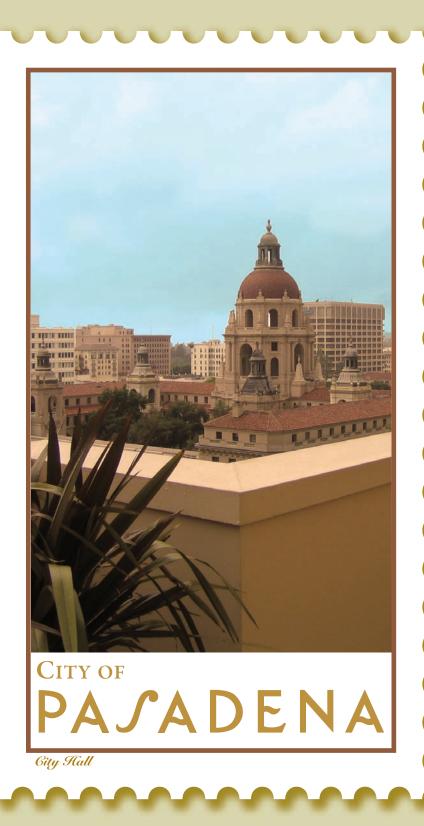
## BUDGET GUIDE AND OVERVIEW





#### Accessing the Budget Document

The Adopted Operating Budget document provides comprehensive budgetary information on the City. Copies of the Adopted Operating Budget may be purchased from the Department of Finance. The document is divided into several sections and includes:

The City Manager's Transmittal Letter formally presenting the Operating Budget and outlining the total budgeted appropriations, revenues and number of full-time equivalents, i.e., number of positions. The Transmittal Letter describes the guiding principals that were used to determine budget priorities, with special attention given to the City Council's goals. Also considered are the challenges facing the City as well as the general economic outlook. Any significant changes made to budget or financial policies, organizational structure, program delivery or operations are highlighted.

The Budget Summaries section providing a variety of schedules and reports, which fully disclose the financial plan adopted by the City Council.

The Departmental Budget pages presenting information about the programs and activities of each City department. The Departmental Summary explains the department's mission, provides a detailed program description and outlines the major accomplishments achieved in the prior fiscal year. In keeping with the City's results-based budget format, this section highlights how each department, through its various programs and activities, promotes the City Council's goals. Departmental performance measures are included in this section as well as a discussion of any budgetary changes from the prior year. Finally, a future outlook is provided for each department and its sections.

The Affiliated Agencies section providing information on the Pasadena Center Operating Company and the Rose Bowl Operating Company in a manner similar to that of the Departmental Budget section. In addiction to this Adopted Operating Budget document, the City also prepares a Budget in Brief. The Budget in Brief is a simple, easy to read summary of the Operating Budget that combines elements of the Budget Guide and Transmittal Letter. The Budget in Brief is available for free from the Department of Finance and may also be viewed on the web at www.ci.pasadena.ca.us/finance.

The Capital Improvement Program (CIP) Budget, which is submitted to the City Council as a separate budget document in order to provide more detailed descriptions of city capital improvement projects scheduled to take place in the next six years. This budget consists of projects aimed at improving the City's public infrastructure such as streets, transportation issues, street lights, traffic signals, parks, public buildings, sewer and storm drains, the Rose Bowl, the Pasadena Center, technology and water and power projects. The CIP may be viewed on the web at www.ci.pasadena,ca.us/publicworks/CIP.

#### The Budget Process

The budget is a product of many Pasadenans coming together citizens, public officials, non-profit and governmental entities, neighborhood associations, business and City staff - to plan for Pasadena's future. The process is designed to provide many occasions for the public to gain information and understanding about the City's budget and operations, and to provide input towards directing how the City should focus its resources.

Beginning in late fall, City departments analyze their expenditures, revenue collection, and performance results to determine the budgetary needs to meet community demands. Departments also consider relevant commission annual reports submitted in October, to assess how departmental work plans will support those of the commissions.

Also in late fall, the Budget Office reviews and analyzes historic performance, current year budget-to-actual expenditures and various policy decisions to develop a five-year forecast of the City's financial picture. After discussing this forecast with the City Manager, a set of budget instructions is distributed by the Budget Office to departments and operating companies.

The budget instructions include the five-year forecast and provide information regarding inflation, local economic conditions, and revenue assumptions. Also provided are guidelines that ensure the budgetary recommendations developed by departments are incorporated into Pasadena's sound financial practices and strategies.

In late winter, departments and operating companies submit their budget requests to the Budget Office for review and analysis. In early spring, key department staff meet with the City Manager to review the requests, taking into account community input and City Council direction. After a series of rigorous discussions, the proposals are prioritized, refined, compiled and integrated into a Recommended Operating Budget that is presented to the City Council. In accordance with Article IX, Section 902 of the City Charter, the Recommended Operating Budget must be presented no later than the third Monday in May. Copies of the Recommended Budget are made available on the City's website, in the office of the City Clerk, and at the Central Library and all branch libraries.

Subsequent to the submission of the City Manager's Recommended Operating Budget, a series of public meetings are held over successive weeks for the City Council to consider the Recommended Operating and Capital Budgets and to allow for public input. The City Council may revise the Recommended Budget as it sees fit. The City Council is required, pursuant to Section 904 of the City Charter, to adopt an Operating Budget by the 30th of June.

