

Introductory Section

The Introductory Section of the Comprehensive Annual Financial Report provides general information of the City of Glendale, California's structure and its personnel, as well as information useful in assessing the City's financial condition. This section includes the:

- Letter of Transmittal
- City's Organizational Chart and List of Principal Officials
- Government Finance Officer Association Certificate of Achievement for Excellence in Financial Reporting



November 30, 2015

The Honorable Mayor and City Council
City of Glendale
Glendale, California

Council Members:

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) of the City of Glendale (the City) for the fiscal year ended June 30, 2015.

This report consists of management's representations concerning the finances of the City. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City's management. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, internal controls have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Glendale's MD&A can be found immediately following the independent auditors' report.

The financial reporting entity includes all the funds of the primary government (The City of Glendale), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. Blended component units, although legally separate entities, are in substance, part of the primary government. Accordingly, the Glendale Housing Authority and the City of Glendale Financing Authority are reported in the appropriate funds of the City's financial report.

Profile of the City of Glendale

The City of Glendale is located northeast of Los Angeles in the foothills of the San Gabriel Mountains. The City was incorporated on February 16, 1906 under the general laws of the state of California. The City Charter was adopted on March 29, 1921. The City provides the full range of municipal services. This includes public safety (police, fire and paramedic), streets, sanitation, refuse collection, sewer, hazardous disposal, electric and water utilities, parking,

parks and recreation, public improvements, planning and zoning, housing and community development and general administrative and support services.

Noted for its high quality of life and fiscal stability, Glendale is the fourth largest city in Los Angeles County, encompassing 30.6 square miles and serving over 199,000 residents. The City operates under a council-manager form of government, with a five-member council elected at large to four-year overlapping terms, in addition to an elected City Clerk and City Treasurer. The mayor is elected by the City Council for a one-year term and is the presiding officer of the Council. The City Council is responsible for passing ordinances, adopting the budget, appointing various boards and commissions, and hiring the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments.

Factors Affecting the Glendale Economy

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Glendale operates.

The Local Economy - Continued capital investment is seen throughout the City in the form of business expansion as well as businesses attraction to Glendale's central location, public safety record and robust business environment. Of particular note is the entertainment industry which remains rooted in Southern California, with the Verdugo Region (Glendale/Burbank) particularly known for production (pre & post), animation, visual effects, and digital distribution. Glendale will benefit from growth in this sector through companies wanting to co-locate with Disney, DreamWorks and hundreds of ancillary production and equipment firms. Also of note are Glendale's regional shopping centers, the Glendale Galleria and Americana at Brand. Both have undergone expansion and renovation, which have reaffirmed Glendale as one of the region's leading shopping destinations. Several large development projects either recently completed or underway in Glendale will provide approximately 3,500 new residential units and 210,000 square feet of commercial space. Such investments by the business community indicate a continued confidence in Glendale.

Overall, Glendale's economy is one of the most diverse within the Los Angeles region largely due to a healthy mix of business and industry that operates within its borders. Industry clusters include:

- Retail Trade
- Healthcare
- Business Services
- Animation & Entertainment
- Manufacturing & Wholesale Trade
- Automotive Sales & Service
- Financial Services
- Technology & New Media

Economic Development Highlights - Economic development accomplishments for 2015 in Glendale are numerous and vary in size and scope. Highlights include:

