluded, but the City should recover about \$32,000.

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, 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. A Rose Bowl licensee who refused to honor its insurance agreement on a claim with a moderately serious injury settled the case during the year without payment by the City. Several claims or potential claims, some with relatively high severity, occurred at the National Championship Game or the Cinco de Mayo events.

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, 2006, claims payable amounted to \$20,435,788.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

(22) Self-Insurance, (Continued)

Changes in the claims payable liability in fiscal years 2005 and 2006 for the General Liability and Workers' Compensation Internal Service Funds are as follows:

| | Beginning Fiscal Year <u>Liability</u> | Current Year Claims and Prior Year Changes <u>in Estimates</u> | <u>Claim Payments</u> | Ending Fiscal Year <u>Liability</u> |
|---------|---|---|------------------------------|--|
| 2004-05 | \$21,400,578 | 8,964,512 | 8,757,600 | 21,607,490 |
| 2005-06 | 21,607,490 | 5,880,735 | 7,052,437 | 20,435,788 |

(Balance of page intentionally left blank)