

**SUPPLEMENT TO  
OFFICIAL STATEMENT DATED MAY 14, 2009**

**relating to**

**\$43,405,000  
SOUTH PASADENA PUBLIC FINANCING AUTHORITY  
2009 WATER REVENUE BONDS**

**PLEASE BE ADVISED that the above-referenced Official Statement has been supplemented to add the following information:**

**Pages 16, 17 and 18 commencing with the section encaptioned “BOND INSURANCE - The Insurer” are hereby deleted in their entirety and replaced with the following:**

**The Insurer**

Assured Guaranty Corp. (“Assured Guaranty”) is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in all fifty states of the United States, the District of Columbia and Puerto Rico. Assured Guaranty commenced operations in 1988. Assured Guaranty is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO.” AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of Assured Guaranty or any claims under any insurance policy issued by Assured Guaranty.

Assured Guaranty is subject to insurance laws and regulations in Maryland and in New York (and in other jurisdictions in which it is licensed) that, among other things, (i) limit Assured Guaranty’s business to financial guaranty insurance and related lines, (ii) prescribe minimum solvency requirements, including capital and surplus requirements, (iii) limit classes and concentrations of investments, (iv) regulate the amount of both the aggregate and individual risks that may be insured, (v) limit the payment of dividends by Assured Guaranty, (vi) require the maintenance of contingency reserves, and (vii) govern changes in control and transactions among affiliates. Certain state laws to which Assured Guaranty is subject also require the approval of policy rates and forms.

Assured Guaranty’s financial strength is rated “AAA” (stable) by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (“S&P”), “Aa2” (on review for possible downgrade) by Moody’s Investors Service, Inc. (“Moody’s”) and “AA” (evolving) by Fitch, Inc. (“Fitch”). Each rating of Assured Guaranty should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by Assured Guaranty. Assured Guaranty does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

## *Recent Developments*

### Ratings

On May 20, 2009, Moody's issued a press release stating that it had placed the "Aa2" insurance financial strength rating of Assured Guaranty on review for possible downgrade. Reference is made to the press release, a copy of which is available at [www.moodys.com](http://www.moodys.com), for the complete text of Moody's comments.

In a press release dated May 4, 2009, Fitch announced that it had downgraded the insurer financial strength rating of Assured Guaranty to "AA" from "AAA" and placed such rating on Rating Watch Evolving. Reference is made to the press release, a copy of which is available at [www.fitchratings.com](http://www.fitchratings.com), for the complete text of Fitch's comments.

There can be no assurance as to the outcome of Moody's review or the timing of when such review may be completed, as to the further action that Fitch may take with respect to Assured Guaranty, or as to any action that S&P may take in the future with respect to Assured Guaranty's financial strength and financial enhancement ratings.

For more information regarding Assured Guaranty's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which was filed by AGL with the Securities and Exchange Commission ("SEC") on February 26, 2009, and AGL's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009, which was filed by AGL with the SEC on May 11, 2009.

### Agreement to Purchase FSA

On November 14, 2008, AGL announced that it had entered into a definitive agreement to purchase Financial Security Assurance Holdings Ltd. ("FSA"), the parent of financial guaranty insurance company Financial Security Assurance, Inc. For more information regarding the proposed acquisition by AGL of FSA, see the Annual Report on Form 10-K filed by AGL with the SEC on February 26, 2009.

### *Capitalization of Assured Guaranty Corp.*

As of March 31, 2009, Assured Guaranty had total admitted assets of \$1,926,329,505 (unaudited), total liabilities of \$1,570,615,119 (unaudited), total surplus of \$355,714,386 (unaudited) and total statutory capital (surplus plus contingency reserves) of \$1,109,717,908 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2008, Assured Guaranty had total admitted assets of \$1,803,146,295 (unaudited), total liabilities of \$1,425,012,944 (unaudited), total surplus of \$378,133,351 (unaudited) and total statutory capital (surplus plus contingency reserves) of \$1,090,288,113 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. The Maryland Insurance Administration recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Maryland Insurance Code, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. No consideration is given by the Maryland Insurance Administration to financial statements prepared in accordance with accounting principles generally accepted in the United States in making such determinations.

*Incorporation of Certain Documents by Reference*

The portions of the following documents relating to Assured Guaranty are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- The Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2008 (which was filed by AGL with the SEC on February 26, 2009);
- The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009 (which was filed by AGL with the SEC on May 11, 2009); and
- The Current Reports on Form 8-K filed by AGL with the SEC, as they relate to Assured Guaranty.

All consolidated financial statements of Assured Guaranty and all other information relating to Assured Guaranty included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Any statement contained in a document incorporated herein by reference or contained herein under the heading “Bond Insurance” shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Copies of the consolidated financial statements of Assured Guaranty incorporated by reference herein and of the statutory financial statements filed by Assured Guaranty with the Maryland Insurance Administration are available upon request by contacting Assured Guaranty at 1325 Avenue of the Americas, New York, New York 10019 or by calling Assured Guaranty at (212) 974-0100. In addition, the information regarding Assured Guaranty that is incorporated by reference in this Official Statement that has been filed by AGL with the SEC is available to the public over the Internet at the SEC’s web site at <http://www.sec.gov> and at AGL’s web site at <http://www.assuredguaranty.com>, from the SEC’s Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

Assured Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading “BOND INSURANCE.”

**The date of this Supplement is May 21, 2009.**

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NEW ISSUE — BOOK ENTRY ONLY

**RATINGS:**  
**S&P Rating: “A+” (Underlying)**  
**“AAA” (Assured Guaranty-Insured)**  
**Moody’s Rating: “Aa2” (Assured Guaranty-Insured)**  
**(See “RATINGS”).**

*In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the 2009 Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See “TAX MATTERS”.*

**\$43,405,000**  
**SOUTH PASADENA PUBLIC FINANCING AUTHORITY**  
**2009 WATER REVENUE BONDS**

**Dated: Date of Delivery**

**Due: October 1, as shown below**

The captioned bonds (the “2009 Bonds”) are being issued by the South Pasadena Public Financing Authority (the “Authority”) pursuant to an Indenture, dated as of May 1, 2009 (the “Indenture”), between the Authority and Wells Fargo Bank, National Association, as trustee (the “Trustee”), to (i) finance the acquisition and construction of certain improvements to the water system (the “System”) of the City of South Pasadena (the “City”), (ii) fund a debt service reserve fund for the 2009 Bonds, (iii) fund a capitalized interest account for the 2009 Bonds, and (iv) pay costs of issuing the 2009 Bonds.

The 2009 Bonds are being issued in fully registered form in the denomination of \$5,000 each or any integral multiple thereof, and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Purchasers of the 2009 Bonds will not receive certificates representing their beneficial ownership in the 2009 Bonds but will receive credit balances on the books of their respective nominees.

Interest due on the 2009 Bonds is payable semiannually on April 1 and October 1 in each year commencing October 1, 2009, by check or draft of the Trustee mailed by first class mail on each interest Payment Date to the Owners of record as of the Record Date at the addresses shown on the registration books required to be kept by the Trustee or, upon the written request received by the Trustee of an Owner of at least \$1,000,000 in aggregate principal amount of 2009 Bonds prior to the applicable Record Date, by wire transfer of immediately available funds to an account in the United States designated by such Owner. Payment of principal and redemption price on all 2009 Bonds will be payable in lawful money of the United States of America upon presentation and surrender thereof at the principal corporate trust office of the Trustee in Los Angeles, California, or such other office as may be designated by the Trustee. See “THE 2009 BONDS.”

The scheduled payment of principal of and interest on the 2009 Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the 2009 Bonds by Assured Guaranty Corp. (“Assured Guaranty”).

**ASSURED  
GUARANTY**

**The 2009 Bonds are subject to optional and mandatory sinking fund redemption as more fully described in this Official Statement.**

The 2009 Bonds are payable from Revenues consisting primarily of Installment Payments (the “Installment Payments”) payable by the City to the Authority under an Installment Purchase Agreement dated as of May 1, 2009 (the “Installment Purchase Agreement”) and amounts on deposit in certain funds and accounts established by the Installment Purchase Agreement and the Indenture. The obligation of the City to make Installment Payments under the Installment Purchase Agreement is a special obligation of the City payable solely from and secured by a pledge of System Net Revenues (as defined in this Official Statement) of the System. The Installment Payments are payable from and secured by a pledge of System Net Revenues on a parity with the installment payments (the “2004 Installment Payments”) payable by the City pursuant to an Installment Purchase Agreement, dated as of June 1, 2004, by and between the City and the California Statewide Communities Development Authority (the “2004 Installment Purchase Agreement”). See “SECURITY FOR THE 2009 BONDS.”

The City is authorized to incur additional obligations secured by a pledge of System Net Revenues on a parity with the pledge of System Net Revenues to the Installment Payments and the 2004 Installment Payments. See “SECURITY FOR THE 2009 BONDS.”

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

**MATURITY SCHEDULE**  
**(see inside cover)**

*The 2009 Bonds will be offered when, as and if issued and accepted by the Underwriter, subject to approval as to legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, and subject to certain other conditions. Jones Hall is also acting as Disclosure Counsel. The City Attorney will pass upon certain matters for the City and the Authority. It is anticipated that the 2009 Bonds, in book entry form, will be available for delivery in New York, New York, on or about May 21, 2009.*

**CHILTON & ASSOCIATES, INC.**

Dated: May 14, 2009

## MATURITY SCHEDULE

Base CUSIP†: 839270

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP† Number</u>
2013	\$715,000	3.000%	2.500%	102.051%	AA3
2014	740,000	3.000	2.800	100.987	AB1
2015	765,000	3.000	3.100	99.424	AC9
2016	790,000	3.250	3.350	99.349	AD7
2017	815,000	3.500	3.550	99.637	AE5
2018	845,000	3.500	3.750	98.038	AF2
2019	875,000	3.750	3.950	98.309	AG0
2020	910,000	4.000	4.250	97.761	AH8
2021	950,000	4.250	4.450	98.109	AJ4
2022	995,000	4.500	4.600	99.004	AK1
2023	1,040,000	4.500	4.700	97.923	AL9
2024	1,090,000	4.625	4.750	98.642	AM7

\$6,335,000 5.000% Term Bonds due October 1, 2029; Yield: 5.100%; Price: 98.736%; CUSIP†: 839270 AN5

\$11,620,000 5.000% Term Bonds due October 1, 2034; Yield: 5.200%; Price: 97.193%; CUSIP†: 839270 AP0

\$14,920,000 5.000% Term Bonds due October 1, 2039; Yield: 5.270%; Price: 95.926%; CUSIP†: 839270 AQ8

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# **SOUTH PASADENA PUBLIC FINANCING AUTHORITY**

## **GOVERNING BOARD**

David Sifuentes, *Chairman and Mayor*  
Dr. Richard D. Schneider, *Vice-Chairman and Mayor Pro Tempore*  
Philip C. Putnam, *Board Member and Council Member*  
Michael A. Cacciotti, *Board Member and Council Member*  
Mike Ten, *Board Member and Council Member*

## **AUTHORITY STAFF**

John Davidson, *Interim Executive Director/Interim City Manager*  
Chu Thai, *Authority Treasurer and Finance Director*  
Sally Kilby, *Authority Secretary/City Clerk*

## **CITY ATTORNEY**

Jones & Mayer,  
Fullerton, California

## **FINANCIAL ADVISOR**

Urban Futures, Inc.  
Orange, California

## **BOND COUNSEL AND DISCLOSURE COUNSEL**

Jones Hall,  
A Professional Law Corporation  
San Francisco, California

## **TRUSTEE**

Wells Fargo Bank, National Association  
Los Angeles, California

## GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

**No Offering May Be Made Except by this Official Statement.** No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations with respect to the 2009 Bonds other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized.

**No Unlawful Offers or Solicitations.** This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

**Effective Date.** This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the 2009 Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the City or any other parties described in this Official Statement.

**Use of this Official Statement.** This Official Statement is submitted in connection with the sale of the 2009 Bonds referred to in this Official Statement and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract with the purchasers of the 2009 Bonds.

**Preparation of this Official Statement.** The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

**Document References and Summaries.** All references to and summaries of the Indenture, the Installment Purchase Agreement or other documents contained in this Official Statement are subject to the provisions of those documents and do not purport to be complete statements of those documents.

**Bonds are Exempt from Securities Laws Registration.** The issuance and sale of the 2009 Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the issuance and sale of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

**Stabilization of Prices.** In connection with this offering, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the 2009 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the 2009 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

**Estimates and Projections.** Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

**Insurer's Disclaimer.** Assured Guaranty Corp. ("**Assured Guaranty**" or the "**Insurer**") makes no representation regarding the 2009 Bonds or the advisability of investing in the 2009 Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained in this Official Statement, or omitted from this Official Statement, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "BOND INSURANCE" and "APPENDIX G - Specimen Financial Guaranty Insurance Policy".



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**\$43,405,000**  
**SOUTH PASADENA PUBLIC FINANCING AUTHORITY**  
**2009 WATER REVENUE BONDS**

**INTRODUCTION**

This Official Statement, including the cover page and all appendices, provides certain information concerning the sale and delivery of South Pasadena Public Financing Authority, 2009 Water Revenue Bonds (the “**2009 Bonds**”). All descriptions and summaries of various documents in this Official Statement do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements in this Official Statement are qualified in their entirety by reference to each document. Certain capitalized terms used in this Official Statement and not defined in this Official Statement shall have the meaning given such terms in “APPENDIX C – Summary of Principal Legal Documents.”

The 2009 Bonds are payable from revenues (as further described in this Official Statement, the “**Revenues**”) consisting primarily of Installment Payments (“**Installment Payments**”) to be made by the City of South Pasadena (the “**City**”) to the South Pasadena Public Financing Authority (the “**Authority**”) under an Installment Purchase Agreement dated as of May 1, 2009 (the “**Installment Purchase Agreement**”) between the City and the Authority and amounts on deposit in certain funds and accounts established under an Indenture, dated as of May 1, 2009 (the “**Indenture**”), between the Authority and Wells Fargo Bank, National Association, as trustee (the “**Trustee**”).

The City’s obligation to make Installment Payments under the Installment Purchase Agreement is a special obligation of the City payable solely from and secured by a pledge of System Net Revenues (as defined below) of the City’s water system (the “**System**”). The Installment Payments are payable from and secured by a pledge of System Net Revenues on a parity with the installment payments (the “**2004 Installment Payments**”) payable by the City pursuant to an Installment Purchase Agreement, dated as of June 1, 2004, by and between the City and the California Statewide Communities Development Authority (the “**2004 Installment Purchase Agreement**”).

The City may issue additional bonds or execute contracts the payments or installment payments under which are secured by a pledge of the System Net Revenues on a parity with the Installment Payments and the 2004 Installment Payments subject to the conditions described in this Official Statement. See “SECURITY FOR THE 2009 BONDS – Limitation on Superior and Parity Obligations; Subordinate Obligations.”

The 2009 Bonds are being issued pursuant to the Indenture. Under the Indenture, the Authority has assigned to the Trustee for the benefit of the Owners of the 2009 Bonds substantially all its rights under the Installment Purchase Agreement, including its right to receive Installment Payments and its rights to enforce payment by the City of such Installment Payments when due.

The Authority is a joint exercise of powers authority duly organized under the Marks-Roos Local Bond Pooling Act of 1985 (the “**JPA Law**”). The Authority was formed under a Joint

Exercise of Powers Agreement between the City and the Community Redevelopment Agency of the City of South Pasadena (the “**Agency**”), dated as of April 1, 2009 (the “**JPA Agreement**”).

The 2009 Bonds are being issued to (i) finance the acquisition and construction of certain improvements to the System (the “**Project**”), (ii) fund a debt service reserve fund for the 2009 Bonds, (iii) fund capitalized interest on the 2009 Bonds through October 1, 2011, and (iv) pay the costs of issuing the 2009 Bonds.

The scheduled payment of principal of and interest on the 2009 Bonds when due will be guaranteed under a financial guaranty insurance policy (the “**Policy**”) to be issued concurrently with the delivery of the 2009 Bonds by Assured Guaranty Corp. (“**Assured Guaranty**” or the “**Insurer**”) See “BOND INSURANCE” and “APPENDIX G – Specimen Financial Guaranty Insurance Policy.”

## THE FINANCING PLAN

### The Project

The City plans to use proceeds of the 2009 Bonds to partially finance additional improvements to the System, consisting principally of one or more of the following (collectively the “**Project**”):

- Wilson Reservoir: replacement of a 900,000 gallon wood and concrete reservoir with a new steel tank.
- Transmission Line Replacement: Sliplining of 16-inch and 24-inch transmission lines from Wilson Reservoir to Garfield Reservoir.
- Grevelia Water Main Relocation – Relocation of 12-inch water line in preparation for the Fair Oaks / SR 110 interchange improvement project.
- Hawthorne Water Main Replacement – Replacement of 4-inch water main.
- Garfield Reservoir: Replacement of a 6.25 million gallon reservoir.
- Westside Reservoir – Repair of reinforced concrete roof.
- Graves Reservoir – Replacement of 1,000,000 gallon wood and concrete reservoir with a new steel tank.
- Automated meter reading – Implementation of a drive-by automated meter reading system.

See “THE SYSTEM – Capital Improvement Plan”.

### Estimated Sources and Uses of Funds

The following table sets forth the estimated sources and uses of funds with respect to the Bonds.

<b>Sources:</b>	
2009 Bond Proceeds	\$43,405,000.00
<i>Less</i> Original Issue Discount	(1,120,655.65)
<i>Less</i> Underwriter’s Discount	<u>(412,347.50)</u>
<i>Total Sources</i>	\$41,871,996.85
 <b>Uses:</b>	
Deposit to Project Fund	\$32,800,000.00
Deposit to Reserve Fund	3,374,500.00
Deposit to Capitalized Interest Account	4,830,125.00
Costs of Issuance <sup>(1)</sup>	<u>867,371.85</u>
<i>Total Uses</i>	\$41,871,996.85

<sup>(1)</sup> Estimate includes legal and financing costs, bond insurance premium, printing costs, initial fees of the Trustee, advertising costs, Bond Counsel and Disclosure Counsel fees, Financial Advisor fees, and certain other costs.

## THE 2009 BONDS

### General

The 2009 Bonds will be dated their date of delivery and will be payable in the years and amounts and bear interest at the respective rates set forth on the inside cover page of this Official Statement. Interest on the 2009 Bonds is payable on April 1 and October 1 of each year, commencing October 1, 2009 (each, an “**Interest Payment Date**”). The 2009 Bonds will be delivered only in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“**DTC**”). DTC will act as securities depository for the 2009 Bonds. Ownership interests in the 2009 Bonds may be purchased in book-entry form only in denominations of \$5,000 or any integral multiple thereof. See “APPENDIX F - DTC and the Book-Entry Only System.”

In the event the book-entry only system is discontinued, each 2009 Bond will bear interest from the Interest Payment Date next preceding its date of registration, unless such date of registration is during the period from and including the Record Date next preceding an Interest Payment Date to and including such Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or unless such date of registration is on or before the Record Date next preceding the first Interest Payment Date, in which event it will bear interest from the delivery date of the 2009 Bonds; provided, that if at the time of registration of any 2009 Bond interest is then in default on the Outstanding 2009 Bonds, such 2009 Bond will bear interest from the Interest Payment Date to which interest previously has been paid or made available for payment on the Outstanding 2009 Bonds. Payment of interest on the 2009 Bonds due on or before the maturity or prior redemption of the 2009 Bonds will be made to the person whose name appears in the registration books maintained under the Indenture as the Owner thereof as of the close of business on the Record Date next preceding each Interest Payment Date, such interest to be paid by check mailed by first class mail, postage prepaid, on each Interest Payment Date to such Owner at his address as it appears in the registration books maintained under the Indenture, or, upon written request received prior to the Record Date next preceding an Interest Payment Date of an Owner of at least \$1,000,000 in aggregate principal amount of 2009 Bonds, by wire transfer in immediately available funds to an account within the continental United States of America designated by such Owner.

One fully-registered 2009 Bond will be issued for each maturity of the 2009 Bonds in the principal amount of the 2009 Bonds of such maturity. It will be registered in the name of Cede & Co. and will be deposited with DTC. The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2009 Bonds will be printed and delivered and will be governed by the provisions of the Indenture with respect to payment of principal and interest and rights of exchange and transfer.

There can be no assurance that DTC participants or others will distribute payments with respect to the 2009 Bonds received by DTC or its nominee as the registered Owner, or any prepayment or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement. See “APPENDIX F - DTC and the Book-Entry Only System” for additional information concerning DTC.

## Redemption

**Optional Redemption.** The 2009 Bonds maturing by their terms on or after October 1, 2020, are subject to optional redemption by the Authority on any date on or after October 1, 2019, to their respective stated maturity dates, as a whole or in part in such principal amounts and from such maturity dates as selected by the Authority, from funds derived by the Authority at the direction of the Authority from any lawful source and deposited with the Trustee not less than five days prior to the date of redemption, upon mailed notice as provided in the Indenture, at a redemption price equal to the following percentages of the principal amount of the 2009 Bonds or portions thereof to be redeemed on the following dates, together with interest accrued thereon to the date fixed for redemption:

<u>Redemption Period</u>	<u>Redemption Price</u>
October 1, 2019 through September 30, 2020	102%
October 1, 2020 through September 30, 2021	101
October 1, 2021 and thereafter	100

**Mandatory Sinking Fund Redemption.** Sinking Fund Installments are established under the Indenture for the mandatory redemption and payment of the 2009 Bonds maturing on October 1, 2029, which payments will become due during the years ending on the dates and in the amounts set forth in the following schedule (except that if any Term Bonds have been optionally redeemed as described above the amounts of such Sinking Fund Installments will be reduced by the principal amount of all such Term Bonds so optionally redeemed).

### Term Bonds Maturing October 1, 2029

<u>Redemption Date</u> <u>(October 1)</u>	<u>Amount</u>
2025	\$1,145,000
2026	1,200,000
2027	1,265,000
2028	1,330,000
2029 (maturity)	1,395,000

Sinking Fund Installments are established under the Indenture for the mandatory redemption and payment of the 2009 Bonds maturing on October 1, 2034, which payments will become due during the years ending on the dates and in the amounts set forth in the following schedule (except that if any Term Bonds have been optionally redeemed as described above the amounts of such Sinking Fund Installments will be reduced by the principal amount of all such Term Bonds so optionally redeemed).

Term Bonds Maturing October 1, 2034

<u>Redemption Date</u> <u>(October 1)</u>	<u>Amount</u>
2030	\$2,100,000
2031	2,205,000
2032	2,320,000
2033	2,435,000
2034 (maturity)	2,560,000

Sinking Fund Installments are established under the Indenture for the mandatory redemption and payment of the 2009 Bonds maturing on October 1, 2039, which payments will become due during the years ending on the dates and in the amounts set forth in the following schedule (except that if any Term Bonds have been optionally redeemed as described above the amounts of such Sinking Fund Installments will be reduced by the principal amount of all such Term Bonds so optionally redeemed).

Term Bonds Maturing October 1, 2039

<u>Redemption Date</u> <u>(October 1)</u>	<u>Amount</u>
2035	\$2,695,000
2036	2,830,000
2037	2,975,000
2038	3,130,000
2039 (maturity)	3,290,000

**Redemption Procedures.** Whenever less than all the Outstanding 2009 Bonds maturing on any one date are called for redemption at any one time, the Trustee will select the 2009 Bonds to be redeemed (from the Outstanding 2009 Bonds maturing on such date not previously selected for redemption) by lot in any manner which the Trustee deems fair; provided, that if less than all the Outstanding Term Bonds maturing on any one date are called for redemption from proceeds other than Sinking Fund Installment payments at any one time, the Trustee will calculate a reduction in the Sinking Fund Installment payments required to be made with respect to such Term Bonds (in an amount equal to the amount of Outstanding Term Bonds to be redeemed). Except for Sinking Fund Installment redemptions, the Authority will deposit with the Trustee money sufficient to redeem any Outstanding 2009 Bonds not later than five days prior to the redemption date of the 2009 Bonds to be redeemed.

In lieu of redemption of any Term Bonds, amounts on deposit in the Sinking Fund allocable to such Term Bonds may be used and withdrawn by the Trustee at any time upon the request of the Authority at the direction of the City for the purchase of such Term Bonds at public or private sale as and when and at such prices as the Authority at the direction of the City may determine. The principal amount of any Term Bonds so purchased by the Trustee will be



credited toward and will reduce the principal amount of the Term Bonds required to be redeemed on such Sinking Fund Payment Date.

Notice of redemption of any 2009 Bonds or any portions thereof will be mailed by first class mail, postage prepaid, by the Trustee not less than 30 nor more than 60 days prior to the redemption date of such 2009 Bonds (i) to the respective Owners of the 2009 Bonds designated for redemption at their addresses appearing on the bond registration books kept by the Trustee, (ii) to the Information Services and (iii) to the Securities Depositories. Each notice of redemption will state the date of such notice, the 2009 Bonds to be redeemed, the date of issue of such 2009 Bonds, the redemption date, the redemption price, whether funds are then on deposit sufficient to pay the redemption price, the place of redemption (including the name and appropriate address), the CUSIP number (if any) of the maturity or maturities, and, if less than all 2009 Bonds of any such maturity are to be redeemed, the distinctive numbers of the 2009 Bonds of such maturity to be redeemed and, in the case of 2009 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on such redemption date there will become due and payable on each of such 2009 Bonds the redemption price thereof or of the specified portion of the principal amount thereof in the case of a 2009 Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon will cease to accrue, and will require that such 2009 Bonds be then surrendered at the Corporate Trust Office of the Trustee specified in the redemption notice as the place of redemption; provided, that failure by the Trustee to give notice to any one or more of the Information Services or Securities Depositories, or the insufficiency of any such notice or the failure of any Owner to receive any redemption notice mailed to such Owner or any immaterial defect in the notice so mailed will not affect the sufficiency of the proceedings for the redemption of any 2009 Bonds.

From and after the date fixed for redemption of any 2009 Bonds or any portions thereof, if notice of such redemption has been duly given and funds available for the payment of such redemption price of the 2009 Bonds or such portions thereof so called for redemption has been duly provided, no additional interest will accrue on such 2009 Bonds or such portions thereof from and after the redemption date specified in such notice.

## INSTALLMENT PAYMENT SCHEDULE

The following table presents a schedule of the Installment Payments and the 2004 Installment Payments, assuming no optional prepayments. The Installment Payments have been established in an amount equal to debt service on the 2009 Bonds.

Fiscal Year Ending June 30	2009 Installment Principal	2009 Installment Interest <sup>(1)</sup>	Total 2009 Installment Payments	2004 Installment Payments	Total
2010	\$ -0-	\$ -0-	\$ -0-	\$ 621,800.00	\$ 621,800.00
2011	-0-	-0-	-0-	623,050.00	623,050.00
2012	-0-	1,022,850.00	1,022,850.00	622,225.00	1,645,075.00
2013	-0-	2,045,700.00	2,045,700.00	619,725.00	2,665,425.00
2014	715,000	2,034,975.00	2,749,975.00	621,600.00	3,371,575.00
2015	740,000	2,013,150.00	2,753,150.00	617,850.00	3,371,000.00
2016	765,000	1,990,575.00	2,755,575.00	618,475.00	3,374,050.00
2017	790,000	1,966,262.50	2,756,262.50	618,350.00	3,374,612.50
2018	815,000	1,939,162.50	2,754,162.50	617,068.75	3,371,231.25
2019	845,000	1,910,112.50	2,755,112.50	619,481.25	3,374,593.75
2020	875,000	1,878,918.75	2,753,918.75	615,975.00	3,369,893.75
2021	910,000	1,844,312.50	2,754,312.50	616,550.00	3,370,862.50
2022	950,000	1,805,925.00	2,755,925.00	616,075.00	3,372,000.00
2023	995,000	1,763,350.00	2,758,350.00	614,550.00	3,372,900.00
2024	1,040,000	1,717,562.50	2,757,562.50	616,843.75	3,374,406.25
2025	1,090,000	1,668,956.25	2,758,956.25	612,956.25	3,371,912.50
2026	1,145,000	1,615,125.00	2,760,125.00	613,500.00	3,373,625.00
2027	1,200,000	1,556,500.00	2,756,500.00	613,375.00	3,369,875.00
2028	1,265,000	1,494,875.00	2,759,875.00	612,000.00	3,371,875.00
2029	1,330,000	1,430,000.00	2,760,000.00	614,250.00	3,374,250.00
2030	1,395,000	1,361,875.00	2,756,875.00	615,000.00	3,371,875.00
2031	2,100,000	1,274,500.00	3,374,500.00	-0-	3,374,500.00
2032	2,205,000	1,166,875.00	3,371,875.00	-0-	3,371,875.00
2033	2,320,000	1,053,750.00	3,373,750.00	-0-	3,373,750.00
2034	2,435,000	934,875.00	3,369,875.00	-0-	3,369,875.00
2035	2,560,000	810,000.00	3,370,000.00	-0-	3,370,000.00
2036	2,695,000	678,625.00	3,373,625.00	-0-	3,373,625.00
2037	2,830,000	540,500.00	3,370,500.00	-0-	3,370,500.00
2038	2,975,000	395,375.00	3,370,375.00	-0-	3,370,375.00
2039	3,130,000	242,750.00	3,372,750.00	-0-	3,372,750.00
2040	<u>3,290,000</u>	<u>82,250.00</u>	<u>3,372,250.00</u>	<u>-0-</u>	<u>3,372,250.00</u>
<b>Total</b>	<b>\$43,405,000</b>	<b>\$40,239,687.50</b>	<b>\$83,644,687.50</b>	<b>\$12,960,700.00</b>	<b>\$96,605,387.50</b>

(1) 2009 Installment Payments are net of the impact of capitalized interest through October 1, 2011

## SECURITY FOR THE 2009 BONDS

### General

The 2009 Bonds are special obligations of the Authority and will be payable from and secured by a charge and lien on Revenues, consisting primarily of Installment Payments to be made by the City under the Installment Purchase Agreement. Neither the faith and credit nor the taxing power of the Authority, the City, the State of California or any political subdivision thereof is pledged to the payment of the Installment Payments or the principal or redemption price of or interest on the 2009 Bonds. The Authority has no taxing power. Neither the payment of the principal of or interest on the 2009 Bonds nor the obligation of the City to make Installment Payments under the Installment Purchase Agreement constitutes a debt of the City, the Authority, the State of California or any political subdivision thereof within the meaning of the Constitution or the laws of the State of California.

### Security Under the Indenture

**Installment Payments.** Under the Indenture, the Authority irrevocably transfers and assigns over to the Trustee all of the Installment Payments received by the Authority under the Installment Purchase Agreement and any and all rights it has to enforce the obligations of the City under the Installment Purchase Agreement. The Installment Payments received by the Trustee and all money in the other funds or accounts established under the Indenture are irrevocably pledged by the Authority to the punctual payment of the 2009 Bonds. The Revenues and such other funds and accounts are not permitted to be used for any other purpose while any of the 2009 Bonds remain Outstanding, subject to the provisions of the Indenture permitting the application of those moneys for other specified purposes. The Indenture provides that this pledge constitutes a first lien on the Revenues and such other money for the payment of the 2009 Bonds.

**Revenue Fund.** The Indenture establishes a special fund known as the "Revenue Fund" held by the Trustee into which all Installment Payments will be deposited. The money in the Revenue Fund is required to be transferred by the Trustee for deposit in the following respective funds (each of which is established under the Indenture and maintained with the Trustee) at the following times and in the following order of priority:

- (1) Interest Fund;
- (2) Principal Fund;
- (3) Sinking Fund; and
- (4) Reserve Fund.

**Interest Fund; Capitalized Interest Account.** The Trustee will transfer for deposit in the Interest Fund before each Interest Payment Date, an amount of money from the Revenue Fund which is equal to the aggregate amount of the interest becoming due and payable on all Outstanding 2009 Bonds on the Interest Payment Date. Moneys in the Capitalized Interest Account (which is established within the Interest Fund) will be withdrawn and used to pay interest on the 2009 Bonds through October 1, 2011. Promptly following October 1, 2011, amounts, if any, remaining on deposit in the Capitalized Interest Account will be transferred to the Revenue Fund to be used for the purposes of the Revenue Fund and the Capitalized Interest Account will be closed.

**Principal Fund.** The Trustee will transfer for deposit in the Principal Fund before October 1 of each year, an amount of money from the Revenue Fund which, together with any money contained in the Principal Fund, is equal to the aggregate amount of the principal becoming due and payable on all Outstanding Serial Bonds on that October 1.

**Sinking Fund.** The Trustee will transfer for deposit in the Sinking Fund before October 1 of each year as required, an amount of money from the Revenue Fund equal to the Sinking Fund Installments payable on that October 1.

**Reserve Fund.** Concurrently with the issuance of the 2009 Bonds, the Trustee will establish the Reserve Fund. In the event of a withdrawal of amounts from the Reserve Fund to make payments to the Interest Fund, Principal Fund or Sinking Fund, the Trustee will deposit in the Reserve Fund moneys from the Revenue Fund necessary to restore the amount in the Reserve Fund to the Reserve Fund Requirement (as defined below) but only from the Installment Payments made for such purpose by the City who is obligated under the Installment Purchase Agreement to restore said amounts; provided, that if there has been a draw upon any policy of insurance, surety bond, letter of credit or other comparable credit facility used to provide all or a portion of the Reserve Fund Requirement, said Installment Payments will be applied to reimburse the provider of such instrument for payments made under such draw plus its expenses in connection therewith.

The “**Reserve Fund Requirement**” equals the least of (i) maximum annual related Installment Payments, (ii) 125% of average annual related Installment Payments or (iii) 10% of the original principal amount of the related Installment Payments; provided, that with the prior written consent of the Insurer, and subject to the conditions established in the Indenture, all or any portion of the Reserve Fund Requirement may (following written notification to the rating agencies then rating the 2009 Bonds) be satisfied by the provision of a policy of insurance, a surety bond, a letter of credit or other comparable credit facility, or a combination thereof, which, together with money on deposit in the Reserve Fund, provide an aggregate amount equal to the Reserve Fund Requirement (see “APPENDIX C – Summary of Principal Legal Documents”).

## **Installment Payments**

The Installment Purchase Agreement provides that all System Net Revenues and all amounts on deposit in the System Revenue Fund are irrevocably pledged to the payment of the Installment Payments and that the System Net Revenues will not be used for any other purpose while any of the Installment Payments remain unpaid. The Installment Purchase Agreement provides that this pledge, together with the pledge created by any other “**Parity Debt**” (i.e., the Installment Payments, the 2004 Installment Payments and any other “**Parity Obligations**” of the City), constitutes a lien on System Net Revenues for the payment of the Installment Payments and all other Parity Debt. Parity Obligations is defined in “Limitations on Superior and Parity Obligations; Subordinate Obligations” below.

The Installment Purchase Agreement defines Net System Revenues and related terms as follows:

“**System Net Revenues**” is defined under the Installment Purchase Agreement as, for any period; System Revenues less Operation and Maintenance Costs for such period; provided that certain adjustments in the amount of System Net Revenue deemed collected during a Fiscal Year may be made in connection with amounts deposited in the Rate Stabilization Fund.

**“System Revenues”** is defined under the Installment Purchase Agreement as all gross income and revenue received or receivable by the City from the ownership or operation of the System, determined in accordance with Generally Accepted Accounting Principles, including all fees (including connection fees), rates, charges and all amounts paid under any contracts received by or owed to the City in connection with the operation of the System and all proceeds of insurance relating to the System and investment income allocable to the System and all other income and revenue howsoever derived by the City from the ownership or operation of the System or arising from the System.

**“Operation and Maintenance Costs”** is defined under the Installment Purchase Agreement as the reasonable and necessary costs paid or incurred by the City for maintaining and operating the System, determined in accordance with Generally Accepted Accounting Principles, including all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the System in good repair and working order, and including all administrative costs of the City that are charged directly or apportioned to the operation of the System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums (including payments required to be paid into any self-insurance funds), and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Installment Purchase Agreement or of any Supplemental Agreement or of any resolution authorizing the execution of any Parity Debt, such as compensation, reimbursement and indemnification of the Trustee and the Authority and fees and expenses of Independent Certified Public Accountants; but excluding in all cases (i) payment of Parity Debt and Subordinate Obligations, (ii) costs of capital additions, replacements, betterments, extensions or improvements which under Generally Accepted Accounting Principles are chargeable to a capital account, and (iii) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

In order to carry out and effectuate the pledge of Net System Revenues, the City agrees and covenants that all System Revenues will be deposited when and as received in a special fund designated as the “System Revenue Fund,” which the City agrees and covenants to maintain and to hold separate and apart from other funds so long as any Installment Payments remain unpaid. The City is required, from the moneys in the System Revenue Fund, to pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable. Thereafter, all remaining moneys in the System Revenue Fund are required to be set aside by the City at the following times for the transfer to the following respective special funds in the following order of priority:

***Installment Payments.*** Not later than each Installment Payment Date (i.e., March 15 and September 15 of each year), the City is required, from the moneys in the System Revenue Fund, to transfer to the Trustee the Installment Payment due and payable on that Installment Payment Date. The City will also, from the moneys in the System Revenue Fund, transfer to the applicable trustee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Parity Obligation

Payments (as defined in Appendix C) in accordance with the provisions of any Parity Obligation.

**Reserve Fund.** On or before the first Business Day of each month, the City is required, from the remaining moneys in the System Revenue Fund, thereafter, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, to transfer to the Trustee for deposit in the Revenue Fund for application to the Reserve Fund in accordance with the Indenture and to the applicable trustee for such other reserve funds, if any, as may have been established in connection with Parity Obligations that sum, if any, necessary to restore the Reserve Fund to an amount equal to the Reserve Fund Requirement and otherwise replenish the Reserve Fund for any withdrawals to pay the Installment Payments due under the Installment Purchase Agreement and necessary to restore such other reserve funds to an amount equal to the amount required to be maintained therein; provided that payments to restore the Reserve Fund after a withdrawal will be in an amount equal to 1/12 of the aggregate amount needed to restore the Reserve Fund to the Reserve Fund Requirement as of the date of the withdrawal.

**Surplus.** Moneys on deposit in the System Revenue Fund not necessary to make any of the payments required above, may be expended by the City at any time for any purpose permitted by law, including but not limited to payments with respect to Subordinate Obligations (as defined in Appendix C) and deposits to the Rate Stabilization Fund.

### **Rate Covenant**

The City covenants in the Installment Purchase Agreement to fix, prescribe and collect rates, fees and charges and manage the operation of the System for each Fiscal Year so as to yield System Revenues at least sufficient, after making reasonable allowances for contingencies and errors in the estimates, to pay the following amounts during such Fiscal Year:

(i) All current Operation and Maintenance Costs.

(ii) The Installment Payments and payments for other Parity Debt (including the 2004 Installment Payments) and the payment of the Subordinate Obligations as they become due and payable.

(iii) All payments required for compliance with the terms of the Installment Purchase Agreement, including restoration of the Reserve Fund to an amount equal to the Reserve Fund Requirement, and of any Supplemental Agreement.

(iv) All payments to meet any other obligations of the City which are charges, liens or encumbrances upon, or payable from, the System Net Revenues.

In addition, the City covenants, to the maximum extent permitted by law, to fix, prescribe and collect rates, fees and charges and manage the operation of the System for each Fiscal Year so as to yield System Net Revenues during such Fiscal Year equal to at least 120% of the Annual Debt Service in such Fiscal Year; provided, an adjustment will be made to the amount of System Net Revenues for amounts deposited into or withdrawn from the Rate Stabilization Fund.

## **Rate Stabilization Fund**

The 2004 Installment Purchase Agreement creates a Rate Stabilization Fund. The City may, during or within 210 days after a Fiscal Year, deposit surplus System Net Revenues transferred from the System Revenue Fund attributable to such Fiscal Year (on the basis of Generally Accepted Accounting Principles) into the Rate Stabilization Fund. The City may at any time withdraw moneys from the Rate Stabilization Fund and deposit such amounts into the System Revenue Fund. See Appendix C for more detailed information about the Rate Stabilization Fund.

## **Limitations on Superior and Parity Obligations; Subordinate Obligations**

Set forth below is a summary of the provisions of the Installment Purchase Agreement with respect to incurrence of superior obligations and issuance of any Parity Debt.

**Issuance of Parity Debt.** In addition to the Installment Payments and the 2004 Installment Payments, the City may at any time enter into any Parity Debt, subject to satisfaction of the following conditions:

(a) The City must be in compliance with all agreements, conditions, covenants and terms contained in the Installment Purchase Agreement and in all Supplemental Agreements required to be observed or performed by it, and a Certificate of the City to that effect must have been filed with the Trustee (with the consent of the Insurer, this condition will not apply where the purpose of the proposed Parity Debt is to cure such non-compliance).

(b) The Parity Debt must have been duly authorized pursuant to the Law (as defined in Appendix C) and all applicable laws, and the amount on deposit in the Reserve Fund relating to the Parity Debt must be increased to an amount at least equal to the Reserve Fund Requirement as calculated with respect to such Parity Debt; provided that if such Parity Debt will not be Installment Payments, then a Reserve Fund held by an independent trustee (who may be other than the Trustee) will be established in an amount equal to the lesser of the maximum annual debt service of such Parity Debt (calculated on the basis of a year ending on the principal payment date of such Parity Debt) or the maximum amount permitted under federal tax law; provided further that, if such Parity Debt is a loan from a governmental agency, then a Reserve Fund will be established in the amount required or permitted by such governmental agency.

(c) The System Net Revenues for the last completed Fiscal Year or any 12 consecutive months within the last 18 months preceding the date of execution of such Parity Debt, as shown by a Certificate of the City on file with the Trustee, plus an allowance for increased System Net Revenues arising from any increase in the rates, fees and charges of the System which was duly adopted by the governing board of the City prior to the date of the execution of such Parity Debt but which, during all or any part of such 12 month period, was not in effect, in an amount equal to the amount by which the System Net Revenues would have been increased if such increase in rates, fees and charges had been in effect during the whole of such 12 month period, as shown by a Certificate of the City on file with the Trustee, will have produced a sum equal to at least 120% of the Maximum Annual Debt Service as calculated after the execution of such Parity Debt; provided, that in the event that all or a portion of such Parity Debt is to be issued for the purpose of refunding and retiring any Parity Debt then outstanding, interest and principal payments on the Parity Debt to be so refunded and retired from the proceeds of such Parity Debt being issued will be excluded from this computation of Maximum

Annual Debt Service; provided further, that the City may at any time issue Parity Debt without compliance with the foregoing conditions if the Annual Debt Service for each Fiscal Year during which such Parity Debt is outstanding will not be increased by reason of the issuance of such Parity Debt; provided further, the Insurer may waive the requirements in paragraph (b) above relating to funding the Reserve Fund or other Reserve Fund if the Parity Debt proposed to be issued is irrevocably guaranteed by a credit provider in at least the second highest rating category of Moody's or S&P; and provided further, an adjustment is made in the amount of System Net Revenues as provided in the Installment Purchase Agreement.

