

Population

The following table presents a history of the population of the City as of January 1 for the past ten years.

TABLE 1
CITY OF PASADENA
POPULATION
For Years 1998 through 2007

<u>Year</u>	<u>Population</u>
1998	140,400
1999	142,500
2000	133,936
2001	135,587
2002	138,904
2003	142,214
2004	143,797
2005	145,314
2006	146,138
2007	147,262

Source: State of California, Department of Finance.

Education

Total enrollment within the Pasadena Unified School District as of June 30 is shown below for the last ten years.

TABLE 2
PASADENA UNIFIED SCHOOL DISTRICT
TOTAL ENROLLMENT⁽¹⁾
Fiscal Years 1998 through 2007

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Total</u> <u>Enrollment</u>
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
2007	20,826

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 2003 through 2007.

TABLE 3
LOS ANGELES COUNTY
EMPLOYMENT, UNEMPLOYMENT AND LABOR FORCE
Averages for Calendar Years 2003 through 2007
(Figures in Thousands)

	2003	2004	2005	2006	2007
County Employment	4,448	4,494	4,565	4,641	4,714
County Unemployment	334	316	257	246	254
County Civilian Labor Force	4,782	4,810	4,821	4,886	4,960
County Unemployment Rate	7.0%	6.6%	5.3%	4.2%	5.1%
State Unemployment Rate	6.8%	6.2%	5.4%	4.8%	5.4%

Source: State of California Employment Development Department. Current Labor Force and Industry Employment updated September, 2007. Los Angeles-Long Beach Metropolitan Statistical Area.

Major Employers

Industry in the City is diversified. Some of the leading industries include higher education, research and development, health care, financial services and communications. The major employers within the City as of June 2007 are listed below.

**TABLE 4
CITY OF PASADENA
MAJOR EMPLOYERS
As of June 2007**

Company	Number of Employees	Business Line
Jet Propulsion Laboratory	5,200	Aerospace Research
Pasadena City College	3,647	Education
Kaiser Permanente	3,300	Health Care
Huntington Memorial Hospital	3,257	Hospital
SBC/AT&T	2,600	Communications
California Institute of Technology	2,553	Education
Pasadena City College	2,500	Education
Pasadena Unified School District	2,500	Government
The City of Pasadena	2,167	Government
IndyMac Bank Corp., Inc.	1,850	Financial
Bank of America	1,200	Financial
Parsons Corporation	824	Engineering/Construction
Art Center College of Design	810	Education
The Ritz-Carlton Huntington Hotel	597	Hotel
Pacific Clinics Administration	550	Medical Clinics
The Sycamores	530	Social Services
San Gabriel Valley Newspapers	525	Newspaper

Source: Pasadena Chamber of Commerce, June 2007.

Housing

The following table presents a ten-year history of total available housing units within the City from 1998 through 2007.

TABLE 5
CITY OF PASADENA
HOUSING UNITS⁽¹⁾
Fiscal Years 1998 through 2007

<u>June 30,</u>	<u>Housing Units</u>
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
2007	56,753

Source: California Department of Finance, E-5 report.

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

Building Permit Activity

In September of 1992, the City Council adopted a draft of a new General Plan to replace a 1989 voter-approved Initiative. In November of 1992, the voters approved a ballot measure for the City's new General Plan. The City's General Plan targets development in the City, providing for growth in employment and housing. Since 1992, 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 ended 2003 through 2007.

TABLE 6
CITY OF PASADENA
BUILDING PERMIT VALUATION AND PERMIT ACTIVITY
Fiscal Years 2003 through 2007
(Valuation in Millions)

	Fiscal Year Ended June 30,				
	2003	2004	2005	2006	2007
Total Value of New Construction	\$232.1	\$253.1	\$264.4	\$196.6	\$218.5
Number of Building Permits Issued					
Commercial	691	678	738	728	702
Residential	2,308	2,405	2,550	2,718	2,531
TOTAL	<u>2,999</u>	<u>3,083</u>	<u>3,288</u>	<u>3,446</u>	<u>3,233</u>

Source: City of Pasadena, Planning and Permitting Department.

Taxable Sales

The following table indicates taxable transactions in the City by type of business for the calendar years 2003 through 2007.

TABLE 7
CITY OF PASADENA
TAXABLE TRANSACTIONS BY TYPE OF BUSINESS
Fiscal Years 2003 through 2007
(\$ in Thousands)

	2003	2004	2005	2006	2007⁽¹⁾
Apparel Stores	\$ 127,672	\$ 145,732	\$ 159,898	\$ 190,935	\$ 163,562
General Merchandise Stores	258,178	282,655	281,004	312,841	255,238
Food Stores	91,405	89,074	98,324	202,998	107,549
Eating and Drinking Places	321,090	350,254	364,950	440,760	374,050
Home Furnishings & Appliances	130,301	142,692	142,129	171,790	132,195
Building Materials & Farm Implements	62,144	74,868	88,609	117,390	109,424
Auto Dealers & Auto Supplies	426,575	419,904	474,052	461,551	351,708
Service Stations	101,933	110,510	127,293	137,634	103,104
Other Retail Stores	356,441	384,098	411,646	369,241	230,027
Retail Stores Total	<u>1,875,739</u>	<u>1,999,787</u>	<u>2,147,905</u>	<u>2,405,140</u>	<u>1,826,857</u>
All Other Outlets	842,195	864,687	860,069	745,956	538,236
TOTAL ALL OUTLETS	<u>\$2,717,934</u>	<u>\$2,864,474</u>	<u>\$3,007,974</u>	<u>\$3,151,096</u>	<u>\$2,365,093</u>

Source: State Board of Equalization, City of Pasadena; MBIA MuniServices Company.

