

2/14/07

NOTICE OF INTENTION TO SELL BONDS

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

NOTICE IS HEREBY GIVEN that the City of Pasadena (the "City") intends to receive electronically transmitted bids until

10:00 a.m., Pacific time on Monday, April 16, 2007

through the use of an electronic bidding service offered by i-Deal LLC/Parity®, for the purchase of all of the above-captioned bonds (the "Bonds") dated as of the date of delivery thereof, and maturing on such dates as described in the related Notice Inviting Bids (the "Notice"). Bids for less than all of the Bonds will not be accepted. The City reserves the right to postpone the date established for the receipt of bids and/or to modify or amend the Notice as more fully described in the Notice.

NOTICE IS HEREBY FURTHER GIVEN that electronic copies of the Notice and the Preliminary Official Statement issued in connection with the sale of the Bonds, may be obtained from the City's financial advisor, Public Resources Advisory Group, 11845 W. Olympic Boulevard, Suite 640, Los Angeles, California 90064, Attention: Louis Choi (telephone (310) 477-8487; fax (310) 477-0105).

Date: _____, 2007

/s/ STEPHEN C. STARK

Director of Finance
City of Pasadena

* Preliminary, subject to adjustment as set forth in the Notice Inviting Bids.

**OFFICIAL BID FORM
 BID FOR THE PURCHASE OF**

**\$ _____
 CITY OF PASADENA, CALIFORNIA
 Water Revenue Bonds, 2007 Series**

April ____, 2007

City of Pasadena
 c/o Public Resources Advisory Group
 11845 W. Olympic Boulevard, Suite 640,
 Los Angeles, California 90064,
 Phone (310) 477-8487
 Fax (310) 477-0105)
 Email lchoi@pragla.com

Ladies and Gentlemen:

We offer to purchase the \$ _____ * City of Pasadena Water Revenue Bonds, 2007 Series, dated as of the date of delivery, expected to be April 24, 2007, and in the principal amounts, in such denominations, maturing on June 1 in the years and bearing interest as follows:

Maturity Date	Principal Amount	Serial Maturity	Sinking Account Redemption (check)	Interest Rate	Maturity Date (June 1)	Principal Amount	Serial Maturity	Sinking Account Redemption (check)	Interest Rate
2008		_____	_____	_____	2023		_____	_____	_____
2009		_____	_____	_____	2024		_____	_____	_____
2010		_____	_____	_____	2025		_____	_____	_____
2011		_____	_____	_____	2026		_____	_____	_____
2012		_____	_____	_____	2027		_____	_____	_____
2013		_____	_____	_____	2028		_____	_____	_____
2014		_____	_____	_____	2029		_____	_____	_____
2015		_____	_____	_____	2030		_____	_____	_____
2016		_____	_____	_____	2031		_____	_____	_____
2017		_____	_____	_____	2032		_____	_____	_____
2018		_____	_____	_____	2033		_____	_____	_____
2019		_____	_____	_____	2034		_____	_____	_____
2020		_____	_____	_____	2035		_____	_____	_____
2021		_____	_____	_____	2036		_____	_____	_____
2022		_____	_____	_____	2037		_____	_____	_____

and to pay therefor the principal amount thereof, plus a premium of \$ _____ or minus a discount of \$ _____ (not to exceed 1% of the principal amount of the Bonds) on the aggregate principal amount (making an aggregate sum of \$ _____).

* Preliminary, subject to change.

This bid is made subject to all the terms and conditions of the Official Notice Inviting Bids for said Bonds dated as of April __, 2007, all of which terms and conditions are made a part hereof as fully as though set forth in full in this bid.

This proposal is subject to acceptance, in whole or in part, within twenty-four (24) hours after the expiration of the time for the receipt of proposals, as specified in said Official Notice Inviting Bids.

This bid is secured by a Financial Surety Bond (as defined in the Official Notice Inviting Bids), and we certify that evidence thereof has heretofore been provided to Public Resources Advisory Group, as financial advisor to the City.

We hereby request that ____ (not to exceed 100) printed copies of the Official Statement pertaining to the Bonds be furnished us in accordance with the terms of said Official Notice Inviting Bids.

The following is our computation made as provided in the Official Notice Inviting Bids, but not constituting any part of the foregoing, of the true interest cost under the foregoing proposal:

Total Interest	\$ _____
True Interest Cost	_____ %

Following is a list of the members of our account on whose behalf this bid is made.

Respectfully submitted,

Name of Firm: _____

By: _____

Address: _____

City: _____ State: _____ Zip: _____

NOTICE INVITING BIDS

CITY OF PASADENA, CALIFORNIA

Water Revenue Bonds, 2007 Series

NOTICE IS HEREBY GIVEN that electronically transmitted bids will be received by the City of Pasadena, California (the "City"), through the use of an electronic bidding service offered by i-Deal LLC/Parity® ("Parity") (at www.tm3.com), on

**Monday, April 16, 2007
at 10:00 A.M. Pacific time,**

for the purchase of \$_____ (approximate) aggregate principal amount of City of Pasadena, California Water Revenue Bonds, 2007 Series (the "2007 Bonds"), more particularly described herein. See "TERMS OF SALE—Form of Bid and Bid Check or Surety Bond—Warnings Regarding Electronic Bids" herein.

The City reserves the right to cancel or reschedule the sale of the 2007 Bonds or change the terms thereof upon notice given through The Bond Buyer Wire prior to the time bids are to be received. If the sale is rescheduled, bids will be received at the place set forth above, at such date and time as the City shall determine. Notice of the new sale date, time and terms, if any, will be given through The Bond Buyer Wire as soon as practicable prior to the new time bids are to be received. As an accommodation to bidders, telephone or fax notice of the change and of the new sale date and time will be given to any bidder requesting such notice from Public Resources Advisory Group, the City's financial advisor (the "Financial Advisor"), 11845 W. Olympic Boulevard, Suite 640, Los Angeles, California 90064, Attention: Louis Choi (telephone (310) 477-8487, fax (310) 477-0105). Failure of any bidders to receive such supplementary notice shall not affect the legality of the sale.

TERMS OF THE 2007 BONDS

Important Note. This Notice Inviting Bids will be submitted to i-Deal LLC for posting at the TM3 website and in the Parity bid delivery system. In the event the Parity system's summary of the terms of sale of the 2007 Bonds disagrees with this Notice Inviting Bids in any particulars, the terms of this Notice Inviting Bids shall control (unless notice of an amendment hereto is given as described above).

Opening of Bids and Award of 2007 Bonds

The bids will be received at the above time and place, will be opened by the Director of Finance, and the 2007 Bonds are expected to be awarded by the City at the City Council meeting later that day.

The Issue

The 2007 Bonds are being issued by the City for the purpose of providing moneys, together with other available funds, (i) to finance the costs of acquisition and construction of

certain improvements to the Water System of the City (the "Water System"); (ii) to make an additional deposit to the reserve fund; and (iii) to pay the costs of issuance of the 2007 Bonds, including the premium for a municipal bond insurance policy.

Authority For Issuance

The 2007 Bonds are authorized and issued pursuant to Article XIV of the City Charter, an Ordinance to be adopted by the City Council of the City (the "Ordinance"), and a Water Revenue Bond Indenture, dated as of August 1, 2003 (the "Master Indenture"), by and between the City and The Bank of New York Trust Company, N.A. (formerly known as BNY Western Trust Company), as Trustee (the "Trustee"), as supplemented by a Second Supplement to Water Revenue Bond Indenture, dated as of April 1, 2007 (the "Second Supplement"), to be executed simultaneously with the delivery of the 2007 Bonds (collectively, the "Indenture"). The 2007 Bonds will be issued on a parity with other obligations of the Water System payable from Pledged Revenues and issued from time to time pursuant to the terms of the Indenture ("Parity Debt"), including its Water Revenue and Refunding Bonds, 2003 Series, currently outstanding in the principal amount of \$43,400,000 (the "2003 Bonds"). The 2003 Bonds, the 2007 Bonds and all other Water Revenue Bonds to be issued pursuant to the Indenture are herein referred to collectively as the "Bonds."

