

**ORDINANCE NO. \_\_\_\_\_**

**AN ORDINANCE OF THE CITY OF PASADENA AUTHORIZING THE ISSUANCE BY THE CITY OF NOT TO EXCEED \$95,000,000 AGGREGATE PRINCIPAL AMOUNT OF CITY OF PASADENA ELECTRIC REVENUE BONDS, 2002 SERIES, PAYABLE OUT OF THE LIGHT AND POWER FUND, AND APPROVING THE EXECUTION AND DELIVERY OF A SECOND SUPPLEMENT TO ELECTRIC REVENUE BOND FISCAL AGENT AGREEMENT AND A CONTINUING DISCLOSURE AGREEMENT IN CONNECTION THEREWITH.**

**WHEREAS**, pursuant to Article XIV of the Charter (the "Charter") of the City of Pasadena (the "City"), the City Council of the City (the "City Council") is authorized to provide for the issuance of revenue bonds for the purpose of providing moneys for the acquisition and construction of additions to, extensions, improvements, or repairs of the electric works of the City (the "Electric System") by ordinance authorizing the issuance of such revenue bonds; and

**WHEREAS**, pursuant to Ordinance No. 6760 of the City, adopted on August 3, 1998, the City has heretofore issued \$70,635,000 principal amount of its Electric Revenue/Refunding Bonds, 1998 Series (the "1998 Bonds") pursuant to an Electric Revenue Bond Fiscal Agent Agreement, dated as of August 1, 1998 (the "Master Fiscal Agent Agreement"), by and between the City and BNY Western Trust Company, as fiscal agent (the "Fiscal Agent"), as supplemented by a First Supplement to Electric Revenue Bond Fiscal Agent Agreement, dated as of August 1, 1998, by and between the City and the Fiscal Agent (the "First Supplement," and together with the Master Fiscal Agent Agreement, the "First Supplemented Fiscal Agent Agreement"), to provide moneys (i) for the acquisition and construction of additions to, and extensions and improvements of, the Electric System and (ii) to refund in their entirety of certain outstanding obligations; and

**WHEREAS**, pursuant to Article XIV of the Charter, the City now proposes to issue its Electric Revenue Bonds, 2002 Series (the "2002 Bonds"), pursuant to the First Supplemented Fiscal Agent Agreement, as further supplemented by a Second Supplement to Electric Revenue Bond Fiscal Agent Agreement, dated as of July 1, 2002, by and between the City and the Fiscal Agent (the "Second Supplement," and together with the First Supplemented Fiscal Agent Agreement, the "Fiscal Agent Agreement"), to provide moneys for the acquisition and construction of additions to, and extensions and improvements of, the Electric System; said 2002 Bonds not to constitute an indebtedness of the City but to constitute obligations which shall be payable as to both principal and interest, and any premiums upon the redemption of any thereof prior to maturity, only from the Light and Power Fund of the City and certain other funds as provided in the Fiscal Agent Agreement; and this Ordinance is for the purpose of authorizing the issuance of such 2002 Bonds.

**NOW, THEREFORE**, the People of the City of Pasadena ordain as follows:

7/1/2002  
9.B.(1)

**Section 1. Authorization to Issue 2002 Bonds: Purpose; Principal Amount.**

(a) Pursuant to Article XIV of the Charter, the City Council does hereby authorize to be issued, upon the terms and conditions as hereinafter set forth, the 2002 Bonds in the aggregate principal amount of not to exceed \$95,000,000 for the acquisition and construction of additions to, and extensions and improvements of, the Electric System, including the payment of costs and expenses incidental thereto.

(b) This Ordinance shall constitute complete authority to issue the 2002 Bonds pursuant to the Fiscal Agent Agreement as provided herein.

**Section 2. Issuance of Bonds.** The 2002 Bonds shall be issued pursuant to and in accordance with the terms and conditions set forth in this Ordinance, and more specifically in the First Supplemented Fiscal Agent Agreement and the Second Supplement.

**Section 3. Date of Issuance; Maximum Interest Rates.** The 2002 Bonds shall be dated as of the date of delivery thereof (which shall be no later than October 1, 2002). The maximum interest rate to be payable on the 2002 Bonds shall not exceed six percent (6.0%) per annum and the true interest cost for the 2002 Bonds shall not exceed five and one-half percent (5.5%) per annum.

**Section 4. Maturity Dates.** The maximum term for the 2002 Bonds shall be 30 years. Subject to the preceding sentence, the 2002 Bonds shall mature and be payable on such dates as specifically set forth in the Second Supplement described in Section 6 hereof.

**Section 5. Source of Payment.** The 2002 Bonds shall not constitute an indebtedness of the City but shall constitute obligations which shall be payable as to both principal and interest, and any premiums upon the redemption of any thereof prior to maturity, only from the Light and Power Fund of the City, as provided in Article XIV of the Charter, and certain other funds as authorized by Article XIV and provided in the Fiscal Agent Agreement.

**Section 6. Approval of Second Supplement.** In order to prescribe the terms and conditions upon which the 2002 Bonds are to be issued, secured, executed, authenticated and held, the Second Supplement proposed to be executed and entered into by the City and the Fiscal Agent, in substantially the form attached hereto as Exhibit A, is hereby approved, and the Director of Finance (or, in the absence of the Director of Finance, his designee) is hereby authorized and directed, for and in the name and on behalf of the City, to execute, and the City Clerk is authorized to affix the official seal of the City to, and deliver the Second Supplement to the Fiscal Agent in substantially such form, with such changes (including, without limitation, such changes as may be necessary to provide for the issuance of a municipal bond insurance policy and/or a surety bond for the reserve fund if so determined or such changes as may be requested by rating agencies providing a rating on the 2002 Bonds) as may be approved by the Director of Finance (or, in the absence of the Director of Finance, his designee), acting on behalf of the City, subject to advice of counsel, such execution thereof to constitute conclusive evidence of the approval of the City of all changes from the form of the Second Supplement presented to this meeting.

**Section 7. Continuing Disclosure Agreement.** The Continuing Disclosure Agreement, proposed to be executed and entered into by and between the City and the Fiscal Agent, in substantially the form attached hereto as Exhibit B is hereby approved, and the Director of Finance (or, in the absence of the Director of Finance, his designee) is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver to the trustee the Continuing Disclosure Agreement in substantially said form, with such changes as may be approved by the Director of Finance (or, in the absence of the Director of Finance, his designee), acting on behalf of the City, subject to advice of counsel, such execution thereof to constitute conclusive evidence of the approval of the City of all changes from the form of the Continuing Disclosure Agreement presented to this meeting.

**Section 8. Official Action.** All actions heretofore taken by the officers and agents of the City with respect to the issuance of the 2002 Bonds and the negotiation and execution of said agreements are hereby approved, confirmed and ratified. The City Manager, the Director of Finance, the City Treasurer, the City Clerk and any and all other officers of the City are hereby authorized and directed, for and in the name and on behalf of the City to do any and all things and take any and all actions, including, without limitation, the negotiation of a municipal bond insurance policy for all or any of the 2002 Bonds and a surety bond in lieu of cash for any reserve fund, and including execution and delivery of any and all certificates, requisitions, agreements and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the issuance, sale and delivery of the 2002 Bonds pursuant to the agreements described herein.

**Section 9. Provisions Necessary and Desirable.** The provisions of this Ordinance are deemed necessary and desirable to facilitate the issuance and sale of the 2002 Bonds authorized by this Ordinance.

**Section 10. Publication.** The City Clerk shall certify to the passage and adoption of this Ordinance and shall cause this Ordinance, excepting the exhibits attached hereto, to be published once in the *Pasadena Star-News*, a daily newspaper of general circulation published in said City.

**Section 11. Effective Date.** This Ordinance shall take effect on the date of publication pursuant to Section 10, subject only to the right of referendum provided in Section 1413 of the City Charter.

Signed and approved this 1st day of July, 2002.

\_\_\_\_\_  
Mayor of the City of Pasadena, California

**I HEREBY CERTIFY** that the foregoing Ordinance was adopted by the City Council of the City of Pasadena at its regular meeting held July 1, 2002, by the following vote:

Ayes:

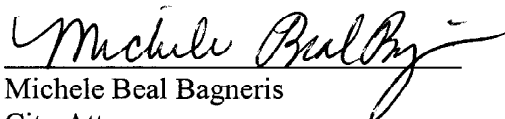
Noes:

Absent:

Published:


Pasadena Star News

APPROVED AS TO FORM:

  
\_\_\_\_\_  
Michele Beal Bagneris  
City Attorney

\_\_\_\_\_  
Jane L. Rodriguez  
City Clerk

APPROVED AS TO FORM:

  
\_\_\_\_\_  
Mary Neale  
Orrick, Herrington & Sutcliffe LLP  
Bond Counsel



**Exhibit A**  
**Second Supplement**  
**to**  
**Electric Revenue Bond**  
**Fiscal Agent Agreement**

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**SECOND SUPPLEMENT TO  
ELECTRIC REVENUE BOND  
FISCAL AGENT AGREEMENT**

**by and between**

**CITY OF PASADENA, CALIFORNIA**

**and**

**BNY WESTERN TRUST COMPANY,**

**as Fiscal Agent**

**RELATING TO CITY OF PASADENA, CALIFORNIA**

**ELECTRIC REVENUE BONDS, 2002 SERIES**

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**Dated as of July 1, 2002**

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**(Supplemental to the Electric Revenue Bond**

**Fiscal Agent Agreement dated as of August 1, 1998)**

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**SECOND SUPPLEMENT TO ELECTRIC REVENUE BOND  
FISCAL AGENT AGREEMENT**  
(Supplemental to the Electric Revenue Bond Fiscal Agent Agreement  
dated as of August 1, 1998)  
Authorizing the Issuance of  
\$ \_\_\_\_\_ Aggregate Principal Amount of  
City of Pasadena, California  
Electric Revenue Bonds,  
2002 Series

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This **SECOND SUPPLEMENT TO ELECTRIC REVENUE BOND FISCAL AGENT AGREEMENT**, dated as of July 1, 2002 (the "Second Supplement"), by and between the **CITY OF PASADENA** (the "City"), a municipal corporation and chartered city duly organized and existing under the Constitution and laws of the State of California, and **BNY WESTERN TRUST COMPANY**, a state banking corporation duly organized and validly existing under the laws of the State of California, as fiscal agent (the "Fiscal Agent"),

**W I T N E S S E T H:**

**WHEREAS**, this Second Supplement is supplemental to the Electric Revenue Bond Fiscal Agent Agreement, dated as of August 1, 1998 (the "Master Fiscal Agent Agreement"), by and between the City and the Fiscal Agent, as supplemented by a First Supplement to Electric Revenue Bond Fiscal Agent Agreement, dated as of August 1, 1998, by and between the City and the Fiscal Agent (the "First Supplement," and together with the Master Fiscal Agent Agreement, the "First Supplemented Fiscal Agent Agreement"), providing for the issuance of City of Pasadena, California, Electric Revenue Bonds (the "Bonds"); and

**WHEREAS**, the Master Fiscal Agent Agreement provides that the City may issue Bonds from time to time as authorized by a supplemental fiscal agent agreement; and

**WHEREAS**, Article XIV of the City's Charter authorizes the City to issue revenue bonds for the purpose of financing the generation, production, transmission and distribution of electric energy; and

**WHEREAS**, pursuant to Ordinance No. 6760 of the City, adopted on August 3, 1998, the City has heretofore issued \$70,635,000 principal amount of its Electric Revenue/Refunding Bonds, 1998 Series, pursuant to the First Supplemented Fiscal Agent Agreement; and

**WHEREAS**, pursuant to Article XIV of the Charter and Ordinance No. \_\_\_\_ of the City, adopted on July 1, 2002, the City proposes to issue its Electric Revenue Bonds, 2002 Series (the "2002 Bonds") pursuant the First Supplemented Fiscal Agent Agreement, as supplemented by this Second Supplement (collectively, the "Fiscal Agent Agreement"), to provide moneys for the acquisition and construction of additions to, and extensions and improvements of, the Electric System, said 2002 Bonds not to constitute an indebtedness of the City but to constitute obligations which shall be payable as to both principal and interest, and any premiums upon the

redemption of any thereof prior to maturity, only from the Light and Power Fund of the City and certain other funds as provided in the Fiscal Agent Agreement; and

**WHEREAS**, the City Council has determined that it is necessary and required that the City enter into this Second Supplement in order to establish and declare, in conjunction with the First Supplemented Fiscal Agent Agreement, the terms and conditions upon which the City of Pasadena Electric Revenue Bonds, 2002 Series (the “2002 Bonds”) shall be issued; and

**WHEREAS**, the City Council has determined that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and the entering into of this Second Supplement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Second Supplement;

**NOW, THEREFORE**, the parties hereto agree, as follows:

## **ARTICLE XII**

### **2002 BONDS**

**Section 12.01. Definitions.** The terms defined in this Section shall, for all purposes of this Second Supplement and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined. Terms defined in the First Supplemented Fiscal Agent Agreement not otherwise defined herein shall have the meanings specified therein.

“2002 Bond” or “2002 Bonds” means any or all, as the case may be, of the City of Pasadena Electric Revenue Bonds, 2002 Series, as described in Section 12.03 hereof.

“Interest Payment Date” means, with respect to the 2002 Bonds, June 1 and December 1 of each year, commencing December 1, 2002.

“Ordinance” means Ordinance No. \_\_\_\_ of the City, adopted on July 1, 2002, authorizing the issuance of the 2002 Bonds, and providing certain terms and conditions for the issuance of the 2002 Bonds.

### **Section 12.02. Authorization.**

(A) A second Series of Bonds to be issued under the Fiscal Agent Agreement is hereby created. Such Series shall be known as the “City of Pasadena Electric Revenue Bonds, 2002 Series” (herein referred to as the “2002 Bonds”). The 2002 Bonds shall be issued in the aggregate initial principal amount of \$\_\_\_\_\_ in accordance with the City Charter, the Ordinance, the First Supplemented Fiscal Agent Agreement and this Second Supplement for the acquisition and construction of additions to, and extensions and improvements of, the Electric System, including the payment of costs and expenses incidental thereto.

(B) The 2002 Bonds shall be issued in fully registered form and shall be initially issued registered in the name of “Cede & Co.,” as nominee of The Depository Trust Company.

The 2002 Bonds shall be evidenced by one 2002 Bond maturing on each of the maturity dates as set forth in Section 12.03 in a denomination corresponding to the total principal amount of the 2002 Bonds of such maturity. The Fiscal Agent may assign a distinctive number or letter and number, and a record of the same shall be maintained by the Fiscal Agent for each 2002 Bond. Registered ownership of the 2002 Bonds, or any portion thereof, may not thereafter be transferred except as set forth in the Fiscal Agent Agreement.

**Section 12.03. Terms of 2002 Bonds.** The 2002 Bonds shall be issued in denominations of \$5,000 principal amount or any integral multiple thereof. The 2002 Bonds shall be dated the date of delivery thereof, and shall mature on June 1 in the years and in the principal amounts and shall bear interest at the rates set forth below:

<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>
[2003]		
[2004]		
[2005]		
[2006]		
[2007]		
[2008]		
[2009]		
[2010]		
[2011]		
[2012]		
[2013]		
[2014]		
[2015]		
[2016]		
[2017]		
[2018]		
[2019]		
[2020]		
[2021]		
[2022]		

The 2002 Bonds shall be Current Interest Indebtedness. Each 2002 Bond shall bear interest until the principal sum thereof has been paid; provided, however, that if, at the maturity date of any 2002 Bond, or if the same is redeemable prior to maturity and has been duly called for redemption, funds are available for the payment or redemption thereof in accordance with the terms of this Second Supplement, the 2002 Bond shall then cease to bear interest. The principal of and premium, if any, on the 2002 Bonds shall be payable in lawful money of the United States of America by the Fiscal Agent upon presentation and surrender thereof.

Interest with respect to any 2002 Bond shall be payable from the Interest Payment Date next preceding the date of authentication thereof unless such date of authentication is during the period from a Record Date to and including the next succeeding Interest Payment Date, in which case interest with respect thereto shall be payable from such Interest Payment Date, or unless

such date of authentication is prior to the Record Date for the first Interest Payment Date, in which case interest with respect thereto shall be payable from \_\_\_\_\_, 2002; provided, however, that if at the time of authentication of any 2002 Bond, interest with respect thereto is in default, interest with respect thereto shall be payable from the Interest Payment Date to which interest has previously been paid. Payment of interest with respect to any 2002 Bond shall be made to the person appearing on the Bond Register as the Owner thereof as of the Record Date, such interest to be paid by check or draft of the Fiscal Agent, payable in lawful money of the United States of America and mailed on each Interest Payment Date to such Owner at his address as it appears on the Bond Register; provided, that in the case of an Owner of \$1,000,000 or more in aggregate principal amount of 2002 Bonds, upon written request of such Owner delivered to the Fiscal Agent not less than 20 days prior to any Interest Payment Date, such interest shall be paid in immediately available funds by wire transfer to an account specified by the Owner in such written request on the following Interest Payment Date.

**Section 12.04. Form of 2002 Bonds and Certificate of Authentication.** The 2002 Bonds and the certificate of authentication shall be substantially in the form set forth in Exhibit A hereto with necessary or appropriate variations, omissions and insertions, as permitted or required by this Second Supplement.

**Section 12.05. Disposition of Proceeds.** The disposition of proceeds of the 2002 Bonds shall be as follows:

(a) There is hereby established two separate accounts within the Construction Fund held in the City Treasury and established under Section 11.05 of the Fiscal Agent Agreement for the purpose of insuring the application of proceeds received on the sale of the 2002 Bonds to the purposes set forth in Section 12.02 hereof, which separate accounts are hereby designated as the "Series 2002 Construction Account" and the "Series 2002 Costs of Issuance Account."

(b) The Director of Finance shall, immediately upon receiving the proceeds of the sale of the 2002 Bonds, place in the Parity Reserve Fund the amount of \$ \_\_\_\_\_, which, together with the amounts on deposit therein and credited thereto, is an amount equal to the Reserve Fund Requirement, and place in the Series 2002 Construction Account all remaining sums received on such sale except accrued interest and premium, which shall be paid into the Parity Obligation Payment Fund established under Section 4.02 of the Fiscal Agent Agreement.

(c) Immediately upon placing such proceeds in the Series 2002 Construction Account, the Director of Finance shall transfer to the Series 2002 Costs of Issuance Account in the Construction Fund the amount determined by the Director of Finance to be required to pay Costs of Issuance.

(d) The moneys deposited in the Series 2002 Costs of Issuance Account shall be expended from time to time to pay Costs of Issuance. If any amount shall remain in the Series 2002 Costs of Issuance Account when all Costs of Issuance shall have been paid, such amount shall be transferred by the Director of Finance to the Series 2002 Construction Account.

(e) The money set aside and placed in the Series 2002 Construction Account shall remain therein until from time to time expended for the objects and purposes set forth herein, and

to pay the Costs of Issuance not paid from the Series 2002 Costs of Issuance Account. Amounts in the Series 2002 Construction Account, if any, and the Series 2002 Costs of Issuance Account may be temporarily invested in Investment Securities, and such proceeds and the interest thereon shall be applied exclusively to the objects and purposes set forth in this Second Supplement; provided, however, that (1) the Light and Power Fund may be reimbursed from the Series 2002 Construction Account for expenditures for purposes for which the 2002 Bonds were issued made from the Light and Power Fund, and (2) when the objects and purposes for which the 2002 Bonds were issued have been accomplished, any remaining unexpended funds in the Series 2002 Construction Account shall be paid into the Parity Obligation Payment Fund.

**Section 12.06. Redemption of 2002 Bonds.** The 2002 Bonds shall be subject to the following redemption provisions:

**Optional Redemption.** The 2002 Bonds maturing on or prior to June 1, 2012, are not subject to call and redemption prior to maturity. The 2002 Bonds maturing on and after June 1, 2013, are subject to call and redemption prior to maturity, at the option of the City, as a whole or in part, on June 1, 2012, or on any date thereafter, in any order of maturity and by lot within a single maturity, from funds derived by the City from any legal source, at a redemption price equal to the principal amount of the 2002 Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

(a) **Mandatory Redemption of Term 2002 Bonds.** The 2002 Bonds maturing on June 1, 20\_\_ shall be subject to mandatory sinking fund redemption in part at par, and by lot, from mandatory sinking account payments set aside in the Parity Obligation Payment Fund for such purpose, on June 1 of the years and in the amounts set forth below:

Year	Principal Amount
------	------------------

[2022] (maturity)

(b) Upon any purchase or redemption of the 2002 Bonds designated to be Term Bonds, an amount equal to the aggregate principal amount of 2002 Bonds so purchased or redeemed shall be credited towards a part or all of any one or more yearly mandatory sinking account payments required by subsection (b) above, as directed in writing by a Certificate of the Director of Finance. The portion of any such mandatory sinking account payments remaining after the deduction of any such amounts credited toward the same (or the original amount of any such mandatory sinking account payments if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such mandatory sinking account payments



for the purpose of the calculation of principal payments due on any future principal payment date.

So long as the 2002 Bonds are maintained in book-entry form, payments of principal, premium, if any, and interest shall be made by the Fiscal Agent to the Securities Depository by wire transfer.

The Fiscal Agent shall provide CUSIP number identification, with appropriate dollar amounts for each CUSIP number, on all redemption payments and interest payments, whether by check or by wire transfer.

**Section 12.07. Terms of 2002 Bonds Subject to the Fiscal Agent Agreement.** Except as in this Second Supplement expressly provided, every term and condition contained in the Fiscal Agent Agreement shall apply to the Second Supplement and to the 2002 Bonds with the same force and effect as if the same were herein set forth at length, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to the Second Supplement.

The Second Supplement and all the terms and provisions herein contained shall form part of the Fiscal Agent Agreement as fully and with the same effect as if all such terms and provisions had been set forth in the Fiscal Agent Agreement. The Fiscal Agent Agreement is hereby ratified and confirmed and shall continue in full force and effect in accordance with the terms and provisions thereof, as supplemented and amended hereby.

**Section 12.08. Governing Law.** This Second Supplement shall be construed and governed in accordance with the laws of the State of California.

**Section 12.09. Execution in Counterparts.** The Second Supplement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

**IN WITNESS WHEREOF**, the parties hereto have executed the Second Supplement by their officers thereunto duly authorized as of the day and year first written above.

**CITY OF PASADENA**

By: \_\_\_\_\_  
Jay M. Goldstone  
Director of Finance

(Seal)

**ATTEST:**

By: \_\_\_\_\_  
City Clerk

**APPROVED AS TO FORM:**

By: \_\_\_\_\_  
Michele Beal Bagneris  
City Attorney

**BNY WESTERN TRUST COMPANY, as  
Fiscal Agent**

By: \_\_\_\_\_  
Authorized Officer

---

**EXHIBIT A**

[FORM OF 2002 BOND]

Bond No. \_\_\_\_\_ \$ \_\_\_\_\_

UNITED STATES OF AMERICA  
STATE OF CALIFORNIA  
CITY OF PASADENA

ELECTRIC REVENUE BOND, 2002 SERIES

<u>INTEREST</u> <u>RATE</u>	<u>MATURITY</u> <u>DATE</u>	<u>DATED</u> <u>DATE</u>	<u>CUSIP NO.</u>
		_____, 2002	

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: \_\_\_\_\_ DOLLARS

The City of Pasadena, a municipal corporation situated in the County of Los Angeles, State of California (the "City"), FOR VALUE RECEIVED, hereby promises to pay, only from the Light and Power Fund and such other funds as hereinafter provided, to the registered owner named above, or registered assigns, on the maturity date set forth above (subject to the right of prior redemption hereafter mentioned), the principal amount set forth above, and to pay interest on such principal amount, semiannually on June 1 and December 1 of each year, commencing December 1, 2002 (each such date shall be referred to herein as an "Interest Payment Date") at the interest rate set forth above. Interest with respect to this 2002 Bond shall be payable from the Interest Payment Date next preceding the date of authentication hereof unless such date of authentication is during the period from a Record Date (as hereinafter defined) to and including the next succeeding Interest Payment Date, in which case interest with respect hereto shall be payable from such Interest Payment Date, or unless such date of authentication is prior to the Record Date for the first Interest Payment Date, in which case interest with respect hereto shall be payable from \_\_\_\_\_, 2002; provided, however, that if at the time of authentication of this 2002 Bond, interest with respect hereto is in default, interest with respect hereto shall be payable from the Interest Payment Date to which interest has previously been paid. Interest on this 2002 Bond is payable by check or draft of BNY Western Trust Company, in Los Angeles, California, its successors and assigns, as Fiscal Agent for the 2002 Bonds, mailed on each Interest Payment Date to the registered Owner hereof as of the close of business on the 15th day of the month immediately preceding an Interest Payment Date (the "Record Date") at such Owner's address as it appears on the registration books maintained by the Fiscal Agent; provided, that in the case of an Owner of \$1,000,000 or more in aggregate principal amount of 2002 Bonds, upon written request of such Owner delivered to the Fiscal Agent not less than 20 days prior to any Interest Payment Date, such interest shall be paid in immediately available funds by wire transfer to an account specified by the Owner in such written request on the following Interest Payment Date. Both principal and any premium upon the redemption of all or any part hereof are payable in

lawful money of the United States of America upon presentation and surrender hereof at the Corporate Trust Office of the Fiscal Agent in Los Angeles, California, or such other place as designated by the Fiscal Agent.

This is one of a duly authorized issue of bonds of the City designated "Electric Revenue Bonds, 2002 Series", referred to herein as the "2002 Bonds", all of which have been issued pursuant to Article XIV of said Charter for the purpose of providing moneys for the acquisition and construction of additions to and extensions and improvements of the Electric System of the City. The creation of said issue and the terms and conditions of the 2002 Bonds are provided for by the Ordinance of the City authorizing the 2002 Bonds and designated Ordinance No. \_\_\_\_\_, adopted by the City Council of the City on July 1, 2002, and by an Electric Revenue Bond Fiscal Agent Agreement, dated as of August 1, 1998, by and between the City and the Fiscal Agent, as supplemented by a First Supplement to Electric Revenue Bond Fiscal Agent Agreement, dated as of August 1, 1998, by and between the City and the Fiscal Agent, and a Second Supplement to Electric Revenue Bond Fiscal Agent Agreement, dated as of July 1, 2002, by and between the City and the Fiscal Agent (collectively, the "Fiscal Agent Agreement"), and by acceptance hereof the Owner of this 2002 Bond assents to said terms and conditions. Said Ordinance and Fiscal Agent Agreement are adopted under and this 2002 Bond is issued under and each is to be construed in accordance with the Charter of the City and the laws and Constitution of the State of California. Capitalized terms used herein not otherwise defined shall have the meanings ascribed thereto in the Fiscal Agent Agreement.

This 2002 Bond does not constitute an indebtedness of the City of Pasadena but is an obligation payable, as to both principal and interest, and any premium upon the redemption hereof prior to maturity, exclusively from the Light and Power Fund and certain other funds as provided in the Fiscal Agent Agreement, but this shall not preclude the payment hereof from the proceeds of bonds issued to refund the 2002 Bonds, nor preclude the use of any sum received as premium or accrued interest on the sale of the 2002 Bonds to pay principal and interest hereof, nor payment from certain other funds or moneys as provided in Subdivision 4 of Section 1414 of Article XIV of the Charter of the City (the "Charter"). The Light and Power Fund is established in and by the Charter, and under the provisions of said Charter all money received from the sale or use of electric energy or otherwise derived from the Electric System of the City is required to be deposited in the Light and Power Fund and used only for the purposes set forth in said Charter, including the payment of the 2002 Bonds.

The 2002 Bonds will be issued on a parity with the \$70,635,000 aggregate principal amount of City of Pasadena Electric Revenue/Refunding Bonds, 1998 Series (the "1998 Bonds"), previously issued pursuant to the Master Fiscal Agent Agreement and the First Supplement. The 2002 Bonds, the 1998 Bonds and any additional bonds to be issued pursuant to the Fiscal Agent Agreement are herein referred to collectively as the "Bonds". All Net Income deposited in the Light and Power Fund is pledged to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds and any Parity Obligations in accordance with their terms, subject only to the provisions of the Fiscal Agent Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein. Said pledge shall constitute a first lien on the Net Income and shall be valid and binding from and after delivery by the City of the Bonds or Parity Obligations, without any physical delivery thereof or further act. Nothing in the Fiscal Agent Agreement restricts the issuance of additional

bonds under Article XIV of the City Charter, subject to the limitations set forth in Article V of the Fiscal Agent Agreement, payable from the Light and Power Fund and ranking on a parity with or subordinate to the Bonds.

The Charter and covenants expressed in said Fiscal Agent Agreement impose upon the officers of said City certain obligations to the Owners of the 2002 Bonds, such covenants, among other things, restricting transfers out of the Light and Power Fund, prohibiting issuance of revenue bonds having any priority with respect to payment from the Light and Power Fund, placing limitations upon the issuance of additional bonds payable from said fund and imposing conditions with respect to any sale or lease of the Electric System. In the manner provided in the Fiscal Agent Agreement any or all of the covenants expressed in the Fiscal Agent Agreement and any other provision thereof or any provision of any resolution or order authorizing or providing for the issuance of the 2002 Bonds may be waived or modified at any time in the manner, to the extent, and upon the terms provided in the Fiscal Agent Agreement, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered Owners of the 2002 Bonds.

The 2002 Bonds maturing on or prior to June 1, 2012, are not subject to call and redemption prior to maturity. The 2002 Bonds maturing on or after June 1, 2013 are subject to call and redemption prior to maturity, at the option of the City, as a whole or in part, on June 1, 2012 or on any date thereafter, in any order of maturity and by lot within a single maturity, from funds derived by the City from any legal source, at a redemption price equal to the principal amount of the 2002 Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

The 2002 Bonds maturing on June 1, 20\_\_ shall be subject to mandatory sinking fund redemption in part at par, and by lot, from mandatory sinking account payments set aside in the Parity Obligation Payment Fund for such purpose, on June 1 of the years and in the amounts set forth in the Fiscal Agent Agreement.

Notice of redemption prior to maturity shall be given as provided in said Fiscal Agent Agreement.