⁽¹⁾ Data available up to Second Qtr. 2007 (nine months results).

Community Facilities

The City has a central library and eight 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, located in nearby Burbank, 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 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 the 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 October 31, 2007 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:

**TABLE 8
CITY OF PASADENA
EMPLOYEE UNION REPRESENTATION**

Name of Union	Number of Employees Represented as of October 31, 2007	Expiration of Contract
American Federation of State, County and Municipal Employees	312	July 3, 2010
International Brotherhood of Electrical Workers	113	June 30, 2010
International Union of Operating Engineers	22	March 27, 2009
Service Employee International Union	27	April 26, 2009
Pasadena Association of Clerical and Technical Employees/Laborers International Union of North America	378	September 30, 2008
International Union of North America	378	September 30, 2008
Pasadena Fire Fighters Association	150	August 24, 2009
Pasadena Police Officers Association	191	April 24, 2009
Pasadena Police Sergeant Association	35	September 3, 2007 ⁽¹⁾
Pasadena Fire Fighters Management Association	8	March 31, 2010
Pasadena Management Association	518	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 hired after 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 \$38.7 million for the City's miscellaneous employees as compared to an underfunding of \$22.6 million the previous year. As of June 30, 2006, the City reported that its PERS obligation with respect to the City's miscellaneous employees was 98.5% funded.

Police and Fire personnel hired prior to July 1, 1977 are covered by the City's Fire and Police Retirement System ("FPRS"). As of June 30, 2007, there was one active member in FPRS. As of June 30, 2007, FPRS was actuarially underfunded by \$44 million and had a funded ratio of 72%. 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 PERS 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, 2007, was \$3,598,700. Both the City and the covered employees made the total required 7.5% contributions of \$143,948 from the City and \$125,954 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 \$1,936,000 per year for the past 10 years and, when existing "reserves" are added, averaged around \$2,509,000 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 are 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 2007 are reflected in the following table:

TABLE 9
CITY OF PASADENA
LIABILITY CLAIM EXPENDITURES AND REMAINING RESERVES
Fiscal Years 1998 through 2007⁽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	\$0
1999	1,499,536	943,369	2,442,905	75,111
2000	621,495	337,636	959,131	298,104
2001	1,125,905	563,714	1,689,620	0
2002	426,254	492,793	919,047	35,927
2003	2,312,941	871,847	3,184,788	156,837
2004	1,429,037	1,409,112	2,838,148	445,598
2005	429,728	843,538	1,273,265	2,418,916
2006	885,576	583,490	1,469,067	1,168,496
2007	761,036	838,355	1,599,391	1,130,289

Source: City of Pasadena.

⁽¹⁾ As of November 2, 2007.

⁽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 \$1 billion 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 property.

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, 2008, 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. The Adopted Operating Budget for fiscal year 2008 includes additional funds which bring the reserve to 7.65 percent. 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 2008 Operating Budget. The budget preparation process for the fiscal year ending June 30, 2008 began in November 2006. In February and March 2007, 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, 2008. 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 appropriation budget for fiscal year ending June 30, 2008 on June 25, 2007. The General Fund portion of the budget for fiscal year ending June 30, 2008 is \$212,338,420. 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:

Government Funds

General Fund
Special Revenue Funds
Debt Services Funds
Capital Projects Funds

Fiduciary Funds

Trust and Agency Funds

Proprietary Funds

Enterprise Funds
Internal Service Funds

Capital Assets

Capital Assets used in the operation
of Governmental Funds

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.

**TABLE 10
CITY OF PASADENA
GENERAL FUND
COMPARATIVE OPERATING BUDGET
Fiscal Years 2006 through 2008**

	Adopted General Fund Operating Budget for Fiscal Year Ending June 30,		
	2006	2007	2008
Requirements			
Operating Expenditures	\$150,597,262	\$161,473,882	\$172,454,483
Capital Expenditures	4,600,000	1,100,000	--
Debt Service	26,565,034	25,563,113	27,754,178
Transfers Out	11,300,569	11,411,912	12,129,759
TOTAL REQUIREMENTS	<u>\$193,162,865</u>	<u>\$199,548,907</u>	<u>\$212,338,420</u>
Available Funds			
Revenues	\$174,732,569	\$190,337,234	\$197,913,651
Transfers In	2,216,681	2,318,348	1,121,847
Reserves	--	--	--
Utility Contributions	16,213,615	6,983,325	13,302,922
TOTAL AVAILABLE FUNDS	<u>\$193,162,865</u>	<u>\$199,548,907</u>	<u>\$212,338,420</u>

Source: _____.

