

**PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER \_\_, 2010****NEW ISSUE – FULL BOOK-ENTRY ONLY****RATINGS**

Fitch: “\_\_\_”

S&amp;P “\_\_\_”

(See “RATINGS” herein)

*In the opinion of Bond Counsel, under existing law, interest on the 2010A Bonds is exempt from personal income taxes of the State of California. In the opinion of Bond Counsel, under existing law, interest on the 2010B Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the tax covenants described herein, interest on the 2010B Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and will not be included in the computation of federal alternative minimum taxable income of the owners thereof for federal income tax purposes. See “TAX MATTERS” herein.*

**[\$30,000,000\*]****City of Pasadena, California****Water Revenue Bonds, 2010A Series****(Taxable Build America Bonds – Direct Payment)****[\$31,265,000\*]****City Pasadena, California****Water Revenue Refunding Bonds, 2010B Series**

Dated: Date of Delivery

Due: June 1, as shown on the inside cover

*This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.*

The City of Pasadena, California (the “City”) is issuing its Water Revenue Bonds, 2010A Series (Taxable Build America Bonds – Direct Payment) (the “2010A Bonds”) and Water Revenue Refunding Bonds, 2010B Series (the “2010B Bonds,” and collectively with the 2010A Bonds, the “2010 Bonds”) pursuant to a Water Revenue Bond Indenture, dated as of August 1, 2003, by and between the City and The Bank of New York Mellon Trust Company, N.A. (successor to BNY Western Trust Company), as trustee (the “Trustee”), as amended and supplemented, including as amended and supplemented by a Third Supplement to Water Revenue Bond Indenture, dated as of December 1, 2010 (the “Third Supplement”), providing for the issuance of the 2010A Bonds, and a Fourth Supplement to Water Revenue Bond Indenture, dated as of December 1, 2010 (the “Fourth Supplement”), providing for the issuance of the 2010B Bonds (as so amended and supplemented, the “Indenture”).

The 2010A Bonds are being issued to (i) finance the costs of acquisition and construction of certain capital improvements to the Water System, (ii) make an additional deposit to the Parity Reserve Fund, and (iii) pay costs of issuance of the 2010A Bonds, as more fully described herein. The 2010B Bonds are being issued to (i) refund a portion of the City’s Water Revenue and Refunding Bonds, 2003 Series, and (ii) pay costs of issuance of the 2010B Bonds, as more fully described herein. See “PLAN OF FINANCE” herein.

The 2010 Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the 2010 Bonds. Beneficial ownership interests in the 2010 Bonds may be purchased in book-entry form only in denominations of \$5,000 principal amount or any integral multiple thereof. Interest on the 2010 Bonds will be payable semiannually on June 1 and December 1 of each year, commencing June 1, 2011. Payments of principal of, premium, if any, and interest on, the 2010 Bonds will be paid by the Trustee to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its participants for subsequent disbursement to the beneficial owners of the 2010 Bonds.

The City expects to designate the 2010A Bonds as “Build America Bonds” that are “qualified bonds” under the provisions of the American Recovery and Reinvestment Act of 2009 (the “Stimulus Act”), the interest on which is not excluded from gross income for federal income tax purposes but is exempt from State of California personal income taxes. The City expects to receive a cash subsidy from the United States Treasury equal to 35% of the interest on such 2010A Bonds as and when such interest becomes payable. The City has not undertaken or made any covenant for the benefit of the Owners of the 2010A Bonds to comply with any conditions to the receipt of such cash subsidy or to maintain its right to retain or receive future subsidy payments in respect of the 2010A Bonds. The City is obligated to make all payments of principal or redemption price of, and interest on, the 2010A Bonds, solely from the sources described herein, whether or not it receives any cash subsidy payments pursuant to the Stimulus Act. See “THE SERIES 2010 BONDS – Designation of the 2010A Bonds as “Build America Bonds”” herein.

The 2010 Bonds are subject to redemption prior to maturity as described herein. See “DESCRIPTION OF THE 2010 BONDS – Redemption” herein.

The 2010 Bonds are obligations payable only from the Water Fund of the City and certain other funds and accounts pledged under the Indenture on a parity with certain prior obligations of the City as described herein.

**THE 2010 BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE CITY. THE 2010 BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE CITY, THE STATE OF CALIFORNIA (THE “STATE”) OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION, OR A PLEDGE OF THE FAITH AND CREDIT OF THE CITY, THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE, EXCEPT TO THE EXTENT OF CERTAIN AMOUNTS HELD UNDER THE INDENTURE PLEDGED THEREFOR, SOLELY FROM THE WATER FUND OF THE CITY. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR THE INTEREST ON THE 2010 BONDS. THE ISSUANCE OF THE 2010 BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATSOEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT.**

**MATURITY SCHEDULES****(SEE INSIDE COVER)**

*The 2010 Bonds will be sold by competitive sale on or about December [6], 2010 pursuant to separate Notices Inviting Bids, each dated November \_\_, 2010. See “APPENDIX G – NOTICE INVITING BIDS” attached hereto. For additional information concerning the competitive sale of the 2010 Bonds, contact the City’s financial advisor, Public Resources Advisory Group, Los Angeles, California. The 2010 Bonds will be offered when, as and if issued, sold and received by the Initial Purchaser, subject to the approval of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, and certain other conditions. Public Resources Advisory Group, Los Angeles, California, is serving as Financial Advisor to the City in connection with the issuance of the 2010 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. It is anticipated that the 2010 Bonds in definitive form will be available for delivery to DTC in New York, New York by Fast Automated Securities Transfer (FAST) on or about December [16], 2010.*

Dated: December \_\_, 2010

\* Preliminary; subject to change.

**MATURITY SCHEDULES\***

\$ \_\_\_\_\_ \*  
**CITY OF PASADENA, CALIFORNIA**  
**WATER REVENUE BONDS, 2010A SERIES**  
**(TAXABLE BUILD AMERICA BONDS – DIRECT PAYMENT)**

\$ \_\_\_\_\_ % Term 2010A Bonds due June 1, 20\_\_ – Price: \_\_\_\_\_ % CUSIP<sup>†</sup>: \_\_\_\_\_  
 \$ \_\_\_\_\_ % Term 2010A Bonds due June 1, 20\_\_ – Price: \_\_\_\_\_ % CUSIP<sup>†</sup>: \_\_\_\_\_

\$ \_\_\_\_\_ \*  
**CITY OF PASADENA, CALIFORNIA**  
**WATER REVENUE REFUNDING BONDS, 2010B SERIES**

\$ \_\_\_\_\_ Serial 2010B Bonds

| <b>Maturity Date<br/>(June 1)</b> | <b>Principal<br/>Amount</b> | <b>Interest<br/>Rate</b> | <b>Price or<br/>Yield</b> | <b>CUSIP<sup>†</sup></b> |
|-----------------------------------|-----------------------------|--------------------------|---------------------------|--------------------------|
|-----------------------------------|-----------------------------|--------------------------|---------------------------|--------------------------|

\$ \_\_\_\_\_ % Term 2010B Bonds due June 1, 20\_\_ – Yield: \_\_\_\_\_ % CUSIP<sup>†</sup>: \_\_\_\_\_

\* Preliminary; subject to change.

† CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriters, the City nor the Financial Advisors are responsible for the selection or correctness of the CUSIP numbers set forth herein.