Bidders are referred to the Indenture and the Preliminary Official Statement, dated _____, 2007, relating to the 2007 Bonds (the "Preliminary Official Statement"), for definitions of terms and for further particulars, including further information regarding the 2007 Bonds. This Notice Inviting Bids contains certain information for quick reference only, is not a summary of the issue and governs only the terms of the sale of, bidding for and closing procedures with respect to the 2007 Bonds. Bidders must read the entire Preliminary Official Statement to obtain information essential to the making of an informed investment decision.

Security; Limited Obligations

The 2007 Bonds are an obligation solely payable from the Water Fund of the City and certain other funds as provided in the Indenture. The 2007 Bonds are secured by a pledge of and lien upon Pledged Revenues of the Water System on a parity with the 2003 Bonds, other Bonds and other Parity Debt.

The City has covenanted in the Indenture to fix the rates for services furnished by the Water System so as to provide Gross Aggregate Revenues at least sufficient to pay, as the same become due, the principal of and interest on the 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 Bonds and any other Parity Debt.

“Pledged Revenues” means all Gross CIC Revenues and all Net Other Water 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 13 of the Pasadena Municipal Code and interest earned thereon. “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.

The general fund of the City is not liable for the payment of any 2007 Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of the City pledged for the payment of any 2007 Bonds, any premium thereon upon redemption prior to maturity or their interest. The Owner of any 2007 Bond shall not compel the exercise of the taxing power by the City or the forfeiture of any of its property. The principal of and interest on any 2007 Bonds and any premiums upon the redemption of any thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Pledged Revenues and other funds, security or assets which are pledged to the payment of the 2007 Bonds, interest thereon and any premiums upon redemption.

Parity Reserve Fund

Pursuant to the Indenture, the City has established and agreed to maintain the Parity Reserve Fund in an amount equal to the Reserve Fund Requirement.

“Reserve Fund Requirement” means, as of any date of determination and excluding 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 any 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 and specified in writing to the Trustee.

Amounts in the Parity Reserve Fund shall be transferred by the City to the applicable debt service fund to pay principal of and interest on the Bonds and other Parity Debt secured by the Parity Reserve Fund in the event amounts on deposit therein are insufficient for such purposes.

Municipal Bond Insurance and Underlying Ratings

_____ (the "Bond Insurer") has issued a commitment for a financial guaranty insurance policy relating to the 2007 Bonds. All bids are conditioned upon the issuance, effective as of the date on which the 2007 Bonds are issued, of a policy of insurance by the Bond Insurer, insuring the payment when due of principal of and interest on the 2007 Bonds. Each 2007 Bond will bear a legend referring to the insurance. The purchaser, holder or owner is not authorized to make any statements concerning the insurance beyond those set out here and in the bond legend without the approval of the Bond Insurer. **The cost of obtaining such insurance and any rating agency costs related thereto will be borne entirely by the City and not by the successful bidder.** Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("S&P"), will assign the 2007 Bonds ratings of "Aaa" and "AAA," respectively, upon the understanding that the Bond Insurer will issue its financial guaranty insurance policy simultaneously upon the issuance of the 2007 Bonds. The 2007 Bonds have also been assigned an underlying rating ___ by S&P and ___ by Fitch.

Book-Entry Only

The 2007 Bonds will be issued as fully registered bonds and, when issued will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as security depository for the 2007 Bonds. Individual purchases of the 2007 Bonds will be made in book-entry form only, in denominations of \$5,000 principal amount or any integral multiple thereof. Payments of principal of, interest and premium, if any, on the 2007 Bonds will be paid by the Trustee to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the 2007 Bonds.

Interest Payment Dates

The 2007 Bonds will be as of the date of delivery and interest will be payable semiannually on each June 1 and December 1, commencing June 1, 2007, to holders of record on the preceding May 15 and November 15, respectively, until maturity or redemption.

Principal Amortization

The 2007 Bonds shall be subject to principal amortization through serial maturities maturing on June 1 in the following years and amounts described in the following table, subject to the adjustments described below:

June 1	Principal Amount*	June 1	Principal Amount*
--------	-------------------	--------	-------------------

* Preliminary, subject to adjustment as described below.

Adjustment of Principal Amounts and Amortization Schedule

The principal amounts set forth in this Notice Inviting Bids reflect certain estimates of the City and its Financial Advisor with respect to the likely interest rates of the winning bid and the premium, if any, contained in the winning bid. The principal amortization schedule may be changed prior to the time bids are to be received and, if adjustments are made, bidders must bid on the basis of the adjusted schedules. Such changes, if any, will be communicated through The Bond Buyer Wire not later than 11:00 a.m., Pacific time, on the business day prior to the bid opening. After selecting the winning bid, the principal amount of the 2007 Bonds and amortization schedule may be adjusted in \$5,000 increments as necessary in the determination of the City's Financial Advisor to reflect the actual interest rates and any premium in the winning bid and to achieve the City's debt structuring objectives. Such adjustments after the selection of the winning bid will not change the principal amount due on the 2007 Bonds in any year by more than the greater of \$100,000 or ten percent (10%). Any such adjustment will be communicated to the winning bidder within 24 hours after acceptance of the bids. Changes in the amortization schedule made subsequent to bid opening as described above will not affect the determination of the winning bidder or give the winning bidder any right to reject the 2007 Bonds. The winning bidder may not withdraw its bid or change the interest rates bid as a result of any changes to the principal payments of the 2007 Bonds in accordance with this Notice Inviting Bids; further, the dollar amount of the price bid will be changed so that the percentage of net compensation paid to the winning bidder will not increase or decrease from what it would have been if no adjustments had been made by the City.

Serial Bonds and/or Term Bonds

Bidders may provide that the 2007 Bonds be issued as serial bonds or may provide that any two or more consecutive annual principal amounts be combined into one or more term bonds. No term bond may include any mandatory sinking payments prior to June 1, 2016.

Mandatory Sinking Fund Redemption

If the successful bidder designates principal amounts to be combined into one or more term bonds, each such term bond shall be subject to mandatory sinking fund redemption commencing on June 1 of the first year which has been combined to form such term bond and continuing on June 1 in each year thereafter until the stated maturity date of that term bond. The amount redeemed in any year shall be equal to the principal amount for such year set forth in the table above under the caption "Principal Amortization", as adjusted in accordance with the provisions described above under the caption "Adjustment of Principal Amounts and Amortization Schedule". The 2007 Bonds to be redeemed in any year by mandatory sinking fund redemption shall be redeemed in part at par and shall be selected by lot from among the 2007 Bonds then subject to redemption. The City, at its option, may credit against any mandatory sinking fund redemption requirement term bonds of the maturity then subject to redemption which have been purchased and cancelled by the City or have been redeemed and not theretofore applied as a credit against any mandatory sinking fund redemption requirement.

Optional Redemption

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

Notice of Redemption

Notice of such redemption shall be mailed to the Owners of the 2007 Bonds, certain securities depositories and one or more information services. Notice of such redemption shall be given to the Owners of the 2007 Bonds designated for redemption at their addresses appearing on the bond registration books, not less than 30 days nor more than 60 days prior to the redemption date. The actual receipt by the Owners of any 2007 Bond shall not be a condition precedent to the redemption, and failure to receive such notice shall not affect the validity of the proceedings for the redemption of 2007 Bonds or the cessation of interest on the redemption date.

Trustee

The Bank of New York Trust Company, N.A., Los Angeles, California is the Trustee for the payment of principal of, premium, if any, and interest on, the 2007 Bonds and for the registration of the 2007 Bonds.

Legal Opinion

The City will furnish to the successful bidder at the closing of the 2007 Bonds, the legal opinion of Bond Counsel, Fulbright & Jaworski L.L.P., that based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy

of certain representations and compliance with certain covenants, interest on the 2007 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes; and interest on the 2007 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such counsel may observe that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel will express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2007 Bonds.

