

employees covered by PARS for the year ended June 30, 2007 was \$3,598,700. Both the City and the covered employees made the total required 7.5% contributions of \$143,948 from the City and \$125,954 from the covered employees.

Post Retirement Medical Benefits

Other than the pension benefits from the applicable retirement system, the City does not provide medical or other post-retirement benefits to its employees.

Insurance

The City funds a self-insured and self-administered program for workers' compensation claims exposures and general liability claims. The City funds a self-insurance program for liability claims. Losses and expenses paid averaged about \$1,936,000 per year for the past 10 years and, when existing "reserves" are added, averaged around \$2,509,000 in liability exposure per year over the past 10 years. The City anticipates these expenses annually and includes funding for them in its operating budget. There is no "excess liability" policy, and any liability losses above the budgeted amount is funded by the City's contingency reserve budget or other means. The amount of self-insured liability claim expenditures and remaining reserves with respect to claims made in each of the fiscal years ended June 30, 1998 through 2007 are reflected in the following table:

**CITY OF PASADENA
LIABILITY CLAIM EXPENDITURES AND REMAINING RESERVES
Fiscal Years 1998 through 2007⁽¹⁾
(Unaudited)**

Fiscal Year ⁽²⁾ Ended June 30	Loss Paid	Expense Paid	Total Paid	Remaining Reserves for Unpaid Claims ⁽²⁾
1998	\$1,196,628	\$1,790,173	\$2,986,801	\$ 0
1999	1,449,536	943,369	2,442,905	75,111
2000	621,495	337,636	959,131	298,104
2001	1,125,905	563,714	1,689,620	0
2002	426,254	492,793	919,047	35,927
2003	2,312,941	871,847	3,184,788	156,837
2004	1,429,037	1,409,112	2,838,148	445,598
2005	429,728	843,538	1,273,265	2,418,916
2006	885,576	583,490	1,469,067	1,168,496
2007	761,036	838,355	1,599,391	1,130,289

⁽¹⁾ As of November 2, 2007.

⁽²⁾ 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 \$1 billion per occurrence per location subject to a \$25,000 deductible. Exclusions include earthquake, corrosion, sabotage, terrorism, electronic data processing electronic erasure, asbestos and mold. There are various sub-limits and/or higher deductibles on specified types of properties.

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 City Departments to the City Manager.

On or before the third Monday in May of each year, 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 to review the City's financial statements for conformity with generally accepted accounting 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, 2008, 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 current year's appropriations. In fiscal year 2004, as part of the response to the loss of revenues to the state, the City capped the reserve at its then-current level of \$13.7 million. Since that time the City has contributed amounts each year to restore the reserve. The Adopted Operating Budget for fiscal year 2008 includes additional funds which bring the reserve to 7.65 percent. 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. 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 receivables, inventory, equipment, etc.

Fiscal Year 2008 Budget. The budget preparation process for fiscal year ending June 30, 2008 began in November 2006. In February and March 2007, the City Manager and the Department of Finance met with each department and operating company to review their estimated revenues, expenditures and budgetary requests for fiscal year ending June 30, 2008. 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, 2008 on June 25, 2007. The General Fund portion of the appropriation budget for fiscal year ending June 30, 2008 is \$212,338,420. The budget includes funding for new and enhanced programs and services.

Accounting Policies, Reports, and Audits

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. 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.

Capital assets (including infrastructure greater than \$10,000) are capitalized and recorded at cost or at the estimated fair value of the assets at the time of acquisition where complete historical records have not been maintained. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Capital assets include public domain (infrastructure) general fixed assets consisting of certain improvements including roads, streets, sidewalks, medians and sewer and storm drains.

The City's funds and capital assets are classified for reporting purpose as follows:

<p><u>Government Funds</u> General Fund Special Revenue Funds Debt Services Funds Capital Projects Funds</p>	<p><u>Fiduciary Funds</u> Trust and Agency Funds</p>
<p><u>Proprietary Funds</u> Enterprise Funds Internal Service Funds</p>	<p><u>Capital Assets</u> Capital Assets used in the Operation of Governmental Funds</p>

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 2006 through 2008**

REQUIREMENTS	Adopted General Funds Operating Budget for Fiscal Year Ending June 30,		
	2006	2007	2008
Operating Expenditures	\$150,597,262	\$161,473,882	\$172,454,483
Capital Expenditures	4,600,000	1,100,000	--
Debt Service	26,565,034	25,563,113	27,754,178
Transfers Out	11,300,569	11,411,912	12,129,759
TOTAL REQUIREMENTS	\$193,162,865	\$199,548,907	\$212,338,420
AVAILABLE FUNDS			
Revenues	\$174,732,569	\$190,337,234	\$197,913,651
Transfers In	2,216,681	2,318,348	1,121,847
Reserves	--	--	--
Utility Contributions	16,213,615	6,983,325	13,302,922
TOTAL AVAILABLE FUNDS	\$193,162,865	\$199,548,907	\$212,338,420

Pursuant to City Charter Sections 1407 and 1408 the City makes annual transfers from the City's Water Fund (the "Water Fund") and from the City's Light and Power Fund (the "Light and Power Fund") to the General Fund. The amount transferred from the Water Fund is not to exceed 6% of gross income received during the preceding fiscal year and shall not exceed net income. This transfer may be used for any municipal purpose. The amount transferred from the Light and Power Fund is not to exceed 16% of gross income received during the preceding fiscal year and shall not exceed net income. Of the total 16% which may be transferred, up to 8% may be used for any municipal purpose and the remaining 8% is restricted for municipal improvements and bond redemption.