***Subordinate Obligations.*** The Installment Purchase Agreement does not limit the issuance of any revenue bonds of the City payable from the System Net Revenues and secured by a lien and charge on the System Net Revenues on a subordinate basis to the Installment Payments.

### **Limited Liability**

***Installment Purchase Agreement.*** The City's obligation to pay the Installment Payments is a special obligation of the City limited solely to the System Net Revenues. Under no circumstances is the City required to advance moneys derived from any source of income other than the System Net Revenues and other sources specifically identified in the Installment Purchase Agreement for the payment of the Installment Payments. No other funds or property of the City are liable for the payment of the Installment Payments.

The Installment Payments under the Installment Purchase Agreement are not secured by, and the Owners of the 2009 Bonds have no security interest in or mortgage on, the Project, the System or any other assets of the City. Default by the City will not result in loss of the Project, the System or any other assets of the City. Should the City default, the Trustee, as assignee of the Authority, may declare all principal components of the unpaid Installment Payments under the Installment Purchase Agreement and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable; and by mandamus or other action or proceeding or suit at law or in equity enforce its rights against the City, compel the City to perform and carry out its duties under the Government Code of the State of California and all laws amendatory thereof or supplemental thereto, and the agreements and covenants required to be performed by it contained in the Installment Purchase Agreement or by suit in equity enjoin any acts or things which are unlawful or violate the rights of the Authority. See APPENDIX C — "Summary of Principal Legal Documents."

The ability to enforce the City's obligations under the Installment Purchase Agreement is subject to, among other things, judicial discretion and actions taken by voters or property owners. See "BOND OWNERS' RISKS – Limitations on Remedies Available to Bond Owners" below for a more detailed discussion of limitations on the exercise of remedies under the Installment Purchase Agreement.

THE OBLIGATION OF THE CITY TO PAY INSTALLMENT PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE CITY TO PAY INSTALLMENT PAYMENTS UNDER THE INSTALLMENT PURCHASE AGREEMENT DOES NOT CONSTITUTE A DEBT OR INDEBTEDNESS OF THE CITY, THE STATE OF



CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

**The 2009 Bonds.** The Authority is not required to advance any moneys derived from any source other than the Revenues and other assets pledged under the Indenture to pay debt service on the 2009 Bonds, whether for the payment of the principal of or interest on the 2009 Bonds or for any other purpose of the Indenture.

## BOND INSURANCE

*The following information has been supplied by the Insurer for inclusion in this Official Statement. No representation is made by the Authority, the City or the Underwriter as to the accuracy or completeness of the information.*

The following information is not complete and reference is made to Appendix G for a specimen of the financial guaranty insurance policy (the “**Policy**”) of Assured Guaranty Corp. (“**Assured Guaranty**” or the “**Insurer**”).

### The Insurance Policy

Assured Guaranty has made a commitment to issue the Policy relating to the 2009 Bonds, effective as of the date of issuance of the 2009 Bonds. Under the terms of the Policy, Assured Guaranty will unconditionally and irrevocably guarantee to pay that portion of principal of and interest on the 2009 Bonds that becomes Due for Payment but shall be unpaid by reason of Nonpayment (the “**Insured Payments**”). Insured Payments shall not include any additional amounts owing by the Authority solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. The Policy is non-cancelable for any reason, including without limitation the non-payment of premium.

“**Due for Payment**” means, when referring to the principal of the 2009 Bonds, the stated maturity date thereof, or the date on which the 2009 Bonds shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and, when referring to interest on such 2009 Bonds, means the stated dates for payment of interest.

“**Nonpayment**” means the failure of the Authority to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on the 2009 Bonds. It is further understood that the term Nonpayment in respect of a 2009 Bond also includes any amount previously distributed to the Holder (as such term is defined in the Policy) of such 2009 Bond in respect of any Insured Payment by or on behalf of the Authority, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. Nonpayment does not include nonpayment of principal or interest caused by the failure of the Trustee or the Paying Agent to pay such amount when due and payable.

Assured Guaranty will pay each portion of an Insured Payment that is Due for Payment and unpaid by reason of Nonpayment, on the later to occur of (i) the date such principal or interest becomes Due for Payment, or (ii) the business day next following the day on which Assured Guaranty shall have received a completed notice of Nonpayment therefor in accordance with the terms of the Policy.

Assured Guaranty shall be fully subrogated to the rights of the Holders of the 2009 Bonds to receive payments in respect of the Insured Payments to the extent of any payment by Assured Guaranty under the Policy.

The Policy is not covered by any insurance or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### **The Insurer**

Assured Guaranty Corp. ("**Assured Guaranty**") is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in all fifty states of the United States, the District of Columbia and Puerto Rico. Assured Guaranty commenced operations in 1988. Assured Guaranty is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. ("**AGL**"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of Assured Guaranty or any claims under any insurance policy issued by Assured Guaranty.

Assured Guaranty is subject to insurance laws and regulations in Maryland and in New York (and in other jurisdictions in which it is licensed) that, among other things, (i) limit Assured Guaranty's business to financial guaranty insurance and related lines, (ii) prescribe minimum solvency requirements, including capital and surplus requirements, (iii) limit classes and concentrations of investments, (iv) regulate the amount of both the aggregate and individual risks that may be insured, (v) limit the payment of dividends by Assured Guaranty, (vi) require the maintenance of contingency reserves, and (vii) govern changes in control and transactions among affiliates. Certain state laws to which Assured Guaranty is subject also require the approval of policy rates and forms.

Assured Guaranty's financial strength is rated "AAA" (stable) by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("**S&P**"), "Aa2" (stable) by Moody's Investors Service, Inc. ("**Moody's**") and "AA" (evolving) by Fitch, Inc. ("Fitch"). Each rating of Assured Guaranty should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by Assured Guaranty. Assured Guaranty does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

## Recent Developments

Ratings. In a press release dated May 4, 2009, Fitch announced that it had downgraded the insurer financial strength rating of Assured Guaranty to “AA” from “AAA” and placed such rating on Rating Watch Evolving. Reference is made to the press release, a copy of which is available at [www.fitchratings.com](http://www.fitchratings.com), for the complete text of Fitch’s comments. There can be no assurance that Fitch or the other rating agencies will not take further ratings action with respect to Assured Guaranty or as to what impact, if any, Fitch’s action will have on Assured Guaranty’s insurance financial strength ratings from S&P or Moody’s. For more information regarding Assured Guaranty’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which was filed by AGL with the Securities and Exchange Commission (“**SEC**”) on February 26, 2009, and AGL’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009, which was filed by AGL with the SEC on May 11, 2009.

Agreement to Purchase FSA. On November 14, 2008, AGL announced that it had entered into a definitive agreement to purchase Financial Security Assurance Holdings Ltd. (“**FSA**”), the parent of financial guaranty insurance company Financial Security Assurance, Inc. For more information regarding the proposed acquisition by AGL of FSA, see the Annual Report on Form 10-K filed by AGL with the SEC on February 26, 2009.

## Capitalization of Assured Guaranty Corp.

As of March 31, 2009, Assured Guaranty had total admitted assets of \$1,926,329,505 (unaudited), total liabilities of \$1,570,615,119 (unaudited), total surplus of \$355,714,386 (unaudited) and total statutory capital (surplus plus contingency reserves) of \$1,109,717,908 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2008, Assured Guaranty had total admitted assets of \$1,803,146,295 (unaudited), total liabilities of \$1,425,012,944 (unaudited), total surplus of \$378,133,351 (unaudited) and total statutory capital (surplus plus contingency reserves) of \$1,090,288,113 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. The Maryland Insurance Administration recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Maryland Insurance Code, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. No consideration is given by the Maryland Insurance Administration to financial statements prepared in accordance with accounting principles generally accepted in the United States in making such determinations.

## Incorporation of Certain Documents by Reference

The portions of the following documents relating to Assured Guaranty are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- The Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2008 (which was filed by AGL with the SEC on February 26, 2009);
- The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009 (which was filed by AGL with the SEC on May 11, 2009); and

- The Current Reports on Form 8-K filed by AGL with the SEC, as they relate to Assured Guaranty.

All consolidated financial statements of Assured Guaranty and all other information relating to Assured Guaranty included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the 2009 Bonds shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Any statement contained in a document incorporated herein by reference or contained herein under the heading “BOND INSURANCE – The Insurer” shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Copies of the consolidated financial statements of Assured Guaranty incorporated by reference herein and of the statutory financial statements filed by Assured Guaranty with the Maryland Insurance Administration are available upon request by contacting Assured Guaranty at 1325 Avenue of the Americas, New York, New York 10019 or by calling Assured Guaranty at (212) 974-0100. In addition, the information regarding Assured Guaranty that is incorporated by reference in this Official Statement that has been filed by AGL with the SEC is available to the public over the Internet at the SEC’s web site at <http://www.sec.gov> and at AGL’s web site at <http://www.assuredguaranty.com>, from the SEC’s Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

Assured Guaranty makes no representation regarding the 2009 Bonds or the advisability of investing in the 2009 Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading “BOND INSURANCE.”

## THE AUTHORITY

The South Pasadena Public Financing Authority is a joint exercise of powers authority duly organized under the Marks-Roos Local Bond Pooling Act of 1985 (the “**JPA Law**”). The Authority was formed under a Joint Exercise of Powers Agreement between the City and the Community Redevelopment Agency of the City of South Pasadena (the “**Agency**”), dated as of April 1, 2009 (the “**JPA Agreement**”). The Authority is governed by a five-member board whose members are the same as the City Council. The Authority has no employees and all staff work is done by City staff or by consultants to the Authority. The Mayor acts as the Chairman of the Authority, the City Manager as its Executive Director, the City Clerk as its Secretary and the Finance Director as the Treasurer of the Authority.

## THE CITY

### General

The City was incorporated on March 2, 1888 as a general law city and is located approximately six miles northeast of downtown Los Angeles in Los Angeles County (the “**County**”). The City is a full service city operating under a council-manager form of government. The City currently encompasses 3.44 square miles, with a population of 25,792 as of January 1, 2008. See “APPENDIX B – General Information About the City of South Pasadena.”

### Governance and Management

**General.** The City operates under the council-manager form of government. The City Council consists of five members elected to four-year staggered terms of office. The Mayor is selected from the City Council members and serves a one-year term. The City’s other elected officials are the City Treasurer and City Clerk, each of whom serves a one-year term.

The City Council appoints the City Manager to function as the chief administrator of the City. The City Council sets the policy direction for the City, incorporating public input received directly from local citizens and several Council-appointed city commissions. The City Manager is charged with implementing City Council directions, keeping the City Council informed of City operations, preparing the annual budget and coordinating department activities.

**City Council.** The current City Council members and the expiration dates of their terms of office are set forth below.

<u>City Council Members</u>	<u>Expiration of Term</u>
Mayor, Mayor Pro Tem and David Sifuentes, Mayor	December 2011
Dr. Richard D. Schneider, Mayor Pro Tempore	December 2011
Philip C. Putnam, Councilmember	December 2009
Michael A. Cacciotti, Councilmember	December 2009
Mike Ten, Councilmember	December 2011

**City Staff.** The System is managed by the following members of the City's staff:

John Davidson serves as Interim City Manager. Mr. Davidson has over 28 years of experience in local government. The last twelve years he served as City Manager for the cities of Sierra Madre, Redlands, and Hemet.

Chu Thai serves as Finance Director. Mr. Thai has been with the City since February 2009 and has 14 years of experience with financial management with the cities of Beverly Hills, Morgan Hill, Tustin and Claremont.

Management of the System is provided by Matthew Sweeney, P.E., the City's Director of Public Works. Mr. Sweeney has been with the City since November 2008, and has over 25 years of experience in public works management.

### **City Staff**

The City currently employs approximately 145 full-time individuals, of whom 18.9 full-time equivalent work in the Water department. Employees of the City belong to one of four different labor unions or remain unrepresented.

The current status of the City's employment agreements is set forth below:

<u>Organization</u>	<u>Status</u>
Public Service Employees' Association	Extending to June 30, 2011
South Pasadena Police Officers' Association	Extending to June 30, 2011
South Pasadena Firefighters' Association	Extending to June 30, 2011
South Pasadena Battalion Chiefs' Association	Extending to June 30, 2011

The System is responsible for paying a portion of the City's personnel costs. The City's fiscal year 2007-08 personnel costs totaled \$15.5 million, of which \$1.2 million (or 7.6%) was allocated to the System. See Appendix B for information about the City's pension obligations and post-retirement medical benefit obligations.

### **Insurance Coverage**

The City is obligated under the Installment Purchase Agreement to maintain certain insurance. See Appendix C.

## THE SYSTEM

### General

The City operates four wells with a total capacity of 5.5 millions of gallons per day (“mgd”) and pumps the water into the City through two collection reservoirs with a capacity of 2 millions of gallons (“mg”), three distribution reservoirs with a total capacity of 10 mg, two elevated tanks with a total capacity of 300,000 gallons, six booster stations and four pressure zones. The City’s Garfield Reservoir has the capacity to hold 6.25 million gallons of water and provides the primary storage and pressure regulation for the System. The City maintains approximately 85 miles of water lines ranging from 2 to 24 inches in diameters that deliver water to approximately 6,300 meters. The average daily demand on the System is 4.5 mgd and the peak flow/demand on the System is 7.0 mgd.

### Billing Practices

System accounts are billed bi-monthly. The invoice is due 30 days after the billing date. If payment has not been received within the 30 day period, a 5% penalty is assessed. When the delinquent invoice is sent, notice is given as to when it is to be paid so that further fees will not be assessed. If the invoice is not paid within this time period, a 24-hour door hanger is placed at the property and a \$10.00 door hanger fee assessed. The door hanger notice states that the bill must be paid within the 24-hour period or the water service will be restricted and a \$45.00 restrict fee will be assessed. Water service will be re-connected only after the entire balance on the account is paid.

### Service Area

The System currently serves an area of approximately 3.44 square miles encompassing the incorporated area of the City and certain portions of the Cities of San Marino and Los Angeles. The System’s customers are primarily residential with small to medium retailers and financial institutions, limited manufacturing and no agriculture. In addition, the Cal-America Water Company purchases a small amount of water from the System’s groundwater supply for use in the City of San Marino.

Because of the built-out nature of the City, the City does not expect any significant population growth within the service area.

### Sources of Water Supply

**General.** The City has three sources of water:

- Groundwater from the Main San Gabriel Basin (the “**Main Basin**”), which historically has accounted for approximately 90% of the City’s water supply.
- Imported water, which historically has accounted for approximately 10% of the City’s water supply.
- Water from adjacent water purveyors.

Recycled water is not available in the City because of the great distance between the City and the local water recycling facilities. However, the City could receive indirect benefits

from recycling projects developed by other local water agencies, as a result of the resulting reduction of groundwater pumping by others in the San Gabriel Basin.

The City manages its water supplies to maximize the use of groundwater and minimize the use of imported water.

**Groundwater.** With respect to its groundwater rights, the City has a prescriptive pumping right of 3,567.70 acre-feet and a pumper's share of 1.8052% of the "Operating Safe Yield" from the Main Basin. The Main Basin is a large groundwater basin replenished by stream runoff from the adjacent mountains and hills, by rainfall directly on the surface of the valley floor, subsurface inflow from Raymond Basin and Puente Basin, and by return flow from water applied for overlying uses. In addition, the Main Basin is replenished with imported water. The Main Basin serves as a natural storage reservoir, transmission system and filtering medium for wells constructed therein. There are three municipal water districts overlying and partially overlying the Main Basin. The three districts are the Upper San Gabriel Valley Municipal Water District, of which the City is a member (the "**Upper District**"), San Gabriel District and Three Valleys District.

The Main Basin was adjudicated in 1973 and is managed by a Main Basin Watermaster. Although there is no limit on the quantity of water that may be extracted by parties to the Main Basin adjudication, including the City, groundwater production in excess of water rights, or the proportional share (pumper's share) of the Operating Safe Yield, requires purchase of imported replacement water to recharge the Main Basin. If the City pumps more than the allowed amount of water, replacement water must be purchased from the Upper District. During the period of management under the Main Basin adjudication, significant drought events occurred from 1969 to 1977, 1983 to 1991 and 1998 to 2004. In each drought cycle, the Main Basin was managed to maintain its water levels.

**Imported Water.** In addition, the City may purchase water from the Metropolitan Water District of Southern California ("**MWD**") through USG-2 (see "Pumping and Distribution" below), which has a capacity of 4,500 gpm.

Furthermore, the City receives approximately 25 acre-feet of water each year from the City of Pasadena to serve a small portion of the City.

**Historical and Projected Water Supply.** The following table sets forth historical and projected water supplies.

**Table 1**  
**CITY OF SOUTH PASADENA WATER SYSTEM**  
**Historical and Projected Water Supply**  
**(in acre feet)**

<b>Water Supply Source</b>	<b>2000</b>	<b>2005</b>	<b>2008</b>	<b>2010</b>	<b>2015</b>	<b>2020</b>
Groundwater production (1)	4,822	4,873	5,205	5,229	5,280	5,333
Purchase from MWD	300	300	0	0	0	0
Purchase from the City of Pasadena	23	25	25	25	25	25
<b>Total</b>	<b>5,145</b>	<b>5,198</b>	<b>5,230</b>	<b>5,254</b>	<b>5,305</b>	<b>5,358</b>

(1) The City has a prescriptive pumping right of 3,567.7 acre-feet per year and a pumper's share of 1.8052% of the Operating Safe Yield.

Source: City of South Pasadena.



The City considers its water supply to be adequate for its long-term needs.

### **Pumping and Distribution**

The City has four active wells located within the Main Basin: Graves Well 2, Wilson Well 2, Wilson Well 3 and Wilson Well 4. The City also has one MWD connection, USG-2. In addition, the City has three interconnections with the City of Pasadena.

The total pumping capacity is about 5,600 gallons per minute (gpm), as follows:

Graves Well 2: 900 gpm  
Wilson Well 2: 1,500 gpm  
Wilson Well 3: 2,100 gpm  
Wilson Well 4: 1,100 gpm

Water from Graves Well 2 is pumped into the Graves Reservoir and water from the Wilson Wells is pumped into the Wilson Reservoir. The Graves Reservoir has a capacity of 1.0 million gallons (MG) and the Wilson Reservoir has a capacity of 0.9 MG; replacement of the Wilson Reservoir (and, perhaps, replacement of the Graves Reservoir) is being financed with proceeds of the 2009 Bonds. A booster station at each well site pumps water through a transmission main that leads to the Garfield Reservoir, a 6.25 MG reservoir located within the City, which the City has plans to reconstruct. There are two distribution reservoirs, the Grand and Westside Reservoirs, and two elevated steel tanks, the Raymond Hill Tank and Bilicke Tank, within the City limits that receive water from the Garfield Reservoir. Reconstruction of the Grand Reservoir was completed in February 2007. The reconstruction of the Wilson Well 2 Pump House will be completed in 2009.

The City's distribution system contains four pressure zones: the Raymond Zone, the Central Zone, the Bilicke Zone and the Pasadena Zone. The City provides water to the Raymond Zone, the Central Zone, and the Bilicke Zone. The City of Pasadena provides water to the Pasadena Zone, located at the top of the Raymond Hill. The City may also deliver water to Raymond Hill Tank when Pasadena is unable to supply water to the Pasadena Zone.

### **Water Treatment**

There is one chlorination station at the Graves site, two chlorination stations at the Wilson site and one chlorination station at the Grand Reservoir. The chlorination stations provide normal and emergency chlorination to the water leaving each reservoir and prior to the booster stations.

In addition, the City meets water contaminant requirements established by the Department of Public Health by blending poorer quality wells with cleaner wells. Historically, Volatile Organic Chemicals (“**VOCs**”) and Nitrate have been detected at the City's wells at concentrations above the Maximum Contaminant Levels (“**MCL**”). The City has been using blending to treat VOCs and Nitrate detected at its wells. However, when VOCs or Nitrate could not be reliably blended to below the MCLs, the City reduced production from its wells and purchased water from Metropolitan to supply its service area.

## Historical and Projected Water Demand

The following table sets forth historical and projected water demand for the System.

**Table 2**  
**CITY OF SOUTH PASADENA WATER SYSTEM**  
**Historical and Projected Water Demand**  
**(in acre feet)**

Type of Use	<u>1995</u>	<u>2000</u>	<u>2005</u>	<u>2008</u>	<u>2010</u>	<u>2015</u>	<u>2020</u>
Single family residential	3,728	3,754	3780	3796	3806	3833	3860
Multi-family residential	944	955	967	974	978	990	1002
Commercial, institutional, governmental	316	325	335	341	345	355	366
Landscape	47	51	55	57	59	60	60
Sales to other agencies	<u>60</u>	<u>60</u>	<u>62</u>	<u>63</u>	<u>65</u>	<u>67</u>	<u>70</u>
<b>Total</b>	<b>5,095</b>	<b>5,145</b>	<b>5,198</b>	<b>5,230</b>	<b>5,254</b>	<b>5,305</b>	<b>5,358</b>

Source: City of South Pasadena.

## Customer Base

**Active Water Connections.** The following table shows the number of connections by user type for the previous five fiscal years.

**Table 3**  
**CITY OF SOUTH PASADENA WATER SYSTEM**  
**Active Water Connections**

<u>Description</u>	<u>June 30,</u> <u>2004</u>	<u>June 30,</u> <u>2005</u>	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2007</u>	<u>June 30,</u> <u>2008</u>
Residential	5,589	5,700	5,702	5,803	5,865
Commercial/Industrial	361	361	368	368	371
Other	4	4	4	4	4
<b>Total All Users</b>	<b>5,954</b>	<b>6,065</b>	<b>6,074</b>	<b>6,175</b>	<b>6,240</b>

Source: City of South Pasadena.

**Largest Users.** The following table shows the top five water users in the City based on service charge revenue to the System during Fiscal Year 2007-08.

**Table 4  
CITY OF SOUTH PASADENA WATER SYSTEM  
Top Five Customers by Service Charge Revenue  
Fiscal Year 2007-08**

<u>Account Name</u>	<u>Type of Business</u>	<u>Service Charge Revenue</u>	<u>% of Total Annual Service Charge Revenue</u>
South Pasadena U.S.D.	School	\$5,246.30	0.12%
J.G. Park, Inc.	Laundry	1,749.85	0.04
Prospect Manor	Convalescent Hospital	1,698.66	0.04
The Vons Co.	Grocery	1,532.10	0.04
Oak Tree Inn	Restaurant	<u>1,481.73</u>	<u>0.03</u>
<b>Total</b>		\$11,708.64	0.27%

Source: City of South Pasadena

### Water Rates and Charges

The City Council has the independent authority to establish rates and fees for use of the System, subject to the provisions of State law.

**Current Rate Structure.** The City's current water rate structure consists of a fixed monthly meter charge and a consumption charge. This rate structure will be in effect only until July 1, 2009.

**Table 5  
CITY OF SOUTH PASADENA WATER SYSTEM  
Current Rate Structure  
(Until July 1, 2009)**

<u>Meter Rate</u>		<u>Consumption Rate</u>		
<u>Meter Size</u>	<u>Meter Rate</u>	<u>Domestic, Commercial, Industrial, Landscape</u>	<u>Multi-Unit Residents</u>	<u>Consumption Rate per HCF</u>
3/4"	\$ 17.43	1 – 2,000 CF	1 – 1,500 CF	\$0.91
1"	29.05	2,000 CF +	1,500 CF +	1.21
1 1/2"	58.00			
2"	92.80			
3"	185.73			
4"	290.20			
6"	580.30			
8"	1,160.70			

**Rate Structure Effective July 1, 2009.** On May 6, 2009, based on a rate study by Willdan Financial Services dated April 15, 2009 (the "Rate Study"), the City Council approved an increase in water rates effective July 1, 2009 and subsequent increases for the succeeding three fiscal years. This is the first time the City has raised rates since 1992.

The following table summarizes the adopted schedule of bi-monthly water rates that will be effective July 1, 2009. The service charge is a combination of a fixed base rate and a consumption charge.

**Table 6  
CITY OF SOUTH PASADENA WATER SYSTEM  
Water Rate Structure**

<u>Meter Size</u>	<u>BI-MONTHLY METER CHARGE</u>			
	<u>FY2009/2010</u>	<u>FY2010/2011</u>	<u>FY2011/2012</u>	<u>FY2012/2013</u>
3/4"	\$44.34	\$51.00	\$58.14	\$64.54
1"	62.08	71.40	81.40	90.36
1 1/2"	79.82	91.80	104.66	116.16
2"	128.60	147.90	168.60	187.16
3"	487.84	561.00	639.54	709.90
4"	620.88	714.00	813.96	903.50
6"	931.32	1,071.02	1,220.56	1,355.26
8"	1,286.10	1,479.02	1,686.08	1,871.54
<b>CONSUMPTION CHARGE PER HCF</b>	\$ 0.92	\$ 1.06	\$ 1.20	\$ 1.34

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Source: City of South Pasadena.

**Comparative Water Charges.** For the City (based on its rates effective July 1, 2009) and surrounding communities, the table below is a summary comparison of the typical bi-monthly bill for a single-family residence.

**Table 7  
CITY OF SOUTH PASADENA WATER SYSTEM  
Water Rates –Single Family Residential  
(Bi-Monthly Charges)  
As of July 1, 2009**

<u>Water Service Provider</u>	<u>Stand By/ Flat Rate</u> <sup>(1)</sup>	<u>Rate</u> <sup>(2)</sup>	<u>Usage Total</u> <sup>(3)</sup>	<u>Total Bill</u> <sup>(4)</sup>
Arcadia	\$11.39	\$1.22 to 1.82	\$42.70	\$54.09
Cucamonga	20.60	1.33 to 1.50	48.30	68.90
San Gabriel <sup>(5)</sup>	13.44	0.94	32.90	46.34
<b>South Pasadena</b>	<b>44.34</b>	<b>0.92</b>	<b>32.20</b>	<b>76.54</b>
Upland	16.00	1.16 to 1.61	46.32	62.32
Pasadena <sup>(6)</sup>	16.04	0.50 to 1.86	64.43	80.47
Golden State Water <sup>(7)</sup>	48.40	1.866	65.31	113.71
Department of Water & Power	-	1.939 to 3.882	72.60	72.60
City of Alhambra	28.98	1.69 to 1.79	60.25	89.23
<b>Average</b>				<b>73.80</b>

- (1) Flat rate based on ¾-inch connection.
- (2) Rate is cost per unit serviced. Unit = 100 cubic feet.
- (3) Usage total based on 35 Units. Average used in South Pasadena.
- (4) Bi-monthly bill.
- (5) San Gabriel County Water District. (Note: The City of San Gabriel is serviced by five water companies; however, the majority of the city is serviced by the San Gabriel County Water District.)
- (6) Rates shown for Area A (for water delivered April 1<sup>st</sup> through September 30<sup>th</sup>); includes CIP surcharge of \$0.55218 per HCF.
- (7) Golden State Water's Region III Service Area serves approximately 98,300 customers in all or portions of Barstow, Claremont, Montclair, Pomona, Upland, Calipatria, Niland, Victorville, Cypress, La Palma, Los Alamitos, Placentia, Seal Beach, Stanton, Yorba Linda, Cowan Heights, Peacock Hills, San Dimas, Charter Oak, Arcadia, El Monte, Irwindale, Monrovia, Monterey Park, Rosemead, San Gabriel, Temple City, and portions of Los Angeles, San Bernardino, Imperial and Orange Counties.

Source: City of Arcadia; Cucamonga Valley Water District; San Gabriel County Water District; City of South Pasadena; City of Upland; City of Pasadena; Willdan Financial Services.

### **Development Impact Fees**

The City does not charge development impact fees for new development.

### **Existing Debt of the System**

The only outstanding obligation of the System other than the Installment Payments is the obligation to pay the 2004 Installment Payments under the 2004 Installment Purchase Agreement. The outstanding principal component of the 2004 Installment Payments was equal to \$8,190,000 as of June 30, 2008.

### **Environmental Issues Relating to the System**

**Permits and Licenses.** The System operates and is governed under regulatory licenses and permits from the following agencies:

- 1.) California Department of Public Health
- 2.) California Department of Water Resources
- 3.) San Gabriel Basin Water Quality Authority
- 4.) Main San Gabriel Basin Watermaster
- 5.) Upper San Gabriel Valley Metropolitan Water District

All permits & licenses are current and there have been no non-compliance notices of any kind in the last three years.

The City is not aware of any environmental or regulatory issues that would adversely impact its ability to deliver water.

**Regulatory Issues.** The applicable drinking water standards for the System are provided in the California Domestic Water Quality and Monitoring Regulations, Title 22 of the California Administrative Code. These regulations incorporate the requirements of the U.S. Environmental Protection Agency in conformance with the Safe Drinking Water Act (PL 93-523). The standards specify water quality sampling frequencies and location as well as maximum concentrations of chemical constituents and are continuously revised and amended.

The State regulations contain requirements for both primary and secondary drinking water standards. The primary standards relate to those contaminants that, if exceeding the maximum contaminant levels (“**MCL**”), would present a health risk if used for drinking or culinary purposes. The secondary standards relate to contaminants that, if in excess of MCL, may be objectionable, but generally do not present a health risk.

As described in “THE SYSTEM – Water Treatment” above, two of the System’s wells produce high levels of volatile organic compounds and/or nitrate. Water from these wells is blended with water from other wells to decrease these high levels. Through this blending process, the water quality of the System meets all existing standards, and the System is in compliance with all current Federal and State requirements.

In addition, City wells are located in the vicinity of the San Gabriel Valley Area 3 Superfund Site (“**Area 3**”) established by the United States Environmental Protection Agency (“**USEPA**”). The City does not expect the proximity of Area 3 to adversely impact the quantity or quality of the City’s water supply.

## Capital Improvement Plan

The following table outlines the seven-year System capital improvement plan (“CIP”). The CIP accounts for inflation, as well as additional water purchase costs that will be required while the reservoirs are out of service. The City expects to fund the CIP with proceeds of the 2009 Bonds and with ongoing System Revenues. The City does not expect to issue Parity Debt to fund the CIP.

**Table 8**  
**CITY OF SOUTH PASADENA WATER SYSTEM**  
**Capital Improvement Plan**

<u>PROJECT</u>	<u>FY08-09</u>	<u>FY09-10</u>	<u>FY10-11</u>	<u>FY11-12</u>	<u>FY12-13</u>	<u>FY13-14</u>	<u>FY14-15</u>
Wilson Well 2	\$ 700,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Wilson Reservoir	500,000	5,800,000	5,800,000	-	-	-	-
Transmission Line Replacements	1,000,000	3,500,000	4,000,000	-	-	-	-
Grevelia Water Main Relocation	-	1,000,000	-	-	-	-	-
Hawthorne Water Main Replacement	-	-	650,000	-	-	-	-
Garfield Reservoir	-	1,000,000	6,900,000	6,900,000	3,500,000	-	-
Westside Reservoir Roof	-	130,000	-	-	-	-	-
Graves Reservoir	-	-	-	-	600,000	4,500,000	4,500,000
Automated Meter Reading	-	-	-	2,800,000	-	-	-
<b>Total</b>	<b>\$2,200,000</b>	<b>\$11,430,000</b>	<b>\$17,350,000</b>	<b>\$9,700,000</b>	<b>\$4,100,000</b>	<b>\$4,500,000</b>	<b>\$4,500,000</b>

Source: City of South Pasadena.

## Historical Revenues and Expenses

The following table shows the System revenues and expenses for fiscal years 2005-06 through 2007-08 based on the City's audited financial statements. The City's audited financial statements for fiscal year 2007-08 are attached in "APPENDIX A – Comprehensive Annual Financial Report – Fiscal Year Ended June 30, 2008." Projected results for fiscal year 2008-09 are included in the table set forth below in " – Projected Operating Results and Debt Service Coverage".

**Table 9**  
**City of South Pasadena**  
**Historical Water System Revenues, Operation and Maintenance Costs**  
**for the Three Fiscal Years Ended June 30, 2008**

	2005-06	2006-07	2007-08
<b>Operating Revenues:</b>			
Sales and service charges	\$ 4,442,966	\$ 4,687,499	\$ 4,543,192
Miscellaneous	90,764	54,042	14,695
<b>Total Operating Revenues</b>	<u>4,533,730</u>	<u>4,741,541</u>	<u>4,557,887</u>
<b>Operating Expenses:</b>			
Source of supply	552,523	297,794	
Pumping	525,926	729,332	
Transmission/collection	1,620,297	1,983,523	
Administration and general	918,738	368,644	451,312
Water distribution			1,209,164
Water production			1,784,874
Depreciation expense	109,963	96,379	79,328
<b>Total Operating Expenses</b>	<u>3,727,447</u>	<u>3,475,672</u>	<u>3,524,678</u>
Operating Income (Loss)	<u>806,283</u>	<u>1,265,869</u>	<u>1,033,209</u>
<b>Nonoperating Revenue (Expenses):</b>			
Interest revenue	369,399	401,925	370,557
Interest expense	(433,543)	(432,767)	(416,412)
Debt issuance costs			(8,710)
Gain (loss) on disposal of fixed assets			11,075
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(64,144)</u>	<u>(30,842)</u>	<u>(43,490)</u>
Changes in Net Assets	<u>742,139</u>	<u>1,235,027</u>	<u>989,719</u>
<b>Net Assets:</b>			
Beginning of Year, as previously reported		7,754,468	8,231,395
Restatements		(758,100)	(8,716)
Beginning of Fiscal Year, as restated	<u>7,012,329</u>	<u>6,996,368</u>	<u>8,222,679</u>
<b>End of Fiscal Year</b>	<u>\$ 7,754,468</u>	<u>\$ 8,231,395</u>	<u>\$ 9,212,398</u>

Source: City of South Pasadena.



## **Projected Operating Results and Debt Service Coverage**

The following table sets forth the City's estimated projected operating results for the System for the fiscal years ending June 30, 2009 through June 30, 2013. The projection reflects a number of assumptions including the following:

Growth: The projections assume 0% annual growth of the rate base.

Interest earnings: The projections assume 2.0% interest earnings on Operating Fund Balance and 3.0% interest earnings on amounts in the 2009 Bonds Reserve Fund.

Rate adjustments: With respect to service charges, the projections assume rate increases will be implemented each July 1 through July 1, 2012, consistent with the rate structure adopted by the City Council on May 6, 2009.

Expenses: It is assumed annual operation and maintenance expenses of the System will increase as follows: a personnel growth rate of 3.5%, an expenditure growth rate of 4% and a water purchase cost growth rate of 10%.

The financial forecast represents the City's estimate of projected financial results based upon its judgment of the most probable occurrence of certain important future events. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material. The obligation of the City to make Installment Payments under the Installment Purchase Agreement is limited to System Net Revenues and the City is not obligated to apply any other revenues to make such Installment Payments.

**Table 10**  
**CITY OF SOUTH PASADENA WATER SYSTEM**  
**Pro Forma Cash Flow**  
**Fiscal Year 2008-09 through 2012-13**

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
<b>Operating Revenues</b>					
Water Sales/Standby Service Charge	\$3,107,000	\$3,573,050	\$4,109,008	\$4,684,269	\$5,199,538
Water Capital Surcharge	1,380,000	1,587,000	1,825,050	2,080,557	2,309,418
Investment Income	200,000	181,145	162,182	143,370	161,578
<b>Total Operating Revenues</b>	<b>4,687,000</b>	<b>5,341,195</b>	<b>6,096,240</b>	<b>6,908,196</b>	<b>7,670,534</b>
<b>Total Operating Expenses</b>	<b>3,523,316<sup>(1)</sup></b>	<b>4,221,165</b>	<b>3,557,416</b>	<b>3,692,854</b>	<b>3,833,468</b>
<b>System Net Revenues</b>	1,163,684	1,120,030	2,538,824	3,215,342	3,837,066
Balance in Rate Stabilization Fund	0	0	750,000	1,500,000	1,500,000
<b>Total Available System Net Revenues</b>	<b>1,163,684</b>	<b>1,120,030</b>	<b>3,288,824</b>	<b>4,715,342</b>	<b>5,337,066</b>
Debt Service					
2004A Bond Debt Service	621,800	621,800	623,050	622,225	619,725
2009 Bond Debt Service <sup>(2)</sup>	0	0	0	1,022,850	2,045,700
<b>Total Debt Service</b>	<b>621,800</b>	<b>621,800</b>	<b>623,050</b>	<b>1,645,075</b>	<b>2,665,425</b>
<b>Debt Service Coverage Ratio</b> <b>(with Rate Stabilization Fund)</b>	1.87	1.80	5.28	2.87	2.00
<b>Debt Service Coverage Ratio</b> <b>(w/o Rate Stabilization Fund)</b>	1.87	1.80	4.07	1.95	1.44

(1) Estimated actual results for the Fiscal Year ending June 30, 2009.

(2) Assumes capitalized interest through October 1, 2011.

Source: City of South Pasadena.

## CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS

### Article XIII B Gann Limit

Article XIII B of the California State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The “base year” for establishing such appropriation limit is the 1978-79 fiscal year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if (i) the financial responsibility for a service is transferred to another public entity or to a private entity, (ii) the financial source for the provision of services is transferred from taxes to other revenues, or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations subject to Article XIII B generally include the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions and refunds of taxes. “Proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to an entity of government from (i) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (ii) the investment of tax revenues. Article XIII B includes a requirement that if an entity’s revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Certain expenditures are excluded from the appropriations limit including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters and payments required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the providing of existing services more costly.

The City is of the opinion that its charges with respect to its System do not exceed the costs it reasonably bears in providing water service and are not subject to the limits of Article XIII B.

### Proposition 218

**General.** On November 5, 1996, California voters approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related “fee” or “charge,” which is 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” (and referred to in this section as a “property-related fee or charge”).

Specifically, under Article XIII D, before a municipality may impose or increase any property-related fee or charge, the entity must give written notice to the record owner of each parcel of land affected by that fee or charge. The municipality must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if a

majority of the property owners of the identified parcels present written protests against the proposal, the municipality may not impose or increase the property-related fee or charge.

Further, under Article XIID, revenues derived from a property-related fee or charge may not exceed the funds required to provide the “property-related service” and the entity may not use such fee or charge for any purpose other than that for which it imposed the fee or charge. The amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel, and no property-related 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.

In addition, Article XIIC states that “the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter shall impose a signature requirement higher than that applicable to statewide statutory initiatives.”

***Judicial Interpretation of Proposition 218.*** After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General opinion initially indicated that fees and charges levied for water and wastewater services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIID regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three recent cases have held that certain types of water and wastewater charges could be subject to the requirements of Proposition 218 under certain circumstances.

In *Richmond v. Shasta Community Services District* (9 Cal. Rptr. 3rd 121), the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIID to certain charges related to water service. In *Richmond*, the Court held that connection charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIID.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (March 23, 2005), the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition 218 and a municipality must comply with Article XIID before imposing or increasing such fees. The California Supreme Court denied the City of Fresno’s petition for review of the Court of Appeal’s decision on June 15, 2005.

In July 2006 the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (S127535, July 24, 2006), addressed the validity of a local voter initiative measure that would have (a) reduced a water agency’s rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency’s charges for ongoing water delivery are “fees and charges” within the meaning of Article XIID, and went on to hold that charges for ongoing water delivery are also “fees” within the meaning of Article XIIC’s mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIIC authorizes local voters to adopt an initiative measure that would

reduce or repeal a public agency's water rates and other water delivery charges. (However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIII C and was therefore invalid.)

The court in *Bighorn* specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was *not* determining whether the electorate's initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

**Proposition 218 and the City Water Rates.** The City's water rate structure as of July 1, 2009 was adopted by resolution on May 6, 2009. The City took the following actions to meet the requirements of Proposition 218:

- Notices were sent to property owners at least 45 days prior to May 6, 2009;
- A protest hearing was conducted on May 6, 2009.

The City will continue to comply with the provisions of Proposition 218 in connection with future rate increases.

**Conclusion.** It is not possible to predict how courts will further interpret Article XIII C and Article XIII D in future judicial decisions, and what, if any, further implementing legislation will be enacted.

Under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals the City's rates and charges, although it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness.

There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIII C and Article XIII D to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for utility service, or to call into question previously adopted utility rate increases.

## **BOND OWNERS' RISKS**

The purchase of the 2009 Bonds involves investment risk. If a risk factor materializes to a sufficient degree, it could delay or prevent payment of principal of and interest on the 2009 Bonds. Such risk factors include, but are not limited to, the following matters and should be considered, along with other information in this Official Statement, by potential investors.

### **Revenues; Rate Covenant**

System Revenues are dependent upon the demand for water services, which can be affected by population factors, more stringent water standards, water regulations, or problems with the City's water collection and treatment facilities. There can be no assurance that water service demand will be consistent with the levels contemplated in this Official Statement. A decrease in the demand for water services could require an increase in rates or charges in order to comply with the rate covenant. The City's ability to meet its rate covenant is dependent upon its capacity to increase rates without driving down demand to a level insufficient to meet debt service on the 2009 Bonds.

### **Enterprise Expenses**

There can be no assurance that expenses of the City will be consistent with the levels contemplated in this Official Statement. Changes in technology, changes in quality standards, increases in the cost of operation or other expenses could require substantial increases in rates or charges in order to comply with the rate covenant in the Installment Purchase Agreement. Such rate increases could drive down demand for water and related services or otherwise increase the possibility of nonpayment of the 2009 Bonds.

### **Environmental Regulation**

The kind and degree of water service which is effected through the System is regulated, to a large extent, by the federal government and the State of California. If the federal government, acting through the Environmental Protection Agency or additional legislation, or the State should impose stricter water quality standards upon the System, its expenses could increase accordingly and rates and charges would have to be increased to offset those expenses. It is not possible to predict the direction which federal or State regulation will take with respect to water treatment standards.

### **Natural Disasters**

The City, like all California communities, is subject to unpredictable seismic activity, fires or floods. If there were a severe seismic, flood or fire event in the City, there could be substantial damage to and interference with the City, including the System, which could impact the receipt of System Revenues, increase Operation and Maintenance Costs and adversely affect the City's ability to pay the Installment Payments.

