

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 December 31, 2006, the funds invested pursuant to the pooled investment program had a market value of \$277,133,204. 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 1.59 years. Of the investments on that date, approximately 28% had maturities of ninety days or less.

The assets of the portfolio as of December 31, 2006 are shown in the following table:

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

	<u>Market Value</u>	<u>Percentage of Total⁽¹⁾</u>
Repurchase Agreements	\$ 49,800,000	17.97%
Certificates of Deposit	750,000	0.27
LAIF	641,749	.23
Municipal Bonds	1,667,328	.60
Treasury Securities	12,499,872	4.51
Federal Agencies—Discount	556,181	0.20
Corporate Bonds	15,734,017	5.68
Mortgage Backed Securities/GNMAs	57,998	0.02
Federal Agencies	190,700,686	68.80
Cash in Bank	<u>4,765,984</u>	<u>1.72</u>
Total	277,173,817	<u>100.00%</u>
Accrued Interest Receivable	<u>2,229,797</u>	
Grand total	\$ 279,403,614	

Source: City of Pasadena

(1) At market value.

The Weighted Average Maturity of the above portfolio is 1.59 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 State's Local Agency Investment Fund. 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. There is \$1,550,000 aggregate principal amount of general obligation bonds outstanding which mature on June 1, 2007. Such bonds are secured by an ad valorem property tax assessed against the property owners of the City.

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 December 30, 2006**

2005-06 Assessed Valuation: \$15,670,372,458
 Redevelopment Incremental Valuation: 2,097,531,679
 Adjusted Assessed Valuation: \$13,572,840,779

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable (1)</u>	<u>Debt 12/30/06</u>
Los Angeles County	1.846%	\$ 154,972
Los Angeles County Flood Control District	2.000	2,547,400
Metropolitan Water District	0.922	3,591,789
Pasadena Area Community College District	32.087	30,122,561
La Canada Unified School District	0.240	65,196
Pasadena Unified School District	69.898	144,804,192
City of Pasadena	100.000	1,550,000
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	<u>5,616,178</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$201,431,649

<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Los Angeles County General Fund Obligations	1.846%	\$ 20,280,323
Los Angeles County Pension Obligations	1.846	13,606,541
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	0.259-57.371	14,694,662
Pasadena Area Community College District Certificates of Participation	32.087	1,256,206
City of Pasadena General Fund Obligations	100.000	413,844,972
City of Pasadena Pension Obligations	100.000	<u>134,145,000</u>
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$598,193,531

COMBINED TOTAL DEBT \$799,625,180(1)

(1) Excludes tax and revenue anticipation notes, enterprise 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 (\$549,539,972).....4.05%
Gross Combined Total Debt.....5.89%

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

Source: California Municipal Statistics, Inc.

PRELIMINARY OFFICIAL STATEMENT DATED APRIL ____, 2007

NEW ISSUE – FULL BOOK-ENTRY ONLY

[DAC LOGO]

RATINGS

Fitch: “ ”

S&P: “ ”

(Insured)

Underlying Ratings: S&P

(See “RATINGS” herein)

In the opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, under existing law the interest on the 2007 Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the tax covenants described herein, interest on the 2007 Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 (the “Code”) from the gross income of the owners thereof for federal income tax purposes and is not an item of preference under section 57(a) of the Code for purposes of the federal alternative minimum tax. See “TAX MATTERS” herein.

\$ _____
CITY OF PASADENA, CALIFORNIA
WATER REVENUE BONDS
2007 SERIES

Dated: Date of delivery

Due: June 1, as shown on the inside cover

The \$ _____ aggregate principal amount of City of Pasadena, California Water Revenue Bonds, 2007 Series (the “2007 Bonds”) are being issued to: (i) finance the costs of acquisition and construction of certain capital improvements to the Water System; (ii) make an additional deposit to the Parity Reserve Fund; and (iii) pay costs of issuance of the 2007 Bonds, including the premium of a municipal bond insurance policy, as more fully described herein. See “APPLICATION OF THE PROCEEDS OF THE 2007 BONDS” herein.

The 2007 Bonds are being issued pursuant to a Water Revenue Bond Indenture, dated as of August 1, 2003, by and between the City of Pasadena, California (the “City”) and The Bank of New York Trust Company, N.A. (formerly known as BNY Western Trust Company), as Trustee (the “Trustee”), as supplemented by a Second Supplement to Water Revenue Bond Indenture, dated as of April 1, 2007, by and between the City and the Trustee (together, the “Indenture”). The 2007 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 2007 Bonds. Beneficial ownership interests in the 2007 Bonds may be purchased in book-entry form only in denominations of \$5,000 principal amount or any integral multiple thereof. Interest on the 2007 Bonds will be payable semiannually on June 1 and December 1 of each year, commencing June 1, 2007. Payments of principal of, premium, if any, and interest on, the 2007 Bonds will be paid by the Trustee 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 2007 Bonds.

The 2007 Bonds are subject to redemption prior to maturity as described herein. See “DESCRIPTION OF THE 2007 BONDS – Redemption” herein.

The 2007 Bonds are obligations payable only from the Water Fund of the City and certain other funds and accounts pledged under the Indenture on a parity with certain prior obligations of the City as described herein.

[Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by _____ to be issued simultaneously with the delivery of the Bonds.]

[INSERT INSURER LOGO]

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 must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

THE 2007 BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE CITY. THE 2007 BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE CITY, THE STATE OF CALIFORNIA (THE “STATE”) OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION, OR A PLEDGE OF THE FAITH AND CREDIT OF THE CITY, THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE, EXCEPT TO THE EXTENT OF CERTAIN AMOUNTS HELD UNDER THE INDENTURE PLEDGED THEREFOR, SOLELY FROM THE WATER FUND OF THE CITY. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR THE INTEREST ON THE 2007 BONDS. THE ISSUANCE OF THE 2007 BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATSOEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT.

The 2007 Bonds are offered, when, as and if issued by the City, subject to the approval of legality by Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by

* Preliminary; subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

Fulbright & Jaworski L.L.P., Los Angeles, California, Disclosure Counsel, and by Michele Beal Bagneris, City Attorney of the City. It is anticipated that the 2007 Bonds will be available for delivery through the DTC book-entry system in New York, New York on or about April 24, 2007.

**BIDS WILL BE ACCEPTED UNTIL 10:00 A.M. PACIFIC TIME ON MONDAY, APRIL 16, 2007,
UNLESS POSTPONED AS SET FORTH IN THE NOTICE INVITING BIDS.**

Dated: _____, 2007

\$ _____ *

**CITY OF PASADENA, CALIFORNIA
WATER REVENUE BONDS
2007 SERIES**

MATURITY SCHEDULE

<u>Maturity Date</u> <u>(June 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP**</u>
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\$ _____ Term Bonds

\$ _____ % Term Bonds due June 1, 20__ – Price: _____ to Yield: _____ % CUSIP**:

* Preliminary, subject to change.

