**NEW ISSUE - FULL BOOK-ENTRY**

**RATINGS:**
**Moody's: "A1"**
**S&P: "A"**

*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original discount) on the 2015 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2015 Bonds is exempt from State of California personal income tax. See the caption "TAX MATTERS" herein.*

# $200,030,000
# CITY OF RIVERSIDE, CALIFORNIA
## Sewer Revenue Bonds, Series 2015A

**Dated: Date of Delivery** **Due: August 1, as shown on the inside cover**

The 2015 Bonds will be issued in book-entry form, without coupons, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository for the 2015 Bonds. Purchasers of the 2015 Bonds will not receive physical certificates representing their interests in 2015 Bonds purchased. Principal of, premium, if any, and interest on the 2015 Bonds are payable directly to DTC by U.S. Bank National Association, as Fiscal Agent. Upon receipt of payments of such principal, premium, if any, and interest, DTC is obligated to remit such principal, premium, if any, and interest to its DTC participants for subsequent disbursement to the beneficial owners of the 2015 Bonds.

The 2015 Bonds will be dated the date of delivery thereof and will mature in the principal amounts and in the years and bear interest at the respective rates of interest per annum, all as set forth on the inside cover hereto. The 2015 Bonds will be issued in fully registered form and will be made in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof. Interest on the 2015 Bonds is payable on February 1 and August 1 of each year, commencing August 1, 2015.

**The 2015 Bonds are subject to optional and mandatory sinking account redemption prior to maturity as described herein.** See "DESCRIPTION OF THE 2015 BONDS – Redemption Provisions" herein.

The 2015 Bonds are special limited obligations of the City of Riverside, California (the "City") payable solely from the Net Operating Revenues of the City's Sewer System and other funds, assets and security as further described herein, and do not constitute a general obligation or indebtedness of the City. The 2015 Bonds will be payable by the City on a parity with $3,725,001 in outstanding principal amount of certain state revolving fund contracts previously entered into by the City and $219,790,000 in aggregate outstanding principal amount of previously issued 2009 Bonds (defined herein), all as more fully described in this Official Statement. Additional Bonds and Parity Debt (as defined herein) payable and secured on parity with the 2015 Bonds may be issued in the future. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

The 2015 Bonds are being issued to (i) provide capitalized interest through June 1, 2018, (ii) refund on a current basis the outstanding principal amount of the 2014 Bonds (defined herein) that are currently owned by Wells Fargo Bank, National Association, the Underwriter of the 2015 Bonds, (iii) reimburse certain prior expenditures of the City related to the Sewer System, (iv) finance the costs of certain capital improvements to the City's Sewer System and (v) pay costs of issuance of the 2015 Bonds. See "PLAN OF FINANCE" herein.

**This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to making an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.**

The 2015 Bonds are offered when, as and if issued and received by the Underwriter, subject to approval of legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain legal matters will be passed upon for the City by the City Attorney. Certain legal matters will be passed upon for the Underwriter by its counsel, Hawkins Delafield & Wood LLP, Los Angeles, California. It is expected that the 2015 Bonds in definitive form will be available for delivery through the facilities of the DTC book-entry system on or about June 10, 2015.

**Wells Fargo Securities**

Dated: May 28, 2015

**$200,030,000**
**CITY OF RIVERSIDE, CALIFORNIA**
**Sewer Revenue Bonds, Series 2015A**

**MATURITY SCHEDULE**

| Maturity Date (August 1) | Principal Amount | Interest Rate | Yield | CUSIP Number[†] |
|---|---|---|---|---|
| 2018 | $4,790,000 | 4.000% | 1.270% | 769047HD6 |
| 2019 | 5,010,000 | 5.000 | 1.540 | 769047HE4 |
| 2020 | 5,265,000 | 5.000 | 1.790 | 769047HF1 |
| 2021 | 5,535,000 | 5.000 | 2.090 | 769047HG9 |
| 2022 | 5,820,000 | 5.000 | 2.300 | 769047HH7 |
| 2023 | 6,120,000 | 5.000 | 2.470 | 769047HJ3 |
| 2024 | 6,430,000 | 5.000 | 2.660 | 769047HK0 |
| 2025 | 6,760,000 | 5.000 | 2.810 | 769047HL8 |
| 2026 | 7,110,000 | 5.000 | 2.940[c] | 769047HM6 |
| 2027 | 7,475,000 | 5.000 | 3.120[c] | 769047HN4 |
| 2028 | 7,855,000 | 5.000 | 3.270[c] | 769047HP9 |
| 2029 | 8,260,000 | 5.000 | 3.350[c] | 769047HQ7 |
| 2030 | 8,685,000 | 5.000 | 3.430[c] | 769047HR5 |
| 2031 | 9,130,000 | 5.000 | 3.520[c] | 769047HS3 |
| 2032 | 9,595,000 | 5.000 | 3.570[c] | 769047HT1 |
| 2033 | 10,090,000 | 5.000 | 3.610[c] | 769047HU8 |
| 2034 | 10,605,000 | 5.000 | 3.650[c] | 769047HV6 |
| 2035 | 11,150,000 | 5.000 | 3.690[c] | 769047HW4 |
| 2036 | 11,660,000 | 4.000 | 4.080 | 769047HY0 |

$52,685,000 5.000% Term Bonds due August 1, 2040 - Yield: 3.840%[c] - CUSIP[†]: 769047HX2



c Yield to par call on August 1, 2025.

**CITY OF RIVERSIDE, CALIFORNIA**

**CITY COUNCIL**

Rusty Bailey, Mayor

Mike Gardner, 1st Ward
Andy Melendrez, 2nd Ward
Mike Soubirous, 3rd Ward
Paul Davis, 4th Ward

Chris MacArthur, 5th Ward
Jim Perry, 6th Ward
Steve Adams, 7th Ward

**CITY OFFICIALS**

John A. Russo*, City Manager*
Brent A. Mason, *Finance Director / Treasurer*
Al Zelinka, *Assistant City Manager*
Deanna Lorson, *Assistant City Manager*
Alex Nguyen, *Assistant City Manager*
Gary Geuss, *City Attorney*
Colleen J. Nicol, *City Clerk*
L. Scott Catlett, *Assistant Finance Director*
Tom Boyd, *Public Works Director*

**BOND COUNSEL**

Stradling Yocca Carlson & Rauth,
a Professional Corporation
Newport Beach, California

**FISCAL AGENT**

U.S. Bank National Association
Los Angeles, California

No dealer, broker, salesman or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the 2015 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2015 Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Sewer System since the date hereof.

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, their 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.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended, and in effect on the date hereof, this Preliminary Official Statement constitutes an official statement of the City of Riverside that has been deemed final by the City of Riverside as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

IN CONNECTION WITH THE OFFERING OF THE 2015 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2015 BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are generally identifiable by the terminology used such as "plan," "project," "expect," "anticipate," "intend," "believe," "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 that 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. Except as specifically set forth herein, 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.

The City maintains a website. However, the information presented therein is not incorporated in this Official Statement by reference thereto and should not be relied upon in making investment decisions with respect to the 2015 Bonds.

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## $200,030,000
## CITY OF RIVERSIDE, CALIFORNIA
## Sewer Revenue Bonds, Series 2015A

### INTRODUCTION

#### General

This Official Statement, including the Appendices hereto, is provided to furnish information in connection with the issuance and sale by the City of Riverside, California (the "City"), of $200,030,000 in aggregate principal amount of its Sewer Revenue Bonds, Series 2015A (the "2015 Bonds"). The 2015 Bonds are authorized and issued pursuant to the City Charter, Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended by Ordinance No. 5071 adopted by the City Council on March 22, 1983, and by Ordinance No. 6815 adopted by the City Council on July 26, 2005 (collectively, the "Ordinance"), and Resolution No. 21860 adopted by the City Council on July 14, 2009 (the "Master Resolution"), as heretofore amended and supplemented, and as amended and supplemented by the fourth supplemental resolution adopted by the City Council on March 17, 2015 providing for the issuance of the 2015 Bonds (the "Fourth Supplemental Resolution"). The Master Resolution, as previously amended and supplemented, and as further amended and supplemented by the Fourth Supplemental Resolution, is hereinafter collectively referred to as the "Resolution." The City Charter, the Ordinance and the Resolution are hereinafter collectively referred to as the "Law."

In 1997, the City entered into two revolving fund loan program contracts (the "State Loans") with the State Water Resources Control Board ("SWRCB") to finance certain improvements of the Sewer System. Currently, $3,725,001 in principal amount remains outstanding under the State Loans. In 2009, the City issued and delivered its $36,835,000 in aggregate principal amount of its Sewer Revenue Bonds, Series 2009A (the "2009A Bonds") issued pursuant to Resolution No. 21861 adopted by the City Council on July 14, 2009 (the "First Supplemental Resolution") and $204,075,000 in aggregate principal amount of its Sewer Revenue Bonds, Series 2009B Taxable (Build America Bonds - Direct Payment to Issuer) (the "2009B Bonds") issued pursuant to Resolution No. 21862 adopted by the City Council on July 14, 2009 (the "Second Supplemental Resolution"). The 2009A Bonds and the 2009B Bonds are referred herein collectively as the "2009 Bonds".

In 2014, the City issued and delivered its $50,000,000 in aggregate principal amount of its Variable Rate Sewer Revenue Bonds, Series 2014A (the "2014 Bonds") pursuant to the Master Resolution and Resolution No. 22704 adopted by the City Council on June 24, 2014. The 2014 Bonds were issued to bear interest at a variable interest rate equal to the sum of an index plus a spread. The City arranged for direct purchase of the 2014 Bonds by Wells Fargo Bank, National Association ("Wells Fargo"), the Underwriter (defined herein) of the 2015 Bonds. On March 26, 2015, the 2014 Bonds were remarketed to continue to bear interest at a similar index-based variable interest rate. The 2014 Bonds continue to be owned by Wells Fargo. A portion of the 2015 Bond proceeds will be used to refund on a current basis the outstanding principal amount of the 2014 Bonds. See "PLAN OF FINANCE" herein for additional information regarding the uses of the 2015 Bond proceeds. See also "UNDERWRITING" herein for additional information regarding the Underwriter and its affiliates.

The 2015 Bonds will be secured by and payable from Net Operating Revenues of the Sewer System on a parity with $3,725,001 in outstanding principal amount payable under the State Loans, $15,715,000 in outstanding principal amount of the 2009A Bonds and $204,075,000 in outstanding principal amount of the 2009B Bonds. Upon issuance of the 2015 Bonds, a portion of the proceeds will be used to defease and redeem all outstanding 2014 Bonds that are currently owned by Wells Fargo, the Underwriter of the 2015 Bonds, and, upon such defeasance, the 2014 Bonds will not be Outstanding (as defined in the Master Resolution). The Resolution defines Net Operating Revenues as Gross Operating Revenues less Operating and Maintenance

Expenses, as more fully described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Net Operating Revenues."

Bonds issued by the City pursuant to the Resolution on a parity with the 2015 Bonds, the 2009 Bonds and any Additional Bonds (described herein) are referred to herein as the "Bonds." Under the terms of the contracts securing the State Loans and the Master Resolution, the State Loans are secured on a parity with the Bonds. The City reserves the right to issue and incur additional parity obligations that do not constitute Additional Bonds ("Parity Debt") from time to time, secured by a pledge and charge on the Net Operating Revenues of the Sewer System on a parity with the pledge and charge on the Net Operating Revenues securing the Bonds and the State Loans, to the extent permitted by the Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Additional Bonds and Parity Debt" herein for additional information.

Pursuant to the Resolution, the City reserves the right to issue and incur obligations which are payable from Net Operating Revenues on a basis that is junior and subordinate to the payment of the Bonds, State Loans or Parity Debt ("Subordinate Obligations").

**Purpose of the 2015 Bonds**

A portion of the 2015 Bond proceeds will be applied to (i) refund on a current basis the outstanding principal amount of the 2014 Bonds that are currently owned by Wells Fargo, the Underwriter of the 2015 Bonds, (ii) reimburse certain previously incurred improvement costs related to the Sewer System and (iii) finance certain additional capital costs of the Sewer System. The 2015 Bond proceeds will also be applied to provide capitalized interest through June 1, 2018 and pay the costs of issuance of the 2015 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS."

**Security and Rate Covenant**

Pursuant to the Law, the 2015 Bonds are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable, as to principal thereof, interest thereon, and any premium upon redemption thereof, solely from and secured by a lien upon the Net Operating Revenues of the Sewer System, Capacity Charges and other funds, assets and security described under the Resolution, on a parity with any other Bonds, including the State Loans or Parity Debt issued in the future.

The City is obligated by the Resolution to establish rates and collect charges in an amount sufficient to pay the operating and maintenance expenses of the Sewer System, to pay debt service on all Bonds, the State Loans and Parity Debt and to pay all other obligations which are charges, liens or encumbrances upon or payable from Net Operating Revenues, with specified requirements as to priority and coverage. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Net Operating Revenues" and "- Rate Covenant" herein. Sewer rates are established by the City Council, and are not subject to regulation by the California Public Utilities Commission (the "CPUC") or any other State agency. See "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM – Sewer Rates and Fees" herein for a description of City's historic customer rates. See also "FINANCIAL RESULTS OF THE SEWER SYSTEM – Reserves and Projected Operating Data" for information related to the amounts deposited in the Rate Stabilization Fund in 2012-13 and 2013-14 and for the projected amounts contemplated to be deposited therein through 2018-19.

The Fourth Supplemental Resolution provides for certain amendments to the Master Resolution that will take effect upon the redemption or defeasance of the 2009 Bonds. By purchasing the 2015 Bonds, purchasers are hereby consenting to such amendments. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Future Changes to Master Resolution" for a description of changes to the Resolution in the future.

The General Fund of the City is not liable for the payment of principal of the 2015 Bonds, any premium thereon upon redemption prior to maturity, or their interest, nor is the credit or the taxing power of the City pledged for the payment of principal of the 2015 Bonds, any premium thereon upon redemption prior to maturity, or their interest. No Bondowner may compel the exercise of the taxing power of the City or the forfeiture of any of its property. The principal of and interest on the 2015 Bonds and any premium upon the redemption thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues of the Sewer System and other funds, security or assets which are, under the terms of the Resolution, pledged to the payment of principal of the 2015 Bonds, interest thereon and any premium upon redemption.

**2015 Reserve Account Not Funded**

Pursuant to the Resolution, a Reserve Account will be established as the 2015 Reserve Account with respect to the 2015 Bonds (the "2015 Reserve Account"). However, the 2015 Bond Reserve Requirement is $0 and no amount will be deposited into the 2015 Reserve Account.

**The Sewer System**

The Sewer System serves an area of approximately 109.86 square miles, of which approximately 81.5 square miles are within the limits of the City. The Sewer System provides wastewater collection and treatment service to over 92,100 customer accounts generally within the City's boundaries. In addition, the Community Services Districts of Jurupa, Rubidoux and Edgemont (collectively, "CSDs") operate and provide separate wastewater collection services within their own service areas. During Fiscal Year 2013-14, there were two active accounts in the community of Highgrove ("Highgrove") that were served by the City's Sewer System. Beginning in 2015, the City began adding new service accounts and provide wastewater collection and treatment services in Highgrove. To date, 25 new accounts have been added from Highgrove as a result of such new construction. The City expects to begin billing these new service accounts in April 2015.

Wastewater from the City, the CSDs and Highgrove are treated at the Regional Water Quality Control Plant ("RWQCP"), which consist of numerous facilities, including the two wastewater treatment plants. Wastewater treatment services at the RWQCP are provided to a population of over 313,000 in the City and over 121,000 in the CSDs. See "THE SEWER SYSTEM" herein for additional historic information related to the construction and rehabilitation of the RWQCP. Unless otherwise noted, all statistical and financial information herein relating to the Sewer System has been provided by the City.

**Continuing Disclosure**

The City will covenant for the benefit of the owners and beneficial owners of the 2015 Bonds to provide certain financial information and operating data relating to the Sewer System and to provide notices of the occurrence of certain enumerated events. See "CONTINUING DISCLOSURE" and Appendix D - "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

**Summaries and References to Documents**

Brief descriptions of the 2015 Bonds, the security and sources of payment therefor, the Sewer System and summaries of the Resolution and certain other documents are included elsewhere in this Official Statement. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the 2015 Bonds, the Resolution and any other documents are qualified in their entirety by reference to such documents, copies of which are available for inspection at the office of the City Clerk located at Riverside City Hall, 3900 Main Street, Riverside, California 92522, telephone: (951) 826-5557.

A copy of the most recent annual report of the City is available on the City's website at www.riversideca.gov. Information set forth on such website is not incorporated by reference herein. Financial and statistical information set forth in this Official Statement, except for the audited financial statements included in Appendix B, is unaudited. The source of such information is the City unless otherwise stated. Capitalized terms not defined herein shall have the meanings as set forth in the respective documents.

## PLAN OF FINANCE

### General

A portion of the 2015 Bond proceeds will be applied to (i) refund on a current basis the outstanding principal amount of the 2014 Bonds that are currently owned by Wells Fargo, the Underwriter of the 2015 Bonds, (ii) reimburse certain previously incurred improvement costs related to the Sewer System and (iii) finance certain additional capital costs of the Sewer System. The 2015 Bond proceeds will also be applied to provide capitalized interest through June 1, 2018 and pay the costs of issuance of the 2015 Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” herein for additional information.

### Defeasance of the 2014 Bonds

A portion of the 2015 Bond proceeds will be applied to defease and redeem the outstanding principal amount of the 2014 Bonds that are currently owned by Wells Fargo, the Underwriter of the 2015 Bonds. The 2014 Bonds were purchased by Wells Fargo upon original issuance. The 2014 Bonds were remarketed on March 26, 2015 for direct purchase by Wells Fargo. Pursuant to the agreement governing such direct purchase, the 2014 Bonds are subject to mandatory purchase by the City on June 26, 2015. Currently, $50,000,000 in principal amount of the 2014 Bonds remains outstanding. On the delivery date of the 2015 Bonds, the City will deposit a portion of the 2015 Bond proceeds and certain additional moneys of the City in the Escrow Fund to be established under that certain Escrow Agreement, by and between the City and U.S. Bank National Association, as escrow agent. Amounts on deposit in the Escrow Fund on the closing date will be sufficient to pay the redemption price, together with accrued interest to the date of redemption, of the outstanding 2014 Bonds on June 10, 2015.

### Capital Projects

A portion of the 2015 Bond proceeds will be used to fund capitalized interest to June 1, 2018 and to reimburse certain previously incurred improvement costs related to the Sewer System. An additional portion of the net proceeds of the 2015 Bonds will be applied to finance the costs to complete the remaining Phase 1 projects and to finance the costs of initial components of Phase 2 projects to be completed in 2015-16 and 2016-17. For a description of Phase 1 and Phase 2 projects, see “THE SEWER SYSTEM – Integrated Master Plan and Capital Improvement Plans” herein.

## DESCRIPTION OF THE 2015 BONDS

The following is a summary of certain provisions of the 2015 Bonds. Reference is made to the 2015 Bonds for the complete text thereof and to the Resolution for a more detailed description of such provisions. The summary provided herein is qualified by such reference. See Appendix C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION.”

### General

The 2015 Bonds will be dated their date of delivery, will mature on the dates and in the respective amounts, and will bear interest at the respective rates per annum shown on the inside cover of this Official Statement. The 2015 Bonds may be purchased in book-entry form only, in principal amounts of $5,000 or any integral multiple thereof. Interest on the 2015 Bonds will be payable on February 1 and August 1 of each year, commencing August 1, 2015, to the owners of record at the close of business on the 15$^{th}$ day of the preceding calendar month (a “Record Date”) by check mailed by first-class mail to the persons whose names appear on the registration books of the Fiscal Agent as the registered Owners of such 2015 Bonds as of the close of business on the Record Date at such persons' addresses as they appear on such registration books, except that an Owner of $1,000,000 or more in principal amount of 2015 Bonds may be paid interest by wire transfer to an account in the United States if such Owner makes a written request of the Fiscal Agent at least thirty (30) days preceding any interest payment date specifying the wire transfer instructions for such Owner. Such notice may provide that it will remain in effect for later interest payments until changed or revoked by another written notice. See Appendix F – "BOOK-ENTRY ONLY SYSTEM."

Each 2015 Bond shall bear interest from the interest payment date before the date of authentication thereof unless it is authenticated during the period after a Record Date but on or before the next interest payment date, in which event it shall bear interest from that interest payment date, or unless it is authenticated prior to the first Record Date, in which event it shall bear interest from the dated date of the 2015 Bonds.

So long as any 2015 Bond is registered in the name of Cede & Co., as nominee of DTC, procedures with respect to the transfer of ownership, redemption, and the payment of principal, redemption price, premium, if any, and interest on such Bond shall be in accordance with arrangements among the City, the Fiscal Agent and DTC. See Appendix F – "BOOK-ENTRY ONLY SYSTEM."

**Redemption Provisions**

***Optional Redemption***. The 2015 Bonds maturing on or before August 1, 2025, are not subject to optional redemption prior to maturity. The 2015 Bonds maturing on or after August 1, 2026 are subject to optional redemption by the City on any date on or after August 1, 2025, as a whole or in part in an Authorized Denomination, at a Redemption Price of 100% of the principal amount thereof to be redeemed, plus accrued but unpaid interest to the redemption date, without premium.

***Mandatory Sinking Account Redemption***. The 2015 Bonds maturing on August 1, 2040 are subject to mandatory sinking account redemption, in part, on August 1, 2037, and on each August 1 thereafter, at a redemption price equal to 100% of the principal amount of such 2015 Bonds to be redeemed, from Mandatory Sinking Account Payments required to be deposited in the Principal Account in the Bond Service Account of the Sewer Revenue Fund, plus accrued interest thereon to the date of redemption, in the principal amounts set forth in the following table, without premium:

| Redemption Date (August 1) | Principal Amount |
|---|---|
| 2037 | $12,200,000 |
| 2038 | 12,825,000 |
| 2039 | 13,485,000 |
| 2040† | 14,175,000 |

† Maturity

The 2015 Bonds maturing on August 1, 2040 are hereinafter referred to as "2015 Term Bonds." Mandatory Sinking Account Payments for the 2015 Term Bonds shall be reduced to the extent the City has purchased 2015 Term Bonds and surrendered such 2015 Term Bonds to the Fiscal Agent for cancellation. If 2015 Term Bonds have been redeemed as provided for under the caption "Optional Redemption" above, then the amount of the 2015 Term Bonds so redeemed shall be credited to such future Mandatory Sinking Account Payments for such 2015 Term Bonds as nearly as practicable, pro rata or as otherwise provided by the City. A reduction of Mandatory Sinking Account Payments in any 12 month period ending on August 1 will reduce the principal amount of 2015 Term Bonds redeemed on that August 1.

***Selection of 2015 Bonds for Redemption***. If less than all the 2015 Bonds are to be redeemed, the maturities of the 2015 Bonds to be redeemed shall be selected by the City. The City shall give written notice of its selection not later than 15 business days (or such shorter period as may be agreed to by the Fiscal Agent) before the last day on which the Fiscal Agent may give notice of redemption to the Owners of the 2015 Bonds. If less than all of the 2015 Bonds of any maturity are to be redeemed prior to maturity, then the particular 2015 Bonds shall be selected at random by the Fiscal Agent in such manner as the Fiscal Agent in its discretion may deem fair and appropriate.

