

Standards, subject to FERC oversight, or FERC may independently enforce Reliability Standards. Potential monetary sanctions include fines of up to \$1 million per violation per day. Order 693 further provided the ERO and Regional Entities with the discretion necessary to assess penalties for such violations, while also having discretion to calculate a penalty without collecting the penalty if circumstances warrant.

**Other Legislation.** Numerous bills have been under consideration in Congress addressing United States energy policies and various environmental matters, including those related to energy supplies, global warming and water quality. Many of these bills, if enacted into law, could have a material impact on PWP and the electric utility industry generally.

## ISO FERC Filings

**MRTU Filing; Implementation of MRTU.** On February 9, 2006, the ISO filed with FERC the first set of tariff language to implement its FERC ordered overhaul of the ISO markets. The ISO's Market Redesign and Technology Upgrade ("MRTU") tariff amendment included provisions intended to perform effective congestion management in the ISO day-ahead market by enforcing all transmission constraints so as to establish feasible forward transmission schedules; create a day-ahead market for energy; automate real-time dispatch so as to balance the system and manage congestion in an optimal manner; and ensure consistency in the allocation of transmission resources to grid users and the pricing of transmission service and energy. After many amendments and modifications, MRTU was implemented on April 1, 2009.

The new market design has only been in place for a short period, so it is premature to determine the full scope of potential impacts. The ISO's market redesign included a move to locational marginal pricing ("LMP"), with prices to load assessed based on the aggregated costs of power, transmission congestion and losses to serve all load within fairly large zones. Potentially, one of the more significant cost exposures under the MRTU redesign is likely to be increased congestion costs under LMP. Some of the tariff amendments have clarified the nature of short and long-term financial instruments that LSEs can use to hedge against anticipated congestion costs, including congestion revenue rights ("CRRs"), a set of financial instruments created by the ISO to provide a vehicle for mitigating the market price risk associated with transmission congestion. Beginning January 1, 2011, the City's existing ISO transmission rights will be converted into CRRs. In addition, the City expects that it may need to acquire additional CRRs in the future. On August 3, 2009, the City Council authorized the General Manager of PWP to enter into agreements for purchases, sales and exchanges, and to participate in auctions, of CRRs. However, it is not possible to predict the actual level of costs or the effectiveness of the hedging instruments before gaining more actual operational experience under MRTU.

Marginal transmission losses are also anticipated to be a potentially significant cost, and no hedging instruments are available at this time to address them. However, there may be operational practices that can minimize the costs. Because there is no significant experience with the mechanism in California and because loss overcollections will be returned to market participants in some fashion, the level of impact cannot be judged at this time.

No adequate assurances can be given by the City that unforeseen events will not occur under MRTU; thus, it is impossible to predict at this time the ultimate impact of MRTU on the City and the California electric utility industry generally.

**Resource Adequacy Requirements.** In September 2005, the Governor signed into law Assembly Bill 380 ("AB 380"), which requires the CPUC to establish resource adequacy requirements for all LSEs within the CPUC's jurisdiction. In addition, AB 380 requires publicly-owned utilities to procure

adequate resources to meet their peak demands and reserves. In October 2005, the CPUC issued a decision stating that LSEs under its jurisdiction would be required by June 2006 to demonstrate that they have acquired capacity sufficient to serve their forecast retail customer load plus a 15-17% reserve margin. Due to system requirements, a systematic regular planning process to meet these requirements, and successful implementation of a strategic resource plan developed in 2001, the City has been able to demonstrate its ability to meet local and system capacity requirements as required by AB 380. The City's Power System Strategic Resource Plan, developed in response to regional power shortages and stricter emissions control requirements adopted by the SCAQMD, and its Local Generation Repowering Project enable PWP to meet its stated goals of reliable electric service, stable rates, competitive energy pricing and environmental stewardship.

On March 13, 2006, the ISO filed with FERC a tariff amendment to establish an Interim Reliability Requirements Program (the "IRR Program"). The IRR Program incorporated most of the existing CPUC resource adequacy requirements into the ISO Tariff beginning in June 2006. The ISO's filing imposed the IRR Program requirements on LSEs (CPUC-jurisdictional entities and non-CPUC-jurisdictional entities). On May 12, 2006, FERC approved, for the most part, the ISO's IRR Program filing.

The IRR Program exempted load-following Metered Subsystems ("MSSs") from most of the ISO Tariff resource adequacy provisions, and the tariff also provides significant deference to the local governing boards of municipal and cooperative entities in establishing qualifying reliability standards. The CPUC has subsequently expanded upon its initial resource adequacy requirements, in particular by adding local capacity requirements to make certain that sufficient generating capacity is procured in particular areas where it is lacking. The ISO has also incorporated these provisions into its tariff, which FERC has approved. The IRR Program sunset upon implementation of MRTU. Under MRTU, certain of the local capacity requirements do apply to MSS entities. For example, to the extent that a LSE fails to meet such a requirement, it is subject to payment of ISO procurement costs of replacement capacity. To the extent that a shortfall cannot be attributed to a specific LSE, the costs will be spread as part of market charges. While the magnitude of backup procurement costs are still subject to FERC order and to market conditions, these risks will apply in the same manner to all LSEs.