**Seismic Hazards.** The City is subject to seismic activity and is likely to experience strong earthquakes during the term of the 2009 Bonds. According to the City's 1998 General Plan, the City is located in seismically active region, in an area of potential fault rupture, strong ground shaking and slope instability. These geologic and seismic hazards can affect the structural integrity of structures and utilities, and in turn can cause severe property damage and potential loss of life.

The principal threat in an earthquake is the potential for injuries or threat to human life due to damage or collapse of structures, such as buildings, freeways, bridges, and other infrastructure. Pursuant to Section 8876 of the California Government Code, cities and counties located within this Seismic Zone 4 are required to identify all potentially hazardous buildings and establish a program for their mitigation. Hazardous buildings, according to the General Plan Guidelines, are structures that are hazardous to life in the event of an earthquake because they were constructed prior to the adoption and enforcement of building codes requiring earthquake resistant building design; are constructed of unreinforced masonry; or include features that are not capable of resisting or withstanding a seismic event.

The City has adopted minimum standards for structural seismic resistance, and provides systematic procedures and standards for the identification and classification of unreinforced masonry buildings. A 1996 inventory of hazardous buildings reported that there are four buildings in the Mission West Historic District that have not been structurally reinforced and six unreinforced buildings in the remainder of the City.

Regional Faults. Regional faults that are potential sources of ground shaking within the City include the Sierra Madre Fault system, the Whittier Fault, and the San Andreas Fault. An earthquake anywhere on any of these faults could trigger secondary impacts in the City.

Local Faults. The General Plan reports that three local faults influence the City:

*Raymond Hill Fault:* this is the only “active” fault (the Alquist-Priolo Zones Special Studies Act defines “active” faults as those that have experienced surface displacement, or movement during the last 11,000 years) running through the City that is designated as an Alquist-Priolo Special Study Zone. This fault extends through the southern portion of South Pasadena.

According to a 1973 report, an earthquake of 7.5 magnitude is assumed along the Raymond Hill-Santa Monica-Malibu Coast fault on the average of approximately once in every 5,000 years. This rate suggests a recurrence interval of approximately 500 years for a 6.5 magnitude event, and 100 years for a 5.6 magnitude event. A seismic event along the Raymond Hill fault has the potential to generate surface rupture that would affect structures on and adjacent to the fault. In addition, a seismic event could generate ground shaking and associated secondary impacts that could affect areas beyond the immediate proximity of the fault.

*York Boulevard Fault:* this fault is commonly referred to as a parallel extension of the Raymond Hill Fault. It has not been designated as an Alquist-Priolo Special Studies Zone.

*Elysian Park Fault:* this fault has been identified as a seismically active plane fault buried at a depth of approximately 10 kilometers beneath the City. It underlies most of the City, including the 710 Freeway extension through South Pasadena. The Elysian Park Fault is second to the Raymond Fault, only in that since it is buried, ground rupture is not expected. In considerations of earthquake size and activity of the fault, it must be considered at least as significant as the Raymond Fault. The General Plan reports that, if the 1994 Northridge Earthquake, which occurred on a similar structure, is an indication, it is reasonable to expect earthquakes and magnitudes of 6.5 to 7.0 range.

Other Seismic Hazards. Liquefaction of the soil, occurring during a quake and often caused by high water table, is of secondary concern. The Los Angeles County Safety Element, however, indicates that South Pasadena is at low risk for liquefaction.

***Flooding Hazards.*** As part of the National Flood Insurance Program, floodplain studies have been conducted for various communities in Los Angeles County, including the City of South Pasadena. The results of these studies are presented on Flood Insurance Rate Maps (FIRM), which identify 100 and 500-year floodplain boundaries.

Because there are no floodplains in the City, the entire City is located within Zone C, which designates areas of minimal flooding.

The City is subject to flooding as a result of reservoir or dam failure. Devils Gate Dam is located approximately 5 miles north of the northwesterly City boundary. This dam is part of the Los Angeles County Flood Control District and is a concrete gravity dam. The dam has a capacity of 2,709 acre feet, and is 103 feet in height. However, the Dam has not retained its maximum capacity since the 1971 San Fernando earthquake. Extensive retrofitting was completed in early 1998 and approved by the California Department of Water Resources, Division of Safety of Dams.

***Fire Hazards.*** The threat of wildland fire to the City is generally low. A small portion of the southwestern corner of the City is identified in the Los Angeles County General Plan as having a high wildland fire hazard potential.

## **Insurance**

The Installment Purchase Agreement obligates the City to obtain and keep in force various forms of insurance or self-insurance for repair or replacement of a portion of the System in the event of damage or destruction to such portion of the System. No assurance can be given as to the adequacy of any such self-insurance or any additional insurance to fund necessary repair or replacement of any portion of the System. Significant damage to the System could cause the City to be unable to generate sufficient System Net Revenues to pay Installment Payments, in turn resulting in insufficient Revenues being available to the Authority to pay the 2009 Bonds.

## **Limitations on Remedies Available to Bond Owners**

The ability of the City to comply with its covenants under the Installment Purchase Agreement and to generate System Net Revenues sufficient to pay Installment Payments (and, in turn, resulting in sufficient Revenues to pay principal of and interest on the 2009 Bonds) may be adversely affected by actions and events outside of the control of the City, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See "Proposition 218" above. Furthermore, any remedies available to the Owners of the 2009 Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on bondowners remedies contained in the Indenture, the rights and obligations under the 2009 Bonds and the Indenture may be subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally,



now or hereafter in effect; usual equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the 2009 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

### **Secondary Market for Bonds**

There can be no guarantee that there will be a secondary market for the 2009 Bonds or, if a secondary market exists, that any 2009 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

### **Loss of Tax-Exemption**

As discussed under the caption "TAX MATTERS", interest on the 2009 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the 2009 Bonds were issued, as a result of future acts or omissions of the Authority in violation of its covenants in the Indenture or the City in violation of its covenants in the Installment Purchase Agreement. Should such an event of taxability occur, the 2009 Bonds are not subject to special redemption and will remain Outstanding until maturity or until redeemed under other provisions set forth in the Indenture.

### **Certain Bond Insurance-Related Risks**

In the event the Authority defaults in the payment of principal of or interest on the 2009 Bonds when due, the owners of the 2009 Bonds will have a claim under the Policy for such payments. See "BOND INSURANCE". In the event the Bond Insurer becomes obligated to make payments with respect to the 2009 Bonds, no assurance can be given that such event will not adversely affect the market for the 2009 Bonds. In the event the Bond Insurer is unable to make payment of principal of and interest on the 2009 Bonds when due under the Policy, the 2009 Bonds will be payable solely from Revenues and amounts held in certain funds and accounts established under the Indenture, as described in "SECURITY FOR THE 2009 BONDS."

The long-term ratings of the 2009 Bonds are dependent in part on the financial strength of the Bond Insurer and its claims-paying ability. The Bond Insurer's financial strength and claims-paying ability are predicated upon a number of factors that could change over time. If the long-term ratings of the Bond Insurer are lowered, such event could adversely affect the market for the 2009 Bonds. See "RATINGS" below.

Neither the City, the Authority nor the Underwriter has made an independent investigation of the claims-paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is being made

by the City, the Authority or the Underwriter in this Official Statement. Therefore, when making an investment decision with respect to the 2009 Bonds, potential investors should carefully consider the ability of the Authority to pay principal and interest on the 2009 Bonds, assuming the Policy is not available for that purpose, and the claims-paying ability of the Bond Insurer through final maturity of the 2009 Bonds.

### **CONTINUING DISCLOSURE**

The City has covenanted for the benefit of the Underwriter and the beneficial owners of the 2009 Bonds to provide certain financial information and operating data relating to the City no later than 210 days following the end of the City's fiscal year (presently June 30) (the "**Annual Report**"), commencing with the report for the Fiscal Year ending June 30, 2009, and to provide notices of the occurrence of certain enumerated events, if deemed by the City to be material under federal securities laws. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth below in "APPENDIX E — Form of Continuing Disclosure Certificate." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

The City failed to comply on a timely basis with its continuing disclosure undertaking relating to the 2004 Installment Payments (the "**2004 Undertaking**"). On May 6, 2009, the City filed the annual reports required by the 2004 Undertaking for fiscal years 2004-05, 2005-06, 2006-07 and 2007-08 and is now in compliance with the 2004 Undertaking. The City has retained a third party to act as dissemination agent with respect to the 2004 Undertaking and the Continuing Disclosure Certificate for the 2009 Bonds and expects in the future to comply with those undertakings in all material respects on a timely basis.

### **APPROVAL OF LEGAL PROCEEDINGS**

The legal opinion of Bond Counsel, approving the validity of the 2009 Bonds, in substantially the form attached hereto as Appendix D, will be made available to purchasers at the time of original delivery of the 2009 Bonds, and a copy thereof will accompany each 2009 Bond. Certain matters with respect to this Official Statement will be considered on behalf of the Authority and the City by Jones Hall, A Professional Law Corporation ("**Disclosure Counsel**"). Certain matters will be passed upon for the City and the Authority by the City Attorney.

*Payment of the fees of Bond Counsel and Disclosure Counsel is contingent upon issuance of the 2009 Bonds.*

### **TAX MATTERS**

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however, to certain qualifications set forth below, under existing law, the interest on the 2009 Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations.

The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 (the "**Code**") that must be

satisfied subsequent to the issuance of the 2009 Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the 2009 Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a 2009 Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each 2009 Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium is disregarded. Owners of 2009 Bonds with original issue discount or original issue premium, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to federal income tax and State of California personal income tax consequences of owning such 2009 Bonds.

In the further opinion of Bond Counsel, interest on the 2009 Bonds is exempt from California personal income taxes.

Owners of the 2009 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2009 Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the 2009 Bonds other than as expressly described above.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix D.

## **LITIGATION**

There is no action, suit or proceeding pending or, to the knowledge of the Authority or the City, threatened at the present time seeking to restrain or to enjoin the sale or delivery of the 2009 Bonds or in any way contesting or affecting the validity or enforceability of the 2009 Bonds, the Indenture or the Installment Purchase Agreement or any action of the Authority or the City contemplated by any of said documents.

There are no pending suits contesting or affecting the collection of System Revenues or which would have a material adverse effect on the System, the financial condition of the City, including the City's ability to make Installment Payments, or the receipt of System Revenues by the City.

## **FINANCIAL STATEMENTS**

Lance, Soll & Lunghard audited the financial statements of the City for the Fiscal Year ended June 30, 2008. The firm's examination was made in accordance with generally accepted auditing standards and Governmental Auditing Standards, issued by the Comptroller General of

the United States. See “APPENDIX A – Comprehensive Annual Financial Report – Fiscal Year Ended June 30, 2008.”

The City has not requested nor did the City obtain permission from Lance, Soll & Lunghard to include the audited financial statements as an appendix to this Official Statement. Accordingly, Lance, Soll & Lunghard has not performed any post-audit review of the financial condition or operations of the City.

## **RATINGS**

Upon issuance of the 2009 Bonds, Standard & Poor’s Ratings Services (“**S&P**”) is expected to assign the Bonds ratings of “AAA,” with the understanding that, upon delivery of the 2009 Bonds, the Policy will be issued by the Insurer. In addition, S&P has assigned an underlying rating of “A+” to the 2009 Bonds.

Upon issuance of the 2009 Bonds, Moody’s Investors Service (“**Moody’s**”) is expected to assign the Bonds a rating of “Aa2,” with the understanding that, upon delivery of the 2009 Bonds, the Policy will be issued by the Insurer.

The City has furnished S&P information and material which have not been included in this Official Statement. Generally, rating agencies base their ratings on information and material so furnished and on investigations, studies and assumptions made by the rating agencies. The ratings reflect only the view of such organization and an explanation of the significance of such rating may be obtained from S&P.

There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the 2009 Bonds.

## **UNDERWRITING**

The 2009 Bonds are being purchased by Chilton & Associates, Inc., as underwriter (the “**Underwriter**”). The Underwriter has agreed, subject to certain conditions, to purchase all of the 2009 Bonds described on the inside cover page of this Official Statement at an aggregate purchase price of \$41,871,996.85 (which is equal to the par amount of the 2009 Bonds, less an underwriter’s discount of \$412,347.50 and less an original issue discount of \$1,120,655.65).

The initial public offering prices stated on the inside cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the 2009 Bonds to certain dealers (including dealers depositing 2009 Bonds into investment trusts), dealer banks, banks acting as agent and others at prices lower than such public offering prices.

**MISCELLANEOUS**

References made in this Official Statement to certain documents and reports are brief summaries thereof and do not purport to be complete or definitive, and reference is hereby made to such documents and reports for a full and complete statement 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 or agreement between the Authority or the City and the purchasers or registered owners of any of the 2009 Bonds. The delivery and distribution of this Official Statement have been duly authorized by the Authority and the City.

SOUTH PASADENA PUBLIC FINANCING  
AUTHORITY

By:                   \ \ John Davidson                    
Interim Executive Director

CITY OF SOUTH PASADENA

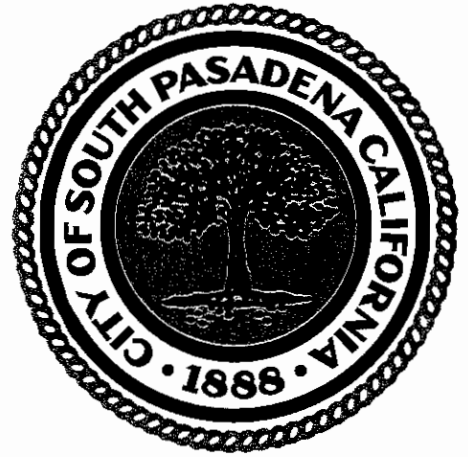
By:                   \ \ John Davidson                    
Interim City Manager

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**APPENDIX A**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT –**  
**FISCAL YEAR ENDED JUNE 30, 2008**







# **City of South Pasadena California**

**Comprehensive  
Annual Financial Report  
Fiscal Year Ended  
June 30, 2008**



CITY OF SOUTH PASADENA, CALIFORNIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FISCAL YEAR ENDED JUNE 30, 2008

PREPARED BY: FINANCE DEPARTMENT



CITY OF SOUTH PASADENA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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CITY OF SOUTH PASADENA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
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CITY OF SOUTH PASADENA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
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INTRODUCTORY SECTION [TAB]





## **CITY OF SOUTH PASADENA**

FINANCE DEPARTMENT  
1414 MISSION STREET, SOUTH PASADENA, CA 91030  
TEL: 626.403.7250 ■ FAX: 626.403.7251  
WWW.CI.SOUTH-PASADENA.CA.US

December 20, 2008

Honorable Mayor and Members of the City Council,

We proudly present to you the City of South Pasadena's Comprehensive Annual Financial Report (CAFR). This report consists of management's representations concerning the finances of the City of South Pasadena. It was prepared by the Finance Department with the assistance of the City's independent auditors, Lance, Soll & Lunghard, in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Government Accounting Standards Board (GASB). Management assumes full responsibility for the completeness and reliability of all of the information presented in this report. We believe that the data presented is complete and reliable in all material respects; that it is presented in a manner designed to fairly set forth the financial activity of the City's various funds and account groups; and that all disclosures necessary to enable the reader to gain a good understanding of the City's financial activity have been included.

The City's financial statements have been audited by Lance, Soll & Lunghard, a licensed certified public accounting firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2008, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of South Pasadena's financial statements for the fiscal year ended June 30, 2008, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of South Pasadena was part of a broader, federally mandated "single audit" designed to meet the special needs of federal grantor agencies. The standards governing single audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving

the administration of federal awards. These reports are available in the City of South Pasadena's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors in the financial section of the CAFR.

### **Profile of the City of South Pasadena**

South Pasadena is located approximately six miles northeast of downtown Los Angeles, on the west side of the San Gabriel Valley between the cities of Pasadena, San Marino, Los Angeles and Alhambra and has a population of 25,824. Founded in 1874 by the Indiana Colony, the City encompasses 3.44 square miles and was incorporated as a General Law city of the State of California on March 2, 1888. South Pasadena is noted for its beautiful, historically significant homes on tree-lined streets, for its excellent public schools and for a small-town atmosphere in the midst of greater Los Angeles.

The City is a full-service general law city that operates under the Council-Manager form of government. The City Council consists of five members elected to four-year staggered terms of office. The Mayor is selected from the City Council members and serves a one-year term. The City's other elected officials are the City Treasurer and City Clerk, each of whom serves a four-year term of office.

The City provides a full range of services, including police and fire protection; the construction and maintenance of streets and other infrastructure; sewer services; water utility; refuse collection; public improvements; planning and zoning; recreational activities and cultural events; and general administrative and support services.

The annual budget serves as the foundation of the City's financial planning and control. The City Council holds public hearings and adopts an annual budget resolution by July 1 of each fiscal year for all funds and account groups. The City Council may modify appropriations with majority approval. The budgets are adopted and presented on a basis consistent with generally accepted accounting principles.

Changes in budget appropriations at the fund level during the year must be approved by the City Council. The legal level of expenditures is controlled at the fund level, and appropriations lapse at the end of each fiscal year unless encumbered for re-appropriation by the City Council in the following fiscal year. Department heads may, without Council approval, amend individual line items within any fund in the maintenance and operations portions of the budget without increasing total appropriations for that division. The City Manager may, without Council approval, amend individual line items within any fund, and between divisions and programs, in the personnel costs, maintenance and operations, capital outlay and capital projects portions of the budget without increasing total appropriations for that fund.

## **Factors Affecting Financial Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the environment within which the City of South Pasadena operates.

**Local Economy.** Economic conditions both within the greater Los Angeles region and the State of California have realized steady expansion over a six-year period however is currently in a recession. In South Pasadena, General Fund revenue performance has consistently advanced, but at a lesser margin than other urban municipalities due in large part to a static sales tax base. Exceptional performance in property taxes continues, as the assessed value of South Pasadena real estate continues to be strong. Utility user's taxes and franchise fees change according to consumption and movement in the consumer price index.

Sales taxes, as mentioned, remain stable only, displaying little connection to the vagaries of exterior economic trends. While the residential character of our "quality-of-life" community limits change in our sales tax base, sales taxes have remained consistent for several years with the cost of living index. Expectations for marginally increased business development and expanded activity in the central business core of the City have grown with the sale of tax increment bonds by the South Pasadena Community Redevelopment Agency in July of 2000 and the continuation of activities for the Downtown Redevelopment Project. Operations at the Mission St. Gold Line Station, completion of the Mission/Meridian Village, development in the Ostrich Farm area, and successive steps in undertaking infrastructure construction projects suggest continued advances toward this end.

The City's largest tax source, property tax, has demonstrated several years of strong increases in growth in assessed values and in corresponding tax collections. Secured property taxes, the largest portion of the category, grew by an average of 9.06% over the five-year period ending at June 30, 2008. This is partially because the City's extremely high quality of life makes it a desirable place to live and work... Moreover, the City's proximity to commercial and cultural developments in greater Pasadena offers our residents distinct lifestyle advantages. While it appears possible that current widespread concern for declining housing sales prices and tightening credit markets may impact consumer spending in general in the shorter-term, assessed values and property taxes are expected to continue performing with similar forward momentum. Even so, we expect declining rates of annual increase in assessed valuations in the coming years with the phasing out of reassessments following sale and transfer of pre- Proposition 13 properties.

South Pasadena continues to remain in satisfactory financial condition thanks to a relatively stable revenue base. Our core services, in spite of steady and progressive revenue losses to the State of California, have remained consistent. We estimate that the City of South Pasadena loses at least \$2 million in General Fund property tax revenue each year resulting from property tax revenue shifts that commenced in 1992-93. Taking

matters into our own hands, the City has implemented the many findings of its various financial review committees, including a full allocation of costs between funds and a professional cost recovery/fee study in FY 2005. These changes have modestly impacted the General Fund bottom line.

**Long-term financial planning** In FY 2004, the City established a longer-range vision for its sewer system and water enterprise by adjusting charges for service to finance many necessary improvements. Review of these issues is continuing in FY 2009. In addition improvements to street related infrastructure are also being reviewed and considered.

**Internal Controls** The management of the City is responsible for establishing and maintaining an internal control structure to ensure that the assets of the City are protected from loss, theft or misuse, and to ensure that adequate account data is compiled for the preparation of financial statements, in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control structure should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits require estimates and sound judgments by management.

**Cash management policies and practices** Under the direction of the City Treasurer, working in collaboration with the Investment Policy Review Committee, cash temporarily idle during the year was invested in obligations of a federal agency bonds issued by the U.S. Treasury; demand deposits; and, predominantly, the State Treasurer's Local Agency Investment Fund (LAIF). Monies invested in LAIF have availability on one day's notice.

The City Council annually adopts, by resolution, an investment policy for the City's funds. Similarly, the Community Redevelopment Agency adopts an investment policy for Agency funds. The policy defines the objectives and priorities of the investment program, stressing the primary objectives of safety and liquidity of funds. The third priority is the achievement of maximum yield within the constraints of the primary objectives. The City Treasurer, charged with the responsibility of custody and investment of surplus City funds, prepares the investment policy in collaboration with the Investment Policy Review Committee.

**Risk Management** The City is a member of the California Joint Powers Insurance Authority (CJPIA). The CJPIA is composed of 120 California public entities. The CJPIA provides joint protection and administration for claims administration. Member cities pool their claims and losses, jointly purchase excess insurance, and share the costs of administration and related costs. The City participates in the CJPIA comprehensive liability and workers' compensation insurance programs through actuarially determined annual coverage contributions.

**Pension and other postemployment benefits** The City provides its full-time employees retirement benefits through two defined benefit pension plans, one for its sworn police and fire safety employees, and one for its miscellaneous employees. These



plans are part of the California Public Employee Retirement System (CalPERS). The City makes contributions to the plans based on amounts determined by CalPERS actuaries. The City also contributes the employees' required contributions, or a portion thereof, on their behalf and for their account. The City also provides employment and post-employment health benefits through PERS.

The City provides post-employment health benefits to its employees in accordance with agreements reached with the various employee bargaining groups. The City pays for retirees' health care premiums in these plans up to the contribution limits established in the agreements with each respective bargaining unit. These payments are financed on a pay-as-you-go basis. As of June 30, 2008 the City was providing benefits to an average of 104 participants. Beginning with the annual financial report for fiscal year ending June 30, 2009, the City will include information pertinent to the unfunded actuarially accrued liability resulting from this post-employment benefit in conformity with the requirements of Government Accounting Standards Board Statement number 45.

### **Awards and Acknowledgements**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of South Pasadena for its comprehensive annual financial report for the fiscal year ended June 30, 2007. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of South Pasadena has received a Certificate of Achievement for the last twenty consecutive years (fiscal years ended 1987 through 2007). We believe our current report continues to conform to the Certificate of Achievement program requirements, and will again submit it to GFOA for award consideration.

The Certificate of Achievement award program conducted by the California Society of Municipal Finance Officers (CSMFO) was discontinued for prior recipients of the award beginning with reports for the fiscal year ended June 30, 2006 due to concerns with the duplication of administrative effort required for participation in the CSMFO and GFOA award programs. Accordingly, the City of South Pasadena did not submit application for the CSMFO Certificate of Achievement program for the fiscal year ended June 30, 2006. Prior to discontinuation of the program, the City was awarded a Certificate for Outstanding Financial Reporting for its CAFR for nineteen consecutive years (fiscal years ended 1987 through 2005).

The preparation and publication of this report is made possible through the dedication of the entire Finance Department staff. Continued thanks are again extended to our audit firm, Lance, Soll & Lunghard, who are successfully completing the fifth year of audit contract work with the City, having added many contributions to our internal control structure and improvements in our financial reporting. We also thank the City Council for its commitment to conducting the financial operations and corresponding financial disclosures of the City in an open, public and transparent manner.

Respectfully submitted,

Tracey L. Hause  
Interim Finance Director

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of South Pasadena  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Oliver S. Cox*

President

*Jeffrey R. Emer*

Executive Director

**CITY OF SOUTH PASADENA, CALIFORNIA**

**OFFICIALS OF THE CITY OF SOUTH PASADENA**

**CITY COUNCIL**

Philip Putnam  
Mayor

David Sifuentes  
Mayor Pro Tempore

Dr. Richard D. Schneider  
Council member

Michael A. Cacciotti  
Council member

Mike Ten  
Council member

**ADMINISTRATION AND DEPARTMENT HEADS**

City Manager and Executive Director of  
South Pasadena Redevelopment Agency

Lilian Myers

Assistant City Manager

Andre Dupret

City Clerk

Sally Kilby

City Treasurer

Victor Robinette

Director of Finance (Interim)

Tracey Hause

Director of Public Works

Shin Furukawa

Director of Planning and Building

David Watkins

City Librarian

Steve Fjeldsted

Police Chief

Daniel Watson

Fire Chief

Gerald Wallace

Director of Community Services

Sergio Gonzalez

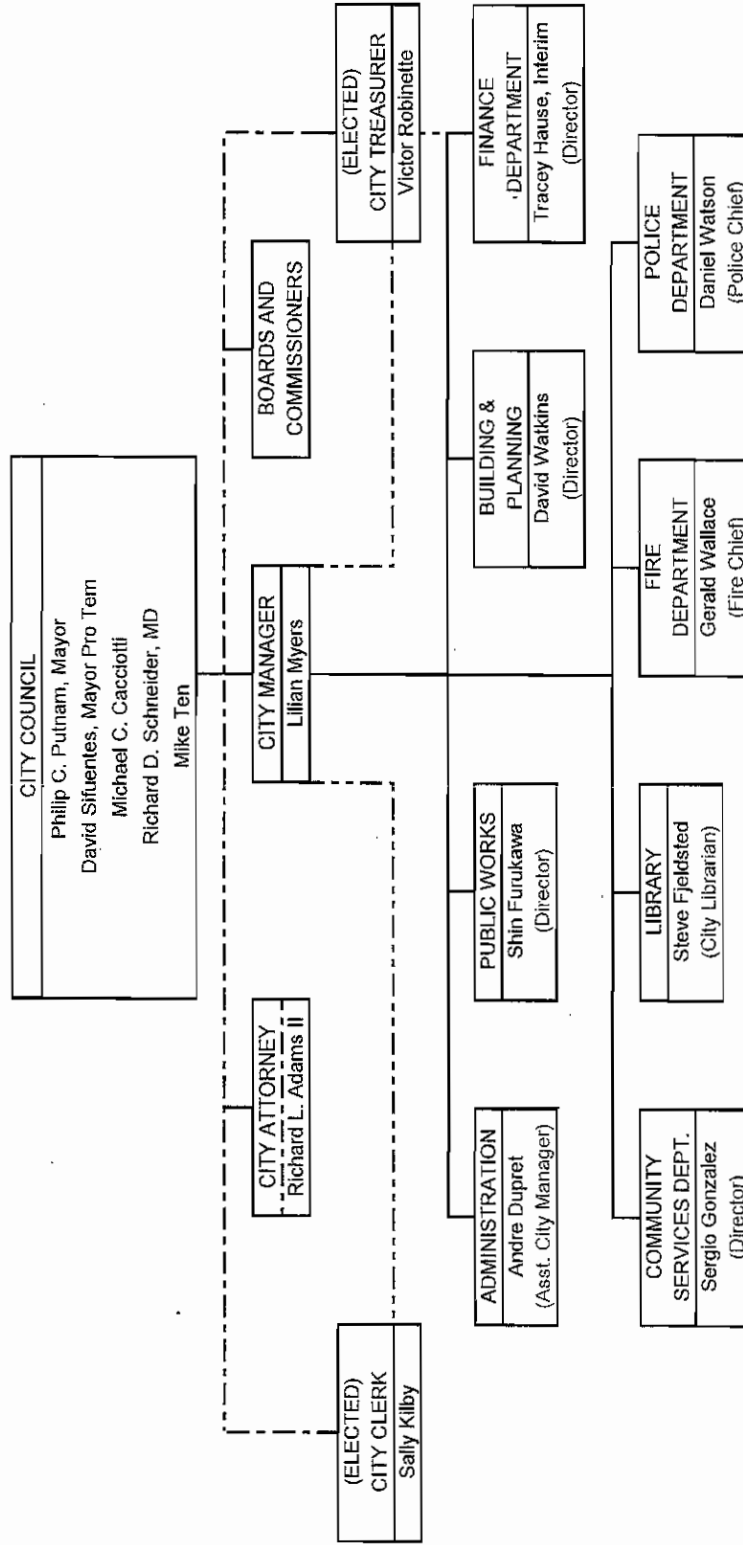
City Attorney

Richard L. Adams II

# CITY OF SOUTH PASADENA

## ORGANIZATIONAL CHART

2008 - 2009 Budget



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FINANCIAL SECTION [TAB]





*Retired*

**Robert C. Lance**  
1914-1994  
**Richard C. Soll**  
**Fred J. Lunghard, Jr.**  
1928-1999

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council  
City of South Pasadena, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of South Pasadena, California, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of South Pasadena's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of South Pasadena as of June 30, 2008. The respective changes in financial position and cash flows, where applicable thereof, and the respective budgetary comparison for the General Fund and the MTA Pedestrian Improvement Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2008, on our consideration of the City of South Pasadena's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To the Honorable Mayor and Members of the City Council  
City of South Pasadena, California

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying introductory section, the combining and individual fund statements, schedules and statistical tables are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The accompanying introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them.

*Lance, Soll & Lunghard, LLP*

December 24, 2008

## MANAGEMENT DISCUSSION AND ANALYSIS [TAB]



## Management's Discussion and Analysis

As management of the City of South Pasadena, we offer readers of the City of South Pasadena's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the City's financial statements.

### (A) Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$80,968,803 (*net assets*). Of this amount, \$11,934,425 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$4,011,415.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$15,374,168 an increase of \$4,757,314. Of this amount, \$9,878,564 or approximately 64.3% of total fund balances are available for spending at the City's discretion (*unreserved fund balance*).
- The increase in the City's governmental funds reported combined fund balances was the result of an overall excess of revenues of \$27,007,617 over expenditures of \$22,493,765. Further there was a prior period adjustment of \$243,452. Components of the prior period adjustment of \$243,452 are detailed in the Notes to the Financial Statements.
- At the end of the current fiscal year, the unreserved fund balance for the General Fund was \$8,398,099, or 46.4% of total General Fund Expenditures.
- The City's net capital assets increase of \$1,290,817 from the prior year.
- The City's net long-term liabilities decreased by \$269,643 or 2.3%. The decrease was a result primarily of principal payments made on the 2000 Tax Allocation Bonds and the 2004 Water Revenue Bonds.

### (B) Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of South Pasadena is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, with the use of the accrual basis of accounting, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, planning, building and safety, recreation and debt service. The business-type activity of the City is its water enterprise.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of South Pasadena, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of South Pasadena maintains 33 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, MTA Pedestrian Improvement Grant Fund, and the Community Redevelopment Agency Administration Fund, all of which are considered to be major funds for the purposes of this report. Data from the other 29 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these *non-major* governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of South Pasadena adopts an annual appropriated budget for its General Fund and each of its special revenue funds. A budgetary comparison statement has been provided for each governmental fund to demonstrate compliance with this budget. The budgetary comparison statement for the General Fund is located in the basic financial statements; the budgetary comparison statements for the nonmajor governmental funds are presented in the Additional Financial Information section of this report.

**Proprietary funds.** The City of South Pasadena maintains one type of proprietary fund, an enterprise fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account of its water utility. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found in notes to the financial statements.

The combining statements referred to earlier in connection with nonmajor governmental funds together with information are presented immediately following the notes to the financial statements.

### **(C) Government-wide Financial Analysis.**

Net assets may serve as a useful indicator of a government's financial position. In the case of the City of South Pasadena, assets exceeded liabilities by \$80,968,803 at the close of the most recent fiscal year. The primary reason for this change is increased cash and investments as a result of increased tax revenues and a less aggressive capital improvement program than in prior years. By far the largest portion of the City's net assets, \$62,429,549 or 77.1% reflects its investment in non liquid capital assets (e.g. land, infrastructure, buildings, and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

**City of South Pasadena Net Assets  
As of June 30, 2008 and 2007**

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$18,953,744	\$15,091,514	\$ 9,402,038	\$ 9,375,960	\$28,355,782	\$24,467,474
Capital assets	59,240,252	60,463,154	9,373,431	8,971,387	68,613,683	69,434,541
<b>Total assets</b>	<b>\$78,193,996</b>	<b>\$75,554,668</b>	<b>\$18,775,469</b>	<b>\$18,347,347</b>	<b>\$96,969,465</b>	<b>\$93,902,015</b>
Long-term liabilities outstanding	\$ 3,226,243	\$ 3,302,006	\$ 8,241,176	\$ 8,448,868	\$11,467,419	\$11,750,874
Other liabilities	3,211,348	3,526,669	1,321,895	1,667,084	4,533,243	5,193,753
<b>Total liabilities</b>	<b>\$ 6,437,591</b>	<b>\$ 6,828,675</b>	<b>\$ 9,563,071</b>	<b>\$10,115,952</b>	<b>\$16,000,662</b>	<b>\$16,944,627</b>
<b>Net assets:</b>						
Invested in capital assets	\$59,638,269	\$57,875,243	\$ 2,791,280	\$ 3,263,489	\$62,429,549	\$61,138,732
Restricted	3,725,863	4,454,617	2,878,966	2,136,719	6,604,829	6,591,336
Unrestricted	8,392,273	6,396,133	3,542,152	2,831,187	11,934,425	9,227,320
<b>Total Net Assets</b>	<b>\$71,756,405</b>	<b>\$68,725,993</b>	<b>\$ 9,212,398</b>	<b>\$ 8,231,395</b>	<b>\$80,968,803</b>	<b>\$76,957,388</b>

The second largest portion of the City net assets of \$11,934,425 or 14.74% is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors. The remaining portion of the City's net assets, \$6,604,829 or 8.16%, represents special revenue resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the City of South Pasadena is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The City's governmental current assets increased by \$3,862,230 which resulted primarily from an increase in cash and investments \$3,871,595. This increase in cash is a result of additional revenues and less spending for capital projects than originally anticipated. The City's business-type current assets increased by \$26,078 primarily as a result in an increase of \$18,470 in inventories.

The City reported a net increase of \$1,290,817 in capital assets, an increase \$1,763,026 in governmental activities and a \$472,209 decrease in the business-type activities. The increases are a result of completed capital projects and the decreases a primarily a result of a change in accounting principles; specifically a change was made in the capitalization threshold from \$1,000 to \$5,000.

The City's governmental restricted assets decreased \$728,754 while the City's business-type restricted assets increased by \$742,247. The respective changes were a result of commitments for capital projects.



The City's net assets increased by \$4,011,415 during the current fiscal year, or a 5.2% increase the prior year. Total adjusted revenues increased by \$2,836,580. The City experienced increases in tax revenues \$1,833,965. Expenses decreased by \$183,634 or 0.7% over the prior year. The decrease was a result of a less aggressive capital improvement program in FY 2008.

#### Governmental Activities

Governmental activities net assets increased by \$3,030,412 thereby accounting for 4.4% of the total growth in the net assets of the City. Key elements of the increase in governmental activities net assets are as follow:

- Taxes for total governmental activities revenues, increased by \$1,684,066 (11.1%) from the prior year.
- Property taxes are levied based on assessed values, although increases in the assessed values of properties that do not change ownership are generally limited to 2% annually. Real estate sales in FY 2008 were strong due to high demand and historic low mortgage rates. This resulted in an \$869,878 (9.5%) increase.
- Sales taxes generally are a direct reflection of the general economy however with nature South Pasadena's tax bases, i.e. no big box stores, car dealerships, etc., sales tax remains strong with an increase of \$167,680 or 5.8%.
- Program revenues decreased by \$3,239,423 or 32.0% as a result of a decrease in grant funding.
- Investment earnings increased by \$50,335 (4.1%) during the year. This was primarily a result of more idle funds available for investment than originally anticipated.
- The City continues its efforts to maintain effective cost controls. As a result, governmental activities expense decreased by \$224,995 or 10.0% during FY 2008. Decreased expenditures are a result of a less aggressive capital program.

#### Business-type Activities

The City's proprietary fund (or enterprise fund) provides the same type of information found in the government-wide financial statements, but offers more detail in the form of a statement of cash flows. Unrestricted net assets of the fund at the end of the year amounted to \$3,542,152. Assets restricted for capital improvements were \$2,878,966. Total growth in net assets for these funds was an increase of \$981,003 or 11.9%.

#### (D) Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

## Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows and outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$15,374,168 an increase of \$4,757,314 from the prior year. This increase is the net result of \$831,578 (3.1%) decrease in total revenues, however a \$3,453,438 (13.3%) decrease in total expenditures and an increase of \$539,827 (96.4%) in other financing sources as a result of the sale of property.

Approximately 64.3% of fund balances constitute the unreserved fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it: 1) has already been committed to liquidate contracts and purchase orders for the prior period (2.6%), 2) represents net assets that are not available spendable resources (31.8%), 3) represents assets set aside to pay debt service (1.3%).

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$8,398,099, while the total fund balance reached \$9,851,947. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The unreserved fund balance represents of 46.4% General Fund expenditures, while the total fund balance represents 54.5% of that same amount.

The fund balance of the City's General Fund increased by \$3,103,035 during the current fiscal year. This represents an increase of 46% in fund balance from FY 2007. Key factors in this increase are as follows:

- Tax revenues increased \$1,502,757 or 10.8%. The majority of tax revenues is reported in and benefits General Fund activities. The nature of the taxes and the reasons for the change in these revenue sources is the same as described earlier for governmental activities.
- Expenditures increased by \$497,089 or 2.8% primarily as a result of salary and benefit increases to the employees.

The fund balance of the MTA Pedestrian Improvement Fund decreased into a further deficit position. This is primarily because expenditures are on a grant reimbursed basis. Additional grant reimbursements will be received in FY 2009 that will address the deficit.

In the Community Redevelopment Agency Capital Projects Fund, fund balance increased by \$173,825, which includes a minor restatement. The increase in fund balance is primarily a result of an excess of tax increment over anticipated expenditures.

Other governmental funds' fund balances increased \$1,955,847 (144.5%) during FY 2008. This resulted primarily from the sale of property.

**General Fund Budgetary Highlights**

The City adopts annual appropriated operating budgets for its governmental funds (General Fund, special revenue funds) and reports the results of operations on a budgetary comparison basis. The City also uses annual financial plans as a management tool for its enterprise fund, although the City doesn't not report the results of these funds on a budgetary comparison basis.

In preparing its budgets, the City attempts to estimate its revenues using realistic, but conservative, methods so as to budget its expenditure appropriations and activates in a prudent manner, As a result, the City Council adopts budget adjustments during the course of the fiscal year to reflect both changed priorities and availability of additional revenues if available to allow for expansion of existing programs. During the course of the year, the City Council amended the originally adopted budget for additional various programs.

The General Fund reflected a net total favorable budget variance of \$3,907,128 (before transfers) when comparing actual amounts to the final budget for the current fiscal year. This budget variance reflects a favorable variance in revenues of \$1,341,130 and a favorable variance in total expenditures of \$2,565,998. There were no significant budgetary variances between the final amended budget and actual results.

**Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for its governmental activities as of June 30, 2008, amounts to \$59,240.252 (net of accumulated depreciation). This investment in capital assets includes land, buildings, park improvements, roadways, sewer, vehicles, computer equipment, furniture, other equipment, and construction in progress.

Additional information on the City's capital assets can be found in the notes to financial statements section of this report, Note 4.

**Long-term debt.** At the end of the current fiscal year, the City of South Pasadena had total debt outstanding of \$3,226,243.

**City of South Pasadena Long-Term Debt**

	Governmental Activities	
	2008	2007
Employee compensated absences	\$ 688,226	\$ 649,095
Capital Leases	398,017	437,911
2000 Tax Allocation Bonds	2,075,000	2,150,000
Claims and Judgments Payable	0	0
Loan Payable	65,000	65,000
<b>Total</b>	<b>\$ 3,226,243</b>	<b>\$ 3,302,006</b>

The City's long-term debt decreased during the current fiscal year primary due a principal payment of the 2000 Tax Allocation Bonds.

**Proprietary Fund Long-Term Debt**

	Business-Type Activities	
	2008	2007
2004 Water Revenue Bonds	\$ 8,190,000	\$ 8,400,000
Compensated Absences	37,995	35,056
Unamortized Bond Premium	13,181	13,812
<b>Total</b>	<b>\$ 8,241,176</b>	<b>\$ 8,448,868</b>

Proprietary fund long-term debt decreased by \$207,692 during the current fiscal year as debt service pertaining to water revenue bonds issued in 2004 was made.

Further details on long-term debt can be found in the notes to financials statements section of this report, Note 6.

**Economic Factors and Next Year's Budget**

- There exists regional concern over the housing values. This concern notwithstanding, South Pasadena's assessed property values and property tax collections remain strong. Assessed valuation increases of 9.0% and 9.16% have been realized in FY 2007 and FY 2008, respectively. Property tax revenue (38.5% of City-wide revenues) remains the primary foundation of general fund revenues.
- Increases in the contributions toward employee pensions through the California Public Employees Retirement System (PERS) remain a concern.

During the 2008 fiscal year, unrestricted fund balance in the General fund increased to \$8,398,099. Budgeting with the assumption that 2009 fiscal year revenues would comfortably exceed expenditures and with the increase of a voter approved Utility Users Tax, the City of South Pasadena appropriated more than \$1,400,000 in its fiscal year 2009 budget for infrastructure improvements, primarily street repairs. It remains the intention of City management not to use available fund balance for purposes of meeting costs of operations.

**Requests for Information**

This financial report is designed to provide a general overview of the financial position of the City of South Pasadena for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Tracey Hause, Interim Finance Director, [thause@ci.south-pasadena.ca.us](mailto:thause@ci.south-pasadena.ca.us), 626.403.7252, or by U.S. mail: Finance Department, 1414 Mission Street, South Pasadena, CA, 91030.

