

CONTRIBUTION AGREEMENT NO. 16,900

This Contribution Agreement (the "Agreement") entered into as of the 18th day of March, 1999, by and between the City of Pasadena (the "City") and the Pasadena Fire and Police Retirement System (the "System");

WHEREAS, the System was established pursuant to Article XV, Section 1501 of the Charter of the City; and

WHEREAS, the System is a closed retirement system which as of June 30, 1998, had assets of \$63,992,169 (at book value) and liabilities to beneficiaries of the System of \$218,056,672 all as reported in the System Actuarial Valuation as of June 30, 1998 of Buck Consultants, Inc. dated March 1999, for the fiscal year 1998 (the "Actuarial Report"); and

WHEREAS, as of June 30, 1998, based upon the Actuarial Report, the City has unfunded future liabilities to the System of the sum of \$133,005,666; and

WHEREAS, as of May 23, 1991, the City and the System entered into an agreement entitled Fire and Police Retirement System Contribution Agreement (the "Prior Agreement") pursuant to which the City agreed to make certain payments to the System; and

WHEREAS, the City and the System desire to supercede the Prior Agreement with this Agreement; and

WHEREAS, the City and the System each has the power to enter into this Agreement and to perform the obligations required by it to be performed hereunder;

NOW, THEREFORE, the parties hereto agree as follows:

Section 1. Proposed Issuance of Bonds of the City; Validation Action; Payment to the System. (a) Subject to the satisfaction of the conditions precedent set forth in paragraph (a) of Section 5 hereof, the City agrees to make reasonable efforts to cause to be issued, on market conditions satisfactory to it, an amount of pension obligation bonds (the "Bonds") sufficient to generate the sum of \$100 million ("Net Proceeds"), after giving effect to the payment of the costs of issuance for the Bonds. In the event the City, determines that the market conditions are not satisfactory to it, then the City may defer the issuance of the Bonds until such time as it is satisfied with such market conditions. For purposes of this paragraph (a), and paragraph (c) of this Section 1, market conditions shall be deemed satisfactory to the City if the City could market the Bonds to the public as fixed rate noncallable obligations, insured as to principal and interest by an insurance company rated with the highest long term credit ratings given by Moody's Investors Services and Standard & Poor's Ratings Group, or any successor to either of them, in a conventional negotiated sale to underwriters at a true interest cost of not to exceed 8.5% per annum, the Bonds could be repaid with substantially level amortization and the average life of the Bonds would not be less than sixteen (16) years.

(b) As soon as practicable after the approval of this Agreement by the City Council and the Retirement Board of the System ("Board") the City will file in Superior Court in and for the County of Los Angeles, pursuant to Section 860 et. seq. of the California Court of Civil Procedure, a validation action (the "Validation Action") the purpose of which, among other things, will be to obtain a judicial declaration as to the validity of the Bonds, use of SB481 Receipts, as herein defined, in accordance with this Agreement and the other terms of this Agreement. The System agrees that, if requested, it will cooperate with the City and support the City's positions in the Validation Action as it relates to the Bonds and this Agreement.

(c) As soon as practicable after obtaining in the Validation Action a judicial determination, which is final and no longer subject to appeal, and which to the satisfaction of the City judicially validates the Bonds and the terms of this Agreement, the City will seek to issue Bonds, if market conditions are satisfactory to it, in an amount sufficient to generate the Net Proceeds. The Net Proceeds shall be paid by the City to the System.

Section 2. Assignments by the System. Upon receipt of the Net Proceeds, the System shall concurrently assign to the City the remaining payments and sources of payments contemplated by Sections 1 and 2 of the Prior Agreement. The source of payments described in Section 1 of the Prior Agreement is hereinafter referred to as "SB481 Receipts". The City agrees that SB481 Receipts will be utilized by the City only for payments of principal of or interest or any premium due on the Bonds, payments on account of credit support, liquidity support or remarketing support for the Bonds, payments by the City to the System contemplated by Section 4 hereof, or otherwise, and payments to reimburse the City on account of General Fund monies of the City used to make any other payments contemplated by this sentence. Pending disbursement of SB481 Receipts in accordance with the foregoing, the same shall be held by the City in the Treasurer's investment pool and may be invested in accordance with the guidelines of the Treasurer of the City for the investment pool. Earnings and profits generated from the investment of SB481 Receipts shall also be held by the City and utilized for the same purposes as SB481 Receipts are to be used hereunder.

Section 3. Allocation of Bond Proceeds By the System.

(a) The Net Proceeds, together with existing assets of the System, shall be applied to projected liabilities of the System in the following order: Funded Basic Benefits, Unfunded

Basic Benefits, 1919 Benefits and COLA Benefits. For purposes of this Agreement, the following words shall have the meanings set forth below.

