

significant cost exposures under the MRTU redesign is likely to be increased congestion costs under LMP. Some of the more recent tariff amendments have clarified the nature of short and long-term financial instruments that LSEs can use to hedge against anticipated congestion costs, including congestion revenue rights (“CRRs”), a set of financial instruments created by the ISO to provide a vehicle for mitigating the market price risk associated with transmission congestion. Beginning January 1, 2011, the City’s existing ISO transmission rights will be converted into CRRs. In addition, the City expects that it may need to acquire additional CRRs in the future. On August 3, 2009, the City Council authorized the General Manager of PWP to enter into agreements for purchases, sales and exchanges, and to participate in auctions, of CRRs. However, it is not possible to predict the actual level of costs or the effectiveness of the hedging instruments before gaining more actual operational experience under MRTU.

Marginal transmission losses are also anticipated to be a potentially significant cost, and no hedging instruments are available at this time to address them. However, there may be operational practices that can minimize the costs. Because there is no significant experience with the mechanism in California and because loss overcollections will be returned to market participants in some fashion, the level of impact cannot be judged at this time.

No adequate assurances can be given by the City that unforeseen events will not occur under MRTU, particularly during the period of initial implementation and operation; thus, it is impossible to predict at this time the ultimate impact of MRTU on the City and the California electric utility industry generally.

***Resource Adequacy Requirements.*** In September 2005, the Governor signed into law Assembly Bill 380 (“AB 380”), which requires the CPUC to establish resource adequacy requirements for all LSEs within the CPUC’s jurisdiction. In addition, AB 380 requires publicly-owned utilities to procure adequate resources to meet their peak demands and reserves. In October 2005, the CPUC issued a decision stating that LSEs under its jurisdiction would be required by June 2006 to demonstrate that they have acquired capacity sufficient to serve their forecast retail customer load plus a 15-17% reserve margin. Due to system requirements, a systematic regular planning process to meet these requirements, and successful implementation of a strategic resource plan developed in 2001, the City has been able to demonstrate its ability to meet local and system capacity requirements as required by AB 380. The City’s Power System Strategic Resource Plan, developed in response to regional power shortages and stricter emissions control requirements adopted by the SCAQMD, and its Local Generation Repowering Project enable PWP to meet its stated goals of reliable electric service, stable rates, competitive energy pricing and environmental stewardship.

On March 13, 2006, the ISO filed with FERC a tariff amendment to establish an Interim Reliability Requirements Program (the “IRR Program”). The IRR Program incorporated most of the CPUC’s resource adequacy requirements into the ISO Tariff beginning in June 2006. The ISO’s filing imposed the IRR Program requirements on LSEs (CPUC-jurisdictional entities and non-CPUC-jurisdictional entities). On May 12, 2006, FERC approved, for the most part, the ISO’s IRR Program filing.

The IRR Program exempted load-following Metered Subsystems (“MSSs”) from most of the ISO Tariff resource adequacy provisions, and the tariff also provides significant deference to the local governing boards of municipal and cooperative entities in establishing qualifying reliability standards. The CPUC has subsequently expanded upon its initial resource adequacy requirements, in particular by adding local capacity requirements to make certain that sufficient generating capacity is procured in particular areas where it is lacking. The ISO has also incorporated these provisions into its tariff, which FERC has approved. The IRR Program sunset upon implementation of MRTU. Under MRTU, certain of the local capacity requirements do apply to MSS entities. For example, to the extent that a LSE fails to

meet such a requirement, it is subject to payment of ISO procurement costs of replacement capacity. To the extent that a shortfall cannot be attributed to a specific LSE, the costs will be spread as market uplift. While the magnitude of backup procurement costs are still subject to FERC order and to market conditions, these risks will apply in the same manner to all LSEs.

Finally, the CPUC is currently studying the possibility of meeting future capacity needs by either extending the existing resource adequacy program with some modification or by instituting centralized capacity markets. It is premature to predict the outcome of that proceeding, although it is likely that any outcome will be extended to all LSEs through the ISO tariff. While either path carries some risk of increased costs for the market, it is too soon to predict what the decision will be or the details of implementation.