Set forth below is a table indicating the amount transferred from the Light and Power fund and the Water Fund to the City's General Fund during each of the last five fiscal years, expressed in dollars and as a percentage of the prior year's gross income.

**CITY OF PASADENA
TRANSFERS FROM THE LIGHT AND POWER FUND AND WATER FUND
TO GENERAL FUND
Fiscal Years 2002 through 2006
(in Thousands)**

	Fiscal Year Ended June 30,				
	2003	2004	2005	2006 ⁽²⁾	2007
Light and Power Fund					
Amount Transferred	\$11,788	\$10,903	\$16,658	\$21,167	\$5,898
Amount a Percentage of Prior Year's Gross Income ⁽¹⁾	7.50%	8.35%	12.42%	16.00%	3.60%
Water Fund					
Amount Transferred	\$2,021	\$2,188	\$1,916	\$2,056	\$2,059
As a Percentage of Prior Year's Gross Income ⁽¹⁾	6.00%	6.00%	6.00%	6.00%	6.00%

⁽¹⁾ Reflects percentage of prior fiscal year's gross revenue of the Water Fund and the Light and Power Fund, respectively.

⁽²⁾ Includes Public Benefit Charge Contribution to City Hall Retrofit of \$1.1 million.

Tax Revenue Sources

The City relies on a number of revenue sources that could be reduced or eliminated by State legislation, including, among others, sales and use taxes, property taxes and motor vehicle license fees. The State has in prior years experienced budgetary difficulties and has balanced its budget by requiring local political subdivisions to fund certain costs previously borne by the State.

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 2003 through 2007
(in Thousands)**

	Fiscal Year Ended June 30,				
	2003	2004	2005	2006	2007
Tax					
Property ⁽¹⁾	\$ 42,844	\$ 46,966	\$ 48,089	\$ 51,116	\$ 61,763
Sales	33,450	32,472	34,294	33,992	34,634
Utility Users	24,142	25,928	26,639	26,766	28,063
Street Light & Traffic Signal	5,127	5,541	5,533	5,480	6,352
Transient Occupancy	6,610	7,022	8,883	10,246	10,358
Total	\$112,173	\$117,929	\$123,438	\$127,600	\$141,170

Source: City of Pasadena, Department of Finance.

⁽¹⁾ Includes assessments.

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 ended June 30, 2008, reflects a total assessed valuation of approximately \$19.3 billion for the City, of which \$2.6 billion reflects the redevelopment project areas incremental assessed valuations of which the payable taxes are due to its redevelopment agency. Assessed net valuation for revenue purposes increased by approximately 12.61% for the fiscal year ended June 30, 2008, over the assessed net valuation for fiscal year ended June 30, 2007, and the compounded average annual increase between assessed valuation for the fiscal year ended June 30, 2003 and the fiscal year ended June 30, 2008 was approximately 9.83%. Such assessed valuations include secured and unsecured utility property assessed by the State Board of Equalization.

**CITY OF PASADENA
ASSESSED VALUATION OF TAXABLE PROPERTY
Fiscal Years 1999 through 2008
(in Thousands)**

Fiscal Year Ended June 30	Secured Valuations	Homeowner Exemption	Net Secured Valuations	Unsecured Valuations	Total Assessed Valuation	Less PCDC⁽¹⁾ Increment	Net Valuation
1999	\$9,131,132	\$(137,558)	\$8,993,574	\$458,544	\$9,452,118	\$(1,276,437)	\$8,175,681
2000	9,620,391	(135,869)	9,484,522	465,739	9,950,261	(1,280,296)	8,669,965
2001	10,236,475	(134,430)	10,102,045	503,731	10,605,776	(1,333,644)	9,272,131
2002	10,781,460	(133,467)	10,647,993	577,896	11,225,889	(1,386,579)	9,839,310
2003	11,537,408	(132,466)	11,404,942	606,087	12,011,029	(1,552,121)	10,459,277
2004	12,667,923	(131,710)	12,536,213	587,938	13,124,151	(1,786,002)	11,338,149
2005	13,672,183	(134,055)	13,538,128	564,808	14,102,936	(1,946,336)	12,156,600
2006	15,071,976	(134,404)	14,937,572	598,396	15,535,968	(2,097,532)	13,438,436
2007	16,759,246	(133,112)	16,626,134	620,524	17,246,658	(2,405,375)	14,841,283
2008	18,839,519	(134,380)	18,705,139	607,798	19,312,937	(2,600,303)	16,712,634

⁽¹⁾ Pasadena Community Development Commission, the redevelopment agency for the City.
Source: Los Angeles County Auditor-Controller, California Municipal Statistics, Inc. and City of Pasadena.