***Notice of Redemption***. The Fiscal Agent shall give notice of the redemption of 2015 Bonds to (i) the Owners of the 2015 Bonds called for redemption, (ii) certain securities depositories and (iii) one or more information services. Notice of such redemption shall be given by first-class mail to the Owners of 2015 Bonds designated for redemption at their addresses appearing on the bond registration books, not less than 30 days nor more than 60 days prior to the redemption date. The failure by the Fiscal Agent to give notice to any one or more of the securities depositories or information services or failure of any Owner to receive notice of redemption or any defect in such notice shall not affect the sufficiency of the proceedings for the redemption of 2015 Bonds.

With respect to any notice of optional redemption of the 2015 Bonds, such notice shall state that such redemption shall be conditional upon the receipt by the Fiscal Agent on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such 2015 Bonds to be redeemed and that, if such moneys shall not have been so received, said notice shall be of no force and effect and the Fiscal Agent shall not be required to redeem such 2015 Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption shall not be made, and the Fiscal Agent shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

When notice of redemption has been given as provided in the Resolution, the 2015 Bonds or portions thereof so called for redemption shall become due and payable on the redemption date, and upon presentation and surrender of such 2015 Bonds at the place specified in such notice of redemption, such 2015 Bonds shall be redeemed and paid at said redemption price. If on the redemption date moneys for the redemption of the 2015 Bonds to be redeemed shall be available therefor, then from and after the redemption date, interest on the 2015 Bonds to be redeemed shall cease to accrue.

## SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

### Net Operating Revenues

Pursuant to the Law, the 2015 Bonds are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable, as to principal thereof, interest thereon, and any premium upon redemption thereof, solely from and secured by a lien upon the Net Operating Revenues, Capacity Charges, Treasury Credits and other funds, assets and security described under the Resolution, on a parity with the outstanding principal amount of the State Loans, the 2009 Bonds and any other Bonds or Parity Debt issued in the future. All capitalized terms used in this Official Statement not otherwise defined shall have the meanings provided in the Resolution.

The Resolution defines Net Operating Revenues as Gross Operating Revenues less Operating and Maintenance Expenses. Gross Operating Revenues consist of all income and revenue received by the City during such period from the operation or ownership of the Sewer System, including all fees and charges received during such period for the services of the Sewer System, investment income received during such period (but only to the extent that such investment income is generally available to pay costs with respect to the Sewer System, including Operating and Maintenance Expenses), and all other money received during such period howsoever derived by the City from the operation or ownership of the Sewer System or arising from the Sewer System. Gross Operating Revenues shall include any fund balances held in the Sewer Revenue Fund on the date of adoption of the Master Resolution and thereafter any fund balances held from time to time in the Sewer Revenue Fund. Gross Operating Revenues shall include any amounts on deposit in the Rate Stabilization Fund but shall not include Capacity Charges and Treasury Credits.

Operating and Maintenance Expenses are all reasonable and necessary costs paid or incurred by the City for maintaining and operating the Sewer System, including all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Sewer System in good repair and working order, all administrative costs of the City that are charged directly or apportioned to the operation of the Sewer System, such as salaries and wages of employees, overhead, taxes (if any), insurance premiums and payments into pension funds, and all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Resolution, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

The General Fund of the City is not liable for the payment of principal of the 2015 Bonds, any premium thereon upon redemption prior to maturity, or their interest, nor is the credit or the taxing power of the City pledged for the payment of principal of the 2015 Bonds, any premium thereon upon redemption prior to maturity, or their interest. No Bondowner may compel the exercise of the taxing power of the City or the forfeiture of any of its property. The principal of and interest on the 2015 Bonds and any premium upon the redemption thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues of the Sewer System and other funds, security or assets which are, under the terms of the Resolution, pledged to the payment of principal of the 2015 Bonds, interest thereon and any premium upon redemption.

**Resolution Flow of Funds**

The City has created the Sewer Revenue Fund pursuant to the Law, to secure the payment of the Bonds, Parity Debt and the State Loans. The Sewer Revenue Fund includes the Bond Service Account and the Renewal and Replacement Account. The Resolution provides that the Interest Account and the Principal Account shall be created as subaccounts within the Bond Service Account. The Sewer Revenue Fund and all of the accounts and subaccounts therein are held and administered by the City Treasurer. The 2015 Reserve Account has been created under the Fourth Supplemental Resolution to be held by the Fiscal Agent.

***Sewer Revenue Fund***. The Resolution specifies that Gross Operating Revenues will be deposited in the Sewer Revenue Fund, and that payments from said fund will be made only as provided by the Law.

***Operating and Maintenance Expenses***. As soon as practicable in each month, the Treasurer will provide for the payment of the Operating and Maintenance Expenses of the Sewer System for that month, prior to the payment or provision for payment of the interest on and the principal of the State Loans, the Bonds and any Parity Debt and prior to the establishment and maintenance of any reserves therefor.

***Interest Account***. As soon as practicable in each month, the Treasurer will set aside (i) an amount sufficient on a monthly pro rata basis to pay the aggregate amount of the interest which will become due and payable on the State Loans, Parity Debt and the Bonds with a fixed rate of interest on the next interest payment date (excluding interest for which there are moneys deposited in the Interest Account), and (ii) 110% of the interest which the Treasurer estimates in his or her reasonable discretion will accrue during that month on Bonds with a variable rate of interest. No deposit need be made into the Interest Account if the amount contained therein is at least equal to the interest to become due and payable on the interest payment date falling within the next six months upon the State Loans, Parity Debt and all of the Bonds issued under the Resolution and then Outstanding (but excluding any moneys on deposit in the Interest Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates). Payments of interest for Parity Debt that are required to be placed in any debt service fund to pay interest on such Parity Debt shall rank and be made pari passu with the payments required to be placed in the Interest Account.

***Principal Account***. As soon as practicable in each month, the Treasurer will deposit an amount equal to at least (i) one-sixth of any semiannual Bond Obligation becoming due and payable on outstanding Bonds of all Series and Parity Debt having semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments due within the next six months and (ii) one-twelfth of the yearly Bond Obligation becoming due and payable on the outstanding Bonds of all Series, the State Loans and Parity Debt having annual maturity dates or annual Mandatory Sinking Account Payments due within the next 12 months; provided that if the City Council irrevocably determines by resolution that any principal payments on the Bonds of any Series or Parity Debt shall be refunded or prepaid on or prior to their due dates or paid from amounts on deposit in a reserve account maintained for Bonds of that Series, no amounts need be set aside toward such principal. Payments of principal on Parity Debt that are required to be placed in any debt service fund or sinking fund to pay the principal of, or mandatory sinking fund payments with respect to, such Parity Debt shall rank and be made pari passu with the payments required to be placed in the Principal Account.

***Reserve Accounts; Supplemental Deposit***. Following the transfers described above as required by the Resolution, the Treasurer will deposit as soon as practicable in each month in the Reserve Accounts and any other reserve account for Bonds established pursuant to a Supplemental Resolution and in any reserve account established for Parity Debt upon the occurrence of any deficiency therein, one-twelfth of the aggregate amount of any unreplenished prior withdrawal from such reserve account and the full amount of any deficiency due to any required valuation of the investments in such reserve account until the balance is at least equal to the amount required to restore such reserve account to the amount required to be maintained therein.

***Excess Earnings Account***. Following the transfers described above as required by the Resolution, the Treasurer will deposit any excess earnings or rebate account established for the 2015 Bonds and any other Bonds or Parity Debt the amount, if any, at such times as shall be required pursuant to the Supplemental Resolution or other document creating such account.

***Renewal and Replacement Account***. Following the transfers described above as required by the Resolution, the Treasurer will set aside the amount, if any, required by prior action of the City Council. To date, the City Council has not required the Renewal and Replacement Account to be funded and does not anticipate taking any such action. All amounts in the Renewal and Replacement Account shall be applied to acquisition and construction of renewals and replacements to the Sewer System to the extent provision therefor has not been made from other sources.

***Remaining Balance***. On the first day of each calendar month, after the transfers to the aforementioned accounts required by the Resolution and all other covenants of the City contained therein have been duly performed, any moneys remaining in the Sewer Revenue Fund will continue to be held in the Sewer Revenue Fund as a fund balance or surplus and may be: (i) invested in any investments that are consistent with the City's then effective investment policy, (ii) used for the redemption or prepayment of any Outstanding Bonds or Parity Debt which are subject to call and redemption or prepayment prior to maturity or for the purchase from time to time on the open market of any of the Outstanding Bonds whether or not subject to call (irrespective of the maturity or number of such Bonds) at such prices and in such manner, either at public or private sale, or otherwise as the City in its discretion may determine, (iii) deposited to the Rate Stabilization Fund, (iv) pledged or used by the City to make Subordinate Payments with respect to any Subordinate Obligations, or (v) used by the City in any lawful manner.

***Application of Funds and Accounts.*** The Treasurer shall transfer from the Interest Account to the Fiscal Agent an amount sufficient to pay the interest on the 2015 Bonds as it will become due and payable (including accrued interest on any 2015 Bonds purchased or redeemed prior to maturity). The Treasurer shall transfer from the Principal Account to the Fiscal Agent an amount sufficient to pay the Bond Obligation of the 2015 Bonds maturing by their terms on August 1 of the years in which 2015 Bonds remain outstanding. The Treasurer shall transfer from the Principal Account to the Redemption Account an amount sufficient to redeem the 2015 Bonds to be redeemed from amounts on deposit in the Principal Account.

## Rate Covenant

The City has covenanted under the Resolution to prescribe, revise and collect such rates and charges for the services and facilities of the Sewer System which, together with other moneys available for such purpose and after making allowances for contingencies and error in estimates, shall provide Gross Operating Revenues at least sufficient to pay the following amounts in the order set forth:

(a) Operating and Maintenance Expenses;

(b) the interest on and principal and Accreted Value (or Mandatory Sinking Account Payment) of the Outstanding Bonds, Parity Debt and the State Loans as they become due and payable; provided, however, that the interest deemed to be payable on any Build America Bonds, including the 2009B Bonds, shall be based on the net economic effect to be produced by the City's receipt of the Treasury Credit;

(c) all other payments required for compliance with the Resolution or any Supplemental Resolutions; and

(d) all other payments required to meet any other obligations of the City which are charges, liens or encumbrances upon or payable from Net Operating Revenues (including, but not limited to, payments due under any Subordinate Obligations).

The charges shall be so fixed that the Net Operating Revenues, plus any amount deposited in the Rate Stabilization Fund and Capacity Charges, shall be at least 1.25 times the amounts payable under (b) above and 1.0 times the amounts payable under (c) and (d) above. See "FINANCIAL RESULTS OF THE SEWER SYSTEM – Reserves and Projected Operating Data" herein for additional information. See also "- Future Changes to Master Resolution" below for certain changes to be effective upon the final maturity or the earlier defeasance of the 2009 Bonds.

## Rate Stabilization Fund

As set forth in the Resolution, the City will cause to be deposited in the Rate Stabilization Fund from time to time from available moneys in the Sewer Revenue Fund such amount, that when added to operating revenues, as shown on the books of the City, plus Capacity Charges and interest earnings on the fund balance in the Sewer Revenue Fund, as shown on the books of the City, less Operating and Maintenance Expenses, is as least equal to 1.25 times debt service on the State Loans, Bonds and Parity Debt (the "Rate Stabilization Fund Coverage Test"). For purposes of the Rate Stabilization Fund Coverage Test, debt service deemed payable on any Build America Bonds, including the 2009B Bonds, shall be based on the net economic effect to be produced by the City's receipt of the Treasury Credit. Moneys in the Rate Stabilization Fund in excess of the Rate Stabilization Fund Coverage Test shall be released and transferred from time to time to the Sewer Revenue Fund or any account therein as shall be determined by the City.

Based on the Rate Stabilization Fund Coverage Test, the City transferred $6,935,000 in fiscal year 2012-13, and transferred $2,828,000 in fiscal year 2013-14, in each case, from available funds in the Sewer Revenue Fund to the Rate Stabilization Fund. In fiscal year 2014-15, the City expects to transfer approximately $2,680,000 to the Rate Stabilization Fund. The amount deposited in the Rate Stabilization Fund, if any, is to be included in determining Gross Operating Revenues and applied to comply with certain financial covenants as further provided in the Resolution. See "FINANCIAL RESULTS OF THE SEWER SYSTEM – Reserves and Projected Operating Data" herein additional information. See also "- Future Changes to Master Resolution" below for certain changes to be effective upon the final maturity or the earlier defeasance of the 2009 Bonds.

**2015 Reserve Account Not Funded**

Under the Resolution, the City may, but is not required to, establish, pursuant to a Supplemental Resolution, a separate reserve account for any Series of Bonds issued thereunder. The Fourth Supplemental Resolution provides that the Fiscal Agent shall establish, maintain and hold in trust the 2015 Reserve Account with respect to the 2015 Bonds an amount equal to the 2015 Bond Reserve Requirement until the 2015 Bonds are discharged in accordance with the Resolution. However, the 2015 Bond Reserve Requirement is $0 and no amount will be deposited into the 2015 Reserve Account.

The Resolution also requires that there be maintained in each other debt service reserve account established pursuant to a Supplemental Resolution, the amount, if any, required to be deposited therein. In connection with the issuance of the 2009A Bonds, the City established and deposited in the 2009A Reserve Account with respect to the 2009A Bonds an amount equal to the 2009A Bond Reserve Requirement and in the 2009B Reserve Account with respect to the 2009B Bonds in an amount equal to the 2009B Bond Reserve Requirement.

Moneys in the Reserve Accounts will secure only the payment of the appropriate series of Bonds and may be withdrawn solely (i) to pay principal of, including Mandatory Sinking Account Payment, if any, and interest on the appropriate series of Bonds in the event moneys in the Principal Account and the Interest Account are insufficient for payment of that series or (ii) to make the final principal and interest payment on all outstanding Bonds of appropriate series related to that reserve account. Whenever amounts are withdrawn from a Reserve Account, the amount in said account shall be restored as described above in "Resolution Flow of Funds – Reserve Accounts; Supplemental Deposit."

Moneys in other reserve accounts established under the Resolution will not be available to make payments of principal of, including Mandatory Sinking Account Payment, if any, premium, if any, and interest on the other series of Bonds. In the event that a Reserve Account contains moneys in excess of the amount required to be maintained therein, all of the excess moneys will be transferred to the Sewer Revenue Fund.

At the option of the City, amounts required to be held in a Reserve Account may be substituted, in whole or in part, by the deposit of a line of credit, letter of credit, insurance policy, surety bond or other credit source in a stated amount equal to the amounts so substituted, provided that, among other things, the substitution of such credit facility will not result in a withdrawal or downgrading of any rating of the appropriate series of Bonds then in effect.

**Additional Bonds and Parity Debt**

***No Senior Debt***. Under the Resolution, the City covenants that no additional bonds, notes or other evidences of indebtedness payable out of Net Operating Revenues shall be issued having any priority in payment of principal or interest from the Sewer Revenue Fund or out of any Net Operating Revenues payable into such fund over the Outstanding Bonds.

***Issuance of Additional Bonds and Parity Debt***. The Resolution provides that, except for the State Loans and Refunding Bonds or Parity Debt to the extent incurred to pay or discharge Outstanding Bonds or Parity Debt and which result in a present value savings to the City computed based on the rate of interest on such Refunding Bonds or Parity Debt, no Additional Bonds or any Parity Debt shall be created or incurred unless: (i) the City is not in default under the terms of the Resolution; (ii) either (a) the Net Operating Revenues of the Sewer System, plus Capacity Charges and any amounts on deposit in the Rate Stabilization Fund, calculated on generally accepted accounting principles, as shown by the books of the City for the latest fiscal year or any 12 consecutive month period within the last completed 18-month period ended not more than three months before the issuance or incurrence of such Additional Bonds or Parity Debt as set forth in a Certificate of the City or (b) the estimated Net Operating Revenues, plus Capacity Charges and any amounts on deposit in the Rate Stabilization Fund, for the first complete fiscal year when the improvements to the

Sewer System financed with the proceeds of the Additional Bonds or Parity Debt shall be in operation as estimated by and set forth in an opinion of an independent consulting engineer, independent financial consultant or firm of independent consulting engineers or independent financial consultants employed by the City, plus, at the option of the City, any or all of the items designated under (a) and (b) below, shall have amounted to at least 1.25 times the Maximum Annual Debt Service (as defined in Appendix C) in any fiscal year thereafter on the State Loans and all Bonds and Parity Debt to be outstanding immediately subsequent to the incurring of such Additional Bonds or Parity Debt; (iii) on the date of delivery of and payment for such Additional Bonds or Parity Debt, the amount in any reserve fund for any Bonds or Parity Debt established shall be not less than an amount required to be maintained in such fund pursuant to the Supplemental Resolution or other document creating such fund; and (iv) operating revenues, as shown on the books of the City, shall be in excess of Operating and Maintenance Expenses and the annual debt service (based on the net economic effect to be produced by the City's receipt of the Treasury Credit) on State Loans, Outstanding Bonds and Parity Debt as shown by the books of the City for the latest Fiscal Year or for any 12 consecutive month period within the last completed 18-month period ended not more than three months before the issuance of or incurrence of such Additional Bonds or Parity Debt.

The items, either any or all of which may be added to such Net Operating Revenues for the purpose of meeting the requirement described in (ii) in the preceding paragraph are the following:

(a) An allowance for any increase in Net Operating Revenues (including, without limitation, a reduction in Operating and Maintenance Expenses) which may arise from any additions to and extensions and improvements of the Sewer System to be made or acquired with the proceeds of such Additional Bonds or Parity Debt or with the proceeds of Bonds and Parity Debt previously issued, and also for net revenues from any such additions, extensions or improvements which have been made or acquired with moneys from any source but which, during all or any part of such fiscal year or such 12 consecutive month period within the last completed l8-month period, were not in service, all in an amount equal to the estimated additional average annual net revenues to be derived from such additions, extensions and improvements, commencing with the dates on which each addition, extension or improvement are to be in operation, all as shown by the certificate or opinion of an independent engineer or independent financial consultant or firm of independent consulting engineers or independent financial consultants employed by the City, and

(b) An allowance for earnings arising from any increase in the rates or charges made for the use of the Sewer System which has become effective prior to the incurring of such additional indebtedness but which, during all or any part of such fiscal year or such 12 consecutive month period within the last completed 18-month period, was not in effect, in an amount equal to the amount by which the Net Operating Revenues would have been increased if such increase in rates or charges had been in effect during the whole of such fiscal year or such 12 consecutive month period within the last completed 18-month period, as shown by the certificate or opinion of an independent engineer or independent financial consultant or firm of independent consulting engineers or independent financial consultants employed by the City. For definitions of "Maximum Annual Debt Service" and other capitalized terms used herein, see Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION." See also "- Future Changes to Master Resolution" below for certain changes to be effective upon the final maturity or the earlier defeasance of the 2009 Bonds.

***Subordinate Debt.*** Nothing in the Resolution shall limit the ability of the City to issue or incur obligations which are junior and subordinate (including, but not limited to, Subordinate Obligations), to the payment of the principal, premium, interest and reserve fund requirements for the State Loans, Bonds and all Parity Debt and which subordinate obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Net Operating Revenues after the prior payment of all amounts then due required to be paid or set aside under the Resolution from Net Operating Revenues for principal, premium, interest and reserve fund requirements for the State Loans, the Bonds and all Parity Debt, as the same become due and payable and at the times and in the manner as required in the Resolution or any Parity Debt documents.

**Future Changes to Master Resolution**

At such time as the 2009 Bonds are no longer outstanding, certain definitions and provisions that amend the Master Resolution will become effective, all as provided in the Fourth Supplemental Resolution. Specifically, provisions described under this heading are applicable to the 2015 Bonds (and any Additional Bonds, Parity Debt and the State Loans, if any) after the final maturity date of the 2009 Bonds (which is August 1, 2039) or an earlier redemption date of all the outstanding 2009 Bonds ("Future Effective Date"). The financial impact of such amendments to the Master Resolution are shown as "Coverage without Rate Stabilization Fund" in the table "Actual and Projected Revenues, Expenses and Reserves – Sewer System for Fiscal Years 2009-10 through 2018-19" under the caption "FINANCIAL RESULTS OF THE SEWER SYSTEM – Reserves and Projected Operating Data" herein. **BY PURCHASING THE 2015 BONDS, PURCHASERS ARE HEREBY CONSENTING TO THE AMENDMENTS TO THE MASTER RESOLUTION DESCRIBED HEREIN.**

***Changes to Definitions.*** On the Future Effective Date, certain definitions currently provided in the Master Resolution will be deleted, added or amended. The terms "Assumed Debt Service," "Excluded Principal Payment," and "Maximum Annual Debt Service" will be deleted from the Master Resolution. A new term "Debt Service" will be added to the Master Resolution. These terms are provided in their entirety in Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION" attached hereto.

In addition, on the Future Effective Date, the term "Gross Operating Revenues" will be amended to mean: "all income and revenue received by the City during such period from the operation or ownership of the Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all fees and charges received during such period for the services of the Sewer System, investment income received during such period (but only to the extent that such investment income is generally available to pay costs with respect to the Sewer System, including Operating and Maintenance Expenses), and all other money received during such period howsoever derived by the City from the operation or ownership of the Sewer System or arising from the Sewer System. Gross Operating Revenues also shall include Capacity Charges and any amounts transferred from the Rate Stabilization Fund to the Sewer Revenue Fund during any Fiscal Year exclusive of any amounts transferred to the Rate Stabilization Fund in such fiscal year. Gross Operating Revenues shall not include any Treasury Credit or amounts transferred from the Sewer Revenue Fund to the Rate Stabilization Fund during any Fiscal Year."

On and after the Future Effective Date, the City will continue to provide financial reports that provide Capacity Charges separate from the customer revenues shown under "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM – Customers" herein.

***Additional Changes to Master Resolution.*** As a result of the changes described in "- Changes to Definitions" above, on the Future Effective Date, references to such defined terms will be deleted or amended in the Master Resolution as further described in Appendix C. In addition, effective on the Future Effective Date, the following provisions will replace the currently effective provisions as described below.

<u>*Rate Covenant*</u>**.** On the Future Effective Date, the following provision will replace the provisions described in "- Rate Covenant" above:

"To the fullest extent permitted by law, the City shall fix, prescribe, revise and collect rates, fees and charges for the Sewer System which will be at least sufficient to yield during each Fiscal Year Net Operating Revenues equal to one hundred ten per cent (110%) of the Debt Service for such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Operating Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of [the rate covenant]."

The term "Net Operating Revenues" will refer to the Gross Operating Revenues (as revised and described in the immediately preceding caption above), less Operating and Maintenance Expenses.

