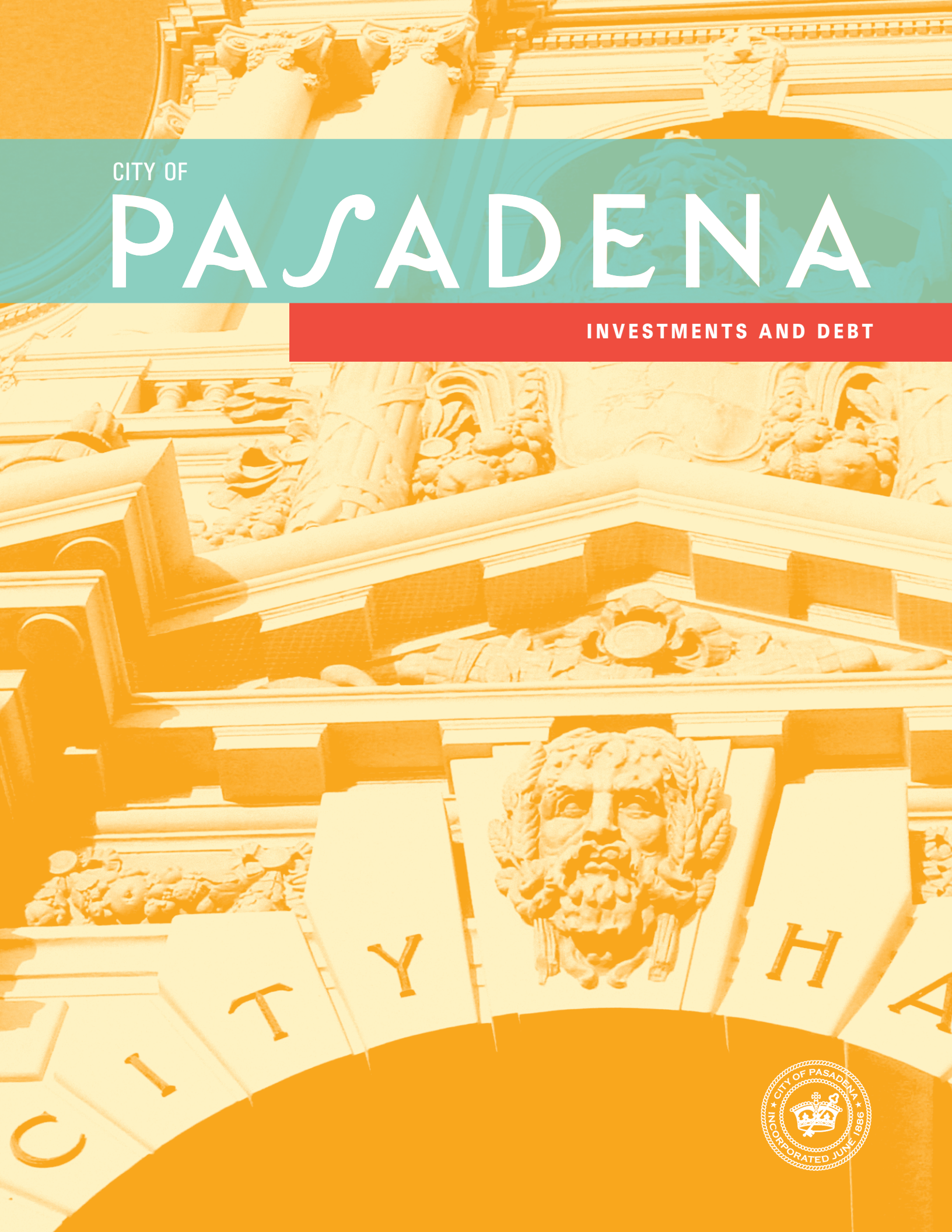
CITY OF

PASADENA

INVESTMENTS AND DEBT



CITY INVESTMENTS

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

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

City Goals and Practices

The City invests in full compliance with all governing laws and its own investment policy adopted by the City Council (copies available from the City Treasurer). It ensures that all investments are safe by preserving the principal of the investment. It seeks to maximize the amount of cash on hand, which is invested, but only after assuring adequate liquidity (accessible cash or other readily marketable assets), which allows the City to properly satisfy its short-term liabilities when they are due. Furthermore, the City seeks to maximize investment yield (the potential dollar earnings an investment provides) within full compliance to laws, and in accordance with the "prudent person rule" which provides that all investments are administered with the care, skill, prudence, and diligence under the prevailing circumstances that a prudent person acting in a like capacity and familiar with such matters would use.

