

# Notes to the Basic Financial Statements

NOTES TO THE BASIC  
FINANCIAL STATEMENTS



**CITY OF GLENDALE**

**Notes to the Basic Financial Statements**

**Fiscal Year Ended June 30, 2016**

<b>Note</b>		<b>Page</b>
(1)	Summary of Significant Accounting Policies	48
(2)	Stewardship, Compliance and Accountability	57
(3)	Cash and Investments	58
(4)	Loans Receivable	63
(5)	Inter-fund Transactions	66
(6)	Capital Assets	67
(7)	Property Held for Resale	69
(8)	Long-term Debt and Liabilities	69
(9)	Pension Plans	75
(10)	Post-Employment Benefits	82
(11)	Restricted Net Position	84
(12)	Net Deficits of Individual Funds	84
(13)	Risk Management	85
(14)	Contingent Liabilities and Commitments	86
(15)	Jointly Governed Organization	89
(16)	Successor Agency Trust for Assets of Former Redevelopment Agency	92
(17)	Subsequent Event	98
(18)	Pronouncement Issued But Not Yet Implemented	98
(19)	Implementation of Pronouncements	99

## **CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Reporting Entity**

These financial statements present the financial results of the City of Glendale, California (the City) and its component units as required by generally accepted accounting principles in the United States of America. Component units are legally separate entities for which the primary government is financially accountable. The City has three component units: the Glendale Housing Authority (the Authority), the City of Glendale Financing Authority (the Financing Authority), and the Glendale Economic Development Corporation (the Corporation). The City Council serves as the Board of the Housing Authority, the Financing Authority, and the Glendale Economic Development Corporation. Management of the City has operational responsibility for the Authority, the Financing Authority and the Corporation as these component units are essentially managed in the same manner as other City departments. Also, the Financing Authority provides financial services entirely to the City. Therefore, these entities are reported as blended component units within the City's comprehensive annual financial report (CAFR). Both the City and its blended component units have a June 30 year-end.

#### ***Component Units***

The Housing Authority was established by the Glendale City Council in 1975. The Authority is responsible for the administration of Department of Housing and Urban Development (HUD) funded Housing Choice Voucher rental assistance program (often called "Section 8"), which is funded annually. The Housing Authority also administers five other affordable housing program funds on behalf of the City, including the HUD HOME entitlement grant, the HUD Continuum of Care grant, the HUD Shelter Plus Care grant, the Low and Moderate Income Housing Asset Fund (former 20% Redevelopment Set Aside funds program income dollars), and the state funded BEGIN grant for First Time Home Buyers in the Doran Gardens homeownership development. The Housing Authority's mission is to provide decent, safe, and sanitary dwellings for low to moderate income families, to preserve existing affordable housing, and to increase the supply and quality of new affordable housing. The Authority's financial data and transactions are included within the special revenue funds, and no separate financial report is issued for the Authority.

The Financing Authority was established on December 7, 1999, by a joint powers authority between the City of Glendale and the Glendale Redevelopment Agency. The stated purpose was to provide financial assistance to the City in connection with the construction and improvement of a Police Services Building located at west side of Isabel Street between Wilson and Broadway in the City of Glendale. On July 11, 2000, the Financing Authority issued \$64,200 in variable rate demand certificates of participation for the construction of the Police Services Building. The Financing Authority's financial data and transactions are included within the debt service funds, and no separate financial report is issued for the Financing Authority.

The Glendale Economic Development Corporation, formed in July 2014, is tasked with implementing the City's economic development program. It provides physical, economic, educational development, redevelopment, and revitalization efforts within the City. These efforts will assist and support the City in the expansion of job opportunities, stimulate economic development, contribute to the physical improvement of the City, and implement, assist, and support the City in development activities and programs that will lessen neighborhood tensions and combat community deterioration. The overarching objective of the Glendale Economic Development Corporation is to expand business opportunities, increase employment, and foster economic prosperity for businesses and residents. As of June 30, 2016, there are no financial transactions to be reported and no separate financial report is issued for the Corporation.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the City except for the fiduciary fund. The effect of inter-fund activity has been removed from these statements except for the inter-fund services provided and used. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Effective February 1, 2012, due to

## **CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

AB 1x 26, the dissolution of Redevelopment Agencies throughout California, the activities of the dissolved Glendale Redevelopment Agency are recorded in the Glendale Successor Agency Private Purpose Trust Fund.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included in program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental, proprietary, and the fiduciary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The accounts of the City are organized by funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise of its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance or net position, revenues, and expenditures or expenses, as appropriate. The City reports a total of 66 funds, which are comprised of the General Fund, 1 fiduciary fund, 35 special revenue funds, 1 debt service fund, 8 capital project funds, 5 enterprise funds, and 15 internal service funds.

### ***Governmental Fund Types***

Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used, current liabilities are assigned to the fund from which they are paid, and the difference between governmental fund assets and deferred outflows, and liabilities and deferred inflows is the fund balance.

The following comprise the City's major governmental funds:

- General Fund: Used to account for all financial resources, except those required to be accounted for in another fund.
- Housing Assistance - Special Revenue Fund: Used to account for monies received and expended by the City under Section 8 of the Federal Housing and Urban Development Act for housing assistance to low and moderate income families.
- Capital Improvement - Capital Project Fund: Used to account for financial resources used for major capital projects of the general government operations. The City has categorized the capital improvement fund as a major fund for public interest reasons. The City believes that this judgmentally determined major fund is particularly important to the financial statements users.

Other governmental funds consist of debt service funds which are used to account for the accumulation and disbursement of financial resources that will be used to make principal and interest payments on long-term debt of the City of Glendale, special revenue funds which account for revenue derived from specific sources as required by law or regulation, and capital projects funds which are used to account for financial resources used for the acquisition of major capital facilities other than those financed by special revenue and proprietary funds.

### ***Proprietary Fund Types***

Proprietary fund types are used to account for a government's ongoing organizations and activities which are similar to those often found in the private sector.

## **CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

Enterprise funds are used to finance and account for the acquisition, operation, and maintenance of the City's facilities and services which are supported primarily by user charges. The following comprise the City's major enterprise funds:

- Sewer Fund – Used to account for operations and maintenance of the sewer system. This service is primarily contracted with the City of Los Angeles.
- Electric Fund – Used to account for the operations of the City-owned electric utility services.
- Water Fund – Used to account for the operations of the City-owned water utility services.

Other nonmajor enterprise funds consist of Refuse Disposal and Fire Communication Funds. The Refuse Disposal Fund is used for the operations of the City-owned refuse collection and disposal services. The Fire Communication Fund is used for the monies received and expended, for the tri-city (Burbank, Glendale, and Pasadena) fire communication operations as the lead City.

Additionally, internal service funds are used to finance and account for services and commodities provided by designated departments or agencies to other departments and agencies of the City.

### ***Fiduciary Fund Type***

The fiduciary fund is used to account for resources held for the benefit of parties outside the City. The City maintains one fiduciary fund, the Glendale Successor Agency Private Purpose Trust Fund.

Since the resources of the fiduciary fund are not available to support the City's programs, it is not reflected in the City's government-wide financial statements. The accounting used for the fiduciary fund is based on the economic measurement focus and the accrual basis of accounting.

### **Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon after to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for the sales tax, landfill host assessment and landfill loyalty tipping fee that are collected within 90 days. Under the accrual basis of accounting, expenditures are generally recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, Other Post-Employment Benefits (OPEB), claims, and judgments, are recorded only when payment is due.

Intergovernmental revenues are recognized in the period when all eligibility requirements imposed by the provider are met, and amounts are available.

## CITY OF GLENDALE

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

Licenses and permits, fines and forfeitures, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. In the category of use of money and property, property rentals are recorded as revenue when received in cash. However, since investment earnings are measurable and available, they are recorded as earned.

All property taxes are collected and allocated by the County of Los Angeles to the various taxing entities. Property taxes are determined annually as of January 1st and attached as enforceable liens on real property as of July 1st. Taxes are due November 1st and February 1st and are delinquent if not paid by December 10th and April 10th, respectively. Secured property taxes become a lien on the property on March 1st. Property taxes on the unsecured roll are due on the March 1st lien date and become delinquent if unpaid on August 31st. Property tax revenues are recognized in the fiscal period for which they are levied and collected, adjusted for any amounts deemed uncollectible and amounts expected to be collected more than 60 days after the fiscal year for governmental funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### **Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Balance or Net Position**

#### ***Cash and Investments***

The City combines the cash and investments of all funds into a pool except for funds required to be held by outside fiscal agents under the provisions of bond indentures. Each fund's portion of the pooled cash and investments are displayed on the governmental funds' balance sheets, the proprietary funds' statement of net position, or the fiduciary fund's statement of net position.

The City values its cash and investments at fair value in the statement of net position and recognizes the corresponding change in the fair value of investments in the year in which the change occurred. As of July 1, 2015, the City retrospectively applied Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. The City categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City manages its pooled idle cash and investments under a formal investment policy that is reviewed by the Investment Committee, adopted by the City Council and follows the guidelines of the State of California Government Code. Individual investments cannot be identified with any single fund because the City may be required to liquidate its investments at any time to cover large outlays required more than normal operating needs.

Interest income from the pooled cash and investments is allocated to all funds, except the Capital Improvement Fund, on a monthly basis based upon the prior month-end cash balance of the fund and as a percentage of the month-end total pooled cash balance.

For purposes of the statement of cash flows of the proprietary fund types, cash, and cash equivalents include all pooled cash and investments, restricted cash, and cash with fiscal agents with an original maturity of three months or less. The City considers the cash and investments pool to be a demand deposit account where funds may be withdrawn and deposited at any time without prior notice or penalty.

## **CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

Investment-gas/electric commodity represents the City's implementation of a program to purchase and sell options, calls and puts, in natural gas futures contracts at strike prices. These transactions allow the City to stabilize the ultimate purchase price of natural gas for the City's power plant. These, and other transactions, also give the City the ability to manage its overall exposure to fluctuations in the purchase price of natural gas. The options are carried at fair market value.

### ***Designated Cash and Investments***

The cash reserve policies for the Electric Fund and Water Fund were adopted by the City Council in 2003 and subsequently revised in 2006 to ensure long-term sustainable financial health for electric and water operations. Its provisions call for an annual review of the cash reserves to determine if the recommended levels are sufficient. The currently approved cash reserve levels are \$124,100 for the Electric Fund and \$11,300 for the Water Fund as adopted by the City Council on August 29, 2006. As of June 30, 2016, \$66,400 was designated for the Electric Fund in the following categories: \$40,400 for contingency reserve; \$10,000 for rate stabilization reserve, \$16,000 for gas reserve project, and \$0 for operating reserve. As of June 30, 2016, \$2,850 was designated for the Water Fund in the following categories: \$1,850 for contingency reserve, \$1,000 for rate stabilization reserve, and \$0 for operating reserve.

### ***Restricted Cash and Investments***

The restricted cash and investments include unspent bond proceeds of the 2013 Electric Revenue Bonds and the 2012 Water Revenue Bonds as well as the environmental compliance funds mandated by South Coast Air Quality Management District (SCAQMD). As of June 30, 2016, the Electric Fund has \$15,253 and the Water Fund has \$7,008 in remaining bond proceeds. As of June 30, 2016, the Electric Fund also has \$4,978 in SCAQMD restricted cash dedicated for environmental projects in compliance with reductions in nitrogen oxides for the utility boilers and the gas turbines, and \$691 in SCAQMD restricted cash for environmental projects dedicated to the reduction of emission and improvement of public health in Glendale.

The restricted cash and investments also include \$27,850 in Landfill Postclosure capital project fund as of June 30, 2016 for the postclosure maintenance cost of Scholl Canyon landfill.

### ***Receivables***

Interest Receivable – The City accrues interest earned but not received.

Accounts Receivables – These are comprised primarily of revenues that have been earned but not yet received by the City as of June 30th from individual customers, private entities, and government agencies. Also, this account includes accrued revenues due from other agencies for expenditure driven types of grants whereby the City accrues grant revenues for expenditures or expenses incurred but not yet reimbursed by the grantors. Also, included in this amount are property taxes earned but not received from the County of Los Angeles as of June 30th and unbilled services for utility and other services delivered to customers but not billed as of June 30th. Management determines the allowance for doubtful accounts by evaluating individual customer accounts. Utility customer closed accounts are written off when deemed uncollectible. Recoveries to utility customer receivables previously written off are recorded when received. For non-utility accounts receivable, delinquent notices are sent out to customers with outstanding balances after 30 days. After 60 days, accounts still outstanding are forwarded to a collection agency.

Housing Loans Receivable – The Housing Authority uses Community Development Block Grant (CDBG grant), HOME grant, Low and Moderate Income Housing Asset Fund (LMIHA) program income, and Building Equity and Growth in Neighborhoods Grant (BEGIN grant) funds to make various loans to create and maintain affordable housing for low and moderate income people. Certain Housing Authority loans will be forgiven or restructured when all requirements are met. Because of the uncertainty of collectability, the City has established a policy not to record forgivable and contingent loans on the financial statements. The non-forgivable loans are recorded on the financial statements. See Note 4 for more information.

**CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

***Inter-fund Transactions***

Inter-fund services provided and used would be treated as revenues and expenditures or expenses if the funds are involved. External organizations to the City's government are accounted for as revenues, referred to as seller funds, and expenditures or expenses, referred to as purchaser funds, in the funds involved. For the fiscal year ended June 30, 2016, the General Fund recorded \$14,950 as inter-fund revenue for general government services provided to other funds.

Due to/from Other Funds are used when a fund has a temporary cash overdraft. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Transfers in or out are authorized budgetary exchanges of cash between funds.

***Inventories and Prepaid Items***

Inventories, consisting primarily of construction and maintenance materials as well as tools held by the Electric and Water enterprise funds, are stated at lower of cost or market, using the weighted average cost method or disposal value. Inventory shown in the General Fund and Fleet Management Fund consists of expendable supplies held for consumption. The consumption method of accounting is used where inventory acquisitions are recorded in inventory accounts initially and charged as expenditures when used. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the consumption method, such as insurance, energy purchases, rent, etc.

***Capital Assets***

Capital assets including land, buildings, improvements, equipment, and infrastructure assets (e.g. roads, sidewalks, traffic lights and signals, street lights, etc.), are reported in the applicable governmental or business-type activities columns in the government-wide and respective proprietary fund financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5 or more and an estimated useful life more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Capital outlay is recorded as expenditures of the General Fund, special revenue and capital project funds, and as assets in the government-wide financial statements to the extent the City's capitalization is met. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest costs are capitalized as part of the historical cost of acquiring certain assets. Interest costs capitalized in the Electric and Water Funds for the fiscal year ended June 30, 2016 are as follows:

	Capitalized Interest	Total Interest Incurred
Electric Fund	\$ 1,007	6,005
Water Fund	635	3,324



**CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

Building and improvements, infrastructure and equipment assets are depreciated using the straight-line depreciation at the beginning of the following fiscal year over the following estimated useful lives:

Assets	Years
Building and Improvements	
General Structure and Parking Lot Landscaping Improvements	10
Building and Parking Lot Improvements	20
Land Improvements	30
Parks and Wastewater Capacity Upgrades	40
Transmission-Off System	50
Machinery and Equipment	
Police Patrol Vehicles	3
Computer Systems and Software	5
Passenger Cars, Pickup/Refuse	6
Cargo Vans, Street Sweepers	7
Dump/Tractor/Trailer Trucks	10
Helicopters	20
Emergency Response Engines	20
Sewer Improvements	
Intangible Assets	40
Local Sewer System	80
Infrastructure (non-sewer)	
Traffic Signals	15
Potable-Services	20
Supply-Mains and Wells	25
Supply-Structure Improvements	30
Supply-Springs, Tunnels, and Potable-Hydrants	40
Streets, Paved Streets, Paved Alleys and Sidewalks	50
Potable-Mains	75

In June 2005, the City elected to participate in the Natural Gas Reserve Project through SCPPA and entered into a 25 year Gas Sales Agreement with SCPPA for up to 2,000 MMBtu per day. The project calls for the acquisition and development of gas resources, reserves, fields, wells, and related facilities to provide a long-term supply of natural gas for its participants. The first acquisition was completed on July 1, 2005, with the total cost to the participants at \$306,100. The City's initial share in the project was \$13,100 or 4.28%, with an estimated peak daily volume between 1,600 to 1,800 MMBtu. As of June 30, 2016, the net balance for Natural Gas Reserve Project, including drilling program capitalization is \$13,225.

***Long-term Debt***

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt, and other obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary and fiduciary fund statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred. In the governmental funds' statement of revenues, expenditures and changes in fund balances, issuance of debt is recorded as other financing source or use in the respective fund. Issuance costs and payment of principal are reported as debt service expenditures.

## **CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

### ***Pension***

For purposes of measuring the net pension liability and deferred outflows or inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) plans (Plan's) and additions to or deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable by the benefit terms. Investments are reported at fair value. See Note 9 for more information.