*Additional Bonds and Parity Debt.* On the Future Effective Date, the following provision will replace the provisions described in "- Additional Bonds and Parity Debt – Issuance of Additional Bonds and Parity Debt" above:

> "Except for the State Loans and Refunding Bonds or Parity Debt to the extent incurred to pay or discharge Outstanding Bonds or Parity Debt and which result in a present value savings to the City computed based on the rate of interest on such Refunding Bonds or Parity Debt, no additional Bonds or Parity Debt shall be created or incurred unless:
>
> (a) The Net Operating Revenues for the most recent audited Fiscal Year or any consecutive twelve calendar month period during the eighteen calendar month period preceding the date of adoption by the City Council of the resolution authorizing the issuance of such Bonds or the date of the execution of such Parity Debt, as the case may be, as evidenced by a special report prepared by an independent certified public accountant or firm of certified public accounts or by an independent financial consultant on file with the City, shall have produced a sum equal to at least one hundred ten per cent (110%) of the Debt Service for such Fiscal Year or twelve month period, as applicable; and
>
> (b) The Net Operating Revenues for the most recent audited Fiscal Year or any consecutive twelve calendar month period during the eighteen calendar month period preceding the date of the execution of such Parity Debt or the date of adoption by the City Council of the resolution authorizing the issuance of such Bonds, as the case may be, including adjustments to give effect as of the first day of such Fiscal Year or twelve month period to increases or decreases in rates and charges for the Sewer System approved and in effect as of the date of calculation, as evidenced by a special report prepared by an independent certified public accountant or firm of certified public accountants or by an independent financial consultant on file with the City, shall have produced a sum equal to at least one hundred ten per cent (110%) of the Debt Service for such Fiscal Year or twelve month period, as applicable, plus the Debt Service which would have accrued on any Parity Debt executed or Bonds issued since the end of such Fiscal Year or twelve month period assuming such Parity Debt had been executed or Bonds had been issued at the beginning of such Fiscal Year or twelve month period plus the Debt Service which would have accrued had such Parity Debt been executed or Bonds been issued at the beginning of such Fiscal Year or twelve month period.

*Rate Stabilization Fund.* Commencing on the Future Effective Date, the City will hold and maintain the Rate Stabilization Fund separate and apart from other funds so long as any Bonds remain Outstanding. The City may transfer moneys in the Sewer Revenue Funds as further described under the caption "Amendments to Resolution" of Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION."

## ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the 2015 Bonds are as follows:

| | |
|---|---|
| **Sources:** | |
| Principal Amount of 2015 Bonds | $200,030,000.00 |
| Net Original Issue Premium | 24,370,317.05 |
| Total Sources | $224,400,317.05 |
| **Uses:** | |
| Construction Fund | $122,329,277.19 |
| Reimbursement to City | 22,000,000.00 |
| Redeem 2014 Bonds | 50,034,844.86 |
| Capitalized Interest[1] | 29,265,075.00 |
| Underwriter's Discount | 450,067.50 |
| Costs of Issuance[2] | 321,052.50 |
| Total Uses | $224,400,317.05 |

(1) Reflects interest on the 2015 Bonds through June 1, 2018.
(2) Includes legal fees, Fiscal Agent fees, printing costs, rating agency fees and other costs incurred or to be incurred in connection with the issuance of the 2015 Bonds.

## THE SEWER SYSTEM

### General

The City's Public Works Department Sewer Division ("Sewer Division") is responsible for the collection of wastewater flows generated within the City. In addition, the Sewer Division is responsible for operating the RWQCP and the wastewater treatment of flows from the City, as well as Jurupa, Rubidoux and Edgemont Community Services Districts.

The Sewer System's collection system encompasses more than 800 miles of gravity sewers and 25 pump stations, consisting of 18 wastewater lift stations and 7 storm water pump stations. Sewage treatment is carried out at the City's Regional Water Quality Control Plant, which provides preliminary, primary, secondary and tertiary treatment at a current rated capacity of 40 million gallons per day ("MGD"). The City's Sewer Division is responsible for enforcement of federal, state and local regulations pertaining to commercial and industrial wastewater discharged into public sewer system for reclamation.

The Sewer System provides service to approximately 151,000 equivalent dwelling units that include the City, as well as the CSDs. Beginning in 2015, the City began adding new service accounts and provide wastewater collection and treatment services in Highgrove. The elevation of the service area ranges from less than 700 feet to more than 1,600 feet above sea level. The Sewer System serves a total population of over 313,000 in the City and over 121,000 in the CSDs.

### Organization and Management

Sewage collection and treatment facilities are operated on a 24-hour, seven days per week basis by the Public Works Director and a staff of 128 employees. The staff includes 30 plant operators, nine environmental compliance inspectors, six laboratory personnel, 32 treatment plant maintenance personnel, 22 collection system maintenance personnel, two co-generation specialists, six engineering personnel, four construction contract administrators and 17 administrative and office personnel. Staff performs routine maintenance functions in addition to operating the facilities.

Operation of the Sewer System is the responsibility of Mr. Tom Boyd, Public Works Director. Mr. Boyd joined the City in July 1998 and served as Deputy Public Works Director from 2008 until his current appointment in April 2012.

**Development of Treatment Facilities at the RWQCP**

The City's municipal wastewater treatment plant began operation in 1948. The original facilities at the RWQCP were constructed in 1946 and included two primary clarifiers, three low rate trickling filters, and an anaerobic sludge digestion facility. In 1953, two additional primary clarifiers were added and, in 1960, the City added 8 MGD of capacity. In 1967, the City added 10 MGD of primary and secondary capacity at the RWQCP. These facilities provided primary and secondary treatment of wastewater from the City residents at a total capacity of 26 MGD.

To meet the stricter water quality standards adopted by the California Regional Water Quality Control Board ("Regional Board") in 1974 and 1975 that required additional treatment of discharges from the wastewater treatment plants operated separately by the City, Jurupa Community Services District ("Jurupa"), Rubidoux Community Services District ("Rubidoux"), and Edgemont Community Services District ("Edgemont"), the CSDs and the City entered into successive agreements as described below.

***The 1976 Agreement**.* Advanced wastewater treatment was needed to meet the new discharge limits. To qualify for 87.5% Clean Water grant funding for the cost of the new advanced treatment facilities, the City, Jurupa, and Rubidoux agreed to regionalize the advanced treatment of their treatment plant discharge at a single regional plant. On December 1, 1976, the City entered into an Agreement for Regional Advanced Water Treatment (the "1976 Agreement") with Jurupa, Rubidoux and the Western Municipal Water District ("WMWD"). In 1978, the new Tertiary Filtration Plant built at the City's treatment plant became operational and was added to the wastewater treatment process to allow the RWQCP to meet the requirements of Title 22 of the California Administrative Code for "Non-restricted Recreational Impounds." After the initial construction, the City made several modifications that were required to meet the requirements of Title 22.

Under the 1976 Agreement, Jurupa and Rubidoux agreed to continue the primary and secondary treatment of effluent to be delivered to the Tertiary Filtration Plant. Plant capacity of 26 MGD was allocated among the parties at 22.2 MGD for the City, 2.3 MGD for Jurupa and 1.5 MGD for Rubidoux. Operation and maintenance costs, including expenses of ordinary and usual maintenance and operation are paid allocated in proportion to the actual volume of flow delivered to the plant for treatment, all as further provided in the 1976 Agreement.

***The 1978 Agreement.*** On May 4, 1978, the City entered into an Agreement for Regional Primary and Secondary Wastewater Treatment (the "1978 Agreement"), with Jurupa, Rubidoux and WMWD to construct additional primary and secondary facilities sufficient to receive an average daily flow of 3.8 MGD for the primary and secondary treatment of wastewater delivered by Jurupa and Rubidoux at the RWQCP. Under the 1978 Agreement, the City agreed to sell the capacity right of 2.3 MGD to Jurupa and 1.5 MGD to Rubidoux to deliver wastewater in quantity and quality as further provided in the 1978 Agreement. Jurupa and Rubidoux would no longer treat their own wastewater but would collect and send to the RWQCP for treatment.

Under the 1978 Agreement, the City agreed to upgrade its existing primary and secondary treatment facilities at the RWQCP to operate the regional system in conjunction with the Tertiary Filtration Plant to meet the requirements of the Regional Board. This expansion provided additional primary clarifiers and activated sludge capacity within the activated sludge portion of the facility. Jurupa and Rubidoux agreed to pay the City for the "actual costs" of providing primary and secondary treatment capacity, or hydraulic capacity for secondary treated effluent. Under the 1978 Agreement, Jurupa and Rubidoux also agreed to pay operation and maintenance costs, to be allocated among the parties in proportion to the actual volume of flow delivered to the plant for treatment.[1]

***1982 Expansion.*** In 1982, the City expanded the primary, secondary, and tertiary capacity at the RWQCP to 29.1 MGD. The expansion maximized the operational capability of the existing facilities and upgraded operation and maintenance capabilities and additional facilities were installed to solve operational problems associated with the tertiary filters.

***1984 Agreement.*** In January 1984, the City entered into an Agreement for Wastewater Treatment (the "Edgemont Agreement") with Edgemont to treat and dispose of wastewater from the Edgemont area at the RWQCP. Under the Edgemont Agreement, the City transferred 300,000 gallons per day capacity right to Edgemont, without affecting the rights of Jurupa or Rubidoux. Edgemont had the right to increase up to 700,000 gallons per day under the Edgemont Agreement, subject to payment of the City's connection charges then in effect. A monthly service charge, based on the estimated operation and maintenance costs and the quantity of wastewater delivered, was to be paid by Edgemont, all as provided in the Edgemont Agreement. Through subsequent agreements, by 1990, Edgemont acquired a total capacity right of 740,000 gallons per day.

***1986 and 1987 Expansions.*** The City undertook additional expansions in 1986 and 1987 and replaced the trickling filters at the RWQCP with new activated sludge and secondary clarifier facilities; added additional primary and secondary facilities to the original activated sludge facilities; and, added new solids handling facilities to the RWQCP. These expansions increased the primary and secondary capacity at the RWQCP to 40 MGD. In 1990, new tertiary facilities were added to increase the tertiary capacity to match the existing primary and secondary treatment capacity of 40 MGD.

***1990 Agreements.*** In the late 1980s, Jurupa and Rubidoux explored plans to build a separate wastewater treatment plant and exit from the existing regional treatment arrangement with the City. In February 1990, the City estimated that Jurupa and Rubidoux contributed approximately 15% of the flow into the RWQCP and paid approximately 15% of the costs at the RWQCP. To continue the existing financial arrangement, and to settle Jurupa's and Rubidoux's outstanding obligations for the RWQCP upgrades needed to meet the then-current discharge limits, the City entered into separate agreements with Jurupa and Rubidoux in 1990 (collectively, the "1990 Agreements").

On February 6, 1990, the City entered into Jurupa's 1990 Agreement and agreed to increase Jurupa's capacity right by 1.7 MGD, resulting in Jurupa's total capacity rights of 4.0 MGD at the RWQCP. On February 13, 1990, the City entered into Rubidoux's 1990 Agreement and agreed to increase Rubidoux's capacity rights by 1.5 MGD. In 1989, Rubidoux had acquired an additional capacity of 0.055 MGD from the City. As a result, Rubidoux acquired total capacity rights of 3.055 MGD at the RWQCP. Under the 1990 Agreements with Jurupa and Rubidoux, the City committed to expand the capacity at RWQCP to meet the increased capacity agreed to by the City. In return, Jurupa and Rubidoux each agreed to pay the amounts specified in their respective 1990 Agreement.

On May 1, 1990, the City entered into Edgemont's 1990 Agreement and agreed to increase Edgemont's capacity right by another 150,000 gallons per day, with an additional option to purchase up to 600,000 gallons per day. The City's agreement with Edgemont conditioned Edgemont's option to purchase additional capacity rights on the availability of such additional capacity at the RWQCP. Edgemont's acquired total capacity rights at the RWQCP are 0.89 MGD. Currently, the amounts paid by Jurupa, Rubidoux and Edgemont under these agreements are included as customer revenues. Amounts paid by the CSDs, as well as other customer categories, under these agreements are shown as customer revenues in the table under the

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[1] Under a certain agreement between WMWD and the City dated November 20, 1968, WMWD owns and controls the quantities of treated effluent derived from the City's sewage which the City is obligated to discharge to the Santa Ana River. WMWD interests are not addressed under the 1976 Agreement and the 1978 Agreement.

caption "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM – Customers" herein. See "- Integrated Master Plan and Capital Improvement Plans – CSD Litigation" below for a description of additional payment made by Edgemont. See also "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM – Capacity Fees" for a summary of connection and capacity fees paid by customers, including CSDs.

***Subsequent Costs and Improvements at the RWQCP.*** When the 1990 Agreements were executed, the parties assumed that the amount of solids concentration in the influent treated at the RWQCP would stay at the relatively same levels. Since entering into the 1990 Agreements, there have been revised permit requirements and increased influent loading concentrations that have increased costs at the RWQCP. In May 1992, the Regional Board changed total inorganic nitrogen ("TIN") for discharge from RWQCP to 13 mg/L from the previous limit of 20 mg/L under the City's prior permit for a flow of up to 38 MGD. This change required the City to retrofit the activated sludge basins for the secondary treatment process for nitrogen removal. These retrofits were begun soon after the Regional Board requirements were instituted and completed in 2003. These updates are referred to as Secondary Upgrades Projects.

Since entering into the 1990 Agreements, the amount of solids concentration in the influent treated at the RWQCP steadily increased. The City believes that this is due to water conservation programs imposed by State and regional government agencies. As a result of influent solids concentration, to meet the TIN limits for discharge from the RWQCP, the City has had to reduce the RWQCP's rated capacity to a level below its current capacity of 40 MGD. The City has determined that improvements are needed at the RWQCP to maintain the 40 MGD flow capacity in light of increased amount of solids concentration in the influent.

The RWQCP's current National Pollutant Discharge Elimination System ("NPDES") permit includes an effluent TIN limit of 10 mg/L for discharge from the RWQCP, which is more stringent than the previous limit of 13 mg/L. The City incorporated the new 10 mg/L TIN permit limit into the design of the new secondary treatment facilities that are currently being constructed. See "- Environmental Compliance" below for additional information.

Since 1978, the CSDs have contributed their proportionate share of the cost of certain capital projects that included replacing and upgrading systems and equipment at the RWQCP. Past capital projects included increasing treatment capacity, improving treatment efficiency and regulatory compliance, and the construction of the multi-million dollar head works project in the late 1990s. See, however, "- Integrated Master Plan and Capital Improvement Plans – CSD Litigation" below for a description of pending litigation regarding CSDs' financial responsibility and cost contribution to the capital improvement costs at the RWQCP.

***Wastewater Collection and Treatment Procedures at the RWQCP.*** The City's wastewater collection system is divided into five basins. The wastewater collection system includes over 800 miles of gravity sewers ranging in size from 6 to 51 inches in diameter. The system also includes 18 wastewater lift stations and 7 storm water pump stations. Most of the wastewater lift stations are designed for flows of 100 to 2,000 gallons per minute ("gpm"). The City and each of the CSDs are responsible for the operation and maintenance of their own collection facilities. In 2015, the City added new service accounts to serve Highgrove. The City will provide wastewater collection and treatment services for these accounts in Highgrove.

The RWQCP is a 100 acre site that includes over 4,000 pieces of mechanical and electrical equipment used for wastewater treatment. The RWQCP consists of a common head works, two parallel primary / secondary liquid treatment trains and a common tertiary and solids handling facilities. Historically, these treatment trains were referred to as Plant 1 and Plant 2.

The sewage comes into the RWQCP at the head works where the flows from the City, as well as the CSDs are combined. The combined flow is passed through screens and grit removal basins, and air emitted from the headworks is scrubbed in a biofilter. Ferric chloride is added to wastewater leaving the headworks to inhibit hydrogen sulfide generation and improve sludge settling in the primary clarifiers. The resulting influent wastewater is shared between Plant 1 and Plant 2 for treatment.

Primary clarifiers remove about 70% of the incoming total suspended solids and about half of the biochemical oxygen demand. The primary effluent flows by gravity to the aeration basins of each Plant. Wastewater is actively mixed with a large concentration of micro-organisms to provide secondary or biological treatment. The wastewater treated by the Plant 1 and Plant 2 primary and secondary treatment processes is combined and further treated by tertiary filtration to remove suspended solids that are not removed in the primary and secondary treatment processes. Tertiary treatment reduces the chlorine demand of the water and improves the disinfection process. See "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM – Wastewater Flows" herein for a discussion of increased load-based capacity at the RWQCP.

Since December 2010, the final effluent is discharged to the Santa Ana River directly. Prior to 2010, the final effluent had been conveyed to the nearby Hidden Valley Wetlands before being discharged to the Santa Ana River. The 100-acre Hidden Valley Wetlands had been used in the 1990s and 2000s for further nitrogen treatment. A heavy storm in December 2010 significantly damaged the Hidden Valley Wetlands and redirected the Santa Ana River channel, destroying the effluent conveyance channel and lowering the riverbed, making conveyance channel repair practically impossible. At this time, no effluent flows to the Hidden Valley Wetlands and the City does not have any future plans to reconstruct the conveyance to the Hidden Valley Wetlands.

As part of the wastewater treatment process, a portion of the settled solids from the secondary clarifiers referred to as Waste Activated Sludge is thickened and blended with solids from the primary clarifiers, and further processed in an anaerobic digestion process. Currently, sludge dewatering centrifuges and belt presses are used to reduce the moisture content of sludge. By July 2015, the City expects to complete the installation of two new screw presses to replace one of the centrifuges. These screw presses are designed to use less energy and require less maintenance than a centrifuge. The dewatered solids are discharged to a truck loading facility for off-site disposal as soil amendment in Arizona and composting in California. The RWQCP generates and requires the disposal of Class B digester sludge / biosolids. Originally, the RWQCP used sludge drying beds on 8 acres as part of its sludge disposal practice. The drying beds are no longer in service.

The digestion process creates bio-gas, one of which components is methane gas. Methane gas is used as a fuel source to produce electricity from three internal combustion engines. The RWQCP uses the generated electricity to offset a portion of its power needs, which reduces the amount of electricity purchased to operate the RWQCP. In September 2007, the City contracted with a vendor to dispose of its used restaurant grease in the RWQCP digesters, at no cost to the City. The added grease increases not only production but also the quality of methane gas. The "Grease-to-Gas" project has been recognized by numerous organizations in 2007 and 2008.

The City's Sewer Division also oversees the pretreatment program of the CSDs and Highgrove for compliance with the City's Industrial Pretreatment Program Ordinance No. 5810 and the State EPA reporting requirements. The Sewer Division also provides technical support involving chemical, biological and microbiological analyses related to these communities as well as to commercial and industrial customers to monitor the composition of waste discharge.

**Integrated Master Plan and Capital Improvement Plans**

Prior to 2007, the City had determined during its Master Plan Update that the projected growth in Riverside County required the construction of new facilities to handle the projected additional influent flows to the RWQCP. The City also determined that a significant portion of the RWQCP required repair, rehabilitation and replacement to allow the plant to continue its operations.

***2006-07 Master Plan***. In 2006-07, the Integrated Master Plan (the "Integrated Master Plan") for the City's Sewer System was prepared to identify and plan for needed expansion and replacement through 2025. The Integrated Master Plan evaluated certain Sewer System facilities and made recommendations to upgrade, rehabilitate and replace them based on projected population growth and evaluations contained in prior studies and ongoing plans. The Integrated Master Plan developed a capital improvement plan and an asset management plan related to rehabilitation and replacement of aged facilities. The collective schedule of facility improvements and related costs as noted in the Integrated Master Plan are referred to as the "2006-07 Capital Improvement Plan."

In projecting the average daily flow, the Integrated Master Plan reviewed a range of anticipated growth within the Sewer System's service area of between 0.75% (low growth scenario) and 1.5% (high growth scenario). Based on the slowdown in the population and housing growth in the region, the City determined in August 2007 to reflect the low growth scenario in projecting the capital costs, operating and maintenance costs, and capital improvement plan and schedule. As a result, the Integrated Master Plan assumed a 2025 flow of 47.3 MGD. Initial plans for capacity improvements for the RWQCP were at 52.2 MGD due to the economy of scale for construction.

The Integrated Master Plan evaluated and summarized the 2006-07 Capital Improvement Plan as collection system improvements and treatment system improvements. The collection system improvements included the rehabilitation or replacement of approximately 250 miles of collection system piping over 50 years in age. The treatment system improvement included the expansion of treatment capacity, and the rehabilitation and replacement of treatment facilities at the RWQCP, including the replacement of facilities that are over 60 years old. These facilities needed to be replaced to reduce maintenance effort and risk of failure, as well as to ensure continued regulatory compliance.

***Additional Capital Improvement Plans***. Since the adoption of the Integrated Master Plan, the City's Sewer Division continued to modify the schedule of implementing upgrades and improvements to the Sewer System. Based on the 2006-07 Capital Improvement Plan, the City prepared a 2011 Capital Improvement Plan to set forth a multi-year infrastructure plan for fiscal years 2011-12 through 2015-16. Projects included continued collection system improvements and a major upgrade and expansion of the RWQCP. Due to changing conditions and priorities at the City, the collection system projects identified in the 2011 Capital Improvement Plan have changed over time.

In March 2014, the City released a Capital Improvement Program and Rate Development Study (the "2014 Capital Improvement Plan") to update the City's 2011 Capital Improvement Program. The 2014 Capital Improvement Plan specifically assesses and evaluates the schedule that reallocates the City's needs and priorities and proposes a financial plan and rate structure for fiscal years 2014-15 through 2018-19. The 2014 Capital Improvement Plan identifies and prioritizes specific projects among the pipeline projects, lift stations improvements and collection system improvement projects. The 2014 Capital Improvement Plan also identifies remaining components of Phase 1 Rehabilitation ("Phase 1") at the RWQCP, as well as to clarify the components of Phase 2 Rehabilitation ("Phase 2") at the RWQCP.

Between 1995 through 2012, the concentration of wastewater constituents that impact treatment capacity and performance increased by 50%. The City has determined that the increase in the wastewater strength is due, at least in part, to water conservation efforts related to drought conditions which are currently being experienced throughout nearly all of the State California. For planning purposes, the 2014 Capital Improvement Plan assumed that concentrations of Biochemical Oxygen Demand (BOD), Total Suspended Solids (TSS) and Total Kjeldahl Nitrogen (TKN) will initially increase at the historic rate of the last two decades, with a decreasing rate thereafter to gradually level off by 2035. Based on the current projections of load-based capacities, the 2014 Capital Improvement Plan expects the treatment capacity at the RWQCP will reach its maximum capacity before the flow-based limitations are reached. Currently, the RWQCP is to reach the capacity of 46 MGD in Phase 1 and 52.2 MGD in Phase 2. Upon completion of Phase 1 at the RWQCP, the City expects to evaluate the RWQCP's load-based capacity and make additional improvement plans as necessary. The 2014 Capital Improvement Plan expects to implement the initial Phase 2 improvements through 2018-19 planning cycle, with the balance of Phase 2 improvements planned 10 to 20 years out. The Phase 2 timing could change, depending upon how the Phase 1 facilities operate with higher loading effluent.

The 2014 Capital Improvement Plan identifies capital improvements to be made to the City's collection system, as well as to the RWQCP for fiscal years 2014-15 through 2018-19. Based on the 2014 Rate Increase, the City identified $78 million in capital projects for the collection system consisting of certain interceptors, upgrades to six lift stations and numerous pipeline projects throughout the City to alleviate capacity restrictions and reduce maintenance requirements. In addition, the City identified $43 million in capital projects for the RWQCP that completes the Phase 1 improvements and begins the implementation of Phase 2 improvements, as well as other necessary plant improvements. Additional necessary improvements have been deferred to fiscal year 2019-20 and beyond. As a result, there will be additional replacements, modifications and rehabilitations of facilities at the RWQCP remaining after 2018-19. These improvements are expected to be further developed and refined in a future master plan and rate update project. See "FINANCIAL RESULTS OF THE SEWER SYSTEM – Reserves and Projected Operating Data" herein for expected financial results to fiscal year 2018-19.

