

CHAPTER IX

SELECTION OF FINANCE CONSULTANTS AND SERVICE PROVIDERS

9.1 Authority and Responsibility

The Director of Finance shall be responsible for establishing a solicitation and selection process for securing professional services that are required to develop and implement the City's debt program. Goals of the solicitation and selection process shall include encouraging participation from qualified service providers, both local and national, and securing services at competitive prices. The identification of team members is accomplished through an interview process conducted by the Finance Department, and may also be based upon recommendations from advisors that are specifically skilled in the type of bond issue being proposed. It has been the City's policy to have the financing team for debt issuance approved by the City Council through the Finance Committee.

9.2 Professional Services Support

One of the first decisions to be made by the City is the selection of the initial members of its debt financing team, including bond counsel and either a financial advisor or underwriter or both. The nature of the team members may depend upon several factors, including the type of debt being issued, procedural requirements for that type of debt and the level of in-house sophistication of the issuer.

The City will maintain professional service agreements with qualified professionals related to the issuance and management of debt, including but not limited to:

Bond Counsel – The City will retain external bond counsel for all debt issues. As part of its responsibility to oversee and coordinate the marketing of all City indebtedness, the Director of Finance shall make recommendations to the City Council regarding the selection of Bond Counsel to be employed and the duration of the employment for individual or a series of financings. The solicitation and selection process for such services will comply with City Code requirements. The Council shall make such selection, taking into consideration these recommendations. Bond counsel will prepare the necessary authorizing resolutions, agreements and other documents necessary to execute the financing. All debt issued by the City will include a written opinion by bond counsel affirming that the City is authorized to issue the debt, stating that the City has met

all state constitutional and statutory requirements necessary for issuance, and determining the debt's federal income tax status.

Underwriters' Counsel – If the financing is to be sold on a negotiated basis, the City will select an underwriter's counsel. Underwriters' counsel's primary responsibility is to provide legal advice to the Underwriter, prepare the purchase contract and the disclosure documents (OS). Generally, the Underwriter's Counsel will also serve as the Disclosure Counsel.

Payments for underwriter's counsel will be authorized by the Director of Finance on a case-by-case basis depending on the nature and complexity of the transaction and the needs expressed by the underwriters.

Financial Advisor – A financial advisor shall be selected for all transactions to be sold on a competitive basis. At the direction of the Director of Finance, a financial advisor maybe selected for bonds sold on a negotiated basis. The primary responsibilities of the financial advisor are to advise and assist on the structuring, call provision options, rating and issuance of debt, timing of issuance, and generally act as an independent financial consultant and economic market expert.

Trustee and Paying Agent - The City Treasurer, in consultation with the Director of Finance, shall periodically solicit for trustees and paying agent services from qualified commercial and trustee banks. Based on the cost of providing such services, along with other qualitative measurements, the Director of Finance shall recommend the paying agent and the term of such agreement to City Council.

Other Service Providers - Other professionals may be selected, at the direction of the Director of Finance, on an as-needed basis. These include the services of managing underwriters, credit agencies, escrow agent, and the printer.

9.3 Underwriters

The Director of Finance shall solicit proposals for underwriting services for all debt issued in a negotiated or private placement sale mode.

The underwriting syndicate is a firm or a group of firms that will purchase all of the bonds and then resell them to investors. The criteria used to select an underwriter in a competitive sale shall be the true interest cost. For all negotiated sales, underwriters will be required to demonstrate sufficient capitalization and experience related to the debt issuance being proposed. In a negotiated sale, the Director of Finance will recommend to the City Council the selected underwriter. The Director of Finance will consider the following criteria in selecting an underwriter:

- Overall experience
- Marketing philosophy and distribution
- Capability
- Previous experience as managing or co-managing underwriter
- Financial strength, as evidenced by the firm's current financial statement
- Experience of the public finance team assigned to the financing
- Resources to complete the financing
- Total overall, and breakdown of underwriter's discount

The selection of underwriters may be for an individual or series of financings or a specified time period. The Council shall make such selections taking into consideration the recommendations of the Director of Finance.

9.4 Compensation for Services

Compensation for bond counsel, underwriter's counsel, financial advisors, and other financial services will be as low as possible, given desired qualification levels, and consistent with industry standards. All costs and fees related to issuance of bonds will be paid out of bond proceeds.

CHAPTER X

REFUNDING OF CITY INDEBTEDNESS

10.1 Call Options

The Director of Finance will determine the call option, if any, the call protection period and the call premium for each bond sale. A call option, or optional redemption provision, gives the City the right to prepay or retire debt prior to its stated maturity. This option may permit the City to achieve interest savings in the future through refunding of the bonds. Often the City must pay a higher interest rate as compensation to the buyer for the risk of having the bond called in the future. In addition, if a bond or debt is called, the holder may be entitled to a premium payment ("call premium"). Because the cost of call options can vary widely, depending largely on market conditions, an evaluation of factors such as the following will be conducted in connection with each issue:

- The call premium
- Level of rates relative to historical standards
- The time until the bonds may be called at a premium or at par
- The need for original issue discounts.

