DEPARTMENT OF FINANCE
Notice of a Special Meeting of the
FINANCE/AUDIT COMMITTEE
4:00 p.m. – Monday, January 22, 2018
Pasadena City Hall - Council Chambers Room S249

NOTICE IS HEREBY GIVEN that a special meeting of the Finance/Audit Committee will be held **Monday, January 22, 2018** at **4:00 p.m.** in the Council Chambers Room S249, at City of Pasadena City Hall, 100 N. Garfield Ave., Pasadena, California.

A. CALL TO ORDER

B. PUBLIC COMMENT

C. APPROVAL OF MINUTES – January 8, 2018

D. NEW BUSINESS

1. Amendments to Fiscal Year 2018 Adopted Operating Budget
2. Amendments to the Fiscal Year 2018 General Fee Schedule
3. JOINT ACTION OF THE CITY COUNCIL AND PASADENA PUBLIC FINANCING AUTHORITY (PPFA): Extension of the Mandatory Tender of the Outstanding 2006, 2013A, and 2013B Rose Bowl Lease Revenue Bonds to 2019*

E. INFORMATION ONLY

1. Fiscal Year June 30, 2017 Annual Financial Reports**

F. ADJOURN

*Attachments included in City Council packets.
**Reports included in City Council packets.

Terry Tornek, Mayor
Finance Committee Chair

This notice, in its entirety, was posted at City Hall and distributed as indicated below by 5:30 p.m., Thursday, January 18, 2018.

Lori Eubanks, Recording Secretary
Finance Committee

Distribution:

City Council	Central Library	Pasadena Now
City Manager	Pasadena Independent	Pasadena Star News
City Attorney	Los Angeles Times	Pasadena Weekly
Public Information Officer	Pasadena Journal	La Opinion

Agenda Report

January 22, 2018

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Department of Finance

SUBJECT: **AMENDMENTS TO FISCAL YEAR 2018 ADOPTED OPERATING BUDGET**

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed action is exempt from the California Environmental Quality Act ("CEQA") in accordance with Section 15061(b)(3), the General Rule that CEQA only applies to projects that may have an effect on the environment and;

2. Amend the Fiscal Year (FY) 2018 Adopted Operating Budget as detailed in the "Proposed Budget Amendments" section of this report.

BACKGROUND:

Throughout the fiscal year, budget amendments are necessary to account for unanticipated changes to the adopted budget. These revenue and appropriation amendments are presented to the City Council for approval. This agenda report includes proposed amendments to the FY 2018 Operating Budget based on information that was not available when the operating budget was presented to the City Council on June 19, 2017.

A discussion of each proposed budget amendment is included in the "Proposed Budget Amendments" section. As detailed in Attachment A of this report, approval of the proposed budget amendments will increase FY 2018 total authorized operating appropriations across multiples funds by a net amount of $836,552.

Proposed Budget Amendments

1. **Joint Use Facilities Agreement Washington Middle School** – The Finance Department recommends appropriating expenditures of $1,250,000 in the General Fund from the General Fund Reserved Fund Balance. This appropriation is for a previously approved Joint Use Facilities Agreement between the City of Pasadena and the Pasadena Unified School District (PUSD) for the construction and use of the Washington Middle School gymnasium. This action was approved on February 15, 2011. The project is complete and the City made payment to PUSD. The proposed action will amend the budget to properly reflect the expenditure.

2. **Transfer from Traffic Reduction Transportation Improvement Fees Fund (TRTIF)** – The Department of Transportation recommends removing the TRTIF transfer to the Proposition C Local Return Fund of $1,500,000. With the recent update to the TRTIF guidelines in January 2017, the fees can no longer support current transit operations. Measure M Local Return funds will fill the TRTIF funding gap for transit operations beginning FY 2018.

3. **Correct Carryforward Purchase Order to Los Angeles County Metropolitan Transportation** – The Department of Finance recommends un-appropriating $850,265 from the Department of Transportation's Measure R Fund. Due to administrative oversight, a purchase order and related encumbrance was carried forward into FY 2018 when the item was paid in FY 2017.

4. **Department of Information Technology (DoIT) Department Billable Costs** – DoIT recommends recognizing revenue and appropriating expenditures of $450,000 for IT purchases made on behalf of other City departments. This action will have a neutral effect on DoIT's operating budget but will streamline the payables and billing process and will simplify tracking and recording of the transactions in the City's financial system.

