

**APPENDIX A**

**THE CITY OF PASADENA**

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## APPENDIX A

### THE CITY OF PASADENA

#### General

The City of Pasadena, California (the “City”) was incorporated in 1886 and became a freeholder charter city in 1901. The City adopted its city manager form of government by amendments to the City Charter in 1921. The City Council is responsible for the administration of the City.

The City covers nearly 23 square miles and is located in Los Angeles County in the northwestern portion of the San Gabriel Valley. The City is bounded on the west by the cities of Los Angeles, La Cañada and Glendale, on the south by South Pasadena and San Marino, on the east by Arcadia and Sierra Madre, and on the north by the unincorporated community of Altadena and the San Gabriel Mountains.

In addition to general governmental services such as fire and safety, the City provides its approximately 140,000 residents with power, water and refuse services. The Southern California Gas Company supplies natural gas, and the County of Los Angeles provides sewage services.

The City consistently receives international recognition for the Rose Parade and Rose Bowl events and has achieved significant success in blending urban amenities with suburban neighborhoods. Engineering, finance and health care comprise the primary industry sectors. In addition, the academic and research pursuits of the California Institute of Technology, the Jet Propulsion Laboratory and the Art Center College of Design bring a unique combination of resources to the City. The City’s downtown continues to serve as the corporate and entertainment center for the San Gabriel Valley’s 1.8 million residents.

#### City Council

All powers of the City are vested in the City Council which is empowered to carry out the provisions of the City Charter and perform all duties and obligations of the City as imposed by State law. The City has an eight-member City Council comprised of members elected in seven City Council districts and a citywide elected mayor. Each Council Member and the Mayor are elected for four-year staggered terms. The Council Members elect the Vice-Mayor from their membership, who traditionally serves two consecutive one-year terms. The names, occupations and term expirations of the current members of the City Council are as follows:

<u>Name</u>	<u>Occupation</u>	<u>Term Expiration</u>
Terry Tornek, Mayor	Real Estate Investor	May 2019
Tyron A.L. Hampton (District 1)	Business Owner	May 2019
Margaret McAustin (District 2)	Asset Manager - Real Estate	May 2019
John J. Kennedy (District 3)	Executive Consultant	May 2017
Gene Masuda, Vice Mayor (District 4)	Business Owner	May 2019
Victor Gordo (District 5)	Attorney	May 2017
Steve Madison (District 6)	Attorney	May 2019
Andy Wilson (District 7)	Business Owner	May 2017

## City Staff

*Michael J. Beck, City Manager*, has been the Pasadena City Manager since October 2008. His responsibilities include the overall operation of the City's government, including development of the annual operating and capital budget of \$690.4 million in fiscal year 2014-15. Mr. Beck also manages 14 departments within the City, including Pasadena Water and Power, full service police and fire departments, and a Department of Health and Management of almost 2,000 employees. He is also a member of the Rose Bowl Operating Company. Mr. Beck's initiatives have included the development of a five-year fiscal program to resolve a General Fund deficit brought on by the recent economic downturn with cumulative savings of more than \$150 million; streamlining the City's governmental functions and processes; increasing the use of technology to better serve residents; developing a financial solution to an unfunded liability in the closed Fire and Police Retirement System; creating a strategic investment plan to fund at least \$100 million in renovations to public facilities; and implementing a strategic planning process for the City. In addition, he has provided leadership to Pasadena's General Plan update and the Rose Bowl Stadium renovation project. Prior to his service in Pasadena, Mr. Beck was Assistant City Manager for the City of Riverside, the largest city in Southern California's Inland Empire with a population of more than 300,000 and a nearly \$1 billion operating budget. His responsibilities included oversight of Riverside Municipal Airport and the city departments of Community Development, Public Works, Public Utilities, and Parks, Recreation and Community Services. He developed the financial plan and implementation of the \$1.8 billion Riverside Renaissance program – 30 years of public infrastructure investment in just five years. Before working for the City of Riverside, he was Director of Economic Development and Real Estate Services for the University of California, Riverside, where he developed public/private partnerships to foster expansion of academic and research opportunities; and was instrumental in developing a regional economic development agenda that advanced managerial and technical job creation. He holds a Bachelor's Degree in Business Economics and a Master's Degree in Business Administration, both from the University of California, Riverside.

*Matthew E. Hawkesworth, Director of Finance*, joined the City in October 2015. His responsibilities include management of the financial affairs of the City and the Successor Agency to the Pasadena Community Development Commission, which include: preparation of the annual operating budget; preparation of the Comprehensive Annual Financial Report (CAFR); purchasing; collections; payroll; investments; debt management and financing of major City capital improvements. Prior to his current position, he served as Assistant City Manager for the City of Rosemead for eight years overseeing Finance, Human Resources, Public Works, Technology and Risk Management; Finance Director/Treasurer for the City of Claremont for three years; and a variety of positions in the Finance Department for the City of El Monte over nine years. Mr. Hawkesworth received his Bachelor of Arts degree in Social Science (economics and political science) from the University of La Verne (California) in 1995. He has completed numerous advanced courses in finance and accounting through the Government Finance Officers Association and is a graduate of the Claremont Leadership Academy, sponsored by the Claremont McKenna College Kravis Leadership Institute. During his career, Mr. Hawkesworth has been an active participant of the Government Finance Officers Association and California Society of Municipal Finance Officers, serving as a budget and CAFR reviewer for the annual awards program; served on the League of California Cities Revenue and Taxation Committee and Other Post-Employment Benefits (OPEB) Taskforce. Mr. Hawkesworth also founded a non-profit organization in 2011 dedicated to providing refurbished bicycles and new helmets to low-income and at-risk youth.

*Michele Beal Bagneris, City Attorney*, was named the Pasadena City Attorney in May 1997. At that time, she was a shareholder in the law firm of Richards, Watson & Gershon, where she specialized in public law since joining the firm in 1983. Initially, while serving as City Attorney, she continued to practice law as a member of the law firm, advising public clients in a wide range of areas, including land use, general advisory matters, litigation, labor and employment, code enforcement and nuisance

abatement matters. She also served as the City Attorney for the City of Monrovia from 1992 through September 1999, when she became the in-house City Attorney for the City of Pasadena. She currently serves in that position and is also the City Prosecutor. As the City Attorney/City Prosecutor, she is responsible for managing all legal matters for the City, including supervision of in-house lawyers and any outside counsel engaged to advise the City. Ms. Bagneris received her bachelor’s degree in International Relations from Stanford University in 1980 and her Juris Doctorate Degree in 1983 from Boalt Hall School of Law, University of California, Berkeley. She is active in professional and community organizations including serving as President of the Los Angeles County Prosecutor’s Association; past President of the League of California Cities City Attorney’s Department; past President of the City Attorney’s Association of Los Angeles County; and member of other legal and community organizations. She is admitted to practice law in the State of California, United States District Court and the U.S. Court of Appeals, Ninth Circuit.

**Population**

The following table presents a ten-year history of the population of the City since 2006.

**TABLE A-1  
POPULATION  
For Years 2006 through 2015**

<b>Year (as of January 1)</b>	<b>Population</b>
2006	145,695
2007	146,051
2008	147,293
2009	150,185
2010	136,769
2011	138,768
2012	139,222
2013	140,102
2014	140,879
2015	141,510

Source: State of California, Department of Finance. Revised based upon revision to the US Census information with 2010 benchmark. Updates to estimates for years 2006 through 2009 incorporating the 2010 census counts are not available.

**Education**

Total enrollment within the Pasadena Unified School District is shown below for the last ten fiscal years.

**TABLE A-2  
PASADENA UNIFIED SCHOOL DISTRICT  
TOTAL ENROLLMENT  
Fiscal Years 2005-06 through 2014-15**

<b>Fiscal Year Ended</b>	<b>Total Enrollment</b>
<b>June 30</b>	
2006	21,321
2007	20,826
2008	20,905
2009	20,526
2010	20,084
2011	19,803
2012	19,805
2013	19,540
2014	19,102
2015	18,586

Source: California Department of Education.

**Employment**

Although no annual calendar year information is regularly compiled on employment and unemployment in the City alone, fiscal year unemployment rates can be found in Table 18 of the City’s financial statements. See APPENDIX B – “EXCERPTS FROM AUDITED BASIC FINANCIAL STATEMENTS OF THE CITY OF PASADENA FOR FISCAL YEAR ENDED JUNE 30, 2014”

The following table shows employment, unemployment and labor force information for Los Angeles County for calendar years 2009 through 2014 and as of August 2015.

**TABLE A-3  
LOS ANGELES COUNTY  
EMPLOYMENT, UNEMPLOYMENT AND LABOR FORCE  
AVERAGES FOR CALENDAR YEARS 2009 THROUGH 2015<sup>(1)</sup>  
(in thousands)**

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015<sup>(1)</sup></b>
County Employment	4,276	4,335	4,355	4,397	4,471	4,659	4,689
County Unemployment	579	612	569	500	490	376	351
County Civilian Labor Force	4,855	4,947	4,924	4,897	4,960	5,035	5,040
County Unemployment Rate	11.9%	12.4%	11.6%	10.2%	9.9%	7.5%	7.0%
State Unemployment Rate	12.0%	12.1%	11.0%	9.8%	8.9%	7.0%	6.1%

Source: State of California Employment Development Department. Current Labor Force and Industry Employment. Los Angeles-Long Beach Metropolitan Statistical Area.

<sup>(1)</sup> As of August 31, 2015.

## Major Employers

Industry in the City is diversified. Some of the leading industries include higher education, research and development, health care, financial services and communications. The major employers within the City as of June 2014 are listed below.

**TABLE A-4  
MAJOR EMPLOYERS  
2014**

<b>Company</b>	<b>Approximate Number of Employees</b>	<b>Business Line</b>
California Institute of Technology-Jet Propulsion Laboratory	5,200	Aerospace Research
Kaiser Permanente	4,813	Health Care
California Institute of Technology-Campus	3,900	Education
Huntington Memorial Hospital	3,238	Hospital
The City of Pasadena	2,389	Government
Pasadena Unified School District	2,043	Education
Bank of America	1,908	Financial
Pasadena City College	1,866	Education
Art Center College of Design	833	Education
Hathaway-Sycamores	692	Social Services
ATT	634	Communications
Parsons Corporation	570	Engineering/Construction
The Langham Huntington Hotel (Ritz-Carlton)	567	Hotel
Western Asset	546	Financial
East West Bank	449	Financial
Rusnak Pasadena	285	Automotive Retail
Pacific Clinics Administration	274	Healthcare
Avon Products	209	Consumer Products

Source: City of Pasadena, Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2014.

## Housing

The following table presents a ten-year history of total housing units within the City, for years 2006 through 2015.

**TABLE A-5  
HOUSING UNITS<sup>(1)</sup>  
For Years 2006 through 2015**

<u>January 1,</u>	<u>Housing Units</u>
2006	56,957
2007	57,266
2008	57,863
2009	58,800
2010	59,331
2011	60,178
2012	60,263
2013	60,314
2014	60,369
2015	60,361

<sup>(1)</sup> As of January 1 for the years shown. Includes single family dwellings and multifamily units, including rental units and condominiums. Incorporates 2000 and 2010 census counts.

Source: State of California, Department of Finance; Years 2006-2010- E-8 Historical Population and Housing Estimates for Cities, Counties, and the State; Years 2011-2015- E-5 Population and Housing Estimates for Cities, Counties and the State.

## Building Permit Activity

The City's General Plan targets development in the City, providing for growth in employment and housing. Since 1992 (the year the General Plan was approved), there have been seven specific plan areas established and approved by the City Council for the following areas: North Lake, West Gateway, South Fair Oaks, East Pasadena, East Colorado, Fair Oaks/Orange Grove and the Central District. The Land Use and Mobility Elements of the General Plan were updated in 2004 at the same time the City's Zoning Code was updated.

The following table shows the value of building permits issued in the City for fiscal years 2009-10 through 2014-15.



**TABLE A-6**  
**CITY OF PASADENA**  
**BUILDING PERMIT VALUATION AND PERMIT ACTIVITY**  
**for Fiscal Years 2009-10 through 2014-15**  
**(Valuation in Millions)**

	Fiscal Year Ended June 30,					
	2010	2011	2012	2013	2014	2015
Building Permit Valuations						
Nonresidential	\$ 50.8	\$56.3	\$ 92.5	\$ 62.8	\$ 97.5	\$ 103.3
Residential	23.4	24.4	24.3	34.5	37.4	48.6
Residential New Construction	11.5	9.8	61.2	23.3	81.1	124.7
Total	\$ 85.7	\$90.5	\$178.1	\$120.6	\$216.1	\$276.6
Number of Permits Issued						
Non Residential	592	619	717	663	606	663
Residential	1,780	2,077	3,022	2,106	2,234	2,188
Residential New Construction	32	39	25	20	27	40
Total	\$2,404	\$2,735	\$3,764	\$2,789	\$2,867	\$2,891

Source: City of Pasadena, Planning and Permitting Department.

## Taxable Sales

The following table indicates taxable transactions in the City by type of business for the twelve-month periods ending September 30, 2010 through September 30, 2014.

**TABLE A-7**  
**CITY OF PASADENA**  
**TAXABLE TRANSACTIONS BY TYPE OF BUSINESS**  
**(\$ in Millions)**

Type of Business	Twelve Month Periods Ended September 30,				
	2010	2011	2012	2013	2014
Apparel Stores	\$ 199.1	\$ 195.0	\$ 203.8	\$ 216.7	\$217.8
General Merchandise Stores	210.6	213.7	216.3	207.8	196.0
Food Stores	116.1	116.3	137.2	139.8	137.9
Eating & Drinking Places	381.2	397.1	427.3	450.5	482.3
Home Furnishings & Appliances	177.7	176.8	189.8	185.7	181.0
Bldg. Material & Farm Implements	79.2	80.7	93.0	111.0	122.7
Auto Dealers & Auto Supplies	320.2	327.9	353.5	374.8	399.4
Service Stations	135.1	167.2	167.8	159.0	153.4
Other Retail Stores	350.1	358.3	361.2	373.0	372.1
Retail Stores Total	1,969.3	2,033.0	2,150.0	2,218.4	2,262.6
All Other Outlets	682.8	660.9	658.8	627.5	592.0
Total All Outlets	<u>\$2,652.1</u>	<u>\$2,693.9</u>	<u>\$2,808.8</u>	<u>\$2,845.9</u>	<u>\$2,854.9</u>

Source: State Board of Equalization, City of Pasadena: MBIA MuniServices Company.

## Community Facilities

The City has a central library and eight branch libraries, four community centers, 24 parks and 33 playgrounds. Other entertainment and cultural facilities include the Rose Bowl, the Norton Simon Museum, the Pacific Asia Museum, the Gamble House, the Wrigley Estate, California Institute of Technology, Beckman Auditorium, the Pasadena Civic Auditorium and the Pasadena Playhouse. The City has long enjoyed a reputation as a community rich in culture, traditions and quality of life. The City is also home to the Tournament of Roses, sponsors of the well-known New Year's Day Parade and Rose Bowl football game held in the City each January.

## Transportation

The City is served by an extensive surface and air transportation network. Several major freeways make the City accessible to the entire Los Angeles Basin. The City is served by three commercial airports: Bob Hope Airport, located in nearby Burbank, is within 15 miles, Los Angeles International Airport is within 27 miles and Ontario International Airport is within 45 miles. Continental Trailways and Greyhound bus lines have local depots in the City. The City supplements the local Metropolitan Transit Authority and the Foothill Transit Authority bus routes with the Pasadena Area Rapid Transit Services ("ARTS") bus services to expand the covered area. The ARTS buses provide convenient and nominal-fare transportation between many of the City's residential neighborhoods, retail, business and entertainment centers within the City. There are currently two ARTS routes that offer service seven days per week. In addition, the City provides Dial-A-Ride bus services for the elderly and disabled which is available for a nominal usage fee.