### **Environmental Issues**

Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures which regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that any City facility or project will remain subject to the regulations currently in effect, will always be in compliance with future regulations or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in additional capital expenditures, reduced operating levels or the shutdown of individual units not in compliance. In addition, increased environmental regulations have, and may in the future, create certain barriers to new facility development and require modification of existing facilities and may result in additional costs for affected resources.

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

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

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

### **Other Factors**

The electric utility industry in general has been, or in the future may be, affected by a number of

other factors which could impact the financial condition and competitiveness of many electric utilities and the level of utilization of generating and transmission facilities. In addition to the factors discussed above, such factors include, among others, (a) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements other than those described above, (b) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (c) changes resulting from a national energy policy, (d) effects of competition from other electric utilities (including increased competition resulting from mergers, acquisitions, and "strategic alliances" of competing electric and natural gas utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) and new methods of, and new facilities for, producing low-cost electricity, (e) the repeal of certain federal statutes that would have the effect of increasing the competitiveness of many IOUs, (f) increased competition from independent power producers and marketers, brokers and federal power marketing agencies, (g) "self-generation" or "distributed generation" (such as microturbines and fuel cells) by industrial and commercial customers and others, (h) issues relating to the ability to issue tax-exempt obligations, including severe restrictions on the ability to sell to nongovernmental entities electricity from generation projects and transmission service from transmission line projects financed with outstanding tax-exempt obligations, (i) effects of inflation on the operating and maintenance costs of an electric utility and its facilities, (j) changes from projected future load requirements, (k) increases in costs and uncertain availability of capital, (l) shifts in the availability and relative costs of different fuels (including the cost of natural gas), (m) sudden and dramatic increases in the price of energy purchased on the open market that may occur in times of high peak demand in an area of the country experiencing such high peak demand, such as has occurred in California, (n) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity, (o) other legislative changes, voter initiatives, referenda and statewide propositions, (p) effects of the changes in the economy, (q) effects of possible manipulation of the electric markets, (r) natural disasters or other physical calamities, including, but not limited to, earthquakes and floods and (s) changes to the climate. Any of these factors (as well as other factors) could have an adverse effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

The City is unable to predict what impact such factors will have on the business operations and financial condition of the PWP, but the impact could be significant. This Official Statement includes a brief discussion of certain of these factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the 2009 Bonds should obtain and review such information.

### **Federal Rate Regulation**

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

FERC could potentially assert jurisdiction over rates of licensees of hydroelectric projects and customers of such licensees under Part I of the Federal Power Act ("Part I"), although it has not as a practical matter exercised or sought to exercise such jurisdiction to modify rates that would legitimately be charged. There is a question as to whether FERC has jurisdiction at all to modify rates for municipalities which are authorized to set their own rates. The City is and has for some time been a

licensee of hydroelectric projects under Part I, but no jurisdictional authority to regulate its rates has been asserted by FERC. FERC and its predecessor, the Federal Power Commission (the “FPC”), have indicated on a number of occasions that municipalities and other public agencies authorized to set their own rates are not subject to FERC’s regulatory jurisdiction over rates. On the other hand, the FPC in at least one decision suggested a contrary result. Even if FERC were to assert jurisdiction over the services and charges associated with such hydroelectric projects, it is unlikely that any reasonable rates and charges would be found to be contrary to applicable federal regulatory standards.

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

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

## **CONSTITUTIONAL LIMITATIONS ON GOVERNMENTAL SPENDING**

### **Articles XIIC and XIID of the State Constitution**

Proposition 218, a State ballot initiative known as the “Right to Vote on Taxes Act,” was approved by the voters of the State of California on November 5, 1996. Proposition 218 added Articles XIIC and XIID to the State Constitution. Article XIID creates additional requirements for the imposition by most local governments (including the City) of general taxes, special taxes, assessments and “property-related” fees and charges. Article XIID explicitly exempts fees for the provision of electric service from the provisions of such article. Nevertheless, Proposition 218 could indirectly affect some California municipally-owned electric utilities. For example, to the extent Proposition 218 reduces a city’s general fund revenues, that city could seek to increase the transfers from its electric utility to its general fund.

