

TABLE 13
HISTORICAL OPERATING RESULTS AND CASH FLOWS
(\$ in Thousands)

	Fiscal Year Ended June 30,				
	2007	2008	2009	2010	2011 ⁽⁴⁾
Revenue					
Sales Within City Limits	\$21,563	\$20,752	\$20,880	\$26,731	\$29,769
Sales Outside City Limits	4,928	4,742	4,747	5,524	5,965
Municipal Sales & Misc. Others ⁽¹⁾	<u>13,452</u>	<u>14,066</u>	<u>17,469</u>	<u>11,225</u>	<u>11,403</u>
Total Operating Revenues	<u>\$39,943</u>	<u>\$39,560</u>	<u>\$43,096</u>	<u>\$43,480</u>	<u>\$47,137</u>
Operating Expenses					
Purchased Water	\$12,155	\$14,001	\$12,997	\$13,646	\$14,862
Fuel and Purchased Power	2,520	2,304	2,326	2,199	2,384
Direct Operating Expenses	6,699	6,677	8,233	7,059	8,295
Administrative and General Expenses	<u>6,068</u>	<u>7,210</u>	<u>6,615</u>	<u>5,763</u>	<u>5,940</u>
Total Expenses ⁽²⁾	<u>\$27,442</u>	<u>\$30,192</u>	<u>\$30,171</u>	<u>\$28,667</u>	<u>\$31,481</u>
Earnings from Operations	12,501	9,368	12,925	14,813	15,656
Non-Operating Income ⁽³⁾	<u>3,141</u>	<u>3,141</u>	<u>3,837</u>	<u>4,880</u>	<u>4,085</u>
Cash Flow Available for Debt Service	<u>\$15,642</u>	<u>\$12,509</u>	<u>\$16,762</u>	<u>\$19,693</u>	<u>\$19,741</u>
Debt Service	3,768	4,944	4,976	4,975	6,013
Debt Service Coverage	<u>4.15x</u>	<u>2.53x</u>	<u>3.37x</u>	<u>3.96x</u>	<u>3.28x</u>
Amount Available after Debt Service	\$11,874	\$ 7,565	\$11,786	\$14,718	\$13,728
General Fund Transfer	<u>2,599</u>	<u>2,923</u>	<u>2,872</u>	<u>3,066</u>	<u>3,104</u>
Cash Available after Debt Service and Transfer	<u>\$ 9,275</u>	<u>\$ 4,642</u>	<u>\$ 8,914</u>	<u>\$11,652</u>	<u>\$10,624</u>

⁽¹⁾ Includes CIC & Purchased Water Adjustment Cost Revenues.

⁽²⁾ Excludes Depreciation and Interest Expense.

⁽³⁾ Includes Interest Income and Capital Contributions.

⁽⁴⁾ Unaudited.

Sources: Except for Fiscal Year 2011, Audited Financial Statements of the City and Pasadena Water and Power Department.

Projected Coverage and Five-Year Forecast

The following table shows a summary of the projected operating results of the Water System for the five Fiscal Years listed, assuming CIC and distribution and customer charge increases, as described below. In the preparation of the projections in this section, the City has made certain assumptions with respect to conditions that may occur in the future. While the City believes these assumptions are reasonable for the purpose of the projections, they are dependent on future events, and actual conditions may differ from those assumed. **To the extent actual future factors differ from those assumed by the City or provided to the City by others, the actual results will vary from those forecast and such variations may be material.** The City does not plan to issue any updates or revisions to the forecast if or when its assumptions, expectations, or events, conditions or circumstances on which such forecast is based, occur or do not occur.

Table 14 revenue projection assumptions include (a) an annual sales growth rate of 0.6%, (b) an increase in the CIC revenue of approximately \$2.7 million in Fiscal Year 2013 and an increase in the distribution and customer charge revenue of approximately \$3.5 million in Fiscal Year 2016, and (c) approximately \$1.1 million annual increase in purchased water adjustment charge revenues for Fiscal Years 2014 through Fiscal Year 2016. Table 14 expense projections assume 3% annual escalation in expenses, 7.5% annual increase in purchased water costs, and 5% in purchased power costs as well as a 2% annual increase in non-operating income.