Finally, the CPUC is currently studying the possibility of meeting future capacity needs by either extending the existing resource adequacy program with some modification or by instituting centralized capacity markets. It is premature to predict the outcome of that proceeding, although it is likely that any outcome will be extended to all LSEs through the ISO tariff. While either path carries some risk of increased costs for the market, it is too soon to predict what the decision will be or the details of implementation.

## **Environmental Issues**

Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures which regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Recent such actions include the Environmental Protection Agency's issuance of a final finding in December 2009 that greenhouse gas emissions pose a danger to human health and the environment. As a result of this finding, the Environmental Protection Agency is authorized to issue Clean Air Act regulations limiting carbon dioxide emissions from power plants. Consequently, there is no assurance that any City facility or project will remain subject to the laws and regulations currently in effect, will always be in compliance with future laws and regulations or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in additional capital expenditures, reduced operating levels or the shutdown of

individual units not in compliance. In addition, increased environmental laws and regulations may create certain barriers to new facility development and require modification of existing facilities and may result in additional costs for affected resources.

A number of studies have been conducted regarding the potential long-term health effects resulting from exposure to electric and magnetic fields (“EMF”) created by high voltage transmission and distribution equipment as well as by electrical appliances, computers, and other electrical devices. Additional studies are being conducted to determine the relationship between EMF and certain adverse health effects, if any. At this time, it is not possible to predict the extent of the costs and other impacts, if any, which the EMF concern may have on electric utilities, including the Electric System.

### **Other Factors**

The electric utility industry in general has been, or in the future may be, affected by a number of other factors which could impact the financial condition and competitiveness of many electric utilities and the level of utilization of generating and transmission facilities. In addition to the factors discussed above, such factors include, among others, (a) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements other than those described above, (b) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (c) changes resulting from a national energy policy, (d) effects of competition from other electric utilities (including increased competition resulting from mergers, acquisitions, and “strategic alliances” of competing electric and natural gas utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) and new methods of, and new facilities for, producing low-cost electricity, (e) the repeal of certain federal statutes that would have the effect of increasing the competitiveness of many IOUs, (f) increased competition from independent power producers and marketers, brokers and federal power marketing agencies, (g) “self-generation” or “distributed generation” (such as microturbines and fuel cells) by industrial and commercial customers and others, (h) issues relating to the ability to issue tax-exempt obligations, including severe restrictions on the ability to sell to nongovernmental entities electricity from generation projects and transmission service from transmission line projects financed with outstanding tax-exempt obligations, (i) effects of inflation on the operating and maintenance costs of an electric utility and its facilities, (j) changes from projected future load requirements, (k) increases in costs and uncertain availability of capital, (l) shifts in the availability and relative costs of different fuels (including the cost of natural gas), (m) sudden and dramatic increases in the price of energy purchased on the open market that may occur in times of high peak demand in an area of the country experiencing such high peak demand, such as has occurred in California, (n) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity, (o) other legislative changes, voter initiatives, referenda and statewide propositions, (p) effects of the changes in the economy, (q) effects of possible manipulation of the electric markets, (r) natural disasters or other physical calamities, including, but not limited to, earthquakes and floods and (s) changes to the climate. Any of these factors (as well as other factors) could have an adverse effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

The City is unable to predict what impact such factors will have on the business operations and financial condition of the PWP, but the impact could be significant. This Official Statement includes a brief discussion of certain of these factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the 2010A Bonds should obtain and review such information.

## **Federal Rate Regulation**

The City sets rates, fees and charges for electric service. The authority of the City to impose and collect rates and charges for electric power and energy sold and delivered is not subject to the general regulatory jurisdiction of the CPUC and presently neither the CPUC nor any other regulatory authority of the State of California nor the FERC approves such rates and charges. It is possible that future legislative and/or regulatory changes could subject the rates and/or service area of the City to the jurisdiction of the CPUC or to other limitations or requirements.

FERC could potentially assert jurisdiction over rates of licensees of hydroelectric projects and customers of such licensees under Part I of the Federal Power Act ("Part I"), although it has not as a practical matter exercised or sought to exercise such jurisdiction to modify rates that would legitimately be charged. There is a question as to whether FERC has jurisdiction at all to modify rates for municipalities which are authorized to set their own rates. The City is and has for some time been a licensee of hydroelectric projects under Part I, but no jurisdictional authority to regulate its rates has been asserted by FERC. FERC and its predecessor, the Federal Power Commission (the "FPC"), have indicated on a number of occasions that municipalities and other public agencies authorized to set their own rates are not subject to FERC's regulatory jurisdiction over rates. On the other hand, the FPC in at least one decision suggested a contrary result. Even if FERC were to assert jurisdiction over the services and charges associated with such hydroelectric projects, it is unlikely that any reasonable rates and charges would be found to be contrary to applicable federal regulatory standards.

Under the 1992 revisions to the Federal Power Act, enacted as the Energy Policy Act of 1992 (the "Energy Policy Act"), FERC has the authority, under certain circumstances and pursuant to certain procedures, to order any utility (municipal or otherwise) to provide transmission access to others at cost-based rates.