**CITY OF PASADENA**

**CITY COUNCIL**

Bill Bogaard, *Mayor*  
Victor M. Gordo, Esq., *Vice-Mayor*  
Jacque Robinson, *Councilmember*  
Margaret McAustin, *Councilmember*  
Chris Holden, *Councilmember*  
Steve Haderlein, *Councilmember*  
Steven G. Madison, *Councilmember*  
Terry Tornek, *Councilmember*

**CITY STAFF**

Michael J. Beck, *City Manager*  
Andrew Green, *Director of Finance*  
Vicken Erganian, *Treasurer and Deputy Director of Finance*

**CITY ATTORNEY**

Michele Beal Bagneris

**PASADENA WATER AND POWER STAFF**

Phyllis E. Currie, *General Manager*  
Eric Klinkner, *Assistant General Manager*  
Shari M. Thomas, *Assistant General Manager for Finance, Administration and Customer Service*  
Shan Kwan, *Assistant General Manager for Water Delivery*  
Gurcharan Bawa, *Assistant General Manager for Power Supply*  
Joe Awad, *Assistant General Manager for Power Delivery*

**FINANCIAL ADVISOR**

Public Resources Advisory Group  
Los Angeles, California

**BOND AND DISCLOSURE COUNSEL**

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

**TRUSTEE**

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

**VERIFICATION AGENT**

\_\_\_\_\_  
\_\_\_\_\_

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representation, other than those contained herein, and if given or made, such other information or representation must not be relied upon as having been authorized by the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2010 Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2010 Bonds. Any statement made in this Official Statement involving any forecast or matter of estimates of opinion, whether or not expressly so stated, is intended solely as such and not as a representation of fact.

The information set forth herein has been furnished by the City and other sources which are believed to be reliable. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Water System since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE 2010 BONDS, THE INITIAL PURCHASER OF THE RESPECTIVE SERIES THEREOF MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2010 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE INITIAL PURCHASER IN CONNECTION WITH ANY REOFFERING MAY OFFER AND SELL THE 2010 BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE INITIAL PURCHASER.

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**CAUTIONARY STATEMENTS REGARDING  
FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT**

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The City does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

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## OFFICIAL STATEMENT

\$ \_\_\_\_\_\*  
City of Pasadena, California  
Water Revenue Bonds, 2010A Series  
(Taxable Build America Bonds – Direct Payment)

\$ \_\_\_\_\_\*  
City Pasadena, California  
Water Revenue Refunding Bonds, 2010B Series

### INTRODUCTION

*This Introduction is not a summary of this Official Statement, and is qualified by more complete and detailed information contained in the entire Official Statement. A full review should be made of the entire Official Statement, including the cover page and attached appendices. The offering of Series 2010 Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used but not defined in this Introduction shall have the meanings given such terms elsewhere in this Official Statement. Certain definitions of capitalized terms used and not otherwise defined in this Official Statement are set forth in APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”*

#### **Purpose**

The purpose of this Official Statement, which includes the cover page and Appendices hereto, is to set forth certain information in connection with the issuance and sale by the City of Pasadena, California (the “City”) of \$ \_\_\_\_\_\* aggregate principal amount of its Water Revenue Bonds, 2010A Series (Taxable Build America Bonds – Direct Payment) (the “2010A Bonds”) and \$ \_\_\_\_\_\* aggregate principal amount of its Water Revenue Refunding Bonds, 2010B Series (the “2010B Bonds,” and collectively with the 2010A Bonds, the “2010 Bonds”). The 2010A Bonds are being issued to (i) finance the costs of acquisition and construction of certain capital improvements to the Water System, (ii) make an additional deposit to the Parity Reserve Fund, and (iii) pay costs of issuance of the 2010A Bonds, as more fully described herein. The 2010B Bonds are being issued to (i) refund a portion of the City’s Water Revenue and Refunding Bonds, 2003 Series, and (ii) pay costs of issuance of the 2010B Bonds, as more fully described herein. See “PLAN OF FINANCE” and “CAPITAL IMPROVEMENT PROGRAM.”

#### **Authority for Issuance**

The 2010 Bonds are authorized and issued pursuant to Article XIV of the Charter of the City, as amended (the “Charter”), an Ordinance adopted by the City Council of the City (the “City Council”) on November \_\_\_, 2010, and by a Water Revenue Bond Indenture, dated as of August 1, 2003 by and between the City and The Bank of New York Mellon Trust Company, N.A. (successor to BNY Western Trust Company), as trustee (the “Trustee”), as amended and supplemented, including as amended and supplemented by a Third Supplement to Water Revenue Bond Indenture, dated as of December 1, 2010 (the “Third Supplement”), providing for the issuance of the 2010A Bonds, and a Fourth Supplement to Water Revenue Bonds Indenture, dated as of December 1, 2010 (the “Fourth Supplement”), providing for the issuance of the 2010B Bonds (as so amended and supplemented, the “Indenture”). All Water Revenue Bonds issued pursuant to the Indenture are collectively referred to herein as the “Bonds.”

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\* Preliminary; subject to change.



## **The City and the Water System**

The City is a charter city of the State of California (the “State”), comprising approximately 23 square miles, in Los Angeles County in the northwestern portion of the San Gabriel Valley. See APPENDIX A – THE CITY OF PASADENA.” The City owns and operates a municipal water public utility (the “Water System”), established by the Charter. The Water System is managed and controlled by a department of the City, the Pasadena Water and Power Department (“PWP”), and supplies water to virtually all of the water customers within the City limits as well as water customers within a 3.2 square mile area outside the City limits, through its water facilities. For the Fiscal Year ended June 30, 2010, the number of water customers was approximately 37,586, and total water sales were approximately 12.5 million cubic feet. See “THE WATER SYSTEM.”

## **Security and Sources of Payment for the 2010 Bonds**

On August 21, 2003, the City issued its Water Revenue and Refunding Bonds, 2003 Series (the “2003 Bonds”) in the aggregate principal amount of \$47,425,000, of which \$36,825,000 currently remain outstanding. Upon the issuance of the 2010B Bonds resulting in the defeasance of a portion of the 2003 Bonds, \$ \_\_\_\_\_\* aggregate principal amount of the 2003 Bonds will be outstanding.

On May 1, 2007, the City issued its Water Revenue Bonds, 2007 Series (the “2007 Bonds”) in the aggregate principal amount of \$21,550,000, of which \$20,320,000 currently remain outstanding.

The 2010 Bonds are secured by a pledge of and lien upon the Water Fund on a parity with other obligations of the Water System payable from the Water Fund and issued from time to time pursuant to the Indenture, including the 2003 Bonds to remain outstanding, the 2007 Bonds, any additional Bonds and other Parity Debt (as defined in the Indenture). See “SECURITY AND SOURCES OF PAYMENT FOR THE 2010 BONDS – Parity Reserve Fund” and “– Additional Bonds.”

The 2010 Bonds are special, limited obligations of the City. The 2010 Bonds shall not be deemed to constitute a debt or liability of the City, the State or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from the Water Fund of the City. Neither the faith and credit nor the taxing power of the City, the State or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the 2010 Bonds. The issuance of the 2010 Bonds shall not directly or indirectly or contingently obligate the City, the State or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Third Supplement includes certain amendments to the Indenture in the manner and effective as of the date described under “AMENDMENTS TO THE INDENTURE.”

## **Parity Reserve Fund**

Pursuant to Section 1413 of Article XIV of the Charter, the City has established the Parity Reserve Fund. Moneys held in the Parity Reserve Fund are pledged to and may be used solely for payment of debt service on the 2003 Bonds, the 2007 Bonds, the 2010 Bonds, any additional Bonds or any other Parity Debt secured thereby in the event that money in the Debt Service Fund or any

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\* Preliminary, subject to change.

comparable fund established for the payment of principal and interest on the 2003 Bonds, the 2007 Bonds, the 2010 Bonds, any additional Bonds and any other Parity Debt secured thereby is insufficient therefor. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2010 BONDS – Parity Reserve Fund.”