Continuing Disclosure

In order to assist bidders in complying with Securities and Exchange Commission Rule 15c2-12(b)(5), the City will undertake, pursuant to a Continuing Disclosure Agreement, to provide certain annual financial information and notices of the occurrence of certain events, if material. A form of the Continuing Disclosure Agreement is set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement. The City has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

TERMS OF SALE

Interest Rates and Minimum Purchase Price

Bidders must specify a rate of interest for each maturity of the 2007 Bonds. The rates of interest must be expressed in multiples of one-eighth (1/8) or one-twentieth (1/20) of one percent (1%), and the true interest cost to the City shall not exceed five and one-half percent (5.5%) per annum. All 2007 Bonds of the same maturity must bear the same rate of interest.

Bidders may bid to purchase the 2007 Bonds with a premium of not more than 5% of the principal amount thereof; however, no bid will be considered at an aggregate price less than one hundred percent (100%) of the principal amount of the 2007 Bonds.

Award

If satisfactory bids are received, the 2007 Bonds will be awarded to the highest responsible bidder. The highest bid will be that which results in the lowest True Interest Cost. The True Interest Cost shall be computed by doubling the semiannual interest rate (compounded semiannually) necessary to discount the debt service payments from their respective payment dates to the date of the 2007 Bonds and to the price bid. For the purpose of calculating the True Interest Cost, the principal amount of 2007 Bonds established for mandatory sinking fund redemption as part of a term bond shall be treated as a serial maturity in each year. Pursuant to the Ordinance, the True Interest Cost shall not exceed five and one-half percent (5.5%) per annum. In the event that two or more bidders have bid the same True Interest Cost, the award shall be made by lot.

Right of Rejection

The City reserves the right, in its discretion, to reject any and all proposals, including any proposals not conforming to this Notice Inviting Bids, and to waive any irregularity or informality in any proposal.

Equal Opportunity

It is the policy of the City that disadvantaged business enterprises (“DBE”) and all other business enterprises have an equal opportunity to participate in the performance of the City contracts. Bidders are required to make a good faith effort to reach out to the DBEs to ensure they have equal opportunity to compete for the purchase of the 2007 Bonds.

Form of Bid and Bid Check or Surety Bond

Bidders must purchase the 2007 Bonds at a price equal to the principal amount thereof plus a premium, if any. Each bid must be delivered by electronic transmission, as described below, and received by 10:00 a.m., Pacific time, Monday, April 16, 2007. Each bid must be in accordance with the terms and conditions set forth in this Notice Inviting Bids.

In the event multiple bids are received from a single bidder by any means or combination thereof, the City shall accept the best of such bids, and each bidder agrees by submitting any bid to be bound by its best bid.

Warnings Regarding Electronic Bids: The City will accept bids in electronic form solely through i-Deal’s Parity® System (at www.tm3.com). Each bidder submitting an electronic bid understands and agrees by doing so that it is solely responsible for all arrangements with Parity, and that Parity is not acting as an agent of the City. Instructions and forms for submitting electronic bids must be obtained from Parity, and the City assumes no responsibility for ensuring or verifying bidder compliance with Parity’s procedures. The City shall be entitled to assume that any bid received via Parity has been made by a duly authorized agent of the bidder.

The City will make its best efforts to accommodate electronic bids; however the City, the Financial Advisor and Bond Counsel assume no responsibility for proper functioning of the Parity System, for any error contained in any bid submitted electronically, or for failure of any bid to be transmitted, received or opened at the official time for receipt of bids. The official time for receipt of bids will be determined by the City at the place of bid opening, and the City shall not be required to accept the time kept by Parity as the official time. The City assumes no responsibility for informing any bidder prior to the deadline for receiving bids that its bid is incomplete or not received.

A good faith deposit (the “Deposit”) in the form of a cashier’s check in immediately available funds, or a financial surety bond, in each case in the amount of \$200,000, payable to the order of the City, is required with each bid to secure the City from any loss resulting from the failure of the bidder to comply with the terms of its bid. If a check is used, it must accompany the bid. If a financial surety bond is used, it must be issued by an insurance company licensed to issue such a bond in the State of California, and such bond must be submitted to the Financial Advisor, Public Resources Advisory Group, 11845 W. Olympic Boulevard, Suite 640, Los

Angeles, California 90064, Attention: Louis Choi (telephone (310) 477-8487, fax (310) 477-0105), with a facsimile copy to the City at (626) 744-7093, Attention: Stephen C. Stark, Director of Finance, prior to opening of the bids. The financial surety bond must identify the bidder whose Deposit is guaranteed by such financial surety bond, and the City assumes no responsibility for any failure of a financial surety bond to list any bidder or to be received on a timely basis as described in the preceding sentence. If the Bonds are awarded to a bidder submitting a financial surety bond, then said successful bidder is required to submit its Deposit to the City in the form of a cashier's check (meeting the requirements set forth above) or by wire transfer not later than 12:00 noon, Pacific time, on the next business day following the award. If such Deposit is not received by that time, the financial surety bond shall be drawn by the City to satisfy the Deposit requirement. Wiring instructions will be provided to the successful bidder.

The City does not endorse the use of a financial surety bond or any particular financial surety provider. The City will accept a financial surety bond in lieu of a cashier's check under the terms described herein solely as an accommodation to bidders, and it is understood and agreed by each bidder using such a bond that the bidder must make its own arrangements with the provider of the bond, including ensuring that evidence of the financial surety bond is provided to the Financial Advisor.

No interest will be paid upon the Deposit made by any bidder. Deposit checks of all bidders (except the successful bidder) will be returned by the City promptly following the award of the 2007 Bonds to the successful bidder. The Deposit of the successful bidder will, immediately upon acceptance of its bid, become the property of the City to be held and invested for the exclusive benefit of the City. The principal amount of such Deposit shall be applied to the purchase price of the 2007 Bonds at the time of delivery thereof. If the sale of the 2007 Bonds is cancelled or postponed, all sealed bids shall be returned unopened.

If the purchase price is not paid in full upon tender of the 2007 Bonds, the successful bidder shall have no right in or to the 2007 Bonds or to the recovery of its Deposit, or to any allowance or credit by reason of such Deposit, unless it shall appear that the 2007 Bonds would not be validly issued if delivered to the successful bidder in the form and manner proposed. In the event of nonpayment by the successful bidder, the amount of the Deposit shall be retained by the City. Notwithstanding the foregoing, should the successful bidder fail to pay for the 2007 Bonds at the price and on the date agreed upon, the City retains the right to seek further compensation for damages sustained as a result of the successful bidder so doing.

Estimate of True Interest Cost

Each bidder is requested, but not required, to supply an estimate of the True Interest Cost to the City on the basis of its bid, which shall be considered as informative only and not binding on either the bidder or the City.

Award

The City will take action awarding the 2007 Bonds or rejecting all bids not later than 24 hours after the expiration of the time herein prescribed for the receipt of proposals, unless such

time of award is waived by the successful bidder. Notice of award will be given promptly to the successful bidder.

Reoffering Price

The successful bidder will, within one hour after being notified of the City's intent to award the 2007 Bonds to such bidder, advise the City of the initial public offering prices of the 2007 Bonds. The successful bidder will also be required, prior to delivery of the 2007 Bonds, to furnish to the City a certificate acceptable to Bond Counsel stating (i) that as of the date of sale, all of the 2007 Bonds purchased were expected to be reoffered in a bona fide public offering; (ii) that as of the date of the certification, all of the 2007 Bonds purchased had actually been offered to the general public; and (iii) the maximum initial bona fide offering prices at which a substantial amount (at least 10%) of each maturity of the 2007 Bonds purchased was sold to the general public.

California Debt and Investment Advisory Commission

The successful bidder will be required to pay any fees due to the California Debt and Investment Advisory Commission ("CDIAC") under California law. CDIAC will invoice the successful bidder after the delivery of the 2007 Bonds.