Article XIIC expressly extends the people’s initiative power to reduce or repeal previously-authorized local taxes, assessments, and fees and charges. The terms “fees and charges” are not defined in Article XIIC, although the California Supreme Court recently held in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal.4th 205 (2006), that the initiative power described in Article XIIC may apply to a broader category of fees and charges than the property-related fees and charges governed by Article XIID. Moreover, in the case of *Bock v. City Council of Lompoc*, 109 Cal.App.3d 52 (1980), the Court of Appeal determined that electric rates are subject to the initiative power. Thus, even electric service charges (which are expressly exempted from the provisions of Article XIID) might be subject to the initiative provision of Article XIIC, thereby subjecting such fees and charges imposed by the City to reduction by the electorate. The City believes that even if the electric rates of the City are subject to the initiative power, under Article XIIC or otherwise, the electorate of the City would be precluded from reducing electric rates and charges in a manner adversely affecting the payment of the 2009 Bonds by virtue of the “impairment of contracts clause” of the United States and California Constitutions.

## **Future Initiatives**

Articles XIIC and XIID, were each adopted pursuant to measures qualified for the ballot pursuant to California's constitutional initiative process. From time to time other initiative measures could be adopted by California voters. The adoption of any such initiatives might place limitations on the ability of the City to increase revenues or to increase appropriations.

## **RATINGS**

Fitch Ratings ("Fitch") and Standard & Poor's Ratings Service, a division of the McGraw-Hill Companies, Inc. ("S&P") have assigned their municipal bond ratings of "\_\_\_\_\_" and "\_\_\_\_\_" respectively, to the 2009 Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings may be obtained from the rating agency furnishing the same, at the following addresses: Fitch Ratings, One State Street Plaza, New York, New York 10004; S&P, 55 Water Street, New York, New York 10041 and Standard & Poor's, 55 Water Street, New York, New York 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any of such ratings will continue for any given, period of time or that any of them will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the 2009 Bonds.

## **TAX MATTERS**

The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the 2009 Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the 2009 Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issue of the 2009 Bonds. The City has covenanted in the Fiscal Agent Agreement to comply with each applicable requirement of the Code necessary to maintain the exclusion of the interest on the applicable Series of the 2009 Bonds issued thereunder from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, under existing law interest on the 2009 Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the 2009 Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes and will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code.

To the extent that a purchaser of a 2009 Bond acquires that 2009 Bond at a price that exceeds the aggregate amount of payments (other than payments of qualified stated interest within the meaning of section 1.1273-1 of the Treasury Regulations) to be made on the 2009 Bond (determined, in the case of a callable 2009 Bond, under the assumption described below), such excess will constitute "bond premium" under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized on a constant yield, economic accrual, basis; the amount of premium so amortized will reduce the owner's basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when a 2009 Bond owned by such owner is sold

or disposed of for an amount equal to or in some circumstances even less than the original cost of the 2009 Bond to the owner. Any person considering purchasing a 2009 Bond at a price that includes bond premium should consult his or her own tax advisors with respect to the amortization and treatment of such bond premium, including, but not limited to, the calculation of gain or loss upon the sale, redemption or other disposition of the 2009 Bond.