The 2002 Bonds are registrable, as to principal and interest, in denominations of \$5,000 principal amount or any integral multiple thereof. This 2002 Bond is transferable by the registered Owner hereof, in person or by his or her duly authorized attorney, at the Corporate Trust Office of the Fiscal Agent in Los Angeles, California, or such other place as designated by the Fiscal Agent. This 2002 Bond may be exchanged at the Corporate Trust Office of the Fiscal Agent, or such other place as designated by the Fiscal Agent, for a like aggregate principal amount of Bonds of other denominations of the same Series and maturity. Any such transfer and exchange shall be only in the manner, subject to the limitations and upon payment of the charges provided in said Fiscal Agent Agreement. Upon such transfer or exchange a new registered 2002 Bond of authorized denomination or denominations for a like aggregate principal amount of the same series, interest rate or rates and maturity or maturities will be issued to the transferee in exchange herefor.

The Fiscal Agent may treat the registered Owner hereof as the absolute Owner hereof for all purposes, and shall not be affected by any notice to the contrary.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed precedent to and in the issuance of this 2002 Bond exist, have happened, and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California and the Charter, and that this 2002 Bond, together with all other obligations and indebtedness of the City pertaining to the aforesaid electric system, is within every debt and other limit prescribed by or pursuant to the Constitution and statutes of the State of California and the Charter. Pursuant to Article XIV of the Charter, the foregoing recital of regularity of proceedings shall be conclusive evidence of compliance with the provisions of Article XIV of the Charter and of the validity of this 2002 Bond.

IN WITNESS WHEREOF, the City of Pasadena has caused this 2002 Bond to be signed by the Director of Finance and the City Clerk of the City by their facsimile signatures and the corporate seal of the City to be reproduced hereon.

\_\_\_\_\_  
Director of Finance of the City of Pasadena,  
California

ATTEST:

\_\_\_\_\_  
City Clerk of the City of Pasadena, California

(SEAL)

CERTIFICATE OF AUTHENTICATION

This is one of the City of Pasadena, California Electric System Revenue Bonds, 2002 Series, described in Ordinance No. \_\_\_\_ and the Fiscal Agent Agreement of the City of Pasadena, California.

Dated: \_\_\_\_\_

BNY WESTERN TRUST COMPANY,  
as Fiscal Agent

By: \_\_\_\_\_  
Authorized Signatory



ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto \_\_\_\_\_  
\_\_\_\_\_ (Taxpayer  
Identification Number: \_\_\_\_\_) the within Bonds and all rights thereunder, and  
hereby irrevocably constitutes and appoints attorney to transfer the within Bond on the books  
kept for registration thereof, with full power of substitution in the premises.

Dated: \_\_\_\_\_

\_\_\_\_\_

Note: The signature to this Assignment must correspond with the name as written on the  
face of the Bond in every particular, without alteration or enlargement or any change whatever.

Signature Guaranteed: \_\_\_\_\_

Notice: Signatures must be guaranteed by an eligible guarantor institution.

**Exhibit B**  
**Continuing Disclosure Agreement**

PRELIMINARY OFFICIAL STATEMENT DATED JULY 3, 2002

NEW ISSUE-FULL BOOK-ENTRY ONLY

Ratings: Fitch: \_\_\_\_\_  
Standard & Poor's: \_\_\_\_\_  
(See "RATINGS" herein)

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2002 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the 2002 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2002 Bonds. See "TAX MATTERS" herein.*

**\$81,770,000\***  
**CITY OF PASADENA, CALIFORNIA**  
**ELECTRIC REVENUE BONDS, 2002 SERIES**

Dated: Date of delivery

Due: June 1, as shown below

The \$81,770,000\* aggregate principal amount of City of Pasadena, California Electric Revenue Bonds, 2002 Series (the "2002 Bonds") are being issued for the purpose of providing moneys, together with other available funds, (i) to finance the costs of acquisition and construction of certain improvements to the Electric System of Pasadena Water and Power (the "Electric System"); (ii) to fund a Parity Reserve Fund; and (iii) to pay the costs of issuance of the 2002 Bonds. See "THE 2002 PROJECT" herein.

The 2002 Bonds are being issued pursuant to an Electric Revenue Bond Fiscal Agent Agreement, dated as of August 1, 1998, by and between the City of Pasadena, California (the "City") and BNY Western Trust Company, as fiscal agent (the "Fiscal Agent"), as supplemented by a First Supplement to Electric Revenue Bond Fiscal Agent Agreement, dated as of August 1, 1998, by and between the City and the Fiscal Agent and as further supplemented by a Second Supplement to Fiscal Agent Agreement, dated as of July 1, 2002 by and between the City and the Fiscal Agent (collectively, the "Fiscal Agent Agreement"). The 2002 Bonds are being issued in fully registered form, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the 2002 Bonds. Beneficial ownership interests in the 2002 Bonds may be purchased in book-entry form only in denominations of \$5,000 principal amount or any integral multiple thereof. Interest on the 2002 Bonds will be payable semiannually on June 1 and December 1 of each year, commencing December 1, 2002. Payments of principal of, premium, if any, and interest on, the 2002 Bonds will be paid by the Fiscal Agent to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its participants for subsequent disbursement to the beneficial owners of the 2002 Bonds.

The 2002 Bonds are subject to redemption prior to maturity as described herein. See "THE 2002 BONDS - Redemption" herein.

The 2002 Bonds are an obligation payable solely from the Light and Power Fund of the City and certain other funds as provided in the Fiscal Agent Agreement. The 2002 Bonds are secured by a pledge of and lien upon Net Income of the Electric System on a parity with other obligations of the Electric System payable from Net Income of the Electric System and issued from time to time pursuant to the terms of the Fiscal Agent Agreement. The City has previously issued \$70,635,000 aggregate principal amount of its Electric Revenue/Refunding Bonds, 1998 Series, on a parity with the 2002 Bonds, of which \$65,595,000 is outstanding as of the date hereof.

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of

\* Preliminary, subject to change.

an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

The general fund of the City is not liable for the payment of any 2002 Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of the City pledged for the payment of any 2002 Bonds, any premium thereon upon redemption prior to maturity or their interest. The Owner of any 2002 Bond shall not compel the exercise of the taxing power by the City or the forfeiture of any of its property. The principal of and interest on any 2002 Bonds and any premiums upon the redemption of any thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Income and other funds which are pledged to the payment of the 2002 Bonds, interest thereon and any premiums upon redemption pursuant to the Fiscal Agent Agreement.

**MATURITY SCHEDULE**

Maturity Date (June 1)	Principal Amount	Interest Rate	Yield	Maturity Date (June 1)	Principal Amount	Interest Rate	Price or Yield
2003	\$ _____	____%	____%	2013	\$ _____	____%	____%
2004	_____	_____	_____	2014	_____	_____	_____
2005	_____	_____	_____	2015	_____	_____	_____
2006	_____	_____	_____	2016	_____	_____	_____
2007	_____	_____	_____	2017	_____	_____	_____
2008	_____	_____	_____	2018	_____	_____	_____
2009	_____	_____	_____	2019	_____	_____	_____
2010	_____	_____	_____	2020	_____	_____	_____
2011	_____	_____	_____	2021	_____	_____	_____
2012	_____	_____	_____	2022	_____	_____	_____

*The 2002 Bonds are offered, when, as and if issued by the City, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by Quateman & Zidell LLP, Los Angeles, California, Disclosure Counsel, and by Michele Beal Bagneris, City Attorney of the City of Pasadena. It is anticipated that the 2002 Bonds will be available for delivery through the DTC book-entry system in New York, New York on or about July 30, 2002.*

**BIDS WILL BE ACCEPTED UNTIL 9:00 A.M. CALIFORNIA TIME  
ON MONDAY, JULY 15, 2002.**

Dated: \_\_\_\_\_, 2002

**QUATEMAN & ZIDELL LLP  
DRAFT DATED JUNE 19, 2002**

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representation, other than those contained herein, and if given or made, such other information or representation must not be relied upon as having been authorized by the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2002 Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2002 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly described herein, are intended solely as such and are not to be construed as representations of fact.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are generally identifiable by the terminology used such as "plan", "expect", "estimate", "budget", "project", "forecast" or other similar words.

The information set forth herein has been furnished by the City and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Electric System since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE 2002 BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2002 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CITY OF PASADENA

CITY COUNCIL

Bill Bogaard, *Mayor*  
Paul Little, *Vice-Mayor*  
Chris Holden, *Councilmember*  
Joyce Streater, *Councilmember*  
Steve Haderlein, *Councilmember*  
Sidney F. Tyler, *Councilmember*  
Victor Gordo, *Councilmember*  
Steve Madison, *Councilmember*

CITY STAFF

Cynthia J. Kurtz, *City Manager*  
Jay M. Goldstone, *Director of Finance*  
Vic Erganian, *City Treasurer*

CITY ATTORNEY

Michele Beal Bagneris

PASADENA WATER AND POWER STAFF

Phyllis E. Currie, *General Manager*  
Eric Klinkner, *Business Unit Director for Power Supply*  
Jay Panzica, *Business Unit Director for Finance and Administration*  
George Wilson, *Business Unit Director for Power Delivery*  
Donald Pappé, *Business Unit Director for Customer Sales & Service*  
Shan Kwan, *Business Unit Director for Water*

FINANCIAL ADVISOR

Montague DeRose and Associates  
Westlake Village, California

BOND COUNSEL

Orrick, Herrington & Sutcliffe LLP  
Los Angeles, California

DISCLOSURE COUNSEL

Quateman & Zidell LLP  
Los Angeles, California

FISCAL AGENT

BNY Western Trust Company  
Los Angeles, California

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OFFICIAL STATEMENT

\$81,770,000\*  
CITY OF PASADENA, CALIFORNIA  
ELECTRIC REVENUE BONDS, 2002 SERIES

INTRODUCTION

*This Introduction is subject in all respects to the more complete information contained elsewhere in this Official Statement, and the offering of the 2002 Bonds to potential investors is made only by means of the entire Official Statement. Terms used in this Introduction and not otherwise defined herein shall have the respective meanings assigned to them elsewhere in this Official Statement.*

**Purpose**

The purpose of this Official Statement, which includes the cover page and Appendices hereto, is to set forth certain information in connection with the issuance and sale by the City of Pasadena, California (the "City") of \$81,770,000\* aggregate principal amount of its Electric Revenue Bonds, 2002 Series (the "2002 Bonds"). The 2002 Bonds are being issued for the purpose of providing moneys, together with other available funds: (i) to finance the costs of acquisition and construction of certain improvements to the Electric System of the City (the "2002 Project"); (ii) to fund the Parity Reserve Fund; and (iii) to pay costs of issuance of the 2002 Bonds, as more fully described herein. See "THE 2002 PROJECT" herein.

**Authority for Issuance**

The 2002 Bonds are authorized and issued pursuant to the Charter of the City, as amended (the "Charter"), including Article XIV thereof, an Ordinance adopted by the City Council of the City (the "City Council") on July 1, 2002, and by an Electric Revenue Bond Fiscal Agent Agreement, dated as of August 1, 1998 by and between the City and BNY Western Trust Company, as fiscal agent (the "Fiscal Agent"), as supplemented by a First Supplement to Electric Revenue Bond Fiscal Agent Agreement, dated as of August 1, 1998, by and between the City and the Fiscal Agent and as further supplemented by a Second Supplement to Electric Revenue Bond Fiscal Agent Agreement, dated as of July 1, 2002, by and between the City and the Fiscal Agent (collectively, the "Fiscal Agent Agreement"). All Electric Revenue Bonds issued pursuant to the Fiscal Agent Agreement are collectively referred to herein as the "Bonds."

**The City**

The City is a charter city of the State of California (the "State"), comprising approximately 23 square miles, in Los Angeles County in the northwestern portion of the San Gabriel Valley. See "APPENDIX A - THE CITY OF PASADENA" herein. The City owns and operates a municipal electric public utility (the "Electric System"), established by the Charter. The Electric System is managed and controlled by Pasadena Water and Power ("PWP") and supplies electricity to virtually all of the electric customers within the City limits. For the Fiscal Year ended June 30, 2001, the number of customers of the Electric System was 59,354, the total quantity of energy generated and purchased was 1,613,266 mega-watt hours ("MWh"), and the peak demand was 272 mega-watts ("MW").

**Security and Sources of Payment for the 2002 Bonds**

The 2002 Bonds are an obligation payable solely from the Light and Power Fund of PWP and certain other funds as provided in the Fiscal Agent Agreement. The 2002 Bonds are secured by a pledge of and lien upon Net Income of the Electric System on a parity with other obligations of the Electric System payable from Net Income of

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\* Preliminary, subject to change.

the Electric System and issued from time to time pursuant to the Fiscal Agent Agreement, including the City's previously issued \$70,635,000 aggregate principal amount of its Electric Revenue/Refunding Bonds, 1998 Series, of which \$65,595,000 is outstanding as of the date hereof (the "1998 Bonds"). See "SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS – Additional Bonds" herein.

The general fund of the City (the "General Fund") is not liable for the payment of any 2002 Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of the City pledged for the payment of any 2002 Bonds, any premium thereon upon redemption prior to maturity or their interest. No Owner of any 2002 Bond shall compel the exercise of the taxing power by the City or the forfeiture of any of its property. The principal of and interest on any 2002 Bonds and any premiums upon the redemption of any thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Income and other funds which are pledged to the payment of the 2002 Bonds, interest thereon and any premiums upon redemption pursuant to the Fiscal Agent Agreement.

#### **Parity Reserve Fund**

Pursuant to Section 1413 of Article XIV of the City Charter, the City has established the Parity Reserve Fund. Moneys held in the Parity Reserve Fund are pledged to and may be used solely for payment of debt service on the 2002 Bonds or Parity Obligations, including the 1998 Bonds, secured thereby in the event that money in the Parity Obligation Payment Fund or any comparable fund established for the payment of principal and interest on the Parity Obligations secured thereby is insufficient therefor. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS - Parity Reserve Fund" herein.

#### **Rate Covenant**

The City has covenanted in the Fiscal Agent Agreement to fix the rates for services furnished by the Electric System so as to provide Gross Revenues at least sufficient to pay, as the same become due, the principal of and interest on the 2002 Bonds and all Parity Obligations and all other obligations and indebtedness payable from the Light and Power Fund or from any fund derived therefrom, and also the necessary Maintenance and Operating Expenses, so that the Net Income of the Electric System will be at least equal to 1.10 times the amount necessary to pay principal and interest as the same become due on all 2002 Bonds and Parity Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS – Rate Covenant" herein.

#### **Other Matters**

This Official Statement speaks only as of its date, and the information and expressions of opinions contained herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Electric System since the date hereof. (This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.) Forward looking statements in this Official Statement are subject to risks and uncertainties, including particularly those relating to competition and electric industry restructuring, and the economy of the City's service area.

This Official Statement includes summaries of the terms of the 2002 Bonds, the Fiscal Agent Agreement, the Continuing Disclosure Agreement and certain contracts and other arrangements for the supply of capacity and energy. The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report or instrument. The capitalization of any word not conventionally capitalized, or otherwise defined herein, indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document.

Copies of the Fiscal Agent Agreement and the Continuing Disclosure Agreement are available for inspection at the offices of the City in Pasadena, California, and will be available upon request and payment of duplication costs from the Fiscal Agent.

### Additional Information

Additional information regarding the Official Statement may be obtained by contacting the Fiscal Agent or:

Director of Finance  
City of Pasadena  
100 N. Garfield Avenue, Room 345  
Pasadena, California 91101-7215  
(626) 744-4350

### THE 2002 PROJECT

The 2002 Bonds are being issued for the purpose of providing moneys, together with other available funds, (i) to finance the costs of the 2002 Project; (ii) to fund the Parity Reserve Fund and (iii) to pay costs of issuance of the 2002 Bonds.

The 2002 Project consists of two parts: a portion of the Repowering Project (as defined below) and the construction and installation of the San Rafael transmission line.

#### Repowering Project

The \$81 million Repowering Project (the "Repowering Project") is a key element of the City Council-approved Electric System Strategic Resource Plan (the "Strategic Resource Plan"). The Strategic Resource Plan was developed in response to recent regional power shortages, energy price volatility and stricter emissions control requirements recently adopted by the South Coast Air Quality Management District ("SCAQMD"). The Repowering Project will contribute to PWP's efforts to meet its stated goals of reliable electric service, stable rates, competitive energy pricing and environmental stewardship.

The Repowering Project includes the replacement of existing steam generators Broadway Unit 1 and Broadway Unit 2 ("B1" and "B2") with two new 45MW simple-cycle combustion turbines by summer 2003. These new units, which will be located on PWP's existing Glenarm property (adjacent to Broadway) and designated as Gas Turbine Unit 3 and Unit 4 ("GT3" and "GT4"), are essential and time critical. B1 and B2, which provide needed capacity to reliably meet PWP's peak loads and are an important hedge against power market price spikes, will lose their operating permits on January 1, 2003 under strict new emission control requirements imposed by the SCAQMD. If GT3 and GT4 are not complete by that time, PWP would buy power on the open market or seek a temporary permit from SCAQMD to continue operating B1 and B2. See "RISK FACTORS – Permitting Issues for the Repowering Project" herein. With their higher efficiency, superior operational flexibility and 98% reduction in NOx emission rates, GT3 and GT4 will be far more effective in the role currently played by B1 and B2. Procurement and installation costs of GT3 and GT4 are estimated at \$74 million. PWP recently entered into a contract with General Electric to supply equipment and engineering services for the Repowering Project.

The Repowering Project also includes a retrofitting project for two gas turbines at the Glenarm site. This portion of the Repowering Project, which is estimated to cost approximately \$7 million, will not be funded with the proceeds of the 2002 Bonds. See "City-Owned Generating Facilities – Glenarm Power Plant" herein.

#### San Rafael Transmission Line

This component of the 2002 Project will provide new feeder lines, power cable and fiber optic communication systems from the Water and Power Receiving Station to the proposed San Rafael Substation. It is expected that the construction will provide for power-carrying capability that will significantly improve reliability to the San Rafael Hills area. The construction of the San Rafael Transmission Line is estimated to cost \$3 million, which will be financed with a portion of the 2002 Bond proceeds. Construction of the San Rafael substation will be budgeted in Fiscal Year 2002-03.

**ESTIMATED SOURCES AND USES OF FUNDS**

The estimated sources and uses of funds in connection with the 2002 Bonds (excluding accrued interest) are as follows:

Sources:

Principal Amount of 2002 Bonds	\$ _____
Plus Original Issue Premium	_____
Total	\$ _____

Uses:

Deposit to Series 2002 Construction Account	\$ _____
Deposit to Parity Reserve Fund	_____
Deposit to Series 2002 Cost of Issuance Account <sup>(1)</sup>	_____
Total	\$ _____

<sup>(1)</sup> Includes fees of Bond Counsel, Disclosure Counsel, the Fiscal Agent and financial advisory fees, purchasers' discount, rating agencies' fees, printing costs and other miscellaneous expenses.

**THE 2002 BONDS**

**General**

The 2002 Bonds will be dated the date of the delivery and will bear interest from that date at the rates per annum and will mature on June 1 in the years set forth on the cover page of this Official Statement. Interest on the 2002 Bonds will be payable semiannually on June 1 and December 1, commencing December 1, 2002, and will be calculated on the basis of a 360-day year comprised of twelve 30-day months. The 2002 Bonds are being issued in fully registered form, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). So long as Cede & Co. is the registered owner of the 2002 Bonds, references herein to the owners or registered owners shall mean Cede & Co., and not the beneficial owners of the 2002 Bonds. See "APPENDIX C - BOOK-ENTRY SYSTEM" herein.

**Redemption**

*Optional Redemption.* The 2002 Bonds maturing on or prior to June 1, 2012 are not subject to call and redemption prior to maturity. The 2002 Bonds maturing on and after June 1, 2013 are subject to call and redemption prior to maturity, at the option of the City, as a whole or in part, on June 1, 2012 or on any date thereafter, in any order of maturity and by lot within a single maturity, from funds derived by the City from any legal source, at a redemption price equal to the principal amount of the 2002 Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

*Mandatory Redemption of Term Bonds.* The 2002 Bonds maturing on June 1, 20\_\_ shall be subject to mandatory sinking fund redemption in part at par, and by lot, from mandatory sinking account payments set aside in the Parity Obligation Payment Fund for such purpose, on June 1 of the years and in the amounts set forth below:

<u>Year</u>	<u>Principal Amount</u>
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\* Final Maturity.

Upon any purchase or redemption of the 2002 Bonds designated to be term 2002 Bonds, an amount equal to the aggregate principal amount of 2002 Bonds so purchased or redeemed shall be credited towards a part or all of any one or more yearly mandatory sinking account payments required, as set forth above, as directed in writing by the City. The portion of any such mandatory sinking account payments remaining after deduction of any such amounts credited toward the same (or the original amount of any such mandatory sinking account payments if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such mandatory sinking account payments for the purpose of the calculation of principal payments due on any future principal payment date.

*Notice of Redemption.* Notice of redemption shall be mailed, postage prepaid, to (i) the registered Owners of the 2002 Bonds and (ii) one or more information services, in each case at least 30 days but not more than 60 days prior to the redemption date. Notice of redemption shall also be given by telecopy, certified, registered or overnight mail to certain securities depositories one day prior to the mailing of notice of redemption to the Owners and the information services. The notice of redemption shall (a) state the redemption date; (b) the distinguishing designation of the 2002 Bonds to which such notice relates; (c) state the redemption price; (d) state the numbers and the dates of maturity of the 2002 Bonds to be redeemed, provided, however, that whenever any call includes all of the Outstanding 2002 Bonds subject to call, the numbers of the 2002 Bonds need not be stated; (e) state the place where the redemption will be made; and (f) give notice that further interest on such 2002 Bonds will not accrue after the designated redemption date.

The actual receipt by the Owners of any 2002 Bond of notice of such redemption shall not be a condition precedent to the redemption, and failure to receive such notice shall not affect the validity of the proceedings for the redemption of such 2002 Bonds or the cessation of interest on the redemption date.

So long as the DTC book-entry system is used for the 2002 Bonds, the Fiscal Agent will give any notice of redemption required to be given to the registered Owners of the 2002 Bonds only to DTC.

*Effect of Redemption.* When notice of redemption has been given, and when the amount necessary for the redemption of the 2002 Bonds called for redemption (principal and premium) is set aside for that purpose, the 2002 Bonds designated for redemption shall become due and payable on the redemption date, and upon presentation and surrender of said 2002 Bonds, at the place specified in the notice of redemption, such 2002 Bonds shall be redeemed and paid at said redemption price, and no interest shall accrue on such 2002 Bonds called for redemption after the redemption date.

## SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS

### General

The 2002 Bonds are an obligation payable solely from the Light and Power Fund of the City and certain other funds as provided in the Fiscal Agent Agreement. The 2002 Bonds are secured by a pledge of and lien upon Net Income of the Electric System on a parity with other obligations of the Electric System payable from Net Income of the Electric System and issued from time to time pursuant to the Fiscal Agent Agreement, including the 1998 Bonds. See “– Additional Bonds” below.

The General Fund is not liable for the payment of any 2002 Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of the City pledged for the payment of any 2002 Bonds, any premium thereon upon redemption prior to maturity or their interest. The Owner of any 2002 Bond shall not compel the exercise of the taxing power by the City or the forfeiture of any of its property. The principal of and interest on any 2002 Bonds and any premiums upon the redemption of any thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Income and other funds which are pledged to the payment of the 2002 Bonds, interest thereon and any premiums upon redemption pursuant to the Fiscal Agent Agreement.

Certain of the City’s obligations to joint powers agencies, including obligations with respect to bonds issued by such joint powers agencies, are payable by the City from the Light and Power Fund, prior to the Bonds and all Parity Obligations, as Maintenance and Operating Expenses. See “Indebtedness – TABLE 9 – OUTSTANDING TAKE OR PAY OBLIGATIONS” herein.

“Net Income” is defined in the Fiscal Agent Agreement as Gross Revenues less Maintenance and Operating Expenses. “Gross Revenues” means all revenues (as defined in Section 54315 of the Government Code of California, which include all charges received for and all other income and receipts derived by PWP from the operation of the Electric System or arising from the Electric System) received by PWP from the services, facilities, energy and distribution of electric energy by PWP, including (i) income from investments, and (ii) for the purposes of determining compliance with the rate covenant in the Fiscal Agent Agreement only, the amounts on deposit in the Stranded Investment Reserve Fund or in any other unrestricted funds of the Electric System designated by the City Council by resolution (or by approval of a budget of the Light and Power Fund providing for such transfer) and available for the purpose of paying Maintenance and Operating Expenses and/or debt service on the Bonds and/or any Parity Obligations, but excepting therefrom (a) all reimbursement charges and deposits to secure service and (b) any charges collected by any person to amortize or otherwise relating to the payment of the uneconomic portion of costs associated with assets and obligations (“stranded costs”) of the Electric System or of any joint powers agency in which the City participates which the City has dedicated to the payment of obligations other than the Bonds or any Parity Obligations then outstanding, the payments of which obligations will be applied to or pledged to or otherwise set aside for the reduction or retirement of outstanding obligations of the City or any joint powers agency in which the City participates relating to such “stranded costs” of the City or of any such joint powers agency to the extent such “stranded costs” are attributable to, or the responsibility of, the City.

“Maintenance and Operating Expenses” is defined in the Fiscal Agent Agreement to mean the amount required to pay the reasonable expenses of management, repair and other costs, of the nature of costs which have

historically and customarily been accounted for as such, necessary to operate, maintain and preserve the Electric System in good repair and working order, including but not limited to, the cost of supply and transmission of electric energy under long-term contracts or otherwise and the expenses of conducting the Electric System, but excluding depreciation. "Maintenance and Operating Expenses" includes all amounts required to be paid by the City under contract with a joint powers agency for purchase of capacity, energy, transmission capability or any other commodities or services in connection with the foregoing, which contract requires payments by the City to be made under the Fiscal Agent Agreement to be treated as Maintenance and Operating Expenses.

#### **Rate Covenant**

The City has covenanted in the Fiscal Agent Agreement to fix the rates for services furnished by the Electric System so as to provide Gross Revenues at least sufficient to pay, as the same become due, the principal of and interest on the 2002 Bonds and Parity Obligations and all other obligations and indebtedness payable from the Light and Power Fund (including the payment of any amounts owing to any provider of any surety bond, insurance policy or letter of credit with respect to the 2002 Bonds or any Parity Obligations, which amounts are payable from the Light and Power fund) or from any fund derived therefrom, and also the necessary Maintenance and Operating Expenses, and shall be so fixed that the Net Income of the Electric System will be at least equal to 1.10 times the amount necessary to pay principal and interest (including mandatory sinking account redemption payments) as the same become due on all 2002 Bonds and Parity Obligations.

For the purposes of determining compliance with the rate covenant, Gross Revenues includes the amounts on deposit in the Stranded Investment Reserve Fund or in any other fund of the Electric System designated by the City Council by resolution (or by approval of a budget of the Light and Power Fund providing for such transfer) and available for the purpose of paying Maintenance and Operating expenses and/or debt service on the Bonds and/or any Parity Obligations, but excepting therefrom (a) all reimbursement charges and deposits to secure service and (b) any charges collected by any person to amortize or otherwise relating to the payment of the uneconomic portion of costs associated with assets and obligations ("stranded costs") of the Electric System or of any joint powers agency in which the city participates which the City has dedicated to the payment of obligations other than the bonds or any Parity Obligations then outstanding, the payment of which obligations shall be applied to or pledged to or otherwise set aside for the reduction or retirement of outstanding obligations of the City or of any joint powers agency in which the City participates relating to such "stranded costs" of the City or of any such joint powers agency to the extent such "stranded costs" are attributable to, or the responsibility of, the City.

#### **The Light and Power Fund**

The Charter establishes the Light and Power Fund and permits the establishment by ordinance of such funds as the City Council may deem necessary to facilitate the issuance and sale of the Bonds or for the protection or security of the Owners of the Bonds.

Under the provisions of the Charter, all moneys and property received by the City in payment for electrical energy and for any service rendered in connection therewith, or from the sale, lease and other disposition of any property acquired with funds or property of the Electric System must be deposited in the Light and Power Fund. The Charter further provides that disbursement may be made directly from the Light and Power Fund for the following purposes:

- (1) the necessary or proper expenses of conducting the Electric System, the operation and maintenance of its works, plants and distributing systems; the acquisition and improvement of facilities; and the publishing of reports;
- (2) the payment of interest and principal on bonds issued for the purposes of the Electric System;
- (3) the formation of surplus or reserves for the future needs of the Electric System and for unforeseen emergencies; and
- (4) the repayment of advances made from other funds of the City.



In addition, the City Council shall transfer moneys to the City's General Fund from the Light and Power Fund each year as follows:

- (1) Pursuant to Section 1407 of the Charter, for the payment of principal and interest on the City's general obligation bonds wholly payable in such Fiscal Year or for municipal improvements, up to the lesser of:
  - (a) eight percent (8%) of the gross income of the Electric System received during the immediately preceding Fiscal Year from the sale of electric energy at rates and charges fixed by ordinance, or
  - (b) one-half of the net income of the Electric System after payment of the maintenance and operating expenses of the Electric System, the expense of conducting the power utility, depreciation and the principal, interest and premiums, if any, of Electric System revenue bonds.
- (2) Pursuant to Section 1408 of the Charter, in addition to the amounts transferred pursuant to Section 1407 for any municipal purpose, up to the lesser of:
  - (a) eight percent (8%) of the gross income of the Electric System received during the immediately preceding Fiscal Year from the sale of electric energy at rates and charges fixed by ordinance, or
  - (b) one-half of the net income (as described in (1)(b) above) of the Electric System.

However, Ordinance No. 6378, adopted by the City Council on April 3, 1990, provides that in lieu of the transfers pursuant to Sections 1407 and 1408 of the Charter described above, but subject to the limitations of those sections, the City Council shall determine the aggregate amount of transfer from the Light and Power Fund to the City's General Fund by multiplying the annual gross electric retail income by eight percent (8%) and comparing the amount so calculated to the accrual year's actual net income. Ordinance No. 6378 further provides that the City Council shall by resolution transfer the lesser of the two amounts. However, the City Council may suspend Ordinance No. 6378 by resolution if it wishes to transfer a greater or lesser amount. On June 8, 1998 the City Council approved Resolution No. 7631 which authorized a reduction in the transfer to the General Fund from 8% to 6.33%. During the Fiscal Year 1999-2000, City Council approved a budget in which the transfer to the General Fund was reduced from 6.33% to 5%. During Fiscal Year 2000-01, the City Council approved a transfer from the Light and Power Fund to the City's General Fund pursuant to Section 1407 of the Charter of \$5.6 million. The City has budgeted a \$5.750 million transfer for Fiscal Year 2001-02.

In addition to the transfers authorized pursuant to Sections 1407 and 1408, the Charter provides that whenever the City Council determines that the surplus or reserve in the Light and Power Fund is in excess of reasonable future needs of the power utility, such excess may be appropriated for other municipal purposes, but only by ordinance approved by a two-thirds vote of the electors.