TABLE 14
OPERATING STATEMENT
FIVE YEAR FORECAST
(\$ in Thousands)

	Fiscal Year Ended June 30,				
	2012	2013	2014	2015	2016
Revenue					
Sales Within City Limits	\$35,548	\$37,750	\$38,779	\$39,812	\$43,704
Sales Outside City Limits	7,122	7,557	7,754	7,951	8,689
Municipal Sales & Misc. Others ⁽¹⁾	<u>10,498</u>	<u>10,629</u>	<u>10,817</u>	<u>10,859</u>	<u>10,997</u>
Total Revenues	<u>\$53,077</u>	<u>\$55,935</u>	<u>\$57,350</u>	<u>\$58,622</u>	<u>\$63,390</u>
Operating Expenses					
Purchased Water	15,823	17,010	18,286	19,657	21,132
Fuel and Purchased Power	2,503	2,628	2,760	2,898	3,043
Direct Operating Expenses	8,554	8,811	9,075	9,347	9,628
Administrative and General Expenses	<u>6,056</u>	<u>6,238</u>	<u>6,425</u>	<u>6,618</u>	<u>6,817</u>
Total Expenses ⁽²⁾	<u>\$32,937</u>	<u>\$34,637</u>	<u>\$36,546</u>	<u>\$38,520</u>	<u>\$40,619</u>
Earnings from Operations	20,140	21,248	20,804	20,102	22,771
Non-Operating Income ⁽³⁾	<u>4,388</u>	<u>4,476</u>	<u>4,565</u>	<u>4,657</u>	<u>4,750</u>
Cash Flow Available for Debt Service	<u>\$24,528</u>	<u>\$25,724</u>	<u>\$25,369</u>	<u>\$24,758</u>	<u>\$27,521</u>
Total Debt Service ⁽⁴⁾	6,922	6,922	7,507	7,491	9,980
Debt Service Coverage	<u>3.82x</u>	<u>3.72x</u>	<u>3.38x</u>	<u>3.31x</u>	<u>3.68x</u>
Amount Available after Debt Service	\$17,606	\$18,802	\$17,862	\$17,267	\$17,541
General Fund Transfer	<u>3,394</u>	<u>3,657</u>	<u>3,968</u>	<u>4,053</u>	<u>4,141</u>
Cash Available after Debt Service and Transfer	<u>\$14,212</u>	<u>\$15,145</u>	<u>\$13,894</u>	<u>\$13,214</u>	<u>\$13,400</u>

⁽¹⁾ Includes CIC and Purchased Water Adjustment Cost Revenues.

⁽²⁾ Excludes Depreciation and Interest Expense.

⁽³⁾ Includes Interest Income, Capital Contributions and the anticipated receipt of the Build America Bonds cash subsidy from the United States Treasury relating to the 2010A Bonds.

⁽⁴⁾ Includes debt service for the 2003 Bonds (assuming no refunding), 2007 Bonds and 2010 Bonds (debt service for the 2010A Bonds is gross, before application of the Build America Bonds cash subsidy expected to be received).

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A of the California Constitution

If a portion of PWP's rates or charges were determined by a court to exceed the reasonable costs of providing service, any fee which PWP charges may be considered to be a "special tax" which under Article XIII A of the State Constitution must be authorized by a two-thirds vote of the affected electorate. This requirement is applicable to PWP's rates for water service and charges for capital improvements to the Water System. The reasonable cost of providing water service has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, State courts have held that fees such as connection fees (capacity charges) will not be special taxes if they approximate the reasonable cost of constructing improvements to the Water System contemplated by the

local agency imposing the fee. Such court determinations have been codified in the Government Code of the State of California (Section 6000 *et seq.*).

Article XIII B of the California Constitution

Article XIII B of the State Constitution limits the annual appropriations of State and local governmental entities to the amount of appropriations of the entity for the prior Fiscal Year, as adjusted for changes in the cost of living, changes in population and changes in services rendered by the entity.

Pending clarification of certain of its provisions by the courts, or by the State Legislature, the full impact of Article XIII B on the amounts and uses of moneys to be deposited in the Water Fund is not clear. However, to the extent moneys in the Water Fund are used to pay costs of maintaining and operating the Water System and debt service on the Bonds and Parity Debt, such moneys should not, under the terms of Article XIII B, as supplemented by legislation, and based upon the official ballot argument supporting the measure, be held to be subject to the appropriation limit.

Article XIII C and XIII D of the California Constitution

Proposition 218, a state ballot initiative known as the "Right to Vote on Taxes Act" was approved by California voters on November 5, 1996 and, except for certain provisions which became effective on July 1, 1997, became effective on November 6, 1996. Proposition 218 added Article XIII C, entitled "Voter Approval of Local Tax Levies" ("Article XIII C"), and Article XIII D, entitled "Assessment and Property Related Fee Reform ("Article XIII D"), to the California Constitution. Article XIII C and Article XIII D limit the imposition by a local government of "general taxes," "special taxes," "assessments" and "fees" or "charges." The City is a local government within the meaning of Article XIII C and Article XIII D.