### ***Compensated Absences***

The total compensated absences liability for the City is \$27,734, which comprises of liabilities from two internal service funds: Employee Benefits Fund and Retiree Health Savings Plan Benefits Fund.

The City records the expense and liability for its employees' earned but unused accumulated vacation and overtime in the Employee Benefits Fund. As of June 30, 2016, the liability is \$12,884, and the City has \$12,561 available in cash dedicated to this liability in the fund.

The City also provides sick leave conversion benefits through the Retiree Health Savings Plan (RHSP). Employees earn one day of sick leave per month and the unused sick leave hours are converted to a dollar amount and deposited in the employee's RHSP account at retirement or termination with 20 years of City service. The account is used to pay healthcare premiums for the retiree and beneficiaries. After the account is exhausted, the retirees can terminate coverage or elect to continue paying from personal funds. The sick leave conversion rates range from \$0.022 to \$0.031 for each hour of sick leave balance, based on the memoranda of understanding agreements between the City and the unions. The sick leave conversions related expense and liability are recorded in the Retiree Health Savings Plan Benefits Fund. As of June 30, 2016, the liability is \$14,850, and the City has \$11,707 available in cash dedicated to this liability in the Fund.

Based on the most recent actuarial valuation dated June 30, 2015, the actuarial accrued liability for the RHSP is \$14,778. The City has a cash reserve of \$10,952 in the RHSP Benefits Fund, which is dedicated to providing benefits, so the unfunded actuarial accrued liability is \$3,826 as of June 30, 2015. As of June 30, 2016, the City has \$11,707 cash reserve for RHSP, and the actuarial accrued liability rolling forward from FY 2014-15 to FY 2015-16 is \$14,850, so the unfunded actuarial accrued liability is \$3,143. The actuarial accrued liability takes into account an estimate of future sick leave usage, additional sick leave accumulation for current active employees, the investment return of 4%, and no increase for sick leave conversion hourly rate.

### ***Post-Employment Benefits***

For Glendale City Employees Association (GCEA) and Glendale Management Association (GMA) employees who retired prior to July 2001, Glendale Police Officers Association (GPOA) employees who retired prior to December 2001, and Glendale Fire Fighters Association (GFFA) employees who retired prior to September 2002, the accumulated unused sick leave upon their retirement may be converted to the number of months that the City will contribute all or partial monthly medical insurance premiums for these retirees. The conversion calculations are based on the respective bargaining units' MOU or Benefit Ordinance. Currently, there are six retirees receiving this City paid benefit. Also, at any time, these six retirees may elect to receive a one-time cash payment of a maximum of 50% of the value of the remainder of their unused sick leave conversion for the insurance plan for which they qualify. After all the accumulated unused sick leaves are exhausted or cashed out, the retirees can terminate coverage or elect to continue paying the medical insurance premiums from personal funds.

The Retiree Healthcare Plan is a single-employer defined benefit healthcare plan administered by the City, which provides healthcare benefits to eligible retirees and their dependents. Benefit provisions are established and may be amended by the City. The premiums collected from the retirees and payments to the insurance companies are recorded in the Medical Insurance Fund, an internal service fund. The City does not have a separate audited report for this defined benefit plan. See Note 10 for more information.

## **CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

### ***Unearned Revenue***

The unearned revenue liability reports revenue received in advance of providing goods or services. When the goods or services are provided, this account balance is decreased, and a revenue account is increased.

### ***Property Held for Resale***

Land and buildings acquired for future sale to developers have been capitalized and are shown as real property held for resale in the accompanying combined financial statements. Property held for resale is carried at the lower of cost or net realizable value (realizable value less cost to sell).

### ***Fund Balance***

Fund balance classifications for governmental fund types comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. In the fund financial statements, the governmental funds may report nonspendable, restricted, committed, assigned, and unassigned fund balances to show the level of constraint governing the use of the funds.

- Nonspendable fund balances cannot be spent because they are in a nonspendable form, or are required to be maintained intact.
- Restricted fund balances are restricted for specific purposes by third parties or enabling legislation.
- Committed fund balances include amounts that can be used only for specific purposes determined by the formal action through a resolution of the City Council, as they are the highest level of decision-making authority. Council must have at least a 3 to 2 vote to pass a resolution for the specific purpose. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use through the same type of formal action taken to establish the commitment.
- Assigned fund balances comprise amounts intended to be used by the City for specific purposes but are not restricted or committed. The City Council, in the City's most recently adopted budget resolutions, has delegated the authority to assign fund balances to the City Manager or his/her designee. The financial policies of the City are also updated to reflect this delegation of authority.
- Unassigned fund balances are residual positive net resources of the General Fund in excess of what can properly be classified in one of the other four categories and include all deficit amounts in all other governmental funds.

When both restricted and unrestricted resources are available for an incurred expenditure, it is the City's policy to spend restricted resources first then unrestricted resources as necessary. When unrestricted resources are available for incurred expenditures, it is the City's policy to use committed amounts first, followed by assigned amounts, and then unassigned amounts.

### ***Net Position***

The net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, and deferred outflows of resources, and is reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets, excluding unspent debt proceeds. The net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation externally adopted by the citizens of the City or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then the unrestricted resources as they are needed.

## **CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

### ***Deferred Outflows and Inflows of Resources***

In addition to assets, the statements of net position report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources or expenses until then. For current or advance refunding resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debts (i.e., deferred charges) is reported as a deferred outflow of resources and amortized to interest expense based on the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter. When the City pays the pension contributions after the measurement date, the City reports deferred outflows of resources. The City's deferred outflows of resources as of June 30, 2016 is \$39,819, which consists of \$5,043 loss on refunding, and \$34,776 for pension contribution made after the measurement date of the net pension liability.

In addition to liabilities, the statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources or revenues until then. When there is a decrease in pension expense arising from the recognition of changes in assumptions, of differences between expected and actual experience, and of differences between projected and actual earnings on pension plan investments, the City reports a deferred inflow of resources until the decrease is recognized in expense. The City's deferred inflows of resources related to pensions are \$44,164 as of June 30, 2016. When a receivable is recorded in governmental fund financial statements but the revenue is not available, the City reports a deferred inflow of resources until the revenue becomes available. The City has recorded deferred inflows of resources – unavailable revenues of \$40,177 in the General Fund, \$59 in the Capital Improvement Fund, and \$8,094 in the nonmajor governmental funds.

## **NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

### **Budgets and Budgetary Accounting**

The City Council is required to adopt an annual budget for the general, debt service, special revenue, enterprise, and internal service fund types. The City Council annually adopts the capital improvement program for the capital projects funds. The City of Glendale budget presents the Capital Improvement Projects on a ten-year plan basis, with the "Future Years" column representing a cumulative five-year projection. The City Council only approves and authorizes one year of the Capital Improvement Projects. Unspent Capital Improvement Projects in the prior years' budget is carried forward into the new fiscal year. Therefore, an annual budget comparison on multi-year projects is impractical.

All proprietary fund types are accounted for on a cost of service method (net income); therefore, budget comparisons are impractical. Also, the City is not legally mandated to report the results of operations for these enterprise and internal service fund types on a budget comparison basis, and so budgetary data related to these funds have not been presented.

The City utilizes an "encumbrance system." Under this procedure, encumbrance accounting is used to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. Encumbrances outstanding at year-end do not constitute expenditures or liabilities and appropriations in the General Fund lapse at the end of the year. Therefore, encumbrances are not reserved for commitments made, and budget carryovers may be submitted for the remaining encumbrance. All commitments incurred in the General Fund will be paid with the new budget and approved budget carryovers in the following year, and open capital project appropriations carry over to the next year.

The City, in establishing the budgetary data reflected in the basic financial statements and supplementary information, utilizes the following procedures:

**CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

- The City Charter requires that the City Manager submits to the City Council a proposed budget for the coming year on or before June 1st. The operating budget includes both the sources and types of funds for the proposed expenditures.
- In May, public hearings are conducted to obtain citizen input, with the final budget being adopted no later than July 1st.
- The budget is amended during the fiscal year to reflect all transfers and amendments.
- The level of appropriated budgetary control is at the fund level except for the General Fund, which is at the department level. The appropriation may exist across different categories including, salary and fringe benefits, maintenance and operation, and capital outlay. There is no limit as to how much can be shifted between categories as long as the total appropriation does not exceed what Council approved at the department level for General Fund and the fund level for all other funds.

The following General Fund departments and funds over expended their appropriations as of June 30, 2016:

Funds	Amounts Over Expended
General Fund:	
Police	\$ 719
Fire	219
Non-departmental	1,816
Fire Mutual Fund	654
Special Events Fund	98
Police Building Project Fund	53

**NOTE 3 – CASH AND INVESTMENTS**

Governmental and business-type activities:

Cash and investments as of June 30, 2016 consist of the following:

Investments	\$ 628,126
Cash and investments with fiscal agents	<u>11,271</u>
	639,397
Cash held in financial institutions	<u>43,132</u>
Total	<u>\$ 682,529</u>

The following amounts are reflected in the government-wide statement of net position:

Pooled cash and investments	\$ 543,842
Restricted cash and investments	55,780
Cash and investments with fiscal agents	11,271
Restricted investments – gas/electric commodity	2,386
Designated cash and investments	<u>69,250</u>
Total	<u>\$ 682,529</u>

**CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

**Authorized Investments**

Under the provisions of the City Council's adopted investment policy, and by California Government Code Section 53601, the City Treasurer may invest or deposit in the following types of investments:

	<u>Maximum Maturity</u>	<u>Maximum % of Portfolio</u>	<u>Maximum Investment in one Issuer</u>
U.S. Treasury Securities	5 years	100%	None
Federal Agencies Securities	5 years	100%	None
State of California and California Local Agencies Obligation of Other States	N/A	15%	5% per issuer
Medium Term Corporate Notes	5 years	20%	5% per issuer
Commercial Paper (A1, P1, F1 minimum rating)	270 days	25%	None
Bankers' Acceptances	180 days	30%	10% per bank
Time Deposits (FDIC Insured)	1 year	10%	5% per issuer
Negotiable Certificates of Deposit	1 year	30%	5% per issuer
Local Agency Investment Fund (State Pool)	N/A	Maximum \$50MM per LAIF account	None
Money Market Mutual Funds	90 days	20%	None
Los Angeles County Treasury Pool	N/A	10%	None

Investments in Medium Term Corporate Notes may be invested in Securities rated A or better by Moody's or Standard and Poor's rating services, and no more than 5% of the market value of the portfolio may be invested in one corporation. Maximum participation in Bankers' Acceptance is limited to 10% per bank.

**Investments Authorized by Debt Agreements**

The provisions of debt agreements, rather than the general provisions of the California Government Code or the City's investment policy, govern investments of debt proceeds and reserve funds held by fiscal bond agents. Permitted investments are specified in related trust agreements.

No maximum percentage of the related debt issue or maximum investment in one issuer is specified.

**Interest Rate Risk**

Interest rate risk is the risk that fluctuations in market rates may adversely affect the fair value of an investment. The longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. The City manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

Governmental and business-type activities:

	Total	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Commercial Paper	\$ 119,658	119,658	-	-	-
Negotiable Certificates of Deposit	27,010	27,010	-	-	-
Federal Agency Term Notes	65,343	3,504	23,127	38,712	-
Federal Agency Callable Bonds	35,982	-	5,864	30,118	-
Medium Term Notes	108,844	12,726	28,522	67,596	-
Obligations of Other States	33,799	-	15,040	18,759	-
State and Municipal Bonds	56,575	7,788	10,886	37,901	-
State Investment Pool	94,862	94,862	-	-	-
Los Angeles County Pool	57,106	57,106	-	-	-
U.S. Treasury Notes	17,535	-	-	17,535	-
Money Market Mutual Fund	11,412	11,412	-	-	-
Held by Fiscal Agents:					
Guaranteed Investment Contracts	2,398	-	-	-	2,398
Money Market Mutual Fund	8,873	8,873	-	-	-
	<u>\$ 639,397</u>	<u>342,939</u>	<u>83,439</u>	<u>210,621</u>	<u>2,398</u>

**Credit Risks**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The City purchases investments only in the most risk-adverse instruments, such as Aaa rated government securities, Aaa, Aa or A rated corporate securities, A1, P1, F1 rated commercial paper, negotiable certificates of deposit, and banker's acceptance securities. The City's Investment Policy requires the City to sell medium-term notes with a credit rating below S&P's and Fitch's BBB grade or Moody's Baa2 unless the City Council approves the City Treasurer's recommendation that the security should be retained.

Governmental and business-type activities:

	Total	Moody's Rating as of June 30, 2016							
		Aaa	Aa1	Aa2	Aa3	A1	A2	P1	Unrated
Commercial Paper	\$ 119,658	-	-	-	-	-	-	119,658	-
Negotiable Certificates of Deposit	27,010	-	5,002	-	-	-	-	22,008	-
Federal Agency Term Notes	65,343	65,343	-	-	-	-	-	-	-
Federal Agency Callable Bonds	35,982	35,982	-	-	-	-	-	-	-
Medium Term Notes	108,844	19,383	12,272	11,239	39,321	20,598	6,031	-	-
Obligations of Other States	33,799	3,556	9,159	9,293	11,791	-	-	-	-
State and Municipal Bonds	56,575	-	-	20,734	29,113	1,309	1,914	-	3,505
State Investment Pool	94,862	-	-	-	-	-	-	-	94,862
Los Angeles County Pool	57,106	-	-	-	-	-	-	-	57,106
U.S. Treasury Notes	17,535	17,535	-	-	-	-	-	-	-
Money Market Mutual Fund	11,412	184	-	-	-	-	-	-	11,228
Held by Fiscal Agents:									
Guaranteed Investment Contracts	2,398	-	-	-	-	-	-	-	2,398
Money Market Mutual Fund	8,873	8,873	-	-	-	-	-	-	-
	<u>\$ 639,397</u>	<u>150,856</u>	<u>26,433</u>	<u>41,266</u>	<u>80,225</u>	<u>21,907</u>	<u>7,945</u>	<u>141,666</u>	<u>169,099</u>

## CITY OF GLENDALE

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

### Concentration Risk

The investment policy of the City limits the amounts that may be invested in any one issuer to 5% or 10% per bank for Bankers' Acceptances. This limit excludes investments in U.S. Treasury securities, federal agencies securities, commercial paper, Local Agency Investment Fund, money market mutual funds, and Los Angeles County Pool. Investments in any one issuer that represent 5% or more of total City investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
FHLMC	Federal Agency Callable Bonds	\$ 24,070
	Federal Agency Term Bonds	14,570
	Total	<u>\$ 38,640</u>
Wells Fargo Bank	Negotiable Certificates of Deposit	\$ 27,010
	Medium Term Notes	5,028
	Total	<u>\$ 32,038</u>

### Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, a government agency will not be able to recover its deposits or will not be able to recover investment securities that are in possession of an outside party. All of a depositor's accounts at an insured depository institution, including non-interest-bearing transaction accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount of \$250 for each deposit insurance ownership category. The amounts of deposits are collateralized under California law. The Code requires that a financial institution secures deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law unless waived by the governmental unit.

The custodial risk for investments is also twofold. An investment trade transaction occurs between a government agency and counterparty, such as a broker or a dealer. Counterparty risk is the risk that in the event of the failure of a brokerage or dealer to deliver securities after government agency has made payment. The City of Glendale prevents counterparty risk by requiring all trade transactions to be done on a delivery versus payment arrangement.

A government agency uses an independent third-party custodian or safe-keeper to domicile the securities in its portfolio. The City of Glendale uses Bank of America as its third-party safekeeping servicer, and prevents custodial or safekeeping risk by having all securities purchased and owned by the City of Glendale registered in the name of the City, separated from other client securities portfolios, and segregated from securities owned by the bank.

### Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investment in this pool is reported in the accompanying financial statements at fair value based upon the City's pro-rata share of the amortized cost basis provided by LAIF for the entire LAIF portfolio, in relation to the amortized cost of that portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF. LAIF is not registered with the Securities and Exchange Commission (SEC) and is not rated.

### Investment in Los Angeles County Pool

The City is a voluntary participant in the Los Angeles County Pooled Investment Fund (LACPIF) that is regulated by California Government Code Section 27136 and managed by the Los Angeles County Treasurer. The City's investment in this Pool is reported in the accompanying financial statements of net position and prepared using the accrual basis of accounting. Investments are reported at fair value. The cash flow needs of the participants are



## **CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

monitored daily to ensure that sufficient liquidity is maintained to meet the needs of participants. The balance available for withdrawal is based on the accounting records maintained by LACPIF. LACPIF is not registered with the Securities and Exchange Commission (SEC) and is not rated.

### **Fair Value Measurement**

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Unobservable inputs reflect the City's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the City's own data.

The asset's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The determination of what constitutes observable requires judgment by the City's management. City management considers observable data to be that market data, which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to City management's perceived risk of that investment.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Deposits and withdrawals in governmental investment pools, such as LAIF and LACPIF are made on the basis of \$1 and not fair value. Accordingly, the City's proportionate share in these types of investments is an uncategorized input not defined as a Level 1, Level 2, or Level 3 input.