DEFINITIONS

Funded Basic Benefits

“Funded Basic Benefits” means all service retirements and all death annuities and disability pensions for members of the System over age 50 at disability.

Unfunded Basic Benefits

“Unfunded Basic Benefits” means all death and disability pensions granted to beneficiaries of the System at the date of retirement or death (except disability benefits granted over age 50).

1919 Benefits

“1919 Benefits” means benefits provided to beneficiaries of the System by the 1919 Charter of the City.

COLA Benefits

“COLA Benefits” means all post retirement increases in benefits to beneficiaries of the System.

The allocations contemplated by this paragraph (a) shall be made in respect of the various Benefits categories as shown in the System’s actuarial report most recently published prior to the transfer of Net Proceeds to the System; for purposes of illustrating this, based upon the Actuarial Report, and after giving effect to the issuance of Bonds and the payment of Net Proceeds to the System, System assets would have been allocated against the present value of liabilities as of June 30, 1998, as set forth below.

Funded Basic Benefits	\$66,109,707
Unfunded Basic Benefits	\$16,696,782
1919 Benefits	\$ 1,068,887
COLA Benefits	\$80,116,793

Accordingly, upon the payment of such net Bond proceeds to the System, for purposes of this Agreement, the obligation of the City to make contributions to the System, with the exception of a portion of the COLA Benefits, will be deemed satisfied, except for the payments called for hereunder. Based upon the Actuarial Report this would leave a potential unfunded liability for the System (which would consist of remaining liability for COLA Benefits) of \$54,064,503.

(b) After giving effect to the allocation of System assets reflecting payment of the Net Proceeds to the System, all as described in paragraph (a) above, neither the employees of the City who are members of the System (“Employee-Members”) nor the City, will make any further contributions for the Funded Basic Benefits for so long as such Benefits are deemed, for purposes of this Agreement, fully funded, by virtue of the allocations contemplated by paragraph (a) above, to the various categories of Benefits as shown in the most recently published actuarial report of the System. If by virtue of such allocations the System assets become insufficient to fully fund Funded Basic Benefits, then the contributions by the City and Employee-Members to fund those Benefits will resume until such time as those Benefits again are deemed fully funded, by virtue of the allocations contemplated by paragraph (a) above, to the various categories of Benefits as shown in the most recently published actuarial report of the System. For purposes of this paragraph (b), Funded Basic Benefits shall be deemed unfunded for such year as the actuarial report for the System for such year (as calculated in accordance with rules and pronouncements of GASB) shows that the assets then held by the System are less than the present value of the liabilities for all Funded Basis Benefits for active and vested terminated

employees, and retirees. These resumed contributions will be made without regard to, and in addition to, the Reimbursement Cap, as herein defined, for 1919, Unfunded Basic, and COLA Benefits described in Section 4 hereof. In addition, with the exception of contributions by the City and Employee-Members pursuant to Section 1509.81 of the City Charter (“Section 1509.81 Amounts”), the City will no longer contribute the annual amounts formerly contributed for 1919 Benefits, Unfunded Basic Benefit reimbursements, and COLA Benefits, except as provided in Section 4 hereof. As the value of the System’s assets fluctuate, all gains and/or losses will be reflected in the COLA Benefits allocation, unless the losses exceed the unfunded COLA Benefits in which case they would be reflected in other Benefits categories as well, starting with the 1919 Benefits and Unfunded Basic Benefits and then the Funded Basic Benefits.

Section 4. Supplemental Payments by City. (a) As indicated in Section 3(b) hereof, there will be no future payments to the System by the City for Unfunded Basic Benefits, 1919 Benefits and COLA Benefits so long as the System remains above the following agreed-upon minimum funding percentages. The funding percentages will be calculated in accordance with the GASB rules and pronouncements and the minimum established as set forth in this paragraph, with the City reserving the right to challenge, by appropriate judicial action, the appropriateness, under the GASB rules and pronouncements, of the valuation of investment assets in the System for a particular year: For the fiscal year of the System in which the City pays the Net Proceeds to the System, the overall System shall be at least 70% funded as shown in the actuarial report of the System for that year. For each succeeding year, the minimum funding percentage (which shall be recalculated each year on the basis of an actuarial report for each such year) will increase by ½% per year over a 20-year period up to 80%. Once the minimum funding percentage reaches 80% it may, but need not, be changed thereafter by the System in accordance