GOVERNMENT-WIDE FINANCIAL STATEMENTS [TAB]



CITY OF SOUTH PASADENA

STATEMENT OF NET ASSETS  
JUNE 30, 2008

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Cash and investments	\$ 16,470,011	\$ 6,470,381	\$ 22,940,392
Receivables:			
Accounts	348,055	644,211	992,266
Taxes	1,172,479	-	1,172,479
Notes and loans	250,000	-	250,000
Accrued interest	122,012	46,765	168,777
Internal balances	(253,250)	253,250	-
Due from other governments	502,051	-	502,051
Inventories	141,889	184,213	326,102
Deferred charges	-	182,188	182,188
Restricted assets:			
Cash with fiscal agent	200,497	1,592,423	1,792,920
Capital assets not being depreciated	8,733,358	4,916,363	13,649,721
Capital assets, net of depreciation	50,506,894	4,485,675	54,992,569
<b>Total Assets</b>	<b>78,193,996</b>	<b>18,775,469</b>	<b>96,969,465</b>
<b>Liabilities:</b>			
Accounts payable	1,366,048	1,146,598	2,512,646
Accrued liabilities	424,962	22,510	447,472
Accrued interest	39,153	102,413	141,566
Unearned revenue	598,251	-	598,251
Deposits payable	732,108	27,738	759,846
Retentions payable	50,826	22,636	73,462
Noncurrent liabilities:			
Due within one year	250,668	223,800	474,468
Due in more than one year	2,975,575	8,017,376	10,992,951
<b>Total Liabilities</b>	<b>6,437,591</b>	<b>9,563,071</b>	<b>16,000,662</b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	59,638,269	2,791,280	62,429,549
Restricted for:			
Community development	530,096	-	530,096
Public safety	227,123	-	227,123
Community services	687,375	-	687,375
Capital projects	2,080,772	2,878,966	4,959,738
Debt service	200,497	-	200,497
Unrestricted	8,392,273	3,542,152	11,934,425
<b>Total Net Assets</b>	<b>\$ 71,756,405</b>	<b>\$ 9,212,398</b>	<b>\$ 80,968,803</b>

CITY OF SOUTH PASADENA

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2008

	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
<b>Functions/Programs</b>				
<b>Primary Government:</b>				
Governmental Activities:				
General government	\$ 3,911,227	\$ 1,457,911	\$ 150,998	\$ -
Public safety	9,875,234	1,306,513	175,552	-
Community development	997,287	801,200	-	-
Community services	2,806,026	514,523	127,136	47,516
Public works	4,655,996	1,244,935	539,572	513,368
Interest on long-term debt	143,423	-	-	-
<b>Total Governmental Activities</b>	<b>22,389,193</b>	<b>5,325,082</b>	<b>993,258</b>	<b>560,884</b>
Business-Type Activities:				
Water	3,949,800	4,543,192	-	-
<b>Total Business-Type Activities</b>	<b>3,949,800</b>	<b>4,543,192</b>	<b>-</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 26,338,993</b>	<b>\$ 9,868,274</b>	<b>\$ 993,258</b>	<b>\$ 560,884</b>

**General Revenues:**

Taxes:

- Property taxes, levied for general purpose
- Sales taxes
- Franchise taxes
- Business licenses taxes
- Utility users tax
- Other taxes
- Motor vehicle in lieu - unrestricted
- Use of money and property
- Other
- Gain on sale of capital asset

**Total General Revenues, Contributions,  
Special Items and Transfers**

Change in Net Assets

Net Assets at Beginning of Year

Restatement of Net Assets

**Net Assets at End of Year**



**Net (Expenses) Revenues and Changes in Net Assets**  
**Primary Government**

<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (2,302,318)	\$ -	\$ (2,302,318)
(8,393,169)	-	(8,393,169)
(196,087)	-	(196,087)
(2,116,851)	-	(2,116,851)
(2,358,121)	-	(2,358,121)
(143,423)	-	(143,423)
<b>(15,509,969)</b>	<b>-</b>	<b>(15,509,969)</b>
-	593,392	593,392
-	<b>593,392</b>	<b>593,392</b>
<b>(15,509,969)</b>	<b>593,392</b>	<b>(14,916,577)</b>
9,986,309	-	9,986,309
3,078,717	-	3,078,717
777,675	-	777,675
344,497	-	344,497
2,666,063	-	2,666,063
492,406	-	492,406
110,144	-	110,144
921,232	370,557	1,291,789
69,013	14,695	83,708
1,100,000	11,075	1,111,075
<b>19,546,056</b>	<b>396,327</b>	<b>19,942,383</b>
4,036,087	989,719	5,025,806
68,725,993	8,231,395	76,957,388
(1,005,675)	(8,716)	(1,014,391)
<b>\$ 71,756,405</b>	<b>\$ 9,212,398</b>	<b>\$ 80,968,803</b>

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FUND FINANCIAL STATEMENTS [TAB]



CITY OF SOUTH PASADENA

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008

	General	Special Revenue Funds MTA Pedestrian Improvement	Capital Projects Funds Community Redevelopment Agency
<b>Assets:</b>			
Pooled cash and investments	\$ 9,201,974	\$ -	\$ 2,909,694
Receivables:			
Accounts	303,995	-	1,400
Taxes	1,138,894	-	33,585
Notes and loans	250,000	-	-
Accrued interest	78,435	-	23,774
Due from other governments	-	256,863	-
Due from other funds	599,720	-	-
Inventories	141,889	-	-
Restricted assets:			
Cash and investments with fiscal agents	-	-	200,497
<b>Total Assets</b>	<b>\$ 11,714,907</b>	<b>\$ 256,863</b>	<b>\$ 3,168,950</b>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 632,066	\$ 307,095	\$ 40,598
Accrued liabilities	400,811	-	1,860
Deferred revenues	150,518	256,863	-
Unearned revenues	-	-	-
Deposits payable	678,855	-	50,000
Due to other funds	-	253,141	-
Advances from other funds	-	-	253,250
Retentions payable	716	50,110	-
<b>Total Liabilities</b>	<b>1,862,966</b>	<b>867,209</b>	<b>345,708</b>
<b>Fund Balances:</b>			
Reserved:			
Reserved for encumbrances	150,673	1,838	-
Reserved for inventory	141,889	-	-
Unreserved:			
Unreserved, reported in nonmajor:			
Special revenue funds	-	-	-
Designated for uninsured losses	401,000	-	-
Designated for equipment replacement	504,000	-	-
Designated for low and moderate housing	-	-	530,096
Designated for debt service	-	-	200,497
Designated for Arroyo Golf Course Facility	6,280	-	-
Designated for renewable energy sources	250,000	-	-
Undesignated	8,398,099	(612,184)	2,092,649
<b>Total Fund Balances</b>	<b>9,851,941</b>	<b>(610,346)</b>	<b>2,823,242</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 11,714,907</b>	<b>\$ 256,863</b>	<b>\$ 3,168,950</b>

CITY OF SOUTH PASADENA

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008**

	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>		
Pooled cash and investments	\$ 4,358,343	\$ 16,470,011
Receivables:		
Accounts	42,660	348,055
Taxes	-	1,172,479
Notes and loans	-	250,000
Accrued interest	19,803	122,012
Due from other governments	245,188	502,051
Due from other funds	-	599,720
Inventories	-	141,889
Restricted assets:		
Cash and investments with fiscal agents	-	200,497
<b>Total Assets</b>	<b>\$ 4,665,994</b>	<b>\$ 19,806,714</b>
<b>Liabilities and Fund Balances:</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 386,289	\$ 1,366,048
Accrued liabilities	22,291	424,962
Deferred revenues	-	407,381
Unearned revenues	598,251	598,251
Deposits payable	3,253	732,108
Due to other funds	346,579	599,720
Advances from other funds	-	253,250
Retentions payable	-	50,826
<b>Total Liabilities</b>	<b>1,356,663</b>	<b>4,432,546</b>
<b>Fund Balances:</b>		
Reserved:		
Reserved for encumbrances	252,940	405,451
Reserved for inventory	-	141,889
Unreserved:		
Unreserved, reported in nonmajor:		
Special revenue funds	3,056,391	3,056,391
Designated for uninsured losses	-	401,000
Designated for equipment replacement	-	504,000
Designated for low and moderate housing	-	530,096
Designated for debt service	-	200,497
Designated for Arroyo Golf Course Facility	-	6,280
Designated for renewable energy sources	-	250,000
Undesignated	-	9,878,564
<b>Total Fund Balances</b>	<b>3,309,331</b>	<b>15,374,168</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,665,994</b>	<b>\$ 19,806,714</b>

CITY OF SOUTH PASADENA

GOVERNMENTAL FUNDS  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2008

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Fund balances of governmental funds	\$ 15,374,168
Amounts reported for governmental activities in the statement of net assets are different because:	-
Capital assets net of depreciation have not been included as financial resources in governmental fund activity	59,240,252
Long-term debt and compensated absences that have not been included in the governmental fund activity:	
Long-term liabilities	(3,187,112)
Compensated Absences	(39,131)
Accrued interest payable for the current portion of interest due on Bonds has not been reported in the governmental funds	(39,153)
Revenues reported as deferred revenue in the governmental funds and recognized in the Statement of Activities. These are included in the intergovernmental revenues in the governmental fund activity	<u>407,381</u>
<b>Net assets of governmental activities</b>	<b><u>\$ 71,756,405</u></b>

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CITY OF SOUTH PASADENA

STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>
		<u>MTA Pedestrian Improvement</u>	<u>Community Redevelopment Agency</u>
<b>Revenues:</b>			
Taxes	\$ 15,376,055	\$ -	\$ 583,105
Assessments	-	-	-
Licenses and permits	893,188	-	-
Intergovernmental	556,959	336,446	-
Charges for services	2,127,387	-	-
Use of money and property	666,565	-	151,052
Fines and forfeitures	636,668	-	-
Contributions	-	-	-
Miscellaneous	469,528	-	22,640
<b>Total Revenues</b>	<b><u>20,726,350</u></b>	<b><u>336,446</u></b>	<b><u>756,797</u></b>
<b>Expenditures:</b>			
Current:			
General government	3,041,120	-	388,466
Public safety	10,574,689	-	-
Community development	1,005,406	-	-
Community services	2,126,730	-	-
Public works	1,100,055	-	-
Capital outlay	170,912	593,309	-
Debt service:			
Principal retirement	39,894	-	75,000
Interest and fiscal charges	21,414	-	124,583
<b>Total Expenditures</b>	<b><u>18,080,220</u></b>	<b><u>593,309</u></b>	<b><u>588,049</u></b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,646,130</u>	<u>(256,863)</u>	<u>168,748</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	-	-	-
Transfers out	-	-	-
Proceeds from sale of capital asset	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>2,646,130</u>	<u>(256,863)</u>	<u>168,748</u>
Fund Balances, Beginning of Year, as previously reported	6,748,906	(353,483)	2,649,417
Restatements	456,905	-	5,077
Fund Balances, Beginning of Year, as restated	<u>7,205,811</u>	<u>(353,483)</u>	<u>2,654,494</u>
<b>Fund Balances, End of Year</b>	<b><u>\$ 9,851,941</u></b>	<b><u>\$ (610,346)</u></b>	<b><u>\$ 2,823,242</u></b>



CITY OF SOUTH PASADENA

STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2008

	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>		
Taxes	\$ 891,492	\$ 16,850,652
Assessments	895,773	895,773
Licenses and permits	49	893,237
Intergovernmental	1,395,453	2,288,858
Charges for services	694,993	2,822,380
Use of money and property	103,615	921,232
Fines and forfeitures	-	636,668
Contributions	19,005	19,005
Miscellaneous	87,644	579,812
<b>Total Revenues</b>	<b><u>4,088,024</u></b>	<b><u>25,907,617</u></b>
<b>Expenditures:</b>		
Current:		
General government	425,936	3,855,522
Public safety	96,119	10,670,808
Community development	-	1,005,406
Community services	552,543	2,679,273
Public works	1,752,267	2,852,322
Capital outlay	405,312	1,169,533
Debt service:		
Principal retirement	-	114,894
Interest and fiscal charges	-	145,997
<b>Total Expenditures</b>	<b><u>3,232,177</u></b>	<b><u>22,493,755</u></b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>855,847</u>	<u>3,413,862</u>
<b>Other Financing Sources (Uses):</b>		
Transfers in	42,573	42,573
Transfers out	(42,573)	(42,573)
Proceeds from sale of capital asset	1,100,000	1,100,000
<b>Total Other Financing Sources (Uses)</b>	<b><u>1,100,000</u></b>	<b><u>1,100,000</u></b>
Net Change in Fund Balances	<u>1,955,847</u>	<u>4,513,862</u>
Fund Balances, Beginning of Year, as previously reported	1,572,014	10,616,854
Restatements	(218,530)	243,452
Fund Balances, Beginning of Year, as restated	<u>1,353,484</u>	<u>10,860,306</u>
<b>Fund Balances, End of Year</b>	<b><u>\$ 3,309,331</u></b>	<b><u>\$ 15,374,168</u></b>

**CITY OF SOUTH PASADENA**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
JUNE 30, 2008**

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Net change in fund balances - total governmental funds	\$ 4,513,862.00
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period	(5,404)
Repayment of long term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	114,894
Accrued interest for long-term liabilities. This is the net change in accrued interest for the current period	2,574
Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	(7,502)
Revenues reported as deferred revenue in the governmental funds and recognized in the Statement of Activities. These are included in the intergovernmental revenues in the governmental fund activity	<u>(582,337)</u>
<b>Change in net assets of governmental activities</b>	<b><u>\$ 4,036,087</u></b>

CITY OF SOUTH PASADENA

**BUDGETARY COMPARISON SCHEDULE BY DEPARTMENT  
GENERAL FUND  
YEAR ENDED JUNE 30, 2008**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$7,205,811	\$ 7,205,811	\$ 7,205,811	\$ -
<b>Resources (Inflows):</b>				
Taxes	14,806,000	14,806,000	15,376,055	570,055
Licenses and permits	808,300	808,300	893,188	84,888
Intergovernmental	507,500	518,500	556,959	38,459
Charges for services	1,930,000	1,930,000	2,127,387	197,387
Use of money and property	476,920	476,920	666,565	189,645
Fines and forfeitures	600,000	600,000	636,668	36,668
Miscellaneous	245,500	245,500	469,528	224,028
<b>Amounts Available for Appropriation</b>	<b>26,580,031</b>	<b>26,591,031</b>	<b>27,932,161</b>	<b>1,341,130</b>
<b>Charges to Appropriation (Outflow):</b>				
General government				
City council	45,866	45,866	27,722	18,144
City clerk	303,415	310,632	232,192	78,440
Elections	43,433	43,433	45,058	(1,625)
City manager	479,833	499,411	486,776	12,635
Personnel	109,350	109,350	114,993	(5,643)
Transportation planning	337,321	337,922	205,320	132,602
Legal services	250,000	250,000	294,619	(44,619)
Finance	417,918	428,205	455,500	(27,295)
City treasurer	10,255	10,255	10,287	(32)
Information services	213,380	213,380	171,241	42,139
Non-departmental	1,436,965	909,965	997,412	(87,447)
Public safety				
Police	6,625,189	6,909,923	6,776,475	133,448
Fire	3,522,121	3,713,800	3,798,214	(84,414)
Community development				
Community development	1,096,955	1,184,129	1,005,406	178,723
Parks and recreation				
Library	1,508,795	1,552,486	1,487,288	65,198
Senior center	182,601	185,778	151,436	34,342
Recreation	184,687	188,997	154,968	34,029
After-school day care	357,629	362,647	333,038	29,609
Public works				
Public works administration	488,595	504,981	254,825	250,156
Environmental services	98,720	109,925	94,235	15,690
Park maintenance	328,125	336,613	333,728	2,885
Facilities maintenance	499,915	510,302	417,267	93,035
Capital outlay	1,759,000	1,866,910	170,912	1,695,998
Debt service:				
Principal retirement	39,894	39,894	39,894	-
Interest and fiscal charges	21,414	21,414	21,414	-
<b>Total Charges to Appropriations</b>	<b>20,361,376</b>	<b>20,646,218</b>	<b>18,080,220</b>	<b>2,565,998</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 6,218,655</b>	<b>\$ 5,944,813</b>	<b>\$ 9,851,941</b>	<b>\$ 3,907,128</b>

CITY OF SOUTH PASADENA

BUDGETARY COMPARISON SCHEDULE  
 MTA PEDESTRIAN IMPROVEMENT  
 YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ (353,483)	\$ (353,483)	\$ (353,483)	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	-	300,000	336,446	36,446
<b>Amounts Available for Appropriation</b>	<b>(353,483)</b>	<b>(53,483)</b>	<b>(17,037)</b>	<b>36,446</b>
<b>Charges to Appropriation (Outflow):</b>				
Capital outlay	-	674,607	593,309	81,298
<b>Total Charges to Appropriations</b>	<b>-</b>	<b>674,607</b>	<b>593,309</b>	<b>81,298</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ (353,483)</b>	<b>\$ (728,090)</b>	<b>\$ (610,346)</b>	<b>\$ 117,744</b>

CITY OF SOUTH PASADENA

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 JUNE 30, 2008

	<u>Business-Type Activities - Enterprise Funds Water</u>
<b>Assets:</b>	
Current:	
Cash and investments	6,470,381
Receivables:	
Accounts	644,211
Accrued interest	46,765
Inventories	184,213
Deferred Charges	182,188
Restricted:	
Cash with fiscal agent	1,592,423
<b>Total Current Assets</b>	<b><u>9,120,181</u></b>
Noncurrent:	
Advances to other funds	253,250
Capital assets - net of accumulated depreciation	9,402,038
<b>Total Noncurrent Assets</b>	<b><u>9,655,288</u></b>
<b>Total Assets</b>	<b><u>\$ 18,775,469</u></b>
 <b>Liabilities and Net Assets:</b>	
<b>Liabilities:</b>	
Current:	
Accounts payable	\$ 1,146,598
Accrued liabilities	22,510
Accrued interest	102,413
Deposits payable	27,738
Retentions payable	22,636
Accrued compensated absences	3,800
Bonds, notes, and capital leases	220,000
<b>Total Current Liabilities</b>	<b><u>1,545,695</u></b>
Noncurrent:	
Accrued compensated absences	34,195
Bonds, notes, and capital leases	7,983,181
<b>Total Noncurrent Liabilities</b>	<b><u>8,017,376</u></b>
<b>Total Liabilities</b>	<b><u>9,563,071</u></b>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	2,791,280
Restricted for capital improvements	2,878,966
Unrestricted	3,542,152
<b>Total Net Assets</b>	<b><u>9,212,398</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 18,775,469</u></b>

CITY OF SOUTH PASADENA

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2008

	<u>Business-Type Activities - Enterprise Funds Water</u>
<b>Operating Revenues:</b>	
Sales and service charges	4,543,192
Miscellaneous	14,695
	<hr/>
<b>Total Operating Revenues</b>	<b>4,557,887</b>
	<hr/>
<b>Operating Expenses:</b>	
Administration and general	451,312
Water distribution	1,209,164
Water production	1,784,874
Depreciation expense	79,328
	<hr/>
<b>Total Operating Expenses</b>	<b>3,524,678</b>
	<hr/>
Operating Income (Loss)	1,033,209
	<hr/>
<b>Nonoperating Revenues (Expenses):</b>	
Interest revenue	370,557
Interest expense	(416,412)
Debt issuance costs	(8,710)
Gain (loss) on disposal of fixed assets	11,075
	<hr/>
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(43,490)</b>
	<hr/>
Changes in Net Assets	989,719
	<hr/>
<b>Net Assets:</b>	
Beginning of Year, as previously reported	8,231,395
	<hr/>
Restatements	(8,716)
	<hr/>
Beginning of Fiscal Year, as restated	8,222,679
	<hr/>
<b>End of Fiscal Year</b>	<b>\$ 9,212,398</b>
	<hr/> <hr/>

CITY OF SOUTH PASADENA

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 YEAR ENDED JUNE 30, 2008

	<u>Business-Type Activities - Enterprise Funds Water</u>
<b>Cash Flows from Operating Activities:</b>	
Cash received from customers and users	\$ 4,561,939
Cash paid to supplies for goods and services	(3,360,392)
Cash paid to employees for services	(444,050)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>757,497</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>	
Restatements of net assets	324,188
<b>Net Cash Provided (Used) by Non-Capital Financing Activities</b>	<u>324,188</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Acquisition and construction of capital assets	(842,883)
Principal paid on capital debt	(210,000)
Interest paid on capital debt	(419,142)
Proceeds from sales of capital assets	11,075
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>(1,460,950)</u>
<b>Cash Flows from Investing Activities:</b>	
Interest received	380,061
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>380,061</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>796</u>
Cash and Cash Equivalents at Beginning of Year	8,062,008
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 8,062,804</u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>	
Operating income (loss)	\$ 1,033,209.00
<b>Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:</b>	
Depreciation	79,328
(Increase) decrease in accounts receivable	3,583
(Increase) decrease in inventories	(18,470)
Increase (decrease) in accounts payable	44,167
Increase (decrease) in accrued liabilities	4,324
Increase (decrease) in deposits payable	469
Increase (decrease) in retentions payable	(392,051)
Increase (decrease) in compensated absences	2,938
<b>Total Adjustments</b>	<u>(275,712)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 757,497</u>
<b>Non-Cash Investing, Capital, and Financing Activities:</b>	
Amortization of bond premium and cost of issuance	\$ 8,080

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NOTES TO THE FINANCIAL STATEMENTS [TAB]



**CITY OF SOUTH PASADENA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**I. SIGNIFICANT ACCOUNTING POLICIES**

**Note 1: Summary of Significant Accounting Policies**

**a. Description of the Reporting Entity**

The accompanying basic financial statements of the City of South Pasadena (the City) include the financial activities of the City and the Community Redevelopment Agency of the City (the Agency).

**City of South Pasadena**

The City of South Pasadena was incorporated on March 2, 1888, under the general laws of the State of California. The City provides the full range of municipal services, including public safety (police and fire), streets, sanitation, refuse collection, sewer, water, parks and recreation, public improvements, planning and zoning, housing and community development and general administrative and support services.

**Community Redevelopment Agency of the City of South Pasadena**

The Agency was established in 1953 by the South Pasadena City Council, pursuant to the California state law. The purpose of the Agency is to eliminate deterioration of the community and promote economic revitalization within the City through the process of redevelopment.

The criteria used in determining the scope of the reporting entity is based on the provisions of GASB Statement Nos. 14 and 39. The City of South Pasadena is the primary governmental unit. The Agency is a component unit of the City. Component units are those entities which are financially accountable to the primary government, either because the component unit will provide financial benefit or impose a financial burden on the primary government. The specific criterion used in determining that the Agency is a component unit of the City is that the members of the City Council are the same as the members of the Agency's governing board and all administrative and operational matters are performed by the City's staff acting on behalf of the Agency. The activities of the Redevelopment Agency are included within the Capital Projects Fund. The Agency's financial statements have been issued under a separate cover and may be obtained from the City of South Pasadena City Hall.

**b. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

**City of South Pasadena  
Notes to Financial Statements (Continued)**

**Note 1: Summary of Significant Accounting Policies (Continued)**

The statement of activities demonstrate the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**c. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

The MTA Pedestrian Improvement Fund accounts for MTA grants used for the Fair Oaks / Mission pedestrian improvement projects which include pedestrian accessibility widen bikeways, landscaping, lighting modification and aesthetics.

**City of South Pasadena  
Notes to Financial Statements (Continued)**

**Note 1: Summary of Significant Accounting Policies (Continued)**

The Community Redevelopment Agency Capital Projects Fund accounts for the costs associated with the implementation of separate redevelopment projects and the required 20% set aside of tax increment revenues for low and moderate income housing.

The City reports the following major proprietary fund:

The Water Fund is used to account for the construction, operation and maintenance of the City-owned water system.

Private-sector standards of accounting and financial reporting issued prior to December 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's proprietary funds function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**d. Assets, Liabilities and Net Assets or Equity**

**Deposits and Investments**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. For financial statement presentation purposes, cash and cash equivalents are shown as both restricted and unrestricted cash and investments in the Governmental and Proprietary Funds.

**City of South Pasadena  
Notes to Financial Statements (Continued)**

**Note 1: Summary of Significant Accounting Policies (Continued)**

Investments for the City, as well as for its component units, are reported at fair value. The City's policy is generally to hold investments until maturity or until market values equal or exceed cost. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

**Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans), or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances to other funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Property tax revenue is recognized in the fiscal year for which the taxes have been levied providing they become available. Available means then due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter (not to exceed 60 days) to be used to pay liabilities of the current period. The County of Los Angeles collects property taxes for the City. Tax liens attach annually as of 12:01 A.M. on the first day in January preceding the fiscal year for which the taxes are levied. The tax levy covers the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1. All taxes are delinquent, if unpaid, on December 10 and April 10, respectively. Unsecured personal property taxes become due on the first of March each year and are delinquent on August 31.

**Functional Classifications**

Expenditures of the Governmental Funds are classified by function. Functional classifications are defined as follows:

General Government includes legislative activities which have a primary objective of providing legal and policy guidelines for the City. Also included in this classification are those activities which provide management or support services across more than one functional area.

Public Safety includes those activities which involve the protection of people and property.

Community Development includes those activities which involve the enhancing of the general quality of life.

Community Services includes activities such as administering the Senior Center, recreation classes and special events committees.

**City of South Pasadena  
Notes to Financial Statements (Continued)**

**Note 1: Summary of Significant Accounting Policies (Continued)**

Public Works includes those activities that involve the maintenance and improvement of City streets, roads and park department development and maintenance.

Debt Service includes those activities that account for the payment of long-term debt principal, interest and fiscal charges.

**Inventories**

Inventory consisting primarily of materials and supplies is held by the Water Enterprise Fund. Such goods are valued using the average-cost method applied on a first-in, first-out (FIFO) basis. Inventories reported in the City's General Fund are reported as assets and are offset by the corresponding reservations of fund balance to indicate that the inventory balance does not constitute "available expendable financial resources" even though they are a component of net current assets. Such General Fund materials and supplies are charged to inventories when purchased and treated as an expenditure when issued.

**Restricted Assets**

Certain proceeds of debt issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. In addition, funds have been restricted for future capital improvements by City resolution.

**Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 for non-infrastructure assets and \$25,000 for infrastructure assets (amount not rounded). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

In accordance with GASB Statement No. 34, the City has reported current and prior year's infrastructure assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

**City of South Pasadena  
Notes to Financial Statements (Continued)**

**Note 1: Summary of Significant Accounting Policies (Continued)**

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Improvements other than buildings	10 - 25
Machinery and equipment	3 - 30
Vehicles	8
<u>Infrastructure</u>	<u>Years</u>
Sewer collection system	60
Storm drain system	60
Bridges	60
Hardscape	40
Parkways and medians	40
Pavement, curb & gutter and sidewalks	35
Streetlights	20
Electronic traffic control devices	20

**Compensated Absences**

It is the policy of the City to record the cost of annual vacation as accrued. Employees are 100% vested in accrued vacation after six months of employment. The entire compensated absence liability for the Enterprise Fund is accrued as earned in the Enterprise Fund. All accumulated compensated absence liability of governmental funds is accrued when incurred in the government-wide financial statements. Compensated absences are reported in governmental funds only if they have matured.

It is the policy of the City to pay sick leave as used; accordingly, the expenditures are recorded when paid. Sick leave does not vest with employees. Accordingly, employees do not receive a payout for unused sick leave upon termination, although employees do receive credit for unused sick leave upon retirement.

**Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets.

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.



**City of South Pasadena  
Notes to Financial Statements (Continued)**

**Note 1: Summary of Significant Accounting Policies (Continued)**

**e. Reconciliation of Government-Wide and Fund Financial Statements**

Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities:

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances - of total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$(5,404) difference are as follows:

Capital outlay	\$ 2,305,755
Depreciation expense	<u>(2,311,159)</u>
Net adjustment to increase net changes in fund balances of total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (5,404)</u>

Another element of that reconciliation states "the repayment of the principal of long-term debt consumes the current financial resources of governmental funds." This transaction, however, has no effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this \$114,894 difference are as follows:

Principal repayments:	
Tax allocation bonds	\$ 75,000
Capital leases payable	<u>39,894</u>
Net adjustment to decrease net changes in fund balance of total governmental funds to arrive at changes in net assets of governmental activities.	<u>\$ 114,894</u>

II. STEWARDSHIP

Note 2: Stewardship, Compliance and Accountability

a. Appropriations and Budgetary Control

Budgetary control is an essential element in governmental financial reporting. The City, a general law city in the State of California, does not legally require a budget. However, the City Council annually reviews and adopts a budget for the General, Special Revenue, Capital Projects and Enterprise Fund types. To facilitate a greater understanding of the City's operations, budget information for the General, Special Revenue and Capital Projects Funds is included in the accompanying basic financial statements. This detailed budget document is published and is a matter of public record. Each year, the City Manager submits his proposed budget to the City Council. The City Council holds public hearings and may modify the appropriations by majority approval. The legal level of expenditures is controlled at the fund level and operating appropriations lapse at the end of each fiscal year. All budgeted amounts are reported on the same basis as the fund types and adopted on a basis consistent with accounting principles generally accepted in the United States of America. Changes in appropriations at the fund level during the year must be submitted by the City's departments for City Council review and approval. The City Manager may, without Council approval, amend individual line items within any fund and between divisions and programs, in personnel costs, maintenance and operations, capital outlay and capital projects portions of the budget without increasing total appropriations for that fund. Department heads may, without Council approval, amend individual line items within any fund in the maintenance and operations portions of the budget without increasing total appropriations for that division. Budget revisions made during fiscal year 2008 were not significant.

The City did not adopt a budget for the following funds: Caltrans Gold Line Grant, Traffic Improvement, ISTEAM/METRO, Gold Line Betterments, MTA Circulator Bus Purchase Grant, State Park Bond, Asset Forfeiture, Federal Police Grants, CLEEP, Park Impact Fees and 99 Pasadena Avenue. Accordingly, such information is not included in the accompanying financial statements.

b. Encumbrances

Encumbrances are estimations of costs related to unperformed contracts for goods and services. These commitments are recorded for budgetary control purposes in the General, Special Revenue, and similar governmental funds. Encumbrances outstanding at year-end are reported as a reservation of fund balance. They represent the estimated amount of the expenditure ultimately to result if unperformed contracts-in-process at year-end are completed. They do not constitute expenditures or estimated liabilities.

c. Excess of expenditures over appropriations by department or function is as follows:

Fund	Expenditures	Appropriations	Excess
General fund:			
Elections	\$ 45,058	\$ 43,433	\$ 1,625
Personnel	114,993	109,350	5,643
Legal services	294,619	250,000	44,619
Finance	455,500	428,205	27,295
City treasurer	10,287	10,255	32
Non-departmental	997,412	909,965	87,447
Fire	3,798,214	3,713,800	84,414

**City of South Pasadena  
Notes to Financial Statements (Continued)**

**Note 2: Stewardship, Compliance and Accountability (Continued)**

**d. Deficit Fund Balance**

The following funds contained deficit fund balances at June 30, 2008:

<u>Fund</u>	<u>Amount</u>
Major government Funds:	
MTA Pedestrian Improvement	\$ 610,346
Nonmajor governmental funds:	
Traffic Improvement	\$ 108,739
Proposition A	86,743
MTA Circulator Bus Purchase Grant	24,136
Mission Oaks Parking	2,292
Mission Meridian Public	51,115
State Park Bond	18,388
Bike and Pedestrian Paths	550
C.D.B.G.	9,594

The City intends to fund these with future revenues, transfers, and reduction of expenditures/expenses in future years.

**III. DETAILED NOTES ON ALL FUNDS**

**Note 3: Cash and Investments**

As of June 30, 2008, cash and investments were reported in the accompanying financial statements as follows:

Governmental activities	\$ 16,670,508
Business-type activities	<u>8,062,804</u>
Total Cash and Investments	<u>\$ 24,733,312</u>

The City of South Pasadena maintains a cash and investment pool that is available for use for all funds. Each fund type's position in the pool is reported on the combined balance sheet as cash and investments. The City has adopted an investment policy which authorizes it to invest in various investments.

**Deposits**

At June 30, 2008, the carrying amount of the City's deposits was (\$157,982), and the bank balance was \$461,310. The \$619,292 difference represents outstanding checks and other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure a City's deposits by pledging government securities with a value of 110% of a City's deposits. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of a City's total deposits. The City Treasurer may waive the collateral requirement for deposits which are fully insured up to \$100,000 by the FDIC. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors.

**City of South Pasadena  
Notes to Financial Statements (Continued)**

**Note 3: Cash and Investments (Continued)**

Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency.

**Investments**

Under provision of the City's investment policy, and in accordance with the California Government Code, the following investments are authorized:

- Local Agency Investment Fund
- Certificates of Deposit (or time deposits, Fully insured by the FDIC)
- Securities of the U.S. Government
- Securities Issued by other Government Agencies (No options or like instruments)
- Callable Bonds and Notes

**Investments Authorized by Debt Agreements**

The above investments do not address investment of debt proceeds held by a bond trustee. Investments of debt proceeds held by a bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy.

**Investments in State Investment Pool**

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually. The fair value of the position in the investment pool is the same as the value of the pool shares.

**GASB Statement No. 31**

The City adopted GASB Statement No. 31, Accounting and Financial Reporting for certain investments and for External Investment Pools, as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the City reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

**Credit Risk**

Investments in U.S. government securities are not considered to have credit risk and, therefore, their credit quality is not disclosed. As of June 30, 2008, the City's investments in external investment pools and money market mutual funds are unrated.

**City of South Pasadena  
Notes to Financial Statements (Continued)**

**Note 3: Cash and Investments (Continued)**

**Custodial Credit Risk**

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

As of June 30, 2008, none of the City's deposits or investments were exposed to custodial credit risk.

**Concentration of Credit Risk**

The City's investment policy does not impose restrictions on the percentage that the City can invest in a single type of investment. In addition, GASB 40 requires a separate disclosure if any single issuer comprises more than 5% of the total investment value. As of June 30, 2008, the City has not invested more than 5% of its total investments in any one issuer. Investments guaranteed by the U.S. government and investments in mutual funds and external investment pools are excluded from this requirement.

**Interest Rate Risk**

The City's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. It states that no investments shall have a maturity date of more than three years and no more than one third of the investment portfolio shall have a maturity longer than two and a half years. The City has elected to use the segmented time distribution method of disclosure for its interest rate risk. As of June 30, 2008, the City had the following investments and original maturities:

	Remaining Investment Maturities			Fair Value
	6 months or less	6 months to 1 year	1 to 3 years	
Local agency investment fund	\$ 23,097,077	\$ -	\$ -	\$ 23,097,077
Cash with Fiscal Agent				
Money market mutual funds	201,901	-	-	201,901
Local agency investment fund	1,592,316	-	-	1,592,316
	<u>\$ 24,891,294</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,891,294</u>

**City of South Pasadena**  
**Notes to Financial Statements (Continued)**

**Note 4: Capital Assets**

Capital asset activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>Governmental Activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 1,103,538	\$ -	\$ -	\$ -	\$ 1,103,538
Construction-in-progress	8,348,403	1,660,256	-	(2,378,839)	7,629,820
<b>Total Capital Assets, Not Being Depreciated</b>	<b>9,451,941</b>	<b>1,660,256</b>	<b>-</b>	<b>(2,378,839)</b>	<b>8,733,358</b>
Capital assets, being depreciated:					
Buildings	9,768,313	145,810	121,714	100,185	9,892,594
Improvements other than buildings	1,435,966	-	129,540	235,855	1,542,281
Machinery, equipment and vehicles	7,386,486	376,581	1,436,784	-	6,326,283
Infrastructure	70,402,052	123,107	-	2,042,799	72,567,958
<b>Total Capital Assets, Being Depreciated</b>	<b>88,992,817</b>	<b>645,498</b>	<b>1,688,038</b>	<b>2,378,839</b>	<b>90,329,116</b>
Less accumulated depreciation:					
Buildings	4,576,675	199,697	9,315	-	4,767,057
Improvements other than buildings	679,949	49,652	(123,232)	-	852,833
Machinery, equipment and vehicles	4,495,367	379,718	584,458	-	4,290,627
Infrastructure	28,229,613	1,682,092	-	-	29,911,705
<b>Total Accumulated Depreciation</b>	<b>37,981,604</b>	<b>2,311,159</b>	<b>470,541</b>	<b>-</b>	<b>39,822,222</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>51,011,213</b>	<b>(1,665,661)</b>	<b>1,217,497</b>	<b>2,378,839</b>	<b>50,506,894</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 60,463,154</b>	<b>\$ (5,405)</b>	<b>\$ 1,217,497</b>	<b>\$ -</b>	<b>\$ 59,240,252</b>

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental Activities:</b>	
General government	\$ 70,009
Public safety	332,065
Community development	333
Community services	115,464
Public works	1,793,287
<b>Total Governmental Activities</b>	<b>\$ 2,311,158</b>

**City of South Pasadena  
Notes to Financial Statements (Continued)**

**Note 4: Capital Assets (Continued)**

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities:					
Capital assets, not being depreciated:					
Land	\$ 84,685	\$ -	\$ -	\$ -	\$ 84,685
Construction-in-progress	7,489,492	254,790	-	(2,912,603)	4,831,679
Total Capital Assets, Not Being Depreciated	7,574,177	254,790	-	(2,912,603)	4,916,364
Capital assets, being depreciated:					
Buildings	1,159,292	566,230	57,062	2,456,501	4,124,961
Improvements other than buildings	3,042,971	21,863	14,603	456,102	3,506,333
Machinery, equipment & vehicles	1,813,984	-	1,298,265	-	515,719
Total Capital Assets, Being Depreciated	6,016,247	588,093	1,369,930	2,912,603	8,147,013
<b>Less Accumulated Depreciation</b>					
Buildings	316,756	22,418	8,564	-	330,610
Improvements other than buildings	2,926,307	36,386	6,145	-	2,956,548
Machinery, equipment & vehicles	1,375,973	20,524	1,022,314	-	374,183
Total Accumulated Depreciation	4,619,036	79,328	1,037,023	-	3,661,341
Total Capital Assets, Being Depreciated, Net	1,397,211	508,765	332,907	2,912,603	4,485,672
Business-Type Activities Capital Assets, Net	<u>\$ 8,971,388</u>	<u>\$ 763,555</u>	<u>\$ 332,907</u>	<u>\$ -</u>	<u>\$ 9,402,036</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Business-Type Activities:	
Water	<u>\$ 79,328</u>

**Note 5: Interfund Receivable, Payable and Transfers**

The composition of interfund balances as of June 30, 2008, is as follows:

Due To/From Other Funds

Funds	Due To Other Funds		Total
	MTA Pedestrian Improvement	Nonmajor Funds	
Due From Other Funds:			
General	\$ 253,141	\$ 346,579	\$ 599,720
Total	<u>\$ 253,141</u>	<u>\$ 346,579</u>	<u>\$ 599,720</u>

The due from General Fund of \$171,257 to the MTA Pedestrian Improvement Fund and \$466,906 to various nonmajor funds was a result of temporary deficit cash balances in those funds.

**City of South Pasadena  
Notes to Financial Statements (Continued)**

**Note 5: Interfund Receivable, Payable and Transfers (Continued)**

Advances To/From Other Funds

<u>Funds</u>	<u>Advances To Other Funds Water Fund</u>
Advances From Other Funds:	
Community Redevelopment Agency	<u>\$ 253,250</u>

The City's Water Enterprise Fund advanced funds to the Downtown Project to fund redevelopment activities. Principal is being repaid from available tax increment revenue generated by the Agency's Downtown Project. Payment of interest by the Redevelopment Agency has been forgiven by the city council.

Transfers In/Out

<u>Funds</u>	<u>Transfers Out Nonmajor Funds</u>
Transfers In:	
Nonmajor Fund	<u>\$ 42,573</u>

Transfers were made from the MTA Traffic Improvement Grant Fund to the CTC Traffic Improvement Grant Fund to consolidate traffic grants into one fund.

**Note 6: Long-Term Debt**

**a. Changes in Long-Term Debt**

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2008:

	<u>Outstanding July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Compensated Absences	\$ 649,095	\$ 39,131	\$ -	\$ 688,226	\$ 68,823
Capital Leases	437,911	-	(39,894)	398,017	41,845
2000 Tax Allocation Bonds	2,150,000	-	(75,000)	2,075,000	75,000
Loan Payable	65,000	-	-	65,000	65,000
Total Governmental Funds	<u>\$ 3,302,006</u>	<u>\$ 39,131</u>	<u>\$ (114,894)</u>	<u>\$ 3,226,243</u>	<u>\$ 250,668</u>
<b>Business-Type Activities:</b>					
Compensated Absences	\$ 35,056	\$ 2,939	\$ -	\$ 37,995	\$ 3,800
2004 Water Revenue Bonds	8,400,000	-	(210,000)	8,190,000	220,000
Total Proprietary Funds	<u>\$ 8,435,056</u>	<u>\$ 2,939</u>	<u>\$ (210,000)</u>	<u>8,227,995</u>	<u>\$ 223,800</u>
Add: Unamortized bond premium				<u>13,181</u>	
Net Proprietary Funds				<u>\$ 8,241,176</u>	



**City of South Pasadena  
Notes to Financial Statements (Continued)**

**Note 6: Long-Term Debt (Continued)**

**b. Compensated Absences**

The City's policies relating to compensated absences are described in Note 1 of the Notes to Financial Statements. The liability will be paid in future years as it becomes due by the General Fund.

**c. Capital Lease**

During fiscal year 2007–2008, the City entered into a \$495,173, ten-year equipment lease purchase agreement with Oshkosh Capital, for the purchase of a fire truck. The lease bears interest at a rate of 4.89%. The related asset has been capitalized in the government-wide financial statements in the equipment asset category. Amortization of the leased assets is included as part of depreciation expense. At June 30, 2008, the outstanding balance was \$398,017.

The annual requirements to amortize the capital lease as of June 30, 2008, including interest are as follows:

Fiscal Year	Fire Truck Lease	
	Principal	Interest
2008 - 2009	\$ 41,845	\$ 19,463
2009 - 2010	43,892	17,417
2010 - 2011	46,038	15,271
2011 - 2012	48,289	13,019
2012 - 2013	50,650	10,658
2013 - 2017	167,303	16,622
<b>Total</b>	<b>\$ 398,017</b>	<b>\$ 92,450</b>

- d. A description of individual issues of bonds (excluding defeased bonds) outstanding as of June 30, 2008, are as follows:

**2000 Tax Allocation Bonds**

In July 2000, the Agency issued \$2,600,000 in tax allocation bonds for the Downtown Revitalization Project No. 1, which mature annually from May 1, 2001 to May 1, 2025, in increasing amounts from \$55,000 to \$195,000, plus interest at 4.4% to 6.0%, payable semiannually on May 1 and November 1, commencing on November 1, 2000. Bonds are subject to redemption at the option of the Agency beginning May 1, 2010, at a price ranging from 102% to 100% of principal value. Debt service on the bonds is provided by incremental property tax revenues generated within the Downtown Redevelopment Project Area. At June 30, 2008, \$2,075,000 was outstanding.