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

**CITY OF PASADENA
PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
For Fiscal Years 1998 through 2007**

Fiscal Year	General City	City Debt Service	Los Angeles County General	Pasadena School District	Pasadena Comm. College District	Flood Control District	Metropolitan Water District	Total
1998	1.000000	0.017898	0.001584	0.000000	0.000000	0.002197	0.008900	1.030579
1999	1.000000	0.019562	0.001451	0.029524	0.000000	0.001953	0.008900	1.061390
2000	1.000000	0.018060	0.001422	0.059910	0.000000	0.001705	0.008900	1.090057
2001	1.000000	0.016731	0.001314	0.067891	0.000000	0.001552	0.008800	1.096288
2002	1.000000	0.015297	0.001128	0.090396	0.000000	0.001073	0.007700	1.115594
2003	1.000000	0.014611	0.001033	0.070304	0.000000	0.000811	0.006700	1.093529
2004	1.000000	0.012515	0.000992	0.088903	0.006814	0.000462	0.006100	1.115786
2005	1.000000	0.011643	0.000923	0.086312	0.008786	0.000245	0.005800	1.113709
2006	1.000000	0.009792	0.000795	0.109911	0.004103	0.000049	0.005200	1.129850
2007	1.000000	0.011055	0.000663	0.0400078	0.020801	0.000052	0.004700	1.077349

Source: County of Los Angeles Tax Assessor and California Municipal Statistics, Inc.

**CITY OF PASADENA
TOP TEN PROPERTY TAXPAYERS
Fiscal Year Ended June 30, 2007**

Property Owner	Primary Land use	Total Assessed Valuation	Percentage of Total Local Secured Assessed Valuation
Paseo Colorado Holdings LLC	Shopping Center	\$ 124,893,831	0.72%
Equity Office Properties Trust	Office Building	120,737,556	0.70
SSR Paseo Colorado LLC	Apartments	103,833,723	0.60
Pasadena Towers LLC	Office Building	102,122,205	0.59
Archstone Smith Operating Trust	Apartments	92,652,209	0.54
Kaiser Foundation Health Plan Inc.	Office Building	88,031,949	0.51
EWA LLC	Office Building	69,802,236	0.40
Holly Street LP	Apartments	69,293,883	0.40
Payne Gleeson L	Office Building	69,081,275	0.40
Operating Engineers Funds Inc.	Office Building	66,273,243	0.38
Total Principal Property Taxpayers gross assessed value		\$ 902,722,110	5.24
Total city assessed value		\$17,379,769,223	100.00%

Source: California Municipal Statistics, Inc.

General Fund Comparative Financial Statements

The following two 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 Balances.

**CITY OF PASADENA
GENERAL FUND
COMPARATIVE BALANCE SHEETS
Fiscal Years 2005 through 2007**

<u>Assets</u>	<u>Fiscal year Ended June 30,</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Cash and investments	\$64,036,515	\$71,316,176	\$59,168,047
Accounts receivable	13,538,166	15,265,750	15,663,096
Less allowance for uncollectible amounts	(712,267)	(638,934)	(1,035,905)
Notes receivable	379,584	380,403	386,403
Due from other funds	3,296,481	6,252,418	6,015,821
Prepays and other assets	517,778	564,497	588,887
Advances to other funds	15,000,001 ⁽¹⁾	15,117,050 ⁽¹⁾	15,237,831 ⁽¹⁾
Advances to component units	1,140,709	1,085,522	1,027,541
Allowance uncollectible for long term receivables	(10,532,096)	(10,936,952)	(11,341,808)
Total assets	<u>\$86,664,871</u>	<u>\$98,405,930</u>	<u>\$85,709,913</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 8,277,126	\$10,307,288	\$11,046,824
Deposits	1,796,515	2,097,183	1,798,192
Due to other governments	27,733	24,035	272,928
Deferred revenue	7,482,071	6,511,012	6,104,256
Total liabilities	<u>\$17,583,445</u>	<u>\$18,939,518</u>	<u>\$19,222,200</u>
Fund Balances:			
Reserved for:			
Encumbrances	\$579,198	\$855,095	\$1,072,213
Notes receivable	379,584	380,403	386,403
Prepays and other assets	517,778	564,497	588,887
Advances to other funds	5,608,614	5,265,620	4,923,564
Unreserved:			
General Fund	61,996,252	72,440,797	59,516,646
Total Fund balances	<u>69,081,426</u>	<u>79,466,412</u>	<u>66,487,713</u>
Total liabilities and fund balances	<u>\$86,664,871</u>	<u>\$98,405,930</u>	<u>\$85,709,913</u>

⁽¹⁾ See Note (7) of Notes to General Purpose Financial Statements under "General Fund Advances."