with fiduciary standards of prudence and actuarial soundness, with the City reserving the right to challenge the reasonableness of such change by appropriate judicial action. In the event that the overall System falls below the required minimum funding percentage in any fiscal year, the City will reimburse the System in the following fiscal year up to a dollar amount equal to the payments in respect of Unfunded Basic Benefits, 1919 Benefits and COLA Benefits made by the System in the prior fiscal year (the "Reimbursement Cap"), up to the amount necessary to restore the System to the full minimum funding percentage as of the last day of the preceding fiscal year subject to adjustment as hereinafter described in this paragraph (a) (each such payment being herein called a "Supplemental Payment"). In order to protect the City against large swings in asset value in the System from one fiscal year to the next, for any fiscal year for which the City is required to make any Supplemental Payment, the City will contribute the total amount of the Supplemental Payment if not greater than \$3 million, not later than the later of the first working day of January of the fiscal year following the year for which the minimum funding percentage has fallen below the required amount or thirty days following receipt by the City of the audited financial statements of the System for such fiscal year. For those fiscal years for which the total amount of the calculated Supplemental Payment is greater than \$3 million, the City will pay \$3 million to the System and pay any remaining amount as follows: 20% thereof payable not later than the later of the first working day of January of the first fiscal year following the base year for which such deficit is calculated or thirty days following the receipt by the City of the audited financial statements of the System for the base year for which such deficit is calculated; if a funding deficit of the minimum funding requirement is also calculated for the first fiscal year following the base year: 40% thereof payable not later than the later of the first working day of January of the second fiscal year following the base year or thirty days following the receipt by

the City of the audited financial statements of the System for the first fiscal year following the base year; if a funding deficit of the minimum funding requirement is calculated for the second consecutive fiscal year after the base year: 60% thereof payable not later than the later of the first working day of January of the third fiscal year following the base year or thirty days following the receipt by the City of the audited financial statements of the System for the second fiscal year following the base year; if a funding deficit of the minimum funding requirement is calculated for the third consecutive fiscal year after the base year: 80% thereof payable not later than the later of the first working day of January of the fourth fiscal year following the base year or thirty days following the receipt by the City of the audited financial statements of the System for the third fiscal year following the base year; and if a funding deficit of the minimum funding requirement is calculated for the fourth consecutive fiscal year after the base year: 100% thereof payable not later than the later of the first working day in January of the fifth fiscal year following the base year or thirty days following the receipt by the City of the audited financial statements of the System for the fourth fiscal year following the base year; if a funding deficit of the minimum funding requirement is calculated for the fifth or any later consecutive fiscal year after the base year and which is not fully funded during the following fiscal year: 100% of the remaining amount thereof payable not later than the later of the first working day in January of the fiscal year following each such fiscal year or thirty days following the receipt by the City of the audited financial statements of the System for each such fiscal year, subject in each year to the Reimbursement Cap for the year for which the calculation is being made.

Once the required minimum funding percentage has been met, no subsequent supplemental payment shall be required by the City under the foregoing formula. If thereafter a new funding deficit in the minimum funding requirement occurs for a subsequent fiscal year, a

new base year begins and such deficit shall be paid by the City to the System in accordance with the foregoing formula, as if there had not been any prior funding deficit.

(b) Hypothetical examples of supplemental payments required by (a) above are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount of Underfunding of Minimum Funding Percentage for Fiscal Year</u>	<u>Reimbursement Cap for the Fiscal Year*</u>
1. 2001	\$12 million	\$10 million
<p>Required Supplemental Payment for fiscal year is \$4.8 million, which is the lesser of (a) the sum of (i) the \$3 million plus (ii) 20% of the amount shown in column 2, above, less the \$3 million or 20% of (\$12 million - \$3 million) which is \$1.8 million, and (b) \$10 million which is the amount of the Reimbursement Cap.</p>		
2. 2002	\$9 million	\$11 million
<p>Required Supplemental Payment for fiscal year is \$5.4 million, which is the lesser of (a) the sum of (i) the \$3 million plus (ii) 40% of the amount shown in column 2, above, less the \$3 million or 40% of (\$9 million - \$3 million) which is \$2.4 million, and (b) \$11 million which is the amount of the Reimbursement Cap.</p>		
3. 2003	\$7 million	\$6 million
<p>Required Supplemental Payment for fiscal year is \$5.4 million, which is the lesser of (a) the sum of (i) the \$3 million plus (ii) 60% of the amount shown in column 2, above, less</p>		

* The sum of Unfunded Basic Benefits, 1919 Benefits and COLA Benefits paid by the System during the year. See Section 4(a) above, fifth sentence, defining "Reimbursement Cap."

the \$3 million or 60% of (\$7 million - \$3 million) which is \$2.4 million, and (b) \$6 million which is the amount of the Reimbursement Cap.