The following is a description of the valuation methods and assumptions used by the City to estimate the fair value of its investments. There have been no changes in the methods and assumptions used at June 30, 2016. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. City management believes its valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The City's treasury pools asset market prices are derived from closing bid prices as of the last business day of the month as supplied by Interactive Data, Bloomberg or Telerate. Where prices are not available from generally recognized sources, the securities are priced using a yield-based matrix system to arrive at an estimated market

**CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

value. Prices that fall between data points are interpolated. Non-negotiable FDIC-insured bank certificates of deposit are priced at par.

When available, quoted prices are used to determine fair value. When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy and the City does not have any investments that are measured using Level 1 inputs.

For investments classified within Level 2 of the fair value hierarchy, the City's custodians generally uses a multi-dimensional relational model. Inputs to their pricing models are based on observable market inputs in active markets. The inputs to the pricing models are typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads and benchmark securities, among others.

The City does not have any investments that are measured using Level 3 inputs.

As of June 30, 2016, the City has the following fair value measurements:

	Balance at June 30, 2016	Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Commercial Paper	\$ 119,658	-	119,658	-
Negotiable Certificates of Deposit	27,010	-	27,010	-
Federal Agency Term Notes	65,343	-	65,343	-
Federal Agency Callable Bonds	35,982	-	35,982	-
Medium Term Notes	108,844	-	108,844	-
Obligations of Other States	33,799	-	33,799	-
State and Municipal Bonds	56,575	-	56,575	-
U.S. Treasury Notes	17,535	-	17,535	-
Total investments by fair value level	464,746	-	464,746	-
Investments measured at amortized costs:				
Los Angeles County Pool	57,106			
State Investment Pool	94,862			
Money Market Mutual Funds	11,412			
Held by Fiscal Agents:				
Guaranteed Investment Contracts	2,398			
Money Market Mutual Fund	8,873			
Total investments measured at amortized costs	174,651			
	\$ 639,397			

**NOTE 4 – LOANS RECEIVABLE*****Verdugo Fire Communications***

The Verdugo Fire Communications Center (Verdugo) is a regional dispatch center that was established by the founding cities of Burbank, Glendale, and Pasadena. Verdugo currently dispatches for thirteen fire agencies and will begin dispatching services for the City of Vernon Fire Department on July 1, 2016. To begin dispatching services,

## **CITY OF GLENDALE**

Notes to the Basic Financial Statements  
Fiscal Year Ended June 30, 2016  
(in thousands)

the Vernon Fire Department's equipment and infrastructure needed to be updated and configured to be able to establish connectivity to the Verdugo system. Upon review of the cost associated with the updates and configuration, the tri-city Fire Chiefs agreed, with the approval of the City of Vernon's and the City of Glendale's City Council, to loan the funding to the City of Vernon and executed a promissory note on February 26, 2016 with the approval of the City of Vernon's City Council and the City of Glendale's City Council. The loan receivable amount is estimated to be \$200, with agreed upon terms of no loan fee or accruing interest, and is required to be repaid within the first two years of the approved dispatch agreement over four semi-annual payments. As of June 30, 2016, the loan receivable is \$55.

### ***Successor Agency***

When the Dissolution Act took effect in February 2012, the former Glendale Redevelopment Agency's (the former Agency) Loan Advances from the City were invalidated. As a result, the City wrote off the former Agency's Loan Advances' outstanding balance of \$71,758 in FY 2011-12.

AB 1484 created Post Compliance Provisions, which are designed to provide successor agencies and cities with certain benefits to incentivize them to comply with a Due Diligence Review process, remit the sums demanded by the Department of Finance (DOF), and conclude outstanding litigation with DOF over dissolution. Upon request by the successor agency and approval by the oversight board, AB 1484 provided that loan agreements entered into between the former redevelopment agency and the City that created the former redevelopment agency (City-Agency loans) "shall be deemed to be enforceable obligations provided that the oversight board makes a finding that the loan was for legitimate redevelopment purposes." (§ 34191.4(b)(1))

If the oversight board finds that the loan is an enforceable obligation, "the accumulated interest on the remaining principal amount of the loan shall be recalculated from origination at the interest rate earned by funds deposited into the Local Agency Investment Fund." The loan is to be repaid in "accordance with a defined schedule over a reasonable term of years at an interest rate not to exceed the interest rate earned by funds deposited into the Local Agency Investment Fund." (§ 34191.4(b)(2)) Loan repayments for the fiscal year cannot exceed one-half of the increase in the amount distributed to the taxing entities pursuant to section 34183(a)(4) in that fiscal year and the amount distributed to the taxing entities pursuant to that section in the FY 2012-13 base year.

Glendale received approval from the oversight board to reinstate the loans. There was disagreement with DOF on the calculation of interest, and the issue was resolved through litigation between DOF and the City of Glendale. A subsequent lawsuit resolved an issue DOF raised as to the legitimacy of the loans. To date, the DOF has approved, and the County Auditor-Controller has paid Glendale via the Recognized Obligation Payment Schedule process, \$1,509 in FY 2014-15 and \$4,334 in FY 2015-16.

Furthermore, 20% of any loan repayment is required to be deducted and transferred to the City's Low and Moderate Income Housing Asset Fund. As of June 30, 2016, the reinstated loan amount is \$40,133.

### ***Housing***

The Housing Authority has offered various housing loans to the residents of the City. Four different types of housing loans are currently or were formerly funded from Community Development Block Grant (CDBG grant), HOME grant, Low and Moderate Income Housing Asset Fund (LMIHA) program income, and Building Equity and Growth in Neighborhoods Grant (BEGIN grant) funds.

- *Single Family Home Rehabilitation Loan*

The program was funded by the CDBG grant, HOME grant, and LMIHA. It provided funds for moderate rehabilitation of owner-occupied homes for low and moderate income households. The deferred payment loan is interest-bearing with simple interest rates ranging from 0% to 4% annually for up to 10 years, and with a loan amount up to \$25. Generally, the loan is repaid at the time of sale or transfer of the property and is secured by a deed of trust on the property. This program was eliminated in February 2012; however, there are existing loans receivable. As of June 30, 2016, \$1,807 is outstanding, which is recorded in governmental activities in the government-wide financial statement.

## CITY OF GLENDALE

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

- *First Time Home Buyer Loan*

The program is funded by the HOME grant, LMIHA, and BEGIN grant, and has two categories.

Down Payment Assistance – Resale Homes Purchase. The program provided funds for down payment and affordability gap assistance for the purchase of a resale home by a low or moderate income first time home buyer household. Loan terms varied from 30 to 45 years and required either a 5% simple annual interest rate paid monthly, or a 0% simple annual interest rate with no monthly payments. All loans are second mortgage deferred payment and forgivable up to \$75. If the property is sold, transferred, or no longer owner-occupied before the term expires, the borrower must repay the original principal amount plus an appreciation share. This program was eliminated in February 2012; however, there are existing loans receivable. As of June 30, 2016, \$2,943 is outstanding. Because these loans are forgivable, they are not recorded on the financial statements.

Down Payment Assistance – New Construction Homes Purchase. For new construction units, the amount of the loan is based on the amount of the affordability gap. The loan is secured by a deed of trust on the property and affordable housing covenants. Loans fall into two types. One type is the deferred payment forgivable loan with a loan term of 30 to 45 years; the loan is forgiven at the end of the loan term. If the property is sold, transferred, or no longer owner-occupied before the term expires, the borrower must repay the original principal amount plus an appreciation share. A small set of loans funded through the American Dream Down Payment Assistance Program are forgiven at a set percentage of the principal amount each year. A second type of loan is a deferred payment loan with resale restrictions. More recent HOME funded loans are subject to resale restrictions and must be resold to low-income home buyers if sold before the end of the term. As of June 30, 2016, the forgivable loan amount is \$3,958, and the amount is not recorded on the financial statements. The Doran Gardens project loans funded through the BEGIN grant are deferred loans and are to be repaid at the end of the 30-year term. As of June 30, 2016, the non-forgivable amount is \$5,345 and is recorded in governmental activities in the government-wide financial statement.

- *Multi-Family Apartment Rehabilitation Loan*

The program is funded by the LMIHA and provides funds for moderate rehabilitation of rental properties owned by private or nonprofit owners. Units must be rented to low and moderate income tenants at an affordable rent for the term of the loan. The loan is secured by a deed of trust and affordable housing covenants on the property. It is a 4% simple interest-bearing, deferred payment, forgivable loan. The maximum loan amount is \$10 per unit for a five-year loan. In target neighborhoods, the maximum is up to \$15 per unit for a seven-year loan for repairs and rehab. The maximum per project is up to \$100. The owner needs to contribute at least 10% of the total project cost and repayments are due on an annual basis. If the property is in compliance with the terms of the loan agreement, the annual payment is forgiven. As of June 30, 2016, \$26 is outstanding. Because these loans are forgivable, they are not recorded on the financial statements.

- *New Construction and Acquisition/Rehabilitation Rental Development Loan*

The program is funded by the HOME grant and LMIHA and provides funds for new construction, acquisition or rehabilitation of affordable rental housing. Loan terms and loan underwriting requirements are negotiated with the developer on a project-by-project basis. The loan is secured by a deed of trust and affordable housing covenants on the property. Loans provide gap assistance to make housing units affordable to low and moderate income households, and units must be rented at an affordable rent. Leveraging of funds with other sources and contribution of developer equity is required. Loans may be second mortgage deferred payment loans, which require loan principal plus interest to be repaid at the end of the loan term and residual receipt payments are required on the deferred loans. Also, loans may be permanent financing first mortgage loans at below-market interest rates, and monthly amortized payments are required. Such loans would be provided when credit conditions or loan costs are not feasible for the project. As of June 30, 2016, the amount of forgivable or contingent loans is \$88,496, which is not recorded on the financial statements.

**CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

**NOTE 5 – INTER-FUND TRANSACTIONS**

The composition of inter-fund balances consists of due to/from other funds, advances to/from other funds, and transfers. Due to/from other funds are temporary cash overdrafts between funds. Advances to/from other funds represent an inter-fund loan extending beyond one year and some advances are formal lending agreements between funds.

Due to/from other funds as of June 30, 2016 consist of the following:

Due to General Fund from:		
Nonmajor governmental funds	\$	6,518
Due to General Fund from:		
Internal Service Fund	\$	1,456
Due to Water Fund from:		
General Fund	\$	1,733

Advances to/from other funds as of June 30, 2016 consist of the following:

- \$1,153 of advance in the ISD Wireless Fund was a five-year loan with 2.0% annual interest, from the Sewer Fund to upgrade the City's radio infrastructure. Accrued interest started on September 1, 2012 and payments are due annually on September 1st with the final payment due on September 1, 2017.

The City reports transfers between many of its funds. The sum of all transfers presented in the following table agrees with the sum of inter-fund transfers presented in the government-wide, governmental and proprietary fund financial statements. Transfers are used to (1) subsidize the activities of other funds and (2) move revenues from the fund that budget requires to collect them to the fund that budget requires to expend them.

	Amount	Purpose
Transfers to General Fund from:		
Electric Fund	\$ 20,107	Fund general fund operations per Charter
Nonmajor enterprise funds	<u>1,150</u>	Fund general fund operations
	21,257	
Transfers to Capital Improvement Fund from:		
General Fund	471	Fund capital improvement projects
Transfers to Water Fund from:		
General Fund	1,733	Refund based on judgment of General Fund transfer litigation
Transfers to nonmajor governmental funds from:		
General Fund	867	20% of City GSA loan payment
General Fund	70	Nutritional Meals Grant matching
General Fund	500	Fund Police Building Project debt service
Capital Improvement Fund	<u>2,000</u>	Fund Scholl Canyon Landfill reserve
	3,437	
Transfers to Internal Service Fund from:		
Internal Service Fund	<u>5,640</u>	Fund Munis project
Total Interfund Transfers	<u>\$ 32,538</u>	

**CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

**NOTE 6 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance at July 1	Increases	Decreases	Reclass	Adjustments- transferred from business- type activities	Adjustments - transferred from fiduciary fund	Balance at June 30
Governmental activities:							
Capital assets, not being depreciated:							
Land	\$ 414,298	-	-	-	-	-	414,298
Construction in progress	59,341	10,362	(258)	(10,331)	-	-	59,114
Total assets not being depreciated	473,639	10,362	(258)	(10,331)	-	-	473,412
Depreciable capital assets:							
Building and improvements	357,037	559	-	(224)	-	6,729	364,101
Machinery and equipment	120,502	7,201	(1,047)	188	84	-	126,928
Infrastructure	306,837	1,951	(1,773)	10,078	-	-	317,093
Total other capital assets at cost	784,376	9,711	(2,820)	10,042	84	6,729	808,122
Less accumulated depreciation:							
Building and improvements	141,981	8,876	-	-	-	-	150,857
Machinery and equipment	86,368	7,178	(1,021)	(289)	-	-	92,236
Infrastructure	106,322	7,888	(1,773)	-	-	-	112,437
Total accumulated depreciation	334,671	23,942	(2,794)	(289)	-	-	355,530
Total assets being depreciated, net	449,705	(14,231)	(26)	10,331	84	6,729	452,592
Governmental activities capital assets, net	\$ 923,344	(3,869)	(284)	-	84	6,729	926,004

\$46,861 and \$50,875 of buildings, improvements, machinery, equipment and construction in progress for FY2015 and FY2016 respectively from internal service funds are included in governmental activities. \$23,319 and \$25,371 of accumulated depreciation for FY2015 and FY2016 respectively from internal service funds are included in governmental activities.

Depreciation expense was charged to functions of the City's governmental activities for the year ended June 30, 2016 as follows:

Governmental Activities:

General Government	\$ 1,885
Police	3,305
Fire	1,380
Public Works	12,280
Parks, Recreation and Community Services	2,577
Library	173
Housing, Health and Community Development	2,342
Total depreciation expense	\$ <u>23,942</u>

**CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

	Balance at July 1	Increases	Decreases	Reclass	Adjustments- transferred to governmental activities	Balance at June 30
<b>Business-type activities:</b>						
Capital assets, not being depreciated:						
Land	\$ 9,490	-	-	-	-	9,490
Construction in progress	43,992	38,176	-	(13,754)	-	68,414
Drilling in progress	-	295	(295)	-	-	-
Total assets not being depreciated	53,482	38,471	(295)	(13,754)	-	77,904
Depreciable capital assets:						
Building and improvements	260,939	4,500	-	(10)	-	265,429
Machinery and equipment	561,221	4,925	(15,957)	8,555	(354)	558,390
Infrastructure	140,976	291	-	5,209	-	146,476
Total other capital assets at cost	963,136	9,716	(15,957)	13,754	(354)	970,295
Depletable capital assets:						
Natural gas reserve	22,276	2	(134)	-	-	22,144
Amortizable intangible assets:						
Intangible assets	95,343	4,403	-	-	-	99,746
Less accumulated depreciation:						
Building and improvements	87,507	5,910	-	-	-	93,417
Machinery and equipment	309,163	27,636	(15,744)	-	(271)	320,784
Infrastructure	45,594	3,283	-	-	-	48,877
Total accumulated depreciation	442,264	36,829	(15,744)	-	(271)	463,078
Less allowance for gas depletion:						
Natural gas reserve	7,986	933	-	-	-	8,919
Less amortization:						
Intangible assets	40,376	2,943	-	-	-	43,319
Total assets being depreciated, depleted, and amortized, net	590,129	(26,584)	(347)	13,754	(83)	576,869
Business-type activities capital assets, net	\$ 643,611	11,887	(642)	-	(83)	654,773

Depreciation, depletion and amortization expense was charged to functions of the City's business-type activities for the year ended June 30, 2016 as follows:

Business-type Activities:

Depreciation	
Sewer	\$ 2,838
Electric	26,156
Water	5,844
Refuse Disposal	1,839
Fire Communication	152
Total depreciation expense	36,829
Depletion - Electric	933
Amortization - Sewer	2,943
Total depreciation, depletion, and amortization expense	\$ 40,705

**CITY OF GLENDALE**

Notes to the Basic Financial Statements  
 Fiscal Year Ended June 30, 2016  
 (in thousands)

**NOTE 7 – PROPERTY HELD FOR RESALE**

Governmental activities – Home Grant Fund property held for resale at June 30, 2016:

<u>Acquisition Date</u>	<u>Location</u>	<u>Carrying Value</u>
May 2015	634 and 700 E. Lomita	\$ <u>981</u>

Governmental activities – Low and Moderate Income Housing Asset Fund property held for resale at June 30, 2016:

<u>Acquisition Date</u>	<u>Location</u>	<u>Carrying Value</u>
October 2008	Fifth and Sonora	\$ <u>6,007</u>

**NOTE 8 – LONG-TERM DEBT AND LIABILITIES**

The City's long-term debt and liabilities as of June 30, 2016 consists of the following:

	<u>Issuance Amount</u>	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2016</u>	<u>Due within one year</u>
<b>Governmental Activities</b>						
Claims payable	\$ -	43,202	38,566	39,826	41,942	11,454
Post-employment benefits	-	94,843	-	86,709	8,134	-
Compensated absences	-	20,430	9,917	9,069	21,278	2,740
Landfill postclosure care	-	42,918	1,766	-	44,684	-
Certificates of Participation (COPs)	64,200	38,400	-	2,795	35,605	1,820
Other long-term liabilities:						
Capital Lease-Fire equipment lease						
2009 – Wells Fargo	2,299	757	-	243	514	252
2011 HUD Section 108 Loan	2,000	1,491	-	186	1,305	194
Total other long-term liabilities	4,299	2,248	-	429	1,819	446
<b>Total Governmental Activities long-term liabilities</b>	<b>\$ 68,499</b>	<b>242,041</b>	<b>50,249</b>	<b>138,828</b>	<b>153,462</b>	<b>16,460</b>

For the governmental activities, claims payable, compensated absences and post-employment benefits are primarily liquidated by the respective internal service funds.