Actual components to be financed in Phase 1 and Phase 2, as well as the cost of such components and the timing of implementing such improvements may continue to change based on the City's needs and priorities. The remaining components identified in the 2014 Capital Improvement Plan are expected to be financed with the proceeds of the 2015 Bonds, as well as from the proceeds of future bond issues of the City, along with available operating revenues of the Sewer System.

***Status of Implementing Capital Improvement Plans.*** In 2009, the City began a large-scale rehabilitation project at the RWQCP, in two Phases. Phase 1 addresses mainly the Plant 1 rehabilitation and improvements related to the solids handling areas of the RWQCP. Upon completion of Phase 1, the RWQCP will have been upgraded to an increased hydraulic capacity to 46 MGD. This work is still under way and the City expects to complete this component of Phase 1 in June 2016. For now, the Plant 2 treatment train will remain essentially unchanged. Additional improvements in Phase 1 primarily addresses improvements regarding solids handling processes that substantially improve odor control and add primary clarifiers, aeration basin, membrane bioreactor ("MBR") system, chlorine contact basin, solids blending station, digesters, fats-oil-grease station, digester gas holder, digester gas flare, and equalization basins. Originally, the City expected to complete Phase 1 components by November 2014. Currently, the completion of Phase 1 is expected in June 2016. Prior to undertaking these projects, the City obtained all required approvals, including such requirements under the California Environmental Quality Act.

Although many existing facilities at the RWQCP will be rehabilitated or expanded in Phase 1, additional work will be necessary in other key facilities to reliably maintain the facilities. In connection with the preparation of the 2014 Capital Improvement Plan, the City conducted a condition assessment of the headworks, the Plant 2 secondary treatment facilities, the tertiary filters, and plant site improvements. Through that process, the City identified approximately $43 million in necessary capital projects to be completed between 2014-15 through 2018-19. The near-term projects include: additional sludge dewatering equipment replacement; upgrades at the cogeneration system; and the rehabilitation of filter piping and systems. During that time, part of Phase 2 is scheduled to commence but the 2014 Capital Improvement Plan extended the overall Phase 2 schedule to 20 years. The City also expects to replace influent metering systems, replace two major electrical switchgear installations; improve site security and improve flood protection to comply with regulatory requirements. See also "- Recycled Water Master Plan" below for a description of improvements being contemplated to increase recycled water deliveries.

For July 1, 2009 through June 30, 2012, the City identified approximately $186,382,300 in capital improvements that were to be financed from the 2009 Bond proceeds. The City experienced project design delays for Phase 1 due to the complexity of the project and the constraints of the pre-existing footprint. In March 2014, the City spent the remaining 2009 Bond proceeds. To provide financing for the remaining components of Phase 1, the City issued the 2014 Bonds. A portion of the 2015 Bond proceeds will be used to defease and redeem the outstanding principal amount of the 2014 Bonds, all as described in "PLAN OF FINANCE – Capital Projects" herein.

To finance the costs of the projects to be completed through 2018-19, the City expects to issue three series of Bonds. The 2014 Bonds represent the first series and the 2015 Bonds represent the second series. An additional series of Bonds is expected to be issued in the future. The 2015 Bond proceeds will defease and redeem all 2014 Bonds that are currently owned by Wells Fargo, the Underwriter of the 2015A Bonds, and reimburse the City for expenditures incurred in fiscal year 2014-15 prior to the issuance of the 2015 Bonds. The 2015 Bond proceeds will also finance the costs to complete the remaining projects in Phase 1 and to finance the initial components of Phase 2 projects to be completed in 2015-16 and 2016-17.

As described in the 2014 Capital Improvement Plan, other rehabilitation and upgrade projects have been identified by the City, but work on such items are being deferred to 2019-20 and beyond and the costs of such improvements are expected to be financed with future Bond proceeds.

To finance the capital improvement costs, the City has adopted the 2014 Rate Increase as described under "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM – Sewer Rates and Fees" herein. As part of the City's determination of the 2014 Rate Increase, a rate study ("2014 Rate Study") was completed concurrently with the preparation of the 2014 Capital Improvement Plan. 2014 Rate Study assumes no future capital contribution from the CSDs; rather following the resolution of the currently pending lawsuit filed by the City against the CSDs, the City expects to apply any capital contributions from the CSDs to offset the scheduled rate increases to the City's customers or to apply such amounts from the CSDs to cash fund a portion of the remaining capital costs of the RWQCP.

***CSD Litigation.*** Following the release of the Integrated Master Plan, the City presented and discussed the City's plan with the representatives of the CSDs. Among the matters considered was the issue of financial contribution of the CSDs towards the rehabilitation and replacement costs related to the RWQCP ("CSD Costs for RWQCP"). The representatives of the City and the CSDs were not successful in reaching agreement as to each CSD's financial obligations related to CSD Costs for RWQCP.

On August 12, 2012, the City filed a Complaint for Declaratory Relief ("Complaint") in Riverside County Superior Court against Jurupa, Rubidoux and Edgemont seeking judicial determination of proportionate share of CSD Costs for RWQCP and to "pay their proportionate share of [CSD Costs for RWQCP]." On May 6, 2013, the City filed a First Amended Complaint for Declaratory Relief against the CSDs seeking judicial determination that the CSDs are obligated to pay their proportionate share of the "Master Plan Rehabilitation and Replacement Costs, the Increased Influent Concentration Costs and the Revised Permit Upgrade Costs based upon their obligations" under (i) the 1976 Agreement and the 1978 Agreement, as amended and supplemented by subsequent agreements, the parties' past practices, and custom and usage in the industry, as to Jurupa and Rubidoux and (ii) the Edgemont Agreement, as amended in 1986 and as further amended, as to Edgemont.

In June 2013, the CSDs filed their respective Answers to the City's First Amended Complaint. In addition, in February 2013, Jurupa filed a Cross-Complaint for breach of contract, unjust enrichment, negligence and damages against the City, and Rubidoux filed a Cross-Complaint alleging breach of contract, breach of covenant of good faith and fair dealing and implied contractual indemnity and seeking declaratory relief.

Under an Assignment, dated as of April 29, 2014, Edgemont agreed to pay $1.75 million to the City and the City agreed to dismiss Edgemont from the City's Complaint. In addition, Edgemont agreed to assign all treated effluent discharged from the RWQCP and not to oppose or object to the City's use of that effluent. The City also agreed to deduct the additional costs, if any, of treating and providing treated effluent, which may be useful for irrigation or other uses outside the RWQCP when calculating the treatment costs billed monthly and received annually under Edgemont's 1990 Agreement. At this time, the City cannot predict the schedule or the outcome of the Complaint as to Jurupa and Rubidoux.

**Recycled Water Master Plan**

The RWQCP currently produces approximately 31,800 acre-feet per year (AFY) of treated effluent and discharges almost the entire amount to the Santa Ana River. In May 2007, the City submitted an application to the SWRCB to divert up to 41,000 AFY of recycled water from the RWQCP. On May 20, 2008, SWRCB issued its Final Order Conditionally Approving Wastewater Change Petition, which provided for a gross allocation of the requested amount of recycled water, conditioned upon a minimum discharge into the Santa Ana River of 25,000 AFY. As of February 2014, approximately 6,600 AFY is available for diversion, but that amount is expected to grow over time with additional influent/effluent at the RWQCP. The facilities proposed in the 2006-07 Master Plan would have increased to approximately 46,400 AFY of treated effluent.

The City developed a Recycled Water Master Plan and supporting programmatic environmental impact report, both of which were adopted by the City Council in June 2007. On February 15, 2008, the Board of Public Utilities gave conceptual approval to a facilities plan that outlines specific infrastructure requirements to begin the significant expansion of recycled water projects within the City's service territory.

On September 9, 2008 the City Council conceptually approved the long range development for the City's Recycled Water Program. To implement the Recycled Water Program, two City departments will be involved in the production and distribution of recycled water. The Sewer Division will be responsible for treating wastewater to recycled water meeting Title 22 requirements. The Sewer Division will sell the recycled water to the Public Utilities Department Water Division at a mutually agreed upon rate. The Water Division, in turn, will be responsible for the distribution of recycled water for ground water recharge and municipal purposes, as well as sales to retail customers.

To date, the City has upgraded the recycled water system with a backbone piping network to supply recycled water to the RWQCP for in plant uses. A new recycled water pump station has been constructed at the existing Chlorine Contact Basin No. 2. As of January 2011, this system produced up to 6,190 AFY of Title 22 recycled water. Upon completion of planned improvements, CCB No. 2 can be rated to produce up to 23,200 acre feet per year ("AFY") of Title 22 recycled water. The pump station will be used to supply the on-site and off-site demands of recycled water at the peak hour demand of 4,800 gallons per minute ("GPM"). The pump station is expected to be constructed in such a way to permit simple expansion to a peak capacity of 18,000 GPM. The amount recycled water distributed over the last 5 years has ranged from 161 to 206 AFY.

The City's recycled water operations are subject to regulation under Section 402 of the federal Clean Water Act, implementing regulations adopted by the U.S. Environmental Protection Agency, the California Water Code and regulations promulgated by the California Department of Public Health. The City operates its recycled water system pursuant to RWQCB Order No. R8-2013-0016 (amending Order No. R8-2009-0052, NPDES No. CA0105350), a permit that prescribes Waste Discharge and Producer/User Reclamation Requirements for the RWQCP for the discharge of tertiary treated wastewater to Reach 3 of the Santa Ana River and for the use of recycled water. The City also applied for a separate permit that delineates the responsibilities for producing and distributing recycled water between the Public Works Department and the Public Utilities Department. The new recycling permit for the Public Utilities Department was issued by the RWQCB in May 2013.

The City expects to construct certain capital improvements related to the distribution of recycled water. These improvements are expected to be financed in the future by the City's Public Utilities Department through a combination of local and state grants, connection fees, and retail and wholesale commodity charges.

**Environmental Compliance**

The City's wastewater operations are subject to regulatory requirements relating to the Federal Water Pollution Control Act as amended (the "Act"). The regulatory requirements are administered by the Environmental Protection Agency ("EPA") through the SWRCB. Regulations of these agencies deal primarily with the quality of effluent which may be discharged from the wastewater treatment facility, the disposal of sludge generated by the wastewater treatment plant, the discharge of pollutants into the groundwater, and the nature of waste material discharged.

To comply with federally mandated effluent quality and disposal criteria, the City must operate its wastewater treatment facility according to discharge limitations and reporting requirements set forth in the National Pollutant Discharge Elimination System discharge permits. The wastewater treatment plant meets the requirements of the NPDES permit. The existing NPDES permit was issued on November 1, 2013 and will be subject to renewal in November 2018.

In addition to federal requirements, the City must comply with State requirements which are generally more stringent. The primary State law concerned with the control of water quality is the Porter-Cologne Water Quality Control Act of 1969, as amended. The basic tenor of that act sets policy that the waters of the State must be protected for use and enjoyment by the people of the State. The Porter-Cologne Act directly addresses the problem of water reclamation and reuse. A declared policy of the law is that the people of the State have a primary interest in the development of facilities to reclaim wastewater to supplement existing surface and underground water supplies in order to meet their water requirements.

Principal policies and plans for water quality have been adopted by SWRCB. Since SWRCB was granted the authority to administer and enforce EPA rules and regulations within the State, including the issuance of NPDES permits, these adopted policies and plans have been made an integral part of the City's NPDES permit.

**Seismic Issues**

The City is located in a seismically active region of Southern California. Three major active earthquake faults are located within 20 miles of Sewer System facilities. Due to the RWQCP proximity to these faults there is a potential for it to experience strong ground shaking, ground surface rupture, and soil liquefaction. Although the City has not experienced significant earthquake-related damage to its facilities, the City's Sewer System could be adversely affected by a major local earthquake.

**Employee Relations**

As of June 30, 2014, 128 City employees were assigned specifically to the Sewer System. Certain functions supporting Sewer System operations, including meter reading, customer billing and collections, are performed by the Public Utilities Department. Substantially all of the non-administrative City personnel assigned to the Sewer System are represented by the Service Employees International Union ("SEIU"). The City and SEIU are parties to a Memorandum of Understanding that expires on June 30, 2016. Portions of the administrative staff are also represented by the SEIU. The Sewer System has faced no strikes or other work stoppages within the last ten years and the City does not anticipate any in the near future.

Retirement benefits to City employees, including those assigned to the Sewer System, are provided through the City's participation in the California Public Employees Retirement System ("CalPERS"), a public employee retirement system that services more than 3,000 public agency employers in the State of California and acts as a common investment and administrative agency for participating public entities. All permanent full-time and selected part-time employees are eligible for participation in CalPERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service, and salary. Employees hired prior to January 1, 2013 may retire at age 55 and receive 2.7 % of their highest average annual salary for each year of service completed. All the bargaining units included in the Miscellaneous CalPERS plan, including Management and SEIU employees, agreed to change the calculation of the CalPERS retirement benefit for new employees from utilizing the highest year of salary to the average of the highest three years of salary. This change was intended to address concerns associated with salary increases immediately prior to retirement and is effective for employees hired on or after December 9, 2011. The California Public Employees' Pension Reform Act of 2012 ("PEPRA") enacted statewide pension reforms effective January 1, 2013, which the City has implemented. Employees hired after January 1, 2013, may retire at age 62 and receive 2.0% of their highest salary for each year of service completed. The formula is adjusted to encourage employees to retire at later ages, with a 2.5% cap at age 67. The average highest three years of salary continue to be used to calculate the retirement benefit under the new plan. CalPERS also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and City ordinance.

Participants in the Miscellaneous Plan hired prior to January 1, 2013, are required to contribute 8% of their annual covered salary, while employees hired after January 1, 2013, are required to contribute 7% of their annual covered salary. The Sewer System is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the CalPERS actuaries and actuarial consultants and adopted by the CalPERS Board of Administration. The Sewer System pays both the employee and employer contributions for employees hired prior to October 19, 2011, with the exception of general SEIU employees hired before this date, who contributed 2% of the employee share in the year ended June 30, 2014, while the City contributed the remaining 6%. Beginning July 1, 2014, general SEIU employees contribute 4% of the employee share with the City contributing the remaining 4%, and beginning July 1, 2015 these employees will contribute 6% of the employee share with the City contributing the remaining 2%. These increased employee contributions are being offset by equivalent salary increases applicable only to the general SEIU employees hired prior to October 19, 2011. Employees hired on or after October 19, 2011 pay their own 8% or 7% contribution. PEPRA established 50/50 cost sharing between the employer and employee for new employees hired on or after January 1, 2013, which sharing applies to the normal cost component of the pension rate only (excluding any unfunded liability component of the rate). This provision was immediately effective for Management employees but was not effective for SEIU employees until the expiration of the memorandum of understanding then in place with the union. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

PEPRA also established a cap on the amount of compensation that can be used to calculate the retirement benefit for employees hired on or after January 1, 2013. The cap limits the benefit to 120% of the Social Security wage index limit for 2015 of $140,424 for employers not participating in Social Security such as the Sewer System. This cap will be adjusted annually by the Consumer Price Index for all Urban Consumers. PEPRA also prevents employers from offering defined benefit plans for compensation in excess of the cap, but does allow for contributions to a defined contribution plan for compensation in excess of the cap. PEPRA specifies that employees will not have a vested right to any employer contributions to defined contribution plans related to this provision. The City has not made any enhancements to the compensation package for employees hired on or after January 1, 2013, with compensation exceeding the cap.

The Sewer System's total contribution to CalPERS as of June 30, 2014, 2013 and 2012 was $2,215,674, $2,356,922 and $2,336,865, respectively. In addition, the Sewer System is obligated to pay its share of the City's pension obligation bonds, which the City issued in 2005 (the "Pension Obligation Bonds"). The Sewer System's total proportional share of the outstanding principal amount of the Pension Obligation Bonds was $3,105,774, $3,242,678 and $3,303,594 as of June 30, 2014, 2013 and 2012, respectively, which is payable as Operating and Maintenance Expenses. That share is recorded as an inter-fund loan between the General Fund and Sewer Revenue Fund and is amortized based on the amortization schedule of the Pension Obligation Bonds. Citywide information concerning elements of the unfunded actuarial accrued liabilities, contributions to CalPERS, and recent trend information may be found in the notes of the City's "Comprehensive Annual Financial Report" for the year ended June 30, 2014, which is attached as Appendix B to this Official Statement. More recent information as to the actuarial status of the City's Miscellaneous Plan has been provided in CalPERS' Annual Valuation Report, dated October 2014, with respect to the City.

As shown in the following table, the report provides a recent history of the City's contribution rates for its Miscellaneous Plan, as determined by the annual actuarial valuation. The following table does not account for prepayments or benefit changes made in the middle of the year.

**CITY'S CONTRIBUTION RATE HISTORY**
**Fiscal Years 2007-08 through 2015-16**

| Fiscal Year | Employer Normal Cost | Unfunded Rate | Total Employer Contribution Rate[(1)] |
|---|---|---|---|
| 2007-08 | 11.877% | 1.418% | 13.295% |
| 2008-09 | 11.962 | 2.207 | 14.169 |
| 2009-10 | 12.043 | 2.176 | 14.219 |
| 2010-11 | 11.987 | 2.520 | 14.507 |
| 2011-12 | 11.823 | 6.615 | 18.438 |
| 2012-13 | 11.814 | 6.463 | 18.277 |
| 2013-14 | 11.851 | 6.463 | 18.314 |
| 2014-15[(2)] | 11.554 | 7.440 | 18.994 |
| 2015-16[(3)] | 11.871 | 9.141 | 21.012 |

(1) Excludes City's payments of 8% employee contributions. As noted above, Management and SEIU employees hired on or after October 19, 2011, pay their own 8% or 7% contributions.
(2) Sourced from CalPERS' Annual Valuation Report, dated October 2013.
(3) Sourced from CalPERS' Annual Valuation Report, dated October 2014.

In addition, the report provides the recent history of the actuarial accrued liability, the market value of assets, the actuarial value of assets, funded ratios and the annual covered payroll as shown in the following table. The "Actuarial Value of Assets" is used to establish funding requirements, and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the "Market Value of Assets" is an indicator of the short-term solvency of the Miscellaneous Plan.

**CITY'S FUNDING HISTORY**
**June 30 2005 through June 30, 2013**

| Valuation Date (June 30) | Accrued Liability | Actuarial Value of Assets (AVA) | Market Value of Assets (MVA) | Funded Ratio | | Annual Covered Payroll |
|---|---|---|---|---|---|---|
| | | | | AVA | MVA | |
| 2005 | $655,641,557 | $634,694,032 | $649,694,885 | 96.8% | 99.1% | $ 84,290,472 |
| 2006 | 712,551,580 | 677,903,253 | 715,992,682 | 95.1 | 100.5 | 92,844,823 |
| 2007 | 770,088,775 | 731,549,949 | 847,867,117 | 95.0 | 110.1 | 102,434,585 |
| 2008 | 828,351,283 | 779,480,566 | 795,222,167 | 94.1 | 96.0 | 110,869,947 |
| 2009 | 921,349,334 | 810,928,831 | 590,044,979 | 88.0 | 64.0 | 110,317,579 |
| 2010 | 952,499,597 | 846,368,121 | 660,844,061 | 88.9 | 69.4 | 106,590,492 |
| 2011 | 998,216,259 | 887,857,014 | 786,080,314 | 88.9 | 78.7 | 108,106,192 |
| 2012 | 1,046,199,578 | 919,571,656 | 766,804,452 | 87.9 | 73.3 | 110,037,157 |
| 2013* | 1,086,925,211 | * | 847,232,156 | * | 77.9 | 110,552,014 |

* Beginning with the June 30, 2013 valuation, Actual Value of Assets equals Market Value of Assets as set forth in the CalPERS Direct Rate Smoothing Policy described below.

On March 14, 2012, the CalPERS Board voted to reduce its discount rate, which rate is attributable to its expected price inflation and investment rate of return (net of administrative expenses), from 7.75% to 7.5%. The CalPERS Board adjustment has been undertaken in order to address underfunding of the CalPERS funds, which arose from significant losses incurred as a result of the economic crisis arising in 2008 and persists due to a slower than anticipated, subsequent economic recovery. Except as calculated by CalPERS and provided to the City, the City is unable to predict what the amount of CalPERS liabilities will be in the future or the amount of the CalPERS contributions that the City may be required to make.

At its April 17, 2013 meeting, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy that spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. Beginning with the June 30, 2013 valuations that set the 2015-16 rates, CalPERS employs an amortization and smoothing policy that pays for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period.

In 2014, CalPERS completed a 2-year asset liability management study incorporating actuarial assumptions and strategic asset allocation. On February 19, 2014, the CalPERS Board of Administration adopted relatively modest changes to the current asset allocation that reduces the expected volatility of returns. The adopted asset allocation is expected to have a long-term blended return that supports a discount rate assumption of 7.5 percent. The Board of Administration also approved several changes to the demographic assumptions that more closely align with actual experience. The most significant items is the acknowledgement of greater life expectancies in the membership and the expected continued mortality improvement. The new actuarial assumptions will be used to set the 2016-17 contribution rates for public agency employers. The increase in liability due to new actuarial assumptions will calculated in the 2014 actuarial valuations and be used to amortize over a 20-year period with a 5-year ramp-up / ramp-down in accordance with Board of Administration policy. Based on projected rates provided by CalPERS, the City's payroll for the Miscellaneous Plan could rise up to 4.6% in year five of the phase-in.

Additional information about the CalPERS discount rate adjustment and the resulting impacts can be accessed through CalPERS' web site at http://www.calpers.ca.gov/eip-docs/about/pubs/public-agency-reports/cities-towns/2013/riverside-city-miscellaneous-2013.pdf. *The reference to this Internet website is shown for reference and convenience only, the information contained within the website may not be current and has not been reviewed by the City and is not incorporated herein by reference.*

***Other Post-Employment Benefits.*** The City contributed to two single-employer defined benefit healthcare plans (neither of which is provided through the City's participation in CalPERS), the Stipend Plan and Implied Subsidy Plan. These plans provide other post-employment health care benefits ("OPEB") for eligible retirees and beneficiaries.

The Stipend Plan is available to eligible retirees and beneficiaries pursuant to their collective bargaining agreements, including SEIU. The Sewer System formerly contributed to the Stipend Plan for employees of the SEIU. However, negotiated agreements with SEIU terminated contributions by the Sewer System effective as of July 1, 2011. The recently negotiated agreement with SEIU does not include contributions to the Stipend Plan.

The Implied Subsidy Plan allows retirees and current employees to be insured together as a group and allows a lower rate for retirees than if they were insured separately. Upon retirement, retirees pay the full amount of applicable premiums; however, they participate in the Sewer System's healthcare plans and, as such, an implicit subsidy exists. The Sewer System's contributions to the Implied Subsidy Plan are established by the City Council. The Sewer System is not required by law or contractual agreement to provide funding other than the pay-as-you-go amount necessary to provide current benefits to eligible retirees and beneficiaries.

The Sewer System's annual OPEB cost (expense) for each plan is calculated based on annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. See Note 16 to the City's financial statements included in Appendix B to this Official Statement for further discussion.