The nearest port facilities are located in the Los Angeles and Long Beach harbors which are approximately 30 and 35 miles away, respectively. The \$1 billion Alameda Corridor East project, being undertaken by the Alameda Corridor East Construction Authority, consists of safety upgrades, traffic signal control measures, road widening and grade separation projects to improve traffic conditions along the railroad facilities connecting the Ports of Los Angeles and Long Beach with the transcontinental rail network through the San Gabriel Valley, creating a faster more efficient method of distributing trade.

In addition, the Gold Line of the Metro Line light rail system runs from Union Station in the City of Los Angeles, through the City and terminates in the City of Sierra Madre. The Gold Line began operations in 2003.

### Employee Relations

City employees are represented by various unions and labor relations have been generally amicable. The City has experienced no major strikes, work stoppages or other incidents. Currently, most City employees are represented by unions. Set forth below is a table indicating the various unions representing employees within the City. The number of employees represented by these unions as of June 30, 2015, and the dates on which the current labor agreements expire (there are no provisions for the reopening of wage or benefit levels prior to expiration) are set forth in the following table.

**TABLE A-8  
CITY OF PASADENA  
EMPLOYEE UNION REPRESENTATION**

Name of Union	Number of Employees Represented As of June 30, 2015	Expiration of Contract
American Federation of State, County and Municipal Employees	276	June 30, 2015 <sup>(1)</sup>
International Brotherhood of Electrical Workers	96	June 30, 2016
International Union of Operating Engineers	21	June 30, 2017
Service Employee International Union	25	June 30, 2015 <sup>(1)</sup>
Pasadena Association of Clerical and Technical Employees/Laborers International Union of North America	318	September 30, 2015 <sup>(1)</sup>
Pasadena Fire Fighters Association	134	June 30, 2017
Pasadena Police Officers Association	170	June 30, 2018
Pasadena Police Sergeant Association	31	June 30, 2016
Pasadena Fire Fighters Management Association	5	June 30, 2016
Pasadena Management Association	443	March 17, 2014 <sup>(1)</sup>

<sup>(1)</sup> Currently being renegotiated.

Source: City of Pasadena, Human Resources Department.

Employees represented by Pasadena Management Association, Pasadena Association of Clerical and Technical Employees/Laborers, American Federation of State, County and Municipal Employees, International Brotherhood of Electric Works, International Union of Operation, Service Employee International Unions and unrepresented employees have agreed to pay the full 8% contribution to CalPERS (defined below). The Pasadena Police Officers Association (PPOA) and Pasadena Police Sergeants Association (PPSA) have recently agreed to pay 6% of the 9% employee contribution to CalPERS, which was previously borne by the City. During the term of the PPOA and PPSA contracts, employees will ultimately contribute the full 9% employee contribution. The Pasadena Fire Fighters Association (PPFA) agreed to pay 6% of the 9% employee contribution of CalPERS, which was

previously borne by the City. During the terms of the PFFA contract, employees will ultimately contribute the full 9% employee contribution plus 3% of the employer contribution to PERS effective July 1, 2016.

## **Retirement Systems**

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

#### *General.*

Police and Fire personnel hired prior to July 1, 1977 were covered by the City's Fire & Police Retirement System ("FPRS"). FPRS was originally established by the City Charter in 1919. FPRS was closed on June 30, 1977 but continues to pay out benefits to retirees and their beneficiaries. FPRS covers all sworn fire and police personnel who were employed by the City prior to July 1, 1977, except those who elected to transfer to the California Public Employees' Retirement System ("CalPERS") either when FPRS closed to new members or in June 2004. FPRS is managed by a five-member retirement board. As of June 30, 2014, FPRS had an unfunded actuarial accrued liability of \$29.33 million and had a funded ratio of 81.6%. For fiscal year 2013-14, the City's annual pension cost was \$6,605,000 for FPRS. 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). Copies of FPRS' annual financial report may be obtained from the City's Department of Finance, 100 North Garfield Avenue, 3rd Floor, Pasadena, California 91109. This annual financial report includes the required three-year trend information.

#### *Funding History.*

In 1960, the City Charter was amended to provide an unlimited cost of living adjustment ("COLA") for the FPRS members that was fully adjustable based on changes in the consumer price index. With inflation in the broader economy during the subsequent years, the FPRS saw dramatic increases in the COLA and, therefore, in its expenses. In 1977, the FPRS was modified to increase contribution rates for the City and for active FPRS members. Additionally, active FPRS members were given the option of transferring to the California Public Employees' Retirement System ("CalPERS") plan. However, few existing participants elected to join CalPERS and the modifications proved inadequate to address the continuing rise in the COLA benefit.

The City attempted to roll back the COLA benefit and successfully obtained voter approval in 1981 for a City Charter amendment that limited the COLA to 2%. However, the Pasadena Police Officers Association sued successfully, claiming that the amendments impaired the vested rights of its members. An appellate court upheld the ruling and the uncapped COLA was reinstated.

In 1987, the City sponsored and secured the passage of Senate Bill No. 481 ("SB 481"), which established a funding mechanism for the FPRS. SB 481 authorized the City to utilize payments made by the Pasadena Community Development Commission (the "Commission") under a reimbursement agreement entered into in 1987 (the "Reimbursement Agreement"), after required deductions, for the purpose of funding the City's liabilities to FPRS. The Commission's payments consist of property tax increments from the City's Downtown Project Area (hereinafter defined as the "SB 481 Receipts"). The Reimbursement Agreement was validated by SB 481, which became law in 1987. Under SB 481, the right to receive SB 481 Receipts terminated on December 31, 2014. As described below, the enforceability of the Reimbursement Agreement is being challenged by the State.

In 1999, after the FPRS-funded status dropped to approximately 30%, the City and the FPRS negotiated a Contribution Agreement (the "Prior Contribution Agreement") whereby the City agreed to

issue approximately \$100 million of pension obligation bonds (*i.e.*, the Series 1999 Bonds) and transfer the proceeds to the FPRS in order to increase the actuarial funding level to 70%. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Outstanding Pension Obligation Bonds.” Further, the City agreed to make supplemental contributions to the FPRS to ensure that the funding level increased by ½% each year for 20 years, in order to reach a funding level of 80% by 2020. FPRS, in turn, assigned to the City its rights to receive the SB 481 Receipts under a prior agreement, but required such revenues to be applied to the payment of the City’s funding obligations to FPRS, including payments on the City’s pension obligation bonds.

In 2004 the City issued approximately \$40 million of additional pension obligation bonds (*i.e.*, the Series 2004 Bonds) in order to maintain the contribution levels agreed upon in the Prior Contribution Agreement. This occurred after a dispute between the City and the FPRS regarding the accounting methodology for treating the investment losses of the early 2000s. The FPRS agreed to allow the actuarial valuation to be conducted without the requirement that the actuarial value of assets remain within a 20% “corridor” around the actual market value of assets, in exchange for the City providing additional funds through the issuance of the 2004 Bonds.

In November 2011, the City and FPRS agreed to amend the Prior Contribution Agreement (such amendment herein referred to as the “Amended Contribution Agreement”) for the purpose of revising the methodology used to calculate the unfunded liability of the City and the City’s required payments to the FPRS. To fulfill its commitment under the Amended Contribution Agreement, the City issued a third series of pension bonds (*i.e.*, the Series 2012 Bonds) in the principal amount of \$47,440,000 and deposited the proceeds with FPRS. Prior to the Amended Contribution Agreement, FPRS was required to use, in its actuarial calculations, the average assumed investment return and cost of living adjustment used by counties with pension systems established under 1937 Act (“1937 Act Counties”).

Under the Amended Contribution Agreement, the City must pay to FPRS, in addition to the net proceeds of the Series 2012 Bonds, supplemental payments (“Supplemental Payments”) if FPRS falls below the required minimum funding percentage in any fiscal year, to fund the unfunded accrued actuarial liability (the “UAAL”) of FPRS. The Amended Contribution Agreement requires FPRS to be at least 75.5% funded for the fiscal year in which the City paid the net proceeds of such bonds to FPRS (the “Minimum Funding Percentage”). For each succeeding year, the Minimum Funding Percentage increases by 0.5% per year over a nine-year period, up to 80%. To protect the City against large swings in asset values from one year to the next, the annual amount of any Supplemental Payments is subject to a cap, which is the lesser of certain benefit payments paid by FPRS in the prior fiscal year, or \$3 million, plus a varying percentage of any funding deficit in the Minimum Funding Percentage over \$3 million, beginning with 20% of the remaining deficit in the base year up to 100% of any deficit remaining for the fifth and any subsequent consecutive fiscal year following the base year.

The principal change implemented by the Amended Contribution Agreement was to alter the assumed rate of investment and cost of living adjustments used to calculate the Minimum Funding Percentage and UAAL. The Amended Contribution Agreement allows FPRS to use rates of investment and cost of living increases recommended by FPRS’s actuary and approved by FPRS after consultation with the City and the City’s consultants. When the Amended Contribution Agreement was executed in November 2012, the average investment rate used by 1937 Act Counties was approximately 8%; following execution, the actuarial rate as recommended by the system’s actuary was reduced to 6%.

As of June 30, 2015, the FPRS was funded at 81.6%, satisfying the 80% requirement as calculated in accordance with the procedures of the Amended Contribution Agreement. The funding history for the FPRS is shown in Table A-14 herein. The FPRS actuary has projected, based on existing economic and demographic assumptions, that the FPRS funded ratio will remain at or above 80% and no Supplemental Payment will need to be made until fiscal year 2025-26.

Consistent with prior reimbursement agreements, the Amended Contribution Agreement requires that the City use SB 481 Receipts to make debt service payments due on the City's pension obligation bonds and supplemental payments due to the FPRS, and to hold excess SB 481 Receipts in the City Treasurer's Pool, pending use for permitted purposes at a later date.

Until recently, SB 481 Receipts received by the City under the Reimbursement Agreement have been sufficient to cover the debt service on the City's pension obligation bonds, to provide funds for the City to make required supplemental payments to the FPRS under the contribution agreement, as amended and superseded, and to generate a reserve fund to be used for future obligations of the FPRS.

In 2011, the State of California enacted legislation (commonly referred to as "AB1x 26"), which required the dissolution of California redevelopment agencies ("CRAs") and the disposition and winding-up of the operations of those agencies. Following the enactment of AB1x 26, the State Department of Finance of the State of California (the "DOF") challenged the enforceability of the Reimbursement Agreement, claiming that the agreement was not an "enforceable obligation" under AB1x 26 and, accordingly, claiming that all future payments under the Reimbursement Agreement, together with the SB 481 Receipts held by the City, should revert to the County (for redistribution to all taxing entities within the County). This issue is the subject of litigation in State court, herein referred to as the "SB 481 Litigation" and all SB 481 Receipts are required to be held in escrow by the County pending the resolution of the litigation. See "SB 481 Litigation" below.

As of September 30, 2015, the County holds all SB 481 Receipts in escrow, of which the City claims approximately \$40 million. The right to receive SB 481 Receipts terminated on December 31, 2014.

The City structured \$121,490,000 principal amount of the Series 1999 Bonds, the Series 2004 Bonds and the Series 2012 Bonds to mature, or to be subject to mandatory tender, on May 15, 2015, with the expectation that the SB 481 Receipts would be sufficient to pay the maturing principal amount or purchase price of such bonds, as applicable. In May 2015, the City issued \$119,640,000 principal amount of its Taxable Pension Obligation Refunding Bonds Series 2015 ("Series 2015 Bonds"). As the SB 481 Litigation was expected to be resolved after the City issued the Series 2015 Bonds, the City used the proceeds from the Series 2015 Bonds to refund and/or refinance all of the above-described pension obligation bonds. In the event the City ultimately prevails in the SB 481 Litigation, any SB 481 Receipts held by the County and subsequently received by the City may be applied to the redemption of the Series 2015 Bonds.

#### *SB 481 Litigation.*

In 2011, the State of California enacted ABx1 26, which required the dissolution of CRAs, including the Commission, and the disposition and winding-up of the operations of CRAs. The CRAs, including the Commission, were dissolved on February 1, 2012, pursuant to ABx1 26. However, ABx1 26 required that the Commission's enforceable obligations "be honored." The City elected to serve as the Commission Successor Agency. The Commission Successor Agency is a separate legal entity from the City, and is required to administer the dissolution of the Commission and the winding down of the Commission's activities, including making enforceable obligation payments and disposing of the Commission's property.

By letter dated December 18, 2012, the DOF notified the City of Pasadena and its Commission Successor Agency that in the obligations under the Reimbursement Agreement (and certain other housing-related payment obligations of the Commission) had been determined by DOF to be unenforceable under ABx1 26 and to be ineligible for payment from former tax increment generated by the related redevelopment projects (known as Redevelopment Property Tax Trust Fund, or RPTTF,

funding). Previously, the DOF, by letter dated June 29, 2012 had found such obligations of the Commission to be enforceable obligations and had found both such items to be eligible for payment from RPTTF funding.

On December 28, 2012, the City filed litigation in the Superior Court of the State of California and applied for a temporary restraining order so that the RPTTF funds would be made available (for payment under the Reimbursement Agreement and the housing obligations), as required by applicable statutory validation, judicial validation and application of law, and to restrain the distribution of these funds on January 2, 2013 to other property tax agencies. *City of Pasadena Successor vs. Ana Matosantos Director of the State of California Department of Finance*, Case No. 34-2012-000134585-CU-MC-GDS. The City first obtained a Temporary Restraining Order and a Preliminary Injunction, which declare the Reimbursement Agreement (and housing obligation) as valid, enforceable obligations payable by the Commission Successor Agency.

The DOF, through the State Attorney General's Office, filed its Notice of Appeal of the Preliminary Injunction on March 11, 2013. On August 19, 2014, the Court of Appeal issued a published decision remanding the case back to the trial court. *Pasadena v. Cohen* (2014) 228 Cal. App. 4th 1461. The Court of Appeal did not rule on the merits of the case but rather directed the case to be heard in the writ department of Sacramento Superior Court.

On January 30, 2015, the City filed an Application for Temporary Restraining Order and Motion for a Preliminary Injunction in the writ department of the Sacramento Superior Court. On February 25, 2015, the Superior Court denied the City's motion. After a hearing on the merits, the Superior Court issued a ruling on May 28, 2015 in favor of the DOF. However, the court also preserved party stipulations requiring the County to continue to maintain \$39.7 million in escrow, pending final adjudication of the case, which includes any appeal. The City filed a Notice of Appeal on June 19, 2015. Briefing on appeal is anticipated to be completed by early 2016, with oral argument to be scheduled thereafter. If the City is unsuccessful in its claims on appeal, the City expects that the sequestered amounts will be distributed to the applicable participating agencies, including the City, and the City will receive approximately \$8.4 million of the tax revenues.

*Investment Status.*

As of June 30, 2015, FPRS' investment assets were allocated as follows:

**TABLE A-9**  
**CITY OF PASADENA**  
**FIRE AND POLICE RETIREMENT SYSTEM**  
**PORTFOLIO INFORMATION**  
**as of June 30, 2015 (unaudited)**

<u>Description of Assets</u>	<u>Market Value</u>	<u>Percentage of Portfolio</u>
Cash and cash equivalents	\$ 6,469,980	4.45%
Pending trade sales	426,624	0.29
Interest	219,861	0.15
Government and agencies	30,523,507	21.00
Domestic corporate obligations	31,272,118	21.52
International corporate obligations	1,639,029	1.13
Real estate	19,145,181	13.17
Real estate investment trust (REITS)	207,577	0.14
Domestic corporate stocks	28,980,965	19.94
International corporate stocks	26,437,551	18.19
TOTAL	<u>\$145,322,393</u>	<u>100.00%</u>

Source: City of Pasadena, Department of Finance.