In April 2002 a staff report was presented to the City Council recommending an increase in the transfer to the General Fund from the Light and Power Fund of either 2.5% or 3%, from the existing 5%, to partially fund the retrofitting of the City Hall. Resolution No. \_\_\_\_ was approved by the City Council on June 10, 2002 to increase the transfer to the General Fund from the Light and Power Fund from 5% to 7.5% to partially fund the retrofitting of City Hall.

The Charter also provides that prior to the levying of additional taxes in any Fiscal Year, any surplus or reserves in the Light and Power Fund may be temporarily used for other municipal purposes if there are insufficient funds in the City Treasury to pay the current expenses of the general government of the City. Should moneys from said fund be used pending the receipt of taxes, the amount so used shall be repaid not later than February 15 of the same Fiscal Year.

### Parity Reserve Fund

The Fiscal Agent Agreement establishes the Parity Reserve Fund to be held by the City pursuant to the Charter. The Parity Reserve Fund shall be maintained in an amount equal to the Reserve Fund Requirement. "Reserve Fund Requirement" is defined in the Fiscal Agent Agreement to mean, as of any date of determination and excluding therefrom any Parity Obligations for which no reserve fund is to be maintained or for which a separate reserve fund is to be maintained, the least of (a) ten percent (10%) of the initial offering price to the public of each series of Bonds and Parity Obligations to be secured by the Parity Reserve Fund as determined under the Internal Revenue Code of 1986, as amended, or (b) the maximum Annual Debt Service on all Bonds and Parity Obligations to be secured by the Parity Reserve Fund, or (c) one hundred twenty-five percent (125%) of the Average Annual Debt Service on all Bonds and Parity Obligations to be secured by the Parity Reserve Fund, all as computed and determined by the City; provided that such requirement (or any portion thereof) may be provided by one or more policies of municipal bond insurance or surety bonds issued by a municipal bond insurer if the obligations insured by such insurer have ratings at the time of issuance of such policy equal to "Aaa" assigned by Moody's Investors Service ("Moody's") and "AAA" assigned by Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies ("Standard & Poor's") (and if such insurance company is rated by A.M. Best & Company, such insurance company is rated in the highest rating category by A.M. Best & Company) or by a letter of credit issued by a bank or other institution if the obligations issued by such bank or other institution have ratings at the time of issuance of such letter of credit equal to "Aa" or higher assigned by Moody's Investors Service or "AA" or higher assigned by Standard & Poor's. Money in the Parity Reserve Fund is pledged to, and shall be used solely for, the purpose of paying the principal of and interest on the Bonds and Parity Obligations secured by the Parity Reserve Fund in the event that money in the Parity Obligation Payment Fund is insufficient therefor, and for that purpose money shall be transferred from the Parity Reserve Fund to the Parity Obligation Payment Fund. Whenever money is transferred from the Parity Reserve Fund an equal amount of money shall be transferred to the Parity Reserve Fund from the first available money in the Light and Power Fund if required to bring the balance on deposit in the Parity Reserve Fund up to the Reserve Fund Requirement.

### Additional Bonds

Currently the City has \$65,595,000 of parity debt outstanding consisting of the 1998 Bonds originally issued in the aggregate principal amount of \$70,655,000.

The Fiscal Agent Agreement provides that (except for bonds issued under Article XIV of the Charter, or otherwise, to refund Bonds or Parity Obligations, payable from the Light and Power Fund issued under Article XIV of the Charter which may be issued at any time without meeting the test set forth below) no additional indebtedness of the City payable out of the Light and Power Fund on a parity with the Bonds and any Parity Obligations (collectively referred to in the Fiscal Agent Agreement as "parity indebtedness") shall be created or incurred unless:

- (1) The Net Income during any twelve (12) consecutive calendar months out of the immediately preceding eighteen (18) calendar month period, plus, at the option of the City, any or all of the items designated as (a) and (b) below, shall have amounted to at least equal to one hundred ten percent (110%) of the aggregate of the (i) amount of interest to accrue and (ii) payments of principal required to be made in one of the Fiscal Years ending thereafter in which such aggregate will be the greatest on all Bonds and such Parity Obligations to be Outstanding immediately subsequent to the incurring of such additional parity indebtedness, as certified by a Certificate of the City; or
- (2) The projected Net Income during the first complete Fiscal Year following issuance of such parity indebtedness when the improvements to the Electric System financed with the proceeds of the parity indebtedness shall be in operation, plus, at the option of the City, any or all of the items designated as (a) and (b) below, shall have amounted to at least one hundred ten percent (110%) of the aggregate of the (i) amount of interest to accrue and (ii) payments of

principal required to be made in one of the Fiscal Years ending thereafter in which such aggregate will be the greatest on all Bonds and such Parity Obligations to be Outstanding immediately subsequent to the incurring of such additional parity indebtedness, as certified by a Certificate of the City.

The items any or all of which may be added to such Net Income for the purpose of meeting either of the requirements set forth in clauses (1) or (2) above are the following:

- (a) An allowance for any increase in Net Income (including, without limitation, a reduction in Maintenance and Operating Expenses) which may arise from any additions to and extensions and improvements of the Electric System to be made or acquired with the proceeds of such additional parity indebtedness or with the proceeds of bonds previously issued, and also for Net Income from any such additions, extensions or improvements which have been made or acquired with moneys from any source but which, during all or any part of such Fiscal Year or such twelve (12) consecutive calendar month period out of the immediately preceding eighteen (18) calendar month period, were not in service, all in an amount equal to the estimated additional average annual Net Income (or estimated average annual reduction in Maintenance and Operating Expenses) to be derived from such additions, extensions or improvements for the first thirty-six (36) month period in which each addition, extension or improvement is respectively to be in operation, all as shown by the Certificate of the City.
- (b) An allowance for earnings arising from any increase in the charges made for the use of the Electric System which has become effective prior to the incurring of such additional parity indebtedness but which, during all or any part of such Fiscal Year or such twelve (12) consecutive calendar month period out of the immediately preceding eighteen (18) calendar month period, was not in effect, in an amount equal to the amount by which the Net Income would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such twelve (12) consecutive calendar month period out of the immediately preceding eighteen (18) calendar month period, as shown by the Certificate of the City.

Nothing in the Fiscal Agent Agreement limits the ability of the City to issue or incur obligations which are junior or subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and all Parity Obligations and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Net Income after the prior payment of all amounts then due and required to be paid or set aside under the Fiscal Agent Agreement from Net Income for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Obligations, as the same become due and payable and at the times and in the manner as required in the Fiscal Agent Agreement or any documents providing for the issuance or incurrence of Parity Obligations.

#### **Investment of Funds**

All moneys held in the funds and accounts established pursuant to the Fiscal Agent Agreement will be invested solely in Investment Securities, which include:

- (i) any permissible investments of funds of the City as stated in its current investment policy and to the extent then permitted by law;

(ii) a repurchase agreement with a state or nationally chartered bank or trust company or a national banking association or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, provided that the following conditions are satisfied:

- (1) The agreement is secured by any direct obligations of the United States of America (including obligations issued or held in book entry form on the books of the United States Department of the Treasury) and obligations, the payment and principal of and interest on which are directly or indirectly guaranteed by the United States of America;
- (2) The underlying securities are required by the repurchase agreement to be held by a bank, trust company, or primary dealer having a combined capital and surplus of at least one hundred million dollars and which is independent of the issuer of the repurchase agreement; and
- (3) The underlying securities are maintained at a market value, as determined on a market-to-market basis calculated at least weekly, of not less than 104 percent of the amount so invested; and

(iii) an investment agreement or guaranteed investment contract with, or guaranteed by, a financial institution the long-term unsecured obligations of which are rated in the top two rating categories by Moody's and Standard & Poor's at the time of initial investment.

The City's current investment policy provides the following: (1) the maximum maturity of any investment will be five years, except for moneys in the Stranded Investment Reserve Fund; (2) any bonds, notes, warrants or other indebtedness of any local agency of the State are approved investments; (3) there is no limitation as to the percentage amount of the portfolio that may be invested in U.S. Treasuries and certain specified U.S. Government agencies; (4) banker's acceptances purchased may not exceed 180 days to maturity or 40% of the cost value of the portfolio; (5) commercial paper must be rated P-1 by Moody's or A-1+ by Standard & Poor's, be issued by a domestic corporation having assets in excess of \$500 million and having an A or better rating on its long term debentures as provided by Moody's or Standard & Poor's, not exceed 270 days to maturity or represent more than 10% of the outstanding paper of the issuing corporation, and not exceed 15% of the cost value of the portfolio, however, an additional 15%, or a total of 30% of the City's surplus money, may be invested in commercial paper if the dollar-weighted average maturity of the entire amount does not exceed 31 days; (6) purchases of negotiable certificates of deposit may not exceed 30% of the portfolio; (7) repurchase agreements are authorized in a maximum maturity not exceeding one year and the market value of the securities used as collateral for such repurchase agreements shall not fall below 102% of the value of the repurchase agreements; (8) reverse repurchase agreements cannot exceed 20% of the portfolio and may not, among other things, exceed 92 days to maturity unless the agreement includes a written guarantee of a minimum earning or spread for the entire period between the sale and maturity date of the reverse purchase agreement and the maturity date of the underlying security on reverse; (9) the Local Agency Investment Fund may be used to the maximum permitted by law; (10) no more than 25% of the portfolio may be investment in time deposits; (11) medium term corporate notes must be rated A or better by Moody's or Standard & Poor's and may not exceed 30% of the cost value of the portfolio, and no more than 15% of the cost value of the portfolio may be invested in notes issued by a single corporation; (12) any mortgage pass-through security, or similar securities, must be issued by an issuer having an A or higher rating for the issuer's debt and be rated AA or better by a nationally recognized rating service, and may not exceed 20% of the City's surplus money; (13) registered state warrants or treasury notes or bonds, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the State or by a department, board, agency or authority of the State; and (14) shares of beneficial interest issued by diversified management companies investing in authorized securities and obligations. The management companies must either (a) attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services; or (b) retain an investment advisor registered with the Securities and Exchange Commission with no less than five years' experience investing in authorized securities and obligations and with assets under management in excess of \$500 million.

Investments are reviewed on a monthly basis by the Treasurer so that legal limits of the types of investments are not exceeded; however, investment performance is continually monitored and evaluated. In addition, 12 to 18 month forecasts are monitored and updated to accurately estimate revenues and expenditures in order to enable the City to invest funds to the fullest extent possible.

All investments, including the Investment Securities and those authorized by law from time to time for investments by public agencies, contain a certain degree of risk. Such risks include, but are not limited to, market risk, credit risk and reinvestment risk. See the audited financial statements of the City attached hereto as Appendix B for a description of the City's list of investments at June 30, 2001.

The City's Investment Policy may be changed at any time by the City Council (subject to the State law provisions relating to authorized investments). There can be no assurance, therefore, that the State law and/or the Investment Policy will not be amended in the future to allow for investments which are currently not permitted under State law or the Investment Policy or that the objectives of the City with respect to investments or its investment holdings at any point in time will not change.

#### **Limitations on Remedies**

The rights of the Owners of the 2002 Bonds are subject to the limitations on legal remedies against cities and other public agencies in the State. Additionally, enforceability of the rights and remedies of the Owners of the 2002 Bonds, and the obligations incurred by the City, may become subject to the following: the Federal Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the 2002 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

### **PASADENA WATER AND POWER**

#### **Organization and Management**

The City is a charter city of the State. Under the provisions of the California Constitution and Article XIV of the City Charter, the City owns and operates both water and electric public utilities for the benefit of its residential and business community. PWP exercises jurisdiction over the water and electric utilities owned, controlled and operated by the City. PWP is under the management and control of the City Manager, subject to the powers and duties vested in the City Council, and is supervised by the General Manager who is responsible for design, construction, maintenance and operation of the water and electric utilities. PWP is responsible for the City's Electric System and the City's water system (the "Water System").

In addition to the two divisions, PWP is organized into five separate Business Units. This structure allows for a higher level of accountability as well as the creation of individual cost centers and profit centers. This information is used for tracking costs and supplying detailed information in rate design decisions. These business are briefly described as follows:

*Finance and Administration Business Unit* – develops and executes PWP's overall financial strategy and ensures its financial integrity. This Unit is responsible for the financial resources of PWP and for providing relevant information to the operating units for decision-making purposes. This Unit plans and oversees the financial aspects, administrative support functions, and all cross-functional operations and systems for PWP. The responsibilities of this Unit include the operating budget, capital budget and financing, financial analysis and planning, financial management, administration, financial and risk management, information systems and technology and materials management.

*Power Supply Business Unit* - responsible for effectively managing PWP's energy portfolio, including power generation, long-term power contracts, short-term electric energy, and ancillary services transactions and natural gas procurement to provide competitively-priced energy to PWP's electric customers. This Unit is also responsible for energy scheduling and load dispatch operations to ensure reliable delivery of electricity.

*Power Delivery Business Unit* - operates and maintains the local power distribution system to provide the safe and reliable delivery of electricity. This Unit is also responsible for the engineering, construction, and maintenance of the City's 25 mile fiber optic network.

*Customer Care Business Unit* - provides billing, call center, meter reading and customer care services for both electric and water customers.

*Water Services Business Unit* - responsible for the procurement and delivery of water. This Unit operates and maintains the local water supply resources and distribution system.

The following are biographical summaries of PWP's senior management:

PHYLLIS E. CURRIE, General Manager. Ms. Currie joined PWP in April 2001 as General Manager. She previously worked for the City of Los Angeles for 30 years in various capacities. Prior to coming to PWP, she was Chief Financial Officer for the Los Angeles Department of Water and Power ("LADWP") for 7 years where she managed its financial affairs, including LADWP's joint ventures and partnerships, such as the Southern California Public Power Authority and the Intermountain Power Project in Utah. She led the development of financial strategies to position LADWP to compete in a deregulated industry. From 1984 to 1992, she was Assistant City Administrative Officer overseeing development of the annual operating and capital budgets, including debt finance. Ms. Currie earned a Bachelor of Arts in Political Science and a Masters in Business Administration from University of California at Los Angeles ("UCLA"). She also completed the Program for Senior Executives in State and Local Government at the John F. Kennedy School of Government at Harvard University.

ERIC KLINKNER, Business Unit Director for Power Supply. Mr. Klinkner has been with PWP since 1995. He served as PWP's manager of power resources and was appointed to his present position in April 2000. In his current position, he is responsible for management of the energy portfolio, power plant, system operations, power dispatch and substations. Mr. Klinkner previously worked at LADWP where he started in power resource planning. He has a master's degree in mechanical engineering from California State University-Northridge and is a state registered professional engineer.

GEORGE WILSON, Business Unit Director for Power Delivery. Mr. Wilson has worked for PWP since 1965. He began as a steam plant operator and served as control room operator and power production supervisor. Mr. Wilson served for 5 years as Superintendent of Power Production, managing all local power generation facilities and distribution system operations prior to promotion in early 1998 to his current position.

JAY PANZICA, Business Unit Director for Finance and Administration. Mr. Panzica joined PWP in 1998. He was charged with developing the financial structure and processes to support the PWP in the transition to a deregulated marketplace. Prior to joining the organization, he worked as a senior financial professional in private industry. He held positions such as Director of Finance, Corporate Manager of Capital Budgets, Corporate Manager of Business Planning, and Regional Finance Manager for several companies, including American Airlines, General Foods, and Burroughs. In addition, he served as a financial consultant in the areas of strategic planning, business design and interim CFO for various small to large companies including Honda of America. Mr. Panzica received his bachelor's degree in Business Administration/Pre Law from Michigan State University and his master's degree in finance from Wayne State University. He is currently president of the Los Angeles chapter of Financial Executives International.

DON PAPPE, Business Unit Director for Customer Care. Mr. Pappé joined PWP in February 1998 to manage customer service, business retention and utility billing. He previously worked with LADWP for over 21 years. Mr. Pappé received his bachelor of science degree in civil engineering from California State University

Long Beach, a master's degree in civil engineering from California State University Los Angeles, and a master's degree in business administration from Pepperdine University.

SHAN KWAN, Business Unit Director for Water Services. Mr. Kwan has been with PWP since 1985. Prior to his appointment as Business Unit Director for Water, Mr. Kwan was a principal engineer in the Water System. He worked in water distribution, plant and facilities, quality and supply and resource planning. Prior to his employment with PWP, he was a construction inspector for Caltrans. Mr. Kwan holds a bachelor's degree in civil engineering from UCLA and a master's degree in business administration from Claremont Graduate University.

#### **Utility Advisory Commission**

In March 1979, the City Council approved an ordinance creating a Utility Advisory Commission (the "Commission") to advise the City Council on policy matters relating to the operation of the Water System and the Electric System. Specifically, the Commission is charged with advising the City Council on policies and programs concerning, among other things, financial planning, power planning and management, energy use and conservation, transfers to the General Fund, environmental problems and utility rates. The Commission consists of nine members, who are appointed by the Council and serve three-year terms.

#### **Municipal Services Committee**

In 1997, the City Council approved an ordinance creating a standing committee of the City Council known as the Deregulation Committee. In 2001, the responsibilities of the Deregulation Committee were expanded to include other City enterprise services and the Deregulation Committee was re-named the Municipal Services Committee. The purpose of the Municipal Services Committee is to aid the City Council in addressing the multidimensional issues associated with utility deregulation, both electric and water. The Municipal Services Committee provides oversight and input to aid City administration in focusing its efforts to present clear, cogent recommendations regarding all aspects of deregulation, drawing on the perspective of City management, labor, the community and other interested parties. In addition, it provides a forum to air concerns and viewpoints regarding deregulation, works directly with consultants and City staff to achieve Council objectives, and serves as the workshop forum for deregulation issues. The Municipal Services Committee is currently composed of three members of the City Council appointed by the mayor.

### **THE ELECTRIC SYSTEM OF PWP**

#### **General**

The Electric System of PWP began generating its own electric energy and distributing power in 1906. This service was previously supplied by Edison Electric Company. PWP has since continued to expand its distribution system to meet the demands of its residential, commercial, industrial and public sector customers.

The Electric System provides service to virtually all of the electric customers within the limits of the City. For the Fiscal Year ended June 30, 2001, the customer base was comprised of over 50,466 residential, 8,708 commercial and industrial and 180 other (public sector) customers. The service area is approximately 23 square miles, with an estimated population of 133,000. The Electric System's current 372 MW resource mix includes 202 MW of local steam and gas turbines and 170 MW of long-term purchase contracts (remote generation) from a variety of sources including hydroelectric, coal and nuclear generating units. Although these resources are more than sufficient to meet the City's loads, a portion of the Electric System's energy supply is purchased when it is more economical on the wholesale hourly, daily and month-ahead spot markets. See "Inter-Utility Sales Transactions – Short-Term Bilateral Sales" herein.

The following table sets forth the valuation of the Electric System facilities during the five Fiscal Years shown.

**TABLE 1**  
**ELECTRIC SYSTEM FACILITIES**

	<u>Fiscal Year Ended June 30,</u>				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Utility Plant	\$ 275,827,437	\$ 283,117,162	\$ 292,037,531	\$ 300,564,613	\$ 305,368,287
Less Accumulated Depreciation	(134,785,008)	(142,798,449)	(151,353,325)	(159,811,243)	(167,542,135)
Construction in Progress	<u>9,501,276</u>	<u>8,966,535</u>	<u>8,041,800</u>	<u>6,995,773</u>	<u>10,342,593</u>
Total Facilities	\$ 150,543,706	\$ 149,285,248	\$ 148,726,006	\$ 147,749,143	\$ 148,168,745

Source: Finance and Administration Business Unit of PWP.

#### Power Supply Resources

The Electric System has increased its power production over the past five Fiscal Years as a result of increased sales to the California Independent Service Operator ("ISO") and to meet moderately increasing energy demand. Although PWP reached an all-time record peak demand of 295 MW in Fiscal Year 1999, the 272 MW peak demand for Fiscal Year 2001 was nearly the same as the Fiscal Year 1997 peak of 270 MW. Over the past five years, the net electric load for the Electric System has been fairly consistent at about 1,190 giga-watt hours ("GWh"), except for a weather-related increase in 1998. Wholesale sales increased significantly from historical levels starting in 1999 as a result of PWP joining the ISO and using local generation to provide energy and ancillary services to the ISO, in addition to serving native load.

The following table sets forth the total power generated and purchased and peak demand during the five Fiscal Years shown.

**TABLE 2**  
**TOTAL POWER GENERATED AND PURCHASED AND PEAK DEMAND**  
**(MWh)**

	<u>Fiscal Year Ended June 30,</u>				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Generated	140,178	150,473	297,074	239,910	295,294
Purchased	<u>1,248,114</u>	<u>1,162,664</u>	<u>1,158,249</u>	<u>1,215,609</u>	<u>1,340,932</u>
Total Supply	1,388,292	1,313,137	1,455,323	1,455,519	1,636,266
Sales and Losses	<u>(196,452)</u>	<u>(77,620)</u>	<u>(311,433)</u>	<u>(262,563)</u>	<u>(445,726)</u>
Net System Load	1,191,840	1,235,517	1,143,890	1,192,956	1,190,500
System Peak Demand	270	274	295	275	272

Source: Finance and Administration Business Unit of PWP.



The following table sets forth information concerning the City's power supply resources and the energy supplied by each during the Fiscal Year ended June 30, 2001.

TABLE 3  
POWER SUPPLY RESOURCES

<u>Source</u>	<u>Name-plate Capacity (MW)</u>	<u>Rated Capacity (MW)<sup>(1)</sup></u>	<u>Actual Energy (GWh)<sup>(2)</sup></u>	<u>Percent of Total Energy</u>
<b>Pasadena-Owned Generating Facilities:</b>				
Steam (Broadway)	165	137	279	18.14%
Combustion Turbines (Glenarm)	52	46	12	0.75%
Hydroelectric (Azusa)	3	15	5	0.29%
<b>Joint Power Agency/Remote Ownership Interests:</b>				
Intermountain Power Project (IPA)		99	729	47.35%
Palo Verde Nuclear Generating Station (SCPPA)		10	71	4.64%
Hoover		20	62	4.03%
Purchased Power <sup>(3)</sup>				
Bonneville Power Authority Contract		27	28	1.81%
Market		N/A	354	22.90%
<b>Total</b>		<b>372</b>	<b>1,540</b>	<b>100.00%</b>
Sales and Losses		—	(349)	
Net System Load		N/A	1,191	

Source: Finance and Administration Business Unit of PWP.

- (1) Rated net capacities. For Broadway and Glenarm – ISO rated, for all others maximum contractual entitlement during summer peak.
- (2) During the twelve-month period ended June 30, 2001.
- (3) Entitlements, firm allocations and contract amounts.

### City-Owned Generating Facilities

The Electric System's resource mix includes local steam and gas turbines, a hydroelectric plant and long-term purchase contracts from a variety of sources including hydroelectric, coal and nuclear generating units. PWP owns and operates three natural gas steam generating units at the Broadway facility, and two gas-fired combustion turbines ("GTs") located at the adjacent Glenarm facility. These units are primarily scheduled to economically meet PWP's intermediate and peaking loads. Excess capacity, operating under the ISO Participating Generator Agreement, provides ancillary services and energy to the California ISO market. See "Inter-Utility Sales Transactions – California ISO-Participating Generator Agreement" herein. When imports are limited due to tie-line outages, or when loads reach about 200 MW, at least one unit is put on-line for reliability purposes. Due to their relatively high cost of generation, utilization of these units is typically limited to when energy and ancillary service prices are strong. The value provided by these units is in their "optionality". "Optionality" refers to the ability to quickly adjust operating levels to changing market and load conditions. In addition to the Broadway and Glenarm facilities, the City owns the Azusa Hydroelectric Plant, which is interconnected to the Southern California Edison ("SCE") power distribution system. Each of these resources is more fully described below.

**Broadway Power Plant.** The three steam generating units located at this facility are generally scheduled at the minimum operating point, so that remaining capacity may be bid into the ISO ancillary service market. All three units are connected to the ISO control center via remote intelligent gateway and are certified to provide spin, non-spin, and replacement reserves. Units B2 and B3 are also certified for regulation and were the first units in the State put under direct control of the ISO Supervisory Control and Data Acquisition system. Although Unit B3 is expected to remain in service for about 10 years, Units B1 and B2 cannot meet strict new emissions requirements and must be

retired by January 1, 2003. The Repowering Project will replace the capacity provided by Units B1 and B2 with two new 45 MW combustion turbines. See "THE 2002 PROJECT – Repowering Project" herein.

**Glenarm Power Plant.** This plant includes two 23 MW (rated net output) gas-fired combustion turbines derived from the Boeing 707 engine. Historically, operation of these units was limited to high peak or emergency conditions. Recent experience under ISO instructions has shown that these units are often required to operate several times a day for 10 to 20 minute intervals in the summer. In order to meet strict new emissions requirements, these units must be retrofit with catalytic controls for carbon monoxide and nitrogen oxides emissions or be retired by January 1, 2004. The two existing gas turbines will be retrofit with the best available retrofit control technology, as required by the SCAQMD. These units will be retrofit with new exhaust stacks, selective catalytic controls to reduce carbon monoxide and nitrogen oxides emissions and a digital control system to improve their reliability. The retrofit project is estimated to cost \$7 million, which will be paid for with cash on hand.

Two inactive steam units are also located at the Glenarm facility. Unit 8 was retired in 1978, and Unit 9 was put on long-term reserve standby in 1981. PWP has no plans to recommission these units.

**Azusa Hydroelectric Plant.** The Azusa Hydroelectric Plant is a 3 MW hydroelectric plant located in the San Gabriel River Basin. Energy is accumulated and delivered to the City by SCE through an agreement which provides for deliveries at rates up to 15 MW. The Azusa Hydroelectric Plant has historically delivered approximately 10 GWh of energy to the City annually. Deliveries in recent years have decreased due to adverse water flow conditions. The Azusa Hydroelectric Plant was purchased from the Water System of PWP in 1991.

#### **Joint Powers Agency Resources/Remote Ownership Interests**

##### **Joint Powers Agency Resources**

The City has purchased ownership interests in the Intermountain Power Project ("IPP") of the Intermountain Power Agency, a political subdivision of the State of Utah ("IPA"). In addition, the City and other public agencies in Southern California are members of the Southern California Public Power Authority ("SCPPA"), a joint powers agency created for planning, financing, developing, acquiring, constructing, operating and maintaining electric generating and transmission projects for participation by some or all of its members. The City is a participant in the SCPPA portion of the Palo Verde Nuclear Generating Station ("PVNGS"). The City also has a remote ownership interest in the Hoover Hydroelectric Project. Each of these resources is briefly described below.

##### **Intermountain Power Agency**

*The following information has been obtained from IPA and sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.*

**IPA Intermountain Power Project Interest.** The purpose of the IPA is to provide for the financing, construction and operation of the IPP. The City has entered into certain power purchase contracts with the IPA and others to purchase certain entitlements of IPP and related facilities. The IPP consists of (a) a two unit, 1,660 MW net coal-fired, steam electric generation station and a switchyard located near Lynndyl, Utah and operated by the LADWP; (b) the Southern Transmission System (see "Transmission Resources" below); (c) two 50-mile 345 kilovolt alternate current ("kV AC") transmission lines from the generation station to a switchyard in the vicinity of Mona, Utah and a 144-mile 230 kV AC transmission line from the generation station to a switchyard near Ely, Nevada (collectively, the "Northern Transmission System"); (d) a railcar service center; and (e) certain water rights and coal supplies. The City has three separate contracts with the IPA and certain Utah participants which currently provide the City a 99 MW (6%) entitlement in the facility. After accounting for transmission losses, IPP contributes about 94 MW of local generating capacity to the City. Over 700 GWh of energy are delivered to the City from IPP each year. See "TABLE 3 – POWER SUPPLY RESOURCES" herein.

IPP has been financed entirely with debt issued by IPA, approximately \$4.2 billion of which was outstanding as of June 30, 2001. Debt service, net of projected investment earnings, constitutes in excess of 50% of IPA's total annual costs of owning, operating and maintaining IPP and is the major factor in IPP's power and energy

costs. See "TABLE 9 – OUTSTANDING TAKE OR PAY OBLIGATIONS" herein for details of the City's share of this debt.

Details of the contracts relating to the IPP are as follows:

*Original Entitlement* – The City contracted with IPA to purchase a 54.5 MW (3.409%) entitlement to the IPP plant. The original plan called for four 800 MW units, providing the City with a 109 MW entitlement, but this was later scaled back as load-growth forecasts were moderated throughout the western states. This contract obligates the City to pay its proportional share of the plant costs (including debt and other fixed expenses), regardless of the amount of energy scheduled to the City, for the life of the facility.

*Layoff Contract* - The City contracted with Scottish Power, as successor to the obligations of Utah Power and Light ("UP&L"), and IPA to purchase a 16 MW (1.00%) entitlement of the IPP plant from UP&L. The term of this contract extends until all bonds issued by IPA to finance the project are defeased.

*Excess Sales Contract* - The City and the cities of Burbank and Glendale and the LADWP (the "California Purchasers") contracted with 27 sellers (the "Utah Participants") and IPA (acting as agent for the sellers) to purchase a 273 MW (17.057%) entitlement of the IPP plant which was deemed in excess of the sellers' needs. The California Purchasers agreed to split the excess among themselves in proportion to their original entitlements. The City's share of the excess is 25.5 MW (9.328%), which is equivalent to 1.591% of the total IPP project. This contract also provides for access to the Northern Transmission System, which was built with IPA funds in order to deliver power from the IPP to the Utah Participants. The term of this contract extends until the IPA bonds are defeased or the sellers' load requirements meet certain specified conditions; however, the Utah Participants have the unilateral right to recall their original entitlements at any time in the future.

*IPP Coal Requirement.* The annual coal requirement for the IPP at 70% plant capacity factor is estimated by LADWP (the operating agent of IPP) to be approximately 4 million tons. The LADWP has stated that coal presently under contract from mines located in central Utah is sufficient, with the exercise of available options, to meet the Intermountain Generating Station's annual coal requirements at approximately 70% annual plant capacity factor until at least the year 2003, with lesser amount of coal under contract for an additional eight years. Coal is also purchased periodically on a "spot market" basis depending on price and availability. The price of coal under contracts is calculated on a "base price plus escalation" basis. LADWP estimates that these agreements will result in an average cost of coal delivered to the Intermountain Generating Station of approximately \$21 per ton projected for 2002-03. Two supply contracts have been successfully renegotiated to reduce cost. During Fiscal Year 2001, Unit 1 of the IPP operated at a plant capacity factor of approximately 88% and Unit 2 of the IPP operated at a plant capacity factor of approximately 95%. Coal consumption during Fiscal Year 2001 was approximately 5.3 million tons. Transmission of the output from IPP to the City and the other IPP California Participants is provided by the Southern Transmission System (see "Transmission Resources" below).