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 Light and 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, expressed in dollars and as a percentage of the prior year's gross income.

**TABLE 11
CITY OF PASADENA
TRANSFERS FROM THE LIGHT AND POWER FUND AND
WATER FUND TO GENERAL FUND
Fiscal Years 2003 through 2007
(\$ in Thousands)**

	Fiscal Year Ended June 30,				
	2003	2004	2005	2006	2007 ⁽²⁾
<u>Light and Power Fund</u>					
Amount Transferred	\$11,788	\$10,903	\$16,658	\$21,167	\$5,898
As a Percentage of Prior Year's Gross Income ⁽¹⁾	7.50%	8.35%	12.42%	16.00%	3.60%
<u>Water Fund</u>					
Amount Transferred	\$2,021	\$2,188	\$1,916 ⁽³⁾	\$2,056	2,059
As a Percentage of Prior Year's Gross Income ⁽¹⁾	6.00%	6.00%	6.00%	6.00%	6.00%

Source: _____.

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

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

⁽³⁾ Does not include a transfer of \$540,000 relating to a lease of certain property.

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 "STATE OF CALIFORNIA BUDGET INFORMATION" herein.

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

TABLE 12
CITY OF PASADENA
GENERAL TAX REVENUES
Fiscal Years 2003 through 2007
(\$ in Thousands)

	Fiscal Year Ended June 30,				
	2003	2004	2005	2006	2007
Tax					
Property ⁽¹⁾	\$ 42,844	\$ 46,966	\$ 48,089	\$ 51,116	\$61,763
Sales	33,450	32,472	34,294	33,992	34,634
Utility Users	24,142	25,928	26,639	26,766	28,063
Transient Occupancy	6,610	7,022	8,883	10,246	10,358
Street Light and Traffic Signal	5,127	5,541	5,533	5,480	6,352
Total	<u>\$112,173</u>	<u>\$117,929</u>	<u>\$123,438</u>	<u>\$129,405</u>	<u>\$141,170</u>

Source: City of Pasadena, Department of Finance.

⁽¹⁾ Includes assessments.

Property Taxes. Property taxes are levied for each fiscal year on taxable real and personal property which is situated in the City as of the preceding March 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed public utilities property and property the taxes on which a lien on real property is sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of the fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. If such taxes remain unpaid as of June 30 of the fiscal year in which the tax is levied, the property securing the taxes may only be redeemed by payment of the delinquent payment, plus a redemption penalty equal to 1-1/2% per month from the original June 30 date to the time of redemption. If taxes are unpaid for a period of five years or more, the property is then subject to sale by the County Treasurer and Tax Collector, as provided by law.

Property taxes on the unsecured roll are due as of the March 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty equal to 1-1/2% per month begins to accrue commencing on November 11 of the fiscal year. Collection of delinquent unsecured taxes is the responsibility of the County of Los Angeles, which may utilize any of several means legally available to it.

The tax roll for fiscal year ending June 30, 2008, reflects a total assessed valuation of approximately \$19.3 billion for the City, of which \$2.6 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 12.61% for the fiscal year ended June 30, 2008 and the compounded average annual increase between assessed valuation for the fiscal year ended June 30, 2003 and the fiscal year ended June 30, 2008 was approximately 9.83%. Such assessed valuations include secured and unsecured utility property assessed by the State Board of Equalization.

TABLE 13
CITY OF PASADENA
ASSESSED VALUATION OF TAXABLE PROPERTY
Fiscal Years 1999 through 2008
(\$ 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
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	10,605,775	(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	(2,405,375)	14,841,283
2008	18,839,519	(134,380)	18,705,139	607,798	19,312,937	(2,600,303)	16,712,634

Source: Los Angeles County Auditor-Controller and California Municipal Statistics, Inc. and the City of Pasadena.

⁽¹⁾ Pasadena Community Development Commission, the redevelopment agency for the City.

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.

TABLE 14
CITY OF PASADENA
PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
For Fiscal Years 1998 through 2007

Fiscal Year	General City	City Debt Service	Los Angeles County General	Pasadena School District	Pasadena Community College District	Flood Control District	Metropolitan Water District	Total
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
2007	1.000000	0.011055	0.000663	0.040078	0.020801	0.000052	0.004700	1.077349

