

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

GENERAL TAX REVENUES
Fiscal Years 2006 through 2011
(\$ in Thousands)

<u>Tax</u>	Fiscal Year Ended June 30,					
	2006	2007	2008	2009	2010	2011 ⁽²⁾
Property ⁽¹⁾	\$ 51,116	\$ 61,763	\$63,480	\$ 69,062	\$ 68,648	\$ 68,607
Sales	33,992	34,634	36,519	31,941	28,949	26,419
Utility Users	26,766	28,063	29,640	31,162	29,520	26,792
Street Light & Traffic Signal	5,480	6,352	6,779	7,051	6,565	5,989
Transient Occupancy	10,246	10,358	10,731	7,382	8,406	8,987
Total	\$127,600	\$141,170	\$147,149	\$146,598	142,088	136,794

⁽¹⁾ Includes assessments.

⁽²⁾ Unaudited numbers, subject to change.

Source: City of Pasadena, Department of Finance.

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

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of the fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. If such taxes remain unpaid as of June 30 of the fiscal year in which the tax is levied, the property securing the taxes may only be redeemed by payment of the delinquent payment, plus a redemption penalty of 1½% per month from the original June 30 date to the time of redemption. If taxes are unpaid for a period of five years or more, the property is then subject to sale by the County Treasurer and Tax Collector, as provided by law.

Property taxes on the unsecured roll are due as of the March 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent taxes on property of the unsecured roll, and an additional penalty of 1½% per month begins to accrue commencing on November 11 of the fiscal year. Collection of delinquent unsecured taxes is the responsibility of the County of Los Angeles which may utilize any of several means legally available to it.

The tax roll for fiscal year ended June 30, 2011, reflected a total assessed valuation of approximately \$20.9 billion for the City, of which \$2.8 billion reflects the redevelopment project areas incremental assessed valuations of which the payable taxes are due to its redevelopment agency. Assessed net valuation for revenue purposes increase by approximately 1.13% for the fiscal year ended June 30, 2011, over the assessed net valuation for fiscal year ended June 30, 2010, and the compounded average annual increase between assessed valuation for the fiscal year ended June 30, 2000 and the fiscal year ended June 30, 2011 was approximately 7.5%.

ASSESSED VALUATION OF TAXABLE PROPERTY
Fiscal Years 2001 through 2011
(\$ in thousands)

Fiscal Year Ended June 30	Secured Valuations	Homeowner Exemption	Net Secured Valuations	Unsecured Valuations	Total Assessed Valuation	Less PCDC⁽¹⁾ Increment	Net Valuation
2001	10,236,475	(134,430)	10,102,045	503,731	10,605,776	(1,333,644)	9,272,131
2002	10,781,460	(133,467)	10,647,993	577,896	11,225,889	(1,386,579)	9,839,310
2003	11,537,408	(132,466)	11,404,942	606,087	12,011,029	(1,552,121)	10,459,277
2004	12,667,923	(131,710)	12,536,213	587,938	13,124,151	(1,786,002)	11,338,149
2005	13,672,183	(134,055)	13,538,128	564,808	14,102,936	(1,946,336)	12,156,600
2006	15,071,976	(134,404)	14,937,572	598,396	15,535,968	(2,097,532)	13,438,436
2007	16,759,246	(133,112)	16,626,134	620,524	17,246,658	(2,522,337)	14,724,321
2008	18,339,519	(134,380)	18,205,139	607,779	18,812,938	(2,405,375)	16,407,563
2009	20,237,173	(136,262)	20,100,911	651,375	20,752,286	(2,799,791)	17,952,495
2010	20,204,880	(138,630)	20,066,250	644,888	20,711,138	(2,828,387)	17,882,751
2011	20,481,388	(138,275)	20,343,113	605,404	20,948,517	(2,829,885)	18,118,632
			(??)				

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

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

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

PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
For Fiscal Years 2000 through 2010
(unaudited)

Fiscal Year	General City	City Debt Service	Los Angeles County General	Pasadena School District	Pasadena Comm. College District	Flood Control District	Metropolitan Water District	Total
2000	1.000000	0.018060	0.001422	0.059910	0.000000	0.001705	0.008900	1.090057
2001	1.000000	0.016731	0.001314	0.067891	0.000000	0.001552	0.008800	1.096288
2002	1.000000	0.015297	0.001128	0.090396	0.000000	0.001073	0.007700	1.115594
2003	1.000000	0.014611	0.001033	0.070304	0.000000	0.000811	0.006700	1.093529
2004	1.000000	0.012515	0.000992	0.088903	0.006814	0.000462	0.006100	1.115786
2005	1.000000	0.011643	0.000923	0.086312	0.008786	0.000245	0.005800	1.113709
2006	1.000000	0.009792	0.000795	0.109911	0.004103	0.000049	0.005200	1.129850
2007	1.000000	0.011643	0.000923	0.086312	0.008786	0.000245	0.005800	1.113709
2008	1.000000	0.009792	0.000795	0.109911	0.004103	0.000049	0.005200	1.129850
2009	1.000000	0.000000	0.000000	0.063747	0.017417	0.000000	0.004300	1.085464
2010	1.000000	0.000000	0.000000	0.108364	0.023002	0.000000	0.004300	1.135666

