

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 22, 2017

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, 2017.

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 to both protect the City's assets from loss, theft, or misuse and 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, the City of Glendale Financing Authority, and the Glendale Economic Corporation 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, and sanitation, refuse collection, sewer, hazardous disposal, electric and water utilities, parking, parks and recreation, library, 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 201,000 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 and 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 continues to benefit from growth in this sector through companies co-locating with powerhouses Disney and DreamWorks, and hundreds of ancillary production and equipment firms. The City has 3 major area hospitals, which heighten desire to co-locate business development near medical clusters, such as biopharmaceutical sectors. Also of note are Glendale’s regional shopping centers, the Glendale Galleria, Americana at Brand and Brand Boulevard of Cars. 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.

Economic Development Highlights – The City focuses on collaborative strategies to create jobs, generate revenue, and improve the quality of life for residents, the business community, and visitors of Glendale. Throughout the years, the City has encouraged economic development through proactive efforts to target and attract businesses; improve Class A office vacancies; provide support to existing businesses through concierge services; create a workforce development program that is operated by the Verdugo Job Center; promote City-wide branding and marketing efforts; and by adopting strategic planning methods. Economic Development accomplishments for FY 2016-17 were focused around three main goals:

- 1. Asset Management:** Glendale actively employs ways to provide additional value of City assets through proactive, profitability-focused management practices. The priority was to achieve the highest and best use of City facilities through an effective asset management strategy. Accomplishments include:
 - Commenced business and funding plan, park/open space vision process, and conceptual development entitlement process relating to Space 134, a freeway cap park over the 134 freeway that would cover about 25 acres between Central and Glendale Avenues. Space 134 would connect the community to the City’s civic, cultural, and business core through public open space and pedestrian and bike friendly trails, which will make Glendale’s downtown an even greater destination.
 - Commenced negotiations and entitlement for boutique hotel development in Downtown Glendale on a City owned parcel.

- Commenced due diligence on the Exclusive Negotiating Agreement (ENA) with the Armenian American Museum and Cultural Center of California. The vision for the Museum is a cultural campus that enriches the community, educates the public on the Armenian American story, and empowers individuals to embrace cultural diversity and speak out against prejudice. It could serve as the south anchor to the Downtown's Arts & Entertainment District.
- Commenced negotiations for a new lease for the Verdugo Jobs Center offices.
- Completed the Request for Proposals Process for the City owned Historic Rockhaven site and entered into an Exclusive Negotiating Agreement.

2. Business Attraction: The City is committed to attracting business and investment to Glendale in an effort to create a diverse economy. This is done through Business Concierge services and fast-track permitting, broker relationships, site selection assistance, utility consultation, and connecting potential businesses with resources, marketing campaigns and support. Accomplishments in business attraction include:

- Completed Glendale Tech Strategy and continued implementation of recommendations to strengthen the technology based industry ecosystem in and around Glendale and to strategically attract more companies.
- Successfully hosted the second annual Glendale Tech Week during October 2017. Nearly 1,000 people registered to attend the week of pop-ups hosted by local businesses and the 2-day City summit. The event strengthened Glendale's tech ecosystem and position as a tech hub in the Los Angeles region.
- Maintained Class A Office Vacancy rate of 10%, down from an all-time high of 24% in 2010.
- Added new businesses during the fiscal year to include The San Fernando, Eggslut, California Poke, Halal Guys, Tarme Mediterranean Grill, 85 Degrees, Antaeus Theatre, Ace 121 Apartments, Bacari GDL, Capital One, Menchies, T'sujita, Sugarfina, Pie Hole, GreenLeaf, Under Armour, Ombra Wine Bar, C'est La Vie, Mainland Poke, Shake Shack, Little Ground, Highlight Coffee, Philz Coffee, and 1Denim.
- Hosted the first CicLAvia Open Streets event from Downtown Glendale to Atwater Village. This event was in line with the City's many initiatives to encourage an active lifestyle and alternate modes of transportation, including the Be Street Smart Campaign. Inspired by Bogotá's weekly *ciclovía*, CicLAvia temporarily closes streets to car traffic and opens them to Los Angelinos to use as a public park. Free for all, CicLAvia connects communities to each other, creating a safe place to bike, walk, skate, roll, and dance.
- In an effort to attract more visitors, businesses, and residents to downtown Glendale, City Council closed down a portion of Maryland to increase pedestrian activity and to act as an economic driver to the paseo portion of the downtown area.