5. **Debt Services Payment -** The Department of Finance recommends appropriating expenditures of $248,333 to the Department of Public Works within the Sewer Fund. Due to an administrative oversight during the FY 2018 Operating Budget adoption, the funding for debt service payment was not included in Public Work's operating budget.

6. **Transfer from the General Fund to the Computing and Communication Services Fund -** Department of Finance recommends the transfer of $126,000 from the General Fund to the Computing and Communications Services Fund. The Fiscal Year 2018 Operating Budget includes the permanent funding for a Business Systems Analyst position; however, the funding for the position was included in the General Fund and not in the Computing and Communications Services Fund. There will be no impact to the General Fund's fund balance from this action.

7. **Equipment Replacement -** The Department of Finance recommends appropriating expenditures of $88,484 to the Department of Public Works within the Gas Tax Fund. Due to an administrative oversight during the FY 2018 Operating Budget adoption, the funding for equipment replacement was not included in Public Work's operating budget.

8. **Purchase a Forklift for Pasadena Water and Power Warehouse** – The Pasadena Water and Power Department (PWP) recommends two actions. The first action appropriates expenditures of $65,000 to the Power Capital Fund. The second action appropriates expenditures of $35,000 to the Water Capital Fund. Currently, there is a non-operational Gradall forklift that served the warehouse for 32 years. The warehouse is renting a unit to address its needs but it requires a larger capacity forklift to lift heavy reels of copper cable. With this approval, staff will proceed to procure a new forklift.

9. **Shared EV Employer Demonstrator (SEED) Program for Pasadena Employers** – The Department of Transportation recommends recognizing revenue and appropriating expenditures of $750 in grant funds awarded by Metro for the SEED Program. The SEED program will provide selected Pasadena employers the opportunity to offer no-cost electric vehicle (EV) rentals to employees to help them gain first-hand experience with driving EVs, using workplace charging stations, and using EVs as connections to transit. In September 2016, the City received an award notification for a grant amount of $335,000 for the SEED Program; however, in July 2017 when the City received the Memorandum of Understanding from Metro, the revised grant amount was $335,750.

COUNCIL POLICY CONSIDERATION:

The City Council's strategic planning goal of maintaining fiscal responsibility and stability will be advanced by monitoring the FY 2018 Adopted Operating Budget and by implementing necessary budget amendments.

FISCAL IMPACT:

As detailed in Attachment A, approval of the proposed budget amendments will increase FY 2018 total authorized operating appropriations across multiple funds by a net amount of $836,552. The General Fund's unappropriated fund balance will not be impacted by the increased appropriations as the dollars were set aside in a reserved fund balance for the Facility Joint Use Agreement.

The budget amendments included in this agenda report are not anticipated to impact existing FY 2018 budgeted indirect and support costs such as maintenance and DoIT support.

Respectfully submitted,

MATTHEW E. HAWKESWORTH
Director of Finance

Prepared by:

Kimberly Siemen
Principal Administrative Analyst
Department of Finance

Approved by:

STEVE MERMELL
City Manager

Attachments: (1)
1) Attachment A: Summary of Proposed FY 2018 Budget Amendments

Attachment A: Summary of Proposed FY 2018 Budget Amendments

Item #s	Fund				Revenue Recognition	Expenditure Appropriations	*Proposed Amendments* Net Amendments
1	101	General Fund				$1,250,000	$1,250,000
9	101				$750	$750	$0
	101	**Total General Fund**			**$750**	**$1,250,750**	**$1,250,000**
5	205	Sewer Fund				$248,333	$248,333
2	209	Proposition C Local Return Fund			($1,500,000)		$1,500,000
7	210	Gas Tax Fund				$88,484	$88,484
3	236	Measure R Fund				($850,265)	($850,265)
2	313	Traffic Reduction Transportation Improvement Fees Fund				($1,500,000)	($1,500,000)
8	411	Power Capital Fund				$65,000	$65,000
8	412	Water Capital Fund				$35,000	$35,000
4	501	Computing and Communications Fund			$450,000	$450,000	$0
6	501				$126,000	$126,000	$0
	501	**Computing and Communications Fund**			**$576,000**	**$576,000**	**$0**
				Total	**($923,250)**	**($86,698)**	**$836,552**