10.2 Advance Refunding

Periodic reviews of all outstanding debt will be undertaken to determine refunding opportunities. Within federal tax law constraints, a refunding will be considered if and when there is a net economic benefit or if it is essential in order to modernize covenants essential to operations and management.

Advance refundings are used to refinance outstanding debt before the date the outstanding debt becomes due or callable. New bonds that are issued to refinance an outstanding bond issue 90 days or more before the call date are known as advance refunding bonds. Proceeds of the advance refunding bonds are placed into an escrow account with a fiduciary and used to pay interest and principal on the refunded bonds and then redeem them at their maturity or call date.

As defined for federal tax law purposes, the City may issue advance refunding bonds when advantageous, legally permissible, prudent, and when aggregate net present value savings, expressed as a percentage of the par amount of the refunding bonds, equal or exceed 3%. Exceptions to this requirement shall be made only upon the approval of the

Director of Finance. Refundings with negative savings will not be considered unless there is a compelling public policy objective.

10.3 Current Refunding

Current refundings are used to refinance outstanding debt on or after the date the outstanding debt becomes due or callable and within 90 days of the date of issuing the refunding bonds. New bonds that are issued to refinance an outstanding bond issue on or after the call date are known as current refunding bonds. Managers of existing projects may request refundings, for the purpose of taking advantage of more favorable economic conditions and lower market interest rates, restructuring the principal and debt service payments or eliminating burdensome covenants with bondholders.

As defined for federal tax law purposes, the City may issue current refunding bonds when advantageous, legally permissible, prudent, and aggregate net present value savings equal or exceed 3%.

The financial advantages of a current refunding must outweigh the cost of reissuing bonds. The request for refunding will be assessed with competing new capital projects requiring financing. The benefits of the refunding will be assessed against its costs and risks and compared to other funding requests.

10.4 Restructuring of Debt

The City may choose to refund outstanding indebtedness when existing bond covenants or other financial structures impinge on prudent and sound financial management. Savings requirements for current or advance refunding undertaken to restructure debt may be waived by the Director of Finance upon a finding that such a restructuring is in the City's overall best financial interest.

10.5 Refunding Escrows

The City will seek to purchase State and Local Government Securities (SLGS) to fund its refunding escrows. At the direction of the Director of Finance, the City may choose to fund an escrow through purchase of treasury securities on the open market when market conditions make such an option financially preferred. The City Treasurer and the Director of Finance shall be responsible for developing procedures for executing open market purchases and the savings objectives to be achieved by undertaking such actions.

CHAPTER XI

CREDIT ENHANCEMENT, DERIVATIVES & CONDUIT FINANCINGS

11.1 Credit Enhancement

The City shall seek to use credit enhancement (letters of credit, bond insurance, surety bonds, etc.) when such credit enhancement proves cost-effective. Credit enhancement may be used to improve or establish a credit rating on a City debt obligation even if such credit enhancement is not cost effective if, in the opinion of the Director of Finance, the use of such credit enhancement meets the City's debt financing goals and objectives.

11.2 Derivative Products

The City may in the future choose to enter into contracts and financing agreements involving interest rate swaps, floating/fixed rate auction or reset securities, or other forms of debt bearing synthetically determined interest rates as authorized under the applicable statutes. The City will consider the use of derivative products on a case-by-case basis and consistent with state statute and financial prudence.

Before entering into such contracts or agreements, the Director of Finance and the City Treasurer will review the risks and benefits of such financing techniques and expected impacts on the City's long-term financial operations and credit ratings. The report, when completed, shall be presented to the Finance Committee for approval before any recommendations are submitted to the City Council for authorization and implementation.

11.3 Conduit Financings

The City may sponsor conduit financings for those activities (i.e., economic development, housing, health facilities, etc.) that have a general public purpose and are consistent with the City's overall service and policy objectives.

All conduit financings must insulate the City completely from any credit risk or exposure and must first be approved by the Director of Finance before being submitted to City Council for authorization and implementation.

CHAPTER XII

REVIEW OF FINANCING PROPOSALS

12.1 Authority and Responsibility

Any capital financing proposal or refunding proposal made to the City involving a pledge or other extension of the City's credit through the sale of securities, execution of loans or leases, or making of guarantees or otherwise involving directly or indirectly the lending or pledging of the City's credit shall be referred to the Director of Finance.

The Director of Finance shall be responsible for analyzing the proposal, responding to the proposal, and recommending to the Finance Committee and the City Council if in the opinion and judgment of the Director of Finance the proposed financing request is beneficial to the City of Pasadena and complies with the City's long-term financial planning.

CHAPTER XIII

REPORTING REQUIREMENTS

13.1 Annual Audit of the City

The annual audit of the City shall describe in detail all funds and fund balances established as part of any direct debt financing of the City. The audit may also contain a report detailing any material or rate covenants contained in any direct offering of the City and whether or not such covenants have been satisfied.