### **Rate Covenant**

The City has covenanted in the Indenture to prescribe, revise and collect such charges for the services, facilities and water furnished by the Water System so as to provide Gross Aggregate Revenues (as defined herein) at least sufficient to pay, as the same become due, interest on, and the principal of and redemption price of, the 2003 Bonds, the 2007 Bonds, the 2010 Bonds, any additional Bonds and any other Parity Debt; all payments required for compliance with the Indenture, including payments required to be made into any Parity Reserve Fund; all payments required to be made with respect to any Subordinate Debt; all Operation and Maintenance Expenses; and all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Aggregate Revenues or any portion thereof and the charges shall be fixed so that in each Fiscal Year the Gross Aggregate Revenues less Operation and Maintenance Expenses will be at least equal to 1.10 times the amount necessary to pay principal and interest as the same become due on all 2003 Bonds, the 2007 Bonds, the 2010 Bonds, any additional Bonds and any other Parity Debt. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2010 BONDS – Rate Covenant.”

### **Designation of 2010A Bonds as “Build America Bonds”**

The City expects to designate the 2010A Bonds as “Build America Bonds” that are “qualified bonds” under the provisions of the American Recovery and Reinvestment Act of 2009 (the “Stimulus Act”), the interest on which is not excluded from gross income for federal income tax purposes but is exempt from State of California personal income taxes. The City expects to receive a cash subsidy from the United States Treasury equal to 35% of the interest on such 2010A Bonds as and when such interest becomes payable. The City has not undertaken or made any covenant for the benefit of the Owners of the 2010A Bonds to comply with any conditions to the receipt of such cash subsidy or to maintain its right to retain or receive future subsidy payments in respect of the 2010A Bonds. The City is obligated to make all payments of principal of and interest on the 2010A Bonds, solely from the sources described herein, whether or not it receives any cash subsidy payments pursuant to the Stimulus Act. See “DESCRIPTION OF THE 2010 BONDS – Designation of the 2010A Bonds as “Build America Bonds.””

### **Other Matters**

This Official Statement speaks only as of its date, and the information and expressions of opinions contained herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Water System since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more Nationally Recognized Municipal Securities Information Repositories. Forward-looking statements in this Official Statement are subject to risks and uncertainties, including the economy of the City’s service area.

This Official Statement includes summaries of the terms of the 2010 Bonds, the Indenture, the Continuing Disclosure Agreement and certain contracts and other arrangements for the supply of water. The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report or instrument. The capitalization

of any word not conventionally capitalized, or otherwise defined herein, indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document.

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

### **Forward-Looking Statements**

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

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

### **Additional Information**

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

Director of Finance  
City of Pasadena  
100 N. Garfield Avenue, Room 353  
Pasadena, California 91101-7215  
(626) 744-4350

## **PLAN OF FINANCE**

### **2010A Bonds**

The 2010A Bonds are being issued to (i) finance the costs of acquisition and construction of certain capital improvements to the Water System, (ii) make an additional deposit to the Parity Reserve Fund and (iii) pay costs of issuance of the 2010A Bonds. See "THE WATER SYSTEM – Capital Improvement Program" for a discussion of the City's current five-year capital improvement program and the projects included therein, a portion of the costs of which are expected to be funded from proceeds of the Series 2010A Bonds.

**2010B Bonds**

The 2010B Bonds are being issued to (i) refund a portion of the City’s Water Revenue and Refunding Bonds, 2003 Series (such portion being refunded, the “Refunded 2003 Bonds”) and (ii) pay costs of issuance of the 2010B Bonds. The Refunded 2003 Bonds consist of [a portion of each maturity of the 2003 Bonds.]

Pursuant to an Escrow Agreement dated as of December 1, 2010 (the “Escrow Agreement”), by and between the City and The Bank of New York Mellon Trust Company, N.A., as escrow agent (the “Escrow Agent”), a portion of the proceeds of the 2010B Bonds, together with certain other available funds, will be deposited into an escrow fund and applied to the purchase of certain federal securities (the “Defeasance Securities”), the principal of and interest on which, together with the cash held in escrow fund, will be sufficient to pay interest to become due on the Refunded 2003 Bonds to and including June 1, 2013 and to redeem on June 1, 2013, the Refunded 2003 Bonds at a redemption price equal to 100% of the principal amount thereof.

On the date of delivery of the 2010B Bonds, the City will receive a report from \_\_\_\_\_, verifying the adequacy of (i) the mathematical computation concerning the adequacy of the cash deposited and held in the escrow fund, together with the maturing principal amounts of and interest earned on the Defeasance Securities, to pay interest due on the Refunded 2003 Bonds to the date of redemption and to pay the redemption price of the Refunded 2003 Bonds to be redeemed on such date of redemption, and (ii) the mathematical computations of the yield on the 2010B Bonds and the yield on the Defeasance Securities purchased with a portion of the proceeds of the sale of the 2010B Bonds and other available funds of the City. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS.”

Upon such deposit, the Refunded 2003 Bonds will no longer be deemed to be outstanding under the Indenture, and all obligations of the City with respect to the Refunded 2003 Bonds shall cease and terminate, except for the obligation of the City to cause the amounts due on the Refunded 2003 Bonds to be paid from funds on deposit in the escrow fund.

**ESTIMATED SOURCES AND USES OF FUNDS**

The estimated sources and uses of funds in connection with the 2010 Bonds are as follows:

| <b>Sources:</b>   | <u><b>2010A Bonds</b></u> | <u><b>2010B Bonds</b></u> |
|---|---------------------------|---------------------------|
| Principal Amount of 2010 Bonds                          | \$                        | \$                        |
| Plus Net Original Issue Premium                         |                           |                           |
| Transfer from Refunded 2003 Bonds<br>Funds and Accounts |                           |                           |
| Total   | <u>\$</u>                 | <u>\$</u>                 |
| <br>  |                           |                           |
| <b>Uses:</b>  |                           |                           |
| Deposit to Escrow Fund                                  | \$                        | \$                        |
| Deposit to Construction Account                         |                           |                           |
| Deposit to Parity Reserve Fund                          |                           |                           |
| Deposit to Cost of Issuance Account <sup>(1)</sup>      |                           |                           |
| Underwriter’s Discount                                  |                           |                           |
| Total   | <u>\$</u>                 | <u>\$</u>                 |

<sup>(1)</sup> Includes fees of Bond and Disclosure Counsel, the Trustee, the Escrow Agent, the Verification Agent and the Financial Advisor, rating agencies’ fees, printing costs and other costs associated with the issuance of the 2010 Bonds.

## DESCRIPTION OF THE 2010 BONDS

### General

The 2010 Bonds will be dated their date of delivery and will bear interest from that date at the rates per annum and will mature on June 1 in the years set forth on the inside cover page of this Official Statement. Interest on the 2010 Bonds will be payable semiannually on June 1 and December 1, commencing June 1, 2011, and will be calculated on the basis of a 360-day year comprised of twelve 30-day months. The 2010 Bonds are being issued in fully registered form, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). So long as Cede & Co. is the registered owner of the 2010 Bonds, references herein to the owners or registered owners shall mean Cede & Co., and not the beneficial owners of the 2010 Bonds. See APPENDIX C – BOOK-ENTRY ONLY SYSTEM.”