FERC also has jurisdiction to regulate those cost-based rates, and has asserted that jurisdiction in *Minnesota Municipal Power Agency v. Southern Minnesota Municipal Power Agency*, 66 FERC ¶61,223 (1994) and 68 FERC ¶61,060 (1994). However, FERC's asserted jurisdiction over municipal rates does not extend to the rates for power sales, and applies only to transmission service ordered by FERC pursuant to Section 211 of the Federal Power Act, as amended by the Energy Policy Act. Neither the City nor the joint powers agencies with which the City has contracted which developed the transmission assets are providing any such transmission service to others. No assurance can be given that such service will not be requested in the future.

## **CONSTITUTIONAL LIMITATIONS ON GOVERNMENTAL SPENDING**

### **Articles XIIC and XIID of the State Constitution**

Proposition 218, a State ballot initiative known as the "Right to Vote on Taxes Act," was approved by the voters of the State of California on November 5, 1996. Proposition 218 added Articles XIIC and XIID to the State Constitution. Article XIID creates additional requirements for the imposition by most local governments (including the City) of general taxes, special taxes, assessments and "property-related" fees and charges. Article XIID explicitly exempts fees for the provision of electric service from the provisions of such article. Nevertheless, Proposition 218 could indirectly affect some California municipally-owned electric utilities. For example, to the extent Proposition 218 reduces a city's general fund revenues, that city could seek to increase the transfers from its electric utility to its general fund.

Article XIIC expressly extends the people's initiative power to reduce or repeal previously-authorized local taxes, assessments, and fees and charges. The terms "fees and charges" are not defined in Article XIIC, although the California Supreme Court held in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal.4th 205 (2006), that the initiative power described in Article XIIC may apply to a broader category of fees and charges than the property-related fees and charges governed by Article XIID. Moreover, in the case of *Bock v. City Council of Lompoc*, 109 Cal.App.3d 52 (1980), the Court of Appeal determined that electric rates are subject to the initiative power. Thus, even electric service charges (which are expressly exempted from the provisions of Article XIID) might be subject to the initiative provision of Article XIIC, thereby subjecting such fees and charges imposed by the City to reduction by the electorate. The City believes that even if the electric rates of the City are subject to the initiative power, under Article XIIC or otherwise, the electorate of the City would be precluded from reducing electric rates and charges in a manner adversely affecting the payment of the 2010A Bonds by virtue of the "impairment of contracts clause" of the United States and California Constitutions.

### **Future Initiatives**

Articles XIIC and XIID, were each adopted pursuant to measures qualified for the ballot pursuant to California's constitutional initiative process. From time to time, including presently, other initiative measures have been, and could be, proposed, and if qualified for the ballot, could be adopted by California voters. The adoption of any such initiatives might place limitations on the ability of the City to increase revenues or to increase appropriations.

An initiative entitled "The Taxpayers Right to Vote Act," Proposition 16 on the June 8, 2010 California ballot, if passed, will require California municipalities, including PWP, to hold elections and receive two-thirds of the votes in the municipality's service area in order for the municipality to incur any bonded or other indebtedness or use any public funds for the construction or acquisition of facilities, works, goods, commodities, products or services to establish or expand electric delivery service, or to implement a plan to become an aggregate electricity provider. The City cannot predict whether or not this initiative will become law and, if enacted, what impact it will have on PWP. [update post-election]

### **RATINGS**

Fitch Ratings ("Fitch") and Standard & Poor's Ratings Service, a division of the McGraw-Hill Companies, Inc. ("S&P") have assigned their municipal bond ratings of "\_\_\_" and "\_\_\_" respectively, to the 2010A Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings may be obtained from the rating agency furnishing the same, at the following addresses: Fitch Ratings, One State Street Plaza, New York, New York 10004; S&P, 55 Water Street, New York, New York 10041 and Standard & Poor's, 55 Water Street, New York, New York 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any of such ratings will continue for any given, period of time or that any of them will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the 2010A Bonds.

### **TAX MATTERS**

The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the 2010A 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. Noncompliance with such requirements could cause the interest on the 2010A

Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issue of the 2010A Bonds. The City has covenanted in the Fiscal Agent Agreement to comply with each applicable requirement of the Code necessary to maintain the exclusion of the interest on the 2010A Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, under existing law interest on the 2010A Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the 2010A 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.

Interest on the 2010A Bonds owned by a corporation (other than an "S" corporation or a qualified mutual fund, real estate mortgage investment conduit, real estate investment trust, or financial asset securitization investment trust) will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

To the extent that a purchaser of a 2010A Bond acquires that 2010A Bond at a price that exceeds the aggregate amount of payments (other than payments of qualified stated interest within the meaning of section 1.1273-1 of the Treasury Regulations) to be made on the 2010A Bond (determined, in the case of a callable 2010A Bond, under certain assumptions specified in the Code), such excess will constitute "bond premium" under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized on a constant yield, economic accrual, basis; the amount of premium so amortized will reduce the owner's basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when a 2010A Bond owned by such owner is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the 2010A Bond to the owner. Any person considering purchasing a 2010A Bond at a price that includes bond premium should consult his or her own tax advisors with respect to the amortization and treatment of such bond premium, including, but not limited to, the calculation of gain or loss upon the sale, redemption or other disposition of the 2010A Bond.