13.2 Arbitrage Compliance

The Director of Finance shall establish and maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of federal tax code. This effort shall include tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the City's outstanding debt issues. Additionally, general financial reporting and certification requirements embodied in bond covenants shall be monitored to ensure that all covenants are complied with.

APPENDIX A

DERIVATIVES POLICY

14.1 Overview

The City may, from time to time, choose to enter into contracts and financing agreements involving derivatives as authorized under the City Charter and state law. The City will consider the use of derivative products on a case-by-case basis. Properly used, derivative products can be beneficial financial management tools that can assist the City as part of its overall debt and investment management program.

14.2 Acceptable Derivative Objectives

Derivative products are appropriate for use when they are designed to achieve specific financial objective(s) consistent with the City's overall financial policy and strategy. The City will execute a derivative product if it achieves one or more of the following objectives:

- To achieve a lower net cost of borrowing
- To prudently hedge risk in the context of a particular financing, such as capping or hedging variable interest rate risk
- To provide a better match between the interest rates on the City's debt and its investments (asset/liability management), resulting in an increased net investment return
- To achieve more flexibility in meeting overall financing objectives, such as altering the pattern of debt service payments or locking in savings on a refunding
- To manage exposure to changing markets in advance of anticipating bond issuances (through the use of anticipatory hedging instruments)

14.3 Prohibited Agreements

The City will not enter into any derivative transactions if the following conditions are present:

- The derivative is intended for speculative purposes
- The derivative will create extraordinary leverage or other financial risk
- The derivative exposes the City or the swap provider to a situation in which either would have insufficient liquidity to terminate at current market rate
- The City's finance team is unable to reasonably value the instrument

14.4 Permitted Investments

The City will consider the following derivative instruments as acceptable:

- Interest rate swaps including synthetic fixed rate, synthetic variable rate, basis swaps, current swaps, and forward starting swaps
- Reverse swaps
- Options including swaptions, caps, floors, collars and/or cancellation or index-based features
- Interest rate caps/floors/collars

14.5 Derivative Approval Procedures

Before entering into derivative contracts or agreements, the Director of Finance and the City Treasurer will review the risks and benefits of such financing techniques and expected impacts on the City's long-term financial operations and credit ratings. The proposed derivative product will only be considered if it meets the objectives of the City as described herein. A Risk/Benefit Analysis Report will be prepared, under the supervision of the Director of Finance, which evaluates the derivative. The Director of Finance may, at his/her discretion, employ the services of an advisor in preparing the Report. The Report, when completed, shall be presented to the Finance Committee for approval before any recommendations are submitted to the City Council for authorization and implementation. All derivative transactions shall be authorized by the City Council.

14.6 Risk/Benefit Analysis Report

In the Risk/Benefit Analysis Report, the City will identify and evaluate the proposed benefit of the product.

Savings Analysis - The City will obtain an analysis of potential savings from proposed transaction using a consultant or financial advisory firm experienced in the pricing of swaps. The City will enter into derivative products only if such products are expected to generate savings, including all ongoing costs and fees, as compared to a transaction without the derivative product. However, if in the opinion of the Director of Finance, the derivative achieves a different public purpose other than savings, the savings threshold may not apply. The Director's justification for waiver of this threshold will be provided in the Report.

The Report will also detail the potential risks of the derivative product and shall discuss the means employed to mitigate the risks.

Risk Analysis - The City will also address any methods to mitigate the identified risks. The following risks will be considered, and the related mitigating factors explained:

- A. Market/Interest Rate Risk: Risk of exposure to fluctuations in interest rates.
- B. Amortization Risk: Risk of a mismatch of the expiration of the underlying obligation and its hedge (the swap agreement). Amortization risk includes the possibility that, as the result of early redemption of the underlying variable rate bonds, the repayment schedule of the bonds differs from the underlying notional amount of the swap agreements. The risk only arises if the City elects to redeem bonds ahead of schedule. At the discretion of the Director of Finance, the City shall attempt to mitigate this risk by setting the term of the swap to meet its more conservative expectations regarding final repayment of the underlying obligation.
- C. Tax Law Risk: Risk of rate adjustments, extraordinary payments, termination or other adverse consequences in the event of a future change in Federal income tax policy.
- D. Termination Risk: Termination risk refers to the possibility that the City may be required to make a large payment to the counterparty if a swap agreement is terminated prior to its scheduled maturity pursuant to its terms (i.e. other than at the option of the City). Termination exposure will be evaluated on a per-project and per-counterparty basis for all existing and proposed transactions. The City will attempt to mitigate this risk by maintaining sufficient liquidity to cover this exposure and limiting the events that trigger an early termination, including the selection of counterparties with strong creditworthiness.
- E. “Performance” Risk: Risk of a future financing(s) that is dependent upon third party participation, such as a forward starting swap. The City will attempt to mitigate this risk by obtaining commitments that can be or have been secured for such participation.
- F. Legal Authority Risk: Risk of any party’s legal authority to participate in the transaction.
- G. Counterparty Risk: Risk that the counterparty fails to make its required payments. The City will attempt to minimize counterparty risk by establishing minimum counterparty credit standards and by diversifying the City’s exposure to individual counterparties. The exposure shall be measured both in terms of amount as well as how changes in interest rates would affect the City’s exposure.