<u>Fiscal Year Ending June 30</u>	<u>Amount of Underfunding of Minimum Funding Percentage for Fiscal Year</u>	<u>Reimbursement Cap for the Fiscal Year*</u>
4. 2004	\$8 million	\$8 million

Required Supplemental Payment for fiscal year is \$7 million, which is the lesser of (a) the sum of (i) the \$3 million plus (ii) 80% of the amount shown in column 2, above, less the \$3 million or 80% of (\$8 million - \$3 million) which is \$4 million, and (b) \$8 million which is the amount of the Reimbursement Cap.

5. 2005	\$10 million	\$14 million
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Required Supplemental Payment for fiscal year is \$10 million, which is the lesser of (a) the sum of (i) the \$3 million plus (ii) 100% of the amount shown in column 2, above, less the \$3 million or 100% of (\$10 million - \$3 million) which is \$7 million, and (b) \$14 million which is the amount of the Reimbursement Cap. Since the amount paid equals the amount of the underfunding, the entire amount of underfunding is paid in full.

6. 2006	\$11 million	\$8 million
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Required Supplemental Payment for fiscal year is \$4.6 million, which is the lesser of (a) the sum of (i) the \$3 million plus (ii) 20% of the amount shown in column 2, above, less the \$3 million or 20% of (\$11 million - \$3 million) which is \$1.6 million, and (b) \$8 million which is the amount of the Reimbursement Cap. The percentage utilized is 20%

* The sum of Unfunded Basic Benefits, 1919 Benefits and COLA Benefits paid by the System during the year. See Section 4(a) above, fifth sentence, defining "Reimbursement Cap."

because the minimum funding percentage for the fiscal year ending June 30, 2005 was fully funded.

<u>Fiscal Year Ending June 30</u>	<u>Amount of Underfunding of Minimum Funding Percentage for Fiscal Year</u>	<u>Reimbursement Cap for the Fiscal Year*</u>
7. 2007	\$0	\$10 million
No payment due because there is no underfunding.		
8. 2008	\$9 million	\$11 million

Required Supplemental Payment for fiscal year is \$4.2 million, which is the lesser of (a) the sum of (i) the \$3 million plus (ii) 20% of the amount shown in column 2, above, less the \$3 million or 20% of (\$9 million - \$3 million) which is \$1.2 million, and (b) \$11 million which is the amount of the Reimbursement Cap. The percentage utilized is 20% because there is not a prior consecutive year or years in which a supplemental payment was due.

(c) For the 20-year period during which the minimum funding percentage will increase by only ½% per year in the absence of further agreement between the City and the System, the funding percentage for a particular year shall be based on the valuation of assets and liabilities of the System contained in the actuarial report of the System for that year, following the GASB Rules and pronouncements, and the System will set the interest rate assumption and inflation assumption used to calculate the funding percentage at the straight arithmetic average of

* The sum of Unfunded Basic Benefits, 1919 Benefits and COLA Benefits paid by the System during the year. See Section 4(a) above, fifth sentence, defining "Reimbursement Cap."

the most recently available interest assumption and inflation assumption utilized by the county retirement systems in California operating pursuant to the County Employees Retirement Law of 1937 (Government Code Sections 31450 to 31899.10), as amended from time to time (the "Act"), rounded to the nearest one tenth of one percent . According to information available to the System, that methodology would currently result in an interest assumption of 8.1% and an inflation assumption of 4.5%. In addition, if the current mortality table and related "setback" assumption utilized by the System are changed during this 20-year period, the System will survey counties operating under the Act and will utilize the mortality table and related setback assumption most frequently used by those counties for the fiscal year preceding the fiscal year of the System for which such change is to be effective.

(d) Notwithstanding the effectiveness of this Agreement, nothing herein shall relieve the City of its obligation to make payments to the System of, and withhold from Member-Employees salary payments and make payment to the System of, their respective shares of Section 1509.81 Amounts.

Section 5. Conditions to Performance Hereunder.

(a) The City's obligations under Sections 1(a) and 1(c) hereof shall be conditioned upon the following which may be waived by the City:

(i) The Retirement Board of the System shall have approved this Agreement and authorized its execution and delivery, and evidence of such approval satisfactory to the City shall have been furnished to the City;

(ii) The court in the Validation Action shall have entered a judgment, which shall have become final and no longer is subject to appeal or review, which approves the validity of the Bonds and the validity of the terms of this Agreement to the satisfaction of the City;

(b) The City's obligations under Section 6 hereof shall be conditioned upon the satisfaction of the condition contained in Section 5(a)(i) hereof, which may be waived by the City.

(c) Except as otherwise provided herein, the System's obligations hereunder shall be conditioned upon the following which may be waived by the System:

(i) The City Council of the City shall have approved this Agreement and authorized its execution and delivery, and evidence of such approval satisfactory to the System shall have been furnished to the System.

(ii) The City shall have issued the Bonds and have tendered to the System the Net Proceeds; and

(iii) The City shall have made all interim payments required hereunder by Section 6 hereof.