# The Accounting System, Budgetary Control, City Council Financial Policies & GANN Limit

#### Measurement Focus and Basis of Budgeting and Accounting

The City of Pasadena's accounting records are maintained in full accordance with Generally Accepted Accounting Principles (GAAP), as established by the Government Accounting Standards Board (GASB).

Governmental (General, Special Revenue, Debt Service and Capital Projects) Fund Types and Expendable Trust Funds are accounted for on a "current financial resources" measurement focus.

Accordingly, only current assets and current liabilities are included on their balance sheets. The reported fund balance provides an

indication of available, spendable resources. Operating statements for Governmental Fund Types and Expendable Trust Funds report increases (revenues) and decreases (expenditures) in available spendable resources.

The Proprietary (Enterprise and Internal Service) Funds, Nonexpendable Trust Funds and the Pension Trust Fund are accounted for on an "economic resources" measurement focus. Accordingly, all assets and liabilities are included on the balance sheet, and the reported fund equity provides an indication of the economic net worth of the fund. Operating statements for Proprietary, Nonexpendable Trust, and Pension Trust Funds report increases (revenues) and decreases (expenses) in total economic net worth. The modified accrual basis of accounting is followed by the Governmental and Expendable Trusts. Under the modified accrual basis of accounting, revenues are susceptible to accrual when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when a current liability is incurred. Liabilities are considered current when they are normally expected to be liquidated with expendable available financial resources.

The Proprietary, Nonexpendable Trust, and Pension Trust Funds are accounted for using the accrual basis of accounting. Revenues or contributions are recognized when they are earned or due and expenses or benefits paid are recorded when the related liability is incurred.

In accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting, the City applies all GASB pronouncements currently in effect as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, as long as they do not conflict with GASB pronouncements. The City applies FASB Statement No. 71 to its enterprise activity. Under FASB Statement No. 71, certain revenues and costs are deferred (under the regulation of City Council) as necessary to match revenues with related expenses.

#### Fund Structure and Fund Descriptions

Major funds represent the significant activities of the City and basically include any fund whose revenues or expenditures, excluding other financing sources and uses, constitute more than 10% of the revenues or expenditures of the appropriated budget. The breakdown of the City's fund structure is as follows:

The City reports the following major governmental funds:

GENERAL FUND - The primary fund of the City is used to account for all general revenues of the City not specifically levied or collected for other City funds and for expenditures related to the rendering of general services by the City.

PROJECT MANAGEMENT CAPITAL PROJECTS FUND – Used to account for all capital improvement projects, except for those involving the utilities, and special assessment districts, where revenues are received from grants by other governments, private parties, and through transfers from other City funds.

The Capital Improvement Program (CIP) budget is a six-year plan of the City's infrastructure needs. Projects in the CIP are grouped into one of the thirteen sections described below:

- Municipal Buildings and Facilities Major renovation projects and/or construction of new City-owned buildings and facilities.
- Streets and Streetscapes -Projects to repair and/or enhance the 326 miles of new City streets as well as all sidewalks, curbs, gutters, as well as amenity upgrades in the public right-of way.
- Street Lighting Projects to install new, or repair and/ or upgrade existing street lights and street light systems throughout the City.
- Street Lighting and Electric System Undergrounding –
   Projects that establish undergrounding districts, construct
   street lighting systems and/or underground electrical
   utilities.

- Transportation and Parking Facilities Projects aimed at enhancing the flow of traffic throughout the City by providing alternate forms of transportation and the installation of traffic control devices and parking management.
- Sewer and Storm Drains Repair, replacement or construction projects for the City's 311 miles of sewer pipes and 34 miles of storm drains.
- Rose Bowl Improvements Improvement projects of the Rose Bowl, Brookside Clubhouse and Brookside Golf Course areas.
- Parks and Landscaping Improvement, maintenance and expansion of the of City's 21 neighborhood and community parks as well as landscaping improvements throughout the City.
- Arroyo Projects Improvement, maintenance and expansion of Pasadena's Arroyo area - Hahamongna, Central Arroyo and the Lower Arroyo.
- Pasadena Center Improvements Renovation and construction projects for the Pasadena Center.
- 11. Water Systems Construction and improvements of the City's water system including groundwater wells and reservoirs, distribution mains, meters and services, and utility management systems.
- 12. Electric Systems Construction and improvements of the City's electric system involving power production and generation, transmission and distribution, metering and utility management systems.
- 13.Technology Projects Projects which improve the City's use of technological resources to enhance service levels and work productivity as well as provide clear, understandable information to the public.

The City reports the following major proprietary fund:

LIGHT AND POWER FUND – Used to account for the operations of the City's electric utility; a self-supporting activity that renders services on a user charge basis to residents and businesses as prescribed by the City Charter.

Additionally, the City reports the following fund types:

NON MAJOR SPECIAL REVENUE FUNDS – Used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Funds include: Building Services, Sewer Construction and Maintenance, Underground Utilities, Library Services and Library Special Tax, Gas Tax, Various Parking Meter Funds, Public Safety Funds, Pasadena Housing Authority, Community Development, Proposition A and C Local Transit Funds, and the Public Health Fund.