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CITY OF PASADENA

CITY COUNCIL

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

CITY STAFF

Cynthia J. Kurtz, *City Manager*
Stephen C. Stark, *Director of Finance*
Steve Mermell, *Deputy Director of Finance*
Vicken "Vic" Erganian, *City Treasurer*

CITY ATTORNEY

Michele Beal Bagneris

PASADENA WATER AND POWER STAFF

Phyllis E. Currie, *General Manager*
Eric Klinkner, *Assistant General Manager*
Gurcharan Bawa, *Acting Business Unit Director for Power Supply*
Shari M. Thomas, *Business Unit Director for Finance and Administration*
George Wilson, *Business Unit Director for Power Delivery – Field Services*
Joe Awad, *Business Unit Director for Power Delivery - Engineering*
Shan Kwan, *Business Unit Director for Water Delivery*

FINANCIAL ADVISOR

Public Resources Advisory Group
Los Angeles, California

BOND AND DISCLOSURE COUNSEL

Fulbright & Jaworski L.L.P.
Los Angeles, California

TRUSTEE

The Bank of New York Trust Company, N.A.
Los Angeles, California

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 2007 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 2007 Bonds. Any statement made in this Official Statement involving any forecast or matter of estimates of opinion, whether or not expressly so stated, is intended solely as such and not as a representation 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 ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED, OCCUR.

The information set forth herein has been furnished by the City and other sources which are believed to be reliable. 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 Water System since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE 2007 BONDS, THE PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2007 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
INTRODUCTION	1	Billing and Collection Procedures	36
Purpose	1	Employees	37
Authority for Issuance	1	Insurance	37
The City and the Water System	1	CONSTITUTIONAL LIMITATIONS ON	
Security and Sources of Payment for the		GOVERNMENTAL SPENDING	38
2007 Bonds	2	Article XIIC and XIID of the California	
Parity Reserve Fund	2	Constitution	38
Rate Covenant	2	Article XIII B of the California	
Other Matters	3	Constitution	40
Forward-Looking Statements	3	Article XIII A of the California	
Additional Information	4	Constitution	40
APPLICATION OF THE PROCEEDS OF		RISK FACTORS	40
THE 2007 BONDS	4	Water Supply	40
DESCRIPTION OF THE 2007 BONDS	4	System Operations and Expenses	40
General	4	System Demands	41
Redemption	5	Seismic Considerations	41
Debt Service Requirements	7	Environmental Issues	41
SECURITY AND SOURCES OF PAYMENT		Terrorist Threats	41
FOR THE 2007 BONDS	8	Limited Obligations	42
General	8	Loss of Tax Exemption	42
Rate Covenant	8	Secondary Market	42
The Water Fund	9	Limitations of Remedies	42
Capital Improvements Charge Account	10	Voter Initiatives – State Constitutional	
Parity Reserve Fund	10	Amendments	43
Additional Bonds	11	RATINGS	43
Other Covenants	13	TAX MATTERS	43
Investment of Funds	13	LITIGATION	45
Limitations on Remedies	13	FINANCIAL STATEMENTS	45
PASADENA WATER AND POWER	13	FINANCIAL ADVISOR	46
Organization and Management	13	CERTAIN LEGAL MATTERS	46
Municipal Services Committee	15	CONTINUING DISCLOSURE	46
WATER SYSTEM	16	EXECUTION AND DELIVERY	47
General	16		
Water Production	17	APPENDIX A – THE CITY OF PASADENA	
Environmental Regulation	17	APPENDIX B – PASADENA WATER & POWER	
WATER SUPPLY	18	2006 ANNUAL REPORT	
Raymond Basin	18	APPENDIX C – BOOK-ENTRY SYSTEM	
The Metropolitan Water District of		APPENDIX D – SUMMARY OF CERTAIN	
Southern California	21	PROVISIONS OF THE INDENTURE	
Future Sources of Water Supply and/or		APPENDIX E – FORM OF CONTINUING	
Reliability	25	DISCLOSURE AGREEMENT	
Water Conservation Programs	26	APPENDIX F – PROPOSED FORM OF OPINION	
Water Quality	26	OF BOND COUNSEL	
Perchlorate Contamination	27		
CAPITAL IMPROVEMENT PROGRAM	28		
OPERATIONS OF THE WATER SYSTEM	29		
Basis of Financial Reporting	29		
Revenues	29		
Rate Structure	31		
Historical Operating Results and Cash			
Flows	33		
Projected Coverage and Five-Year			
Forecast	34		

OFFICIAL STATEMENT

\$ _____
CITY OF PASADENA, CALIFORNIA
WATER REVENUE BONDS
2007 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 2007 Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used in this Official Statement and not otherwise defined herein shall have the respective meanings assigned to them in the Indenture.

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 \$ _____ aggregate principal amount of its Water Revenue Bonds, 2007 Series (the "2007 Bonds"). The 2007 Bonds are being issued to: (i) finance the costs of acquisition and construction of certain capital improvements to the Water System; (ii) make an additional deposit to the Parity Reserve Fund; and (iii) pay costs of issuance of the 2007 Bonds, including the premium of a municipal bond insurance policy, as more fully described herein. See "APPLICATION OF THE PROCEEDS OF THE 2007 BONDS" and "CAPITAL IMPROVEMENT PROGRAM" herein.

Authority for Issuance

The 2007 Bonds are authorized and issued pursuant to Article XIV of the Charter of the City, as amended (the "Charter"), an Ordinance adopted by the City Council of the City (the "City Council") on _____, 2007, and by a Water Revenue Bond Indenture, dated as of August 1, 2003 by and between the City and The Bank of New York Trust Company, N.A. (formerly known as BNY Western Trust Company), as Trustee (the "Trustee"), as supplemented by a Second Supplement to Water Revenue Bond Indenture, dated as of April 1, 2007, by and between the City and the Trustee (together, the "Indenture"). All Water Revenue Bonds issued pursuant to the Indenture are collectively referred to herein as the "Bonds."

The City and the Water System

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 water public utility (the "Water System"), established by the Charter. The Water System is managed and controlled by a department of the City, the Pasadena Water and Power ("PWP"), and supplies water to virtually all of the water customers within the City limits as well as water customers within a 3.2 square mile area outside the City limits, through its water facilities. For the Fiscal Year ended June 30, 2006, the number of water customers was approximately 166,391, and total water sales were approximately 14.6 million cubic feet. See "WATER SYSTEM" herein.

^{*} Preliminary; subject to change.

Security and Sources of Payment for the 2007 Bonds

On August 21, 2003, the City issued its Water Revenue and Refunding Bonds, 2003 Series (the "2003 Bonds") in the aggregate principal amount of \$47,425,000, of which \$43,400,000 currently remain outstanding.