*IPP Water Supply.* IPA owns off-site water rights that yield approximately 45,000 acre-feet per year. This amount exceeds the annual water requirements of the Intermountain Generating Station and the Intermountain Converter Station. A reservoir at the Intermountain Generating Station, in combination with groundwater wells, can provide sufficient water to operate for approximately three months at average plant loads.

*Permits, Licenses and Approvals.* According to the IPA the IPP has been designed, constructed and operated in compliance with all applicable federal, state and local regulations, codes, standards and laws, and all principal permits, licenses and approvals required to construct and operate the IPP have been acquired, including permits relating to air quality and rights-of-way on federally-owned land.

*Emissions.* The Intermountain Generating Station's boiler and flue-gas cleaning facilities have been designed and constructed to meet applicable federal and state emission regulations. The boilers have been designed to meet stringent regulatory emission limits for oxides of nitrogen. The flue-gas desulfurization equipment

(scrubber) for each unit consists of a wet scrubber system using a limestone reagent designed and constructed to remove at least 90% of the sulfur dioxide before discharge to the atmosphere from a chimney 710 feet in height. The flue-gas particulate control (baghouse) equipment for each unit consists of three modular fabric filters utilizing reverse air for cleaning. The equipment has been designed and constructed to remove at least 99.75% of the particulate material.

*Waste Management.* Substantial federal, state and local legislation and regulations regarding various aspects of waste management are in effect. Federal laws as set forth in acts such as the Federal Resource Conservation and Recovery Act and the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act, impose strict liability for cleanup costs and damages regardless of time or location on generators, transporters, storers and disposers of hazardous waste. Many day-to-day activities connected with the generation and transmission of electricity generate both non-hazardous and hazardous wastes. Intermountain Power Service Corporation, under the direction of LADWP, has established a waste management plan for the IPP. The plan is designed to assure that the IPP's present and future operations conform to applicable waste disposal regulations. LADWP has also assessed IPP properties for potential liability arising from past, latent contamination. LADWP has indicated that its waste management program complies with all federal, state and local statutes and guidelines and all applicable permit requirements.

*Operating Experience.* The IPP facilities have operated to date with a high degree of availability, exceeding the average of coal-fired generating units of comparable size. In the Fiscal Year ended June 30, 2001, the IPP Generating Station provided 729 GWh of energy to the City at an average cost for delivered power of \$46.50 per MWh (excluding transmission costs).

*IPP Generating Station Restructuring Plan.* To achieve market competitive rates for generation at the IPP Generating Station, the participants in the IPP, including the City, implemented a financial program in 1996 to reduce the cost of generation of the IPP Generating Station after July 1, 2002 through accelerated billings to the IPP participants prior to such time. This program is nearing completion. As a result of the accelerated billings, budgeted busbar generation costs were lowered from \$54.4/MWh in Fiscal Year 1998 to \$45.4/MWh for the Fiscal Year 2003 budget.

These accelerated billings result from not passing on to IPP participants operating cost reductions at IPP; savings from the refinancing of existing IPP debt and additional billings to members above the baseline 1996 level. Such accelerated billings are being accumulated in a bond reduction financing account held by IPA and are intended to retire IPP debt obligations in the future. This financial program, combined with the City's own stranded investment reserve program, is expected to enable the City to achieve market competitive rates for the life of the IPP contract.

#### **Southern California Public Power Authority**

*The following information has been obtained from SCPPA and sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.*

*SCPPA Palo Verde Nuclear Generating Station ("PVNGS") Interest.* The City has contracted with SCPPA for a 9.9 MW (4.4%) entitlement of 225 MW SCPPA PVNGS Interest (as defined herein). This resource provides the City with approximately 65-75 GWh of base-load energy annually. The City has entered into a power sales agreement with SCPPA which obligates the City to pay the cost of its share of capacity and energy on a "take-or-pay" basis. For the Fiscal Year ended June 30, 2001, PVNGS provided 71 GWh of energy to the City at an average cost for delivered power of \$111.20 per MWh. SCPPA has issued bonds for PVNGS of which approximately \$808,850,000 aggregate principal amount was outstanding as of April 1, 2002. SCPPA has undertaken certain actions, including collections of amounts in excess of operating and maintenance expenses and current debt service on its bonds for PVNGS to reduce the cost of power from this project. See "CITY'S RESPONSE TO COMPETITION" herein.

The SCPPA PVNGS Interest consists of a 5.91% ownership interest in the Palo Verde Nuclear Generating Station, Units 1, 2 and 3, and certain associated facilities and contractual rights relating thereto, a 5.56% ownership

interest in the Arizona Nuclear Power Project ("ANPP") High Voltage Switchyard and contractual rights relating thereto and a 6.55% share of the right to use certain portions of the Arizona Nuclear Power Project Valley Transmission System. PVNGS is located on an approximately 4,000-acre site about 50 miles west of Phoenix, Arizona and is comprised of three identical nuclear-fueled steam units. PVNGS Units 1, 2 and 3 achieved firm operation in January 1986, September 1986 and December 1987, respectively. Each unit, designed for a 40-year life, has a nominal rating of 1,270 MW. On May 23, 1996, the Nuclear Regulatory Commission (the "NRC") approved a two percent increase in the licensed thermal rating of the units. Each PVNGS unit is currently rated at 3,893 MW (thermal). The maximum dependable capacity of Units 1, 2 and 3 under adverse atmospheric conditions is 1,243 MW, 1,243 MW and 1,247 MW, respectively.

*SCPPA Restructuring Plan.* In response to increased competition in the electric utility business, in 1997 SCPPA began taking steps designed to accelerate the payment of obligations of the PVNGS participants for PVNGS until July 1, 2004. Such steps consist primarily of refunding certain outstanding bonds for savings and accelerating payments by project participants on the bonds issued by SCPPA for PVNGS. SCPPA has advised the City that it believes that the restructuring plan will result in substantial savings to project participants and enable them to better compete once the principal of and interest on such bonds have been paid (or provision for the payment thereof has been made).

The PVNGS restructuring plan has largely been completed and has resulted in increased payments (approximately \$65,000,000 per year, of which the City's share is approximately \$2.86 million per year) to be made by the project participants, including the City, until July 1, 2004. Most of these payments have already been made. Under the SCPPA restructuring plan, the cost of energy produced by PVNGS is expected to decrease significantly after July 1, 2004. These anticipated reductions are incorporated in the City's estimated stranded investment discussed herein. See "CITY'S RESPONSE TO COMPETITION – Power Deregulation Plan" and "Indebtedness – TABLE 9 – OUTSTANDING TAKE OR PAY OBLIGATIONS."

#### **Remote Ownership Interests**

*Hoover Hydroelectric Project Interest.* The City has a 20 MW capacity entitlement from the generating units at the hydroelectric power plant of the Hoover Dam (the "Hoover Project"), located approximately 25 miles from Las Vegas, Nevada. Modern insulation technology made it possible to "uprate" the nameplate capacity of the existing generators. The Hoover Project consists principally of the uprating of the capacity of the 17 existing generating units at Hoover Dam. In 1987, the City, together with the cities of Anaheim, Azusa, Banning, Burbank, Colton, Glendale, Riverside and Vernon, entered into contracts with the United States Bureau of Reclamation (the "Bureau") providing for the advancement of funds for the uprating and, with the Western Area Power Administration, for the purchase of power from, the Hoover Project.

The City's capacity entitlement is comprised of an 11 MW renewal and 9 MW resulting from the uprating. The actual capacity available from the Hoover Project varies, depending on maintenance scheduling and other outages. Under normal hydrologic conditions, the City receives approximately 60 GWh of annual energy deliveries. In the Fiscal Year ended June 30, 2001, the Hoover Project provided 62 GWh of energy to the City at an average cost for delivered power of \$6.75 per MWh.

#### **Purchased Power**

In addition to City-owned resources and interests in the joint-venture generation projects, the City has long-term contractual arrangements for Electric System firm purchases, as well as enabling agreements, including Western Systems Power Pool ("WSPP") membership, which allow short term power transactions in markets throughout the Western United States and Canada. Each of these resources is briefly described below.

*Bonneville Power Administration Purchase Exchange.* The City executed a 20-year contractual arrangement with the Bonneville Power Administration (the "BPA") in January 1988 for up to 12 MW of summer capacity. The agreement has two modes of application: The *sale mode* takes effect when the Pacific Northwest has surplus energy; an *exchange mode* applies during periods when the Pacific Northwest has deficit energy. In both cases, the BPA provides 12 MW of firm capacity from May through October and 6 MW during the remainder of the

year. Energy deliveries are limited to approximately 30 GWh of energy annually. This contract provides peak capacity to the City through Fiscal Year 2007-08. Starting July 2001, BPA converted this contract into the exchange mode.

*Bonneville Power Administration Exchange.* In 1994, the City executed a long-term contract with BPA for an additional 15 MW of firm capacity on an exchange basis with two components: a spring-winter "seasonal" exchange and a summer daily-return exchange. Under the terms of the seasonal exchange component, BPA supplies the City with a 15 MW block of on-peak firm energy in May and June, which is later returned to BPA in off-peak hours from September through March. For the summer component, BPA supplies fully dispatchable on-peak capacity from July through September. Any energy scheduled into the City during the summer must be returned to BPA within 24 hours. In exchange for the summer capacity entitlement, the City supplies BPA with an additional block of non-firm, off-peak energy during the winter.

*Bilateral (Spot Market) Energy Purchases.* Approximately 15-29% of PWP's annual energy needs are met through economic purchases of spot market power through short-term bilateral transactions. These transactions, which range in duration from one hour to one year, are made pursuant to the WSPP, of which the City has been a member since 1995. The WSPP is governed by a master enabling agreement with over 175 member utilities and power marketers that allows short-term transactions of one year or less for capacity, energy or transmission at negotiated market prices. This agreement replaced several obsolete agreements with individual utilities that typically had rate requirements above market price, while simultaneously providing access by the City to a much larger, growing market for bulk power transactions. In addition, this agreement allows for the purchase of firm capacity to meet spinning reserve requirements, providing the City with potential additional savings.

#### **Future Power Resources**

In addition to the Repowering Project, the Electric System's approved Strategic Resource Plan includes the addition of new local generation and contracted resources to replace aging local steam and gas turbines and expiring long-term purchase contracts. See "THE 2002 PROJECT – Repowering Project" herein. The City Council of the City has approved up to a 4.25% (10 MW) participation by PWP in the Magnolia Power Project (described below) in Burbank, California through a power sales agreement with SCPPA. PWP currently has a 4.1322% participation share which may be increased in the future up to a maximum 4.25% share. Other SCPPA members participating in the Magnolia Power Project include Anaheim, Burbank, Cerritos, Colton, Glendale and San Marcos.

The Strategic Resource Plan also contemplates the purchase of 15 MW of additional contract resources (in addition to the 10 MW from the Magnolia Power Project), and 60 to 120 MW of additional local generation repowering projects to eventually replace Broadway Unit 3 and the Glenarm Gas Turbines with modern combined-cycle plants over the next 5 to 10 years.

#### ***The Magnolia Power Project***

The Magnolia Power Project is planned to include the construction of a new gas-fired generation facility with a capacity of approximately 242 MW. The Magnolia Power Project would be constructed at the existing Burbank Water and Power headquarters site. The City of Burbank would be the project manager and operating agent for the Magnolia Power Project. If the other participating cities decide to proceed with construction, it is expected that the Magnolia Power Project will commence commercial operation in late 2004 or early 2005 and that the participating cities will enter into "take or pay" power sales contracts which contain "step up" provisions with respect to operating and maintenance expenses and certain other expenses.

SCPPA is expected to debt finance approximately \$294 million to complete the Magnolia Power Project. PWP currently has an initial 4.1322% participation share in the Magnolia Power Project, which may be increased in the future. Using PWP's current 4.1322% participation, its share of the costs of the Magnolia Power Project will be approximately \$729,333 for annual debt service and \$92,231 for annual fixed costs for a total estimated cost of \$821,564 per year.

**Transmission Resources**

**Existing Transmission Resources**

Transmission resources are an integral component of the City's plan to provide economical and reliable electric service to its customers. The City currently has several firm capacity transmission agreements to deliver up to 200 MW of remote generation to the T.M. Goodrich Receiving Station in the City, and to provide access to major hubs of the western wholesale power market. The transmission network allows the City to obtain low-cost energy supplies, enable bulk sales and exchanges of energy during low-load periods, and take advantage of price differentials between various locations on the Western System Coordinating Council power grid through wheeling, arbitrage sales and energy swaps. Depending on the generation source, the energy is transmitted through a combination of the transmission resources listed on the following table.

**TABLE 4  
FIRM TRANSMISSION SERVICE AGREEMENTS**

<u>Transmission Line Path</u>	<u>Owner/Party</u>	<u>Capacity</u>
Sylmar-T. M. Goodrich	SCE/ISO <sup>(1)</sup>	200 MW
Pacific-Northwest DC Intertie	Pasadena	45 MW <sup>(2)</sup>
Northern Trans. System (NTS)	IPA/Utah	64 MW
Southern Trans. System (STS)	SCPPA	113 MW
Adelanto-Sylmar	LADWP	110 MW
Mead-Phoenix	SCPPA	33 MW
Mead-Adelanto	SCPPA	70 MW
McCullough-Victorville	Pasadena	25 MW
Victorville-Sylmar	LADWP	25 MW
Hoover-Sylmar	LADWP	26 MW

Source: Power Supply Business Unit of PWP.

- (1) The ISO became the control area operator and scheduling agent for this line commencing with ISO operations.
- (2) The City owns 69 MW of this line. 24 MW has been sold to the Cities of Azusa, Banning, Colton, Anaheim and Riverside.

***Southern California Edison.*** The City has a long-term contractual right to 200 MW of firm capacity from LADWP's Sylmar Substation to the T. M. Goodrich Receiving Station in the City through SCE. This contract, which expires in August 2010, enables PWP to import economy energy and all of its power entitlement from remote resources. Beginning on March 31, 1998, the ISO became the scheduling agent for this contract.

***Pacific Northwest DC Intertie.*** Spanning 850 miles from Celilo in northern Oregon to Sylmar, California, the Pacific Northwest DC Intertie is a double-pole, +/-500 kV transmission line. The Pacific Northwest DC Intertie conveys energy to the City from BPA and other Pacific Northwest utilities. PWP is entitled to 69 MW (2.25%) of the total 3,100 MW capacity of the southern portion (south of the point where the line crosses the Nevada-Oregon Border ("NOB")) of the Pacific Northwest DC Intertie. Because of the load diversity and excess hydroelectric energy in the spring, the Pacific Northwest DC Intertie provides the City many opportunities for economy energy imports.

***Northern Transmission System.*** The Northern Transmission System consists of two 50-mile long 345 kV AC transmission lines which connect the IPP to the Mona Substation in Utah and the Gonder Substation in Nevada. The City has entitlements of up to 78 MW of capacity on these transmission lines as a result of the IPP Excess Sales Contract with the Utah Participants. As of June 30, 2001, IPA had outstanding approximately \$171,000,000 principal amount of and accrued interest on its bonds issued to finance the Northern Transmission System. The City's maximum share of this obligation is 7.556%.

***Southern Transmission System.*** The Southern Transmission System (“STS”) is a double-pole, +/-500 kV DC transmission line spanning 488 miles from IPP in central Utah to the Adelanto Substation in Southern California, together with an AC/DC converter station at each end. It is operated and maintained by the LADWP under contract with IPA. In connection with its entitlement to the IPP, the City acquired a contractual entitlement to 113 MW (5.88%) of the total 1,920 MW capacity of the STS through a transmission system contract with SCPPA. The term of this contract extends for the life of facility, or until all SCPPA bonds issued to finance the STS are defeased. As of November 1, 2001, SCPPA had outstanding approximately \$1,048,495,000 principal amount of its bonds issued to finance the STS. The City has entered into a transmission service contract with SCPPA which obligates the City to pay the cost of its share of the transfer capability on a “take-or-pay” basis.

***Adelanto-Sylmar Transmission Line.*** The Adelanto-Sylmar Transmission Line is a continuation of the Southern Transmission System. The City has a contract with LADWP for 110 MW of transmission capacity from either Adelanto or Victorville to Sylmar.

***Mead-Phoenix Transmission Project.*** This 256-mile, 500 kV AC transmission line, which was placed into commercial operation on April 15, 1996, extends between a southern terminus at the existing Westwing Substation (in the vicinity of Phoenix, Arizona) and a northern terminus at Marketplace Substation, a new substation located approximately 17 miles southwest of Boulder City, Nevada. The line is looped through the new 500-kV switchyard constructed in the existing Mead Substation in southern Nevada with an initial transfer capability of 1,300 MW. By connecting to Marketplace Substation, the Mead-Phoenix Transmission Project interconnects with the Mead-Adelanto Transmission Project (as described below) and with the existing McCullough Substation. The Mead-Phoenix Transmission Project is comprised of three project components. SCPPA has executed an ownership agreement providing it with an 18.3077% member-related ownership share in the Westwing-Mead project component, a 17.7563%, member-related ownership share in the Mead Substation project component, and a 22.4082% member-related ownership share in the Mead-Marketplace project component. Other owners of the line are Arizona Public Service Company, M-S-R Public Power Agency, Salt River Project and the City of Vernon. Through a contract with SCPPA, the City is entitled to receive 33 MW (2.5%) of this line’s 1,320 MW capacity. The term of this contract extends for the life of the facility, or until all SCPPA bonds issued to finance the project are defeased. As of April 1, 2002, SCPPA had outstanding approximately \$71,915,000 principal amount of its bonds issued to finance its interest in the Mead-Phoenix Transmission Project. The City has entered into a transmission service contract with SCPPA which obligates the City to pay the cost of its share of the transfer capability on a “take-or-pay” basis.

***Mead-Adelanto Transmission Project.*** Through a contract with SCPPA, the City is entitled to 70 MW (8.6%) of this 202 mile, 500 kV AC transmission line, which was placed into commercial operation on April 15, 1996. This arterial line extends between a southwest terminus at the existing Adelanto Substation in southern California and a northeast terminus at Marketplace Substation, a new substation located approximately 17 miles southwest of Boulder City, Nevada. By connecting to Marketplace Substation, the new line interconnects with the Mead-Phoenix Transmission Project and the existing McCullough Substation in southern Nevada. The new line has an initial transfer capability of 1,200 MW. SCPPA has executed an ownership agreement providing it with a total of a 67.9167% member-related ownership share in the project. The other owners of the line are M-S-R Public Power Agency and the City of Vernon. The term of this contract extends for the life of the facility, or until all SCPPA bonds issued to finance the project are defeased. As of April 1, 2002, SCPPA had outstanding approximately \$229,175,000 principal amount of its bonds issued to finance its interest in the Mead-Adelanto Transmission Project. The City has entered into a transmission system contract with SCPPA which obligates the City to pay the cost of its share of the transfer capability on a “take-or-pay” basis.

***McCullough-Victorville Transmission Line.*** The City acquired a 25 MW equity entitlement from LADWP in the 180 mile, 500 kV AC McCullough-Victorville No. 2 Transmission Line. Originally utilized to import the City’s PVNGS power, this line provides a parallel path to the Mead-Adelanto transmission line into the critical Mead Substation.

***Victorville-Sylmar.*** The City contracts with LADWP for 25 MW of firm transmission service from the Victorville Substation to the Sylmar Substation as a continuation of the McCullough-Victorville Line.



**Hoover-Sylmar Transmission Agreements.** The City has executed contracts for transmission service to transfer its Hoover renewal (11 MW), its uprate entitlement (9 MW), and an additional 6 MW for other uses concurrent with the terms of the Hoover entitlement. As a result of these contracts, the City's total Hoover transmission entitlement is 26 MW.

#### Future Transmission Resources

PWP has transmission resources throughout the west to deliver contractual and spot market supplies into the California ISO grid at the Sylmar interconnection with LADWP, about 10 miles from the City. All of PWP's external resources use this interconnection. As previously noted, PWP has 200 MW rights from Sylmar to the City under a contract with SCE that provide firm "Existing Transmission Contract" rights under the ISO. This contract expires in 2010. Federal regulations regarding transmission serve to discourage transmission owners from providing contracts on a long-term basis. Once the contract expires, PWP's default alternative is to take delivery of this energy by wheeling through the ISO at the tariff rate. PWP is currently evaluating options for delivering energy from Sylmar to the City, including building alternative transmission lines, contracting with LADWP and joining the ISO as a Participating Transmission Owner to avoid wheeling fees. See "RISK FACTORS -- Changes in Federal Regulation of Electric Utilities" herein.

#### Inter-Utility Sales Transactions

In addition to making market purchases when economical, PWP also sells excess electric and gas commodity and transmission capacity when the City does not need it. The City has entered into a number of long-term capacity sales, and energy schedulers and dispatchers also respond to opportunities to market excess power when conditions warrant. The additional revenues from these transactions help keep electricity rates down by offsetting fixed energy costs. These inter-utility transactions are summarized as follows:

**Azusa, Banning and Colton ("ABC") Power Sale Agreement.** Under two similar agreements, the City supplies 26 MW of capacity and associated energy to the ABC cities, through December 2002. For Fiscal Years 2002 and 2003, demand charge revenues to the City from this agreement are projected to equal about \$1.8 million and \$0.9 million, respectively. Historically, the ABC cities have not scheduled energy under these agreements due to the relatively high dispatch cost. Due to power shortages and high market prices in Fiscal Year 2001, however, approximately 147 GWh were sold at an average price of \$97/MWh and yielded \$14.3 million in revenues. PWP does not anticipate significant energy sales for the remaining term of the contract.

**Pacific Northwest DC Transmission Service Agreements.** Under these agreements, the City provides up to 24 MW of long-term transmission service to the purchasers over the City's entitlement in the Pacific Northwest DC Intertie Project. During Fiscal Year 2002, transmission service charge revenues from this transaction are projected to total about \$892,800. Another \$7.6 million in revenues are projected through the life of the contract, which expires in 2009.

**California ISO -- Participating Generator Agreement.** Under this agreement, the City sells capacity and energy from its local generation resources at Broadway and Glenarm into the California ISO's ancillary service markets on a day-ahead and hour-ahead basis. Revenues were extraordinary in Fiscal Year 2001 as a result of regional power shortages experienced at that time. In Fiscal Year 2001, approximately 561 GWh of capacity sales yielded over \$40 million in revenue, and 291 GWh of energy sales yielded more than \$27 million. These revenues helped offset increased purchase power costs for retail sales during that period. Some of these revenues may be subject to refund as a result of ongoing litigation, and approximately \$20 million of these revenues remain unpaid by the ISO as of July 1, 2002. See "LITIGATION." By contrast, Fiscal Year 2003 revenues are projected to be about \$2.3 million for ancillary service capacity and less than \$500,000 for associated energy sales as a result of weak markets and planned unit outages. Due to the short-term nature of the market, these revenues are extremely volatile and difficult to predict; however, it is expected that they will range from \$3 to 10 million annually in the future.

**Short-Term Bilateral Sales.** Short-term bilateral sales transactions typically provide marginal net revenues in the range of 5% to 15%. The City's volume of short-term transactions on the gas and electric wholesale markets has increased steadily for several years and reached unprecedented levels in Fiscal Year 2001 as a result of regional

power shortages experienced at that time. In Fiscal Year 2001, approximately 220 GWh of electric energy and transmission capacity transactions yielded \$12.9 million in revenue. Wholesale gas revenues also increased to \$4.3 million as PWP's supply contract called for daily balancing of gas supply, resulting in increased sales and purchase volumes while daily market prices for natural gas soared to as much as \$60/One Million British Thermal Units ("mmbtu"). To minimize the impact of volatile markets on retail customers, the wholesale cost of all these short-term transactions was deemed equal to the revenue in Fiscal Year 2001. These revenues are subject to market conditions and therefore difficult to project into the future. It is expected that future short-term transaction volumes and revenues will return to amounts similar to those reported in Fiscal Year 2000.

### **Interconnections and Distribution Facilities**

PWP owns facilities for the distribution of electric power within the city limits of the City (approximately 23 square miles). These facilities include approximately 132 miles of 17 kV power lines, 91 miles of 4 kV distribution lines (of which approximately 44% are underground), and 11 substations. The City's system experiences approximately .0017 hours (exclusive of the extraordinary outages associated with the Western Systems Coordinating Council system disturbances in 1996) of outage time per customer per year.

### **Fuel Supply**

Local generating units are fueled by burning natural gas. PWP has firm transportation contracts to deliver about 8,000 mmbtu per day, which slightly exceeds the annual average consumption. However, peak usage can exceed 30,000 mmbtu per day. The Southern California Gas Company ("SCG") provides intra-state delivery. Gas commodity is purchased on a term basis in forward markets, and also at monthly and daily index rates. During peak months, gas requirements in excess of firm capabilities are purchased at the southern California border at Topock (the California-Arizona border).

PWP has access to Canadian gas via firm transportation on the Nova, Transcanada, and Pacific Gas & Electric ("PG&E") expansion into the SCG system, netting about 3,989 mmbtu/day at Kern River Station in Kern County, California.

PWP has a firm contract entitlement to 4,003 mmbtu per day on the El Paso Pipeline from the San Juan and Permian Basins in New Mexico and Texas to the SCG and PG&E systems at Topock.

There are a number of factors, including the California Public Utilities Commission (the "CPUC")'s "Green Book" on natural gas industry restructuring, which could affect the tariff rate or fundamentally redesign the City's costs for intra-state gas transmission. The City, acting through the Southern California Public Power Pool and a coalition of California gas generators, is actively participating in the gas industry proceedings. The coalition seeks to discourage demand-based charges and shifting of costs from core customers to gas generators and other non-core customers as a result of the restructuring. See "DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS" herein.

### **Employees**

For Fiscal Year 2002-03, the City has budgeted approximately 230 employees for the Electric System, a decrease of 95 from Fiscal Year 2001-02. All Electric System employees are represented either by the International Brotherhood of Electrical Workers, the International Union of Operating Engineers, the American Federation of State and Municipal Employees, the Pasadena Association of Clerical and Technical Employees or Pasadena Management Association in all matters pertaining to wages, benefits and working conditions. The current arrangements with these unions and/or associations, which are in the form of either a contract or a memorandum of understanding, expire between September 2002 and July 2003.

The Electric System's permanent employees are all covered by the California Public Employees Retirement System ("CalPERS"). Pension costs are funded by bi-weekly contributions to CalPERS by the City. The City had no unfunded pension benefit obligations as of June 30, 2001 (the most recent actuarial data available).

**Electric Rates and Charges**

The City is obligated by its Charter and by its rate ordinance to establish rates and collect charges in an amount sufficient to meet its expenses of operation and maintenance and debt service requirements (with specific requirements as to priority and coverage). See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Rate Covenant." Electric rates are subject to approval by the City Council. Electric rates are not subject to regulation by the CPUC or by any other state agency. The enactment of State Legislative Assembly Bill 1890 ("AB 1890") by the California Legislature may, however, affect any competition transition charge ("CTC"), if any, imposed by the City in the future. Although its rates are not subject to approval by any federal agency, the City is subject to certain ratemaking provisions of the federal Public Utility Regulatory Policies Act of 1978 ("PURPA"). The City believes that it is operating in compliance with PURPA.

AB 1890 requires the imposition of a public benefits charge ("PBC") estimated to be approximately 2.85% of annual revenue requirements. In November 1997, the City Council approved a rate adjustment in order to adequately provide for the collection of the PBC. Prior to such time, the City had been spending approximately 1% of revenues on PBC-related activities. The rate increase approved by the City Council added 1.85% to the existing rates in order to fully fund the City's public benefit program obligations under AB 1890. See "THE ELECTRIC SYSTEM OF PWP — Federal Rate Regulation" and "DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS" herein.

The City provides no free electric service. The following table sets forth the average rates for the indicated customer classes for the Fiscal Years ended June 30, 1997 through June 30, 2001, including the energy cost adjustment charge.

**TABLE 5**  
**FIVE-YEAR HISTORY OF ELECTRIC RATES**  
Average Rate Dollars Per Kilowatt Hour

<u>Customer Class</u>	<u>Fiscal Year Ended June 30,</u>				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Residential	0.0983	0.0990	0.1030	0.1087	0.1364
Commercial	0.1009	0.1044	0.1067	0.1115	0.1377
Industrial	0.0928	0.0973	0.0978	0.1032	0.1278
Public Street and Highway Lighting	0.0877	0.0922	0.0922	0.0920	0.1252
Other	0.0938	0.0936	0.0916	0.1036	0.1156

Source: Finance and Administration Business Unit of PWP.

In addition to the implementation of the 1.85% rate increase for public benefit programs discussed above, in November 1997, the City Council approved a temporary rate surcharge, representing an average rate increase of approximately 12%, effective at such time. The temporary rate surcharge is not subject to any city taxes and generates approximately \$15 million annually. Revenues generated by the temporary rate surcharge have been deposited into the City's Stranded Investment Reserve Fund. Due to long-term contracts with IPA and SCPPA, the City is obligated to purchase power and/or services at a cost which is projected to be higher than market in a deregulated environment. Current forecasts of the price of electricity during the period of these contracts result in a net present value of the "stranded investments" of \$150 million. This amount was fully collected by June 30, 2001, one year ahead of schedule, and is held by the City's restricted Stranded Investment Reserve Fund. This fund is expected to be sufficient to allow PWP to charge market rates to its customers and fund any shortfalls between PWP rates and market rates with withdrawals from the fund. PWP has also restructured its SCPPA and IPA debt obligations. See "THE ELECTRIC SYSTEM OF PWP – Joint Powers Agency Resources/Remote Ownership Interests" herein. Any and all receipts obtained by customers for the purpose of funding the Stranded Investment

Reserve Fund after the full funding was attained will be rebated to the customers effective July 1, 2002, the date of implementation of the new rate structure. See "New Rate Structure" below.

In recognition of the additional financial burden the temporary rate surcharge places on its customers, the City Council also approved a temporary suspension of its underground utility program and a temporary rebate of its underground surtax. This rebate will be discontinued concurrently with the implementation of the new rate structure. See "New Rate Structure" below.