	<u>Issuance Amount</u>	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2016</u>	<u>Due within one year</u>
<b>Business-type Activities</b>						
Compensated absences	\$ -	6,138	2,543	2,225	6,456	842
Bonds payable:						
Electric Revenue Bonds, 2006 refunding series	38,830	28,930	-	28,930	-	-
Electric Revenue Bonds, 2008 series	60,000	60,000	-	58,120	1,880	-
Electric Revenue Bonds, 2013 refunding series	20,510	20,510	-	-	20,510	900
Electric Revenue Bonds, 2013 series	60,000	59,430	-	1,045	58,385	1,100
Electric Revenue Bonds, 2016 refunding series	72,615	-	72,615	-	72,615	1,445
Electric Revenue Bonds premium	-	8,747	16,688	1,437	23,998	1,132
Water Revenue Bonds, 2008 series	50,000	46,370	-	1,285	45,085	1,325
Water Revenue Bonds, 2012 series	35,000	35,000	-	-	35,000	-
Water Revenue Bonds premium	-	2,034	-	86	1,948	86
Total bonds payable	336,955	261,021	89,303	90,903	259,421	5,988
<b>Total Business-type Activities long-term liabilities</b>	<b>\$ 336,955</b>	<b>267,159</b>	<b>91,846</b>	<b>93,128</b>	<b>265,877</b>	<b>6,830</b>



## **CITY OF GLENDALE**

Notes to the Basic Financial Statements  
Fiscal Year Ended June 30, 2016  
(in thousands)

### **The City of Glendale Financing Authority**

#### ***Variable Rate Demand Certificates of Participation (COPs) - 2000 Police Building Project***

The COPs were issued pursuant to the resolutions adopted by the City Council and the board of directors of the Glendale Financing Authority on June 6, 2000. The proceeds of the COPs were used to (a) finance for the acquisition, construction and improvement of a police building (the "Police Building"), (b) establish a reserve fund of \$5,000 in accordance with the trust agreement, and (c) pay for the costs incurred to issue the COPs. Since the issuance of the COPs in 2000 until July 8, 2013, the COPs were subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on five days' notice and delivery to the City's Remarketing Agent.

On May 28, 2013, the City and the Financing Authority adopted Resolution No. 13-76 and Resolution GFA-13-02 respectively, accepting Bank of America's proposal for a Direct Purchase Index Floater (Direct Purchase Agreement) of the Glendale COPs to replace the Standby Bond Purchase Agreement. The direct purchase loan with Bank of America relating to the Certificates of Participation for the Police Building is subject to a mandatory tender for purchase at a price of par plus accrued interest on the earliest of the: (i) mandatory tender date of three years from closing, (ii) date on which the Certificates are converted to another interest rate mode, (iii) or occurrence of an event of default. The variable interest rates were based on 70.0% of monthly LIBOR Index plus a fixed spread of 0.40%.

On May 17, 2016, the City and the Financing Authority adopted Resolution No. 16-82 and Resolution GFA-16-01 respectively, approving a second 3-year contract with Bank of America to purchase Glendale Variable Rate Demand Certificates of Participation. The variable interest rates are based on 70.0% of monthly LIBOR Index plus a fixed spread of 0.48%. Under the Direct Purchase Agreement, the COPs mature in annual installments ranging from \$1,820 to \$3,480 from FY 2017-2030. As of June 30, 2016, the principal balance was \$35,605 and the interest rate was 0.63%.

The Financing Authority has leased the Police building back to the City pursuant to a lease agreement dated July 1, 2000. The bond indebtedness is secured by a lease to the City and is payable from rental payments received under terms of the lease agreement. The annual lease payments from the City are to be at a rate sufficient to meet debt service requirements of the outstanding bond indebtedness on the leased premises.

### **The City of Glendale Housing Authority**

#### ***HUD Section 108 Loan (Series 2011-A)***

Section 108 Loan of \$2,000 was used to acquire and rehabilitate an Emergency Shelter and Homeless Access Center at 1948 Gardena Avenue, Glendale for the S.H. Ho Hope and Compassion Center, a non-profit organization. HUD administers the Section 108 Loan Guarantee program, and the program's purpose is to fill funding gaps on major community / economic development projects throughout the country. The Section 108 Loan Guarantee program was created as part of the original Housing and Community Development Act of 1974. Section 108 obligations are permanently financed through underwritten public offerings. This was the City's second time receiving a Section 108 loan. The City received the loan in November 2011. The term of the loan is ten years with an interest rate of 2.56% and the total interest is \$210. The City has pledged current and future CDBG funds as principal security for the loan. The principal amounts range from \$194 to \$242 annually for fiscal year 2017 to 2022. The Section 108 loan payment is budgeted as a CDBG project each year based on the payment schedule.

### **Capital Improvement Projects**

#### ***Landfill Postclosure Care Costs***

Pursuant to Assembly Bill 2448 and the regulations established by the California Integrated Waste Management Board (Board), landfill operators are required to submit an initial cost estimate of postclosure maintenance and to establish a financial mechanism to demonstrate the availability of funding to conduct postclosure maintenance activities. The City selected a trust fund as the financial mechanism and the Board approved this. The City Treasurer was designated as the trustee to ensure that the City set aside annual required deposits. The City

## **CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

subcontracts with Los Angeles County Sanitation District (Sanitation District) to operate Scholl Canyon and as part of this contract, the County is responsible for the closure cost of Scholl Canyon. The City is responsible for the postclosure maintenance cost of Scholl Canyon. According to Los Angeles County Sanitation District's records, the permitted capacity filled between August 18, 1989 and July 10, 2015 was 10.70 million tons. The permitted capacity filled between July 11, 2015 and July 10, 2016 was 0.33 million tons. The total permitted capacity as of August 18, 1989 remains 14.75 million tons. Therefore, the City has 3.72 million tons unfilled capacity remaining. Using an inflation factor from the Sanitation Districts of 1.010, the total estimated care postclosure cost is \$59,755. Using the data above, the amount of \$44,684 is recognized as a long-term liability on the Statement of Net Position. Accordingly, the portion of the estimated total obligation for landfill postclosure costs that has not been recognized in the financial statements is \$15,071. The City records the annual provision for the required landfill deposits as designated cash in the Landfill Postclosure Fund. At the end of June 30, 2016, the City has set aside \$27,850 of this in the Landfill Postclosure Fund. The total current cost of landfill postclosure care is an estimate subject to changes resulting from inflation, deflation, technology, or changes in applicable laws or regulations.

### ***Capital Lease - Fire Equipment Lease 2009***

In December 2008, the City entered into a Master Governmental Lease-Purchase Agreement (the "Master Lease") with Wells Fargo Equipment Finance, Inc. to provide funds for acquisition of fire apparatus, which include one new Pierce Heavy Duty Rescue System mounted on a new 2009 International 7400 Chassis together with all attachments and accessories and four new Pierce 2000 GPM Quantum Triple Combination Pumper Truck Systems mounted on new 2008 Quantum Chassis together with all attachments and accessories. The total cost of the equipment funded was \$2,299 with an annual interest rate of 4.04%. The City makes lease payments each year consisting of principal and interest for a term of ten years commencing in fiscal year 2008-09. The annual lease payment is \$273. Payments are due on December 15 annually. As of June 30, 2016, the outstanding balance of this lease was \$514.

### **Business-type Activities:**

#### **Enterprise Funds**

##### ***Electric Revenue Bonds, 2006 Refunding Series***

The Electric utility of Glendale Water and Power issued \$38,830 in revenue bonds in April 2006 to provide moneys for the refunding of all of the City's outstanding Electric Revenue Bonds, 2000 Series.

The Electric Revenue Bonds, 2006 Refunding Series were refunded in May 2016 with the Electric Revenue Bonds, 2016 Refunding Series. Accordingly, the liability for the defeased 2006 Bonds has been removed from the long-term debt of the City. As of June 30, 2016, a final principal payment of \$1,415 was issued on February 1, 2016 and the remaining \$27,515 aggregate principal amount was fully refunded and redeemed on June 3, 2016 at a redemption price of 100% of the principal amount plus accrued interest through an Escrow Fund established pursuant to an Escrow Agreement dated May 1, 2016.

##### ***Electric Revenue Bonds, 2008 Series***

The Electric utility of Glendale Water and Power issued \$60,000 in revenue bonds in February 2008 to finance the costs of acquisition and construction of certain improvements to the Electric System of the City.

The Electric Revenue Bonds, 2008 Series were partially refunded in May 2016 with the Electric Revenue Bonds, 2016 Refunding Series. After the issuance of the Electric Revenue Bonds, 2016 Refunding Series, \$1,880 of the partially defeased 2008 Bonds remains outstanding as of June 30, 2016 and will mature at its redemption date on February 1, 2018. \$58,120 of the 2008 Bonds were refunded and deposited into an Escrow Fund established pursuant to an Escrow Agreement dated May 1, 2016 and will be fully redeemed on February 1, 2018 at a redemption price of 100% of the principal amount plus accrued interest.

## **CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

### ***Electric Revenue Bonds, 2013 Refunding Series***

The Electric utility of Glendale Water & Power issued \$20,510 in revenue bonds in March 2013 to provide funds to refund all of the City's outstanding Electric Revenue Bonds, 2003 Series and pay cost of issuance. The bond proceeds were deposited in an escrow account and were used to refund the Electric Revenue Bonds, 2003 Series through a legal defeasance.

The current refunding resulted in the recognition of a deferred outflow of resources of \$128 as of June 30, 2016 and is being amortized through year 2032. The reserve requirement of the bond issue is satisfied by a cash reserve fund with a minimum funding requirement of \$6,113 on parity with other Electric revenue bonds. The bonds mature in regularly increasing amounts ranging from \$900 to \$1,805 annually from 2017 to 2032.

### ***Electric Revenue Bonds, 2013 Series***

The Electric utility of Glendale Water & Power issued \$60,000 in revenue bonds in December 2013 to finance (1) the costs of acquisition and construction of certain improvements to the City's electric public utility (the "Electric System"), (2) making a deposit to the parity reserve fund, and (3) paying the cost of issuance of the 2013 Bonds.

The terms of the 2013 Electric Revenue Bonds' (2013 Bonds) indenture require the trustee to establish and maintain a reserve fund equal to the reserve fund requirement. The reserve fund requirement is defined by the Debt Indentures as the maximum annual debt service on the debt service schedule. Up to 50% of the reserve fund requirement amount may be held in an unrestricted fund or account. The bonds mature in regularly increasing amounts ranging from \$1,045 to \$3,795 annually from 2017 to 2043.

### ***Electric Revenue Bonds, 2016 Refunding Series***

The Electric utility of Glendale Water & Power issued \$72,615 in revenue bonds in May 2016 to provide moneys for the refunding of all of the City's outstanding Electric Revenue Bonds, 2006 Refunding Series, a portion of the City's outstanding Electric Revenue Bonds, 2008 Series, and paying the costs of issuance of the 2016 Bonds. The bond proceeds were deposited in an escrow account and were used to refund the Electric Revenue Bonds, 2006 Refunding Series and a portion of the outstanding Electric Revenue Bonds, 2008 Series through a legal defeasance. The advance refunding resulted in a difference between the reacquisition price of refunding bonds and the net carrying amount of the refunded bonds. The deferred loss on refunding as of June 30, 2016 of \$4,915 is recognized and reported in the financial statements as a deferred outflow of resources and is being amortized through February 1, 2038. The advance refunding also resulted in a cash flow savings of \$16,348 which is the difference between the cash flows required to service the old 2006 and 2008 Bonds and the cash flows required to service the new 2016 Bonds. The present value of the cash flow savings net of any available refunding funds and reserve funds from the old debt created an economic gain of \$13,026.

The terms of the Electric Revenue Bonds, 2016 Refunding Series' (2016 Refunding Bonds) indenture require the trustee to establish and maintain a reserve fund equal to the reserve fund requirement. The reserve fund requirement is defined by the Debt Indentures as the maximum annual debt service on the debt service schedule. Up to 50% of the reserve fund requirement amount may be held in an unrestricted fund or account.

The bonds mature in regularly increasing amounts ranging from \$1,445 to \$4,715 annually from 2017 to 2038. The 2016 Refunding Bonds maturing on or prior to February 1, 2026 are not subject to redemption prior to maturity. The 2016 Refunding Bonds maturing on and after February 1, 2027 are subject to redemption prior to maturity, at the option of the City, as a whole or in part, on February 1, 2026, or on any date thereafter, at a redemption price equal to 100% of the principal amount of the 2016 Refunding Bonds to be redeemed, together with accrued interest to the redemption date.

**CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

***Water Revenue Bonds, 2008 Series***

The Water Utility of Glendale Water & Power issued \$50,000 in revenue bonds in February 2008 to finance the costs of acquisition and construction of certain improvements to the Water System of the City.

The terms of the 2008 Water Revenue Bonds' (2008 Bonds) indenture require the trustee to establish and maintain a reserve fund equal to the reserve fund requirement. The reserve fund requirement is defined by the Debt Indentures as the maximum annual debt service on the debt service schedule. The reserve requirement of the bond issue is satisfied by a cash reserve fund with a minimum funding requirement of \$3,493.

The bonds mature in regularly increasing amounts ranging from \$1,325 to \$3,060 annually from 2017 to 2038. The 2008 Bonds maturing on or prior to February 1, 2018 are not subject to redemption prior to maturity. The 2008 bonds maturing on and after February 1, 2019 are subject to redemption prior to maturity, at the option of the City, as a whole or in part, on February 1, 2018, or on any date thereafter, at a redemption price equal to 100% of the principal amount of the 2008 Bonds to be redeemed, together with accrued interest to the redemption date.

***Water Revenue Bonds, 2012 Series***

The Water Utility of Glendale Water & Power issued \$35,000 in revenue bonds in December 2012 to finance the costs of acquisition and construction of certain improvements to the Water System of the City.

The terms of the 2012 Water Revenue Bonds' (2012 Bonds) indenture require the trustee to establish and maintain a reserve fund equal to the reserve fund requirement. The reserve fund requirement is defined by the Debt Indentures as the maximum annual debt service on the debt service schedule. The reserve requirement of the bond issue is satisfied by a cash reserve fund with a minimum funding requirement of \$1,643.

The bonds mature in regularly increasing amounts ranging from \$415 to \$4,945 annually from 2018 to 2042. The 2012 Bonds maturing on or prior to February 1, 2022 are not subject to redemption prior to maturity. The 2012 bonds maturing on and after February 1, 2023 are subject to redemption prior to maturity, at the option of the City, as a whole or in part, on August 1, 2022, or on any date thereafter, at a redemption price equal to 100% of the principal amount of the 2012 Bonds to be redeemed, together with accrued interest to the redemption date.

**CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

**Annual Debt Service Requirement Schedule**

The annual debt service requirement schedule for governmental and business-type activities is as follows:

Fiscal Year	Police Building Project (COPs) Governmental Activities		Capital Lease Governmental Activities	
	Interest	Principal	Interest	Principal
2017	\$ 277	1,820	21	252
2018	314	1,905	11	262
2019	344	1,985	-	-
2020	367	2,070	-	-
2021	384	2,155	-	-
2022-2026	1,866	12,755	-	-
2027-2031	806	12,915	-	-
	<u>\$ 4,358</u>	<u>35,605</u>	<u>32</u>	<u>514</u>

Fiscal Year	Section 108 (2011 Series) Loan Governmental Activities		Electric and Water Revenue Bonds Business-type Activities	
	Interest	Principal	Interest	Principal
2017	\$ 24	194	11,327	4,770
2018	22	203	10,652	6,915
2019	18	212	10,336	6,850
2020	14	222	10,000	7,150
2021	9	232	9,650	7,500
2022-2026	3	242	42,349	43,195
2027-2031	-	-	30,904	52,210
2032-2036	-	-	19,390	47,430
2037-2041	-	-	9,163	28,890
2042-2046	-	-	838	28,565
	<u>\$ 90</u>	<u>1,305</u>	<u>154,609</u>	<u>233,475</u>

Fiscal Year	Total Governmental Activities		Total Business-type Activities		Total Debt Service
	Interest	Principal	Interest	Principal	
2017	\$ 323	2,266	11,327	4,770	18,686
2018	346	2,370	10,652	6,915	20,283
2019	362	2,197	10,336	6,850	19,745
2020	382	2,292	10,000	7,150	19,824
2021	393	2,387	9,650	7,500	19,930
2022-2026	1,869	12,997	42,349	43,195	100,410
2027-2031	805	12,915	30,904	52,210	96,834
2032-2036	-	-	19,390	47,430	66,820
2037-2041	-	-	9,163	28,890	38,053
2042-2046	-	-	838	28,565	29,403
	<u>\$ 4,480</u>	<u>37,424</u>	<u>154,609</u>	<u>233,475</u>	<u>429,988</u>

## **CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

### **NOTE 9 – PENSION PLANS**

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

##### ***General Information about the Pension Plans***

##### **Plan Description**

All qualified permanent and probationary employees are eligible to participate in the City's separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at <http://www.calpers.ca.gov>.