(d) If all of the conditions specified in this Section 5 are not satisfied, or waived, by June 30, 2008, or such other date as to which the parties hereto shall agree, this Agreement shall terminate and be of no further force or effect.

Section 6. Interim Payments by City.

In the event the Net Proceeds are not paid to the System by the end of the fiscal year ending June 30, 1999, then until the Net Proceeds are paid to the System the City will be obligated and agrees to pay contributions to the System calculated according to the Expanded Contribution Agreement Method illustrated in the Actuarial Report as updated by the Retirement Board in subsequent fiscal years based upon its reasonable assessment of actual results, of estimates (including estimates by the City of the prospective amounts of SB 481 Receipts available for payment to the System), and of projections then available to the Board, and as amended in the following three ways:

First, investments shall be valued at their market-related value in accordance with the GASB rules and pronouncements, with the City reserving the right to challenge, by appropriate judicial action, the appropriateness under the GASB rules and pronouncements of the valuation of investments in the System for a particular year.

Second, the "Contribution Agreement contributions" to be made by the City and included in the Actuarial Report as Item 4(b) in the table appearing on page 19 thereof shall be those set forth in Schedule 7, as updated in subsequent fiscal years by the Retirement Board based upon its reasonable assessment of actual results, of estimates (including estimates by the City of the prospective amounts of SB 481 Receipts available for payment to the System), and of projections then available to the Board except that the amount to be paid as "SB 481 Reimbursement Agreement" shall reflect the availability of an additional \$5,828,150 in the year ending June 30, 2000, and an additional \$123,150 in the year ending June 30, 2001.

Third, any additional amortization payments required under lines 1(b) or 4(d) of the Expanded Contribution Agreement Method (which amortization payments cannot be less than zero), shall be amortized over the fiscal years remaining through fiscal year 2007 and shall be paid by the City to the System not later than the later of the fifteenth day of January of the fiscal year following the year for which the most recently completed actuarial report for the System has been published or 30 days following receipt by the City of such actuarial report of the System.

In the event that payments are made by the City to the System in accordance with this paragraph, the City shall be entitled to a credit against the Net Proceeds to be paid to the System, equal to the payments made pursuant to lines 4(b)(v) and 4(c) of the Expanded Contribution Method, whereupon the Net Proceeds amount shall be \$100 million less such credit; provided, however, that such crediting shall only be allowed to the extent that it would not result in the System being funded at less than 77% of total liabilities as shown in the System's actuarial report most recently published prior to receipt by the System of the Net Proceeds, after giving effect to payment to the System of \$100 million of Net Proceeds less such amount of crediting.

Section 7. Termination of Prior Agreement and Releases. (a) Upon payment to the System of the Net Proceeds, the Prior Agreement shall terminate and be of no further force and effect.

(b) Subject to the payment to the System of the Net Proceeds, each of the City and the System, for itself, its successors and assigns, hereby releases the other and its governing body, officers, employees, agents and representatives from any and all claims, actions, causes of action, whether known, unknown, ripened or in contingency, arising out of or relating to the

respective performance by the City or the System of the Prior Agreement, it being the intent of the parties that upon receipt of the Net Proceeds by the System, the rights and duties of the parties under the Prior Agreement shall terminate and be of no further force and effect and there should be no residual rights by one party against the other for any claims arising out of or relating to the Prior Agreement.

(c) Pending payment to the System of the Net Proceeds, all claims by the System against the City arising out of or relating to the Prior Agreement, and by the City against the System arising out of or relating to the Prior Agreement, are preserved except for claims which would be subject to the defense of the passage of a period of time which ended or expired on or before December 31, 1998, and all time bar defenses in respect of such claims (except those excluded from preservation in accordance with this sentence) are hereby tolled until (i) the payment of the Net Proceeds to the System in accordance with Section 1(c) hereof (in which case all such claims shall thereupon terminate as provided in paragraph (b) of this Section 7, or (ii) if Net Proceeds are not paid to the System and this Agreement terminates in accordance with Section 5(d) hereof, the date of such termination.

Section 8. Notices. All written notices to be given hereunder shall be given by first class mail to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other parties in writing from time to time, namely:

If to the City:

City of Pasadena
100 North Garfield
Pasadena, California 91109
Attention: Director of Finance

If to the System:

Fire and Police Retirement System
100 North Garfield
Pasadena, California 91109
Attention: Secretary to the Retirement Board

Section 9. Binding Effect. This Agreement shall inure to the benefit of and shall be binding upon the City and the System and their respective successors and assigns.

