

**CITY OF PASADENA
TAXABLE TRANSACTIONS BY TYPE OF BUSINESS
For Twelve Month Periods Ended September 30
(in Millions of Dollars)**

<u>Type of Business</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Apparel Stores	\$ 145.7	\$ 159.9	\$ 190.9	\$ 214.3	\$205.0
General Merchandise Stores	282.6	281.0	312.8	332.8	285.8
Food Stores	89.1	98.3	202.9	145.7	180.5
Eating & Drinking Places	350.2	364.9	440.7	488.5	466.5
Home Furnishings & Appliances	142.7	142.1	171.7	170.9	197.2
Bldg. Material & Farm Implements	74.9	88.6	117.3	139.6	107.7
Auto Dealers & Auto Supplies	419.9	474.0	461.5	474.0	451.0
Service Stations	110.5	127.2	137.6	138.9	154.4
Other Retail Stores	<u>384.1</u>	<u>411.6</u>	<u>369.2</u>	<u>304.9</u>	<u>313.4</u>
Retail Stores Total	1,999.7	2,147.6	2,404.6	2,409.6	2,362.4
All Other Outlets	<u>864.7</u>	<u>860.1</u>	<u>745.9</u>	<u>718.8</u>	<u>710.2</u>
Total All Outlets	<u>\$ 2,864.4</u>	<u>\$ 3,007.7</u>	<u>\$ 3,150.5</u>	<u>\$ 3,128.4</u>	<u>\$3,072.6</u>

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

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 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 the Foothill Transit Authority bus routes with the Pasadena Area Rapid Transit Services ("ARTS") bus services 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 June 30, 2009, 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 set forth in the following table.

CITY OF PASADENA EMPLOYEE UNION REPRESENTATION

Name of Union	Number of Employees Represented As of June 30, 2009	Expiration of Contract
American Federation of State, County and Municipal Employees	313	July 2, 2010
International Brotherhood of Electrical Workers	106	June 30, 2010
International Union of Operating Engineers	25	March 27, 2010
Service Employee International Union	25	April 26, 2010
Pasadena Association of Clerical and Technical Employees/Laborers		
International Union of North America	371	September 30, 2010
Pasadena Fire Fighters Association	158	August 24, 2010
Pasadena Police Officers Association	196	April 24, 2010
Pasadena Police Sergeant Association	37	April 25, 2010
Pasadena Fire Fighters Management Association	7	March 31, 2010
Pasadena Management Association	514	March 17, 2012

Source: City of Pasadena, Human Resources Department.

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, 2008, the actuarial staff of PERS reported unfunded liability of \$46.2 million for the City's miscellaneous employees as compared to an underfunding of \$38.3 million the previous year. As of June 30, 2008, the City reported that its PERS obligation with respect to the City's miscellaneous employees was 92.1% funded.

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, 2008, there was one active member in FPRS. As of June 30, 2008, FPRS was actuarially underfunded by \$46 million and had a funded ratio of 73%. 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, 2008 was \$3,844,362. Both the City and the covered employees made the total required 7.5% contributions of \$153,775 from the City and \$134,553 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 from July 1, 2003 to October 30, 2008, and any liability losses above the budget amount are funded by the City's contingency reserve budget or other means. As of October 30, 2008, the City has carried a liability policy of \$20 million excess of \$5 million Self Insurance Retention. 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, 2000 through 2009 are reflected in the following table:

**CITY OF PASADENA
LIABILITY CLAIM EXPENDITURES AND REMAINING RESERVES
Fiscal Years 2000 through 2009⁽¹⁾
(Unaudited)**

Fiscal Year ⁽²⁾ Ended <u>June 30,</u>	<u>Loss Paid</u>	<u>Expense Paid</u>	<u>Total Paid</u>	Remaining Reserves for Unpaid Claims ⁽²⁾
2000	\$ 403,997	\$ 397,247	\$ 801,245	\$ 155,200
2001	1,132,093	1,123,095	2,255,188	0
2002	830,199	216,976	1,047,175	0
2003	1,619,698	341,655	1,961,353	6,500
2004	3,151,364	621,359	3,772,723	147,564
2005	971,266	905,784	1,877,050	1,322,886
2006	314,867	399,686	714,554	130,583
2007	528,497	85,517	614,013	755,575
2008	131,866	205,257	377,123	1,406,693
2009	86,492	0	86,492	2,517,372

⁽¹⁾ As of June 30, 2009.