The City's goal is to protect its assets and meet all of its numerous obligations. Only surplus cash and idle debt proceeds from bonds issued to complete a public interest project are invested. All moneys are invested safely and placed in investments which have a stated maturity date and maturity amount. The City always purchases securities with a maturity of five years or less, unless specifically authorized by the City Council. When investing funds for specific purposes or bond issues, the funds are invested separately so as to meet the specific investment objective and conditions imposed.

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

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

The City audits its portfolio's compliance with the State Government Code and the City Investment Policy, and has charged its external auditor (a Certified Public Accounting firm) with annually reviewing the portfolio for compliance with the City's Investment Policy.

Total Funds under Management as of June 30, 2017

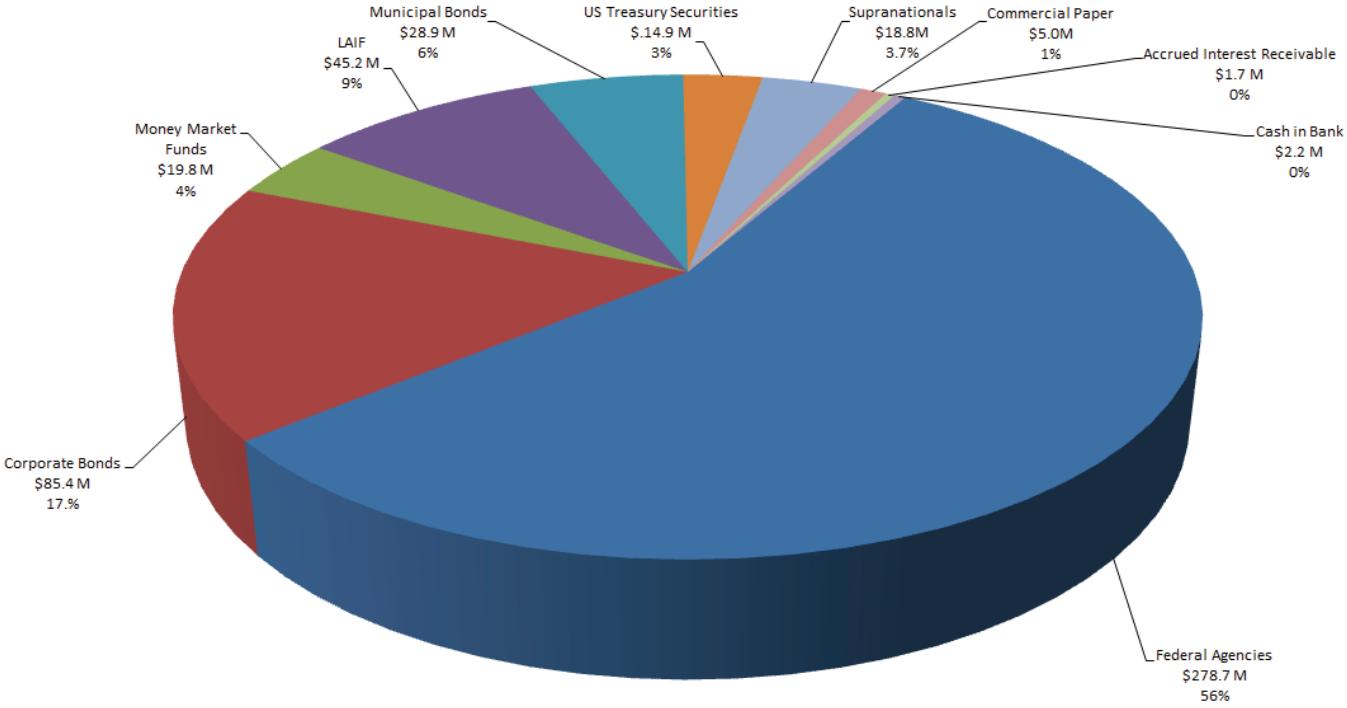
(unaudited numbers subject to change):

Pooled Investment Portfolio	$500,586,180
Capital Endowment Portfolio	$1,919,334
Power Reserve Portfolio	$69,452,547
Special Funds	$50,347,851
Investments Held by Trustee	$57,278,760
Total Funds Under Management	**$679,584,671**