The 2007 Bonds are secured by a pledge of and lien upon the Water Fund on a parity with other obligations of the Water System payable from the Water Fund and issued from time to time pursuant to the Indenture, including the 2003 Bonds, and other Parity Debt (as defined in the Indenture). See "SECURITY AND SOURCES OF PAYMENT FOR THE 2007 BONDS – Parity Reserve Fund" and "– Additional Bonds" herein.

The 2007 Bonds are special, limited obligations of the City. The 2007 Bonds shall not be deemed to constitute a debt or liability of the City, the State or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from the Water Fund of the City. Neither the faith and credit nor the taxing power of the City, the State or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the 2007 Bonds. The issuance of the 2007 Bonds shall not directly or indirectly or contingently obligate the City, the State or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

Parity Reserve Fund

Pursuant to Section 1413 of Article XIV of the 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 2003 Bonds, the 2007 Bonds or any other Parity Debt secured thereby in the event that money in the Debt Service Fund or any comparable fund established for the payment of principal and interest on the 2003 Bonds, the 2007 Bonds and any other Parity Debt secured thereby is insufficient therefor. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2007 BONDS – Parity Reserve Fund" herein.

Rate Covenant

The City has covenanted in the Indenture to fix the rates for services furnished by the Water System so as to provide Gross Aggregate Revenues (as defined herein) at least sufficient to pay, as the same become due, interest on, and the principal of and redemption price of, the 2003 Bonds, the 2007 Bonds and any other Parity Debt; all payments required for compliance with the Indenture, including payments required to be made into any Parity Reserve Fund; all payments required to be made with respect to any Subordinate Debt; all Operation and Maintenance Expenses; and all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Aggregate Revenues or any portion thereof and the charges shall be fixed so that in each Fiscal Year the Gross Aggregate Revenues less Operation and Maintenance Expenses will be at least equal to 1.10 times the amount necessary to pay principal and interest as the same become due on all 2003 Bonds, the 2007 Bonds and any other Parity Debt. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2007 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 Water System since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more Nationally Recognized Municipal Securities Information Repositories. Forward-looking statements in this Official Statement are subject to risks and uncertainties, including the economy of the City's service area.

This Official Statement includes summaries of the terms of the 2007 Bonds, the Indenture, the Continuing Disclosure Agreement and certain contracts and other arrangements for the supply of water. 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 Indenture 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 Trustee.

Forward-Looking Statements

The statements contained in this Official Statement and in the Appendices hereto, and in any other information provided by PWP or the City, that are not purely historical, are forward-looking statements, including statements regarding PWP or the City's expectations, hopes, intentions or strategies regarding the future. Prospective investors should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to PWP and the City on the date hereof, and PWP and the City assume no obligation to update any such forward-looking statements. It is important to note that PWP's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of PWP and the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

Additional Information

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

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

APPLICATION OF THE PROCEEDS OF THE 2007 BONDS

The estimated sources and uses of funds in connection with the 2007 Bonds are as follows:

Sources:	
Principal Amount of 2007 Bonds	\$
[Plus/Less Original Issue Premium/Discount]	
Total	\$
Uses:	
Deposit to Construction Account	\$
Deposit to Parity Reserve Fund	
Deposit to Cost of Issuance Account ⁽¹⁾	
Purchaser's Discount	
Total	\$

⁽¹⁾ Includes fees of Bond Counsel, Disclosure Counsel, the Trustee and Financial Advisor, rating agencies' fees, printing costs, bond insurance premium, if applicable, and other costs associated with the issuance of the 2007 Bonds.

DESCRIPTION OF THE 2007 BONDS

General

The 2007 Bonds will be dated their date of 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 inside cover page of this Official Statement. Interest on the 2007 Bonds will be payable semiannually on June 1 and December 1, commencing June 1, 2007, and will be calculated on the basis of a 360-day year comprised of twelve 30-day months. The 2007 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 2007 Bonds, references herein to the owners or registered owners shall mean Cede & Co., and not the beneficial owners of the 2007 Bonds. See "APPENDIX C - BOOK-ENTRY SYSTEM" herein.

Redemption

Optional Redemption. The 2007 Bonds maturing on or prior to June 1, 2016 are not subject to call and redemption prior to maturity. The 2007 Bonds maturing on or after June 1, 2017 are subject to call and redemption prior to maturity, at the option of the City, as a whole or in part, on June 1, 2016 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 source of available funds, at a redemption price equal to the principal amount of the 2007 Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

Mandatory Redemption. The 2007 Bonds maturing on June 1, _____ and June 1, _____ shall also be subject to redemption prior to their stated maturity, in part, by lot, from mandatory sinking fund payments as specified below, commencing on June 1, _____ and June 1, _____, respectively, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption without premium.

Term 2007 Bonds Due June 1, _____

Mandatory Sinking Fund Payment Dates (June 1)	Mandatory Sinking Fund Payments
_____	\$
†	

† Final Maturity.	

Term 2007 Bonds Due June 1, _____

Mandatory Sinking Fund Payment Dates (June 1)	Mandatory Sinking Fund Payments
_____	\$
†	

† Final Maturity.	

Notice of Redemption. Notice of redemption shall be mailed by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, to each Owner, the Securities Depositories and two or more Information Services. Notice of redemption to the Securities Depositories shall be given by telecopy, certified, registered or overnight mail or by such other method as may be requested by the Securities Depositories. Each notice of redemption shall state the date of such notice, the date of issue of the Bonds to which such notice relates, the redemption date, the Redemption Price, the

place or places of redemption (including the name and appropriate address or addresses of the Trustee), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity, the distinctive certificate numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the date fixed for redemption, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered at the address or addresses of the Trustee specified in the redemption notice. Neither the City nor the Trustee shall have any responsibility for any defect in the CUSIP number that appears on any Bond or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither the City nor the Trustee shall be liable for any inaccuracy in such numbers.

Any notice of redemption shall be cancelled and annulled if for any reason funds are not or will not be available on the date fixed for redemption for the payment in full of the 2007 Bonds then called for redemption, and neither the lack of available funds nor such cancellation shall constitute an Event of Default under the Indenture. The City and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of notice of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

Failure by the Trustee to give notice to any one or more of the Information Services or Securities Depositories or failure of any Owner to receive notice or any defect in any such notice shall not affect the sufficiency of the proceedings for redemption.

Effect of Redemption. When notice of redemption has been given, and when the amount necessary for the redemption of the 2007 Bonds called for redemption (principal and premium) is set aside for that purpose, the 2007 Bonds designated for redemption shall become due and payable on the redemption date, and upon presentation and surrender of said 2007 Bonds, at the place specified in the notice of redemption, such 2007 Bonds shall be redeemed and paid at said redemption price, and no interest shall accrue on such 2007 Bonds called for redemption after the redemption date.

Debt Service Requirements

The following is the annual debt service schedule for the 2003 Bonds and the 2007 Bonds assuming no redemption other than mandatory sinking account redemptions.