FPRS has a number of investment objectives. The primary goals are to provide participants with scheduled retirement benefits and meet or exceed the rate of inflation in its investments, as measured against the consumer price index. In addition, its objective is to achieve a higher rate of return over a three to five year period with less than average volatility, with enhanced return over a longer period, such as five years, being more important than the preservation of capital during a one-year period of time.

Under its investment guidelines, FPRS must maintain sufficient liquidity to meet FPRS' cash needs. It may invest in equity securities, U.S. government bonds, corporate bonds and dollar denominated foreign bonds, certain kinds of mortgage backed securities, money market funds, and American Depository Receipts of foreign securities. Fixed income securities must be rated Baa/BBB or better by nationally recognized rating agencies. The assets of FPRS may not be invested in options, commodities or futures, nor may securities be sold short or purchased on margin.

The City is responsible for paying benefits to FPRS, as described above. A variety of factors will affect the extent of the City's liability to FPRS, including actual investment performance of FPRS' assets, actual changes in the consumer price index, FPRS' actual mortality and benefit payment experience, all as compared with the assumptions, and changes in actuarial assumptions and methods, including the assumed rate of investment return. Further continued market volatility and the possibility of a "double dip" recession may require substantial additional contributions to FPRS over time.



## **California Public Employees' Retirement System.**

### *General.*

Almost all permanent City employees, except police and fire personnel employed prior to July 1, 1977, are members of CalPERS for purposes of pension benefits. CalPERS is an agent multiple-employer public employee retirement system which acts as a common investment and administrative agent for participating public employers within the State of California. The plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and their beneficiaries. CalPERS issues a separate publicly available financial report that includes financial statements and required supplemental information of participating public entities within the State of California. The most recent annual report issued by CalPERS to the City was dated October 2014 (the "2013 Actuarial Valuation"). The 2013 Actuarial Valuation includes information based on the June 30, 2013 actuarial valuation of assets. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, Lincoln Plaza Complex, 400 Q Street, Sacramento, CA 95811 or at [www.calpers.ca.gov](http://www.calpers.ca.gov). The CalPERS report to the City can also be found on the City's website at <http://cityofpasadena.net/Finance/PERS-Actuarial-Reports>.

CalPERS is a contributory plan deriving funds from employer and employee contributions as well as earnings from investments. Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account, but is wholly or partially reimbursed by employees. Different employee bargaining groups have different reimbursement rates ranging from the 4.6% to full 8%. The City is also required to contribute at an actuarially determined rate. Benefit provisions and all other requirements are established by state statute or collective bargaining agreements with employee bargaining groups. See "Employee Relations" above.

### *Recent Actuarial Changes and Related Developments.*

On March 14, 2012, CalPERS gave approval to a one-quarter point reduction in its annual investment return forecast (from 7.75% to 7.5%). CalPERS has phased-in the impact of the adjustment over two years, to lessen the strain on local governments. As shown under "Funding Status of Plans" below, this reduction increased the City's reported unfunded pension liability. There can be no assurances that CalPERS will not make additional changes in actuarial assumptions in the future.

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 ("PEPRA") took effect. The impact of the PEPRA changes is included in the rates and the benefit provision listings of the June 30, 2013 valuation, and is reflected in the projected 2015-16 CalPERS contribution rates shown below.

In April 2013, CalPERS approved new actuarial policies that are aimed at returning the CalPERS system to fully-funded status within 30 years. These new policies include a rate-smoothing method with a 30-year fixed amortization period for gains and losses (rather than the current 30-year rolling amortization method). CalPERS delayed the implementation of the new policy until fiscal year 2015-16. These new policies will increase the City's required contribution rates, as shown under "Annual Payments and Contribution Rates" below.

In 2014, CalPERS completed a 2-year asset liability management study incorporating actuarial assumptions and strategic asset allocation. On February 19, 2014 the CalPERS Board of Administration adopted relatively modest changes to the current asset allocation that will reduce the expected volatility of returns. The adopted asset allocation is expected to have a long-term blended return that continues to support a discount rate assumption of 7.5 percent. The CalPERS Board of Administration also approved

several changes to the demographic assumptions that more closely align with actual experience. The most significant of these is mortality improvement to acknowledge the greater life expectancies seen in its membership and expected continued improvements. The new actuarial assumptions will be used to set fiscal year 2016-17 contribution rates for public agency employers. The increase in liability due to new actuarial assumptions will be calculated in the 2014 actuarial valuation and will be amortized over a 20 year period with a 5-year ramp-up/ramp-down in accordance with CalPERS Board of Administration policy.

#### *Annual Payments and Contribution Rates*

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. In order to calculate the dollar value of the ARC for inclusion in the financial statements, the applicable contribution rate is multiplied by the payroll of the covered employees that were paid during the relevant period.

Effective for financial statements beginning after June 15, 2014, GASB 68 replaces GASB 27. Hence, the annual report issued by CalPERS in 2015 will reflect GASB 68. GASB 68 will require additional reporting that CalPERS is intending to provide upon request by its members.

Set forth below is a history of the City’s contributions to the CalPERS, including projected payments from fiscal year 2006-07 through fiscal year 2016-17. The City contributed 100% of its APC in each completed year shown. The City estimates that approximately 60% of the payments to these plans is made from the City’s General Fund.

Also set forth below are the historic and projected contribution rates to the CalPERS plans. The projected contribution rates for fiscal year 2014-15 through 2020-21 are provided by CalPERS in its October 2014 report. The CalPERS projections assume, among other things, that CalPERS earns 18% for fiscal year 2013-14 and 7.50% every fiscal year thereafter, that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur between now and the beginning of fiscal year 2016-17. A complete explanation of the CalPERS assumptions can be found in the 2013 Actuarial Valuation.

**TABLE A-10**  
**ANNUAL PAYMENTS TO RETIREMENT PLANS BY CITY**  
**(\$ in Thousands)**

<b>Fiscal Year Ended June 30</b>	<b>CalPERS— Misc Employees Total Contribution</b>	<b>CalPERS- General Fund Contribution Misc Employees</b>	<b>CalPERS— Safety Employees Total Contribution</b>	<b>CalPERS- General Fund Contribution Safety Employees</b>
2006	\$ 7,402	\$2,887	\$7,402	\$6,728
2007	10,056	3,295	10,056	8,498
2008	12,228	3,435	9,283	9,097
2009	12,580	3,768	9,916	9,718
2010	12,566	3,765	10,459	10,250
2011	12,518	4,381	10,346	10,139
2012	16,744	5,860	11,370	11,143
2013	17,439	5,929	10,993	10,773
2014	17,909	6,089	11,176	10,952
2015 <sup>(1)</sup>	19,807	6,735	12,036	11,795
2016 <sup>(1)</sup>	21,721	7,385	13,042	12,781
2017 <sup>(1)</sup>	23,292	7,919	14,244	13,959
2018 <sup>(1)</sup>	24,529	8,340	14,860	14,563
2019 <sup>(1)</sup>	25,868	8,795	15,517	15,206
2020 <sup>(1)</sup>	27,105	9,216	16,173	15,850
2021 <sup>(1)</sup>	27,105	9,216	16,173	15,850

<sup>(1)</sup> Projected annual payment to retirement plan based on projected contribution rates on CalPERS actuarial report dated October 2014. Amounts for 2015 are still projected.  
Source: City of Pasadena, Department of Finance.

**TABLE A-11**  
**ANNUAL CONTRIBUTION RATES**  
**TO CALPERS RETIREMENT PLANS BY CITY**

<b>Fiscal Year Ended June 30</b>	<b>CalPERS Misc. Employees</b>	<b>CalPERS Safety Employees</b>
2011	11.4%	23.6%
2012	15.5	26.6
2013	16.2	25.6
2014	17.4	27.2
2015	19.2	29.3
2016	21.1	31.8
2017	22.6	34.7
2018 <sup>(1)</sup>	23.8	36.2
2019 <sup>(1)</sup>	25.1	37.8
2020 <sup>(1)</sup>	26.3	39.4
2021 <sup>(1)</sup>	26.3	39.4

<sup>(1)</sup> Projected annual payment to retirement plan based on projected contribution rates on CalPERS actuarial report dated October 2014. Does not include City "Pick Up".  
Source: City of Pasadena, Department of Finance.

**Funding Status of Plans.** Based on the 2013 Actuarial Valuation, CalPERS reported an unfunded liability, as of June 30, 2013, of \$241.2 million for the City's miscellaneous employees as compared to an underfunding of \$157.1 million the previous year and an unfunded liability of \$119.2 million for safety employees as compared to \$74.7 million the previous year. Based upon this report, the City reported that its CalPERS obligation had a funded ratio of 72.7% based upon the market value of plan assets with respect to the City's miscellaneous employees and a funded ratio of 73.9% based upon the market value of plan assets for safety employees. As noted above, CalPERS changed its amortization and smoothing policies in 2013. Beginning with the June 30, 2013 actuarial valuations (that set fiscal year 2015-16 CalPERS contribution rates), CalPERS no longer uses an actuarial value of assets and instead employs an amortization and rate smoothing policy that will account for all gains and losses over a fixed 30-year period with the increases and decreases in the rate phased over a 5-year period.

The City provides pension benefits for employees not covered by CalPERS or FPRS through the Public Agency Retirement System ("PARS"), a defined contribution plan. 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. Since January 13, 2013, the covered employees are required to contribute the full 7.5% of their earnings. Prior to such date, the City contributed an amount equal to 4.0% of the employee's earnings and the covered employee contributed 3.5%. The City's payroll for employees covered by PARS for fiscal year 2013-14 was \$4,270,271. The covered employees made the total required 7.5% contributions of \$320,290.

The tables below summarize the funded status of the City's retirement plans as of the most recent actuarial valuation dates. Additional information regarding the City's employee retirement plans, annual pension costs, the funding status thereof and significant accounting policies related thereto is set forth in Note 18 to the City's comprehensive annual financial report, attached hereto as APPENDIX B – "CITY OF PASADENA COMPREHENSIVE ANNUAL FINANCIAL REPORT YEAR ENDED JUNE 30, 2014", and in the CalPERS reports to the City, which can be accessed at [www.cityofpasadena.net/Finance/Comprehensive\\_Annual\\_Financial\\_Report](http://www.cityofpasadena.net/Finance/Comprehensive_Annual_Financial_Report).

**TABLE A-12**  
**CITY OF PASADENA**  
**RETIREMENT PLAN TREND INFORMATION**  
**(\$ in thousands)**

**CALPERS - MISCELLANEOUS EMPLOYEES**

Valuation Date (June 30)	Actuarial Accrued Liability (AAL) – Entry Age	Actuarial Asset Value*	(Overfunded) Unfunded AAL	Funded Ratio*		Annual Covered Payroll	(Overfunded) Unfunded AAL as a % of Covered Payroll
				AVA	Market Value		
2007	\$585,908	\$539,717	\$46,191	92.1%	106.8%	\$102,135	45.2%
2008	638,095	579,068	59,027	90.7	92.6	111,186	53.1
2009	732,713	607,710	125,003	82.9	60.6	116,952	106.9
2010	773,303	635,455	137,847	82.2	64.4	115,289	119.6
2011	819,327	666,290	153,037	81.3	72.3	110,571	138.4
2012	852,217	695,108	157,109	81.6	68.0	105,201	149.3
2013	882,572	641,333	241,239	72.7*	72.7*	104,378	231.1

(\*) Beginning with the June 30, 2013 actuarial valuation, the actuarial value of assets equals the market value of assets pursuant to CalPERS' Direct Rate Smoothing Policy.

Source: CalPERS actuarial valuations through June 30, 2011 data is taken from annual valuation report dated October 2012. CalPERS actuarial valuation for June 30, 2012 and June 30, 2013 data is taken from annual valuation report dated October 2013 and October 2014.

**TABLE A-13**  
**CALPERS - SAFETY EMPLOYEES**

Valuation Date (June 30)	Actuarial Accrued Liability (AAL) – Entry Age	Actuarial Asset Value	(Overfunded) Unfunded AAL	Funded Ratio		Annual Covered Payroll	(Overfunded) Unfunded AAL as a % of Covered Payroll
				AVA	Market Value		
2007	\$285,822	\$238,041	\$47,781	83.3%	95.4%	40,138	119.0%
2008	317,140	262,817	54,323	82.9	83.5	42,996	126.3
2009	352,610	283,880	68,730	80.5	58.7	45,516	151.0
2010	373,670	307,056	66,614	82.2	64.7	45,643	145.9
2011	403,626	331,603	72,023	82.2	73.6	44,058	163.5
2012	429,718	355,015	74,703	82.6	69.5	42,612	175.3
2013	457,271	338,082	119,189	73.9*	73.9*	41,383	288.0

(\*) Beginning with the June 30, 2013 actuarial valuation, the actuarial value of assets equals the market value of assets pursuant to CalPERS' Direct Rate Smoothing Policy.

Source: CalPERS actuarial valuations through June 30, 2011 data is taken from annual valuation report dated October 2012. CalPERS actuarial valuation for June 30, 2012 and June 30, 2013 data is taken from annual valuation report dated October 2013 and October 2014.

**TABLE A-14**  
**FPRS**

<b>Valuation Date (June 30)</b>	<b>Actuarial Accrued Liability (AAL) – Entry Age</b>	<b>Actuarial Asset Value</b>	<b>(Overfunded) Unfunded AAL</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>(Overfunded) Unfunded AAL as a % of Covered Payroll</b>
2007	\$183,046	\$131,137	\$51,909	71.6%	146	35.6%
2008	178,748	131,321	47,427	73.5	179	26.5
2009	177,803	119,551	58,252	67.2	-	N/A
2010	166,096	109,740	56,356	66.1	-	N/A
2011	179,284	105,811	73,473	59.0	-	N/A
2012	174,249	136,272	37,977	78.2	-	N/A
2013	168,781	127,985	40,796	75.8	-	N/A
2014	159,516	130,183	29,333	81.6	-	N/A

Source: FPRS actuarial valuations through June 30, 2014.

### **Post-Retirement Medical Benefits (OPEB)**

The City of Pasadena provides a subsidy to retirees of the City who are members of CalPERS or FPRS. Two different levels of subsidy toward the purchase of medical insurance from CalPERS under the Public Employees’ Medical and Hospital Care Act (PEMHCA) are offered. Benefit provisions are established and amended through negotiations between the City and the respective unions.

The City’s current contribution requirements have been established at the individual retiree levels of \$122.00 or \$54.90 per month depending on bargaining unit membership and policy enacted by CalPERS pursuant to State law. These minimum requirements are established by CalPERS and adjusted annually. The prior contribution requirements were \$119.00 or \$47.60 per month depending on the bargaining unit or the unrepresented group of which the employee was a member. The City has historically funded these post-retirement health care benefits on a “pay-as-you-go” basis. For fiscal year 2013-14, the City’s contributions totaled \$551,018 (representing 21.12% of the annual other post-employment benefit (“OPEB”) cost (expense)). The City’s annual OPEB cost (expense) is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. As of June 30, 2014, the City’s unfunded actuarial accrued OPEB liability was \$26,916,000. See Note 21 to the City’s comprehensive annual financial report, attached hereto as APPENDIX B – “EXCERPTS FROM AUDITED BASIC FINANCIAL STATEMENTS OF THE CITY OF PASADENA FOR FISCAL YEAR ENDED JUNE 30, 2014” The City’s General Fund five-year financial plan currently projects annual contributions of \$1 million from fiscal year 2015-16 through fiscal year 2018-19 to reduce the OPEB unfunded liability. See Table A-16 below.

Other than the pension benefits from the applicable retirement system and as described in this section, the City does not provide medical or other post-retirement benefits to its employees.