Section 10. Partial Invalidity. If any one or more of the agreements, conditions, covenants or terms hereof shall to any extent be declared invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, the finding or order or decree of which becomes final, none of the remaining agreements, conditions, covenants or terms hereof shall be affected thereby, and each provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

Section 11. California Law. This Agreement shall be governed by and construed and interpreted in accordance with the laws of the State of California.

Section 12. Section Headings. All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision hereof.

Section 13. Execution. This Agreement may be executed and entered into in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed and entered into this Agreement by their officers thereunto duly authorized as of the day and year first above written.

CITY OF PASADENA

By: Chris Holden
Mayor, City of Pasadena

(SEAL)
ATTEST:

By: Jane L. Rodriguez
City Clerk

APPROVED AS TO FORM:

By: Lawrence Murphy
Assistant City Attorney

PASADENA FIRE AND POLICE RETIREMENT
SYSTEM

By: [Signature]
President
3/18/99

Attest:

By: Mary O'Neil
Secretary to the Board

SETTLEMENT AND RELEASE AGREEMENT NO. 18,550

This Settlement and Release Agreement (the "Agreement") is made and entered into between the City of Pasadena ("City") and the Pasadena Fire and Police Retirement System, ("FPRS"), acting through its governing body and trustee, the FPRS Board. As used herein, City and FPRS may sometimes collectively be referred to as "Parties." This Agreement is made and entered into upon the following terms and conditions:

RECITALS

WHEREAS, the City and FPRS are parties to Contribution Agreement No. 16,900 entered into effective March 18, 1999 (the "1999 Contribution Agreement") which, among other things, includes certain provisions concerning the manner in which FPRS will value its assets for purposes of calculating any annual supplemental contributions to be paid by the City; and

WHEREAS, certain disputes have arisen between FPRS, on the one hand, and the City, on the other hand, relating to supplemental contributions that FPRS claims are due to be paid by the City under the 1999 Contribution Agreement; and

WHEREAS, such disputes include disagreements between FPRS and the City relating to the FPRS Board's decision (following a period of several years of investment returns below its actuarially assumed rates) to adopt a 20% corridor methodology to determine the City's supplemental contributions due on January 2, 2003 and January 2, 2004; and

WHEREAS, the City and FPRS desire to settle and resolve such disputes and to provide for the City to make supplemental contributions to FPRS by June 30, 2005 in the total amount of \$40 million.

NOW THEREFORE, in return for the promises, consideration, mutual covenants, agreements, and conditions provided for in this Agreement, which City and FPRS acknowledge constitute the receipt of valuable consideration by each of them, and intending to be legally bound, the parties hereby agree as follows:

AGREEMENT

1. Supplemental Contributions.
 - 1.1. City will make cash contributions totaling Forty Million Dollars (\$ 40 million) to the FPRS in accordance with the schedule set forth in sections 1.2-1.5 below.
 - 1.2. Prior to June 30, 2004 the City and FPRS will rescind, terminate or cancel the current debenture issued by the City on January 2, 2004 and will replace it with a new debenture in the amount of \$13,735,616 (the "New Debenture"). This amount includes the principal amount of \$12,829,096 plus accrued interest. The

New Debenture will accrue interest at a rate of 8.0% per annum, which is the assumed rate of return used by FPRS.

- 1.3. The City will pay off the New Debenture including any accrued interest no later than August 31, 2004. At August 31, 2004 the estimated amount due and payable on the New Debenture will be slightly less than \$14 million. However, the payment that the City will make no later than August 31, 2004 will be in the amount of \$15 million. This payment will be credited in full against the \$40 million in total contributions the City has agreed to make as provided in section 1.1 above and will reduce the remaining balance to be paid under this Agreement to \$25 million.
 - 1.4. On or before November 1, 2004, the City will make a second payment to FPRS in the amount of \$15 million. This payment will also be credited in full against the \$40 million in contributions the City has agreed to make as provided in section 1.1 above and will bring the total payments made to FPRS under this Agreement to \$30 million. It will reduce the remaining balance due under this Agreement to \$10 million.
 - 1.5. On or before January 2, 2005, the City will make a third and final payment under this Agreement to FPRS in the amount of \$10 million.
 - 1.6. Any amount that may be due to FPRS in January 2005 as a supplemental contribution determined in the June 30, 2004 valuation under the 1999 Contribution Agreement shall be deemed satisfied by the payments to be made pursuant to sections 1.3, 1.4 and 1.5 above, and City shall have no additional obligation to make any payments on account of any such supplemental contribution.
2. Resolution of Actuarial Valuation/Investment Losses Dispute- Exchange of Mutual Releases.
- 2.1. Each of the City and FPRS, for itself its successors and assigns, hereby releases the other and its governing body, officers, employees, agents and representatives from any and all claims, demands, damages, debts, controversies, liabilities, losses, accounts, obligations, costs, expenses, attorneys' fees, actions, liens, causes of action, at law or in equity, whether known or unknown, which it now has, or has ever had arising out of, concerning, or relating to FPRS' investments, FPRS' requests for supplemental contributions by the City based upon the June 30, 2002 and June 30, 2003 valuations, or the City's failure to make the payments requested by FPRS based on the June 30, 2002 and June 30, 2003 valuations.
 - 2.2. FPRS agrees to totally eliminate the use of a corridor methodology in determining the actuarial value of plan assets and will only determine the market-related value of its assets by using a methodology under which changes in market values of assets are smoothed over a five-year period. This methodology will be applied to the June 30, 2004 valuation and to each valuation conducted thereafter unless: (i)