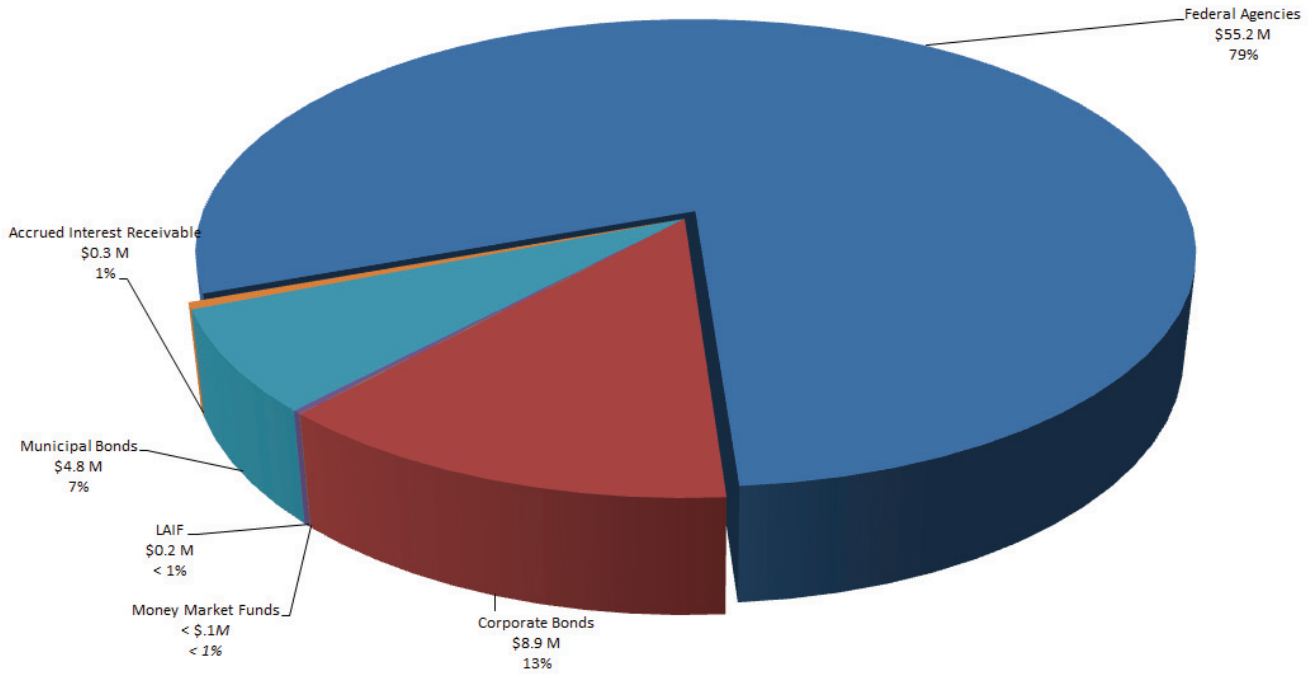
A Look at the City's Investment Portfolios

The pie charts in this section illustrate how the City invests surplus fund moneys in its pooled investment and Power

POOLED INVESTMENT PORTFOLIO: $500.6 MILLION



POWER RESERVE PORTFOLIO: $69.5 MILLION



Reserve Fund portfolios. The information provided is as of June 30, 2017. The amount of total excess funds held by the City changes daily based upon City revenue deposits, purchase orders, expenditures and other obligations which affect current liabilities and the liquidity needs of the City, and the timing of the maturity of held securities.

CITY DEBT

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

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

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

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

Additional factors that influence City borrowing include the amount of outstanding debt, the opportunity cost of borrowing, and the cost of borrowing in the credit markets. Part of the City's strategy in managing its debt is to ensure that the size of the City's outstanding debt is reasonable and enhances the City's ability to issue bonds at a favorable rate.

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

Currently the City has no outstanding GO Bonds. The City Charter, in Section 910, establishes a legal debt limit. In total, this GO debt limit cannot exceed 15.0 percent of the assessed value of all real and personal property (homes, businesses, land, etc.) subject to taxation for municipal purposes.

Types of City Debt

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

Bonds have been issued by the City for its general governmental capital projects, for the Water and Power utilities, the City’s former redevelopment agency, Pasadena Community Development Commission (PCDC), Pasadena Center Operating Company (PCOC), and the Rose Bowl Operating Company (RBOC). Agencies affiliated with the City, including the Civic Center West Special Tax District have also issued bonds. The chart on the last page shows outstanding debt for the general government, PCDC and self-supporting (Proprietary) funds such as the Light and Power Fund, the Water Fund, and the Parking Fund, and the internal services funds as of June 30, 2017.