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

TOP TEN PROPERTY TAXPAYERS
As of June 30, 2011

<u>Property Owner</u>	<u>Primary Land use</u>	<u>June 30, 2011 Assessed Valuation</u>	<u>% of Total</u>
Marangi Leonard M Les	Office Building	\$ 406,181,952	1.94
Kaiser Foundation Health Plan Inc.	Office Building	218,417,684	1.04
Paseo Colorado Holding LLC	Shopping Center	190,750,405	0.91
Pacific Huntington Hotel Corp	Office Building	154,489,387	0.74
Wells Reit II Pasadena Corp	Office Building	137,317,976	0.66
Maguire Partners Wap LLC	Office Building	128,823,529	0.61
Equity Office Properties Trust	Office Building	127,400,000	0.61
Tishman Speyer Archstone Smith	Apartments	119,186,722	0.57
SSR Paseo Colorado LLC	Apartments	109,888,463	0.52
Pasadena Towers LLC	Office Building	106,247,937	0.51
Total principal property taxpayers gross assessed value		\$1,698,704,055	8.11%
Total city assessed value		\$20,948,384,608	100.00%

Source: California Municipal Statistics, Inc.

General Fund Comparative Financial Statements

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

GENERAL FUND COMPARATIVE BALANCE SHEETS Fiscal Years 2008 through 2010

Assets	Fiscal year Ended June 30,		
	2008	2009	2010
Cash and investments	\$ 56,787,816	\$48,512,851	\$36,887,035
Accounts receivable	17,715,025	17,135,513	21,367,164
Less allowance for uncollectible amounts	(1,280,715)	(1,346,986)	(3,624,251)
Notes receivable	392,403	398,403	404,403
Due from other funds	6,275,720	4,781,495	4,794,116
Prepays and other assets	551,591	25,042	723,380
Advances to other funds	15,787,567	15,878,806	14,476,596
Advances to component units	966,624	902,624	835,384
Allowance uncollectible for long term receivables	(11,746,664)	(8,151,520)	(8,556,376)
Total assets	<u>\$85,449,367</u>	<u>\$78,136,228</u>	<u>\$67,307,451</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$12,630,350	\$11,565,569	\$8,609,063
Deposits	1,762,031	1,885,384	1,911,281
Due to other governments	140,686	28,787	83,291
Deferred revenue	4,991,169	4,273,445	3,526,629
Total liabilities	<u>\$19,524,236</u>	<u>\$17,753,185</u>	<u>\$14,130,264</u>
Fund Balances:			
Reserved for:			
Encumbrances	\$ 1,175,411	\$2,928,222	113,113
Notes receivable	392,403	398,403	404,403
Prepays and other assets	551,591	25,042	723,380
Advances to other funds	5,007,527	8,629,910	6,755,604
Unreserved:			
General Fund	58,798,199	48,401,466	45,180,687
Total Fund balances	<u>\$65,925,131</u>	<u>\$60,383,043</u>	<u>\$53,177,187</u>
Total liabilities and fund balances	<u>\$85,449,367</u>	<u>\$78,136,228</u>	<u>\$67,307,451</u>

Source: City of Pasadena, Department of Finance

**GENERAL FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
Fiscal Years 2008 through 2010**

	Fiscal Year Ended June 30,		
	2008	2009	2010
Revenues:			
Taxes	\$121,156,311	\$119,771,602	\$112,030,511
Licenses and permits	2,715,718	2,360,182	2,640,177
Intergovernmental revenues	13,578,313	13,745,985	14,004,673
Charges for services	31,917,959	34,523,301	32,734,949
Fines and forfeits	8,024,617	8,844,377	5,135,244
Investment earnings	21,209,093	21,922,550	24,136,783
Net changes in fair value of investments	371,245	167,106	278,208
Rental income	1,543,172	1,425,723	1,010,973
Miscellaneous revenue	2,647,710	2,394,249	2,441,828
Total revenues	<u>\$203,164,138</u>	<u>\$205,155,075</u>	<u>\$194,413,346</u>
Expenditures:			
Current:			
General government	\$ 34,083,696	\$ 34,809,501	\$ 36,864,197
Public Safety	94,210,612	99,457,043	98,167,257
Transportation	26,289,894	26,337,739	22,370,798
Culture and leisure	14,548,889	14,228,573	13,288,417
Community development	9,542,687	9,990,270	9,531,323
Capital outlay			3,230,000
Debt service:			
Principal retirement	-	-	-
Total expenditures	<u>\$178,675,778</u>	<u>\$184,823,126</u>	<u>\$183,451,992</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 24,488,360</u>	<u>\$ 20,331,949</u>	<u>\$ 10,961,354</u>
Other financing sources (uses):			
Issuance of long-term debt	-	\$ 331,944	-
Transfers in	\$ 18,538,138	18,007,072	30,055,525
Transfers out	(43,589,080)	(48,213,053)	(48,222,735)
Total other financing sources (uses)	(25,050,942)	(29,874,037)	(18,167,210)
Change in fund balances	(562,582)	(9,542,088)	(7,205,856)
Fund balances at beginning of year, as restated	<u>66,487,713</u>	<u>69,925,131</u>	<u>60,383,043</u>
Fund balances at end of year	<u>\$ 65,925,131</u>	<u>\$ 60,383,043</u>	<u>\$ 53,177,187</u>