### **Insurance**

The City funds a self-insured and self-administered program for workers’ compensation claims exposures and general liability claims. Liability claims, losses and expenses paid averaged about \$1,285,477 per year for the past 10 years and, when existing “reserves” are added, averaged around

\$1,705,532 in liability exposure per year over the past 10 years. The City anticipates these expenses annually and includes funding for them in its operating budget. The City carries excess liability coverage, with limits of \$20 million, with a self-insured retention of \$3 million dollars. The amount of self-insured liability claim expenditures and remaining reserves with respect to claims made in each of fiscal years 2005-06 through 2014-15 are reflected in the following table:

**TABLE A-15  
CITY OF PASADENA  
LIABILITY CLAIM EXPENDITURES AND REMAINING RESERVES  
Fiscal Years 2005-06 through 2014-15**

<b>Fiscal Year<sup>(1)</sup> Ended June 30,</b>	<b>Loss Paid</b>	<b>Expense Paid</b>	<b>Total Paid</b>	<b>Remaining Reserves for Unpaid Claims<sup>(1)</sup></b>
2006	\$ 305,157.46	\$ 440,187.48	\$ 745,344.94	\$1,500,000.00
2007	629,163.33	140,224.34	769,387.67	25,100.00
2008	532,823.08	1,351,869.19	1,884,692.27	1,624,138.00
2009	3,097,196.51	471,126.06	3,568,322.57	1,025,000.00
2010	639,875.83	24,824.15	664,699.98	2,565,000.00
2011	897,720.69	10,282.83	908,003.52	2,111,700.00
2012	2,003,021.32	366,982.82	2,370,004.14	5,295,579.50
2013	166,779.05	---	166,779.05	968,501.00
2014	338,386.96	40,795.50	379,182.46	3,922,731.91
2015	32,609.68	---	32,609.68	1,184,613.16

<sup>(1)</sup> Reserves reflect fiscal year in which claim occurred. Payments reflect money spent on all claims during a fiscal year.  
Source: City of Pasadena, Department of Finance.

The City maintains commercial property insurance and boiler and machinery insurance on all City-owned buildings of an insurable nature (unless lease agreements require the occupant to carry such insurance) with current basic limits of \$1 billion per occurrence per location subject to a \$25,000 “All Risk” deductible, and there are various sub-limits and /or higher deductibles on specified types of properties. The City purchases Property Terrorism/NCBR coverage as well. General Property exclusions include earthquake, corrosion, and sabotage. The City also purchases Pollution and Storage Tank coverage, and Cyber Liability coverage.

### CITY FINANCIAL INFORMATION

*Certain statements included or incorporated by reference in the discussion below, as well as in the statements under the City’s pension systems disclosure above, constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget,” “project,” “projection” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The City does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.*

**Budget Preparation and Approval Process**

No later than January of each year, the Mayor must present a thematic budget message for the upcoming fiscal year to the City Council and the community. The City Council must establish procedures whereby public suggestions and comments on the Mayor’s budget proposals may be received and considered prior to the preparation and submission of budget requests by the City Departments to the City Manager.

On or before the third Monday in May of each year, the City Manager must submit to the City Council the recommended balanced budget for the following fiscal year, as required by the City Charter. Also at this time, a public hearing is opened for residents and businesses to make any comments or suggestions regarding the recommended budget. Copies of the recommended budget are available for inspection by the public in the office of the City Clerk and at the City’s libraries at least ten days prior to the hearing. The recommended budget can also be found on the City’s website at <http://www.cityofpasadena.net/Finance/Budget/>. Such website is not incorporated herein by reference.

At the conclusion of the public hearing, the City Council further considers the recommended budget and makes any revisions. On or before June 30, the City Council adopts a balanced budget with revisions, if any, by the affirmative vote of at least five members of the City Council.

From the effective date of the budget, funds become appropriated to City Departments for the objects and purposes named. At any subsequent City Council meeting following the adoption of the budget, the City Council may amend or supplement the budget by motion adopted by the affirmative vote of a minimum of five members of the City Council.

The Director of Finance prepares the City’s financial statements and submits them to the City Council within four months after the close of each fiscal year. The City Council employs an independent certified public accounting firm to review the City’s financial statements for conformity with generally accepted accounting principles for municipal governments and issues an opinion letter regarding the accuracy and fairness of the financial information presented in the City’s Comprehensive Annual Financial Report.

**Budgetary Principles and Developments**

*Budgetary Principles and Policies.* In preparing the City’s budget, City staff is guided by certain principles and goals set by the City Council. Among them, staff is directed to match revenues with expenditures when developing a balanced operating budget, and minimize reliance on “carry-forward” fund balances from previous years to fund expenditures in future years.

*General Fund Five Year Financial Plan.* The City’s five-year financial plan is an ongoing plan and is continually reviewed based on an analysis of current trends. The City’s fiscal situation has improved since the recession and the City has shown signs of economic growth, including increases in retail sales activity, more tourism and business travel activity, lower unemployment rates, and improvement in residential and commercial real estate markets. The most recent five-year plan showed continued improvement in the City’s finances, and included modest amounts for reserve replenishment through fiscal year 2018-19. A summary of the most recent five-year plan is provided in the table below.

In preparing its financial forecasts for the five-year plan, City staff made a variety of assumptions, including, among others:

- 1. Continued modest revenue growth;



2. Reduced General Fund transfer from the Water Fund as a result of a litigation settlement;
3. Transfer from the Power Fund to the General Fund of 10% of the prior year's gross income for fiscal year 2014-15 and then reduced to 9% through fiscal year 2018-19;
4. Minimal amounts above the pay-as-you-go cost for OPEB in fiscal years 2015-16, 2016-17, and 2018-19; and
5. CalPERS contributions will be as shown on the most recent CalPERS actuarial valuation report and based on CalPERS' projections. (See "Retirement Systems—California Public Employees' Retirement System" above).

*There can be no assurance that assumptions described above not yet realized will be realized. Accordingly, there can be no assurance that the City's financial forecasts as shown in the table below will correspond with its actual financial results.*

The table below shows estimated operating projections for the five-year forecast period based upon actions previously taken and those adopted in the 2015-16 Adopted Budget. The five-year financial forecast presentation differs from the City's presentation of its financial results; among other differences, it is calculated on a cash basis and line items will not correspond to audited financial or budget presentations. The City's financial forecast is reviewed monthly and updated no less often than quarterly. It was last updated as of June 22, 2015.

**TABLE A-16**  
**GENERAL FUND 5-YEAR FINANCIAL PLAN**  
**(\$ in thousands)**

	Year Ending June 30,							
	2014 Actual	2015 Amended Budget	2015 Unaudited Actual	2016 Adopted Budget	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Beginning Amount Available for Appropriations	\$7,668,939	\$9,154,404	\$9,154,404	\$7,667,240	\$8,543,708	\$10,546,164	\$11,792,877	\$13,086,629
<b>REVENUES</b>								
Property Taxes	\$43,048,906	\$44,120,000 <sup>1</sup>	\$55,213,640 <sup>1</sup>	\$52,542,743	\$54,644,453	\$56,283,787	\$57,972,300	\$59,711,469
Sales Tax	32,391,442	33,140,000 <sup>1</sup>	28,964,897 <sup>1</sup>	34,000,000	35,432,972	36,869,693	38,362,253	39,912,943
Utility User Tax	28,893,275	30,601,500	29,315,684	30,352,000	30,655,520	30,962,075	31,271,696	31,584,413
Transient Occupancy Tax	12,043,439	12,800,500	13,165,496	14,025,500	14,479,163	14,947,587	15,431,255	15,925,056
Franchise Taxes	2,361,294	3,237,100	2,903,136	2,556,000	2,623,054	2,692,120	2,763,257	2,835,102
Other Taxes	16,064,824	15,250,000	17,789,002	17,375,000	18,010,539	18,670,310	19,355,259	20,071,403
Total Taxes	\$134,803,180	\$139,149,100	\$147,351,855	\$150,851,243	\$155,845,701	\$160,425,572	\$165,156,021	\$170,040,386
Licenses & Permits	\$4,003,257	\$3,444,575	\$3,808,842	\$3,302,545	\$3,404,183	\$3,507,473	\$3,612,457	\$3,720,831
Intergovernmental Revenues	15,097,847	16,837,704	16,537,126	16,640,014	17,032,658	17,435,119	17,847,641	18,275,984
Charges for Services	21,915,871	22,493,766	22,769,266	22,344,221	23,293,852	24,272,194	25,287,419	26,349,491
Fines & Forfeitures	6,768,360	6,763,091	7,328,589	6,791,251	6,989,365	7,193,828	7,404,219	7,618,941
Investment/Interest Earnings	3,293,430	3,404,797	2,676,219	1,333,962	1,345,006	1,356,380	1,368,097	1,380,409
Rental Income	1,356,455	1,185,589	1,137,286	1,246,150	1,248,951	1,251,835	1,254,807	1,257,316
Miscellaneous	1,604,286	1,600,154	1,686,272	1,430,220	1,453,677	1,477,837	1,502,722	1,528,269
<b>TOTAL REVENUES</b>	\$188,842,686	\$194,878,776	\$203,295,455	\$203,939,606	\$210,613,592	\$216,920,238	\$223,433,383	\$230,171,628
<b>EXPENDITURES</b>								
Personnel	\$125,871,268	\$130,203,830	\$128,678,158	\$135,918,858	\$142,513,399	\$148,638,197	\$154,583,725	\$160,767,074
Services & Supplies	30,626,208	35,925,467	35,942,098	34,966,476	35,665,806	36,379,122	37,106,705	37,848,839
Equipment	286,344	846,476	114,593	261,855	267,092	272,434	277,883	283,440
Internal Services	17,024,845	18,307,993	18,607,342	19,126,819	19,509,355	19,899,542	20,297,533	20,703,484
<b>TOTAL EXPENDITURES</b>	\$173,808,666	\$185,283,766	\$183,342,191	\$190,274,008	\$197,955,653	\$205,189,296	\$212,265,846	\$219,602,837
<b>Excess Revenues over (Expenses)</b>	<b>\$15,034,020</b>	<b>\$9,595,010</b>	<b>\$19,953,264</b>	<b>\$13,665,597</b>	<b>\$12,657,940</b>	<b>\$11,730,942</b>	<b>\$11,167,537</b>	<b>\$10,568,791</b>
<b>OPERATING TRANSFER (IN / (OUT))</b>								
Debt Service	\$(13,651,220)	\$(9,122,446)	\$(8,578,821)	\$(15,078,591)	\$(15,149,808)	\$(15,151,683)	\$(14,721,125)	\$(11,691,121)
Contributions to Other Funds/Misc	(16,686,327)	(14,599,056)	(15,313,216)	(14,443,688)	(13,010,516)	(13,270,726)	(13,536,141)	(13,806,863)
Repayment to Water Fund		(5,066,188)	(5,066,188)					
Allocation for Potential Litigation		386,548	450,539	(2,500,000)	(2,600,000)	(2,704,000)	(2,812,160)	(2,924,646)
Abatements for Svcs to Other Funds	1,377,560	18,705,678	18,067,258	19,962,602	20,482,067	21,017,115	21,568,215	22,129,922
Enterprise Contributions	18,685,052							
<b>NET OPERATING TRANSFER (IN / (OUT))</b>	<b>\$(10,274,935)</b>	<b>\$(9,695,464)</b>	<b>\$(10,440,428)</b>	<b>\$(11,789,129)</b>	<b>\$(10,005,484)</b>	<b>\$(9,834,229)</b>	<b>\$(9,223,785)</b>	<b>\$(6,379,735)</b>

Year Ending June 30.

	2014 Actual	2015 Amended Budget	2015 Unaudited Actual	2016 Adopted Budget	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Operating Income/(Loss)	\$4,759,085	\$(100,454)	\$9,512,836	\$1,876,468	\$2,652,455	\$1,896,713	\$1,943,752	\$4,189,056
Transfer to Benefits Fund to Repay PACTE Loan	(1,273,620)							
Personnel Reserves for Leave Costs	(1,000,000)		(1,000,000)	(1,000,000)	(650,000)	(650,000)	(650,000)	(650,000)
Contribution toward OPEB Unfunded Liability	(1,000,000)	\$(1,000,000)	\$(1,000,000)	\$(1,000,000)	\$(650,000)	\$(650,000)	\$(650,000)	\$(650,000)
NET OFF BUDGET RESERVE ACTIVITY	\$(3,273,620)							
Net Operating Income/(Loss)	\$1,485,465	\$(1,100,454)	\$8,512,836	\$876,468	\$2,002,455	\$1,246,713	\$1,293,752	\$3,539,056
Allocation to Emergency Contingency Reserve		(10,000,000)	(10,000,000)					
Ending Amount Available for Appropriations	9,154,404	8,053,950	7,667,240	8,543,708	10,546,164	11,792,877	13,086,629	16,625,684
Committed Fund Balance	54,123,108	54,123,108	63,022,654	63,022,654	63,022,654	63,022,654	63,022,654	63,022,654
<b>Total Fund Balance</b>	<b>\$63,277,512</b>	<b>\$62,177,058</b>	<b>\$70,689,894</b>	<b>\$71,566,362</b>	<b>\$73,568,818</b>	<b>\$74,815,530</b>	<b>\$76,109,283</b>	<b>\$79,648,338</b>

(1) Variance in 2015 Amended Budget to 2015 Unaudited Actual in Property Taxes and Sales Tax due to an unexpected one time property tax revenue.  
Source: City of Pasadena, Department of Finance.

*General Fund Cash Reserve Policy.* Beginning in fiscal year 2010-11, the City instituted a policy to maintain an operating reserve within its General Fund which is targeted at 10% of the current year's appropriations. On August 15, 2011, the City Council approved an increase in the General Fund Emergency Contingency Commitment to a target of 20% of the General Fund annual appropriations. The policy permits the City to take steps annually, starting in fiscal year 2014-15, to reach this goal by increasing the commitment by up to 2% per year over the course of five years, based on each year's budget resolution, and also permits the City to commit to an increase of less than 2% by formal action. In fiscal year 2014-15, the City Council contributed \$10 million to the General Fund's Emergency Contingency Reserve Balance and adopted a resolution approving the City's General Fund Emergency Contingency fund in the amount of \$30,951,483, approximately 14.5% of fiscal year 2015-16 appropriations. Under current City policy, only under emergency conditions does the City use this operating reserve. Cash reserves may be in the form of cash or other legal investments and do not refer to any other form of current or long-term assets, such as receivables, inventory, equipment, etc.

Set forth below is a summary of the condition of the City's General Fund reserve for the past five years.

**TABLE A-17  
GENERAL FUND RESERVES  
FOR FISCAL YEARS 2010-11 THROUGH 2014-15**

	Per CAFR 2011	Per CAFR 2012	Per CAFR 2013	Per CAFR 2014	Unaudited Actual 2015
Nonspendable	\$ 52,397	\$ 8,352,397	\$ 8,351,508	\$ 8,351,508	\$ 8,351,508
Committed	39,320,899	80,043,268	37,380,218	34,868,425	44,887,708
Assigned	8,582,519	-	4,249,148	5,042,986	4,722,484
Unassigned	(1,390,808)	(34,619,797)	11,965,386	15,014,593	12,728,194
Total Fund Balance <sup>(1)</sup>	<u>\$ 46,565,007</u>	<u>\$ 53,775,868</u>	<u>\$ 61,946,260</u>	<u>\$ 63,277,512</u>	<u>\$ 70,689,894</u>

<sup>(1)</sup> Excludes balance in SB481 Fund.

Source: City of Pasadena, Department of Finance

*Capital Budgeting.* The City prepares a 5-year capital improvement program ("CIP") budget, which is adopted yearly as part of the budget process. The CIP includes projects that have no funding sources. The most current 5-year CIP budget includes approximately \$901.1 million, including all enterprise funds (Water & Power, Rose Bowl, and Pasadena Conference Operational Center), in total estimated project cost for 226 active projects. In fiscal year 2013-14, \$94.8 million was appropriated to 99 projects. Implementation of the CIP is discretionary and will depend upon City resources. The City does not intend to issue general fund indebtedness in the near future to fund the CIP.