⁽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 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, 2010, 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. Beginning in fiscal year 2010, the City will maintain an operating reserve within its General Fund which is targeted at 10% of the current year's appropriations. The current reserve is approximately \$23.0 million. 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 2010 Budget. The budget preparation process for fiscal year ending June 30, 2010 began in October 2008. In February and March 2009, 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 ended June 30, 2010. Projected expenditures and revenues, managed savings, vacant positions, reorganizations, performance measures, performance targets, results statements, 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, 2010 on June 15, 2009. The General Fund portion of the appropriation budget for fiscal year ending June 30, 2010 is \$225,143,346.

As noted under "Tax Revenue Sources" below, the State's fiscal year 2009-10 budget act includes a diversion of a portion of the share of property tax revenues allocated by the State to cities, counties and local agencies pursuant to Article XIII, Section 25.5 of the State Constitution. The City's expects that approximately \$4.6 million of its 2009-10 property tax revenues will be diverted to the State for such fiscal year. Pursuant to the State Constitution, the State is obligated to repay such diverted property tax revenues to the City within three years with interest. In addition, State funding to the City's Health Department is expected to be reduced by approximately \$1.0 million as a result of the State 2009-10 budget cuts.

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:

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

**CITY OF PASADENA
GENERAL FUND
COMPARATIVE OPERATING BUDGET
Fiscal Years 2008 through 2010**

REQUIREMENTS	Adopted General Funds Operating Budget for Fiscal Year Ending June 30,		
	2008	2009	2010
Operating Expenditures	\$172,454,483	\$188,218,401	\$177,586,081
Capital Expenditures	-	-	-
Debt Service	27,754,178	29,875,505	34,697,156
Transfers Out	<u>12,129,759</u>	<u>12,740,598</u>	<u>12,860,109</u>
TOTAL REQUIREMENTS	<u>\$212,338,420</u>	<u>\$230,834,504</u>	<u>\$225,143,346</u>
AVAILABLE FUNDS			
Revenues	\$197,913,651	\$200,399,780	\$197,991,875
Transfers In	1,121,847	1,332,428	6,104,792
Reserves	-	-	-
Utility Contributions	<u>13,302,922</u>	<u>13,690,444</u>	<u>16,167,840</u>
TOTAL AVAILABLE FUNDS	<u>\$212,338,420</u>	<u>\$215,422,649</u>	<u>\$220,264,507</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 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.

**CITY OF PASADENA
TRANSFERS FROM THE LIGHT AND POWER FUND AND WATER FUND
TO GENERAL FUND
Fiscal Years 2005 through 2009
(Dollar Amounts in Thousands)**

	Fiscal Year Ended June 30,				
	2005 ⁽²⁾	2006 ⁽²⁾	2007 ⁽²⁾	2008 ⁽²⁾	2009 ⁽²⁾
<u>Light and Power Fund</u>					
Amount Transferred	\$16,658	\$21,167	\$5,898	\$11,341	\$13,475
Amount a Percentage of Prior Year's Gross Income ⁽¹⁾	12.4%	16.0%	3.6%	8.0%	8.0%
<u>Water Fund</u>					
Amount Transferred	\$1,916 ⁽³⁾	\$2,056	\$2,059	\$2,383	\$2,383
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 the 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. The State's fiscal year 2009-10 budget act includes a diversion of a portion of the share of property tax revenues allocated by the State to cities, counties and local agencies as described above.

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 2005 through 2009
(in Thousands)**

	Fiscal Year Ended June 30,				
	2005	2006	2007	2008	2009
Tax					
Property ⁽¹⁾	\$ 48,089	\$ 51,116	\$ 61,763	\$63,480	\$ 69,062
Sales	34,294	33,992	34,634	36,519	31,941
Utility Users	26,639	26,766	28,063	29,640	31,162
Street Light & Traffic Signal	5,533	5,480	6,352	6,779	7,051
Transient Occupancy	8,883	10,246	10,358	10,731	7,382
Total	\$123,438	\$127,600	\$141,170	\$147,149	\$146,598

Source: City of Pasadena, Department of Finance.