**CITY OF PASADENA
GENERAL FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
Fiscal Years 2005 through 2007**

	Fiscal Year Ended June 30,		
	2005	2006	2007
Revenues:			
Taxes	\$103,263,885	\$108,259,679	\$115,916,861
Licenses and permits	2,422,590	2,389,206	2,024,034
Intergovernmental revenues	12,513,767	12,013,725	12,705,093
Charges for services	26,212,130	27,954,633	30,711,841
Fines and forfeits	6,541,630	6,911,046	7,593,705
Investment earnings	16,527,891	18,656,672	22,024,174
Net changes in fair value of investments	(85,675)	(831,808)	(857,707)
Rental income	1,632,951	1,536,322	1,317,087
Miscellaneous revenue	2,186,348	2,155,607	2,063,664
Total revenues	\$171,215,517	\$179,045,082	195,214,166
Expenditures:			
Current:			
General government	\$ 26,439,776	\$ 30,274,937	\$ 34,178,408
Public Safety	75,440,612	78,487,902	88,398,871
Transportation	21,886,752	23,974,050	24,514,491
Culture and leisure	12,349,300	13,097,817	13,700,557
Community development	8,082,604	8,796,832	9,468,514
Debt service:			
Principal retirement	40,000,000	--	--
Total expenditures	\$184,199,044	\$154,631,538	\$170,260,841
Excess (deficiency) of revenues over (under) expenditures	\$ (12,983,527)	\$ 24,413,544	\$ 24,953,325
Other financing sources (uses):			
Issuance of long-term debt	\$ 2,181,479	--	87,401
Transfers in	60,497,106	26,940,474	13,634,346
Transfers out	(39,910,724)	(40,969,032)	(51,653,771)
Total other financing sources (uses)	22,767,861	(14,028,558)	(37,932,024)
Change in fund balances	9,784,334	10,384,986	(12,978,699)
Fund balances at beginning of year, as restated	59,297,092	69,081,426	79,466,412
Fund balances at end of year	\$ 69,081,426	\$ 79,466,412	\$ 66,487,713

General Fund taxes increased by approximately \$12.6 million from the fiscal year ended June 30, 2004 to June 30, 2006. 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 described in the applicable trust indenture.

Pooled Investment Portfolio. As of June 30, 2007, the funds invested pursuant to the pooled investment program had a market value of \$283,355,442. 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 1.77 years. Of the investments on that date, approximately 24.26% had maturities of ninety days or less.

The assets of the portfolio as of June 30, 2007 are shown in the following table:

**CITY OF PASADENA
POOLED INVESTMENT PORTFOLIO
Assets as of December 31, 2006**

	Market Value	Percentage of Total⁽¹⁾
Repurchase Agreements	\$50,200,000	17.87%
Certificates of Deposit	560,000	0.20
LAIF	658,278	.23
Municipal Bonds	1,371,550	.49
Treasury Securities	12,520,750	4.46
Corporate Bonds	15,681,457	5.58
Mortgage Backed Securities/GNMAs	2,420	0.00
Federal Agencies	198,831,613	70.76
Cash in Bank	1,154,834	.41
Total	\$280,980,902	100.00%
Accrued Interest Receivable	2,374,540	
Grand total	\$283,355,442	

Source: City of Pasadena at market value.

⁽¹⁾ At market value.

The Weighted Average Maturity of the above portfolio is 1.77 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, 2007 on November 20, 2006.

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 \$30 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 in connection with its investments. The City has entered into interest rate swap agreements in connection with certain of its obligations. The City does not have any investments which are 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 180 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 A or better. The City is not permitted to purchase commercial paper that exceeds 270 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 day 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 5% 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 moneys 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 the State's Local Agency Investment Fund (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. Such bonds are secured by an *ad valorem* property tax assessed against the property owners of the City. The City currently has no general obligation debt outstanding.

Estimated Direct and Overlapping Bonded Debt

The estimated direct and overlapping bonded debt of the City as of December 30, 2006 is set forth in the following table.

**CITY OF PASADENA
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
As of June 30, 2007**

2006-07 Assessed Valuation:	\$17,379,769,223
Redevelopment Incremental Valuation:	<u>2,405,375,420</u>
Adjusted Assessed Valuation:	\$14,974,393,803

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	% Applicable ⁽¹⁾	Debt 06/30/07
Los Angeles County Flood Control District	2.001%	2,272,336
Metropolitan Water District	0.922	3,311,040
Pasadena Area Community College District	32.087	29,861,052
La Cañada Unified School District	0.240	65,196
Pasadena Unified School District	69.898	143,413,222
City of Pasadena Community Facilities District No. 1	100.000	12,969,047
Los Angeles County Improvement District No. 2658-M	0.987	10,314
Los Angeles County Regional Park and Open Space Assessment District	1.846	5,616,178
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$197,518,385

<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Los Angeles County General Fund Obligations	1.846%	\$ 20,026,367
Los Angeles County Pension Obligations	1.846	10,094,835
Los Angeles County Superintendent of Schools Certificates of Participation	1.846	365,827
Los Angeles County Sanitation District Nos. 15, 16 & 17 Certificates of Participation	0.259-57.392	14,699,982
Pasadena Area Community College District Certificates of Participation	32.087	1,256,206
City of Pasadena General Fund Obligations	100.000	406,859,972
City of Pasadena Pension Obligations	100.000	127,671,249
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$580,974,438

TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT **\$778,492,823⁽²⁾**

⁽¹⁾ Percentage of overlapping agency's assessed valuation located within the boundaries of the city.