##### **Benefits Provided**

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The death benefit is as follows:

If eligible to retire, the Pre-retirement Option 2W Death Benefit; or the Basic Death Benefit of a refund of contributions, plus interest; and up to six months' pay (one month's salary rate for each year of current service to a maximum of six months); and Level 4 1959 Survivor Benefit\* (may not be payable if the Special Death Benefit is elected).

If not eligible to retire, the Basic Death Benefit of a refund of contributions, plus interest; and up to six months' pay (one month's salary rate for each year of current service to a maximum of six months); and Level 4 1959 Survivor Benefit\* (may not be payable if the Special Death Benefit is elected).

\**Level 4 1959 Survivor Benefit* may not be applicable if there is no surviving spouse, no surviving domestic partner, or no surviving dependent unmarried child under age 22.

**CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous		
	Prior to January 1, 2011	Between January 1, 2011 and December 31, 2012	On or after January 1, 2013
Hire date			
Benefit formula	2.5% @ 55	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50-55+	50-63+	52-67+
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.426% to 2.418%	1.0% to 2.5%

	Safety		
	Prior to January 1, 2011	Between January 1, 2011 and December 31, 2012	On or after January 1, 2013
Hire date			
Benefit formula	3% @ 50	3% @ 55	2.7% @ 57
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50-55+	50-55+	50-57+
Monthly benefits, as a % of eligible compensation	3.0%	2.4% to 3.0%	2.0% to 2.7%

**Employees Covered**

At June 30, 2016, the following employees were covered by the benefit terms for each plan:

	Miscellaneous	Safety
Inactive employees or beneficiaries currently receiving benefits	1,634	588
Inactive employees entitled to but not yet receiving benefits	1,505	95
Active employees	1,275	390
Total	<u>4,414</u>	<u>1,073</u>

**Contributions**

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rates of employees.

**CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

The City's member contribution rates and employer contribution rates for FY 2015-16, including the employees' cost sharing toward the employer rates, are shown in the table below:

Employee Group	CalPERS Membership	Retirement Formula	Member Contribution Rate	Employer Contribution Rate		
				Employees' Cost Sharing	City Portion	Total
<b>Miscellaneous Employees</b>						
GCEA * (Glendale City Employee Association)	Classic (1st Tier)	2.5% @ 55	11.00%	0.00%	17.892%	17.892%
	Classic (2nd Tier)	2.0% @ 55	10.00%	0.00%	17.892%	17.892%
	PEPRA (3rd Tier)	2.0% @ 62	9.75%	0.00%	17.892%	17.892%
IBEW (International Brotherhood of Electrical Workers)	Classic (1st Tier)	2.5% @ 55	8.00%	0.50%-3.00%	17.892%-20.392%	20.892%
	Classic (2nd Tier)	2.0% @ 55	7.00%	0.50%-3.00%	17.892%-20.392%	20.892%
	PEPRA (3rd Tier)	2.0% @ 62	6.75%	0.50%-3.00%	17.892%-20.392%	20.892%
GMA (Glendale Management Association)	Classic (1st Tier)	2.5% @ 55	8.00%	3.00%	17.892%	20.892%
	Classic (2nd Tier)	2.0% @ 55	7.00%	3.00%	17.892%	20.892%
	PEPRA (3rd Tier)	2.0% @ 62	6.75%	3.00%	17.892%	20.892%
<b>Safety Employees</b>						
GPOA (Glendale Police Officer Association)	Classic (1st Tier)	3.0% @ 50	9.00%	3.50%	34.788%	38.288%
	Classic (2nd Tier)	3.0% @ 55	9.00%	3.50%	34.788%	38.288%
	PEPRA (3rd Tier)	2.7% @ 57	12.00%	3.50%	34.788%	38.288%
GFFA (Glendale Fire Fighter Association)	Classic (1st Tier)	3.0% @ 50	9.00%	3.50%-3.75%	34.538%-34.788%	38.288%
	Classic (2nd Tier)	3.0% @ 55	9.00%	3.50%-3.75%	34.538%-34.788%	38.288%
	PEPRA (3rd Tier)	2.7% @ 57	12.00%	3.50%-3.75%	34.538%-34.788%	38.288%
GMA - Police	Classic (1st Tier)	3.0% @ 50	9.00%	3.50%	34.788%	38.288%
	Classic (2nd Tier)	3.0% @ 55	9.00%	3.50%	34.788%	38.288%
	PEPRA (3rd Tier)	2.7% @ 57	12.00%	3.50%	34.788%	38.288%
GMA - Fire	Classic (1st Tier)	3.0% @ 50	9.00%	3.50%-3.75%	34.538%-34.788%	38.288%
	Classic (2nd Tier)	3.0% @ 55	9.00%	3.50%-3.75%	34.538%-34.788%	38.288%
	PEPRA (3rd Tier)	2.7% @ 57	12.00%	3.50%-3.75%	34.538%-34.788%	38.288%

\* Effective May 2013, GCEA members' cost sharing rate (3%) became part of their member contribution rate.



## CITY OF GLENDALE

Notes to the Basic Financial Statements  
Fiscal Year Ended June 30, 2016  
(in thousands)

Employer contributions to the Miscellaneous and Safety plans were \$16,519 and \$18,257, respectively, for the year ended June 30, 2016. The breakdown of the employer contribution is as follows:

<u>Plan</u>	<u>Annual Required Employer Contribution</u>	<u>City Contribution</u>	<u>Employees' Cost Sharing</u>
Miscellaneous	\$ 16,519	15,369	1,150
Safety			
Police	10,626	9,661	965
Fire	7,631	6,898	733
Total Safety	<u>18,257</u>	<u>16,559</u>	<u>1,698</u>
Total	\$ <u>34,776</u>	<u>31,928</u>	<u>2,848</u>

### **Net Pension Liability**

The City's net pension liability for each plan was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014.

### **Actuarial Assumptions**

The total pension liabilities in the June 30, 2014 actuarial valuations of the miscellaneous and safety plans were determined using the following actuarial assumptions:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Actuarial cost method	Entry Age Normal Cost Method
Actuarial assumptions:	
Discount rate	7.65%
Inflation	2.75%
Salary increase	Varies by Entry Age and Service
Investment rate of return	7.65% Net of Pension Plan Investment, includes inflation
Mortality rate table	Derived using CalPERS' Membership Data for all Funds
Post-retirement benefit increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report. All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS website under Forms and Publications.

### **Change of Assumptions**

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

## CITY OF GLENDALE

Notes to the Basic Financial Statements  
Fiscal Year Ended June 30, 2016  
(in thousands)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014.

Asset Class	Target Allocation	Long-term Expected	
		Real Return Years 1 - 10 *	Real Return Years 11+ **
Global Equity	51%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	2%	(0.55)%	(1.05)%
Total	100%		

\*An expected inflation of 2.5% used for this period.

\*\*An expected inflation of 3.0% used for this period.

### Discount Rate

The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

**CITY OF GLENDALE**

Notes to the Basic Financial Statements  
Fiscal Year Ended June 30, 2016  
(in thousands)

**Changes in the Net Pension Liability**

The changes in the Net Pension Liability measured as of June 30, 2015 for each plan is as follows:

**Miscellaneous Plan:**

	<b>Increase (Decrease)</b>		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) – (b)
<b>Balance at June 30, 2015</b>	\$ 977,724	781,593	196,131
<b>Changes in the year:</b>			
Service cost	14,372	-	14,372
Interest on the total pension liability	71,411	-	71,411
Differences between actual and expected experience	(8,835)	-	(8,835)
Changes of assumptions	(17,578)	-	(17,578)
Plan to plan resource movement	-	(25)	25
Contribution from the employer	-	13,344	(13,344)
Contribution from the employees	-	8,142	(8,142)
Net investment income	-	17,215	(17,215)
Benefit payments, including refunds of employee contributions	(50,059)	(50,059)	-
Administrative expense	-	(881)	881
<b>Net changes</b>	<u>9,311</u>	<u>(12,264)</u>	<u>21,575</u>
<b>Balance at June 30, 2016</b>	<u>\$ 987,035</u>	<u>769,329</u>	<u>217,706</u>

**Safety Plan:**

	<b>Increase (Decrease)</b>		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) – (b)
<b>Balance at June 30, 2015</b>	\$ 714,962	517,053	197,909
<b>Changes in the year:</b>			
Service cost	13,038	-	13,038
Interest on the total pension liability	52,434	-	52,434
Differences between actual and expected experience	(5,684)	-	(5,684)
Changes of assumptions	(13,128)	-	(13,128)
Contribution from the employer	-	16,789	(16,789)
Contribution from the employees	-	4,394	(4,394)
Net investment income	-	11,489	(11,489)
Benefit payments, including refunds of employee contributions	(34,522)	(34,522)	-
Administrative expense	-	(579)	579
<b>Net changes</b>	<u>12,138</u>	<u>(2,429)</u>	<u>14,567</u>
<b>Balance at June 30, 2016</b>	<u>727,100</u>	<u>514,624</u>	<u>212,476</u>
<b>Total for both plans at June 30, 2016</b>	<u>\$ 1,714,135</u>	<u>1,283,953</u>	<u>430,182</u>

**CITY OF GLENDALE**

Notes to the Basic Financial Statements  
 Fiscal Year Ended June 30, 2016  
 (in thousands)

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of each Plan, calculated using the discount rate of 7.65%, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>	<u>Safety</u>	<u>Total</u>
1% Decrease	6.65%	6.65%	6.65%
Net Pension Liability	\$ 350,169	312,324	662,493
Current Discount Rate	7.65%	7.65%	7.65%
Net Pension Liability	\$ 217,706	212,476	430,182
1% Increase	8.65%	8.65%	8.65%
Net Pension Liability	\$ 108,633	130,691	239,324

**Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions**

For the year ended June 30, 2016, the City recognized pension expense of \$21,207. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 34,776	-
Changes of assumptions	-	21,910
Net differences between expected and actual experience	-	10,315
Net differences between projected and actual earnings on plan investments	-	11,939
Total	\$ 34,776	44,164

The amount of \$34,776 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year ended June 30,</u>	
2017	\$ (21,561)
2018	(21,561)
2019	(13,892)
2020	12,850
Total	\$ <u>(44,164)</u>

**Pension Plan Fiduciary Net Position**

Detailed information about each pension plans’ fiduciary net position is available in the separately issued CalPERS financial reports.

## **CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

### **Supplemental Retirement Plan**

In May 2012, in an effort to substantially reduce staffing levels to address a projected \$15,400 General Fund shortfall for FY 2012-13, the City contracted with Public Agency Retirement Services (PARS) to offer an early retirement incentive plan to provide supplemental retirement benefit payments to eligible employees in addition to the benefit payments the employees will receive from the California Public Employees' Retirement System (CalPERS). To be eligible to participate in the plan, the employees must have been a Glendale City Employee Association (GCEA) or Glendale Management Association (GMA) employee, be at least 50 years of age as of September 1, 2012, and have a minimum 5 years of CalPERS service credit. The employees needed to resign from the City by August 31, 2012. The plan offered 5% of the employees' final pay, which the employees could choose various options to receive the payment, such as unmodified lifetime monthly payment, or higher fixed monthly payment for a fixed number of years. There were 122 employees who participated in the plan.

In October 2012, the City provided the same early retirement incentive plan to the employees represented by International Brotherhood of Electrical Workers Association (IBEW), and also offered an extension of the incentive program to employees represented by GCEA and GMA. The same parameters were applied for the extension of the incentive program, with the exception of the retirement eligibility date and date of separation advancing to October 31, 2012. There were 30 additional employees participating in the second phase. The plan is closed, and \$1,987 was paid to PARS in FY 2015-16.

### **Public Agency Retirement Services (PARS)**

The PARS Trust, created in 1991, is a trust arrangement established to provide economies of scale and efficiencies of administration to public agencies that adopt it to hold the assets of their agency retirement plans maintained for the benefit of their employees. The Omnibus Budget Reconciliation Act of 1990 (OBRA 90) amended the Internal Revenue Code to mandate that employees of public agencies, who are not members of their employer's existing retirement system as of January 1, 1992, be covered under Social Security or an alternate plan. The PARS ARS Plan satisfies the OBRA 90 Federal Requirements. It is intended that this plan and the trust established to hold the assets of the plan shall be qualified under Section 401(a) and tax-exempt under Section 501(a) of the Internal Revenue Code of 1986, as amended, and meet the requirements of California Government Code Sections 53215 through 53224 providing how pension trusts must be established by public agencies. Through PARS, agencies have the ability to design and control retirement plans according to their own specific needs, including specific collective bargaining requirements. The City adopted the PARS ARS Plan, effective September 1, 1999 as an alternate plan to Social Security for the hourly employees who are not eligible for participation in the City's CalPERS retirement plan.

Any City hourly employee who is not eligible to enroll in the CalPERS retirement plan is enrolled in PARS-ARS instead of social security. After completing 1,000 work hours within a fiscal year, hourly employees are eligible to enroll in CalPERS retirement plan. For each pay period, employees contribute 6.2%, and the City contributes 1.3% of employee earnings into employees' PARS account. Both contributions are made on pre-tax basis. For FY 2015-16, PARS payments were \$214 and \$45 for employee portion and employer portion, respectively. The amount of the City's outstanding liability is zero, since the plan is fully funded, and it's a defined contribution plan. A participant in the PARS ARS Plan becomes eligible to receive his/her funds when one of the following events occurs: separation, retirement, permanent and total disability, and change of employment status to a position covered by another retirement system or death.

### **NOTE 10 – POST-EMPLOYMENT BENEFITS**

The City provides retiree medical benefits through the City's standalone healthcare plans. Before June 1, 2016, the City allowed retirees to purchase healthcare coverage at blended active and retiree rates. This resulted in an "implied subsidy," since the healthcare costs are lower for active employees than for retirees. In October 2015, the City Council approved unblending medical insurance premium rates between active employees and retired employees effective June 1, 2016, and authorized low income cash subsidies for existing retired employees currently participating in the City's retiree medical insurance plans who meet specific criteria. Accordingly, the City's actuarial accrued liability decreased from \$214,014 from the June 30, 2013 valuation to \$21,802 from the June 30, 2015

**CITY OF GLENDALE**

Notes to the Basic Financial Statements  
 Fiscal Year Ended June 30, 2016  
 (in thousands)

valuation, due to the fact that there is no more “implied subsidy” after June 1, 2016. At the same time, the City’s net OPEB obligation decreased from \$94,843 in FY 2014-15 to \$8,134 in FY 2015-16 because of the elimination of the implied subsidy.

The City’s contribution is currently based on a pay-as-you-go funding method, that is, benefits are payable when due. For FY 2015-16, the City contributed \$2,991 in benefit payments (\$420 for the cash subsidy and \$2,571 for the implied subsidy). No assets were invested in an irrevocable plan trust.

The annual required contribution (ARC) is 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 the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the City’s annual Other Post-Employment Benefits (OPEB) cost for the year, the amount actually contributed to the plan, and changes in the City’s Net OPEB obligation:

	<u>Amount</u>
Annual required contribution	\$ 1,709
Interest on net OPEB obligation	3,734
Amortization of net OPEB obligation	<u>(6,914)</u>
Annual OPEB cost/(credit)	(1,471)
Benefit payments	(2,991)
Adjustments for elimination of implied subsidy	<u>(82,247)</u>
Decrease in net OPEB obligation	(86,709)
Net OPEB obligation – beginning of year	<u>94,843</u>
Net OPEB obligation – end of year	<u>\$ 8,134</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years were:

<u>Fiscal year ended June 30,</u>	<u>Annual OPEB Cost/(Credit)</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 20,742	14%	\$ 75,922
2015	\$ 22,054	14%	\$ 94,843
2016	\$ (1,471)	(203%)	\$ 8,134

The funded status of the plan as of June 30, 2015, the plan’s most recent actuarial valuation date, was:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (B)</u>	<u>Unfunded Actuarial Accrued Liability (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
6/30/2015	\$ -	21,802	21,802	0%	\$ 118,015	19%

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan

**CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2015 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is the expected long-term investment return on the City's investments, a 3% general inflation assumption, an annual pre-Medicare eligible medical cost trend rate of 7.5% for 2016 decreasing to 5.0% after 5 years. The post-Medicare eligible medical cost trend rate started 0.3% higher for 2016. Because of the premium unblending, a 15-year fresh start amortization is used for the June 30, 2015 UAAL.