Article XIII C, provides, among other things, that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local fee or charge. This extension of the initiative power is not limited by the terms of Article XIII C to fees and charges imposed after November 6, 1996 and, absent other authority, could result in retroactive reduction in existing fees and charges. Although the terms "fees" and "charges" are not defined in Article XIII C, the California Supreme Court, in *Bighorn-Desert View Water Agency v. Kari Verjil; E.W. Kelley* (July 2006), has stated that there is no basis for excluding from Article XIII C's authorization any of the fees subject to Article XIII D. If fees or charges charged or collected by the City for its Water System are subjected to the initiative process and the outcome of any initiative proceedings results in a reduction or repeal of such fees or charges, the ability of the City to generate Gross Aggregate Revenues sufficient to comply with its covenants under the Indenture may be adversely affected. Furthermore, if voters were to approve an initiative lowering the City's water rates or other charges, the City would need voter approval before it could change the rate or charge that had been set by initiative. The City could, however, increase a charge that was not affected by initiative or to impose an entirely new charge without voter approval.

The California Supreme Court further stated in *Bighorn* that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay debt service on bonded debt and operating expenses. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Additionally, SB 919 provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after (the effective date of Proposition 218) assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. However, no

assurance can be given that the voters of the City will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges.

Article XIID prohibits the assessment upon any parcel of property or upon any person "as an incident of property ownership" (defined to exclude fees for the provision of electrical or gas service) by a local government of any tax, assessment, fee or charge except voter-approved ad valorem property taxes and special taxes, fees or charges as a condition of property development, and assessments and "fees or charges for property related services" levied or imposed in accordance with the provisions of Article XIID.

Under Article XIID, revenues derived from a "fee" or "charge" (defined as "any levy other than an ad valorem tax, a special tax or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service") may not exceed the funds required to provide the "property-related service" and may not be used for any purpose other than that for which the fee or charge was imposed. Further, the amount of a "fee" or "charge" may not exceed the proportional cost of the service attributable to the parcel, no "fee" or "charge" may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question, and no "fee" or "charge" may be imposed for general governmental service where the service is "available to the public at large in substantially the same manner as it is to the property owners."

In addition, in order for a "fee" or "charge" to be imposed or increased, Article XIID provides that, among other things, the parcel upon which a fee or charge is proposed for imposition must be identified, the amount of the fee or charge proposed to be imposed on each such parcel must be calculated, written notice by mail of the proposed fee or charge must be provided to the "record owner" of each identified parcel, and a public hearing must be conducted upon the proposed fee or charge. If written protests against the proposed "fee" or "charge" are presented by a majority of owners of the identified parcels, the fee or charge may not be imposed. The California Supreme Court in *Bighorn* indicated that once a property owner or resident has paid the connection charges and has become a customer of a public water agency, all charges for water delivery incurred thereafter are charges for a property-related service, whether the charge is calculated on the basis of consumption or is imposed as a fixed monthly fee. Accordingly, the imposition or increase of any fee or charge by the City for its water service will be the subject of such a majority protest. If such a majority protest occurs, the ability of the City to generate Gross Aggregate Revenues sufficient to comply with its covenants under the Indenture may be adversely affected.

Article XIID states that, beginning July 1, 1997, all "fees" or "charges" must comply with its provisions. It is unclear how the provisions of Article XIID will be applied to fees or charges established prior to such date. It is also unclear how the provisions of Article XIID will be applied to fees or charges established after such date but prior to the *Bighorn* decision.

As a result of the *Bighorn* decision, there can be no assurance that Proposition 218 will not limit the ability of the City to impose, levy, charge and collect increased fees and charges for water services.

Prior to 2008, the City did not comply with the applicable notice and protest procedures of Article XIID for its water rate increases. There is no pending challenge to the City's water fees, and the City cannot predict the outcome of any such challenge, if a challenge were brought. Since 2008, the City has followed the notice, hearing and protest procedures in Article XIID in connection with its water rate increases and plans to follow such notice, hearing and protest procedure in connection with future rate increases.

The City is unable to predict how Article XIIC and Article XIID will be interpreted by the courts in the future. Bond Counsel has advised that there can be no assurance that Article XIIC and Article XIID will not limit the ability of the City to charge and collect fees and charges for its water service sufficient to enable the City to comply with its covenants under the Indenture or that the ability of the City to generate Gross Aggregate Revenues sufficient to pay principal and interest on the 2011A Bonds will not be adversely affected. See "SECURITY FOR THE BONDS – Rate Covenant." Further, in such event, there can be no assurance that remedies will be available to fully protect the interests of the holders of the 2011A Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2011A BONDS – Limitations on Remedies."