### Designation of 2010A Bonds as “Build America Bonds”

The City is issuing the 2010A Bonds as taxable bonds, and expects to designate the 2010A Bonds as “Build America Bonds” under section 54AA(d) of the Internal Revenue Code of 1986, as amended (the “Code”), and as “qualified bonds” under section 54AA(g) of the Code. In connection with the issuance of the 2010A Bonds, and as permitted by the Stimulus Act, the City will elect (which election is irrevocable pursuant to the provisions of the Stimulus Act) to receive directly from the United States Department of the Treasury (“Department of the Treasury”) on or about each interest payment date for the 2010A Bonds a subsidy payment equal to 35% of the taxable interest it pays on the 2010A Bonds to the holders thereof. The cash subsidy payment does not constitute a full faith and credit obligation of or guarantee by the United States Government, but is required to be paid by the United States Treasury under the Stimulus Act. Any cash subsidy payments received by the City will constitute Other Water Revenues as defined in the Indenture. If the City fails to comply with the conditions to receiving the federal cash subsidy throughout the term of the 2010A Bonds, it may no longer receive the cash subsidy payments and could be subject to a claim for the return of previously received subsidy payments. The City has not undertaken or made any covenant for the benefit of the Owners of the 2010A Bonds to comply with such conditions and maintain its right to retain or receive future subsidy payments in respect of the 2010A Bonds. The City is obligated to make all payments of principal of and interest on the 2010A Bonds, solely from the sources described herein, whether or not it receives cash subsidy payments pursuant to the Stimulus Act.

See also “AMENDMENTS TO THE INDENTURE” for a discussion of certain amendments to the Indenture that will become effective upon the occurrence of certain events in the future, including certain amendments relating to the treatment of any cash subsidy payment received by the City in connection with Build America Bonds or under any similar program.

### Redemption

#### 2010A Bonds

**Optional Redemption.** The 2010A Bonds are subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, at the Make Whole Redemption Price.

“Make Whole Redemption Price” means, for each maturity of the 2010A Bonds, the greater of (i) the issue price of the 2010A Bonds of such maturity as determined in accordance with the Code or (ii) the sum of the present value of the remaining scheduled payments of principal of and interest on the 2010A Bonds of such maturity to be redeemed to the maturity date of such 2010A Bonds, not including any

portion of those payments of interest accrued and unpaid as of the date on which the 2010A Bonds of such maturity are to be redeemed, discounted to the date on which the 2010A Bonds of such maturity are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate plus [twenty-five (25)] basis points, plus accrued interest on the 2010A Bonds of such maturity to be redeemed to the redemption date.

“Treasury Rate” means, with respect to any redemption for a particular 2010A Bond, the rate per annum truncated to the fifth decimal, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

“Comparable Treasury Issue” means, with respect to any redemption date for a particular 2010A Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the 2010A Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the 2010A Bond to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular 2010A Bond:

(i) the most recent yield data for the applicable U.S. Treasury maturity index from the Federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m., New York City time, on the Valuation Date; or

(ii) if the yield described in (i) above is not reported as of such time or the yield reported as of such time is not ascertainable, the average of four Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by the Designated Investment Banker.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular 2010A Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the Valuation Date.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the City.

“Reference Treasury Dealer” means each of four firms, specified by the City from time to time, that are primary United States Government securities dealers (each, a “Primary Treasury Dealer”); provided, that if any of them ceases to be a Primary Treasury Dealer, the City will substitute another Primary Treasury Dealer.

“Valuation Date” means a day at least two Business Days and no more than forty-five calendar days preceding the redemption date.

**Extraordinary Optional Redemption.** The 2010A Bonds are also subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, upon the occurrence of an Extraordinary Event, as a whole or in part on any date, at the Extraordinary Optional Redemption Price.

“Extraordinary Optional Redemption Price” means, for each maturity of the 2010A Bonds, the greater of (i) the issue price of the 2010A Bonds of such maturity as determined in accordance with the Code or (ii) the sum of the present value of the remaining scheduled payments of principal of and interest on the 2010A Bonds of such maturity to be redeemed to the maturity date of such 2010A Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the 2010A Bonds of such maturity are to be redeemed, discounted to the date on which the 2010A Bonds of such maturity are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate plus one hundred (100) basis points, plus accrued interest on the 2010A Bonds of such maturity to be redeemed to the redemption date.

An “Extraordinary Event” will have occurred if the City determines that a material adverse change has occurred to section 54AA or section 6431 of the Code or there is any guidance published by the Internal Revenue Service or the United States Treasury with respect to such sections or any other determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of an act or omission by the City to satisfy the requirements to receive the 35% cash subsidy payment from the United States Treasury with respect to the 2010A Bonds, pursuant to which the City’s 35% cash subsidy payment from the United States Treasury with respect to the 2010A Bonds is reduced or eliminated.

**Mandatory Redemption.** The 2010A Bonds maturing on June 1, 20\_\_ shall also be subject to redemption prior to their stated maturity, in part, from mandatory sinking fund payments as specified below, commencing on June 1, 20\_\_, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption without premium.

Term 2010A Bonds Due June 1, 20\_\_

Mandatory  
Sinking Fund  
Payment Dates  
(June 1)

---

Mandatory  
Sinking Fund  
Payments

---



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† Final Maturity.

The 2010A Bonds maturing on June 1, 20\_\_ shall also be subject to redemption prior to their stated maturity, in part, from mandatory sinking fund payments as specified below, commencing on June 1, 20\_\_, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption without premium.

Term 2010A Bonds Due June 1, 20\_\_

|  |                                       |
|--|---------------------------------------|
| Mandatory<br>Sinking Fund<br>Payment Dates<br>(June 1) | Mandatory<br>Sinking Fund<br>Payments |
| <hr style="width: 100%;"/>                             | <hr style="width: 100%;"/>            |

† Final Maturity.

***Selection of 2010A Bonds for Redemption.*** Whenever provision is made in the Third Supplement for the redemption of less than all of the 2010A Bonds, the maturities of the 2010A Bonds to be redeemed shall be specified by the City. In the case of partial redemption of less than all of the 2010A Bonds of any maturity, the Trustee shall select the particular 2010A Bonds to be redeemed, from all 2010A Bonds of the respective maturity not previously called for redemption, pro rata, subject to the authorized denominations applicable to the 2010A Bonds; provided that, for so long as a book-entry only system is in effect with respect to the 2010A Bonds and DTC or a successor Securities Depository is the sole registered owner of such 2010A Bonds, in the event of the redemption of less than all of a maturity of the 2010A Bonds, the particular ownership interests of such maturity to be redeemed will be determined by DTC and DTC Participants and Indirect Participants (as defined in APPENDIX C – “BOOK-ENTRY ONLY SYSTEM”), or by any successor Securities Depository or any other intermediary, in accordance with their respective operating rules and procedures. The 2010A Bonds will be made eligible for partial redemptions to be treated by DTC, in accordance with its rules and procedures, as a “pro rata pass-through distribution of principal,” and partial redemptions are expected to be processed by DTC on a pro rata distribution of principal basis in accordance with such rules and procedures. In the event of a partial redemption of 2010A Bonds of a maturity, the security position at DTC will not be reduced but the balance will be subject to adjustment by a factor to be provided to DTC by the Trustee. Reductions in the holdings of beneficial owners upon any partial redemption of a maturity of the 2010A Bonds will depend on the procedures used by the DTC Direct Participant and Indirect Participants, and neither the City nor the Trustee can give any assurance in that regard. If, at the time of a partial redemption of a maturity of the 2010A Bonds, the Trustee fails to identify the 2010A Bonds being redeemed as being subject to a pro rata pass through distribution of principal and/or fails to furnish such factor to DTC, DTC’s rules and procedures provide that such redemption or purchase will be processed by random lottery. **The City provides no assurance that DTC and any DTC Direct Participant and Indirect Participant, or any successor securities depository or other intermediary, will make any such determination, will make such determination on a pro rata basis or effectuate a pro rata pass through distribution of principal in the case of a partial redemption of a maturity of the 2010A Bonds, or that the Trustee will identify the 2010A Bonds and provide the appropriate factor as described above in the case of a partial redemption of a maturity of the 2010A Bonds, and in each**



**case any failure to do so shall not affect the sufficiency or the validity of the related redemption of the 2010A Bonds.**

Upon an optional redemption of a portion of any term 2010A Bonds, the principal amount of such term 2010A Bonds being redeemed shall be allocated against the scheduled mandatory sinking fund payments for such term 2010A Bonds in such manner as the City may direct and the City shall provide the Trustee a revised sinking fund payment schedule.