The excess, if any, of the stated redemption price at maturity of 2009 Bonds of a maturity over the initial offering price to the public of the 2009 Bonds of that maturity is "original issue discount." Such original issue discount accruing on a 2009 Bond is treated as interest excluded to the same extent as would be interest on such 2009 Bond from the gross income of the owner thereof for federal income tax purposes and is exempt from California personal income tax. Original issue discount on any 2009 Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the 2009 Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a 2009 Bond accruing during each period is added to the adjusted basis of such 2009 Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such 2009 Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of 2009 Bonds who purchase such 2009 Bonds other than at the initial offering price and pursuant to the initial offering. Any person considering purchasing a 2009 Bond of a maturity having original issue discount should consult his or her own tax advisors with respect to the tax consequences of ownership of 2009 Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering and at the original offering price, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such 2009 Bonds under federal individual and corporate alternative minimum taxes.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the 2009 Bonds may affect the tax status of interest on the 2009 Bonds or the tax consequences of the ownership of the 2009 Bonds. No assurance can be given that pending or future legislation, or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the 2009 Bonds from personal income taxation by the State of California or of the exclusion of the interest on the 2009 Bonds from the gross income of the owners thereof for federal income tax purposes. Furthermore, Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the 2009 Bonds, or the interest thereon, if any action is taken with respect to the 2009 Bonds or the proceeds thereof predicated or permitted upon the advice or approval of bond counsel if such advice or approval is given by counsel other than Bond Counsel.

Although Bond Counsel is of the opinion that interest on the 2009 Bonds is exempt from California personal income tax and that interest on the 2009 Bonds is excluded from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may otherwise be affected by the ownership or disposition of the 2009 Bonds. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the 2009 Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the 2009 Bonds and the Code contains additional limitations on interest deductions applicable to financial institutions that own tax-exempt obligations (such as the 2009 Bonds), (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the 2009 Bonds, (iii) interest on the 2009 Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the 2009 Bonds, may be subject to federal income taxation

under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the 2009 Bonds, and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the 2009 Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel has expressed no opinion regarding any such other tax consequences.

Bond Counsel's opinion is not a guarantee of a result, but represents their legal judgment based upon their review of existing statutes, regulations, published rulings and court decisions and the covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the 2009 Bonds is commenced, under current procedures the Service is likely to treat the City as the "taxpayer," and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the 2009 Bonds, the City may have different or conflicting interests from the owners of the 2009 Bonds. Public awareness of any future audit of the 2009 Bonds could adversely affect the value and liquidity of the 2009 Bonds during the pendency of the audit, regardless of the ultimate outcome.

#### **LITIGATION**

There is no litigation or action of any nature now pending against the City or, to the knowledge of its respective officers, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the 2009 Bonds or in any way contesting or affecting the validity of the 2009 Bonds or any proceedings of the City taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the 2009 Bonds or the use of proceeds thereof. There is no litigation pending, or to the knowledge of the City, threatened, questioning the existence of the City or the title of the officers of the City to their respective offices. There is no litigation pending, or to the knowledge of the City, threatened, which materially questions or affects the financial condition of the Electric System.

#### **AUDITED FINANCIAL STATEMENTS**

The audited financial statements of the City's Water and Power Enterprise Funds, as of June 30, [2008] and for the year then ended are included in Appendix B to this Official Statement. There has been no material adverse change in the finances of the City since June 30, [2008]. A complete copy of the City's Comprehensive Annual Financial Report may be obtained from the City. The 2009 Bonds are revenue obligations of the City payable only from the Net Income of the Electric System in the Light and Power Fund. The financial statements of the City's Water and Power Enterprise Funds have been audited by Mayer Hoffman McCann P.C., independent accountants (the "Auditor") as stated in their report appearing in Appendix B. The Auditor has not updated its report or taken any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Mayer Hoffman McCann P.C. with respect to any event or transaction subsequent to their report dated \_\_\_\_\_, \_\_\_\_\_.

#### **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.

**VERIFICATION OF MATHEMATICAL COMPUTATIONS**

On the date of delivery of the 2009 Bonds, the City will receive a report from Causey, Demgen & Moore Inc., verifying the adequacy of the cash on deposit in the Escrow Fund, to pay the redemption price of and accrued interest on the Refunded 1998 Bonds on the redemption date therefor.