#### **New Rate Structure**

In an effort to improve its competitive position in the face of deregulation, PWP completed an electric cost of service study during Fiscal Year 2002. The intent was to create a new rate design which would unbundle the major cost components of supplying electricity and create new customer classes and electric rates which would accurately reflect the costs to provide service to PWP's customers. Furthermore, the new rate structure was to be easily understood, eliminate any inter-class subsidies and provide a reasonable rate of return.

Specifically, the new rate structure:

1. Creates three broad customer groups: residential, commercial and industrial, and street lighting and traffic signals; and segments commercial and industrial customers by demand and by primary or secondary voltage levels.
2. Provides a \$2.00 per month multi-family discount to residential customers with at least four meters per location, and eliminates the all-electric customer discounts.
3. Provides seasonal flat rates and time-of-use rate options for energy services to all customers, except for large commercial and industrial customers with demands greater than 300 K Wh.
4. Provides time-of-use rates to large commercial and industrial customers with demands greater than 300 K Wh.
5. Provides self-generation service for customers with self-generation.
6. Provides green power service to customers interested in procuring green power.
7. Provides curtailable service to medium and large commercial and industrial customers for curtailment at PWP-directed time periods.

The new rate structure was approved by the Municipal Services Committee and the City Council in December 2001. The new rate structure and the new rates became effective in Fiscal Year 2003 which began July 1, 2002. The new rate structure is expected to result in a system-wide decrease in electric rates, but is not expected to affect PWP's revenues.

As mentioned above, PWP's new rate structure includes rate options for its customers. These options include such things as 1) a green power rate to encourage the purchase of electricity produced in an environmentally friendly manner, and 2) a time of use rate to encourage the usage of electricity at off-peak times to reduce the overall cost of electricity and reduce the peak load placed on the California electric grid.

The following table sets forth projected rates for each customer class based on the new rate structure.

TABLE 6  
PROJECTED RATES UNDER NEW ELECTRIC RATE STRUCTURE  
Average Rate Dollars Per Kilowatt Hour

<u>Customer Class</u>	<u>Fiscal Year Ending June 30, 2003</u>
Residential	0.1232
Small Commercial and Industrial	0.1077
Medium Commercial and Industrial	0.1084
Large Commercial and Industrial	0.1015
Street Lighting and Traffic Signals	0.1100

Fiscal Year 2003 projected rates reflect the effect of the City Council-approved electric rate restructuring plan.

Source: Finance and Administration Business Unit of PWP.

### Federal Rate Regulation

The City sets rates, fees and charges for electric service. The authority of the City to impose and collect rates and charges for electric power and energy sold and delivered is not subject to the general regulatory jurisdiction of the CPUC and presently neither the CPUC nor any other regulatory authority of the State of California nor the Federal Energy Regulatory Commission ("FERC") approves such rates and charges. It is possible that future legislative and/or regulatory changes could subject the rates and/or service area of the City to the jurisdiction of the CPUC or to other limitations or requirements.

FERC could potentially assert jurisdiction over rates of licensees of hydroelectric projects and customers of such licensees under Part I of the Federal Power Act ("Part I"), although it has not as a practical matter exercised or sought to exercise such jurisdiction to modify rates that would legitimately be charged. There is a question as to whether FERC has jurisdiction at all to modify rates for municipalities which are authorized to set their own rates. The City is and has for some time been a licensee of hydroelectric projects under Part I, but no jurisdictional authority to regulate its rates has been asserted by FERC. FERC and its predecessor, the Federal Power Commission (the "FPC"), have indicated on a number of occasions that municipalities and other public agencies authorized to set their own rates are not subject to FERC's regulatory jurisdiction over rates. On the other hand, the FPC in at least one decision suggested a contrary result. Even if FERC were to assert jurisdiction over the services and charges associated with such hydroelectric projects, it is unlikely that any reasonable rates and charges would be found to be contrary to applicable federal regulatory standards.

Under the 1992 revisions to the Federal Power Act, enacted as the Energy Policy Act of 1992 (the "Energy Policy Act"), FERC has the authority, under certain circumstances and pursuant to certain procedures, to order any utility (municipal or otherwise) to provide transmission access to others at cost-based rates. See "RISK FACTORS" herein.

FERC also has jurisdiction to regulate those cost-based rates, and has asserted that jurisdiction in Minnesota Municipal Power Agency v. Southern Minnesota Municipal Power Agency, 66 FERC ¶61,223 (1994) and 68 FERC ¶61,060 (1994). However, FERC's asserted jurisdiction over municipal rates does not extend to the rates for power sales, and applies only to transmission service ordered by FERC pursuant to Section 211 of the Federal Power Act, as amended by the Energy Policy Act. Neither the City nor the joint powers agencies with which the City has contracted which developed the transmission assets are providing any such transmission service to others. No assurance can be given that such service will not be requested in the future.

The California Energy Commission is authorized to evaluate rate policies for electric energy as related to the goals of the Energy Resources Conservation and Development Act and make recommendations to the Governor, the Legislature and publicly-owned electric utilities.

**Customers, Energy Sales, Revenues and Demand**

The average number of customers, MWh sales and revenues derived from sales, by classification of service, and peak demand during the past five Fiscal Years, are listed below.

**TABLE 7  
CUSTOMERS, SALES, REVENUES AND DEMAND**

	<u>Fiscal Year Ended June 30,</u>				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Number of Customers					
Residential	49,457	49,610	49,642	49,647	50,466
Commercial	7,461	7,490	7,586	7,595	7,720
Industrial	929	835	967	972	988
Other (Government)	<u>175</u>	<u>175</u>	<u>175</u>	<u>175</u>	<u>180</u>
Total	<u>58,022</u>	<u>58,222</u>	<u>58,370</u>	<u>58,389</u>	<u>59,354</u>
Megawatt-hour Sales:					
Residential	279,465	288,128	291,183	277,673	289,371
Commercial	144,385	146,383	145,010	149,142	149,605
Industrial	643,427	637,660	652,434	675,054	652,576
Public Street and Highway Lighting	13,790	13,846	13,905	13,921	13,934
Other (Government)	<u>37,979</u>	<u>38,690</u>	<u>41,257</u>	<u>39,684</u>	<u>34,543</u>
Total Retail Energy Sales	<u>1,119,046</u>	<u>1,124,707</u>	<u>1,143,789</u>	<u>1,155,474</u>	<u>1,140,029</u>
Wholesale Sales to Other Utilities	<u>111,851</u>	<u>110,810</u>	<u>101,443</u>	<u>77,006</u>	<u>150,214</u>
Total Energy Sales	<u>1,230,897</u>	<u>1,235,517</u>	<u>1,245,232</u>	<u>1,232,480</u>	<u>1,290,243</u>
Revenues from Sale of Energy:					
Residential	\$ 27,478,586	\$ 28,514,883	\$ 29,990,654	\$ 30,187,564	\$ 39,475,982
Commercial	14,569,561	15,279,868	15,466,369	16,624,671	20,602,797
Industrial	59,738,903	62,033,839	63,837,092	69,655,768	83,427,410
Wholesale Sales to Other Utilities <sup>(1)</sup>	7,114,942	6,274,109	6,632,574	33,335,325	132,890,825
Public Street & Highway Lighting	1,209,174	1,275,947	1,281,912	1,280,303	1,743,970
Other <sup>(2)</sup>	<u>3,968,699</u>	<u>12,099,081</u>	<u>19,291,945</u>	<u>19,742,335</u>	<u>23,476,396</u>
Total Energy Revenue	<u>\$114,079,865</u>	<u>\$125,477,726</u>	<u>\$136,500,546</u>	<u>\$170,825,966</u>	<u>\$301,617,380</u>

Source: Finance and Administration Business Unit of PWP.

(1) Increase in wholesale revenues in Fiscal Year 2001 resulted from unusually high market prices and sales volume as follows: ISO capacity and energy - \$67.1 million; bilateral energy and transmission sales - \$28.3 million; and wholesale fuel sales - \$4.3 million. Additionally, the \$132.9 million includes the \$33.2 million market value of local production used to meet native load. The \$33.2 million was also included in PWP's purchased power expenses.

(2) Other revenue includes standard Investment Surcharge, Public Benefit Surcharge, unbilled revenue and miscellaneous governmental revenue.

For Fiscal Year 2001, 44% of PWP's total electric sales revenues was derived from sales to other utilities, 28% was derived from sales to industrial customers, while residential and commercial accounts represented 13% and 7% of sales revenues, respectively.

Within PWP, "commercial and industrial" customers are principally educational and healthcare institutions and office buildings, as well as a wide range of businesses. These businesses include postal service, engineering, telecommunications, healthcare, property development, insurance, office products and packaging and chemical products. No single commercial industrial customer currently accounts for more than 6% of total electrical sales revenue. The top 20 commercial and industrial customers typically represent approximately 24.5% of PWP's retail sales.

### Capital Requirements

The City expects routine capital requirements for the next five years, including the net proceeds of the 2002 Bonds, to aggregate approximately \$140.1 million. The capital requirements are for budgeted improvements to the Electric System. It is expected that these requirements will be funded primarily from Electric System revenues in addition to future tax-exempt financings.

The following table lists the expected capital requirements over the next five Fiscal Years. A portion of the expenditures of Fiscal Years 2002-03 and 2003-04 will be funded with the proceeds of the 2002 Bonds. See "THE 2002 PROJECT" herein.

TABLE 8  
ELECTRIC SYSTEM OF PWP  
CAPITAL REQUIREMENTS

<u>Fiscal Year</u>	<u>Capital Requirements (in Thousands)</u>
2003	\$77,153
2004	19,454
2005	12,547
2006	10,032
2007	10,732

### Indebtedness

As of June 30, 2001, the City had outstanding \$67,355,000 of 1998 Bonds which are payable from the Light and Power Fund and secured by a pledge of the Net Income of the Electric System. The current outstanding principal amount of 1998 Bonds is \$65,595,000. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS — Parity Reserve Fund" herein.

As previously discussed, the City participates in the SCPA joint powers agency. SCPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. The City is a participant in the following SCPA projects: PVNGS, the Mead-Phoenix Transmission Project, the Mead-Adelanto Transmission Project and the Southern Transmission System. To the extent the City participates in projects developed by SCPA, the Electric System is obligated for its proportionate share of the cost of the particular project.

In addition, the City has entered into certain power sales contracts with IPA and others for the delivery of electric power from IPP. The Electric System's share of IPP power is equal to 6.0% of the generation output of IPP, IPA's 1,660 MW coal-fueled generating station, located in central Utah. The contracts constitute an obligation of the Electric System to make payments solely from revenues from the Light and Power Fund. The power sales

contracts also require the Electric System to pay certain minimum charges that are based on debt service requirements. Such payments are considered a Maintenance and Operating Expense as a cost of purchased power.

Agreements of the City with SCPPA and IPA are on a "take-or-pay" basis, which requires payments to be made whether or not projects are completed or operable, or whether output from such projects is suspended, interrupted or terminated. Such payments represent the Electric System's share of current and long-term obligations. Payment for these obligations will be made from operating revenues received during the year that payment is due. Interest rates on the outstanding debt associated with the take-or-pay obligations range from 5.0% to 10.3%. All of these agreements contain step-up provisions obligating the City to pay a share of the obligations of a defaulting participant. The City's participation and share of debt service obligations (without giving effect to any step-up provisions) are shown in the following table.

TABLE 9  
OUTSTANDING TAKE OR PAY OBLIGATIONS <sup>(1)</sup>  
(Dollar Amounts in Millions)

	<u>Outstanding Debt (Including Principal and Interest)</u>	<u>Pasadena Participation</u>	<u>Pasadena Share of Outstanding Debt</u>
IPA			
IPP Entitlement and Lay-Off Contract	\$6,741	6.0%	\$404
Northern Transmission System Contract	171	7.556%	13
SCPPA			
Palo Verde Project	670	4.4%	29
IPP Southern Transmission	1,758	5.9%	103
Mead-Adelanto Transmission Project	424	8.6%	36
Mead-Phoenix Transmission Project	<u>135</u>	13.8%	<u>19</u>
TOTAL	<u>\$9,899</u>		<u>\$604</u>

Source: Finance and Administration Business Unit of PWP.

(1) As of June 30, 2001.

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Historical Operating Results and Debt Service

The following table shows the historical net income and debt service coverage Parity Obligations payable from the Light and Power Fund. Since June 30, 2001, the date as of which such financial information was audited, there has been no material adverse change in the finances of the Electric System.

TABLE 10  
HISTORICAL OPERATING RESULTS AND DEBT SERVICE COVERAGE  
(\$ in thousands)

	1997	1998	1999	2000	2001	2002 <sup>(1)</sup>
<b>Revenues:</b>						
Base Rate Operating Revenues	\$ 39,734	\$ 39,547	\$ 39,562	\$ 37,373	\$ 37,675	
Recovered Energy Costs	64,571	69,581	73,434	74,930	84,196	
Energy Cost Adjustment Charge	2,659	2,191	1,359	6,800	26,622	
Stranded Investment Surcharge	0	7,820	15,160	15,624	15,665	
Public Benefit Charge	0	65	595	2,636	4,263	
Sales to Other Utilities <sup>(2)</sup>	7,115	6,274	6,862	33,335	132,891	
Other Operating Revenues	0	0	(472)	128	306	
Total Revenues	\$114,079	\$125,478	\$136,500	\$170,826	\$301,618	
<b>Expenses:</b>						
Energy Costs – Fuel						
Retail	\$ 6,067	\$ 6,450	\$ 8,675	\$ 7,194	\$ 16,652	
Wholesale	2,866	2,534	165	2,988	12,685	
Purchased Power						
Retail	61,163	64,353	66,118	74,536	103,753	
Wholesale	0	0	2,731	8,412	60,430	
Direct Operating Expenses	10,884	8,940	7,891	8,986	12,046	
General and Administrative (includes Commercial)	10,309	11,203	10,847	12,004	21,648	
Interest Expense	3,883	3,677	2,995	3,278	3,198	
Depreciation	8,049	8,055	8,583	8,653	8,684	
Total Expenses	\$103,221	\$105,212	\$108,005	\$126,051	\$239,096	
Earnings from Operations	\$ 10,858	\$ 20,266	\$ 28,495	\$ 44,775	\$ 62,522	
Non Operating Income	3,827	5,852	4,699	6,506	25,741	
Extraordinary Gain (Loss)	1,233	1,277	1,533	1,502	0	
Net Income	\$ 15,918	\$ 27,395	\$ 34,727	\$ 52,783	\$ 88,263	
<b>Cash Flow and Debt Service Calculation</b>						
Deduct Restricted Interest Income	\$ —	\$ —	\$ —	\$ —	\$ —	
Add Back Interest Expense	3,883	3,677	2,995	3,278	3,198	
Add Back Depreciation	8,049	8,055	8,583	8,653	8,684	
Subtract Stranded Investment Surcharge	0	(7,820)	(15,160)	(15,624)	(15,665)	
Available for Debt Service	\$ 27,850	\$ 31,307	\$ 31,145	\$ 49,090	\$ 84,480	
Debt Service	\$ 7,023	\$ 7,131	\$ 6,940	\$ 4,868	\$ 4,921	
Debt Service Coverage <sup>(2)</sup>	3.97x	4.39x	4.49x	10.08x	17.17x <sup>(2)</sup>	
Amount Available After Debt Service	\$ 20,827	\$ 24,176	\$ 24,205	\$ 44,222	\$ 79,559	

Source: City of Pasadena Department of Finance.

(1) Unaudited; estimated.

(2) Increase in wholesale revenues in Fiscal Year 2001 resulted from unusually high market prices and sales volume as follows: ISO capacity and energy - \$67.1 million; bilateral energy and transmission sales - \$28.3 million; and wholesale fuel sales - \$4.3 million. Additionally, the 2001 total includes \$33.2 million market value of local production used to meet native load. The \$33.2 million was also included in PWP's purchased power expenses.

**Transfers to the General Fund of the City**

Pursuant to The Charter, City Council approves transfers from the Light and Power Fund to the City's General Fund for the payment of the City's general obligation bonds or for municipal improvements. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS – The Light and Power Fund" herein. The following table sets out the transfers from the Light and Power Fund to the City's General Fund for the last five fiscal years.

**TABLE 11**  
**TRANSFERS TO THE GENERAL FUND**  
(In Thousands)

<u>Fiscal Year</u>	<u>Transfer Amount</u>	<u>% of Prior Year Gross Income</u>
1997	\$8,269	8.00
1998	6,571	6.33
1999	5,438	5.00
2000	5,626	5.00
2001	5,620	5.00
2002	5,750 <sup>(1)</sup>	5.00

Source: Finance and Administration Business Unit of PWP.  
(1) Unaudited; estimated.

**CITY'S RESPONSE TO COMPETITION**

Certain municipally-owned utilities may be impeded in their ability to compete by numerous legal limitations and requirements, such as competitive bidding, public meeting and information requirements, labor policies, restrictions on the use of facilities financed with tax-exempt financing and governing structures which may not permit the flexibility required to compete in the marketplace. PWP does not foresee any of these factors affecting its ability to compete. Furthermore, PWP has the advantage of being a non-profit entity and as such is not required to pay income tax.

In addressing the changing legal and business environment resulting from the electric utility restructuring in California (see "DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS" herein), the City undertook a number of strategic efforts to ensure that the Electric System remained competitive under deregulation. Strategic efforts have been undertaken in the past several years to allow the Electric System to retain customers by maintaining high quality service and competitive rates at or below those rates charged by other service providers. See "THE 2002 PROJECT – Repowering Project" herein.

**Power Deregulation Plan**

A ten-year financial plan, which was first presented to the City Council in September of 1996, continues to serve as the blueprint for managing the City's stranded investments in connection with deregulation (the "Power Deregulation Plan"). Due to the fluctuations in the marketplace this plan is now prepared on a five year basis and details all operating income and expenses as well as balance sheet items.

The Power Deregulation Plan targeted the phase-in of direct access for all customer classes by July 2002. See "Direct Access" below. To enhance its competitive posture after complete transition to direct access, the Power Deregulation Plan targeted full funding of the City's stranded investment which is estimated to be \$150 million. Since the City's stranded costs are related to power contracts which may not at present be prepaid economically, the City established a Reserve for Stranded Investment as contemplated by the Power Deregulation Plan, which was

fully funded as of June 30, 2001. After July 2002, amounts in the Stranded Investment Reserve Fund may be drawn upon in any year, as needed, to offset the City's stranded cost in that year.

PWP calculates its stranded investment as the present value difference between the costs associated with IPP and PVNGS power supply contracts and the market price of power in Southern California. Key assumptions used in the evaluation of the City's stranded investment include (i) a nominal market forecast of electricity developed by Henwood Energy Services, Inc., which was compared to the cost associated with the IPP and Palo Verde contracts from July 1, 2002 through June 30, 2023; (ii) except for a portion of the "STS", which is dedicated to IPP generation output, no transmission costs were included in the stranded investment calculation because these facilities will remain regulated assets; and (iii) no stranded investment was attributed to the local generation facilities (Broadway and Glenarm) since there is minimal debt allocated to these facilities, and in the event the City were to determine that such facilities were not competitive, the City could discontinue operation of such facilities and dispose of the assets.

With respect to the City's Broadway and Glenarm facilities, it was assumed that the land value would net-out any decommissioning costs, and therefore there are no associated costs for those facilities in the event operations are discontinued. The electricity market has changed significantly since the adoption of the Power Deregulation Plan especially regarding the value of owning generation facilities. This change has resulted in a renewed effort to own and upgrade generation facilities to provide reliability and price stabilization.

The City Council, through the Municipal Services Committee, continues to review the City's stranded investment, the Power Deregulation Plan, the management or governance of the utility, and the success of the City owned electric utility in a deregulated environment. It has been generally agreed that in order to succeed in a deregulated environment, the City owned utility will emphasize customer service, strong financial management and operational efficiency.

As part of its response to increased competition in a deregulated market, effective July 1, 2002, PWP implemented a new rate structure which includes rate options for its customers. See "THE ELECTRIC SYSTEM OF PWP – New Rate Structure" above.

#### **Direct Access**

In 1996 the City Council approved Direct Access for PWP electric customers for implementation beginning January 1, 2000. Under the Direct Access concept, customers may choose to purchase electricity from other energy suppliers. In April 1999, the City Council approved a Direct Access Phase-In Schedule, Direct Access Regulation No. 22, a non-bypassable generation related charge and amended the Light and Power Rate Ordinance to establish, among other things, the following two items:

1. **Direct Access Energy Credit:** Those customers who choose to purchase their power from an energy supplier other than PWP will continue to pay the currently established electric rates, except for the energy supply component of the rate.
2. **Direct Access Charge:** All customers who choose to participate in Direct Access will be required to pay all incremental and ongoing costs incurred by PWP to implement Direct Access.

The purpose of these actions was to allow PWP to collect any stranded costs which may arise beyond July 1, 2002 as well as any ongoing incremental costs related to Direct Access from any customers who choose to leave PWP as a result of Direct Access. As of this date PWP has not lost any customers due to the implementation of Direct Access.

#### **RECENT CONSTITUTIONAL CHANGES IN CALIFORNIA**

Proposition 218, a State ballot initiative known as the "Right to Vote on Taxes Act," was approved by the voters of the State of California on November 5, 1996. Proposition 218 added Articles XIIIIC and XIIID to the State Constitution. Article XIIID creates additional requirements for the imposition by most local governments (including the City) of general taxes, special taxes, assessments and "property-related" fees and charges. Article XIIID explicitly exempts fees for the provision of electric service from the provisions of such article. Article XIIIIC

expressly extends the people's initiative power to reduce or repeal previously-authorized local taxes, assessments, and fees and charges. Since the terms "fees and charges" are not defined in Article XIII C, the initiative powers may affect more than "property-related" fees and charges as defined in Article XIII D. Additionally, in the case of Bock v. City Council of Lompoc, 109 Cal.App.3d (1980), the Court of Appeal determined that electric rates are subject to the initiative power. Thus, even electric service charges (which are expressly exempted from the provisions of Article XIII D) might be subject to the initiative provision of Article XIII C, thereby subjecting such fees and charges imposed by the City to reduction by the electorate. The City believes that even if the electric rates of the City are subject to the initiative power, under Article XIII C or otherwise, the electorate of the City would be precluded from reducing electric rates and charges in a manner adversely affecting the payment of the 2002 Bonds by virtue of the "impairments clause" of the United States and California Constitutions. (See APPENDIX A - "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS").

### CONSTITUTIONAL LIMITATION ON GOVERNMENTAL SPENDING

Article XIII B of the California Constitution limits the annual appropriations of State and local governmental entities to the amount of appropriations of the entity for the prior Fiscal Year, as adjusted for changes in the cost of living, changes in population and changes in services rendered by the entity.

Pending clarification of certain of its provisions by the courts, or by the California Legislature, the full impact of Article XIII B on the amounts and uses of moneys to be deposited in the Light and Power Fund is not clear. However, to the extent moneys in the Light and Power Fund are used to pay costs of maintaining and operating the Electric System and debt service on the Bonds and Parity Obligations, such moneys should not, under the terms of Article XIII B, as supplemented by legislation, and based upon the official ballot argument supporting the measure, be held to be subject to the appropriation limit.

### DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS

#### Background; Electric Market Deregulation

In September 1996, AB 1890 became effective, which essentially established the legal framework for a partial deregulation of the California electric energy market. The FERC has issued various orders granting federal authorization necessary to implement California's deregulation plan. AB 1890's stated intent is to provide meaningful wholesale and retail competition in the electric generation market. AB 1890 mandated the organization of an independent system operator, which was established as the ISO, and an independent owner exchange, which was established as the PX, each of which is a nonprofit, public benefit corporation. The ISO and the PX commenced operations on March 31, 1998, with the ISO assuming operational control of the transmission facilities of the investor-owned utilities ("IOUs"). The PX was originally established to permit power generators to sell power on a competitive spot-market basis; however, the PX has ceased all operations and filed for bankruptcy protection. See "Additional Developments" below.

Although municipal and other public agency utilities ("Municipal Utilities"), including PWP, are not subject to the CPUC's general jurisdiction and although AB 1890 applies primarily to the California IOUs, Municipal Utilities are encouraged to participate in its competitive framework. Pursuant to AB 1890, a Municipal Utility may not sell electricity to the retail customers of another utility unless the Municipal Utility permits the other utility to sell electricity to the Municipal Utility's retail customers. AB 1890 also mandates that Municipal Utilities direct specific sums to fund public benefit programs such as energy efficiency and conservation, public research and development, renewable resource and low-income assistance programs. To pay for such programs, AB 1890 authorizes Municipal Utilities to establish a non-bypassable, wage-based charge on local distribution service of not less than the lowest expenditure level of the three largest California IOUs on a percent of revenue basis calculated from each utility's 1994 revenue requirement. AB 1890 specifically states that it does not affect the preexisting ratemaking authority of the governing body of a Municipal Utility, nor does it limit or affect a Municipal Utility's statutory rights to negotiate and design rates for existing customers.

Portions of AB 1890 have now been suspended and the future of the restructuring of the market for electricity in California is unclear.

#### Additional Developments

During the past two years, California has experienced difficulties with the prices and supplies of natural gas and electricity in much of the State. These difficulties are likely to continue for several years. Set forth below is a discussion of certain developments that have occurred since the passage of AB 1890 and the effort to deregulate the California energy markets.

***AB 1890 Rate Freeze.*** The three major investor-owned electric utilities in California, Pacific Gas & Electric Company ("PG&E"), San Diego Gas & Electric Co. ("SDG&E") and SCE are net buyers of electricity. Following the deregulation of the California energy markets under AB 1890, the IOUs were purchasing electricity at fluctuating short-term and spot wholesale prices while the retail prices that they could charge their residential and small business customers were capped at specified levels pursuant to AB 1890.

***Financial Difficulties of the IOUs and Certain Other Market Participants.*** One result of the above-described conditions in the California energy markets has been that the creditworthiness of PG&E and SCE has deteriorated, adversely affecting their ability to purchase electricity and, in the case of PG&E, natural gas. PG&E and SCE reported publicly that they have, since January 2001, defaulted on many of their obligations. The creditworthiness of the ISO and the PX are directly tied to that of the IOUs because of the significant financial obligations of the IOUs to the ISO and the PX. On December 15, 2000, FERC issued an order eliminating the requirement that California IOUs buy energy through the PX and prohibiting them from selling energy to the PX. By January 31, 2001, the PX had become insolvent and ceased trading activities. It has filed for bankruptcy protection.

In 2001, Enron Corporation experienced severe financial difficulties and, on December 2, 2001, voluntarily filed for bankruptcy protection under Chapter 11 of the federal Bankruptcy Code. Enron markets electricity and natural gas, delivers energy and other physical commodities and provides financial and risk management services. The bankruptcy of Enron is not expected to have a material adverse impact on the City or the Electric System.

***PG&E Bankruptcy; SCE/CPUC Settlement Agreement.*** On April 6, 2001, PG&E filed for voluntary protection under Chapter 11 of the federal Bankruptcy Code. The bankruptcy proceedings (hereinafter, the "PG&E Bankruptcy") are pending in U.S. Bankruptcy Court in San Francisco, California. During the PG&E Bankruptcy, PG&E's operations are expected to continue under current management, while the Bankruptcy Court decides on the allocation of PG&E's available cash flow and assets among its creditors. The Bankruptcy Court may take actions dealing with existing contracts for purchase or sale of electricity, and possibly also with regard to the prices charged to end use customers. Bankruptcies involving large and complex companies typically take several years to reach a conclusion. PG&E's parent company has not filed for bankruptcy protection. On September 20, 2001, PG&E filed its reorganization plan with the Bankruptcy Court; however, such plan will likely be subject to approval by FERC, the Securities and Exchange Commission and the Nuclear Regulatory Commission.

SCE has announced its desire to avoid bankruptcy proceedings and has entered into a settlement agreement with the CPUC with respect to recovery of its unrecovered wholesale power costs. SCE could nevertheless be forced into bankruptcy, including by unpaid creditors.

***State Intervention.*** On January 17, 2001, California Governor Gray Davis determined that the electricity available from California's utilities was insufficient to prevent widespread and prolonged disruption of electric service in California and proclaimed a state of emergency to exist in California under the California Emergency Services Act (the "Emergency Services Act"). The Governor ordered the California Department of Water Resources ("DWR") to enter into contracts and arrangements for the purchase and sale of electric power as necessary to assist in mitigating the effects of the emergency. The Emergency Services Act also authorizes the Governor to commandeer or utilize private property or personnel deemed by him necessary in carrying out his responsibilities and requires the State to pay the reasonable value of the use of such property. The Governor used this authority to seize certain power purchase contracts of IOUs (although the U.S. Ninth Circuit Court of Appeals has ruled that such seizure exceeded the Governor's authority since Congress had not granted the State such rights in energy matters).

On March 21, 2002, effective as of September 20, 2001, the CPUC suspended the right of retail end users to acquire service from other providers. These activities may limit direct access in California for some period of time. The CPUC stated in the decision that direct access customers should be required to pay an exit fee or similar charge to cover their share of DWR costs. The amount of such an exit fee or similar charge would be determined in future CPUC proceedings. If such an exit fee or similar charge is not adopted by the CPUC within a reasonable time frame, the CPUC reserved the right to revisit its decision rejecting requests to suspend direct access as of July 1, 2001.

**Recent IOU Rate Increases.** On January 4, 2001, the CPUC approved an interim 90-day surcharge of \$0.01 per kWh for PG&E and SCE, subject to refund and adjustment. The surcharge resulted in rate increases of 9% for residential customers, 7% for small businesses, 12% for medium businesses and 15% for large commercial customers. PG&E and SCE have stated, however, that such rate increases are insufficient to compensate them for the large deficits incurred between the cost of their wholesale power supply and revenues received from the resale of electricity to consumers. On March 27, 2001, the CPUC made permanent the \$0.01 per kWh surcharge for PG&E and SCE and approved a \$0.03 per kWh rate increase, subject to refund and adjustment, on electricity sold to PG&E and SCE customers consuming in excess of 130% of "baseline" quantities. On September 20, 2001, the CPUC approved a \$0.0146 per kWh interim rate increase on electricity sold to SDG&E customers consuming in excess of 130% of "baseline" quantities in order to provide for recovery of SDG&E's share of the costs of the DWR power purchase program.

**FERC Price Mitigation.** On June 19, 2001, FERC ordered the implementation of cost-based price mitigation in the spot electricity markets for California and the rest of the area within the Western Systems Coordinating Council. This action significantly reduced spot power prices in the western United States. FERC's price mitigation order took effect on June 20, 2001 and is scheduled to terminate on September 30, 2002. The City is unable to predict what impact, if any, the expiration of FERC's price mitigation order will have on spot market power prices in the western United States.