3. Business Services: Recognizing that a majority of job growth in any community is generated by the businesses already located there, Glendale focuses on services to businesses to propel economic growth. Harnessing the power of the thousands of businesses in the City and the nearly 100,000 employees, the City's priority was to strengthen neighborhood districts and the businesses within them. Accomplishments related to this effort include:

- Implemented the Business Expansion Grant program to assist local businesses with permanent infrastructure improvements or specialty equipment needs.
- Introduced GRIT, the Glendale Relationship Initiation Team, to solicit feedback to help gauge satisfaction when conducting business with the City, County, and the State.
- Assisted nearly 1,000 current and expanding companies with resources to further drive business in the community.

Employment – According to the most recent Census estimates available, 38,852 people in Glendale were employed in management, business, arts, or science occupations (the single largest group) in 2015 with inflation-adjusted median annual earnings of \$60,658. The Census' American Community Survey (ACS) also found 24,366 employed in sales and office occupations (second largest) with median annual earnings of \$36,284, and 15,714 employees in service occupations (the third largest group) with median annual earnings of \$20,233. Median household income was \$52,574 for the year, and the poverty rate was 14.6% according to Census records. Monthly reports from the California Employment Development Department (EDD) Labor Market Information Division (LMID) indicate 102,900 individuals, ages 16 and older worked in Glendale in June 2017. The information provided below includes additional employment statistics pertaining to the City of Glendale and the surrounding region.

- **Unemployment Levels** – In December 2007, at the start of the Great Recession, the Glendale unemployment rate was 4.8%; by the (reported) end of the Recession in June 2010, the rate had peaked to 10.1% and declined to 8.1% in June 2013, demonstrating the recovery period following the Recession. In marked contrast to its Great Recession peak, Glendale unemployment measured 5.1% in June 2017, recording a slightly higher rate than its 4.8% pre-recession level.
- **Industry Employment Status** – According to the ACS, by employment, the top six (6) Glendale industries in 2015 were: Educational, Healthcare and Social Assistance (22,661), Professional, Scientific, and Technical Services (11,534), Retail (10,802), the Arts, Entertainment and Recreation (8,369), Finance and Insurance and Real Estate (7,114) and Manufacturing (6,368).
- **Large Employers** – DreamWorks Animation, Walt Disney Imagineering, Glendale Adventist, and Glendale Memorial Medical Center remained among the City's largest employers in FY 2016-17.

• **Fastest Growing Occupations** – Current EDD projections indicate that through 2024 the fastest growing occupations in Los Angeles County will include:

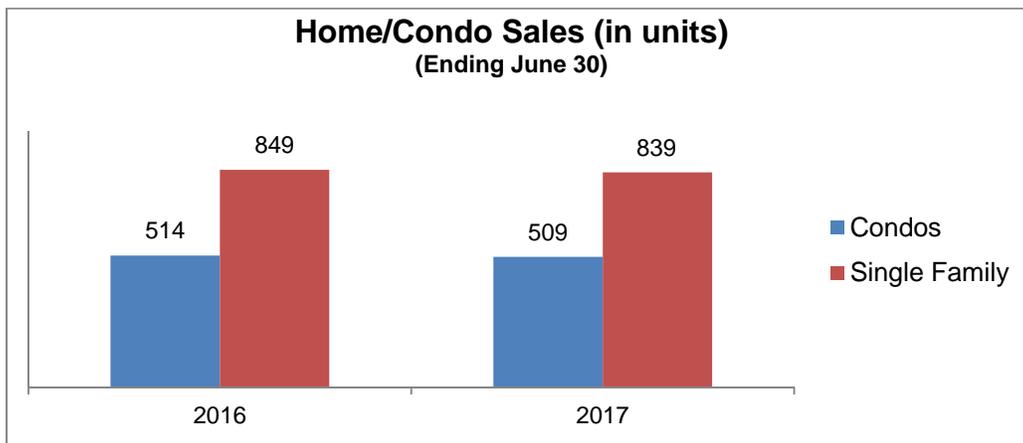
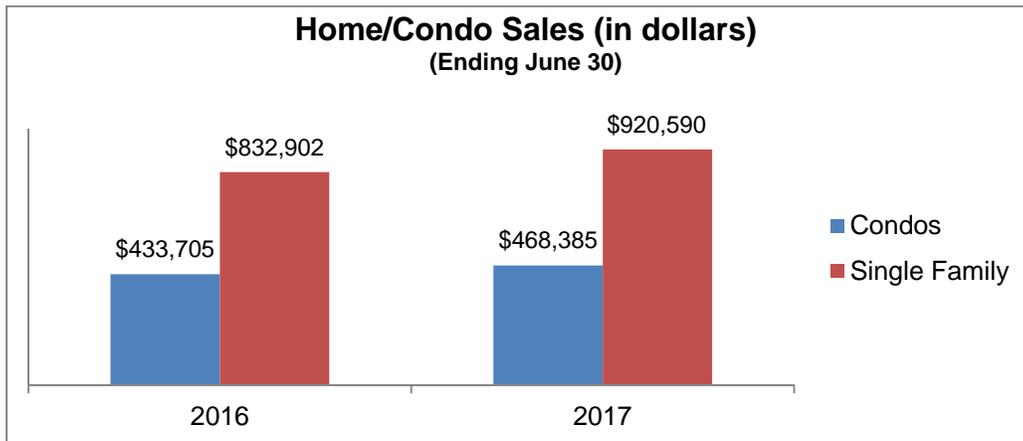
- Personal Care Aides
- Statisticians
- Reinforcing Iron and Rebar Workers
- Brickmasons and Blockmasons
- Helpers-Brickmasons, Blockmasons, Stonemasons, and Tile and Marble Setters
- Cooks, Restaurant
- Nurse Practitioners
- Floor Layers, Except Carpet, Wood, and Hard Tiles
- Home Health Aides
- Web Developers
- Operations Research Analysts
- Occupational Therapy Assistants
- Law Teachers, Postsecondary
- Massage Therapists
- Roofers
- Physical Therapist Aides
- Biomedical Engineers
- Helpers-Painters, Paperhangers, Plasterers, and Stucco Masons
- Combined Food Preparation and Serving Workers, Including Fast Food
- Marriage and Family Therapists