**Insurance**

The Sewer System's insurance needs are handled by the Risk Management Division of the Finance Department. Liability and workers' compensation Internal Service Insurance fund balances are based on annual actuarial studies and reviews by the City's Risk Manager and an outside insurance consultant. The City, including the Sewer System, is self-insured for $3 million for liability and $3 million for workers' compensation. The City has joined with a group of other municipalities under the California Municipal Excess Liability (CAMEL) Program to participate in an insurance policy that provides excess coverage of $20 million for liability. The City also has an insurance policy that provides excess coverage with a $25 million limit for workers' compensation. The City maintains property insurance on most City real property holdings with a limit of $1 billion subject to a $50,000 deductible. All properties valued at over $100,000 are insured at full replacement value based on periodic appraisals and annual CPI adjustment.

**Sewer System Litigation**

Pending lawsuits and other claims against the City with respect to the Sewer System are incidental to the ordinary course of operations of the Sewer System and are largely covered by the City's self-insurance program. In the opinion of the City's Public Works Department Sewer Division's management and the City Attorney, such lawsuits and claims will not have a materially adverse effect upon the financial position of the Sewer System. See "LITIGATION." See also "THE SEWER SYSTEM – Integrated Master Plan and the Capital Improvement Plans – CSD Litigation" regarding City's pending case against the CSDs.

## OPERATING INFORMATION RELATED TO THE SEWER SYSTEM

### Customers

The following table sets forth the actual revenues collected from residential, commercial, industrial, community service districts and other charges from customers for fiscal years 2004-05 through 2013-14.

**CITY OF RIVERSIDE**
**Revenues by Customer Category**
**Fiscal Years 2004-05 through 2014-15**

| Fiscal Year | Residential Accounts | Commercial Accounts | Industrial Accounts | Community Service Districts[2] | Other Charges for Services | Total |
|---|---|---|---|---|---|---|
| 2004-05 | $13,701,937 | $4,399,449 | $1,142,722 | $2,366,212 | $356,299 | $21,966,620 |
| 2005-06 | 13,826,611 | 4,568,233 | 974,152 | 1,879,452[3] | 261,118 | 21,509,566 |
| 2006-07 | 13,926,981 | 4,839,272 | 999,136 | 3,787,399[3] | 504,034 | 24,056,822 |
| 2007-08 | 13,894,300 | 4,658,156 | 976,222 | 2,438,146 | 558,392 | 22,525,216 |
| 2008-09 | 13,834,657 | 4,479,982 | 1,032,877 | 3,494,251 | 463,826 | 23,305,593[5] |
| 2009-10 | 17,338,883 | 4,762,338 | 1,352,909 | 3,367,647 | 350,058 | 27,171,835[5] |
| 2010-11 | 21,762,173 | 5,946,204 | 1,549,518 | 2,846,065[4] | 459,992 | 32,563,952[5] |
| 2011-12 | 25,267,285 | 7,039,190 | 1,671,961 | 3,153,850 | 411,774 | 37,544,060[5] |
| 2012-13 | 28,727,013 | 8,016,851 | 1,985,728 | 4,461,742[4] | 372,504 | 43,563,838[5] |
| 2013-14 | 31,185,034 | 8,826,526 | 2,064,876 | 3,459,466 | 626,098 | 45,949,973[5] |
| 2014-15[1] | 33,944,159 | 9,403,418 | 2,403,743 | 3,045,698 | 257,449 | 49,054,467[5] |

Source: City of Riverside.

(1) Reflects actual revenues received through December 31, 2014 and projected collections for the remainder of the fiscal year.
(2) In Fiscal Year 2013-14, there were two service accounts in Highgrove. Currently, there are 25 service accounts in Highgrove that the City expects to begin billing in April 2015. This column will include customer revenues from new customer accounts in Highgrove.
(3) Fluctuation in revenues shown for fiscal years 2005-06 and 2006-07 is due to changes in the City's billing procedures as well as certain revenue reconciliations that occurred in those two fiscal years.
(4) Reflects 10 months of billing and reconciliation credit in fiscal year 2010-11 due to an error in year-end accounting that resulted in 2 months of revenues not being accrued back to that year. The accrual errors were corrected in fiscal year 2012-13 causing that year's number to be larger.
(5) Differs from the amounts shown under "Charges for service" under the caption "FINANCIAL RESULTS OF THE SEWER SYSTEM – Summary of Operations" due to the use of cash collections as a basis for this table.

The customer category represented as "Community Service Districts" in the above table includes services provided within Jurupa, Rubidoux and Edgemont. For wastewater treatment services provided to Jurupa, Rubidoux and Edgemont, the City has a capacity arrangement with each CSD. As a result, rates and charges specifically noted in such agreements govern the City's revenues realized rather than the rates and charges related to the City's Sewer System as further described in this Official Statement. As to Highgrove, the City's existing agreement allows for the collection of the City's rates and charges in effect with respect to the Sewer System as described herein. In addition, the existing billing and collection procedures of the City will apply to customers within Highgrove. See "- Historical Wastewater Flows" below for additional information regarding the CSD contracts. See also "THE SEWER SYSTEM – Development of Treatment Facilities at the RWQCP" and "– Integrated Master Plan and the Capital Improvement Plans – CSD Litigation" herein for information regarding City's pending case against the CSDs.

## Sewer Rates and Fees

Residential units are charged flat monthly amounts with a pumping surcharge applied to certain geographic areas where pumping is required in order for the wastewater to reach the RWQCP. Industrial and commercial facilities sewer service charges are based on water usage and the resulting quantity and type of discharge. Industrial and commercial accounts are assigned to service classes that match the process costs required for treating their discharge. The Sewer Division employs waste inspectors and laboratory personnel who perform a random testing program on discharge. Because of this monitoring program commercial accounts have improved the composition of their discharge through improved operations or pretreatment programs.

Title 14 of the Riverside Municipal Code sets forth regulations governing the City's Sewer System including provisions for sewer service charges and sewer pumping surcharges. On December 22, 1992, the City Council adopted Resolution No. 17964 which established new sewer service rates and pumping surcharges effective as of January 1, 1993 for billings rendered on or after February 1, 1993. The new sewer rate and pumping surcharge represented an 11% increase from 1992. Prior rate increases have been 15%, 7% and 6%, respectively, in 1992, 1991 and 1988.

In 1993, additional increases of approximately 2.4% and 2.9% in fiscal years 1996 and 1997 had been projected. Resolution No. 18155, adopted on December 22, 1992, as restated by Resolution No. 21184, adopted on June 20, 2006, continued the existing sewer rates and charges without an increase in the then existing rates. Effective January 1, 1993, the basic single family monthly charge was $13.05 with a pumping surcharge of $1.92. The sewer rates approved on December 22, 1992, remained in effect until the 2008 rate increase approved by the City Council.

Pursuant to Resolution No. 21712, adopted on September 23, 2008 ("2008 Rate Increase"), the City Council considered and approved new rates and charges applicable to residential, commercial and industrial customers. The increased rates were effective on July 1, 2009 through June 30, 2014, with an annual adjustment effective July 1, 2014 set by any increase in Consumer Price Index ("CPI") for the Los Angeles-Riverside-Orange County area.

The City Council conceptually approved a six-year sewer rate for all customer categories on July 22, 2008. At that time, the effective date of rate increase was to be November 1, 2008 through June 30, 2013 with annual consumer price index adjusted rate starting in fiscal year 2013-14. Through re-evaluation of various factors, based on information then available, the City's Public Works Department determined that lower rates actually approved by the City and a delay of the effective date to July 1, 2009 would not compromise the schedule of the capital program.

The City commissioned a rate study to assess the adequacy of the City's sewer user rates and capacity fees for current and future operations and maintenance costs, as well as capital costs expected to be incurred during fiscal years 2014-15 through 2018-19. The rate study used the City's fiscal year 2013-14 operating and maintenance budget as the basis for future expenses. The rate study also developed user rates to distribute the costs of operating and maintenance, as well as capital improvement and rehabilitation costs to all the users based on wastewater flow and strength characteristics. As part of the rate study, the rates charged to customers of Jurupa, Rubidoux and Edgemont, as well as the unincorporated community of Highgrove, were also evaluated.

For purposes of the City's 2014 Rate Increase (described below), the 2014 Rate Study assumes no future capital contribution from the CSDs. Following the resolution of the currently pending lawsuit filed by the City against the CSDs, the City expects to apply any capital contributions from the CSDs to offset the scheduled rate increases to the City's customers or to apply such amounts from the CSDs to cash fund a portion of the remaining capital costs of the RWQCP. For a discussion on the City's litigation against the CSDs, see "THE SEWER SYSTEM – Integrated Master Plan and Capital Improvement Plans – CSD

Litigation" herein. See also "THE SEWER SYSTEM – Development of Treatment Facilities at the RWQCP" for a description of regional wastewater treatment program development. See also "CONSTITUTIONAL LIMITATIONS – Proposition 218 – Proposition 218 and the City Sewer Rates" herein for additional information.

The key findings of the rate study made several recommendations. As to the rates and charges of the Sewer System, the rate study concluded that an annual user rate increase of 8.5% will be required in each year of the study period to fund the activities of the City's Sewer System. The rate study also recommended increasing capacity fees. To implement these increases, the City has sent and published notices as required under existing laws. On May 13, 2014, the City Council considered and approved Resolution No. 22683 ("2014 Rate Increase") to implement new rates and fees applicable to residential, commercial and industrial customers. The 2014 Rate Increase will be effective July 1, 2014 through June 30, 2019.

The following table summarizes the historic basic single family and flat commercial customer's monthly sewer rates and pumping surcharge, if applicable, for fiscal years 2009-10 through 2013-14 under the 2008 Rate Increase, as well as the rates for fiscal years 2014-15 through 2018-19 under the 2014 Rate Increase.

**CITY OF RIVERSIDE**
**Monthly Sewer Rates for**
**Basic Single Family Dwelling Customers and**
**Flat Commercial Customers Rate Schedules**
**under 2008 Rate Increase and 2014 Rate Increase**

| Effective Date | Monthly Sewer Rate | Percent Increase | Pumping Surcharge(2) | Percent Increase |
|---|---|---|---|---|
| 1/1/1993 through 6/30/2009 | $13.05 | n/a | $1.92 | n/a |
| **2008 Rate Increase** | | | | |
| 7/1/2009 | $16.55 | 26.82% | $2.56 | 33.33% |
| 7/1/2010 | 20.55 | 21.17 | 3.18 | 24.22 |
| 7/1/2011 | 23.55 | 14.60 | 3.65 | 14.78 |
| 7/1/2012 | 26.55 | 12.74 | 4.11 | 12.60 |
| 7/1/2013 | 28.55 | 7.53 | 4.42 | 7.54 |
| 7/1/2014 and after | (1) | | (1) | |
| **2014 Rate Increase** | | | | |
| 7/1/2014 | $30.98 | 8.51% | $4.80 | 8.59% |
| 7/1/2015 | 33.62 | 8.52 | 5.21 | 8.54 |
| 7/1/2016 | 36.48 | 8.50 | 5.66 | 8.63 |
| 7/1/2017 | 39.59 | 8.53 | 6.14 | 8.48 |
| 7/1/2018 | 42.96 | 8.52 | 6.66 | 8.46 |

Source: City of Riverside.
(1) Rate to be adjusted by CPI as expected under the 2008 Rate Increase.
(2) Sewer pumping surcharge is applied to all users within specific areas of the City which require sewage pumping facilities. Currently, 28% of single family dwelling units is subject to the sewer pumping surcharge and less than 1% of commercial customers is subject to the sewer pumping surcharge.

*Additional Monthly Charge for Commercial and Industrial Customers*. Commercial customers are charged based on each one hundred cubic feet ("CCF") or portion of CCF of water used and the type of commercial use.

Under 2008 Rate Increase, for non-pumping commercial customers, the rate ranges from $0.48 per CCF for "Other Commercial 'B'" category to $3.15 per CCF for markets in 2009-10. For pumping commercial customers, the rate ranges from $0.57 per CCF for "Other Commercial 'B'" category to $3.41 per CCF for markets in 2009-10.

Under 2014 Rate Increase, for non-pumping commercial customers, the rate will range from $0.88 per CCF for "Other Commercial 'B'" category to $5.83 per CCF for markets in 2014-15. For pumping commercial customers, the rate will range from $1.06 per CCF for "Other Commercial 'B'" category to $6.32 per CCF for markets in 2014-15.

All commercial customers will continue to be charged a minimum monthly rate equal to the single family dwelling rate so that a commercial customer's monthly billing cannot be less than the single family dwelling rate. Industrial customers will continue to be subject to a monthly charge based on Flow (per CCF), Chemical Oxygen Demand (per pound) and Total Suspended Solids (per pound).

**Capacity Fees**

Title 14 of the Riverside Municipal Code sets forth regulations governing the City's Sewer System and provides that any person desiring a permit to connect property to a City sewer shall pay for off-site trunk lines and general plant facilities required for the disposal of sanitary sewage in an amount established by the City Council by resolution. Such fees and charges are referred to as "sewer connection fees" or "Capacity Charges" in this Official Statement.

A Capacity Charge is a one-time fee for new, additional or larger connection to the Sewer System within the City. Capacity Charges are not treated as operating income for financial reporting purposes but are deposited in the Sewer Revenue Fund, and included in the calculation of debt service coverage, all as provided in the Resolution. Pursuant to State law, Capacity Charges are applied only to capital expansion, bonds, contracts, or other indebtedness of the Sewer System related to expansion. Capacity Charges are primarily collected on new construction within the service area and revenues therefrom vary based upon construction activity.

The following table sets forth the total amount of connection fees received for fiscal years 2004-05 through 2013-14.

**CITY OF RIVERSIDE**
**Total Connection Fee Revenues**
**for Fiscal Years 2004-05 through 2013-14**

| Fiscal Year | City Portion of Connection Fees | Community Service Districts Portion of Connection Fees | Total Connection Fee Revenues |
|---|---|---|---|
| 2004-05 | $3,494,000 | $ -- | $3,494,010 |
| 2005-06 | 4,057,474 | -- | 4,057,474 |
| 2006-07 | 2,063,468 | 2,949,880 | 5,013,348 |
| 2007-08 | 2,171,044 | 501,231 | 2,672,275 |
| 2008-09 | (63,786)[(1)] | 845,640 | 781,854 |
| 2009-10 | 716,549 | 41,053[(2)] | 757,602 |
| 2010-11 | 533,363 | 41,923[(2)] | 575,286 |
| 2011-12 | 1,056,991 | 41,053[(2)] | 1,098,044 |
| 2012-13 | 1,023,658 | 41,053[(2)] | 1,064,711 |
| 2013-14 | 2,643,253 | 41,053[(2)(3)] | 2,684,306 |

Source: City of Riverside.

(1) Reflects net amount of connection fees projected for fiscal year 2008-09, taking into account refunds of previously collected connection fees attributable to expired building permits.

(2) Reflects actual amounts currently being paid by CSDs for capital costs. But see "THE SEWER SYSTEM – Integrated Master Plan and Capital Improvement Plans – CSD Litigation" for a description of pending litigation.

(3) Does not include $1.75 million to be paid by Edgemont pursuant to a certain Assignment, dated April 29, 2014, as further described under "THE SEWER SYSTEM – Integrated Master Plan and Capital Improvement Plans – CSD Litigation" herein.

On June 1, 1980, the City Council adopted Resolution No. 14226 which established sewer connection fees. Until 2008, the City Council had not increased such fees. In addition, the City Council adopted Resolution No. 20400 on April 22, 2003 and Resolution No. 21085 on December 6, 2005 to reduce sewer connection fees for specific property uses identified in such resolutions. Pursuant to Resolution No. 21713, adopted on September 23, 2008, the City Council considered and approved increases to Capacity Charges applicable to residential, commercial and industrial customers. The increased rates were effective on July 1, 2009 as to residential and commercial customers and on December 1, 2008 as to industrial customers.

Pursuant to Resolution No. 22684, adopted on May 13, 2014, the City Council considered and approved increases to Capacity Charges as to Residential, commercial, institutional and industrial customers, effective on July 1, 2014.

In addition to approving increased Capacity Charges, the City Council also adopted a new basis for the assessment of Capacity Charges in some cases. As was the case under the 2008 Rate Increase, the Capacity Charge (and now referred to as Capacity Fee) basis for residential development will continue to be charged on a per unit basis. Similarly, commercial and industrial developments will continue to be assessed on the usable floor space of buildings constructed. The Capacity Fee would be based on the amount of flow and composition of the sewage to be contributed to the Sewer System by the category of development. As a result, effective July 1, 2014 through June 30, 2019 under the 2014 Rate Increase, Capacity Fee for commercial developments will continue to be based on usable floor space and depend on the category of use.

*Residential and Commercial Customers*. The following table sets forth the existing and increased Capacity Fee for residential and commercial customers. Effective July 1, 2015 as approved under the 2014 Rate Increase, all amounts from July 1, 2014 will be adjusted by Engineering News Record Construction Cost Index for Los Angeles or 20 City Average.

**CITY OF RIVERSIDE**
**Capacity Fee**
**For Residential and Commercial Customers**

| User Rate Categories | Existing Capacity Charge Amount | Basis Per/Units | Proposed Effective 7/1/2014 |
|---|---|---|---|
| **Residential Sewer Capacity Charge / Capacity Fee** | | | |
| Basic Multi-Family Dwelling Unit | $3,505 | Unit | $3,551 |
| Basic Single Family Dwelling Unit | $3,882 | Unit | $2,684 |
| **Commercial Sewer Capacity Charge / Capacity Fee** | | | |
| Basic Commercial (Flat Rate) | $ 3,758 | Unit | $3,808 |
| **Commercial Sewer Capacity Charge / Capacity Fee Structure** | | | |
| Department & Retail Stores | $ 226 | 1,000 S.F. | $ 229 |
| Hotels & Motels | 1,422 | Unit | 1,441 |
| Laundromats | 9,678 | 1,000 S.F. | 9,806 |
| Laundries | 8,832 | 1,000 S.F. | 8,949 |
| Markets | 2,180 | 1,000 S.F. | 2,209 |
| Mortuaries | 5,951 | 1,000 S.F. | 6,030 |
| Professional Offices | 376 | 1,000 S.F. | 381 |
| Repair Shops & Service Stations | 4,260 | 1,000 S.F. | 4,316 |
| Restaurants | 9,395 | 1,000 S.F. | 9,519 |
| Other Commercial | 626 | 1,000 S.F. | 634 |
| Hospitals | 1,549 | 1,000 S.F. | 1,569 |
| Churches & Halls | 1,579 | 1,000 S.F. | 1,600 |
| Schools "B" | 516 | 1,000 S.F. | 523 |
| Other Commercial "A" | 1,629 | 1,000 S.F. | 1,651 |
| Other Commercial "B" | 389 | 1,000 S.F. | 394 |
| Warehouse | 108 | 1,000 S.F. | 109 |

Source: City of Riverside.

*Industrial Customers*. For industrial developments, at the time of receiving a building permit, a one-time Capacity Charge would be determined based upon anticipated Flow, Chemical Oxygen Demand and Total Suspended Solids quantities. In addition, if the development is anticipated to discharge in excess of 33.5 CCF of flow, 150 pounds of COD or 150 pounds of TSS per day, then the development will be required to pay a Supplemental Capacity Charge monthly. At this time, the City serves 14 industrial customers and expects that a limited number of new industrial customers will be added in the future.

The following table sets forth the Supplemental Capacity Charge / Capacity Fee for industrial customers. Effective July 1, 2015, the Supplemental Capacity Fee will be increased by the Engineering News Record Construction Cost Index for Los Angeles or 20 City Average.

**CITY OF RIVERSIDE**
**Supplemental Capacity Charge for**
**Industrial Customers**

| Effective Date | Flow(1) | Chemical Oxygen Demand(2) | Total Suspended Solids(3) |
|---|---|---|---|
| 12/1/2008 | $1.14 | $0.27 | $0.10 |
| 7/1/2009 | 1.18 | 0.28 | 0.11 |
| 7/1/2010 | 1.21 | 0.29 | 0.11 |
| 7/1/2011 | 1.25 | 0.30 | 0.11 |
| 7/1/2012 to 6/30/2014 | 1.29 | 0.31 | 0.12 |
| 7/1/2014 | 1.31 | 0.31 | 0.12 |

Source: City of Riverside.
(1) For each 1 CCF/day in excess of 33.5 CCF/day.
(2) For each 1 lb./day in excess of 150 lbs/day.
(3) For each 1 lb./day in excess of 150 lbs/day.

### Comparative Sewer Service Charges and Connection Fees

The following table sets forth the monthly basic sewer charge for residential customers within the region.

**RIVERSIDE AND SAN BERNARDINO COUNTIES**
**Comparative Residential Monthly Sewer Service Charges**
**and Connection Fees**
**(Unless Stated Otherwise, As of July 1, 2014)**

| Service Provider | Monthly Sewer Service Charge | Typical Sewer Connection Fee |
|---|---|---|
| City of Riverside – 1993 Effective Rate | $13.05 | $2,684 |
| City of Riverside - Existing 7/1/2014 | 30.98 | 3,933 |
| City of Riverside - Effective 7/1/2015 | 33.62 | 3,984 |
| | | |
| City of San Bernardino | 22.50 | 3,500 |
| Eastern Municipal Water District | 24.83 | 2,452 |
| City of Redlands | 23.24 | 3,000 |
| Inland Empire Utilities Agency (Ontario) | 27.76 | 5,007 |
| City of Colton | 32.35 | 2,800 |
| Western Municipal Water District | 41.15 | 4,500 |
| Rubidoux Community Services District | 19.50 | 3,600 |
| Jurupa Community Services District | 33.31 | 5,910 |
| Elsinore Valley Municipal Water District | 43.50 | 9,436 |
| City of Corona | 45.60 | 3,396 |

Source: City of Riverside.

The following table provides a comparison of annual and monthly sewer charge amount for single-family residences within the Sewer System's service area to other cities and districts within the State as of July 1, 2014.

**COMPARISON OF TOTAL SEWER SERVICE CHARGES**
**for Single-Family Residences**
**As of July 1, 2014**

| Entity | System Average Dry Weather Flow (mg/d)[(1)] | Annual Sewer Service Charge[(1)] | Monthly Sewer Service Charge | Treatment Level[(1) (2)] | Property Tax Income[(3)] |
|---|---|---|---|---|---|
| City of Riverside | 28.35 | $371.76 | **$30.98** | 5 | No |
| City of San Diego | 180[(5)] | 572 | 47.71 | 2 | No |
| City of Los Angeles | 466.5[(4) (5)] | 429 | 35.73 | 4 | No |
| East Bay MUD | 50[(5)] | 268.80 | 22.40 | 4 | No |
| Sacramento Regional County Sanitation District | 115[(5)] | 238.20 | 19.85 | 3 | Yes |
| Orange County Sanitation District | 386.3 | 316 | 26.33 | 3 | Yes |
| Los Angeles County | 510[(5)] | 163 | 13.58 | 4 | Yes |

(1) Source: Information obtained from respective entities listed.
(2) Treatment Level Categories:
"1" - Primary treatment.
"2" - Advanced primary or primary with some secondary treatment.
"3" - Secondary treatment
"4" - Advanced secondary or secondary with some tertiary treatment.
"5" - Tertiary treatment.
(3) Source: Wastewater User Charge Survey Report by the State Water Resources Control Board.
(4) City of Los Angeles includes the average dry weather flow from four treatment plants: Hyperion, Terminal Island, LA/Glendale and Tilman.
(5) Source: Information obtained from Carollo.