Bond Year Ending June 1	2003 Bonds		2007 Bonds		Total
	Principal	Interest	Principal	Interest	
2007	\$ 1,520,000.00	\$ 2,049,300.00			
2008	1,600,000.00	2,022,600.00			
2009	1,685,000.00	1,942,600.00			
2010	1,770,000.00	1,858,350.00			
2011	1,855,000.00	1,769,850.00			
2012	1,930,000.00	1,695,650.00			
2013	2,010,000.00	1,618,450.00			
2014	2,110,000.00	1,517,950.00			
2015	2,195,000.00	1,428,275.00			
2016	2,305,000.00	1,318,525.00			
2017	2,410,000.00	1,214,800.00			
2018	2,365,000.00	1,094,300.00			
2019	2,480,000.00	976,050.00			
2020	1,190,000.00	858,250.00			
2021	1,190,000.00	798,750.00			
2022	1,190,000.00	739,250.00			
2023	1,190,000.00	679,750.00			
2024	1,190,000.00	620,250.00			
2025	1,190,000.00	560,750.00			
2026	1,190,000.00	501,250.00			
2027	1,190,000.00	441,750.00			
2028	1,190,000.00	382,250.00			
2029	1,290,000.00	322,750.00			
2030	1,290,000.00	258,250.00			
2031	1,290,000.00	193,750.00			
2032	1,290,000.00	129,250.00			
2033	1,295,000.00	64,750.00			
2034					
2035					
2036					
Total	\$43,400,000.00	\$26,057,700.00			

SECURITY AND SOURCES OF PAYMENT FOR THE 2007 BONDS

General

The 2007 Bonds are an obligation payable exclusively from the Water Fund of the City and certain other funds and accounts pledged under the Indenture. The 2007 Bonds are secured by a pledge of and lien upon the Pledged Revenues of the Water System on a parity with other obligations of the Water System payable from the Water Fund and issued from time to time pursuant to the Indenture, including the 2003 Bonds, and a pledge of amounts in the Parity Reserve Fund, except for amounts held in the Rebate Fund. See “- Parity Reserve Fund” and “- Additional Bonds” below.

“Pledged Revenues” means all Gross CIC Revenues and all Net Other Water Revenues. “Net Other Water Revenues” means all Other Water Revenues, all amounts deposited in the Water Fund and all interest earnings or income thereon or therefrom, less all Operation and Maintenance Expenses. “Other Water Revenues” means all the revenues from rates, fees and charges for providing water service to persons and real property and all other fees, rents and charges and other revenues derived by the City from the ownership, operation, use or service of the Water System, including contributions in aid of construction, but not including the CIC Revenues. “Gross CIC Revenues” means all CIC Revenues, all amounts deposited in the CIC Account and all interest earnings or income thereon or therefrom. “CIC Revenues” means all capital improvement charges collected and received pursuant to Chapter 13.20.035 of Title XIII of the Pasadena Municipal Code and interest earned thereon. “Rebate Fund” means those amounts on deposit and held by the Trustee to the extent required to satisfy the requirement to make rebate payment to the United States pursuant to the Internal Revenue Code of 1986, as amended (the “Code”).

The 2007 Bonds are special, limited obligations of the City. The 2007 Bonds shall not be deemed to constitute a debt or liability of the City, the State or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from the Water Fund of the City. Neither the faith and credit nor the taxing power of the City, the State or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the 2007 Bonds. The issuance of the 2007 Bonds shall not directly or indirectly or contingently obligate the City, the State or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

Rate Covenant

The City has covenanted in the Indenture to prescribe, revise and collect such charges for services, facilities and water furnished by the Water System which, after making allowances for contingencies and error in the estimates, will provide Gross Aggregate Revenues at least sufficient to pay: (a) as the same become due, the interest on and principal and Redemption Price of the 2003 Bonds, the 2007 Bonds and any other Parity Debt; (b) all payments required for compliance with the Indenture, including payments required to be made into the Parity Reserve Fund; (c) all payments required to be made with respect to any Subordinate Debt; (d) all Operation and Maintenance Expenses; and (e) all payments required to meet any other obligations of the City which are charges, liens or encumbrances upon or payable from the Gross Aggregate Revenues or any portion thereof; and the charges shall be fixed so that in each Fiscal Year the Gross Aggregate Revenues less Operation and Maintenance Expenses will be at least equal to 1.10 times the amount of the Annual Debt Service. “Gross Aggregate Revenues” means all Gross CIC Revenues and Other Water Revenues, all amounts deposited in the Water Fund and all interest earnings or income thereon or therefrom.

The City's rate covenant is subject to compliance by the City with the provisions of Article XIID of the California State Constitution. The City has not complied with applicable notice and protest procedures of Article XIID for its most recent rates and charges, which rates and charges were approved and took effect prior to the recently decided case, *Bighorn-Desert View Water Agency v. Kari Verjil; E.W. Kelley* (July 2006). The City intends to comply with the notice and protest procedures of Article XIID for any future imposition or increase of rates and charges. See "CONSTITUTIONAL LIMITATIONS ON GOVERNMENT SPENDING – Articles XIIC and XIID of the California Constitution" herein for a discussion on procedures to approve, increase or repeal rates and charges. See also "RISK FACTORS - Voter Initiatives - State Constitutional Amendment."

The Water Fund

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

Under the provisions of the Charter, all moneys and property received by the City in payment for water 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 Water System must be deposited in the Water Fund. The Charter further provides that disbursement may be made directly from the Water Fund for the following purposes:

- (1) the necessary or proper expenses of conducting the Water 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 Water System;
- (3) the formation of surplus or reserves for the future needs of the Water System and for unforeseen emergencies; and
- (4) the repayment of advances made from other funds of the City.

Annual Transfer from the Water Fund to the City's General Fund.

Under provisions of the Charter, the City Council shall transfer to the City's General Fund from the Water Fund an amount equal to six percent (6%) of the gross income of the Water System received during the immediately preceding Fiscal Year from the sale of water at rates and charges fixed by ordinance. The amount to be transferred shall not exceed the net income of the Water System after payment of the maintenance and operating expenses of the Water System, the expenses of conducting the Water System, depreciation and the principal, interest and premiums, if any upon the redemption of any water revenue bonds.

Notwithstanding the foregoing, if the City Council at the time of or before the adoption of the budget shall determine that the transfer of such amount from the Water Fund would be detrimental to the proper functioning and administration of the Water System during the budget year under consideration, the City Council may so find by resolution, and, in such event, no transfer of such amount shall be made within that Fiscal Year. If the City Council shall determine that the transfer of an amount less than six percent (6%) from the Water Fund would not be detrimental to the proper functioning and administration of the Water System during the budget year under consideration, the City Council may so declare by

resolution, and shall transfer a smaller amount. Such annual transfer occurs in the succeeding fiscal year as a two-part transfer, approximately 75% in October or November and the remaining portion in the following March.