Trends – EDD also reports that industry employment, which includes self-employment, private household workers, farm, and non-farm employment in Los Angeles County, is expected to reach 5,063,300 by 2024, an increase of 12.7% between 2014 and 2024. Further, 12 of 13 non-farm industry sectors are projected to grow in this ten-year period.

Total non-farm employment is projected to grow by nearly 535,700 jobs by 2024, with 75% of all projected nonfarm job growth concentrated in (1) Educational services (private), health care, and social assistance, (2) Leisure and hospitality, and (3) Professional and business services.

Occupational employment forecasts approximately 608,000 new jobs from industry growth and more than 1 million job openings from replacement needs for a combined total of approximately 1.6 million job openings. The top three occupations with the most job openings are (1) personal care aides, (2) combined food preparation and serving workers (including fast food), and (3) retail salespersons. These occupations have median wages ranging from \$9.64 to \$11.19 per hour and require no formal educational credential. The fastest growing occupations anticipate an annual growth rate of 2.4% or higher.

Housing – Based on the “2016 Annual Report” issued by the Los Angeles Office of the Assessor, Glendale experienced a net taxable property value increase of 5.5%, which was less than the increase experienced countywide at 5.58%. According to the City’s property tax consultant, HdL, Glendale’s housing market fell slightly in sales volume and showed an increase in an average home price of \$920,590 in FY 2016-17, compared to \$832,902 in FY 2015-16. The condominium sales also showed a decline in sales volume and an increase in an average price of \$468,385 for FY 2016-17, compared to \$433,705 for FY 2015-16.



Local Government Finance

The southland’s slow economic recovery, legal challenges to the long-standing and charter-mandated General Fund Transfer from Glendale Water & Power, low investment returns for CalPERS have all combined to make these past few years some of the most difficult years for budgeting in recent history. However, the managers and staff from each department, as well as the City Council, have pressed on despite these challenges, and have performed their service in a professional and constructive manner. The focus clearly remains on developing a structurally balanced financial plan that best serves the diverse community – carefully weighing the community’s myriad of needs with limited resources.