CUSIP Numbers and Other Fees

It is anticipated that CUSIP numbers will be printed on the 2007 Bonds, but neither the failure to print such numbers on any 2007 Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for said 2007 Bonds in accordance herewith. The successful bidder will be responsible for obtaining CUSIP numbers. All charges of the CUSIP Service Bureau for the assignment of CUSIP numbers for the 2007 Bonds shall be paid by the successful bidder. The successful bidder shall also be required to pay all fees required by DTC, the Bond Market Association, the Municipal Securities Rulemaking Board and any other similar entity imposing a fee in connection with the execution and delivery of the 2007 Bonds.

No Litigation

There is no litigation pending concerning the validity of the 2007 Bonds, the corporate existence of the City, or the title of the officers thereof to their respective offices, and the City will furnish to the successful bidder a no-litigation certificate certifying to the foregoing as of and at the time of the delivery of the 2007 Bonds.

Official Statement

The City has approved a Preliminary Official Statement dated _____, 2007, which the City has "deemed final" for purposes of Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission although subject to revision, amendment and completion in a final Official Statement in conformity with such Rule. The City will furnish to the successful bidder, at no expense to the successful bidder, up to 250 copies of the Official Statement within seven (7) business days of the award date.

Certificate

The City will provide to the successful bidder of the 2007 Bonds a certificate, signed by a responsible officer, confirming to the successful bidder that, at the time of the acceptance of its bid for the 2007 Bonds and at the time of delivery thereof, the Preliminary Official Statement and the final Official Statement did not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

Delivery and Payment

Delivery of the 2007 Bonds is expected to occur on or about April 24, 2007. The 2007 Bonds will be delivered in New York, New York for deposit with DTC. The successful bidder shall pay for the 2007 Bonds on the date of delivery in Federal Reserve Bank funds or equivalent immediately available funds. Payment on the delivery date shall be made in an amount equal to the final adjusted price for the 2007 Bonds less the amount of the Deposit. Any expense of providing immediately available funds, whether by transfer of Federal Reserve Bank funds or otherwise, shall be borne by the successful bidder. The cost of printing the 2007 Bonds will be borne by the City.

Tax-Exempt Status

In the event that prior to the delivery of the 2007 Bonds (a) the interest received by any private holder from bonds of the same type and character as the 2007 Bonds shall be declared to be taxable (either at the time of such declaration or at any future date) under any federal income tax laws, either by the terms of such law or by ruling of a federal income tax authority or official which is followed by the Internal Revenue Service, or by decision of any federal court, or (b) any federal income tax law is enacted which will have a substantial adverse tax effect on holders of the 2007 Bonds as such, the successful bidder may, at its option, prior to the tender of the 2007 Bonds by the City, be relieved of its obligation to purchase the 2007 Bonds and in such case the proceeds of the Deposit accompanying its bid will be returned.

Right of Cancellation by City

The City reserves the right at any time prior to and including the day of the bid opening, to cancel the public sale of the 2007 Bonds. In such event, the City shall cause notice of the cancellation of this invitation for bids and the public sale of the 2007 Bonds to be communicated through The Bond Buyer Wire as promptly as practicable. However, no failure to publish such notice, failure of any prospective bidder to receive such notice or any defect or omission therein shall affect the cancellation of the public sale of the 2007 Bonds.

Right of Cancellation by Bidder

The successful bidder shall have the right, at its option, to cancel its obligation to purchase the 2007 Bonds if the City shall fail to execute the 2007 Bonds and tender the same for delivery within 60 days from the date of award thereof, and in such event the successful bidder shall be entitled to the return of the Deposit accompanying its proposal.

APPENDIX A

THE CITY OF PASADENA

General

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

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

The City provides its approximately 146,000 residents with power, water and refuse services. The Southern California Gas Company supplies natural gas, and the County of Los Angeles provides sewage services.

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

City Council

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

<u>Name</u>	<u>Occupation</u>	<u>Term Expiration</u>
Bill Bogaard, Mayor	Attorney	May, 2007
Joyce Streater (District 1)	Retired	May, 2007
Paul Little (District 2)	Public Relations Officer	May, 2007
Chris Holden (District 3)	Commercial Real Estate Broker	May, 2009
Steve Haderlein (District 4)	High School Instructor	May, 2007
Victor Gordo (District 5)	Attorney	May, 2009
Steve Madison Vice Mayor (District 6)	Attorney	May, 2007
Sidney F. Tyler, Jr. (District 7)	Retired	May, 2009

City Staff

Cynthia J. Kurtz, City Manager, was appointed to the position of City Manager on September 21, 1998, and is the first woman to fill the job in the City's history. She serves the City's ethnically diverse community, overseeing over 2,000 employees, ten departments and an operating budget of approximately \$530 million. Ms. Kurtz began with the City in 1987 as the Capital Program Administrator. In 1991, she became Director of Public Works, dealing with the nuts and bolts of the City, from streets and traffic signals to the \$24 million reconstruction of the Colorado Street Bridge and the intricacies of the light rail line to the City. Prior to joining the City, she worked for ten years for the City of Portland, Oregon, holding a variety of positions in the Office of Transportation and the Bureau of Economic Development.

Ms. Kurtz holds a Bachelor of Science Degree in Community Development and Housing from Pennsylvania State University, and a Master of Arts Degree in Transportation and Urban Development from the University of Iowa. Cynthia Kurtz is a member of the Executive Committee of the San Gabriel Valley Economic Partnership of Commerce and Cities, and is an active member in the San Gabriel Valley City Managers Association, Pasadena Rotary and Women's Transportation Seminar.

Stephen C. Stark, Director of Finance, joined the City in September 2006. His responsibilities include management of the financial affairs of the City and the Commission, which include: preparation of the annual operating budget; preparation of the Comprehensive Annual Financial Report; purchasing; collections; workers' compensation; general liability; payroll; employee benefits; information technology; internal audit; investments; debt management and financing of major City and Commission capital improvements. Prior to coming to Pasadena, he served as Chief Financial Officer for the City of Santa Monica, Director of Administrative Services for the City of Santa Clarita and was Director of Management Services and Internal Auditor for the City of Fontana. Prior to that, he spent 11 years in Arlington, Texas, where he was Internal Audit Manager and Assistant Internal Auditor. Steve earned a bachelor's degree in Business Administration from West Texas University. He is also a graduate of the Government Finance Officers Association (GFOA) Advance Government Finance Institute and has won numerous GFOA and California Society of Municipal Finance Officers' awards. Stark is a member of GFOA, a Certified California Municipal Treasurer, and a Certified Government Financial Manager.

Michele Beal Bagneris, City Attorney, was named the Pasadena City Attorney in May, 1997. At that time, she was a shareholder in the law firm of Richards, Watson & Gershon, where she specialized in public law since joining the firm in 1983. Initially, while serving as City Attorney, she continued to practice law as a member of the law firm, advising public clients in a wide range of areas, including land use, general advisory matters, litigation, labor and employment, code enforcement and nuisance abatement matters. She also served as the City Attorney for the City of Monrovia from 1992 through September, 1999 when she became the in-house City Attorney for Pasadena. She currently serves in that position and is also the City Prosecutor. As the City Attorney/City Prosecutor, she is responsible for managing all legal matters for the City, including supervision of in-house lawyers and any outside counsel engaged to advise the City. Ms. Bagneris received her Bachelor's Degree in International Relations from Stanford University in 1980 and her Juris Doctorate Degree in 1983 from Boalt Hall School of Law, University of California, Berkeley. She is active in professional and community organizations including past President of the City Attorney's Association of Los Angeles County; Los Angeles County Bar Association; American Bar Association; Langston Bar Association; Black Women Lawyers Association of Los Angeles; and Henry McNeal Turner A.M.E. Church. She is admitted to practice law in California State Court, United States District Court and the U.S. Court of Appeals, Ninth Circuit.

Population

The following table presents a ten-year history of the population of the City as of January 1.