The excess, if any, of the stated redemption price at maturity of 2010A Bonds of a maturity over the initial offering price to the public of the 2010A Bonds of that maturity is "original issue discount." Such original issue discount accruing on a 2010A Bond is treated as interest excluded to the same extent as would be interest on such 2010A Bond from the gross income of the owner thereof for federal income tax purposes and is exempt from California personal income tax. Original issue discount on any 2010A Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the 2010A Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a 2010A Bond accruing during each period is added to the adjusted basis of such 2010A Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such 2010A Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of 2010A Bonds who purchase such 2010A Bonds other than at the initial offering price and pursuant to the initial offering. Any person considering purchasing a 2010A Bond of a maturity having original issue discount should consult his or her own tax advisors with respect to the tax consequences of ownership of 2010A Bonds with original issue discount, including the treatment of

purchasers who do not purchase in the original offering and at the original offering price, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such 2010A Bonds under federal individual and corporate alternative minimum taxes.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the 2010A Bonds may affect the tax status of interest on the 2010A Bonds or the tax consequences of the ownership of the 2010A Bonds. No assurance can be given that pending or future legislation, or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the 2010A Bonds from personal income taxation by the State of California or of the exclusion of the interest on the 2010A Bonds from the gross income of the owners thereof for federal income tax purposes. Furthermore, Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the 2010A Bonds, or the interest thereon, if any action is taken with respect to the 2010A Bonds or the proceeds thereof predicated or permitted upon the advice or approval of bond counsel if such advice or approval is given by counsel other than Bond Counsel.

Although Bond Counsel is of the opinion that interest on the 2010A Bonds is exempt from California personal income tax and that interest on the 2010A Bonds is excluded from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may otherwise be affected by the ownership or disposition of the 2010A Bonds. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the 2010A Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the 2010A Bonds and the Code contains additional limitations on interest deductions applicable to financial institutions that own tax-exempt obligations (such as the 2010A Bonds), (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the 2010A Bonds, (iii) interest on the 2010A Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the 2010A Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the 2010A Bonds, and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the 2010A Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel has expressed no opinion regarding any such other tax consequences.

Bond Counsel's opinion is not a guarantee of a result, but represents their legal judgment based upon their review of existing statutes, regulations, published rulings and court decisions and the covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the 2010A Bonds is commenced, under current procedures the Service is likely to treat the City as the "taxpayer," and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the 2010A Bonds, the City may have different or conflicting interests from the owners of the 2010A Bonds. Public awareness of any future audit of the 2010A Bonds could adversely affect the value and liquidity of the 2010A Bonds during the pendency of the audit, regardless of the ultimate outcome.

## **LITIGATION**

There is no litigation or action of any nature now pending against the City or, to the knowledge of its respective officers, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the 2010A Bonds or in any way contesting or affecting the validity of the 2010A Bonds or any proceedings of the City taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the 2010A Bonds or the use of proceeds thereof. There is no litigation pending, or to the knowledge of the City, threatened, questioning the existence of the City or the title of the officers of the City to their respective offices. There is no litigation pending, or to the knowledge of the City, threatened, which materially questions or affects the financial condition of the Electric System.

## **AUDITED FINANCIAL STATEMENTS**

The audited financial statements of the City's Water and Power Enterprise Funds, as of June 30, 2009 and for the year then ended are included in Appendix B to this Official Statement. There has been no material adverse change in the finances of the City since June 30, 2009. A complete copy of the City's Comprehensive Annual Financial Report may be obtained from the City. The 2010A Bonds are revenue obligations of the City payable only from the Net Income of the Electric System in the Light and Power Fund. The financial statements of the City's Water and Power Enterprise Funds have been audited by Mayer Hoffman McCann P.C., independent accountants (the "Auditor") as stated in their report appearing in Appendix B. The Auditor has not updated its report or taken any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Mayer Hoffman McCann P.C. with respect to any event or transaction subsequent to their report dated December 17, 2009.

## **FORWARD-LOOKING STATEMENTS**

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

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

## VERIFICATION OF MATHEMATICAL COMPUTATIONS

Causey, Demgen & Moore Inc., a firm of independent arbitrage consultants, will verify the accuracy of (i) mathematical computations concerning the adequacy of the maturing principal amounts of and interest earned on the Escrow Securities deposited in the Escrow Fund, together with amounts held as cash therein, to provide for payment of the interest due on the Refunded 2002 Bonds to the date of redemption and to pay the redemption price of the Refunded 2002 Bonds to be redeemed on such date of redemption and (ii) mathematical computations of the yield on the 2010A Bonds and the yield on the Escrow Securities purchased with a portion of the proceeds of the sale of the 2010A Bonds and other available funds of the City, which will be used in part by Bond Counsel in concluding that the interest on the 2010A Bonds is excluded from gross income for federal income tax purposes under present laws, including applicable provisions of the Code, existing court rulings, regulations and Internal Revenue Service rulings.

The report of such independent arbitrage consultants will include the statement that the scope of their engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

## FINANCIAL ADVISOR

The City has retained Public Resources Advisory Group, Los Angeles, California, as financial advisor (the "Financial Advisor") in connection with the issuance of the 2010A Bonds. The Financial Advisor has not been engaged, nor has it undertaken, to audit, authenticate or otherwise verify the information set forth in this Official Statement, or any other related information available to the City, with respect to accuracy and completeness of disclosure of such information. The Financial Advisor has reviewed this Official Statement, but makes no guaranty, warranty or other representation respecting accuracy and completeness of the information contained in this Official Statement.