NON MAJOR PROPRIETARY FUNDS – Used to account for the acquisition, operation and maintenance of government facilities and services which are entirely self-supported by user charges. Funds include: Water, Old Pasadena Parking, Plaza Las Fuentes Parking, Paseo Colorado Parking, Refuse Collection and the Telecommunications Fund.

INTERNAL SERVICE FUNDS – Used to account for computing and communication services, building maintenance, fleet maintenance, employee benefits, worker's compensation and general liability, equipment leasing, printing and mail services to other departments or agencies of the City.

#### **Budgetary Data**

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

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

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the City Council. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is the department level and within a single fund. The City Manager may authorize transfers of appropriations within a department so long as it is within a single fund. For budgeting purposes, the General Fund is composed of several departments while all other budgeted funds are each considered to be a single department. Supplemental appropriations during the year must be approved by the City Council. These appropriations, representing amendments to the budget during the year, could be significant in relationship to the original budget as adopted.

The City uses an "encumbrance system". Under this procedure, commitments such as purchase orders and contracts at year-end are recorded as reserved fund balance. In order to be an encumbered appropriation there must be either an approved purchase order or contract in force as of June 30. All unencumbered appropriations lapse at fiscal year-end.

#### City Council Financial Policies

The City has an important responsibility to its citizens to carefully account for public funds, manage municipal finances wisely and plan the adequate funding of services desired by the public, including the provision and maintenance of public facilities. The following are the primary policies that guide the preparation of the City's annual budget:

- The City's budget will be balanced with estimated revenues, other financing sources and fund balances sufficient to finance recommended spending.
- Maintain a designated General Fund working capital reserve equivalent to 10% of the General Fund's operating budget.
- 3. Maintain a diversified and stable revenue base to protect the City from short-term fluctuations in any one revenue source.
- 4. Maintain a long-range fiscal perspective through the use of five and/or ten-year financial projections of revenues and expenditures for the City's major funds.

- 5. Maintain a 75% cash reserve to cover projected claims and long-term payable obligations in the General Liability, Worker's Compensation, and Benefits Internal Service Funds. In addition the Benefits Internal Service Fund shall maintain a 100% cash reserve to cover short-term payables.
- 6. Require that the Light and Power, Water, and Refuse Enterprise Funds maintain a 30-day cash reserve.
- Require that the Fleet Maintenance and Computing and Communications Internal Service Funds maintain a \$250,000 and \$650,000 cash reserve balance, respectively.
- Require that the Building Maintenance Internal Service Fund maintain a cash working capital reserve equivalent to 10% of its operating budget.

#### **GANN** Appropriation Limit

The voters of California, during a special election in 1979, approved Article XIII-B of the California State Constitution. Informally known as the "GANN Initiative," Article XIII-B provides limits regarding the total amount of appropriations in any fiscal year from "the proceeds of taxes." Every year the City Council adopts a resolution establishing an appropriations limit for the upcoming fiscal year.

The State Legislature, in 1980 added Section 9710 to the Government Code, providing that the governing body of each local

jurisdiction must establish, by resolution, an appropriations limit for the following year. The appropriation limit for any fiscal year is equal to the previous year's limit, adjusted for population changes and the changes in the US Consumer Price Index (or California per capita personal income, if smaller). The necessary statistical information is provided by the California Department of Finance.

In June 1980 the original Article XIII-B (Proposition 4) was modified by the voters by Proposition 111 and SB 88 and the changes were incorporated into the FY 1990-91 and FY 1991-92 Appropriations Limits. Beginning with the FY 1990-91 Appropriations Limit, a city may choose annual adjustment factors. The adjustment factors include the growth in the California Per Capita Income, or the growth in the non-residential assessed valuation due to construction within the city and the population growth within the county or the city. The revised annual adjustment factors were applied to the FY 1986-87 Limit and each year in between in order to calculate the current year's Limit. However, the Limits for FY 1986-87 through FY 1989-90 were not affected.

The following compares the difference between Pasadena's FY 2009-10 Appropriations Limit and the estimated proceeds of taxes in the budget. It reflects a significant gap of \$88,302,823. The City remains well below its Appropriations Limit for FY 2010.

CITY OF PASADENA APPROPRIATIONS LIMIT Historical Appropriations Limits						
Fiscal Year	Appropriations Limit \$	Subject to Limit \$	Difference \$			
1984-85	65,020,495	43,196,296	21,824,199			
1985-86	68,301,563	53,470,470	14,831,093			
1986-87	70,843,390	55,679,640	15,163,750			
1987-88	73,578,220	59,965,780	13,612,440			
1988-89	77,060,368	66,380,958	10,679,410			
1989-90	81,275,570	72,945,181	8,330,389			
1990-91	85,850,359	82,233,655	3,616,704			
1991-92	93,317,870	69,278,817	24,039,053			
1992-93	94,102,173	64,067,098	30,035,075			
1993-94	97,618,703	66,009,628	31,609,075			
1994-95	99,049,134	74,304,591	24,744,543			
1995-96	104,253,247	75,295,962	28,957,285			
1996-97	109,678,395	78,010,781	31,667,614			
1997-98	116,246,861	80,982,870	35,263,991			
1998-99	122,753,994	80,134,281	42,619,713			
1999-00	130,598,752	84,718,785	45,879,967			
2000-01	139,408,846	85,271,249	54,137,597			
2001-02	152,805,774	90,033,057	62,772,717			
2002-03	154,636,769	94,888,244	59,748,525			
2003-04	162,179,921	90,949,091	71,230,830			
2004-05	169,827,664	93,724,986	76,102,678			
2005-06	181,370,504	94,669,628	86,700,876			
2006-07	190,023,488	111,536,112	78,487,376			
2007-08	199,851,168	127,310,326	72,540,842			
2008-09	210,800,826	117,933,455	92,867,371			
2009-10	216,264,931	123,252,650	93,012,281			
2010-11	202,992,513	114,683,690	88,308,823			