The following table sets out the transfers from the Water Fund to the City's General Fund for the last five Fiscal Years:

**TABLE 1
TRANSFERS TO THE GENERAL FUND
(IN THOUSANDS)**

<u>Fiscal Year</u>	<u>Transfer Amount</u>	<u>Percent of Prior Year Gross Income</u>
2003	\$2,021	6%
2004	2,188	6
2005	1,916	6
2006	2,056	6
2007	2,100 ⁽¹⁾	6

⁽¹⁾ Adopted Budget.

Section 1410 of the Charter also provides that any surplus or reserves in the Water 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 before the collection of taxes levied in any Fiscal Year. Should moneys from the Water 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.

The Indenture provides that all moneys at any time held in the Water Fund will be held in trust for the benefit of Owners of the 2003 Bonds, the 2007 Bonds and any other Parity Debt and will be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture.

Capital Improvements Charge Account

Pursuant to Title XIII, Chapter 13.20.035 of the Pasadena Municipal Code, the City established a capital improvements charge ("CIC") to be added to water rates to recover the capital improvement costs of the Water System and a capital improvements charge account (the "CIC Account") to be held in the Water Fund of the City and funded with all CIC Revenues received by the City. Funds on deposit in the CIC Account may only be used to pay capital improvement-related debt service, to fund capital improvements to the Water System and to fund transfers to the City's General Fund.

Parity Reserve Fund

The Indenture establishes the Parity Reserve Fund to be held by the Trustee. The Parity Reserve Fund is required to be maintained in an amount equal to the Reserve Fund Requirement. "Reserve Fund Requirement" is defined in the Indenture to mean, as of any date of determination and excluding therefrom any Parity Debt 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 of the initial offering price to the public of each series of Bonds and Parity Debt to be secured by the Parity Reserve Fund as determined under the Code, or (b) the Maximum Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund, or (c) one hundred twenty-five percent of the Average Annual Debt Service on all Bonds and Parity Debt 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 in one of the two highest rating categories of Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. ("S&P") 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 in one of the two highest rating categories of Moody's and 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 2003 Bonds, the 2007 Bonds and any other Parity Debt secured by the Parity Reserve Fund in the event that money in the Debt Service Fund is insufficient therefor, and for that purpose money shall be transferred from the Parity Reserve Fund to the Debt Service Fund. Whenever money is transferred from the Parity Reserve Fund an equal amount of money shall be transferred to the Parity Reserve Fund not later than twelve months thereafter.

Additional Bonds

Other than the 2003 Bonds, the City has no other Parity Debt outstanding. See "INTRODUCTION – Security and Sources of Payment for the 2007 Bonds" herein.

The Indenture provides that no additional indebtedness of the City payable out of the Water Fund on a parity with the 2003 Bonds, the 2007 Bonds and any other Parity Debt (collectively referred to in the Indenture as "Parity Debt") shall be created or incurred unless:

- (a) no Event of Default shall have occurred and then be occurring;
- (b) the aggregate principal amount of Bonds issued under the Indenture shall not exceed any limitation imposed by law or otherwise;
- (c) there shall be deposited in the Parity Reserve Fund an amount of money so as to increase the amount of deposit therein to the Reserve Fund Requirement; and
- (d) the City shall have placed on file with the Trustee a certificate of the City certifying that the sum of: (i) Gross Aggregate Revenues for any period of twelve (12) consecutive months during the eighteen (18) months immediately preceding the date on which any additional Bonds or Parity Debt will become outstanding, plus (ii) the amount by which the City projects Gross Aggregate Revenues for any such period described in (1) would have increased had increases in rates, fees and charges during such period of twelve (12) months been in effect throughout such period of twelve (12) months; plus (iii) the amount by which the City projects Gross Aggregate Revenues will increase during a period of twelve (12) months commencing on the date of issuance of any such additional Bonds or Parity Debt as a result of increases in rates, fees and charges approved by the City Council prior to such date of issuance (other than those referenced in (2) above) and which will be imposed during such twelve (12) month period; less (iv) the amount projected for Operation and Maintenance Expenses in the twelve (12) month period following the date of issuance of any such additional Bonds or Parity Debt or in the twelve (12) month period following completion of improvements to the Water System to be financed with the proceeds of such additional Bonds or Parity Debt, whichever is greater, shall be at least equal to 1.10 times the amount of Annual Debt Service during the immediately succeeding Fiscal Year on all Bonds or Parity Debt then proposed to be issued.

However, the Indenture provides that there is no limitation on the City's ability to issue Bonds at any time to refund Bonds or Parity Debt; provided, however, that the aggregate Annual Debt Service with respect to any such refunding Bonds through the date of maturities thereof shall not exceed the aggregate Annual Debt Service with respect to the Bonds or Parity Debt being refunded. No certificate is required for the issuance of refunding Bonds.

"Event of Default" means:

- (a) a default in the due and punctual payment of the principal or redemption price of any Bonds when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise in the amounts and at the times provided therefor;
- (b) a default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;
- (c) the failure by the City to observe or perform any covenant, condition, agreement or provision in the Indenture on its part to be observed or performed, other than as referred to above in paragraph (a) and (b). For a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, has been given to the City by the Trustee; except that, if such failure can be remedied but not within such thirty (30) day period and if the City has taken all action reasonably possible to remedy such failure within such thirty (30) day period, such failure shall not become an Event of Default for so long as the City shall diligently proceed to remedy same in accordance with and subject to any directions or limitations of time established by the Trustee;
- (d) a default by the City under any agreement governing any Parity Debt and the continuance of such default beyond the therein stated grace period, if any, with respect to such default;
- (e) the filing by the City of a petition in voluntary bankruptcy for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or an assignment by the City for the benefit of creditors, or the admission by the City in writing to its insolvency or inability to pay debts as they mature, or the consent by the City in writing to the appointment of a trustee or receiver for itself;
- (f) the entering by a court of competent jurisdiction of an order, judgment or decree declaring the City insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the City, or approving a petition filed against the City seeking reorganization of the City under any applicable law or statute of the United States or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof; or
- (g) the assumption, under the provisions of any other law for the relief or aid of debtors by any court of competent jurisdiction of custody or control of the City or of the Gross Aggregate Revenues and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control.

Nothing in the Indenture 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 2003 Bonds, the 2007 Bonds and all other Parity Debt and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Pledged Revenues after the prior payment of all amounts then due and required to be paid or set aside under the Indenture from Pledged Revenues for principal, premium, interest and reserve fund requirements for the 2003 Bonds, the 2007 Bonds and all other Parity Debt, as the same become due and payable and at the times and in the manner as required in the Indenture or any documents providing for the issuance or incurrence of Parity Debt.