Proposition 26

Proposition 26 was approved by the electorate at the November 2, 2010 election and amended California Constitution Articles XIII A and XIIC. The proposition imposes a two-thirds voter approval requirement for the imposition of fees and charges by the State. It also imposes a majority voter approval requirement on local governments with respect to fees and charges for general purposes, and a two-thirds voter approval requirement with respect to fees and charges for special purposes. Proposition 26, according to its supporters, is intended to prevent the circumvention of tax limitations imposed by the voters in California Constitution Articles XIII A, XIIC and XIID pursuant to Proposition 13, approved in 1978, Proposition 218, approved in 1996, and other measures through the use of non-tax fees and charges. Proposition 26 expressly excludes from its scope a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable cost to the State or local government of providing the service or product to the payor. The City believes that the initiative is not intended to and would not apply to fees for utility services charged by special districts such as the City. The City, however, is unable to predict whether Proposition 26 will be interpreted by the courts to apply to the provision of utility services by local governments such as the City.

Future Initiatives

Articles XIII A, XIII B, XIIC and XIID were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives have been and could be proposed and adopted affecting PWP's revenues or ability to increase revenues. Neither the nature and impact of these measures nor the likelihood of qualification for ballot or passage can be anticipated by the City.

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 2011A 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 2011A 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 2011A 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 2011A Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the 2011A Bonds. The City has covenanted in the Indenture to maintain the exclusion of the interest on the 2011A 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 2011A Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the 2011A Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Bond Counsel is of the further opinion that the 2011A Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, the interest on the 2011A Bonds is not treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code; however, the receipt or accrual of interest on the 2011A Bonds owned by a corporation may affect the computation of its alternative minimum taxable income. 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. In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the City made in a Tax Certificate dated the date of delivery of the 2011A Bonds pertaining to the use, expenditure, and investment of the proceeds of the 2011A Bonds.

To the extent that a purchaser of a 2011A Bond acquires that 2011A Bond at a price in excess of its "stated redemption price at maturity" (within the meaning of section 1273(a)(2) of 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 over the remaining term of the obligation (or a shorter period in the case of certain callable obligations); 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. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of the obligation. The amount of premium which is amortizable each year by a purchaser is determined by using such purchaser's yield to maturity. 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 its 2011A Bond is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the 2011A Bond to the owner. Purchasers of 2011A Bonds at a price that includes bond premium should consult their own tax advisors with respect to the computation 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 2011A Bond.

The excess, if any, of the stated redemption price at maturity of 2011A Bonds of a maturity over the initial offering price to the public of the 2011A Bonds of that maturity is "original issue discount." Original issue discount accruing on a 2011A Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes and exempt from California personal income tax to the same extent as would be stated interest on that 2011A Bond. Original issue discount on any 2011A Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the 2011A 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 2011A Bond accruing during each period is added to the adjusted basis of such 2011A Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such 2011A Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of 2011A Bonds who purchase such 2011A Bonds other than at the initial offering price and pursuant to the initial offering. Purchasers of 2011A Bonds of a maturity having original issue discount should consult their own tax advisors with respect to the tax consequences of ownership of 2011A Bonds with original issue discount.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the 2011A Bonds may affect the tax status of interest on the 2011A Bonds or the tax consequences of the ownership of the 2011A Bonds. No assurance can be given that future legislation, or amendments to the Code, if enacted into law, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the 2011A Bonds from personal income taxation by the State of California or of the exclusion of the interest on the 2011A 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 2011A Bonds, or the interest thereon, if any action is taken with respect to the 2011A Bonds or the proceeds thereof upon the advice or approval of other bond counsel.

Although Bond Counsel is of the opinion that interest on the 2011A Bonds is exempt from California personal income tax and excluded from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the 2011A 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 2011A 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 2011A Bonds and the Code contains additional limitations on interest deductions applicable to financial institutions that own tax-exempt obligations (such as the 2011A 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 2011A Bonds, (iii) interest on the 2011A 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 2011A 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 2011A Bonds and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the 2011A 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 its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and 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 2011A 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 2011A Bonds, the City may have different or conflicting

interests from the owners. Public awareness of any future audit of the 2011A Bonds could adversely affect the value and liquidity of the 2011A Bonds during the pendency of the audit, regardless of its ultimate outcome.

American Jobs Act of 2011

On September 12, 2011, President Obama submitted to Congress the “American Jobs Act of 2011” (the “American Jobs Act”), which, if enacted, could result in additional federal income tax being imposed on certain owners of tax-exempt obligations, including the 2011A Bonds, for tax years beginning on or after January 1, 2013. As proposed, the American Jobs Act would limit for certain individual taxpayers the value of certain deductions and exclusions, including the exclusion for tax-exempt interest, to 28 percent irrespective of the actual marginal tax rate imposed on such taxpayers. The American Jobs Act or other proposed legislation, if enacted, could directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the 2011A Bonds from gross income for federal income tax purposes or the exemption of interest on the 2011A Bonds from personal income taxation by the State. The introduction or enactment of the American Jobs Act or other proposed legislation could also affect the value and liquidity of the 2011A Bonds. Prospective purchasers of the 2011A Bonds should consult with their own tax advisors with respect to the American Jobs Act or other pending or proposed tax legislation.

