June 21, 2010
1444 East Mountain Street
Pasadena, California 91104

Honorable Mayor Bill Bogaard
100. North Garfield Avenue - Room S 228
Pasadena, California 91109-7215

RE: Recommendations for City Council Meeting - 6-21-10- item 16

Prudent management dictates this is not the time to speculate.

1. Cancel the one million dollar monopoly token statue project.
2. Use traffic funds for the benefit of the 150,000 residents who drive cars rather than for the benefit of 1,000 recreation bike users. Cancel $9 million dollar bike project.
3. Use power and water revenue for these purposes and replace the damaged generator to prevent power brownouts this summer.
4. Spending 1.5 Billion dollars (2010-2014) on capitol projects based on wishful revenue projections is rejecting current and future economic realty. Cancel the $179 million dollar Rose Bowl renovation project and other future projects that require the sale of municipal bonds with the exception of revenue bonds to used for electricity, water, or sewer projects. Avoid filing Chapter 9 bankruptcy in the future.
5. Make every effort to make Pasadena a friendly business city by lowing fees and the cost of during business in this city.

Sincerely yours,
Floyd Folven
Floyd Folven

cc: Council Members: Jacque Robinson, Margaret McAustin, Chris Holden, Steve Haderlein

Vice Mayor Victor M. Gordo, Esq., Steve Madison, and Terry Tornek
Attachment: "Pension fund bombshell could worsen budget woes"
Attachment: "Municipal Bonds: Derailed."

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Item 16

THE SACRAMENTO BEE

Dan Walters: Pension fund bombshell could worsen budget woes

dwalters@sacbee.com

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California's fiscal pickle - state and local budgets that are many billions of dollars out of balance - may have just gotten worse by hundreds of billions of dollars.

The Governmental Accounting Standards Board has dropped a bombshell with preliminary new rules that, if adopted, would force governments to increase projections of pension liabilities by using tighter "discount rates" - effectively, lower assumptions of pension fund earnings.

The huge California Public Employees' Retirement System, the California State Teachers' Retirement System, the University of California Retirement System and dozens of locally managed pension funds would no longer be able to minimize unfunded liabilities by adopting rosy scenarios of future earnings.

Gov. Arnold Schwarzenegger, through his financial aide, David Crane, has waged a war of words with the union-controlled Cal- PERS, alleging that the nation's largest public pension fund has been lowballing its long-term liabilities.

Schwarzenegger has said he won't sign a new state budget without pension reforms of some kind. A few days ago, the administration reached agreement with four state worker unions on some mild pension changes mostly affecting new workers.

But the unions may be just playing for time, hoping that if Democrat Jerry Brown is elected governor, the "two-tier" system will be rolled back, as it was after Democrat Gray Davis succeeded Republican Pete Wilson in 1999.

The governor and Crane have touted a Stanford University study suggesting that, in calculating future pension obligations, the three state retirement systems stop using a discount rate that's the same as their assumed rates of annual earnings return, 7.5 percent or higher.

The Stanford study proposes a much lower rate instead that's based on Treasury bills, which would mean - according to the study - the funds are a half-trillion dollars underfunded. The accounting board wants an approach tied to municipal bonds similar to the Stanford proposal.

This could raise the state's unfunded liability by hundreds of billions of dollars. The board also wants liabilities displayed more prominently in government accounting reports - very much in the way it wants governments to start accounting for retirees' health care commitments.

If adopted, the new accounting standards could be a political game-changer by providing powerful ammunition for critics of the status quo. Pension boards, often controlled by unions, have insisted their systems are sound and don't need structural change.

But pension costs have risen dramatically due to sharp increases in benefits adopted during the Davis administration as well as multibillion-dollar investment losses by state and local systems. They're hitting state and local governments as recession ravages their budgets.

Call The Bee's Dan Walters, (916) 321-1195. Back columns, www.sacbee.com/walters

SMARTMONEY MAGAZINE by Russell Pearlman (Author Archive) Published May 17, 2010 | A A A

Municipal Bonds: Derailed

Also See:
* How to Make Sure Your Bonds Are Safe
* The New Bond Bubble

IT LOOKED LIKE THE closest thing you could get to a sure bet — even in a city full of one-armed bandits. The state of Nevada planned to build a sleek, automated monorail that would ferry millions of tourists up and down the famed Las Vegas Strip. And they were funding it by selling more than $600 million in municipal bonds — some of them paying a hefty 7.5 percent in interest. With AAA ratings, they were the very definition of "safe" muni bonds.

But something funny happened on the way to the casino. Fewer tourists came to Vegas, and those who did weren't up for a train ride; the monorail brought in far less revenue than expected. The nonprofit monorail agency filed for bankruptcy-court protection earlier this year. As for investors, not only have their interest payments dried up — the project's bankruptcy attorney confirms that it won't make its next payment, on July 1 — but they could lose almost all of their principal. The stranded buyers include top fund companies like New York–based DWS Investments. Its $6 million stake was a tiny fraction of its $1.6 billion DWS Scudder Strategic High Yield Tax Free fund, but manager Phil Condon still seems flummoxed. After all, such a disaster in a highly-rated municipal bond is almost unheard of. "We're not perfect," Condon says.