**2010B Bonds**

**Optional Redemption.** The 2010B Bonds maturing on or before June 1, 2020 are not subject to call or redemption prior to maturity. The 2010B Bonds maturing on or after June 1, 2021 are subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date on or after December 1, 2020, at a Redemption Price equal to the principal amount of the 2010B Bonds called for redemption together with accrued interest thereon to the date of redemption, without premium.

**Mandatory Redemption.** The 2010B Bonds maturing on June 1, 20\_\_ shall also be subject to redemption prior to their stated maturity, in part, from mandatory sinking fund payments as specified below, commencing on June 1, 20\_\_, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption without premium.

Term 2010B Bonds Due June 1, 20\_\_

| Mandatory<br>Sinking Fund<br>Payment Dates<br>(June 1) | Mandatory<br>Sinking Fund<br>Payments |
|--|---------------------------------------|
|--|---------------------------------------|

† Final Maturity.

**Selection of 2010B Bonds for Redemption.** Whenever provision is made in the Fourth Supplement for the redemption of less than all of the 2010B Bonds, the maturities of the 2010B Bonds to be redeemed shall be specified by the City. In the case of partial redemption of less than all of the 2010B Bonds of any maturity, the Trustee shall select the particular 2010B Bonds to be redeemed, from all 2010B Bonds of the respective maturity not previously called for redemption, in authorized denominations, by lot in any manner which the Trustee in its sole discretion shall deem appropriate. The Trustee shall promptly notify the City in writing of the 2010B Bonds so selected for redemption. Upon an optional redemption of a portion of any term 2010B Bonds, the principal amount of such term 2010B Bonds being redeemed shall be allocated against the scheduled mandatory sinking fund payments for such term 2010B Bonds in such manner as the City may direct and the City shall provide the Trustee a revised sinking fund payment schedule.

### **Notice of Redemption**

Notice of redemption shall be mailed by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, to each Owner, the Securities Depositories and two or more Information Services. Notice of redemption to the Securities Depositories shall be given by telecopy, certified, registered or overnight mail or by such other method as may be requested by the Securities Depositories. Each notice of redemption shall state the date of such notice, the date of issue of the Series of the 2010 Bonds to which such notice relates, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity, the distinctive certificate numbers of the 2010 Bonds of such maturity and Series to be redeemed and, in the case of 2010 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said 2010 Bonds of such Series the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a 2010 Bond to be redeemed in part only, together with interest accrued thereon to the date fixed for redemption, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such 2010 Bonds of such Series be then surrendered at the address or addresses of the Trustee specified in the redemption notice. Neither the City nor the Trustee shall have any responsibility for any defect in the CUSIP number that appears on any 2010 Bond or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither the City nor the Trustee shall be liable for any inaccuracy in such numbers.

In the event of an optional redemption of Series 2010 Bonds of a Series, if the City shall not have deposited or otherwise made available to the Trustee the money required for the payment of the redemption price of the Series 2010 Bonds of such Series to be redeemed at the time of the mailing of notice of redemption, such notice of redemption shall state that the redemption is expressly conditioned upon the timely deposit of sufficient funds therefor with the Trustee.

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

### **Effect of Redemption**

When notice of redemption has been given, and when the amount necessary for the redemption of the 2010 Bonds called for redemption (principal and premium) is set aside for that purpose, the 2010 Bonds designated for redemption shall become due and payable on the redemption date, and upon presentation and surrender of said 2010 Bonds, at the place specified in the notice of redemption, such 2010 Bonds shall be redeemed and paid at said redemption price, and no interest shall accrue on such 2010 Bonds called for redemption after the redemption date.

**Debt Service Requirements**

The following is the annual debt service schedule for the 2003 Bonds, the 2007 Bonds and the 2010 Bonds assuming no redemption other than mandatory sinking account redemptions.

| Bond Year<br>Ending June 1 | 2003 Bonds and<br>2007 Bonds <sup>(1)</sup> |          | 2010A Bonds |          | 2010B Bonds |          | Total |
|----------------------------|---|----------|-------------|----------|-------------|----------|-------|
|                            | Principal                                   | Interest | Principal   | Interest | Principal   | Interest |       |
| 2011                       |   |          |             |          |             |          |       |
| 2012                       |   |          |             |          |             |          |       |
| 2013                       |   |          |             |          |             |          |       |
| 2014                       |   |          |             |          |             |          |       |
| 2015                       |   |          |             |          |             |          |       |
| 2016                       |   |          |             |          |             |          |       |
| 2017                       |   |          |             |          |             |          |       |
| 2018                       |   |          |             |          |             |          |       |
| 2019                       |   |          |             |          |             |          |       |
| 2020                       |   |          |             |          |             |          |       |
| 2021                       |   |          |             |          |             |          |       |
| 2022                       |   |          |             |          |             |          |       |
| 2023                       |   |          |             |          |             |          |       |
| 2024                       |   |          |             |          |             |          |       |
| 2025                       |   |          |             |          |             |          |       |
| 2026                       |   |          |             |          |             |          |       |
| 2027                       |   |          |             |          |             |          |       |
| 2028                       |   |          |             |          |             |          |       |
| 2029                       |   |          |             |          |             |          |       |
| 2030                       |   |          |             |          |             |          |       |
| 2031                       |   |          |             |          |             |          |       |
| 2032                       |   |          |             |          |             |          |       |
| 2033                       |   |          |             |          |             |          |       |
| 2034                       |   |          |             |          |             |          |       |
| 2035                       |   |          |             |          |             |          |       |
| 2036                       |   |          |             |          |             |          |       |
| 2037                       |   |          |             |          |             |          |       |
| 2038                       |   |          |             |          |             |          |       |
| 2039                       |   |          |             |          |             |          |       |
| 2040                       |   |          |             |          |             |          |       |
| Total                      |   |          |             |          |             |          |       |

<sup>(1)</sup> Proceeds of the 2010B Bonds will be used to refund a portion of [each maturity ] of the 2003 Bonds as described herein. See "PLAN OF FINANCE -- 2010B Bonds" herein.

## SECURITY AND SOURCES OF PAYMENT FOR THE 2010 BONDS

### General

The 2010 Bonds are an obligation payable exclusively from the Water Fund of the City and certain other funds and accounts pledged under the Indenture. The 2010 Bonds are secured by a pledge of and lien upon the Pledged Revenues of the Water System on a parity with other obligations of the Water System payable from the Water Fund and issued from time to time pursuant to the Indenture, including the 2003 Bonds and the 2007 Bonds and any additional Bonds or Parity Debt hereafter issued, and a pledge of amounts in the Parity Reserve Fund, except for amounts held in the Rebate Fund. See “– Parity Reserve Fund” and “– Additional Bonds” below.

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

“Parity Debt” means any indebtedness, installment sale obligation, lease obligation or other obligation of the City for borrowed money or interest rate swap agreement having an equal lien and charge upon the Pledged Revenues, therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding).