the FPRS Board determines, based upon advice from its actuary, that a change in the smoothing methodology is necessary to be in compliance with mandatory accounting or actuarial principles then in effect; or (ii) some form of corridor methodology is adopted by an arithmetic majority of California county retirement systems then operating under the provisions of the County Employees Retirement Law of 1937; or (iii) the City has failed to make any contribution into the FPRS called for by this Agreement or the 1999 Contribution Agreement on time, in full and in cash, in which case the City agrees that, in the next annual valuation and all subsequent valuations, the FPRS Board may use a 3 year smoothing within a 20% corridor methodology in order to determine the City's required contribution, and such methodology shall thereafter be used unless and until the FPRS, after advice from its actuary, determines to use a different smoothing methodology, provided that such different smoothing methodology is actuarially sound, including without limitation utilizing the same amortization period for years in which there were gains as is utilized for years in which there were losses.

- 2.3. For purposes of section 2.2 above, time is of the essence with regard to all City contributions to the FPRS. In particular, any annual supplemental contribution of the City must be paid on or before the first business day of January in each year in which payment of a supplemental contribution is due.
- 2.4. This Agreement is made to settle disputes between the City and FPRS and neither this Agreement nor anything contained in this Agreement shall be construed as an admission of any fact, issue, liability, or responsibility by any party hereto to any other party hereto relating to such disputes, all of which are expressly denied. Without limiting the generality of the immediately preceding sentence, FPRS and City agree that nothing in this Agreement shall be construed as an admission by either party relating to the dispute between them whether FPRS' adoption and use of a corridor methodology in connection with the June 30, 2002 and June 30, 2003 valuations was proper or permitted under the 1999 Contribution Agreement.

3. Reporting and Communications.

- 3.1. FPRS will continue to deliver copies of its "Board packets" to the City's Director of Finance and will provide copies for distribution to the City's Finance Committee on a semi-annual basis for the periods ending June 30th and December 31st.
- 3.2. FPRS representatives will meet at least semiannually with the City Finance Committee at mutually agreed upon times and places to report on the system's investment performance results for the periods ending June 30 and December 31 of each year and to discuss any other topics that they mutually agree upon. Upon reasonable notice in advance of such meetings, FPRS will arrange for the system's investment advisory firm, currently Mercer, to attend.

3.3. FPRS will also use good faith efforts to accommodate such other periodic requests for meetings to discuss matters relating to investment performance or administration of the system as the City may reasonably make from time to time.

4. Representations and Warranties.

4.1. FPRS and City represent and warrant that each has read and understood and has received independent legal advice with respect to the advisability of making this Agreement. Each party has made such investigation of the facts pertaining to this Agreement and of all other matters pertaining hereto as they deem necessary. The parties hereto represent and warrant that each signatory hereto has the full right and authority to enter into this Agreement and bind the party on whose behalf he, she, or it has executed this Agreement. The parties hereto represent and warrant that none of them has assigned or transferred to any person not a party to this Agreement any matter or any part or portion of any matter released under this Agreement and each party shall indemnify, and hold harmless the other from and against any damages incurred as a result, of any such assignment or transfer.

5. Governing Law.

5.1. This Agreement shall be governed by and construed in accordance with the substantive laws of the state of California.

6. Waiver/Severability.

6.1. The City and FPRS agree that no waiver by any party of any particular provision or right under this Agreement shall be deemed to be a waiver of any other provision or right herein. The parties further agree that each provision or term of this Agreement is intended to be severable from the others so that if any particular provision or term hereof is or determined to be illegal or invalid for any reason whatsoever, such illegality or invalidity shall not affect the legality or validity of the remaining provisions and terms hereof.

7. Mediation.

7.1. Any dispute under this Agreement will be mediated but neither the obligation to mediate nor the commencement of any mediation or lack of commencement of any mediation will preclude the FPRS through its governing body and trustee the FPRS Board or the City from commencing any legal action concerning any dispute under the Agreement or the 1999 Contribution Agreement, including any action to enforce any obligation under this Agreement or the 1999 Contribution Agreement.