The City has pledged a portion of future tax increment revenues to repay \$2,600,000 in tax allocation bonds issued in July of 2000. The bonds were issued to finance redevelopment activities within or of benefit to the project area. The bonds are payable solely from tax increment revenues. Tax increment revenues are projected to produce 147% of the debt services requirements over the life of the bonds. Total principal and interest requirements for the bonds is \$3,343,137 (\$2,075,000 principal, \$1,268,137 interest), payable semiannually through May 2025. For the current year, principal and interest paid and tax increment revenues received were \$ 199,583 and \$583,105.

**City of South Pasadena  
Notes to Financial Statements (Continued)**

**Note 6: Long-Term Debt (Continued)**

The annual requirements to amortize the outstanding bond indebtedness as of June 30, 2008, including interest are as follows:

Fiscal Year	2000 Tax Allocation Bonds	
	Principal	Interest
2008 - 2009	\$ 75,000	\$ 120,758
2009 - 2010	80,000	116,858
2010 - 2011	85,000	112,658
2011 - 2012	90,000	108,089
2012 - 2017	525,000	458,859
2017 - 2022	695,000	286,715
2022 - 2025	525,000	64,200
Total	<u>\$ 2,075,000</u>	<u>\$ 1,268,137</u>

**2004 Water Revenue Bonds**

In June 2004, the California Statewide Communities Development Authority issued \$56,880,000 Water and Wastewater Revenue Bonds, 2004 Series A. The City of South Pasadena's portion of the proceeds of the bonds is \$8,800,000. The bonds were issued to finance certain capital improvements to the City's water system and to construct two water storage reservoirs. The bonds are secured by pledges of a Capital Improvement Program surcharge which is collected from each water bill.

Bond proceeds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. In addition, funds have been restricted for future capital improvements by City resolution.

The bonds consisted of \$2,945,000 of serial bonds and \$5,855,000 of term bonds due October 1, 2029.

The serial bonds mature annually from October 1, 2004 to October 1, 2016, in increasing amounts from \$195,000 to \$310,000. The bonds bear interest at rates ranging from 1.5% to 5.0%. The term bonds mature on October 1, 2029, and carry an interest rate of 5.0%. Interest is payable semi-annually on April and October, commencing on October 1, 2004 and October 1, 2016, respectively.

The bonds are subject to optional redemption in whole or in part on or after October 1, 2013. On October 1, 2029, the bonds are subject to mandatory redemption which payments will become due. At June 30, 2008 \$8,190,000 was outstanding.

The City has pledged a portion of future Capital Improvement Program surcharge revenues to repay \$8,800,000 in Water and Wastewater Revenue bonds issued in June of 2004. Projections of future Capital Improvement Program surcharge revenues are not available. Total principal and interest requirements for the bonds is \$13,790,776 (\$8,190,000 principal, \$5,600,776 interest), payable semiannually through October 2029. For the current year, principal and interest paid and Capital Improvement Program surcharge revenues received were \$ 623,850 and \$1,376,198.

**City of South Pasadena  
Notes to Financial Statements (Continued)**

**Note 6: Long-Term Debt (Continued)**

The annual requirements to amortize the outstanding bond indebtedness as of June 30, 2008, including interest are as follows:

Fiscal Year	2004 Water Revenue Bonds	
	Principal	Interest
2008 - 2009	220,000	409,650
2009 - 2010	225,000	400,850
2010 - 2011	235,000	392,750
2011 - 2012	245,000	383,350
2012 - 2017	1,410,000	1,721,250
2017 - 2022	1,810,000	1,322,663
2022 - 2027	1,820,000	796,263
2027 - 2029	2,225,000	174,000
<b>Total</b>	<b>\$ 8,190,000</b>	<b>\$ 5,600,776</b>

**e. Loan Payable**

In fiscal year 2006-2007, the City entered into an agreement with the City of Bradbury in which the City of Bradbury advanced \$65,000 in Proposition A funds to the City of South Pasadena. The loan will be repaid in full in fiscal year 2008-2009 when the Proposition A fund balance will be replenished through annual MTA disbursements.

**IV. OTHER INFORMATION**

**Note 7: Construction Commitment**

The City of South Pasadena has an active construction project as of June 30, 2008. The project include street improvements though out the City. At year end, the City's commitments with contractors are as follows.

<u>Projects</u>	<u>Spent-to-Date June 30, 2008</u>	<u>Remaining Commitment</u>
Street Improvements:		
Business District Pedestrian Improvements Construction	\$ 1,360,130	\$ 71,586

The commitment for the street improvement project is being financed from a combination of grants from Federal TIP/(FSTIP) and City Funds.

**City of South Pasadena  
Notes to Financial Statements (Continued)**

**Note 8: City Employees Retirement Plan (Defined Benefit Pension Plan)**

Plan Description

The City of South Pasadena contributes to the California Public Employees Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments 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. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of PERS' annual financial report may be obtained from their executive office located at 400 P Street, Sacramento, California 95814.

Funding Policy

Participants are required to contribute 7% (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. The City is required to contribute at an actuarially determined rate; the current rate is 11.412% for miscellaneous employees and 20.269% for safety employees of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost

For 2008, the City's annual pension cost of \$2,173,066 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2006, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administration expenses), (b) projected annual salary increases that vary by duration of the service and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2008, was 30 years.

Three-Year Trend Information for PERS  
(Amounts in Thousands)

Fiscal Year	Required Contributions	Percentage Contributed
6/30/2006	\$ 1,425	100%
6/30/2007	1,360	100%
6/30/2008	2,173	100%

For fiscal year 2007-2008, the City of South Pasadena participated in risk pooling. Risk pooling consists of combining assets and liabilities across employers to produce large groups where the impact of a catastrophic demographic event is shared among all employers of the same risk pool. Participation in risk pools is mandatory for all rate plans with less than 100 active members. Mandated participation in risk pools was initially based on the active membership of each rate plan as of June 30, 2003. The implementation of risk pools was done in a way that minimizes the impact on employer contribution rates. The first year in risk pools, the employer contribution rates are almost identical to what the rates would have been outside pools. Future rates will be based on the experience of each pool. Pooling will reduce the volatility of future employer rates. Mandated participation will occur on an annual basis. If on any valuation date starting with the June 30, 2003, valuation, a rate plan has less than 100 active members, it will be mandated in one of the risk pools effective on that valuation date.

**City of South Pasadena  
Notes to Financial Statements (Continued)**

**Note 9: Other Post-Employment Employee Benefits**

The City provides certain post-employment health care benefits. Specifically, the City provides health insurance for its retired employees according to the Personnel Rules and Regulations for each of the five employee groups. The authority to do so is included annually in the Memorandum of Understanding between the City and each of its employee groups and ultimately passed by Council action. The expenditure is accounted for within the general government funds and is funded on a pay as you go (cash) basis. The total post-employment health insurance expenditures for the fiscal year 2007-2008 were \$542,014. There are currently 104 participants receiving benefits.

**Note 10: Self-Insurance Program**

**a. Description of Self-Insurance Pool Pursuant to Joint Powers Agreement**

The City is a member of the California Joint Powers Insurance Authority (the Authority). The Authority is composed of 114 California public entities and is organized under a joint powers agreement pursuant to California Government Code Section 6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance and to arrange for group-purchased insurance for property and other coverages. The Authority's pool began covering claims of its members in 1978. Each member government has an elected official as its representative on the board of directors. The Board operates through a nine-member Executive Committee.

**b. Self-Insurance Programs of the Authority**

**General Liability**

Each member government pays a primary deposit to cover estimated losses for fiscal year 2008. Six months after the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Claims are pooled separately between police and non-police. Costs are spread to members as follows: the first \$30,000 of each occurrence is charged directly to the member; costs from \$30,000 to \$750,000 and the loss development reserves associated with losses up to \$750,000 are pooled based on a member's share of losses under \$30,000. Losses from \$750,000 to \$10,000,000, \$18,000,000 to \$23,000,000, and \$45,000,000 to \$50,000,000 and the associated loss development reserve are pooled based on payroll. Costs of covered claims from \$10,000,000 to \$18,000,000 and \$23,000,000 to \$45,000,000 are currently paid by excess insurance. Costs of covered claims for subsidence losses from \$15,000,000 to \$25,000,000 are paid by excess insurance. The protection for each member is \$50,000,000 per occurrence and \$50,000,000 annual aggregate. Administrative expenses are paid from the Authority's investment earnings.

**Workers' Compensation**

The City of South Pasadena also participates in the workers' compensation pool administered by the Authority. Each member government pays a primary deposit to cover estimated losses for fiscal year 2007. Six months after the close of a fiscal year, outstanding claims are valued. Claims are pooled separately between public safety and non-public safety. Each member's has a retention level of \$50,000 for each loss and this is charged directly to the member's primary deposit. Losses from \$50,000 to \$100,000 and the loss development reserve associated with losses up to \$100,000 are pooled based on the member's share of losses under \$50,000.

**City of South Pasadena  
Notes to Financial Statements (Continued)**

**Note 10: Self-Insurance Program (Continued)**

Losses from \$100,000 and \$2,000,000 and loss development reserves associated with losses are pooled based on payroll. Losses from \$2,000,000 to \$5,000,000 are pooled with California State Association of Counties – Excess Insurance Authority members. Costs from \$2,000,000 to \$200,000,000 are transferred to reinsurance carriers. Costs in excess of \$200,000,000 are pooled among the Members based on payroll. Protection is provided per statutory liability under California Workers' Compensation law. Administrative expenses are paid from the Authority's investment earnings.

**c. Purchased Insurance**

Property Insurance

The City of South Pasadena participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. The City of South Pasadena property is currently insured according to a schedule of covered property submitted by the City of South Pasadena to the Authority. Total all-risk property insurance coverage is \$21,039,504. There is a \$5,000 per deductible per occurrence except for non-emergency vehicle insurance which has \$1,000 deductible. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

Crime Insurance

The City of South Pasadena purchases crime insurance coverage in the amount of \$1,000,000 with a \$2,500 deductible. The fidelity coverage is provided through the Authority. Premiums are paid annually and are not subject to retroactive adjustments.

**d. Adequacy of Protection**

During the past three fiscal years, none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

**e. Rights and Responsibilities**

The city is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; automobile liability and accident claims, injuries to employees (workers' compensation); and natural disasters.

**Note 11: Contingencies**

The City is presently involved in certain matters of litigation that have arisen in the normal course of conducting City business. City management believes, based upon consultation with the City Attorney, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the City beyond that already accrued for in the basic financial statements. Additionally, City management believes that sufficient resources are available to the City to cover any potential losses, should an unfavorable outcome materialize.

**City of South Pasadena**  
**Notes to Financial Statements (Continued)**

**Note 12: Fund Equity and Net Assets**

Beginning fund balance has been restated as follows:

Major governmental funds:

General Fund

To record revenues and expenditures in the proper fiscal year	\$ 19,473
To accrue utility tax in prior fiscal year	143,396
To accrue golf course rental in prior fiscal year	44,036
To record receivable for City Manager equity sharing loan agreement	250,000
Total General Fund	<u>\$ 456,905</u>

Community Redevelopment Agency Capital Project Fund

Interest earned in prior year not recorded	\$ 5,077
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Nonmajor governmental funds:

Proposition "A" Fund - change in prior year accrual	(66,090)
Proposition "C" Fund - change in prior year accrual	(54,815)
Street Lighting - correct prior year expenditures	(71,602)
Clean Air Act - correct prior year revenues	12,437
MTA Traffic Improvement Grant - correct prior year expenditures	(3,847)
State Gas Tax - adjust gas tax to State Controller's reconciliation	(37,279)
State Park Bond Fund - correct prior year expenditures	8,168
State Prop 40 Bond Fund - correct prior year revenues	(5,502)
Total fund balance restatements	<u>\$ 243,452</u>

Net assets have been restated as follows:

Governmental activities:

Fund balance restatements	\$ 243,452
Adjust Capital Assets for changes in capitalization policy	(1,217,498)
To adjust prior year compensated absences payable balance	(31,629)
Total governmental activities	<u>\$ (1,005,675)</u>

Business-type activities:

Water Fund

Adjust Capital Assets for changes in capitalization policy	\$ (332,904)
To correct prior year's expenses for a retention payment improperly accrued	324,188
Total business-type activities	<u>(8,716)</u>

Total net asset restatements	<u>\$ (1,014,391)</u>
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**Note 13: ERAF Tax Increment Revenue Shift**

On September 30, 2008 the California Legislature passed AB 1389, requiring a shift in tax increment revenues during fiscal year 2008-2009 to the State Educational Revenue Augmentation Fund (ERAF). It is estimated that the South Pasadena Redevelopment Agency's share of the ERAF shift for fiscal year 2008-2009 will amount to approximately \$44,661.

**City of South Pasadena  
Notes to Financial Statements (Continued)**

**Note 14: Subsequent Events-Financial Concerns Relating to the California Economy**

As indicated in the State of California 2008-2009 Proposed Budget Summary-Economic Outlook:

“The California and national economies faced considerable headwinds – a deepening housing slump, a breakdown in mortgage markets, tighter credit, more volatile financial markets, and rising energy prices. Upward resets of subprime mortgage rates made payments unaffordable for many borrowers and helped push mortgage defaults and foreclosures to records levels. Several large financial institutions reported huge losses on subprime mortgages and securities backed by these mortgages. Uncertainty about how far the problems with these mortgages would spread increased financial market volatility and prompted lenders to tighten credit standards. The Federal Reserve injected liquidity into the financial markets and eased monetary policy on a number of occasions in the second half of the year, but as year-end neared, financial markets were still not functioning normally.”

While the values shown in the attached financial statements reflect those present at June 30, 2008, substantial changes have occurred in the economy in which the City and its component unit operate. Therefore, the projection of the financial data for the City and its component units into future periods must recognize these factors and consider the effects of these on its operations and costs,



SUPPLEMENTARY SCHEDULES [TAB]



## Special Revenue Funds

**Special Revenue Funds** - to account for the proceeds of specific revenue sources (other than Capital Projects Funds) that are legally restricted to expenditures for specified purposes. Funds included are:

**CALTRANS Gold Line Parking** - to account for State funds used for the Gold Line/Blue line parking structure project.

**Traffic Improvement Fund** - to account for grant funds used for traffic congestion improvements on Fair Oaks Street and our other busiest intersections.

**Proposition "A"** - to account for all revenues and expenditures associated with the .5% sales tax approved by Proposition A in 1980. All revenues of this fund must be expended for transportation-related items as established by the Los Angeles County Transportation Commission.

**Proposition "C"** - to account for all revenues and expenditures associated with the .5% sales tax approved by Proposition C in 1990. All revenues of this fund must be expended for transportation-related items as established by the Los Angeles County Transportation Commission.

**ISTEA/ Metro Fund** - to account for project funds received from the federal government for restoration and paving projects.

**Gold Line Betterments Fund** - to account for Grant funds used for the Gold Line Station improvements.

**Sewer** - to account for the provision of sewer construction, maintenance and operation services to residents of the City.

**CTC Traffic Improvement Grant** - to account for State grant funds used for traffic congestion improvements.

**Rogan HR Grant** - to account for Federal grant funds used for traffic congestion improvements.

**Street Lighting/Landscaping** - to account for the costs associated with the City's street lighting and median landscaping programs. These costs are deemed to benefit all property owners who are assessed their proportionate share of the costs. These assessments are placed on the property tax bill and collected and remitted to the City by the County of Los Angeles.

**Clean Air Act** - to account for all revenues and expenditures associated with AB2766. All revenues and expenditures of this fund must be expended for air quality improvement projects as established by the South Coast Air Quality Management District.

**Parking and Business Improvement** - to account for taxes collected by the City from business licensees for the purpose of promoting retail business activities.

**MTA Traffic Improvement Grants** - to account for grants used for street and intersection improvements relieving congestion at our busiest intersections.

**MTA Circulator Bus Purchase Grant Fund** - to account for Grant Funds to fund the purchase of circulator gold link buses or trolleys.

**Gold Line Mitigation** - to account for revenues relating to potential settlement funds from the Construction Authority and the resulting construction related expenditures.

**Special Revenue Funds**  
**(Continued)**

**Mission Oaks Parking** - to account for assessments from members of the Mission Oaks Parking district expended for parking improvements.

**Mission Meridian Public Garage** - to account for revenues and expenditures relating to the city's share of the general operation of the Mission Meridian Public Garage.

**State Gas Tax** - to account for all state gas tax related revenues and expenditures, including street repair, reconstruction and maintenance. State law requires these gasoline taxes to be used to maintain the City's street and highway system.

**State Prop 40 Bond** - to account for State Prop 40 funds used for the improvements in park landscape architecture.

**County Park Bond Fund** - to account for Prop A Safe Neighborhood Park Propositions of 1992 and 1996 County Park Bond funds used for park playground and picnic area improvements.

**State Park Bond Fund** - to account for State park bond funds (Prop 12) used for the improvements in park playground and restrooms.

**Bike and Pedestrian Paths** - to account for SCAG administered local transportation funds of the County, TDA Article 3 used for the improvement of the City's bike and pedestrian pathways.

**Capital Growth Requirement** - to account for fees paid to the City for building development to be applied towards the costs of public facilities improvements.

**CDBG** - to account for Community Development Block Grants used for various CDBG projects in the City.

**Asset Forfeiture** - to account for proceeds received from forfeiture in narcotics investigations allocated for law enforcement activities.

**Federal Police Grant** - to account for the Local Law Enforcement Block Grant funds used to underwrite projects that reduce crime and improve public safety in the City.

**CLEEP** - to account for the California Law Enforcement Equipment Program grant used for the acquisition of high technology equipment in Public Safety.

**Public Library Grant** - to account for State PLF allocations used to fund the purchase of updated computers and equipment.

**Proposition 1B Street and Road Improvements (200)** – to account for resources originating with the November 2006 voter-approved measure that enabled the State of California to issue \$19.9 billion in bonds for highway safety, traffic reduction, port security and air quality.

**State Police Grant** - to account for State COPS funds restricted for enhancing front line police operations

**Homeland Security (274)** – to account for Homeland Security grants from the Federal Government for local preparedness.

**Park Impact Fees (275)** – to account for impact fees collected for development to address increased use of City's park facilities.

**99 Pasadena Avenue (290)** – to account for the proceeds of the sale of City owned land.

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CITY OF SOUTH PASADENA

COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2008

	Special Revenue Funds			
	Caltrans Gold Line Grant	Traffic Improvement	Proposition "A"	Proposition "C"
<b>Assets:</b>				
Pooled cash and investments	\$ 273	\$ -	\$ -	\$ 359,022
Receivables:				
Accounts	-	-	247	-
Accrued interest	-	-	-	2,535
Due from other governments	-	-	-	-
<b>Total Assets</b>	<b>\$ 273</b>	<b>\$ -</b>	<b>\$ 247</b>	<b>\$ 361,557</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ -	\$ 44,273	\$ 105,862
Accrued liabilities	-	-	7,053	3,485
Unearned revenues	-	-	-	-
Deposits payable	-	-	-	-
Due to other funds	-	108,739	35,664	-
<b>Total Liabilities</b>	<b>-</b>	<b>108,739</b>	<b>86,990</b>	<b>109,347</b>
<b>Fund Balances:</b>				
Reserved:				
Reserved for encumbrances	-	-	2,465	-
Undesignated	273	(108,739)	(89,208)	252,210
<b>Total Fund Balances</b>	<b>273</b>	<b>(108,739)</b>	<b>(86,743)</b>	<b>252,210</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 273</b>	<b>\$ -</b>	<b>\$ 247</b>	<b>\$ 361,557</b>

CITY OF SOUTH PASADENA

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2008

Continued

	Special Revenue Funds			
	ISTEA/METRO	Gold Line Betterments	Sewer	CTC Traffic Improvement Grant
<b>Assets:</b>				
Pooled cash and investments	\$ 10,842	\$ 14,913	\$ 373,317	\$ 640,824
Receivables:				
Accounts	-	-	12,057	-
Accrued interest	-	-	2,582	-
Due from other governments	-	-	-	-
<b>Total Assets</b>	<b>\$ 10,842</b>	<b>\$ 14,913</b>	<b>\$ 387,956</b>	<b>\$ 640,824</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ -	\$ 46,659	\$ -
Accrued liabilities	-	-	3,271	-
Unearned revenues	-	-	-	598,251
Deposits payable	-	-	-	-
Due to other funds	-	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>49,930</b>	<b>598,251</b>
<b>Fund Balances:</b>				
Reserved:				
Reserved for encumbrances	-	-	488	-
Undesignated	10,842	14,913	337,538	42,573
<b>Total Fund Balances</b>	<b>10,842</b>	<b>14,913</b>	<b>338,026</b>	<b>42,573</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 10,842</b>	<b>\$ 14,913</b>	<b>\$ 387,956</b>	<b>\$ 640,824</b>

CITY OF SOUTH PASADENA

COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2008

	Special Revenue Funds			
	Rogan HR Grant	Street Lighting	Clean Air Act	Parking and Business Improvement
<b>Assets:</b>				
Pooled cash and investments	\$ -	\$ 136,019	\$ 122,675	\$ 78,690
Receivables:				
Accounts	-	30,256	-	-
Accrued interest	-	-	583	-
Due from other governments	-	-	8,060	-
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 166,275</b>	<b>\$ 131,318</b>	<b>\$ 78,690</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ 102,406	\$ -	\$ 51
Accrued liabilities	-	2,963	-	-
Unearned revenues	-	-	-	-
Deposits payable	-	-	-	-
Due to other funds	-	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>105,369</b>	<b>-</b>	<b>51</b>
<b>Fund Balances:</b>				
Reserved:				
Reserved for encumbrances	-	14,464	53,597	-
Undesignated	-	46,442	77,721	78,639
<b>Total Fund Balances</b>	<b>-</b>	<b>60,906</b>	<b>131,318</b>	<b>78,639</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ -</b>	<b>\$ 166,275</b>	<b>\$ 131,318</b>	<b>\$ 78,690</b>



CITY OF SOUTH PASADENA

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2008

Continued

	Special Revenue Funds			
	MTA Traffic Improvement Grant	MTA Circulator Bus Purchase	Gold Line Mitigation	Mission Oaks Parking
<b>Assets:</b>				
Pooled cash and investments	\$ -	\$ -	\$ 310,341	\$ -
Receivables:				
Accounts	-	-	-	-
Accrued interest	-	-	-	-
Due from other governments	-	-	-	-
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 310,341</b>	<b>\$ -</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ -	\$ 1,000	\$ 335
Accrued liabilities	-	-	-	-
Unearned revenues	-	-	-	-
Deposits payable	-	-	-	-
Due to other funds	-	24,136	-	1,957
<b>Total Liabilities</b>	<b>-</b>	<b>24,136</b>	<b>1,000</b>	<b>2,292</b>
<b>Fund Balances:</b>				
Reserved:				
Reserved for encumbrances	-	41,251	65,000	-
Undesignated	-	(65,387)	244,341	(2,292)
<b>Total Fund Balances</b>	<b>-</b>	<b>(24,136)</b>	<b>309,341</b>	<b>(2,292)</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 310,341</b>	<b>\$ -</b>

CITY OF SOUTH PASADENA

COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2008

	<b>Special Revenue Funds</b>			
	<b>Mission Meridian Public Garage</b>	<b>State Gas Tax</b>	<b>State Prop 40 Bond</b>	<b>County Park Bond</b>
<b>Assets:</b>				
Pooled cash and investments	\$ -	\$ 243,410	\$ -	\$ -
Receivables:				
Accounts	-	-	-	-
Accrued interest	-	2,049	-	-
Due from other governments	-	110,468	47,516	29,976
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 355,927</b>	<b>\$ 47,516</b>	<b>\$ 29,976</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 793	\$ 17,643	\$ -	\$ 2,015
Accrued liabilities	-	5,519	-	-
Unearned revenues	-	-	-	-
Deposits payable	-	-	-	-
Due to other funds	50,322	-	40,419	14,661
<b>Total Liabilities</b>	<b>51,115</b>	<b>23,162</b>	<b>40,419</b>	<b>16,676</b>
<b>Fund Balances:</b>				
Reserved:				
Reserved for encumbrances	-	3,234	-	960
Undesignated	(51,115)	329,531	7,097	12,340
<b>Total Fund Balances</b>	<b>(51,115)</b>	<b>332,765</b>	<b>7,097</b>	<b>13,300</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ -</b>	<b>\$ 355,927</b>	<b>\$ 47,516</b>	<b>\$ 29,976</b>

CITY OF SOUTH PASADENA

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2008

Continued

	Special Revenue Funds			
	State Park Bond	Bike and Pedestrian Paths	Capital Growth Requirements	C.D.B.G.
<b>Assets:</b>				
Pooled cash and investments	\$ -	\$ 18,499	\$ 265,466	\$ -
Receivables:				
Accounts	-	-	-	100
Accrued interest	-	136	1,936	-
Due from other governments	-	-	-	49,168
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 18,635</b>	<b>\$ 267,402</b>	<b>\$ 49,268</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ 19,185	\$ 32,935	\$ 3,316
Accrued liabilities	-	-	-	-
Unearned revenues	-	-	-	-
Deposits payable	-	-	-	3,253
Due to other funds	18,388	-	-	52,293
<b>Total Liabilities</b>	<b>18,388</b>	<b>19,185</b>	<b>32,935</b>	<b>58,862</b>
<b>Fund Balances:</b>				
Reserved:				
Reserved for encumbrances	-	-	24,095	47,386
Undesignated	(18,388)	(550)	210,372	(56,980)
<b>Total Fund Balances</b>	<b>(18,388)</b>	<b>(550)</b>	<b>234,467</b>	<b>(9,594)</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ -</b>	<b>\$ 18,635</b>	<b>\$ 267,402</b>	<b>\$ 49,268</b>

CITY OF SOUTH PASADENA

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2008

	<u>Special Revenue Funds</u>			
	<u>Asset Forfeiture</u>	<u>Federal Police Grants</u>	<u>CLEEP</u>	<u>Public Library Grant</u>
<b>Assets:</b>				
Pooled cash and investments	\$ 16,563	\$ 3,887	\$ 4,716	\$ 16,271
Receivables:				
Accounts	-	-	-	-
Accrued interest	121	29	35	-
Due from other governments	-	-	-	-
<b>Total Assets</b>	<b><u>\$ 16,684</u></b>	<b><u>\$ 3,916</u></b>	<b><u>\$ 4,751</u></b>	<b><u>\$ 16,271</u></b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ 9,816
Accrued liabilities	-	-	-	-
Unearned revenues	-	-	-	-
Deposits payable	-	-	-	-
Due to other funds	-	-	-	-
<b>Total Liabilities</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>9,816</u></b>
<b>Fund Balances:</b>				
Reserved:				
Reserved for encumbrances	-	-	-	-
Undesignated	16,684	3,916	4,751	6,455
<b>Total Fund Balances</b>	<b><u>16,684</u></b>	<b><u>3,916</u></b>	<b><u>4,751</u></b>	<b><u>6,455</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 16,684</u></b>	<b><u>\$ 3,916</u></b>	<b><u>\$ 4,751</u></b>	<b><u>\$ 16,271</u></b>

CITY OF SOUTH PASADENA

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2008

Continued

	Special Revenue Funds			
	Prop 1B Local Return	State Police Grant	Homeland Security Grant	Park Impact Fees
<b>Assets:</b>				
Pooled cash and investments	\$ 415,361	\$ 200,240	\$ -	\$ 49
Receivables:				
Accounts	-	-	-	-
Accrued interest	-	1,532	-	-
Due from other governments	-	-	-	-
<b>Total Assets</b>	<b>\$ 415,361</b>	<b>\$ 201,772</b>	<b>\$ -</b>	<b>\$ 49</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-
Unearned revenues	-	-	-	-
Deposits payable	-	-	-	-
Due to other funds	-	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balances:</b>				
Reserved:				
Reserved for encumbrances	-	-	-	-
Undesignated	415,361	201,772	-	49
<b>Total Fund Balances</b>	<b>415,361</b>	<b>201,772</b>	<b>-</b>	<b>49</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 415,361</b>	<b>\$ 201,772</b>	<b>\$ -</b>	<b>\$ 49</b>

CITY OF SOUTH PASADENA

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2008

	Special Revenue Funds	Total Governmental Funds
	99 Pasadena Avenue	
<b>Assets:</b>		
Pooled cash and investments	\$ 1,126,965	\$ 4,358,343
Receivables:		
Accounts	-	42,660
Accrued interest	8,265	19,803
Due from other governments	-	245,188
<b>Total Assets</b>	<b>\$ 1,135,230</b>	<b>\$ 4,665,994</b>
<b>Liabilities and Fund Balances:</b>		
<b>Liabilities:</b>		
Accounts payable	\$ -	\$ 386,289
Accrued liabilities	-	22,291
Unearned revenues	-	598,251
Deposits payable	-	3,253
Due to other funds	-	346,579
<b>Total Liabilities</b>	<b>-</b>	<b>1,356,663</b>
<b>Fund Balances:</b>		
Reserved:		
Reserved for encumbrances	-	252,940
Undesignated	1,135,230	3,056,391
<b>Total Fund Balances</b>	<b>1,135,230</b>	<b>3,309,331</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,135,230</b>	<b>\$ 4,665,994</b>

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CITY OF SOUTH PASADENA

COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2008

	Special Revenue Funds			
	Caltrans Gold Line Grant	Traffic Improvement	Proposition "A"	Proposition "C"
<b>Revenues:</b>				
Taxes	\$ -	\$ -	\$ 410,094	\$ 341,062
Assessments	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	2,589	-
Use of money and property	-	-	-	13,850
Contributions	-	-	-	-
Miscellaneous	-	-	29,194	-
<b>Total Revenues</b>	<b>-</b>	<b>-</b>	<b>441,877</b>	<b>354,912</b>
<b>Expenditures:</b>				
Current:				
General government	-	-	173,434	29,095
Public safety	-	-	-	-
Community services	-	-	270,212	181,828
Public works	-	-	-	-
Capital outlay	-	2,269	48,672	135,125
<b>Total Expenditures</b>	<b>-</b>	<b>2,269</b>	<b>492,318</b>	<b>346,048</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(2,269)	(50,441)	8,864
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Proceeds from sale of capital asset	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	-	(2,269)	(50,441)	8,864
Fund Balances, Beginning of Year	273	(106,470)	29,788	298,161
Restatements	-	-	(66,090)	(54,815)
Fund Balances, Beginning of Year, as Restated	273	(106,470)	(36,302)	243,346
<b>Fund Balances, End of Year</b>	<b>\$ 273</b>	<b>\$ (108,739)</b>	<b>\$ (86,743)</b>	<b>\$ 252,210</b>



CITY OF SOUTH PASADENA

COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2008

Continued

	Special Revenue Funds			
	ISTEA/METRO	Gold Line Betterments	Sewer	CTC Traffic Improvement Grant
<b>Revenues:</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Assessments	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	22,263
Charges for services	-	-	558,635	-
Use of money and property	-	-	11,889	-
Contributions	-	-	-	-
Miscellaneous	-	-	3,020	-
<b>Total Revenues</b>	<b>-</b>	<b>-</b>	<b>573,544</b>	<b>22,263</b>
<b>Expenditures:</b>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Community services	-	-	-	-
Public works	-	-	394,252	-
Capital outlay	-	-	24,579	22,263
<b>Total Expenditures</b>	<b>-</b>	<b>-</b>	<b>418,831</b>	<b>22,263</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	154,713	-
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	-	-	42,573
Transfers out	-	-	-	-
Proceeds from sale of capital asset	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>42,573</b>
Net Change in Fund Balances	-	-	154,713	42,573
Fund Balances, Beginning of Year	10,842	14,913	183,313	-
Restatements	-	-	-	-
Fund Balances, Beginning of Year, as Restated	10,842	14,913	183,313	-
<b>Fund Balances, End of Year</b>	<b>\$ 10,842</b>	<b>\$ 14,913</b>	<b>\$ 338,026</b>	<b>\$ 42,573</b>

CITY OF SOUTH PASADENA

COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2008

	Special Revenue Funds			
	Rogan HR Grant	Street Lighting	Clean Air Act	Parking and Business Improvement
<b>Revenues:</b>				
Taxes	\$ -	\$ -	\$ -	\$ 140,336
Assessments	-	895,773	-	-
Licenses and permits	-	-	-	-
Intergovernmental	48,939	-	47,265	-
Charges for services	-	-	-	-
Use of money and property	-	-	4,300	-
Contributions	-	19,005	-	-
Miscellaneous	-	23,561	-	-
<b>Total Revenues</b>	<b>48,939</b>	<b>938,339</b>	<b>51,565</b>	<b>140,336</b>
<b>Expenditures:</b>				
Current:				
General government	-	-	6,181	132,575
Public safety	-	-	-	-
Community services	-	-	-	-
Public works	-	881,817	-	-
Capital outlay	-	22,758	-	-
<b>Total Expenditures</b>	<b>-</b>	<b>904,575</b>	<b>6,181</b>	<b>132,575</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	48,939	33,764	45,384	7,761
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Proceeds from sale of capital asset	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>48,939</b>	<b>33,764</b>	<b>45,384</b>	<b>7,761</b>
Fund Balances, Beginning of Year	(48,939)	98,744	73,497	70,878
Restatements	-	(71,602)	12,437	-
Fund Balances, Beginning of Year, as Restated	(48,939)	27,142	85,934	70,878
<b>Fund Balances, End of Year</b>	<b>\$ -</b>	<b>\$ 60,906</b>	<b>\$ 131,318</b>	<b>\$ 78,639</b>

CITY OF SOUTH PASADENA

COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2008

Continued

	Special Revenue Funds			
	MTA Traffic Improvement Grant	MTA Circulator Bus Purchase	Gold Line Mitigation	Mission Oaks Parking
<b>Revenues:</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Assessments	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	-	14,755	-	-
Charges for services	-	-	-	-
Use of money and property	-	-	-	4
Contributions	-	-	-	-
Miscellaneous	-	-	-	2,544
<b>Total Revenues</b>	<b>-</b>	<b>14,755</b>	<b>-</b>	<b>2,548</b>
<b>Expenditures:</b>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Community services	-	-	-	-
Public works	-	-	-	6,013
Capital outlay	-	-	14,572	-
<b>Total Expenditures</b>	<b>-</b>	<b>-</b>	<b>14,572</b>	<b>6,013</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	14,755	(14,572)	(3,465)
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	-	-	-
Transfers out	(42,573)	-	-	-
Proceeds from sale of capital asset	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(42,573)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	(42,573)	14,755	(14,572)	(3,465)
Fund Balances, Beginning of Year	46,420	(38,891)	323,913	1,173
Restatements	(3,847)	-	-	-
Fund Balances, Beginning of Year, as Restated	42,573	(38,891)	323,913	1,173
<b>Fund Balances, End of Year</b>	<b>\$ -</b>	<b>\$ (24,136)</b>	<b>\$ 309,341</b>	<b>\$ (2,292)</b>

CITY OF SOUTH PASADENA

COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2008

	Special Revenue Funds			
	Mission Meridian Public Garage	State Gas Tax	State Prop 40 Bond	County Park Bond
<b>Revenues:</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Assessments	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	-	455,585	47,516	30,231
Charges for services	-	-	-	-
Use of money and property	310	14,228	-	-
Contributions	-	-	-	-
Miscellaneous	-	-	-	-
<b>Total Revenues</b>	<b>310</b>	<b>469,813</b>	<b>47,516</b>	<b>30,231</b>
<b>Expenditures:</b>				
Current:				
General government	80,689	-	-	-
Public safety	-	-	-	-
Community services	-	-	-	-
Public works	-	441,816	-	28,369
Capital outlay	-	-	(48,365)	-
<b>Total Expenditures</b>	<b>80,689</b>	<b>441,816</b>	<b>(48,365)</b>	<b>28,369</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(80,379)	27,997	95,881	1,862
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Proceeds from sale of capital asset	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>(80,379)</b>	<b>27,997</b>	<b>95,881</b>	<b>1,862</b>
Fund Balances, Beginning of Year	29,264	342,047	(96,952)	11,438
Restatements	-	(37,279)	8,168	-
Fund Balances, Beginning of Year, as Restated	29,264	304,768	(88,784)	11,438
<b>Fund Balances, End of Year</b>	<b>\$ (51,115)</b>	<b>\$ 332,765</b>	<b>\$ 7,097</b>	<b>\$ 13,300</b>

CITY OF SOUTH PASADENA

COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2008

Continued

	Special Revenue Funds			
	State Park Bond	Bike and Pedestrian Paths	Capital Growth Requirements	C.D.B.G.
<b>Revenues:</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Assessments	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	68,887	36,741	-	97,991
Charges for services	-	-	133,769	-
Use of money and property	-	1,002	10,995	-
Contributions	-	-	-	-
Miscellaneous	-	-	-	29,325
<b>Total Revenues</b>	<b>68,887</b>	<b>37,743</b>	<b>144,764</b>	<b>127,316</b>
<b>Expenditures:</b>				
Current:				
General government	-	-	-	3,962
Public safety	-	-	-	-
Community services	-	-	-	90,687
Public works	-	-	-	-
Capital outlay	-	27,878	112,980	42,581
<b>Total Expenditures</b>	<b>-</b>	<b>27,878</b>	<b>112,980</b>	<b>137,230</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	68,887	9,865	31,784	(9,914)
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Proceeds from sale of capital asset	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	68,887	9,865	31,784	(9,914)
Fund Balances, Beginning of Year	(81,773)	(10,415)	202,683	320
Restatements	(5,502)	-	-	-
Fund Balances, Beginning of Year, as Restated	(87,275)	(10,415)	202,683	320
<b>Fund Balances, End of Year</b>	<b>\$ (18,388)</b>	<b>\$ (550)</b>	<b>\$ 234,467</b>	<b>\$ (9,594)</b>

CITY OF SOUTH PASADENA

COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2008

	Special Revenue Funds			
	Asset Forfeiture	Federal Police Grants	CLEEP	Public Library Grant
<b>Revenues:</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Assessments	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	9,919
Charges for services	-	-	-	-
Use of money and property	772	182	221	-
Contributions	-	-	-	-
Miscellaneous	-	-	-	-
<b>Total Revenues</b>	<b>772</b>	<b>182</b>	<b>221</b>	<b>9,919</b>
<b>Expenditures:</b>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Community services	-	-	-	9,816
Public works	-	-	-	-
Capital outlay	-	-	-	-
<b>Total Expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,816</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	772	182	221	103
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Proceeds from sale of capital asset	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>772</b>	<b>182</b>	<b>221</b>	<b>103</b>
Fund Balances, Beginning of Year	15,912	3,734	4,530	6,352
Restatements	-	-	-	-
Fund Balances, Beginning of Year, as Restated	15,912	3,734	4,530	6,352
<b>Fund Balances, End of Year</b>	<b>\$ 16,684</b>	<b>\$ 3,916</b>	<b>\$ 4,751</b>	<b>\$ 6,455</b>

CITY OF SOUTH PASADENA

COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2008

Continued

	Special Revenue Funds			
	Prop 1B Local Return	State Police Grant	Homeland Security Grant	Park Impact Fees
<b>Revenues:</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Assessments	-	-	-	-
Licenses and permits	-	-	-	49
Intergovernmental	415,361	100,000	-	-
Charges for services	-	-	-	-
Use of money and property	-	10,632	-	-
Contributions	-	-	-	-
Miscellaneous	-	-	-	-
<b>Total Revenues</b>	<b>415,361</b>	<b>110,632</b>	<b>-</b>	<b>49</b>
<b>Expenditures:</b>				
Current:				
General government	-	-	-	-
Public safety	-	96,119	-	-
Community services	-	-	-	-
Public works	-	-	-	-
Capital outlay	-	-	-	-
<b>Total Expenditures</b>	<b>-</b>	<b>96,119</b>	<b>-</b>	<b>-</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	415,361	14,513	-	49
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Proceeds from sale of capital asset	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>415,361</b>	<b>14,513</b>	<b>-</b>	<b>49</b>
Fund Balances, Beginning of Year	-	187,259	-	-
Restatements	-	-	-	-
Fund Balances, Beginning of Year, as Restated	-	187,259	-	-
<b>Fund Balances, End of Year</b>	<b>\$ 415,361</b>	<b>\$ 201,772</b>	<b>\$ -</b>	<b>\$ 49</b>

CITY OF SOUTH PASADENA

COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2008

	Special Revenue Funds	Total Governmental Funds
	99 Pasadena Avenue	
<b>Revenues:</b>		
Taxes	\$ -	\$ 891,492
Assessments	-	895,773
Licenses and permits	-	49
Intergovernmental	-	1,395,453
Charges for services	-	694,993
Use of money and property	35,230	103,615
Contributions	-	19,005
Miscellaneous	-	87,644
<b>Total Revenues</b>	<b>35,230</b>	<b>4,088,024</b>
<b>Expenditures:</b>		
Current:		
General government	-	425,936
Public safety	-	96,119
Community services	-	552,543
Public works	-	1,752,267
Capital outlay	-	405,312
<b>Total Expenditures</b>	<b>-</b>	<b>3,232,177</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	35,230	855,847
<b>Other Financing Sources (Uses):</b>		
Transfers in	-	42,573
Transfers out	-	(42,573)
Proceeds from sale of capital asset	1,100,000	1,100,000
<b>Total Other Financing Sources (Uses)</b>	<b>1,100,000</b>	<b>1,100,000</b>
Net Change in Fund Balances	1,135,230	1,955,847
Fund Balances, Beginning of Year	-	1,572,014
Restatements	-	(218,530)
Fund Balances, Beginning of Year, as Restated	-	1,353,484
<b>Fund Balances, End of Year</b>	<b>\$ 1,135,230</b>	<b>\$ 3,309,331</b>



CITY OF SOUTH PASADENA

BUDGETARY COMPARISON SCHEDULE  
 PROPOSITION "A"  
 YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ (36,302)	\$ (36,302)	\$ (36,302)	\$ -
<b>Resources (Inflows):</b>				
Taxes	460,000	460,000	410,094	(49,906)
Charges for services	3,600	3,600	2,589	(1,011)
Miscellaneous	10,350	10,350	29,194	18,844
<b>Amounts Available for Appropriation</b>	<b>437,648</b>	<b>437,648</b>	<b>405,575</b>	<b>(32,073)</b>
<b>Charges to Appropriation (Outflow):</b>				
General government	172,940	172,940	173,434	(494)
Parks and recreation	290,086	290,086	270,212	19,874
Capital outlay	-	51,945	48,672	3,273
<b>Total Charges to Appropriations</b>	<b>463,026</b>	<b>514,971</b>	<b>492,318</b>	<b>22,653</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ (25,378)</b>	<b>\$ (77,323)</b>	<b>\$ (86,743)</b>	<b>\$ (9,420)</b>