The appropriations setting limit methodology for FY 2011 is shown below:

216,264,931
-1.0254
1.0129
-1.0128
202,992,513
114,683,690
\$88,308,823

### CITY REVENUES AND APPROPRIATIONS



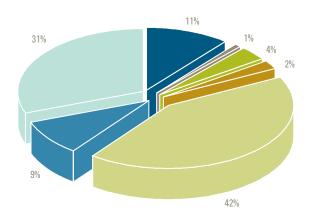


#### Revenues

The City of Pasadena has a broad revenue base with over 240 distinct revenue accounts in the General Fund alone. In recent years, many of the City's revenues have grown. In some cases, such as Sales Tax, Property Tax and Utility User's Tax, which constitute the General Fund's major revenue sources, growth has been the result of continued economic development within the City. Other revenue sources such as those related to fees and permits tend to grow in amounts consistent with the general rate of inflation. In preparing the fiscal year 2011 operating budget, each revenue source has been reviewed closely and those factors

affecting each one has been carefully considered, as well as the general economic climate. For those revenues that are generally affected by inflation, the City has estimated a growth rate of 1.44%, which is equal to the change in the Consumer Price Index for the Los Angeles-Riverside-Orange County area, all urban consumers for the twelve-month period ending February 2010.

The following chart illustrates total budgeted revenues for all City funds for fiscal year 2011.



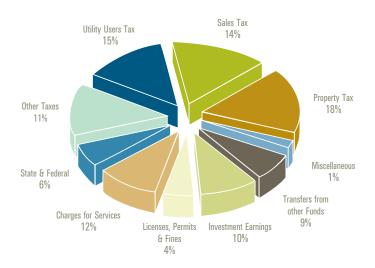
### SOURCES OF FUNDS BY FUND TYPE (IN MILLIONS \$)



The City's various sources of revenue fall into ten distinct categories. The following chart illustrates the relative

percentage each of these categories contributes to the General Fund.

#### **GENERAL FUND SOURCES OF REVENUE**



#### PRINCIPAL PROPERTY TAXPAYERS 2009

		Total Assessed	% of Total City Taxable Assessed
Property Owner	Primary Land Use	Valuation	Valuation
Leonard M. Marangi	Hospital	\$ 381,183,097	1.84%
Kaiser Foundation Health Plan Inc.	Office Building	206,177,343	0.99%
Equity Office Properties Trust	Office Building	182,580,000	0.88%
Paseo Colorado Holdings LLC	Shopping Center	129,939,533	0.63%
SPF 888 Walnut Pasadena LLC	Office Building	129,358,440	0.62%
Tishman Speyer Archstone Smith Del Mar Station	Apartments	120,608,426	0.58%
Wells REIT II Pasadena Corporate Park LP	Office Building	116,000,000	0.56%
SSR Paseo Colorado LLC	Apartments	108,315,203	0.52%
Pasadena Towers LLC	Office Building	106,247,937	0.51%
Operating Engineers Funds Inc.	Office Building	86,095,979	0.41%
Total principal property taxpayers gross assessed value		\$1,566,506,008	7.55%
Total city assessed value		\$20,752,287,000	100%

Source: California Municipal Statistics, Inc.

As mentioned previously, the General Fund's major revenue sources are Property Tax, Sales Tax and Utility Users Tax. Combined, these three sources account for nearly half of the General Fund's revenue. However, the passage of Proposition 57 in the March 2004 election had a profound impact on Property Tax and Sales Tax revenues.

Proposition 57 authorized the state to issue \$15 billion in bonds in order to refinance its debt. Under the repayment plan, sometimes referred to as the "triple flip", the state will divert a one-quarter cent portion of local governments' current sales tax (currently 1% of the total collected on sales within each jurisdiction) to a special fund to repay the bonds. To make up for the loss of revenue, local governments will receive an equivalent amount of property tax revenue, which is currently received by school districts. School districts, in turn, will receive a like amount of revenue from the state's General Fund. The consequence of these diversions is intended to leave both local governments and school districts unaffected, i.e., it is revenue-neutral. However, the various "flips" enables the state to incur the new debt as a result of having a "new" revenue source in the form of additional sales tax revenue.

#### **Property Tax**

Property Taxes are one of the General Fund's top three revenue sources. This tax imposed on real property (land and permanently attached improvements, such as buildings) and tangible personal property (such as airplanes) located within the City. A total tax of (1%) is levied on the assessed value of property as determined by the Los Angeles County Assessor. The City of Pasadena receives approximately 21% of the 1% levy on the assessed value.

During the real estate boom the City realized strong annual growth rates in real property and transfer taxes. The growth rate has slowed reflecting the softening real estate market. Due to the uncertainty of the overall housing market, the long term forecast for the property tax revenue is conservative.

Property tax revenue is projected at \$38,300,000 for fiscal year 2011.