Agenda Report

January 22, 2018

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Department of Finance

SUBJECT: **AMENDMENTS TO THE FISCAL YEAR 2018 GENERAL FEE SCHEDULE**

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed action is exempt from the California Environmental Quality Act ("CEQA") in accordance with Section 15061(b)(3), the General Rule that CEQA only applies to projects that may have an effect on the environment and;

2. Adopt a resolution amending a fee and adding a new fee for the Fiscal Year (FY) 2018 General Fee Schedule as detailed in the "Proposed Fee Schedule Amendments" section of this report.

BACKGROUND:

The General Fee Schedule includes all charges established based on the cost to provide the service such as processing land use approvals and building permits, as well as entrepreneurial type activities such as facility rentals. The General Fee Schedule was last updated and adopted by resolution on December 11, 2017.

While the General Fee Schedule is typically reviewed and updated annually, revisions may be made periodically throughout the year as the need may arise. The Planning and Community Development Department is proposing a new Short Term Rental Permit fee. Likewise, the Department of Transportation is proposing a revision to one existing pass-through DMV Registration Hold fee.

Proposed Fee Schedule Amendments

1. **New Short Term Rental Permit Fee** – The Planning and Community Development Department proposes a new Short Term Rental Permit fee. New regulations for short-term rentals citywide were adopted in January 2018. The regulations made changes to the City's Municipal Code creating a new "Short Term Rental Permit" and allowing the City Council to adopt a resolution to establish a new fee. The Short Term Rental Permit requires staff time to review permit requirements and supporting documentation, conduct records research, and issue a short term rental permit. The proposed fee amount of $100 was calculated estimating the staff titles and time involved along with processing fees.

2. **Amend Existing Pass-Through Fee** – The Department of Transportation recommends updating the current DMV Registration Hold fee from $3 to $4. On December 29, 2017, the City received a notice from the California Department of Motor Vehicles (DMV) informing the City that their Administrative Service Fee would increase, effective January 1, 2018. The DMV charges this fee to parking and toll agencies for placing a registration hold on a vehicle for overdue parking citations and this is the fee the City passes to customers.

COUNCIL POLICY CONSIDERATION:

The City Council's strategic planning goal of maintaining fiscal responsibility and stability will be advanced through the periodic review and update of the General Fee Schedule and by ensuring that, where appropriate, the City is reimbursed for the cost of providing selected services.

FISCAL IMPACT:

It is anticipated that the proposed amendments to the General Fee Schedule will result in approximately $50,000 in annual revenue to the General Fund.

Respectfully submitted,

MATTHEW E. HAWKESWORTH
Director of Finance

Prepared by:

Byanca Banaga
Administrative Analyst
Department of Finance

Approved by:

STEVE MERMELL
City Manager

Attachments: (1)
1: Attachment A – Fiscal Year 2018 General Fee Schedule

FISCAL YEAR 2018 GENERAL FEE SCHEDULE

Fee #	Description	FY 2018 Adopted Fee	FY 2018 Revised Fee
536	For Eligible Projects Outside of the Downtown and Old Pasadena Areas and the Northwest Boundary Area.	20% of the 1% of the Building Valuation, or $1,200, whichever is higher	20% of the 1% of the Building Valuation, or $1,200, whichever is higher
537	For Eligible Projects Within the Downtown and Old Pasadena Areas and the Northwest Boundary Area.	25% of the 1% of the Building Valuation	25% of the 1% of the Building Valuation
538	Construction Notice Sign Fee	$13.85	$13.85
539	Public Hearing Notice Sign	$11.50	$11.50
540	Short Term Rental Permit		$100.00
	POLICE DEPARTMENT		
	Bicycle Licenses [P.M.C. Sec. 10.60.040]		
541	Registration (good for four years)	$4.00	$4.00
542	Transfer	$2.00	$2.00
543	Replacement	$2.00	$2.00
544	Renewal	$2.00	$2.00
	Police False Alarm Response		
545	False Alarm Response (second & subsequent false alarm during any 12 month period)	$139.00	$139.00
546	Operation of Alarm System Without Permit	$126.00	$126.00
	Clearance Letters		
547	Clearance Letters - Per Letter (Travel Visa Only) No History	$25.00	$25.00
548	Clearance Letters - Per Letter (Travel Visa Only) With History	$50.00	$50.00
	Fingerprinting		
549	Fingerprinting - per card	$10.00	$10.00
550	Fingerprinting - live scan	$25.00	$25.00
	Helicopter Landing Permit and Fees		
551	Annual Permit Agreement	$208.00	$208.00
552	Application Review and Processing	$349.00	$349.00
553	Annual Permit Renewal	$208.00	$208.00
554	Heliport Usage, Per Landing	$95.00	$95.00
	Inmate Housing		
555	Trustee/Fee-Paying Sentenced Prisoner - Amount At Night	$149.00	$149.00