Neither, it turns out, are muni bonds. A once-stable class of investments built on the nation's roads, sewers and schools is beginning to look as shaky as, well, many of the nation's roads, sewers and schools. In recent months, of course, investors have seen apocalyptic headlines about all kinds of government-issued bonds — starting with those from Iceland and Greece, foreign nations stuck with tremendous debt and nowhere near the revenue to pay it off. With California's government issuing IOUs and other states and cities slashing services, there's been plenty of reason for investors to feel nervous about the $3 trillion, U.S. municipal bond market. When they get anxious enough to ask their brokers about their Puerto Rico-sewer and Pennsylvania-turnpike bonds, however, they generally hear the same answer: It's too soon to worry.

DEFAULTED: Las Vegas's $600 million monorail bonds.

But investors are starting to see signs of deeper problems — hairline fractures in the muni market's foundation. With the real estate crash and high unemployment robbing cities and towns of tax revenue, more municipalities are being forced to renege on their debts. Since last July, 201 municipal bond issuers have missed interest payments on some $6 billion worth of bonds, or an average of about one every other day. That's up from 162 in 2008, and a hefty increase from the 31 that did in all of 2007. To be sure, most of these busted bonds are not of the caliber that most Main Street investors buy. But the tremors are enough to inspire jitters among money pros. Already, sober-minded bond analysts and even a few state officials are beginning to join the fringe doomsayers in warning that there's potential for a municipal bond collapse. A small but growing number of financial advisers are uneasy too, telling clients to pull back a bit.

Whether those warnings are being heeded, though, is unclear. With their attractive and often tax-free yields, muni bonds have long been a draw for risk-averse investors, particularly retirees looking for a steady and reliable payment. Given how meager savings-account interest remains, it's not surprising that investors are still pouring an average of nearly $800 million in new money into munis each week, on top of the record $70 billion they put in last year. What's more, investors would need a keen eye to know the problem is escalating. After all, a missed interest payment on a bond in Beaumont, Texas, barely gets mentioned in Beaumont, let alone on CNBC. Mutual fund shareholders, meanwhile, would have an even harder time noticing a muni crisis at first. The impact of any single Vegas-style flameout is muted in a fund holding hundreds of bonds.

But pile on more defaults or other troubles, say skeptics, and prices in the whole category could plummet. If that happens, says Bob Froehlich, senior managing director of The Hartford, an insurer with a municipal bond portfolio of $12 billion, bond owners will have two choices: tie up their money for years by holding the bond to maturity or sell at a loss. "A lot of investors were naive, thinking, 'It's so safe, nothing can happen to it,'" Froehlich says. "It's on-the-job training for a lot of investors."

For today's generation of advisers, witnessing a municipal bond default is on par with seeing a living woolly mammoth. From 1974 to 2009, the default rate on bonds rated "investment grade" by major credit agencies was 0.3 percent. (Corporate bonds defaulted five times as often over the same time frame, according to Moody's Investors Service.) "For the most part, municipal credit is very sound," says Jim Murphy, who oversees a $1.8 billion tax-free high-yield bond fund at T. Rowe Price. Bond investors often attach a stigma to a town that defaults on municipal debt, which means that if it ever wants to raise money again, doing so will be much more difficult — and expensive.

Corey, Delia

From: Paul Little [Paul@pasadena-chamber.org]
Sent: Monday, June 21, 2010 5:32 PM
To: City_Council
Cc: Beck, Michael; Jomsky, Mark; Green, Andrew
Subject: Tonight's council meeting- Buy Local and city budget

Good afternoon,

I am unable to attend tonight's meeting of the Pasadena City Council, however I did want to express the support of the Pasadena Chamber of Commerce for your Finance Department's effort to encourage City Departments to seek bids from local Pasadena businesses before procuring work or supplies from companies outside of the city borders. This effort will support our local business community and our economy, probably save the city some money and return some resources to the city in the form of taxes and fees from those local businesses. Further, the city effort will bolster the confidence our businesses have in the city and provide a tangible example to the private sector that qualified firms and competitive prices can be found among our local businesses.

I also want to let you know that the Pasadena Chamber of Commerce appreciates the effort you and your staff have put into creating a workable city budget in these difficult economic times. We look to the city for leadership and are pleased that you are providing an example of financial stewardship at this time. We also appreciate that you did not turn to easily increased revenue sources from either your commercial or residential sectors to finance your budget. Instead you chose to take a more difficult, but more sustainable path, to create a budget that can lead to long-term financial stability for the City. We recognize that difficult decisions have been made, and are prepared to support you in the decisions you will make to balance the city budget.

Thank you and good luck.

Paul

Paul Little

Paul Little
President and Chief Executive Officer
Pasadena Chamber of Commerce
844 East Green Street, Suite 208
Pasadena, CA 91101
626-795-3355

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