⁽¹⁾ Includes assessments.

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 of 1½% 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 of the unsecured roll, and an additional penalty of 1½% 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 ended June 30, 2009, reflected a total assessed valuation of approximately \$20.7 billion for the City, of which \$2.8 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 10.5% for the fiscal year ended June 30, 2009, over the assessed net valuation for fiscal year ended June 30, 2008, and the compounded average annual increase between assessed valuation for the fiscal year ended June 30, 2002 and the fiscal year ended June 30, 2009 was approximately 10.7%. For fiscal year ended June 30, 2010, the tax roll reflects a decline in total assessed valuation of under 0.2%. 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 2000 through 2010
 (in thousands)**

Fiscal Year Ended June 30	Secured Valuations	Homeowner Exemption	Net		Total Assessed Valuation	Less PCDC⁽¹⁾ Increment	Net Valuation
			Secured Valuations	Unsecured Valuations			
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
2008	18,339,519	(134,380)	18,205,139	607,779	18,812,938	(2,405,375)	16,407,563
2009	20,237,173	(136,262)	20,100,911	651,375	20,752,286	(2,799,791)	17,952,495
2010	20,204,880	(138,630)	20,066,250	644,888	20,711,138	(2,828,387)	17,882,751

Source: Los Angeles County Auditor-Controller and California Municipal Statistics, Inc.

⁽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.

**CITY OF PASADENA
 PROPERTY TAX RATES
 DIRECT AND OVERLAPPING GOVERNMENTS
 For Fiscal Years 1999 through 2009
 (unaudited)**

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
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	0.011643	0.000923	0.086312	0.008786	0.000245	0.005800	1.113709
2008	1.000000	0.009792	0.000795	0.109911	0.004103	0.000049	0.005200	1.129850
2009	1.000000	0.000000	0.000000	0.063747	0.017417	0.000000	0.004300	1.085464

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

**CITY OF PASADENA
TOP TEN PROPERTY TAXPAYERS
Fiscal Year Ended June 30, 2009**

Property Owner	Primary Land use	June 30, 2009 Assessed Valuation	% of Total
Marangi Leonard M Les	Hospital	\$ 381,183,097	1.88%
Kaiser Foundation Health Plan Inc.	Office Building	206,177,343	1.02
Equity Office Properties Trust	Office Building	182,580,000	0.90
Paseo Colorado Holding LLC	Shopping Center	129,939,533	0.64
SPF 888 Walnut Pasadena LLC	Office Building	129,358,440	0.64
Tishman Speyer Archstone Smith	Apartments	120,608,426	0.60
Wells Reit II Pasadena Corp	Office Building	116,000,000	0.57
SSR Paseo Colorado LLC	Apartments	108,315,203	0.54
Pasadena Towers LLC	Office Building	106,247,937	0.53
Operating Engineers Funds Inc.	Office Building	86,095,979	0.43
Total principal property		<u>\$1,566,505,958</u>	<u>7.75%</u>
Taxpayers gross assessed value			
Total city assessed value		<u>\$20,237,058,317</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 2006 through 2008**