- H. Rollover Risk: Risk that the City may need to find a replacement counterparty as part of an overall plan of finance if an interest rate swap does not extend to the final maturity of the underlying variable rate bonds. Rollover risk can be minimized in the initial plan of finance by not relying on the execution of future swap agreements to achieve the City's financing objectives.
- I. Credit Risk: Risk of changes in the credit-worthiness of the counterparty. The City will attempt to mitigate this risk by setting minimum counterparty credit standards and by including provisions in the documents to limit exposure to adverse changes in the counterparty's credit standing.
- J. Liquidity/Remarketing Risk: Risk that the City cannot secure a cost effective renewal of a Letter or Line of Credit, or suffers a failed auction or remarketing with respect to the underlying variable rate bonds.
- K. Ratings Risk: Risk that the transaction could impact the City's current credit ratings, or its desired future ratings, and with related rating agency policies.
- L. Basis Risk: Risk that the basis for the anticipated payments that the City would make or receive would not match the payments that it seeks to hedge. The City will evaluate different swap indices as part of its analysis and identify the amount of basis risk that may result from each.
- M. Tax Exemption of City Debt Risk: Risk that the transaction is not in compliance with all Federal tax law requirements with respect to the City's outstanding tax-exempt bonds.
- N. Accounting Risk: Risk that the transaction is not compliant with accounting procedures and consistent with the City's financial statements. Additional risk of impact on the City's rate covenant calculation or compliance, where applicable.
- O. Administrative Risk: Risk of the ability of the City to administer and monitor the transaction consistent with the policies outlined in the Debt Policy.
- P. Subsequent Business Conditions: Risk of dependence on the continuation or realization of specific industry or business conditions.

14.7 Methods of Soliciting and Procuring Derivatives

The City may procure a derivative on either a competitive or negotiated basis, at the discretion of the Director of Finance. Regardless of the method of procurement, the City shall obtain an independent finding from a qualified source that the terms and conditions of any derivative entered into reflect a fair market value as of the date of its execution.

- A. ***Competitive***: If a competitive basis of procurement is selected, the City may undertake a limited competitive process from pre-qualified bidders. The City may select one or more winning bidders for the transaction in addition to the best bidder, if deemed in City's best interest.
- B. ***Negotiated***: The Director of Finance may determine that due to size or complexity of the transaction, a negotiated process would result in the most favorable pricing. In such case, an independent financial advisor may be retained to assist in the process. The Director of Finance might also determine that a negotiated process is appropriate to encourage innovation or the substantial commitment of time and resources by a counterparty.

14.8 Form of Swap Agreements

To the greatest extent possible, any interest rate swap agreements entered into by the City will contain the terms and conditions set forth in the International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement, including any schedules and confirmations. However, the City will seek to amend the standard terms and conditions as is appropriate for the City's benefit. The City may use additional documentation if the product is proprietary, or if the City deems that such documentation is in the City's best interest.

14.9 Minimum Counterparty Requirements

The City will enter into derivative transactions only with qualified counterparties. The City will employ the following minimum counterparty requirements:

- A. ***Minimum Rating***:
 - 1. Rated at least A3 or A- or equivalent by any two of the three nationally recognized rating agencies (Moody's, Standard and Poor's, and Fitch), or
 - 2. Be an institution utilizing non-terminating AAA subsidiary, as rated by at least one nationally recognized rating agency.

B. Minimum Capitalization:

1. \$50 million minimum

C. Demonstrated Record:

1. Successfully executing and performing in swap transactions.
2. Creating and implementing innovative ideas in the swap market.

In addition to the rating criteria, capitalization, and experience requirements outlined in this section, the City may seek credit enhancement and/or other safeguards:

- Contingent credit support or enhancement
- Collateral held by 3rd party trustee and marked-to-market on a monthly basis
- Ratings downgrade triggers
- Guaranty of parent, if any

The City shall limit exposure to individual counterparties, based on the credit rating of the counterparty as well as on the relative risk associated with each derivative transaction. (Refer to page 42 for counterparty limits.)

14.10 Standard Terms for Derivatives

The City will seek to attain the following standard terms in the derivative agreement:

- A. Term: The City shall determine the appropriate term for an agreement on a case-by-case basis. The term will be consistent with the purpose for which swap it is utilized, while taking into account the call dates for the related debt. In no event shall the term extend beyond the existing debt (or other obligation being hedged).
- B. Events of Default: An event of default by the counterparty shall lead to termination of the agreement, with the termination payment being calculated on the side of the bid-offered spread most beneficial to the City. Events of default of a counterparty shall include the following:
 1. Failure to make payments when due;
 2. Material breach of representations and warranties;
 3. Failure to comply with downgrade provisions; or
 4. Failure to comply with any other provision of the agreement after a specified notice period.
- C. Specified Indebtedness Related to Credit Events: The specified indebtedness related to credit events in any agreement shall be narrowly defined and shall refer only to the indebtedness of the City that could have a materially adverse effect on the City's ability to perform its

obligations under the agreement. Debt shall include only those obligations within the same lien as the agreement.