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

**TABLE 15
CITY OF PASADENA
TOP TEN PROPERTY TAXPAYERS
(Fiscal Year Ended June 30, 2007)**

Property Owner	Primary Land Use	Total Assessed Valuation	Percentage of Total Local Secured Assessed Valuation
Paseo Colorado Holdings LLC	Shopping Center	\$ 124,893,831	0.72%
Equity Office Properties Trust	Office Building	120,737,556	0.70
SSR Paseo Colorado LLC	Apartments	103,833,723	0.60
Pasadena Towers LLC	Office Building	102,122,205	0.59
Archstone Smith Operating Trust	Apartments	92,652,209	0.54
Kaiser Foundation Health Plan Inc.	Office Building	88,031,949	0.51
EWA LLC	Office Building	69,802,236	0.40
Holly Street LP	Apartments	69,293,883	0.40
Payne Gleeson L	Office Building	69,081,275	0.40
Operating Engineers Funds Inc.	Office Building	66,273,243	0.38
Total principal property taxpayers gross assessed value		<u>\$ 902,722,110</u>	<u>5.24%</u>
Total city assessed value		<u>\$17,379,769,223</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.

TABLE 16
CITY OF PASADENA
GENERAL FUND
COMPARATIVE BALANCE SHEETS
Fiscal Years 2005 through 2007

Assets	Fiscal Year Ended June 30,		
	2005	2006	2007
Cash and investments	\$64,036,515	\$71,316,176	\$59,168,047
Accounts receivable	13,538,166	15,265,750	15,663,096
Less allowance for uncollectible amounts	(712,267)	(638,934)	(1,035,905)
Notes receivable	379,584	380,403	386,403
Due from other funds	3,296,481	6,252,418	6,015,821
Prepays and other assets	517,778	564,497	588,887
Advances to other funds	15,000,001 ⁽¹⁾	15,117,050 ⁽¹⁾	15,237,831 ⁽¹⁾
Advances to component units	1,140,709	1,085,522	1,027,541
Allowance for uncollectible for long-term receivables	(10,532,096)	(10,936,952)	(11,341,808)
Total Assets	<u>\$86,664,871</u>	<u>\$98,405,930</u>	<u>\$85,709,913</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ 8,277,126	\$10,307,288	\$11,046,824
Deposits	1,796,515	2,097,183	1,798,192
Due to other governments	27,733	24,035	272,928
Deferred revenue	7,482,071	6,511,012	6,104,256
Total Liabilities	<u>\$17,583,445</u>	<u>\$18,939,518</u>	<u>\$19,222,200</u>
Fund Balances:			
Reserved for:			
Encumbrances	\$ 579,198	\$ 855,095	\$ 1,072,213
Notes receivable	379,584	380,403	386,403
Prepays and other assets	517,778	564,497	588,887
Advances to other funds	5,608,614	5,265,620	4,923,564
Unreserved:			
General Fund	61,996,252	72,440,797	59,516,646
Total Fund Balances	<u>69,081,426</u>	<u>79,466,412</u>	<u>66,487,713</u>
Total Liabilities and Fund Balances	<u>\$86,664,871</u>	<u>\$98,405,930</u>	<u>\$85,709,913</u>

Source: Audited Basic Financial Statements of the City of Pasadena For Fiscal Year Ended June 30, 2007.

⁽¹⁾ See Note (7) of Notes to Audited Basic Financial Statements of the City of Pasadena under "General Fund Advances."

TABLE 17
CITY OF PASADENA
GENERAL FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
Fiscal Years 2005 through 2007

	Fiscal Year Ended June 30,		
	2005	2006	2007
Revenues:			
Taxes	\$103,263,885	\$108,259,679	\$115,916,861
Licenses and permits	2,422,590	2,389,206	2,024,034
Intergovernmental revenues	12,513,767	12,013,725	12,705,093
Charges for services	26,212,130	27,954,633	30,711,841
Fines and forfeits	6,541,630	6,911,046	7,593,705
Investment earnings	16,527,891	18,656,672	22,024,174
Net changes in fair value of investments	(85,675)	(831,808)	(857,707)
Rental income	1,632,951	1,536,322	1,317,087
Miscellaneous revenue	2,186,348	2,155,607	2,063,664
Total revenues	<u>\$171,215,517</u>	<u>\$179,045,082</u>	<u>\$195,214,166</u>
Expenditures:			
Current:			
General government	\$ 26,439,776	\$ 30,274,937	\$ 34,178,408
Public Safety	75,440,612	78,487,902	88,398,871
Transportation	21,886,752	23,974,050	24,514,491
Culture and leisure	12,349,300	13,097,817	13,700,557
Community development	8,082,604	8,796,832	9,468,514
Debt service:			
Principal retirement	40,000,000 ⁽¹⁾	—	—
Total expenditures	<u>\$184,199,044</u>	<u>\$154,631,538</u>	<u>\$170,260,841</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (12,983,527)</u>	<u>\$ 24,413,544</u>	<u>\$ 24,953,325</u>
Other Financing Sources (Uses):			
Issuance of long-term debt	\$ 2,181,479	\$ —	\$ 87,401
Transfers in	60,497,106	26,940,474	13,634,346
Transfers out	(39,910,724)	(40,969,032)	(51,653,771)
Total other financing sources (uses)	\$ 22,767,861	\$ (14,028,558)	\$(37,932,024)
Change in fund balances	9,784,334	10,384,986	(12,978,699)
Fund balances at beginning of year, as restated	<u>59,297,092</u>	<u>69,081,426</u>	<u>79,466,412</u>
Fund balances at end of year	<u>\$ 69,081,426</u>	<u>\$ 79,466,412</u>	<u>\$ 66,487,713</u>

Source: Audited Basic Financial Statements of the City of Pasadena For Fiscal Year Ended June 30, 2007.