**FINANCIAL ADVISOR**

The City has retained Public Resources Advisory Group, Los Angeles, California, as financial advisor (the "Financial Advisor") in connection with the issuance of the 2009 Bonds. The Financial Advisor has not been engaged, nor has it undertaken, to audit, authenticate or otherwise verify the information set forth in this Official Statement, or any other related information available to the City, with respect to accuracy and completeness of disclosure of such information. The Financial Advisor has reviewed this Official Statement, but makes no guaranty, warranty or other representation respecting accuracy and completeness of the information contained in this Official Statement.

**CERTAIN LEGAL MATTERS**

The issuance of the 2009 Bonds is subject to the approving opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix F. Bond Counsel will receive compensation from the City contingent upon the sale and delivery of the 2009 Bonds. Certain legal matters will be passed upon for the City by Fulbright & Jaworski L.L.P., Los Angeles, California, Disclosure Counsel, and by Michele Beal Bagneris, City Attorney of the City.

**PURCHASE AND REOFFERING**

\_\_\_\_\_ (the "Initial Purchaser") purchased the 2009 Bonds from the City at a competitive sale at an aggregate purchase price of \$\_\_\_\_\_ (representing the aggregate principal amount of the 2009 Bonds, plus a net original issue premium of \$\_\_\_\_\_, and less an Initial Purchaser's discount of \$\_\_\_\_\_). The public offering prices may be changed from time to time by



the Initial Purchaser. The Initial Purchaser may offer and sell 2009 Bonds to certain dealers and others at prices lower than the offering prices shown on the inside cover page hereof.

### CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement to be entered into simultaneously with the issuance of the 2009 Bonds (the "Continuing Disclosure Agreement") for the benefit of the holders of the 2009 Bonds with Digital Assurance Certification, L.L.C. ("DAC"), under which the City has designated DAC as Disclosure Dissemination Agent (the "Disclosure Dissemination Agent"). Pursuant to the Continuing Disclosure Agreement, the City has covenanted for the benefit of the holders and beneficial owners of the 2009 Bonds to provide certain financial information and operating data relating to the City and the Electric System by not later than 185 days following the end of the City's Fiscal Year (which Fiscal Year presently ends on June 30) (the "Annual Report"), commencing with the report for Fiscal Year 2008-09, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City with the Municipal Securities Rulemaking Board ("MSRB") through the MSRB's Electronic Municipal Market Access (EMMA) System. The notices of material events will be filed by the City with the MSRB. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in APPENDIX E – "FORM OF CONTINUING DISCLOSURE AGREEMENT" herein. These covenants have been made in order to assist the Initial Purchaser in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). The City has not failed to comply in the last five years in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events.

The City will reserve the right to amend the Continuing Disclosure Agreement, and to obtain the waiver of non-compliance with any provision of the Continuing Disclosure Agreement, if such amendment or waiver is supported by a written opinion of counsel expert in federal securities laws selected by the City to the effect that such amendment or waiver would not materially impair the interest of the holders of the 2009 Bond and would not, in and of itself, cause the Continuing Disclosure Agreement to violate the Rule if such amendment or waiver had been effective at the time of the primary offering of the 2009 Bonds, after taking into account any applicable amendments to or official interpretations of the Rule.

The Disclosure Dissemination Agent has only the duties specified in the Continuing Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described in the Continuing Disclosure Agreement is limited to the extent the City has provided that information to the Disclosure Dissemination Agent as required by the Continuing Disclosure Agreement. The Disclosure Dissemination Agent has no duty with respect to the content of any disclosures or notice made pursuant to the terms of the Continuing Disclosure Agreement or duty or obligation to review or verify any information in the Annual Report, Audited Financial Statements, notice of Notice Event or Voluntary Report (all as defined in the Continuing Disclosure Agreement), or any other information, disclosure or notices provided to it by the City, and the Disclosure Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the City, the holders of the 2009 Bonds or any other party. The Disclosure Dissemination Agent has no responsibility for any failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof, as to determine or liability for failing to determine whether the City has complied with the Continuing Disclosure Agreement, and the Disclosure Dissemination Agent may conclusively rely upon certification of the City at all times.