Source: City of Pasadena, Department of Finance

General Fund taxes decreased by approximately \$7.7 million from the fiscal year ended June 30, 2009 to June 30, 2010. These changes were due primarily to decreases in retail sales taxes, utility users' tax and franchise tax over such time period. Revenues received from charges for services decreased by approximately \$1.7 million during such period. Revenues received in fines and forfeits decreased by \$3.7 due to parking citation portion that was own to the County court from prior fiscal year was paid in current fiscal year for an increase in the county fees. [SENSE?] The City however was able to increase its investment earnings by \$2.2 million although with the recent decline in interest rates the City anticipates a decline in investment earnings in the near term.

Investment Practices

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

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

Pooled Investment Portfolio. As of June 30, 2011, the funds invested pursuant to the pooled investment program had a market value of \$306,848,475. The City Treasurer prices the pooled portfolio and all other funds and investments under management on a monthly basis. The market values are obtained from Interactive Data Corporation (“IDC”) and Bloomberg Financial Systems. The modified duration of the City’s Pooled Investment Portfolio as of June 30, 2011 was 2.21 years. Of the investments on that date, approximately 31.40% had maturities of thirty days or less.

The assets of the portfolio as of June 30, 2011 are shown in the following table:

POOLED INVESTMENT PORTFOLIO

	Market Value	Percentage of Total ⁽¹⁾
Money Market Fund	\$ 15,121,197	4.94%
Money Market FDIC Insured	5,245,000	1.71
Money Market-Collateralized	14,016,401	4.58
LAIF	49,384,769	16.14
Municipal Bonds	14,092,434	4.61
Corporate Bonds	40,998,746	13.40
Mortgage Backed Securities/GNMAs	202	0.00
Federal Agencies	150,323,876	49.13
Certificates of Deposit	1,000,000	0.33
Repurchase Agreements	10,043,077	3.28
Cash in Bank	5,716,488	1.87
Total	\$305,942,191	100.00%
Accrued Interest Receivable	906,284	
Grand Total	\$306,848,475	

⁽¹⁾ At market value.
 The Weighted Average Maturity of the above portfolio is 2.21 years.
 Source: City of Pasadena.

The Investment Policy. The City’s treasury operations are managed according to the Investment Policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturities. The Investment Policy is reviewed and authorized by the City Council on an annual basis. The City Council approved the Investment Policy for fiscal year ending June 30, 2011 on September 27, 2010.

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

1. Safety of Principal. The City will seek to preserve principal by mitigating credit risk and market risk (by structuring the portfolio so that securities mature at the same time as major cash outflows occur and by prohibiting the taking of short positions).
2. Liquidity. The City will maintain sufficient liquidity in the investment portfolio to enable the City to meet all operating requirements which might be reasonably anticipated and investments will be authorized only in securities that are actively traded in the secondary market. The City operates its own electric and water utility and bills monthly for these services. The utility billing program generates significant cash flow on a daily basis. Historical cash flow trends are compared to current cash flow requirements on an ongoing basis in an effort to ensure that the City's investment portfolio will remain sufficiently liquid to enable the City to meet all reasonably anticipated operating requirements.
3. Return on Investment. The City will design its investment portfolio to attain a "market average rate of return" through economic cycles and, whenever possible, consistent with risk limitations and prudent investment principles, to augment returns above the market average rate of return.

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

To meet its short-term cash flow needs, the City typically maintains an average investment balance of about \$40 million in securities with a maturity of 30 days or less.

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

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

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

- The value of bankers acceptances, bills of exchange or time drafts drawn on and accepted by commercial banks may not exceed 40% of the City's portfolio book value as measured

on the date of purchase and the days to maturity of such investments may not exceed 180 days.