⁽¹⁾ Includes \$40,000,000 of the proceeds of Pension Obligation Bonds.

General Fund taxes increased by approximately \$12.6 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.

Investment Practices

General. The City Treasurer is responsible for investing City funds pursuant to an Investment Policy (the “Investment Policy”) established by the City Council.

The Treasurer invests temporarily idle cash for the City as part of a pooled investment program which combines general receipts with special funds for investment purposes. The City’s accounting division then allocates interest earnings on a pro rata basis when the interest is earned and distributes interest receipts based on the previously established allocations. All funds of the City, other than bond proceeds, the investment assets of the Commission, the City’s Capital Endowment Fund and the Stranded Investment Reserve Fund, are invested pursuant to this pooled investment program. Funds of the Commission are invested pursuant to the Investment Policy, but are kept separate from other City funds. The Treasurer does not invest funds of any other governmental entities as part of its pooled investment program. All bond proceeds are invested in accordance with the permitted investments described in the applicable trust indenture.

Pooled Investment Portfolio. As of June 30, 2007, the funds invested pursuant to the pooled investment program had a market value of \$283,355,442. The City Treasurer prices the pooled portfolio and all other funds and investments under management on a monthly basis. The market values are obtained from Interactive Data Corporation (“IDC”) and Bloomberg Financial Systems. The weighted average maturity of these investments was 1.77 years. Of the investments on that date, approximately 24.26% had maturities of ninety days or less.

The assets of the portfolio as of June 30, 2007 are shown in the following table:

TABLE 18
CITY OF PASADENA
POOLED INVESTMENT PORTFOLIO
Assets as of December 31, 2006

Type	Market Value	Percentage of Total⁽¹⁾
Repurchase Agreements	\$ 50,200,000	17.87%
Certificates of Deposit	560,000	0.20
Local Agency Investment Fund (LAIF)	658,278	0.23
Municipal Bonds	1,371,550	0.49
Treasury Securities	12,520,750	4.46
Corporate Bonds	15,681,457	5.58
Mortgage Backed Securities/GNMAs	2,420	0.00
Federal Agencies	198,831,613	70.76
Cash in Bank	1,154,834	0.41
Total	\$280,980,902	100.00%
Accrued Interest Receivable	2,374,540	
Grand Total	\$283,355,442	

Source: City of Pasadena.

⁽¹⁾ At market value.

Investment Policy. The City's treasury operations are managed according to the Investment Policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturities. The Investment Policy is reviewed and authorized by the City Council on an annual basis. The City Council approved the Investment Policy for fiscal year ended June 30, 2007 on November 20, 2006.

The Investment Policy establishes three primary objectives, in the following order of priority, for the City's investment activities.

1. Safety of Principal. The City will seek to preserve principal by mitigating credit risk and market risk (by structuring the portfolio so that securities mature at the same time as major cash outflows occur and by prohibiting the taking of short positions).

2. Liquidity. The City will maintain sufficient liquidity in the investment portfolio to enable the City to meet all operating requirements which might be reasonably anticipated and investments will be authorized only in securities that are actively traded in the secondary market. The City operates its own electric and water utility and bills monthly for such services. The utility billing program generates significant cash flow on a daily basis. Historical cash flow trends are compared to current cash flow requirements on an ongoing basis in an effort to ensure that the City's investment portfolio will remain sufficiently liquid to enable the City to meet all reasonably anticipated operating requirements.

3. Return on Investment. The City will design its investment portfolio to attain a "market average rate of return" through economic cycles and, whenever possible, consistent with risk limitations and prudent investment principles, to augment returns above the market average rate of return.

The City's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City to invest funds to the fullest extent possible. The City attempts to earn the highest yield obtainable while keeping within the investment criteria established by the Investment Policy for the safety and liquidity of public funds.

To meet its short-term cash flow needs, the City typically maintains an average investment balance of about \$30 million in securities with a maturity of 30 days or less.

Authorized Investments. Funds are invested only in those securities authorized by the various sections of the California Government Code and the City's Investment Policy, which include obligations of the United States Treasury, agencies of the United States Government, local and State bond issues, bankers acceptances, commercial paper of prime quality, certificates of deposit (both collateralized and negotiable), repurchase and reverse repurchase agreements, medium-term corporate bonds, shares of beneficial interest in diversified management companies (mutual funds), and asset-backed (including mortgage-related) and pass-through securities.