D. Downgrade Provisions: Downgrade provisions triggering terminations shall in no event be worse for the City than those affecting the counterparty.

E. Termination Provisions:

1. Termination Value: Termination value shall be set by utilizing a Market Quotation Methodology, Second Method unless the City deems an alternate method as appropriate. As defined in the ISDA Master Agreement, under the Second Method,, the termination amount payable is equal to (i) the sum of the settlement amount as determined by the non-defaulting party plus the unpaid amounts owing to the non-defaulting party, less (ii) any unpaid amounts owing to the defaulting party.

2. Optional: All interest rate swap transactions shall contain provisions granting the City the right to optionally terminate a swap agreement at anytime over the term of the agreement. The Director of Finance, in consultation with the City's financial advisor, shall determine if it is financially advantageous for the City to terminate a swap agreement.

3. Mandatory: A termination payment to or from the City may be required in the event of termination of a swap agreement ONLY in the case of credit-related and non-payment events. It is the intent of the City not to make a termination payment to a counterparty that does not meet its contractual obligations. Prior to entering into the swap agreement, or making any such termination payment, as appropriate, the Director of Finance shall evaluate whether it would be financially advantageous for the City to enter into a replacement swap as a means of offsetting any such termination payment or obtaining insurance to guarantee performance of the counterparty. Any swap termination payment due from the City shall be made from available City monies and the agreement shall allow for appropriate legislative action.

4. Available Liquidity: The Director of Finance shall consider the extent of the City's exposure to termination payment liability in connection with each swap transaction, and the availability of sufficient liquidity to make any such payments that may become due.

F. Cure Provisions: Timelines on City's obligations to cure must provide for appropriate legislative action.

- G. Payment: Payments may be structured on a monthly, semi-annual, or annual basis. Swap payments shall have a lien level that is no greater than parity. Whenever possible, termination payments shall have a lien level that is subordinate to related debt payments.
- H. Security: The agreement shall identify the security attributable to the derivative.
- I. Collateral: Collateral thresholds shall be set on a sliding scale reflective of credit ratings, size, and directional market risk of the transaction.
1. Required: The City shall require collateral or other credit enhancement to be posted by each swap counterparty if the credit rating of the counterparty or its guarantor falls below the "A" category from any two out of the three nationally recognized rating agencies previously identified. The level of collateral will be determined on a deal by deal basis, taking into account such factors as the counterparty ratings. Additional collateral for further decreases in credit ratings of each counterparty shall be posted by such counterparty in accordance with the provisions contained in the collateral support agreement to each swap agreement.
 2. Safekeeping Requirements: Collateral will be deposited with a custodian, acting as agent for the City, or as mutually agreed upon between the City and each counterparty.
 3. Collateral Value: The market value of the collateral shall be determined on at least a monthly basis. The amount of collateral posted shall be equal to the positive termination value of the swap agreement to the City. The City will determine reasonable threshold limits for the initial deposit and for increments of collateral posted thereafter.
 4. Features of Collateral: Acceptable collateral shall include cash, U.S. Treasury securities, and U.S. Agency securities. The City shall determine on a case-by-case basis whether other forms of credit enhancement are more beneficial to the City.

14.11 Monitoring and Reporting

The City will actively manage and routinely monitor any derivative product entered into by the City. This will include frequent monitoring of market conditions to identify opportunities and risks. A written report providing the status of all derivative products entered into by the City may be prepared from time to time, as needed or requested.

Monitoring and/or reporting shall consider the following areas:

A. Agreements:

1. A summary of each swap agreement including but not limited to:
 - a. the type of swap
 - b. the rates and dollar amounts paid by the City and received by the City
 - c. the rate and amounts that were required to be paid and received, and
 - d. the current market value
2. Highlights of all material changes to swap agreements or new swap agreements since the last report.
3. Sensitivity analysis with net impact to the City of a 25 basis point movement (up or down) in the appropriate swap index or curve.
4. Actual collateral posting by each swap counterparty, if any, under each swap agreement and in total by that swap counterparty.
5. Information concerning any default by a swap counterparty under a swap agreement with the City, and the results of the default, including but not limited to the financial impact to the City, if any.
6. A summary of any swap agreements that were terminated or that have expired. Summary of key terms of agreements including notional amounts, interest rates, maturity, and method of procurement.
7. Values of early termination, shortening or lengthening the term to certain benchmarks, sale or purchase of options, and application of basis swaps.
8. Discussion of other risks associated with each transaction.
9. A summary of any planned swap transactions and the projected impact of such swap transactions to the City.

B. Counterparties:

1. Full name, description, and credit ratings of each counterparty and credit enhancer insuring swap payments, if any.
2. For each counterparty, the City shall provide the total notional amount position, the average life of each swap agreement, the available capacity to enter into a swap transaction, and the remaining term of each swap agreement.
3. Listing of any credit enhancement, liquidity facility or reserves, and accounting of all costs and expenses associated with the credit enhancement, liquidity facility, or reserves.
4. Current credit rating of each counterparty and credit enhancer insuring swap payments, if any.
5. Aggregate marked-to-market value for each counterparty and relative exposure compared to other counterparties.