#### PRINCIPAL SALES TAX PRODUCERS

Apple Stores	Office Equipment
Audio Leasing Bentley	Leasing
Avon Products	Chemical Products
Best Buy Stores	Office Equipment
Business	Туре
Cal Institute of Technology	Government
Honda of Pasadena	Auto Dealers New/Used
Langham Huntington Hotel	Hotel
Macy's Department Stores	Department Stores
Ross Stores	Department Store
Rusnak Automotive	Auto Dealers New/Used
Sears Roebuck Co	Department Stores
Standard Register Company	Light Industry
Symes Cadillac	Auto Dealer New/Used
Symes Toyota	Auto Dealers New/Used
Target Stores	Department Store
Team Chevrolet	Auto Dealers New/Used
Thorson Motors	Auto Dealers New/Used
Trans Ocean Motors Volkswagen	Auto Dealers New/Used
Union 76 Service Stations	Service Station
Vons Grocery Co	Retail Food Stores

Source: MuniServices, LLC

#### Retail Sales and Use Tax

Sales and Use Tax, currently in the amount of 9.75%, are collected by the State Board of Equalization from retailers for the privilege of selling tangible personal property or from users in California of tangible personal property purchased from retailers outside the state. Sales tax is measured by gross receipts from retail sales. Use tax is measured by the sale price of tangible personal property. Traditionally the City received 1% of the sales tax total collected on sales within its jurisdiction. However, as discussed above as a result of the "triple flip" the amount was reduced to 3/4 of 1% beginning in fiscal year 2005. For fiscal year 2011 sales tax revenue is projected to be appropriately \$30 million.

#### **Utility User Tax**

Utility User's Taxes (UUT) are imposed by the City on use of cable television, telephone services and the consumption of natural gas, electricity and water. The current rates are as follows:

Cable Television	9.4%
Telephone, cellular or mobile telecommunications	8.28%
Electricity	7.67%
Water	7.67%
Natural Gas	7.9%

Utility Users Tax has been one of the City's most reliable revenue sources over the past few years. For fiscal year 2011, UUT revenue is projected to be \$31,732,000.

#### Internal Revenue Sources

In addition to revenues coming from external sources, many City funds and the General Fund in particular, receive revenues from other City funds. These revenues, known as "abatements" are intended to reimburse a fund for the cost of providing either a direct service to another fund(s) or reflect the allocation of the

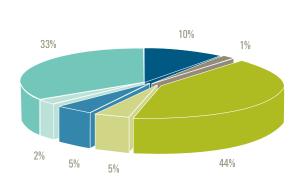
cost of central services budgeted in one fund but provided to all funds.

An example of a direct charge would be the Refuse fund paying for a mechanic in the Fleet Equipment and Replacement Fund who is budgeted in that fund, but responsible for maintaining and repairing refuse vehicles.

The City's payroll process provides a good example of the other form of abatement. The Payroll office is budgeted in the General Fund. However, the cost of the operation is allocated out to all the City's various funds based on the number of employees in each respective fund. From time to time the City undertakes a study, called a cost allocation study, which determines the cost of providing various central services e.g. payroll, purchasing, budget, etc, and develops a methodology for allocating those expenses.

#### **Appropriations**

The following chart illustrates total appropriations for all City funds for fiscal year 2011.



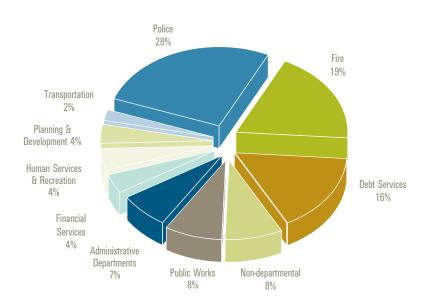
### USE OF FUNDS BY FUND TYPE (IN MILLIONS \$)



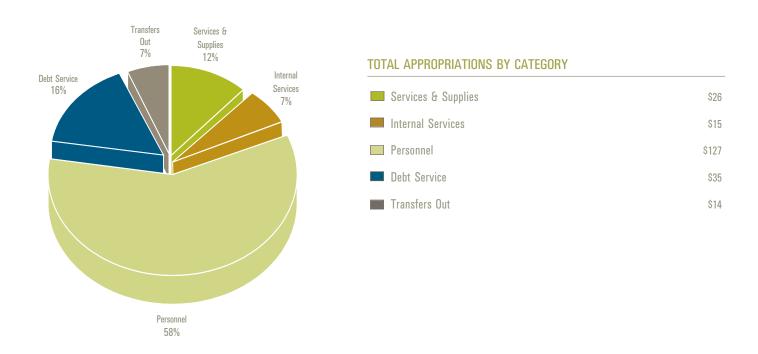
#### **GENERAL FUND APPROPRIATIONS**

The adopted budget for the General Fund for fiscal year 2011

is \$217,192,415. The following Chart illustrates the total appropriations for the General Fund by program.



The following chart illustrates the total appropriations by category for the General Fund.



## CITY INVESTMENTS, OBLIGATIONS AND DEBT







#### City Investments

The City seeks to efficiently manage its cash and liquid assets to make sure the assets are not idle, and earn investment income to enhance the economic position of the City. The manner in which the City invests must comply with the law, and must ensure sufficient readiness of cash to meet current obligations.