**CITY OF PASADENA
POPULATION
For Years 1997 through 2006**

<u>Year</u>	<u>Population</u>
1997	138,900
1998	140,400
1999	142,500
2000	135,513
2001	137,300
2002	138,839
2003	142,202
2004	144,044
2005	146,166
2006	146,138

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

Education

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

**PASADENA UNIFIED SCHOOL DISTRICT
TOTAL ENROLLMENT⁽¹⁾
Fiscal Years 1997 through 2006**

<u>Fiscal Year Ended June 30</u>	<u>Total Enrollment</u>
1997	22,114
1998	22,696
1999	23,068
2000	23,059
2001	23,685
2002	23,582
2003	23,726
2004	22,669
2005	22,336
2006	21,321

Source: Pasadena Unified School District.

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

Employment

No annual information is regularly compiled on employment and unemployment in the City alone. The following table shows employment, unemployment and labor force information for Los Angeles County for calendar years 2002 through 2006.

**LOS ANGELES COUNTY
EMPLOYMENT, UNEMPLOYMENT AND LABOR FORCE
Averages for Calendar Years 2002 through 2006
(in Thousands)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
County Employment	4,446	4,448	4,494	4,565	4,641
County Unemployment	324	334	316	257	246
County Civilian Labor Force	4,770	4,782	4,810	4,821	4,886
County Unemployment Rate	6.8%	7.0%	6.6%	5.3%	4.2%
State Unemployment Rate	6.7%	6.8%	6.2%	5.4%	4.8%

Source: State of California Employment Development Department. Current Labor Force and Industry Employment updated December, 2006. Los Angeles-Long Beach Metropolitan Statistical Area.

Major Employers

Industry in the City is diversified. Some of the leading industries include higher education, research and development, health care, financial services and communications. The major employers within the City as of December 2006 are listed below.

**CITY OF PASADENA
MAJOR EMPLOYERS**

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

Source: Pasadena Chamber of Commerce, December 2006.

Housing

The following table presents a ten-year history of total available housing units within the City from 1997 through 2006.

**CITY OF PASADENA
HOUSING UNITS⁽¹⁾
For Fiscal Years 1997 through 2006**

<u>Fiscal Year Ended June 30</u>	<u>Housing Units</u>
1997	54,103
1998	54,171
1999	54,236
2000	54,132
2001	54,136
2002	54,770
2003	55,521
2004	55,791
2005	56,255
2006	56,520

Source: City of Pasadena, Department of Planning and Permitting

(1) As of fiscal year end. Includes single family dwellings and multifamily units, including rental units and condominiums.

Building Permit Activity

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

The following table shows the value of building permits issued in the City for the fiscal years 2002 through 2006.

CITY OF PASADENA
BUILDING PERMIT VALUATION AND PERMIT ACTIVITY
Last Five Fiscal Years
(Valuation in Millions)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Building Permit Valuations					
Nonresidential	\$ 92.6	\$ 135.3	\$84.6	\$ 116.4	\$ 72.3
Residential	28.8	35.3	40.2	72.3	45.0
Residential New Construction	<u>39.9</u>	<u>61.5</u>	<u>128.3</u>	<u>75.7</u>	<u>79.3</u>
Total	\$161.3	\$232.1	\$253.1	\$264.4	\$196.6
Number of Permits Issued					
Non Residential	773	691	678	738	728
Residential	1,960	2,253	2,334	2,494	2,645
Residential New Construction	<u>48</u>	<u>55</u>	<u>71</u>	<u>56</u>	<u>73</u>
Total	<u>2,781</u>	<u>2,999</u>	<u>3,083</u>	<u>3,288</u>	<u>3,446</u>

Source: City of Pasadena, Planning and Permitting Department.

Taxable Sales

The following table indicates taxable transactions in the City by type of business from 2002 through 2006.

CITY OF PASADENA
TAXABLE TRANSACTIONS BY TYPE OF BUSINESS
For Twelve Month Periods Ended September 30
(in Thousands)

<u>Type of Business</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006⁽¹⁾</u>
Apparel Stores	\$ 114,465	\$ 127,672	\$ 145,732	\$ 159,898	\$ 139,550
General Merchandise Stores	259,139	258,178	282,655	281,004	235,902
Food Stores	92,132	91,405	89,074	98,324	80,031
Eating & Drinking Places	303,129	321,090	350,254	364,950	317,793
Home Furnishings & Appliances	120,429	130,301	142,692	142,129	130,232
Bldg. Material & Farm Implements	57,623	62,144	74,868	88,609	83,995
Auto Dealers & Auto Supplies	458,858	426,575	419,904	474,052	335,913
Service Stations	81,388	101,933	110,510	127,293	100,141
Other Retail Stores	<u>324,502</u>	<u>356,441</u>	<u>384,098</u>	<u>411,646</u>	<u>297,537</u>
Retail Stores Total	1,811,665	1,875,739	1,999,787	2,147,905	1,721,094
All Other Outlets	<u>790,263</u>	<u>842,195</u>	<u>864,687</u>	<u>860,069</u>	<u>579,660</u>
Total All Outlets	<u>\$2,649,746</u>	<u>\$2,717,934</u>	<u>\$2,864,474</u>	<u>\$3,007,974</u>	<u>\$2,300,754</u>

Source: State Board of Equalization, City of Pasadena: MBIA MuniServices Company
(1) Data only available up to Second Qtr. 2006

Community Facilities

The City has a central library and nine branch libraries, four community centers, 24 parks and 33 playgrounds. Other entertainment and cultural facilities include the Rose Bowl, the Norton Simon Museum, the Pacific Asia Museum, the Gamble House, the Wrigley Estate, California Institute of Technology, Beckman Auditorium, the Pasadena Civic Auditorium and the Pasadena Playhouse. The City has long enjoyed a reputation as a community rich in culture, traditions and quality of life. The City is also home to the Tournament of Roses, sponsors of the well-known New Year's Day Rose Parade and Rose Bowl football game held in the City each January.

Transportation

The City is served by an extensive surface and air transportation network. Several major freeways make the City accessible to the entire Los Angeles Basin. The City is served by three commercial airports: Bob Hope Airport is within 15 miles, Los Angeles International Airport is within 35 miles and Ontario International Airport is within 45 miles. Continental Trailways and Greyhound bus lines have local depots in the City. The City supplements the local Metropolitan Transit Authority and the Foothill Transit Authority bus routes with the Pasadena Area Rapid Transit Services ("ARTS") bus service to expand the covered area. The ARTS buses provide convenient and nominal-fare transportation between many of the City's residential neighborhoods, retail, business and entertainment centers within the City. There are currently two ARTS routes that offer service seven days per week. In addition, the City provides Dial-A-Ride bus services for the elderly and disabled which is available for a nominal usage fee.

The nearest port facilities are Los Angeles and Long Beach harbors which are approximately 30 and 35 miles away, respectively. The \$1 billion partially completed Alameda Corridor East project, being undertaken by the Alameda Corridor East Construction Authority, consists of safety upgrades, traffic signal control measures, road widening and grade separation projects to improve traffic conditions along the railroad facilities connecting the Ports of Los Angeles and Long Beach with the transcontinental rail network through the San Gabriel Valley, creating a faster more efficient method of distributing trade.

In addition the Gold Line of the Metro Line light rail system runs from Union Station in the City of Los Angeles, through the City and terminates in the City of Sierra Madre. The Gold Line began operations in 2003.