6. Calculation of City's net termination exposure for each counterparty.

C. *Benefit:*

1. Comparison of the actual debt service requirements of the transaction and the projected debt service on the transaction at the time of original execution. This shall be shown on an annual basis. Such calculation shall include a determination of the cumulative actual savings versus the projected savings at the time the transaction was executed.

14.12 Swap Counterparty Termination Exposure Limits

In order to diversify the City's counterparty risk and to limit the City's exposure to any one counterparty, limits are established for each counterparty based upon both the credit rating of the counterparty as well as the relative level of risk associated with each existing swap transaction. The risk measure will be calculated based upon the marked-to-market sensitivity of each transaction to an assumed shift in interest rates. Maximum net exposure per counterparty shall not exceed standards set by the City. Maximum net termination exposure is the amount equal to the aggregate maximum reasonably anticipated net termination payment exposure for all of the City's existing and proposed swap agreements with such counterparty. The limits vary based on the credit rating of the counterparty. If the counterparty has more than one rating, the lowest rating will govern for purposes of calculating the permissible levels of exposure.

Counterparty Credit Rating	Maximum Collateralized Net Termination Exposure	Maximum Uncollateralized Net Termination Exposure	Maximum Total Net Termination Exposure
AAA Category	\$40 million	\$40 million	\$40 million
AA Category	\$40 million	\$10 million	\$40 million
Below AA	\$30 million	None	\$30 million

14.13 Disclosure

The City shall comply with any applicable accounting standards for the treatment of derivatives. Derivatives will be disclosed in the related Official Statement, if relevant, and in the City's Annual Report. Derivatives may also be footnoted in the City's CAFR, as appropriate.

APPENDIX B

BASIC LEGAL DOCUMENTS

The following basic legal documents are found in most public finance transactions.

15.1 Indenture

Purpose: The indenture is the basic security document of a bond transaction. It provides the terms of the bonds, including payment dates, maturities, redemption provisions, registration, transfer and exchange, etc. The indenture creates the legal structure for the security for the bonds, including:

- Creation and granting of the Trust Estate
- Pledge of revenues and other collateral
- Affirmative negative covenants
- Negative covenants
- Default and remedy provisions
- Flow of funds
- Parity debt provisions for issuance of additional bonds in the future
- Defeasance provisions to allow for refunding of the bonds
- Trustee-related provisions

Substitutes: Trust Agreement; Fiscal Agent Agreement; Bond Resolution or Bond Ordinance.

Principal Drafter: Bond Counsel.

Parties: Issuer, Trustee.

Critical Provisions for Issuer Review: Definitions of permitted investments and revenues; scope of trust estate and pledged collateral; payment and redemption terms of bonds; additional bonds test; flow of funds with special consideration to retaining the flexibility needed to use funds not otherwise needed for debt service; reserve fund provisions; covenants; default and remedy provisions; defeasance provisions.

15.2 Loan Agreement

Purpose: The loan agreement is the document under which the bond proceeds are lent or otherwise provided for the project being financed and the user of the proceeds agrees to repay the amount of the bonds, plus interest. It provides for payment of loan, installment sale or lease payments sufficient in time and amount to pay debt service on the bonds.

Substitutes: Installment Sale Agreement; Facilities or Project Lease.

Principal Drafter: Bond Counsel.

Parties: Conduit Borrower/Obligator, Issuer.

Critical Provisions for Issuer Review: Representations and warranties; covenants; prepayment provisions; pledge provisions; title provisions; abatement provisions.

15.3 Authorizing Resolution(s)

Purpose: The resolution authorizes issuance and sale of bonds, authorizes execution and delivery of documents, and directs staff to take other actions necessary to complete financing.

Substitutes: Authorizing Ordinance.

Principal Drafter: Bond Counsel or Issuer's Counsel.

Parties: Issuer.

Critical Provisions for Issuer Review: Parameters for delegation of authority to sell bonds; maximum par amount and term of bonds; conformance to issuer's standard form of resolution.

15.4 Bond Purchase Agreement

Purpose: Provides for the sale of the bonds to the underwriter; specifies discount, interest rates and terms for payment of purchase price; contains representations and warranties of the issuer; contains conditions precedent to underwriter's obligation to purchase the bonds at closing; specifies documents to be delivered at closing; specifies who will pay expenses.

Substitutes: Official Notice of Sale and Bid Form (competitive sales); Placement Agreement (private placements).

Principal Drafter: Underwriter's Counsel or Disclosure Counsel.

Parties: Underwriter, Issuer, and Conduit Borrower.

Critical Provisions for Issuer Review: All points listed under "Purpose" section.

15.5 Official Statement

Purpose: The Official Statement is the document, which provides disclosures to investors and potential investors. Most financings are required to have Official Statements under SEC Rule 15c2-12. Provides disclosure to prospective investors regarding term of bonds, security, risk factors, and financial and operating information concerning issuer and background information.