8. Entire Agreement.

8.1. This Agreement constitutes the sole and entire agreement and understanding between the parties and supersedes and replaces all prior agreements and understandings between the parties hereto with respect to the subject matter

hereof, except that nothing herein is intended to amend or modify the 1999 Contribution Agreement. Each of the parties hereto acknowledges to each of the other parties that no other party or any agent or attorney of any party has made any promise, representation or warranty whatsoever, express or implied, written or oral, not contained herein concerning the subject matter hereof to induce him, her, or it to execute this Agreement, and each of the parties hereto acknowledges that he, she, or it has not executed this Agreement in reliance on any promise, representation or warranty not expressly contained herein. No person has any authority to make any representation or promise on behalf of any party that is not set forth herein. This Agreement may be modified only with a written instrument duly executed by each of the parties hereto.

9. Further Assurances.

9.1. Each party hereto agrees to cooperate fully and to execute any and all supplementary documents that may be necessary or appropriate to give full force and effect to the basic terms and intent of this Agreement and which are not inconsistent with its terms and intent.

10. Notices.

10.1. All written notices to be given hereunder shall be given by first class mail to the party entitled thereto at the address set forth below, or at such other address as such party may provide to the other parties in writing from time to time, namely:

If to the City:

City of Pasadena
100 North Garfield
Pasadena, CA. 91109
Attn: Director of Finance

If to FPRS:

Fire and Police Retirement System
100 North Garfield
Pasadena, CA 91109
Attn: Secretary to the Retirement Board

11. Binding Effect.

11.1. This Agreement shall inure to the benefit of and shall be binding upon the City and FPRS and their respective successors and assigns.

12. Section Headings.

12.1. All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision hereof.

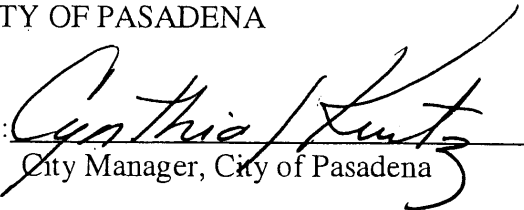
13. Execution/Counterparts.

13.1. This Agreement may be executed in counterparts, and a facsimile signature shall have the same force and effect as an original signature penned in ink.

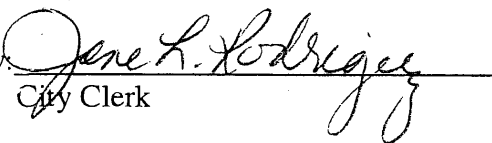
IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their officers thereunto duly authorized as of the day and year indicated below.

June 28, 2004

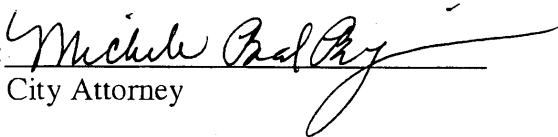
CITY OF PASADENA

By: 
City Manager, City of Pasadena

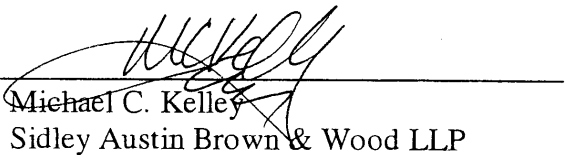
Attest:

By: 
City Clerk

Approved as to form:

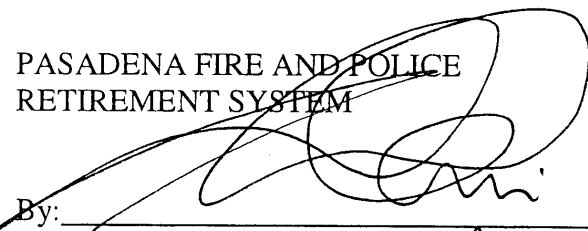
By: 
City Attorney

Approved as to form:

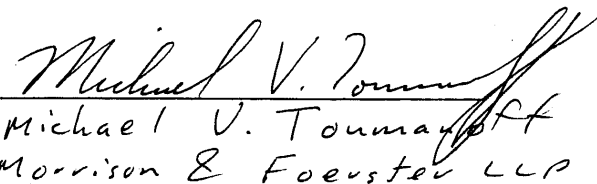
By: 
Michael C. Kelley
Sidley Austin Brown & Wood LLP

June 28, 2004

PASADENA FIRE AND POLICE
RETIREMENT SYSTEM

By: 
DAVID M. DAVIS, CHAIR, RETIREMENT BOARD
PASADENA FIRE & POLICE RETIREMENT SYSTEM

Approved as to form:

By: 
Michael V. Toumanoff
Morrison & Foerster LLP