**NOTE 11 – RESTRICTED NET POSITION**

The government-wide statement of net position reports \$115,950 of restricted net position, of which \$41,665 is restricted by enabling legislation. The City Charter requires \$24,870 in restricted net position to be set aside to meet the legal demands against the treasury during the beginning of the new budget period prior to the receipt of ad valorem taxes. Pursuant to redevelopment laws of the State of California, \$16,795 is restricted for low and moderate housing.

**NOTE 12 – NET DEFICITS OF INDIVIDUAL FUNDS**

As of June 30, 2016, the following funds have negative fund balances or net position:

Governmental funds:

Special revenue funds:	
CDBG Fund	\$ 14
Continuum of Care Grant Fund	20
Grant Fund	3,977
PW Special Grants Fund	451
Measure R Regional Return Fund	2,241
Police Special Grants Fund	62
Fire Grant Fund	322
Fire Mutual Aid Fund	64
Emergency Medical Services Fund	2,039

Capital projects funds:

CIP Reimbursement Fund	\$ 110
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Proprietary funds:

Internal service funds:	
Compensation Insurance Fund	\$ 8,366
Medical Insurance Fund	1,178
Employee Benefits Fund	293
Retiree Health Savings Plan (RHSP) Benefits Fund	3,113

## CITY OF GLENDALE

Notes to the Basic Financial Statements  
Fiscal Year Ended June 30, 2016  
(in thousands)

CDBG Fund – A portion of invoices paid to vendors involved in capital projects is retained by the City until project completion. Based on the grant regulations, the retention cannot be drawn until it is paid.

Reimbursement Type Grants – The Continuum of Care Grant Fund, Grant Fund, PW Special Grants Fund, Measure R Regional Return Fund, Police Special Grants Fund, Fire Grant Fund, Fire Mutual Aid Fund and CIP Reimbursement Fund are reimbursement type grants. Revenues are drawn down based on expenditures. As such, there will always be a timing difference between revenues and expenditures resulting in a deficit, as revenues do not represent available resources.

Emergency Medical Services Fund – The Glendale Fire Department has restructured the EMS program to provide Basic Life Support (BLS) services, which is expected to reduce the cost of the EMS program. The deficit decreased by \$1,349 during FY 2015-16 as a result of cost savings. In FY 2016-17, this fund will be closed and the remaining deficit will be absorbed by the General Fund.

Compensation Insurance Fund – The deficit has decreased in FY 2015-16 due to the premium increases. The City will continue to increase the premiums in the future to eliminate the deficit.

Medical Insurance Fund – The deficit has increased due to a net loss from the retirees' PPO plan. The City will increase the premiums in the future to eliminate the deficit.

Employee Benefits Fund – The deficit has decreased in FY 2015-16 due to the premium increases. The City will continue to increase the premiums in the future to eliminate the deficit.

Retiree Health Savings Plan (RHSP) Benefits Fund – The deficit is the result of an increase to the actuarial accrued liability. The City will increase the premiums in the future to eliminate the deficit.

### NOTE 13 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City retains risks for the following types of liabilities: workers' compensation, unemployment insurance, general auto, dental, medical and vision as well as public liability through separate internal service funds. The City purchased several commercial insurance policies from third-party insurance companies for errors and omissions of its officers and employees, and destruction of assets as well as excess workers' compensation and general public liability claims. The City also purchases property, aviation and employee dishonesty insurance. There were no significant settlements or reductions in insurance coverage from settlements for the past three years. The insurance schedule for FY 2016-17 is as follows:

<u>Insurance Type</u>	<u>Program Limits</u>	<u>Deductible/SIR (self-insured retention)</u>
Excess Liability Insurance	\$ 20,000	\$2,000 SIR per occurrence
D & O Employment Practices	2,000	\$250 SIR non-safety; \$500 SIR safety
Excess Workers' Comp Employer's Liability Insurance	Statutory	\$2,000 SIR per occurrence
Property Insurance (GWP)	250,000	Various deductibles up to \$250
Property Insurance (Non-GWP)	400,000	\$25 deductible all locations
Aviation Insurance (Police Helicopter)	50,000	Various deductibles
Employee Dishonesty – Crime Policy	1,000	\$25
Cyber Insurance	2,000	\$100

Operating funds are charged a premium and the internal service funds recognize the corresponding revenue. Claims expenses are recorded in the internal service funds. Premiums are evaluated periodically and increases are charged to the operating funds to reflect recent trends in actual claims experience and to provide sufficient reserve for catastrophic losses.



**CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

Claims payable liability has been established in these funds based on estimates of incurred but not reported and litigated claims. Management believes that provisions for claims at June 30, 2016 are adequate to cover the cost of claims incurred to date. However, such liabilities are, by necessity, based upon estimates and there can be no assurance that the ultimate cost will not exceed such estimates. A reconciliation of the changes in the aggregate liabilities for Liability Insurance Fund, Compensation Insurance Fund and Medical Insurance Fund for claims for the current fiscal and the prior fiscal year are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims and Charges</u>	<u>Claim Payments</u>	<u>Ending Balance</u>
2014-15	\$ 44,497	54,863	56,158	43,202
2015-16	\$ 43,202	38,566	39,826	41,942

The City has numerous claims and pending legal proceedings that generally involve accidents regarding its citizens on City property and employment issues. These proceedings are, in the opinion of management, ordinary routine matters incidental to the normal business conducted by the City. In the opinion of management, such proceedings are substantially covered by insurance, and the ultimate disposition of such proceedings are not expected to have a material adverse effect on the City's financial position, results of operations, or cash flows.

**NOTE 14 – CONTINGENT LIABILITIES AND COMMITMENTS****Power Purchase Agreements**

The City first participated in the Boulder Canyon Project for electric service from the Hoover Power Plant in 1937 for a term of 50 years, which expired on May 31, 1987. The plant was operated by Southern California Edison and Los Angeles Department of Water and Power under the supervision of the Bureau of Reclamation during the contract term.

Before the expiration of the contract, Hoover Power Plant Act of 1984 authorized the uprating of the 17 main generating units and provided long-term contingent capacity and firm energy to the participants in a renewal contract. The uprating program, which replaced all 17 original turbines in the Hoover Dam Power Plant, began in 1986. When the program was finished in 1993, it increased the capacity of the plant from 1,344 megawatts to 2,079 megawatts.

In January 1987, the City renewed the contract with the United States Bureau of Reclamation providing for the advancement of funds for the Hoover Uprating Project and Western Area Power Administration for the purchase of power from the project. The renewed contract is for a term of 30-years from 1987 to 2017. The Bureau of Reclamation also assumed control of operation and maintenance of the plant in 1987. Under this renewed contract, the City is entitled to 21 megawatts or 1.03% of the capacity and 1.59% of the firm energy.

In August 2003, the City entered into a 25-year contract, cancelable after 20 years, with PPM Energy, Inc. for the purchase of 9 megawatts of capacity from wind-powered resources in California. The City began taking delivery of the energy on September 1, 2003.

In June 2005, the City entered into a 25-year power sales agreement with the Southern California Public Power Authority (SCPPA) for the Ormat Geothermal Energy Project for purchase of up to 3 megawatts of the project electric energy. The project began commercial operation in January 2006.

In October 2006, the City entered into a 16-year contract with PPM Energy, Inc. for the purchase of 10 megawatts of capacity from wind-powered resources in Wyoming. The City began taking delivery of the energy under WSPP master agreement from July 1, 2006 through September 30, 2006. The contract term started on October 1, 2006.

In November 2007, City Council approved a purchase power agreement with SCPPA for the purchase of 20 megawatts of renewable energy from Pebble Springs Wind Generation Facility for a term of 18-years. The project began commercial operation in January 2009.

## **CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

In September 2014, the City entered into a 25-year contract with Skylar Resources L.P. for the procurement of 50 megawatts of firmed renewable solar. At least fifty percent of 50 MW/hour is guaranteed by the seller to qualify as Portfolio Content Category 1 renewable energy on an annual basis. In November 2015, the transaction was bifurcated into 2 separate renewable energy transactions, one with a term of December 1, 2015 through December 31, 2019 and the other with a term of Jan 1, 2020 through Nov 20, 2040. The 4-year transaction was subsequently novated to Morgan Stanley Capital Group. The City began taking delivery of the energy on December 2015.

### **Certain Sales Tax Revenues**

On September 24, 2007, HdL Companies (HdL), which is City's sales tax consultant, submitted petitions to the Board of Equalization (BOE) on behalf of all their client cities regarding Case ID 606763 and Case ID 606835 (Sales v. Use Tax/Place of Allocation). These cases pertain to the City of Buena Park and a local business (hereafter referred to as Taxpayer).

The Taxpayer sells computer hardware and peripherals to government and business accounts. After signing a tax sharing agreement with the City of Buena Park, the Taxpayer began reporting these transactions as sales tax and allocating the local 1% tax to their office in the City of Buena Park.

According to BOE, since the merchandise is shipped from out of state, the applicable tax is use tax that should be allocated to the various countywide pools based on delivery. The Taxpayer contends that the terms of their sales agreements stipulate that title passes at the time of delivery in this state, and therefore the transactions are subject to sales tax. However, BOE states that title cannot pass after the seller has given the merchandise to a common carrier.

In both their Allocation Group Decision and Supplemental Decision, BOE granted the HdL petitions and ruled that the tax was use tax and should be distributed via the countywide pools. The City of Buena Park has appealed both decisions, and the matter has been elevated to the BOE Appeals Division.

In spring 2014, the Taxpayer moved their California office from Buena Park to Glendale and has continued the same practice by allocating the 1% sales tax to their office in the City of Glendale. The Taxpayer is appealing the matter as well and until the matter is settled, they intend to allocate sales to their Glendale office, to the extent they believe the allocation is supported by the facts.

Per HdL, since the resolution of the dispute is still pending for the Glendale office, all local revenue received by the City could later be taken away by the BOE and redistributed through the countywide pools. HdL has recommended that the City set aside any revenues received from this Taxpayer. Therefore, starting in FY 2013-14, the City is accruing a liability related to the sales tax revenues generated by this Taxpayer, until this matter is resolved and settled by all parties involved.

### **General Fund Transfer Litigation**

The City is currently engaged in litigation regarding the City's transfer from the Electric Fund to the General Fund. Glendale Coalition for a Better Government v. City of Glendale, L.A. Superior Court Case No. 147376; Saavedra et al. v. City of Glendale, L.A. Superior Court Case No. BC539160. The Petitioners contend that the transfer from the Electric Fund to the General Fund violates Proposition 26. The Petitioners also challenge the City's fund and accounting procedures contending they violate the City Charter. Additionally, the plaintiffs challenge the City's prior transfers of revenue from the Water Fund to the General Fund, a practice which was discontinued in 2011.

The lawsuits challenge the City's transfer of electric revenue from the Glendale Water & Power Electric Fund to the General Fund ("General Fund Transfer" or "GFT"). The GFT is made under the authority of the City Charter, Article XI, Section 22, which provides:

"At the end of each fiscal year an amount equal to twenty-five (25) per centum of the operating revenues of the department of Glendale Water and Power for such year, excluding receipts from water or power supplied to other cities or utilities at wholesale rates, shall be transferred from said Glendale Water and Power surplus fund to the

## **CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

general reserve fund; provided, that the council may annually, at or before the time for adopting the general budget for the ensuing fiscal year, reduce said amount or wholly waive such transfer if, in its opinion, such reduction or waiver is necessary to insure the sound financial position of said department of Glendale Water and Power and it shall so declare by resolution.”

Because the City discontinued making transfers from the water fund in 2011, the City currently transfers only electric revenue from GWP to the General Fund. In FY2015-16, the City reduced the GFT to \$20,107 or 9.98% of GWP electric operating revenues, which was equal to 11.24% of the City's General Fund revenues for the year.

The lawsuits were consolidated for purposes of trial and were tried before Hon. James Chalfant, Los Angeles County Superior Court.

### ***Charter Fund and Accounting Issues***

With respect to the City's accounting practices, the trial court concluded that specified accounting practices, while compliant with Generally Accepted Accounting Principles (“GAAP”), violate the City Charter. As of the writing of this Note, the trial court has stated its intent to issue a permanent injunction enjoining the City from merging some Charter mandated funds and splitting up others.

### ***2013 Electric Rate Program and General Fund Transfer***

The petitioners also challenged the City's electric rates imposed in August 2013 on the grounds the imposition violated Proposition 26 (a voter-approved initiative that amended Articles XIIC and XIID of the California Constitution). Proposition 26 defines “any levy, charge or exaction of any kind” imposed by a local government as a “tax” that must be approved by the voters of the local jurisdiction, unless the levy, charge or exaction falls within one of seven exemptions. (Article XIIC, §1(e)) The City contends that electric rates are a “charge imposed for a specific government service or product provided directly to the payer that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing service.” The trial court concluded that, although Proposition 26 expressly states it is not retroactive, the City's imposition of new rates in August of 2013 was a tax because the rate plan included the GFT and the court concludes the GFT is not a cost of service.

The court concluded that the amount of the unconstitutional tax is the amount of the GFT in the years since the new electric rate plan was imposed in August 2013. The court intends to order a remedy requiring the City to credit ratepayers the amount of the GFT since the electric rates were increased. That number is preliminarily calculated at \$56,950 plus interest for FY 2013-14, FY 2014-15, and FY 2015-16. As of the writing of this Note, the parties are meeting and conferring on the mechanics of the credits and will obtain court approval.

The court will also issue a writ of mandate commanding the City to cease to include the GFT in the electric rates charged to consumers unless and until a majority of Glendale electorate approves the tax in the rates.

Finally, with respect to the transfer of water revenue, the City had discontinued water transfers in February 2011. However, a portion of the water transfer – which transfers were then made in monthly installments - from the last part of FY 2010-11 came within the applicable statute of limitations. Therefore, the court ordered the City to return monies transferred from the Water Fund to the City's General Fund after February 2011, a total of \$1,733. This amount has been recorded in both the General Fund and the Water Fund as of June 30, 2016.

### ***Post-Trial Matters and Appeal***

As of the writing of this Note, the City intends to file post-trial motions and will appeal. On October 27, 2016, Judge Chalfant determined that his judgments and orders – including cessation of the transfers and credits to ratepayers – will all be stayed during the City's appeal. The City has a motion for new trial that will be heard on January 19, 2017, and then the City will appeal. As such, status quo will remain in effect during the pendency of the appeal.

## **CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

The City intends to vigorously prosecute an appeal of this matter. Management is of the opinion that the GFT, adopted by the voters and which pre-dates adoption of Proposition 26, is not thereby vitiated by Proposition 26. It is anticipated that an appeal will take 18-24 months.

### **NOTE 15 – JOINTLY GOVERNED ORGANIZATIONS**

#### **Joint Power Agreement for San Fernando Valley Council of Governments**

The San Fernando Valley Council of Governments (SFVCOG) was created through a Joint Power Agreement in 2010. The City is an active member of the SFVCOG. Other member jurisdictions currently participating include the City of Los Angeles with 7 board representatives for each City Council district located entirely or partially in the San Fernando Valley, 2 board representatives from each of the Los Angeles County Supervisorial Districts located entirely or partially in the San Fernando Valley, and one representative each from the Cities of Burbank, San Fernando and Santa Clarita. In its official capacity, the SFVCOG acts as a planning sub-region for the Southern California Association of Governments (SCAG) and focuses on promoting better regional coordination of planning and transportation planning efforts in the San Fernando Valley. The SFVCOG also engages in local, regional, state and federal grant development programming for the region.

#### **“Take or Pay” Contracts**

The City has entered into twelve “Take or Pay” contracts, which require payments to be made whether or not projects are completed or operable, or whether output from such projects is suspended, interrupted or terminated. Such payments represent the City’s share of current and long-term obligations. Payment for these obligations is expected to be made from operating revenues received during the year that payment is due. These contracts provide for current and future electric generating capacity and transmission of energy for City residents. Through these contracts, the City purchased approximately 60% of its total energy requirements during FY 2015-16. With a few exceptions, the City is obligated to pay the amortized cost of indebtedness regardless of the ability of the counterparty to provide electricity. The original indebtedness will be amortized by adding the financing costs to purchase energy over the life of the contract. All of these agreements contain “step-up” provisions obligating the City to pay a share of the obligations of any defaulting participant.

- The Intermountain Power Agency (IPA), a subdivision of the State of Utah, was formed in January 1974 to finance the construction of a 1,400 megawatt coal-fired generating plant, consisting of two generating units located near Delta, Utah and associated transmission lines, called the Intermountain Power Project (IPP). The project began uprating of the two generating units in early 2003. When the uprating was finished in March 2004, it increased the capacity of the plant from 1,400 megawatts to 1,800 megawatts. The City through contract is obligated for 30 megawatts or 1.70% of the generation. In addition, the City entered into an “Excess Power Sales Agreement” with the IPA, agent for the Utah Municipal Purchasers and the Cooperative Purchasers, which entitles the City to additional shares that can vary from year to year. As of June 30, 2016, Glendale’s excess entitlement share is 0.46%. The total City’s obligation from IPP is between 35 and 38 megawatts.