Other Covenants of the City

In addition to the covenant described under the subsection "Rate Covenant" above, under the Indenture, the City makes certain other covenants, including covenants relating to the operation of the Water System, insurance covenants and covenants related to the tax-exempt status of the 2007 Bonds. See "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

Investment of Funds

All moneys held in the funds and accounts established pursuant to the Indenture will be invested solely in Investment Securities. See "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

Limitations on Remedies

The rights of the Owners of the 2007 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 2007 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 2007 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 Charter, the City owns and operates both water and electric public utilities for the benefit of its residential and business community. 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 electrical power system (the "Electric System") and the Water System.

PWP is organized into five separate Business Units. This structure allows for a higher level of accountability and 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 Units are briefly described as follows:

Finance and Administration and Customer Service Business Unit – develops and executes PWP’s overall financial strategy and ensures its financial integrity, administers energy risk management program, provides billing, call center, meter reading and customer services for both electric and water customers.

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, energy risk management, energy settlements, information systems and technology and materials management.

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

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 (Field Services) 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 operations and maintenance of the City’s 25-mile fiber optic network.

Power Delivery (Engineering and Construction Management Services) Business Unit – provides engineering and construction management services of the local power distribution and is responsible for implementing the Power Master Plan.

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 seven 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 the 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, Assistant General Manager. Mr. Klinkner has been with PWP since 1995. He served as PWP's manager of power resources and Business Unit Director for Power Supply and was appointed to his present position in August 2004. In his current position, he is responsible for regulatory affairs, strategic planning and long term resource and environmental issues. Mr. Klinkner is also responsible for legislative issues impacting PWP. 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.

SHARI M. THOMAS, Business Unit Director for Finance and Administration. Ms. Thomas joined PWP in January 2006. She began her career with the City of Pasadena in 2002 as the Deputy Director of Finance. She previously worked for the City of Riverside for nearly 15 years in various financial positions. Ms. Thomas is currently responsible for financial planning and budgeting, cost of service analysis and rate setting, information technology for PWP and customer service. She completed her Bachelor of Science with majors in Accounting and Finance in Minnesota and has also completed the University of Wisconsin's Advanced Governmental Finance Institute.

GURCHARAN BAWA, Acting Business Unit Director for Power Supply. Mr. Bawa has been with Pasadena Water and Power for 15 years working in the Power Production field managing regulatory and environmental issues. He most recently has been responsible for evaluating renewable energy resources and incorporating these assets into Pasadena's overall energy resource portfolio. He received his Mechanical Engineering degree from S.V.R. College of Engineering and Technology, Surat, India. He is a licensed Professional Engineer in the State of California.

GEORGE WILSON, Business Unit Director for Power Delivery – Field Services. 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 five 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.

JOE AWAD, Business Unit Director for Power Delivery – Engineering. Mr. Awad joined PWP in July 1998 as the Customer Service Manager. He is currently responsible for managing the power engineering program for capital improvement and maintenance programs at PWP. He worked for 18 years for LADWP in engineering, marketing and customer service functions. Mr. Awad obtained his Master's Degree in Mechanical Engineering from the University of Michigan and is a Certified Professional Engineer in the State of California.

SHAN KWAN, Business Unit Director for Water Delivery. Mr. Kwan has been with PWP since 1985. Prior to his appointment as Business Unit Director for Water Delivery, 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.

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 the 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 City 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.

WATER SYSTEM

General

The Water System has been distributing water to the City's customers since 1912. The area served by the Water System encompasses approximately 30 square miles, 3.2 square miles of which lie outside of the incorporated City boundary. Of the total 37,135 water meters, 30,809 meters, or 82.9 percent, are within the City limits and an additional 6,326 meters, or 17.1 percent, are outside the City limits. In Fiscal Year 2006, the Water System provided water service to a total population of approximately 166,391 people. During this period, water sales within the City limits were about 27,925 acre-feet, or 85.6 percent, while approximately 4,715 acre-feet, or 14.4 percent of water was sold to customers located outside the City limits.

The major facilities of the Water System consist of: (i) 16 groundwater wells (of which six are active) with a production capacity of 40,000 acre-feet per year, (ii) five imported water connections on the Metropolitan Water District Upper Feeder, (iii) 110 million gallons of treated water storage capacity in 14 storage reservoirs (including the 50 million gallon Morris Jones Reservoir), (iv) 19 booster pumping stations supplying 23 different pressure zones, (v) 17 chlorination stations, (vi) 30 pressure reducing stations, and (vii) approximately 500 miles of transmission and distribution pipelines. Most of the Water System was installed between 1935 and 1965, although a few distribution mains which are more than 100 years old remain in service. The vast majority of these pipelines (82%) are made of cast iron, and 69% of the pipelines are unlined.

Each year, the City Council approves a five-year capital improvement program for the Water System. See "CAPITAL IMPROVEMENT PROGRAM" herein.

The peak water sales month for Fiscal Year 2006 occurred in September, when 3,832 acre-feet were sold, while April was the low sales month for the year, when only 2,003 acre-feet were sold. The following table sets forth statistical information relating to the Water System during the Fiscal Years shown.

**TABLE 2
WATER STATISTICS**

	Fiscal Year Ended June 30,				
	2002	2003	2004	2005	2006
Population Served Inside City Limits	136,800	144,300	146,465	147,219	148,370
Population Served Outside City Limits	19,100	17,700	17,965	17,991	18,021
Total Population Served	155,900	162,000	164,430	165,210	166,391
Rainfall in inches (October to September)	7.82	19.36	13.56	56.47	17.57
Supply in Acre-Feet					
From MWD Connections	22,940	24,581	24,716	21,975	21,585
From Wells	14,626	12,774	14,709	13,968	13,739
Average Supply	37,566	37,355	39,425	36,943	35,324
Peak Day Distribution (Million Gallons)	42.03	45.10	46.60	45.87	44.02
Average Day Distribution (Million Gallons)	34.20	33.00	34.83	32.60	33.20

Source: Pasadena Water and Power Department.

Water Production

The area served by the Water System receives its water supply from three sources; (i) Raymond Basin surface water, (ii) Raymond Basin groundwater wells and (iii) imported water. The sole source of PWP's imported water is the Metropolitan Water District of Southern California ("MWD").

During Fiscal Year 2006, PWP purchased approximately 61% of its water from MWD. It pumped approximately 39% from its wells. The Water System has adequate production and firm purchase capacity to meet its customers' needs. The following table illustrates the total water pumped from Water System wells and the amount of water purchased during the five Fiscal Years shown.

**TABLE 3
ANNUAL WATER PRODUCTION
(ACRE-FEET)**

	Fiscal Year Ended June 30,				
	2002	2003	2004	2005	2006
Purchased from MWD	22,940	24,581	24,716	22,809	21,594
Percentage of Total Supply	61.1%	65.8%	62.7%	62.4%	61.2%
From Water System Wells	14,626	12,774	14,709	13,724	13,683
Percentage of Total Supply	38.9%	34.2%	37.3%	37.6%	38.8%
Total Production	37,566	37,355	39,425	36,533	35,277

Source: Pasadena Water and Power Department.