Substitutes: Offering Memorandum; Limited Offering Memorandum.

Principal Drafter: Underwriter's Counsel or Disclosure Counsel.

Parties: Issuer.

Critical Provisions for Issuer Review: Security and sources of payment for the bonds; risk factors; financial and operating data regarding the entity responsible for payment; litigation; and general information about the issuer.

15.6 Continuing Disclosure Agreement

Purpose: The Continuing Disclosure Agreement contains the undertakings of the issuer to provide ongoing disclosure in the form of annual reports and event notices pursuant to SEC Rule 15c2-12. The undertakings must remain in place for the life of the issue, with certain exceptions for pool bonds.

Substitutes: Continuing Disclosure Certificate.

Principal Drafter: Underwriter's Counsel, Disclosure Counsel, or Bond Counsel.

Parties: Issuer; Obligated Persons; Trustee.

Critical Provisions for Issuer Review: Contents of annual reports; deadline for filing annual reports; listed event notices; amendment provisions.

15.7 Reimbursement Agreement

Purpose: The Reimbursement Agreement appears in transactions involving a letter of credit or surety policy guaranteeing payment on the bonds or draws against the reserve fund, respectively. It contains the obligation to repay the letter of credit bank amounts drawn on the credit facility. Term and conditions vary depending upon the type of transaction involved.

Substitutes: Financial Guarantee Agreement.

Principal Drafter: Bank Counsel, Surety Provider Counsel.

Parties: Issuer, Bank, and Trustee (in some cases).

Critical Provisions for Issuer Review: Representations and warranties; fees payable to bank; ability of bank to “participate” the credit facility to other banks; renewals and extensions of the credit facility; default and remedy provisions; collateral provisions; choice of law provisions.

15.8 Tax Certificate

Purpose: The Tax Certificate contains certifications required to be made by the issuer, and in case of a conduit issue, the borrower, in order to satisfy the requirements of the Internal Revenue Code and the regulations issued thereunder for the bonds to be tax-exempt. It also describes the rules applicable to the investment of bond proceeds under federal tax law.

Substitutes: Tax Agreement; Arbitrage or Non-arbitrage Certificate.

Principal Drafter: Bond Counsel.

Parties: Issuer, Borrower.

Critical Provisions for Issuer Review: Varies greatly depending on type of issue, but always should review “use of proceeds” section in consultation with the bond counsel.

15.9 Closing Documents

Purpose: Contains the certificates, receipts, written directions and requests, requisitions and similar documents, which are delivered at the closing of an issue. These documents generally accomplish the following:

- (i) Document the factual representations required by the purchase contract and accuracy and completeness of expertized portions of the disclosure;
- (ii) Document compliance with the requirements of law and contract for the issuance of the bonds;
- (iii) Document the flow of funds at closing; and
- (iv) Instruct parties to take certain actions upon closing; i.e. deposit funds in accounts, record documents, file reports, release security, etc.

Substitutes: None.

Principal Drafter: Bond Counsel.

Parties: All parties to transaction.

Critical Provisions for Issuer Review: Accuracy of all amounts for receipt and deposit of funds, accuracy of representations, warranties and certifications. All requisitions should be reviewed to determine correctness of payments, deposits and transfers

ATTACHMENT A

Summary of Outstanding General Fund Debt

(\$ in 000s)	Outstanding Bonds			
	Original Par	Dated Date	Coupon Range	Final Maturity (as of 7/1/2010)
General Government Bonds				
1993 COPs (Refunding & Capital Projects)	79,835	1/6/1994	5.35%	2014
2001 COPs	21,210	11/15/2001	4.00%	2011
2006 VRDBs (City Hall Portion)	10,355	2/16/2006	Hedged	2023
2008-B Refunding COPs	27,650	5/15/2008	4.00 - 5.25%	2019
2008-C Refunding COPs	71,450	7/16/2008	4.00 - 5.00%	2038
Total General Government	210,500			124,195
Pension Obligation Bonds				
1999-A Taxable POBs	50,735	8/5/1999	7.15 - 7.28%	2015
1999-B Taxable POBs (1)	51,205	8/5/1999	7.33%	2022
2004 Taxable POBs	40,750	8/5/2004	Variable	2015
Total Pension Obligation Bonds	142,690			112,259
Self-Supporting Bonds				
1987 VRDB COPs (Los Robles Av. Parking)	20,300	12/3/1987	Variable	2012
1993 Refunding COPs (Old Pasadena Parking)	28,050	7/1/1993	6.25%	2018
2006 VRDBs (Rose Bowl Portion)	36,945	2/16/2006	Hedged	2023
2006-A CAB COPs (Conference Center)	27,140	9/7/2006	3.85 - 4.81%	2023
2008-A VRDB Refunding COPs (Conference Center)	134,720	4/18/2008	Hedged	2035
2008 Taxable Refunding VRDBs (Paseo Colorado Parking)	28,800	9/17/2008	Variable	2038
Total Self-Supporting	275,955			241,225
Total General Fund Debt	629,145			477,679