⁽²⁾ Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2006-07 Assessed Valuation:

Direct Debt (\$1,550,000)	0.01%
Total Direct and Overlapping Tax and Assessment Debt.....	1.29%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$534,531,221)	4.05%
Gross Combined Total Debt	5.20%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/06: \$0

Source: California Municipal Statistics, Inc.

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

APPENDIX C

BOOK-ENTRY SYSTEM

The description that follows of the procedures and recordkeeping with respect to beneficial ownership interests in the 2008 Bonds, payment of principal of and interest on the 2008 Bonds to Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the 2008 Bonds, and other 2008 Bonds-related transactions by and between DTC, Participants and Beneficial Owners, is based on information furnished by DTC which the City believes to be reliable, but the City takes no responsibility for the completeness or accuracy thereof.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2008 Bonds (the “Securities”). The Securities 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 Security certificate will be issued for each maturity of the Securities, each 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 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 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, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, 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 and www.dtc.org. The information on such websites is not incorporated herein by such reference or otherwise.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“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 confirmations 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 Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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. Beneficial Owners of Securities may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Securities unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to 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 the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Securities 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 City or 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 nor its nominee, Fiscal Agent, or 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 City or 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 securities depository with respect to the Securities at any time by giving reasonable notice to City or Fiscal Agent. Under such circumstances, in the event

that a successor securities depository is not obtained, Security certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

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

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE FISCAL AGENT AGREEMENT

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of February 1, 2008, is executed and delivered by the City of Pasadena (the “Issuer”) and Digital Assurance Certification, L.L.C., as exclusive Disclosure Dissemination Agent (the “Disclosure Dissemination Agent” or “DAC”) for the benefit of the Holders (hereinafter defined) of the Bonds (hereinafter defined) and in order to provide certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the “Rule”).

SECTION 1. Definitions. Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Official Statement (hereinafter defined). The capitalized terms shall have the following meanings:

“Annual Report” means an Annual Report described in and consistent with Section 3 of this Disclosure Agreement.

“Annual Filing Date” means the date, set in Sections 2(a) and 2(f), by which the Annual Report is to be filed with the Repositories.

“Annual Financial Information” means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Agreement.

“Audited Financial Statements” means the financial statements (if any) of the Issuer for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(b) of this Disclosure Agreement.

“Bonds” means the bonds as listed on the attached Exhibit A, with the 9-digit CUSIP numbers relating thereto.

“Certification” means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Voluntary Report or Notice Event notice delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Voluntary Report or Notice Event notice required to be submitted to the Repositories under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Issuer and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

“Disclosure Representative” means the Director of Finance of the Issuer or his or her designee, or such other person as the Issuer shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

“Disclosure Dissemination Agent” means Digital Assurance Certification, L.L.C, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Issuer pursuant to Section 9 hereof.

“Fiscal Agent” means The Bank of New York Trust Company, N.A., as successor fiscal agent under that Electric Revenue Bond Fiscal Agent Agreement, dated as of August 1, 1998 by and

between the Issuer and the Fiscal Agent, as supplemented, and as further supplemented by a Fourth Supplement to Electric Revenue Bond Fiscal Agent Agreement, dated as of February 1, 2008 by and between the Issuer and the Fiscal Agent.

“Holder” means any person (a) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) treated as the owner of any Bonds for federal income tax purposes.

“Information” means the Annual Financial Information, the Audited Financial Statements (if any) the Notice Event notices, and the Voluntary Reports.

“Notice Event” means an event listed in Sections 4(a) of this Disclosure Agreement.

“MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

“National Repository” means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The list of National Repositories maintained by the United States Securities and Exchange Commission shall be conclusive for purposes of determining National Repositories. Currently, the following are National Repositories:

1. DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
(201) 346-0701 (phone)
(201) 947-0107 (fax)
Email: nrmsir@dpcdata.com
2. Interactive Data Pricing and Reference Data, Inc.
Attn: NRMSIR
100 William Street, 15th Floor
New York, NY 10038
(212) 771-6999; (800) 689-8466 (phone)
(212) 771-7390 (fax)
Email: NRMSIR@Interactivedata.com
3. Bloomberg Municipal Repository
100 Business Park Drive
Skillman, NJ 08558
(609) 279-3225 (phone)
(609) 279-5962 (fax)
Email: Munis@Bloomberg.com
4. Standard & Poor’s Securities Evaluations, Inc.
55 Water Street
45th Floor
New York, NY 10041
(212) 438-4595 (phone)
(212) 438-3975 (fax)
Email: nrmsir_repository@sandp.com

“Official Statement” means that Official Statement prepared by the Issuer in connection with the Bonds, as listed on Appendix A.

“Repository” means the MSRB, each National Repository and the State Depository (if any).