The City joined the Southern California Public Power Authority (SCPPA) on November 1, 1980. This authority, consisting of the California cities of Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Los Angeles, Pasadena, Riverside, Vernon, and the Imperial Irrigation District, was formed for the purpose of financing future power resources. The City has entered into eleven projects with SCPPA.

- The first of the SCPPA projects is a 3,810 megawatt nuclear fuel generation plant in Arizona. The Palo Verde (PV) nuclear project consists of 3 units, each having an electric output of approximately 1,270 megawatts. SCPPA has purchased approximately 225 megawatts of capacity and associated energy (approximately 5.91% of total Palo Verde output), of which the City receives 9.9 megawatts or 4.40% of SCPPA’s entitlement. As of June 30, 2016, Glendale’s share is 4.40%.

## CITY OF GLENDALE

### Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

- The second project financed through SCPPA is the Southern Transmission System (STS) that transmits power from the coal-fired IPP to Southern California. The 500 kV DC line is currently rated at 2,400 megawatts. The City's share of the line is 2.27% or approximately 55 megawatts. As of June 30, 2016, Glendale's share is 2.27%.
- The third project financed through SCPPA is the acquisition of 41.80% ownership interest in a coal-fired 497 megawatt unit in San Juan Generating Station, Unit 3 (SJ), located in New Mexico. SCPPA members are entitled to 208 megawatts. In July 2015, the City Council authorized the SCPPA to execute, on Glendale's behalf, a set of three agreements that will collectively shut down Unit 3 at the coal-fired San Juan Power Plant in New Mexico at the end of December 2017. The agreements address restructuring of rights and obligations at San Juan, including disposal of coal inventory, mine reclamation, and plant decommissioning. The termination of operations at San Juan Unit 3 will help GWP achieve California state goals regarding the reduction of greenhouse gas emissions. Under the Mine Reclamation and Plant Decommissioning Agreements, Glendale shares the responsibility for any liability arising from operations before the December 2017 exit date. As such a liability for decommissioning the power plant cannot be determined at this time. The City is obligated for 20 megawatts or 9.80% of the SCPPA entitlement. As of June 30, 2016, Glendale's share is 9.80%.
- The fourth project financed through SCPPA is Mead-Adelanto Project (MA). The project consists of a 202-mile 500 kV AC transmission line extending between the Adelanto substation in Southern California and the Marketplace substation in Nevada, and the development of the Marketplace Substation at the southern Nevada terminus approximately 17 miles southwest of Boulder City, Nevada. The initial transfer capability of the Mead-Adelanto Project is estimated at 1,200 megawatts. SCPPA members in the project are entitled to 815 megawatts. The City is obligated for 90 megawatts or 11.04% of the SCPPA entitlement. As of June 30, 2016, Glendale's share is 11.04%.
- The fifth project financed through SCPPA is Mead-Phoenix Project (MP). The project consists of a 256-mile long 500 kV AC transmission line from the Westwing Substation in the vicinity of Phoenix, Arizona to the Marketplace Substation approximately 17 miles southwest of Boulder City, Nevada with an interconnection to the Mead Substation in southern Nevada. The project consists of three separate components: the Westwing-Mead Component, the Mead Substation Component, and the Mead-Marketplace Component. The City's participation shares in the components range from 11.76% to 22.73%. The Mead-Phoenix Project in conjunction with the Mead-Adelanto Project provides an alternative path for the City's purchases from the Palo Verde Nuclear Generating Station, San Juan Generating Station and Hoover Power Plant. These transmission lines also provide access to the southwest U.S. where economical coal energy is readily available. As of June 30, 2016, Glendale's share is 14.80%.
- The sixth project financed through SCPPA is the Magnolia Power Project (MPP) located on Burbank Water & Power's generation station complex adjacent to Magnolia Boulevard in Burbank, California. The project consists of a combined cycle natural gas-fired generating plant with a nominally rated net base capacity of 242 megawatts. The City is obligated for 40 megawatts or 16.53% of the project's output. As of June 30, 2016, Glendale's generation cost share is 16.53% and indenture cost share is 17.25%.
- The seventh project financed through SCPPA is Natural Gas Prepaid Project (NGPP). In August 2007, the City entered into a 30-year Prepaid Natural Gas Agreement with the SCPPA. The agreement will provide a secure and long-term supply of natural gas up to 3,500 MMBtu per day at a discounted price below a spot market price index. The delivery of natural gas started in July 2008. As of June 30, 2016, Glendale's share is 23.00%.
- The eighth project financed through SCPPA is the Linden Wind Energy Project (LIN) located in Klickitat County in the state of Washington. The facility is a 50 MW capacity wind farm. The 25 year purchase power agreement with SCPPA is for the purchase of 10.00% (approximately 5 MW) of the capacity of the project. The City has sold its output entitlement share to Los Angeles Department of Water and Power (LADWP) but remains responsible for all the obligations associated with its participation in the Power Sales Agreements in the event LADWP should default. As of June 30, 2016, Glendale's share is 10.00%.

**CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

- The ninth project financed through SCPPA is the Tieton Hydropower Project (THP) located near the town of Tieton in Yakima County, Washington. The Project has a maximum capacity of approximately 20 megawatts. The Project includes a 115 kV transmission line, approximately 22-miles long, connecting the generating station with PacifiCorp's Tieton Substation. The City is obligated for approximately 6.8 megawatts or 50.00% of the project's output. As of June 30, 2016, Glendale's share is 50.00%.
- The tenth project financed through SCPPA is Windy Point/Windy Flats project (WP) located in Klickitat County in the state of Washington. The Project has a maximum capacity of approximately 262.2 megawatts. The City Council approved a 20 year purchase power agreement with SCPPA for the purchase of approximately 20 megawatts or 7.63% of the renewable energy output from the Project. The City has sold its output entitlement share to Los Angeles Department of Water and Power (LADWP) but remains responsible for all the obligations associated with its participation in the Power Sales Agreements in the event LADWP should default. As of June 30, 2016, Glendale's share is 7.63%.
- The eleventh project financed through SCPPA is the Milford II Wind Project (MIL2) located near Beaver and Millard County, Utah. The Project has a capacity of approximately 102 megawatts. The City Council approved a 20 year purchase power agreement with SCPPA for the purchase of approximately 5 megawatts or 4.90% of the Project's output. The City has sold its output entitlement share to Los Angeles Department of Water and Power (LADWP) but remains responsible for all the obligations associated with its participation in the Power Sales Agreements in the event LADWP should default. As of June 30, 2016, Glendale's share is 4.90%.

Take-or-Pay commitments expire upon contract expiration date or final maturity of outstanding bonds for each project, whichever is later. Final fiscal year contract expirations are as follows:

<u>Project</u>	<u>Contract Expiration Date</u>	<u>Glendale's Share</u>
Intermountain Power Project (IPP)	2027	2.16%
Palo Verde Project (PV)	2030	4.40%
Southern Transmission System (STS)	2027	2.27%
San Juan Project (SJ)	2018	9.80%
Mead-Adelanto Project (MA)	2030	11.04%
Mead-Phoenix Project (MP)	2030	14.80%
Magnolia Power Project (MPP)	2036	17.25%
Natural Gas Prepaid Project (NGPP)	2035	23.00%
Linden Wind Energy Project (LIN)	2035	10.00%
Tieton Hydropower Project (THP)	2040	50.00%
Windy Point/Windy Flats Project (WP)	2030	7.63%
Milford II Wind Project (MIL2)	2031	4.90%

**CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

A summary of the City’s “Take or Pay” debt service commitment and the final maturity date as of June 30, 2016:

Fiscal Year	IPP	PV	STS	SJ	MA	MP	MPP	NGPP	LIN	THP	WP	MIL2	Total
2017	\$ 3,316	550	1,837	2,109	2,415	969	3,673	4,537	1,008	1,669	3,097	624	25,804
2018	4,842	552	1,801	-	2,380	955	2,867	4,562	1,006	1,670	3,095	623	24,353
2019	5,199	-	1,780	-	2,358	951	2,866	4,684	1,007	1,667	3,093	623	24,228
2020	4,534	-	1,561	-	2,339	941	2,866	4,858	1,005	1,668	3,090	622	23,484
2021	4,004	-	1,858	-	1,747	698	2,865	5,066	1,007	1,667	3,089	622	22,623
2022-2026	5,176	-	7,042	-	-	-	15,110	27,894	5,013	9,110	15,394	3,101	87,840
2027-2031	-	-	1,456	-	-	-	16,458	32,814	4,993	8,234	15,320	3,085	82,360
2032-2036	-	-	-	-	-	-	17,011	30,918	4,789	8,205	-	615	61,538
2037-2041	-	-	-	-	-	-	11,253	-	-	9,807	-	-	21,060
<b>Total</b>	<b>\$ 27,071</b>	<b>1,102</b>	<b>17,335</b>	<b>2,109</b>	<b>11,239</b>	<b>4,514</b>	<b>74,969</b>	<b>115,333</b>	<b>19,828</b>	<b>43,697</b>	<b>46,178</b>	<b>9,915</b>	<b>373,290</b>

In addition to debt service, the City’s entitlement requires the payment for fuel costs, operating and maintenance (O&M), administrative and general (A&G), and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for fiscal year 2016 and 2015 are as follows:

Fiscal Year	IPP	PV	STS	SJ	MA	MP	MPP	NGPP	LIN	THP	WP	MIL2	Total
2016	\$7,950	3,368	743	6,422	275	203	4,842	1,427	-	1,119	-	-	26,349
2015	\$7,535	3,027	696	6,493	240	456	2,959	1,632	-	733	-	-	23,771

**NOTE 16 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY**

In February 2012, the Dissolution Act (Assembly Bill x1 26; amended by AB 1484 in June 2012 and SB 107 in September 2015) dissolved California redevelopment agencies and directed their wind-down activities. In Glendale, the City chose to serve as the Glendale Successor Agency. This action impacted the reporting entity of the City of Glendale that had previously reported the redevelopment agency within it and as a blended component unit. Commencing on February 1, 2012, the assets and activities of the dissolved redevelopment agency were reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City. The transfer of the assets and liabilities of the former redevelopment agency from governmental funds of the City to the fiduciary fund was reported in the governmental funds as an extraordinary loss (gain) in its financial statements. The receipt of these assets and liabilities as of January 31, 2012 was reported in the private-purpose trust fund as an extraordinary gain (or loss).

Since February 2012, the Successor Agency has completed a series of reports, audits and reviews, and approvals with approval from the Oversight Board and Department of Finance. These have included two detailed Due Diligence Reviews (DDR) to determine unobligated fund balances available for transfer to the affected taxing entities. Once the excess funds were distributed to the taxing entities, Glendale received a Finding of Completion (FOC) in May 2013. Following the FOC, Glendale needed to address its real property assets. Thus, Glendale prepared a Long Range Property Management Plan (LRPMP) which was approved by DOF on April 16, 2014. On May 24, 2016, the DOF approved a revision to Glendale’s LRPMP to reflect the property at 300 E. Broadway as government use.

With the passage of SB 107, the requirement to prepare biannual payment schedules known as Recognized Obligation Payment Schedules (ROPS) was replaced with an annual ROPS.

**CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

**Cash and Investments**

The Fiduciary fund's cash and investments as of June 30, 2016 consist of the following:

Cash and investments	\$ 71,487
Cash and investments with fiscal agents	16,007
Total	<u>\$ 87,494</u>

The following amounts are reflected in the fiduciary statement of net position:

Cash and investments	\$ 71,458
Restricted cash and investments	29
Cash and investments with fiscal agents	16,007
Total	<u>\$ 87,494</u>

**Interest Rate Risk**

Interest rate risk is the risk that fluctuations in market rates may adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. The City manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

	Total	Remaining Maturity (in months)	
		12 Months or Less	More than 60 Months
Commercial Paper	\$ 55,733	55,733	-
State Investment Pool	13,599	13,599	-
Money Market Mutual Fund	2,155	2,155	-
Held by Fiscal Agents:			
Guaranteed Investment Contracts	6,580	-	6,580
Money Market Mutual Fund	9,427	9,427	-
	<u>\$ 87,494</u>	<u>80,914</u>	<u>6,580</u>

**Credit Risks**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The City invests only in the most risk-adverse instruments, such as Aaa rated government securities, Aaa, Aa, or A rated corporate securities, and A1, P1, F1 rated commercial paper, negotiable certificates of deposit and banker's acceptance securities. The City's Investment Policy requires the City to sell medium term notes with a credit rating below S&P's and Fitch's BBB grade or Moody's Baa2, unless the City Council approves the City Treasurer's recommendation that the security should be retained.

	Total	Moody's Rating as of June 30, 2016		
		Aaa	P1	Unrated
Commercial Paper	\$ 55,733	-	55,733	-
State Investment Pool	13,599	-	-	13,599
Money Market Mutual Fund	2,155	2,155	-	-
Held by Fiscal Agents:				
Guaranteed Investment Contracts	6,580	-	-	6,580
Money Market Mutual Fund	9,427	9,427	-	-
	<u>\$ 87,494</u>	<u>11,582</u>	<u>55,733</u>	<u>20,179</u>



## **CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

### **Fair Value Measurements**

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Unobservable inputs reflect the City's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the City's own data.

The asset's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The determination of what constitutes observable requires judgment by the City's management. City management considers observable data to be that market data, which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to City management's perceived risk of that investment.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Deposits and withdrawals in governmental investment pools, such as LAIF and LACPIF are made on the basis of \$1 and not fair value. Accordingly, the City's proportionate share in these types of investments is an uncategorized input not defined as a Level 1, Level 2, or Level 3 input.

The following is a description of the valuation methods and assumptions used by the City to estimate the fair value of its investments. There have been no changes in the methods and assumptions used at June 30, 2016. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. City management believes its valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The City's treasury pools asset market prices are derived from closing bid prices as of the last business day of the month as supplied by Interactive Data, Bloomberg or Telerate. Where prices are not available from generally recognized sources, the securities are priced using a yield-based matrix system to arrive at an estimated market value. Prices that fall between data points are interpolated. Non-negotiable FDIC-insured bank certificates of deposit are priced at par.

**CITY OF GLENDALE**

Notes to the Basic Financial Statements  
 Fiscal Year Ended June 30, 2016  
 (in thousands)

When available, quoted prices are used to determine fair value. When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy and the City does not have any investments that are measured using Level 1 inputs.

For investments classified within Level 2 of the fair value hierarchy, the City's custodians generally uses a multi-dimensional relational model. Inputs to their pricing models are based on observable market inputs in active markets. The inputs to the pricing models are typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads and benchmark securities, among others.

The City does not have any investments that are measured using Level 3 inputs.

As of June 30, 2016, the Successor Agency has the following fair value measurements:

	Balance at June 30, 2016	Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Commercial Paper	\$ 55,733	-	55,733	-
Total investments by fair value level	<u>55,733</u>	<u>-</u>	<u>55,733</u>	<u>-</u>
Investments measured at amortized costs:				
State Investment Pool	13,599			
Money Market Mutual Funds	2,155			
Held by Fiscal Agents:				
Guaranteed Investment Contracts	6,580			
Money Market Mutual Fund	<u>9,427</u>			
Total investments exempted from fair value measurement and application	<u>31,761</u>			
	<u>\$ 87,494</u>			

**Capital Assets**

	Balance at July 1	Increases	Decreases	Adjustments- transferred to governmental activities	Balance at June 30
Fiduciary fund:					
Capital assets, not being depreciated:					
Land	\$ 155	-	(50)	-	105
Construction in progress	<u>13,297</u>	<u>7,926</u>	<u>(1,180)</u>	<u>(6,729)</u>	<u>13,314</u>
Total assets not being depreciated	<u>13,452</u>	<u>7,926</u>	<u>(1,230)</u>	<u>(6,729)</u>	<u>13,419</u>
Depreciable capital assets:					
Building and improvements	377	-	-	-	377
Less accumulated depreciation:					
Building and improvements	<u>226</u>	<u>9</u>	<u>-</u>	<u>-</u>	<u>235</u>
Total assets being depreciated, net	<u>151</u>	<u>(9)</u>	<u>-</u>	<u>-</u>	<u>142</u>
Fiduciary fund capital assets, net	<u>\$ 13,603</u>	<u>7,917</u>	<u>(1,230)</u>	<u>(6,729)</u>	<u>13,561</u>

**CITY OF GLENDALE**

Notes to the Basic Financial Statements  
 Fiscal Year Ended June 30, 2016  
 (in thousands)

**Property Held for Resale**

Fiduciary fund property held for resale at June 30, 2016:

<u>Acquisition Date</u>	<u>Location</u>	<u>Carrying Value</u>
June 2008	218 S. Brand	\$ 1,442

**Long-Term Debt**

The Fiduciary fund's long-term debts as of June 30, 2016 consist of the following:

	<u>Issuance Amount</u>	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2016</u>	<u>Due within one year</u>
<b>Fiduciary Activities</b>						
2010 GRA Tax Allocation Bonds	\$ 26,970	26,545	-	26,545	-	-
2011 GRA Subordinate Taxable Tax Allocation Bonds	50,000	44,615	-	2,595	42,020	2,740
2013 GSA Tax Allocation Refunding Bonds	44,985	40,030	-	5,100	34,930	5,255
2016 GSA Tax Allocation Refunding Bonds	20,810	-	20,810	-	20,810	-
GRA/GSA Tax Allocation Bonds premium	-	1,305	3,932	166	5,071	861
Reinstatement of Loans Payable to City	40,133	12,104	32,363	4,334	40,133	12,511
Total Fiduciary Activities	\$ 182,898	124,599	57,105	38,740	142,964	21,367

***Tax Allocation Bonds, 2010 Series***

The former Glendale Redevelopment Agency (the "Agency") issued \$26,970 in 2010 tax allocation bonds for 15 years to fund economic development activities of the Agency primarily relating to the Adult Recreation Center Improvement, Glendale Central Library Renovation and Columbus Soccer Field Project.