The City's responsibility for acting in the public good also means that some of its goals, and the investment policies and practices it employs to achieve those goals, are sometimes different than those employed by private business. The City has carefully developed its investment goals and policies, having reviewed: the goals and policies of other local governments; sample policies provided by the Government Finance Officers Associations and the California Municipal Treasurers' Association; and all relevant local, state, federal and tax laws.

#### City Goals and Practices

The City invests in full compliance with all governing laws and its own investment policy adopted by the City Council (copies available from the City Treasurer, 744-4422). It ensures that all investments are safe by preserving the principal of the investment. It seeks to maximize the amount of cash on hand, which is invested, but only after assuring adequate liquidity (accessible cash or other readily marketable assets), which allows the City to properly satisfy its short-term liabilities when they are due. Furthermore, the City seeks to maximize investment yield (the potential dollar earnings an investment provides) within full compliance to laws, and in accordance with the "prudent person rule" which governs the standard of care of trustee of cash investments.

The City's goal is to protect its assets and meet all of its numerous obligations. Only surplus cash and idle debt proceeds from bonds issued to complete a public interest project are invested. All moneys are invested safely, placed in investments, which have a stated maturity date and maturity amount. The City always purchases securities with a maturity of five years of less, unless specifically authorized by the City Council.

When investing funds for specific purposes or bond issues, the funds are invested separately so as to meet the specific investment objective and conditions imposed.

Unlike private businesses, Pasadena does not leverage any securities in its portfolio, despite having the legal authority to do so with some securities. The City has no investments in Reverse Repurchase Agreements that expose the portfolio to market risk.

The City has no authority to invest in derivative products such as interest rate swaps, futures, or options. The City does not invest in inverse floaters, range notes, interest only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity.

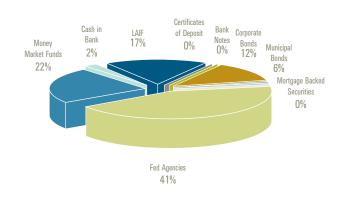
The City audits its portfolio's compliance with State Government Code and the City Investment policy, and has charged its Certified Public Auditor with annually reviewing the portfolio for compliance with the City's Investment policy.

#### Total Funds under management as of June 30, 2010

Pooled Investment Portfolio	\$ 297,083,804
Capital Endowment Portfolio	\$ 6,527,991
Power Reserve Portfolio	\$ 62,816,322
Special Funds	\$ 22,829,724
Investments Held by Trustee	\$ 56,018,065
Total Funds under Management	\$ 445,275,906

#### A look at the City's Investment Portfolios

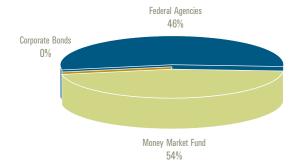
The following figures illustrate how the City invests surplus fund moneys in each of its pooled investment portfolios. The information provided is as of June 30, 2010. The amount of total excess funds held by the City changes daily based upon City revenue deposits, purchase orders, expenditures and other obligations which affect current liabilities and the liquidity needs of the City, and the timing of the maturity of held securities.



#### POOLED INVESTMENT PORTFOLIO

Market Value \$297,083,804 - Weighted Average Maturity 1.90 years.

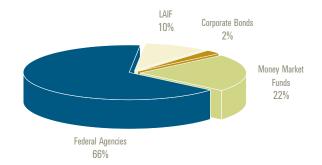
Money Market Funds	\$65,561,618	Corporate Bonds	\$36,136,316
Certificates of Deposit	\$0	Federal Agencies	\$122,760,681
LAIF	\$49,134,811	Mortgage Backed Securities	\$340
Municipal Bonds	\$17,249,108	Cash in Bank	\$6,240,930
Bank Notes	\$0		



### THE CAPITAL ENDOWMENT PORTFOLIO

Market Value \$6,527,991 - Weighted Average Maturity .73 years.

Federal Agencies	\$3,011,875
Corporate Bonds	\$0
Money Market Funds	\$3,516,116



### POWER RESERVE PORTFOLIO

Market Value \$62,816,323 - Weighted Average Maturity 3.86 years

Money Market Funds	\$14,030,311	Federal Agencies	\$41,029,505
Corporate Bonds	\$1,561,494	LAIF	\$6,195,013

#### City Debt

When the City of Pasadena initiates a long-term capital project, it carefully considers whether to make this investment by expending current revenues or by borrowing. If the City utilizes current revenues, it conserves its debt capacity for harder times when borrowing may be necessary. However, if current revenues are used to fund large, long-term projects, funding for current services may be impacted. It is often equitable to spread the cost of a project over time, thereby sharing the cost burden for the project with both current and future taxpayers who will benefit from the project. For such long-term investments, borrowing is the most appropriate means for the City to maintain its assets and build for the future.

Examples of projects which are of long-term public interest and which enhance the community's quality of life, include:

- Creating or purchasing and maintaining the City's streets, parks, and public buildings;
- Developing City-owned properties with projects which provide public good and generate revenue;
- Funding asset acquisition for utilities, enterprises and affiliated agencies; and,
- Financing redevelopment and commercial revitalization.

Prior to borrowing, the City also considers the availability of capital project funding from other sources such as federal aid, redevelopment tax increment, and public/private partnerships. Other governmental entities may be encouraged to share the burden of creating a public good when its impact extends beyond the City's boundaries. It is the City's policy to issue bonds only after identifying revenue sources to service the debt of the bonds.