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 2011A Bonds or in any way contesting or affecting the validity of the 2011A 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 2011A Bonds or the use of 2011A Bond proceeds. 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 City’s Water System.

AUDITED FINANCIAL STATEMENTS

The audited financial statements of the City’s Water and Power Enterprise Funds, as of June 30, 2011 and for the year then ended are included in Appendix B to this Official Statement. A complete copy of the City’s Comprehensive Annual Financial Report may be obtained from the City. The 2011A Bonds are revenue obligations of the City payable only from the Pledged Revenues of the Water System. The financial statements of the City’s Water and Power Enterprise Funds have been audited by Brown Armstrong and Associates, 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 Brown Armstrong and Associates with respect to any event or transaction subsequent to their report dated _____, 2011.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

_____, 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 Defeasance Securities deposited in the Escrow Fund, together with amounts held as cash therein, to provide for payment of the interest due on the Refunded 2003 Bonds to the date of redemption

and to pay the redemption price of the Refunded 2003 Bonds to be redeemed on such date of redemption and (ii) mathematical computations of the yield on the 2011A Bonds and the yield on the Defeasance Securities purchased with a portion of the proceeds of the sale of the 2011A Bonds and other available funds of the City, which will be used in part by Bond Counsel in concluding that the interest on the 2011A 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 2011A 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.

PURCHASE AND REOFFERING

_____ (the "Initial Purchaser") purchased the 2011A Bonds from the City at a competitive sale. The amount of net proceeds to be received by the City from the sale of the 2011A Bonds is \$_____ (representing the aggregate principal amount of the 2011A Bonds, [plus/less an original issue premium/discount] of \$_____, and less an Initial Purchaser's discount of \$_____ to be retained by the Initial Purchaser). The public offering prices may be changed from time to time by the Initial Purchaser. The Initial Purchaser may offer and sell 2011A Bonds to certain dealers and others at prices lower than the offering prices shown on the inside cover page hereof.

CERTAIN LEGAL MATTERS

The issuance of the 2011A 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. Fulbright & Jaworski L.L.P., in its role as Bond Counsel, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. 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.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement to be entered into simultaneously with the issuance of the 2011A Bonds (the "Continuing Disclosure Agreement") for the benefit of the holders of the 2011A 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 2011A Bonds to provide certain financial information and operating data relating to the City and the Water 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 2011-12, 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." 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 2011A 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 2011A 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 2011A 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 2011A Bonds, the Indenture, 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 2011A 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 2011A 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 2011A Bonds, any premium thereon upon redemption prior to maturity or their interest. No Owner of any 2011A 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 2011A 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 Pledged Revenues and other funds which are pledged to the payment of the 2011A Bonds, interest thereon and any premiums upon redemption pursuant to the Indenture.

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 140,000 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 2015
Jacque Robinson (District 1)	Labor Community Organizer	May 2015
Margaret McAustin (District 2)	Asset Manager - Real Estate	May 2015
Chris Holden (District 3)	Commercial Real Estate Broker	May 2013
Gene Masuda (District 4)	Business Owner	May 2015
Victor Gordo (District 5)	Attorney	May 2013
Steve Madison (District 6)	Attorney	May 2015
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 over 2,300 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 Master's degree in Business Administration 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 Associate's 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 2002.

**CITY OF PASADENA
POPULATION
For Years 2002 through 2011**

Year (as of January 1)	Population
2002	138,728
2003	141,949
2004	143,616
2005	145,219
2006	145,695
2007	146,051
2008	147,293
2009	150,185
2010	136,769
2011	138,915

Source: State of California, Department of Finance revised, based upon revision to the US Census information with 2010 benchmark. Updates to estimates for years 2002 through 2009 incorporating the 2010 census counts are not available.

Education

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

**PASADENA UNIFIED SCHOOL DISTRICT
TOTAL ENROLLMENT⁽¹⁾
Fiscal Years 2002 through 2011**

Fiscal Year Ended June 30	Total Enrollment
2002	23,582
2003	23,726
2004	22,669
2005	22,336
2006	21,321
2007	20,826
2008	20,905
2009	20,256
2010	18,742
2011	17,989

Source: Pasadena Unified School District.

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

Employment

No annual information is regularly compiled on employment and unemployment in the City alone. The following table shows employment, unemployment and labor force information for Los Angeles County for calendar years 2006 through 2010 and as of June 2011.