### **Adopted General Fund Budget for Fiscal Year 2015-16**

The budget preparation process for fiscal year 2015-16 began in November 2014. In February and March 2015, the City Manager and the Department of Finance met with each department and operating company to review their estimated revenues, expenditures and budgetary requests for the upcoming fiscal year. Projected expenditures and revenues, managed savings, vacant positions, reorganizations, performance measures, performance targets, results statements, mission statements and new program requests were discussed at these meetings. Upon completion of the City Manager's review, the City Manager submitted the recommended operating budget to the City Council and a public hearing was opened from which to obtain comments from the City's residents and other stakeholders.

The City Council adopted the budget for fiscal year 2015-16 on June 22, 2015. The General Fund portion of the appropriation budget for fiscal year 2015-16 is \$220 million.

Set forth below are the City's final General Fund unaudited actual results for fiscal year 2014-15 and the adopted General Fund budget for fiscal year 2015-16.

**TABLE A-18  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
UNAUDITED ACTUAL FOR FISCAL YEAR 2014-15 AND ADOPTED BUDGET  
FOR FISCAL YEAR 2015-16**

	<b>Fiscal Year 2014-15 (Unaudited actual)</b>	<b>Fiscal Year 2015-16 Adopted</b>
<b>Revenues</b>		
Taxes	\$ 147,351,855	\$ 150,851,243
Building Licenses & Permits	617,678	574,195
Non-building Licenses & Permits	3,191,164	2,728,350
Federal Grants Direct	38,853	40,000
Federal Grants Indirect-State	0	0
State Non-Grant Direct	14,573,249	15,108,776
State Grant Direct	1,654,729	1,131,238
Intergovernmental-Local	270,295	360,000
Charges for Services	10,871,111	10,901,969
Charges for Services Quasi-External	11,898,155	11,442,252
Fines & Forfeitures	7,328,589	6,791,251
Investment Earnings	2,676,219	1,333,962
Rental Income	1,137,286	1,196,150
Miscellaneous Revenues	1,686,272	1,480,220
Total Revenues	\$ 203,295,455	\$ 203,939,606
<b>Expenditures</b>		
General Government	\$ 26,034,101	\$ 28,771,576
Public Safety	104,433,668	106,255,799
Transportation	25,319,952	27,616,940
Culture & Leisure	19,815,702	20,058,562
Community Development	7,738,768	7,571,131
Total Expenditures	\$ 183,342,191	\$ 190,274,008
Excess of Revenues over Expenditures	\$ 19,953,263	\$ 13,665,598
<b>Other Financing Sources (uses)</b>		
Transfer In	\$ 18,517,797	\$ 20,233,150
Transfer Out	(28,958,225)	(32,022,279)
Total Other Financing Sources (uses)	\$ (10,440,428)	\$ (11,789,129)
Change in Fund Balance	\$ 8,512,836	\$ 1,876,469

Source: City of Pasadena Adopted Budgets for fiscal years 2014-15 and 2015-16.

## Accounting Policies, Reports, and Audits

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual requirements. The minimum number of funds is maintained consistent with legal and contractual requirements.

Capital assets (including infrastructure greater than \$10,000) are capitalized and recorded at cost or at the estimated fair value of the assets at the time of acquisition where complete historical records have not been maintained. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Capital assets include public domain (infrastructure) general fixed assets consisting of certain improvements including roads, streets, sidewalks, medians and sewer and storm drains.

The City's funds and capital assets are classified for reporting purpose as follows:

**Government Funds**

General Fund  
Special Revenue Funds  
Debt Services Funds  
Capital Projects Funds

**Fiduciary Funds**

Trust and Agency Funds

**Proprietary Funds**

Enterprise Funds  
Internal Service Funds

**Capital Assets**

Capital Assets used in the Operation  
of Governmental Funds

The City follows the modified accrual method of accounting for governmental, expendable trusts and agency funds. Under the modified accrual method of accounting, revenues are susceptible to accrual when they become both measurable and available. Expenditures are recorded when a current liability is incurred. Liabilities are considered current when they are normally expected to be liquidated with expendable available financial resources. The proprietary, nonexpendable trust and pension trust funds are accounted for using the accrual method of accounting.

The City's Director of Finance maintains the accounting system and records of accounts for all City funds. The City Charter requires an independent audit of the financial statements of all accounts of the City by an independent certified public accountant. All audits are reviewed by the Finance Committee of the City Council, which is comprised of four members of the City Council.

## General Fund Comparative Operating Budget

The following table shows a three-year history of the City's Comparative Operating Budget.

**TABLE A-19  
CITY OF PASADENA  
GENERAL FUND  
COMPARATIVE OPERATING BUDGET  
FOR FISCAL YEARS 2013-14 THROUGH 2015-16**

<b>REQUIREMENTS</b>	<b>2013-14</b>	<b>2014-15<sup>(1)</sup></b>	<b>2015-16<sup>(2)</sup></b>
Operating Expenditures	\$176,140,901	\$ 185,283,766	\$190,274,008
Capital Expenditures			
Debt Service	13,458,577	9,122,446	15,078,591
Transfers Out	13,062,284	19,665,244	16,943,688
<b>TOTAL REQUIREMENTS</b>	<b>\$202,661,762</b>	<b>\$214,071,456</b>	<b>\$222,296,287</b>
<b>AVAILABLE FUNDS</b>			
Revenues	\$183,552,886	\$194,878,776	\$203,939,606
Transfers In	922,309	934,788	818,788
Reserves	-	-	-
Utility Contributions	18,319,541	18,157,438	19,414,362
<b>TOTAL AVAILABLE FUNDS</b>	<b>\$202,794,736</b>	<b>\$213,971,002</b>	<b>\$224,172,756</b>

Source: City of Pasadena, Department of Finance.

<sup>1</sup> Amended

<sup>2</sup> Adopted

During fiscal year 2014-15, tax revenues (primarily property tax revenues) exceeded original budget projections, and expenditures (primarily due to employee vacancies) were lower than budget projections. Based on recent estimates as of October 6, 2015, it is anticipated that fiscal year 2014-15 revenues will exceed expenditures by approximately \$20.0 million for fiscal year 2015-16. As a result, the City Council authorized the return of \$5.1 million of prior Water Fund transfers to the General Fund (described in the next paragraph), and authorized increasing the General Fund Emergency Fund Balance by \$10.0 million (described in the succeeding paragraph).

The City recently settled a lawsuit challenging transfers from the Water Fund to the General Fund which are permitted by the City's Charter. See "CITY FINANCIAL INFORMATION—Water and Power Enterprise Fund Transfers to General Fund."

Under the terms of the settlement, the City was required to transfer \$7.2 million back to the Water Fund. Previously, \$2.1 million has been returned. The City Council authorized the payment of the remaining balance through a fiscal year 2014-15 budget amendment.

Approximately \$25 million of General Fund reserves was used between fiscal year 2009-2010 and fiscal year 2012-13 to help cushion the impact of the Great Recession on City service levels. Prudent fiscal planning and a commitment in the years leading up to fiscal year 2009-10 had built up reserves that, absent their availability, would have resulted in dramatic reductions in service levels. In recent years, the City adopted a policy to gradually increase its emergency reserve fund by approximately 2% per year until it reaches 20% level. As a result of the fiscal year 2014-15 budget surplus, the City Council was able to make an additional \$10 million transfer to the General Fund Reserve on June 22, 2015. The emergency reserve will now total approximately \$31 million or 15.0% of

the Adopted General Fund appropriations for fiscal year 2015- 2016, a net increase of 5% from 10% reserve level to 15%.

**Water and Power Enterprise Fund Transfers to General Fund**

Pursuant to City Charter Sections 1407 and 1408, the City makes annual transfers from the City’s Water Fund (the “Water Fund”) and from the City’s Light and Power Fund (the “Light and Power Fund”) to the General Fund. The amount transferred from the Water Fund is not to exceed 6% of gross income received during the preceding fiscal year and shall not exceed net income. This transfer may be used for any municipal purpose. The amount transferred from the Light and Power Fund is not to exceed 16% of gross income received during the preceding fiscal year and shall not exceed net income. Of the total 16% which may be transferred, up to 8% may be used for any municipal purpose and the remaining 8% is restricted for municipal improvements and bond redemption.

Set forth below is a table indicating the amount transferred from the Light and Power Fund and the Water Fund to the City’s General Fund during each of the last four fiscal years and the amount budgeted for the current fiscal year, expressed in dollars and as a percentage of the prior year’s gross income.

**TABLE A-20  
CITY OF PASADENA  
TRANSFERS FROM THE LIGHT AND POWER FUND AND WATER FUND  
TO GENERAL FUND  
FISCAL YEARS 2011-12 THROUGH 2015-16  
(DOLLAR AMOUNTS IN THOUSANDS)**

	Fiscal Year Ended June 30,				
	2012	2013	2014 <sup>(2)</sup>	2015 <sup>(2)</sup>	2016 <sup>(2)</sup>
<b><u>Light and Power Fund</u></b>					
Amount Transferred	\$15,861	\$14,093	\$15,047	\$16,613	\$17,870
Amount as Percentage of Prior Year’s Gross Income <sup>(1)</sup>	8.0%	9.0%	9.0%	10.0%	10.0%
<b><u>Water Fund</u></b>					
Amount Transferred	\$2,773	\$3,116	\$3,273	\$1,544 <sup>(3)</sup>	\$1,544
As a Percentage of Prior Year’s Gross Income <sup>(1)</sup>	6.0%	6.0%	6.0%	NA	NA

<sup>(1)</sup> Reflects percentage of prior fiscal year’s gross revenue of the Water Fund and the Light and Power Fund, respectively.  
<sup>(2)</sup> Budget.  
<sup>(3)</sup> Decrease in fiscal year 2014-15 is due to new methodology outlined under the terms of the *Rooney* case discussed below.  
Source: City of Pasadena, Department of Finance.

In *Rooney v. City of Pasadena*, Los Angeles Superior Court case no. BS145352, the City was sued in a Proposition 218 lawsuit challenging its annual, Charter-authorized transfer its from Water Fund to the General Fund, which lawsuit claimed the transfer violated Proposition 218 by exceeding the cost-of-service. In fiscal year 2013-14, the transfer amounted to approximately \$3.3 million (see Table A-21 above). During 2014, the City obtained a cost-of-service study that found that approximately \$1.5 million of General Fund costs were incurred for the benefit of the Water Fund. Later in 2014, the City settled the *Rooney* lawsuit on three general terms. First, the City agreed to transfer from the General Fund to the Water Fund a total of \$7.2 million (inclusive of attorney’s fees) over the course of seven years. On June 22, 2015, by action of the Pasadena City Council, the City completed the transfer



several years ahead of schedule. Second, the City agreed to limit its annual transfer from the Water Fund to the General Fund to only that amount justified by the cost-of-service. Finally, the plaintiffs agreed not to file suit to challenge future transfers the City makes from the Water Fund to the General Fund, so long as the transfers are consistent with the methodology outlined in the 2014 cost-of-service study.

Proposition 26, adopted by voters in November 2010, added additional State constitutional restrictions to the City's ability to charge fees. For a discussion of Proposition 26's potential impact on the transfers from the Light and Power Fund and the Water Fund to the City's General Fund, see "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS—Articles XIII C and XIII D of the State Constitution – Proposition 218 and Proposition 26."

### **Tax Revenue Sources**

The City relies on a number of revenue sources that could be reduced or eliminated by State legislation, including, among others, sales and use taxes, property taxes and motor vehicle license fees. The State has in prior years experienced budgetary difficulties and has balanced its budget by requiring local political subdivisions, including the City, to fund certain costs previously borne by the State. For example, on March 2, 2004, California voters approved Proposition 57, a bond act authorizing the issuance of up to \$15.0 billion of economic recovery bonds to fund the accumulated State budget deficit. These bonds (issued in an aggregate amount of \$14.2 billion) were secured by a pledge of revenues from an increase in the State's share of the sales and use tax of one-quarter cent. The share of the tax allocated to local governments was reduced by the same amount and, in exchange, local governments received an increased share of the local property tax (and K-12 school districts and community colleges receive a reduced share) until the economic recovery bonds were repaid in August 2015. Such prepayment had no effect on City revenues. All education agency property tax reductions were offset by increased State aid. The shift in revenues between the State and local governments is known as the "Triple Flip." As a result of a separate action, the State supplemented the City's property tax by an amount intended to backfill a portion of motor vehicle license fees ("VLF") lost as a result of the State's reduction in the fee's rate. These various reallocations affected the timing of the receipt of the impacted revenues.

The State's fiscal year 2009-10 budget act also included a diversion of a portion of the share of property tax revenues allocated by the State to cities, counties and local agencies.

Constitutional amendment Proposition 1A, passed by statewide voters in 2004, and Proposition 22, passed by voters in 2010, limit the State's ability to divert or borrow these revenues in the future.

Listed below is a historical summary of the City's five largest revenue sources resulting from taxes.

**TABLE A-21  
CITY OF PASADENA  
GENERAL TAX REVENUES  
Fiscal Years 2011-12 through 2014-15  
(in Thousands)**

<b>Tax</b>	<b>Fiscal Year Ended June 30,</b>			
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015<sup>(4)</sup></b>
Property <sup>(1)</sup>	\$ 54,051	\$ 42,957 <sup>(2)</sup>	\$ 44,066	\$ 56,447
Sales	32,239	30,871 <sup>(3)</sup>	33,198	33,706
Utility Users	29,318	29,531	28,893	29,316
Street Light & Traffic Signal	6,331	6,503	6,610	7,184
Transient Occupancy	10,094	11,109	12,043	13,165
<b>Total</b>	<b>\$132,033</b>	<b>\$120,971</b>	<b>\$124,810</b>	<b>\$139,818</b>

<sup>(1)</sup> Includes assessments.

<sup>(2)</sup> \$11.0 million decrease in Property taxes related to reduced tax increment after the implementation of ABx1 26 and dissolution of the Pasadena Community Development Commission.

<sup>(3)</sup> Sales tax was \$1.3 million less than in fiscal year 2011-12, reflecting a one-time reduction by the State for overpayment in the previous year due to the State's method of making estimated payments.

<sup>(4)</sup> Unaudited.

Source: City of Pasadena, Department of Finance.

Property taxes are levied for each fiscal year on taxable real and personal property which is situated in the City as of the preceding March 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed public utilities property and property a lien on which is sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of the fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. If such taxes remain unpaid as of June 30 of the fiscal year in which the tax is levied, the property securing the taxes may only be redeemed by payment of the delinquent payment, plus a redemption penalty of 1½% per month from the original June 30 date to the time of redemption. If taxes are unpaid for a period of five years or more, the property is then subject to sale by the County Treasurer and Tax Collector, as provided by law.

Property taxes on the unsecured roll are due as of the March 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent taxes on property of the unsecured roll, and an additional penalty of 1½% per month begins to accrue commencing on November 11 of the fiscal year. Collection of delinquent unsecured taxes is the responsibility of the County of Los Angeles which may utilize any of several means legally available to it.

The tax roll for fiscal year 2014-15 reflected a total assessed valuation of approximately \$24.23 billion for the City. Assessed net valuation for revenue purposes increased by approximately 5.47% for fiscal year 2014-15 over the assessed net valuation for fiscal year 2013-14, and the compounded average annual increase between assessed valuation for fiscal year 2006 and fiscal year 2015 was approximately 6.77%.