Additional factors that influence City borrowing included the amount of outstanding debt, the opportunity cost of borrowing, and the cost of borrowing in the credit markets. Part of the City's

strategy in managing its debt is to ensure that the size of the City's outstanding debt is reasonable and enhances the City's ability to issue bonds at a favorable rate.

Pasadena's bond rating reflects a strong financial management, healthy fund balances, stable revenues and predictable budgets. The City's underlying rating (Go Rating) is AAA by Fitch and AA+ by Standard and Poor's.

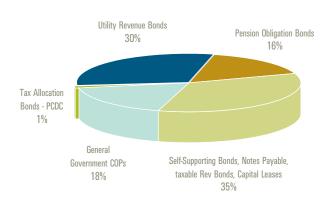
The current level of outstanding debt is well below that which is allowed by law. The City Charter, in section 910, establishes a legal debt limit. In total, this limit cannot exceed 15 percent of the assessed value of all real and personal property (homes, businesses, land, etc.) subject to taxation for municipal purposes.

In addition to being well below the legal debt limit, current debt service is reasonable in relation to the total expenditures of this operating budget; for fiscal year 2010 the percentage of debt service to total operating budget was 9.77% and for fiscal year 2011 the amount is also projected at 9.77%.

#### Types of City Debt

The City utilizes various types of debt instruments, including those described below, to finance its long-term projects.

Bonds have been issued by the City for its general governmental capital projects, for the Water and Power Utilities, Pasadena Community Development Commission (PCDC), Pasadena Conference Center Corporation and for the Rose Bowl. Agencies affiliated with the City, including the Civic Center West Special Tax District have also issued bonds. Figure 1 below shows outstanding debt for the general government, PCDC and self-supporting (Proprietary) funds like Enterprises, the Utilities, and the Internal Services Funds as of June 30, 2010.



### CURRENT OUTSTANDING DEBT BY CATEGORY

Tax Allocation Bonds - PCDC	\$7,606,000
Utility Revenue Bonds	\$212,655,000
Pension Obligation Bonds	\$112,259,000
Self-supporting Units COPs, Notes Payable & Taxable Revenues Bonds, Capital Leases	\$243,060,000
General Government COPs	\$124,195,000

The City of Pasadena has debt service obligations for the following funds:

### **DEBT SERVICE OBLIGATIONS**

General City	General (Funds 901, 902, 903) Capital Projects (Funds 982, 983, 984, 985, 986, 987)
Enterprise Funds	Light and Power (Fund 401)
	Water (Fund 402)
	Plaza Las Fuentes Parking (Fund 405)
	Old Pasadena Parking (Fund 407) Paseo Colorado Parking Structures (Fund 409)
Redevelopment Agency	Downtown Project Area (Fund 846)
	Fair Oaks Project Area (Fund 847)
	Orange Grove Project Area (Fund 848)
	Villa Parke Project Area (Fund 849)
	Lake/Washington Project Area (Fund 850) Affordable Housing (Fund 851)
Operating Companies	Pasadena Center
	Rose Bowl

#### **Current Outstanding Debt by Category**

- Utility Revenue Bonds Bonds issued by the City's Water and Power Enterprises. The Utilities do not have taxing authority but can instead pay bond debt with restricted revenues and user fees generated.
- Certificates of Participation The most frequently used form of
  City-issued debt, the Certificates of Participation offer the
  investor an opportunity to participate in the future income
  stream of a City property or asset, which is being built or
  renovated. Certificate proceeds from issuance are used to build the
  project, and leases generated from the project provide for the debt
  payments. General governmental units and Self-supporting units,
  like the Old Pasadena Parking Fund, issue this kind of bond.
- Tax Allocation Bonds (TABS) (Bonds issued by PCDC), TABS
  are repaid by property tax increment revenues, which are
  additional tax earnings from appreciating value of properties in
  redevelopment areas. PCDC uses the financing to develop and/
  or renovate commercial and low to moderate-income residential
  projects that will revitalize the community and create jobs.

In August 1999 and August 2004 the City issued pension obligation bonds to meet the unfunded liability of the City's Fire and Police Retirement System (FPRS). The City has issued one Special Tax bond in 1993 for the Civic Center West project, secured by special tax assessments. The special tax bond (CFD #1) was refunded in 1997. The City's debt portfolio also includes a Section 108 HUD loan, secured by Community Development Block Grant entitlements.

In addition to Bonds, the City's debt portfolio includes a Capital Lease Obligation and Notes Payable. A Capital Lease Obligation is a leased asset for which title will be gained at the end of the lease period. Only long-term Notes Payables are listed here.

#### Joint Ventures

As mentioned above, when a project serves the public interest beyond Pasadena's boundaries, the City seeks out joint venture arrangements where other governmental bodies share the burden of debt needed. Joint ventures have been used to fund, and are shared with:

- Developing power resources with Palo Verde, a 3,810 megawatt nuclear fuel generation plant in Arizona which as been generating power since 1986 - Southern California Public Power Authority (SCPPA), a consortium of several Southern California cities and the Imperial Irrigation District;
- Developing power resources with the coal-fired Intermountain Power Project near Delta, Utah, a 1900 megawatt generation plant of which 106 megawatts are reserved for the City's use.