**Principal Users**

The ten principal users of the Sewer System and their respective charges for fiscal year 2013-14 are listed below. Sewer service charges are determined on an individual case basis for large users who discharge in excess of 25,000 gallons per day of equivalent sanitary waste. Rates are determined by formula based on quantity and quality of sewage discharged. Based on the total revenues of $51,364,000 for fiscal year 2013-14, each of the ten principal users represents less than 1.00% of the total revenues. The charges of the ten principal users represented approximately 3.45% of the total revenues for fiscal year 2013-14.

**CITY OF RIVERSIDE**
**Principal Users**
**Fiscal Year 2013-14**

| Name of Account | 2013-14 | Percent of Total Revenues |
|---|---|---|
| County of Riverside | $397,426 | 0.77% |
| University of California at Riverside | 330,455 | 0.64 |
| Riverside Unified School District | 207,694 | 0.40 |
| Riverside Community Hospital | 187,855 | 0.36 |
| OSI Industries, LLC | 164,123 | 0.32 |
| City of Riverside | 152,584 | 0.29 |
| Kaiser Permanente | 118,577 | 0.23 |
| Stater Bros. | 76,778 | 0.15 |
| Riverside Partners LLP | 76,343 | 0.15 |
| Pep Riverside, LLC | 74,529 | 0.14 |
| Total | $1,786,363 | 3.45% |

Source: City of Riverside Public Works Department.

**Historical Wastewater Flows**

The table below presents a nine-year record of wastewater flows through the treatment plant, expressed as the average daily flow and peak flow for each fiscal year. The reduction in flows over this period reflect water consumption reductions in response to the City's water conservation efforts.

**Regional Water Quality Control Plant**
**Historical Wastewater Flows**
**Average, Peak Demand and System Capacity**
**(In MGD)**

| Fiscal Year | Average Daily Flow | Peak Flow | System Capacity |
|---|---|---|---|
| 2004-05 | 32.90 | 39.02 | 40 |
| 2005-06 | 35.54 | 51.21* | 40 |
| 2006-07 | 33.29 | 39.89 | 40 |
| 2007-08 | 32.29 | 35.44 | 40 |
| 2008-09 | 31.63 | 37.63 | 40 |
| 2009-10 | 30.25 | 36.34 | 40 |
| 2010-11 | 30.00 | 52.79 | 40 |
| 2011-12 | 29.05 | 33.87 | 40 |
| 2012-13 | 28.15 | 34.14 | 40 |
| 2013-14 | 28.35 | 35.06 | 40 |

Source: City of Riverside Public Works Department.
* Onsite storage accommodates peak flow in excess of treatment capacity.

***Flow Projections Used to Develop the 2014 Rate Increase***. The 2014 Capital Improvement Plan provides wastewater flow projections for the years 2010 to 2035, developed upon the Integrated Master Plan and other available information. The City's 2014 Capital Improvement Plan reflects the lower growth rates experienced in recent years. Flows for the City beyond fiscal year 2012-13 were projected using a value of 77 gallons per capita per day, a lower per capital flow rate than experienced in prior years and reflects both water conservation and recent economic conditions. Based on the current capacity rights of the CSDs and a 46 MGD total influent flow at the RWQCP, the RWQCP is calculated to have 38.06 MGD of available capacity serve the City and Highgrove in the future. Projected flows for the City and Highgrove for 2035 are 29.9 MGD and 2.2 MGD, respectively.

Projected CSDs' flows are based on actual fiscal year 2012-13 flows and projected increase of flows generated by each CSD. The projected increases used for the CSDs are several years old and have not been updated. CSDs' flows to the RWQCP are capped at the current contractual capacities as shown in the following table.

**COMMUNITY SERVICE DISTRICTS**
**Capacity Rights and Projected Maximum Flow Period**
**(In MGD)**

| Name | Current Contract Maximum Flow | Forecasted Time to Maximum Flow |
|---|---|---|
| Jurupa | 4.00 | 2018 |
| Rubidoux | 3.06 | 2025 |
| Edgemont | 0.89 | 2032 |

Due to the prolonged economic slowdown and increased water conservation over the last five years, the annual increases in flows that were typical in the 1990s and into the 2000s have leveled off since completion of the Integrated Master Plan and lower than projected flows have been observed since then. Flows for the City beyond fiscal year 2012-13 were projected using a value of 77 gallons per capita per day ("GPCD"), which is the average of the 2012 and 2013 per capita flows. Flows for the CSDs were projected from the actual 2013 flows using the previous annual flow increase for each CSD as derived from the 2008 IWWMP. In addition, the CSD's flows to the RWQCP were capped at the current contractual amounts shown above. The projected Highgrove flow for 2035 was limited to one-half of the previously agreed capacity allocation of 4.4 MGD.

The following sets forth a summary of actual flow data for the City and the CSDs from fiscal years 2009-10 through 2013-14.

**CITY OF RIVERSIDE**
**Regional Water Quality Control Plant**
**Historical Wastewater Flows**
**(In MGD)**

| Fiscal Year Ending | City of Riverside | | | Community Service Districts and Highgrove | | | | |
|---|---|---|---|---|---|---|---|---|
| | Domestic(1) | Commercial | Industrial | Jurupa | Rubidoux | Edgemont | Highgrove | Total |
| 2010 | 16.0 | 7.8 | 0.79 | 3.0 | 2.0 | 0.53 | 0.0 | 30.1 |
| 2011 | 16.0 | 7.9 | 0.85 | 3.0 | 2.0 | 0.52 | 0.0 | 30.2 |
| 2012 | 14.9 | 7.6 | 0.88 | 3.3 | 2.0 | 0.50 | 0.0 | 29.2 |
| 2013 | 15.5 | 7.9 | 0.88 | 3.4 | 2.2 | 0.51 | 0.0 | 30.4 |
| 2014(2) | 17.2 | 7.4 | 0.67 | 3.0 | 2.0 | 0.51 | 0.0(3) | 30.8 |

(1) Based on the 2014 Capital Improvement Plan, assumes 74% flow to treatment as domestic / residential source.
(2) Based on information provided in the 2014 Capital Improvement Plan.
(3) There were two active accounts served by the City's Sewer System during fiscal year 2013-14. But the wastewater flow is negligible and has been rounded to the amount shown.
Source: City of Riverside Public Works Department.

### Billing and Collection

Sewer service charges are billed and collected on a monthly Statement of Municipal Services and combined with the charges of the City's Water, Electric and Refuse utilities. The customer service, billing and collection operations are provided for all utilities by designated functions of the City's Public Works, Public Utilities, Finance and Information Services Departments.

Bills are due and payable on presentation and become delinquent after 21 days. Due to a combination of customer deposit, credit and collection programs, bad debt write-offs are less than one percent of revenues billed. Based on the average annual amount of billable revenues, the City experienced an annual average of 0.42% of uncollectible accounts, representing an amount less than $160,966.

## FINANCIAL RESULTS OF THE SEWER SYSTEM

### Transfers to the City's General Fund

Contributions to the City's General Fund of surplus funds of the Sewer System (after payment of operating and maintenance expenses and debt service on the Bonds and Parity Debt) are limited to the extent of allocable costs for overhead and administration charges from the Sewer System to the City's General Fund. No other transfers are made to the City's General Fund from the funds of the Sewer System.

### Investment Policy and Controls

Unexpended revenues from the operation of the Sewer System, including amounts held in the Sewer Revenue Fund prior to expenditure as described herein, are invested under the direction of the City's Treasurer, who is charged to pursue the primary objective of safety, and, thereafter, the objectives of liquidity and yield. The City's investment portfolio is managed to provide the necessary liquidity to fund daily operations. Cash flow is continually reviewed, and the City manages 100% of its own funds.

The management and accounting functions of the City's investment portfolio are separated. The City Treasurer renders a monthly report of investment activity to the City Manager and City Council.

The City's portfolio is currently comprised of fixed rate United States Government Agency Bonds, certificates of deposit and corporate notes which are rated at least "A" and money market funds, including the State of California Local Agency Investment Fund. The current portfolio does not include any derivative type investments.

### Significant Accounting Policies

Governmental accounting systems are organized and operated on a fund basis. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. Funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Sewer System is accounted for as an enterprise fund. Enterprise funds are used to account for operations (i) that are financed and operated in a manner similar to private business enterprises (where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges) or (ii) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Investments are stated at fair value. Utility plant assets are valued at historic cost or estimated historical cost, if actual historical cost is not available. Costs include labor, materials, interest during construction, allocated indirect charges such as engineering, supervision, construction and transportation equipment, retirement plan contributions and other fringe benefits, and administrative expenses. Contributable plant assets are valued at their estimated fair market value on the date contributed.

For accounting policies specifically relating to the Sewer System, see the notes to the financial statements in Appendix B.

**Summary of Operations**

The following table sets forth the historical summary of operations based on audited financial statements of the City related to the Sewer System fiscal years 2009-10 through 2013-14. The following historical summary of operations has not been prepared to indicate Net Operating Revenues available for debt service as contemplated in the Master Resolution but has been prepared to reflect the actual historic operating results.

**HISTORICAL SUMMARY OF OPERATIONS**
**Fiscal Years ended June 30, 2010 through June 30, 2014**
**($ in Thousands)**

| | Fiscal Year Ended June 30, | | | | |
|---|---|---|---|---|---|
| | **2010** | **2011** | **2012** | **2013** | **2014** |
| Operating Revenues: | | | | | |
| Charges for services | $27,342 | $32,769 | $37,747 | $43,772 | $46,162 |
| Operating expenses: | | | | | |
| Personnel services | 9,321 | 9,133 | 10,029 | 10,322 | 9,916 |
| Contractual services | 772 | 900 | 975 | 1,634 | 1,470 |
| Maintenance and operation | 8,876 | 8,534 | 8,901 | 7,375 | 7,486 |
| General | 4,726 | 5,518 | 6,156 | 6,806 | 6,119 |
| Materials and supplies | 2,577 | 3,008 | 3,114 | 3,400 | 3,440 |
| Claims / Insurance | 593 | 482 | 457 | 462 | 499 |
| Depreciation and amortization | 6,284 | 6,379 | 6,600 | 6,788 | 6,861 |
| Total operating expenses | $33,149 | $33,954 | $36,232 | $36,787 | $35,791 |
| Operating income (loss) | $(5,807) | $(1,185) | $1,515 | $6,985 | $10,371 |
| Non-operating revenues (expenses): | | | | | |
| Interest income | $3,237 | $4,443 | $3,717 | $1,172 | $ 827 |
| Other | 359 | (623) | 28 | (56) | 1,691 |
| Gain (loss) on retirement of capital assets | 3 | (306) | (3) | (295) | (11) |
| Capital improvement fees | 758 | 575 | 1,098 | 1,065 | 2,684 |
| Interest expense and fiscal charges | (8,099) | (8,322) | (7,470) | (6,863) | (4,583) |
| Total non-operating revenues (expenses) | $(3,742) | $(4,233) | $(2,630) | $(4,977) | $ 608 |
| Income before capital contributions and transfers | $(9,549) | $(5,418) | $(1,115) | $2,008 | $10,979 |
| Cash capital contributions | -- | -- | 1,185 | 165 | -- |
| Noncash capital contributions | -- | -- | -- | -- | 14 |
| Change in net position | $(9,549) | $(5,418) | $ 70 | $2,173 | $10,993 |

Source: City's audited financial statements for 2009-10 through 2013-14.

**Reserves and Projected Operating Data**

The City has not established a formal reserve policy related to the Sewer System but has maintained significant reserves approximating the level of annual Operating Expenses since fiscal year 2009-10. Reserves are shown as Beginning Cash Balance and Ending Cash Balance for each fiscal year in the following table. Reserves are available for operating, capital and debt service expenditures. As projected for fiscal years 2014-15 through 2018-19, the City expects to maintain sufficient reserves that approximates the level of annual Operating Expenses.

Reserves shown as Ending Cash Balance in the following table was accumulated based on the fiscally conservative management of the Sewer System. It is available as needed to meet the Sewer System's various capital and operating needs, as well as to address any catastrophic losses that the Sewer System may incur, such as property damage including fire, flood and earthquake, general liability and workers' compensation. Between 2004-05 and 2008-09, the City spent approximately $55 million for Sewer System capital projects. After phasing-in the 2008 Rate Increase, the City spent an additional $2.17 million for additional capital projects between 2010-11 through 2012-13. These new facilities were needed primarily to upgrade, rehabilitate and replace certain aged Sewer System facilities.

The following table sets forth the Sewer System's projected operating results for Fiscal Years 2014-15 through 2018-19 and the audited results for Fiscal Years 2009-10 through 2013-14. These projected operating results reflect implementation of 2014 Rate Increase from 2014-15 through 2018-19. See "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM - Sewer Rates and Charges" herein for additional information related to the 2014 Rate Increase. See also "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM – Historical Wastewater Flows - Flow Projections Used to Develop the 2014 Rate Increase" herein for assumptions used in the development of 2014 Rate Increase. The preparation of such projections was based upon certain assumptions and forecasts with respect to conditions that may occur in the future. While the City believes that these assumptions and forecasts are reasonable for the purposes of the projected selected operating data, it makes no representations that they will in fact occur and the City does not assume any responsibility for the failure to meet such projections. If actual results are less favorable than the results projected or if the assumptions used in preparing such projections prove to be incorrect, the City's ability to make timely payment of the principal of and interest on the Bonds, including the 2015 Bonds may be materially adversely affected.

To finance the cost of additional Sewer System improvements, the City expects to issue an additional series of Bonds in the future. The City expects to provide capitalized interest with respect to such Additional Bonds. In addition, a portion of the 2015 Bond proceeds will be used to provide capitalized interest through June 1, 2018. Accordingly, no debt service amounts are reflected in the following table as to such 2015 Bonds. The following table also reflects the actual Ending Cash Balance of the Sewer System between fiscal years 2009-10 through 2013-14, as well as the expected Ending Cash Balance for fiscal year 2014-15 and the projected Ending Cash Balance for fiscal years 2015-16 through 2018-19.

## CITY OF RIVERSIDE
### Actual and Projected Revenues, Expenses and Reserves - Sewer System
### for Fiscal Years 2009-10 through 2018-19
### ($ in Thousands)[1]

| | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|---|---|---|---|
| Beginning Cash Balance | $12,056 | $28,265 | $36,159 | $36,093 | $42,141 | $39,873 | $41,856 | $46,577 | $55,307 | $68,347 |
| Revenues | | | | | | | | | | |
| Charges for services[2] | $27,342 | $32,769 | $37,747 | $43,772 | $46,162 | $50,258 | $55,082 | $60,227 | $65,865 | $72,014 |
| Interest income[3] | 3,237 | 4,443 | 3,717 | 1,172 | 827 | 730 | 715 | 726 | 774 | 758 |
| Capital improvement fees[4] | 758 | 575 | 1,098 | 1,065 | 2,684 | 1,326 | 1,083 | 1,127 | 1,171 | 1,218 |
| Non-op revs / Reimbursements / Other [5] | 15,362 | 0 | 28 | 165 | 1,691 | 0 | 0 | 0 | 0 | 0 |
| Total Revenues | $46,699 | $37,787 | $42,590 | $46,174 | $51,364 | $52,314 | $56,880 | $62,080 | $67,810 | $73,990 |
| Expenses[6] | | | | | | | | | | |
| Operating expenses[7] | $26,865 | $27,575 | $29,632 | $29,999 | $28,930 | $31,680 | $33,690 | $35,060 | $36,480 | $37,970 |
| Capital projects / Other cash expenses[8] | 0 | 90 | 1,358 | 725 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total debt service[9] | 817 | 817 | 6,164 | 18,356 | 18,857 | 18,651 | 18,469 | 18,290 | 18,290 | 29,540 |
| Total Expenses | $27,682 | $28,482 | $37,154 | $49,080 | $47,787 | $50,331 | $52,159 | $53,350 | $54,770 | $67,510 |
| Non-cash items / Timing differences[10] | (2,808) | (1,411) | (5,502) | 8,954 | (5,845) | -- | -- | -- | -- | -- |
| Ending Cash Balance[11] | $28,265 | $36,159 | $36,093 | $42,141 | $39,873 | $41,856 | $46,577 | $55,307 | $68,347 | $74,827 |
| Debt Service Components | | | | | | | | | | |
| State Loans[12] | 817 | 817 | 817 | 817 | 817 | 817 | 817 | 817 | 817 | 817 |
| 2009 Bonds[13] | 0 | 0 | 5,347 | 17,539 | 18,040 | 17,834 | 17,652 | 17,473 | 17,473 | 17,471 |
| 2015 Bonds[14] | - | - | - | - | - | 0 | 0 | 0 | 0 | 11,252 |
| Total Debt Service | $817 | $817 | $6,164 | $18,356 | $18,857 | $18,651 | $18,469 | $18,290 | $18,290 | $29,540 |
| Debt Service Coverage Tests | | | | | | | | | | |
| Net revenues available for debt service[15] | $4,472 | $10,212 | $12,930 | $16,010 | $20,743 | $20,350 | $23,190 | $27,020 | $31,330 | $36,020 |
| Rate Stabilization Fund contribution[16] | 0 | 0 | 0 | $6,935 | $2,828 | $2,680 | 0 | 0 | 0 | $905 |
| Coverage without Rate Stabilization Fund [17] | 5.47x | 12.50x | 2.10x | 0.87x | 1.10x | 1.11 | 1.26x | 1.48x | 1.71x | 1.22x |
| Coverage with Rate Stabilization Fund[18] | 5.47x | 12.50x | 2.10x | 1.25x | 1.25x | 1.25 | 1.26x | 1.48x | 1.71x | 1.25x |
| Overall Coverage with Cash on Hand[19] | 39.03x | 46.99x | 7.75x | 2.81x | 3.42x | 3.24 | 3.52x | 4.02x | 4.74x | 3.53x |

(1) Reflects information provided in the audited financial statements for fiscal years 2009-10 through 2013-14.

(2) Amounts shown for fiscal years 2014-15 through 2018-19 assume the effectiveness of the 2014 Rate Increase. See "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM – Sewer Rates and Fees." Amount shown for fiscal year 2014-15 is the City's expected results.

(3) Reflects investment earnings at an assumed annual rate of 1.7% of the 2009 Bonds Reserve Accounts and 1.0% on cash reserves of the Sewer System.

(4) Reflects Capacity Fees or Capacity Charges collected shown in the table under the caption "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM – Capacity Fees." Amount shown for fiscal year 2014-15 reflects actual collections through December 31, 2014 and projected collections for the remainder of the fiscal year. Due to large fluctuations in the actual amounts collected in the past 5 fiscal years, amounts shown for fiscal years 2015-16 through 2018-19 assume the effectiveness of the 2014 Rate Increase and an annual increase of 0.98% based on the actual amount collected through the first half of fiscal year 2014-15. See "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM – Projected Wastewater Flows" for a discussion on assumptions used to derive the 2014-15 base amount. The amount shown for fiscal year 2014-15 does not include $1.75 million to be paid by Edgemont pursuant to a certain Assignment, dated April 29, 2014, as further described under "THE SEWER SYSTEM – Integrated Master Plan and Capital Improvement Plans – CSD Litigation" herein.

(5) Reflects funds advanced from the Sewer Revenue Fund reimbursed upon the delivery of the 2009 Bonds in an amount equal to $15 million during fiscal year 2009-10. Does not reflect reimbursements being contemplated with a portion of the 2015 Bond proceeds. Reflects actual amounts for other items not included in the other categories under Revenues.

(6) Excludes depreciation.

(7) Reflects Total operating expenses (exclusive of Depreciation and amortization) shown in the table under "-Summary of Operations" above for fiscal years 2009-10 through 2013-14. Amount shown for fiscal year 2014-15 is the City's expected results. Assumes an annual increase of 4.6%% in Operating and Maintenance Expenses from fiscal years 2014-15 through 2018-19.

(8) Reflects capital improvement expenditures from available reserves of the Sewer System between 2010-11 through 2012-13. Assumes that only Bond proceeds will be used from 2013-14 through 2018-19.

(9) Reflects debt service amounts on the 2009 Bonds, the 2015 Bonds and the State Loans. See footnotes 12, 13 and 14 below.

(10) Represents adjustments to Operating Revenues and Operating Expenditures necessary to reconcile to cash basis for measuring the increases to the cash reserve. In 2012-13, the Sewer Plant Expansion and Rehabilitation project hit full stride and was incurring $10 to $15 million a month in project costs; at June 30 each year, an entry is recorded to reimburse from Fiscal Agent Cash the expenditures initially paid from operating cash; the actual transfer is made in early July. This item is much more significant in 2012-13 due to the volume of project costs being incurred.

(11) Reflects Beginning Cash Balance, plus Total Revenues, minus Total Expenses, adjusted by Non-cash items / Timing differences.

(12) One of the two State Loans will mature in fiscal year 2018-19.

(13) Does not include debt service amounts on the 2009 Bonds paid from capitalized interest through August 1, 2011. Debt service for the 2009B Bonds is net of Treasury Credit. Net debt service for the 2009 Bonds are used, as shown under "- Debt Service Requirements" below..

(14) Does not include debt service amounts on the 2015 Bonds to be paid from capitalized interest through June 1, 2018. See "- Debt Service Requirements" below for the combined debt service requirements of the Bonds.

(15) Revenues, consisting of Charges for services, Interest income and Capital improvement fees for applicable fiscal year, minus Expenses – Operating Expenses, noted for such fiscal year, without regard to Beginning Cash Balance.

(16) Amount deposited in the Rate Stabilization Fund, consistent with the terms of the Resolution. Reflect actual amounts for fiscal years 2012-13 and 2013-14. Projected amounts shown for other fiscal years. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Rate Stabilization Fund" for additional information.

(17) Resulting amount in Footnote 15, divided by Total debt service shown in Footnote 9 for the applicable fiscal year. Also reflects future coverage requirement to be effective upon the defeasance of 2009 Bonds, as described under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Future Changes to Master Resolution" for additional information.

(18) Resulting amount in Footnote 15, plus Rate Stabilization Fund Contribution shown in Footnote 16, divided by Total Debt Service shown in Footnote 9 for the applicable fiscal year.

(19) Reflects Beginning Cash Balance, plus Total Revenues, minus Expenses (exclusive of Total debt service). Resulting amount divided by Total debt service shown in Footnote 9 for the applicable fiscal year.

Source: City of Riverside.

## Outstanding Sewer System Obligations

As shown below, upon the issuance of the 2015 Bonds, the City will have outstanding State Loans in the aggregate principal amount of $3,725,001 and the 2009 Bonds in the aggregate principal amount of $219,790,000. Except as to these outstanding obligations, upon defeasance of the 2014 Bonds with a portion of the 2015 Bond proceeds, no other Parity Debt will be outstanding upon the issuance of the 2015 Bonds.

The following table sets forth a summary of currently outstanding obligations secured by the Net Operating Revenues.