In 2011, the State of California enacted legislation commonly referred to as "ABx1 26," which required the dissolution of California redevelopment agencies and the dissolution and winding up of the

operations of those agencies. The original effective date of ABx1 26 was stayed pending a challenge to its constitutionality brought before the California Supreme Court. In upholding ABx1 26 as constitutional on December 29, 2011, the California Supreme Court set February 1, 2012 as the effective date for and the date on which California redevelopment agencies were dissolved pursuant to ABx1 26. ABx1 26 provided a framework for the dissolution and winding up of California redevelopment agencies and the management of the remaining obligations of the dissolved redevelopment agencies by their respective successor agencies and oversight boards to oversee those successor agencies. Pursuant to ABx1 26, tax increment will continue to flow to the payment of “enforceable obligations” (such as tax allocation bonds) of the dissolved redevelopment agencies. See “THE CITY OF PASADENA—Retirement Systems—Pasadena Fire and Police Retirement System—SB 481 Litigation.”

**TABLE A-22**  
**CITY OF PASADENA**  
**ASSESSED VALUATION OF TAXABLE PROPERTY**  
**Fiscal Years 2006-07 through 2015-16**  
**(\$ in thousands)**

<b>Fiscal Year Ended June 30</b>	<b>Secured Valuations</b>	<b>Homeowner Exemption</b>	<b>Net Secured Valuations</b>	<b>Unsecured Valuations</b>	<b>Total Assessed Valuation</b>	<b>Less PCDC<sup>(1)</sup> Increment</b>	<b>Net Valuation</b>
2007	16,759,246	(133,112)	16,626,134	620,524	17,246,658	(2,522,337)	14,724,321
2008	18,339,519	(134,380)	18,205,139	607,779	18,812,938	(2,405,375)	16,407,563
2009	20,237,173	(136,262)	20,100,911	651,375	20,752,286	(2,799,791)	17,952,495
2010	20,204,880	(138,630)	20,066,250	644,888	20,711,138	(2,828,387)	17,882,751
2011	20,481,388	(138,275)	20,343,113	605,404	20,948,517	(2,829,885)	18,118,632
2012	20,969,532	(137,842)	20,831,690	567,527	21,399,217	(2,988,477)	18,410,740
2013	21,368,295	(136,241)	21,232,054	571,615	21,803,669	-	21,803,699
2014	22,534,203	(134,257)	22,399,945	575,006	22,974,952	-	22,974,951
2015	23,756,525	(131,812)	23,624,713	608,539	24,233,252	-	24,233,252
2016	25,354,224	(130,237)	25,223,987	602,659	25,826,646	-	25,826,646

<sup>(1)</sup> Pasadena Community Development Commission, the former redevelopment agency for the City.  
Source: Los Angeles County Auditor-Controller and California Municipal Statistics, Inc.

The City believes that assessed valuation levels will continue growing at a modest rate over the near term given the continued positive employment growth in the area and the number and scope of development projects within the City, including several new hotels, 1,700 residential units, a large-scale mixed use project, and several new commercial and retail developments.

The following two tables reflect the typical property tax rate per \$100 of assessed value in various jurisdictions and the ten largest secured taxpayers in the City.

**TABLE A-23  
CITY OF PASADENA  
PROPERTY TAX RATES  
DIRECT AND OVERLAPPING GOVERNMENTS  
For Fiscal Years 2005-06 through 2014-15**

<b>Fiscal Year ended June 30</b>	<b>General City</b>	<b>City Debt Service*</b>	<b>Los Angeles County General</b>	<b>Pasadena School District</b>	<b>Pasadena Comm. College District</b>	<b>Flood Control District</b>	<b>Metropolitan Water District</b>	<b>Total</b>
2006	0.340500	0.000000	0.322500	0.355500	0.964000	0.000100	0.005200	1.120200
2007	0.369100	0.000000	0.306700	0.284700	0.112200	0.000000	0.004700	1.077400
2008	0.337300	0.000000	0.327700	0.299300	0.110300	0.000000	0.004500	1.079100
2009	0.332800	0.000000	0.363500	0.276500	0.010180	0.000000	0.004300	1.078900
2010	1.000000	0.000000	0.000000	0.108364	0.023002	0.000000	0.004300	1.135666
2011	1.000000	0.000000	0.000000	0.101949	0.019864	0.000000	0.003700	1.125513
2012	1.000000	0.000000	0.000000	0.111200	0.019556	0.000000	0.003700	1.134456
2013	1.000000	0.000000	0.000000	0.114033	0.020556	0.000000	0.003500	1.138089
2014	1.000000	0.000000	0.000000	0.103507	0.018993	0.000000	0.003500	1.126000
2015	1.000000	0.000000	0.000000	0.106010	0.010315	0.000000	0.003500	1.119825

\* In 2004, the City paid off its outstanding general obligation debt.  
Source: County of Los Angeles Tax Assessor and California Municipal Statistics, Inc.

**TABLE A-24  
CITY OF PASADENA  
TOP TEN PROPERTY TAXPAYERS  
As of June 30, 2015**

<b>Property Owner</b>	<b>Primary Land Use</b>	<b>June 30, 2015 Assessed Valuation</b>	<b>% of Total</b>
Ppf Off 100 West Walnut Street		\$ 327,779,390	1.35%
Kaiser Foundation Health Plan		258,454,485	1.07%
Pasco Colorado Holding LLC		201,238,273	0.83%
Pr 155 North Lake LLC		183,600,000	0.76%
Western Assets Plaza LLC		155,170,003	0.64%
Pacific Huntington Hotel Corp		152,211,562	0.63%
Tishman Speyer Archstone Smith		134,715,984	0.56%
Spf 888 Walnut Pasadena LLC		127,500,000	0.53%
Bcsp Pasadena Towers Property		123,775,397	0.51%
Wells Reit Inc		119,332,574	0.49%
Total principal property taxpayers gross assessed value		<u>\$ 1,783,777,668</u>	<u>7.37%</u>
Total city assessed value		<u>\$24,233,251,416</u>	<u>100%</u>

Source: MuniServices.

## General Fund Comparative Financial Statements

The following two tables describe the financial condition of the City's General Fund by showing a three-year history of the City's Comparative Balance Sheet and a three-year history of the City's Statement of Revenues, Expenditures and Changes in Fund Balances.

**TABLE A-25  
CITY OF PASADENA  
GENERAL FUND  
COMPARATIVE BALANCE SHEETS  
Fiscal Years 2011-12 through 2013-14**

<u>Assets</u>	<u>As of June 30,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Cash and investments	\$29,046,772	\$35,468,139	\$38,804,030
Accounts receivable	18,450,077	16,036,315	14,500,506
Less allowance for uncollectible amounts	-	-	-
Notes receivable	52,397	51,508	51,508
Due from other funds	5,509,340	4,214,228	5,042,986
Prepays and other assets	27,560	25,000	184,923
Restricted cash and investment			25,000
Advances to other funds	48,636,872	45,919,450	45,919,450
Advances to component units	2,056,631	1,841,417	1,618,824
Allowance uncollectible for long term receivables	-	-	-
Property held for resale	8,300,000	8,300,000	8,300,000
<b>Total assets</b>	<b>\$112,079,649</b>	<b>\$111,856,057</b>	<b>\$114,447,227</b>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$7,364,133	\$6,811,667	\$8,754,174
Deposits	2,260,891	2,279,530	1,756,560
Due to other governments	18,763	-	709,314
Advances from other funds	-	1,100,000	990,000
<b>Total liabilities</b>	<b>\$9,643,787</b>	<b>\$10,191,197</b>	<b>\$12,210,048</b>
 Deferred inflow of resources	 \$48,659,994	 \$39,718,600	 \$38,959,667
Fund Balances:			
Nonspendable	\$8,352,397	\$8,351,508	\$8,351,508
Committed	80,043,268	37,380,218	34,868,425
Assigned	5,509,340	4,249,148	5,042,986
Unassigned	(40,129,137)	11,965,386	15,014,593
<b>Total Fund balances</b>	<b>\$53,775,868</b>	<b>\$61,946,260</b>	<b>\$63,277,512</b>
 <b>Total liabilities and fund balances</b>	 <b>\$112,079,649</b>	 <b>\$111,856,057</b>	 <b>\$114,447,227</b>

Source: City of Pasadena, Department of Finance.

**TABLE A-26  
CITY OF PASADENA  
GENERAL FUND  
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
Fiscal Years 2011-12 through 2013-14**

	Fiscal Year Ended June 30,		
	2012	2013	2014
<b>Revenues:</b>			
Taxes	\$120,658,622	\$122,014,755	\$128,501,059
Licenses and permits	2,738,785	3,046,516	4,107,361
Intergovernmental revenues	14,388,263	14,709,095	15,248,230
Charges for services	29,613,903	32,475,987	32,642,104
Fines and forfeits	6,796,482	7,452,899	6,768,360
Investment earnings	9,665,891	9,874,106	3,301,390
Rental income	1,336,611	1,602,381	1,384,077
Miscellaneous revenue	10,390,704	2,644,508	2,721,496
Total revenues	<u>\$195,589,261</u>	<u>\$193,820,247</u>	<u>\$194,674,077</u>
<b>Expenditures:</b>			
Current:			
General government	\$ 31,009,397	\$ 30,945,835	\$ 34,581,118
Public Safety	97,057,997	96,012,393	97,690,524
Transportation	23,883,432	22,804,610	24,783,817
Culture and leisure	14,724,109	14,470,287	16,675,755
Community development	7,063,911	6,808,301	6,686,614
Total expenditures	<u>\$173,738,846</u>	<u>\$171,041,426</u>	<u>\$180,417,828</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 21,850,415</u>	<u>\$ 22,778,821</u>	<u>\$ 14,256,249</u>
<b>Other financing sources (uses):</b>			
Issuance of long-term debt			
Transfers in	\$ 20,225,884	\$ 21,783,098	\$ 20,195,112
Transfers out	(37,847,163)	(42,141,527)	(33,120,109)
Total other financing sources (uses)	<u>\$(17,621,279)</u>	<u>\$(20,358,429)</u>	<u>\$(12,924,997)</u>
<b>Extraordinary gain (loss)</b>	(364,808)	-	-
Change in fund balances	3,864,328	2,420,392	1,331,252
Fund balances at beginning of year, as restated	<u>49,911,540</u>	<u>59,525,868</u>	<u>61,946,260</u>
Fund balances at end of year	<u>\$53,775,868</u>	<u>\$61,946,260</u>	<u>\$63,277,512</u>

Source: City of Pasadena, Department of Finance.

The City expects its audited financial statements for the fiscal year ended June 30, 2015 to be available on or about December 15, 2015.

**Investment Practices**

**General.** The City Treasurer is responsible for investing City funds pursuant to an Investment Policy (the "Investment Policy") established by the City Council.

The Treasurer invests temporarily idle cash for the City as part of a pooled investment program which combines general receipts with special funds for investment purposes. The City's accounting

division then allocates interest earnings on a pro rata basis when the interest is earned and distributes interest receipts based on the previously established allocations. All funds of the City, other than bond proceeds, the investment assets of the Commission, the City's Capital Endowment Fund and the Stranded Investment Reserve Fund, are invested pursuant to this pooled investment program. Funds of the Commission are invested pursuant to the Investment Policy, but are kept separate from other City funds. The Treasurer does not invest funds of any other governmental entities as part of its pooled investment program. All bond proceeds are invested in accordance with the permitted investments described in the applicable trust indenture.

**Pooled Investment Portfolio.** As of September 30, 2015, the funds invested pursuant to the pooled investment program had a market value of \$381,043,439. The City Treasurer prices the pooled portfolio and all other funds and investments under management on a monthly basis. The market values are obtained from Interactive Data Corporation ("IDC") and Bloomberg Financial Systems. The modified duration of the City's Pooled Investment Portfolio as of September 30, 2015 was 2.0 years. Of the investments on that date, approximately 21.34% had maturities of thirty days or less.

The assets of the portfolio as of September 30, 2015 are shown in the following table:

**TABLE A-27**  
**CITY OF PASADENA**  
**POOLED INVESTMENT PORTFOLIO**  
**as of September 30, 2015**

	<b>Market Value</b>	<b>Percentage of Total<sup>(1)</sup></b>
Money Market – Collateralized	\$ 21,424,669	5.64%
Municipal Bonds	17,238,864	4.54
Corporate Bonds	74,659,924	19.65
Federal Agencies	198,380,505	52.21
US Treasury Securities	15,012,310	3.95
LAIF	50,000,000	13.16
Cash in Bank	3,282,154	0.86
Total	\$379,998,425	100.00%
Accrued Interest Receivable	1,045,015	
Grand Total	\$381,043,439	

<sup>(1)</sup> At market value. The Weighted Average Maturity of the above portfolio is 2.11 years.  
Source: City of Pasadena, Department of Finance.

**The Investment Policy.** The City's treasury operations are managed according to the Investment Policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturities. The Investment Policy is reviewed and authorized by the City Council on an annual basis. The City Council approved the Investment Policy for fiscal year 2015-16 on July 27, 2015.

The Investment Policy establishes three primary objectives, in the following order of priority, for the City's investment activities.

1. Safety of Principal. The City will seek to preserve principal by mitigating credit risk and market risk (by structuring the portfolio so that securities mature at the same time as major cash outflows occur and by prohibiting the taking of short positions).

2. *Liquidity.* The City will maintain sufficient liquidity in the investment portfolio to enable the City to meet all operating requirements which might be reasonably anticipated and investments will be authorized only in securities that are actively traded in the secondary market. The City operates its own electric and water utility and bills monthly for these services. The utility billing program generates significant cash flow on a daily basis. Historical cash flow trends are compared to current cash flow requirements on an ongoing basis in an effort to ensure that the City's investment portfolio will remain sufficiently liquid to enable the City to meet all reasonably anticipated operating requirements.

3. *Return on Investment.* The City will design its investment portfolio to attain a "market average rate of return" through economic cycles and, whenever possible, consistent with risk limitations and prudent investment principles, to augment returns above the market average rate of return.

The City's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City to invest funds to the fullest extent possible. The City attempts to earn the highest yield obtainable while keeping within the investment criteria established by the Investment Policy for the safety and liquidity of public funds.

To meet its short-term cash flow needs, the City typically maintains an average investment balance of about \$40 million in securities with a maturity of 30 days or less.

*Authorized Investments.* Funds are invested only in those securities authorized by the various sections of the California Government Code and the City's Investment Policy, which include the following:

1. United States Treasury Bills, Bonds, and Notes or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no limitation as to the percentage of the portfolio which can be invested in this category, although maturity limitations as stated in the investment policy apply.

2. Obligations issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit Bank System (FFCB), the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Association (FHLMC), the Student Loan Marketing Association (SLMA) and the Tennessee Valley Authority (TVA) and the Federal Home Loan Bank. There is no limitation on the dollar amount that can be invested in these issues except for maturity limitations as stated in the investment policy.

3. Bills of exchange or time drafts drawn on and accepted by commercial banks, otherwise known as banker's acceptances. Banker's acceptances purchased may not exceed 180 days to maturity or 40% of the cost value of the portfolio. No more than 30% shall be invested in any one commercial bank pursuant to Section 53601(f) of the Government Code.

4. Commercial paper of "prime" quality of the highest ranking or highest numerical rating as provided for by Moody's Investor services or Standard and Poor's Corporation, and issued by domestic corporations having assets in excess of \$500,000,000 and having an "A" or better rating on its long term debentures as provided by Moody's or Standard & Poor's. Purchases of eligible commercial paper may not exceed 270 days to maturity nor represent more than 10% of the outstanding paper of the issuing corporation. Purchases of commercial paper may not exceed 15% of the cost value of the portfolio. An additional 15%, or a total of 30% of the agency's surplus money, may be invested pursuant to this subdivision. The additional 15% may be so invested only if the dollar weighted average maturity of the entire amount does not exceed 31 days.



5. Negotiable Certificates of Deposit issued by nationally or state chartered banks or state or federal savings institutions. Purchases of negotiable certificates of deposit may not exceed 30% of total portfolio.

6. Investments in Repurchase agreements or securities lending agreements may be made when the term of the agreement does not exceed one year. The market value of the securities used as collateral for the repurchase agreements shall be monitored by the investment staff and shall not be allowed to fall below 102% of the value of the repurchase agreement. A PSA Master Repurchase Agreement is required between the City of Pasadena and the broker dealer or financial Institution for all Repurchase Agreements transacted.