The City does not invest funds in any security that could result in a zero interest accrual if held to maturity, and has no investments in derivative products such as interest rate swaps, futures, options or reverse purchase agreements in connection with its investments. The City has entered into interest rate swap agreements in connection with certain of its obligations. The City does not have any investments which are reverse repurchase agreements. A reverse repurchase agreement is a transaction in which a holder of securities, such as the City, sells the same to a third party and agrees to repurchase them at a later date. The proceeds received by the seller can in turn be invested in additional securities, thus producing "leverage."

The Government Code stipulates that no investments may be made in securities with maturities in excess of five years without express authority from the City's legislative body. The Government Code and the City's Investment Policy place various other restrictions on investment in and allocation of funds to various investment categories, including the following:

- The value of bankers acceptances, bills of exchange or time drafts drawn on and accepted by commercial banks may not exceed 40% of the City's portfolio book value as measured on the date of purchase and the days to maturity of such investments may not exceed 180 days.
- Commercial paper must be rated P1 and issued by U.S. corporations with assets greater than \$500 million and a long-term debenture rating of A or better. The City is not permitted to purchase commercial paper that exceeds 270 days to maturity nor hold more than 10% of a corporation's outstanding commercial paper. The value of the City's holdings of commercial paper may not exceed 15% of the book value of the City's portfolio as measured on the date of purchase.
- The value of the City's holdings of negotiable certificates of deposits may not exceed 30% of the book value of the City's portfolio as measured on the date of purchase.
- The market value of the securities used as collateral for repurchase agreements may not be permitted to fall below 102% of the value of the repurchase agreement. Execution of a PSA Master Repurchase Agreement is required for all repurchase agreements transacted and the maturity of repurchase agreements may not exceed one year.
- The value of City's reverse repurchase agreement holdings may not exceed 20% of the book value of the City's portfolio as measured on the day of purchase. Reverse repurchase agreements may not exceed 92 days to maturity unless the agreement includes a written guarantee of minimum earnings for the entire period. Term reverse repurchase transactions in excess of 92 days are only permitted if the securities underlying the reverse are matched to the maturities of the reinvestments.
- No more than 25% of the City's investment portfolio may be invested in time deposits.
- Medium-term corporate bonds must be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service. The value of the City's holdings of medium-term corporate bonds is limited to 30% of the City's portfolio book value as measured on the date of purchase and no more than 5% of the cost value may be invested in bonds held by one corporation.
- The value of the City's mutual fund holdings may not exceed 20% of the City's portfolio book value as measured on the date of purchase.
- Any eligible mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate or consumer receivable-backed bond must be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by a nationally recognized rating service and rated in a rating category of "AA" or its equivalent or better by a nationally recognized rating service. In addition, purchases of such securities may not exceed 20% of all of the City's surplus funds that may be invested in accordance with the foregoing investment guidelines and restrictions.

None of the moneys on deposit in the City's investment portfolio is currently invested in leveraged products or inverse floating rate bonds. The City has no investments in outside investment pools except for State's Local Agency Investment Fund (LAIF). The City does not have a practice of lending its portfolio's securities to others in return for a fee, although it is not prohibited from doing so.

General Obligation Debt

Under the City Charter, the City may not incur indebtedness by general obligation bond which would in the aggregate exceed 15% of the total assessed valuation of all the real and personal property within the City subject to assessment for taxation for municipal purposes. In addition, no bonded indebtedness which will constitute a general obligation of the City may be created unless authorized by the affirmative vote of two-thirds of the electorate voting on such proposition at any election at which the question is submitted. Such bonds are secured by an ad valorem property tax assessed against the property owners of the City.

The City currently has no general obligation debt outstanding.

Estimated Direct and Overlapping Bonded Debt

The estimated direct and overlapping bonded debt of the City as of _____, 2008 is set forth in the following table.

[To Come]

RISK FACTORS

The following risk factors associated with investing in 2008B Certificates, along with all other information in this Official Statement, should be considered by potential investors in evaluating an investment in the 2008B Certificates. The following list is not intended to be comprehensive of all risks of investing in the 2008B Certificates and no significance should be associated with the order of presentation of the risk factors.

Lease Obligation—No Tax Pledge

THE OBLIGATION OF THE CITY TO MAKE BASE RENTAL PAYMENTS UNDER THE SUBLEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE 2008B CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE BASE RENTAL PAYMENTS UNDER THE SUBLEASE CONSTITUTES AN INDEBTEDNESS OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

No Pledge of City Funds

The 2008B Certificates are payable from Base Rental Payments made by the City under the Sublease. While the Base Rental Payments are payable from any legally available funds, the City expects to make Base Rental Payments from amounts in its General Fund to the extent revenues of affiliated entities operating portions of the Leased Property are not available. The City has not pledged any moneys in the General Fund nor any revenue source to secure the obligations represented by the 2008B Certificates. No assurances can be given as to the amount and source of money available to the City at any particular time to make Base Rental Payments. In the event the City's revenue sources are less than its total obligations, the City could fund municipal services and other obligations payable from its General Fund before making Base Rental Payments and other payments due under the Sublease.