<u>Assets</u>	<u>Fiscal year Ended June 30,</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Cash and investments	\$71,316,176	\$59,168,047	\$ 56,787,816
Accounts receivable	15,265,750	15,663,096	17,715,025
Less allowance for uncollectible amounts	(638,934)	(1,035,905)	(1,280,715)
Notes receivable	380,403	386,403	392,403
Due from other funds	6,252,418	6,015,821	6,275,720
Prepays and other assets	564,497	588,887	551,591
Advances to other funds	15,117,050	15,237,831	15,787,567
Advances to component units	1,085,522	1,027,541	966,624
Allowance uncollectible for long term receivables	(10,936,952)	(11,341,808)	(11,746,664)
Total assets	<u>\$98,405,930</u>	<u>\$85,709,913</u>	<u>\$85,449,367</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$10,307,288	\$11,046,824	\$12,630,350
Deposits	2,097,183	1,798,192	1,762,031
Due to other governments	24,035	272,928	140,686
Deferred revenue	6,511,012	6,104,256	4,991,169
Total liabilities	<u>\$18,939,518</u>	<u>\$19,222,200</u>	<u>\$19,524,236</u>
Fund Balances:			
Reserved for:			
Encumbrances	\$ 855,095	\$ 1,072,213	\$ 1,175,411
Notes receivable	380,403	386,403	392,403
Prepays and other assets	564,497	588,887	551,591
Advances to other funds	5,265,620	4,923,564	5,007,527
Unreserved:			
General Fund	72,440,797	59,516,646	58,798,199
Total Fund balances	<u>\$79,466,412</u>	<u>\$66,487,713</u>	<u>\$65,925,131</u>
Total liabilities and fund balances	<u>\$98,405,930</u>	<u>\$85,709,913</u>	<u>\$85,449,367</u>

**CITY OF PASADENA
GENERAL FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
Fiscal Years 2006 through 2008**

	Fiscal Year Ended June 30,		
	2006	2007	2008
Revenues:			
Taxes	\$108,259,679	\$115,916,861	\$121,156,311
Licenses and permits	2,389,206	2,024,034	2,715,718
Intergovernmental revenues	12,013,725	12,705,093	13,578,313
Charges for services	27,954,633	30,711,841	31,917,959
Fines and forfeits	6,911,046	7,593,705	8,024,617
Investment earnings	18,656,672	22,024,174	21,209,093
Net changes in fair value of investments	(831,808)	(857,707)	371,245
Rental income	1,536,322	1,317,087	1,543,172
Miscellaneous revenue	2,155,607	2,063,664	2,647,710
Total revenues	<u>\$179,045,082</u>	<u>\$195,214,166</u>	<u>\$203,164,138</u>
Expenditures:			
Current:			
General government	\$ 30,274,937	\$ 34,178,408	\$34,083,696
Public Safety	78,487,902	88,398,871	94,210,612
Transportation	23,974,050	24,514,491	26,289,894
Culture and leisure	13,097,817	13,700,557	14,548,889
Community development	8,796,832	9,468,514	9,542,687
Debt service:			
Principal retirement	--	--	--
Total expenditures	<u>\$154,631,538</u>	<u>\$170,260,841</u>	<u>\$178,675,778</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 24,413,544</u>	<u>\$ 24,953,325</u>	<u>\$ 24,488,360</u>
Other financing sources (uses):			
Issuance of long-term debt	--	\$ 87,401	--
Transfers in	\$ 26,940,474	13,634,346	18,538,138
Transfers out	(40,969,032)	(51,653,771)	(43,589,080)
Total other financing sources (uses)	(14,028,558)	(37,932,024)	(25,050,942)
Change in fund balances	10,384,986	(12,978,699)	(562,582)
Fund balances at beginning of year, as restated	<u>69,081,426</u>	<u>79,466,412</u>	<u>66,487,713</u>
Fund balances at end of year	<u>\$ 79,466,412</u>	<u>\$ 66,487,713</u>	<u>\$ 65,925,131</u>

General Fund taxes increased by approximately \$12.9 million from the fiscal year ended June 30, 2006 to June 30, 2008. These changes were due primarily to increases in property taxes from increasing assessed valuations, as well as increased retail sales taxes, transient occupancy tax and utility users' tax over such time period. During such period, revenues received from licenses and permits were received from a variety of sources and reflect, in part, the City's strong local economy. Revenues received from charges for services also increased during such period.

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, 2009, the funds invested pursuant to the pooled investment program had a market value of \$313,211,051. 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 1.90 years. Of the investments on that date, approximately 25.76% had maturities of thirty days or less.

The assets of the portfolio as of June 30, 2009 are shown in the following table:

**CITY OF PASADENA
POOLED INVESTMENT PORTFOLIO**

	<u>Market Value</u>	<u>Percentage of Total⁽¹⁾</u>
Money Market Fund	\$ 39,137,159	12.56%
Certificate of Deposit	560,000	0.18
LAIF	40,150,502	12.88
Municipal Bonds	28,718,277	9.21
Bank Notes	5,187,830	1.66
Corporate Bonds	43,935,090	14.10
Mortgage Backed Securities/GNMAs	621	0.00
Federal Agencies	151,356,133	48.56
Cash in Bank	<u>2,617,907</u>	<u>0.84</u>
Total	311,663,519	100.00%
Accrued Interest Receivable	<u>1,547,533</u>	
Grand Total	\$313,211,051	

Source: City of Pasadena.