- **Class A Office Attraction** - 2015 has become an essential year for Class A office occupancy since its decline during the Great Recession. In 2010, Glendale was hard hit with company closures and contractions in its Class A office environment. For several years, Glendale underperformed the region in Class A office occupancy, and vacancy reached a high of over 25% in 2011. Tremendous strides in occupancy growth have occurred over the last five years with several office companies locating in Glendale due to the increase in lifestyle amenities located in Downtown Glendale. In 2015, the vacancy rate decreased to 13.7%, and the City's goal to reduce Class A office vacancy has been achieved.
- **Glendale's "18-hour City"** - Sales tax records confirm that 2015 was a banner year for Glendale as a destination; new retail continues to broaden the reach of Glendale trade area. With new urban housing options and amenities for visitors, residents and business inhabitants, Glendale has been cited in numerous articles as being a new regional hotspot. New, on-trend restaurant chains such as Bourbon Steakhouse, King Taco, Tender Greens, Lemonade, and Buffalo Wild Wings have recently opened. A new cultural venue, Antaeus Theater Company has broken ground in the downtown area, as well as a project to update the Central Library to better serve the 18-hour community. The Museum of Neon Art is expected to open by the end of the year.
- **Tech Focus** - 2015 has become a pivotal year for Glendale's Economic Development progress as it continues to foster the growth of diverse high-performing business clusters that will sustain Glendale's re-emergence as a strong regional economic force. Coinciding with the strengthening of Glendale Class A office core, has been a statewide acknowledgement that technology-related companies can provide a high level of economic stability and growth for municipalities. Glendale has within its city limits the ability to maximize the growth of technology and is already host to several companies that represent the highest technology innovations in their respective industries. The City commenced the development of a strategic plan that identifies Glendale's current role in the tech industry and developed a detailed implementation plan that further cultivates Glendale based technology firms.
- **Media Campaign** - A multi-faceted media effort has been launched to complement business attraction efforts. Under the campaign GlendaleBiz, a new social media platform has been initiated to complement the City's on-line presence. The City was recognized as the Most Business Friendly City in L.A. County by the Los Angeles Economic Development Corporation. A series of advertisements in the Los Angeles Business Journal and the Pasadena Weekly were placed to highlight Glendale's strategic location for business and visitation. News releases have been disseminated to garner further publicity. The Mayor and City Council conducted several press conferences, public meetings and presentations to inform the media and community about happenings in Glendale.

- **Business Districts** – The Downtown Glendale Association (DGA), Montrose Shopping Park (MSP), Brand Boulevard of Cars (BBOC) and others continue to be a focus. In 2015, through their partnerships with economic development staff, these organizations continued to promote their constituents’ success by providing safe, clean environments in which to do business.

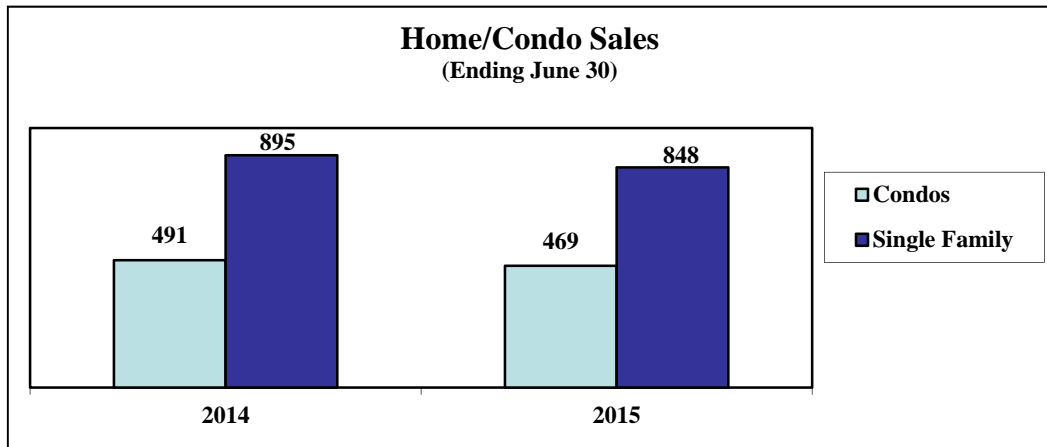
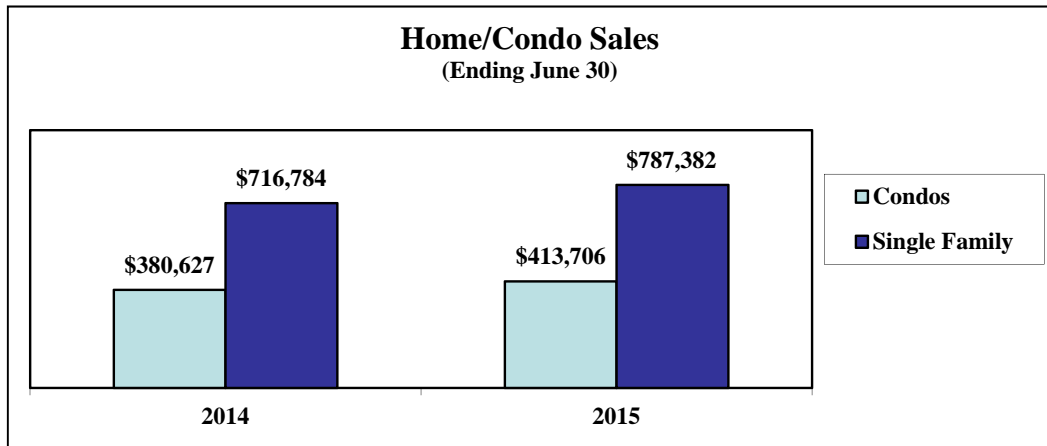
Employment - As of August 2015, 100,400 individuals worked in the City of Glendale. In terms of occupations, the American Community Survey, 2009 to 2013 indicates that 37,962 were employed in Glendale in management, business, arts, or science occupations (the single largest group) with median annual earnings of \$57,871. The same survey indicates that 23,909 were employed in Sales and office occupations (second largest) with median earnings of \$29,022, and 14,486 were employed in Service occupations (the third largest group) with median earnings of \$16,169.