Sublease Has No Limit on Additional Obligations

As of June 30, 2007, the City had outstanding \$ _____ of pension obligation bonds and entered into leasing arrangements with respect to \$ _____ of outstanding certificates of participation and lease revenue bonds, all of which are payable from the City's General Fund.

Such leasing arrangements are in addition to the City's obligations under the Sublease with respect to the 1993 Certificates, 2003 Certificates, the 2006A Certificates and 2008 Certificates. The Sublease does not prohibit the City from incurring additional obligations payable from general revenues on a parity with the Base Rental Payments either as Additional Certificates under the Sublease or under other agreements. See "OUTSTANDING INDEBTEDNESS—Additional Certificates" herein. To the extent that additional obligations are incurred by the City, the funds available to make Base Rental Payments may be decreased. See "CITY FINANCIAL INFORMATION—General Fund Comparative Financial Statements" herein.

Rental Abatement

Under the Sublease, Base Rental Payments will be abated during any period in which, by reason of title defect, damage or destruction, there is substantial interference with the use and occupancy by the City of the Leased Property or any portion thereof to the extent agreed upon by the City and the

Authority. See “SOURCE OF PAYMENT FOR THE 2008B CERTIFICATES—Rental Abatement.” If Base Rental Payments are abated, no assurances can be given that moneys held by the Trustee under the Trust Agreement, or the proceeds of rental interruption insurance, will be sufficient to pay the debt service with respect to the 2008B Certificates. In addition, even if such amounts are sufficient to make such payments, moneys remaining in the Certificate Reserve Funds after such payments may be less than the Certificate Reserve Fund Requirement. **If damage, destruction, condemnation or title defect with respect to the Leased Property or any portion thereof results in abatement of Base Rental Payments and the resulting Base Rental Payments, together with moneys in the Certificate Reserve Funds, are insufficient to make all payments with respect to the 2008B Certificates during the period that the Leased Property, or portion thereof, is being restored, then all or a portion of such payments may not be made and no remedy is available to the Owners under the Sublease or Trust Agreement for nonpayment under such circumstances. Failure to pay principal of, premium, if any, or interest represented by the 2008B Certificates as a result of abatement of the City’s obligation to make Base Rental Payments under the Sublease is not an event of default under the Trust Agreement or the Sublease.**

Notwithstanding the provisions of the Sublease specifying that the extent of any Base Rental Payment abatement is to be agreed upon by the City and the Authority, in the event of the City’s failure to have use and possession of the Leased Property, such provisions may be superseded by operation of law, and, in such event, the resulting Base Rental Payments of the City may not be sufficient to pay all or that portion of the remaining principal and interest represented by the 2008B Certificates.

Limited Recourse on Default; Reletting of the Leased Property

The enforcement of any remedies provided for in the Sublease and in the Trust Agreement could prove to be both expensive and time-consuming. Although the Sublease and the Trust Agreement provide that if there is a default by the City, the Trustee, as assignee of the Authority, may take possession of and relet the Leased Property, no assurance can be given that there are prospective tenants who would wish to lease the Leased Property or that the amounts received from any such reletting would be sufficient to pay the Base Rental Payments represented by the 2008B Certificates when due.

Limitation on Enforcement of Remedies

The ability of the Trustee to exercise remedies in the event of a default under the Sublease may be especially difficult because of the essential nature of the Leased Property, its commercial and historical value, as well as the problems associated with taking possession and evicting government operations. Consequently, the Trustee may find it more difficult, time consuming or expensive to exercise its legal remedies than in a lease structure that did not involve governmental services. Consequently, it is likely that the Trustee’s only practical remedy will be to sue the City as rent becomes due and it will be unable to exercise upon the collateral and take possession of, and relet, the Leased Property. If the Trustee is unable to take possession and relet the Leased Property, the Owners of the 2008B Certificates may not receive payment of Base Rental Payments represented by the 2008B Certificates, or such payment may be delayed. See “THE LEASED PROPERTY.”

Reserve Funds

At the time of delivery of the 2008B Certificates, the Certificate Reserve Funds under the Trust Agreement will be funded in an amount equal to the Certificate Reserve Fund Requirement, which as of the date of delivery of the 2008B Certificates will be \$ _____. In the event of abatement or default, the amounts on deposit in the Certificate Reserve Funds may be significantly less than the amount of Base Rental Payments due during any period of abatement or default.

No Acceleration

In the event of a default under the Sublease, there is no available remedy of acceleration of the total Base Rental Payments due over the term of the Sublease. The City will only be liable for Base Rental Payments on an annual basis as they come due and the Trustee would be required to seek separate judgments for the annual Base Rental Payments. In addition, any such suit for money damages could be subject to limitations on legal remedies against public agencies in California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

Bankruptcy

In addition to the limitations on remedies contained in the Sublease and the Trust Agreement, the rights and remedies provided in the Sublease and the Trust Agreement may be limited by, and are subject to, provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect the enforcement of creditors' rights.