Employee Relations

City employees are represented by various unions and labor relations have been generally amicable. The City has experienced no major strikes, work stoppages or other incidents. Currently, most City employees are represented by unions. Set forth below is a table indicating the various unions representing employees within the City. The number of employees represented by these unions as of December 31, 2006 and the dates on which the current labor agreements expire (there are no provisions for the reopening of wage or benefit levels prior to expiration) are as follows:

**CITY OF PASADENA
EMPLOYEE UNION REPRESENTATION**

<u>Name of Union</u>	<u>Number of Employees Represented As of December 31, 2006</u>	<u>Expiration of Contract</u>
American Federation of State, County and Municipal Employees	305	July 2, 2006 ⁽¹⁾
International Brotherhood of Electrical Workers	111	June 30, 2010
International Union of Operating Engineers	26	March 27, 2009
Service Employee International Union	26	April 26, 2009
Pasadena Association of Clerical and Technical Employees/Laborers		
International Union of North America	376	September 30, 2008
Pasadena Fire Fighters Association	152	August 24, 2009
Pasadena Police Officers Association	187	April 24, 2009
Pasadena Police Sergeant Association	34	September 3, 2007
Pasadena Fire Fighters Management Association	8	March 31, 2010
Pasadena Management Association	524	March 31, 2008

Source: City of Pasadena, Human Resources Department

(1) Under negotiation.

Retirement Systems

Almost all permanent City employees, except police and fire personnel employed prior to July 1, 1977, are members of the Public Employees' Retirement System ("PERS"), administered by the State, to which contributions are made by both the City and the employees. As of June 30, 2006, the actuarial staff of PERS reported unfunded liability of \$22.6 million for the City's miscellaneous employees as compared to an underfunding of \$15.3 million the previous year.

Police and Fire personnel hired prior to July 1, 1977 are covered by the City's Fire & Police Retirement System ("FPRS"). As of June 30, 2006, there was one active member in FPRS. As of June 30, 2006, FPRS was actuarially underfunded by \$41 million and had a funded ratio of 69.1%. Under a supplemental contribution agreement between the City and FPRS, there is a specific funding plan whereby the City will provide supplemental payments to FPRS to ensure that all benefits will be paid.

The City provides pension benefits for employees not covered by CalPERS or FPRS through the Public Agency Retirement System (PARS), a defined contribution plan. The City's payroll for employees covered by PARS for the year ended June 30, 2006 was \$3,365,737. Both the City and the covered employees made the total required 7.5% contributions of \$134,629 from the City and \$117,800 from the covered employees.

Post Retirement Medical Benefits

Other than the pension benefits from the applicable retirement system, the City does not provide medical or other post-retirement benefits to its employees.

Insurance

The City funds a self-insured and self-administered program for workers' compensation claims exposures and general liability claims. The City funds a self-insurance program for liability claims. Losses and expenses paid averaged about \$1,400,000 per year for the past 10 years and, when existing "reserves" are added, averaged around \$1,700,000 in liability exposure per year over the past 10 years. The City anticipates these expenses annually and includes funding for them in its operating budget. There is no "excess liability" policy, and any liability losses above the budgeted amount is funded by the City's contingency reserve budget or other means. The amount of self-insured liability claim expenditures and remaining reserves with respect to claims made in each of the fiscal years ended June 30, 1998 through 2006 are reflected in the following table:

**CITY OF PASADENA
LIABILITY CLAIM EXPENDITURES AND REMAINING RESERVES
Fiscal Years 1998 through 2006⁽¹⁾
(Unaudited)**

Fiscal Year (2) Ended June 30,	Loss Paid	Expense Paid	Total Paid	Remaining Reserves for Unpaid Claims ⁽²⁾
1998	\$1,196,628	\$1,790,173	\$2,986,801	\$ 30,000
1999	1,449,536	943,369	2,442,905	571,483
2000	621,495	337,636	959,131	199,500
2001	1,125,905	563,714	1,689,620	0
2002	426,254	492,793	919,047	61,609
2003	2,312,941	871,847	3,184,788	279,228
2004	1,429,037	1,409,112	2,838,148	644,406
2005	429,728	843,538	1,273,265	1,231,272
2006	885,576	583,490	1,469,067	684,175

(1) As of June 30, 2006.

(2) Reserves reflect fiscal year in which claim occurred. Payments reflect money spent on all claims during a fiscal year.

The City maintains commercial property insurance and boiler and machinery insurance on all City-owned buildings of an insurable nature (unless lease agreements require the occupant to carry such insurance) with current basic limits of \$425,000,000 per occurrence per location subject to a \$25,000 deductible. Exclusions include earthquake, corrosion, sabotage, terrorism, electronic data processing electronic erasure, asbestos and mold. There are various sub-limits and/or higher deductibles on specified types of properties.

CITY FINANCIAL INFORMATION

Budget Preparation and Approval Process

No later than January of each year, the Mayor must present a thematic budget message for the upcoming fiscal year to the City Council and the community. The City Council must establish procedures whereby public suggestions and comments on the Mayor's budget proposals may be received and considered prior to the preparation and submission of budget requests by the City Departments to the City Manager.

On or before the third Monday in May of each year, the City Manager must submit to the City Council the recommended balanced budget for the following fiscal year, as required by the City Charter. Also at this time, a public hearing is opened for residents and businesses to make any comments or suggestions regarding the recommended budget. Copies of the recommended budget are available for inspection by the public in the office of the City Clerk and at the City's libraries at least ten days prior to the hearing.

At the conclusion of the public hearing, the City Council further considers the recommended budget and makes any revisions. On or before June 30, the City Council adopts a balanced budget with revisions, if any, by the affirmative vote of at least five members of the City Council.

From the effective date of the budget, funds become appropriated to City departments for the objects and purposes named. At any subsequent City Council meeting following the adoption of the budget, the City Council may amend or supplement the budget by motion adopted by the affirmative vote of a minimum of five members of the City Council.

The Director of Finance prepares the City's financial statements and submits them to the City Council within four months after the close of each fiscal year. The City Council employs an independent certified public accounting firm to review the City's financial statements for conformity with generally accepted accounting principles for municipal governments and issues an opinion letter regarding the accuracy and fairness of the financial information presented in the City's Comprehensive Annual Financial Report.

Budgetary Principles and Developments

Budgetary Principles and Policies. In preparing the City's budget for fiscal year ending June 30, 2007, City staff was guided by certain principles and goals set by the City Council. Among them, staff was directed to match revenues with expenditures when developing a balanced operating budget, and minimize reliance on "carry-forward" fund balances from previous years to fund expenditures in future years.

General Fund Cash Reserve Policy. The City maintains an operating reserve within its General Fund which is targeted at 8% of the current year's appropriations. In fiscal year 2004, as part of the response to the loss of revenues to the State, the City capped the reserve at its then-current level of \$13.7 million. Additional funding for the reserve was added in the fiscal year 2006 and 2007 operating budgets bringing the reserve to approximately \$14.9 million or 7.55% of fiscal year 2007 appropriations. In subsequent fiscal years additional amounts will be added to reach 8% by fiscal year 2012 or sooner. The City does not use the operating reserve fund to fund anticipated operating requirements. Under current City policy, only under emergency conditions does the City use the reserve fund. Cash reserves may be in the form of actual cash or investments and do not refer to any other form of current or long-term assets, such as receivables, inventory, equipment, etc.

Fiscal Year 2007 Budget. The budget preparation process for fiscal year ending June 30, 2007 began in November 2005. In February and March 2006, the City Manager and the Department of Finance met with each department and operating company to review their estimated revenues, expenditures and budgetary requests for fiscal year ending June 30, 2007. Projected expenditures and revenues, reorganizations, performance measures, performance targets, results statements and mission statements and new program requests were discussed at these meetings. Upon completion of the City Manager's review, the City Manager submitted the recommended operating budget to the City Council for a public hearing from which to obtain comments from the City's residents.

The City Council adopted the budget for fiscal year ending June 30, 2007 on June 26, 2006. The General Fund portion of the appropriation budget for fiscal year ending June 30, 2007 is \$199,548,907. The budget includes funding for new and enhanced programs and services.

Accounting Policies, Reports, and Audits

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual requirements. The minimum number of funds is maintained consistent with legal and contractual requirements.

Capital assets (including infrastructure greater than \$10,000) are capitalized and recorded at cost or at the estimated fair value of the assets at the time of acquisition where complete historical records have not been maintained. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Capital assets include public domain (infrastructure) general fixed assets consisting of certain improvements including roads, streets, sidewalks, medians and sewer and storm drains.