*The 2010 Bonds are special, limited obligations of the City. The 2010 Bonds shall not be deemed to constitute a debt or liability of the City, the State or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from the Water Fund of the City. Neither the faith and credit nor the taxing power of the City, the State or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the 2010 Bonds. The issuance of the 2010 Bonds shall not directly or indirectly or contingently obligate the City, the State or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.*

### Rate Covenant

The City has covenanted in the Indenture to prescribe, revise and collect such charges for services, facilities and water furnished by the Water System which, after making allowances for contingencies and error in the estimates, will provide Gross Aggregate Revenues at least sufficient to pay: (a) as the same become due, the interest on and principal and Redemption Price of the 2003 Bonds, the 2007 Bonds, the 2010 Bonds and any other Parity Debt; (b) all payments required for compliance with the Indenture, including payments required to be made into the Parity Reserve Fund; (c) all payments required to be made with respect to any Subordinate Debt; (d) all Operation and Maintenance Expenses; and (e) all payments required to meet any other obligations of the City which are charges, liens or

encumbrances upon or payable from the Gross Aggregate Revenues or any portion thereof; and the charges shall be fixed so that in each Fiscal Year the Gross Aggregate Revenues less Operation and Maintenance Expenses will be at least equal to 1.10 times the amount of the Annual Debt Service. "Gross Aggregate Revenues" means all Gross CIC Revenues and Other Water Revenues, all amounts deposited in the Water Fund and all interest earnings or income thereon or therefrom.

The City's rate covenant is subject to compliance by the City with the provisions of Article XIID of the California State Constitution. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Articles XIIC and XIID of the California Constitution."

### **The Water Fund**

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

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

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

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

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

The annual transfer from the Water Fund to the City’s General Fund generally occurs in the succeeding Fiscal Year as a two-part transfer, with approximately 75% of the annual transfer made in October or November and the remaining balance transferred in March. During Fiscal Years 2010 and 2011, the schedule of transfer payments from the Water Fund to the City’s General Fund was amended to provide for monthly payments in place of the historical two-part payment schedule. The amended transfer schedule provides a more stable cash flow for the Water Fund that more evenly matches cash receipts for the periods. All transfers were made by the final scheduled transfer date as prescribed by the City Charter. It is expected that the transfer payments will return to the two-part schedule for Fiscal Year 2012.

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

**TABLE 1**  
**TRANSFERS TO THE GENERAL FUND**  
(Dollar Amounts in Thousands)

| <u>Fiscal Year</u>  | <u>Transfer Amount</u> | <u>Percent of Prior Year<br/>Gross Income</u> |
|---------------------|------------------------|---|
| 2007                | \$2,599                | 6%  |
| 2008                | 2,923                  | 6   |
| 2009                | 2,872                  | 6   |
| 2010                | 3,066                  | 6   |
| 2011 <sup>(1)</sup> | 3,394                  | 6   |

<sup>(1)</sup> Adopted Budget.

Section 1410 of the Charter also provides that any surplus or reserves in the Water Fund may be temporarily used for other municipal purposes if there are insufficient funds in the City Treasury to pay the current expenses of the general government of the City before the collection of taxes levied in any Fiscal Year. Should moneys from the Water Fund be used pending the receipt of taxes, the amount so used shall be repaid not later than February 15 of the same Fiscal Year.

The Indenture provides that all moneys at any time held in the Water Fund will be held in trust for the benefit of Owners of the 2003 Bonds, the 2007 Bonds, the 2010 Bonds and any other Parity Debt and will be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture.

**Capital Improvements Charge Account**

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

**Parity Reserve Fund**

The Indenture establishes the Parity Reserve Fund to be held by the Trustee. The Parity Reserve Fund is required to be maintained in an amount equal to the Reserve Fund Requirement. “Reserve Fund Requirement” is defined in the Indenture to mean, as of any date of determination and excluding therefrom any Parity Debt for which no reserve fund is to be maintained or for which a separate reserve

fund is to be maintained, the least of (a) ten percent (10%) of the initial offering price to the public of each series of Bonds and Parity Debt to be secured by the Parity Reserve Fund as determined under the Code, or (b) the Maximum Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund, or (c) one hundred twenty-five percent (125%) of the Average Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund, all as computed and determined by the City; provided that such requirement (or any portion thereof) may be provided by one or more policies of municipal bond insurance or surety bonds issued by a municipal bond insurer if the obligations insured by such insurer have ratings at the time of issuance of such policy in one of the two highest rating categories of Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. ("S&P") or by a letter of credit issued by a bank or other institution if the obligations issued by such bank or other institution have ratings at the time of issuance of such letter of credit in one of the two highest rating categories of Moody's and Standard & Poor's. Money in the Parity Reserve Fund is pledged to, and shall be used solely for, the purpose of paying the principal of and interest on the 2003 Bonds, the 2007 Bonds, the 2010 Bonds and any additional Bonds and any Parity Debt to be secured by the Parity Reserve Fund in the event that money in the Debt Service Fund is insufficient therefor, and for that purpose money shall be transferred from the Parity Reserve Fund to the Debt Service Fund. Whenever money is transferred from the Parity Reserve Fund an equal amount of money shall be transferred to the Parity Reserve Fund not later than twelve months thereafter.

#### **Additional Bonds and Parity Debt**

Other than the 2003 Bonds and the 2007 Bonds, the City has no other Bond or Parity Debt outstanding.

The Indenture provides that no additional indebtedness of the City payable out of the Water Fund on a parity with the 2003 Bonds, the 2007 Bonds, the 2010 Bonds, any additional Bonds and any other Parity Debt shall be created or incurred unless:

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

twelve (12) month period following completion of improvements to the Water System to be financed with the proceeds of such additional Bonds or Parity Debt, whichever is greater, shall be at least equal to 1.10 times the amount of Annual Debt Service during the immediately succeeding Fiscal Year on all Bonds or Parity Debt then outstanding and the additional Bonds or Parity Debt then proposed to be issued.

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

"Event of Default" means:

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



Aggregate Revenues and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control.

Nothing in the Indenture limits the ability of the City to issue or incur obligations which are junior or subordinate to the payment of the principal, premium, interest and reserve fund requirements for the 2003 Bonds, the 2007 Bonds, the 2010 Bonds, any additional Bonds and all other Parity Debt and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Pledged Revenues after the prior payment of all amounts then due and required to be paid or set aside under the Indenture from Pledged Revenues for principal, premium, interest and reserve fund requirements for the 2003 Bonds, the 2007 Bonds, the 2010 Bonds, any additional Bonds and all other Parity Debt, as the same become due and payable and at the times and in the manner as required in the Indenture or any documents providing for the issuance or incurrence of Parity Debt.