“State Depository” means any public or private depository or entity designated by the State of California as a state information depository (if any) for the purpose of the Rule. The list of state information depositories maintained by the United States Securities and Exchange Commission shall be conclusive as to the existence of a State Depository. Currently, the following depositories are listed by the Securities and Exchange Commission as available State Depositories:

1. Municipal Advisory Council of Michigan
1445 First National Building
Detroit, MI 48226-3517
(313) 963-0420 (phone)
(313) 963-0943 (fax)
MAC@macmi.com
2. Municipal Advisory Council of Texas
PO Box 2177
Austin, TX 78768-2177
(512) 476-6947 (phone)
(512) 476-6403 (fax)
mac@mactexas.com
3. Ohio Municipal Advisory Council
9321 Ravenna Road, Unit K
Twinsburg, OH 44087-2445
(330) 963-7444 (phone)
(800) 969-OMAC (6622) (phone)
(330) 963-7553 (fax)
sid_filings@ohiomac.com

“Voluntary Report” means the information provided to the Disclosure Dissemination Agent by the Issuer pursuant to Section 7.

SECTION 2. Provision of Annual Reports.

(a) The Issuer shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Fiscal Agent, not later than 30 days prior to the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to each National Repository and the State Depository (if any) not later than 185 days after the end of the Issuer’s Fiscal Year (presently June 30), commencing with the report for Fiscal Year 2008. Such date and each anniversary thereof is the Annual Filing Date. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Agreement.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Issuer of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure

Dissemination Agent with an electronic copy of the Annual Report and the Certification) no later than two (2) business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the Issuer will not be able to file the Annual Report within the time required under this Disclosure Agreement, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent that a Notice Event as described in Section 4(a)(12) has occurred and to immediately send a notice to each National Repository or the MSRB and the State Depository (if any) in substantially the form attached as Exhibit B.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 12:00 noon on the first business day following the Annual Filing Date for the Annual Report, a Notice Event described in Section 4(a)(12) shall have occurred and the Issuer irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to each National Repository or the MSRB and the State Depository (if any) in substantially the form attached as Exhibit B.

(d) If Audited Financial Statements of the Issuer are prepared but not available prior to the Annual Filing Date, the Issuer shall, when the Audited Financial Statements are available, provide in a timely manner an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certificate, together with a copy for the Fiscal Agent, for filing with each National Repository and the State Depository (if any).

(e) The Disclosure Dissemination Agent shall:

- (i) determine the name and address of each Repository each year prior to the Annual Filing Date;
- (ii) upon receipt, promptly file each Annual Report received under Section 2(a) with each National Repository, and the State Depository, (if any);
- (iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) with each National Repository, and the State Depository (if any);
- (iv) upon receipt, promptly file the text of each disclosure to be made with each National Repository and the State Depository (if any) together with a completed copy of the Event Notice Cover Sheet in the form attached as Exhibit C, describing the event by checking the box indicated below when filing pursuant to the Section of this Disclosure Agreement indicated:
 1. "Principal and interest payment delinquencies," pursuant to Sections 4(c) and 4(a)(1);
 2. "Non-Payment related defaults," pursuant to Sections 4(c) and 4(a)(2);
 3. "Unscheduled draws on debt service reserves reflecting financial difficulties," pursuant to Sections 4(c) and 4(a)(3);
 4. "Unscheduled draws on credit enhancements reflecting financial difficulties," pursuant to Sections 4(c) and 4(a)(4);
 5. "Substitution of credit or liquidity providers, or their failure to perform," pursuant to Sections 4(c) and 4(a)(5);
 6. "Adverse tax opinions or events affecting the tax-exempt status of the security," pursuant to Sections 4(c) and 4(a)(6);
 7. "Modifications to rights of securities holders," pursuant to Sections 4(c) and 4(a)(7);
 8. "Bond calls," pursuant to Sections 4(c) and 4(a)(8);

9. “Defeasances,” pursuant to Sections 4(c) and 4(a)(9);
10. “Release, substitution, or sale of property securing repayment of the securities,” pursuant to Sections 4(c) and 4(a)(10);
11. “Ratings changes,” pursuant to Sections 4(c) and 4(a)(11);
12. “Failure to provide annual financial information as required,” pursuant to Section 2(b)(ii) or Section 2(c), together with a completed copy of Exhibit B to this Disclosure Agreement; and
13. “Other material event notice (specify),” pursuant to Section 7 of this Agreement, together with the summary description provided by the Disclosure Representative.

(v) provide the Issuer evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

(f) The Issuer may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent, Fiscal Agent (if any) and the Repositories, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

SECTION 3. Content of Annual Reports.

The Issuer’s Annual Report shall contain or include by reference the following:

(i) The Issuer’s annual Consolidated Annual Financial Report (the “CAFR”) which shall include the audited financial statements of the Issuer’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 Issuer’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) Pasadena Water and Power’s most recently published Annual Report, not previously filed with the National Repositories, if any;

(iii) Updated information comparable to the information in the following tables as they appear in the Official Statement, dated January __, 2008, relating to the Bonds (the “Official Statement”);

(a) TABLE 3 – “TOTAL POWER GENERATED AND PURCHASED: PEAK DEMAND (MWh)”

(b) TABLE 4 – “POWER SUPPLY RESOURCES”;

(c) TABLE 8 – “CUSTOMERS, ENERGY SALES AND REVENUES”;

(d) TABLE 10 – “OUTSTANDING DEBT OF JOINT ACTION AGENCIES”; and

(e) TABLE 11 – “HISTORICAL OPERATING RESULTS AND DEBT SERVICE COVERAGE.”