- **Unemployment Levels** - At the commencement of the Great Recession in December 2007, Glendale’s unemployment rate was 4.8% and by the end of the Recession in June 2009 it grew up to 10.1%. At the end of FY 2014-15 Glendale’s unemployment rate has dropped to 7.1%.
- **Industry Employment Status** - The City of Glendale’s largest industries consist of healthcare, entertainment and retail. The increased volume of insured patients under Affordable Care Act (ACA) requires additional healthcare personnel to cope with increasing patient loads. The effects can be seen most clearly at healthcare clinics, physician offices and pharmacies where employment growth has been positive. In FY 2014-15, Glendale Adventist and Glendale Memorial Medical Centers continue to be ranked in the City of Glendale’s top ten employers. Between 2012 and 2022, the fastest growing healthcare occupations will include personal care aides, orthotists, and prosthetists, home health aides, health specialties teachers and skincare specialists.

The entertainment industry is quickly growing as digital media and digital entertainment are rapidly becoming the norm. Digital entertainment is projected to surpass DVD and Blu-ray revenue for the first time in 2016; with this trend, shortages in the number of skilled and available technical workers are expected. Agents, business managers, musicians, singers, producers and directors will be among the highest demand occupations in Entertainment through 2022. DreamWorks Animation and Walt Disney Imagineering continue to be significant employers in the City of Glendale.

Glendale’s retail sector continues to experience moderate growth as the region’s economy continues to recover from the effects of the Great Recession. The Glendale Galleria and Americana at Brand retail complexes provide many of the retail employment opportunities in the area. Employment in retail has been buoyed by improving sales volumes and additional store openings. Recent sales tax revenues confirm Glendale’s growth as a retail destination with big gains by department stores, new car dealerships and casual dining establishments. Similarly, recent openings boosted the restaurant and hotel sector revenues. About half of the overall rise in post-holiday sales in general consumer goods resulted from the impressive performance of electronics/appliance stores.

Housing - Based on the “2014 Annual Report” issued by the Los Angeles County Office of the Assessor, Glendale experienced a net taxable property value increase of 5.2%, which was slightly less than the increase experienced countywide at 5.47%. According to the City’s property tax consultant, HDL, Glendale’s housing market showed a slight decrease in sales volume and a slight increase in an average home price of \$787,382 in FY 2014-15, compared to \$716,784 in FY 2013-14. The condominium sales also showed a decrease in sales volume and an increase in an average price of \$413,706 for FY 2014-15, compared to \$380,627 for FY 2013-14.



Local Government Finance

The slow economic recovery in conjunction with the State's efforts to address its budget deficit by taking resources from cities have combined to make these past few years some of the most difficult budget years in recent history. In spite of the difficulty involved with balancing the budget each year, the City has approached the challenge in a professional and constructive manner. The focus clearly remains on how to best serve our diverse community - carefully balancing the myriad of needs with limited resources. Today Glendale is trimmer and more efficient than any time in the last two decades, yet still able to offer an exceptional quality of life and service profile that is comparable to or exceeds any municipality in the region. Glendale has led the way in the areas of pension reform and compensation reform in order to help ensure that operating costs do not crowd out service provision to the community.