⁽¹⁾ At market value.

The Weighted Average Maturity of the above portfolio is 1.90 years.

The 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 ending June 30, 2009 on November 24, 2008.

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 these 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 the 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 bonds 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 June 30, 2009 is shown on the following page.

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**CITY OF PASADENA
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
As of June 30, 2009**

2008-09 Assessed Valuation:	\$20,888,548,554
Redevelopment Incremental Valuation:	<u>2,799,790,634</u>
Adjusted Assessed Valuation:	\$18,088,757,920

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable⁽¹⁾</u>	<u>Debt 06/30/09</u>
Los Angeles County Flood Control District	2.063%	\$1,747,464
Metropolitan Water District	0.981	2,878,499
Pasadena Area Community College District	33.387	25,527,165
La Cañada Unified School District	0.220	76,474
Pasadena Unified School District	70.899	134,449,319
City of Pasadena Community Facilities District No. 1	100.000	3,792,875
Los Angeles County Improvement District No. 2658-M	98.261	3,792,875
Los Angeles County Regional Park and Open Space Assessment District	1.938	4,784,438
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$181,941,234

<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Los Angeles County General Fund Obligations	1.9385%	\$ 18,002,880
Los Angeles County Pension Obligations	1.938	4,567,689
Los Angeles County Superintendent of Schools Certificates of Participation	1.938	308,225
Los Angeles County Sanitation District Nos. 15, 16 & 17 Certificates of Participation	0.413-58.530	13,835,269
Pasadena Area Community College District Certificates of Participation	33.387	
City of Pasadena General Fund Obligations	100.000	380,994,972
City of Pasadena Pension Obligations	100.000	<u>117,742,623</u>
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$536,416,542

COMBINED TOTAL DEBT \$718,357,776⁽²⁾

⁽¹⁾ Percentage of overlapping agency's assessed valuation located within the boundaries of the city.

⁽²⁾ Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2008-09 Assessed Valuation:

Total Direct and Overlapping Tax and Assessment Debt 0.87%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$498,737,595) 2.76%

Combined Total Debt..... 3.97%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/09: \$0

Source: California Municipal Statistics, Inc.

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF PASADENA
WATER AND POWER ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

APPENDIX C

BOOK-ENTRY SYSTEM

The description that follows of the procedures and recordkeeping with respect to beneficial ownership interests in the 2009 Bonds, payment of principal of and interest on the 2009 Bonds to Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the 2009 Bonds, and other 2009 Bonds-related transactions by and between DTC, Participants and Beneficial Owners, is based on information furnished by DTC which the City believes to be reliable, but the City takes no responsibility for the completeness or accuracy thereof.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2009 Bonds (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the 2009 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to DTC’s Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. The information on these websites is not incorporated herein by reference.

Purchases of the 2009 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2009 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2009 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2009 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2009 Bonds, except in the event that use of the book-entry system for the 2009 Bonds is discontinued.

To facilitate subsequent transfers, all 2009 Bonds deposited by Direct Participants with DTC are

registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2009 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2009 Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such 2009 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2009 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2009 Bonds, such as redemptions, defaults and proposed amendments to the Indenture. For example, Beneficial Owners of 2009 Bonds may wish to ascertain that the nominee holding the 2009 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2009 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to 2009 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2009 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price and interest payments on the 2009 Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Fiscal Agent, on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to Beneficial Owners is the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2009 Bonds at any time by giving reasonable notice to the City or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, the 2009 Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 2009 Bond certificates will be printed and delivered.