Joint ventures are funded through revenues generated from the project; the City is only contingently liable for a portion of potential liability due to lack of future revenue streams. Innovations in power-generation technology have greatly decreased the revenues realized from generations of electrical power. The Utility continually reviews its contingent liability relative to the projected revenue stream from its Delta, Utah power generation joint venture.

### OUTSTANDING BONDED DEBT SERVICE REQUIREMENTS

Issue Date	Description	Average Interest Rate	Final Maturity Date	FY 2009-10 Principal \$	FY 2009-10 Interest \$	FY 2009-10 Total \$	Total Outstanding Principal *	Total Outstanding Interest *	Total Outstanding
7/29/99	TAXABLE PENSION FUNDING BONDS	6.77%	2022	4,605,000	6,056,509	10,661,509	83,050,000	46,420,853	129,470,853
8/5/04	TAXABLE PENSION OBLIGATION BONDS - SERIES 2004	VARIABLE	2015	1,501,135	998,865	2,500,000	35,107,587	5,290,043	40,397,630
1/1/94	CERTIFICATES OF PARTICIPATION (REFUNDING AND CAPITAL PROJECTS)	5.35%	2014	4,455,000	1,329,743	5,784,743	24,855,000	4,130,735	28,985,735
11/15/01	CERTIFICATES OF PARTICIPATION (REFUNDING AND CAPITAL IMPROVEMENT PROJECTS)	3.25%	2011	2,425,000	198,000	2,623,000	4,950,000	299,000	5,249,000
5/15/08	REFUNDING CERTIFICATES OF PARTICIPATION SERIES 2008B	VARIABLE	2019	2,275,000	1,142,000	3,417,000	26,950,000	6,790,425	33,740,425
7/16/08	CERTIFICATES OF PARTICIPATION (REFUNDING 2003 VARIABLE RATE DEMAND COP-CITY HALL & PARK IMPROVEMENTS)	2.90%	2038	1,265,000	3,251,665	4,516,665	68,950,000	58,214,060	127,164,060
7/16/91	TAX ALLOCATION BONDS (LOW MODERATE HOUSING)	6.00%	2011	352,277	43,541	395,818	725,690	65,946	791,636
6/1/00	TAX ALLOCATION REFUNDING REVENUE BONDS (ORANGE GROVE)	4.93%	2014	220,000	80,372	300,372	1,249,000	252,003	1,501,003
6/1/00	TAX ALLOCATION REFUNDING REVENUE BONDS (VILLA PARKE)	4.93%	2014	142,000	51,930	193,930	807,000	162,856	969,856
6/1/06	TAX ALLOCATION REVENUE BONDS (FAIR OAKS)	4.43%	2022	130,000	98,995	228,995	2,225,000	747,218	2,972,218
6/1/06	TAX ALLOCATION REVENUE BONDS (VILLA PARKE)	4.20%	2014	95,000	19,585	114,585	455,000	60,565	515,565
6/1/06	TAX ALLOCATION REVENUE BONDS (LAKE/WASHINGTON)	4.29%	2018	65,000	28,900	93,900	685,000	148,610	833,610
6/1/06	TAX ALLOCATION REVENUE BONDS (HOUSING)	4.03%	2015	230,000	57,428	287,428	1,510,000	196,051	1,706,051
12/2/87	CERTIFICATES OF PARTICIPATION (LOS ROBLES AVENUE PARKING FACILITIES)	VARIABLE	2013	1,700,000	0	1,700,000	8,000,000	0	8,000,000
7/1/93	CERTIFICATES OF PARTICIPATION (OLD PASADENA PARKING FACILITIES)	4.00%	2018	1,290,000	933,125	2,223,125	14,930,000	5,039,686	19,969,686
2/1/06	VARIABLE RATE DEMAND LEASE REVENUE BONDS (ROSE BOWL AND IMPROVEMENT PROJECTS	VARIABLE	2024	2,300,000	924,501	3,224,501	43,000,000	7,950,700	50,950,700
9/17/08	PASEO COLORADO TAXABLE REVENUE REFUNDING BONDS, SERIES 2008 (REFUNDING 2000 PASEO COLORADO TAXABLE REVENUE BONDS	VARIABLE )	2038	500,000	1,422,917	1,922,917	28,500,000	25,901,250	54,401,250
8/4/03	WATER REVENUE BONDS	3.05%	2033	1,770,000	1,858,350	3,628,350	38,595,000	21,071,450	59,666,450
8/1/03	ELECTRIC REVENUE BONDS	2.96%	2022	455,000	324,695	779,695	7,395,000	2,564,653	9,959,653
8/24/98	ELECTRIC REVENUE BONDS	3.77%	2025	2,775,000	2,139,850	4,914,850	46,250,000	17,022,358	63,272,358
7/15/02	ELECTRIC REVENUE BONDS	3.88%	2022	3,160,000	2,642,113	5,802,113	54,715,000	20,685,513	75,400,513
5/1/07	WATER REVENUE BONDS	4.00%	2036	425,000	902,175	1,327,175	20,745,000	15,122,412	35,867,412
1/28/08	ELECTRIC REVENUE BONDS	4.18%	2037	1,120,000	2,501,079	3,621,079	57,475,000	43,981,619	101,456,619
TOTAL DEE	T SERVICE			33,255,412	27,006,338	60,261,750	571,124,277	282,118,006	853,242,283