Current Outstanding Debt by Category

- **Utility Revenue Bonds** - Bonds issued by the City's Water and Power enterprises. The Utilities do not have taxing authority but can instead pay bond debt with restricted revenues and user fees generated.
- **Certificates of Participation and Lease Revenue Bonds** The most frequently used form of City-issued debt, the Certificates of Participation offer the investor an opportunity to participate in the future income stream of a City property or asset, which is being built or renovated. Certificate proceeds from issuance are used to build the project, and leases generated from the project provide for the debt payments. General governmental units and self-supporting units, like the Old Pasadena Parking Fund, issue this kind of bond.
- **Tax Allocation Bonds (TABS)** (Bonds issued by PCDC) - TABS are repaid by property tax increment revenues, which are additional tax earnings from appreciating value of properties in redevelopment areas. The former PCDC used this financing to develop and/ or renovate commercial and low to moderate-income residential projects that helped revitalize the community and create jobs. As of February 1, 2012, all Redevelopment Agencies in California have been dissolved by State Bill ABX126. All debt service on outstanding tabs will be serviced by the State as enforceable obligations.

In addition to bonds, the City's debt portfolio includes a Capital Lease Obligation and Notes Payable. A Capital Lease Obligation is a leased asset for which title will be gained at the end of the lease period. Only long-term notes payables are listed on the table in this section.

Joint Ventures

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

Intermountain Power Authority

The Intermountain Power Authority (IPA), a subdivision of the State of Utah, was formed in June 1977 to finance the construction of a 1,800-megawatt (MW) coal-fueled generating plant consisting of two generating units located near Delta, Utah. The City has two separate contracts with the IPA and certain Utah participants, namely the Power Sales Entitlement contract and the Excess Sales contract, which currently provide the City approximately 6.0 percent of contractual entitlement in the facility.

Southern California Public Power Authority

The City of Pasadena Light and Power Fund joined the Southern California Public Power Authority (SCPPA) on November 1, 1980. This authority, consisting of the cities of Los Angeles, Pasadena, Anaheim, Azusa, Banning, Riverside, Colton, Vernon, Burbank, Glendale, Cerritos, and the Imperial Irrigation District, was formed for the purpose of planning, financing, developing, acquiring, and constructing future power and transmission resources. The Joint Powers Agreement has a term of fifty years. The City entered into seven projects with SCPPA and the City's estimated contractual obligations are as follows:

- Palo Verde Nuclear Generating Station – 4.4%
- Southern Transmission System (STS) – 5.9%
- Mead-Adelanto Transmission System – 8.6%
- Mead-Phoenix Transmission System – 13.8%
- Magnolia Project – 6.4%
- Milford I Wind Project – 2.5%
- Prepaid Natural Gas Project – 16.5%