## CERTAIN LEGAL MATTERS

The issuance of the 2010A Bonds is subject to the approving opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix F. Bond Counsel will receive compensation from the City contingent upon the sale and delivery of the 2010A Bonds. Certain legal matters will be passed upon for the City by Fulbright & Jaworski L.L.P., Los Angeles, California, Disclosure Counsel, and by Michele Beal Bagneris, City Attorney of the City.

## PURCHASE AND REOFFERING

\_\_\_\_\_ (the "Initial Purchaser") purchased the 2010A Bonds from the City at a competitive sale at an aggregate purchase price of \$\_\_\_\_\_ (representing the aggregate principal amount of the 2010A Bonds, plus a net original issue premium of \$\_\_\_\_\_, and less an Initial Purchaser's discount of \$\_\_\_\_\_). The public offering prices may be changed from time to time by the Initial Purchaser. The Initial Purchaser may offer and sell 2010A Bonds to certain dealers and others at prices lower than the offering prices shown on the inside cover page hereof.

## CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement to be entered into simultaneously with the issuance of the 2010A Bonds (the "Continuing Disclosure Agreement") for the benefit of the holders of

the 2010A Bonds with Digital Assurance Certification, L.L.C. (“DAC”), under which the City has designated DAC as Disclosure Dissemination Agent (the “Disclosure Dissemination Agent”). Pursuant to the Continuing Disclosure Agreement, the City has covenanted for the benefit of the holders and beneficial owners of the 2010A Bonds to provide certain financial information and operating data relating to the City and the Electric System by not later than 185 days following the end of the City’s Fiscal Year (which Fiscal Year presently ends on June 30) (the “Annual Report”), commencing with the report for Fiscal Year 2009-10, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City with the Municipal Securities Rulemaking Board (“MSRB”) through the MSRB’s Electronic Municipal Market Access (EMMA) System. The notices of material events will be filed by the City with the MSRB. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in APPENDIX E – “FORM OF CONTINUING DISCLOSURE AGREEMENT” herein. These covenants have been made in order to assist the Initial Purchaser in complying with S.E.C. Rule 15c2-12(b)(5) (the “Rule”). The City has not failed to comply in the last five years in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events.

The City will reserve the right to amend the Continuing Disclosure Agreement, and to obtain the waiver of non-compliance with any provision of the Continuing Disclosure Agreement, if such amendment or waiver is supported by a written opinion of counsel expert in federal securities laws selected by the City to the effect that such amendment or waiver would not materially impair the interest of the holders of the 2010A Bond and would not, in and of itself, cause the Continuing Disclosure Agreement to violate the Rule if such amendment or waiver had been effective at the time of the primary offering of the 2010A Bonds, after taking into account any applicable amendments to or official interpretations of the Rule.

The Disclosure Dissemination Agent has only the duties specified in the Continuing Disclosure Agreement. The Disclosure Dissemination Agent’s obligation to deliver the information at the times and with the contents described in the Continuing Disclosure Agreement is limited to the extent the City has provided that information to the Disclosure Dissemination Agent as required by the Continuing Disclosure Agreement. The Disclosure Dissemination Agent has no duty with respect to the content of any disclosures or notice made pursuant to the terms of the Continuing Disclosure Agreement or duty or obligation to review or verify any information in the Annual Report, Audited Financial Statements, notice of Notice Event or Voluntary Report (all as defined in the Continuing Disclosure Agreement), or any other information, disclosure or notices provided to it by the City, and the Disclosure Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the City, the holders of the 2010A Bonds or any other party. The Disclosure Dissemination Agent has no responsibility for any failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof, as to determine or liability for failing to determine whether the City has complied with the Continuing Disclosure Agreement, and the Disclosure Dissemination Agent may conclusively rely upon certification of the City at all times.

## **EXECUTION AND DELIVERY**

Included herein are brief summaries of the terms of the 2010A Bonds, the Fiscal Agent Agreement, the Continuing Disclosure Agreement and certain contracts and other arrangements for the supply of capacity and energy, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract with the purchasers of the 2010A Bonds.

The execution and delivery of this Official Statement have been duly authorized by the City.

CITY OF PASADENA, CALIFORNIA

By: \_\_\_\_\_  
Director of Finance

## APPENDIX A

### THE CITY OF PASADENA

*The economic and demographic information provided below is presented as general background data and has been collected from sources which the City deems to be reliable. The General Fund of the City is not liable for the payment of the 2010A 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 the 2010A Bonds, any premium thereon upon redemption prior to maturity or their interest. No Owner of any 2010A Bond shall 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 2010A Bonds and any premiums upon redemption 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 which are pledged to the payment of the 2010A Bonds, interest thereon and any premiums upon redemption pursuant to the Fiscal Agent Agreement.*

#### **General**

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

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

The City provides its approximately 150,000 residents with power, water and refuse services. The Southern California Gas Company supplies natural gas, and the County of Los Angeles provides sewage services.