**CITY OF RIVERSIDE**
**Outstanding Sewer System Obligations**
**as of June 1, 2015**

| Obligation | Outstanding Principal | Maturity Year |
|---|---|---|
| State Contract – Headworks Project | $1,828,226 | 2018-19 |
| State Contract – Cogeneration Project | 1,896,775 | 2020-21 |
| Sub total | $3,725,001 | |
| | | |
| 2009A Bonds | $15,715,000 | 2016-17 |
| 2009B Bonds | 204,075,000 | 2039-40 |
| Sub total | $219,790,000 | |
| | | |
| Total | $223,515,001 | |

Source: Finance Department of the City of Riverside.

## Debt Service Requirements

The following table sets forth the debt service on the outstanding Bonds, including the 2015 Bonds.

| | 2009A Bonds | | 2009B Bonds | | | | 2015 Bonds | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year Ending (June 30) | Principal | Interest | Principal | Interest | Treasury Credit[1] | Total 2009 Debt Service[2] | Principal | Interest[3] | Total 2015 Debt Service | TOTAL[4] |
| 2015 | $ 7,325,000 | $932,250 | -- | $ 14,179,613 | $ (4,603,057) | $17,833,806 | -- | -- | -- | $ 17,833,806 |
| 2016 | 7,660,000 | 594,250 | -- | 14,179,613 | (4,781,720) | 17,652,143 | -- | $6,312,075 | $ 6,312,075 | 23,964,218 |
| 2017 | 8,055,000 | 201,375 | -- | 14,179,613 | (4,962,864) | 17,473,123 | -- | 9,837,000 | 9,837,000 | 27,310,123 |
| 2018 | -- | -- | $ 8,410,000 | 13,943,712 | (4,880,299) | 17,473,413 | -- | 9,837,000 | 9,837,000 | 27,310,413 |
| 2019 | -- | -- | 8,725,000 | 13,456,532 | (4,709,786) | 17,471,745 | $4,790,000 | 9,741,200 | 14,531,200 | 32,002,945 |
| 2020 | -- | -- | 9,065,000 | 12,937,381 | (4,528,083) | 17,474,297 | 5,010,000 | 9,520,150 | 14,530,150 | 32,004,447 |
| 2021 | -- | -- | 5,555,000 | 12,475,085 | (4,366,280) | 13,663,805 | 5,265,000 | 9,263,275 | 14,528,275 | 28,192,080 |
| 2022 | -- | -- | 5,810,000 | 12,077,310 | (4,227,059) | 13,660,252 | 5,535,000 | 8,993,275 | 14,528,275 | 28,188,527 |
| 2023 | -- | -- | 6,085,000 | 11,660,985 | (4,081,345) | 13,664,640 | 5,820,000 | 8,709,400 | 14,529,400 | 28,194,040 |
| 2024 | -- | -- | 6,370,000 | 11,225,060 | (3,928,771) | 13,666,289 | 6,120,000 | 8,410,900 | 14,530,900 | 28,197,189 |
| 2025 | -- | -- | 6,660,000 | 10,769,010 | (3,769,154) | 13,659,857 | 6,430,000 | 8,097,150 | 14,527,150 | 28,187,007 |
| 2026 | -- | -- | 6,975,000 | 10,291,785 | (3,602,125) | 13,664,660 | 6,760,000 | 7,767,400 | 14,527,400 | 28,192,060 |
| 2027 | -- | -- | 7,300,000 | 9,792,160 | (3,427,256) | 13,664,904 | 7,110,000 | 7,420,650 | 14,530,650 | 28,195,554 |
| 2028 | -- | -- | 7,635,000 | 9,269,435 | (3,244,302) | 13,660,133 | 7,475,000 | 7,056,025 | 14,531,025 | 28,191,158 |
| 2029 | -- | -- | 7,990,000 | 8,722,560 | (3,052,896) | 13,659,664 | 7,855,000 | 6,672,775 | 14,527,775 | 28,187,439 |
| 2030 | -- | -- | 8,365,000 | 8,150,135 | (2,852,547) | 13,662,588 | 8,260,000 | 6,269,900 | 14,529,900 | 28,192,488 |
| 2031 | -- | -- | 8,760,000 | 7,542,000 | (2,639,700) | 13,662,300 | 8,685,000 | 5,846,275 | 14,531,275 | 28,193,575 |
| 2032 | -- | -- | 9,185,000 | 6,895,980 | (2,413,593) | 13,667,387 | 9,130,000 | 5,400,900 | 14,530,900 | 28,198,287 |
| 2033 | -- | -- | 9,620,000 | 6,219,000 | (2,176,650) | 13,662,350 | 9,595,000 | 4,932,775 | 14,527,775 | 28,190,125 |
| 2034 | -- | -- | 10,080,000 | 5,509,800 | (1,928,430) | 13,661,370 | 10,090,000 | 4,440,650 | 14,530,650 | 28,192,020 |
| 2035 | -- | -- | 10,565,000 | 4,766,580 | (1,668,303) | 13,663,277 | 10,605,000 | 3,923,275 | 14,528,275 | 28,191,552 |
| 2036 | -- | -- | 11,070,000 | 3,987,720 | (1,395,702) | 13,662,018 | 11,150,000 | 3,379,400 | 14,529,400 | 28,191,418 |
| 2037 | -- | -- | 11,600,000 | 3,171,600 | (1,110,060) | 13,661,540 | 11,660,000 | 2,867,450 | 14,527,450 | 28,188,990 |
| 2038 | -- | -- | 12,160,000 | 2,316,240 | (810,684) | 13,665,556 | 12,200,000 | 2,329,250 | 14,529,250 | 28,194,806 |
| 2039 | -- | -- | 12,740,000 | 1,419,840 | (496,944) | 13,662,896 | 12,825,000 | 1,703,625 | 14,528,625 | 28,191,521 |
| 2040 | -- | -- | 13,350,000 | 480,600 | (168,210) | 13,662,390 | 13,485,000 | 1,045,875 | 14,530,875 | 28,193,265 |
| 2041 | -- | -- | -- | -- | -- | -- | 14,175,000 | 354,375 | 14,529,375 | 14,529,375 |
| Total | **$15,715,000** | **$795,625** | **$204,075,000** | **$215,439,734** | **$(75,222,762)** | **$378,636,403** | **$200,030,000** | **$160,132,025** | **$360,162,025** | **$738,798,428** |

(1) Reflects amounts payable by the federal government under Section 6431 of the Internal Revenue Code of 1986 ("Section 6431"), which the City has elected to receive under Section 54AA(g)(1) of the Internal Revenue Code of 1986. These amounts are included in Gross Operating Revenues. On March 1, 2013, automatic spending cuts within the federal government took effect as a result of the so-called "sequester." For the period through September 30, 2015, the cuts include a 7.3% reduction in amounts payable by the federal government to issuers of Build America Bonds (and other direct pay bonds) under Section 6431, as determined by the Office of Management and Budget. The 2009B Bonds were issued as Build America Bonds and will be affected by the reduction in credits (absent future Congressional action), more Net Operating Revenues will be needed to pay debt service on the 2009B Bonds than previously scheduled in order to offset the impact of the sequester. On December 26, 2013, President Obama signed into law the Bipartisan Budget Act of 2013, which requires the President to extend the sequester through 2023 and, under a subsequent legislation, extended through 2024; however, the sequestration rate for federal fiscal years 2016 through 2024 will be set from time to time in the future, unless Congress takes additional action to change or eliminate the sequestration percentage. Therefore, the sequesters impact after September 30, 2015 (the end of federal fiscal year 2015) is not reflected in this table. For fiscal years ending June 30, 2015 and June 30, 2016, the reductions in Treasury Credit are shown in the amounts set forth under the column "Treasury Credit."

(2) These amounts represent debt service on the 2009 Bonds less the 35% Build America Bond cash subsidy payments.

(3) Excludes capitalized interest through June 1, 2018.

(4) Does not include debt service on State Loans in the amount $817,000 annually. The State Loans expire in fiscal years 2018-19 and 2020-21, respectively.

## RISK FACTORS

The purchase of the 2015 Bonds involves investment risk. Such risk factors include, but are not limited to, the following matters.

### 2015 Bonds Are Limited Obligations

The General Fund of the City is not liable for the payment of any 2015 Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of the City pledged for the payment of any 2015 Bonds, any premium thereon upon redemption prior to maturity or their interest. No owner of any 2015 Bond may compel the exercise of the taxing power by the City or the forfeiture of any of its property. The principal of and interest on any 2015 Bonds and any premium upon the redemption of any thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues and other funds, security or assets which are pledged to the payment of the 2015 Bonds, interest thereon and any premium upon redemption.

### Limitations on Remedies

The enforceability of the rights and remedies of the owners of the 2015 Bonds and the Fiscal Agent, and the obligations incurred by the City, may be subject to the following: the limitations on legal remedies against cities in California; the federal 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; principles of equity 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 U.S. 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 2015 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations or modification of their rights. Remedies may be limited since the Sewer System serves an essential public purpose.

### Debt Service Reserve Account Not Funded

Under the Resolution, the City may, but is not required to, establish a separate reserve account for a Series of Bonds. The City has established a debt service reserve account for the 2015 Bonds, but the 2015 Bond Reserve Requirement is $0. Consequently, no amounts will be deposited into such debt service reserve account. The owners of the 2015 Bonds have no rights to moneys in the Reserve Accounts established for other outstanding Bonds.

### Demand and Usage; Drought

There can be no assurance that the local demand for services provided by the Sewer System will continue according to historical levels. In addition, drought conditions and voluntary or mandatory water conservation measures has decreased and could further decrease usage of the services of the Sewer System or increase the cost of wastewater treatment (an Operating and Maintenance Expense) if more restrictive regulatory measures are required to be met. See "THE SEWER SYSTEM – Development of Facilities at the RWQCP" for a discussion of facilities installed and constructed to meet various regulatory requirements. See also "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM – Historical Wastewater Flows" for additional information.

Reduction in the level of demand or usage or continued economic downturn that produces less than currently projected increase in demand or usage could require an increase in rates or charges in order to produce Net Operating Revenues sufficient to comply with the City's rate covenants. Such rate increases could increase the likelihood of nonpayment.

**Sewer System Expenses and Collections**

There can be no assurance that the City's expenses for the Sewer System will remain at the levels described in this Official Statement. Changes in technology, regulatory requirements, energy costs or other expenses could reduce the Sewer System's Net Operating Revenues and could require substantial increases in rates or charges. Such rate increases could increase the likelihood of nonpayment, and could also decrease demand.

Although the City has covenanted to prescribe, revise and collect rates and charges for the Sewer System at certain levels, there can be no assurance that such amounts will be collected in the amounts and at the times necessary to make timely payments with respect to the 2015 Bonds.

The ability of the City to comply with its covenants under the Resolution and to generate Net Operating Revenues sufficient to pay principal of and interest on the Bonds, including the 2015 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. Proposition 218, which added Articles XIIIC and XIIID to the California Constitution, affects the City's ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. See "CONSTITUTIONAL LIMITATIONS."

In the event that future proposed rate increases cannot be imposed as a result of majority protest or initiative, the City might thereafter be unable to generate Net Operating Revenues in the amounts required to pay principal and interest on the 2015 Bonds. Any remedies available to the owners of the Bonds, including the 2015 Bonds, upon the occurrence of an event of default under the Resolution 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 possible limitations on the ability of the City to comply with its covenants under the Resolution, the rights and obligations under the 2015 Bonds and the Resolution may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against government entities in the state of California.

Based on the foregoing, in the event the City fails to comply with its covenants under the Resolution, including its covenants to generate sufficient Net Operating Revenues, as a consequence of the application of Article XIIIC and Article XIIID to make the payments of principal of and interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the Bondholders. The voter approval requirements reduce the flexibility of the City Council to deal with fiscal problems by raising revenue and no assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements. See "CONSTITUTIONAL LIMITATIONS" herein for additional information regarding Proposition 218.

Notwithstanding the foregoing, the City has covenanted to fix, prescribe and collect rates and charges for the services and facilities of the Sewer System, at a level at least sufficient to meet its debt service requirements, as set forth under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Rate Covenant." Although the City expects that sufficient Gross Operating Revenues will be generated through the imposition and collection of such rates and charges, there is no assurance that such imposition will result in the generation of Gross Operating Revenues and, in turn, Net Operating Revenues, in the amounts required to pay the principal of and interest on the Bonds. The City's covenant does not constitute a guarantee that sufficient

Net Operating Revenues will be available to pay the principal of and interest on the Bonds. The current sewer rates for have been approved by the City Council and have been imposed in compliance with Proposition 218.

**Statutory and Regulatory Impact**

Laws and regulations governing transmission, treatment and disposal of wastewater are enacted and promulgated by government agencies on the federal, State and local levels. Compliance with these laws and regulations may be costly and, as more stringent standards are developed, these costs will likely increase. In addition, claims against the City for violations of regulations with respect to its facilities and services could be significant. Such claims are payable from Gross Operating Revenues or from other legally available sources.

Although the City has covenanted in the Resolution to fix, prescribe and collect rates and charges for the sewer service during each Fiscal Year sufficient to yield the debt service coverage required by the Resolution, no assurance can be given that the cost of compliance with such laws and regulations will not materially adversely affect the ability of the City to generate Net Operating Revenues in the amounts required by the Resolution and to pay debt service on the Bonds, including the 2015 Bonds.

**Rate Regulation**

The authority of the City to impose and collect rates and charges for wastewater collection and treatment services is not currently subject to the regulatory jurisdiction of the CPUC, and presently no other regulatory authority of the State of California limits or restricts such rates and charges. It is possible that future legislative changes could subject the rates or service areas of the City to the jurisdiction of the CPUC or to other limitations or requirements. See, however, a description of the existing arrangements related to customers of certain Community Service Districts provided under the caption "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM - Customers" herein.

**Greenhouse Gas Emissions**

The Governor signed Assembly Bill 32, the Global Warming Solutions Act of 2006 (the "GWSA"), which became effective as law on January 1, 2007. The GWSA prescribed a statewide cap on global warming pollution with a goal of reaching 1990 greenhouse gas ("GHG") emission levels by 2020 and a reduction to 80% below 1990 levels by 2050. In addition, the GWSA establishes a mandatory reporting program to the California Air Resources Board ("CARB") for significant GHG emissions and requires the CARB to adopt regulations for significant greenhouse gas emission sources (allowing CARB to design a cap and trade program) and gives CARB the authority to enforce such regulations beginning in 2012.

On April 2, 2007, the U.S. Supreme Court ruled that GHGs qualify as air pollutants under the Clean Air Act. While the rule was specific to the authority of the U.S. Environmental Protection Agency to regulate emissions from new motor vehicles, it may also impact federal and statewide regulation regarding GHG emissions from other sources, including publicly-owned treatment works, such as the City's Sewer System.

In general, the South Coast Air Quality Management District administers and enforces all local, state and federal emissions regulations. The City believes that it is in material compliance with all federal, state and local emissions regulations.

**Earthquakes, Wildfires and Other Natural Disasters**

Although the City has not experienced any significant damage from seismic activities, the geographic area in which the City is located is subject to unpredictable seismic activity. Southern California is characterized by a number of geotechnical conditions which represent potential safety hazards, including expansive soils and areas of potential liquefaction and landslide. Earthquakes or other natural disasters could interrupt operation of the Sewer System and thereby interrupt the ability of the City to realize Net Operating

Revenues sufficient to pay the principal of and interest on the 2015 Bonds. The San Andreas, Rose Canyon, Elsinore and San Jacinto fault zones are all capable of producing earthquakes in the area. In anticipation of such potential disasters, the City designs and constructs all facilities of the Sewer System to the seismic codes in effect at the time of design of the project. The Sewer System has not experienced any significant losses of facilities or services as a result of earthquakes. All treatment facilities, pumping stations and piping structures are designed in accordance with appropriate seismic design requirements.

The above ground facilities within the Sewer System are designed to be tolerant to damage by wildfires through the use of fire resistant material where possible, such as concrete and masonry blocks. In addition, the City works closely with the City's fire department to ensure that proper vegetative clearances are maintained in and around the properties and facilities of the Sewer System. The City watches for wildfires that may threaten the facilities of the Sewer System and operations and maintenance crews are dispatched to ensure that all above-ground facilities remain safe and operational. Further, during fires, the City works closely with the City's fire department and law enforcement officers to monitor and protect facilities of the Sewer System to ensure continuous operation.

Although the City has implemented disaster preparedness plans and made improvements to Sewer System facilities in connection with such natural disasters, there can be no assurance that these or any additional measures will be adequate in the event that a natural disaster occurs, nor that costs of preparedness measures will be as currently anticipated. Further, damage to components of the Sewer System could cause a material increase in costs for repairs or a corresponding material adverse impact on Net Operating Revenues. The City is not obligated under the Resolution to procure and maintain, or cause to be procured and maintained, nor does the City plan to procure and maintain, earthquake insurance on the Sewer System.

**Risks Relating to the Water Supply**

Residential units are charged flat monthly amounts with a pumping surcharge applied to certain geographic areas where pumping is required in order for the wastewater to reach the RWQCP. Industrial and commercial facilities sewer service charges are based on water usage and the resulting quantity and type of discharge. See "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM - Sewer Rates and Charges" herein. The ability of the Sewer System to operate effectively can be affected by the water supply available to the City, which is situated in an arid and semi-desert environment that is currently subject to drought conditions. If the water supply decreases significantly, whether by operation of mandatory supply restrictions, prohibitively high water costs or otherwise, flow within the Sewer System could impact the Net Operating Revenues available to pay the principal of and interest on the 2015 Bonds. Although the Sewer System has experienced a decreasing amount of waste water flows, based on the rate increases implemented effective July 1, 2014, as well as the new rate increases contemplated under 2014 Rate Increase, under current estimates, the City does not expect Sewer System operations and Net Operating Revenues to be materially adversely affected if the customers are ordered to conserve up to 20% of its annual water supply. In addition, commercial and industrial customers are charged rates based on CCF of water used. As a result, in the event of significant water conservation, any rates based on CCF of water flow could be adversely impacted. The City anticipates, however, that reductions in Net Operating Revenues could be offset in part by reductions in the amount of sewage collected and treated by the RWQCP, which would reduce operational expenses. See also "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM – Historical Wastewater Flows" for additional information.

**Security of the Sewer System**

The security of the Sewer System is maintained through a combination of regular inspections by Sewer Division personnel, electronic monitoring, and analysis of incident reports. The RWQCP is a controlled access facility with fencing, gates, closed circuit television and 24-hour onsite personnel. Collection system pump stations are fenced with lock gates, in addition to access / intrusion alarms. Security of all facilities is evaluated on an ongoing basis. Improvements are made to the security system whenever needed by enhanced technology and system integration.

Military conflicts and terrorist activities may adversely impact the operations and finances of the Sewer System. The City continually plans and prepares for emergency situations and immediately responds to ensure sewer services are maintained. However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that terrorist activities are directed against the Sewer System or that costs of security measures will not be greater than presently anticipated. Further, damage to certain components of the Sewer System could require the City to increase expenditures for repairs to the Sewer System significantly enough to adversely impact the City's ability to pay debt service on the 2015 Bonds. Although the City has not established a formal reserve policy related to the Sewer System, the City has maintained a significant amount of available cash. For additional information and the ending cash balance amounts, see "FINANCIAL RESULTS OF THE SEWER SYSTEM – Reserves and Projected Operating Data" herein.

**Energy Costs**

No assurance can be given that any future significant reduction or loss of power would not materially adversely affect the operations of the Sewer System. The volume of wastewater conveyed and treated in the Sewer System on a daily basis requires a significant amount of electrical and thermal power. Electricity is needed to run several assets including, among other things, pumps, lights, computers, mechanical valves and machinery. Thermal energy, usually generated by electrical power or by burning natural gas, provides heat and cooling necessary for both buildings and the wastewater treatment process. Energy in excess of the amount necessary to power the RWQCP reduces the amount of energy purchased by the City for use at facilities in the Sewer System. The City cannot guarantee that prices for electricity or gas will not increase, which could adversely affect the Sewer System's financial condition. Such increases in wastewater rates and such other charges as well as increases in electricity and gas costs are eligible to be "passed through" to the City's wastewater customers as increased wastewater rates in accordance with the Riverside Municipal Code. Such "pass through" rate increases are subject to Proposition 218 notice requirements. See "CONSTITUTIONAL LIMITATIONS – Proposition 218" herein.

The City operates an energy efficiency program at its facilities as a component of its ongoing commitment to protect the environment by preserving our natural resources, reducing power consumption, using renewable energy sources, seeking cheaper sources of power and serving the needs of all our customers. Energy savings, if any, directly benefit the residents of the City by helping to maintain lower sewer rates while providing renewable electric energy to the region.

**Impact of Recent Fiscal Crisis on Sewer System Revenues**

Since 2008, the United States financial market experienced extreme volatility precipitated by major economic disruptions, indications of a severe economic recession and significant credit and liquidity problems. The City cannot predict the extent of the fiscal problems that will be encountered in this or in any future fiscal years. Accordingly, the City cannot predict the final outcome of future State or Federal actions or the impact that such actions will have on the Sewer System's finances and operations.

Pursuant to the Resolution, the City covenanted to prescribe, revise and collect such rates and charges for the Sewer System which, together with other moneys available for such purpose and after making allowances for contingencies and error in estimates, so that the Net Operating Revenues (including therein for this purpose any amounts on deposit in the Surplus Account pledged by resolution of the City to the payment thereof) will be at least 1.25 times the amounts payable on the Outstanding Bonds, Parity Debt and the State Loans. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Rate Covenant" herein for additional information. The Resolution also prohibits the City from reducing the rates and charges then in effect unless the Net Operating Revenues from such reduced rates and charges will be at all times sufficient to meet the requirements of the Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Rate Covenant" herein. See also "CONSTITUTIONAL LIMITATIONS – Proposition 218" for a description of limitations on the rate-setting process under the California Constitution.

The City has taken the current fiscal crisis into consideration in its projections of sewer rates and capacity charges for the current and subsequent fiscal years. The City has also considered the effects of the housing market on the other components of Gross Operating Revenues, including revenues generated from sewer service charges. Notwithstanding housing foreclosures and related account closings, usage of the Sewer System has remained stable. Accordingly, the City expects that the current housing conditions will not adversely affect the ability of the Sewer System to generate Net Operating Revenues sufficient to pay the 2015 Bonds. However, the City cannot predict the extent to which the current or any future financial crisis will impact its ability to generate Net Operating Revenues in the amounts required to pay debt service on the 2015 Bonds. In particular, the City cannot predict the extent to which an economic recession and credit crisis will affect future wastewater flow, the impact of any reduced demand on the Sewer System's finances and operations or whether a sustained fiscal crisis would create sufficient pressure on the City to effect a reduction in wastewater fees.

**Certain Other Limitations on Fees and Charges**

On July 6, 2005, the California First District Court of Appeals certified for publication *The Regents of the University of California v. East Bay Municipal Utility District*, No. A105674 (Cal. Ct. App. filed July 7, 2005), concluding that the capital component of a public utility's periodic water service charges constituted a capital facilities fee within the meaning of California Government Code Section 54999 et seq. (often referred as the "San Marcos Legislation").