The Tax Allocation Bonds, 2010 Series were refunded in March 2016 with the Subordinate Tax Allocation Bonds, 2016 Refunding Series. Accordingly, the liability for the defeased 2010 Bonds has been removed from the long-term debt of the Fiduciary fund. As of June 30, 2016, a final principal payment of \$290 was issued on December 1, 2015 and the remaining \$26,255 aggregate principal amount were refunded and deposited into an Escrow Fund established pursuant to an Escrow Agreement dated March 1, 2016 and will be fully redeemed on December 1, 2016 at a redemption price of 100% of the principal amount plus accrued interest.

***Subordinate Taxable Tax Allocation Bonds, 2011 Series***

The former Glendale Redevelopment Agency (the "Agency") issued \$50,000 in 2011 subordinate taxable tax allocation bonds with an average rate of 6.75% for 14 years. The Bonds were issued to finance redevelopment projects and low and moderate income housing activities; to fund the reserve requirement for the Bonds; and to provide for the costs of issuing the Bonds. The bonds mature in amounts ranging from \$2,740 to \$7,210 from 2017 to 2025. For the security of the non-housing portion of the Bonds, the Agency grants a first pledge of and lien on all of the subordinate tax revenues consisting of non-housing tax revenues on parity with the pledge and lien which secure any parity debt. For the security of the housing portion of the Bonds, the Agency grants a first pledge of and lien on all of the subordinate tax revenues consisting of housing tax revenues, on parity with the pledge and lien which secures any parity debt. Subordinate tax revenues are pledged to the payment of principal, interest and discounts on the Bonds pursuant to the Indenture until the Bonds are paid, or until moneys are set-aside irrevocably for that purpose. The property tax derived from the former Agency's Central Project Area is pledge to repay these Bonds until they are paid in full. The funds are distributed by the County of Los Angeles semi-annually through the ROPS process, subject to the approval by the Successor Agency's Oversight Board and the DOF. As of June 30, 2016, the principal balance is \$42,020.

## **CITY OF GLENDALE**

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

### ***Tax Allocation Bonds, 2013 Refunding Series***

The Glendale Successor Agency (the "GSA") issued \$44,985 in 2013 tax allocation bonds with an average rate of 4.81% for the refunding of the former Glendale Redevelopment Agency's (the "Agency") outstanding Central Glendale Redevelopment Project Tax Allocation Bonds, 2002 Series and the Tax Allocation Bonds, 2003 Refunding Series (the "Prior Bonds"), and to pay the cost of issuance of the 2013 Bonds. The 2013 Bonds mature in regularly increasing principal amounts ranging from \$5,255 to \$6,455 from 2017 to 2022. The advance refunding of Tax Allocation Bonds, 2002 Series and the Tax Allocation Bonds, 2003 Refunding Series resulted in a difference between the reacquisition price of refunding bonds and the net carrying amount of the refunded bonds. The deferred loss on refunding as of June 30, 2016 for \$1,434 is recognized and reported in the financial statements as a deferred outflow of resources and is being amortized through fiscal year 2021. The refunding of the 2002 and 2003 Tax Allocation Bonds were approved by the Oversight Board and the DOF, to provide savings until the Refunding Bonds are repaid. The property tax derived from the former Agency's Central Project Area is pledge to repay these Bonds until they are paid in full. The funds are distributed by the County of Los Angeles semi-annually through the ROPS process, subject to the approval by the Successor Agency's Oversight Board and the DOF. As of June 30, 2016, the principal balance is \$34,930.

### ***Subordinate Tax Allocation Bonds, 2016 Refunding Series***

The Glendale Successor Agency (the "GSA") issued \$20,810 in 2016 tax allocation refunding bonds with an average rate of 1.74% to refinance the former Glendale Redevelopment Agency's (the "Agency") outstanding Central Glendale Redevelopment Project Tax Allocation Bonds, 2010 Series. The 2016 Bonds mature in regularly increasing principal amounts ranging from \$6,665 to \$7,210 from 2023 to 2025. The advance refunding of Tax Allocation Bonds, 2010 Series resulted in a difference between the reacquisition price of refunding bonds and the net carrying amount of the refunded bonds. The deferred loss on refunding as of June 30, 2016 for \$1,544 is recognized and reported in the financial statements as a deferred outflow of resources and is being amortized through fiscal year 2025. The advance refunding also resulted in a cash flow savings of \$8,725 which is the difference between the cash flows required to service the old 2010 Bonds and the cash flows required to service the new 2016 Bonds. The present value of the cash flows savings net of any available reserve funds from the old debt created an economic gain of \$5,231.

The refunding of the 2010 Tax Allocation Bonds was approved by the Oversight Board and the DOF, to provide savings until the Refunding Bonds are repaid. The property tax derived from the former Agency's Central Project Area is pledge to repay these Bonds until they are paid in full. The funds are distributed by the County of Los Angeles semi-annually through the ROPS process, subject to the approval by the Successor Agency's Oversight Board and the DOF. As of June 30, 2016, the principal balance is \$20,810.

### ***Loans Payable***

When the Dissolution Act took effect in February 2012, the former Glendale Redevelopment Agency's (the former Agency) Loan Advances from the City were invalidated. As a result, the City wrote off the former Agency's Loan Advances' outstanding balance of \$71,758 in FY 2011-12.

AB 1484 created Post Compliance Provisions, which are designed to provide successor agencies and cities with certain benefits to incentivize them to comply with a Due Diligence Review process, remit the sums demanded by the Department of Finance (DOF), and conclude outstanding litigation with DOF over dissolution. Upon request by the successor agency and approval by the oversight board, AB 1484 provided that loan agreements entered into between the former redevelopment agency and the city that created the former redevelopment agency ("City-Agency" loans) "shall be deemed to be enforceable obligations provided that the oversight board makes a finding that the loan was for legitimate redevelopment purposes." (§ 34191.4(b)(1)).

If the oversight board finds that the loan is an enforceable obligation, "the accumulated interest on the remaining principal amount of the loan shall be recalculated from origination at the interest rate earned by funds deposited into the Local Agency Investment Fund." The loan is to be repaid in "accordance with a defined schedule over a reasonable term of years at an interest rate not to exceed the interest rate earned by funds deposited into the Local

**CITY OF GLENDALE**

Notes to the Basic Financial Statements  
 Fiscal Year Ended June 30, 2016  
 (in thousands)

Agency Investment Fund.” (§ 34191.4(b)(2)) Loan repayments for the fiscal year cannot exceed one-half of the increase between the amount distributed to the taxing entities pursuant to section 34183(a)(4) in that fiscal year and the amount distributed to the taxing entities pursuant to that section in the 2012-2013 base year.

Glendale received approval from the oversight board to reinstate the loans. There was disagreement with DOF on the calculation of interest and the issue was resolved through litigation between DOF and the City of Glendale. A subsequent lawsuit resolved an issue DOF raised as to the legitimacy of the loans. To date, the DOF has approved and the County Auditor Controller has paid Glendale via the Recognized Obligation Payment Schedule process, \$1,509 in FY 2014-15 and \$4,334 in FY 2015-16.

Furthermore, 20% of any loan repayment is required to be deducted and transferred to the City’s Low and Moderate Income Housing Asset Fund. As of June 30, 2016, the reinstated loan amount is \$40,133.

Glendale Successor Agency annual debt service requirement schedule:

Fiscal Year	GSA Tax Allocation Bonds Fiduciary Fund		Loans Payable Fiduciary Fund		Total Debt Service
	Interest	Principal	Interest	Principal	
2017	\$ 5,325	7,995	-	12,511	25,831
2018	5,145	8,770	-	2,762	16,677
2019	4,656	9,245	-	2,762	16,663
2020	4,137	9,745	-	2,762	16,644
2021	3,557	10,280	-	2,762	16,599
2022-2026	7,407	51,725	-	16,574	75,706
	<u>\$ 30,227</u>	<u>97,760</u>	<u>-</u>	<u>40,133</u>	<u>168,120</u>

**Net Position (Deficits)**

A \$37,680 deficit in net position is reported in fiduciary fund as of June 30, 2016. The primary reason for the deficit is due to the outstanding tax allocation bonds and outstanding Agency loan to the City.

**NOTE 17 – SUBSEQUENT EVENT**

In September 2016, the City entered into a 50-year contract with the Western Area Power Administration for the Electric Service from the Boulder Canyon Project. The service will commence on October 2017.

**NOTE 18 – PRONOUNCEMENTS ISSUED BUT NOT YET IMPLEMENTED**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the City.

- GASB Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The Statement is effective for periods beginning after June 15, 2016.
- GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local

## CITY OF GLENDALE

Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2016

(in thousands)

governments for OPEB. This Statement replaces the requirements of Statements No. 45 and No. 57. The Statement is effective for periods beginning after June 15, 2017.

- GASB Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. The Statement is effective for periods beginning after December 15, 2015.
- GASB Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. The Statement is effective for periods beginning after December 15, 2015.
- GASB Statement No. 80 – *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended. The Statement is effective for periods beginning after June 15, 2016.
- GASB Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement is effective for periods beginning after December 15, 2016.

### NOTE 19 – IMPLEMENTATION OF PRONOUNCEMENTS

The City has adopted and implemented, where applicable, the following GASB Statements during the year ended June 30, 2016:

- GASB Statement No. 72 – *Fair Value Measurement and Application*. The objective of the Statement is to address accounting and financial reporting issues related to fair value measurements. This statement was implemented effective July 1, 2015.
- GASB Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The principal objectives of this Statement is to improve the information provided in the general purpose external financial reports of state and local governments about pensions and related assets that are not within the scope of Statement No. 68. This statement did not have a material effect on the financial statements.
- GASB Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). This statement did not have a material effect on the financial statements.
- GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. The Statement is effective for periods beginning after June 15, 2015. This statement did not have a material effect on the financial statements.
- GASB Statement No. 82 – *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement. This statement was implemented effective July 1, 2015.

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**CITY OF GLENDALE**

Required Supplementary Information

Fiscal Year Ended June 30, 2016

(in thousands)

**Other Post Employment Benefits (OPEB)**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Unfunded Actuarial Accrued Liability (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as of Percentage of Covered Payroll ((B-A)/C)
6/30/2011	\$ -	191,063	191,063	0%	140,403	136%
6/30/2013	-	214,014	214,014	0%	121,029	177%
6/30/2015	-	21,802	21,802	0%	118,015	19%

Note:

Covered payroll is the annual compensation paid to active employees covered by an OPEB plan.



**CITY OF GLENDALE**

Required Supplementary Information

Last Ten Fiscal Years

(in thousands)

**Schedule of Changes in Net Pension Liability and Related Ratios - Miscellaneous Plan**

	Fiscal Year	
	2016	2015
Total pension liability		
Service cost	\$ 14,372	14,951
Interest on the total pension liability	71,411	69,351
Changes of benefit terms	-	-
Differences between expected and actual experience	(8,835)	-
Changes of assumptions	(17,578)	-
Benefit payments, including refunds of employee contributions	(50,059)	(47,552)
Net change in total pension liability	9,311	36,750
Total pension liability - beginning	977,724	940,974
Total pension liability - ending (A)	<u>987,035</u>	<u>977,724</u>
Plan fiduciary net position		
Plan to plan resource movement	(25)	-
Contributions from the employer	13,344	14,431
Contributions from employees	8,142	8,202
Net investment income	17,215	117,615
Benefit payments, including refunds of employee contributions	(50,059)	(47,552)
Administrative expense	(881)	-
Net change in fiduciary net position	(12,264)	92,696
Plan fiduciary net position - beginning	781,593	688,897
Plan fiduciary net position - ending (B)	<u>769,329</u>	<u>781,593</u>
Net pension liability - ending (A) - (B)	\$ <u>217,706</u>	<u>196,131</u>
Plan fiduciary net position as a percentage of the total pension liability	77.94%	79.94%
Covered payroll	\$ 83,956	88,064
Net pension liability as a percentage of covered payroll	259.31%	222.71%
Measurement date	June 30, 2015	June 30, 2014

## Notes:

- FY2015 is the first year of implementation of GASB 68; therefore, only two years of data are shown.
- The City implemented GASB 82 in FY2016, so covered payroll replaces covered-employee payroll for FY2015. Covered payroll is the pensionable payroll, on which contributions to a pension plan are based.

**CITY OF GLENDALE**

Required Supplementary Information

Last Ten Fiscal Years

(in thousands)

**Schedule of Changes in Net Pension Liability and Related Ratios - Safety Plan**

	Fiscal Year	
	2016	2015
Total pension liability		
Service cost	\$ 13,038	13,249
Interest on the total pension liability	52,434	50,558
Changes of benefit terms	-	-
Differences between expected and actual experience	(5,684)	-
Changes of assumptions	(13,128)	-
Benefit payments, including refunds of employee contributions	(34,522)	(32,654)
Net change in total pension liability	12,138	31,153
Total pension liability - beginning	714,962	683,809
Total pension liability - ending (A)	<u>727,100</u>	<u>714,962</u>
Plan fiduciary net position		
Contributions from the employer	16,789	14,887
Contributions from employees	4,394	4,716
Net investment income	11,489	77,826
Benefit payments, including refunds of employee contributions	(34,522)	(32,654)
Administrative expense	(579)	-
Net change in fiduciary net position	(2,429)	64,775
Plan fiduciary net position - beginning	517,053	452,278
Plan fiduciary net position - ending (B)	<u>514,624</u>	<u>517,053</u>
Net pension liability - ending (A) - (B)	\$ <u>212,476</u>	<u>197,909</u>
Plan fiduciary net position as a percentage of the total pension liability	70.78%	72.32%
Covered payroll	\$ 47,947	47,523
Net pension liability as a percentage of covered payroll	443.15%	416.45%
Measurement date	June 30, 2015	June 30, 2014

## Notes:

- FY2015 is the first year of implementation of GASB 68; therefore, only two years of data are shown.
- The City implemented GASB 82 in FY2016, so covered payroll replaces covered-employee payroll for FY2015. Covered payroll is the pensionable payroll, on which contributions to a pension plan are based.

**CITY OF GLENDALE**  
 Required Supplementary Information  
 Last Ten Fiscal Years  
 (in thousands)

**Schedule of Plan Contributions - Miscellaneous Plan**

	Fiscal Year	
	2016	2015
Actuarially determined contributions	\$ 16,519	13,357
Contributions in relation to the actuarially determined contribution	(16,519)	(13,357)
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
Covered payroll	\$ 85,575	83,956
Contributions as a percentage of covered payroll	19.304%	15.910%

Notes to Schedule:

Valuation date: Actuarially determined contribution rates are calculated as of June 30th, three years prior to the end of fiscal year in which contributions are reported.

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2016

Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll
Asset valuation method	Market value
Discount rate	7.50% (net of administrative expenses)
Projected salary increases	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%
Retirement age	59

Notes:

- FY2015 is the first year of implementation of GASB 68; therefore, only two year of data are shown.
- The City implemented GASB 82 in FY2016, so covered payroll replaces covered-employee payroll for FY2015. Covered payroll is the payroll on which contributions to a pension plan are based.

**CITY OF GLENDALE**  
 Required Supplementary Information  
 Last Ten Fiscal Years  
 (in thousands)

**Schedule of Plan Contributions - Safety Plan**

	Fiscal Year	
	2016	2015
Actuarially determined contributions	\$ 18,257	16,772
Contributions in relation to the actuarially determined contribution	(18,257)	(16,772)
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
Covered payroll	\$ 47,925	47,947
Contributions as a percentage of covered payroll	38.095%	34.980%

Notes to Schedule:

Valuation date: Actuarially determined contribution rates are calculated as of June 30th, three years prior to the end of fiscal year in which contributions are reported.

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2016

Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll
Asset valuation method	Market value
Discount rate	7.50% (net of administrative expenses)
Projected salary increases	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%
Retirement age	54

Notes:

- FY2015 is the first year of implementation of GASB 68; therefore, only two year of data are shown.
- The City implemented GASB 82 in FY2016, so covered payroll replaces covered-employee payroll for FY2015. Covered payroll is the payroll on which contributions to a pension plan are based.

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