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

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

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS

Article XIII A of the State Constitution

Section 1(a) of Article XIII A of the State Constitution ("Article XIII A") limits the maximum *ad valorem* tax on real property to 1% of full cash value (as defined in Section 2 of Article XIII A), to be collected by counties and apportioned according to law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to (1) *ad valorem* taxes to pay interest or redemption charges on indebtedness approved by the voters prior to July 1, 1978, or (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition, or (3) any bonded indebtedness incurred by a school district, community college district or county office of education for the construction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities approved after November 8, 2000 by 55% of the voters of the district or county, as appropriate, voting on the proposition. Section 2 of Article XIII A defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment" ("Full Cash Value"). The Full Cash Value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. Taxpayers in the City may appeal the determination of the Los Angeles County Assessor of the Full Cash Value of their property. At any given point in time, appeals are pending in the City. If the assessed value of a property is reduced as a result of an assessment appeal, the reduction is borne by relevant taxing agencies, including the City.

Legislation enacted by the State Legislature to implement Article XIII A provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except to pay debt service on indebtedness approved by the voters as described above.

The voters of the State subsequently approved various measures that further amended Article XIII A. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first \$1,000,000 of the Full Cash Value of other real property between parents and children, do not constitute a "purchase" or "change of ownership" triggering reappraisal under Article XIII A. Other amendments permitted the State Legislature to allow persons over the age of 55 who meet certain criteria or "severely disabled homeowners" who sell their residence and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence's assessed value to the new residence. Other amendments permit the State Legislature to allow persons who are either 55 years of age or older, or who are "severely disabled," to transfer the old residence's assessed value to their new residence located in either the same or a different county and acquired or newly constructed within two years of the sale of their old residence.

In the November 1990 election, the voters approved an amendment of Article XIII A to permit the State Legislature to exclude from the definition of "new construction" certain additions and improvements, including seismic retrofitting improvements and improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

Article XIII A has also been amended to provide that there would be no increase in the Full Cash Value base in the event of reconstruction of property damaged or destroyed in a disaster.

Section 4 of Article XIII A provides that cities, counties and special districts cannot, without a

two-thirds vote of the qualified electors, impose special taxes, which has been interpreted to include special fees in excess of the cost of providing the services or facility for which the fee is charged, or fees levied for general revenue purposes.

Article XIII B of the State Constitution

State and local government agencies in the State are each subject to annual “appropriations limits” imposed by Article XIII B of the State Constitution (“Article XIII B”). Article XIII B prohibits government agencies and the State from spending “appropriations subject to limitation” in excess of the appropriations limit imposed. The base year for establishing such appropriations limit is fiscal year 1978-79. “Appropriations subject to limitation” are generally authorizations to spend “proceeds of taxes,” which include all, but are not limited to, tax revenues, and the proceeds from (i) regulatory licenses, user charges or other user fees to the extent that such proceeds exceed “the cost reasonably borne by that entity in providing the regulation, product, or service” (ii) the investment of tax revenues, and (iii) certain subventions received from the State. No limit is imposed on appropriations of funds which are not “proceeds of taxes,” appropriated for debt service on indebtedness existing prior to the passage of Article XIII B or authorized by the voters or appropriations required to comply with certain mandates of courts or the federal government.

As amended at the June 5, 1990 election by Proposition 111, Article XIII B provides that, in general terms, a county’s appropriations limit is based on the limit for the prior year adjusted annually to reflect changes in cost of living, population and, when appropriate, transfer of financial responsibility of providing services from one governmental unit to another. Proposition 111 liberalized the aforementioned adjustment factors as compared to the original provisions of Article XIII B. If county revenues during any two consecutive fiscal years exceed the combined appropriations limits for those two years, the excess must be returned by a revision of tax rates or fee schedules within the two subsequent fiscal years.

Section 7900, *et seq.* of the State Government Code defines certain terms used in Article XIII B and sets forth the methods for determining the appropriations limits for local jurisdictions. [The City estimated that its appropriations limit for “proceeds of taxes” for fiscal year ended June 30, 2011 is \$203,000,000. Estimated appropriations for fiscal year ended June 30, 2011 [are] subject to the limitation total \$114,700,000.] [Update?]

Articles XIII C and XIII D of the State Constitution

On November 5, 1996, the voters of the State approved Proposition 218, the “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIII C of the State Constitution (“Article XIII C”) requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the general fund, require a two-thirds vote. The voter approval requirements of Article XIII C reduce the City’s flexibility to deal with fiscal problems by raising revenue through new or extended or increased taxes and no assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

Article XIII D of the State Constitution (“Article XIII D”) contains several new provisions making it generally more difficult for local agencies to levy and maintain “assessments” for municipal services and programs. “Assessment” is defined to mean any levy or charge upon real property for a

special benefit conferred upon the real property.

Article XIII D also contains several new provisions affecting a “fee” or “charge,” defined for purposes of Article XIII D to mean “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.” All new and existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) with respect to any parcel or person, exceed the proportional cost of the service attributable to the parcel, (iv) are for a service not actually used by, or immediately available to, the owner of the property in question, or (v) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services (or fees for electrical and gas service, which are not treated as “property related” for purposes of Article XIII D), no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area. The City has three enterprise funds that are self-supporting from fees and charges (refuse, water and electricity), two of which (water and refuse) could, depending upon judicial interpretation of Proposition 218, ultimately be determined to be property-related for purposes of Article XIII D. As a result, the City has since 200 followed the notice and public hearing requirements of Section 6 of Article XIII D before imposing or increasing any water or refuse service fees or charges. The City believes that its water and refuse service fees and charges currently comply with all of the requirements of Section 6 of Article XIII D.

