

# 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 28, 2016

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, 2016.

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 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 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 and post), animation, visual effects, and digital distribution. Glendale will benefit from growth in this sector through companies wanting to co-locate with Disney and hundreds of ancillary production and equipment firms. Also of note are Glendale's regional shopping centers, the Glendale Galleria and Americana at Brand. Several large development projects either recently completed or underway in Glendale will provide new residential units and 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** – Economic Development accomplishments for FY 2015-16 were focused on achieving the highest and best use of City facilities, attracting business and investment to Glendale, and strengthening neighborhood districts and the businesses within them. Accomplishments include:

- **Downtown's Art and Entertainment District** – Completed and opened the Museum of Neon Art in February 2016 and ramped up the Central Library renovation for the Spring 2017 grand re-opening of the state-of-the-art facility, which will include new study spaces, a digital lab, six new conference rooms and a MakerSpace.
- **Technology Based Industry Focus** – Hosted Glendale Tech Week in September 2016, implemented Glendale Tech on Tap Series, and completed a Fiber Optics Business Plan to attract and increase connectivity with technology based industries in and around Glendale.
- **Business Attraction** – Welcomed the addition of new businesses, such as CBRE, K.Ramen.Burger.Beer, Benitoite, Epic Tacos, Tom's, TopShop, Lemonade, Lao Sze Chuan, LA Fitness, PizzaRev, Sushi Sasabune, King Taco, Buffalo Wild Wings, Dicks Sporting Goods, and Eden on Brand this fiscal year. Class A Office Vacancy was reduced to 11.6% from an all-time high of 24% in 2010.
- **Social Media Campaign** – Implemented Meet Me on Brand marketing campaign highlighting the amenity rich downtown area to attract residents, businesses, and visitors.
- **Neighborhood Business Districts** – Collaborated with community stakeholders on the Vision 20/20 Plan for the Montrose Shopping Park and the Foothill Boulevard Beautification Project to develop those communities.
- **Quality of Life** – Commenced business and funding plan and conceptual development process relating to Space 134, the 24-acre park/open green space planned for downtown Glendale.

**Employment** – According to the most recent Census estimates available, 37,989 people in Glendale worked in management, business, arts, or science occupations (the single largest group) in 2014 with inflation-adjusted median annual earnings of \$58,556. The Census' American Community Survey (ACS) also found 24,082 employed in Sales and office occupations (second largest) with median annual earnings of \$28,950, and 15,023 employees in Service occupations (the third largest group) with median annual earnings of \$16,273. Median household income was \$52,451 for the year, and the poverty rate was 14.7% according to Census records. More recent data from the California Employment Development Department (EDD) indicate 96,700 individuals, ages 16 and older worked in Glendale in June 2016. 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 (technical) end of the Recession in June 2009, the rate had ballooned to 10.1%. According to HdL Coren & Cone data, as of the end of calendar year 2015, Glendale's unemployment rate is trending downwards towards pre-recession levels at 6.5%.

#### Industry Employment Status

According to the ACS, the top three Glendale industries in 2014, in terms of employment, were:

1. Healthcare and Social Assistance
2. Retail
3. Manufacturing

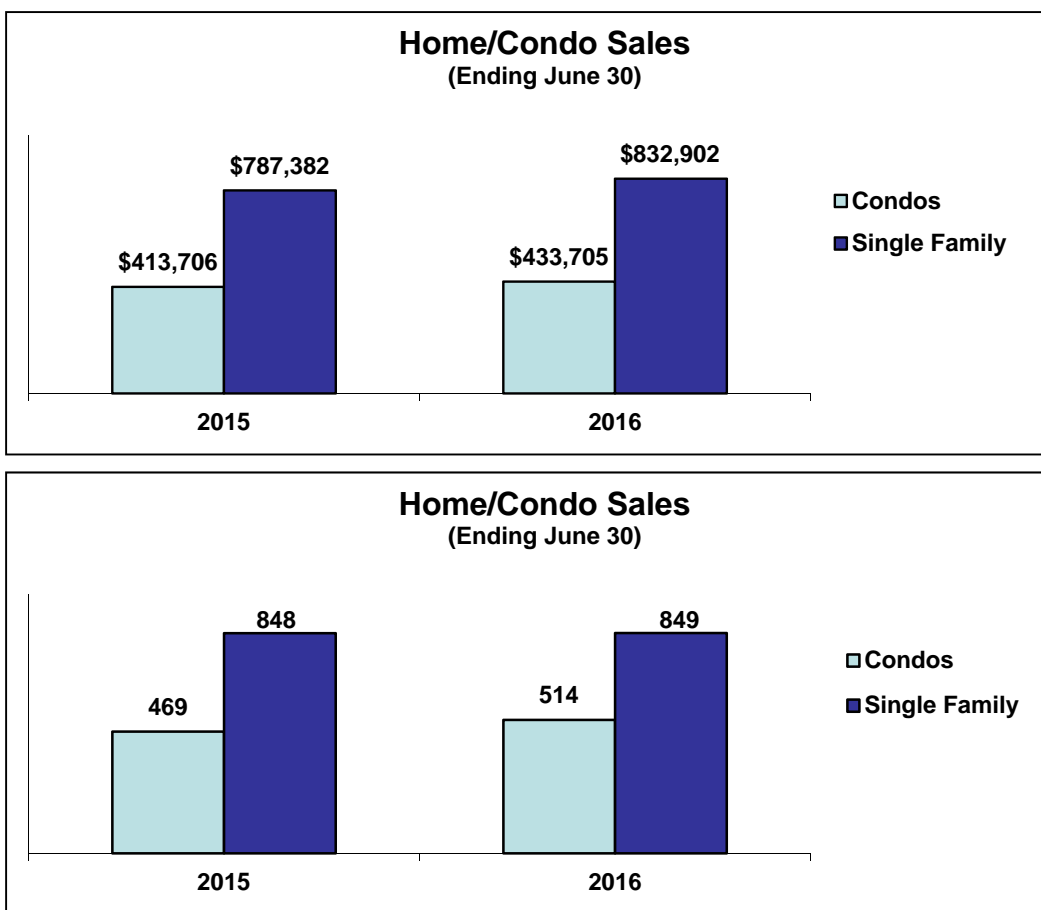
Glendale Adventist Medical Center and Glendale Memorial Medical Center remained among the City's largest employers in FY 2015-16. Current EDD projections indicate that through 2022 the fastest growing healthcare occupations in Los Angeles County will include personal care/home health aides, orthotists, prosthetists, physical therapists, medical and clinical laboratory technicians, and nurses and nursing instructors.

Glendale sales tax receipts for the quarter ended December 31, 2015 were up 4.5% above the same period in 2014 according to industry tracker HdL Companies. Payment deviations served to understate holiday season returns in general consumer goods. Recent openings in shoe stores, specialty stores and women's apparel were major contributors to a 3.4% year-over gain in sales.

HdL Companies also reported that, in descending order by gross receipts, the top five business types in Q4 of 2015 were:

1. New Motor Vehicle Dealers (\$1,692,000)
2. Department Stores (\$749,999)
3. Family Apparel (\$567,900)
4. Casual Dining (\$441,800)
5. Quick-Service Restaurants (\$423,000)

**Housing** – Based on the “2015 Annual Report” issued by the Los Angeles Office of the Assessor, Glendale experienced a net taxable property value increase of 5.6%, which was less than the increase experienced countywide at 6.13%. According to the City’s property tax consultant, HdL, Glendale’s housing market stayed somewhat flat in sales volume and showed an increase in an average home price of \$832,902 in FY 2015-16, compared to \$787,382 in FY 2014-15. The condominium sales, however, showed an increase in sales volume and an increase in an average price of \$433,705 for FY 2015-16, compared to \$413,706 for FY 2014-15.



## Local Government Finance

The LA region’s slow economic recovery, which is expected to accelerate slightly during FY 2016-17, the legal challenges to the long-standing, City Charter-mandated General Fund Transfer from Glendale Water and Power, and the State’s imprudent efforts to address its budget deficit by taking resources owed to cities by their former Redevelopment Agencies have all combined to make these past few years some of the most difficult budget years in recent history. However, the managers and staff from each department, as well as the City Council, have pressed on in spite of these challenges, and in spite of the difficulty involved in preparing this budget, the City staff have performed their service in a professional and constructive manner. The focus clearly remains on developing a structurally balanced financial plan that best serves Glendale’s diverse community – carefully weighing the community’s myriad needs with limited resources.

With positive indicators such as increased spending and income, 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 user's taxes for the upcoming year. Long-term growth rates for General Fund revenues are projected to grow rather modestly, averaging about 3.1% annual growth over the next seven years. Although the City continues to face challenges such as the ongoing increase in pension costs, the significant fund deficit in the Workers' Compensation Fund, as well as aging infrastructure, the financial forecasts factor in these challenges and 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**

**Financial 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. The possible loss of the City Charter-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 City's 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, which is approved by the Glendale residents, 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 approximately 10% of retail operating revenues.

What does the potential loss of the GFT mean to our City? 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, the City 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 rises in pension costs due primarily to changes in the PERS actuarial assumptions and the fund's low investment returns for 2016, shoring up the Internal Service Funds (e.g. Workers' Compensation and Fleet/Equipment Replacement), and providing a stable funding source for General Fund Capital Improvement Projects.