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

#### **City Council**

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

<u>Name</u>	<u>Occupation</u>	<u>Term Expiration</u>
Bill Bogaard, Mayor	Attorney	May 2011
Jacque Robinson (District 1)	Labor Community Organizer	May 2011
Margaret McAustin (District 2)	Asset Manager - Real Estate	May 2011
Chris Holden (District 3)	Commercial Real Estate Broker	May 2013
Steve Haderlein, Vice-Mayor (District 4)	High School Instructor	May 2011
Victor Gordo (District 5)	Attorney	May 2013
Steve Madison (District 6)	Attorney	May 2011
Terry Tornek (District 7)	Real Estate Developer	May 2013

## City Staff

*Michael J. Beck, City Manager*, has been City Manager for the City of Pasadena since October 1, 2008. His responsibilities include overseeing the City's over \$630 million operating budget and 14 departments with 3,300 employees.

He has established a five-year balanced budget program to resolve a structural deficit and overcome current economic realities, developing a financial solution to unfunded liability of the Fire and Police Retirement System, begun a strategic investment plan to fund at least \$100 million for renovations to public facilities, established a business audit schedule, implemented a strategic planning process, provided leadership to the update to Pasadena's General Plan and renovation plans for the Rose Bowl Stadium, begun to right-size the City's governmental functions including streamlining operational processes, and increased the City Manager's role in the community.

Previously Mr. Beck served as Assistant City Manager for the City of Riverside, California, and Director of Economic Development and Real Estate Services for the University of California Riverside.

Mr. Beck holds a Bachelor's Degree in Business Economics and a Master's Degree in Business Administration from the University of California, Riverside.

*Andrew Green, Director of Finance*, joined the City in January 2009. His responsibilities include management of the financial affairs of the City and the Pasadena Community Development Commission, which include: preparation of the annual operating budget; preparation of the Comprehensive Annual Financial Report; purchasing; collections; workers' compensation; general liability; payroll; employee benefits; information technology; internal audit; investments; debt management and financing of major City and Community Development Commission capital improvements. Prior to his current position, he served as the Finance Director for the City of Reno, Nevada; Director of Administrative Services and Director of Finance for the City of Rialto, California, where he also served as acting City Administrator on various occasions; and as the Director of Finance for the City of San Bernardino, California. Mr. Green received his MBA from the University of Phoenix in 2003 and his Bachelor of Arts degree in Accounting from the University of LaVerne (California) in 1979. He also holds an Associates Degree in Business Administration from San Bernardino Valley College and a Certificate from the Accounting for Governmental and Non-Profit Organizations program at the University of California at Riverside, California. While in Reno, Nevada, Mr. Green was member of the Nevada Committee on Local Government Finance representing the Nevada League of Cities and a member of the Board of Directors of the Health Access of Washoe County Community Health Center organization, which provides healthcare to low-income residents in the Washoe County area of northern Nevada. Mr. Green has been a guest lecturer on governmental finance on a number of occasions for the University of California, San Bernardino's master's program. Mr. Green is also a member of numerous national and state municipal finance organizations.

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

**Population**

The following table presents a ten-year history of the population of the City since 2001.

**CITY OF PASADENA  
POPULATION  
For Years 2001 through 2009**

Year (as of January 1)	Population
2001	135,511
2002	138,728
2003	141,949
2004	143,616
2005	145,219
2006	145,695
2007	146,051
2008	147,293
2009	150,185

Source: State of California, Department of Finance revised, based upon revision to the US Census information with 2000 benchmark.

**Education**

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

**PASADENA UNIFIED SCHOOL DISTRICT  
TOTAL ENROLLMENT<sup>(1)</sup>  
Fiscal Years 2000 through 2009**

Fiscal Year Ended June 30	Total Enrollment
2000	23,059
2001	23,685
2002	23,582
2003	23,726
2004	22,669
2005	22,336
2006	21,321
2007	20,826
2008	20,905
2009	20,256

Source: Pasadena Unified School District.

<sup>(1)</sup> 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 2005 through 2009 and as of March 2010.

**LOS ANGELES COUNTY  
EMPLOYMENT, UNEMPLOYMENT AND LABOR FORCE  
AVERAGES FOR CALENDAR YEARS 2005 THROUGH 2009  
AND AS OF MARCH 2010  
(in thousands)**

	2005	2006	2007	2008	2009	2010
County Employment	4,565	4,641	4,714	4,515	4,329	4,289
County Unemployment	257	246	254	374	568	601
County Civilian Labor Force	4,821	4,886	4,960	4,989	4,895	4,890
County Unemployment Rate	5.3%	4.2%	5.1%	9.5%	11.6%	12.3%
State Unemployment Rate	5.4%	4.8%	5.4%	9.1%	11.4%	13.0%

Source: State of California Employment Development Department. Current Labor Force and Industry Employment updated July, 2009; 2010 data as of March. 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 2009 are listed below.