In addition to the provisions described above, Article XIII C removes prohibitions and limitations on the initiative power in matters of any “local tax, assessment, fee or charge.” Consequently, the voters of the City could, by future initiative, repeal, reduce or prohibit the future imposition or increase of any local tax, assessment, fee or charge. “Assessment,” “fee” and “charge,” are not defined in Article XIII C and it is not clear whether the definitions of these terms in Article XIII D (which are generally property-related as described above) would limit the scope of the initiative power set forth in Article XIII C. If the Article XIII D definitions are not held to limit the scope of Article XIII C initiative powers, then the Article XIII C initiative power could potentially apply to revenue sources that currently constitute a substantial portion of general fund revenues. No assurance can be given that the voters of the City will not, in the future, approve initiatives that repeal, reduce or prohibit the future imposition or increase of local taxes, assessments, fees or charges.

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) 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 costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and

adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity.

In addition, Proposition 26 requires a two-thirds approval by each house of the State Legislature to approve laws that increase taxes on any taxpayer, even if the law's overall fiscal effect does not increase State revenues. Proposition 26 also repeals recent State laws that conflict with the measure, unless readopted by two-thirds of each house of the State Legislature by November 2, 2011. [The City does not believe it is currently charging any fees that will have to be reduced or eliminated as a result of Proposition 26. While the City cannot estimate the potential future impact Proposition 26 will have on the City's finances, it does not believe that Proposition 26 will adversely affect its ability to pay when due its debt obligations, including the 2011 Bonds. **[Confirm]**

Proposition 1A

As part of then-Governor Schwarzenegger's agreement with local jurisdictions, Senate Constitutional Amendment No. 4 was enacted by the State Legislature and subsequently approved by the voters as Proposition 1A ("Proposition 1A") at the November 2004 election. Proposition 1A amended the State Constitution to, among other things, reduce the State Legislature's authority over local government revenue sources by placing restrictions on the State's access to local governments' property, sales, and vehicle license fee revenues as of November 3, 2004.

Proposition 1A prohibits the State from mandating activities on cities, counties or special districts without providing for the funding needed to comply with the mandates. If the State does not provide funding for the mandated activity, the requirement on cities, counties or special districts to abide by the mandate would be suspended. In addition, Proposition 1A expanded the definition of what constitutes a mandate on local governments to encompass State action that transfers to cities, counties and special districts financial responsibility for a required program for which the State previously had partial or complete responsibility. The State mandate provisions of Proposition 1A do not apply to schools or community colleges or to mandates relating to employee rights.

Proposition 1A of 2004 also allowed the State to borrow up to 8% of local property tax revenues, beginning with Fiscal Year 2008-09, but only if the Governor proclaimed such action was necessary due to a severe State fiscal hardship and two-thirds of both houses of the State Legislature approved the borrowing. The amount borrowed was required to be paid back within three years. The 2009-10 State budget authorized the State to exercise its Proposition 1A borrowing authority. This borrowing generated \$1.998 billion that was used to offset State general fund spending. Such diverted revenues must be repaid, with interest, no later than June 30, 2013. The amount of the Proposition 1A diversion from the City was approximately \$4.6 million. The City has booked such amount as a receivable.

On November 2, 2010, State voters adopted Proposition 22 ("Proposition 22"), which further restricts the ability of the State to use or borrow money from local governments. Proposition 22 supersedes the provisions of Proposition 1A of 2004 that allow the State to borrow money from local governments and prohibits any future such borrowings by the State from local government funds. However, the Proposition 1A borrowing completed in 2009 is grandfathered.

Statutory Limitations

A statutory initiative ("Proposition 62") was adopted by State voters at the November 4, 1986 General Election, which (1) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity voting in such election, (2) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within that jurisdiction voting in such election, (3) restricts the use of revenues from a special tax to the purpose or for the service for which the special tax was imposed, (4) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIII A, (5) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities and (6) requires that any tax imposed by a local governmental entity on or after August 1, 1985 be ratified by a majority vote of the electorate voting in such election within two years of the adoption of the initiative or be terminated by November 15, 1988. Proposition 62 requirements are generally not applicable to general taxes and special taxes levied prior to its November 4, 1986 effective date.