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE FISCAL AGENT AGREEMENT

APPENDIX E
FORM OF CONTINUING DISCLOSURE AGREEMENT

APPENDIX F

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon issuance of the 2009 Bonds, Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, proposes to render its final opinion with respect to the 2009 Bonds in substantially the following form:

[Closing Date]

City of Pasadena
Pasadena, California

§ _____
City of Pasadena, California
Electric Revenue Refunding Bonds, 2009 Series

Ladies and Gentlemen:

We have acted as bond counsel to the City of Pasadena, California (the "City") in connection with the issuance of the City's Electric Revenue Refunding Bonds, 2009 Series (the "2009 Bonds") in the aggregate principal amount of \$_____. The 2009 Bonds are being issued pursuant to the Charter of the City, as amended (the "Charter"), including Article XIV thereof, Ordinance No. _____ (the "Ordinance"), adopted by the City Council of the City (the "Council") on September __, 2009, and by an Electric Revenue Bond Fiscal Agent Agreement, dated as of August 1, 1998, by and between the City and The Bank of New York Mellon Trust Company, N.A. (successor to BNY Western Trust Company), as fiscal agent (the "Fiscal Agent"), as amended and supplemented, including as amended and supplemented by a Fifth Supplement to Electric Revenue Bond Fiscal Agent Agreement, dated as of November 1, 2009, each by and between the City and the Fiscal Agent (collectively, the "Fiscal Agent Agreement").

In our capacity as bond counsel, we have reviewed the Charter, the Ordinance, resolutions adopted by the City Council, the Fiscal Agent Agreement, certifications of the City, the Fiscal Agent and others, opinions of counsel to the City and the Fiscal Agent, and such other documents, opinions and instruments as we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Fiscal Agent Agreement.

We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Fiscal Agent Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the 2009 Bonds to be included in gross income for federal income tax purposes.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The City is authorized and empowered by law, including the Charter, to adopt the Ordinance, to execute and deliver the Fiscal Agent Agreement, to issue the 2009 Bonds, to use the

proceeds from the sale thereof for the purposes stated in the Ordinance and the Fiscal Agent Agreement and to pledge the Net Income of the Electric System to the payment of the 2009 Bonds.

2. The Fiscal Agent Agreement has been, pursuant to law, including the Charter and the Ordinance, duly authorized, executed and delivered by, and constitutes the valid and binding obligation of, the City. The Fiscal Agent Agreement creates a valid pledge, to secure the payment of the principal of and interest on the 2009 Bonds, of the Net Income as and to the extent set forth in the Fiscal Agent Agreement and subject to the provisions of the Fiscal Agent Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein.

3. The 2009 Bonds are special obligations of the City and are payable exclusively from the Light and Power Fund of the City's Water and Power Department and certain other funds as provided in the Fiscal Agent Agreement, and are secured by a pledge of and lien upon Net Income of the Electric System on a parity with other obligations of the Electric System payable from Net Income of the Electric System and issued from time to time pursuant to the Fiscal Agent Agreement. The general fund of the City is not liable for the payment of any 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 Bonds, any premium thereon upon redemption prior to maturity or their interest. The Owner of any 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 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 Net Income and other funds, security or assets which are pledged to the payment of the 2009 Bonds, interest thereon and any premiums upon redemption.

4. The Internal Revenue Code of 1986 (the "Code") establishes certain requirements that must be met subsequent to the issuance and delivery of the 2009 Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Non-compliance with such requirements could cause the interest on the 2009 Bonds to fail to be excluded from the gross income of the owners thereof retroactive to the date of issuance of the 2009 Bonds. Pursuant to the Fiscal Agent Agreement, the City has covenanted to maintain the exclusion of the interest on the 2009 Bonds from the gross income of the owners thereof for federal income tax purposes.

In our opinion, under existing statutes, regulations, rulings and court decisions, interest on the 2009 Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the 2009 Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes and will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code.

Except as stated in the preceding two paragraphs, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the 2009 Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the 2009 Bonds, or the interest thereon, if any action is taken with respect to the 2009 Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other bond counsel.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a

guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

The opinions expressed in paragraphs 2 and 3 above are qualified to the extent that the enforceability of the 2009 Bonds and the Fiscal Agent Agreement may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally or as to the availability of any particular remedy. The enforceability of the 2009 Bonds and the Fiscal Agent is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in California (including, but not limited to, rights of indemnification).

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the 2009 Bonds.

Very truly yours,