With positive indicators such as rising consumer confidence, improvements in the housing market, increased construction activity, and reduced rate of unemployment, Glendale is forecasting modest growth in the key General Fund revenues such as property, sales, and utility users' taxes for the upcoming year. Long-term growth rates for General Fund revenues are projected to grow rather modestly, averaging about 2.8% annual growth over the next seven years. Although the City continues to face challenges such as the ongoing increase in pension costs, reduced grant funding, the significant fund deficit in the Compensation Insurance Fund, as well as aging infrastructure in the ISD funds, and the need to fund future replacement of vehicles in the Fleet/Equipment Management Fund, the financial forecasts factor in these challenges show that as long as the City continues to remain diligent and disciplined, the City is headed towards an operationally and structurally balanced organization in the years to come.

Long-term Financial Planning

Current Challenges - Despite the fact that the economy is improving and the economic indicators are all trending positive, the City still faces tremendous challenges in the coming years. One of the greatest challenges is the uncertainty of the Glendale Redevelopment Agency (GRA) loan repayment, since the City is relying on these funds to meet operation obligations. Other significant challenges on the horizon include: expected rise in pension costs due to changes in the PERS actuarial assumptions, shoring up the Internal Service Funds, and providing a stable funding source for General Fund Capital Improvement Projects.

During the FY 2015-16 first budget study session, a five-year General Fund Forecast was provided to the City Council. Based on the conservative assumptions, the forecast gives path towards achieving structural balance while outlining the challenges that lay ahead. The good news is that all of the costs – operational (day-to-day staffing and maintenance & operation), long-term employment obligations (PERS and OPEB), organizational infrastructure (internal service funds), and capital replacement – can largely be met by even modest and sustained growth in the revenues. The bad news is that the uncertainty of the GRA loan still exists. The uncertainty of the GRA loan repayment threatens the City's financial position in the out years since, as the City is relying on these funds to reduce the unfunded portion of the obligations.

The City has been looking to implement an alternate other postemployment benefits (OPEB) strategy to reduce the over \$200 million OPEB obligation by unblending the retirees' medical

premiums from the City's active employee plans. Historically, the City subsidized the retirees' medical premiums by including them with the active employees' medical plans. By including the retirees with the active employees, an "implied subsidy" was created where the risk is spread over an entire population versus a specific population, and thus creates an unfunded OPEB obligation. With the implementation of the Affordable Care Act, the retirees now have access to more affordable medical plans offered by the City's medical insurance broker or the State's exchange program. In October 2015, the City Council approved unblending medical insurance premium rates between active employees and retired employees effective June 1, 2016, and the authorized subsidies for existing retired employees currently participating in the City's retiree medical insurance plans who meet specific criteria. Accordingly, the City has projected that the OPEB obligation is going to be reduced to approximately \$20 million based on the preliminary actuarial calculation: \$4 million for the Lower Income Retiree Subsidy and \$16 million for the Medicare Part A reimbursement.

Moving forward, the City's continuing challenge is to minimize the negative impact on the community and customers from the past and future restructuring and ensure value to the taxpayers. Glendale's value proposition is the combination of the Council's priorities, the City's strategic goals and key performance indicators. Council ultimately sets the tone, the vision and the policy for the City. During the FY 2015-16 budget process, Council reaffirmed the following priorities:

- Fiscal Responsibility
- Exceptional Customer Service
- Economic Vibrancy
- Informed and Engaged Community
- Safe and Healthy Community
- Balanced, Quality Housing
- Community Services and Facilities
- Infrastructure and Mobility
- Arts and Culture
- Sustainability

Cash Management - To obtain flexibility in cash management, the City employs a pooled cash system. Under the City's pooling concept, all available cash is invested daily in various securities, while still maintaining reasonable liquidity to meet maturing obligations and maximizing return through the use of competitive rate comparisons from various investment sources.