(1) The \$51.2 million 1999-B POB are subject to a Mandatory Tender on May 15, 2015



Statistics for Comparable California Cities (As of 2009 Fiscal Year End)

	Comparable California Cities					
	Pasadena	Beverly Hills	Santa Monica	San Jose	Glendale	Burbank
Debt Statistics						
Non-Self-Supporting Debt (\$millions) ⁽¹⁾	\$135.1	\$146.3	\$79.2	\$1175.2	\$55.5	\$18.1
Non-Self-Supporting Debt per Capita (\$)	\$900	\$4,090	\$856	\$1,167	\$268	\$167
Non-Self-Supporting as Debt % of AV	0.65%	0.72%	0.34%	1.11%	0.25%	0.08%
Unreserved GF Balance (\$millions)	\$48.4	\$74.6	\$155.5	\$178.8	\$35.8	\$59.9
Unreserved GF Balance as % of GF Expenses	26.2%	47.7%	60.7%	24.9%	23.7%	40.3%
5-Year CIP (\$millions)	\$1,509	\$225	\$710	\$1,600	\$346	\$409
5-Year CIP - Excluding Utilities (\$millions)	\$665	\$123	\$638	na	\$346	\$217
G.O. Ratings (Moody's/S&P/Fitch)	NA/AAA/AAA	Aaa/AAA/AAA	Aaa/AAA/AAA	Aaa/AAA/AAA	Aa1/AAA/NR	Aa1/AAA/NR
Demographic Statistics						
Assessed Value (\$millions)	20,752	20,382	23,489	105,828	22,588	23,786
AV per Capita (\$thousands)	\$138	\$570	\$254	\$105	\$109	\$220
Per Capita Income as % of State	94%	200%	101%	139%	124%	94%
Per Capita Income as % of Nation	102%	216%	110%	150%	134%	102%
Population	150,185	35,774	92,494	1,007,000	207,303	108,082
Unemployment	9.4%	5.2%	9.5%	13.1%	9.9%	9.2%

(1) Excludes notes/loans payable, line-of-credits, capital leases, compensated absences, etc.

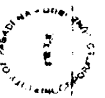
Pasadena Non-Self-Supporting Debt figure excludes Pension Obligations as they are considered Self-Supporting until 2014



Financial Management Assessment Comparable California Cities

Standard and Poor's Financial Management Assessment

	Pasadena	Beverly Hills	Santa Monica	San Jose	Glendale	Burbank
Ratings	Strong	Strong	Strong	Strong	Good	Strong
Debt Policies	Yes	Yes	Yes	Yes	No	Yes
Swap Policies	Yes	No	No	No	No	No
Long-Term Financial Plan	Yes	Yes	Yes	Yes	Yes	Yes
Reserve Policies	Yes	Yes	Yes	Yes	Yes	Yes
% of Reserve Policies	10%	40%	10%	3%	35%	20%
5 Year CIP	Yes	Yes	Yes	Yes	10 Year	Yes



Pasadena Credit Strengths & Challenges

Strengths

- Strong general fund balances and reserve levels
- Diverse revenues, including property taxes, sales taxes, utility user tax, and hotel taxes
- Moderate debt levels
 - Significant portion of debt is self-supporting
 - The daytime population, nearly 2 times larger, makes debt per capita more manageable
- Conservative financial management policies
 - As shown by recent increase in the general fund reserve minimum
 - Frequent updates to financial forecasts with a five-year time horizon
- Regional employment center with a diverse job base
- Major destination for retail, tourism, employment and entertainment
- Pension contributions are well funded
- No significant other post-employment benefit liabilities

Challenges

- Projected debt levels may deteriorate credit profile
 - Total debt per capita is already high relative to peers
- Continued soft local residential property market
- Ability to maintain balanced budgets and strong reserves during slow economic environment

Debt Capacity Conclusions

The probability of a downgrade as a result of the City extending credit support on the Rose Bowl financing is low.

The structure of the Rose Bowl financing is key to ensuring the treatment of the Rose Bowl financing as self-supporting debt.

- * 1.50x Debt Service Coverage Ratio
- * Bond-funded reserve fund
- * Excess reserve funded over time
- * Quality of revenue study with peer review

* Staff, working with the financing team, performed an analysis to determine what Pasadena's debt capacity might be based on the leverage, economic and other factors.

Based on that analysis, it is estimated that Pasadena's debt capacity is approximately \$75-100 million if it wishes to maintain its AAA ratings from two rating agencies.

The 2015 impact from the POBs no longer being treated as self-supporting debt could be sufficient to cause a downgrade to AA.

The POBs in conjunction with a \$100 million issuance creates a very sizable risk that the City will be downgraded to AA.

However, it is important to keep in mind that qualitative and local economic & demographic factors will continue to play a critical role in the City's ratings and could allow the City to maintain its AAA rating; if the general economic outlook improves, if the real estate market improves, if the City develops new revenue streams and/or City reserves are increased, then debt capacity may increase in the future.

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