**CITY OF PASADENA  
MAJOR EMPLOYERS  
2009**

<b>Company</b>	<b>Approximate Number of Employees</b>	<b>Business Line</b>
Jet Propulsion Laboratory	5,065	Aerospace Research
Kaiser Permanente	3,500	Health Care
Huntington Memorial Hospital	3,300	Hospital
Pasadena Unified School District	2,600	Education
California Institute of Technology	2,550	Education
SBC/ATT	2,500	Communications
The City of Pasadena	2,307	Government
Pasadena City College	1,789	Education
Bank of America	1,500	Financial
Art Center College of Design	810	Education
Parsons Corporation	773	Engineering/Construction
Hathaway-Sycamores	615	Social Services
The Langham Huntington Hotel (Ritz-Carlton)	584	Hotel
Pacific Clinics Administration	550	Medical Clinics
San Gabriel Valley Newspaper	525	Newspaper
Rusnak Pasadena	450	Auto Dealer
Avon Products	320	Cosmetics

Source: Municipal Information Services, Pasadena Public Library and Pasadena Chamber of Commerce.

**Housing**

The following table presents a ten-year history of total available housing units within the City, from 2000 through 2009.

**CITY OF PASADENA  
HOUSING UNITS<sup>(1)</sup>  
For Fiscal Years 2000 through 2009**

<b>Fiscal Year Ended June 30</b>	<b>Housing Units</b>
2000	54,132
2001	54,136
2002	54,770
2003	55,521
2004	55,791
2005	56,255
2006	56,520
2007	56,753
2008	57,274
2009	58,135

Source: City of Pasadena, Department of Planning and Permitting.

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

## Building Permit Activity

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

The following table shows the value of building permits issued in the City for the fiscal years 2005 through 2009 and for the nine months ended March 31, 2010.

**CITY OF PASADENA  
BUILDING PERMIT VALUATION AND PERMIT ACTIVITY  
Fiscal Years 2005 through 2009 and Nine Months ended March 31, 2010  
(Valuation in Millions)  
Fiscal Year Ended June 30,**

	2005	2006	2007	2008	2009	Nine Months ended 03/31/10
Building Permit Valuations						
Nonresidential	\$116.4	\$72.3	\$ 91.4	\$ 98.2	\$ 73.9	\$ 23.8
Residential	72.3	45.0	46.7	55.5	23.6	17.6
Residential New Construction	75.7	79.3	80.4	76.2	52.2	6.1
Total	<u>\$264.4</u>	<u>\$196.6</u>	<u>\$218.5</u>	<u>\$229.9</u>	<u>\$149.7</u>	<u>\$ 47.5</u>
Number of Permits Issued						
Non Residential	738	728	702	715	601	420
Residential	2,494	2,645	2,454	2,195	1,865	1,281
Residential New Construction	56	73	77	59	28	13
Total	<u>3,288</u>	<u>3,446</u>	<u>3,233</u>	<u>2,969</u>	<u>2,494</u>	<u>1,714</u>

Source: City of Pasadena, Planning and Permitting Department.

## Taxable Sales

The following table indicates taxable transactions in the City by type of business from 2004 through 2008.

**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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Apparel Stores	\$ 159.9	\$ 190.9	\$ 214.3	\$ 205.0	\$ 176.0
General Merchandise Stores	281.0	312.8	332.8	285.8	228.3
Food Stores	98.3	202.9	145.7	180.5	150.8
Eating & Drinking Places	364.9	440.7	488.5	466.5	395.1
Home Furnishings & Appliances	142.1	171.7	170.9	197.2	177.8
Bldg. Material & Farm Implements	88.6	117.3	139.6	107.7	80.4
Auto Dealers & Auto Supplies	474.0	461.5	474.0	451.0	313.0
Service Stations	127.2	137.6	138.9	154.4	107.7
Other Retail Stores	<u>411.6</u>	<u>369.2</u>	<u>304.9</u>	<u>313.4</u>	<u>368.2</u>
Retail Stores Total	2,147.6	2,404.6	2,409.6	2,362.4	1,997.3
All Other Outlets	<u>860.1</u>	<u>745.9</u>	<u>718.8</u>	<u>710.2</u>	<u>650.3</u>
Total All Outlets	<u>\$3,007.7</u>	<u>\$3,150.5</u>	<u>\$3,128.4</u>	<u>\$3,072.6</u>	<u>\$2,647.6</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 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 <sup>(1)</sup>
International Union of Operating Engineers	25	March 27, 2010 <sup>(1)</sup>
Service Employee International Union	25	April 26, 2010 <sup>(1)</sup>
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, 2012
Pasadena Police Sergeant Association	37	April 24, 2011
Pasadena Fire Fighters Management Association	7	March 31, 2011
Pasadena Management Association	514	March 17, 2012

<sup>(1)</sup> Currently being renegotiated.  
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, 2009, the actuarial staff of PERS reported unfunded liability of \$59.0 million for the City’s miscellaneous employees as compared to an underfunding of \$46.2 million the previous year and an unfunded liability of \$54.3 million for Safety employees compare to \$47.7 million previous year. As of June 30, 2009, the City reported that its PERS obligation with respect to the City’s miscellaneous employees was 90.7% funded and 82.9% for Safety Employees.

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, 2009, there was one active member in FPRS. As of June 30, 2009, FPRS was actuarially underfunded by \$58 million and had a funded ratio of 67%. 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, 2009 was \$4,340,938. Both the City and the covered employees made the total required 7.5% contributions of \$173,638 from the City and \$151,932 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.