FISCAL YEAR 2018 GENERAL FEE SCHEDULE

Fee #	Description	FY 2018 Adopted Fee	FY 2018 Revised Fee
847	No Auto Washing/Servicing/Repairing	$39.64	$39.64
848	Fail to Turn Wheels To/Against Curb	$39.64	$39.64
849	Taxicab Parked in Non-Designated Taxicab Space	$36.49	$36.49
	Delinquent Parking Violation & DMV Registration Hold Fee		
850	Delinquent Penalty	$29.44	$29.44
851	DMV Registration Hold Fee (DMV Charge)	$3.00	$4.00
852	Parking Citation Hearing	No Charge	No Charge
	Parking Enforcement		
853	Impound Fees for Parking Related Signs Posted in Public Right-of-Way	$54.05	$54.05
854	Boot Fee	$162.24	$162.24
	Limited Time Parking Signage & Curb Marking Requests		
855	Limited Time Parking Signage Request	$508.05	$508.05
856	Posting of Temporary No Parking Signs	$20.49 for up to 5 temp no parking signs/$2 for ea additional sign	$20.49 for up to 5 temp no parking signs/$2 for ea additional sign
	Special Curb Marking		
857	Green/Yellow/White	$430.70	$430.70
858	Green/Yellow/White/Other Special Curb Marking-Renewal	$106.60	$106.60
859	Curb Markings (per request)	$217.30	$217.30
	Parking Garage/Surface Lots (City-owned Facilities)		
	Del Mar Station Parking Structure		
860	Del Mar Station Parking Structure - Monthly Parking	$65.00	$65.00
861	Del Mar Station Parking Structure Transient per hour charge (First 90 mins free, $2hr, $6/daily max)	$2.00	$2.00
862	Del Mar Station Parking Structure - $5 flat rate if entering between 10:00pm and 5:00am.	$5.00	$5.00
863	Del Mar Station Parking Structure Daily Fee for Metro Riders with proof of ridership.	$3.00	$3.00
	Holly Street Parking Structure		
864	Holly Street Parking Structure Monthly - General Public	$85.00	$85.00
865	Holly Street Parking Structure Monthly - Residents of Brookmore and Centennial Square Apts.	$50.00	$50.00
866	Holly Street Parking Structure Transient Parking - Per hour Charge (Max is $6)	$2.00	$2.00
867	Holly Street Parking Structure Transient Parking - Flat Hourly Rate - Monday thru Thursday 4:00pm thru 6:00am and Friday 4:00 pm thru Monday 6:00 am	$5.00	$5.00

Agenda Report

January 22, 2018

TO: Honorable Mayor and City Council
Pasadena Public Financing Authority

THROUGH: Finance Committee

FROM: Director of Finance
PPFA Treasurer

SUBJECT: **JOINT ACTION: EXTENSION OF THE MANDATORY TENDER OF THE OUTSTANDING 2006, 2013A AND 2013B ROSE BOWL LEASE REVENUE BONDS, TO 2019**

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed action is not a project subject to California Environmental Quality Act (CEQA) as defined in Section 21065 of CEQA and section 15378 of the State CEQA Guidelines and, as such, no environmental document pursuant to CEQA is required for the project; and