**LOS ANGELES COUNTY
EMPLOYMENT, UNEMPLOYMENT AND LABOR FORCE
AVERAGES FOR CALENDAR YEARS 2006 THROUGH 2011
AND AS OF JUNE 2011
(in thousands)**

	2006	2007	2008	2009	2010	2011
County Employment	4,641	4,714	4,515	4,329	4,272	4,238
County Unemployment	246	254	374	568	637	600
County Civilian Labor Force	4,886	4,960	4,989	4,895	4,908	4,837
County Unemployment Rate	4.2%	5.1%	9.5%	11.6%	1.3.0%	12.4%
State Unemployment Rate	4.8%	5.4%	9.1%	11.4%	12.4%	11.8%

Source: State of California Employment Development Department. Current Labor Force and Industry Employment updated July, 2009; 2010; 2011 data as of June. 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 2010 are listed below.

CITY OF PASADENA MAJOR EMPLOYERS 2010

<u>Company</u>	<u>Approximate Number of Employees</u>	<u>Business Line</u>
Jet Propulsion Laboratory	5,038	Aerospace Research
Kaiser Permanente	4,500	Health Care
California Institute of Technology	3,628	Education
Huntington Memorial Hospital	3,260	Hospital
Pasadena City College	2,719	Education
Pasadena Unified School District	2,665	Education
SBC/ATT	2,525	Communications
The City of Pasadena	2,239	Government
Bank of America	1,500	Financial
Art Center College of Design	877	Education
Parsons Corporation	786	Engineering/Construction
Hathaway-Sycamores	615	Social Services
Pacific Clinics Administration	550	Medical Clinics
San Gabriel Valley Newspaper	525	Newspaper
The Langham Huntington Hotel (Ritz-Carlton)	511	Hotel
Rusnak Pasadena	450	Auto Dealer
Avon Products	238	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 fiscal years 2002 through 2011.

**CITY OF PASADENA
HOUSING UNITS⁽¹⁾
For Fiscal Years 2002 through 2011**

<u>Fiscal Year Ended June 30</u>	<u>Housing Units</u>
2002	54,770
2003	55,521
2004	55,791
2005	56,255
2006	56,520
2007	56,753
2008	57,274
2009	58,135
2010	58,590
2011	60,178

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

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

Building Permit Activity

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

The following table shows the value of building permits issued in the City for the fiscal years 2006 through 2011.

CITY OF PASADENA
BUILDING PERMIT VALUATION AND PERMIT ACTIVITY
Fiscal Years 2006 through 2011
(Valuation in Millions)
Fiscal Year Ended June 30,

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Building Permit Valuations						
Nonresidential	\$72.3	\$ 91.4	\$ 98.2	\$ 73.9	\$ 50.8	\$ 56.3
Residential	45.0	46.7	55.5	23.6	23.4	24.4
Residential New Construction	79.3	80.4	76.2	52.2	11.5	9.8
Total	<u>\$196.6</u>	<u>\$218.5</u>	<u>\$229.9</u>	<u>\$149.7</u>	<u>\$ 85.7</u>	<u>\$ 90.5</u>
Number of Permits Issued						
Non Residential	728	702	715	601	592	619
Residential	2,645	2,454	2,195	1,865	1,780	2,077
Residential New Construction	73	77	59	28	32	39
Total	<u>3,446</u>	<u>3,233</u>	<u>2,969</u>	<u>2,494</u>	<u>2,404</u>	<u>2,735</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 2006 through 2010.

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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Apparel Stores	\$ 190.9	\$ 214.3	\$ 205.0	\$ 176.0	\$ 198.8
General Merchandise Stores	312.8	332.8	285.8	228.3	317.7
Food Stores	202.9	145.7	180.5	150.8	136.7
Eating & Drinking Places	440.7	488.5	466.5	395.1	418.4
Home Furnishings & Appliances	171.7	170.9	197.2	177.8	179.3
Bldg. Material & Farm Implements	117.3	139.6	107.7	80.4	93.4
Auto Dealers & Auto Supplies	461.5	474.0	451.0	313.0	354.0
Service Stations	137.6	138.9	154.4	107.7	123.9
Other Retail Stores	<u>369.2</u>	<u>304.9</u>	<u>313.4</u>	<u>368.2</u>	<u>242.0</u>
Retail Stores Total	2,404.6	2,409.6	2,362.4	1,997.3	2,064.2
All Other Outlets	<u>745.9</u>	<u>718.8</u>	<u>710.2</u>	<u>650.3</u>	<u>555.1</u>
Total All Outlets	<u>\$3,150.5</u>	<u>\$3,128.4</u>	<u>\$3,072.6</u>	<u>\$2,647.6</u>	<u>\$2,619.3</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, 2011, 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, 2011	Expiration of Contract
American Federation of State, County and Municipal Employees	313	July 2, 2013
International Brotherhood of Electrical Workers	106	June 30, 2010 ⁽¹⁾
International Union of Operating Engineers	25	March 27, 2012
Service Employee International Union	25	April 26, 2013
Pasadena Association of Clerical and Technical Employees/Laborers International Union of North America	371	September 30, 2010 ⁽¹⁾
Pasadena Fire Fighters Association	158	August 28, 2011 ⁽¹⁾
Pasadena Police Officers Association	196	April 24, 2013
Pasadena Police Sergeant Association	37	April 24, 2012
Pasadena Fire Fighters Management Association	7	June 30, 2012
Pasadena Management Association	514	March 17, 2014