Outstanding Bonded Debt Service Requirements

Issue Date	Description	Average Interest Rate	Final Maturity Date	Total Outstanding Principal as of June 30, 2017*	FY2018 Prncipal	FY 2018 Interest	FY 2018 Total
4/23/2015	Taxable Pension Obligation Bonds - Series 2015 AB	2.58-4.796%	2045	$119,460,000	$0	$5,429,959	$5,429,959
3/15/1999	PFA Lease Financing Marriott Parking Structure	4.95%	2019	$482,107	$185,647	$21,895	$207,541
12/27/2000	PFA Lease Financing-965 N. Fair Oaks Avenue	0.00%	2020	$652,925	$271,772	$0	$271,772
8/23/2006	2006 Conference Center COPS Series A CABs	4.49%	2023	$25,160,217	$4,125,000	$0	$4,125,000
4/15/2008	2008 Certificates of Participation Series A (Conference Center)	3.54%	2035	$134,720,000	$0	$5,316,501	$5,316,501
5/15/2008	Refunding Certificates of Participation Series 2008B	4.00%	2019	$6,405,000	$3,120,000	$295,200	$3,415,200
11/12/2015	Certificates of Participation 2008C Series (Refunding 2003 Variable Rate Demand COP-City Hall & Park Improvements)-Unfunded Portion	4.0%-5.0%	2038	$1,780,000	$1,780,000	$71,200	$1,851,200
11/12/2015	Certificates of Participation 2015A Series (Refunding 2003 Variable Rate Demand COP-City Hall & Park Improvements)	3%-5.0%	2038	$54,555,000	$0	$2,490,150	$2,490,150
6/1/2006	Tax Allocation Revenue Bonds (Fair Oaks)	4.68%	2022	$1,015,000	$185,000	$44,420	$229,420
6/1/2006	Tax Allocation Revenue Bonds (Lake/Washington)	4.57%	2018	$90,000	$90,000	$2,115	$92,115
7/1/1993	Certificates of Participation (Old Pasadena Parking Facilities)	2.75%-5.25%	2018	$2,085,000	$2,085,000	$130,313	$2,215,313
2/1/2006	Variable Rate Demand Lease Revenue Bonds (Rose Bowl and Improvement Projects	Variable	2024	$4,520,000	$580,000	$191,558	$771,558
9/17/2008	Paseo Colorado Taxable Revenue Refunding Bonds, Series 2008 (Refunding 2000 Paseo Colorado Taxable Revenue Bonds)	Variable	2038	$24,100,000	$700,000	$308,154	$1,008,154
11/18/2010	PPFA Lease Revenue Bonds(Rose Bowl Renovation Project) Series A-(Tax-Exempt)	4.0%-5.0%	2033	$19,531,035	$0	$89,950	$89,950
11/18/2010	PPFA Lease Revenue Bonds(Rose Bowl Renovation Project) Series B-(Taxable-Build America Bonds)	6.99%-7.15%	2043	$106,660,000	$0	$7,609,439	$7,609,439
11/18/2010	PPFA Lease Revenue Bonds(Rose Bowl Renovation Project) Series C-(Taxable Bonds)	2.94%-4.92%	2020	$3,375,000	$935,000	$156,040	$1,091,040
11/18/2010	PPFA Lease Revenue Bonds(Rose Bowl Renovation Project) Series D-(Taxable-Recovery Zone Economic Development Bonds)	7.14%	2043	$7,400,000	$0	$528,952	$528,952
1/15/2013	City of Pasadena Tax-Exempt Variable Rate Revenue Bonds (Rose Bowl Renovation Project) 2013 A Series	Variable	2042	$34,900,000	$0	$312,704	$312,704
1/15/2013	City of Pasadena Taxable Variable Rate Revenue Bonds (Rose Bowl Renovation Project) 2013 B Series	Variable	2027	$14,700,000	$1,175,000	$335,608	$1,510,608
9/20/2016	PPFA Lease Revenue Refunding Bonds, Series 2016A	5.00%	2027	$21,865,000	$0	$1,093,250	$1,093,250
5/1/2007	Water Revenue Bonds, 2007	4.00%	2036	$0	$0	$0	$0
1/28/2008	Electric Revenue Bonds,2008	4.18%	2037	$0	$0	$0	$0
11/24/2009	Electric Revenue Bonds, 2009	4.00%-5.00%	2024	$22,035,000	$3,015,000	$876,850	$3,891,850
7/19/2010	Electric Revenue Refunding Bonds-2010A	4.00%	2021	$18,925,000	$4,490,000	$662,100	$5,152,100
9/25/2012	Electric Revenue Refunding Bonds-2012A	4.00%	2022	$6,005,000	$515,000	$229,700	$744,700
12/13/2010	Water Revenue Bonds(Series A-Taxable Build America Bonds)-2010A	6.0%-7.30%	2040	$25,425,000	$0	$1,206,826	$1,206,826
12/13/2010	Water Revenue Bonds(Series B-Tax-Exempt Bonds)-2010B	3%-5%	2020	$2,120,000	$675,000	$79,513	$754,513
12/20/2011	Water Revenue Refunding Bonds, 2011A	3%-5%	2033	$21,140,000	$2,375,000	$860,680	$3,235,680
12/3/2013	Electric Revenue Refunding Bonds, 2013A	4.25-5%	2043	$79,060,000	$1,500,000	$3,735,625	$5,235,625
11/7/2016	Electric Revenue Refunding Bonds, 2016A	5.00%	2046	$119,440,000	$2,480,000	$5,745,750	$8,225,750
3/13/2017	Water Revenue Refunding Bonds, 2017A	5.00%	2036	$14,595,000	$475,000	$729,750	$1,204,750
Total Debt Service				**$892,201,284**	**$30,757,419**	**$38,554,201**	**$69,311,620**

*Unaudited Balances

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