2. Adopt a resolution of the City Council of the City of Pasadena authorizing execution and delivery of supplemental bond indentures and one or more continuing covenant amendments with MUFG Union Bank N.A., relating to the Pasadena Public Financing Authority Variable Rate Demand Lease Revenue Bonds (Rose Bowl Refinancing and Improvement Projects) Series 2006, the Pasadena Public Financing Authority Variable Rate Demand Lease Revenue Bonds (Rose Bowl Renovation Project) Series 2013A (Tax-Exempt), and the Pasadena Public Financing Authority Variable Rate Demand Lease Revenue Bonds (Rose Bowl Renovation Project) Series 2013B (Taxable), and authorizing certain other actions relating thereto;

It is recommended that the Pasadena Public Financing Authority:

1. Adopt a resolution of the Board of the Pasadena Public Financing Authority authorizing execution and delivery of supplemental bond indentures and one or more continuing covenant amendments with MUFG Union Bank N.A., relating to the Pasadena Public Financing Authority Variable Rate Demand Lease Revenue Bonds (Rose Bowl Refinancing and Improvement Projects) Series 2006, the Pasadena Public Financing Authority Variable Rate Demand Lease Revenue Bonds (Rose Bowl Renovation Project) Series 2013A (Tax-Exempt), and the Pasadena Public Financing Authority Variable Rate Demand Lease Revenue Bonds (Rose Bowl Renovation Project) Series 2013B (Taxable), and authorizing certain other actions relating thereto;

BACKGROUND:

In February 2006, the Pasadena Public Financing Authority issued $47.3 million Variable Rate Demand Lease Revenue Bonds (Rose Bowl Refinancing and Improvement Project), to refinance the then outstanding 1991 and 1996 Rose Bowl Certificates of Participation ("COPs") and provide additional funds to complete improvements to the Rose Bowl stadium and other facilities. The improvements at that time consisted, primarily, of new locker room and press room facilities as well as a portion of the City Hall seismic retrofitting project. The 2006 Lease Revenue Bonds were issued as weekly variable rate demand bonds ("VRDBs"). Concurrently with the original issuance of the bonds, the City synthetically fixed the rate on the bonds by entering into an interest rate swap agreement which requires the City to pay a fixed rate of 3.285% on the notional amount of the swap and receive 65% of London Interchange Bank Offering Rate ("LIBOR") on a like amount.

The liquidity crisis that began in late 2007 had intensified in 2008 and placed severe pressure on banks and other financial institutions. As a result, the credit capacity of many banks that were able to continue to participate in the municipal credit market was reduced. As a result, in April 2011, the City Council approved a direct purchase of the City's outstanding Lease Revenue Bonds by MUFG Union Bank, pursuant to a negotiated deal by the Director of Finance of an initial term sheet which expires in 2018.

As a result of the incremental increase in the Rose Bowl project cost, in January 2013, the City restructured and partially refunded the 2006 Bonds by issuing the 2013A (Tax-Exempt) Series in the amount of $34.9 million, and 2013B (Taxable) Series Bonds in the amount of $19.065 million. The 2013A and 2013B Bonds were also privately placed with MUFG Union Bank. The 2013A Bonds and 2013B Bonds structure extended the Rose Bowl portion of the 2006 debt to 2043 and raised an additional $30 million of new money to complete the Rose Bowl

project. The 2013A Bonds and 2013B Bonds had a mandatory tender date of January 2, 2018, which requires a remarketing of such bonds.

The 2017 Tax Cuts and Jobs Act greatly affected the timing and pricing of the City's remarketing of its Rose Bowl Bonds. The Act was signed into law on December 22, 2017 by President Trump but speculation of tax reform began in early January by Congress and the Trump Administration. In early September 2017, speculation of an imminent tax reform bill began to cause many banks to halt their pricing of new issuances until there was more clarity on the impact of the tax reform bill on tax-exempt bonds. Since the cutting the corporate tax would reduce the value of tax-exemption, banks had a "wait-and-see" approach to extend credit for new issues.

The City worked with Urban Futures, Inc., its municipal advisor, to help remarket the bonds, solicit new banks, and verify the pricing for the remarketing of the City's Rose Bowl Bonds. Urban Futures, Inc. contacted numerous banks including regional banks, national banks, and large Wall Street banks to verify the pricing. Due to the timing issue discussed and the upcoming expiration of the City's current remarketing bonds with MUFG Union Bank, only two banks were able to provide a pricing indication with non-identical and different terms. As a result, staff negotiated an extension of the current remarketing term with MUFG Union Bank subject to the City Council and the Pasadena Financing Authority's approval. The Bank agreed to hold the bonds past the mandatory tender date at the same negotiated price until the City Council and the Pasadena Public Financing Authority adopt the attached resolutions and extend the placement of the bonds with the MUFG Union Bank with the new revised remarketing date of January 2, 2019.