The positive national, regional and local indicators – such as increased spending and income, steady improvements in the housing market, and reduced rates of unemployment – align with the City’s forecasted revenue growth which ranges from 3.0% to 4.6% across the three key General Fund revenue sources: property, sales, and utility user’s taxes. Long-term growth rates for General Fund revenues are projected to grow rather modestly, averaging about 3% annually over the next five years. According to

industry experts, one potential challenge on the horizon may prove to be a flattening in the growth rate of auto sales occurring within the City. As auto sales are a significant portion of the City's sales tax revenue, staff is working diligently to add diversity to the City's portfolio of resources by increasing transient occupancy tax revenues generated by A-list hotels – an amenity that is in short supply for the Jewel City given its status as a regional hotspot for retail, entertainment and the arts. Although Glendale continues to face challenges such as increased pension costs, a deficit in the Compensation Insurance Fund, and aging infrastructure, the City Council has taken action to reduce the City's OPEB liability. In October 2015, the City Council approved unblending medical insurance premium rates between active employees and retired employees effective June 1, 2016. Accordingly, City's actuarial liability decreased from \$214 million from the June 30, 2013 valuation to \$16 million from the June 30, 2016 valuation, due to the fact that there is no more "implied subsidy" after June 1, 2016. The City's net OPEB obligation decreased from \$94.8 million in FY 2014-15 to \$8.7 million in FY 2016-17 because of the elimination of implied subsidy. The financial projections demonstrate that as long as the City stays diligent and disciplined, Glendale will remain an operationally and structurally balanced organization in the years to come.

Long-term Financial Planning

Financial Challenges – Despite the fact that the economy is improving and the economic indicators are all trending positive, the City still faces notable challenges in the coming years. As mentioned above, the General Fund remains highly dependent on sales taxes generated from automobiles sales. Revenues from auto sales have steadily risen over the past few years following the Great Recession; however, an economic downturn could place that revenue stream in jeopardy. We all know that the best offense is a good defense, and when it comes to finance, that means diversification. In that regard, staff and City Council are working diligently to attract new upscale hotels that would generate considerable occupancy tax revenue for the City.

The possible loss of the voter-approved General Fund Transfer (GFT) from Glendale Water & Power's (GWP) electrical operations still looms. Currently at about \$20 million per year, the transfer has been a feature of the City's General Fund revenue stream since the 1940s. Basically, the municipal forbearers established the water and power utility as a means of helping the City grow, as well as to bring revenue into the City's General Fund. This inflow of funding helped City Councils through the years keep Glendale a low-tax city (for example, only 13.7 cents on the property tax dollar comes to the City of Glendale; there is no business license tax, etc.). And, although the City Charter allows for a maximum transfer of up to 25% of gross operating revenues from the electrical operations, the GFT has never risen to that level; indeed, the current transfer is at 10% of retail operating revenues.

What does the potential loss of the GFT mean to Glendale? For the time being, the City will continue to move forward with the status quo. After having experienced deep cuts across all departments in recent years, Glendale is currently running as lean as it ever has. The loss of the transfer would, without doubt, mean cuts directly to the essential programs and services the community depends on day in and day out. Hence, there would be no alternative but to make cuts that would drastically impact the quality of life for the community. Specifically, the City Council would need to consider cuts to Libraries, Parks, Fire and Police. The effects of these cuts would be experienced in the form of reduced hours at libraries and parks, the closing of libraries and parks, and the contracting out of Police and Fire services with the County of Los Angeles.

Other significant challenges on the horizon include: expected increases in pension costs due primarily to changes in the PERS actuarial assumptions and the fund's low investment returns during the recession and subsequent years (average 10-year returns are estimated to be 4.3% through FY 2016-17), shoring up the Internal Service Funds (e.g. Compensation Insurance and Fleet/Equipment Management), and providing a stable funding source for General Fund Capital Improvement Projects. In July, 2017 the City Council appropriated \$26.5 million from General Fund for a Pension Rate Stabilization Program IRC

Section 115 Trust to mitigate the impacts of rising CalPERS contributions on the General Fund. A trust fund is useful as a means to pre-fund upcoming pension costs because contributions to the trust are eligible to earn a higher rate of return than the City's investment pool. The \$26.5 million was wired to the Trust in three installments in August and September 2017.

Moving forward, the continuing challenge is to minimize the negative impact on the community and customers from past restructuring efforts and ensure the City adds ongoing 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 this year's budget process, Council has 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 follows 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 previous four fiscal years.

	Fiscal year ended June 30,			
	2017	2016	2015	2014
Cash and investments	\$ 765,797,000	682,529,000	567,084,000	533,308,000

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 \$25 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, Cyber Security, 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, 2017, 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, 2017, 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 two fiscal years ended June 30, 1995 through June 30, 2016. 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.

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, appearing to read "Robert Elliot". The signature is fluid and cursive, with a large, sweeping flourish at the end.