**FERC Order.** On July 25, 2001 FERC issued an order mandating and establishing the scope of and methodology for calculating refunds or changes in transactions on the spot markets operated by the ISO during the period of October 2, 2000 through June 20, 2001. FERC has claimed that it can assert jurisdiction over the California wholesale electricity markets in a manner that encompasses non-IOU utilities such as PWP for the purpose of refund liability. The methodology and jurisdiction of FERC are being disputed by entities that sold power on the ISO spot markets during the relevant period. The matter is currently before an administrative law judge. Depending on the ultimate outcome of these disputes, municipal utilities that sold power on the ISO spot markets between October 2, 2000 and June 20, 2001 may be liable for refunding a portion of the proceeds from such sales.

**Natural Gas Price Volatility.** California imports a substantial portion of its natural gas. Limited gas transmission pipeline capacity into California and a major pipeline break in New Mexico during the summer of 2000, coupled with increases in wholesale prices for natural gas in the United States, have resulted in substantial price increases that have been passed on to business and residential consumers. Pipeline expansion is planned but may not be complete for several years. Nationwide, relatively high prices for natural gas have been extremely volatile and such volatility is likely to persist periodically for several years. Shortages of natural gas supplies could adversely affect the economy, and particularly generation of electricity, much of which is fueled by natural gas.

**DWR Power Bonds.** DWR's commitments for electric power purchases for the period January 17, 2001 to October 15, 2001 aggregated approximately \$11.3 billion. In order to repay moneys borrowed from the State's General Fund to pay a portion of such purchases, DWR plans to issue approximately \$11 billion of revenue bonds, as discussed below. The revenue bonds are to be repaid from a dedicated revenue stream derived from retail end use customer payments for electricity. On February 21, 2002, the CPUC approved a rate agreement with DWR that is expected to provide the DWR with sufficient revenues to support the issuance of revenue bonds. The timing of the sale of revenue bonds is uncertain but DWR expects it will occur in 2002.

**California Consumer Power and Conservation Financing Authority.** Legislation was enacted in May 2001 to create the California Consumer Power and Conservation Financing Authority, a new State agency that is authorized to build, purchase and obtain by eminent domain electricity generation and transmission facilities and

natural gas transmission facilities, to encourage energy conservation programs and to issue revenue bonds to finance such programs. The City is not able to determine at this time what impact the California Consumer Power and Conservation Financing Authority will have on the California electric utility market. The City is unable to predict whether any future proposed bills will become law, or if they become law, what their final form or effect will be.

*Litigation and Investigations.* A number of lawsuits have been filed concerning various aspects of the current energy situation. In addition, investigations and other proceedings are being conducted concerning various aspects of the current energy situation. These include, for example, disputes over rates set by the CPUC, alleged overcharging for the sale of electricity (including sales by certain Municipal Utilities), responsibility for electricity and natural gas purchases made by the IOUs and the ISO and antitrust and fraud claims against various parties. Adverse rulings in certain of these cases may affect certain of the City's power costs and revenues and result in refunds payable by the City to the State or other entities. The City is unable to predict the outcome of such litigation, investigations and proceedings.

*Impact of Recent Developments on the City.* The effect of these developments in the California energy markets on the City cannot be fully ascertained at this time. Recently, these difficulties have moderated substantially. Licenses for several new power plants have been issued by the California Energy Commission, construction on several smaller power plants has been completed and construction on a number of larger power plants has been undertaken. As a result of DWR executing numerous long-term agreements to purchase electricity and other factors, the volatility of the cost of electricity for investor-owned utility customers has been reduced because smaller amounts of power are now being purchased from the short-term market. In addition, certain conservation measures during the height of the electricity crisis in California were successful. However, some of the applications to build additional power plants have been withdrawn and many power plant developers are reviewing the timing and economic feasibility of building additional power plants in California. In addition, progress on new transmission line projects within California has been slow. As a result of the foregoing, no assurance can be given that measures undertaken during the last two years, together with measures to be taken in the future, will be sufficient to prevent similar or other energy problems from occurring again in California.

The foregoing discussion does not purport to be comprehensive or definitive and these matters are subject to change subsequent to the date hereof. Extensive information regarding the California electricity market and its participants as well as legislative and other governmental actions is and will be available from various federal and California public officials, legislative and regulatory bodies and other sources in the public domain. Potential purchasers of the 2002 Bonds should obtain and review such information.

## RISK FACTORS

### General

The electric utility industry in general has been, or in the future may be, affected by a number of factors which could impact the financial condition and competitiveness of an electric utility and the level of utilization of generating and transmission facilities. In addition to the factors discussed below, such factors include, among others, (a) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, (b) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (c) changes that might result from a national energy policy, (d) effects of competition from other electric utilities (including increased competition resulting from mergers, acquisitions, and "strategic alliances" of competing electric (and gas) utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) and new methods of producing low-cost electricity, (e) the proposed repeal of certain federal statutes that would have the effect of increasing the competitiveness of many investor-owned utilities, (f) increased competition from independent power producers and marketers, brokers and federal power marketing agencies, (g) "self-generation" and "distributed generation" (such as microturbines and fuel cells) by certain industrial and commercial customers, (h) issues relating to the ability to issue tax-exempt obligations, (i) severe restrictions on the ability to sell to nongovernmental entities electricity from generation projects and transmission service from transmission projects financed with outstanding tax-exempt obligations, (j) effects of inflation on the operating and maintenance costs of an electric utility and its facilities, (k) changes from projected

future load requirements, (l) increases in costs and uncertain availability of capital, (m) shifts in the availability and relative costs of different fuels (including the current low cost of natural gas), (n) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity, (o) other legislative changes, voter initiatives, referenda and state-wide propositions, (p) effects of the changes in the economy and (q) effects of the filing by Enron Corporation for bankruptcy protection under Chapter 11 of the federal Bankruptcy Code. Any of these factors (as well as other factors) could have an effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

The City cannot predict what effects such factors will have on its business operations and financial condition, but the effects could be significant. The preceding brief discussion of certain of these factors does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is, and will be, available from the legislative and regulatory bodies and other sources in the public domain.

#### **Status of Federal Power Marketing Administrations**

For several years, attempts have been made in Congress to pass legislation to sell the Federal Power Marketing Administrations ("PMAs"), including the Bureau. The City has entitlements to certain capacity and energy from the Hoover Dam by the Bureau (see "THE ELECTRIC SYSTEM – Power Supply Resources – Joint Powers Agency Resources/Remote Ownership Interests" herein). These efforts have been defeated in the Senate. However, introduction of additional federal legislation to sell the PMAs or to sell their power at auction is expected in the future. The City and SCPPA have been actively involved in the debates over these sales and are attempting to assure that the City continues to benefit from this comparatively low cost power resource.

The City cannot predict when or which of the Power Marketing Administrations will be sold in the future or if the City's Hoover resources will continue to be available to the City and, if not, what effect loss of those entitlements would have on the City.

#### **Energy Policy Act of 1992**

The Energy Policy Act made fundamental changes in the federal regulation of the electric utility industry, particularly in the area of transmission access under Sections 211, 212 and 213 of the Federal Power Act. The purpose of these changes, in part, was to bring about increased competition in the electric utility industry.

As amended by the Energy Policy Act, Sections 211, 212 and 213 of the Federal Power Act provide FERC authority, upon application by any electric utility, federal power marketing agency or other person or entity generating electric energy for sale or resale, to require a transmitting utility to provide transmission services (including any enlargement of transmission capacity necessary to provide such services) to the applicant at rates, charges, terms and conditions set by FERC based on standards and provisions in the Federal Power Act. Under the Energy Policy Act, electric utilities owned by municipalities and other public agencies which own or operate electric power transmission facilities which are used for the sale of electric energy at wholesale are "transmitting utilities" subject to the requirements of Sections 211, 212 and 213. The Energy Policy Act specifically denies FERC the authority to mandate "retail wheeling" under which a retail customer located in one utility's service area could obtain power from another utility or from a non-utility power generator.

#### **Seismic Considerations**

The areas in and surrounding the City-owned generating facilities, like those in much of the State, may be subject to unpredictable seismic activity. The City-owned generating facilities are not located near any known active fault lines. An occurrence of severe seismic activity in the area of the City-owned generating facilities could result in substantial damage to and interference with the City's electric supply. The City does not currently carry earthquake insurance. See "APPENDIX A- THE CITY OF PASADENA – Insurance" herein.



### Environmental Issues

Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures which regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that any City facility will remain subject to the regulations currently in effect, will always be in compliance with future regulations or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in additional capital expenditures to comply, reduced operating levels or the complete shutdown of individual electric generating units not in compliance.

There is concern by the public, the scientific community and Congress regarding environmental damage resulting from the use of fossil fuels. Congressional support for the increased regulation of air, water and soil contaminants is building, and there are a number of pending or recently enacted legislative proposals which may affect the electric utility industry. The above-mentioned concerns and Congressional support have led to an increased level of environmental enforcement by the Environmental Protection Agency and other state and local authorities. Increased environmental regulation under the provisions of the Clean Air Act have created certain barriers to new facility development and modification of existing facilities. The additional costs, including time, human resources, uncertainty and delay, could affect the rate of return relating to investment in power project development. As such, there may be additional costs for purchased power from affected resources. Moreover, these additional costs may upset existing cost assumptions for utilities.

The City cannot predict at this time whether any additional legislation or rules will be enacted which will affect the City's operations, and if such laws or rules are enacted, what the costs to the City might be in the future because of such action.

A number of studies have been conducted regarding the potential long-term health effects resulting from exposure to electric and magnetic fields ("EMF") created by high voltage transmission and distribution equipment as well as by electrical appliances, computers, and other electrical devices. Additional studies are being conducted to determine the relationship between EMF and certain adverse health effects, if any. At this time, it is not possible to predict the extent of the costs and other impacts, if any, which the EMF concern may have on electric utilities, including the Electric System.

### Permitting Issues for the Repowering Project

The Repowering Project does not increase PWP's permitted generation capacity and therefore does not require review or approval of the California Energy Commission.

PWP is in the process of obtaining the necessary demolition, construction, conditional use permits and stack-height variances from the City with respect to the Repowering Project. PWP anticipates that these permits will be issued in July 2002 pursuant to an initial study and mitigated negative declaration. There is always a potential risk of finding "significant impacts" or community opposition that can result in the need for an environmental impact study and associated permitting delays, and/or legal action that could delay or halt the Repowering Project.

In addition, PWP is preparing applications for air permits and permits to construct from the SCAQMD. Because the new units will be equipped with the latest control technologies and are replacing older and more polluting generators, PWP does not anticipate difficulty obtaining these permits. Furthermore, the Repowering Component is included in PWP's emission compliance plan that has been approved by SCAQMD. In general, emissions offset credits must be obtained by an owner prior to obtaining permits from the SCAQMD. PWP anticipates that due to the retirement of B1 and B2 to meet SCAQMD emissions limits, the offset credits attributable to B1 and B2 will transfer to GT3 and GT4 on a MW for MW basis, eliminating the need to purchase emissions offsets. In the event these credits are not transferred, PWP must obtain them from the market or SCAQMD reserves at a cost of up to \$7 million.

### Changes in Federal Regulation of Electric Utilities

On April 24, 1996, FERC issued two final rules and a Notice of Proposed Rulemaking for a Capacity Reservation tariff which significantly changed the regulation of transmission service performed by electric utilities subject to FERC's jurisdiction under sections 205 and 206 of the Federal Power Act. Among other things, FERC ordered pro forma, open-access, mandatory transmission tariffs be placed into effect for all jurisdictional utilities on or before July 9, 1996. The goal of one of the final rules, Order No. 888, according to FERC, is to deny to an owner of transmission facilities any unfair advantage over its competitors that exists by virtue of such owner's control of its transmission system.

Although municipal-owned utilities, including the PWP, are not subject to FERC's jurisdiction under sections 205 and 206 of the Federal Power Act, Order No. 888 will likely have a significant effect on those utilities. The overall objective of Order No. 888 is to ensure that all participants in wholesale electricity markets have non-discriminatory open access to transmission service, including network transmission service and ancillary services. In such event, Order No. 888 would also require such utilities to provide certain commercial information about their facilities on a computer bulletin board and to separate their operating personnel from their marketing personnel.

The other final rule, Order No. 889, (i) implements standards of conduct for jurisdictional utilities that offer open access transmission service to ensure that transmission owners and their affiliates do not have an unfair competitive advantage in using transmission to sell power and (ii) requires those jurisdictional utilities to establish an electronic "Open Access Same-time Information System" ("OASIS") to share transmission-related information (including information about available capacity) on the Internet, and to require that those jurisdictional utilities also obtain information about their transmission systems for their own wholesale power transactions, such as available capacity, in the same way that their competitors do through OASIS.

On May 13, 1999, FERC issued a notice of proposed rulemaking concerning the formation of regional transmission organizations ("RTOs"). FERC is encouraging the voluntary formation of regional organizations independent from owners of generation and other market participants that will provide transmission access on a non-discriminatory basis to buyers and sellers of power. IOUs and publicly-owned utilities are being encouraged to participate in the formation and operation of RTOs, but are not, at this time being ordered by FERC to participate. After receiving comments from interested parties, FERC issued a final rule on December 20, 1999 (*i.e.*, Order 2000). Under the rule, IOUs were required to file with FERC by October 15, 2000 a proposal for an RTO, consistent with the rule, that has to be operational by December 15, 2001, or alternatively, a description of efforts to participate in an RTO, any existing obstacles to RTO participation and any plans to work toward RTO participation. Utilities that are members of an existing FERC-approved independent system operator were required to file by January 15, 2001. In addition, federal legislation was introduced that would authorize FERC to order transmission owners, including publicly-owned utilities, to join an RTO. No prediction can be made by the City at this time whether any such legislation will be enacted, or if enacted in such form, whether FERC would seek to exercise such authority. It is not certain at this time what impact, if any, FERC's final rule will have on the City.

### Proposed Federal Deregulation and Tax Legislation

Many bills have been introduced into the United States House of Representatives and the United States Senate with respect to the deregulation of the electric utility industry on the federal and state levels. In general, many of the bills provide for open competition in the furnishing of electricity to all retail customers (*i.e.*, retail wheeling, whether served by investor-owned utilities, electric cooperatives or municipally-owned utilities). In addition, various bills have been introduced which would impact the issuance of tax-exempt bonds for transmission and generation facilities. No prediction can be made as to whether these bills, or any future proposed federal bills to deregulate the electric industry, will become law or, if they become law, what their final form or effect would be or whether they would affect State laws relating to electric utility deregulation. See "DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS" herein.

### Parity Indebtedness

For a summary of existing Parity Debt please see "SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS – Additional Bonds" herein.

### Terrorist Threats

Military conflicts and terrorist activities may adversely impact the operations and finances of the City or PWP, however, the City and PWP have re-aligned security resources to promote the protection of the City and the Electric System. On September 11, 2001, terrorist attacks occurred in New York City and Washington, D.C. (the "Attacks") and resulted in significant damage and casualties. Neither the City nor PWP is able to determine the effects of the Attacks or similar events, if any, on, among other things, the demand for PWP's services or an impact upon the allocation of PWP resources. In addition, the City could experience a decrease with respect to certain tourism-related or other revenues because of changes in economic circumstances indirectly related to these events.

### RATINGS

Fitch Ratings and Standard & Poor's have assigned ratings of "\_\_\_\_" and "\_\_\_\_," respectively, to the 2002 Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings may be obtained from the rating agency furnishing the same, at the following addresses: Fitch Ratings, One State Street Plaza, New York, New York 10004; Standard & Poor's, 55 Water Street, New York, New York 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any of such ratings will continue for any given period of time or that any of them will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on 2002 Bonds.

### TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2002 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the 2002 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Exhibit F hereto.

To the extent the issue price of any maturity of the 2002 Bonds is less than the amount to be paid at maturity of such 2002 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2002 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the 2002 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the 2002 Bonds is the first price at which a substantial amount of such maturity of the 2002 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2002 Bonds accrues daily over the term to maturity of such 2002 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2002 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2002 Bonds. Owners of the 2002 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2002 Bonds with original issue discount, including the treatment of purchasers who do not purchase such 2002 Bonds in the original offering to the public at the first price at which a substantial amount of such 2002 Bonds is sold to the public.

2002 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a purchaser's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various requirements that must be met in order for interest on the 2002 Bonds to be excluded from gross income for federal income tax purposes. The City made representations related to certain of these requirements and has covenanted to comply with certain of these requirements. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2002 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2002 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the 2002 Bonds may adversely affect the value of, or the tax status of interest on, the 2002 Bonds.

Certain requirements and procedures contained or referred to in the Fiscal Agent Agreement, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 2002 Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any 2002 Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the 2002 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the 2002 Bonds may otherwise affect a beneficial owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the beneficial owner of the Bond or the owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

In addition, no assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest on the 2002 Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the 2002 Bonds from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the 2002 Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service ("IRS"), including but not limited to regulation, ruling, or selection of the 2002 Bonds for audit examination, or the course or result of any IRS examination of the 2002 Bonds, or obligations which present similar tax issues, will not affect the market price for the 2002 Bonds.

#### LITIGATION

There is no litigation or action of any nature now pending against the City or, to the knowledge of its respective officers, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the 2002 Bonds or in any way contesting or affecting the validity of the 2002 Bonds or any proceedings of the City taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the 2002 Bonds or the use of 2002 Bond proceeds. There is no litigation pending, or to the knowledge of the City, threatened, questioning the existence of the City or the title of the officers of the City to their respective offices. There is no litigation pending, or to the knowledge of the City, threatened, which materially questions or affects the financial condition of the City's Electric System, other than as disclosed below.

On May 24, 2002, PWP received a letter notifying it that the State Attorney General intends to file a complaint against PWP relating to the alleged failure of PWP to file rates charged for wholesale electricity sold in California as required by the Federal Power Act, regulations and FERC orders and for the alleged charging of unjust and unreasonable rates in the California markets. Each violation of law, regulation or an order is subject to a penalty of \$2,500 per violation. Additionally, each rate charged for wholesale electricity sold in California that exceeded a just and reasonable rate is subject to penalty. PWP believes that any such complaint, if filed, will be without merit and intends to vigorously defend any claim brought by the Attorney General. PWP is unable to determine the potential financial impact of any such claim.

Even though neither the City nor PWP have been served with a formal complaint, the City's claims coordinator responded to the Attorney General's letter by a letter dated June 6, 2002 which challenged the sufficiency of the Attorney General's claim on factual, legal and procedural grounds.

PWP is owed approximately \$20.1 million for sales of energy and capacity into markets operated by the ISO during November and December 2000 and January 2001. The collectibility of this amount is dependent on several matters including FERC's investigation into energy sales in the western United States during that period and the settlement of the PG&E Bankruptcy litigation. PWP filed a claim in bankruptcy court and has the status of an unsecured creditor in the PG&E Bankruptcy. See "THE ELECTRIC SYSTEM OF PWP – Inter-Utility Sales Transactions" and "DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS – Additional Developments."

#### **GENERAL PURPOSE FINANCIAL STATEMENTS**

The audited General Purpose Financial Statements of the City, without the supplementary information mentioned in the Independent Auditor's Report, as of June 30, 2001 and for the year then ended are included in Appendix B to this Official Statement. There has been no material adverse change in the finances of the City since June 30, 2001. A complete copy of the City's Comprehensive Annual Financial Report may be obtained from the City. The 2002 Bonds are revenue obligations of the City payable solely from the Net Income of the Light and Power Fund. The General Purpose Financial Statements have been audited by Conrad and Associates, L.L.P., independent accountants (the "Auditor") as stated in their report appearing in Appendix B. The City has not requested, nor has the Auditor given, the Auditor's consent to the inclusion in Appendix B of its report on such General Purpose Financial Statements. No review or investigation with respect to subsequent events has been undertaken in connection with such General Purpose Financial Statements by the Auditor.

#### **FINANCIAL ADVISOR**

The City has retained Montague DeRose and Associates, Westlake Village, California, as financial advisor (the "Financial Advisor") in connection with the issuance of the 2002 Bonds. The Financial Advisor has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

#### **CERTAIN LEGAL MATTERS**

The issuance of the 2002 Bonds is subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix F. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the City by Quateman & Zidell LLP, Los Angeles, California, Disclosure Counsel.

**CONTINUING DISCLOSURE**

Pursuant to a Continuing Disclosure Agreement, dated July 1, 2002 (the "Continuing Disclosure Agreement"), by and between the City and the Fiscal Agent, the City has covenanted for the benefit of the holders and beneficial owners of the 2002 Bonds to provide certain financial information and operating data relating to the City and the Electric System by not later than 180 days following the end of the City's Fiscal Year (which Fiscal Year presently ends on June 30) (the "Annual Report"), commencing with the report for the 2001-02 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City with each Nationally Recognized Municipal Securities Information Repository. The notices of material events will be filed by the City with the Municipal Securities Rulemaking Board or the Nationally Recognized Municipal Securities Information Repositories. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in "APPENDIX E - FORM OF CONTINUING DISCLOSURE AGREEMENT" herein. These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). The City has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

**EXECUTION AND DELIVERY**

The execution and delivery of this Official Statement have been duly authorized by the City.

CITY OF PASADENA, CALIFORNIA

By: \_\_\_\_\_  
Jay M. Goldstone  
Director of Finance

**APPENDIX A**  
**THE CITY OF PASADENA**



## APPENDIX A

### THE CITY OF PASADENA

#### General

The City of Pasadena was incorporated in 1886 and became a freeholder charter city in 1901. The City adopted its city manager form of government by amendments to the City Charter in 1921. The City Council is responsible for the administration of the City.

The City covers nearly 23 square miles and is located in Los Angeles County in the northwestern portion of the San Gabriel Valley. The City is bounded on the west by the cities of Los Angeles, La Cañada and Glendale, on the south by South Pasadena and San Marino, on the east by Arcadia and Sierra Madre, and on the north by the unincorporated community of Altadena and the San Gabriel Mountains.

The City provides its approximately 133,000 residents with power, water and refuse services. The Southern California Gas Company supplies natural gas, and the County of Los Angeles provides sewage services.

While the City is primarily a residential community, it serves as a principal suburban retail center in the greater San Gabriel Valley and has several commercial and industrial districts. The City enjoys a warm climate year-round and provides its residents with a wide variety of cultural and recreational opportunities.

#### City Council

All powers of the City are vested in the City Council which is empowered to carry out the provisions of the City Charter and perform all duties and obligations of the City as imposed by state law. The City has an eight member City Council comprised of members elected in seven City Council districts and a citywide elected mayor. Each council member and the mayor are elected for four-year staggering terms. The Councilmembers elect the Vice-Mayor from their membership, who traditionally serves two consecutive one-year terms. The names, occupations and term expirations of the current members of the City Council are as follows:

<u>Name</u>	<u>Occupation</u>	<u>Term Expiration</u>
Bill Bogaard, Mayor	Attorney	May, 2003
Joyce Streator (District 1)	Retired	May, 2003
Paul Little, Vice-Mayor (District 2)	Public Relations Officer	May, 2003
Chris Holden (District 3)	Commercial Real Estate Broker	May, 2005
Steve Haderlein (District 4)	Chief Financial Officer	May, 2003
Victor Gordo (District 5)	Attorney	May, 2005
Steve Madison (District 6)	Attorney	May, 2003
Sidney F. Tyler, Jr. (District 7)	Retired	May, 2005

#### City Staff

**Cynthia J. Kurtz** was appointed City Manager on September 21, 1998, and is the first woman to fill the job in the City's history. She serves the City's ethnically diverse community, overseeing over 2,000 employees, 10 departments and an operating budget of \$431 million. Some of the current City priorities are electricity deregulation, the Pasadena Blue Line commuter rail service, public safety, economic development, and retrofitting City Hall. She began with the City in 1987 as the Capital Program Administrator implementing a \$185 million, five-year Capital Improvement Program. In 1991, she became Director of Public Works dealing with the nuts and bolts of the City from streets and traffic signals, to the \$24 million reconstruction of the Colorado Street Bridge and the intricacies of the light rail line to the City. Before she came to the City, she worked for 10 years for the City of Portland, Oregon, holding a variety of positions in the Office of Transportation and the Bureau of Economic Development.



Ms. Kurtz holds a Bachelor of Science Degree in Community Development and Housing from Pennsylvania State University, and a Master of Arts Degree in Transportation and Urban Development from the University of Iowa. Cynthia Kurtz is a member of the Executive Committee of the San Gabriel Valley Economic Partnership of Commerce and Cities, and is an active member in the San Gabriel Valley City Managers Association, Pasadena Rotary and Women's Transportation Seminar.

**Jay M. Goldstone**, Director of Finance, joined the City as the Director of Finance in January 1996. His responsibilities include management of the financial affairs of the City and the Pasadena Community Development Commission (the "Commission") which includes: preparation of the annual operating budget; preparation of the Comprehensive Annual Financial Report; purchasing; collections; workers' compensation; general liability; payroll; employee benefits; investments; debt management; and financing of major City and Commission capital improvements. Prior to joining the City, he served as Manager of Finance for Maricopa County, Arizona; Director of Finance for the City of Richmond, California and Assistant Director of Finance for the City of Santa Clara. Mr. Goldstone has a Master of Business Administration from Santa Clara University and a Master of Public Administration from Arizona State University.

**Michele Beal Bagneris, Esq.** was named the Pasadena City Attorney in May, 1997. At that time, she was a shareholder in the law firm of Richards, Watson & Gershon, where she specialized in public law since joining the firm in 1983. While serving as Pasadena City Attorney, she continued to practice law as a member of the law firm, advising public clients in a wide range of areas, including land use, general advisory matters, litigation, labor and employment, code enforcement, and nuisance abatement matters. She also served as the City Attorney for the City of Monrovia from 1992 until she departed from the law firm after 16 years of practice on September 30, 1999. In 1999, she accepted an offer of employment from the Pasadena City Council to become the in-house City Attorney for the City of Pasadena, which became effective October 1, 1999. She currently serves in that position and is also the City Prosecutor. As the City Attorney/City Prosecutor, she is responsible for managing all legal matters for the City, including supervision of in-house lawyers and charge and control of any outside counsel engaged to advise the City. Ms. Bagneris received her Bachelor's Degree in International Relations from Stanford University in 1980 and her Juris Doctorate Degree in 1983 from Boalt Hall School of Law, University of California, Berkeley. She is active in professional and community organizations including President of the City Attorney's Association of Los Angeles County; Los Angeles County Bar Association; American Bar Association; Langston Bar Association; Black Women Lawyers Association of Los Angeles; and Henry McNeal Turner A.M.E. Church. She is admitted to practice law in the State of California, United States District Court, and the U.S. Court of Appeals, Ninth Circuit.

**Population**

The following table presents a ten-year history of the population of the City since 1993.

**CITY OF PASADENA  
POPULATION  
For Years 1993 through 2002**

<b>Year (as of January 1)</b>	<b>Population</b>
1993	134,924
1994	134,800
1995	135,200
1996	137,100
1997	138,900
1998	140,400
1999	142,500
2000	143,874
2001	137,294
2002	133,000

Source: State of California Department of Finance, *Historical City/County Population Estimates, 1993-2002, with 2000 Census Counts*.

**Education**

Total enrollment within the Pasadena Unified School District is shown below for the 1993-2002 fiscal years.

**PASADENA UNIFIED SCHOOL DISTRICT  
TOTAL ENROLLMENT<sup>1</sup>  
Fiscal Years 1993 through 2002**

<b>Fiscal Year Ended June 30,</b>	<b>Total Enrollment</b>
1993	22,071
1994	21,907
1995	21,789
1996	22,037
1997	22,114
1998	22,696
1999	23,068
2000	23,059
2001	23,685
2002	23,500

Source: Pasadena Unified School District.

<sup>1</sup> Includes students from the town of Sierra Madre and Altadena, an unincorporated area of the County of Los Angeles.

**Employment**

No annual information is regularly compiled on employment and unemployment in the City alone. Employment in Los Angeles County increased by 14.49% from 1996 to 2001. Unemployment decreased in the County by 31.67% during the same time period. Although the unemployment rate for the County was slightly higher than the State's during each of the years shown, it followed the State's trend and declined from 7.2% in 1996 to 4.8% in 2001.

**LOS ANGELES COUNTY  
EMPLOYMENT, UNEMPLOYMENT AND LABOR FORCE  
Averages for Calendar Years 1996 through 2001  
(in thousands)**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
County Employment	4,017	4,185	4,343	4,389	4,506	4,599
County Unemployment	360	307	304	273	255	246
County Civilian Labor Force	4,377	4,492	4,648	4,662	4,761	4,845
County Unemployment Rate	8.2%	6.8%	6.5%	5.9%	5.4%	5.1%
State Unemployment Rate	7.2%	6.3%	5.9%	5.2%	4.9%	4.8%

Source: State of California Employment Development Department, *Current Labor Force and Industry Employment* – updated May 8, 2002. *Los Angeles-Long Beach Metropolitan Statistical Area*.

**Major Employers**

Industry in the City is diversified. Some of the leading industries include higher education, research and development, health care, financial services and communications. The major employers within the City with 500 or more employees are listed below.

**CITY OF PASADENA  
MAJOR EMPLOYERS**

<u>Company</u>	<u>Approximate Number of Employees</u>	<u>Business Line</u>
Jet Propulsion Laboratory	6,000	Aerospace Research
Kaiser Permanente	3,300	Health Care
California Institute of Technology	3,000	Education
Pasadena Unified School District	3,000	Education
Pasadena City College	2,983	Education
Pacific Bell	2,547	Communications
Huntington Memorial Hospital	2,419	Hospital
The City of Pasadena	1,950	Government
The Ralph M. Parsons Corporation	1,800	Engineering/Construction
Countrywide Credit Systems	1,500	Financial
Bank of America	1,300	Financial
Earthlink Network	1,100	Internet Provider
IndyMac Bancorp, Inc.	700	Financial
Avon Products, Inc.	600	Manufacturing/Distribution
The Ritz-Carlton Huntington Hotel	566	Hotel

Source: Pasadena Chamber of Commerce, October, 2001.

**Housing**

The following table presents a ten-year history of total available housing units within the City since 1992.

**CITY OF PASADENA  
HOUSING UNITS <sup>1</sup>  
For Fiscal Years 1992 through 2001**

<u>Fiscal Year Ended June 30,</u>	<u>Housing Units</u>
1992	53,312
1993	53,434
1994	53,458
1995	53,850
1996	53,962
1997	54,103
1998	54,171
1999	54,236
2000	54,277
2001	54,136

Source: City of Pasadena, Department of Planning and Permitting.