The City's funds and capital assets are classified for reporting purpose as follows:

<p><u>Government Funds</u> General Fund Special Revenue Funds Debt Services Funds Capital Projects Funds</p>	<p><u>Fiduciary Funds</u> Trust and Agency Funds</p>
<p><u>Proprietary Funds</u> Enterprise Funds Internal Service Funds</p>	<p><u>Capital Assets</u> Capital Assets used in the Operation of Governmental Funds</p>

The City follows the modified accrual method of accounting for governmental, expendable trusts and agency funds. Under the modified accrual method of accounting, revenues are susceptible to accrual when they become both measurable and available. Expenditures are recorded when a current liability is incurred. Liabilities are considered current when they are normally expected to be liquidated with expendable available financial resources. The proprietary, nonexpendable trust and pension trust funds are accounted for using the accrual method of accounting.

The City's Director of Finance maintains the accounting system and records of accounts for all City funds. The City Charter requires an independent audit of the financial statements of all accounts of the City by an independent certified public accountant. All audits are reviewed by the Finance Committee of the City Council, which is comprised of four members of the City Council.

General Fund Comparative Operating Budget

The following table shows a three-year history of the City's Comparative Operating Budget.

**CITY OF PASADENA
GENERAL FUND
COMPARATIVE OPERATING BUDGET
Fiscal Years 2005 through 2007**

**Adopted General Fund Operating Budget
for Fiscal Year Ending June 30**

REQUIREMENTS	<u>2005</u>	<u>2006</u>	<u>2007</u>
Operating Expenditures	\$139,568,310	\$150,597,262	\$161,473,882
Capital Expenditures	3,123,100	4,600,000	1,100,000
Debt Service	24,423,883	26,565,034	25,563,113
Transfers Out	<u>11,872,636</u>	<u>11,300,569</u>	<u>11,411,912</u>
TOTAL REQUIREMENTS	<u>178,987,929</u>	<u>193,162,865</u>	<u>199,548,907</u>
AVAILABLE FUNDS			
Revenues	\$163,892,374	\$174,732,569	\$190,337,234
Transfers In	2,889,149	2,216,681	2,318,348
Reserves	-	-	-
Utility Contributions	<u>12,206,406</u>	<u>16,213,615</u>	<u>6,983,325</u>
TOTAL AVAILABLE FUNDS	<u>\$178,987,929</u>	<u>\$193,162,865</u>	<u>\$199,548,907</u>

Pursuant to City Charter Sections 1407 and 1408 the City makes annual transfers from the City's Water Fund (the "Water Fund") and from the City's Light and Power Fund (the "Light and Power Fund") to the General Fund. The amount transferred from the Water Fund is not to exceed 6% of gross income received during the preceding fiscal year and shall not exceed net income. This transfer may be used for any municipal purpose. The amount transferred from the Power Fund is not to exceed 16% of gross income received during the preceding fiscal year and shall not exceed net income. Of the total 16% which may be transferred up to 8% may be used for any municipal purpose and the remaining 8% is restricted for municipal improvements and bond redemption.

Set forth below is a table indicating the amount transferred from the Light and Power Fund and the Water Fund to the City's General Fund during each of the last five fiscal years ending June 30, 2006, expressed in dollars and as a percentage of the prior year's gross income.

**CITY OF PASADENA
TRANSFERS FROM THE LIGHT AND POWER FUND AND WATER FUND
TO GENERAL FUND
Fiscal Years 2002 through 2006
(in Thousands)**

	<u>Fiscal Year Ended June 30,</u>				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006⁽¹⁾</u>
<u>Light and Power Fund</u>					
Amount Transferred	\$6,097	\$11,788	\$10,903	\$16,658	\$21,167
As a Percentage of Prior Year's Gross Income ⁽¹⁾	5.0%	7.5%	8.35%	12.42%	16.0%
<u>Water Fund</u>					
Amount Transferred	\$1,516	\$ 2,021	\$2,188	\$1,916	\$2,056
As a Percentage of Prior Year's Gross Income ⁽¹⁾	6.0%	6.0%	6.0%	6.0%	6.0%

⁽¹⁾ Reflects percentage of prior fiscal year's gross revenue of the Water Fund and Light and Power Fund.

⁽²⁾ Includes Public Benefit Charge contribution to City Hall retrofit of \$1.1 million.

Tax Revenue Sources

The City relies on a number of revenue sources that could be reduced or eliminated by State legislation, including, among others, sales and use taxes, property taxes and motor vehicle license fees. The State has in prior years experienced budgetary difficulties and has balanced its budget by requiring local political subdivisions to fund certain costs previously borne by the State. See "RISK FACTORS – Risks Involving the State Budget and Legislation."

Listed below is a historical summary of the City's five largest revenue sources resulting from taxes.

**CITY OF PASADENA
GENERAL TAX REVENUES
Fiscal Years 2002 through 2006
(in Thousands)**

<u>Tax</u>	<u>Fiscal Year Ended June 30</u>				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Property (1)	\$ 38,802	\$ 42,844	\$ 46,966	\$ 48,089	\$ 51,116
Sales	29,479	33,450	32,472	34,294	33,992
Utility Users	24,747	24,142	25,928	26,639	26,766
Street Light & Traffic Signal	5,865	5,127	5,541	5,533	5,480
Transient Occupancy	<u>6,456</u>	<u>6,610</u>	<u>7,022</u>	<u>8,883</u>	<u>10,246</u>
Total	<u>\$105,349</u>	<u>\$112,173</u>	<u>\$117,929</u>	<u>\$123,438</u>	<u>\$127,600</u>

Source: City of Pasadena, Department of Finance

(1) Includes assessments

The tax roll for fiscal year ending June 30, 2007, reflects a total assessed valuation of approximately \$17.2 billion for the City, of which \$2.5 billion reflects the redevelopment project areas incremental assessed valuations of which the payable taxes are due to its redevelopment agency. Assessed net valuation for revenue purposes increased by approximately 9.5% for the fiscal year ended June 30, 2007, over the assessed net valuation for fiscal year ended June 30, 2006, and the compounded average annual increase between assessed valuation for the fiscal year ended June 30, 2002 and the fiscal year ended June 30, 2007 was approximately 8.4%. Such assessed valuations include secured and unsecured utility property assessed by the State Board of Equalization.

CITY OF PASADENA
ASSESSED VALUATION OF TAXABLE PROPERTY
Fiscal Years 1997 through 2007
(in Thousands)

Fiscal Year Ended June 30,	Secured Valuations	Homeowner Exemption	Net Secured Valuations	Unsecured Valuations	Total Assessed Valuation	Less PCDC⁽¹⁾ Increment	Net Valuation
1997	\$8,639,478	\$(139,952)	\$8,499,526	\$391,343	\$8,890,869	(1,152,143)	\$7,738,726
1998	8,751,066	(139,250)	8,611,816	386,851	8,998,667	(1,136,573)	7,862,094
1999	9,131,132	(137,558)	8,993,574	458,544	9,452,118	(1,276,437)	8,175,681
2000	9,620,391	(135,869)	9,484,522	465,739	9,950,261	(1,280,296)	8,669,965
2001	10,236,475	(134,430)	10,102,045	503,731	10,605,776	(1,333,644)	9,272,131
2002	10,781,460	(133,467)	10,647,993	577,896	11,225,889	(1,386,579)	9,839,310
2003	11,537,408	(132,466)	11,404,942	606,087	12,011,029	(1,552,121)	10,459,277
2004	12,667,923	(131,710)	12,536,213	587,938	13,124,151	(1,786,002)	11,338,149
2005	13,672,183	(134,055)	13,538,128	564,808	14,102,936	(1,946,336)	12,156,600
2006	15,071,976	(134,404)	14,937,572	598,396	15,535,968	(2,097,532)	13,438,436
2007	16,759,246	(133,112)	16,626,134	620,524	17,246,658	(2,522,337)	14,724,321

(1) Pasadena Community Development Commission, the redevelopment agency for the City.
Source: Los Angeles County Auditor-Controller and California Municipal Statistics, Inc.