Any or all of the items listed above may be included by specific reference from other documents, including official statements of debt issues with respect to which the Issuer is an “obligated person” (as defined by the Rule), which have been previously filed with each of the National Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer will clearly identify each such document so incorporated by reference.

Any annual financial information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

SECTION 4. Reporting of Notice Events.

(a) The occurrence of any of the following events, if material, with respect to the Bonds constitutes a Notice Event:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements relating to the Bonds reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
7. Modifications to rights of Bond holders;
8. Bond calls;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds;
11. Rating changes on the Bonds;
12. Failure to provide annual financial information as required.

The Issuer shall promptly notify the Disclosure Dissemination Agent in writing upon the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c). Such notice shall be accompanied with the text of the disclosure that the Issuer desires to make, the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information.

(b) The Disclosure Dissemination Agent is under no obligation to notify the Issuer or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure

Disclosure Agent so notifies the Disclosure Representative, the Disclosure Representative will within five business days of receipt of such notice, instruct the Disclosure Agent that (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Agent is to report the occurrence pursuant to subsection (c), together with the text of the disclosure that the Issuer desires to make, the written authorization of the Issuer for the Disclosure Agent to disseminate such information, and the date the Issuer desires for the Disclosure Agent to disseminate the information.

(c) If the Disclosure Agent has been instructed by the Issuer as prescribed in subsection (a) or (b)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Agent shall promptly file a notice of such occurrence with the State Depository (if any) and (i) each National Repository, or (ii) the MSRB in accordance with Section 2 e (iv) hereof.

SECTION 5. CUSIP Numbers. Whenever providing information to the Disclosure Agent, including but not limited to Annual Reports, documents incorporated by reference to the Annual Reports, Audited Financial Statements, notices of Notice Events, and Voluntary Reports filed pursuant to Section 7(a), the Issuer shall indicate the full name of the Bonds and the 9-digit CUSIP numbers for the Bonds as to which the provided information relates.

SECTION 6. Additional Disclosure Obligations. The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that the failure of the Disclosure Agent to so advise the Issuer shall not constitute a breach by the Disclosure Agent of any of its duties and responsibilities under this Disclosure Agreement. The Issuer acknowledges and understands that the duties of the Disclosure Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 7. Voluntary Reports.

(a) The Issuer may instruct the Disclosure Agent to file information with the Repositories, from time to time pursuant to a Certification of the Disclosure Representative accompanying such information (a "Voluntary Report").

(b) Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information through the Disclosure Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual Report, Annual Financial Statement, Voluntary Report or Notice Event notice, in addition to that required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report, Annual Financial Statement, Voluntary Report or Notice Event notice in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Annual Financial Statement, Voluntary Report or Notice Event notice.

SECTION 8. Termination of Reporting Obligation. The obligations of the Issuer and the Disclosure Agent under this Disclosure Agreement shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the Issuer is no longer an obligated person with respect to the Bonds, or upon delivery by the Disclosure Representative to the Disclosure Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required.

SECTION 9. Disclosure Agent. The Issuer has appointed Digital Assurance Certification, L.L.C. as exclusive Disclosure Agent under this Disclosure Agreement. The

Issuer may, upon thirty days written notice to the Disclosure Dissemination Agent and the Fiscal Agent, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC's services as Disclosure Dissemination Agent, whether by notice of the Issuer or DAC, the Issuer agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a successor, the Issuer shall remain liable until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Issuer.

SECTION 10. Remedies in Event of Default. In the event of a failure of the Issuer or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Issuer has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the Issuer and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Issuer's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Issuer has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the Issuer at all times.

The obligations of the Issuer under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the Issuer.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Issuer and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Issuer or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days written notice of the intent to do so together with a copy of the proposed amendment to the Issuer. No such amendment shall become effective if the Issuer shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Fiscal Agent for the Bonds, the Disclosure Dissemination Agent, the underwriter, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Agreement shall be governed by the laws of the State of California (other than with respect to conflicts of laws).

SECTION 15. 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.

[Remainder of page intentionally left blank.]

The Disclosure Dissemination Agent and the Issuer have caused this Continuing Disclosure Agreement to be executed, as of the date first written above, by their respective officers duly authorized.

DIGITAL ASSURANCE CERTIFICATION, L.L.C., as
Disclosure Dissemination Agent

By: _____
Name: _____
Title: _____

CITY OF PASADENA, CALIFORNIA as Issuer

By: _____
Stephen C. Stark
Director of Finance

EXHIBIT A

NAME AND CUSIP NUMBERS OF BONDS

Name of Issuer City of Pasadena, California
Obligated Person(s) City of Pasadena, California
Name of Bond Issue: Electric Revenue Bonds, 2008 Series
Date of Issuance: February __, 2008
Date of Official Statement January __, 2008

CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
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CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____

EXHIBIT B

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Issuer: City of Pasadena, California
Obligor: City of Pasadena, California
Name of Bond Issue: Electric Revenue Bonds, 2008 Series
Date of Issuance: February __, 2008

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of February 1, 2008, between the Issuer and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. The Issuer has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by _____.