**EXECUTION AND DELIVERY**

Included herein are brief summaries of the terms of the 2009 Bonds, the Fiscal Agent Agreement, the Continuing Disclosure Agreement and certain contracts and other arrangements for the supply of capacity and energy, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract with the purchasers of the 2009 Bonds.

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

CITY OF PASADENA, CALIFORNIA

By: \_\_\_\_\_  
Director of Finance

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

**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS OF PASADENA  
WATER AND POWER ENTERPRISE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**APPENDIX C**  
**BOOK-ENTRY SYSTEM**

**APPENDIX D**

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

**APPENDIX E**  
**FORM OF CONTINUING DISCLOSURE AGREEMENT**

**APPENDIX F**  
**PROPOSED FORM OF OPINION OF BOND COUNSEL**



**APPENDIX G**  
**NOTICE INVITING BIDS**

## APPENDIX A

### THE CITY OF PASADENA

*The economic and demographic information provided below is presented as general background data and has been collected from sources which the City deems to be reliable. The General Fund of the City is not liable for the payment of the 2009 Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of the City pledged for the payment of the 2009 Bonds, any premium thereon upon redemption prior to maturity or their interest. No Owner of any 2009 Bond shall compel the exercise of the taxing power by the City or the forfeiture of any of its property. The principal of and interest on any 2009 Bonds and any premiums thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Income and other funds which are pledged to the payment of the 2009 Bonds, interest thereon and any premiums upon redemption pursuant to the Fiscal Agent Agreement.*

#### **General**

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

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

The City provides its approximately 150,000 residents with power, water and refuse services. The Southern California Gas Company supplies natural gas, and the County of Los Angeles provides sewage services.

While the City consistently receives international recognition for the Rose Parade and Rose Bowl events, the City has achieved significant success in blending urban amenities with suburban neighborhoods. Engineering, finance and health care comprise the primary industry sectors. In addition, the academic and research pursuits of the California Institute of Technology, the Jet Propulsion Laboratory and the Art Center College of Design bring a unique combination of resources to the City. The City's downtown continues to serve as the corporate and entertainment center for the San Gabriel Valley's 1.8 million residents.

#### **City Council**

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

<u>Name</u>	<u>Occupation</u>	<u>Term Expiration</u>
Bill Bogaard, Mayor	Attorney	May 2011
Jacque Robinson (District 1)	Labor Community Organizer	May 2011
Margaret McAustin (District 2)	Asset Manager - Real Estate	May 2011
Chris Holden (District 3)	Commercial Real Estate Broker	May 2013
Steve Haderlein, Vice-Mayor (District 4)	High School Instructor	May 2011
Victor Gordo (District 5)	Attorney	May 2013
Steve Madison (District 6)	Attorney	May 2011
Terry Tornek (District 7)	Real Estate Developer	May 2013

### **City Staff**

*Michael J. Beck*, City Manager was appointed City Manager for the City of Pasadena effective October 1, 2008. Prior to his appointment Mr. Beck served as Assistant City Manager for the City of Riverside, California, where his responsibilities included oversight for the Airport, Community Development, Development, Parks, Recreation and Community Services, Public Utilities, and the Public Works Departments with a combined total of 1,350 employees and an annual budget of \$875 million. His responsibilities also included management of the \$1.8 billion Riverside Renaissance Initiative - a strategic investment program designed to complete 30 years of capital projects in 5 years. Prior to becoming the Riverside Assistant City Manager Mr. Beck served as Deputy City Manager. Before joining the City of Riverside, Mr. Beck was Director of Economic Development and Real Estate Services for the University of California, Riverside. Mr. Beck served as the primary liaison between the community, private businesses and the campus to develop private/public partnerships intended to expand the academic and research opportunities of the campus and the economic vitality of the region.

Mr. Beck holds a Bachelor's Degree in Business Economics and a Master's Degree in Business Administration from the University of California, Riverside.