Extension of the mandatory tender/remarketing date of the bonds
The proposed action simply remarkets the bonds and privately places the remaining Series 2006, the Series 2013A and the Series 2013B Lease Revenue Bonds with MUFG Union Bank for a one year term with a new mandatory tender and remarketing date of January 2, 2019. The new rate for Series 2013A (Tax-Exempt) Bonds will be 67% of the one month London Interbank Offered Rate ("LIBOR") rate plus 0.80%, which equates to 1.83% interest rate in today's market. The Series 2013B (Taxable) Bonds will bear a fixed interest rate of 2.70%.

ENVIRONMENTAL ANALYSIS:

The proposed actions are governmental fiscal activities that would not cause either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment. Therefore, the proposed action is not a "project" subject to CEQA, as defined in Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines. Since the action is not a project to CEQA, no environmental document is required.

FISCAL IMPACT:
The proposed action is a remarketing of the Series 2006, 2013A and 2013B Lease Revenue Bonds and privately placing them with MUFG Union Bank for a period expiring on January 2, 2019. The proposed transaction does not extend the term of the bonds nor borrows additional funds.

The new pricing on the Series 2013A Bonds, which is the tax-exempt portion, will be 67% of one month LIBOR plus 0.80% compared to the prior 65% of LIBOR plus 0.75%. This equates to 1.83% interest rate in today's financial market and 0.08% higher than the prior pricing. The Series 2013B Bonds, which is the taxable portion, will bear a fixed interest rate of 2.70%, 0.80% higher than the prior fixed rate of 1.9%. As comparison, the one year Treasury rate has increased 1.60% from the last pricing date of the 2013B Bonds. The weighted average cost of funds or interest rate on the Series 2006, 2013A and 2013B will be 2.04% in today's interest market. Including the hedged portion of the bonds with the interest rate swap, the current weighted average cost of this financing to the Rose Bowl will be 2.63%. The one-time cost which includes bond counsel fees, bank counsel fees, and financial advisory fees is estimated to be 0.08% or $47,500.

Respectfully submitted,

MATTHEW E. HAWKESWORTH
Director of Finance
PPFA Treasurer

Prepared by:

Vic Erganian
Deputy Director of Finance/City Treasurer

Approved by:

STEVE MERMELL
City Manager
PPFA Executive Director

Agenda Report

January 22, 2018

TO: Honorable Mayor and City Council/Successor to Pasadena Community Development Commission

THROUGH: Finance/Audit Committee

FROM: Director of Finance

SUBJECT: FISCAL YEAR JUNE 30, 2017 ANNUAL FINANCIAL REPORTS

RECOMMENDATION:

It is recommended that the following reports for the year ended June 30, 2017 be reviewed, discussed, and filed by the City Council and/or the Successor Agency to Pasadena Community Development Commission.

A. Comprehensive Annual Financial Report*
B. Single Audit Report-To be presented at a later meeting.
C. Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards (This replaces what was called the "Management Letter.")
D. Pasadena Center Operating Company Basic Financial Statements
E. Rose Bowl Operating Company Basic Financial Statements
F. Pasadena Community Access Corporation Basic Financial Statements
G. Pasadena Fire and Police Retirement System Independent Auditor's Report and Basic Financial Statements with Required Supplemental Information
H. Air Quality Improvement Fund Financial and Compliance Report
I. Independent Accountant's Report on Agreed-Upon Procedures Applied to Appropriation Limit Worksheets
J. Independent Accountant's Report on Agreed-Upon Procedures Applied to Employee Deductions for the Internal Revenue Code Section 457 Deferred Compensation Program
K. The Auditor's Communications with the City's Audit and Finance Committee
L. Pasadena Housing Successor Report on Compliance and Internal Control Over Compliance and Housing Successor Annual Report Regarding the Low and Moderate Income Housing Asset Fund*

*Reports previously delivered.