Dated: _____

Digital Assurance Certification, L.L.C., as Disclosure
Dissemination Agent, on behalf of the Issuer

cc: Finance Director, City of Pasadena

**EXHIBIT C
EVENT NOTICE COVER SHEET**

This cover sheet and material event notice will be sent to all Nationally Recognized Municipal Securities Information Repositories, and any State Information Depository, if applicable, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and/or Other Obligated Person's Name:

Issuer's Six-Digit CUSIP Number:

or Nine-Digit CUSIP Number(s) of the bonds to which this material event notice relates:

Number of pages of attached: _____

____ Description of Material Event Notice (Check One):

1. Principal and interest payment delinquencies
2. Non-Payment related defaults
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of credit or liquidity providers, or their failure to perform
6. Adverse tax opinions or events affecting the tax-exempt status of the security
7. Modifications to rights of securities holders
8. Bond calls
9. Defeasances
10. Release, substitution, or sale of property securing repayment of the securities
11. Rating changes
12. Other material event notice (specify)

____ Failure to provide annual financial information as required

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

Name: _____ Title: _____

Employer: Digital Assurance Certification, L.L.C.

Address: _____

City, State, Zip Code: _____

Voice Telephone Number: _____

APPENDIX F

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon issuance of the 2008 Bonds, Sidley Austin LLP, Los Angeles, California, Bond Counsel, proposes to render its final opinion with respect to the 2008 Bonds in substantially the following form:

[Closing Date]

City of Pasadena
Pasadena, California

\$ _____
City of Pasadena, California
Electric Revenue Bonds, 2008 Series

Ladies and Gentlemen:

We have acted as bond counsel to the City of Pasadena, California (the "City") in connection with the issuance of the City's Electric Revenue Bonds, 2008 Series (the "Bonds") in the aggregate principal amount of \$ _____. The Bonds are being issued pursuant to the Charter of the City, as amended (the "Charter"), including Article XIV thereof, Ordinance No. ____ (the "Ordinance"), adopted by the City Council of the City (the "Council") on December __, 2007, and by an Electric Revenue Bond Fiscal Agent Agreement, dated as of August 1, 1998, by and between the City and The Bank of New York Trust Company, N.A. (successor to 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; a Second Supplement to Electric Revenue Bond Fiscal Agent Agreement, dated as of July 1, 2002, a Third Supplement to Electric Revenue Bond Fiscal Agent Agreement, dated as of August 1, 2003, and a Fourth Supplement to Electric Revenue Bond Fiscal Agent Agreement, dated as of February 1, 2008 each by and between the City and the Fiscal Agent (collectively, the "Fiscal Agent Agreement").

In our capacity as bond counsel, we have reviewed the Charter, the Ordinance, resolutions adopted by the City Council, the Fiscal Agent Agreement, certifications of the City, the Fiscal Agent and others, opinions of counsel to the City and the Fiscal Agent, and such other documents, opinions and instruments as we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Fiscal Agent Agreement.

We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Fiscal Agent Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Bonds and the Fiscal Agent Agreement are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial

discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The City is authorized and empowered by law, including the Charter, to adopt the Ordinance, to execute and deliver the Fiscal Agent Agreement, to issue the Bonds, to use the proceeds from the sale thereof for the purposes stated in the Ordinance and the Fiscal Agent Agreement and to pledge the Net Income of the Electric System to the payment of the Bonds.

2. The Fiscal Agent Agreement has been, pursuant to law, including the Charter and the Ordinance, duly authorized, executed and delivered by, and constitutes the valid and binding obligation of, the City. The Fiscal Agent Agreement creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Net Income as and to the extent set forth in the Fiscal Agent Agreement and subject to the provisions of the Fiscal Agent Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein.

3. The Bonds are special obligations of the City and are payable exclusively from the Light and Power Fund of the City's Water and Power Department and certain other funds as provided in the Fiscal Agent Agreement, and 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. The general fund of the City is not liable for the payment of any 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 Bonds, any premium thereon upon redemption prior to maturity or their interest. The Owner of any 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 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, security or assets which are pledged to the payment of the Bonds, interest thereon and any premiums upon redemption.

4. Based on existing statutes, regulations, rulings and judicial decisions and assuming continuing compliance by the City with certain covenants in the Fiscal Agent Agreement and requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of Bond proceeds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for purposes of federal income taxation. Interest on the Bonds will not be treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals or corporations; however, such interest will be included as an adjustment in the calculation of corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. Certain requirements and procedures contained or referred to in the Fiscal Agent Agreement and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of nationally recognized bond counsel. No opinion is expressed herein as to the interest on any Bond if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

5. Under existing law, interest on the Bonds is exempt from personal income tax imposed by the State of California.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of any such actions or events.

Other than as described herein, we have neither addressed nor are we opining on the tax consequences to any person of the investment in, or the receipt of interest on, the Bonds.

Respectfully submitted.

APPENDIX G
NOTICE INVITING BIDS