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 2016-17 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 fiscal years 2013, 2014, 2015, and 2016.

		Fiscal year ended June 30,			
		2016	2015	2014	2013
Cash and investments	\$	682,529,000	567,084,000	533,308,000	439,023,000

**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, 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, 2016, 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, 2016, 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 one fiscal years ended June 30, 1995 through June 30, 2015. 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", with a stylized flourish at the end.

**ROBERT P. ELLIOT, CPA**  
DIRECTOR OF FINANCE



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City of Glendale, California

# Officials of the City of Glendale

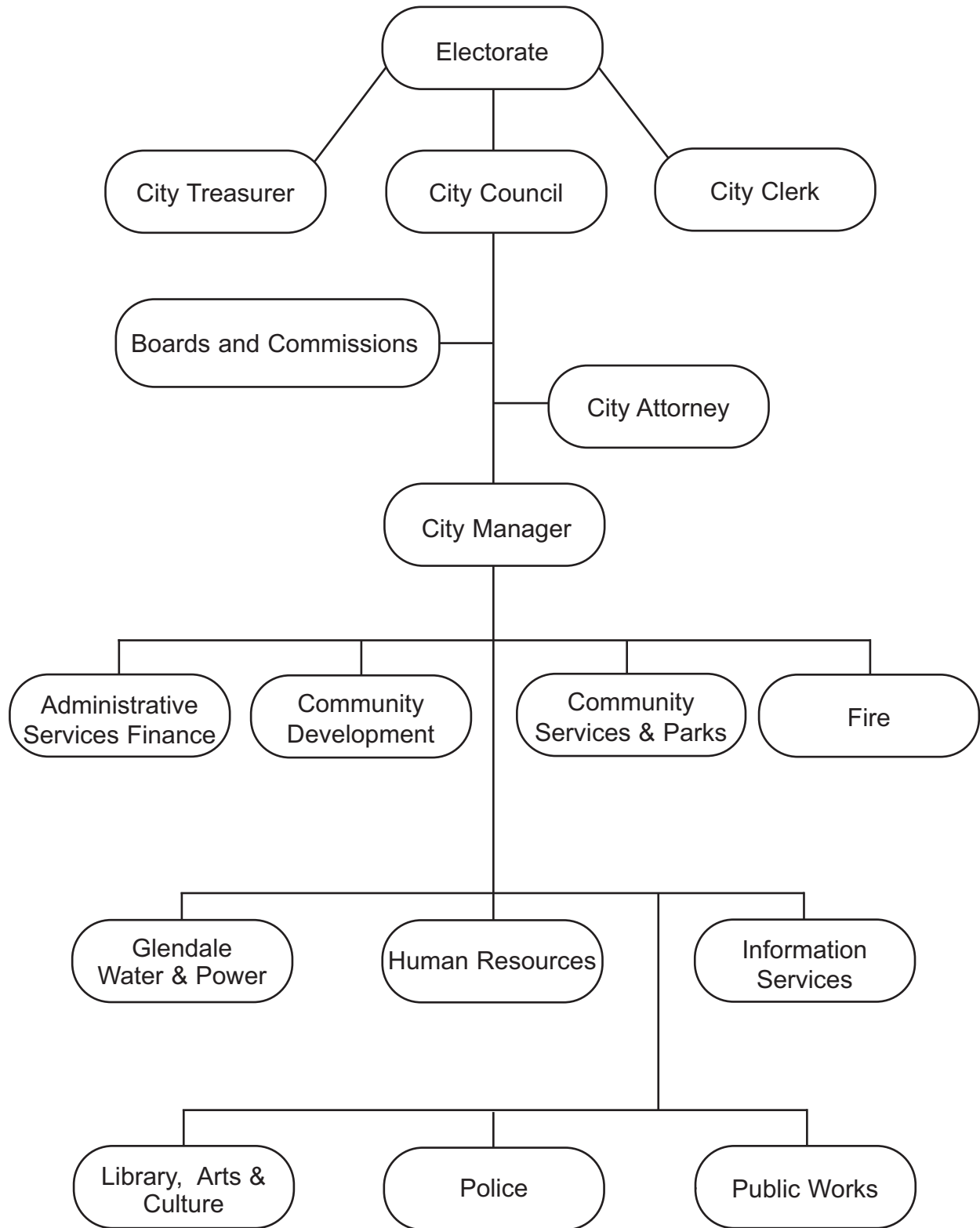
June 30, 2016

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
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, 2015. This was the 21st 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

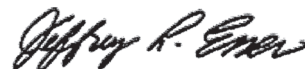
## Certificate of Achievement for Excellence in Financial Reporting

Presented to

**City of Glendale  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**



Executive Director/CEO

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