EXECUTIVE SUMMARY:

This action is to receive and file the City's six annual financial statements and five compliance-related reports for the fiscal year ended June 30, 2017. All financial statements received an unmodified (or clean) opinion. No material weaknesses in internal controls, two significant deficiencies, and one instance of noncompliance were identified in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards. Management responses are provided for the significant deficiencies. A management response to the one instance of noncompliance is provided in the Independent Auditors' Report on Compliance With Applicable Requirement and on Internal Control Over Compliance. In all cases corrective action has already occurred or an action plan to address the finding has been established. A presentation will be made by the City's external auditors, Lance, Soll & Lunghard, LLP at the January 22, 2018 Finance/Audit Committee and City Council meetings.

BACKGROUND:

This year's audit was the third annual audit performed by Lance, Soll & Lunghard, LLP, who was awarded a three year contract to perform the City's audits on May 18, 2016. The contract calls for an expanded scope audit with samples from every City fund and a reduced level of materiality so that sample sizes are increased. All six financial statements received unmodified opinions from the outside auditors. This is the highest or cleanest attestation report given by independent auditors and includes the phrase "the financial statements referred to above present fairly, in all material respects, the financial position..." The five remaining reports presented deal with compliance information, specifically requested test work, and provide comment on internal controls, errors, lack of errors, or suggestions for future improvements.

Comprehensive Annual Financial Report (CAFR) (Attachment A)

Section 912 of the City Charter requires that an independent audit of the City's records, books, and inventories be conducted annually and a report issued thereon. In the attached audited CAFR for the year ending June 30, 2017, the City received an unmodified opinion, which means that the statements are free of material misstatement and are presented in conformity with generally accepted accounting principles.

Single Audit Reports on Federal Awards (Attachment B)

The Single Audit Report would traditionally be presented by this time. As it is not yet complete, it will be brought to you in the very near future. The Single Audit Act of 1984 and Single Audit Act Amendments of 1996 establish uniform audit requirements for local

governments expending federal awards greater than $750,000 a year. The audit is on an "entity-wide" basis and imposes additional requirements in relation to testing of, and reporting on, internal control and compliance with laws and regulations related to grants and contracts applicable to the City's federally funded programs.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards (This replaces what was called the "Management Letter") (Attachment C)

This report explains the auditors' audit of the City's financial reports in relation to their review of internal controls. The City's audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Such audits utilize sampling of data, inquiries of staff and management, testing of procedures, confirmation with outside parties, spot checking of internal files and documents, review of meeting minutes, specialized audit checklists, and numerous other techniques. The auditors considered the City's internal controls in determining what procedures to use and the size of samples to be selected. While audit procedures do not include review of 100 percent of transactions, the City contracted to have every fund examined and for sample sizes to be greater than required under generally accepted audit procedures.

This report provides definitions of "deficiency in internal control," "material weakness," and "significant deficiency" involving the internal control structure. This year's audit identified no material weakness and two significant deficiencies. While the auditors did not identify any "other matters" which are a third and less critical category of findings, they did identify one instance on noncompliance. These comments and recommendations have been reviewed with the appropriate members of City staff and City responses are provided. In all cases staff fully understands the issues and has already or will fully address the issues.

Component Unit Financial Statements

Financial statements for Pasadena Center Operating Company (Attachment D), Rose Bowl Operating Company (Attachment E), Pasadena Community Access Corporation (Attachment F), and Pasadena Fire and Police Retirement System (Attachment G) are included as they are component units of the City. Component units are legally separate entities in substance but are part of the government's operations. Each of the City's component units received an unmodified opinion.

Air Quality Improvement Fund Financial and Compliance Report (Attachment H)

Assembly Bill 2766 (AB2766) authorized the South Coast Air Quality Management District (SCAQMD) to impose an annual vehicle registration fee and to distribute a portion of those collected revenues to all local jurisdictions within the South Coast Air Basin. These revenues are to be used solely to reduce air pollution from motor vehicles by implementing new programs and studies necessary for the implementation of the California Clean Air Act. The City's Air Quality Improvement Fund accounts for the use of these funds received from SCAQMD. The Air Quality Improvement Fund Financial and Compliance Report received an unmodified opinion.