CITY OF SOUTH PASADENA

BUDGETARY COMPARISON SCHEDULE  
 PROPOSITION "C"  
 YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 243,346	\$ 243,346	\$ 243,346	\$ -
<b>Resources (Inflows):</b>				
Taxes	360,000	360,000	341,062	(18,938)
Use of money and property	5,000	5,000	13,850	8,850
<b>Amounts Available for Appropriation</b>	<b>608,346</b>	<b>608,346</b>	<b>598,258</b>	<b>(10,088)</b>
<b>Charges to Appropriation (Outflow):</b>				
General government	55,417	55,417	29,095	26,322
Parks and recreation	165,509	165,509	181,828	(16,319)
Capital outlay	220,000	357,855	135,125	222,730
<b>Total Charges to Appropriations</b>	<b>440,926</b>	<b>578,781</b>	<b>346,048</b>	<b>232,733</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 167,420</b>	<b>\$ 29,565</b>	<b>\$ 252,210</b>	<b>\$ 222,645</b>

CITY OF SOUTH PASADENA

BUDGETARY COMPARISON SCHEDULE  
 SEWER  
 YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 183,313	\$ 183,313	\$ 183,313	\$ -
<b>Resources (Inflows):</b>				
Charges for services	554,900	554,900	558,635	3,735
Use of money and property	-	-	11,889	11,889
Miscellaneous	-	-	3,020	3,020
<b>Amounts Available for Appropriation</b>	<b>738,213</b>	<b>738,213</b>	<b>756,857</b>	<b>18,644</b>
<b>Charges to Appropriation (Outflow):</b>				
Public works	472,725	473,974	394,252	79,722
Capital outlay	250,000	339,719	24,579	315,140
<b>Total Charges to Appropriations</b>	<b>722,725</b>	<b>813,693</b>	<b>418,831</b>	<b>394,862</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 15,488</b>	<b>\$ (75,480)</b>	<b>\$ 338,026</b>	<b>\$ 413,506</b>

CITY OF SOUTH PASADENA

BUDGETARY COMPARISON SCHEDULE  
 CTC TRAFFIC IMPROVEMENT GRANT  
 YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ -	\$ -	\$ -	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	-	-	22,263	22,263
Transfers in	-	-	42,573	42,573
<b>Amounts Available for Appropriation</b>	<b>-</b>	<b>-</b>	<b>64,836</b>	<b>64,836</b>
<b>Charges to Appropriation (Outflow):</b>				
Capital outlay	-	64,592	22,263	42,329
<b>Total Charges to Appropriations</b>	<b>-</b>	<b>64,592</b>	<b>22,263</b>	<b>42,329</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ -</b>	<b>\$ (64,592)</b>	<b>\$ 42,573</b>	<b>\$ 107,165</b>

CITY OF SOUTH PASADENA

BUDGETARY COMPARISON SCHEDULE  
 ROGAN HR GRANT  
 YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ (48,939)	\$ (48,939)	\$ (48,939)	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	8,808,860	8,808,860	48,939	(8,759,921)
<b>Amounts Available for Appropriation</b>	<b>8,759,921</b>	<b>8,759,921</b>	<b>-</b>	<b>(8,759,921)</b>
<b>Charges to Appropriation (Outflow):</b>				
Capital outlay	8,808,860	9,403,644	-	9,403,644
<b>Total Charges to Appropriations</b>	<b>8,808,860</b>	<b>9,403,644</b>	<b>-</b>	<b>9,403,644</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ (48,939)</b>	<b>\$ (643,723)</b>	<b>\$ -</b>	<b>\$ 643,723</b>

CITY OF SOUTH PASADENA

BUDGETARY COMPARISON SCHEDULE  
 STREET LIGHTING  
 YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 27,142	\$ 27,142	\$ 27,142	\$ -
<b>Resources (Inflows):</b>				
Assessments	878,000	878,000	895,773	17,773
Contributions	-	-	19,005	19,005
Miscellaneous	7,500	7,500	23,561	16,061
<b>Amounts Available for Appropriation</b>	<b>912,642</b>	<b>912,642</b>	<b>965,481</b>	<b>52,839</b>
<b>Charges to Appropriation (Outflow):</b>				
Public works	772,786	780,899	881,817	(100,918)
Capital outlay	95,000	95,000	22,758	72,242
<b>Total Charges to Appropriations</b>	<b>867,786</b>	<b>875,899</b>	<b>904,575</b>	<b>(28,676)</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 44,856</b>	<b>\$ 36,743</b>	<b>\$ 60,906</b>	<b>\$ 24,163</b>

CITY OF SOUTH PASADENA

BUDGETARY COMPARISON SCHEDULE  
 CLEAN AIR ACT  
 YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 85,934	\$ 85,934	\$ 85,934	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	80,000	80,000	47,265	(32,735)
Use of money and property	2,000	2,000	4,300	2,300
<b>Amounts Available for Appropriation</b>	<b>167,934</b>	<b>167,934</b>	<b>137,499</b>	<b>(30,435)</b>
<b>Charges to Appropriation (Outflow):</b>				
General government	12,700	12,700	6,181	6,519
Capital outlay	98,000	144,000	-	144,000
<b>Total Charges to Appropriations</b>	<b>110,700</b>	<b>156,700</b>	<b>6,181</b>	<b>150,519</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 57,234</b>	<b>\$ 11,234</b>	<b>\$ 131,318</b>	<b>\$ 120,084</b>

CITY OF SOUTH PASADENA

BUDGETARY COMPARISON SCHEDULE  
 PARKING AND BUSINESS IMPROVEMENT  
 YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 70,878	\$ 70,878	\$ 70,878	\$ -
<b>Resources (Inflows):</b>				
Taxes	128,000	128,000	140,336	12,336
<b>Amounts Available for Appropriation</b>	<b>198,878</b>	<b>198,878</b>	<b>211,214</b>	<b>12,336</b>
<b>Charges to Appropriation (Outflow):</b>				
General government	131,300	131,300	132,575	(1,275)
<b>Total Charges to Appropriations</b>	<b>131,300</b>	<b>131,300</b>	<b>132,575</b>	<b>(1,275)</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 67,578</b>	<b>\$ 67,578</b>	<b>\$ 78,639</b>	<b>\$ 11,061</b>



CITY OF SOUTH PASADENA

BUDGETARY COMPARISON SCHEDULE  
 MTA TRAFFIC IMPROVEMENT GRANT  
 YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 42,573	\$ 42,573	\$ 42,573	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	817,856	817,856	-	(817,856)
<b>Amounts Available for Appropriation</b>	<b>860,429</b>	<b>860,429</b>	<b>42,573</b>	<b>(817,856)</b>
<b>Charges to Appropriation (Outflow):</b>				
Capital outlay	817,856	918,785	-	918,785
Transfers out	-	-	42,573	(42,573)
<b>Total Charges to Appropriations</b>	<b>817,856</b>	<b>918,785</b>	<b>42,573</b>	<b>876,212</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 42,573</b>	<b>\$ (58,356)</b>	<b>\$ -</b>	<b>\$ 58,356</b>

CITY OF SOUTH PASADENA

BUDGETARY COMPARISON SCHEDULE  
 GOLD LINE MITIGATION  
 YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 323,913	\$ 323,913	\$ 323,913	\$ -
<b>Resources (Inflows):</b>				
<b>Amounts Available for Appropriation</b>	<b>323,913</b>	<b>323,913</b>	<b>323,913</b>	<b>-</b>
<b>Charges to Appropriation (Outflow):</b>				
Capital outlay	125,000	348,543	14,572	333,971
<b>Total Charges to Appropriations</b>	<b>125,000</b>	<b>348,543</b>	<b>14,572</b>	<b>333,971</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 198,913</b>	<b>\$ (24,630)</b>	<b>\$ 309,341</b>	<b>\$ 333,971</b>

CITY OF SOUTH PASADENA

BUDGETARY COMPARISON SCHEDULE  
 MISSION OAKS PARKING  
 YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 1,173	\$ 1,173	\$ 1,173	\$ -
<b>Resources (Inflows):</b>				
Use of money and property	-	-	4	4
Miscellaneous	6,915	6,915	2,544	(4,371)
<b>Amounts Available for Appropriation</b>	<b>8,088</b>	<b>8,088</b>	<b>3,721</b>	<b>(4,367)</b>
<b>Charges to Appropriation (Outflow):</b>				
Public works	7,000	7,000	6,013	987
<b>Total Charges to Appropriations</b>	<b>7,000</b>	<b>7,000</b>	<b>6,013</b>	<b>987</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 1,088</b>	<b>\$ 1,088</b>	<b>\$ (2,292)</b>	<b>\$ (3,380)</b>

CITY OF SOUTH PASADENA

BUDGETARY COMPARISON SCHEDULE  
MISSION MERIDIAN PUBLIC GARAGE  
YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 29,264	\$ 29,264	\$ 29,264	\$ -
<b>Resources (Inflows):</b>				
Charges for services	26,416	26,416	-	(26,416)
Use of money and property	-	-	310	310
<b>Amounts Available for Appropriation</b>	<b>55,680</b>	<b>55,680</b>	<b>29,574</b>	<b>(26,106)</b>
<b>Charges to Appropriation (Outflow):</b>				
General government	69,500	69,500	80,689	(11,189)
<b>Total Charges to Appropriations</b>	<b>69,500</b>	<b>69,500</b>	<b>80,689</b>	<b>(11,189)</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ (13,820)</b>	<b>\$ (13,820)</b>	<b>\$ (51,115)</b>	<b>\$ (37,295)</b>

CITY OF SOUTH PASADENA

BUDGETARY COMPARISON SCHEDULE  
 STATE GAS TAX  
 YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 304,768	\$ 304,768	\$ 304,768	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	478,000	478,000	455,585	(22,415)
Use of money and property	2,500	2,500	14,228	11,728
<b>Amounts Available for Appropriation</b>	<b>785,268</b>	<b>785,268</b>	<b>774,581</b>	<b>(10,687)</b>
<b>Charges to Appropriation (Outflow):</b>				
Public works	488,310	505,310	441,816	63,494
Capital outlay	320,000	333,237	-	333,237
<b>Total Charges to Appropriations</b>	<b>808,310</b>	<b>838,547</b>	<b>441,816</b>	<b>396,731</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ (23,042)</b>	<b>\$ (53,279)</b>	<b>\$ 332,765</b>	<b>\$ 386,044</b>

CITY OF SOUTH PASADENA

BUDGETARY COMPARISON SCHEDULE  
 STATE PROP 40 BOND  
 YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ (88,784)	\$ (88,784)	\$ (88,784)	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	-	-	47,516	47,516
<b>Amounts Available for Appropriation</b>	<b>(88,784)</b>	<b>(88,784)</b>	<b>(41,268)</b>	<b>47,516</b>
<b>Charges to Appropriation (Outflow):</b>				
Capital outlay	-	2,274	(48,365)	50,639
<b>Total Charges to Appropriations</b>	<b>-</b>	<b>2,274</b>	<b>(48,365)</b>	<b>50,639</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ (88,784)</b>	<b>\$ (91,058)</b>	<b>\$ 7,097</b>	<b>\$ 98,155</b>

CITY OF SOUTH PASADENA

BUDGETARY COMPARISON SCHEDULE  
 COUNTY PARK BOND  
 YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 11,438	\$ 11,438	\$ 11,438	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	-	-	30,231	30,231
<b>Amounts Available for Appropriation</b>	<b>11,438</b>	<b>11,438</b>	<b>41,669</b>	<b>30,231</b>
<b>Charges to Appropriation (Outflow):</b>				
Public works	11,375	11,375	28,369	(16,994)
<b>Total Charges to Appropriations</b>	<b>11,375</b>	<b>11,375</b>	<b>28,369</b>	<b>(16,994)</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 63</b>	<b>\$ 63</b>	<b>\$ 13,300</b>	<b>\$ 13,237</b>

CITY OF SOUTH PASADENA

BUDGETARY COMPARISON SCHEDULE  
 BIKE AND PEDESTRIAN PATHS  
 YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ (10,415)	\$ (10,415)	\$ (10,415)	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	20,000	20,000	36,741	16,741
Use of money and property	500	500	1,002	502
<b>Amounts Available for Appropriation</b>	<b>10,085</b>	<b>10,085</b>	<b>27,328</b>	<b>17,243</b>
<b>Charges to Appropriation (Outflow):</b>				
Capital outlay	-	25,730	27,878	(2,148)
<b>Total Charges to Appropriations</b>	<b>-</b>	<b>25,730</b>	<b>27,878</b>	<b>(2,148)</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 10,085</b>	<b>\$ (15,645)</b>	<b>\$ (550)</b>	<b>\$ 15,095</b>



CITY OF SOUTH PASADENA

BUDGETARY COMPARISON SCHEDULE  
 CAPITAL GROWTH REQUIREMENTS  
 YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 202,683	\$ 202,683	\$ 202,683	\$ -
<b>Resources (Inflows):</b>				
Charges for services	86,500	86,500	133,769	47,269
Use of money and property	3,000	3,000	10,995	7,995
<b>Amounts Available for Appropriation</b>	<b>292,183</b>	<b>292,183</b>	<b>347,447</b>	<b>55,264</b>
<b>Charges to Appropriation (Outflow):</b>				
Capital outlay	89,000	150,991	112,980	38,011
<b>Total Charges to Appropriations</b>	<b>89,000</b>	<b>150,991</b>	<b>112,980</b>	<b>38,011</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 203,183</b>	<b>\$ 141,192</b>	<b>\$ 234,467</b>	<b>\$ 93,275</b>

CITY OF SOUTH PASADENA

BUDGETARY COMPARISON SCHEDULE  
 C.D.B.G.  
 YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 320	\$ 320	\$ 320	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	170,688	170,688	97,991	(72,697)
Miscellaneous	34,000	34,000	29,325	(4,675)
<b>Amounts Available for Appropriation</b>	<b>205,008</b>	<b>205,008</b>	<b>127,636</b>	<b>(77,372)</b>
<b>Charges to Appropriation (Outflow):</b>				
General government	10,886	10,886	3,962	6,924
Parks and recreation	103,804	103,804	90,687	13,117
Capital outlay	90,000	90,000	42,581	47,419
<b>Total Charges to Appropriations</b>	<b>204,690</b>	<b>204,690</b>	<b>137,230</b>	<b>67,460</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 318</b>	<b>\$ 318</b>	<b>\$ (9,594)</b>	<b>\$ (9,912)</b>

CITY OF SOUTH PASADENA

BUDGETARY COMPARISON SCHEDULE  
 PUBLIC LIBRARY GRANT  
 YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 6,352	\$ 6,352	\$ 6,352	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	14,000	14,000	9,919	(4,081)
<b>Amounts Available for Appropriation</b>	<b>20,352</b>	<b>20,352</b>	<b>16,271</b>	<b>(4,081)</b>
<b>Charges to Appropriation (Outflow):</b>				
Parks and recreation	14,000	14,000	9,816	4,184
<b>Total Charges to Appropriations</b>	<b>14,000</b>	<b>14,000</b>	<b>9,816</b>	<b>4,184</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 6,352</b>	<b>\$ 6,352</b>	<b>\$ 6,455</b>	<b>\$ 103</b>

CITY OF SOUTH PASADENA

BUDGETARY COMPARISON SCHEDULE  
 PROP 1B LOCAL RETURN  
 YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ -	\$ -	\$ -	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	245,000	245,000	415,361	170,361
<b>Amounts Available for Appropriation</b>	<b>245,000</b>	<b>245,000</b>	<b>415,361</b>	<b>170,361</b>
<b>Charges to Appropriation (Outflow):</b>				
Capital outlay	245,000	245,000	-	245,000
<b>Total Charges to Appropriations</b>	<b>245,000</b>	<b>245,000</b>	<b>-</b>	<b>245,000</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 415,361</b>	<b>\$ 415,361</b>

CITY OF SOUTH PASADENA

BUDGETARY COMPARISON SCHEDULE  
 STATE POLICE GRANT  
 YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 187,259	\$ 187,259	\$ 187,259	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	100,000	100,000	100,000	-
Use of money and property	2,000	2,000	10,632	8,632
<b>Amounts Available for Appropriation</b>	<b>289,259</b>	<b>289,259</b>	<b>297,891</b>	<b>8,632</b>
<b>Charges to Appropriation (Outflow):</b>				
Public safety	-	88,597	96,119	(7,522)
<b>Total Charges to Appropriations</b>	<b>-</b>	<b>88,597</b>	<b>96,119</b>	<b>(7,522)</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 289,259</b>	<b>\$ 200,662</b>	<b>\$ 201,772</b>	<b>\$ 1,110</b>

CITY OF SOUTH PASADENA

BUDGETARY COMPARISON SCHEDULE  
 COMMUNITY REDEVELOPMENT AGENCY  
 YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 2,654,494	\$ 2,654,494	\$ 2,654,494	\$ -
<b>Resources (Inflows):</b>				
Taxes	475,000	475,000	583,105	108,105
Use of money and property	69,972	69,972	151,052	81,080
Miscellaneous	-	-	22,640	22,640
<b>Amounts Available for Appropriation</b>	<b>3,199,466</b>	<b>3,199,466</b>	<b>3,411,291</b>	<b>211,825</b>
<b>Charges to Appropriation (Outflow):</b>				
General government	352,239	352,239	388,466	(36,227)
Debt service:				
Principal retirement	75,000	75,000	75,000	-
Interest and fiscal charges	149,503	149,503	124,583	24,920
<b>Total Charges to Appropriations</b>	<b>576,742</b>	<b>576,742</b>	<b>588,049</b>	<b>(11,307)</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 2,622,724</b>	<b>\$ 2,622,724</b>	<b>\$ 2,823,242</b>	<b>\$ 200,518</b>

STATISTICAL SECTION [TAB]





## Statistical Section

*This part of the City of South Pasadena's Statistical comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the city's overall financial health.*

### Contents

#### **Financial Trends**

*These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time.*

#### **Revenue Capacity**

*These schedules contain information to help the reader assess the factors affecting the city's ability to generate its property and sales taxes.*

#### **Debt Capacity**

*These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future.*

#### **Demographic and Economic Information**

*These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place and to help make comparisons over time and with other governments.*

#### **Operating Information**

*These schedules contain information about the city's operations and resources to help the reader understand how the city's financial information relates to the services the city provides and the activities it performs.*

**Sources:** *Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.*

CITY OF SOUTH PASADENA

Net Assets by Component  
Last Six Fiscal Years  
(Accrual Basis of Accounting)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
<b>Government activities</b>						
Invested in capital assets, net of related debt	\$ 53,848,000	\$ 53,712,779	\$ 52,586,854	\$ 53,938,246	\$ 57,875,243	\$ 59,638,269
Restricted	875,676	3,134,933	2,985,309	3,700,356	4,454,617	3,725,863
Unrestricted	5,037,527	3,109,784	2,866,719	3,351,709	6,396,133	8,392,273
<b>Total governmental activities net assets</b>	<b>\$ 59,761,203</b>	<b>\$ 59,957,496</b>	<b>\$ 58,438,882</b>	<b>\$ 60,990,311</b>	<b>\$ 68,725,993</b>	<b>\$ 71,756,405</b>
<b>Business-type activities</b>						
Invested in capital assets, net of related debt	\$ -	\$ 2,084,629	\$ 3,290,506	\$ 3,042,921	\$ 3,263,489	\$ 2,791,280
Restricted	-	-	769,344	1,391,957	2,136,719	2,878,966
Unrestricted	5,645,780	4,323,054	2,952,479	3,319,590	2,831,187	3,542,152
<b>Total business-type activities net assets</b>	<b>\$ 5,645,780</b>	<b>\$ 6,407,683</b>	<b>\$ 7,012,329</b>	<b>\$ 7,754,468</b>	<b>\$ 8,231,395</b>	<b>\$ 9,212,398</b>
<b>Primary government</b>						
Invested in capital assets, net of related debt	\$ 53,848,000	\$ 55,797,408	\$ 55,877,360	\$ 56,981,167	\$ 61,138,732	\$ 62,429,549
Restricted	875,676	3,134,933	3,754,653	5,092,313	6,591,336	6,604,829
Unrestricted	10,683,307	7,432,838	5,819,198	6,671,299	9,227,320	11,934,425
<b>Total primary government activities net assets</b>	<b>\$ 65,406,983</b>	<b>\$ 66,365,179</b>	<b>\$ 65,451,211</b>	<b>\$ 68,744,779</b>	<b>\$ 76,957,388</b>	<b>\$ 80,968,803</b>

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CITY OF SOUTH PASADENA

Changes in Net Assets  
Last Six Fiscal Years  
(Accrual Basis of Accounting)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
<b>Expenses</b>						
<b>Governmental Activities:</b>						
General government	\$ 3,347,378	\$ 4,539,884	\$ 5,238,131	\$ 4,623,433	\$ 4,401,369	\$ 3,911,227
Public safety	7,629,324	8,926,614	9,631,689	9,823,747	9,779,691	9,875,234
Community development	874,087	763,683	786,021	770,006	883,972	997,287
Community Services	2,225,418	2,183,071	2,426,270	2,446,291	2,523,119	2,806,026
Public works	4,416,784	3,672,143	4,351,990	4,804,715	4,876,678	4,655,996
Interest on long-term debt	149,200	146,641	178,245	172,698	149,359	143,423
<b>Total Governmental Activities expenses</b>	<b>18,642,191</b>	<b>20,232,036</b>	<b>22,612,346</b>	<b>22,640,890</b>	<b>22,614,188</b>	<b>22,389,193</b>
<b>Business-Type Activities:</b>						
Water utility	2,643,259	2,558,200	3,607,186	4,160,990	3,908,439	3,949,800
<b>Total Business-Type Activities Expenses</b>	<b>2,643,259</b>	<b>2,558,200</b>	<b>3,607,186</b>	<b>4,160,990</b>	<b>3,908,439</b>	<b>3,949,800</b>
<b>Total Primary Government Expenses</b>	<b>\$ 21,285,450</b>	<b>\$ 22,790,236</b>	<b>\$ 26,219,532</b>	<b>\$ 26,801,880</b>	<b>\$ 26,522,627</b>	<b>\$ 26,338,993</b>
<b>Program Revenues</b>						
<b>Governmental Activities:</b>						
Charges for services:						
General government	\$ 726,699	\$ 1,054,576	\$ 1,108,740	\$ 1,238,045	\$ 1,358,711	\$ 1,457,911
Public safety	501,708	550,729	579,762	589,211	569,946	1,306,513
Community development	552,806	579,502	715,107	715,970	598,718	801,200
Community Services	570,127	691,141	683,576	686,560	690,544	514,523
Public works	1,294,161	1,503,901	1,146,864	1,119,950	1,079,883	1,244,935
<b>Total Charges for Services</b>	<b>3,645,501</b>	<b>4,379,849</b>	<b>4,234,049</b>	<b>4,349,736</b>	<b>4,297,802</b>	<b>5,325,082</b>
Operating Contributions and Grants:						
General government	784,587	1,108,032	787,784	1,397,311	500,002	150,998
Public safety	116,182	249,686	746,820	987,107	2,422,944	175,552
Community Services	71,840	95,308	55,596	53,013	63,472	127,136
Public works	63,695	119,812	167,641	131,107	122,292	539,572
<b>Total Operating Contributions and Grants</b>	<b>1,036,304</b>	<b>1,572,838</b>	<b>1,757,841</b>	<b>2,568,538</b>	<b>3,108,710</b>	<b>993,258</b>
Capital Contributions and Grants:						
Public safety	34,123	-	-	-	-	-
Community Services	-	-	-	-	-	47,516
Public works	4,457,348	1,561,750	1,259,811	2,536,724	2,712,135	513,368
<b>Total Capital Contributions and Grants</b>	<b>4,491,471</b>	<b>1,561,750</b>	<b>1,259,811</b>	<b>2,536,724</b>	<b>2,712,135</b>	<b>560,884</b>
<b>Total Governmental Activities Program Revenue</b>	<b>9,173,276</b>	<b>7,514,437</b>	<b>7,251,701</b>	<b>9,454,998</b>	<b>10,118,647</b>	<b>6,879,224</b>
<b>Business-Type Activities:</b>						
Charges for services:						
Water utility	2,850,357	3,217,446	3,902,977	4,442,966	4,687,499	4,543,192
<b>Total Business-Type Activities Program Revenues</b>	<b>2,850,357</b>	<b>3,217,446</b>	<b>3,902,977</b>	<b>4,442,966</b>	<b>4,687,499</b>	<b>4,543,192</b>
<b>Total Primary Government Program Revenues</b>	<b>\$ 6,495,858</b>	<b>\$ 7,597,295</b>	<b>\$ 8,137,026</b>	<b>\$ 8,792,702</b>	<b>\$ 14,806,146</b>	<b>\$ 11,422,416</b>
<b>Net (Expense)/Revenue</b>						
Governmental Activities	\$ (9,468,915)	\$ (12,717,599)	\$ (15,360,645)	\$ (13,185,892)	\$ (12,495,541)	\$ (15,509,969)
Business-Type Activities	207,098	659,246	295,791	281,976	779,060	593,392
<b>Total primary Government Net Expense</b>	<b>\$ (9,261,817)</b>	<b>\$ (12,058,353)</b>	<b>\$ (15,064,854)</b>	<b>\$ (12,903,916)</b>	<b>\$ (11,716,481)</b>	<b>\$ (14,916,577)</b>

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
<b>General Revenues and Other Charges in Net Assets</b>						
Governmental Activities:						
Taxes:						
Property taxes, levied for general purpose	\$ 5,401,391	\$ 5,878,748	\$ 6,152,773	\$ 8,367,587	\$ 9,116,431	\$ 9,986,309
Sales taxes	2,334,636	2,388,269	2,572,929	2,890,126	2,911,037	3,078,717
Franchise taxes	566,280	624,327	671,111	717,624	769,549	777,675
Business licenses taxes	257,047	257,799	273,432	323,055	334,840	344,497
Other taxes	1,826,864	1,988,990	2,113,733	2,104,870	2,250,281	3,158,469
Motor Vehicle In Lieu	1,428,810	1,167,965	2,034,071	88,757	129,564	110,144
Use of money and property	438,050	439,308	489,121	619,237	839,529	921,232
Gain on sale of assets	12,683	(63,817)	-	-	-	1,100,000
Other	33,086	97,564	154,813	646,065	127,106	69,013
<b>Total Governmental Activities</b>	<b>12,298,847</b>	<b>12,779,153</b>	<b>14,461,983</b>	<b>15,757,321</b>	<b>16,649,836</b>	<b>19,546,056</b>
Business-Type Activities:						
Use of money and property	64,757	48,131	211,678	369,399	401,925	370,557
Gain on sale of assets	-	-	-	-	-	11,075
Other	186,132	54,526	97,177	90,764	54,042	14,695
<b>Total Business-Type Activities</b>	<b>250,889</b>	<b>102,657</b>	<b>308,855</b>	<b>460,163</b>	<b>455,967</b>	<b>396,327</b>
<b>Total Primary Government</b>	<b>\$ 12,549,736</b>	<b>\$ 12,881,810</b>	<b>\$ 14,770,838</b>	<b>\$ 16,217,484</b>	<b>\$ 17,105,803</b>	<b>\$ 19,942,383</b>
<b>Changes in Net Assets</b>						
Governmental Activities	\$ 2,829,932	\$ 61,554	\$ (898,662)	\$ 2,571,429	\$ 4,154,295	\$ 4,036,087
Business-Type Activities	457,987	761,903	604,646	742,139	1,235,027	989,719
<b>Total Primary Government</b>	<b>\$ 3,287,919</b>	<b>\$ 823,457</b>	<b>\$ (294,016)</b>	<b>\$ 3,313,568</b>	<b>\$ 5,389,322</b>	<b>\$ 5,025,806</b>

CITY OF SOUTH PASADENA

Fund Balances of Governmental Funds  
 Last Six Fiscal Years  
 (Modified Accrual Basis Of Accounting)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
General Fund						
Reserved	\$ 368,202	\$ 455,087	\$ 542,341	\$ 645,341	\$ 397,742	\$ 292,562
Unreserved	3,100,339	3,414,972	3,459,743	4,489,626	6,351,164	9,559,379
Total General Fund	<u>\$3,468,541</u>	<u>\$3,870,059</u>	<u>\$ 4,002,084</u>	<u>\$ 5,134,967</u>	<u>\$ 6,748,906</u>	<u>\$ 9,851,941</u>
All Other Governmental Funds						
Reserved	\$ 755,491	\$ 266,517	\$ 293,809	\$ 2,456,501	\$ 1,537,309	\$ 254,778
Unreserved:						
Unreserved, reported in nonmajor, Special revenue funds	1,223,747	1,321,075	1,440,330	205,647	384,352	3,056,391
Designated for:						
Low & moderate housing	-	-	436,976	463,776	488,506	530,096
Debt service	-	-	198,968	202,044	197,110	200,497
Undesignated	2,191,930	2,512,672	2,012,312	941,127	1,260,671	1,480,465
Total all other Governmental Funds	<u>\$4,171,168</u>	<u>\$4,100,264</u>	<u>\$ 4,382,395</u>	<u>\$ 4,269,095</u>	<u>\$ 3,867,948</u>	<u>\$ 5,522,227</u>

CITY OF SOUTH PASADENA

Changes In Fund Balances Of Governmental Funds  
 Last Six Fiscal Years  
 (Modified Accrual Basis Of Accounting)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
<b>Revenues:</b>						
Taxes	\$ 10,130,600	\$ 10,880,019	\$ 11,449,664	\$ 13,972,117	\$ 15,166,586	\$ 16,850,652
Assessments	1,106,389	1,113,278	1,097,970	1,068,561	1,133,914	895,773
Licenses and permits	646,955	750,566	791,522	842,947	876,297	893,237
Intergovernmental	6,601,782	3,237,991	3,996,994	3,584,136	5,089,034	2,288,858
Charges for services	1,949,856	2,386,005	2,649,613	2,663,695	2,398,566	2,822,380
Use of money and property	438,050	439,308	509,282	642,950	868,349	921,232
Fines and forfeitures	303,814	561,435	544,883	603,086	643,055	636,668
Contributions	-	-	-	14,053	20,114	19,005
Miscellaneous	294,677	548,180	790,231	1,231,214	543,280	579,812
Total revenues	<u>21,472,123</u>	<u>19,916,782</u>	<u>21,830,159</u>	<u>24,642,759</u>	<u>26,739,195</u>	<u>25,907,617</u>
<b>Expenditures:</b>						
Current:						
General government	3,293,781	3,950,276	4,427,679	4,467,746	4,188,718	3,855,522
Public safety	7,416,733	8,808,933	9,496,581	9,703,634	9,727,416	10,670,808
Community development	870,779	769,466	781,903	766,775	880,902	1,005,406
Community services	2,049,272	2,029,889	2,270,982	2,299,564	2,507,378	2,679,273
Public works	2,248,896	2,501,017	2,511,989	2,721,530	2,777,051	2,852,322
Capital outlay	4,897,143	1,280,203	1,634,550	3,790,870	5,609,950	1,169,533
Debt service:						
Principal retirement	105,140	104,110	109,826	112,359	127,262	114,894
Interest and fiscal charges	149,612	142,274	179,240	177,557	128,516	145,997
Total expenses	<u>21,031,356</u>	<u>19,586,168</u>	<u>21,412,750</u>	<u>24,040,035</u>	<u>25,947,193</u>	<u>22,493,755</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	440,767	330,614	417,409	602,724	792,002	3,413,862
<b>Other financing sources (uses):</b>						
Transfers in	-	10,032	96,541	-	18,000	42,573
Transfers out	-	(10,032)	(96,541)	-	(18,000)	(42,573)
Proceed from sale of capital assets	-	-	-	-	-	1,100,000
Capital leases	15,105	-	-	-	495,173	-
Notes and loans issued	-	-	-	-	65,000	-
Total other financing sources (uses)	<u>15,105</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>560,173</u>	<u>1,100,000</u>
Net change in fund balances / net assets	<u>\$ 455,872</u>	<u>\$ 330,614</u>	<u>\$ 417,409</u>	<u>\$ 602,724</u>	<u>\$ 1,352,175</u>	<u>\$ 4,513,862</u>
Debt service as a percentage of noncapital expenditures	1.6%	1.3%	1.5%	1.4%	1.3%	1.3%

CITY OF SOUTH PASADENA

Assessed Value and Estimated Actual Value of Taxable Property,  
Last Ten Fiscal Years  
(in thousands of dollars)

Fiscal Year	Residential Property	Commercial Property	Other Property	Less: Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value <sup>a</sup>	Taxable Assessed Value as a Percentage of Actual Taxable Value
1999	1,391,462	137,560	90,463	(11,567)	1,607,918	0.241%	N/A	N/A
2000	1,475,059	138,637	99,709	(14,851)	1,698,554	0.241%	N/A	N/A
2001	1,569,274	144,395	106,400	(15,643)	1,804,426	0.241%	N/A	N/A
2002	1,667,313	151,345	110,090	(11,430)	1,917,318	0.241%	N/A	N/A
2003	1,783,248	157,091	109,963	(19,275)	2,031,027	0.241%	N/A	N/A
2004	1,930,016	168,874	117,217	(13,863)	2,202,244	0.241%	N/A	N/A
2005	2,087,821	177,629	118,885	(20,516)	2,363,819	0.241%	N/A	N/A
2006	2,262,942	189,286	132,004	(28,647)	2,555,585	0.241%	N/A	N/A
2007	2,478,782	207,724	130,527	(27,756)	2,789,277	0.241%	N/A	N/A
2008	2,690,867	211,373	133,651	(30,013)	3,005,878	0.241%	N/A	N/A

Source: County of Los Angeles Auditor-Controller and HDL Coren & Cone.

Note: <sup>a</sup>Estimated Actual Taxable Value is not available.

In 1978 the voters of the State of California passed Proposition 13 which limited taxes to a total maximum rate of 1%, based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum of 2%).



**CITY OF SOUTH PASADENA**

**Direct and Overlapping Property Tax Rates,  
Last Ten Fiscal Years**  
*(rate per \$1,000 of assessed value)*

Fiscal Year	City Direct Rates		Overlapping Rates				
	General Basic Tax Levy	Total Direct Rate	Los Angeles County (1)	Educational Revenue Augmentation Fun	Los Angeles County Fire FFW	Los Angeles County Flood Control	Community College
1999	\$ 0.2412	\$ 0.2412	\$ 0.2860	\$ 0.2536	\$ 0.0060	\$ 0.0096	\$ 0.0320
2000	0.2412	0.2412	0.2860	0.2536	0.0060	0.0096	0.0320
2001	0.2412	0.2412	0.2860	0.2536	0.0060	0.0096	0.0320
2002	0.2412	0.2412	0.2860	0.2536	0.0060	0.0096	0.0320
2003	0.2412	0.2412	0.2860	0.2536	0.0060	0.0096	0.0320
2004	0.2412	0.2412	0.2860	0.2536	0.0060	0.0096	0.0320
2005	0.2412	0.2412	0.2860	0.2536	0.0060	0.0096	0.0320
2006	0.2412	0.2412	0.2860	0.2536	0.0060	0.0096	0.0320
2007	0.2412	0.2412	0.2860	0.2536	0.0060	0.0096	0.0320
2008	0.2412	0.2412	0.2860	0.2536	0.0060	0.0096	0.0320

Fiscal Year	Overlapping Rates								Total
	School District	Upper San Gabriel Valley Municipal Water District	South Pasadena Unified School District	Los Angeles County Flood Control	Upper San Gabriel Valley Municipal Water District	Detention Facilities	Pasadena Community College District		
1999	\$ 0.1712	\$ 0.0005	\$ 0.0610	\$ 0.0020	\$ 0.0089	\$ 0.0015	\$ -	\$ 1.0733	
2000	0.1712	0.0005	0.0629	0.0018	0.0089	0.0014	-	1.0750	
2001	0.1712	0.0005	0.0643	0.0016	0.0088	0.0013	-	1.0760	
2002	0.1712	0.0005	0.0673	0.0011	0.0077	0.0011	-	1.0772	
2003	0.1712	0.0005	0.0676	0.0009	0.0067	0.0010	-	1.0762	
2004	0.1712	0.0005	0.1105	0.0005	0.0061	0.0010	0.0068	1.1248	
2005	0.1712	0.0005	0.1041	0.0002	0.0058	0.0009	0.0088	1.1199	
2006	0.1712	0.0005	0.0957	0.0001	0.0052	0.0008	0.0041	1.1058	
2007	0.1712	0.0005	0.0897	0.0001	0.0047	0.0007	0.0208	1.1159	
2008	0.1712	0.0005	0.0860	-	0.0045	-	0.0197	1.1104	

Source: County of Los Angeles Auditor-Controller and HDL Coren and Cone.

(1) - The following were included in Los Angeles County; Childrens Institutional Tuition Fund, County Sanitation District No. 16, County School Services, Development Center, and LA County General

CITY OF SOUTH PASADENA

Principal Property Tax Payers,  
Current Year and Nine Years Ago

Taxpayer	2008			1999		
	Taxable Assessed Value (1)	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value (1)	Rank	Percentage of Total City Taxable Assessed Value
Cal Empire Limited Partnership	\$ 8,424,938	1	0.28%	\$ -	-	-
Vons Companies Inc.	6,452,923	2	0.21%	-	-	-
Richard Wagner Trust	4,929,601	3	0.16%	-	-	-
Saj LLC	4,446,494	4	0.15%	-	-	-
H & O Fair Oaks Partners	15,664,070	5	0.52%	13,323,804	1	0.83%
Bristol Farm Inc.	3,022,882	6	0.10%	-	-	-
Richard Wagner Trust	2,889,364	7	0.10%	-	-	-
Mt. Olive Sepulveda Limited Partnership	10,149,550	8	0.34%	-	-	-
Golden Oaks Investment Limited Partnership	8,796,669	9	0.29%	-	-	-
Bank of America	2,220,734	10	0.07%	-	-	-
Jerry B. & Roberta L. Furry	-	-	-	7,368,608	2	0.46%
Andrew J. & Peggy T. Cherng	-	-	-	6,849,188	3	0.43%
Time Warner Entertainment	-	-	-	6,347,915	4	0.39%
Joseph M. & Linda E. Dipaulo Trust	-	-	-	4,712,757	5	0.29%
Young Properties	-	-	-	4,473,720	6	0.28%
James L.Roper	-	-	-	4,241,531	7	0.26%
L & W Partnership	-	-	-	3,804,480	8	0.24%
Ralphs Grocery Company	-	-	-	3,791,745	9	0.24%
Pasadena Industrial Associates	-	-	-	3,712,930	10	0.23%
<b>Total</b>	<b>\$ 66,997,225</b>		<b>2.23%</b>	<b>\$ 58,626,678</b>		<b>3.65%</b>

Source: (1) HDL Coren & Cone and Los Angeles County Assessor.

**CITY OF SOUTH PASADENA**

**Property Tax Levies and Collections,  
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1999	3,793,688	3,631,407	95.7%	(4,495)	3,626,912	95.6%
2000	4,072,985	3,826,047	93.9%	(27,553)	3,798,494	93.3%
2001	4,287,879	4,079,596	95.1%	(10,207)	4,069,389	94.9%
2002	4,602,846	4,494,678	97.6%	29,821	4,524,499	98.3%
2003	4,729,803	4,656,978	98.5%	25,961	4,682,939	99.0%
2004	4,855,643	4,760,451	98.0%	77,643	4,838,094	99.6%
2005	5,241,559	4,807,080	91.7%	157,836	4,964,916	94.7%
2006	5,700,244	5,288,176	92.8%	117,615	5,405,791	94.8%
2007	6,257,208	5,882,613	94.0%	99,287	5,981,900	95.6%
2008	6,756,257	6,561,803	97.1%	4,193	6,565,996	97.2%

Sources: Los Angeles County Tax Collector and City of South Pasadena, Finance Division.

CITY OF SOUTH PASADENA

Ratios of Outstanding Debt by Type,  
Last Six Fiscal Years

Fiscal Year	Government Activities			Business-type Activities		Total Primary Government	Percentage of Personal Income <sup>a</sup>	Per Capita <sup>a</sup>
	Tax Allocation Bonds	Capital Leases	Loans	Water Revenue Bonds				
2003	\$ 2,410,000	\$ -	\$ -	\$ -	\$ 2,410,000	0.58%	97	
2004	2,350,000	-	-	8,880,000	11,230,000	2.63%	445	
2005	2,285,000	-	-	8,800,000	11,085,000	2.44%	434	
2006	2,220,000	-	-	8,685,000	10,905,000	2.26%	423	
2007	2,150,000	437,911	65,000	8,400,000	11,052,911	2.15%	431	
2008	2,075,000	398,017	65,000	8,190,000	10,728,017	1.99%	417	

Notes: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

<sup>a</sup> See Demographic and Economic Statistics schedule for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year.

**CITY OF SOUTH PASADENA**

**Direct and Overlapping Governmental Activities Debt  
As of June 30, 2008**

Fiscal Year 2007-08 Assessed Valuation : \$2,682,010,283 After Deducting Redevelopment increment.