Under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), which governs the bankruptcy proceedings for public agencies such as the City, there are no involuntary petitions in bankruptcy. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners and the Trustee would be prohibited from taking any steps to enforce their rights under the Sublease and from taking steps to collect amounts due from the City under the Sublease.

All legal opinions with respect to the 2008B Certificates, the enforceability of the Trust Agreement and the Sublease will be expressly subject to a qualification that such agreements may be limited by bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting creditors' rights and by applicable principles of equity if equitable remedies are sought.

Substitution, Addition or Removal of Leased Property

The Sublease permits the release of portions of the Leased Property or the substitution of other real property for all or a portion of the Leased Property. Although the Sublease requires various certificates designed to ensure that the substitute property has an annual fair rental value upon becoming part of the Leased Property equal to the maximum annual amount of the Base Rental Payments remaining due with respect to the Leased Property being replaced, it does not require that such substitute property have an annual fair rental value equal to the total annual fair rental value at the time of replacement of the Leased Property or portion thereof being replaced. In addition, such replacement property could be located anywhere within the City's boundaries. Therefore, release or substitution of all or a portion of the Leased Property could have an adverse effect on the security for the 2008B Certificates. See "SOURCE OF PAYMENT FOR THE 2008B CERTIFICATES—Substitution, Addition or Removal of Leased Property."

Earthquakes and Natural Disasters

The City is in a seismically active region of the State. Major fault systems traversing Southern California and affecting the Pasadena area include the San Andreas and Newport-Inglewood fault systems. A major earthquake along these regional systems, a local fault, or as yet unknown faults has the potential to result in seismic-induced ground shaking in the City. Much of the City, including some or all of the Leased Property, overlies sandy, stony or gravelly soil. This soil is more porous and loosely compacted than bedrock and thus subject to greater impacts from seismic ground shaking than bedrock. Some or all of Leased Property lies within four miles of the Sierra Madre fault to the north and within two miles of the Raymond Hill fault to the south. These faults are the only faults considered active within the

City. No known faults traverse the Leased Property. A significant earthquake along one or more of these or other faults is probable during the period the 2008B Certificates will be Outstanding.

Earthquake insurance is only required to be provided to the extent such insurance is commercially available from reputable insurance companies. See APPENDIX B – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – The Sublease.” The City does not carry earthquake insurance for the Leased Property because the City has determined that it is not available at commercially reasonable rates. In the event that a portion or all of the Leased Property is damaged or destroyed by earthquake, the City’s obligation to make Base Rental Payments would be abated. In addition, if a portion or all of the Leased Property were damaged or destroyed in an earthquake, rental interruption insurance would not provide coverage for any abatement of Base Rental Payments and the City would have no obligation to repair such damage. In the event of a serious earthquake affecting the City, it is possible that the Federal Emergency Management Agency (“FEMA”) would provide financing to aid the rebuilding of some or all of the Leased Property; however, there can be no assurance that FEMA or any other entity would provide such aid or that, if provided, it would cover the cost of reconstruction.

The City is also not required under the Sublease to maintain flood insurance on the Leased Property. In the event of damage or destruction to the Leased Property caused by perils for which the City is not required to provide insurance under the Lease, the City will not be obligated to repair, replace or reconstruct the Leased Property. See APPENDIX B – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – The Sublease” and “-Rental Abatement” herein.

Certain Risks with Respect to the Leased Property

A portion of the Leased Property includes Pasadena City Hall, the Hale Building and the Civic Center, each an historic building. In the event of a casualty to any of such portions of the Leased Property, the City may not be able to restore or rebuild these buildings in a way that would restore the inherent value of these historic properties. Further, the Civic Center hosts significant celebrity gatherings and awards shows and various community events. Additionally, a significant portion of the Leased Property is located near the route of the Tournament of Roses Rose Parade and the Rose Bowl, both of which attract national attention and sizeable crowds. The City has no way of quantifying the probabilities of a terrorist attack on the Rose Parade, Rose Bowl, the Civic Center or any of the Leased Property, and has not received threats directed to any particular property of the City. The City is not required under the Sublease to carry terrorism risk insurance. In the event of damage or destruction to some or all of the Leased Property caused by a terrorist attack for which the City is not required to provide insurance under the Sublease, the City will not be obligated to repair, replace or reconstruct the Leased Property. See APPENDIX B – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—The Sublease” and “-Rental Abatement” herein.

Risks Involving the State Budget and Legislation

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 (approximately __% of the City’s fiscal year 2008-09 General Fund revenues), property taxes (approximately __% of the City’s fiscal year 2008-09 General Fund revenues), utility users tax (approximately __% of the City’s fiscal year 2008-09 General Fund revenues) and Vehicle License Fee (approximately ___% of the City’s fiscal year 2008-09 General Fund revenues).

The City cannot predict with certainty whether the State’s financial condition and budget results will result in the City receiving less in State revenues than currently budgeted. To the extent that the amount of revenues the City actually receives from the State fall short of the budget estimates, the City