Independent Accountant's Report on Agreed-Upon Procedures Applied to Appropriation Limit Worksheets (Attachment I)

Section 1.5 of Article XIIIB of the California Constitution requires that the City follow the procedures agreed upon by the State of California and the League of California Cities (as presented in the League publication entitled Article XIIIB Appropriations Limitation Uniform Guidelines) to determine the annual appropriations limit. The auditors perform an "Agreed-Upon Procedure" where they recalculate the Gann Limit. They determined that the City has incorrectly calculated the Gann Limit. The Fiscal Year 2017 appropriation limit should have been $271,788,205, resulting in an immaterial understatement of the limit by $170,934 from the original City adopted limit of $271,617,271. The correction was reflected in the Fiscal Year 2018 budget. This has not resulted in any budget or actual impact on the City.

Independent Accountant's Report on Agreed-Upon Procedures Applied to Employee Deductions for the Internal Revenue Code Section 457 Deferred Compensation Program (Attachment J)

At the request of the City, the auditors performed certain procedures as enumerated in the report to verify the accuracy and timely posting of contributions to the deferred compensation program provided by Great West Retirement Services. The auditors noted that the amounts deposited did not match to the amounts withheld. The City has determined that this is solely a timing difference resulting from retirement and separation checks which, due to the payroll cycle, are reported with the next or subsequent regular payroll.

The Auditor's Communications with the City's Audit and Finance Committees (Attachment K)

One auditing pronouncement, Statement of Auditing Standards (SAS) No. 114 requires defined and documented communications between the auditors and the City Audit Committee/Finance Committee. This letter provides an opportunity for the auditors to report on any difficulties or major concerns discovered during the audit and to further

explain their role. They provide commentary on management's responsibilities for accounting policies and states that no significant difficulties were encountered in performing the audit, and no disagreements occurred with management. They point out whether management has corrected or passed on correcting all known misstatements. This year, management elected to pass on correcting two items which are immaterial and/or solely timing related changes when considered either individually or in the aggregate.

Pasadena Housing Successor Report on Compliance and Internal Control Over Compliance and Housing Successor Annual Report Regarding the Low and Moderate Income Housing Asset Fund (Attachment L)

Beginning in Fiscal Year 2016 the Pasadena Housing Successor fund has been presented as a major fund with the major governmental funds in the CAFR. This facilitates meeting the state's required reporting and auditing requirements for this fund. To meet the reporting requirements, both the "Independent Auditors' Report on Compliance With Applicable Requirement and on Internal Control Over Compliance" and the "Housing Successor Annual Report Regarding the Low and Moderate Income Housing Asset Fund" were delivered to the Mayor and City Council Members on December 28, 2017 and posted on the City's website. While the Auditors' opine that the Housing Successor has complied in all material respects with the types of compliance requirement they must report on, they did identify one instance of noncompliance with a California Health and Safety Code requirement. A response to this finding is supplied by Management.

COUNCIL POLICY CONSIDERATION:

The City Council's strategic planning goal of maintaining fiscal responsibility and stability will be advanced through the receipt and review of these reports.

FISCAL IMPACT:

There is no fiscal impact as a result of this action nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects as a result of this action.

Respectfully submitted,

MATTHEW E. HAWKESWORTH
Director of Finance

Prepared by:

Robert S. Ridley
Controller

Approved by:

STEVE MERMELL
City Manager

Attachments: (10)

A. Comprehensive Annual Financial Report (Delivered to Mayor and City Council on December 21, 2017)
B. Single Audit Report*
C. Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards
D. Pasadena Center Operating Company Basic Financial Statements
E. Rose Bowl Operating Company Basic Financial Statements
F. Pasadena Community Access Corporation Basic Financial Statements
G. Pasadena Fire and Police Retirement System Report and Audited Financial Statements and Required Supplemental Information
H. Air Quality Improvement Fund Financial and Compliance Report
I. Independent Accountant's Report on Agreed-Upon Procedures Applied to Appropriation Limit Worksheets
J. Independent Accountant's Report on Agreed-Upon Procedures Applied to Employee Deductions for the Internal Revenue Code Section 457 Deferred Compensation Program
K. The Auditors Communications with the City's Audit and Finance Committees
L. Pasadena Housing Successor Report on Compliance and Internal Control Over Compliance and Housing Successor Annual Report Regarding the Low and Moderate Income Housing Asset Fund (Delivered to Mayor and City Council on December 28, 2017)

* Report to be presented at a later meeting