The City manages its pooled idle cash and investments under a formal investment policy that follow the guidelines of the State of California Government Code, which is then reviewed by the Investment Committee and adopted by the City Council.

The following table presents a comparison of the City's cash and investments for fiscal years 2012, 2013, 2014 and 2015.

Fiscal years ended June 30,

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cash and investments	\$567,084,000	\$533,308,000	\$439,023,000	\$378,274,000

Risk Management - The City is self-insured up to \$2 million for claims filed under the comprehensive general liability and Workers' Compensation insurance programs. The City purchases excess liability insurance policies for general liability claims to cover losses up to \$20 million, and an amount up to statutory limits for the Workers' Compensation program. The City also purchases Property/Casualty, Aviation, Employment Practices, Directors and Officers, and other smaller insurance policies for specific activities. Insurance coverage and the associated premiums are reviewed annually to ensure the City is properly covered.

The City's Risk Management program is comprised of Insurance Services and Employee Safety. The primary goal of Insurance Services is to effectively address potential risk factors that affect both the City and its employees. The Safety Section works with City Departments to evaluate and mitigate workplace hazards, assist in providing safety training, conduct accident investigations, and ensure compliance with Cal/OSHA regulations.

Risk Management staff, in conjunction with the Finance Department, annually reviews internal funding levels to address claims costs. Internal insurance costs are charged to each department and based on analysis of recent claims costs, as well as the outstanding reserves. Input from an actuarial study, performed annually, is considered in assessing the charges.

Independent Audit

The City's financial statements have been audited by the firm of Vavrinek, Trine, Day & Company, LLP, a public accounting firm fully licensed and qualified to perform audits of local governments within the State of California. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Glendale, California for the fiscal year ended June 30, 2015, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City of Glendale, California's financial statements for the fiscal year ended June 30, 2015, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report. Their unmodified opinion on the City's basic financial statements is included within this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of Federal grantor agencies. The

standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and other financial reporting and compliance with legal requirements, and on compliance and internal control over compliance for each major federal program selected. These reports are available in the City's separately issued *Single Audit Report*.

Award

The Government Finance Officers Association (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City for its comprehensive annual financial report for the past twenty fiscal years ended June 30, 1995 through June 30, 2014. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. This award is valid for a period of one year. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement for Excellence requirements and we will be submitting it to GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this Comprehensive Annual Financial Report was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the department has my sincere appreciation for their contribution in the preparation of this report.

A special commendation should be attributed to Ms. Lily Fang, Finance Administrator. For the past 32 years, she has been a big part of the success of the Finance Department, including the production of the CAFR and countless other projects. She is retiring in December 2015 and we thank her for all that she has contributed in her career to the success of the City of Glendale.

In closing, without the leadership and support of the Glendale City Council, City Manager, and the Assistant City Manager, the preparation of this report, as well as the favorable financial results of the past year, would not have been possible.

RESPECTFULLY SUBMITTED,

A handwritten signature in black ink that reads "Robert Elliot". The signature is stylized with a large, sweeping initial "R" and a long, horizontal stroke at the end.