The following two tables reflect the typical property tax rate per \$100 of assessed value in various jurisdictions and the ten largest secured taxpayers in the City.

CITY OF PASADENA
PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
For Fiscal Years 1997 through 2006

Fiscal Year	General City	City Debt Service	Los Angeles County General	Pasadena School District	Pasadena Comm. College District	Flood Control District	Metropolitan Water District	Total
1997	1.000000	0.018273	0.001604	0.000000	0.000000	0.001991	0.008900	1.030768
1998	1.000000	0.017898	0.001584	0.000000	0.000000	0.002197	0.008900	1.030579
1999	1.000000	0.019562	0.001451	0.029524	0.000000	0.001953	0.008900	1.061390
2000	1.000000	0.018060	0.001422	0.059910	0.000000	0.001705	0.008900	1.090057
2001	1.000000	0.016731	0.001314	0.067891	0.000000	0.001552	0.008800	1.096288
2002	1.000000	0.015297	0.001128	0.090396	0.000000	0.001073	0.007700	1.115594
2003	1.000000	0.014611	0.001033	0.070304	0.000000	0.000811	0.006700	1.093529
2004	1.000000	0.012515	0.000992	0.088903	0.006814	0.000462	0.006100	1.115786
2005	1.000000	0.011643	0.000923	0.086312	0.008786	0.000245	0.005800	1.113709
2006	1.000000	0.009792	0.000795	0.109911	0.004103	0.000049	0.005200	1.129850

Source: County of Los Angeles Tax Assessor and California Municipal Statistics, Inc.

**CITY OF PASADENA
TOP TEN PROPERTY TAXPAYERS
Fiscal Year Ended June 30, 2006**

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>Total Assessed Valuation</u>	<u>Percentage of Total Local Secured Assessed Valuation</u>
Kaiser Foundation Health Plan Inc.	Office Building	\$127,607,796	0.85%
Equity Office Properties Trust	Office Building	122,462,686	0.81%
Paseo Colorado Holdings LLC	Shopping Center	122,444,938	0.81%
SSR Paseo Colorado LLC	Apartments	101,807,238	0.68%
Pasadena Towers LLC	Office Building	100,119,811	0.66%
Parfinco EWA LLC	Office Building	68,433,565	0.45%
Holly Street LP	Apartments	67,948,326	0.45%
Operating Engineers Funds Inc.	Office Building	66,182,153	0.44%
Indymac Bank FSB	Office Building	59,364,000	0.39%
One Colorado Investments LLC	Shopping Center	58,484,079	0.39%
Total principal property taxpayers gross assessed value		<u>\$894,854,592</u>	<u>5.94%</u>
Total city assessed value		<u>\$15,071,963,055</u>	<u>100.00%</u>

Source: California Municipal Statistics, Inc.

General Fund Comparative Financial Statements

The following two tables describe the financial condition of the City's General Fund by showing a three-year history of the City's Comparative Balance Sheet and a three-year history of the City's Statement of Revenues, Expenditures and Changes in Fund Balances.

CITY OF PASADENA GENERAL FUND COMPARATIVE BALANCE SHEETS Fiscal Years 2004 through 2006

<u>Assets</u>	<u>Fiscal Year Ended June 30,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Cash and investments	\$52,739,540	\$64,036,515	\$71,316,176
Accounts receivable	13,089,567	13,538,166	15,265,750
Less allowance for uncollectible amounts	(1,319,561)	(712,267)	(638,934)
Notes receivable	374,164	379,584	380,403
Due from other funds	4,362,364	3,296,481	6,252,418
Prepays and other assets	807,983	517,778	564,497
Advances to other funds	16,509,045 ⁽¹⁾	15,000,001 ⁽¹⁾	15,117,050 ⁽¹⁾
Advances to component units	1,193,237	1,140,709	1,085,522
Allowance uncollectible for long term receivables	<u>(9,370,240)⁽¹⁾</u>	<u>(10,532,096)</u>	<u>(10,936,952)</u>
Total assets	<u>\$78,386,099</u>	<u>\$86,664,871</u>	<u>\$98,405,930</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 9,450,065	\$ 8,277,126	\$10,307,288
Deposits	1,729,845	1,796,515	2,097,183
Due to other governments	27,733	27,733	24,035
Deferred revenue	7,881,364	7,482,071	6,511,012
Total liabilities	<u>\$19,089,007</u>	<u>\$17,583,445</u>	<u>\$18,939,518</u>
Fund Balances:			
Reserved for:			
Encumbrances	\$ 391,861	\$ 579,198	\$ 855,095
Notes receivable	374,164	379,584	380,403
Prepays and other assets	807,983	517,778	564,497
Advances to other funds	8,332,042	5,608,614	5,265,620
Unreserved:			
General Fund	49,391,042	61,996,252	72,400,797
Total fund balances	<u>59,297,092</u>	<u>69,081,426</u>	<u>79,466,412</u>
Total liabilities and fund balances	<u>\$78,386,099</u>	<u>\$86,664,871</u>	<u>\$98,405,930</u>

(1) See Note (7) of Notes to General Purpose Financial Statements under "General Fund Advances."

**CITY OF PASADENA
GENERAL FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
Fiscal Years 2004 through 2006**

	<u>Fiscal Year Ended June 30,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Revenues:			
Taxes	\$ 107,861,739	\$ 103,263,885	\$ 108,259,679
Licenses and permits	1,787,937	2,422,590	2,389,206
Intergovernmental revenues	7,920,958	12,513,767	12,013,725
Charges for services	19,307,374	26,212,130	27,954,633
Fines and forfeits	5,273,955	6,541,630	6,911,046
Investment earnings	15,677,643	16,527,891	18,656,672
Net changes in fair value of investments	(1,028,792)	(85,675)	(831,808)
Rental income	1,667,430	1,632,951	1,536,322
Miscellaneous revenue	<u>2,949,067</u>	<u>2,186,348</u>	<u>2,155,607</u>
Total revenues	<u>161,417,311</u>	<u>171,215,517</u>	<u>179,045,082</u>
Expenditures:			
Current:			
General government	24,371,529	26,439,776	30,274,937
Public Safety	67,706,433	75,440,612	78,487,902
Transportation	21,382,039	21,886,752	23,974,050
Culture and leisure	12,051,162	12,349,300	13,097,817
Community development	7,808,328	8,082,604	8,796,832
Debt service:			
Principal retirement	—	40,000,000	—
Total expenditures	<u>133,319,491</u>	<u>184,199,044</u>	<u>154,631,538</u>
Excess (deficiency) of revenues over (under) expenditures	<u>28,097,820</u>	<u>(12,983,527)</u>	<u>24,413,544</u>
Other financing sources (uses):			
Issuance of long-term debt	—	2,181,479	—
Transfers in	16,802,725	60,497,106	26,940,474
Transfers out	<u>(36,052,151)</u>	<u>(39,910,724)</u>	<u>(40,969,032)</u>
Total other financing sources (uses)	<u>(19,249,426)</u>	<u>22,767,861</u>	<u>(14,028,558)</u>
Change in fund balances	8,848,394	9,784,334	10,384,986
Fund balances at beginning of year, as restated	<u>50,448,698</u>	<u>59,297,092</u>	<u>69,081,426</u>
Fund balances at end of year	<u>\$ 59,297,092</u>	<u>\$ 69,081,426</u>	<u>\$ 79,466,412</u>

General Fund taxes increased by approximately \$0.5 million from the fiscal year ended June 30, 2004 to June 30, 2006. These changes were due primarily to increases in property taxes from increasing assessed valuations, retail sales taxes from an improving economy as well as transient occupancy tax and utility users tax. Revenues received from licenses and permits were received from a variety of sources and reflect, in part, a strong local economy. Revenues received from charges for services also increased, reflecting a strong local economy.