<u>Overlapping Debt:</u>	<u>Debt Outstanding</u>	<u>% Applicable (1)</u>	<u>City's Share of Debt 6/30/08</u>
Metropolitan Water District	\$ 150,054,336	0.338%	\$ 507,708
Pasadena Area Community College District 2002 Ser A	4,570,000	5.582%	255,094
Pasadena Area Community College District 2006 Ser B	58,840,000	5.582%	3,284,405
Pasadena Area Community College District 2006 Ser C	21,705,552	5.582%	1,211,588
Total Overlapping Tax and Assessment Debt			<u>\$ 5,258,795</u>
 <u>Direct Debt:</u>			
South Pasadena Unified 96 Ser A	\$ 4,065,000	100.000%	\$ 4,065,000
South Pasadena Unified DS 95 Ser B	5,719,877	100.000%	5,719,877
South Pasadena Unified SD DS 95 S-C	8,572,110	100.000%	8,572,110
South Pasadena USD SD DS 95 Ser D	1,825,890	100.000%	1,825,890
South Pasadena USD DS 2002 S-03 A	19,945,000	100.000%	19,945,000
Total Direct and Overlapping General Fund Obligation Debt			<u>\$ 40,127,877</u>
COMBINED TOTAL DEBT			<u>\$ 45,386,672</u>

**Source:** HDL Coren & Cone and Los Angeles County Assessor.

**Note:**

- (1) Percentage of overlapping agency's assessed valuation located within boundaries of the city.
- (2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Debt to Assessed Valuation Ratios :

Direct Debt	1.50%
Overlapping Debt	0.20%
Total Debt	1.69%

**CITY OF SOUTH PASADENA**

**Legal Debt Margin Information,  
Last Ten Fiscal Years  
(dollars in thousands)**

**Legal Debt Margin Calculation for Fiscal Year 2008**

Assessed value	\$ 3,005,878
Debt limit (15% of assessed value)	450,882
Debt applicable to limit:	
General obligation bonds	-
Less: Amount set aside for repayment of general obligation debt	-
Total net debt applicable to limit	-
Legal debt margin	<u>\$ 450,882</u>

<u>Fiscal Year</u>	<u>Debt Limit</u>	<u>Total net debt Applicable to Limit</u>	<u>Legal Debt Limit</u>	<u>Total net debt Applicable to the Limit as a Percentage of Debt limit</u>
1999	\$ 241,188	\$ -	\$ 241,188	0.00%
2000	254,783	-	254,783	0.00%
2001	270,664	-	270,664	0.00%
2002	287,598	-	287,598	0.00%
2003	304,654	-	304,654	0.00%
2004	330,337	-	330,337	0.00%
2005	354,573	-	354,573	0.00%
2006	383,338	-	383,338	0.00%
2007	418,392	-	418,392	0.00%
2008	450,882	-	450,882	0.00%

**CITY OF SOUTH PASADENA**

**Pledged-Revenue Coverage**

**Last Five Fiscal Years**

*(in thousands)*

Fiscal Year	Water Revenue Bonds					
	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2004	3,217	2,522	695	-	-	N/A
2005	3,903	3,170	733	-	432	1.70
2006	4,443	3,727	716	195	434	1.14
2007	4,687	3,379	1,308	205	433	2.05
2008	4,543	3,446	1,097	210	414	1.76

**Notes:** Details regarding the city's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation, or amortization expenses.

The Water Revenue bonds were issued in 2004.

**Source:** City of South Pasadena Finance Department.

**CITY OF SOUTH PASADENA**

**Demographic and Economic Statistics  
Last Ten Calendar Years**

<b>Calendar Year</b>	<b>Population (1)</b>	<b>Personal Income * (2)</b> <i>(thousands of dollars)</i>	<b>Per Capita * Personal Income (2)</b>	<b>Unemployment Rate (3)</b>
1999	25,743	360,275	29,402	N/A
2000	25,997	385,053	31,045	2.6%
2001	24,820	403,519	32,152	2.7%
2002	24,952	412,753	32,522	3.5%
2003	25,226	427,041	33,318	3.6%
2004	25,519	453,902	35,188	3.4%
2005	25,789	482,011	37,411	2.6%
2006	25,674	513,123	39,880	2.2%
2007	25,708	539,163	41,875	2.4%
2008	25,824	N/A	N/A	3.4%

\* NOTE: This is the data of the Los Angeles-Long Beach-Santa Ana Metropolitan Statistical Area. The data for the City is not available.

**Sources:** (1) State of California Department of Finance  
 (2) U.S. Department of Commerce Bureau of Economic Analysis  
 (3) State of California Economic Development Department



CITY OF SOUTH PASADENA

Principal Employers  
Current Year and Nine Years Ago

Employer	2007-08			1998-99 *		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
The Vons Companies	199	1	5.19%			
So. Pasadena Convalescent Hospital	159	2	4.15%			
Bristol Farms	147	3	3.84%			
WNC Insurance Services, Inc.	122	4	3.18%			
Abbott Diagnostics Div. Abbott Labs	83	5	2.17%			
Trader Joe's	73	6	1.91%			
Mission Hospice	73	7	1.91%			
Jupiter Images	67	8	1.75%			
Orchard Supply Hardware	63	9	1.64%			
Law Offices of Harris & Zide	62	10	1.62%			
	<u>1,048</u>		<u>27.36%</u>	<u>0</u>		<u>0.00%</u>

\* Information not available.

Source: South Pasadena Finance Department/Business License

**CITY OF SOUTH PASADENA**

**Full-time-Equivalent City Government Employees by Function/Program  
Last Five Fiscal Years**

	<u>As of 06/30/08</u>	<u>As of 06/30/07</u>	<u>As of 06/30/06</u>	<u>As of 06/30/05</u>	<u>As of 06/30/04</u>
<b><u>Function/Program</u></b>					
General government					
Legislative	7	7	7	7	7
City Manager	7	7	7	7	7
Finance	8	9	8	9	8
Public Safety	81	81	81	81	78
Community Development	7	7	6	6	6
Community Services	39	38	36	34	34
Public Works	22	16	16	16	16
Water Utility	9	14	14	14	14
Total	<u>181</u>	<u>179</u>	<u>175</u>	<u>174</u>	<u>170</u>

**Source:** South Pasadena Finance Department

**Notes:** A full-time employee is scheduled to work 2,080 hours per year (including vacation and sick leave). Full-time-equivalent employment is calculated by dividing total labor hours by 2,080.

CITY OF SOUTH PASADENA

Operating Indicators by Function/Program  
Last Ten Fiscal Years

<u>Function/Program</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<b>General government</b>										
Building permits issued	615	522	535	544	551	578	311	381	381	318
Building inspections conducted	N/A	2,223	2,083	2,125	2,310	2,355	1,888	2,154	2,154	2,230
<b>Refuse collection</b>										
Refuse collected (tons per day)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	79.3	79.3	79.3
Recyclables collected (tons per day)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	32.6	32.6	36.0
<b>Other public works</b>										
Street resurfacing (miles)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.9	0.7	0.0
Potholes repaired ***	N/A	N/A	N/A	N/A	N/A	N/A	N/A	545	450	340
<b>Water</b>										
New connections	N/A	N/A	N/A	N/A	N/A	N/A	N/A	18	20	16
Water main breaks	N/A	N/A	N/A	N/A	N/A	N/A	4	9	10	13
Average daily consumption (million gallons)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4.52	4.85	4.52
Peak daily consumption (million gallons)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	6.65	6.96	6.96
<b>Fire Department</b>										
Total number of emergency calls responded in a year	N/A	N/A	1,691	1,992	2,028	2,017	1,902	1,620	1,807	1,785
Total number of fire inspections in a year	N/A	N/A	N/A	N/A	N/A	360	317	480	480	480
<b>Police Department</b>										
Arrest stats **	N/A	627	804	1,093	1,051	1,113	1,127	1,392	1,392	1,540
Traffic citations	N/A	N/A	N/A	N/A	3,734	4,136	4,101	5,762	1,858	6,669
Parking citations	N/A	N/A	N/A	N/A	9,145	16,117	14,401	13,308	11,387	14,806
<b>Community Services</b>										
Facility rentals	N/A	N/A	N/A	31	21	36	29	36	34	40
Recreation classes	N/A	N/A	N/A	175	174	188	212	207	246	248

NOTE:

\*\*\* Based on average sized potholes and cold patch purchased.

\*\* Data is kept on a calendar year basis.

Sources: Various city departments.

**CITY OF SOUTH PASADENA**

**Capital Asset Statistics by Function/Program  
Last Ten Fiscal Years**

<b>Function/Program</b>	<b>Fiscal Year</b>									
	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Other public works										
Streets (miles)	55	55	55	55	55	55	59	59	55	55
Traffic signals	N/A	N/A	N/A	N/A	N/A	N/A	N/A	30	30	30
Parks and recreation										
Parks	5	5	5	5	5	5	6	6	6	6
Acreage	85	85	85	85	85	85	86	89	89	89
Playgrounds	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4	4	4
Baseball/softball diamonds	N/A	N/A	N/A	N/A	N/A	N/A	N/A	5	5	6
Soccer/football fields	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4	4	4
Community centers	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4	4	5
Water										
Water mains (miles)	68	68	68	68	68	68	68	68	68	68
Fire hydrants	N/A	N/A	N/A	N/A	N/A	N/A	N/A	165	165	165
Storage capacity (million gallons)	13	13	13	13	13	13	13	13	13	13
Sewage System										
Sanitary sewers (miles)	55	55	55	55	55	55	55	55	55	55
Storm sewers (miles)	2	2	2	2	2	2	2	2	2	2

**Notes:** No capital asset indicators are available for the general government.

**Sources:** Various city departments.

## APPENDIX B

### GENERAL INFORMATION ABOUT THE CITY OF SOUTH PASADENA

#### General

The City was incorporated on March 2, 1888 as a general law city and is located approximately six miles northeast of downtown Los Angeles in Los Angeles County (the “**County**”). The City is a full service city operating under a council-manager form of government. The City currently encompasses 3.44 square miles, with a population of 25,832 as of January 1, 2009.

#### Population

Population estimates of the past five years for the City, the County and the State are shown in the following table.

#### CITY OF SOUTH PASADENA AND COUNTY OF LOS ANGELES Population Estimates Calendar Years 2005 through 2009

<u>Year</u>	<u>City of South Pasadena</u>	<u>Los Angeles County</u>	<u>State of California</u>
2005	25,629	10,163,097	36,675,346
2006	25,620	10,223,263	37,114,598
2007	25,678	10,275,914	37,559,440
2008	25,644	10,301,658	37,883,992
2009	25,832	10,393,185	38,292,687

*Source: California State Department of Finance.*

#### Employment

The following tables show civilian labor force and wage and salary employment data for Los Angeles County, for the years 2004 through 2008. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the City.

The seasonally adjusted unemployment rate in Los Angeles County increased over the month to 10.5 percent in January 2009 from a revised 9.2 percent in December 2008 and was above the rate of 6.0 one year ago. Civilian employment declined by 63,000 to 4,455,000 in January 2009, while unemployment increased by 65,000 to 521,000 over the month. The civilian labor force increased by 1,000 over the month to 4,976,000 in January 2009. (All of the above figures are seasonally adjusted.) The unadjusted unemployment rate for the county was 10.8 percent in January 2009.

**LOS ANGELES COUNTY**  
**Civilian Labor Force, Employment and Unemployment, Unemployment by Industry**  
**(Annual Averages)**

	2004	2005	2006	2007	2008
Civilian Labor Force	4,764,600	4,810,000	4,844,500	4,912,600	4,972,000
Employment	4,454,100	4,552,800	4,613,200	4,662,700	4,598,300
Unemployment	310,400	257,100	231,300	249,900	373,800
Unemployment Rate	6.5%	5.3%	4.8%	5.1%	7.5%
<u>Wage and Salary Employment:</u> <sup>(1)</sup>					
Agriculture	7,600	7,400	7,600	7,500	6,900
Natural Resources and Mining	3,800	3,700	4,000	4,400	4,400
Construction	140,200	148,700	157,500	157,600	145,100
Manufacturing	483,600	471,700	461,700	449,200	433,800
Wholesale Trade	215,100	219,300	225,700	227,000	224,500
Retail Trade	405,400	414,400	423,300	426,000	417,400
Trans., Warehousing, Utilities	161,100	161,700	165,200	165,600	162,000
Information	211,900	207,600	205,600	209,800	211,300
Financial and Insurance	165,000	166,200	169,000	165,800	156,200
Real Estate, Rental & Leasing	76,700	77,800	79,800	80,300	79,200
Professional and Business Services	562,400	576,100	598,900	605,400	584,100
Educational and Health Services	467,000	471,300	478,700	490,500	501,500
Leisure and Hospitality	372,800	377,800	388,600	397,900	399,500
Other Services	144,700	144,300	145,200	147,100	146,500
Federal Government	54,400	53,500	52,300	51,100	51,100
State Government	79,000	78,200	79,500	81,000	82,400
Local Government	453,800	452,000	457,600	463,700	470,300
Total All Industries <sup>(2)</sup>	4,004,100	4,031,600	4,100,100	4,129,600	4,076,200

<sup>(1)</sup> Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

<sup>(2)</sup> May not add due to rounding.

Source: State of California, Employment Development Department.

## Major Employers

The tables below lists the larger employers in Los Angeles County. Major private employers in the Los Angeles area include those in aerospace, health care, entertainment, electronics, retail and manufacturing. Major public sector employers include public universities and schools, the State of California and Los Angeles County.

### LOS ANGELES COUNTY Major Employers 2009

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
American Honda Motor Co Inc	Torrance	Automobile & Truck Brokers (Whol)
BP Carson Refinery	Carson	Misc Indstrl Equip & Supls Nec (Whol)
BP West Coast Products	Carson	Oil Field Equipment (Wholesale)
California Institute Of Tech	Pasadena	Schools-Universities & Colleges Academic
Century Plaza Towers	Los Angeles	Office Buildings & Parks
Children's Hospital	Long Beach	Hospitals
Cintas The Uniform People	Pico Rivera	Uniforms
Hawaiian Gardens Casino	Hawaiian Gardens	Casinos
J Cameron Supply Co	Culver City	General Merchandise-Retail
Jet Propulsion Laboratory	Pasadena	Laboratories
Kaiser Foundation Hospital	Los Angeles	Hospitals
Kaiser Permanente	Los Angeles	Physicians & Surgeons
L A County Fire Dept	Los Angeles	Fire Departments
Long Beach Memorial Medical	Long Beach	Physical Therapists
Los Angeles Police Dept	Los Angeles	Police Departments
Pomona Valley Hosp Med Ctr	Pomona	Hospitals
Pro Parts	Canoga Park	Automobile Parts-Used & Rebuilt (Whol)
Ready Pac Produce Inc	Irwindale	Fruits & Vegetables-Wholesale
Six Flags Magic Mountain Inc	Valencia	Amusement Places
Sony Pictures Entertainment	Culver City	Motion Picture Film-Distrs & Exchs
UCLA	Los Angeles	Schools-Universities & Colleges Academic
University-Southern California	Los Angeles	Schools-Universities & Colleges Academic
VA Greater Los Angeles Health	Los Angeles	Hospitals
Walt Disney Co	Burbank	Motion Picture Producers & Studios
Women & Childrens Hospital	Los Angeles	Hospitals

*Source: State of California Employment Development Department.*

## Effective Buying Income

"Effective Buying Income" is defined as personal income less personal tax and nontax payments, a number often referred to as "disposable" or "after-tax" income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as "disposable personal income."

The following table summarizes the total effective buying income for the City of South Pasadena, the County of Los Angeles, the State of California, and the United States for the years 2004 through 2008.

**CITY OF SOUTH PASADENA  
AND COUNTY OF LOS ANGELES  
Effective Buying Income  
2004 through 2008**

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2004	City of South Pasadena	N/A	N/A
	Los Angeles County	\$ 177,575,730	\$39,414
	California	705,108,410	43,915
	United States	5,692,909,567	39,324
2005	City of South Pasadena	\$ 745,110	\$51,177
	Los Angeles County	180,142,797	40,020
	California	720,798,106	44,681
	United States	5,894,663,363	40,529
2006	City of South Pasadena	\$ 781,420	\$52,963
	Los Angeles County	190,915,435	41,683
	California	764,120,963	46,275
	United States	6,107,092,244	41,255
2007	City of South Pasadena	\$ 840,858	\$56,057
	Los Angeles County	202,646,560	43,710
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	City of South Pasadena	\$852,590	\$56,950
	Los Angeles County	206,127,855	44,653
	California	832,531,445	48,952
	United States	6,443,994,426	42,303

*Source: Sales & Marketing Management Survey of Buying Power for 2004;  
Claritas Demographics for 2005 through 2008.*



## Commercial Activity

Total taxable transactions in the City during the first quarter of calendar year 2008 were estimated to be \$39,109,000, a 3.20% decrease over the total taxable transactions of \$40,403,000 that were estimated during the first quarter of calendar year 2007. A summary of historic taxable sales within the City is shown in the following table. Annual figures for 2008 are not yet available.

### CITY OF SOUTH PASADENA Taxable Transactions (Figures in Thousands)

Year	Retail Sales	Retail Sales Permits	Total Taxable Transactions	Total Sales Permits
2003	109,317	283	135,052	692
2004	115,349	316	144,456	724
2005	128,268	326	159,666	716
2006	132,450	345	168,310	740
2007	135,370	352	167,481	708

Source: State Board of Equalization.

Total taxable transactions in the County during the first quarter of calendar year 2008 were estimated to be \$32,092,730,000, a 2.32% decrease over the total taxable transactions of \$32,853,484,000 that were estimated during the first quarter of calendar year 2007. A summary of historic taxable sales within the County is shown in the following table. Annual figures for 2008 are not yet available.

### LOS ANGELES COUNTY Taxable Transactions (Dollars in Thousands)

Year	Retail Permits on July 1	Retail Stores Taxable Transactions	Total Permits on July 1	Total Outlets Taxable Transactions
2003	128,313	\$79,426,726	289,892	\$113,685,422
2004	134,717	86,496,685	295,398	122,533,104
2005	139,641	92,271,155	298,083	130,722,373
2006	142,512	95,554,193	295,701	136,162,552
2007	142,380	96,095,711	290,344	137,820,418

Source: State Board of Equalization.

## Construction Activity

Building activity for the most recently reported five year period in the City of South Pasadena is shown in the following table.

### CITY OF SOUTH PASADENA Total Building Permit Valuations (Valuations in Thousands)

Permit Valuation	2004	2005	2006	2007	2008
New Single-family	\$15,953.5	\$29,212.9	\$2,777.1	\$2,259.4	\$11,621.8
New Multi-family	497.1	535.8	1,661.8	1,275.0	45,197.3
Res. Alterations/Additions	<u>993.9</u>	<u>1,092.2</u>	<u>7,775.5</u>	<u>13,585.1</u>	<u>28,882.5</u>
Total Residential <sup>(1)</sup>	17,444.6	30,840.8	12,214.5	17,119.5	85,701.6
New Commercial	1,652.1	2,964.1	0.0	5,865.0	0.0
New Industrial	1,989.6	0.0	0.0	0.0	0.0
New Other	1,373.0	2,311.9	1,115.9	869.0	1,001.5
Com. Alterations/Additions	<u>5,430.7</u>	<u>2,972.0</u>	<u>2,817.6</u>	<u>2,897.1</u>	<u>3,640.3</u>
Total Nonresidential <sup>(1)</sup>	10,445.4	8,247.9	3,933.5	9,631.1	4,641.8
<u>New Dwelling Units</u>					
Single Family	100	182	11	19	39
Multiple Family	<u>7</u>	<u>8</u>	<u>15</u>	<u>6</u>	<u>510</u>
TOTAL	107	190	26	25	549

(1) Totals may not add due to rounding.

Source: Construction Industry Research Board, Building Permit Summary.

Building activity for the most recently reported five year period in the County of Los Angeles is shown in the following table.

**COUNTY OF LOS ANGELES  
Total Building Permit Valuations  
(Valuations in Thousands)**

Permit Valuation	2004	2005	2006	2007	2008
New Single-family	\$2,923,786.0	\$2,915,511.7	\$2,560,588.5	\$2,047,773.3	\$1,134,121.1
New Multi-family	1,915,862.5	1,810,154.7	2,205,262.8	2,010,560.8	1,409,062.3
Res. Alterations/Additions	<u>1,727,799.4</u>	<u>1,962,196.0</u>	<u>1,981,614.8</u>	<u>1,898,228.2</u>	<u>1,411,332.6</u>
Total Residential <sup>(1)</sup>	6,567,448.0	6,687,862.3	6,747,466.2	5,956,562.3	3,954,515.9
New Commercial	975,900.5	1,073,445.9	1,251,955.0	1,858,923.4	1,517,965.4
New Industrial	178,199.5	277,419.0	181,821.1	108,827.3	134,587.0
New Other	615,702.5	804,290.5	767,924.9	766,205.8	680,228.1
Com. Alterations/Additions	<u>1,403,741.8</u>	<u>1,668,983.1</u>	<u>1,693,835.1</u>	<u>2,005,199.0</u>	<u>2,157,857.2</u>
Total Nonresidential <sup>(1)</sup>	3,173,544.4	3,824,138.4	3,895,536.1	4,739,155.4	4,490,637.8
<u>New Dwelling Units</u>					
Single Family	11,752	11,911	10,097	7,509	3,539
Multiple Family	<u>15,183</u>	<u>13,736</u>	<u>16,251</u>	<u>12,854</u>	<u>10,165</u>
TOTAL	<u>26,935</u>	<u>25,647</u>	<u>26,348</u>	<u>20,363</u>	<u>13,704</u>

(1) Totals may not add due to rounding.

Source: Construction Industry Research Board, Building Permit Summary.

## Retirement System

The City allocated approximately 9.8% of personnel costs, including a portion of Miscellaneous Plan retirement costs to the System.

**Plan Description.** The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments 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. Benefit provisions and all other requirements are established by state statute and city ordinance.

**Funding Policy.** Participants are required to contribute 7% (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. The City is required to contribute at an actuarially determined rate; the current rate is 11.412% for non-safety employees and 20.269% for safety employees of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

**Annual Pension Cost.** For the year ended June 30, 2008, the City's annual pension cost of \$2,173,066 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2006, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of the service and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of PERS assets was

determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2008, was 30 years.

**Three-Year Trend Information for PERS  
(Amounts in Thousands)**

<b>Fiscal Year</b>	<b>Required Contributions</b>	<b>Percentage Contributed</b>
6/30/06	\$ 1,425	100%
6/30/07	1,360	100
6/30/08	2,173	100

For fiscal year 2007-08, the City participated in risk pooling. Risk pooling consists of combining assets and liabilities across employers to produce large groups where the impact of a catastrophic demographic event is shared among all employers of the same risk pool. Participation in risk pools is mandatory for all rate plans with less than 100 active members. Mandated participation in risk pools was initially based on the active membership of each rate plan as of June 30, 2003. The implementation of risk pools was done in a way that minimizes the impact on employer contribution rates. The first year in risk pools, the employer contribution rates are almost identical to what the rates would have been outside pools. Future rates will be based on the experience of each pool. Pooling will reduce the volatility of future employer rates. Mandated participation will occur on an annual basis. If on any valuation date starting with the June 30, 2003, valuation, a rate plan has less than 100 active members, it will be mandated in one of the risk pools effective on that valuation date.

**Post-Retirement Benefits**

The City provides certain post-employment health care benefits. Employees are eligible for retiree health benefits if they retire from the City on or after age 50 with at least 5 years of service. The City pays the full cost of retiree medical premiums (single party rates) for all retirees and surviving spouses. Dependent coverage is paid by the retiree.

The expenditure is accounted for within the general government funds and is funded on a pay-as-you-go (cash) basis. The total post-employment health insurance expenditures for the fiscal year 2007-08 were \$542,014. There are currently 104 participants receiving benefits.

Milliman prepared a "GASB 45 Actuarial Valuation of Post Employment Benefits as of January 1, 2009. Milliman reported that, as of January 1, 2009, the plan was 0% funded. The actuarial accrued liability for benefits was \$18.6 million, resulting in an unfunded accrued liability of \$18.6 million. The valuation results are summarized in the following table, and assume a valuation interest rate of 4% and an amortization period of 20 years.

Active Employees	159
Retirees	<u>104</u>
Total Participants	263
Present Value of Benefits	\$31,271,419
Actuarial Accrued Liability	18,580,256
Assets	<u>0</u>
Unfunded Actuarial Accrued Liability	\$18,580,256
Normal Cost	942,950
Annual Required Contribution (ARC)	\$1,975,586
Annual benefit payments	\$521,921

### City Investments

The City invests its funds, including funds of the System, in accordance with the City's Investment Policy, which is subject to annual review and approval by the City Council. The purpose of the policy is to establish the investment objectives of safety, liquidity, and yield. The City's Investment Policy complies with the provisions of the California government Code, Sections 53600 through 53659 (the authority governing investments for municipal governments in the State). The Finance Director provides quarterly investments report to the City Manager and City Council.

According to the most recent report for the quarter ended March 31, 2009, the City had invested funds as set forth in the table below. As of March 31, 2009, the City's invested cash totaled \$19,715,013.36. The weighted annual yield of the City's portfolio as of March 31, 2009 was 1.983%. The City's practice is to hold securities to maturity.

### CITY OF SOUTH PASADENA Current Investments (as of March 31, 2009)

Type of Investment	Amount	Percent of Total
LAIF	\$9,656,000.00	48.90%
Certificates of Deposit	2,525,214.36	12.79
Money Market Account	7,533,799.00	38.31
Total:	<u>\$19,715,013.36</u>	<u>100.00%</u>

*Source: City of South Pasadena*

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## APPENDIX C

### SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of certain of the definitions and provisions of the Indenture and the Installment Purchase Agreement. This summary is not intended to be comprehensive or definitive, and reference is made to the actual documents for the complete terms thereof.

#### DEFINITIONS

The following are summaries of certain of the definitions in the Indenture and the Installment Purchase Agreement. This summary is not intended to be comprehensive or definitive, and reference is made to the actual documents for the complete terms thereof.

##### Agreement

The term "Agreement" means the Installment Purchase Agreement, by and between the City and the Authority, as originally executed and as such may from time to time be amended or supplemented.

##### Annual Debt Service

The term "Annual Debt Service" means, for any Fiscal Year, the sum of (1) the interest accruing on all Parity Debt during such Fiscal Year, assuming that all Parity Debt is retired as scheduled, plus (2) the principal amount (including principal due as sinking fund installment payments) allocable to all Parity Debt in such Fiscal Year, calculated as if such principal amounts were deemed to accrue daily during such Fiscal Year in equal amounts from, in each case, each payment date for principal or the date of delivery of such Parity Debt (provided that principal shall not be deemed to accrue for greater than a 365-day period prior to any payment date), as the case may be, to the next succeeding payment date for principal, *provided*, that the following adjustments shall be made to the foregoing amounts in the calculation of Annual Debt Service:

(A) with respect to any such Parity Debt bearing or comprising interest at other than a fixed interest rate, the rate of interest used to calculate Annual Debt Service shall be (i) with respect to such Parity Debt then outstanding, one hundred ten per cent (110%) of the greater of (1) the daily average interest rate on such Parity Debt during the twelve (12) calendar months next preceding the date of such calculation (or the portion of the then current Fiscal Year that such Parity Debt has borne interest) or (2) the most recent effective interest rate on such Parity Debt prior to the date of such calculation or (ii) with respect to such Parity Debt then proposed to be issued, the then current 20-Bond GO Index rate as published in The Bond Buyer (or if The Bond Buyer or such index is no longer published, such other published similar index);

(B) with respect to any such Parity Debt having twenty-five per cent (25%) or more of the aggregate principal amount thereof due in any one Fiscal Year, Annual Debt Service shall be calculated for the Fiscal Year of determination as if the interest on and principal of such Parity Debt were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty (20) years from the date of such Parity Debt provided,

however that the full amount of such Parity Debt shall be included in Annual Debt Service if the date of calculation is within 24 months of the actual maturity of the payment;

(C) with respect to any such Parity Debt or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Parity Debt or portions thereof, such accreted discount shall be treated as due when scheduled to be paid;

(D) Annual Debt Service shall not include interest on Parity Debt which is to be paid from amounts constituting capitalized interest;

(E) if an interest rate swap agreement is in effect with respect to, and is payable on a parity with, any Parity Debt to which it relates, no amounts payable under such interest rate swap in excess of debt service payable under such Parity Debt agreement shall be included in the calculation of Annual Debt Service unless the sum of (i) the interest payable on such Parity Debt, plus (ii) the amounts payable by the City under such interest rate swap agreement, less (iii) the amounts receivable by the City under such interest rate swap agreement, are greater than the interest payable on such Parity Debt, in which case the amount of such payments to be made that exceed the interest to be paid on such Parity Debt shall be included in such calculation, and for this purpose, the variable amount under any such interest rate swap agreement shall be determined in accordance with the procedure set forth in subparagraph (A) of this definition; and

(F) Repayment Obligations proposed to be entered into as Parity Debt shall be deemed to be payable at the scheduled amount due under such Repayment Obligation as calculated under this definition.

#### Authorized Investments

"Authorized Investments" means any of the following obligations which at the time of investment are legal investments of funds of the City under the laws of the State of California for the money proposed to be invested under the Indenture but only to the extent that investments relating to the Bonds are acquired at Fair Market Value (provided the Trustee may rely upon any investment direction from the Agency as a certification to it that such investment constitutes a Permitted Investment and the Trustee shall not be responsible to determine Fair Market Value):

- (a) Federal Securities;
- (b) Federal Housing Administration debentures;
- (c) The following listed obligations government-sponsored agencies which are not backed by the full faith and credit of the United States of America:
  - (i) Federal Home Loan Mortgage Corporation (FHLMC) senior debt obligations and participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts),
  - (ii) Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) consolidated system-wide bonds and notes,



- (iii) Federal Home Loan Banks (FHL Banks) consolidated debt obligations, and
- (iv) Federal National Mortgage Association (FNMA) senior debt obligations and mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts);
- (d) Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 365 days) of any bank the short-term obligations of which are rated "A-1+" or better by S&P and "Prime-1" by Moody's.
- (e) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation, in banks which have capital and surplus of at least \$15 million.
- (f) Commercial paper (having original maturities of not more than 270 days) rated "A-1+" by S&P and "Prime-1" by Moody's.
- (g) Money market funds rated "Aam" by S&P, or better and if rated by Moody's rated "Aa2" or better.
- (h) "State Obligations," which means:
  - (i) Direct general obligations of any state of the United States of America or any subdivision of agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated at least "A3" by Moody's and at least "A-" by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated,
  - (ii) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (a) above and rated "A-1" by S&P and "MIG-1" by Moody's, and
  - (iii) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state or state agency described in (b) above and rated "AA-" or better by S&P and "Aa3" or better by Moody's;
- (i) Pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's meeting the following requirements:
  - (i) the municipal obligations are (A) not subject to redemption prior to maturity or (B) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions,
  - (ii) the municipal obligations are secured by cash or U.S. Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations,

- (iii) the principal of and interest on the U.S. Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations (“Verification Report”),
- (iv) the case of U.S. Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations
- (v) no substitution of a U.S. Treasury Obligation shall be permitted except with another U.S. Treasury Obligation and upon delivery of a new Verification Report, and
- (vi) the cash or U.S. Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.
- (j) Repurchase agreements with:
  - (i) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least “A-“ by S&P and “A3” by Moody’s; or
  - (ii) any broker-dealer with “retail customers” or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least “A-“ by S&P and “A3” by Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation, or
  - (iii) any other entity rated at least “A-“ by S&P and “A3” Moody’s and acceptable to the Bond Insurer (each an “Eligible Provider”), provided that:
    - (A) (1) permitted collateral shall include U.S. Treasury Obligations, or senior debt obligations of GNMA, FNMA or FHLMC (no collateralized mortgage obligations shall be permitted for these providers), and (2) collateral levels must be at least 102% of the total principal when the collateral type is U.S. Treasury Obligations, 103% of the total principal when the collateral type is GNMA’s and 104% of the total principal when the collateral type is FNMA and FHLMC (“Eligible Collateral”),
    - (B) the trustee or a third party acting solely as agent therefore or for the issuer (the “Custodian”) has possession of the collateral or the collateral has been transferred to the Custodian in accordance with applicable state and federal laws (other than by means of entries on the transferor’s books) and such collateral shall be marked to market,
    - (C) the collateral shall be marked to market on a daily basis and the provider or Custodian shall send monthly reports to the Trustee, the Authority and the Bond Insurer setting forth the type of collateral, the collateral percentage required for that collateral type, the market value of the collateral on the valuation date and the name of the Custodian holding the collateral,

- (D) the repurchase agreement (or guaranty, if applicable) may not be assigned or amended without the prior written consent of the Bond Insurer,
- (E) the repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Custodian has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof,
- (F) the repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, notify the Authority, the Trustee and the Bond Insurer within five (5) days of receipt of such notice. Within ten (10) days of receipt of such notice, the provider shall either: (1) provide a written guarantee acceptable to the Bond Insurer, (2) post Eligible Collateral, or (3) assign the agreement to an Eligible Provider. If the provider does not perform a remedy within ten (10) business days, the provider shall, at the direction of the trustee (who shall give such direction if so directed by the Bond Insurer) repurchase all collateral and terminate the repurchase agreement, with no penalty or premium to the issuer or the Trustee.

(k) Investment agreements: with a domestic or foreign bank or corporation the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, or the guarantor is rated at least "AA-" by S&P and "Aa3" by Moody's, and acceptable to the Bond Insurer (each an "Eligible Provider"); provided that:

- (i) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Bonds,
- (ii) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven (7) days' prior notice; the issuer and the Trustee hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid,
- (iii) the provider shall send monthly reports to the Trustee, the Authority and the Bond Insurer setting forth the balance the Authority or Trustee has invested with the provider and the amounts and dates of interest accrued and paid by the provider,
- (iv) the investment agreement shall state that is an unconditional and general obligation of the provider, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider

to its other depositors and its other unsecured and unsubordinated creditors,

- (v) the investment agreement (or guaranty, if applicable) may not be assigned or amended without the prior written consent of the Bond Insurer,
- (vi) the Authority, the Trustee and the Bond Insurer shall receive an opinion of domestic counsel to the provider that such investment agreement is legal, valid, binding and enforceable against the provider in accordance with its terms,
- (vii) the Authority, the Trustee and the Bond Insurer shall receive an opinion of foreign counsel to the provider (if applicable) that (i) the investment agreement has been duly authorized, executed and delivered by the provider and constitutes the legal, valid and binding obligation of the provider, enforceable against the provider in accordance with its terms, (ii) the choice of law of the state set forth in the investment agreement is valid under that country's laws and a court in such country would uphold such choice of law, and (iii) any judgment rendered by a court in the United States would be recognized and enforceable in such country;
- (viii) the investment agreement shall provide that if during its term:
  - (A) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", the provider shall, at its option, within ten (10) days of receipt of publication of such downgrade, either (i) provide a written guarantee acceptable to the Bond Insurer, (ii) post Eligible Collateral with the Issuer, the trustee or a third party acting solely as agent therefore (the "Custodian") free and clear of any third party liens or claims, or (iii) assign the agreement to an Eligible Provider, or (iv) repay the principal of and accrued but unpaid interest on the investment, and
  - (B) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", the provider must, at the direction of the issuer or the trustee (who shall give such direction if so directed by the Bond Insurer), within ten (10) days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the issuer or trustee,
- (ix) in the event the provider is required to collateralize, permitted collateral shall include U.S. Treasury Obligations, or senior debt obligations of GNMA, FNMA or FHLMC (no collateralized mortgage obligations shall be permitted for these providers) and collateral levels must be 102% of the total principal when the collateral type is U.S. Treasury Obligations, 103% of the total principal when the collateral type is GNMA's and 104% of the total principal when the collateral type is FNMA and FHLMC ("Eligible Collateral"). In addition, the collateral shall be marked to market on a daily basis and the provider or Custodian shall send monthly reports to the trustee, the issuer and the Bond Insurer setting forth the type of collateral, the collateral percentage required for that collateral type, the market value

of the collateral on the valuation date and the name of the Custodian holding the collateral;

- (x) the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provide under the terms of the investment agreement, at the time such collateral is delivered, that the Custodian has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof, and
- (xi) the investment agreement must provide that if during its term: (i) the provided shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the issuer of the trustee (who shall give such direction if so directed by the Bond Insurer), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the issuer or trustee, as appropriate, and (ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the issuer or trustee, as appropriate;
- (xii) the Local Agency Investment Fund of the State of California, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name; and
- (xiii) In addition to the authority to invest funds in certificates of deposit set forth in subsection (4) above, an investment in non-negotiable certificates of deposit made in accordance with the following conditions is an authorized investment: (1) the financial institution selected by the Authority or the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the Authority; (2) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States of America or an instrumentality of the United States of America; (3) the financial institution selected by the Authority or the City acts as custodian for the Authority with respect to the certificates of deposit issued for the account of the Authority.
- (xiv) any other investments permitted in writing by the Bond Insurer.

#### Bond Insurance Policy

"Bond Insurance Policy" means the Financial Guaranty Insurance Policy issued by the Bond Insurer which insures the payment when due of principal of and interest on the Bonds.

#### Bond Insurer

"Bond Insurer" means Assured Guaranty Corp., a Maryland-domiciled insurance company, its successors and assigns, as issuer of the Insurance Policy.

### Federal Securities

"Federal Securities" means (a) any direct general obligations of the United States of America, including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America (other than an obligation subject to variation in principal payment), for which the full faith and credit of the United States of America are pledged; and (b) obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are backed by the full faith and credit of the United States of America.

### Installment Payments

"Installment Payments" means the installment payments due under the Installment Purchase Agreement.

### Maximum Annual Debt Service

The term "Maximum Annual Debt Service" means, as of any date of calculation, the largest Annual Debt Service during the period from the date of such calculation through the final maturity date of all Parity Debt.

### Net Proceeds

The term "Net Proceeds" means, when used with respect to any casualty insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys' fees) incurred in the collection of such proceeds.

### Operation and Maintenance Costs

The term "Operation and Maintenance Costs" means the reasonable and necessary costs paid or incurred by the City for maintaining and operating the System, determined in accordance with Generally Accepted Accounting Principles, including all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the System in good repair and working order, and including all administrative costs of the City that are charged directly or apportioned to the operation of the System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums (including payments required to be paid into any self-insurance funds), and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Agreement or of any Supplemental Agreement or of any resolution authorizing the execution of any Parity Debt, such as compensation, reimbursement and indemnification of the Trustee and the Authority and fees and expenses of Independent Certified Public Accountants; but excluding in all cases (i) payment of Parity Debt and Subordinate Obligations, (ii) costs of capital additions, replacements, betterments, extensions or improvements which under Generally Accepted Accounting Principles are chargeable to a capital account, and (iii) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

### Parity Debt

The term "Parity Debt" means the Installment Payments and any Parity Obligations.

### Parity Obligation Payments

The term "Parity Obligation Payments" means the payments scheduled to be paid by the City under and pursuant to the Parity Obligations, which payments are secured by a pledge of System Net Revenues on a parity with the Installment Payments.

### Parity Obligations

The term "Parity Obligations" means all obligations of the City authorized and executed by the City other than the Installment Payments, the Parity Obligation Payments under which are secured by a pledge of the System Net Revenues on a parity with the Installment Payments, including but not limited to any Repayment Obligations secured by System Net Revenues on a parity with the Installment Payments.

### Project

"Project" means the public capital improvements of the City financed under the Installment Purchase Agreement.

### Rate Stabilization Fund

The term "Rate Stabilization Fund" means the fund by that name continued pursuant to the Installment Payment Agreement.

### Record Date

"Record Date" means the close of business on the 15th day of the month preceding any Interest Payment Date, whether or not such day is a Business Day.

### Repayment Obligation

"Repayment Obligation" means the reimbursement obligation or any other payment obligation under a written agreement between the City and a credit provider to reimburse the credit provider for amounts paid pursuant to a credit facility for the payment of the principal amount or purchase price of and/or interest on any Parity Debt.

### Reserve Fund

"Reserve Fund" means the fund by that name established pursuant to the Indenture and held by the Trustee.

### Reserve Fund Requirement

The term "Reserve Fund Requirement" means the amount required to be on deposit in the Reserve Fund as provided in the Indenture; *provided*, that notwithstanding any provision hereof to the contrary, all or any portion of the Reserve Fund Requirement for the Reserve Fund may (with the prior consent to the Bond Insurer) be satisfied by the provision of a policy of insurance, a surety bond, a letter of credit or other comparable credit facility, or a combination thereof, which, together with money on deposit in the Reserve Fund, provide an aggregate amount equal to the Reserve Fund Requirement, so long as (i) the provider of any such policy of insurance, surety bond, letter of credit or other comparable credit facility is rated in one of the two

highest rating categories (at all times) by Moody's and by S&P, (ii) in the case of a substitution of cash for a credit facility, the Trustee has received an opinion of counsel of recognized standing in the field of law relating to municipal bonds substantially to the effect that such substitution is authorized or permitted under the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, (iii) if such credit facility is not an irrevocable surety bond in the highest rating category of both Moody's and S&P, the Trustee has received written confirmation from Moody's and S&P that such substitution will not cause a lowering or withdrawal of any ratings on the Bonds, and (iv) the Trustee has received an opinion of counsel to the effect that the credit facility to be substituted is a valid, binding and legally enforceable obligation; and *provided further*, that in the event that any previously funded cash portion of the Reserve Fund Requirement is satisfied by the provision of such a policy of insurance, surety bond, letter of credit or other comparable credit facility, or a combination thereof, the amount of money then in the Reserve Fund equal to the portion of the Reserve Fund Requirement then being satisfied by such credit facility shall (upon receipt of a Written Request of the City) be withdrawn by the Trustee from the Reserve Fund and transferred to the City.

#### Revenues

"Revenues" means all Installment Payments received or receivable by the Authority.

#### Subordinate Obligations

The term "Subordinate Obligations" means the obligations of the City that are subordinate in payment to the Installment Payments.

#### Supplemental Agreement

The term "Supplemental Agreement" means any agreement then in full force and effect which has been entered into by the City and the Trustee, amendatory of or supplemental to the Agreement; but only if and to the extent that such Supplemental Agreement is specifically authorized under the Agreement.

#### Supplemental Indenture

The Term "Supplemental Indenture" means any indenture then in full force and effect which has been entered into by the Authority and the Trustee, amendatory of or supplemental to the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

#### System

The term "System" means the whole and each and every part of the water system of the City, including the portion thereof existing on the date of the Agreement, and including all additions, betterments, extensions and improvements to such system or any part thereof and hereafter acquired or constructed.

#### System Net Revenues

The term "System Net Revenues" means for any period System Revenues less Operation and Maintenance Costs for such period; *provided* that certain adjustments in the



amount of System Net Revenue deemed collected during a Fiscal Year may be made in connection with amounts deposited in the Rate Stabilization Fund.

### System Revenues

The term "System Revenues" means all gross income and revenue received or receivable by the City from the ownership or operation of the System, determined in accordance with Generally Accepted Accounting Principles, including all fees (including connection fees), rates, charges and all amounts paid under any contracts received by or owed to the City in connection with the operation of the System and all proceeds of insurance relating to the System and investment income allocable to the System and all other income and revenue howsoever derived by the City from the ownership or operation of the System or arising from the System.

## **SUMMARY OF INDENTURE**

The following is a summary of certain of the provisions of the Indenture. This summary is not intended to be comprehensive or definitive, and reference is made to the actual document for the complete terms thereof.