⁽¹⁾ Currently being renegotiated.

Source: City of Pasadena, Human Resources Department.

Retirement Systems

Pasadena Fire and Police Retirement System. Police and Fire personnel hired prior to July 1, 1977 are covered by the City's Fire & Police Retirement System ("FPRS"). FPRS was originally established by the City Charter in 1919. The system was closed on June 30, 1977 but continues to pay out benefits to retirees and their beneficiaries. FPRS covers all sworn fire and police personnel who were employed by the City prior to July 1, 1997, except those who elected to transfer to the California Public Employees' Retirement System ("PERS") when the system closed. FPRS is managed by a five-member retirement board. As of June 30, 2010, FPRS was actuarially underfunded by \$56.35 million and had a funded ratio of 66.1%. Under a supplemental contribution agreement between the City and FPRS, there is a specific funding plan whereby the City will provide supplemental payments to FPRS to ensure that all benefits will be paid.

The City is currently considering a restructuring and refunding of outstanding pension obligation bonds relating to FPRS in order to address a mandatory tender of such bonds in 2015 and to possibly raise new money to fund the FPRS up to an 85% funding ratio valued as of 06/30/2011. The City currently expects that any such restructuring and refunding will be coordinated with other City debt in order to maintain a consistent debt service level. In March 2011, the City Council approved such restructuring and refunding and the issuance of new bonds in 2011 up to a maximum amount of \$65 million. On October 24, 2011, the City Council approved an Amended and Restated Contribution Agreement with the FPRS that sets the initial actuarial assumptions of 6% investment earnings rate and 3% inflation rate and authorized the issuance of not to exceed \$50 million Pension Obligation Bonds to fund the system at 85% funding ratio. The bonds are expected to be issued in January 2012.

California Public Employees' Retirement System. Almost all permanent City employees, except police and fire personnel employed prior to July 1, 1977, are members of PERS, administered by the State, to which contributions are made by both the City and the employees. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of

California. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Participants are required to contribute 8 % (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. Benefit provisions and all other requirements are established by state status and town contract with employee bargaining groups.

In the most current annual valuation report as of 06/30/2010, the actuarial staff of PERS reported unfunded liability of \$138.0 million for the City's miscellaneous employees as compared to an underfunding of \$125 million the previous year and an unfunded liability of \$66.6 million for Safety employees compared to \$68.7 million the previous year. Based upon this report for June 30, 2010 from PERS staff, the City reported that its PERS obligation was 82.2% actuarially funded with respect to the City's miscellaneous employees and 82.2% for Safety Employees.

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, 2010 was \$3,083,374. Both the City and the covered employees made the total required 7.5% contributions of \$123,335 from the City and \$107,918 from the covered employees.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2012 to June 30, 2013 has been determined by an actuarial valuation of the plan as of June 30, 2010. The contribution rate indicated for the period is 25.621% of payroll for the safety plan and 16.227% of payroll for the miscellaneous plan. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2013, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2012 to June 30, 2013. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling 30 year period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization period may not be lower than the payment calculated over a 30 year amortization period.

The tables below summarize the funded status of the City's retirement plans as of the most recent actuarial valuation dates. Additional information regarding the City's employee retirement plans, annual pension costs, the funding status thereof and significant accounting policies related thereto is set forth in Note 24 to the City's audited financial statements, which may be obtained from the City.

**City of Pasadena
Retirement Plan Trend Information
(\$ in thousands)**

PERS - Miscellaneous Employees

Valuation Date (June 30)	Actuarial Accrued Liability (AAL) – Entry Age	Actuarial Asset Value	(Overfunded) Unfunded AAL	Funded Ratio	Annual Covered Payroll	(Overfunded) Unfunded AAL as a % of Covered Payroll
2005	\$485,657	\$463,019	\$22,632	95.3%	\$86,571	26.1%
2006	534,487	496,180	38,307	92.8	93,252	41.1
2007	585,908	539,717	46,191	92.1	102,135	45.2
2008	638,095	579,068	59,027	90.7	111,486	53.1
2009	732,713	607,710	125,003	82.9	116,951	106.9
2010	773,303	635,455	137,847	82.2	115,289	119.6

Source: PERS actuarial valuations through June 30, 2010 data is taken from annual valuation report dated October, 2011.