The City of Pasadena provides a subsidy to retirees of the City who are members of the California Public Employees' Retirement System or the Pasadena Fire and Police Pension System. Benefit provisions are established and amended through negotiations between the City and the respective unions. Two different levels of subsidy toward the purchase of medical insurance from PERS under the Public Employees' Medical and Hospital Care Act (PEMHCA) are offered. These are currently at \$101.00 or \$23.50 per month depending on the bargaining unit or the unrepresented group the employee was a member of.

The City Contribution requirements have been established at the individual retiree levels of \$101.00 or \$23.50 per month depending on bargaining unit membership and policy enacted by PERS pursuant to State Law. These minimum requirements may be increased through future negotiations between the City and respective unions. The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, and amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. This is the first year of implementation of GASB Statement 45 and the City's liability is based on "pay-as-you-go" funding. If the City were to select the "prefunding" method, the annual OPEB cost would be reduced. As of June 30, 2009, the unfunded actuarial accrued liability was \$23, 745,129.

### **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  
(Unaudited)**

Fiscal Year <sup>(1)</sup> Ended <u>June 30,</u>	<u>Loss Paid</u>	<u>Expense Paid</u>	<u>Total Paid</u>	Remaining Reserves for Unpaid Claims <sup>(1)</sup>
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

<sup>(1)</sup> 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 included 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. As a result, approximately \$4.6 million of its 2009-10 property tax revenues are being 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. Current State legislation allowed the City to sell its right to receive this repayment to a joint powers authority, which sold bonds payable from the receivables it purchases from participating local jurisdictions. The City participated in this program in order to replace the lost property taxes at no cost to the City.

In addition, State funding to the City's Health Department was 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:

<b><u>Government Funds</u></b>	<b><u>Fiduciary Funds</u></b>
General Fund	Trust and Agency Funds
Special Revenue Funds	
Debt Services Funds	
Capital Projects Funds	
<b><u>Proprietary Funds</u></b>	<b><u>Capital Assets</u></b>
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**

<b>REQUIREMENTS</b>	<b>Adopted General Funds Operating Budget for Fiscal Year Ending June 30,</b>		
	<b>2008</b>	<b>2009</b>	<b>2010</b>
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>
<b>TOTAL REQUIREMENTS</b>	<b><u>\$212,338,420</u></b>	<b><u>\$230,834,504</u></b>	<b><u>\$225,143,346</u></b>
<b>AVAILABLE FUNDS</b>			
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>
<b>TOTAL AVAILABLE FUNDS</b>	<b><u>\$212,338,420</u></b>	<b><u>\$215,422,649</u></b>	<b><u>\$220,264,507</u></b>

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.

**APPENDIX D**

**SUMMARY OF CERTAIN PROVISIONS OF THE FISCAL AGENT AGREEMENT**

## APPENDIX D

### SUMMARY OF CERTAIN PROVISIONS OF THE FISCAL AGENT AGREEMENT

*Certain provisions of the Fiscal Agent Agreement are summarized below. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Fiscal Agent Agreement.*

#### **Definitions**

**“Accreted Value”** means, with respect to any Capital Appreciation Indebtedness or any Convertible Capital Appreciation Indebtedness, the amount representing principal and interest on (i) such Capital Appreciation Indebtedness at or prior to the maturity date thereof or (ii) such Convertible Capital Appreciation Indebtedness at and prior to the expiration of the Accretion Period thereof, being, in either case, as of any date of computation an amount equal to the principal amount of such Capital Appreciation Indebtedness or Convertible Capital Appreciation Indebtedness at its initial offering plus the interest accrued thereon from the date of delivery thereof to the dates specified in the Supplemental Fiscal Agent Agreement or other document providing for such Capital Appreciation Indebtedness or Convertible Capital Appreciation Bond, such interest to accrue at the rate per annum established as provided in a Supplemental Fiscal Agent Agreement or other document providing for such Capital Appreciation Indebtedness or Convertible Capital Appreciation Indebtedness, compounded periodically, plus, with respect to matters relating to the payment upon redemption of such Capital Appreciation Indebtedness or Convertible Capital Appreciation Indebtedness, if such date of computation shall not be one of such specified dates, the ratable portion of the difference between the Accreted Value as of the immediately preceding such specified date (or the date of delivery thereof if the date of computation is prior to the first such specified date succeeding the date of delivery) and the Accreted Value as of the immediately succeeding such specified date, calculated based on the assumption that the Accreted Value accrues during any period in equal daily amounts on the basis of a year of twelve 30-day months.

**“Accretion Period”** means, with respect to any particular Convertible Capital Appreciation Indebtedness, the period from the date of delivery thereof through the date specified in the Supplemental Fiscal Agent Agreement or other document providing for such Convertible Capital Appreciation Indebtedness (which date must be prior to the maturity date thereof), after which interest accruing on such Convertible Capital Appreciation Indebtedness will be payable semiannually, with the first such payment date being the applicable interest payment date immediately succeeding the expiration of the Accretion Period.

**“Annual Debt Service”** means for any Fiscal Year the aggregate amount of principal and interest on all Bonds and Parity Obligations becoming due and payable during such Fiscal Year calculated using the principles and assumptions set forth under the definition of Debt Service.

**“Assumed Debt Service”** means for any Fiscal Year the aggregate amount of principal and interest which would be payable on all Bonds and Parity Obligations if each Excluded