<sup>1</sup> As of year end. Includes single family dwellings and multifamily units, including rental units and condominiums.

**Building Permit Activity**

In September of 1992, the City Council adopted a draft of a new General Plan to replace a 1989 voter-approved Initiative. In November of 1992, the voters approved a ballot measure for the City's new General Plan. The new General Plan targets development in the City providing for growth in employment and housing. Since 1992, there have been seven specific plan areas established out of the General Plan and approved by the City Council. Five specific plans have been completed and include the North Lake Plan, the West Gateway Plan, the South Fair Oaks Plan, the East Pasadena Plan and the Fair Oaks/Orange Grove Specific Plan. The Central District Plan and the East Colorado Plans are currently in progress. In addition, the General Plan is being updated and the Zoning Code is in the process of revision to match the General Plan.

The following table shows the value of building permits issued in the City between 1992 and 2001.

**CITY OF PASADENA**  
**BUILDING PERMIT VALUATION AND PERMIT ACTIVITY**  
 Fiscal Years 1992 through 2001<sup>1</sup>  
 (Valuation in Millions)

	Fiscal Year Ended June 30,									
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Building Permit Valuations										
Non Residential	\$ 69.0	\$ 42.7	\$ 50.9	\$ 34.6	\$ 29.6	\$ 37.5	\$ 71.6	\$ 87.8	\$ 103.1	\$ 113.8
Residential <sup>1</sup>	35.4	54.0	22.5	27.1	30.9	27.5	21.8	23.1	25.2	26.4
Residential New Construction										
TOTAL	\$ 104.4	\$ 96.7	\$ 73.4	\$ 61.7	\$ 60.5	\$ 75.0	\$ 106.4	\$ 118.3	\$ 144.6	\$ 250.3
Number of Building Permit Issued										
Non Residential	1,467	1,490	1,549	829	806	681	817	851	740	699
Residential <sup>1</sup>	2,630	1,872	1,537	1,462	1,452	1,657	1,720	1,818	1,653	1,931
Residential New Construction										
TOTAL	4,097	3,362	3,086	2,291	2,258	2,386	2,598	2,705	2,434	2,668

Source: City of Pasadena, Planning and Permitting Department.

<sup>1</sup> Includes new construction and remodels through June 30, 1996, and only remodels thereafter.

## Taxable Sales

Retail sales in the City increased 23% from 1997 to 2001. The following table indicates taxable transactions in the City by type of business from 1997 through 2001.

**CITY OF PASADENA**  
**TAXABLE TRANSACTIONS BY TYPE OF BUSINESS**  
**For Twelve Month Periods Ended September 30**  
**(In Millions of Dollars)**

<u>Business Type</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Apparel Stores	\$ 74.3	\$ 75.8	\$ 85.8	\$ 98.5	\$ 101.1
General Merchandise	260.4	259.0	251.8	205.5	218.3
Drug Stores	18.1	18.0	16.1	17.6	18.2
Food Stores	79.0	79.2	72.8	80.1	82.5
Packaged Liquor Stores	8.8	8.9	9.0	8.7	8.7
Eating & Drinking Places	225.8	244.2	258.5	279.1	285.2
Home Furnishings & Appliances	67.3	70.2	108.7	130.8	128.8
Building Materials & Farm Implements	50.8	49.6	51.7	54.7	55.1
Auto Dealers & Auto Supplies	269.4	312.8	342.0	398.3	402.6
Service Stations	76.4	73.0	80.6	92.8	97.0
Other Retail Stores	243.2	253.9	277.2	305.8	316.1
Retail Stores Total	1,373.5	1,444.6	1,544.2	1,671.9	1,713.6
All Other Outlets	616.6	621.4	691.0	718.9	727.4
TOTAL ALL OUTLETS	\$1,990.1	\$2,066.0	\$2,245.2	\$2,390.8	\$2,441.0

Source: City of Pasadena: From Sales Tax Data Base provided by MBIA MuniServices Company.

## Community Facilities

The City has a central library and eight branch libraries, four community centers, 24 parks and 33 playgrounds. Other entertainment and cultural facilities include the Rose Bowl, the Norton Simon Museum, the Pacific Asia Museum, Gamble House, the Wrigley Estate, California Institute of Technology, the Ambassador Auditorium, Beckman Auditorium, the Pasadena Civic Auditorium and the Pasadena Playhouse. The City has long enjoyed a reputation as a community rich in its heritage of culture, traditions and quality of life. The City is also home to the Tournament of Roses, sponsors of the well-known New Year's Day Parade and Rose Bowl Game held in the City each year.

## Transportation

The City is served by an extensive surface and air transportation network. Several major freeways make the City accessible to the entire Los Angeles Basin. The City is served by three commercial airports: Burbank-Glendale-Pasadena Airport is within 15 miles, Los Angeles International is within 35 miles and Ontario International is within 45 miles. Continental Trailways and Greyhound bus lines have local depots in the City. The City supplements the local Metropolitan Transit Authority and the Foothill Transit Authority bus routes with the Pasadena Area Rapid Transit Services ("ARTS") bus services to expand the covered area. The ARTS buses provide convenient and free transportation between many of the City's residential neighborhoods, retail, business and entertainment centers within the City. There are currently two ARTS routes that offer service seven days per week. In addition, the City provides Dial-A-Ride bus services for the elderly and disabled which is available for a nominal usage fee. The nearest port facilities are Los Angeles and Long Beach harbors which are approximately 30 and

35 miles away, respectively. The \$1 billion Alameda Corridor East project being undertaken by the Alameda Corridor Transportation Authority will connect the ports of Los Angeles and Long Beach with the transcontinental rail network through the San Gabriel Valley creating a faster, more efficient method of distributing trade.

In addition to the existing and proposed transportation systems described above, the City and other local communities have sought to facilitate the extension of the Blue Line light rail system to the City and the San Gabriel Valley. The current Blue Line's southern terminus is the City of Long Beach and the northern terminus is Union Station in downtown Los Angeles. The newly-formed Los Angeles-to-Pasadena Metro Blue Line Construction Authority is expecting to receive federal and State funds and local sales tax funding to complete construction of the 13.6-mile light rail line from Union Station in downtown Los Angeles to East Pasadena. The proposed stations are located to maximize the number of residents, businesses and workers who will be serviced. The completion of this extension is scheduled for early 2003.

### Employee Relations

City employees are represented by various unions, and labor relations have been generally amicable. The City has experienced no major strikes, work stoppages or other incidents. Currently, most City employees are represented by unions. Set forth below is a table indicating the various unions representing employees within the City, the number of employees represented by these unions as of June 30, 2001 and the dates on which the current labor agreements expire (there are no provisions for the reopening of wage or benefit levels prior to expiration).

#### CITY OF PASADENA EMPLOYEE UNION REPRESENTATION

<u>Name of Union</u>	<u>Number of Employees Represented as of June 30, 2001</u>	<u>Expiration of Contract</u>
American Federation of State, County and Municipal Employees	242	July 6, 2003
International Brotherhood of Electrical Workers	91	June 29, 2003
International Union of Operating Engineers	22	March 24, 2003
Service Employee International Union	25	April 26, 2005
Pasadena Association of Clerical and Technical Employees/Laborers		
International Union of North America	319	September 30, 2002
Pasadena Fire Fighters	138	August 6, 2002
Pasadena Police Officers Association	177	April 24, 2002 <sup>(1)</sup>
Pasadena Police Sergeant Association	33	September 5, 2004
Fire Management Association	15	March 31, 2002 <sup>(1)</sup>
Pasadena Management Association	411	March 31, 2003

Source: City of Pasadena, Human Resources Department.

(1) Under negotiation.

### Public Employees' Retirement System

All permanent City employees, except police and fire personnel employed prior to July 1, 1977, are members of the Public Employees' Retirement System ("PERS"), administered by the State, to which contributions are made by both the City and the employees. As of June 30, 2000, the actuarial staff of PERS reported no unfunded liability for the City's miscellaneous employees. In addition, as of June 30, 2000, the City's liability for this group was overfunded by \$111.7 million due to the strong market performance by PERS' investment portfolio. More

current information, if available, could reflect a decline in this amount. Police and Fire personnel hired prior to July 1, 1977 are covered by the City's Fire & Police Retirement System. Currently there are 33 active members in this System.

**Insurance**

The City is self-insured for workers' compensation claims exposure up to \$500,000 per occurrence. For workers' compensation exposure between \$500,000 and \$1,000,000, the City is covered by commercial insurance.

The City is self-insured for general liability claims up to a \$5,000,000. For general liability between \$5,000,000 and \$20,000,000, the City is covered by commercial insurance.

The City has liability claim reserves (for unpaid claims) of approximately \$601,315 for claims first made in any fiscal year ended prior to July 1, 1994, and which are currently still outstanding. The remainder of the self-insured liability claims expenditures and remaining reserves for each of the fiscal years ended June 30, 1995 through 2001 are reflected in the following table:

**CITY OF PASADENA  
LIABILITY CLAIMS EXPENDITURES AND REMAINING RESERVES  
Fiscal Years 1995 through 2001<sup>1</sup>  
(Unaudited)**

<u>Fiscal Year<sup>2</sup> Ended June 30,</u>	<u>Loss Paid</u>	<u>Expense Paid</u>	<u>Total Paid</u>	<u>Remaining Reserves for Unpaid Claims<sup>2</sup></u>
1995	\$ 1,665,500	\$ 1,578,541	\$ 3,244,041	\$ 351,187
1996	\$ 1,088,727	\$ 2,078,411	\$ 3,167,138	\$ 55,561
1997	\$ 1,050,375	\$ 2,181,237	\$ 3,231,612	\$ 234,736
1998	\$ 1,196,628	\$ 1,804,465	\$ 3,001,093	\$ 48,964
1999	\$ 1,449,536	\$ 938,725	\$ 2,438,261	\$ 1,619,292
2000	\$ 621,495	\$ 337,636	\$ 959,131	\$ 710,456
2001	\$ 1,125,905	\$ 563,782	\$ 1,689,687	\$ 880,868

<sup>1</sup> As of June 30, 2001

<sup>2</sup> Reserves reflect fiscal year in which claim occurred. Payments reflect money spent on all claims during a fiscal year.

The City maintains commercial property insurance and boiler and machinery insurance on all City-owned buildings of an insurable nature (unless lease agreements require the occupant to carry such insurance) with current basic limits of \$500,000,000 per occurrence per location subject to a \$25,000 deductible. Earthquake insurance is not carried as it is unavailable at commercially reasonable rates. There are various sub-limits and/or higher deductibles on specified types of property.

**CITY FINANCIAL INFORMATION**

**Budget Preparation and Approval Process**

No later than January of each year, the Mayor must present a thematic budget message for the upcoming fiscal year to the City Council and the community. The City Council must establish procedures whereby public suggestions and comments on the Mayor's budget proposals may be received and considered prior to the preparation and submission of budget requests by the Departments to the City Manager.



On or before the third Monday in May, the City Manager must submit to the City Council the recommended balanced budget for the following fiscal year, as required by the City Charter. Also at this time, a public hearing is opened for residents and businesses to make any comments or suggestions regarding the recommended budget. Copies of the recommended budget are available for inspection by the public in the office of the City Clerk and at the City's libraries at least ten days prior to the hearing.

At the conclusion of the public hearing, the City Council further considers the recommended budget and makes any revisions. On or before June 30, the City Council adopts a balanced budget with revisions, if any, by the affirmative vote of at least five members of the City Council.

From the effective date of the budget, funds become appropriated to City Departments for the objects and purposes named. At any subsequent City Council meeting following the adoption of the budget, the City Council may amend or supplement the budget by motion adopted by the affirmative vote of a minimum of five members of the City Council.

The Director of Finance prepares the City's financial statements and submits them to the City Council within four months after the close of each fiscal year. The City Council employs an independent Certified Public Accounting Firm that reviews the City's financial statements for conformity with generally accepted principles for municipal governments and issues an opinion letter regarding the accuracy and fairness of the financial information presented in the City's Comprehensive Annual Financial Report.

#### **Budgetary Principles and Developments**

***Budgetary Principles and Policies.*** In preparing the City's budget for fiscal year ending June 30, 2003, City staff was guided by certain principles and goals set by the City Council. Among them, staff was directed to match revenues with expenditures when developing a balanced operating budget, and minimize reliance on "carry-forward" fund balances from previous years to fund expenditures in future years.

***General Fund Cash Reserve Policy.*** The City maintains an operating reserve within its General Fund which is targeted at 8% of the General Fund operating budget. As of June 30, 2001, the required minimum cash reserve balance was \$11,621,412. The City's General Fund actual cash reserve balance was \$40,843,000. The City does not use the operating reserve fund to fund anticipated operating requirements. Under current City policy, only under emergency conditions does the City use the reserve fund, with the assumption that the fund will subsequently be restored to its 8% level. Cash reserves may be in the form of actual cash or investments and do not refer to any other form of current or long-term assets such as a receivables, inventory, equipment, etc.

***Fiscal Year 2002 Budget.*** The budget preparation process for fiscal year ending June 30, 2002 began in December 2000 as part of a budget planning process for a one-year operating budget ending June 30, 2002. In February and March 2001, the City Manager and the Department of Finance met with each department and operating company to review their estimated revenues and expenditures for fiscal year ended June 30, 2002 and their requested budgets for fiscal year 2002. Projected expenditures and revenues, reorganizations, performance measures, performance targets, results statements and mission statements and new program requests were discussed at these meetings. Upon completion of the City Manager's review, the City Manager submitted the recommended operating budget to the City Council for a public hearing from which to obtain comments from the City's residents.

The City Council adopted the budget for fiscal year ending June 30, 2002 on June 11, 2001. The General Fund portion of the appropriation budget for fiscal year ending June 30, 2002 is \$145,030,530. The budget includes funding for new and enhanced programs and services.

#### **Accounting Policies, Reports, and Audits**

The accounting systems of the City are organized on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related

legal and contractual requirements. The minimum number of funds is maintained consistent with legal and contractual requirements. Account groups are a reporting tool designed to provide accountability for certain assets and liabilities of the governmental funds not recorded directly in those funds. The City's funds and account groups are classified for reporting purposes as follows:

**Governmental Funds**

General Fund  
 Special Revenue Funds  
 Debt Service Funds  
 Capital Projects Funds

**Proprietary Funds**

Enterprise Funds  
 Internal Service Funds

**Fiduciary Funds**

Trust and Agency Funds

**Account Groups**

General Long-Term Debt  
 General Fixed Assets

The City follows the modified accrual method of accounting for Governmental, Expendable Trusts, and Agency Funds. Under the modified accrual method of accounting, revenues are susceptible to accrual when they become both measurable and available. Expenditures are recorded when a current liability is incurred. Liabilities are considered current when they are normally expected to be liquidated with expendable available financial resources. The Proprietary, Nonexpendable Trust, and Pension Trust Funds are accounted for using the accrual method of accounting.

The City's Director of Finance maintains the accounting system and records of accounts for all City funds. The City Charter requires an independent audit of the financial statements of all accounts of the City by an independent certified public accountant. All audits are reviewed by the Finance Committee of the City Council which is comprised of four members of the City Council.

**General Fund Comparative Operating Budget**

The following table shows a three year history of the City's Comparative Operating Budget.

**CITY OF PASADENA  
 GENERAL FUND  
 Comparative Operating Budget  
 Fiscal Years 2000 through 2002**

**Adopted General Fund Operating Budget  
 for Fiscal Year Ending June 30,**

	<u>2000</u>	<u>2001</u>	<u>2002</u>
<b>REQUIREMENTS</b>			
Operating Expenditures	\$ 101,337,825	\$ 109,291,361	\$ 116,845,591
Capital Expenditures	75,000	0	70,956
Debt Service	10,120,341	18,361,529	19,068,926
Transfers Out	7,491,657	8,120,871	9,045,057
<b>TOTAL REQUIREMENTS</b>	<b>\$ 119,024,823</b>	<b>\$ 135,773,761</b>	<b>\$ 145,030,530</b>
<b>AVAILABLE FUNDS</b>			
Revenues	\$ 108,369,921	\$ 127,129,101	\$ 135,757,428
Transfers In	3,563,131	1,444,660	2,006,891
Utility Contributions	7,091,771	7,200,000	7,266,211
<b>TOTAL AVAILABLE FUNDS</b>	<b>\$ 119,024,823</b>	<b>\$ 135,773,761</b>	<b>\$ 145,030,530</b>

In addition to the transfers from the Power Fund as described in the forepart of this Official Statement, the City also makes annual transfers from the City's Water Fund (the "Water Fund") to the General Fund in an amount

not to exceed 6% of the gross income of the City's water utility received from the sale of water during the prior fiscal year. These amounts can be expended for any municipal purpose. Set forth below is a table indicating the amount transferred from the Water Fund to the City's General Fund during each of the five years ending June 30, 2002, expressed in dollars and as a percentage of the prior year's gross income from the sale of water.

**CITY OF PASADENA  
WATER FUND  
Transfers from Water Fund to General Fund  
Fiscal Years 1998 through 2002  
(in thousands)**

	<u>Fiscal Year Ended June 30,</u>				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Amount of Transfer	\$1,428	\$1,315	\$1,345	\$1,486	\$1,516 <sup>(1)</sup>
As a Percentage of Prior Year's Gross Income <sup>(2)</sup>	6.0%	6.0%	6.0%	6.0%	6.0%

(1) Adopted Budget.

(2) Reflects percentage of prior fiscal year's gross revenue of the Water Fund.

If the water industry is deregulated, the City will need to develop a strategy to remain competitive. The City is unable to predict at this time whether future contributions to the General Fund will be affected by any such water deregulation.

**State Budget**

The State's June 30, 2003 budget is currently under consideration by the State Legislature. The State is facing a projected \$26 billion deficit and is exploring numerous options in order to bring the budget into balance. The Governor's May Revised Budget, if adopted, will have limited impact on the City's financial condition. There will be no impact on the Electric System and minor impacts on the General Fund, Redevelopment Agency, Health Department and Library Services. In total, proposed funding reductions would reduce the City's total budgeted revenues of \$249 million by approximately \$1.6 million.

On August 20, 1998, the Governor approved a 25% reduction in Vehicle License Fees ("VLF"), beginning on January 1, 1999. The VLF is an annual fee on the ownership of a registered vehicle in California. Automobiles, motorcycles, pick-up trucks, commercial trucks and trailers, rental cars and taxicabs are all subject to the VLF. The VLF revenues are distributed by the State to cities and counties. The State budget for fiscal year ending June 30, 2000 cuts the VLF an additional 10% for the calendar year 2000, resulting in a cumulative 35% cut from the 1998 base levels and in fiscal year ending June 30, 2001, a cumulative 50% cut from the 1998 base levels. This permanent reduction has been offset by State general tax revenue so that counties and cities do not realize any reduction in revenues. There can be no assurance of future offsets from the State. Thus, in future years there could be a loss by local governments of State revenues to offset lost VLF. Historically, VLF revenues have constituted approximately 5% of the City's total General Fund revenues.

## City Revenue Sources

Listed below is a historical summary of the City's five largest revenue sources resulting from taxes.

**CITY OF PASADENA  
GENERAL TAX REVENUES  
Fiscal Years 1997 Through 2001  
(in thousands)**

<u>Tax</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Property	\$ 15,467	\$ 16,675	\$ 17,175	\$ 20,756	\$ 20,440
Sales	21,374	23,959	25,559	26,205	27,144
Utility Users	18,729	20,550	22,129	23,404	25,502
Street Light & Traffic Signal	4,527	4,754	4,977	5,069	5,502
Transient Occupancy	<u>4,296</u>	<u>4,876</u>	<u>5,196</u>	<u>5,918</u>	<u>6,627</u>
Total	<u>\$ 64,393</u>	<u>\$ 70,229</u>	<u>\$ 75,036</u>	<u>\$ 81,352</u>	<u>\$ 85,215</u>
As a Percentage of Operating Revenue	<u>62.1%</u>	<u>63.3%</u>	<u>65.1%</u>	<u>60.9%</u>	<u>60.0%</u>

Source: City of Pasadena, Department of Finance

**Property Taxes.** Property taxes are levied for each fiscal year on taxable real and personal property which is situated in the City as of the preceding March 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed public utilities property and property the taxes on which a lien on real property is sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of the fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. If such taxes remain unpaid as of June 30 of the fiscal year in which the tax is levied, the property securing the taxes may only be redeemed by payment of the delinquent payment, plus a redemption penalty of 1½% per month from the original June 30 date to the time of redemption. If taxes are unpaid for a period of five years or more, the property is then subject to sale by the County Treasurer and Tax Collector, as provided by law.

Property taxes on the unsecured roll are due as of the March 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent taxes on property of the unsecured roll, and an additional penalty of 1½% per month begins to accrue commencing on November 11 of the fiscal year. Collection of delinquent unsecured taxes is the responsibility of the County of Los Angeles which may utilize any of several means legally available to it.

The tax roll for fiscal year ending June 30, 2002 reflects a total assessed valuation of \$11.22 billion for the City, of which \$1.38 billion reflects the redevelopment project areas incremental assessed valuations of which the payable taxes are due to the Commission. Assessed net valuation for revenue purposes increased by 6.12% for the Fiscal Year ended June 30, 2002 over the assessed net valuation for Fiscal Year ended June 30, 2001, and the compounded average annual increase between assessed valuation for Fiscal Year ended 1997 and Fiscal Year ending

June 30, 2002 was 4.93%. Such assessed valuations include secured and unsecured utility property assessed by the State Board of Equalization.

**CITY OF PASADENA**  
**ASSESSED VALUATION OF TAXABLE PROPERTY**  
**For Fiscal Years 1993 through 2002**  
(in thousands)

Fiscal Year Ended June 30,	Secured Valuations	Homeowner Exemption	Net Secured Valuations	Unsecured Valuations	Total Assessed Valuation	Less the Commission Valuation	Net Valuation	% Increase or Decrease in Net Valuation from Prior Year
1993	\$ 8,428,554	(\$130,848)	\$ 8,297,706	\$478,660	\$8,776,366	(\$1,135,142)	\$7,641,224	10.88%
1994	\$ 8,474,077	(\$136,844)	\$ 8,337,233	\$406,394	\$8,743,627	(\$1,149,240)	\$7,594,387	(0.61%)
1995	\$ 8,656,711	(\$141,494)	\$ 8,515,217	\$408,446	\$8,923,663	(\$1,162,332)	\$7,761,331	2.20%
1996	\$ 8,857,232	(\$141,610)	\$ 8,715,622	\$415,308	\$9,130,930	(\$1,195,803)	\$7,935,127	2.24%
1997	\$ 8,639,478	(\$139,952)	\$ 8,499,526	\$391,343	\$8,890,869	(\$1,152,143)	\$7,738,726	(2.48%)
1998	\$ 8,751,066	(\$139,250)	\$ 8,611,816	\$386,851	\$8,998,667	(\$1,136,573)	\$7,862,094	1.59%
1999	\$ 9,131,132	(\$137,558)	\$ 8,993,574	\$458,544	\$9,452,118	(\$1,271,321)	\$8,180,797	4.05%
2000	\$ 9,620,391	(\$135,869)	\$ 9,484,522	\$465,739	\$9,950,261	\$1,287,416	\$8,662,845	5.89%
2001	\$10,236,475	(\$134,430)	\$10,102,045	\$503,731	\$10,605,776	(\$1,328,567)	\$9,227,209	6.94%
2002	\$10,781,460	(\$133,467)	\$10,647,993	\$577,896	\$11,225,889	(\$1,381,455)	\$9,844,434	6.12%

Source: Los Angeles County Auditor-Controller.  
Pasadena Community Development Commission.

The following tables reflect the typical property tax rate per \$100 of assessed value in various jurisdictions, and the largest secured taxpayers in the City.

**CITY OF PASADENA**  
**Property Tax Rates**  
**Direct and Overlapping Governments**  
**Last Ten Fiscal Years**  
(Unaudited)

Fiscal Year	General City	City Debt Service	Los Angeles County General	Pasadena School District	Flood Control District	Metropolitan Water District	Total
1992	1.000000%	0.026765%	0.001888%	0.000000%	0.005376%	0.008900%	1.042929%
1993	1.000000%	0.016091%	0.001409%	0.000000%	0.003397%	0.008900%	1.029797%
1994	1.000000%	0.016064%	0.001713%	0.000000%	0.004212%	0.008900%	1.030889%
1995	1.000000%	0.016610%	0.001993%	0.000000%	0.006041%	0.008900%	1.033544%
1996	1.000000%	0.016253%	0.001814%	0.000000%	0.000963%	0.008900%	1.027930%
1997	1.000000%	0.018273%	0.001604%	0.000000%	0.001991%	0.008900%	1.030768%
1998	1.000000%	0.017898%	0.001584%	0.000000%	0.002197%	0.008900%	1.030579%
1999	1.000000%	0.019562%	0.001451%	0.029524%	0.001953%	0.008900%	1.061390%
2000	1.000000%	0.018060%	0.001422%	0.059910%	0.001765%	0.008900%	1.090057%
2001	1.000000%	0.016731%	0.001314%	0.067891%	0.001552%	0.008800%	1.096288%

Source: County of Los Angeles Tax Assessor

**CITY OF PASADENA  
Principal Property Taxpayers  
(2000-2001)**

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>June 30, 2001 Assessed Valuation</u>	<u>% of Total (1)</u>
1.	Kaiser Foundation Health Plan Inc.	Office Building	\$175,952,970	1.72%
2.	Spieker Properties	Office Building	112,572,573	1.10
3.	Pasadena Towers LLC	Office Building	85,709,296	0.84
4.	Aetna Life Insurance Company	Office Building	82,060,177	0.80
5.	Ralph M. Parsons Company	Office Building	62,063,318	0.61
6.	Operating Engineers Funds Inc.	Office Building	55,939,584	0.55
9.	One Colorado Investments LLC	Shopping Center	53,040,000	0.52
10.	Agbri Pasadena	Hotel	48,308,877	0.47
11.	2 NL LLC	Office Building	42,573,160	0.41
12.	Gateway Huntington Property Inc.	Hotel	<u>40,513,490</u>	<u>0.39</u>
			\$758,733,445	7.41%

Source: California Municipal Statistics, Inc.  
(1) Excludes Homeowners Exemption

**Sales Taxes.** See "THE CITY OF PASADENA-Taxable Sales" above for information regarding taxable sales in the City during each of the twelve-month periods ended September 30, 1996 through 2000.

**Utility Users Taxes.** The utility users tax is levied on electric utility and water utility sales, cable television charges, natural gas sales and telephone charges. See "DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS" in the forepart of this Official Statement for possible impact on utilities users tax from the phasing in of competition within the City for the sale of power. Set forth below is a table indicating the amount of utility users tax generated (expressed in dollars and as a percentage of total utility users tax) from the sale of power by the City within its service area for each of the five years ended June 30, 2001.

**CITY OF PASADENA  
UTILITY USERS TAX RECEIVED FROM SALE OF ELECTRICAL POWER  
Fiscal Years 1997 through 2001**

	<u>Fiscal Year Ended June 30,</u>				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Amount of Tax Received	\$6,954,957	\$7,734,196	\$8,819,231	\$8,920,214	\$8,932,000
As a Percentage of Total Utility Users Tax Collected	37.3%	37.6%	40.6%	38.1%	39.0%

**Street Light and Traffic Signal Tax.** The street light and traffic signal tax is imposed upon every person using electrical energy in the City at the rate of 5% of the charges made for such energy. The tax imposed on the electricity user is collected by the City in its capacity as the seller of power. As a consequence of the phasing in of competition within the City's electric user customer base for the sale of power, the rates from the sale of power could be reduced and thus reduce the amount of the street light and traffic signal tax which is collected in a year.

**Transient Occupancy Tax.** The transient occupancy tax ("TOT") is a tax on the room rates charged by hotels and motels within the City. While Pasadena's local economy has remained strong over the past year, the events of September 11, 2001 have impacted tourism and business travel. Through the first 10 months of fiscal year 2002, TOT revenue is down by 4.9% from the previous year. This represents a loss of less than \$350,000.

**General Fund Comparative Financial Statements**

The following tables describe the financial condition of the City's General Fund by showing a three year history of the City's Comparative Balance Sheet, and a three year history of the City's Statement of Revenues, Expenditures and Changes in Fund Balance.

**CITY OF PASADENA  
GENERAL FUND  
COMPARATIVE BALANCE SHEET  
Fiscal Years 1999 through 2001**

	<u>Fiscal Year Ended June 30,</u>		
	<u>1999</u>	<u>2000</u>	<u>2001</u>
<b><u>Assets</u></b>			
Cash and investments	\$3,964,929	\$11,834,801	\$ 30,900,321
Accounts receivable	8,058,704	8,646,848	8,777,226
Less allowance for uncollectible amounts	(1,476,882)	(1,340,031)	(1,357,172)
Notes receivable	315,084	312,488	365,472
Due from other funds	6,682,307	7,406,914	9,895,736
Due from component units	4,994,091	3,809,372	--
Prepays and other assets	320,666	417,977	557,917
Advances to other funds	12,869,825 <sup>(1)</sup>	12,651,807 <sup>(1)</sup>	12,651,807 <sup>(1)</sup>
Advances to component units	325,000	1,529,229	1,336,117
Allowance uncollectible for long term receivables	(6,900,000) <sup>(1)</sup>	(6,900,000) <sup>(1)</sup>	(6,900,000) <sup>(1)</sup>
Total assets	<u>\$ 29,153,724</u>	<u>\$38,369,405</u>	<u>\$56,227,424</u>
<b><u>Liabilities and Fund Balances</u></b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 2,776,134	\$ 3,072,510	\$ 6,942,754
Deposits	1,830,533	2,102,927	2,199,008
Due to other funds	44,086	50,156	—
Due to other governments	36,730	95,810	33,856
Deferred revenue	3,064,119	2,100,509	2,013,695
Notes payable	1,300,000	1,300,000	1,300,000
Total liabilities	<u>\$ 9,051,602</u>	<u>\$ 8,721,912</u>	<u>\$ 12,489,313</u>
Fund Balances:			
Reserved for:			
Encumbrances	\$ 1,520,913	\$ 1,035,012	\$ 1,588,144
Notes receivable	315,084	312,488	365,472
Prepays and other assets	320,666	417,977	557,917
Advances to other funds	6,294,825	7,281,036	7,087,924
Pension debt service	0	3,945,650	—
Unreserved			
Designated retirement system contributions	—	2,000,000	3,000,000
Designated for emergency/capital improvement	9,315,671	10,805,783	11,621,412
Designated for playground equipment	—	—	1,000,000
Undesignated	2,334,963	3,849,547	18,517,242
Total fund balances	<u>20,102,122</u>	<u>29,647,493</u>	<u>43,738,111</u>
Total liabilities and fund balances	<u>\$ 29,153,724</u>	<u>\$ 38,369,405</u>	<u>\$ 56,227,424</u>

(1) See Note (7) of Notes to General Purpose Financial Statements under "General Fund Advances," page 81 of Appendix B.