On September 28, 1995, the California Supreme Court filed its decision in *Santa Clara County Local Transportation Authority v. Carl Guardino*, 11 Cal. 4th 220 (1995) (the "*Santa Clara decision*"), which upheld a Court of Appeal decision invalidating a 1/2-cent countywide sales tax for transportation purposes levied by a local transportation authority. The California Supreme Court based its decision on the failure of the authority to obtain a two-thirds vote of the electorate for the levy of a "special tax," as required by Proposition 62. The *Santa Clara* decision did not address the question of whether or not it should be applied retroactively.

In deciding the *Santa Clara* case on Proposition 62 grounds, the Court disapproved the decision in *City of Woodlake v. Logan*, 230 Cal. App. 3d 1058 (1991) ("*Woodlake*"), where the Court of Appeal had held portions of Proposition 62 unconstitutional as a referendum on taxes prohibited by the State Constitution. The State Supreme Court determined that the voter approval requirement of Proposition 62 is a condition precedent to the enactment of each tax statute to which it applies, while referendum refers to a process invoked only after a statute has been enacted. Numerous taxes to which Proposition 62 would apply were imposed or increased without voter approval in reliance on *Woodlake*. The Court notes as apparently distinguishable, but did not confirm, the decision in *City of Westminster v. County of Orange*, 204 Cal. App. 3d 623 (1988), which held unconstitutional the provision of Proposition 62 requiring voter approval of taxes imposed during the "window period" of August 1, 1985 until November 5, 1986. Proposition 62 as an initiative statute does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature. After the passage of Proposition 218, certain provisions of Proposition 62 (e.g. voter approval of taxes) are governed by the State Constitution.

Following the *Guardino* decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62. On June 4, 2001, the State Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* ("*La Habra*"). In this case, the court held that a public agency's continued imposition and collection of a tax is an ongoing violation upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

Future Initiatives

Article XIII A, Article XIII B and the propositions described above were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations which may affect the City's revenues or its ability to expend its revenues.

BONDED AND OTHER INDEBTEDNESS

Introduction

The City has issued or caused the issuance of a variety of bonded and other debt obligations as provided for under the State Constitution, judicial interpretation of the State Constitution, State statutes, and its own Charter powers. The following summarizes that indebtedness. The City has never failed to pay principal of or interest on any debt or lease obligation when due.

The Director of Finance serves as the City's debt coordinator. The City Treasurer serves on each financing team, along with other finance staff members. All debt issuance must be approved by the City's Finance Committee and the City Council.

Debt Management Policy

The City has adopted debt management policies to standardize and rationalize the issuance and management of debt by the City. One of the principal objectives of the debt management policies is to maintain the highest possible credit ratings for all categories of short and long term debt that can be achieved without compromising the delivery of basic services by the City.

The City's debt management policy requires the City to develop a multi-year capital improvement program to be considered by the City Council as part of the yearly budget process.

General Obligation Debt

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

Long-Term Debt Obligations Payable from the General Fund

As of June 30, 2011, the City had total long-term debt obligations payable from the City's General Fund of approximately \$622.3 million. Of this total, obligations for general government purposes represented approximately 19.33%, pension obligation bonds approximately 16.82% and self-supporting obligations related to particular activities (such as parking, conference center and the Rose Bowl) approximately 63.83%. For Fiscal Years 2010, 2011, and 2012 the City's annual debt service payable from the General Fund are \$34,697,156, \$34,930,000 and \$32,683,159, respectively. Set forth below is a summary of the City's long-term debt obligations payable from the City's General Fund.

Long Term Obligations Payable from City General Fund
as of June 30, 2011
(\$ in 000s)