### **Other Covenants of the City**

In addition to the covenant described under the subsection “Rate Covenant” above, under the Indenture, the City makes certain other covenants, including covenants relating to the operation of the Water System, insurance covenants and covenants related to the tax-exempt status of the 2010B Bonds. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

### **Investment of Funds**

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

### **Limitations on Remedies**

In addition to the limitations on remedies contained in the Indenture, the rights of the Owners of the 2010 Bonds are subject to the limitations on legal remedies against cities and other public agencies in the State. Additionally, enforceability of the rights and remedies of the Owners of the 2010 Bonds, and the obligations incurred by the City, may become subject to the following: the federal Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor’s rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. The opinion to be delivered by Fulbright & Jaworski L.L.P., Bond Counsel, concurrently with the issuance of the 2010 Bonds, that the 2010 Bonds constitute valid and binding limited obligations of the City payable from and secured by a pledge of Pledged Revenues as and to the extent provided in the Indenture, will be subject to the limitations described above and the various other legal opinions to be delivered concurrently with the issuance of the 2010 Bonds will be similarly qualified. In the event the City fails to comply with its covenants under the Indenture or to pay principal of or interest on the 2010 Bonds, there can be no assurance that remedies will be available to fully protect the interests of the holders of the 2010 Bonds. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the 2010 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

## AMENDMENTS TO THE INDENTURE

The Third Supplement includes certain amendments to the Indenture which will become effective upon the earlier to occur of: (i) the first date upon which all of the Outstanding 2003 Bonds and 2007 Bonds have been paid or discharged in accordance with their terms and shall no longer be Outstanding for purposes of the Indenture, or (ii) the first date upon which the City has filed with the Trustee the written consents to the amendments to the Indenture set forth in the Third Supplement of (a) each Credit Provider and the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding if such Bonds are not secured by a Credit Facility, and (b) the providers of any interest rate swap agreements and any standby bond purchase agreements, other liquidity facilities or other agreements relating to such Bond Obligation then Outstanding to the extent the consent thereof shall be required by the terms of such interest rate swap agreements and any standby bond purchase agreements, other liquidity facilities or other agreements.

As modified, the term “Debt Service” shall mean the amount of principal and interest becoming due and payable on all Bonds and parity Debt; provided, however, that for the purposes of computing Debt Service:

(a) Excluded Principal Payments shall be excluded from such calculation, and Assumed Debt Service shall be included in such calculation;

(b) if the Bonds or Parity Debt are Variable Rate Indebtedness, the interest rate thereon for periods when the actual interest rate cannot yet be determined will be assumed to be equal to the rate that is ninety percent (90%) of the average RBI during the twelve (12) calendar month period immediately preceding the date in which the calculation is made (the “assumed RBI-based rate”);

(c) principal and interest payments on Bonds and Parity Debt will be excluded to the extent such payments are to be paid from amounts on deposit with the Trustee or another fiduciary in escrow specifically therefor and to the extent that such interest payments are to be paid from the proceeds of Bonds or Parity Debt held by the Trustee or another fiduciary as capitalized interest;

(d) in determining the principal amount, payment will (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including any mandatory sinking fund payments or any scheduled redemption or payment of Bonds or Parity Debt on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value will be deemed a principal payment and interest that is compounded and paid as Accreted Value will be deemed due on the scheduled redemption or payment date of such Capital Appreciation Indebtedness;

(e) if any interest rate swap agreement is in effect with respect to, and is payable on a parity with, the Bonds or Parity Debt to which it relates, no amounts payable under such interest rate swap agreement will be included in the calculation of Debt Service unless the sum of (i) interest payable on such Bonds or Parity Debt, plus (ii) amounts payable by the City under such interest rate swap agreement, less (iii) amounts receivable by the City under such interest rate swap agreement are greater than the interest payable on the Bonds or Parity Debt to which it relates, then, in such instance, the amount of such payments to be made that exceed the interest to be paid on the Bonds or Parity Debt will be included in such calculation. For such purposes, any variable interest rate payable by the City with respect to a Series of Bonds and swapped to a fixed

rate under any such interest rate swap agreement will be assumed to be equal to the assumed RBI-based rate;

(f) if any Bonds or Parity Debt include an option or an obligation to tender all or a portion of such Bonds or Parity Debt to the City, the Trustee or another fiduciary or agent and require that such Bonds or Parity Debt or portion thereof be purchased if properly presented, then for purposes of determining the amounts of principal and interest due, the options or obligations to tender will be treated as a principal maturity occurring on the first date on which holders or owners thereof may or are required to tender, except that any such option or obligation to tender will be ignored and not treated as a principal maturity, if (1) such Bonds or Parity Debt are rated in one of the two highest long-term Rating Categories by Moody's or by Standard & Poor's or such Bonds or Parity Debt are rated in the highest short-term note or commercial paper Rating Categories by Moody's or by Standard & Poor's, and (2) funds for the purchase price are to be provided by a letter of credit or standby bond purchase agreement and

(g) if interest on any Bonds or Parity Debt is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Code, or any future similar program, then interest payments with respect to such Bonds or Parity Debt shall be reduced by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America.

As modified, the term "Other Water Revenues" shall mean all revenues from rates, fees and charges for providing water service to persons and real property and all other fees, rents and charges and other revenues derived by the City from the ownership, operation, use or service of the Water System, including contributions in aid of construction, but not including the CIC Revenues; provided, however, there shall be excluded therefrom any amounts reimbursed to the City by the United States of America pursuant to Section 54AA of the Code or any future similar program.

## **PASADENA WATER AND POWER**

### **Organization and Management**

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

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

***General Manager's Office-Customer Relations & Legislative Business Unit*** – This Unit is part of the General Manager's Office and is responsible for customer relations, regulatory affairs, and strategic planning and long-term resources. This Unit is also responsible for environmental and legislative matters impacting the utility.

***Finance, Administration and Customer Service Business Unit*** – This Unit develops and executes PWP's overall financial strategy and ensures its financial integrity. This Unit is responsible for

the financial resources of PWP and for providing relevant information to the operating units for decision making purposes. This Unit plans and oversees the financial aspects, administrative support functions and all cross-functional operations and systems for PWP. The responsibilities of this Unit include the operating budget, capital budget and financing, financial analysis and planning, financial management, administration, billing, call center, meter reading and customer care services, risk management, information systems and technology and materials management.

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

**Power Delivery Business Unit** – This Unit is responsible for the operation and maintenance of the local power distribution system to provide the safe and reliable delivery of electricity, and provides engineering and construction management services of the local power distribution and is responsible for implementing the Power Master Plan. This Unit is also responsible for the operations and maintenance of the City’s fiber optic network.

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

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

PHYLLIS E. CURRIE, General Manager. Ms. Currie joined PWP in 2001 as General Manager. She previously worked for the City of Los Angeles for 32 years in various capacities. Prior to coming to PWP, she was, and had been for seven years, Chief Financial Officer for the Los Angeles Department of Water and Power (“LADWP”) where she managed its financial affairs, including LADWP’s joint ventures and partnerships, such as the Southern California Public Power Authority (SCPPA) and the Intermountain Power Agency (IPA) in Utah. She led the development of financial strategies to position LADWP to compete in a deregulated industry. From 1984 to 1992, she was Assistant City Administrative Officer overseeing development of the annual operating and capital budgets, including debt finance. Ms. Currie earned a bachelor of arts degree in Political Science and a master’s degree in Business Administration from the University of California at Los Angeles. She also completed the Program for Senior Executives in State and Local Government at the John F. Kennedy School of Government at Harvard University.

ERIC KLINKNER, Assistant General Manager. Mr. Klinkner has been with PWP since 1995. He served as PWP’s manager of power resources and Business Unit Director for Power Supply and was appointed to his present position in August 2004. In his current position, he is responsible for regulatory affairs, strategic planning and long-term resource and environmental issues. Mr. Klinkner is also responsible for legislative issues impacting PWP. Mr. Klinkner previously worked at LADWP where he started in power resource planning. He has a master’s degree in mechanical engineering from California State University-Northridge and is a state registered professional engineer.

SHARI M. THOMAS, Assistant General Manager for Finance, Administration and Customer Service. Ms. Thomas joined PWP in January 2006. She began her career with the City of Pasadena in 2002 as the Deputy Director of Finance. She previously worked for the City of Riverside for nearly 15 years in various financial positions. Ms. Thomas is currently responsible for financial planning and budgeting, cost of service analysis and rate setting, information technology for PWP and customer

service. She completed her bachelor of science degree with majors in Accounting and Finance in Minnesota and has also completed the University of Wisconsin's Advanced Governmental Finance Institute.