ROBERT ELLIOT, CPA
DIRECTOR OF FINANCE

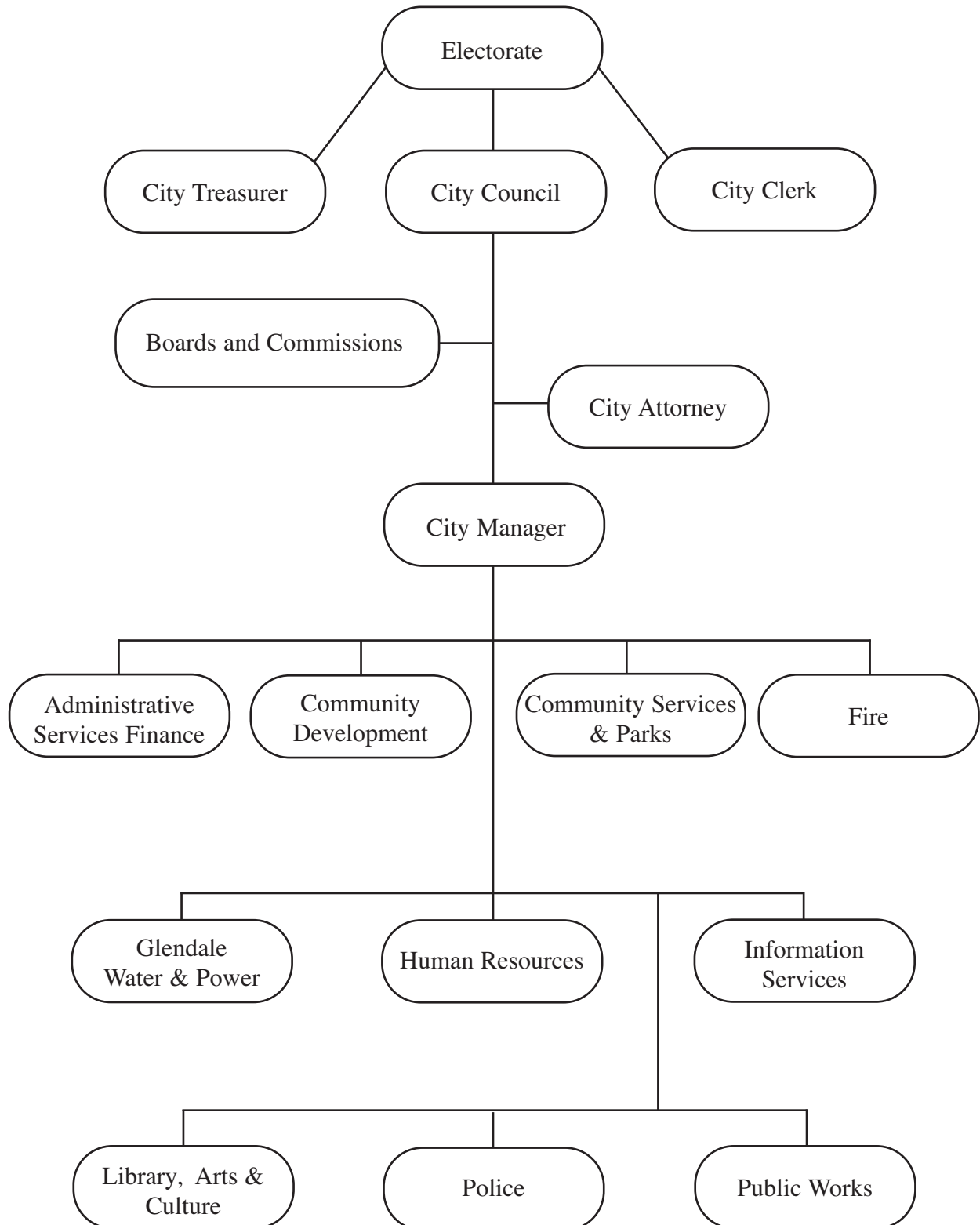
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City of Glendale, California
Officials of the City of Glendale
June 30, 2015

Administration and Executive Management Team

City Manager	Scott Ochoa
Assistant City Manager	Yasmin K. Beers
Deputy City Manager	John Takhtalian
Police Chief	Robert M. Castro
Director of Library, Arts & Culture	Cindy Cleary
Director of Human Resources	Matthew Doyle
Director of Community Services & Parks	Jess Duran
Director of Finance	Robert P. Elliot, CPA
Interim Fire Chief	Gregory Fish
Chief Information Officer	Brian Ganley
City Attorney	Michael J. Garcia
Director of Public Works	Roubik Golanian
City Clerk	Ardashes Kassakhian
Director of Economic Development	Philip Lanzafame
Interim Director of Community Development	Philip Lanzafame
Director of Communications & Community Relations	Tom Lorenz
City Treasurer	Rafi Manoukian, CPA
General Manager of Glendale Water & Power	Stephen Zurn

City of Glendale, California
Organizational Chart



Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Glendale for its comprehensive annual financial report for the fiscal year ended June 30, 2014. This was the 20th consecutive year that the City of Glendale has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

**City of Glendale
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

A handwritten signature in black ink, reading "Jeffrey R. Emer".

Executive Director/CEO

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