7. Reverse Repurchase Agreements or securities lending agreement which specifies terms and conditions may be transacted with broker/dealers and financial institutions but cannot exceed 20% of the portfolio base value on the date entered into with the conditions as specified in Section 53601(i)(3)(B) of the Government Code.

8. Local Agency Investment Fund (LAIF) which is a State of California managed investment pool may be used up to the maximum permitted by California State Law.

9. Time deposits, non-negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or savings and loan associations. Since time deposits are not liquid, no more than 25% of the investment portfolio may be invested in this investment type.

10. Medium Term Corporate Notes, with a maximum remaining maturity of five years or less may be purchased. Securities eligible for investment shall be rated "A" or better by Moody's or Standard and Poor's rating services. Purchase of medium term notes may not exceed 30% of the cost value of the portfolio and no more than 5% of the cost value of the portfolio may be invested in notes issued by one corporation. Commercial paper holdings should also be included when calculating the 5% limitation.

11. Shares of beneficial interest issued by diversified management companies investing in the securities and obligations as authorized by subdivisions (a) to (j) inclusive of the Government Section or subdivision (m) or (n) and that comply with the investment restrictions of this article and Article 2 (commencing with Section 53630). To be eligible for investment pursuant to this subdivision, these companies shall either:

- a) Attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services.
- b) Retain an investment advisor registered with the Securities and Exchange Commission with no less than five years of experience investing in the securities and obligations as authorized by subdivisions (a) to (j), inclusive, and with assets under management in excess of five hundred million dollars (\$500,000,000). The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include any commission that these companies may charge and shall not exceed 20 percent of the agency's surplus money that may be invested pursuant to this section. No more than 10% of the portfolio may be invested in any one mutual fund at the date of purchase.

12. Registered state warrants or treasury notes or bonds, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

13. Bonds, notes, warrants or other indebtedness of any local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency including variable rate demand bonds with a daily or weekly put feature and supported by a credit facility.

14. Any mortgage pass-through security, collateralized mortgage obligation mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond of a maximum of five years maturity. Securities eligible for investment under this subdivision shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by an a nationally recognized rating service and rated in a rating category of "AA" or its equivalent or better by a nationally recognized rating service. Purchase of securities authorized by this subdivision may not exceed 20% of the agency's surplus money that may be invested pursuant to this section.

15. Contracts issued by insurance companies that provide the policyholder with the right to receive a fixed or variable rate of interest and the full return of principal at the maturity date.

16. Notwithstanding anything to the contrary contained in this section, Section 53635 of the Government Code, or any other provision of law, moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith, or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

17. Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank which is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.

18. United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated "AA" or better by an NRSRO and invested pursuant to this section.

The City does not invest funds in any security that could result in a zero interest accrual if held to maturity, and has no investments in derivative products such as interest rate swaps, futures, options or reverse purchase agreements in connection with its investments. The City has entered into interest rate swap agreements in connection with certain of its obligations. The City does not have any investments which are reverse repurchase agreements. A reverse repurchase agreement is a transaction in which a

holder of securities, such as the City, sells the same to a third party and agrees to repurchase them at a later date. The proceeds received by the seller can in turn be invested in additional securities, thus producing “leverage.”

The Government Code stipulates that no investments may be made in securities with maturities in excess of five years without express authority from the City’s legislative body. The Government Code and the City’s Investment Policy place various other restrictions on investment in and allocation of funds to various investment categories, including the following:

- The value of bankers acceptances, bills of exchange or time drafts drawn on and accepted by commercial banks may not exceed 40% of the City’s portfolio book value as measured on the date of purchase and the days to maturity of such investments may not exceed 180 days.
- Commercial paper must be rated P-1 and issued by U.S. corporations with assets greater than \$500 million and a long-term debenture rating of A or better. The City is not permitted to purchase commercial paper that exceeds 270 days to maturity nor hold more than 10% of a corporation’s outstanding commercial paper. The value of the City’s holdings of commercial paper may not exceed 15% of the book value of the City’s portfolio as measured on the date of purchase.
- The value of the City’s holdings of negotiable certificates of deposits may not exceed 30% of the book value of the City’s portfolio as measured on the date of purchase.
- The market value of the securities used as collateral for repurchase agreements may not be permitted to fall below 102% of the value of the repurchase agreement. Execution of a PSA Master Repurchase Agreement is required for all repurchase agreements transacted and the maturity of repurchase agreements may not exceed one year.
- The value of the City’s reverse repurchase agreement holdings may not exceed 20% of the book value of the City’s portfolio as measured on the day of purchase. Reverse repurchase agreements may not exceed 92 days to maturity unless the agreement includes a written guarantee of minimum earnings for the entire period. Term reverse repurchase transactions in excess of 92 days are only permitted if the securities underlying the reverse are matched to the maturities of the reinvestments.
- No more than 25% of the City’s investment portfolio may be invested in time deposits.
- Medium-term corporate bonds must be rated in a rating category of “A” or its equivalent or better by a nationally recognized rating service. The value of the City’s holdings of medium-term corporate bonds is limited to 30% of the City’s portfolio book value as measured on the date of purchase and no more than 5% of the cost value may be invested in bonds held by one corporation.
- The value of the City’s mutual fund holdings may not exceed 20% of the City’s portfolio book value as measured on the date of purchase.
- Any eligible mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate or consumer receivable-backed bond must be issued by an issuer having an “A” or higher rating for the issuer’s debt as provided by a nationally recognized rating service and rated in a rating category of “AA” or its

equivalent or better by a nationally recognized rating service. In addition, purchases of such securities may not exceed 20% of all of the City's surplus funds that may be invested in accordance with the foregoing investment guidelines and restrictions.

None of the moneys on deposit in the City's investment portfolio is currently invested in leveraged products or inverse floating rate bonds. The City has no investments in outside investment pools except for the State's Local Agency Investment Fund (LAIF). The City does not have a practice of lending its portfolio's securities to others in return for a fee, although it is not prohibited from doing so.

## STATE OF CALIFORNIA BUDGET INFORMATION

A number of the City's revenues are collected and subvented by the State (such as sales tax and motor-vehicle license fees) or allocated in accordance with State law (most importantly, property taxes). Therefore, State budget decisions can have an impact on City finances. During prior State fiscal crises, the State has often chosen to reallocate a portion of such revenues to assist in its own budget balancing, although recent Constitutional initiatives passed in 2004 and 2010 limit the State's ability to divert revenues from localities (including the City) in the future.

The State's fiscal year begins on July 1 and ends on June 30. The State Constitution requires the Governor to submit a budget for each fiscal year to the Legislature by the preceding January 10 (the "Governor's Budget"). The Constitution requires the Legislature to pass a budget bill by June 15, after which the Governor has 12 calendar days to either sign or veto the enrolled budget. The Legislature has adopted timely the past four State budgets, although the Legislature has failed to meet the June 15 deadline in prior years. Because more than half of the State's General Fund income is derived generally from the April 15 personal income tax, the Governor submits a "May Revision" to his proposed budget. The Legislature typically waits for the May Revision before making final budget decisions. Once the budget bill has been approved by a majority vote of each house of the Legislature, it is sent to the Governor for signature. Increases in taxes require approval of a two-thirds majority of each house.

*The following information concerning the State's budget has been obtained from publicly available information which the City believes to be reliable; however, the City takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information. Information about the State budget is regularly available at various State-maintained websites. Text of the State budget may be found at the State Department of Finance website, [www.ebudget.ca.gov](http://www.ebudget.ca.gov). An impartial analysis of the budget is posted by the Office of the Legislative Analyst at [www.lao.ca.gov](http://www.lao.ca.gov). In addition, various State of California official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, [www.treasurer.ca.gov](http://www.treasurer.ca.gov). The information referred to is prepared by the respective State agency maintaining each website and not by the City, and the City takes no responsibility for the continued accuracy of the Internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated herein by these references.*

The State budget for fiscal year 2015-16 ("2015-16 State Budget") was adopted by the Legislature on June 16, 2015 and signed by the Governor on June 25, 2015. The 2015-16 State Budget was the fourth consecutive balanced budget and the fifth consecutive budget to be enacted timely. The 2015-16 State Budget reflects continued improvement in the State's finances (resulting in significant part from the enhanced revenues from Proposition 30, described below). The 2015-16 State Budget assumes a \$2 billion operating surplus at the end of fiscal year 2015-16 and includes the second deposit into the Budget Stabilization Account since 2007, in the amount of \$1.9 billion.

With the approval by the voters in November 2012 of Proposition 30's seven-year personal income tax increase and four-year sales tax increase (collectively known as "Proposition 30"), the State

significantly improved its general fiscal condition. As a result of the passage of Proposition 30 and other measures taken by the administration, the LAO reported in November 2013 that the State's budgetary condition was stronger at that time than at any point in the past decade and that there was no longer a structural imbalance in the State's budget.

While the State's general fiscal condition has improved since the recession, there can be no assurances that the State will not experience future budget challenges. The City cannot anticipate how any future State budget challenges might impact the revenues or expenditures of the City.

## **CONSTITUTIONAL AND STATUTORY LIMITS ON TAXES, REVENUES AND APPROPRIATIONS**

### **Article XIII A of the State Constitution – Proposition 13**

Section 1(a) of Article XIII A of the State Constitution ("Article XIII A") limits the maximum *ad valorem* tax on real property to 1% of full cash value (as defined in Section 2 of Article XIII A), to be collected by counties and apportioned according to law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to (i) *ad valorem* taxes to pay interest or redemption charges on indebtedness approved by the voters prior to July 1, 1978, or (ii) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition, or (iii) any bonded indebtedness incurred by a school district, community college district or county office of education for the construction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities approved after November 8, 2000 by 55% of the voters of the district or county, as appropriate, voting on the proposition. Section 2 of Article XIII A defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment" ("Full Cash Value"). The Full Cash Value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. Taxpayers in the City may appeal the determination of the Los Angeles County Assessor of the Full Cash Value of their property. At any given point in time, appeals are pending in the City. If the assessed value of a property is reduced as a result of an assessment appeal, the reduction is borne by relevant taxing agencies, including the City.

Legislation enacted by the State Legislature to implement Article XIII A provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except to pay debt service on indebtedness approved by the voters as described above.

The voters of the State have approved amendments to Article XIII A. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first \$1,000,000 of the Full Cash Value of other real property between parents and children, do not constitute a "purchase" or "change of ownership" triggering reappraisal under Article XIII A. Another amendment permits the State Legislature to allow persons over the age of 55 who meet certain criteria or "severely disabled homeowners" who sell their residence and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence's assessed value to the new residence. Another amendment permits the State Legislature to allow persons who are either 55 years of age or older, or who are "severely disabled," to transfer the old residence's assessed value to their new residence located in either the same or a different county and acquired or newly constructed within two years of the sale of their old residence.

In 1990, the voters approved a further amendment of Article XIII A to permit the State Legislature to exclude from the definition of “new construction” certain additions and improvements, including seismic retrofitting improvements and improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

Article XIII A has also been amended to provide that there would be no increase in the Full Cash Value base in the event of reconstruction of property damaged or destroyed in a disaster.

Section 4 of Article XIII A provides that cities, counties and special districts cannot, without a two-thirds vote of the qualified electors, impose “special taxes.”

### **Article XIII B of the State Constitution – Gann Limit**

State and local government agencies in the State are each subject to an annual “appropriations limit” imposed by Article XIII B of the State Constitution (“Article XIII B”). Article XIII B prohibits government agencies and the State from spending “appropriations subject to limitation” in excess of the appropriations limit imposed. The base year for establishing such appropriations limit is fiscal year 1978-79. “Appropriations subject to limitation” are generally authorizations to spend “proceeds of taxes,” which include all, but are not limited to, tax revenues, and the proceeds from (i) regulatory licenses, user charges or other user fees to the extent that such proceeds exceed “the cost reasonably borne by that entity in providing the regulation, product, or service,” (ii) the investment of tax revenues, and (iii) certain subventions received from the State. No limit is imposed on appropriations of funds which are not “proceeds of taxes,” appropriated for debt service on indebtedness existing prior to the passage of Article XIII B or authorized by the voters, or appropriations required to comply with certain mandates of courts or the federal government.

As amended at the June 5, 1990 election by Proposition 111, Article XIII B provides that, in general terms, an agency’s appropriations limit is based on the limit for the prior year adjusted annually to reflect changes in cost of living, population and, when appropriate, transfer of financial responsibility of providing services from one governmental unit to another. Proposition 111 liberalized the aforementioned adjustment factors as compared to the original provisions of Article XIII B. If an agency’s revenues during any two consecutive fiscal years exceed the combined appropriations limits for those two years, the excess must be returned by a revision of tax rates or fee schedules within the two subsequent fiscal years.

Section 7900, *et seq.* of the State Government Code defines certain terms used in Article XIII B and sets forth the methods for determining the appropriations limits for local jurisdictions. The City’s appropriations limit for fiscal year 2014-15 was \$245.3 million, with approximately \$111.6 million of the City’s appropriations being subject to this limit. The City estimates that its appropriations limit for fiscal year 2015-16 is \$255.6 million, with an estimated \$122.3 million of the City’s appropriations being subject to this limit.

### **Articles XIII C and XIII D of the State Constitution – Proposition 218 and Proposition 26**

On November 5, 1996, the voters of the State approved Proposition 218, the “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIII C of the State Constitution (“Article XIII C”) requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote, and taxes for specific purposes, even if deposited in the general fund,

require a two-thirds vote. The voter approval requirements of Article XIII C reduce the City's flexibility to deal with fiscal problems by raising revenue through new or extended or increased taxes and no assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

Article XIII D of the State Constitution ("Article XIII D") contains several new provisions making it generally more difficult for local agencies to levy and maintain "assessments" for municipal services and programs. "Assessment" is defined to mean any levy or charge upon real property for a special benefit conferred upon the real property.

Article XIII D also contains several new provisions affecting a "fee" or "charge," defined for purposes of Article XIII D to mean "any levy other than an *ad valorem* tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service." All new and existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) with respect to any parcel or person, exceed the proportional cost of the service attributable to the parcel, (iv) are for a service not actually used by, or immediately available to, the owner of the property in question, or (v) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services (or fees for electrical and gas service, which are not treated as "property related" for purposes of Article XIII D), no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area. The City has three enterprise funds that are self-supporting from fees and charges (refuse, water and electricity), two of which (water and refuse) have been judicially determined to be property-related for purposes of Article XIII D. As a result, the City has since 2000 followed the notice and public hearing requirements of Section 6 of Article XIII D before imposing or increasing any water or refuse service fees or charges.

However, California courts have held that property-related fees which are used by a city for general fund purposes and which are not compensation to the city for the costs of providing the related service are an impermissible tax under Article XIII D. Under Section 1408 of the City Charter, last approved by the voters in 1993, the City annually transfers up to 6% of the gross revenue of the water enterprise fund to the General Fund. No assurance can be given that future water enterprise transfers to the General Fund will not have to be reduced or eliminated under Article XIII D.

In addition to the provisions described above, Article XIII C removes prohibitions and limitations on the initiative power in matters of any "local tax, assessment, fee or charge." Consequently, the voters of the City could, by future initiative, repeal, reduce or prohibit the future imposition or increase of any local tax, assessment, fee or charge. "Assessment," "fee" and "charge," are not defined in Article XIII C, so it was unclear whether the definitions of these terms in Article XIII D (which are generally property-related as described above) would limit the scope of the initiative power set forth in Article XIII C. The issue was clarified in 2006, when the California Supreme Court held that the Article XIII D definitions do not limit the scope of Article XIII C initiative powers. Accordingly, the Article XIII C initiative power could potentially apply to non property related revenue sources that currently constitute a substantial portion of general fund revenues. No assurance can be given that the

voters of the City will not, in the future, approve initiatives that repeal, reduce or prohibit the future imposition or increase of local taxes, assessments, fees or charges.