PERS - Safety Employees

Valuation Date (June 30)	Actuarial Accrued Liability (AAL) – Entry Age	Actuarial Asset Value	(Overfunded) Unfunded AAL	Funded Ratio	Annual Covered Payroll	(Overfunded) Unfunded AAL as a % of Covered Payroll
2005	\$227,202	\$190,415	\$36,787	83.8%	\$33,934	108.4%
2006	247,233	211,753	35,480	85.6	35,030	101.3
2007	285,822	238,041	47,781	83.3	40,138	119.0
2008	317,140	262,817	54,323	82.9	42,996	126.3
2009	352,610	283,880	68,730	80.5	45,516	151.0
2010	373,670	307,056	66,614	82.2	45,643	145.9

Source: PERS actuarial valuations through June 30, 2010 date is taken from annual valuation report dated October, 2011.

FPRS

Valuation Date (June 30)	Actuarial Accrued Liability (AAL) – Entry Age	Actuarial Asset Value	(Overfunded) Unfunded AAL	Funded Ratio	Annual Covered Payroll	(Overfunded) Unfunded AAL as a % of Covered Payroll
2005	\$185,181	\$132,730	\$52,451	72%	\$277	18.902%
2006	184,852	127,841	57,011	69	141	40.416
2007	183,046	131,137	51,909	72	146	35.607
2008	178,748	131,321	47,427	73	179	26.506
2009	177,803	119,551	58,252	67	-	N/A
2010	166,096	109,740	56,356	66.1	-	N/A

Source: FPRS actuarial valuations through June 30, 2009.

Annual Payments to Retirement Plans by City

Fiscal Year Ended June 30	PERS— Misc Employees	PERS— Safety Employees	FPRS
2005	\$8,274	\$11,030	\$7,284
2006	7,402	6,936	6,533
2007	8,671	10,056	6,744
2008	9,283	12,228	5,019
2009	9,916	12,580	3,630
2010	10,459	12,566	5,766

Post Retirement Medical Benefits

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

The City provides a subsidy to retirees of the City who are members of PERS or FPRS. 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 \$105.00 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 \$105.00 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. The fiscal year ended June 30, 2010 was 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, 2010, the unfunded actuarial accrued liability was \$30,819,156.

Insurance

The City funds a self-insured and self-administered program for workers' compensation claims exposures and general liability claims. Liability claims losses and expenses paid averaged about \$1,653,950 per year for the past 10 years and, when existing "reserves" are added, averaged approximately \$2,611,691 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. Since 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, 2002 through 2011 are reflected in the following table:

CITY OF PASADENA
LIABILITY CLAIM EXPENDITURES AND REMAINING RESERVES
Fiscal Years 2002 through 2011
(Unaudited)

Fiscal Year ⁽¹⁾ Ended <u>June 30,</u>	<u>Loss Paid</u>	<u>Expense Paid</u>	<u>Total Paid</u>	Remaining Reserves for Unpaid Claims ⁽¹⁾
2002	\$830,199	\$216,976	\$1,047,175	\$0
2003	1,619,698	341,655	1,961,353	0
2004	3,190,864	627,493	3,818,357	0
2005	1,046,266	875,675	1,921,941	0
2006	314,867	440,187	755,054	0
2007	646,367	133,156	779,523	53,439
2008	553,300	1,239,857	1,790,157	1,431,058
2009	3,086,889	435,948	3,522,837	5,007,684
2010	234,676	9,502	244,178	2,013,343
2011	92,641	5,041	97,682	2,029,626

⁽¹⁾ 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, 2012, 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 2011, 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 \$34.0 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 2012 Budget. The budget preparation process for fiscal year ending June 30, 2012 began in October 2010. In February and March 2011, 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, 2012. 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, 2012 on June 27, 2011. The General Fund portion of the appropriation budget for fiscal year ending June 30, 2012 is \$215,843,255.

Accounting Policies, Reports, and Audits

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

Capital assets (including infrastructure greater than \$10,000) are capitalized and recorded at cost or at the estimated fair value of the assets at the time of acquisition where complete historical records have not been maintained. Contributed capital assets are valued at their estimated fair market value at the

date of the contribution. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

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

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

Government Funds

General Fund
Special Revenue Funds
Debt Services Funds
Capital Projects Funds

Fiduciary Funds

Trust and Agency Funds

Proprietary Funds

Enterprise Funds
Internal Service Funds

Capital Assets

Capital Assets used in the Operation
of Governmental Funds

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

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