### **Payments Under the Bond Insurance Policy**

As long as the Bond Insurance Policy will be in full force and effect, the Authority and the Trustee will comply with the following provisions:

(i) At least two (2) Business Days prior to each payment date on the Bonds, the Trustee will determine whether there will be sufficient funds to pay all principal of and interest on the Bonds due on the related payment date and will immediately notify the Bond Insurer or its designee on the same Business Day by telephone or electronic mail, confirmed in writing by registered or certified mail, of the amount of any deficiency. Such notice will specify the amount of the anticipated deficiency, the Bonds to which such deficiency is applicable and whether such Bonds will be deficient as to principal or interest or both. If the deficiency is made up in whole or in part prior to or on the payment date, the Trustee will so notify the Bond Insurer or its designee.

(ii) The Trustee will, after giving notice to the Bond Insurer as provided above, make available to the Bond Insurer and, at the Bond Insurer's direction, to any fiscal agent, the Registration Books and all records relating to the funds maintained under the Indenture.

(iii) The Trustee will provide the Bond Insurer and any fiscal agent with a list of Owners entitled to receive principal or interest payments from the Bond Insurer under the terms of the Bond Insurance Policy, and will make arrangements with the Bond Insurer or any designee of the Bond Insurer to (i) mail checks or drafts to the Owners entitled to receive full or partial interest payments from the Bond Insurer, and (ii) pay principal upon Bonds surrendered to the Bond Insurer or any designee of the Bond Insurer by the Owners entitled to receive full or partial principal payments from the Bond Insurer.

(iv) The Trustee will, at the time it provides notice to the Bond Insurer of any deficiency pursuant to paragraph (a) above, notify Owners entitled to receive the payment of principal or interest thereon from the Bond Insurer (i) as to such deficiency and its entitlement to receive principal or interest, as applicable, (ii) that the Bond Insurer will remit to them all or a part of the interest payments due on the related payment date upon proof of its entitlement thereto and delivery to the Bond Insurer or any fiscal agent, in form satisfactory to the Bond Insurer, of an appropriate assignment of the Owner's right to payment, (iii) that, if they are entitled to receive partial payment of principal from the Bond Insurer, they must surrender the related Bonds for payment first to the Trustee, which will note on such Bonds the portion of the principal paid by the Trustee and second to the Bond Insurer or its designee, together with an appropriate assignment, in form satisfactory to the Bond Insurer, to permit ownership of such Bonds to be registered in the name of the Bond Insurer, which will then pay the unpaid portion of principal, and (iv) that, if they are entitled to receive full payment of principal from the Bond Insurer, they must surrender the related Bonds for payment to the Bond Insurer or its designee, rather than the Trustee, together with the an appropriate assignment, in form satisfactory to the Bond Insurer, to permit ownership of such Bonds to be registered in the name of the Bond Insurer.

(v) In addition, if the Trustee has notice that any Owner has been required to disgorge payments of principal or interest on the Bonds previously Due for Payment (as defined in the Bond Insurance Policy) pursuant to a final non-appealable order by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy laws, then the Trustee will notify the Bond Insurer or its designee of such fact by telephone or electronic notice, confirmed in writing by registered or certified mail.

(vi) The Trustee will be irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Owners as follows:

- (1) If and to the extent there is a deficiency in amounts required to pay interest on the Bonds, the Trustee will (A) execute and deliver to the Bond Insurer, in form satisfactory to the Bond Insurer, an instrument appointing the Bond Insurer as agent for such Owners in any legal proceeding related to the payment of such interest and an assignment to the Bond Insurer of the claims for interest to which such deficiency relates and which are paid by the Bond Insurer, (B) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the Bond Insurance Policy payment from the Bond Insurer with respect to the claims for interest so assigned, and (C) disburse the same to such respective holders; and
- (2) If and to the extent of a deficiency in amounts required to pay principal of the Bonds, the Trustee will (A) execute and deliver to the Bond Insurer, in form satisfactory to the Bond Insurer, an instrument appointing the Bond Insurer as agent for such Owner in any legal proceeding related to the payment of such principal and an assignment to the Bond Insurer of the Bond surrendered to the Bond Insurer in an amount equal to the principal amount thereof as has not previously been paid or for which moneys are not held by the Trustee and available for such payment (but such assignment will be delivered only if payment from the Bond Insurer is

received), (B) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the Bond Insurance Policy payment therefore from the Bond Insurer, and (C) disburse the same to such holders.

(vii) Payments with respect to claims for interest on and principal of Bonds disbursed by the Trustee from proceeds of the Policy will not be considered to discharge the obligation of the Authority with respect to such Bonds, and the Bond Insurer will become the owner of such unpaid Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

(viii) Irrespective of whether any such assignment is executed and delivered, the Authority and the Trustee agree for the benefit of the Bond Insurer that:

(1) they recognize that to the extent the Bond Insurer makes payments directly or indirectly (e.g., by paying through the Trustee), on account of principal of or interest on the Bonds, the Bond Insurer will be subrogated to the rights of such Owners to receive the amount of such principal and interest from the City, with interest thereon as provided and solely from the sources stated in the financing documents and the Bonds; and

(2) they will accordingly pay to the Bond Insurer the amount of such principal and interest, with interest thereon as provided in the financing documents and the Bonds, but only from the sources and in the manner provided in the Indenture for the payment of principal of and interest on the Bonds to Owners, and will otherwise treat the Bond Insurer as the owner of such rights to the amount of such principal and interest.

(ix) The Authority agrees to pay or reimburse Bond Insurer, to the extent permitted by law, (A) for all amounts paid by Bond Insurer under the terms of the Policy, and (B) any and all charges, fees, costs and expenses which Bond Insurer may reasonably pay or incur, including, but not limited to, fees and expenses of attorneys, accountants, consultants and auditors and reasonable costs of investigations, in connection with (i) any accounts established to facilitate payments under the Policy, (ii) the administration, enforcement, defense or preservation of any rights in respect of the trust agreement or any other financing document including defending, monitoring or participating in any litigation or proceeding (including any bankruptcy proceeding in respect of the Authority or any affiliate thereof) relating to this agreement or any other financing document, any party to this agreement or any other financing document or the transaction contemplated by the financing documents, (iii) the foreclosure against, sale or other disposition of any collateral securing any obligations under this agreement or any other financing document, or the pursuit of any remedies under this agreement or any other financing document, to the extent such costs and expenses are not recovered from such foreclosure, sale or other disposition, or (iv) any amendment, waiver or other action with respect to, or related to, this agreement or any other financing document whether or not executed or completed; costs and expenses will include a reasonable allocation of compensation and overhead attributable to time of employees of Bond Insurer spent in connection with the actions described in clauses (ii) - (iv) above. In addition, Bond Insurer reserves the right to charge a reasonable fee as a condition to

executing any amendment, waiver or consent proposed in respect of this agreement or any other financing document. The Authority will pay interest on the amounts owed in this paragraph from the date of any payment due or paid, at the per annum rate of interest publicly announced from time to time by JP Morgan Chase Bank, National Association at its principal office in New York, New York as its prime lending rate (any change in such prime rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank, National Association) plus three percent (3%) per annum (the "Reimbursement Rate"). The Reimbursement Rate will be calculated on the basis of the actual number of days elapsed over a 360-day year. In the event JPMorgan Chase Bank ceases to announce its prime rate publicly, the prime rate will be the publicly announced prime rate or base lending rate of such national bank, as Bond Insurer will specify.

(x) The Bond Insurer will be entitled to pay principal of or interest on the Bonds that will become Due for Payment but will be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Bond Insurance Policy) and any amounts due on the Bonds as a result of acceleration of the maturity thereof in accordance with this agreement, whether or not the Bond Insurer has received a Notice (as defined in the Bond Insurance Policy) of Nonpayment or a claim upon the Bond Insurance Policy.

(xi) In addition, the Bond Insurer will, to the extent it makes any payment of principal or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy, and to evidence such subrogation (i) in the case of claims for interest, the Trustee will note the Bond Insurer's rights as subrogee on the Registration Books, upon receipt of proof of payment of interest thereon to the Owners, and (ii) in the case of claims for principal, the Trustee, if any, will note the Bond Insurer's rights as subrogee on the Registration Books, upon surrender of the Bonds together with receipt of proof of payment of principal thereof.

### **Rights of Bond Insurer**

So long as the Bond Insurance Policy remains in force and effect, the Trustee will comply with all of the provisions thereof which are required to be complied with to ensure timely payment of the principal of and interest on the Bonds when due. Without limiting the generality of the foregoing:

(a) Notices and Other Information.

(i) Any notice that is required to be given to Owners, nationally recognized municipal securities information repositories or state information depositories pursuant to Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission or to the Trustee pursuant to the Indenture or the Installment Sale Agreement will also be provided to the Bond Insurer, simultaneously with the sending of such notices. In addition, to the extent that the City has entered into a continuing disclosure agreement with respect to the Bonds, all information furnished pursuant to such agreement will also be provided to the Bond Insurer, simultaneously with the furnishing of such information. All notices required to be given to the Bond Insurer will be in writing and will be sent by registered or certified mail addressed to the Assured Guaranty Corp., 1325 Avenue of the Americas, New York, NY 10019, Attention: General Counsel, with a copy to the Bond Insurer, Attention: Risk Management Department—Public Finance Surveillance.

(ii) The Bond Insurer will have the right to receive such additional information as it may reasonably request.

(iii) The Authority will permit the Bond Insurer to discuss the affairs, finances and accounts of the Issuer or any information the Bond Insurer may reasonably request regarding the security for the Obligations with appropriate officers of the Authority, and will use best efforts to enable the Bond Insurer to have access to the facilities, books and records of the Issuer on any business day upon reasonable prior notice.

(iv) The Trustee will notify the Bond Insurer of any failure of the Authority or the City to provide notices, certificates and other information under the Indenture or the Installment Sale Agreement.

(b) Defeasance. In the event that the principal and/or interest due on the Bonds will be paid by the Bond Insurer pursuant to the Bond Insurance Policy, the Bonds will remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Authority, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Authority to the registered owners will continue to exist and will run to the benefit of the Bond Insurer, and Bond Insurer will be subrogated to the rights of such registered owners including, without limitation, any rights that such owners may have in respect of securities law violations arising from the offer and sale of the Bonds. For any defeasance of Bonds, the Bond Insurer requires the following items:

(i) An opinion of counsel that the defeasance will not adversely impact the exclusion from gross income for federal income tax purposes of interest on the Bonds.

(ii) An escrow agreement and an opinion of counsel regarding the validity and enforceability of the escrow agreement. The escrow agreement will provide that:

- (1) Any substitution of securities will require verification by an independent certified public accountant and the prior written consent of the Bond Insurer.
- (2) The Authority and City will not exercise any optional redemption of Bonds secured by the escrow agreement or any other redemption other than mandatory sinking fund redemptions unless (A) the right to make any such redemption has been expressly reserved in the escrow agreement and such reservation has been disclosed in detail in the official statement for the refunding bonds, and (B) as a condition of any such redemption there will be provided to the Bond Insurer a verification of an independent certified public accountant as to the sufficiency of escrow receipts without reinvestment to meet the escrow requirements remaining following such redemption.
- (3) The Authority and the City will not amend the escrow agreement or enter into a forward purchase agreement or other agreement with respect to rights in the escrow without the prior written consent of the Bond Insurer.

(c) Trustee-Related Provisions.

(i) The Bond Insurer will receive prior written notice of any name change of the Trustee or the resignation, removal or termination of the Trustee.

(ii) No resignation, removal or termination of the Trustee will take effect until a successor, acceptable to the Bond Insurer, will be appointed.

(iii) The Trustee may be removed at any time at the request of the Bond Insurer for any breach of its obligations under the Indenture or the Installment Sale Agreement.

(d) Amendments and Supplements.

(i) With respect to amendments or supplements to the Indenture or the Installment Sale Agreement which do not require the consent of the Owners, the Bond Insurer must be given prior written notice of any such amendments or supplements.

(ii) With respect to amendments or supplements to the Indenture or the Installment Sale Agreement which do require the consent of the Owners, the Bond Insurer's prior written consent is required.

(iii) Copies of any amendments or supplements to the Indenture or the Installment Sale Agreement which are consented to by the Bond Insurer will be sent to the rating agencies that have assigned a rating to the Bonds.

(iv) Notwithstanding any other provision of the Indenture or the Installment Sale Agreement, in determining whether the rights of Owners will be adversely affected by any action taken pursuant to the terms and provisions thereof, the Trustee will consider the effect on the Owners as if there was no Bond Insurance Policy.

(e) Bond Insurer as Third Party Beneficiary. To the extent that the Indenture or the Installment Sale Agreement confer upon or give or grant to the Bond Insurer any right, remedy or claim under or by reason of the Indenture or the Installment Sale Agreement, the Bond Insurer is explicitly recognized as being a third party beneficiary hereunder and thereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder and thereunder.

(f) Control Rights.

(i) The Bond Insurer will be deemed to be the holder of all of the Bonds for purposes of (a) exercising all remedies and directing the Trustee to take actions or for any other purposes following an Event of Default, and (b) granting any consent, direction or approval or taking any action permitted by or required under the indenture, resolution or ordinance, as the case may be, to be granted or taken by the holders of such Bonds.

(ii) Anything in the Indenture or the Installment Sale Agreement to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Bond Insurer will be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Indenture, including, without limitation, (i) the right to accelerate the principal of the Bonds as

described in the Indenture and (ii) the right to annual any declaration of acceleration. The Bond Insurer also shall be entitled to approve all waivers of Events of Default.

(g) Consent Rights of the Bond Insurer.

(i) *Consent of the Bond Insurer.* Any provision of the Indenture expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner that affects the rights of the Bond Insurer hereunder without the prior written consent of the Bond Insurer.

(ii) *Consent of the Bond Insurer in Addition to Bondholder Consent.* Wherever the Indenture or the Installment Sale Agreement require the consent of Owners, the Bond Insurer's consent will also be required.

(iii) *Consent of Bond Insurer in the Event of Insolvency.* Any reorganization or liquidation plan with respect to the Issuer must be acceptable to Bond Insurer. In the event of any reorganization or liquidation, Bond Insurer will have the right to vote on behalf of all Bondholders who hold Bonds guaranteed by Bond Insurer, absent a default by Bond Insurer under the Policy.

(iv) *Consent of Bond Insurer Upon Default.* Upon the occurrence of an event of default as defined in the Indenture, the Trustee may, with the consent of Bond Insurer, and will at the direction of Bond Insurer or the Bondholders with the consent of Bond Insurer, by written notice to the Issuer and Bond Insurer, declare the principal of the Bonds to be immediately due and payable, whereupon that portion of the principal of the Bonds thereby coming due and the interest thereon accrued to the date of payment will, without further action, become and be immediately due and payable, anything in this financing document or the Bonds to the contrary notwithstanding.

(i) Interest Rate Exchange Agreement. Any interest rate exchange agreement (an "Interest Rate Exchange Agreement") entered into by the Authority in connection with the Bonds and any Parity Debt subsequent to the date of the Indenture (so long as any Bonds insured by the Bond Insurer remain Outstanding) shall meet the following conditions: (i) the Interest Rate Exchange Agreement must be entered into to manage interest costs related to, or a hedge against (a) assets then held, or (b) debt then outstanding, or (c) debt reasonably expected to be issued within the next twelve (12) months, and (ii) the Interest Rate Exchange Agreement shall not contain any leverage element or multiplier component greater than 1.0x unless there is a matching hedge arrangement which effectively off-sets the exposure from any such element or component. Unless otherwise consented to in writing by the Bond Insurer, any uninsured net settlement, breakage or other termination amount then in effect shall be subordinate to debt service on the Bonds and any Parity Debt. The Authority shall not terminate the Interest Rate Exchange Agreement unless it demonstrates to the satisfaction of the Bond Insurer prior to the payment of any such termination amount that such payment will not cause the Authority to be in default under the Indenture or the City to be in default under the Installment Purchase Agreement, including but not limited to, any monetary obligations hereunder or thereunder. All counterparties or guarantors to any Interest Rate Exchange Agreement must have a rating of at least "A-" and "A3" by S&P and Moody's Investors Service ("Moody's"). If the counterparty or guarantor's rating falls below "A-" or "A3" by either S&P or Moody's, the counterparty or guarantor shall execute a credit support annex to the Interest Rate Exchange Agreement, which credit

support annex shall be acceptable to the Bond Insurer. If the counterparty or the guarantor's long term unsecured rating falls below "Baa1" or "BBB+" by either Moody's or S&P, a replacement counterparty or guarantor, acceptable to the Bond Insurer, shall be required.

**Procedure for Amendment of the Indenture.** The Indenture and the rights and obligations of the Authority and of the Owners under the Indenture and the Installment Purchase Agreement and the rights and obligations of the City and Authority under the Installment Purchase Agreement may be amended at any time by a Supplemental Indenture or Supplemental Agreement which shall become binding when the written consent of the Bond Insurer and the written consents of the Owners of at least sixty per cent (60%) in aggregate principal amount of the Bonds then Outstanding (exclusive of Bonds disqualified as provided in the Indenture) and the written consent of the Bond Insurer are filed with the Trustee; *provided* that so long as the Municipal Bond Insurance Policy is in effect, the Bond Insurer may give consent to amendments in place of the Owners of the Bonds. No such amendment shall (1) extend the maturity of or reduce the interest rate on, or otherwise alter or impair the obligation of the Authority to pay the interest or principal or redemption premium, if any, of any Bond or reduce the scheduled Installment Payments to come due, without the express written consent of the Owner of the affected Bond, or (2) permit the creation by the Authority of any mortgage, pledge or lien upon the Revenues superior to or on a parity with the pledge and lien created for the benefit of the Bonds or (3) permit the creation by the City of any mortgage, pledge or lien upon the System Revenues (as defined in the Installment Purchase Agreement) superior to or on a parity with the pledge and lien created by the Installment Purchase Agreement, except as provided in the Installment Purchase Agreement (4) reduce the percentage of Bonds required for the written consent to any such amendment, or (5) modify the rights or obligations of the Trustee without its prior written assent thereto.

The Indenture and the rights and obligations of the Authority and of the Owners thereunder and the Installment Purchase Agreement and the rights and obligations of the City and the Authority thereunder may also be amended at any time by a Supplemental Indenture or Supplemental Agreement which shall become binding upon execution, with the written consent of the Bond Insurer, but without the consent of any Owners but only to the extent permitted by law and only for any one or more of the following purposes:

- (a) To add to the agreements and covenants of the Authority or the City other agreements and covenants thereafter to be observed, or to surrender any right or power reserved to or conferred upon the Authority or the City;
- (b) To make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision, or in regard to questions arising thereunder, as may deem necessary or desirable and not inconsistent therewith, and which shall not materially adversely affect the interests of the Owners of the Outstanding Bonds;
- (c) To modify, amend or supplement the Indenture in such manner as to permit the qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute thereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Bonds;



- (d) To maintain the exclusion under the Code of interest on the Bonds from gross income for federal income tax purposes;
- (e) To the extent necessary to maintain any then existing rating by Moody's (if Moody's is then rating the Bonds) or S&P (if S&P is then rating the Bonds) or in connection with placing a credit facility in the Reserve Fund or;
- (f) For any other purpose that does not materially adversely affect the interests of the Owners of the Outstanding Bonds.

**Events of Default and Acceleration of Maturities.** If one or more of the following events (an "Event of Default") shall happen, that is to say:

- (a) If default shall be made in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable; or
- (b) If default shall be made in the due and punctual payment of the principal of or redemption premium, if any, on or of any Sinking Fund Installment for any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise; or
- (c) If an Event of Default shall occur under the Installment Purchase Agreement;

then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and upon the written request of the Owners of not less than twenty-five per cent (25%) in aggregate principal amount of the Bonds at the time Outstanding, shall, by notice in writing to the Authority, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything contained in the Indenture or in the Bonds to the contrary notwithstanding; *provided*, any such declaration shall be limited to those Bonds corresponding in principal amount and maturity date to the principal components of delinquent Installment Payments related to such default (Bonds to be selected by lot within a maturity if necessary); *provided further*, that any such declaration shall be subject to the prior written consent of the Bond Insurer; and *provided further* that if, at any time after the principal of the Bonds shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered, there shall be deposited with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the expenses of the Trustee, including attorneys' fees, together with interest on any such amounts advanced as provided in the Indenture, and any and all other defaults known to the Trustee (other than in the payment of interest and principal on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured or provision shall have been made therefor, then, and in every such case, the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Authority and to the Trustee, may, on behalf of the Owners of all the Bonds, rescind and annul such declaration and its consequences; except that no such rescission or annulment shall occur without the prior written consent of the Bond Insurer, and no such rescission or annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

**Discharge of Bonds.** If there shall be paid, to the Owners of all or a portion of the Outstanding Bonds the interest thereon and principal thereof and redemption premiums, if any, thereon at the times and in the manner stipulated therein and in the Indenture, then the owners of such Bonds shall cease to be entitled to the pledge of Revenues as provided in the Indenture, and all agreements, covenants and other obligations of the Authority to the Owners of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

Any Outstanding Bonds for the payment of which money shall have been set aside to be held in trust by the Trustee for such payment at the maturity or redemption date thereof shall be deemed, as of the date of such setting aside, to have been paid.

## **SUMMARY OF THE INSTALLMENT PURCHASE AGREEMENT**

The following is a summary of certain of the terms of the Installment Purchase Agreement. This summary is not intended to be comprehensive or definite, and reference is made to the actual documents for the complete terms thereof.

**Changes to the Project.** The City may at any time substitute other public capital improvements for the System in place of the then existing components of the Project by submitting a Written Request of the City to the Authority and the Trustee specifying the components of the Project to be substituted and the new components.

**Covenant Against Encumbrances.** The City will not mortgage or otherwise encumber, pledge or place any charge upon any of the System Net Revenues except as provided in the Agreement, and will not issue any obligations secured by System Net Revenues senior to the Parity Debt; *provided*, that the City may at any time issue any Subordinate Obligations.

**Covenant Against Sale or Other Disposition of the System.** Except as provided in the Indenture, the City will not sell or otherwise dispose of the System or any part thereof essential to the proper operation of the System or to the maintenance of the System Net Revenues, unless the Installment Payments have been fully paid or provision has been made therefor. The City will not enter into any lease or agreement which impairs the operation of the System or any part thereof necessary to secure adequate System Net Revenues for the payment of the Installment Payments, or which would otherwise impair the rights of the Owners with respect to the System Net Revenues or the operation of the System.

**Covenant Regarding Maintenance and Operation of System.** The City will maintain and preserve the System in good repair and working order at all times and will operate the System in an efficient and economical manner.

**Insurance.** The City will procure and maintain at all times insurance on the System against such risks (including accident to or destruction of the System) as are usually insured in connection with operations similar to the System and, to the extent such insurance is available for reasonable premiums from a reputable insurance company, such insurance shall be adequate in amount and, as to the risks insured against, shall be maintained with responsible insurers; *provided*, that such insurance coverage may be satisfied under a self-insurance program which is actuarially sound.

The City shall procure and maintain or cause to be procured and maintained public liability insurance covering claims against the City (including its directors, officers and employees) for bodily injury or death, or damage to property occasioned by reason of the City's operations, including any use of the System, and such insurance shall afford protection in such amounts as are usually covered in connection with operations similar to the System; *provided*, that such insurance coverage may be satisfied under a self-insurance program which is actuarially sound.

If all or any part of the System shall be damaged or destroyed the Net Proceeds realized by the City therefrom shall be deposited by the City with the Trustee in a special fund which the Trustee shall establish as needed in trust and applied by the City to the cost of acquiring and constructing additions, betterments, extensions or improvements to the System if (A) the City first secures and files with the Trustee a Certificate of the City showing (i) the loss in annual System Revenues, if any, suffered, or to be suffered, by the City by reason of such damage or destruction, (ii) a general description of the additions, betterments, extensions or improvements to the System then proposed to be acquired and constructed by the City from such proceeds, and (iii) an estimate of the additional System Revenues to be derived from such additions, betterments, extensions or improvements; and (B) the Trustee has been furnished a Certificate of the City, certifying that such additional System Revenues will sufficiently offset on a timely basis the loss of System Revenues resulting from such damage or destruction so that the ability of the City to pay Installment Payments when due will not be substantially impaired, and such Certificate of the City shall be final and conclusive, and any balance of such proceeds not required by the City for such purpose shall be deposited in the System Revenue Fund; *provided*, that if the foregoing conditions are not met, then such proceeds shall be deposited with the Trustee and applied to make Installment Payments as they come due and Parity Obligation Payments as they shall become due; *provided further* that the foregoing procedures for the application of Net Proceeds shall be subject to any similar provisions for Parity Debt on a pro rata basis.

If such damage or destruction has had no effect, or at most an immaterial effect, upon the System Revenues and the security of the Installment Payments, and a Certificate of the City to such effect has been filed with the Trustee, then the City shall forthwith deposit such proceeds in the System Revenue Fund.

**Eminent Domain Proceeds.** If all or any part of the System shall be taken by eminent domain proceedings, the Net Proceeds realized by the City therefrom shall be deposited by the City with the Trustee in a special fund which the Trustee shall establish as needed in trust and applied by the City to the cost of acquiring and constructing additions, betterments, extensions or improvements to the System if (A) the City first secures and files with the Trustee a Certificate of the City showing (i) the loss in annual System Revenues, if any, suffered, or to be suffered, by the City by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the System then proposed to be acquired and constructed by the City from such proceeds, and (iii) an estimate of the additional System Revenues to be derived from such additions, betterments, extensions or improvements; and (B) the Trustee has been furnished a Certificate of the City, certifying that such additional System Revenues will sufficiently offset on a timely basis the loss of System Revenues resulting from such eminent domain proceedings so that the ability of the City to pay Installment Payments when due will not be substantially impaired, and such Certificate of the City shall be final and conclusive, and any balance of such proceeds not required by the City for such purpose shall be deposited in the System Revenue Fund, *provided*, that if the foregoing conditions are not met, then such proceeds shall be deposited with the Trustee and applied to make Installment

Payments as they come due and Parity Obligation Payments as they shall become due *provided further* that the foregoing procedures for the application of Net Proceeds shall be subject to any similar provisions for Parity Debt on a pro rata basis.

If such eminent domain proceedings have had no effect, or at most an immaterial effect, upon the System Revenues and the security of the Installment Payments, and a Certificate of the City to such effect has been filed with the Trustee, then the City shall forthwith deposit such proceeds in the System Revenue Fund.

**Events of Default and Acceleration of Maturities.** If one or more of the following Events of Default shall happen, that is to say --

- (1) if default shall be made by the City in the due and punctual payment of the Installment Payments or any Parity Debt when and as the same shall become due and payable, provided that amounts paid by the Bond Insurer will not be deemed to constitute payment of the Installment Payments for purposes of this provision;
- (2) if default shall be made by the City in the performance of any of the other agreements or covenants required in the Agreement to be performed by it, and such default shall have continued for a period of thirty (30) days after the City shall have been given notice in writing of such default by the Authority, the Bond Insurer or the Trustee; *provided* that such default shall not constitute an Event of Default, if the City shall commence to cure such default within such thirty (30) day period and thereafter diligently and in good faith shall proceed to cure such default within a reasonable period of time, *provided*, such period shall not extend beyond a total of 90 days except with the prior consent of the Bond Insurer;
- (3) if the City shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property; or
- (4) if payment of the principal of any Parity Debt is accelerated in accordance with its terms;

then and in each and every such case during the continuance of such Event of Default specified in clauses (3) and (4) above, the Authority shall, and for any other such Event of Default the Authority may, by notice in writing to the City, declare the entire principal amount of the unpaid Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable; *provided* that any such declaration of acceleration shall be subject to the prior written consent of the Bond Insurer. This paragraph however, is subject to the condition that if at any time after the entire principal amount of the unpaid Installment Payments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered the City shall

deposit with the Authority a sum sufficient to pay the unpaid principal amount of the Installment Payments or the unpaid payment of any other Parity Debt referred to in clause (1) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments, at the rate or rates applicable to the remaining unpaid principal balance of the Installment Payments or such other Parity Debt if paid in accordance with their terms, and the reasonable expenses of the Authority and the Bond Insurer, and any and all other defaults known to the Authority (other than in the payment of the entire principal amount of the unpaid Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Authority and the Bond Insurer or provision deemed by the Authority and the Bond Insurer to be adequate shall have been made therefor, then and in every such case the Authority and the Bond Insurer, by written notice to the City, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

**Amendments.** The Agreement may only be amended in accordance with the terms of the Indenture.

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**APPENDIX D**  
**FORM OF BOND COUNSEL OPINION**

May \_\_, 2009

South Pasadena Public Financing Authority  
1414 Mission Street  
South Pasadena, California 91030

*OPINION:*     \$43,405,000 South Pasadena Public Financing Authority  
                  2009 Water Revenue Bonds

Members of the Authority:

We have acted as bond counsel to the South Pasadena Public Financing Authority (the "Authority") in connection with the issuance by the Authority of its \$43,405,000 aggregate principal amount of South Pasadena Public Financing Authority 2009 Water Revenue Bonds, (the "Bonds"), under the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code, and under an Indenture, dated as of May 1, 2009 (the "Indenture"), between the Authority and Wells Fargo Bank, National Association, as trustee. The Bonds are secured by Revenues as defined in the Indenture, including installment payments made by the City of South Pasadena (the "City") under an Installment Purchase Agreement dated as of May 1, 2009 (the "Installment Purchase Agreement") between the Authority and the City. We have examined such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Authority and the City contained in the Indenture, the Installment Purchase Agreement and in the certified proceedings, and upon other certifications furnished to us, without undertaking to verify the same by independent investigation.

Based upon our examination we are of the opinion, under existing law, that:

1. The Authority is a joint exercise of powers authority duly organized and existing under the laws of the State of California, with power to enter into the Indenture, to perform the agreements on its part contained therein and to issue the Bonds.

2. The Bonds constitute legal, valid and binding special obligations of the Authority enforceable in accordance with their terms and payable solely from the sources provided therefor in the Indenture.

3. The Indenture and the Installment Purchase Agreement have been duly approved by the Authority and constitute legal, valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms.

4. The Indenture establishes a valid first and exclusive lien on and pledge of the Revenues (as such term is defined in the Indenture) and other funds pledged thereby for the security of the Bonds, in accordance with the terms of the Indenture.

5. The City is a municipal corporation duly organized and existing under the laws of the State of California, with power to enter into the Installment Purchase Agreement and to perform the agreements on its part contained therein. The Installment Purchase Agreement has been duly approved by the City and constitutes a legal, valid and binding obligation of the City enforceable against the City in accordance with its terms.

6. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The opinions set forth in the preceding sentence are subject to the condition that the Authority and the City comply with all requirements of the Internal Revenue Code of 1986, as amended, which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority and the City have covenanted in the Indenture, the Installment Purchase Agreement and in other instruments relating to the Bonds to comply with each of such requirements, and the Authority and the City have full legal authority to make and comply with such covenants. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

7. Interest on the Bonds is exempt from California personal income taxation.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Installment Purchase Agreement may be subject to bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

A Professional Law Corporation



## APPENDIX E

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

**\$43,405,000**  
**SOUTH PASADENA PUBLIC FINANCING AUTHORITY**  
**2009 WATER REVENUE BONDS**

This CONTINUING DISCLOSURE CERTIFICATE (this “**Disclosure Certificate**”) is executed and delivered by the City of South Pasadena (the “**City**”) in connection with the issuance by the South Pasadena Public Financing Authority (the “**Authority**”) of the above-captioned bonds (the “**Bonds**”) pursuant to an Indenture, dated as of May 1, 2009 (the “**Indenture**”), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the “**Trustee**”). The Bonds are secured by and payable from Revenues, which primarily consist of installment payments to be made by the City under an Installment Purchase Agreement dated as of May 1, 2009 (the “**Installment Purchase Agreement**”) between the Authority as seller and the City as purchaser.

The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Annual Report Date*” means the date that is 210 days after the end of the City’s fiscal year (currently January 31 based on the City’s fiscal year end of June 30).

“*Dissemination Agent*” means Urban Futures, Inc., or any successor Dissemination Agent designated in writing by the City and which has filed with the City and the Trustee a written acceptance of such designation.

“*Listed Events*” means any of the events listed in Section 5(a) of this Disclosure Certificate.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement executed by the City in connection with the issuance of the Bonds.

“*Participating Underwriter*” means Chilton & Associates, Inc., the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“*Rule*” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

### Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing January 31, 2010, with the report for the 2008-09 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate, with a copy to the Trustee and the Participating Underwriter. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A, with a copy to the Trustee and the Participating Underwriter.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the City, file a report with the City, with a copy to the Trustee and the Participating Underwriter, certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The City’s Annual Report shall contain or incorporate by reference the following:

(a) The City’s audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City’s audited financial

statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the City for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

(i) a schedule of water rates in effect as of the close of the preceding fiscal year, by classification of customer;

(ii) the System's revenues and expenses for the most recently-completed fiscal year in the form of Table 9 in the Official Statement;

(iii) total System Net Revenues received by the City during the preceding fiscal year and the amount by which such System Net Revenues provide coverage for the payments of debt service coming due in such fiscal year with respect to the Installment Payments and any other Parity Debt, in substantially the form of Table No. 10 in the Official Statement; and

(iv) a description of any additional indebtedness incurred during the most recently-completed fiscal year which is payable from System Net Revenues on a parity with the Installment Payments.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

#### Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.

- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (7) Modifications to rights of security holders.
- (8) Contingent or unscheduled bond calls.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities.
- (11) Rating changes.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the City shall, or shall cause the Dissemination Agent (if not the City) to, promptly file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, with a copy to the Trustee and the Participating Underwriter. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture; *provided, however,* that any notice of the occurrence of a Listed Event that is filed before July 1, 2009, shall be filed with each nationally recognized municipal securities information repository and state repository designated as such by the Securities and Exchange Commission for purposes of the Rule, and otherwise in accordance with then-applicable procedures prescribed under the Rule.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Urban Futures, Inc. Any Dissemination Agent may resign by providing 30 days' written notice to the City and the Trustee.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be filed in the same manner as for a Listed Event under Section 5(c).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event

of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. (a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City hereunder, and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Notices. Any notice or communications to be given under this Disclosure Certificate may be given as follows:

To the Issuer:	City of South Pasadena 1414 Mission Street South Pasadena, CA 91030 Fax: (626) 403-7211 Attention: City Manager
To the Dissemination Agent:	Urban Futures, Inc. 3111 N. Tustin Avenue, Suite 230 Orange, CA 92865 Attention: Michael Busch
To the Participating Underwriter:	Chilton & Associates, Inc. 1875 Century Park East, Suite 700 Los Angeles, CA 90067 Fax: (310) 407-5486 Attention: Municipal Research Department
To the Trustee:	Wells Fargo Bank, National Association 707 Wilshire Boulevard, 17 <sup>th</sup> Floor Los Angeles, CA 90017 Fax: (213) 614-3355 Attention: Corporate Trust Department

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Trustee, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 15. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: May 21, 2009

CITY OF SOUTH PASADENA

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

AGREED AND ACCEPTED:  
URBAN FUTURES, INC.  
as Dissemination Agent

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT A**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: South Pasadena Public Financing Authority

Name of Issue: \$43,405,000 South Pasadena Public Financing Authority 2009  
Water Revenue Bonds

Date of Issuance: May 21, 2009

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated May 21, 2009. The City anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

DISSEMINATION AGENT:

\_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

cc: Trustee and Participating Underwriter



## APPENDIX F

### DTC AND THE BOOK-ENTRY ONLY SYSTEM

*The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

*Neither the issuer of the 2009 Bonds (the “**Issuer**”) nor the trustee, fiscal agent or paying agent appointed with respect to the 2009 Bonds (the “**Agent**”) take any responsibility for the information contained in this Appendix.*

*No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the 2009 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the 2009 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2009 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.*

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and

dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org). *The information contained on this Internet site is not incorporated herein by reference.*

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“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 Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

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

6. Redemption notices shall be sent to DTC. If less than all of the Securities 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.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities 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 Issuer or Agent, 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, Agent, or Issuer, 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 Issuer or Agent, 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.

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

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

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

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**APPENDIX G**

**SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY**

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## Financial Guaranty Insurance Policy

**Issuer:**

**Policy No.:**

**Obligations:**

**Premium:**

**Effective Date:**

Assured Guaranty Corp., a Maryland corporation ("**Assured Guaranty**"), in consideration of the payment of the Premium and on the terms and subject to the conditions of this Policy (which includes each endorsement hereto), hereby unconditionally and irrevocably agrees to pay to the trustee (the "**Trustee**") or the paying agent (the "**Paying Agent**") for the Obligations (as set forth in the documentation providing for the issuance of and securing the Obligations) for the benefit of the Holders, that portion of the Insured Payments which shall become Due for Payment but shall be unpaid by reason of Nonpayment.

Assured Guaranty will make such Insured Payments to the Trustee or the Paying Agent on the later to occur of (i) the date applicable principal or interest becomes Due for Payment, or (ii) the Business Day next following the day on which Assured Guaranty shall have Received a completed Notice of Nonpayment. If a Notice of Nonpayment by Assured Guaranty is incomplete or does not in any instance conform to the terms and conditions of this Policy, it shall be deemed not Received, and Assured Guaranty shall promptly give notice to the Trustee or the Paying Agent. Upon receipt of such notice, the Trustee or the Paying Agent may submit an amended Notice of Nonpayment. The Trustee or the Paying Agent will disburse the Insured Payments to the Holders only upon receipt by the Trustee or the Paying Agent, in form reasonably satisfactory to it of (i) evidence of the Holder's right to receive such payments, and (ii) evidence, including without limitation any appropriate instruments of assignment, that all of the Holder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Assured Guaranty. Upon and to the extent of such disbursement, Assured Guaranty shall become the Holder of the Obligations, any appurtenant coupon thereto and right to receipt of payment of principal thereof or interest thereon, and shall be fully subrogated to all of the Holder's right, title and interest thereunder, including without limitation the right to receive payments in respect of the Obligations. Payment by Assured Guaranty to the Trustee or the Paying Agent for the benefit of the Holders shall discharge the obligation of Assured Guaranty under this Policy to the extent of such payment.

This Policy is non-cancelable by Assured Guaranty for any reason. The Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment premium or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Assured Guaranty, nor against any risk other than Nonpayment.

Except to the extent expressly modified by any endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "**Avoided Payment**" means any amount previously distributed to a Holder in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. "**Business Day**" means any day other than (i) a Saturday or Sunday, (ii) any day on which the offices of the Trustee, the Paying Agent or Assured Guaranty are closed, or (iii) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in the City of New York or in the State of Maryland. "**Due for Payment**" means (i) when referring to the principal of an Obligation, the stated maturity date thereof, or the date on which such Obligation shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and (ii) when referring to interest on an Obligation, the stated date for payment of such interest. "**Holder**" means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder, except that Holder shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligations. "**Insured Payments**" means that portion of the principal of and interest on the Obligations that shall become Due for Payment but shall be unpaid by reason of Nonpayment. Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. "**Nonpayment**" means, in respect of an Obligation, the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on such Obligation. It is further understood that the term "Nonpayment" in respect of an Obligation includes any Avoided Payment. "**Receipt**" or "**Received**" means actual receipt or notice of or, if notice is given by overnight or other delivery service, or by certified or registered United States mail, by a delivery receipt signed by a person authorized to accept delivery on behalf of the person to whom the notice was given. Notices to Assured Guaranty may be mailed by registered mail or personally delivered or telecopied to it at 1325 Avenue of the Americas, New York, New York 10019, Telephone Number: (212) 974-0100, Facsimile Number: (212) 581-3268, Attention: Risk Management Department - Public Finance Surveillance, with a copy to the General Counsel, or to such other address as shall be specified by Assured Guaranty to the Trustee

or the Paying Agent in writing. A Notice of Nonpayment will be deemed to be Received by Assured Guaranty on a given Business Day if it is Received prior to 12:00 noon (New York City time) on such Business Day; otherwise it will be deemed Received on the next Business Day. "Term" means the period from and including the Effective Date until the earlier of (i) the maturity date for the Obligations, or (ii) the date on which the Issuer has made all payments required to be made on the Obligations.

At any time during the Term of this Policy, Assured Guaranty may appoint a fiscal agent (the "Fiscal Agent") for purposes of this Policy by written notice to the Trustee or the Paying Agent, specifying the name and notice address of such Fiscal Agent. From and after the date of Receipt of such notice by the Trustee or the Paying Agent, copies of all notices and documents required to be delivered to Assured Guaranty pursuant to this Policy shall be delivered simultaneously to the Fiscal Agent and to Assured Guaranty. All payments required to be made by Assured Guaranty under this Policy may be made directly by Assured Guaranty or by the Fiscal Agent on behalf of Assured Guaranty. The Fiscal Agent is the agent of Assured Guaranty only, and the Fiscal Agent shall in no event be liable to the Trustee or the Paying Agent for any acts of the Fiscal Agent or any failure of Assured Guaranty to deposit, or cause to be deposited, sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Assured Guaranty hereby waives, in each case for the benefit of the Holders only, all rights and defenses of any kind (including, without limitation, the defense of fraud in the inducement or in fact or any other circumstance that would have the effect of discharging a surety, guarantor or any other person in law or in equity) that may be available to Assured Guaranty to deny or avoid payment of its obligations under this Policy in accordance with the express provisions hereof. Nothing in this paragraph will be construed (i) to waive, limit or otherwise impair, and Assured Guaranty expressly reserves, Assured Guaranty's rights and remedies, including, without limitation, its right to assert any claim or to pursue recoveries (based on contractual rights, securities law violations, fraud or other causes of action) against any person or entity, in each case, whether directly or acquired as a subrogee, assignee or otherwise, subsequent to making any payment to the Trustee or the Paying Agent, in accordance with the express provisions hereof, and/or (ii) to require payment by Assured Guaranty of any amounts that have been previously paid or that are not otherwise due in accordance with the express provisions of this Policy.

This Policy (which includes each endorsement hereto) sets forth in full the undertaking of Assured Guaranty with respect to the subject matter hereof, and may not be modified, altered or affected by any other agreement or instrument, including, without limitation, any modification thereto or amendment thereof. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. This Policy will be governed by, and shall be construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, Assured Guaranty has caused this Policy to be affixed with its corporate seal, to be signed by its duly authorized officer, and to become effective and binding upon Assured Guaranty by virtue of such signature.

**ASSURED GUARANTY CORP.**

(SEAL)

By: \_\_\_\_\_  
[Insert Authorized Signatory Name]  
[Insert Authorized Signatory Title]

Signature attested to by:

\_\_\_\_\_  
Counsel