City Issues	Original Par	Outstanding	Final Maturity	Variable/Fixed Synthetic Fixed (SWAP)	Letter of Credit Expiration Date	SWAP Counterparty
<u>Pension Obligation Bonds</u>						
1999 A&B Taxable POBs	\$101,940	\$ 73,180	2022	Fixed	-	-
2004 Taxable POBs	40,750	31,533	2015	Variable	-	-
Sub-Total Pension Obligation Bonds	\$142,690	\$104,713				
<u>City Leases</u>						
1993 COPs						
2000 Lease Financing	\$ 79,835	\$ 15,700	2016	Fixed	-	-
2006 VRDBs (City Hall Portion)	4,000	2,131	2020	Fixed	-	-
2006 Equip Lease Financing	10,355	8,405	2023	Variable	-	-
2008 B Refunding COPS	180	89	2014	Fixed	-	-
2008 C Refunding COPS	26,759	21,591	2019	Variable	-	-
2009 Equip Lease Financing	71,450	66,360	2038	Variable	-	-
2009 Aircraft Lease Financing	5,287	4,337	2018	Fixed	-	-
2009 Aircraft Lease Financing	2,122	1,740	2018	Fixed	-	-
Sub-Total City Leases	\$199,988	\$120,353				
<u>Self-Supporting Obligations</u>						
1987 VRDB COPs (Los Robles Parking Facility)	\$ 20,300	\$ 4,400	2012	Variable	11/1/2012	-
1993 Refunding COPs (Old Pasadena Parking)	28,050	12,275	2018	Fixed	-	-
1999 Marriott Garage Lease Financing	2,600	1,341	2019	Fixed	-	-
2006 VRDBs (Rose Bowl)	36,945	29,995	2023	Variable/SWAP(Synthetic Fixed)	-	Deutsche Bank
2006 A CAB COPs (Conference Center)	27,139	30,346	2034	Fixed	-	-
2006 Equip Lease Financing	15,060	111	2014	Fixed	-	-
2008 A COPs	134,720	134,720	2035	Variable/SWAP(Synthetic Fixed)	4/16/2011	RBC Bank
2008 B COPs	890	718	2019	Variable	-	-
2010 A PPA Lease Revenue Bonds (Rose Bowl Renovation Project) Tax-Exempt	28,800	27,500	2038	Variable	9/1/2011(?)	-
2010 B PPA Lease Revenue Bonds (Rose Bowl Renovation Project) Tax-BABS	36,808	36,808	2033	Fixed	-	-
2010 C PPA Lease Revenue Bonds (Rose Bowl Renovation Project) Taxable	106,660	106,660	2043	Fixed	-	-
2010 D PPA Lease Revenue Bonds (Rose Bowl Renovation Project) Taxable	5,005	5,005	2020	Fixed	-	-
2010 E PPA Lease Revenue Bonds (Rose Bowl Renovation Project) Tax-RZEDBS	7,400	7,400	2043	Fixed	-	-
Sub-Total Self-Supporting	\$450,377	\$397,279				
Total General Fund Obligations	\$793,055	\$622,345				

Source: City of Pasadena, Finance Department

Revenue Bonds

The City Charter and State law provide for the issuance of revenue bonds, and the execution of installment purchase contracts that support revenue certificates of participation, which are secured by and payable from the revenues generated by various enterprise and special fund operations. These revenue bonds do not represent obligations of the General Fund of the City, nor are they secured by taxes. Revenue bonds and certificates of participation have been issued that are secured by electric, water.

Cash-flow Borrowings

The City has not recently [in the past ten years?] issued tax and revenue anticipation notes to alleviate short-term cash flow needs that occur early in the fiscal year when taxes and revenues have not yet been received.

Estimated Direct and Overlapping Bonded Debt

The estimated direct and overlapping bonded debt of the City as of June 30, 2011 is shown on the following page.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

**CITY OF PASADENA
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
As of June 30, 2011**

2010-11 Assessed Valuation:	\$21,086,792,638
Redevelopment Incremental Valuation:	<u>2,824,789,269</u>
Adjusted Assessed Valuation:	\$18,262,003,369

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable⁽¹⁾</u>	<u>Debt 06/30/11</u>
Los Angeles County Flood Control District	2.131%	\$1,146,371
Metropolitan Water District	1.024	2,331,341
Pasadena Area Community College District	32.841	37,827,028
La Cañada Unified School District	0.234	74,377
Pasadena Unified School District	71.118	205,939,949
City of Pasadena Community Facilities District No. 1	100.000	8,685,00
Los Angeles County Improvement District No. 2658-M	98.287	3,253,300
Los Angeles County Regional Park and Open Space Assessment District	1.998	3,941,754
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$263,199,120

<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Los Angeles County General Fund Obligations	1.998%	\$ 29,909,616
Los Angeles County Superintendent of Schools Certificates of Participation	1.998	243,854
Los Angeles County Sanitation District Nos. 15, 16 & 17 Certificates of Participation	0.422-58.097	12,429,181
Pasadena Area Community College District Certificates of Participation	32.841	591,138
City of Pasadena General Fund Obligations	100.000	503,639,935
City of Pasadena Pension Obligations	100.000	<u>104,825,319</u>
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$651,639,043

COMBINED TOTAL DEBT **\$914,838,163⁽²⁾**

Ratios to 2010-11 Assessed Valuation:

Total Direct and Overlapping Tax and Assessment Debt 1.25%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$608,465,254) 3.33%

Combined Total Debt..... 5.01%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11: \$0

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

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

Source: MuniServices, LLC

LITIGATION

As of the date of the Official Statement, there is no litigation pending against the City or, to the knowledge of its officers, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the 2011 Bonds or the Trust Agreement in any way contesting or affecting the validity thereof or the authorizations 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 2011 Bonds or the use of the proceeds of the 2011 Bonds.

There are no pending lawsuits as of the date hereof, that the City Attorney believes challenge the validity of the 2011 Bonds or the Trust Agreement, the corporate existence of the City, or the title of the executive officers to their respective offices. The Office of the City Attorney has prepared the following summary, as of the date of the Official Statement, of certain claims and lawsuits (for which the estimated loss to the City as of such date exceeds [\$1 million] ("Material Litigation")) pending against the City: **[To come]**

The summaries and estimated losses to the City of the Material Litigation set forth above are based on the City's reasonable estimates as of the date of this Official Statement, based on information available at such time, are subject to change without notice and the City disclaims any responsibility to update any information provided below for any matters relating to these claims and lawsuits or any new claims or lawsuits that may be brought to the attention of the City after the date hereof.