Environmental Regulation

The Water System is subject to continuing extensive environmental regulation at both the State and federal level. The following are some of the rules and regulations applicable to the Water System.

Groundwater Rule. On May 10, 2000, the United States Environmental Protection Agency (the "EPA") published the proposed groundwater rule. The proposed groundwater rule would regulate the treatment and monitoring of groundwater contamination. A final groundwater rule was published on November 8, 2006.

Perchlorate. The California Department of Health Services ("DHS") has established a public health goal (PHG) and notification level (NL) for perchlorate. For groundwater sources, when the NL is exceeded, water systems are required to notify local government agencies (for example, City Council) within 30 days. DHS also recommends notification of consumers within 30 days when NL is exceeded. DHS recommends removal of a source when results are 10 times the NL level. The maximum contaminant for perchlorate is proposed to be set as close as possible to the PHG of 6 ppb, while considering cost of feasibility. See "WATER SUPPLY – Perchlorate Contamination" herein for a discussion of the eight of PWP's sixteen groundwater wells which have been removed from service due to levels of perchlorate above the action level designated by DHS.

Surface Water Treatment Rules. In 1989, the EPA published a surface water treatment rule which required all water systems to provide treatment to ensure at least 99.9% removal and/or inactivation of *giardia lamblia* cysts and at least 99.99% removal and/or inactivation of viruses (the "Surface Water Treatment Rule"). In 1998, the EPA published the Interim Enhanced Surface Water Treatment Rule (the "Interim Rule"), which added, among other things, the requirement of a 99% reduction in *cryptosporidium* for surface water systems that filter. The Interim Rule applies to water systems using surface water and/or groundwater under the direct influence of surface water, and which serve more than 10,000 people.

In addition to the above regulations, the EPA also regulates metals, organic compounds, nitrate, trihalomethane (disinfectant/disinfection by-products), radionuclides, radon, arsenic, nitrosodimethylamine and total chromium. The EPA regulations set out a Maximum Contaminant Level ("MCL") for each organic chemical. The regulations also require that a water utility using treatment to comply with an MCL collect monthly samples of the treated water at a location prior to the distribution system. If results in the treated water exceed the MCL the water utility must resample the treated water to confirm the results and report the result to DHS within 48 hours of confirmation.

WATER SUPPLY

There are three existing sources from which PWP obtains water: Raymond Basin groundwater, Raymond Basin surface water, and imported water from MWD. The following discussion details each of these sources.

Raymond Basin

Located in the eastern portion of Los Angeles County, the Raymond Groundwater Basin (the "Raymond Basin") is an alluvial valley that is underlain by deposits of gravel, sand, silt and clay. The Raymond Basin is approximately 40 square miles in area. The basin is bounded on the north by the San Gabriel Mountains, on the south and east by the San Gabriel Valley and on the west by the San Rafael Hills. The San Gabriel Mountains rise to over 10,000 feet in elevation north of the Raymond Basin. PWP currently utilizes two water supplies within the Raymond Basin. The first is Raymond Basin groundwater, which is pumped directly into the distribution system, and the second is local surface water, which is diverted and spread for groundwater pumping credits.

Raymond Basin Groundwater. Over the last 17 years, Raymond Basin groundwater has accounted for approximately 40% of PWP's total water production. There are currently 16 active groundwater production wells (of which six are in production) that can pump water into the PWP distribution system up to the decreed right of 12,807 acre-feet/year. Due to artificial recharge of groundwater by surface water along the Arroyo Seco and at the Eaton Canyon spreading grounds, PWP has increased its annual groundwater extraction by an average of 4,100 acre-feet/year since 1994.

The diversion rights and the recapture rights described above are set forth in the Raymond Basin Judgment (the "Judgment"), which adjudicated the groundwater rights in the Raymond Basin.

On September 23, 1937, in an effort to alleviate overdraft conditions in the Raymond Basin, the City initiated proceedings in Superior Court against Alhambra and 29 other major Raymond Basin water users. The result of this suit – the Raymond Basin Judgment – was signed on December 23, 1944. With this Judgment, the Raymond Basin became the first adjudicated groundwater basin in California. In the Judgment, each pumper is assigned a "present unadjusted right" corresponding to the average amount of water that they pumped in the five years prior to the City's suit. The City's "present unadjusted right" is 12,946 acre-feet/year. Each pumper's "present unadjusted right" is scaled down to create the "decreed right" such that the sum of all pumpers' decreed rights is equal to the estimated safe yield of the basin. In the original Judgment, the safe yield was determined to be 21,900 acre-feet for the entire Raymond Basin. However, according to the first modification of the Judgment on April 29, 1955, the safe yield was increased to 5,290 acre-feet/year in the Eastern Unit and 25,480 acre-feet/year in the Western Unit.

Based on the new safe yield, the City's decreed right was calculated to be 12,807 acre-feet/year from the Western Unit. The City has no water rights in the Eastern Unit. According to the Judgment, each pumper may carry over up to 10% of its unused decreed right from one year to the next. Similarly, each pumper may overextract up to 10% of its decreed right in any given year, provided that this over extraction is made up the following year. The Judgment also limits the capacity of water that may be diverted by Raymond Basin water users from any source contributing groundwater to the Raymond Basin. The City may divert a maximum instantaneous amount of 25.00 cubic feet per second ("CFS") from the Arroyo Seco (including Millard Canyon) as well as a maximum of 8.90 CFS from Eaton Canyon. On January 17, 1974, the second modification to the Judgment was signed. This modification allowed for the spreading of canyon diversions for later recapture, subject to various conditions, including but not limited to the use of a metering device to measure the amount of water diverted and the continuing jurisdiction of the court. Additional costs incurred by the Watermaster in connection with monitoring spreading and recapture are divided proportionally among those diverting water for spreading and recapture. On March 26, 1984, the Judgment was modified and restated, however, the City's entitlements were not adjusted.

As of 1990, the sources of groundwater in Raymond Basin included: (1) percolation of precipitation, (2) percolation of applied water from irrigation, other return flows, and cesspools, (3) subsurface inflow (underflow from adjacent groundwater basins and bedrock areas), (4) artificial recharge via surface water spreading and (5) percolation of water from septic tanks. Currently, the Raymond Basin contains about 1,000,000 acre-feet of groundwater in storage. The general direction of groundwater movement appears to have remained relatively constant since the early 1900s. In general, groundwater levels are relatively higher in the northern half of the Raymond Basin and lower in the southern half than they were historically.

The following factors contribute to PWP's annual groundwater supply: (1) PWP's decreed right of 12,807 acre-feet/year, (2) any carryovers from the previous year, (3) water rights leased from other Raymond Basin agencies, (4) spreading credits from the current year or prior year, (5) surplus water from MWD injected/added to long term storage, and (6) water pumped from long term storage. The following

factors reduce PWP's annual groundwater supply: (a) any overextractions from the previous year that must be made up, (b) water that will be carried over to the next year, (c) water rights that are leased to other Raymond Basin pumpers and (d) water that is deposited into PWP's storage account. PWP's total annual groundwater production is equal to the total contributions less the total reductions.