ROBERT P. ELLIOT, CPA
DIRECTOR OF FINANCE

City of Glendale, California

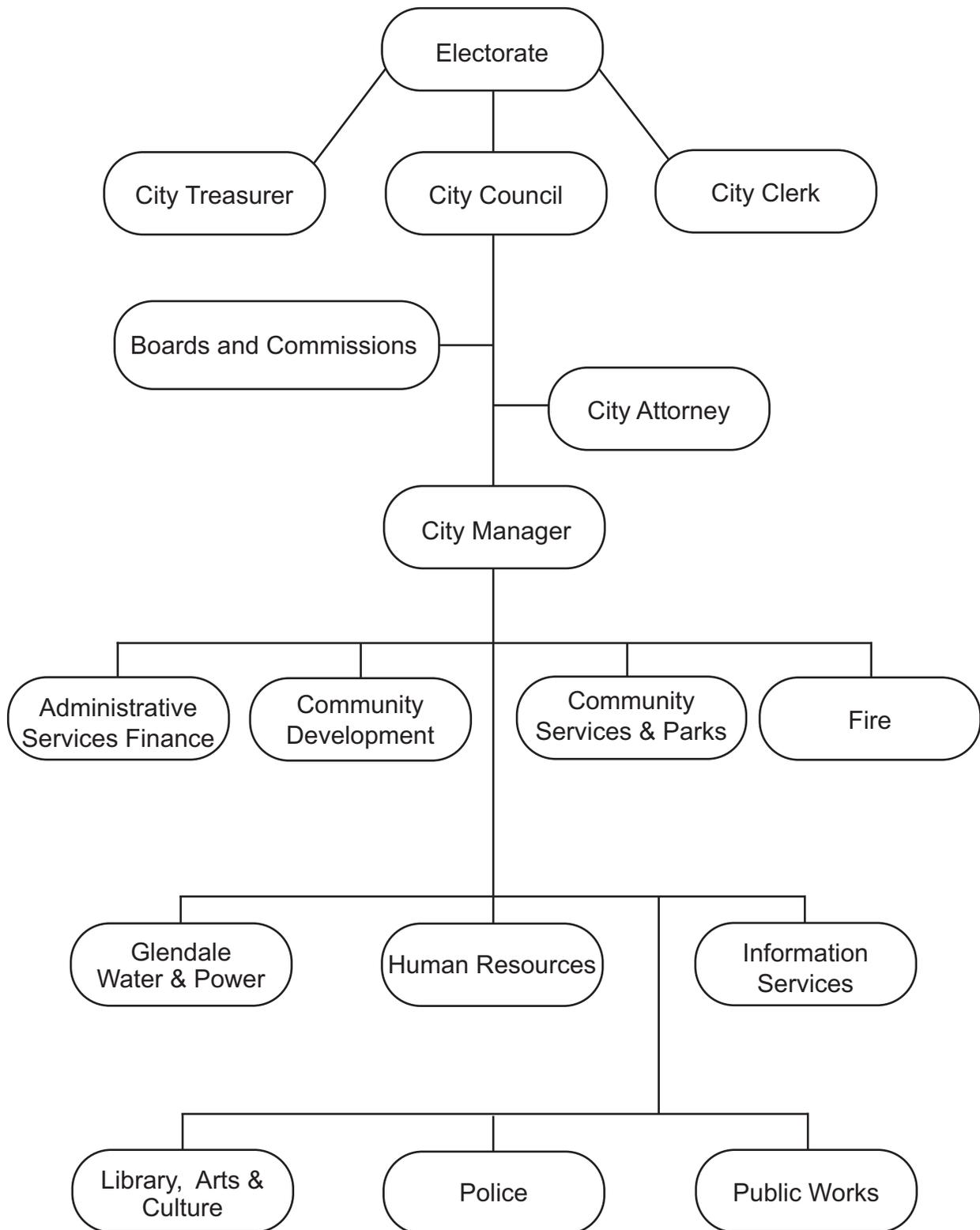
Officials of the City of Glendale

June 30, 2017

Administration and Executive Management Team

City Manager	Scott Ochoa
Assistant City Manager	Yasmin K. Beers
Deputy City Manager	John Takhtalian
Director of Community Services & Parks	Onnig Bulanikian
Police Chief	Robert M. Castro
Director of Library, Arts & Culture	Cindy Cleary
Director of Human Resources	Matthew Doyle
Director of Finance	Robert P. Elliot, CPA
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 Community Development	Philip Lanzafame
Director of Communications & Community Relations	Thomas R. 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, 2016. This was the 22nd 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, 2016

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

Executive Director/CEO

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