*Andrew Green*, Director of Finance, joined the City in January 2009. His responsibilities include management of the financial affairs of the City and the Pasadena Community Development Commission, which include: preparation of the annual operating budget; preparation of the Comprehensive Annual Financial Report; purchasing; collections; workers' compensation; general liability; payroll; employee benefits; information technology; internal audit; investments; debt management and financing of major City and Community Development Commission capital improvements. Prior to his current position, he served as the Finance Director for the City of Reno, Nevada; Director of Administrative Services and Director of Finance for the City of Rialto, California, where he also served as acting City Administrator on various occasions; and as the Director of Finance for the City of San Bernardino, California. Mr. Green received his MBA from the University of Phoenix in 2003 and his Bachelor of Arts degree in Accounting from the University of LaVerne (California) in 1979. He also holds an Associates Degree in Business Administration from San Bernardino Valley College and a Certificate from the Accounting for Governmental and Non-Profit Organizations program at the University of California at Riverside, California. While in Reno, Nevada, Mr. Green was member of the Nevada Committee on Local Government Finance representing the Nevada League of Cities and a member of the Board of Directors of the Health Access of Washoe County Community Health Center organization, which provides healthcare to low-income residents in the Washoe County area of northern Nevada. Mr. Green has been a guest lecturer on governmental finance on a number of occasions for the University of California, San Bernardino's master's program. Mr. Green is also a member of numerous national and state municipal finance organizations.

*Michele Beal Bagneris*, City Attorney, was named the Pasadena City Attorney in May, 1997. At that time, she was a shareholder in the law firm of Richards, Watson & Gershon, where she specialized in public law since joining the firm in 1983. Initially, while serving as City Attorney, she continued to

practice law as a member of the law firm, advising public clients in a wide range of areas, including land use, general advisory matters, litigation, labor and employment, code enforcement and nuisance abatement matters. She also served as the City Attorney for the City of Monrovia from 1992 through September, 1999 when she became the in-house City Attorney for the City of Pasadena. She currently serves in that position and is also the City Prosecutor. As the City Attorney/City Prosecutor, she is responsible for managing all legal matters for the City, including supervision of in-house lawyers and any outside counsel engaged to advise the City. Ms. Bagneris received her bachelor's degree in International Relations from Stanford University in 1980 and her Juris Doctorate Degree in 1983 from Boalt Hall School of Law, University of California, Berkeley. She is active in professional and community organizations including past President of the City Attorney's Association of Los Angeles County; Los Angeles County Bar Association; American Bar Association; Langston Bar Association; Black Women Lawyers Association of Los Angeles; and Henry McNeal Turner A.M.E. Church. She is admitted to practice law in the State of California, United States District Court and the U.S. Court of Appeals, Ninth Circuit.

**Population**

The following table presents a ten-year history of the population of the City since 2001.

**CITY OF PASADENA  
POPULATION  
For Years 2001 through 2009**

Year (as of January 1)	Population
2001	135,511
2002	138,728
2003	141,949
2004	143,616
2005	145,219
2006	145,695
2007	146,051
2008	147,293
2009	150,185

Source: State of California, Department of Finance revised, based upon revision to the US Census information with 2000 benchmark.

**Education**

Total enrollment within the Pasadena Unified School District is shown below for the last ten fiscal years.

**PASADENA UNIFIED SCHOOL DISTRICT  
TOTAL ENROLLMENT<sup>(1)</sup>  
Fiscal Years 2000 through 2009**

Fiscal Year Ended June 30	Total Enrollment
2000	23,059
2001	23,685
2002	23,582
2003	23,726
2004	22,669
2005	22,336
2006	21,321
2007	20,826
2008	20,905
2009	20,256

Source: Pasadena Unified School District.

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

**Employment**

No annual information is regularly compiled on employment and unemployment in the City alone. The following table shows employment, unemployment and labor force information for Los Angeles County for calendar years 2004 through 2008.