GURCHARAN BAWA, Assistant General Manager for Power Supply. Mr. Bawa has been with Pasadena Water and Power for 17 years working in the Power Production field managing regulatory and environmental issues. He most recently has been responsible for evaluating renewable energy resources and incorporating these assets into Pasadena's overall energy resource portfolio. He received his Mechanical Engineering degree from S.V.R. College of Engineering and Technology, Surat, India. He is a licensed Professional Engineer in the State of California.

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

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

### **Municipal Services Committee**

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

## **THE WATER SYSTEM**

### **General**

The Water System has been distributing water to the City's customers since 1912. The area served by the Water System encompasses approximately 26.2 square miles, 3.2 square miles of which lie outside of the incorporated City boundary. Of the total 37,586 water meters, 31,120 meters, or 82.8%, are within the City limits and an additional 6,466 meters, or 17.2%, are outside the City limits. In Fiscal Year 2010, the Water System provided water service to a total population of approximately 175,957 people. During this period, water sales within the City limits were about 24,702 acre-feet, or 86.0%, while approximately 4,004 acre-feet, or 14.0% of water was sold to customers located outside the City limits.

The major facilities of the Water System consist of: (i) 16 groundwater wells (of which eight are active) with a production capacity of 40,000 acre-feet per year, (ii) five imported water connections on the Metropolitan Water District Upper Feeder, (iii) 110 million gallons of treated water storage capacity in 14 storage reservoirs (including the 50 million gallon Morris Jones Reservoir), (iv) 19 booster pumping stations supplying 23 different pressure zones, (v) 17 chlorination stations, (vi) 30 pressure reducing stations, and (vii) approximately 500 miles of transmission and distribution pipelines. Most of the Water System was installed between 1922 and 1965, although a few distribution mains which are more than 100 years old remain in service. The vast majority of these pipelines are unlined cast iron pipelines.

Each year, the City Council approves a five-year capital improvement program for the Water System. See “– Capital Improvement Program” below.

The peak water sales month for Fiscal Year 2010 occurred in September, when 3,330 acre-feet or 1,085 million gallons were sold, while March was the low sales month for the year, when only 1,460 acre-feet or 476 million gallons were sold. The following table sets forth statistical information relating to the Water System during the Fiscal Years shown.

**TABLE 2  
WATER STATISTICS**

|  | Fiscal Year Ended June 30, |         |         |         |         |
|--|----------------------------|---------|---------|---------|---------|
|  | 2006                       | 2007    | 2008    | 2009    | 2010    |
| Population Served Inside City Limits         | 148,370                    | 147,262 | 148,126 | 150,185 | 151,576 |
| Population Served Outside City Limits        | 18,021                     | 23,687  | 23,826  | 24,157  | 24,381  |
| Total Population Served                      | 166,391                    | 170,949 | 171,952 | 174,342 | 175,957 |
| Rainfall in inches (October to September)    | 17.57                      | 6.24    | 20.77   | 16.09   | 25.11   |
| Supply in Acre-Feet                          |                            |         |         |         |         |
| From MWD Connections                         | 21,585                     | 25,309  | 25,505  | 22,662  | 19,715  |
| From Wells                                   | 13,739                     | 13,664  | 11,674  | 11,867  | 10,581  |
| Average Supply                               | 35,324                     | 38,973  | 37,179  | 34,529  | 30,296  |
| Peak Day Distribution (Million Gallons)      | 44.02                      | 47.69   | 52.19   | 43.23   | 39.11   |
| Average Daily Distribution (Million Gallons) | 31.53                      | 34.8    | 33.19   | 30.81   | 27.04   |

Source: Pasadena Water and Power Department.

**Water Production**

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

During Fiscal Year 2010, PWP purchased approximately 65% of its water from MWD. It pumped approximately 35% from its wells. The Water System has adequate production and firm purchase capacity to meet its customers’ needs. The following table illustrates the total water pumped from Water System wells and the amount of water purchased during the five Fiscal Years shown.

**TABLE 3**  
**ANNUAL WATER PRODUCTION**  
**(acre-feet)**

|                            | Fiscal Year Ended June 30, |        |        |        |        |
|----------------------------|----------------------------|--------|--------|--------|--------|
|                            | 2006                       | 2007   | 2008   | 2009   | 2010   |
| Purchased from MWD         | 21,594                     | 25,309 | 25,505 | 22,662 | 19,721 |
| Percentage of Total Supply | 61.2%                      | 64.9%  | 68.6%  | 65.6%  | 65.1%  |
| From Water System Wells    | 13,683                     | 13,664 | 11,674 | 11,867 | 10,581 |
| Percentage of Total Supply | 38.8%                      | 35.1%  | 31.4%  | 34.4%  | 34.9%  |
| Total Production           | 35,277                     | 38,973 | 37,179 | 34,529 | 30,302 |

Source: Pasadena Water and Power Department.

### Current Water Supply

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

#### Raymond Basin

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

**Raymond Basin Groundwater.** Over the last 20 years, Raymond Basin groundwater has accounted for approximately 40% of PWP's total water production. There are currently 16 groundwater production wells (of which eight are active and in production) that can pump water into the PWP distribution system up to the decreed right of 12,807 acre-feet/year. Due to artificial recharge of groundwater by surface water along the Arroyo Seco and at the Eaton Canyon spreading grounds, PWP has increased its annual groundwater extraction by an average of 1,900 acre-feet/year since 2000.

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

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

However, according to the first modification of the Judgment on April 29, 1955, the safe yield was increased to 5,290 acre-feet/year in the Eastern Unit and 25,480 acre-feet/year in the Western Unit.

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

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

The following factors contribute to PWP's annual groundwater supply: (1) PWP's decreed right of 12,807 acre-feet/year, (2) any carryovers from the previous year, (3) water rights leased from other Raymond Basin agencies, (4) spreading credits from the current year or prior year, (5) surplus water from MWD injected/added to long term storage, and (6) water pumped from long term storage. The following factors reduce PWP's annual groundwater supply: (a) any over extractions from the previous year that must be made up, (b) water that will be carried over to the next year, (c) water rights that are leased to other Raymond Basin pumpers and (d) water that is deposited into PWP's storage account. PWP's total annual groundwater production is equal to the total contributions less the total reductions.

The Raymond Basin is an adjudicated basin, and for this reason, PWP's decreed water right is not affected by annual rainfall conditions. The sum of all water that is pumped from the Raymond Basin (excluding water pumped from individual storage accounts or as a result of spreading or injection credits), is regulated so as not to exceed the hydrologically determined safe yield of the basin of 30,622 acre-feet/year, which is stipulated in the Judgment. This results in a high degree of reliability for Raymond Basin groundwater. Groundwater supply reliability is further increased by the presence of PWP's long-term storage accounts within the Raymond Basin. On October 7, 1992 and March 10, 1993, long-term storage policies were adopted within the Raymond Basin, and the basin storage capacity was determined. A storage volume of 96,500 acre-feet was allocated to the Raymond Basin pumpers. PWP's share of the storage volume is 38,500 acre-feet. On an as needed basis, PWP leases storage volume from other Raymond Basin pumpers to meet its groundwater storage needs in the Raymond Basin. PWP has 30,061 acre-feet of water in storage in the Raymond Basin. Also, under a cooperative storage agreement with MWD, PWP has stored an additional 17,282 acre-feet of water in storage for MWD. This water is available to PWP during drought and emergencies at MWD's call.