In *Howard Jarvis Taxpayers Assn. v. City of Pasadena*, Los Angeles Superior Court case no. BC550394, plaintiffs have filed a putative class action lawsuit against the City challenging its 25 percent extra-territorial water surcharge. The plaintiffs claim the surcharge violates Proposition 218 and should be ceased. For fiscal year 2013-14, the surcharge provided approximately \$1.7 million in revenue to the Water Fund. No trial date is set, but there is a hearing on the plaintiffs' Motion for Class Certification set for May 26, 2015. The City's view is that the surcharge is justified by the City's costs of providing service to its extra-territorial water customers.

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D.

Proposition 26 also provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity.

Since the adoption date of Proposition 26, any new or increased electric rates may not exceed the reasonable cost of providing electric service and the burden of establishing the reasonableness of such rates is placed upon the City. Sections 1407 and 1408 of the City Charter, last approved by the voters in 1993, authorize the City to transfer up to 16% of the gross income from the electric enterprise fund to the General Fund for general municipal purposes. See "CITY FINANCIAL INFORMATION" above. Since Proposition 26 has been recently enacted, there is little caselaw interpreting this Constitutional provision. However, a California appellate court recently ruled that transfers (described as "payments in lieu of taxes" or a PILOT) from the City of Redding's electric utility to that city's general fund, approved with each biennial budget, were not exempt from Proposition 26, as the PILOT predated the adoption of Proposition 26. *Citizens for Fair REU Rates v. City of Redding*, 233 Cal.App.4th 402 (2015). The *Redding* court remanded the case to the lower court to determine the factual question of whether the PILOT reflects the reasonable costs borne by the general fund to provide electric service. The City of Redding recently filed a Petition for Review of the Court of Appeal's decision with the California Supreme Court. Additionally, the League of California Cities recently filed a Request for Depublication. The California Supreme Court has not ruled on either of these requests.

Another published appellate opinion holds that Proposition 26 is not retroactive as to local governments and, for that reason, it is the City's further belief that transfers from its electric enterprise fund should be unaffected by Proposition 26. Further it is the City's view that as its transfers are being



made pursuant to a voter-approved Charter provision (rather than by budget appropriations alone), the transfers should also be unaffected by the *Redding* case, should the Court of Appeal's decision become final in its current form. Accordingly, in the absence of judicial authority to the contrary, the City intends to continue making these transfers to the General Fund in accordance with its Charter. Nonetheless, there can be no assurance that electric enterprise transfers to the General Fund will not have to be reduced or eliminated in the future under Proposition 26.

### **Proposition 1A**

As part of then-Governor Schwarzenegger's agreement with local jurisdictions, Senate Constitutional Amendment No. 4 was enacted by the State Legislature and subsequently approved by the voters as Proposition 1A ("Proposition 1A") at the November 2004 election. Proposition 1A amended the State Constitution to, among other things, reduce the State Legislature's authority over local government revenue sources by placing restrictions on the State's access to local governments' property, sales, and vehicle license fee revenues as of November 3, 2004.

Proposition 1A prohibits the State from mandating activities on cities, counties or special districts without providing for the funding needed to comply with the mandates. If the State does not provide funding for the mandated activity, the requirement on cities, counties or special districts to abide by the mandate would be suspended. In addition, Proposition 1A expanded the definition of what constitutes a mandate on local governments to encompass State action that transfers to cities, counties and special districts financial responsibility for a required program for which the State previously had partial or complete responsibility. The State mandate provisions of Proposition 1A do not apply to schools or community colleges or to mandates relating to employee rights.

Proposition 1A also allowed the State to borrow up to 8% of local property tax revenues, beginning with fiscal year 2008-09, but only if the Governor proclaimed such action was necessary due to a severe State fiscal hardship and two-thirds of both houses of the State Legislature approved the borrowing. The amount borrowed was required to be paid back within three years. The 2009-10 State budget authorized the State to exercise its Proposition 1A borrowing authority. This borrowing generated \$1.998 billion that was used to offset State general fund spending. Such diverted revenues were repaid, with interest.

### **Proposition 22**

Proposition 22 ("Proposition 22") which was approved by California voters in November 2010, prohibits the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services and prohibits fuel tax revenues from being loaned for cash-flow or budget balancing purposes to the State General Fund or any other State fund. In addition, Proposition 22 generally eliminates the State's authority to temporarily shift property taxes from cities, counties, and special districts to schools, temporarily increase a school and community college district's share of property tax revenues, prohibits the State from borrowing or redirecting redevelopment property tax revenues or requiring increased pass-through payments thereof, and prohibits the State from reallocating vehicle license fee revenues to pay for State-imposed mandates. In addition, Proposition 22 requires a two-thirds vote of each house of the State Legislature and a public hearing process to be conducted in order to change the amount of fuel excise tax revenues shared with cities and counties. Proposition 22 prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies. While Proposition 22 will not change overall State and local government costs or revenues by the express terms thereof, it will cause the State to adopt alternative actions to address its fiscal and policy objectives. Due to the prohibition with respect to the State's ability to take, reallocate, and borrow money raised by local governments for local purposes, Proposition 22 supersedes certain provisions of Proposition 1A (2004). However, borrowings and

reallocations from local governments during 2009 are not subject to Proposition 22 prohibitions. In addition, Proposition 22 supersedes Proposition 1A of 2006. Accordingly, the State is prohibited from borrowing sales taxes or excise taxes on motor vehicle fuels or changing the allocations of those taxes among local governments except pursuant to specified procedures involving public notices and hearings.

### **Statutory Limitations**

A statutory initiative (“Proposition 62”) was adopted by State voters at the November 4, 1986 General Election, which (1) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency’s legislative body and by a majority of the electorate of the governmental entity voting in such election, (2) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within that jurisdiction voting in such election, (3) restricts the use of revenues from a special tax to the purpose or for the service for which the special tax was imposed, (4) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIII A, (5) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities and (6) requires that any tax imposed by a local governmental entity on or after August 1, 1985 be ratified by a majority vote of the electorate voting in such election within two years of the adoption of the initiative or be terminated by November 15, 1988. Proposition 62 requirements are generally not applicable to general taxes and special taxes levied prior to its November 4, 1986 effective date.

On September 28, 1995, the California Supreme Court filed its decision in *Santa Clara County Local Transportation Authority v. Carl Guardino*, 11 Cal. 4<sup>th</sup> 220 (1995) (“*Santa Clara*”), which upheld a Court of Appeal decision invalidating a 1/2-cent countywide sales tax for transportation purposes levied by a local transportation authority. The California Supreme Court based its decision on the failure of the authority to obtain a two-thirds vote of the electorate for the levy of a “special tax,” as required by Proposition 62. The *Santa Clara* decision did not address the question of whether or not it should be applied retroactively.

In deciding the *Santa Clara* case on Proposition 62 grounds, the Court disapproved the decision in *City of Woodlake v. Logan*, 230 Cal. App. 3d 1058 (1991) (“*Woodlake*”), where the Court of Appeal had held portions of Proposition 62 unconstitutional as a referendum on taxes prohibited by the State Constitution. The State Supreme Court determined that the voter approval requirement of Proposition 62 is a condition precedent to the enactment of each tax statute to which it applies, while referendum refers to a process invoked only after a statute has been enacted. Numerous taxes to which Proposition 62 would apply were imposed or increased without voter approval in reliance on *Woodlake*. The Court notes as apparently distinguishable, but did not confirm, the decision in *City of Westminster v. County of Orange*, 204 Cal. App. 3d 623 (1988), which held unconstitutional the provision of Proposition 62 requiring voter approval of taxes imposed during the “window period” of August 1, 1985 until November 5, 1986. Proposition 62 as an initiative statute does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature. After the passage of Proposition 218, certain provisions of Proposition 62 (*e.g.*, voter approval of taxes) are now governed by the State Constitution.

Following the *Santa Clara* decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62. On June 4, 2001, the State Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* (“*La Habra*”). In this case, the court held that a public agency’s continued imposition and collection of a tax is an ongoing violation upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule

provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

### **Future Initiatives**

Article XIII A, Article XIII B and the propositions described above were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations which may affect the City's revenues or its ability to expend its revenues.

## **BONDED AND OTHER INDEBTEDNESS**

### **Introduction**

The City has issued or caused the issuance of a variety of bonded and other debt obligations as provided for under the State Constitution, judicial interpretation of the State Constitution, State statutes, and its own Charter powers. The following summarizes that indebtedness. The City has never failed to pay principal of or interest on any debt or lease obligation when due.

The Director of Finance serves as the City's debt coordinator. The City Treasurer serves on each financing team, along with other finance staff members. All debt issuance must be approved by the City's Finance Committee and the City Council.

### **Debt Management Policy**

The City has adopted debt management policies to standardize and rationalize the issuance and management of debt by the City. One of the principal objectives of the debt management policies is to maintain the highest possible credit ratings for all categories of short and long term debt that can be achieved without compromising the delivery of basic services by the City.

The City's debt management policy requires the City to develop a multi-year capital improvement program to be considered by the City Council as part of the yearly budget process. The City does not anticipate issuing General Fund indebtedness in the near future.

### **General Obligation Debt**

Under the City Charter, the City may not incur indebtedness by general obligation bonds which would in the aggregate exceed 15% of the total assessed valuation of all the real and personal property within the City subject to assessment for taxation for municipal purposes. In addition, no bonded indebtedness which will constitute a general obligation of the City may be created unless authorized by the affirmative vote of two-thirds of the electorate voting on such proposition at any election at which the question is submitted. Such bonds are secured by an *ad valorem* property tax assessed against the property owners of the City. The City currently has no general obligation debt outstanding.

### **Long-Term Debt Obligations Payable from the General Fund**

As of June 30, 2015, the City had total long-term debt obligations payable from the City's General Fund of approximately \$619.4 million. Of this total, obligations for general government purposes represented approximately 13.6%, pension obligation bonds approximately 19.3% and "self-supporting" obligations related to particular activities (such as parking, conference center and the Rose

Bowl) approximately 67.1%. For the past ten years, the City has made no contribution from its General Fund towards the payment of “self supporting” obligations. Further, the City does not expect to make any contribution to the payment of such “self supporting” obligations in the near future.

<b>Fiscal Year ended June 30</b>	<b>Total General Fund Obligations Debt Service (including Self Supporting Obligations)</b>	<b>General Fund Obligations Debt Service (excluding Self Supporting Obligations)</b>
2013	\$32,096,418	\$15,450,970
2014	35,138,825	15,515,792
2015	30,337,777	10,160,698
2016	37,322,592*	15,647,062*

\* Includes estimates for the 2015A Certificates.  
 Source: City of Pasadena, Department of Finance.

Set forth below is a summary of the City's long-term debt obligations payable from the City's General Fund.

**TABLE A-28**  
**LONG TERM OBLIGATIONS PAYABLE FROM CITY GENERAL FUND**  
**AS OF JUNE 30, 2015**  
**(\$ in Thousands)**

City Issues	Original Par	Outstanding	Final Maturity	Variable/Fixed Synthetic Fixed (SWAP)	Letter of Credit Expiration Date	Letter of Credit Bank
<u>Pension Obligation Bonds</u>						
2015 AB Taxable POBs	\$119,460	\$119,460	2045	Fixed		
<b>Sub-Total Pension Obligation Bonds</b>	<b>\$119,460</b>	<b>\$119,460</b>				
<u>City Leases</u>						
2000 Lease Financing	4,000	1,157	2020	Fixed		
2006 VRDBs (City Hall Portion)	10,355	5,640	2023	Variable/SWAP(Synthetic Fixed)		
2008 B Refunding COPs	26,759	11,894	2019	Fixed		
2008 C Refunding COPs <sup>(1)</sup>	71,450	60,455	2038	Fixed		
2011 Equip Lease Financing -- ARTS Buses	2,073	1,529	2022	Fixed		
2012 Equip Lease Financing -- Helicopter	1,584	876	2018	Fixed		
2012 Equip Lease Financing -- 911 System	3,947	2,180	2018	Fixed		
2013 Equip Lease Financing -- Dental Clinic	265	162	2018	Fixed		
2013 Equip Lease Financing -- Meter Equip	351	214	2018	Fixed		
<b>Sub-Total City Leases</b>	<b>\$120,784</b>	<b>\$84,107</b>				
<u>Self-Supporting Obligations</u>						
1993 Refunding COPs (Old Pasadena Parking)	\$28,050	\$5,905	2018	Fixed		
1999 Marriott Garage Lease Financing	2,600	827	2019	Fixed		
2006 A CAB COPs (Conference Center)	27,140	37,100	2023	Fixed		
2008 A COPs (Conference Center)	134,720	134,720	2035	Variable/SWAP(Synthetic Fixed)	4/16/2018	Bank of America
2008 B COPs (Conference Center)	891	396	2019	Fixed		
2008 Paseo Colorado Taxable Revenue Bonds	28,800	25,300	2038	Variable	9/1/2019	Bank of the West
2010 A PPA Lease Revenue Bonds (Rose Bowl Renovation Project) Tax-Exempt	36,808	40,910	2033	Fixed		
2010 B PPA Lease Revenue Bonds (Rose Bowl Renovation Project) Tax-BABS	106,660	106,660	2043	Fixed		
2010 C PPA Lease Revenue Bonds (Rose Bowl Renovation Project) Taxable	5,005	4,725	2020	Fixed		
2010 D PPA Lease Revenue Bonds (Rose Bowl Renovation Project) Tax-RZEDBS	7,400	7,400	2043	Fixed		
2013 A Rose Bowl VRD Lease Revenue Bonds (Tax-Exempt)	11,035	11,035	2042	Fixed		
2013 A Rose Bowl VRD Lease Revenue Bonds (Tax-Exempt) -- Refunding Portion	23,965	23,865	2042	Variable/SWAP(Synthetic Fixed)		
2013 A Rose Bowl VRD Lease Revenue Bonds (Taxable)	19,065	16,985	2027	Fixed		
<b>Sub-Total Self-Supporting</b>	<b>\$432,139</b>	<b>\$415,828</b>				
<b>Total General Fund Obligations</b>	<b>\$672,383</b>	<b>\$619,395</b>				

Source: City of Pasadena, Department of Finance.

(1) Expected to be refunded by the 2015A Certificates.

## **Revenue Bonds and Certificates of Participation**

The City Charter and State law provide for the issuance of revenue bonds, and the execution of installment purchase contracts that support revenue certificates of participation, which are secured by and payable from the revenues generated by various enterprise and special fund operations. Revenue bonds do not represent obligations of the General Fund of the City, nor are they secured by taxes. Revenue bonds and certificates of participation have been issued that are secured by electric and water revenue enterprises. See Note 9 to the City's comprehensive annual financial report, attached hereto as APPENDIX B – "EXCERPTS FROM AUDITED BASIC FINANCIAL STATEMENTS OF THE CITY OF PASADENA FOR FISCAL YEAR ENDED JUNE 30, 2014"

## **Cash-flow Borrowings**

In the past ten years, the City has not issued tax and revenue anticipation notes to alleviate short-term cash flow needs that occur early in the fiscal year when taxes and revenues have not yet been received.

## **Estimated Direct and Overlapping Bonded Debt**

The estimated direct and overlapping bonded debt of the City as of [ ] is shown on the following page.

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**TABLE A-29**  
**CITY OF PASADENA**  
**COMPUTATION OF DIRECT AND OVERLAPPING DEBT**  
As of \_\_\_\_\_, 2015

**[ON ORDER]**



## **LITIGATION**

The City believes that there is no litigation pending or threatened against the City where an unfavorable judgment would have a material adverse effect on the City's financial position.