**LOS ANGELES COUNTY  
EMPLOYMENT, UNEMPLOYMENT AND LABOR FORCE  
AVERAGES FOR CALENDAR YEARS 2004 THROUGH 2008  
(in thousands)**

	2004	2005	2006	2007	2008
County Employment	4,494	4,565	4,641	4,714	4,515
County Unemployment	316	257	246	254	474
County Civilian Labor Force	4,810	4,821	4,886	4,960	4,989
County Unemployment Rate	6.6%	5.3%	4.2%	5.1%	9.5%
State Unemployment Rate	6.2%	5.4%	4.8%	5.4%	9.1%

Source: State of California Employment Development Department. Current Labor Force and Industry Employment updated July, 2009. Los Angeles-Long Beach Metropolitan Statistical Area.

**Major Employers**

Industry in the City is diversified. Some of the leading industries include higher education, research and development, health care, financial services and communications. The major employers within the City as of June 2008 are listed below.

**CITY OF PASADENA  
MAJOR EMPLOYERS  
2008**

<u>Company</u>	<u>Approximate Number of Employees</u>	<u>Business Line</u>
Jet Propulsion Laboratory	5,000	Aerospace Research
Pasadena City College	3,311	Education
Huntington Memorial Hospital	3,300	Hospital
Kaiser Permanente	3,000	Health Care
California Institute of Technology	2,650	Education
SBC/ATT	2,525	Communications
The City of Pasadena	2,298	Government
Pasadena Unified School District	2,200	Education
IndyMac Bank Corp, Inc	1,500	Financial
Bank of America	1,300	Financial
Art Center College of Design	810	Education
Parsons Corporation	748	Engineering/Construction
The Ritz-Carlton Huntington Hotel	600	Hotel
Pacific Clinics Administration	550	Medical Clinics
The Sycamores	530	Social Services
San Gabriel Valley Newspaper	525	Newspaper

Source: Pasadena Chamber of Commerce, June 2008.

**Housing**

The following table presents a ten-year history of total available housing units within the City, from 2000 through 2009.

**CITY OF PASADENA  
HOUSING UNITS<sup>(1)</sup>  
For Fiscal Years 2000 through 2009**

<u>Fiscal Year<sup>(2)</sup> Ended June 30</u>	<u>Housing Units</u>
2000	54,132
2001	54,136
2002	54,770
2003	55,521
2004	55,791
2005	56,255
2006	56,520
2007	56,753
2008	57,274
2009	58,135

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

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

## Building Permit Activity

The City's General Plan targets development in the City, providing for growth in employment and housing. Since 1992 (the year the General Plan was approved), there have been seven specific plan areas established and approved by the City Council for the following areas: North Lake, West Gateway, the South Fair Oaks, the East Pasadena, East Colorado, Fair Oaks/Orange Grove and the Central District. The Land Use and Mobility Elements of the General Plan were updated in 2004 at the same time the City's Zoning Code was updated.

The following table shows the value of building permits issued in the City for the fiscal years 2005 through 2009.

**CITY OF PASADENA  
BUILDING PERMIT VALUATION AND PERMIT ACTIVITY  
Fiscal Years 2005 through 2009  
(Valuation in Millions)  
Fiscal Year Ended June 30,**

	2005	2006	2007	2008	2009
Building Permit Valuations					
Nonresidential	\$116.4	\$72.3	\$ 91.4	\$ 98.2	\$ 73.90
Residential	72.3	45.0	46.7	55.5	23.6
Residential New Construction	75.7	79.3	80.4	76.2	52.2
Total	<u>\$264.4</u>	<u>\$196.6</u>	<u>\$218.5</u>	<u>\$229.9</u>	<u>\$149.7</u>
Number of Permits Issued					
Non Residential	738	728	702	715	601
Residential	2,494	2,645	2,454	2,195	1,865
Residential New Construction	56	73	77	59	28
Total	<u>\$3,288</u>	<u>\$3,446</u>	<u>\$3,233</u>	<u>\$2,969</u>	<u>\$2,494</u>

Source: City of Pasadena, Planning and Permitting Department.

## Taxable Sales

The following table indicates taxable transactions in the City by type of business from 2004 through 2008.