The Raymond Basin is an adjudicated basin, and for this reason, PWP's decreed water right is not affected by annual rainfall conditions. The sum of all water that is pumped from the Raymond Basin (excluding water pumped from individual storage accounts or as a result of spreading or injection credits), is regulated so as not to exceed the hydrologically determined safe yield of the basin of 30,622 acre-feet/year, which is stipulated in the Judgment. This results in a high degree of reliability for Raymond Basin groundwater. Groundwater supply reliability is further increased by the presence of PWP's long-term storage accounts within the Raymond Basin. On October 7, 1992 and March 10, 1993, long-term storage policies were adopted within the Raymond Basin, and the basin storage capacity was determined. A storage volume of 96,500 acre-feet was allocated to the Raymond Basin pumpers. PWP's share of the storage volume is 38,500 acre-feet, which is currently fully utilized. Additionally, PWP leases 9,000 acre-feet of storage volume from the City of Arcadia, of which 8,167 acre-feet have been filled via in-lieu replenishment and direct injection via PWP's Aquifer Storage and Recovery (ASR) wells. The total amount of water in storage is 46,667 acre-feet, which is more than PWP's total demand in one year. Of the 46,667 acre-feet of water currently stored by PWP, 25,140 acre-feet are owned by PWP and 21,527 acre-feet are owned by MWD and stored by PWP under a cooperative storage agreement. Continued underproduction will result in the loss of water if additional storage capacity cannot be leased or acquired.

Raymond Basin Surface Water. The principal streams in the service area include the Arroyo Seco, Eaton Wash and the Santa Anita Wash. According to the Judgment, PWP is entitled to divert an instantaneous capacity of up to 25.00 CFS of surface water in the Arroyo Seco (including Millard Canyon) and up to 8.90 CFS of surface water in Eaton Canyon. The Arroyo Seco source accounts for less than 5% of the City's total water supply, depending on rainfall in a particular year. Surface water diversions from the Arroyo Seco have historically been used in two ways: (1) water has been treated for direct supply into PWP's distribution system, and (2) water has been diverted by PWP to the spreading grounds owned by PWP and operated until 1998 by the Los Angeles County Department of Public Works ("LACDPW") in exchange for groundwater pumping credits. In 1970, PWP constructed the 5-million gallons per day John L. Behner Water Treatment Plant ("Behner Water Treatment Plant"), which is located directly east of Jet Propulsion Laboratories ("JPL") in the Arroyo Seco Canyon. The treatment plant was shut down in June 1993 as a result of water quality regulations imposed pursuant to the Surface Water Treatment Rule. See "THE WATER SYSTEM OF PWP – Environmental Regulation." The feasibility of upgrading this plant was evaluated in a June 1995 study funded by the American Water Works Association Research Foundation, PWP and other local surface water purveyors. However, no attempt to bring the Behner Water Treatment Plant back on-line has been made.

Until June 1993, a portion of the Arroyo Seco water that was diverted by PWP was treated at the Behner Water Treatment Plant, while the remainder of the diverted water was sent to spreading grounds. Since July 1993, all water that has been diverted by PWP in the Arroyo Seco has been sent to the spreading grounds. The Arroyo Seco spreading basins consist of 14 basins that have an approximate gross area of 24 acres, and a wetted area of 13.5 acres. The spreading basins were constructed in approximately 1948 on City-owned land that was leased to LACDPW. LACDPW operated and maintained the spreading basins on behalf of all Raymond Basin members. However, in 1998, PWP assumed the responsibility of operating and maintaining these spreading basins. Due to past precedence established by LACDPW, which spread surface water for the benefit of the Raymond Basin, the Raymond Basin Management Board mandated that PWP could no longer receive full credit for spreading surface water in the Arroyo Seco, even though PWP absorbs all costs to maintain and operate the spreading basins. As a result of this mandate, a spreading methodology was developed in which the

amount of water that is determined to be “spread” by PWP in the Arroyo Seco is a fixed percentage of the water diverted.

In Eaton Canyon, PWP measures the water flowing down the canyon, which is spread naturally in the streambed behind the dam. This water, up to 8.90 CFS, is reported to the Raymond Basin Management Board as water that is diverted by PWP. PWP gets 80% credit for the amount of water “spread” as per the Judgment. Under current operations, PWP spreads all of its surface water diversions to receive spreading credits. No surface water directly supplies the PWP distribution system.

Surface water supply is highly variable, as it is entirely dependent on the amount of rainfall during the year.

Raymond Basin Management Board. The City obtains its groundwater from the Raymond Basin. Under the Judgment, a court of law determined the parties who have the right to extract water and the timing and amount of such pumping based on a “safe yield” concept. There are fifteen entities that are allowed to pump from the Raymond Basin. PWP has the largest entitlement, with up to 42% of the total adjudicated rights. As a party holding a “decreed right” of 1,000 acre-feet/year or more, PWP appoints one member to the eleven-member Raymond Basin Management Board. All costs of enforcing the Judgment are assumed by all water users in the Raymond Basin in proportion to their respective “decreed right.”

PWP has taken an active role in securing greater local control of the management of the Raymond Basin. Prior to 1984, the administration of the Raymond Basin was under the authority of the State Department of Water Resources as Watermaster. During that time, the Raymond Basin Management Board (the “Management Board”) only acted in an advisory capacity to the Watermaster. In 1984, the Judgment was amended to appoint the Management Board as Watermaster. The Management Board is comprised of representatives appointed by the producers within the Raymond Basin. The Management Board is responsible for overseeing the implementation of the adjudicated provisions. One of the most significant powers conferred on the Management Board in the 1984 amendments was the authority to approve plans for storage of native and imported water in the Raymond Basin.

The Judgment has been amended several times over the years with PWP taking the lead in securing consensus for the amendments among the producers. Each amendment has given the producers more flexibility in the management of the Raymond Basin. The Raymond Basin is now well positioned to participate in expanded groundwater storage programs, which should enhance the value and security of the groundwater resource. The Management Board, in cooperation with PWP and MWD, has recently completed a major study of the storage resources of the Raymond Basin. As a result of this study, significantly larger amounts of water have been and will be stored in the Raymond Basin in the future. Increased storage will enable all basin producers to better meet seasonal demand variations as well as provide reserves against periods of drought.

The Metropolitan Water District of Southern California

The following information has been obtained from MWD and sources that the City and PWP believe to be reliable, but the City and PWP take no responsibility for the accuracy or completeness hereof.

MWD is a public agency organized in 1928 by vote of the electorates of several Southern California cities, including the City, following adoption of the original Metropolitan Water District Act by the California Legislature. MWD is not subject to regulation by the California Public Utilities Commission, although its enabling statute is subject to amendment by the California Legislature. MWD