**CITY OF PASADENA  
GENERAL FUND  
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES  
Fiscal Years 1999 through 2001**

	<u>Fiscal Year Ended June 30,</u>		
	<u>1999</u>	<u>2000</u>	<u>2001</u>
<b>Revenues:</b>			
Taxes	\$ 82,403,344	88,994,765	97,829,069
Licenses and permits	1,401,855	1,574,536	1,780,216
Intergovernmental revenues	8,081,675	9,060,133	9,878,855
Charges for services	13,189,468	13,534,546	16,959,776
Fines and forfeits	3,560,226	3,627,848	3,808,377
Investment earnings	5,543,414	11,085,810	11,299,290
Net changes in fair value of investments	(719,801)	(414,314)	354,367
Rental income	2,139,385	1,971,383	1,543,070
Miscellaneous revenue	1,874,008	1,991,582	2,068,809
Total revenues	<u>117,473,574</u>	<u>131,426,289</u>	<u>145,521,829</u>
<b>Expenditures:</b>			
Current:			
General government	25,704,981	121,605,500	23,057,462
Public safety	54,409,891	52,348,032	54,537,202
Transportation	15,642,493	15,243,355	16,557,402
Culture and leisure	8,051,397	9,027,043	10,244,064
Community development	5,271,580	5,611,418	6,181,955
Capital outlay	—	—	3,962,435
Total expenditures	<u>109,080,342</u>	<u>203,835,348</u>	<u>114,540,520</u>
Excess (deficiency) of revenues over (under) expenditures	<u>8,393,232</u>	<u>(72,409,059)</u>	<u>30,981,309</u>
<b>Other financing sources (uses):</b>			
Proceeds of long-term debt	—	101,940,000	4,000,000
Operating transfers in	8,427,970	8,532,356	9,811,577
Operating transfers out	(17,038,241)	(26,426,311)	(27,391,656)
Operating transfers to component units	—	(2,833,778)	(2,833,778)
Operating transfers from components units	1,205,520	742,163	30,000
Total other financing sources (uses)	<u>(7,404,751)</u>	<u>81,954,430</u>	<u>(16,383,857)</u>
Excess of revenues and other financing sources over expenditures and other financing uses	988,481	9,545,371	14,597,452
Fund balances at beginning of year, as restated	19,113,641	20,102,122	29,140,659
<b>Fund balances at end of year</b>	<u>\$ 20,102,122</u>	<u>29,647,493</u>	<u>43,738,111</u>

General fund tax is increased by approximately \$8.83 million from the fiscal year ended June 30, 2000 to June 30, 2001. These changes were due primarily to increases in property taxes from increasing assessed valuations, retail sales taxes from an improving economy as well as transient occupancy tax and utility users tax. Revenues received from licenses and permits were received from a variety of sources and reflect in part a strong local economy. Revenues received from charges for services also increased reflecting a strong local economy.

#### **Investment Practices**

*General.* The City Treasurer is responsible for investing City funds pursuant to an Investment Policy (the "Investment Policy") established by the City Council.

The Treasurer invests temporarily idle cash for the City as part of a pooled investment program which combines general receipts with special funds for investment purposes. The City's accounting division then allocates interest earnings on a pro rata basis when the interest is earned and distributes interest receipts based on the previously established allocations. All funds of the City, other than bond proceeds, the investment assets of the Commission, the City's Capital Endowment Fund and the Stranded Investment Reserve Fund, are invested pursuant to this pooled investment program. Funds of the Commission are invested pursuant to the Investment Policy, but are kept separate from other City funds. The Treasurer does not invest funds of any other governmental entities as part of its pooled investment program. All bond proceeds are invested in accordance with the permitted investments with respect to the applicable trust indenture.

*Pooled Investment Portfolio.* As of April 30, 2002, the funds invested pursuant to the pooled investment program had a market value of \$216,567,272. The City Treasurer prices the pooled portfolio and all other funds and investments under management on a monthly basis. The market values are obtained from Interactive Data Corporation ("IDC") and Bloomberg Financial Systems. The weighted average maturity of these investments was 2.32 years. Of the investments on that date, approximately 33% had maturities of ninety days or less.

The duration for the investment pool was 1.99 as of June 30, 2001. "Duration" is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. A duration of 1.99 means that for every one percent increase in interest rates the market value of an investment would decrease by 1.99 percent and vice versa.

The assets of the portfolio as of April 30, 2002 are shown in the following table:

**CITY OF PASADENA  
POOLED INVESTMENT PORTFOLIO  
Assets as of April 30, 2002**

	<u>Market Value</u>	<u>Percentage of Total <sup>(1)</sup></u>
Money Market Fund	\$ 5,050,000	2.33%
Repurchase Agreements	20,825,000	9.62%
Certificate of Deposit	2,100,000	0.97%
LAIF	39,539,901	18.26%
Municipal Bonds	2,913,254	1.35%
Federal Agency – Discount/Com Paper	3,070,114	1.42%
Asset Backed Securities	682,306	0.32%
Corporate Bonds	32,643,478	15.07%
US Treasury	173,349	0.08%
Mortgage Backed Securities/GNMA's	3,529,402	1.63%
Federal Agencies	103,982,994	48.01%
Cash in Bank	<u>2,057,473</u>	<u>0.95%</u>
TOTAL	\$216,567,272	<u>100.00%</u>
Accrued Interest Receivable	<u>2,107,769</u>	
GRAND TOTAL	<u>\$218,675,041</u>	

Source: City of Pasadena

- (1) At market value.  
The Weighted Average Maturity of the above portfolio is 2.5 years.

***The Investment Policy.*** The City's treasury operations are managed according to the Investment Policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturities. The Investment Policy is reviewed and authorized by the City Council on an annual basis. The City Council approved the Investment Policy for fiscal year ending June 30, 2002 on October 22, 2001.

The Investment Policy establishes three primary objectives, in the following order of priority, for the City's investment activities.

1. **Safety of principal:** The City will seek to preserve principal by mitigating credit risk and market risk (by structuring the portfolio so that securities mature at the same time as major cash outflows occur and by prohibiting the taking of short positions).
2. **Liquidity:** The City will maintain sufficient liquidity in the investment portfolio to enable the City to meet all operating requirements which might be reasonably anticipated and investments will be authorized only in securities that are actively traded in the secondary market. The City operates its own electric and water utility, and bills monthly for these services. The utility billing program generates significant cash flow on a daily basis. Historical cash flow trends are compared to current cash flow requirements on an ongoing basis in an effort to ensure that the City's investment portfolio will remain sufficiently liquid to enable the City to meet all reasonably anticipated operating requirements.
3. **Return on investment:** The City will design its investment portfolio to attain a "market average rate of return" through economic cycles, and whenever possible, consistent with risk limitations and prudent investment principles, to augment returns above the market average rate of return.

The City's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City to invest funds to the fullest extent possible. The City attempts to earn the highest yield obtainable while keeping within the investment criteria established by the Investment Policy for the safety and liquidity of public funds.

To meet its short-term cash flow needs, the City typically maintains an average investment balance of about \$15 million in securities with a maturity of 30 days or less.

**Authorized Investments.** Funds are invested only in those securities authorized by the various sections of the California Government Code and the City's Investment Policy, which include obligations of the United States Treasury, Agencies of the United States Government, local and State bond issues, bankers acceptances, commercial paper of prime quality, certificates of deposit (both collateralized and negotiable), repurchase and reverse repurchase agreements, medium-term corporate Bonds, shares of beneficial interest in diversified management companies (mutual funds), and asset-backed (including mortgage-related) and pass-through securities.

The City does not invest funds in any security that could result in a zero interest accrual if held to maturity, and has no investments in derivative products such as interest rate swaps, futures, options, or reverse purchase agreements. During the five years ended June 30, 2001 the City has not entered into any reverse repurchase agreements. A reverse repurchase agreement is a transaction in which a holder of securities, such as the City, sells the same to a third party and agrees to repurchase them at a later date. The proceeds received by the seller can in turn be invested in additional securities, thus producing "leverage."

The Government Code stipulates that no investments may be made in securities with maturities in excess of five years without express authority from the City's legislative body. The Government Code and the City's Investment Policy place various other restrictions on investment in and allocation of funds to various investment categories, including the following:

- The value of bankers acceptances, bills of exchange or time drafts drawn on and accepted by commercial banks, may not exceed 40% of the City's portfolio book value as measured on the date of purchase and the days to maturity of such investments may not exceed 270 days.
- Commercial paper must be rated P1 and issued by U.S. corporations with assets greater than \$500 million and a long term debenture rating of AA or better. The City is not permitted to purchase commercial paper that exceeds 180 days to maturity nor hold more than 10% of a corporation's outstanding commercial paper. The value of the City's holdings of commercial paper may not exceed 15% of the book value of the City's portfolio as measured on the date of purchase.
- The value of the City's holdings of negotiable certificates of deposits may not exceed 30% of the book value of the City's portfolio as measured on the date of purchase.
- The market value of the securities used as collateral for repurchase agreements may not be permitted to fall below 102% of the value of the repurchase agreement. Execution of a PSA Master Repurchase Agreement is required for all repurchase agreements transacted and the maturity of repurchase agreements may not exceed one year.
- The value of City's reverse repurchase agreement holdings may not exceed 20% of the book value of the City's portfolio as measured on the date of purchase. Reverse repurchase agreements may not exceed 92 days to maturity unless the agreement includes a written guarantee of minimum earnings for the entire period. Term reverse repurchase transactions in excess of 92 days are only permitted if the securities underlying the reverse are matched to the maturities of the reinvestments.
- No more than 25% of the City's investment portfolio may be invested in time deposits.

- Medium-term corporate Bonds must be rated in a rating category of “A” or its equivalent or better by a nationally recognized rating service. The value of the City’s holdings of medium-term corporate Bonds is limited to 30% of the City’s portfolio book value as measured on the date of purchase and no more than 15% of the cost value may be invested in Bonds held by one corporation.
- The value of the City’s mutual fund holdings may not exceed 20% of the City’s portfolio book value as measured on the date of purchase.
- Any eligible mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond must be issued by an issuer having an “A” or higher rating for the issuer’s debt as provided by a nationally recognized rating service and rated in a rating category of “AA” or its equivalent or better by a nationally recognized rating service. In addition, purchases of such securities may not exceed 20% of all of the City’s surplus funds that may be invested in accordance with the foregoing investment guidelines and restrictions.

None of the monies on deposit in the City’s investment portfolio is currently invested in leveraged products or inverse floating rate bonds. The City has no investments in outside investment pools except for LAIF. The City does not have a practice of lending its portfolio’s securities to others, in return for a fee, although it is not prohibited from doing so.

#### **General Obligation Debt**

Under the City Charter, the City may not incur indebtedness by general obligation bonds which would in the aggregate exceed 15% of the total assessed valuation of all the real and personal property within the City subject to assessment for taxation for municipal purposes. In addition, no bonded indebtedness which will constitute a general obligation of the City may be created unless authorized by the affirmative vote of two-thirds of the electorate voting on such proposition at any election at which the question is submitted. A general obligation bond proposition was approved by City voters on the November 4, 1986 ballot authorizing the City to issue general obligation bonds in an amount not to exceed \$17,000,000 payable over a twenty-year period. The City issued such general obligation bonds on September 15, 1987 and has used the proceeds to construct a new police station and jail which were completed in June of 1990. The bonds are secured by an ad valorem property tax assessed against the property owners of the City. The property tax override rate as of September, 2001 (fiscal year ending June 30, 2002) is .096 per \$100 of assessed valuation.

#### **Estimated Direct and Overlapping Bonded Debt**

The estimated direct and overlapping bonded debt of the City as of June 1, 2001 is shown on the following page.

**CITY OF PASADENA  
COMPUTATION OF DIRECT AND OVERLAPPING DEBT  
as of June 1, 2001**

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Bonded Debt</u>
Los Angeles County	1.805%	\$ 764,869
Los Angeles County Flood Control District	1.965	464,526
Metropolitan Water District	0.960	5,063,808
La Canada Unified School District	0.010	1,646
Pasadena Unified School District	70.304	66,996,197
City of Pasadena	100.000	8,225,000
City of Pasadena 1915 Act Bonds	100.000	225,000
City of Pasadena Community Facilities District No. 1	100.000	13,290,668
Los Angeles County Improvement District No. 2658-M	0.987	12,424
Los Angeles County Regional Park and Open Space Assessment District	1.805%	7,906,261
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$102,950,399</b>
 <u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Los Angeles County General Fund Obligations	1.805%	30,377,566
Los Angeles County Pension Obligations	1.805	34,666,512
Los Angeles County Superintendent of Schools Certificates of Participation	1.805	574,075
Los Angeles County Flood Control District Certificates of Participation	1.965	3,306,014
Los Angeles County Sanitation District Nos. 15, 16 & 17 Certificates of Participation		10,678,395
Pasadena Area Community College District Certificates of Participation	31.812	2,088,458
Pasadena Unified School District Certificates of Participation	70.304	732,788
City of Pasadena General Fund Obligations	100.000	196,500,000
City of Pasadena Pension Obligations	100.000	101,470,000
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT</b>		<b>\$380,393,808</b>
Less: Los Angeles County Certificates of Participation (100% self-supporting from leasehold revenues on properties in Marina Del Rey)		2,059,866
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT</b>		<b>\$378,333,942</b>
 <b>GROSS COMBINED TOTAL DEBT</b>		 <b>\$483,344,207<sup>1</sup></b>
<b>NET COMBINED TOTAL DEBT</b>		<b>\$481,284,341</b>

Ratios to 2000- 2001 Assessed Valuation: \$9,406,561,395 after deducting \$1,333,644,094 Redevelopment Increment.

Direct Debt (\$9,225,000).....	0.08%
Total Direct and Overlapping Tax and Assessment Debt .....	0.96%
Combined Direct Debt (\$306,195,000) .....	3.26%
Gross Combined Total Debt .....	5.14%
Net Combined Total Debt.....	5.12%

Source: California Municipal Statistics, Inc.

<sup>1</sup> Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations and the Certificates.

## CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

### Article XIII A of the California Constitution

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean "the county assessor's valuation of real property as shown on the 1975/76 tax bill under 'full cash value,' or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any ad valorem tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition.

Legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of assessed value and all general tax rates reflect the \$1 per \$100 of taxable value. Tax rates for voter approved bonded indebtedness and pension liability are also applied to 100% of assessed value.

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, 2% annual value growth) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts will share the growth of "base" revenue from the tax rate area. Each year's growth allocation becomes part of each agency's allocation the following year. The City is unable to predict the nature or magnitude of future revenue sources which may be provided by the State to replace lost property tax revenues. Article XIII A effectively prohibits the levying of any other ad valorem property tax above the one percent limit except for taxes to support indebtedness approved by the voters as described above.

### Article XIII B of the California Constitution

On November 6, 1979, California voters approved Proposition 4, the so-called Gann Initiative, which added Article XIII B to the California Constitution. In June 1990, Article XIII B was amended by the voters through their approval of Proposition 111. Article XIII B of the California Constitution limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The "base year" for establishing such appropriation limit is the 1978-79 fiscal year. Increases in appropriations by a governmental entity are also permitted (i) if financial responsibility for providing services is transferred to the governmental entity, or (ii) for emergencies so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the Federal government, appropriations for qualified capital out lay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds

to any entity of government from (i) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (ii) the investment of tax revenues and (iii) certain State subventions received by local governments. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two fiscal years.

As amended in June 1990, the appropriations limit for the City in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the City's option, either (i) the percentage change in California per capita personal income, or (ii) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction.

As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received by the County over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years.

Article XIII B allows voters to approve a temporary waiver of a government's Article XIII B limit. Such a waiver is often referred to as a "Gann limit waiver." The length of any such waiver is limited to four years. The Gann limit waiver does not provide any additional revenues to the City or allow the City to finance additional services. When preparing the General Fund Budget for fiscal year ending June 30, 2002, the City calculated its appropriations limit at \$152,805,774, with appropriations in the General Fund Budget subject to the limit estimated at \$90,033,057. The impact of the appropriations limit on the City's financial needs in the future is unknown.

#### **Unitary Property**

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization ("Unitary Property"), commencing with the 1988-89 fiscal year, will be allocated as follows: (i) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (ii) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102% of the previous year's revenues, each jurisdiction will share the burden of the shortfall or benefit of the excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

#### **Articles XIII C and XIII D of the California Constitution**

On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the California Constitution, which contain a number of provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIII C requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City's General Fund, require a two-thirds vote. The voter approval requirements of Proposition 218 reduce the flexibility of the City Council to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet increased expenditure requirements. In addition, Article XIII D contains new provisions relating to how local agencies may levy and maintain "assessments" for municipal services and programs. "Assessment" is defined to mean any levy or charge



upon real property for a special benefit conferred upon the real property. This definition applies to landscape and maintenance assessments for open space areas, street medians, street lights and parks.

Article XIID also contains several new provisions affecting "fees" and "charges," defined for purposes of Article XIID to mean "any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." All new and existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the property in question, or (iv) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee or charge. Moreover, except for property related fees or charges for sewer, water and refuse collection services, or fees for electrical and gas service (which are not treated as "property related" for purposes of Article XIID), no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area.

In addition to the provisions described above, Article XIIC removes many of the limitations on the initiative power in matters of reducing or repealing any local tax, assessment, fee or charge. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City's General Fund. "Assessment," "fee" and "charge" are not defined in Article XIIC, and it is not clear whether the definitions of these terms in Article XIID (which are generally property related as described above) would be applied to Article XIIC. If the Article XIID definitions are not held to apply to Article XIIC, the initiative power could potentially apply to revenue sources which currently constitute a substantial portion of general fund revenues. No assurance can be given that the voters of the City will not, in the future, approve initiatives which repeal, reduce or prohibit the future imposition or increase of local taxes, assessments, fees or charges.

### **Statutory Spending Limitations**

A statutory initiative ("Proposition 62") was adopted by the voters of the State at the November 4, 1986 General Election which (a) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within the jurisdiction, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax is imposed, (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A, (e) prohibits the imposition of transaction taxes and sales taxes of the sale of real property by local governmental entities and (f) requires that any tax imposed by a local governmental entity on or after March 1, 1985 be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988.

On September 28, 1995, the California Supreme Court filed its decision in *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal. 4th 220 (1995) (the "Santa Clara decision"), which upheld a Court of Appeal decision invalidating a one-half cent countywide sales tax for transportation purposes levied by a local transportation authority. The California Supreme Court based its decision on the failure of the authority to obtain a two-thirds vote for the levy of a "special tax" as required by Proposition 62. The *Santa Clara* decision did not address the question of whether or not it should be applied retroactively.

The *Santa Clara* decision also did not decide the question of the applicability of Proposition 62 to charter cities. The City is a charter city. Two cases decided by the California Courts of Appeals in 1993, *Fielder v. City of*

*Los Angeles*, (1993) 14 Cal. App. 4th 137 (rev. den. May 27, 1993), and *Fisher v. County of Alameda*, (1993) 20 Cal. App. 4th 120 (rev. den. Feb. 24, 1994), held that Proposition 62's restriction on property transfer taxes did not apply to charter cities because charter cities derive their power to enact such taxes under Article XI, Section 5 of the California Constitution relating to municipal affairs. This general conclusion has been affirmed in subsequent cases.

On June 4, 2001, the California Supreme Court rendered its opinion in *Howard Jarvis Taxpayers Association v. City of La Habra et al.* (2001) 25 Cal. 4th 809 holding that an action brought in 1996 challenging the imposition of a 1992 utility users tax imposed for general purposes without voter approval, was not barred by a three (3) year statute of limitations period because the continued imposition and collection of the tax was an ongoing violation upon which the statute of limitations period begins anew with each collection.

Proposition 62 as an initiative statute does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature, except that it may be amended only by a vote of the State's electorate. Since the passage of Proposition 218, however, certain provisions of Proposition 62 (e.g., voter approval of taxes) are governed by the State Constitution. In the view of the City Attorney, Proposition 62 does not apply to charter cities such as the City.

#### **Future Initiatives**

Article XIII A, Article XIII B, Article XIII C and Article XIII D and Proposition 62 were each adopted as measures that qualified for the ballot through California's initiative process. From time to time other initiative measures could be adopted, further affecting the City's revenues.

**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS OF THE CITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

## APPENDIX C

### BOOK-ENTRY SYSTEM

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com); nothing in that website is incorporated into this Official Statement.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds: DTC records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC the Fiscal Agent, or the City, subject to any statutory, or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered. The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

**APPENDIX D**

**SUMMARY OF CERTAIN PROVISIONS OF THE FISCAL AGENT AGREEMENT**

[TO COME FROM ORRICK]

## APPENDIX E

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the City of Pasadena, California (the "City") and BNY Western Trust Company, as fiscal agent (the "Fiscal Agent", in connection with the issuance of \$81,770,000\* City of Pasadena Electric Revenue Bonds, 2002 Series (the "2002 Bonds"). The 2002 Bonds are being issued pursuant to Article XIV of the City Charter, Ordinance No. \_\_\_\_ (the "Ordinance"), adopted on July 1, 2002 by the City Council (the "City Council") of the City and an Electric Revenue Bond Fiscal Agent Agreement, dated as of August 1, 1998, by and between the City and the Fiscal Agent, as supplemented by a First Supplement to Electric Revenue Bond Fiscal Agent Agreement, dated as of August 1, 1998 and as further supplemented by a Second Supplement to Electric Revenue Bond Fiscal Agent Agreement, dated as of July 1, 2002, by and between the City and the Fiscal Agent (collectively, the "Fiscal Agent Agreement"). The City, and the Fiscal Agent covenant and agree as follows:

SECTION 1. Purpose of this Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City and the Fiscal Agent for the benefit of the Holders and Beneficial Owners of the 2002 Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Fiscal Agent Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any 2002 Bonds (including persons holding 2002 Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the Director of Finance of the City or his or her disgnee, or such other officer or employee as the City shall designate, in writing, to the Fiscal Agent and the Dissemination Agent from time to time.

"Dissemination Agent" shall mean the Fiscal Agent, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the Fiscal Agent a written acceptance of such designation.

"Fiscal Year" shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30, or any twelve-month or fifty-two week period hereafter selected by the City, with notice of such selection or change in fiscal year to be provided as set forth herein.

"Holder" shall mean either the registered owners of the 2002 Bonds, or, if the 2002 Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth at: <http://www.sec.gov/info/municipal/nrmsir.htm>.

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\* Preliminary, subject to change.

“Participating Underwriter” shall mean any of the original underwriters of the 2002 Bonds required to comply with the Rule in connection with offering of the 2002 Bonds.

“Repository” shall mean each National Repository and each State Repository, if any.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 185 days after the end of the City’s Fiscal Year (presently June 30), commencing with the report for the 2002 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the City’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event provided under Section 5 (f).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the City shall provide the Annual Report to the Dissemination Agent and the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent). If by such date, the Fiscal Agent has not received a copy of the Annual Report, the Fiscal Agent shall notify the City and the Dissemination Agent of such failure to receive the Annual Report. The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Fiscal Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and the Fiscal Agent may conclusively rely upon such certification of the City and shall have no duty or obligation to review such Annual Report.

(c) If the Fiscal Agent is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Fiscal Agent shall send a notice to each Repository in substantially the form attached hereto as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year, prior to the date for providing the Annual Report, the name and address of each National Repository and the State Repository, if any; and

(ii) file a report with the City and (if the Dissemination Agent is not the Fiscal Agent, the Fiscal Agent) certifying (a) to the extent it can confirm the same, that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided or (b) to the extent it cannot confirm the same, that the Annual Report has not been provided to each National Repository or the State Repository, if any, as required by this continuing Disclosure Agreement.



SECTION 4. Content of Annual Reports.

The City's Annual Report shall contain or include by reference the following:

(i) The City's annual Consolidated Annual Financial Report (the "CAFR") which shall include the audited financial statements of the City's Light and Power Fund for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available;

(ii) Updated information comparable to the information in the chart entitled "TABLE 3 – POWER SUPPLY RESOURCES" as it appears on page \_\_\_ in the Official Statement, dated July \_\_, 2002, relating to the 2002 Bonds (the "Official Statement");

(iii) Updated information comparable to the information in the chart entitled "TABLE 7 – CUSTOMERS, SALES, REVENUES AND DEMAND" as it appears on page \_\_\_ in the Official Statement;

(iv) Updated information comparable to the information on the chart entitled "TABLE 9 – OUTSTANDING TAKE OR PAY OBLIGATIONS" as it appears on page \_\_\_ in the Official Statement; and

(v) Updated information comparable to the information in the chart entitled "TABLE 10 – HISTORICAL OPERATING RESULTS AND DEBT SERVICE COVERAGE" as it appears on page \_\_\_ in the Official Statement.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2002 Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of 2002 Bondholders;
4. optional, contingent or unscheduled 2002 Bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events adversely affecting the tax-exempt status of the 2002 Bonds;

8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on credit enhancements reflecting financial difficulties;
10. substitution of the credit or liquidity providers, or their failure to perform; or
11. release, substitution or sale of property securing repayment of the 2002 Bonds.

(b) The Fiscal Agent shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events (with no obligation to determine the materiality thereof), contact the Disclosure Representative, inform such person of the event, and request that the City promptly notify the Dissemination Agent, or if there is no Dissemination Agent, the Fiscal Agent, in writing whether or not to report the event pursuant to subsection (f). For the purpose of this Disclosure Agreement "actual knowledge" means actual knowledge at the corporate office of the Fiscal Agent by an officer of the Fiscal Agent with responsibility for matters related to the administration of the Fiscal Agent Agreement.

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Fiscal Agent pursuant to subsection (b) or otherwise, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the City has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly notify the Dissemination Agent, or if there is no Dissemination Agent, the Fiscal Agent, in writing. Such notice shall instruct the Dissemination Agent, or if there is no Dissemination Agent, the Fiscal Agent, to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the City determines that the Listed Event would not be material under applicable federal securities laws, the City shall so notify the Dissemination Agent, or if there is no Dissemination Agent, the Fiscal Agent, in writing and instruct the Dissemination Agent, or if there is no Dissemination Agent, the Fiscal Agent, not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent, or if there is no Dissemination Agent, the Fiscal Agent, has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent, or if there is no Dissemination Agent, the Fiscal Agent, shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a), (4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected 2002 Bonds pursuant to the Fiscal Agent Agreement.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2002 Bonds or upon the delivery to the Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required. If such termination occurs prior to the final maturity of the Certificates, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be BNY Western Trust Company. The Dissemination Agent may resign by providing thirty days written notice to the City. If at any time there is no designated Dissemination Agent appointed by the City, or if the Dissemination Agent so appointed is unwilling or unable to perform the duties of Dissemination Agent hereunder, the City shall be the Dissemination Agent and undertake or assume its obligations hereunder. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City and the Fiscal Agent may amend this Disclosure Agreement (and the Fiscal Agent,] shall agree to any amendment so requested by the City; provided that the Fiscal Agent shall not be obligated to enter into any amendment increasing or affecting its duties or obligations), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the 2002 Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the 2002 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the 2002 Bonds in the same manner as provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of Holders, or (ii) does not, in the opinion of a nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the 2002 Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City or the Fiscal Agent to comply with any provision of this Disclosure Agreement, the Fiscal Agent may (and, at the request of any Participating Underwriter or the Beneficial Owners of at least 25% aggregate principal amount of outstanding 2002 Bonds, shall, with indemnification satisfactory to it), or any Beneficial Owner of the 2002 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or the Fiscal Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Fiscal Agent Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the City, the Dissemination Agent or the Fiscal Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Fiscal Agent and Dissemination Agent. Article IX of the Fiscal Agent Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Fiscal Agent Agreement. The Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Fiscal Agent thereunder. The Dissemination Agent (if other than the Fiscal Agent or the Fiscal Agent in its capacity as Dissemination Agent shall have only such duties as

are specifically set forth in this Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent, the Fiscal Agent, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of the disclosure of information pursuant to this Disclosure Agreement or arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct.

The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the City from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, Beneficial Owners or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon and directions from the City or an opinion of nationally recognized bond counsel. Neither the Fiscal Agent nor the Dissemination Agent shall have any liability to any party for any monetary damages or other financial liability of any kind whatsoever related to or arising from any breach of this Disclosure Agreement. No person shall have any right to commence any action against the Fiscal Agent or the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. Any company succeeding to all or substantially all of the Dissemination Agent's corporate business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the 2002 Bonds.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the City:

City of Pasadena  
100 North Garfield Avenue, Room 345  
Pasadena, California 91109  
Attention: Director of Finance  
Telephone: (626) 744-4350  
Facsimile: (626) 405-7093

To the Fiscal Agent:

BNY Western Trust Company  
700 South Flower Street, 5th Floor  
Los Angeles, California 90017  
Attention: Corporate Trust  
Telephone: (213) 630-6409  
Facsimile: (213) 630-6442

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Fiscal Agent, the Dissemination Agent, the Participating Underwriters and the Beneficial Owners from time to time of the 2002 Bonds, and shall create no rights in any other person or entity.

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated: July \_\_, 2002

CITY OF PASADENA

By: \_\_\_\_\_  
Jay M. Goldstone  
Director of Finance

APPROVED AS TO FORM:

\_\_\_\_\_  
Michele Beal Bagneris  
City Attorney

ATTEST:

\_\_\_\_\_  
Jane Rodriguez  
City Clerk

BNY WESTERN TRUST COMPANY,  
as Fiscal Agent

By: \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: CITY OF PASADENA, CALIFORNIA  
Name of Issue: ELECTRIC REVENUE BONDS, 2002 SERIES  
Date of Issuance: July \_\_, 2002

NOTICE IS HEREBY GIVEN that the City of Pasadena, California (the "City") has not provided an Annual Report with respect to the above-named 2002 Bonds as required by Section 3 of the continuing Disclosure Agreement, dated June 1, 2002, between the City and BNY Western Trust Company, as fiscal agent. The City anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

BNY WESTERN TRUST COMPANY, as fiscal agent,  
on behalf of the City of Pasadena

By: \_\_\_\_\_  
Title: \_\_\_\_\_

cc: City of Pasadena

**APPENDIX F**  
**PROPOSED FORM OF OPINION OF BOND COUNSEL**  
**[TO COME FROM ORRICK]**

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