[The City believes as of the date of this Official Statement and subject to the assumptions and limitations in the paragraph above, that it has sufficient defenses against such claims and lawsuits and that the aggregate amount of the uninsured liabilities of the City which may result from adverse rulings, judgments or settlements in any or all of such pending Material Litigation should not have a material adverse effect on the City's financial position.][Confirm]

APPENDIX B
AUDITED FINANCIAL STATEMENTS
OF THE CITY OF PASADENA
FOR FISCAL YEAR ENDING JUNE 30, 2010

APPENDIX C

PROPOSED FORM OF BOND COUNSEL OPINION

Upon delivery of the 2011 Bonds, Sidley Austin LLP, San Francisco, California, Bond Counsel, proposes to render its final approving opinion with respect to the 2011 Bonds in substantially the following form:

[SUBJECT TO OPINION COMMITTEE REVIEW]

[Date of Delivery]

City of Pasadena
Pasadena, California

City of Pasadena
Taxable Pension Obligation Bonds,
Series 2011
Series 2011A Fixed Rate Bonds
Series 2011B Mandatory Tender Bonds

Ladies and Gentlemen:

We have acted as bond counsel to the City of Pasadena (the "City") in connection with the issuance of its \$ _____ aggregate principal amount of City of Pasadena Taxable Pension Obligation Bonds, Series 2011 consisting of \$ _____ principal amount of Series 2011A Fixed Rate Bonds and \$ _____ principal amount of Series 2011B Mandatory Tender Bonds (collectively, the "2011 Bonds"). The 2011 Bonds are being issued pursuant to Articles 10 and 11 of Chapter 3 of Division 2 of Title 5 of the Government Code of the State of California (the "Law") and a trust agreement, dated as of _____, 2011 (the "Trust Agreement"), between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In our capacity as bond counsel, we have reviewed the Law, the Trust Agreement, certifications of the City and others, opinions of the City Attorney and such other documents, opinions and instruments as we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

We have assumed, but have not independently verified, that the signatures on all documents, certificates and opinions that we have reviewed are genuine. In our examination, we have assumed, but have not independently verified, the legal capacity of all natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies or by facsimile or other means of electronic transmission or which we obtained from sites on the internet, and the authenticity of the originals of such latter documents. As to facts and certain other matters and the consequences thereof relevant to the opinions expressed herein and the other statements made herein, we have relied without independent investigation or verification upon, and assumed the accuracy and completeness of certificates, letters (including opinion letters), and oral and written statements and representations of public officials, officers and other representatives of the City, the City Attorney and others.

With respect to the opinions expressed herein, we call attention to the fact that the enforceability of the rights and obligations of the City under the 2011 Bonds and the Trust Agreement are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

Based upon the foregoing and subject to the limitations and qualifications herein specified, as of the date hereof, we are of the opinion, under existing law, that:

1. The 2011 Bonds have been duly authorized, executed and delivered by, and constitute the valid and binding obligations of the City.
2. The Trust Agreement has been duly adopted by the Council and constitutes the valid and binding obligation of the City.
3. Interest on the 2011 Bonds is exempt from personal income tax imposed by the State of California.

Other than as described herein, we have not addressed, and are not opining on, the tax consequences to any person of the investment in, or of the receipt of interest on, the 2011 Bonds.

The opinions expressed and the statements made herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions and statements may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this letter in light of such actions or events or for any other reason.

This opinion letter is limited to the laws of the State of California and the federal laws of the United States. The opinions in this letter are expressed solely as of the date hereof for your benefit and may not be relied upon in any manner for any purposes by any other person.

To comply with certain U.S. Treasury regulations, we inform you that, unless expressly stated otherwise, any U.S. federal tax advice contained in this communication, including attachments, was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on such taxpayer by the Internal Revenue Service. In addition, if any such tax advice is used or referred to by other parties in promoting, marketing or recommending any partnership or other entity, investment plan or arrangement, then (i) the advice should be construed as written in connection with the promotion or marketing by others of the transaction(s) or matter(s) addressed in this communication, and (ii) the taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Respectfully submitted,

APPENDIX D

BOOK-ENTRY SYSTEM

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

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The DTC Rules applicable to its Participants are on file with the Bonds and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

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

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Remarketing Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Remarketing Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Remarketing Agent's DTC account.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

APPENDIX E

SUMMARY OF THE TRUST AGREEMENT

The following is a summary of certain provisions in the Trust Agreement. This summary does not purport to be comprehensive and reference should be made to the Trust Agreement for a full and complete statement of its provisions. All capitalized terms not defined in this Official Statement have the meaning set forth in the Trust Agreement.

APPENDIX F
FORM OF CONTINUING DISCLOSURE AGREEMENT