The San Marcos Legislation authorizes any public agencies providing public utility service (which is defined to include, among other things, water and electric service) to continue to charge, increase or impose capital facilities fees, including upon public agencies; provided, that the imposition of such capital facilities fees upon certain educational entities, such as the University of California, or state agencies is subject to certain limitations. Among the limitations on the imposition of such capital facilities fees are the following requirements: (i) for capital facilities fees imposed prior to July 21, 1986, (a) the fee must be necessary to defray the actual construction costs of that portion of a public utility facility actually serving the educational entity or state agency and (b) any increase in the fee is limited to the percentage increase in the Implicit Price Deflator for State and Local Government Purchases; (ii) for new capital facilities fees imposed after July 21, 1986, or any increase in a capital facilities fee in excess of the amount set forth in clause (i)(b), an agreement must be reached through negotiations entered into by both parties, and (iii) capital facilities fees imposed for electric utility service are subject to certain additional procedural requirements including certain prior notice, hearing and disclosure requirements.

The impact of the *East Bay Municipal Utility District* decision has been to extend the requirements of the San Marcos Legislation to the capital component of a public utility's periodic service charges, i.e., rates. At this time, the City's Sewer System does not have any agreements with large customers that would be impacted by this decision.

**Secondary Market**

There can be no guarantee that there will be a secondary market for the 2015 Bonds or, if a secondary market exists, that the 2015 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 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 EXEMPTION" herein, interest with respect to the 2015 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of execution and delivery of the 2015 Bonds as a result of future acts or omissions of the City in violation of certain covenants contained in the Resolution. Should such an event of taxability occur, the 2015 Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or until redeemed under one of the redemption provisions contained in the Resolution.

## CONSTITUTIONAL LIMITATIONS

**Article XIIIB**

Article XIIIB 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 XIIIB 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 XIIIB 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 their service charges do not exceed the costs they reasonably bear in providing such services and therefore are not subject to the limits of Article XIIIB. The City covenanted in the Resolution that it will prescribe rates and charges sufficient to provide for payment of principal of and interest on the Bonds in each year. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Rate Covenant" herein.

**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 XIIIC and XIIID 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 XIIID, 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 XIIID, 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 XIIIC 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 XIIID 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.3d 121 (2004), the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIIID 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 XIIID.

In *Howard Jarvis Taxpayers Association v. City of Fresno*, 26 Cal.Rptr.3d 153 (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 XIIID 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*, 39 Cal.4$^{th}$ 205 (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 XIIID, and went on to hold that charges for ongoing water delivery are also "fees" within the meaning of Article XIIIC'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 XIIIC 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 XIIIC 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 Sewer Rates***. The City's sewer rate structure as of July 1, 2009 was adopted under Resolution No. 21712 on September 23, 2008. The City's proposed increases to the sewer rate structure as of July 1, 2014 was adopted under Resolution No. 22683 on May 13, 2014. In each instance, the City took the following actions to meet the requirements of Proposition 218:

- notices were sent to property owners on bill inserts with monthly bills (at least 45 days prior to a scheduled public hearing);

- published a notice in a local newspaper; and

- a protest hearing was conducted prior to acting on the resolutions that implemented the rate increase.

No protests were received, and the 2008 adoption of Resolution No. 21712 was validated in accordance with Proposition 218's requirements. At the public hearing, the City received 33 written comments in opposition of the 2014 Rate Increase. Resolution No. 22683 was adopted on May 16, 2014 and validated in accordance with Proposition 218's requirements. The City will continue to comply with the provisions of Proposition 218 in connection with future rate increases.

***Threats from Local Residents***. At the City Council meeting adopting the 2014 Rate Increase, and consistently at other City Council meetings held in 2014, a handful of residents raised issues regarding the City's uses of Sewer System revenues and Bond proceeds, including questioning the legality of certain inter-fund loans made by City officials from revenues deposited in the Sewer Fund. From time to time, the speakers have also threatened litigation, including threats to enjoin the City from issuing Bonds secured by the Sewer System Net Operating Revenues.

To put such questions to rest, in August 2014, the City Council voted and authorized retaining Macias Gini & O'Connell, a firm of certified public accountants, to perform an internal audit regarding the City's expenditure of Sewer System revenues and Bond proceeds, as well as the inter-fund loans made by the City from various funds, including the Sewer Revenue Fund. The same firm also audited the City's financial statements attached to Appendix B of this Official Statement.

The findings of the audit were made available in December 2014. In a review of 34 inter-fund loans and 86 bond requisitions, the auditors found the City prematurely withdrew $1.2 million in bond money, rather than reimbursing itself afterwards. The audit found that this was a one-time occurrence and noted that shortly after the withdrawal the City incurred Sewer System expenses covered by the withdrawn amount. It also found improper spending of approximately $25,000 of Bond proceeds for ineligible uses. The City staff determined that there were qualifying projects in excess of $800,000 for which the City did not apply Bond proceeds, negating the need to reimburse the Bond proceeds. There were also 10 short-term inter-fund loans to the former redevelopment agency that were not repaid in the four month period as authorized by the City Council. Due to delays in the issuance of redevelopment agency bonds, which were the intended source of repayment of these short-term inter-fund loans, the repayment to the Sewer Revenue Fund took 8 months.

Most significantly, the auditor found that the inter-fund loans are allowed by local and state law, on the basis of legal opinions of the City Attorney's office and an outside independent counsel chosen by the auditor. The contention of some of the commenting residents was that the City wanted to issue new Bonds because of inappropriate loans made from the Sewer System Bond proceeds to other projects of the City. These events caused the delay in the public issuance of a series of Bonds to finance the costs of improvements. On June 26, 2014, the City caused the issuance of the 2014 Bonds. The 2014 Bonds are owned by Wells Fargo. A portion of the 2015 Bond proceeds will be used to redeem the outstanding 2014 Bonds, all as described under "PLAN OF FINANCE – Defeasance of the 2014 Bonds" herein.

Although the City believes that the audit should sufficiently answer the questions raised by the vocal residents, no assurances can be made as to whether the group of residents will not continue to raise issues and questions of financial management at the City.

***Proposition 26***. On November 2, 2010, the voters approved Proposition 26 and approved revising provisions of Articles XIIIA and XIIIC of the California Constitution. Proposition 26 re-categorizes many State and local fees as taxes and specifies approval requirements for those taxes. In its "Findings and Declarations of Purpose" section, Proposition 26 states: "Fees couched as 'regulatory' but which exceed the reasonable costs of actual regulation or are simply imposed to raise revenue for a new program and are not part of any licensing or permitting programs are actually taxes and should be subject to the limitations applicable to the imposition of taxes."

In order to increase State "taxes," a two-thirds vote of both houses of the Legislature is required. The State bears the burden of proving that a levy, charge or other exaction is not a tax subject to Proposition 26. Any State-imposed "tax" adopted after January 1, 2010, but prior to the effective date of Proposition 26 that was not adopted in compliance with Proposition 26's approval requirements is void 12 months after the effective date of Proposition 26. The ultimate resolution as to the scope of Proposition 26 will likely be determined through litigation. It is not certain how the courts will interpret the provisions of Proposition 26 as applicable to regulatory fees.

With respect to local government "taxes," Proposition 26 expressly excludes a variety of levies, charges and exactions from the definition of "tax", including a "charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege."

Proposition 26 amended Article XIIIC to provide that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity. As of the date of this Official Statement, the City is unaware of any fees relating to the Sewer System that would have to be reduced or eliminated because of Proposition 26.

***Conclusion***. It is not possible to predict how courts will further interpret Article XIIIC and Article XIIID 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 XIIIC and Article XIIID 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.

**Future Initiatives**

Articles XIIIB, XIIIC, XIIID and Propositions 26 and 218 were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the City's revenues or ability to increase revenues.

## TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2015 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2015 Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest (and original issue discount) on the 2015 Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of corporations.

Bond Counsel's opinion as to the exclusion from gross income of interest (and original issue discount) on the 2015 Bonds is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the 2015 Bonds to assure that interest (and original issue discount) on the 2015 Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the 2015 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2015 Bonds. The City has covenanted to comply with all such requirements.

The difference between the issue price of a 2015 Bond (the first price at which a substantial amount of the 2015 Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such 2015 Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2015 Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a 2015 Bond Owner will increase the 2015 Bond Owner's basis in the applicable 2015 Bond. Original issue discount that accrues for the 2015 Bond Owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations and is exempt from State of California personal income tax.

The amount by which a 2015 Bond Owner's original basis for determining loss on sale or exchange in the applicable 2015 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the 2015 Bond Owner's basis in the applicable 2015 Bond (and the amount of tax-exempt interest received with respect to the 2015 Bonds), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a 2015 Bond Owner realizing a taxable gain when a 2015 Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2015 Bond to the Owner. Purchasers of the 2015 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2015 Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2015 Bonds might be affected as a result of such an audit of the 2015 Bonds (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the 2015 Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the 2015 Bonds or their market value.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the 2015 Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest (and original issue discount) for federal income tax purposes with respect to any 2015 Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

SUBSEQUENT TO THE ISSUANCE OF THE 2015 BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF INTEREST ON THE 2015 BONDS OR THE MARKET VALUE OF THE 2015 BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2015 BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2015 BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE 2015 BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE 2015 BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE 2015 BONDS.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the 2015 Bonds is excluded from gross income for federal income tax purposes provided that the City continues to comply with certain requirements of the Code, the ownership of the 2015 Bonds and the accrual or receipt of interest (and original issue discount) on the 2015 Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2015 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2015 Bonds.

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

## CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the 2015 Bonds are subject to the unqualified approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Said opinion in substantially the form attached as Appendix E will be delivered at the time of delivery of the 2015 Bonds. Certain legal matters will be passed upon for the City by the City Attorney. Certain legal matters will be passed upon for the Underwriter by its counsel, Hawkins Delafield & Wood LLP, Los Angeles, California. The payment of the fees and expenses of Bond Counsel and counsel to the Underwriter is contingent upon the closing of the sale of the 2015 Bonds.

## LITIGATION

At the time of delivery and payment for the 2015 Bonds, appropriate officers of the City will certify that there is no litigation pending, or, to the knowledge of the City, threatened, (i) questioning the corporate existence of the City, or the title of the officers of the City to their respective offices, or the validity of the 2015 Bonds or the power and authority of the City to issue the 2015 Bonds, or (ii) seeking to restrain or enjoin the collection of revenues pledged to pay the 2015 Bonds. See also "CONSTITUTIONAL LIMITATIONS – Proposition 218 – Threats from Local Residents" herein for additional information regarding a recent internal audit of the City's finances, including the Sewer Revenue Fund.

## FINANCIAL STATEMENTS

Selected information from the financial statements of the City of Riverside as of and for the year ended June 30, 2014 included in Appendix B to this Official Statement have been audited by Macias Gini & O'Connell LLP, a firm of certified public accountants (the "Auditor"), as stated in its report appearing in Appendix B. The City has not requested, nor has the Auditor given, the Auditor's consent to the inclusion in Appendix B of its report on such fiscal year 2013-14 financial statements. The Auditor's review in connection with such fiscal year 2013-14 audited financial statements included in Appendix B included events only as of June 30, 2014 and no review or investigation with respect to subsequent events has been undertaken in connection with such financial statements by the Auditor.

## RATINGS

Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, have assigned their ratings of "A1" and "A," respectively, to the 2015 Bonds. Such ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained only from the agencies at the following addresses: Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007; Standard & Poor's, 55 Water Street, New York, New York 10041. There is no assurance such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2015 Bonds.

## UNDERWRITING

Wells Fargo Bank, National Association (the "Underwriter"), has agreed, subject to certain conditions, to purchase the 2015 Bonds from the City at a price of $223,950,249.55 (which reflects $450,067.50 in Underwriter's discount and $24,370,317.05 in net original issue premium) and to make a bona fide public offering of the 2015 Bonds at not in excess of the initial public offering prices. The Underwriter will be obligated to purchase all of the 2015 Bonds if any 2015 Bonds are purchased. The Underwriter may offer and sell the 2015 Bonds to certain dealers and others (including underwriter and other dealers depositing such 2015 Bonds into investment trusts) at prices lower than the respective initial public offering prices, and the public offering prices may be changed from time to time by the Underwriter.

The Underwriter of the 2015 Bonds has entered into an agreement (the "Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the 2015 Bonds. Pursuant to the Distribution Agreement, the Underwriter will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the 2015 Bonds with WFA. The Underwriter also utilizes the distribution capabilities of its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the 2015 Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. The Underwriter, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company..

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including the Underwriter.

*References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this final official statement for purposes of, and as that term is defined in, SEC Rule 15c2-12.*

A portion of the proceeds of the 2015 Bonds will be used to refund the 2014 Bonds owned by Wells Fargo, as further described under "PLAN OF FINANCE – Defeasance of the 2014 Bonds" herein.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriter and its affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the City for which it received or will receive customary fees and expenses. In addition, affiliates of the Underwriter are lenders, and in some cases agents or managers for the lenders, under certain credit facilities.

In the ordinary course of their various business activities, the Underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

## CONTINUING DISCLOSURE

The City has covenanted for the benefit of Owners and beneficial owners of the 2015 Bonds to provide certain financial information and operating data relating to the Sewer System (the "Annual Report") by not later than 270 days following the end of the City's fiscal year (which fiscal year currently ends on June 30), commencing with the Annual Report for the 2014-15 fiscal year, and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of enumerated events will be filed by the City with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report and the notices of significant events is set forth in Appendix D - "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934, as amended.

The City and its related governmental entities – specifically those entities for whom City staff is responsible for undertaking compliance with continuing disclosure undertaking – have previously entered into numerous disclosure undertakings under Rule 15c2-12 in connection with the issuance of long-term obligations.

To assist the City and its related governmental entities in meeting their continuing disclosure obligations, the City retained certain corporate trust banks to act as dissemination agent. The City and its related governmental entities have not, on a handful of occasions during the past five years, fully complied, in all material respects, with their disclosure undertakings under Rule 15c2-12. Specifically, in some instances an annual report or a material event notice was not filed on a timely basis and, in some instances, an annual report or a material event notice was not properly filed with the applicable information repository. The City believes that each failure to file an annual report on a timely basis was the result of dissemination agent error; the City had prepared compliant annual reports and submitted them to the dissemination agent on or before the applicable deadline. As discussed in the final paragraph under this caption, the City no longer employs dissemination agents with respect to their respective continuing disclosure obligations.

The City failed to make a filing in 2012 and in 2013 with respect to an issue of pension obligation bond anticipation notes delivered by the City in 2011 and 2012 (the "2011/2012 Notes") due to a discrepancy in the continuing disclosure certificate. Though the continuing disclosure certificates for the City's pension obligation bond anticipation notes issued in prior years and issued subsequently included no requirement for an annual report to be filed, the continuing disclosure certificate related to the 2011/2012 Notes erroneously included an annual report filing requirement. The City and its bond counsel did not identify this error at the time of issuance of the 2011/2012 Notes, and therefore the City did not timely file an annual report for the 2011/2012 Notes. Upon realizing this oversight, the City immediately filed the required annual reports as soon as it had notice of the error in order to fully comply with the continuing disclosure certificate, although the annual reporting requirement was included in the certificate in error as the 2011/2012 Notes matured not later than one year after their issuance. The City has added a requirement to its continuing disclosure policy to review the final continuing disclosure certificate of each new bond issue at the time of closing to avoid a reoccurrence of this situation. In addition, in 2014 the City failed to timely file a material event notice within 10 business days in connection with the upgrade in rating of Assured Guaranty Municipal Corp., which insures certain of the City's bond issues. The City filed such notice on the 16th business day following such event and is currently compliant in all material respects with its continuing disclosure obligations.

The City and its related governmental entities have made filings to correct all known instances of non-compliance during the last five years prior to the marketing of the Bonds. The City believes that it has established internal processes, including a written continuing disclosure policy, that will ensure that the City and its related governmental entities will meet all material obligations under their respective continuing disclosure undertakings. The City also now handles its and its related governmental entities' continuing disclosure obligations internally, and no longer uses third-party dissemination agents for such purpose. Additionally, the City has engaged a consultant to annually verify its continuing disclosure filings and identify any deficiencies, whether material or otherwise, so that any required corrective action can be taken.

## MISCELLANEOUS

The attached appendices are integral parts of this Official Statement and should be read in their entirety. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

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

CITY OF RIVERSIDE, CALIFORNIA

By: /s/ Brent A. Mason
Treasurer

## APPENDIX A

## CITY AND COUNTY OF RIVERSIDE - ECONOMIC AND DEMOGRAPHIC INFORMATION

*The 2015 Bonds will not be secured by any pledge of ad valorem taxes or City General Fund revenues but will be payable solely from the Net Operating Revenues of the City's Sewer System. The information set forth below is included in this Official Statement for background purposes only.*

### General Description and Background

***The City.*** Incorporated in October 11, 1883, the City of Riverside (the "City") is a charter city that now functions under a Council/Manager form of government. A seven member City Council is elected by Council ward. The Mayor is elected at large. The City Manager is appointed by the City Council.

The City is the county seat for Riverside County. It is the most populous city in the Inland Empire metropolitan area and 12th most populous City in California. Riverside is home to the University of California, Riverside. The city prides itself on its historic connection to the navel orange, which was introduced to North America from Brazil by the first settlers to Riverside in 1873. Riverside is home to the one surviving Parent Navel Orange Tree, from which all American West Coast navel orange trees are descended.

***The County.*** Riverside County (the "County"), which encompasses 7,303 square miles, was organized in 1893 from territory in San Bernardino and San Diego Counties. Located in the southeastern portion of California, Riverside County is bordered on the north by San Bernardino County, on the east by the State of Arizona, on the South by San Diego and Imperial Counties and on the west by Orange and Los Angeles Counties. There are 24 incorporated cities in Riverside County.

Riverside County's varying topology includes desert, valley and mountain areas as well as gently rolling terrain. Three distinct geographical areas characterize Riverside County: the western valley area, the higher elevations of the mountains, and the deserts. The western valley, the San Jacinto Mountains and the Cleveland National Forest experience the mild climate typical of Southern California. The eastern desert areas experience warmer and dryer weather conditions. Riverside County is the site for famous resorts, such as Palm Springs, as well as a leading area for inland water recreation. Nearly 20 lakes in Riverside County are open to the public. The dry summers and moderate to cool winters make it possible to enjoy these and other recreational and cultural facilities on a year-round basis.

**Population**

The following sets forth the City, the County and the State population estimates as of January 1, for the years 2009 to 2014:

**CITY OF RIVERSIDE, RIVERSIDE COUNTY AND STATE OF CALIFORNIA**
**Estimated Population**

| Year (January 1) | City of Riverside | County of Riverside | State of California |
|---|---|---|---|
| 2009 | 298,721 | 2,140,626 | 36,966,713 |
| 2010 | 302,597 | 2,179,692 | 37,223,900 |
| 2011 | 306,069 | 2,205,731 | 37,427,946 |
| 2012 | 309,407 | 2,234,193 | 37,668,804 |
| 2013 | 311,955 | 2,255,059 | 37,996,471 |
| 2014 | 314,034 | 2,279,967 | 38,340,074 |

*Source: State of California Department of Finance, Demographic Research Unit.*

**Commerce**

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, retail stores data for 2009 and after is not comparable to that of prior years.

A summary of historic taxable sales within the City during the past five years in which data is available is shown in the following table. Total taxable sales during the first three quarters of calendar year 2013 in the City were reported to be $3,360,196,000, a 8.25% increase over the total taxable sales of $3,104,085,000 reported during the first three quarters of calendar year 2012. Annual figures are not yet available for 2013.

**CITY OF RIVERSIDE**
**Taxable Retail Sales**
**Number of Permits and Valuation of Taxable Transactions**
**($ in Thousands)**

| | Retail Stores | | Total All Outlets | |
|---|---|---|---|---|
| | Number of Permits | Taxable Transactions | Number of Permits | Taxable Transactions |
| 2008 | 3,889 | 3,209,083 | 7,578 | 4,093,218 |
| 2009[(1)] | 5,033 | 2,734,550 | 7,202 | 3,500,514 |
| 2010[(1)] | 5,690 | 2,889,292 | 7,907 | 3,692,302 |
| 2011[(1)] | 5,764 | 3,144,537 | 8,066 | 4,019,127 |
| 2012[(1)] | 6,196 | 3,348,220 | 8,484 | 4,238,975 |

(1) Not comparable to prior years. “Retail” category now includes “Food Services.”
*Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).*

A summary of historic taxable sales within the County during the past five years in which data is available is shown in the following table. Total taxable sales during the first three quarters of calendar year 2013 in the County were reported to be $22,004,581,000, a 7.78% increase over the total taxable sales of $20,415,600,000 reported during the first three quarters of calendar year 2012. Annual figures are not yet available for 2013.

**COUNTY OF RIVERSIDE**
**Taxable Retail Sales**
**Number of Permits and Valuation of Taxable Transactions**
**($ in Thousands)**

| | Retail Stores | | Total All Outlets | |
|---|---|---|---|---|
| | Number of Permits | Taxable Transactions | Number of Permits | Taxable Transactions |
| 2008 | 23,604 | 18,689,249 | 46,272 | 26,003,595 |
| 2009 (1) | 29,829 | 16,057,488 | 42,765 | 22,227,877 |
| 2010 (1) | 32,534 | 16,919,500 | 45,688 | 23,152,780 |
| 2011 (1) | 33,398 | 18,576,285 | 46,886 | 25,641,497 |
| 2012 (1) | 34,683 | 20,016,668 | 48,316 | 28,096,009 |

(1) Not comparable to prior years. "Retail" category now includes "Food Services."
*Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).*

## Employment and Industry

As of March 2015, the unemployment rate in the City was estimated by the State of California Employment Development Department ("EDD") to be 6.6%, down substantially from an estimated level of 9.1% in March 2014. More broadly, the City is included in the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA). The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 8.0% in November 2014, down from a revised 8.1% in October 2014, and below the year-ago estimate of 9.3%. This compares with an unadjusted unemployment rate of 7.1% for California and 5.5% for the nation during the same period.

The following table shows the average annual estimated numbers of wage and salary workers by industry for the past five years. The table does not include proprietors, the self-employed, unpaid volunteeers or family workers, domestic workers in households, and persons in labor management disputes. Data for year 2014 is not yet available.

**RIVERSIDE-SAN BERNARDINO-ONTARIO METROPOLITAN STATISTICAL AREA (RIVERSIDE COUNTY)**
**Civilian Labor Force, Employment and Unemployment**
**(Annual Averages)**

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Civilian Labor Force [1] | 1,774,800 | 1,798,200 | 1,800,000 | 1,812,800 | 1,818,300 |
| Employment | 1,541,300 | 1,540,500 | 1,556,100 | 1,594,900 | 1,633,400 |
| Unemployment | 233,500 | 257,700 | 243,900 | 217,900 | 184,000 |
| Unemployment Rate | 13.2% | 14.3% | 13.6% | 12.0% | 10.2% |
| Wage and Salary Employment: [2] | | | | | |
| Agriculture | 14,900 | 15,000 | 14,900 | 15,000 | 14,600 |
| Natural Resources and Mining | 1,100 | 1,000 | 1,000 | 1,200 | 1,200 |
| Construction | 67,900 | 59,700 | 59,100 | 62,600 | 69,300 |
| Manufacturing | 88,700 | 85,100 | 85,100 | 86,700 | 86,800 |
| Wholesale Trade | 48,900 | 48,600 | 49,000 | 52,100 | 56,000 |
| Retail Trade | 156,200 | 155,500 | 158,500 | 162,300 | 164,800 |
| Transportation, Warehousing and Utilities | 66,800 | 66,600 | 68,800 | 73,800 | 78,600 |
| Information | 14,100 | 14,000 | 12,100 | 11,500 | 11,300 |
| Finance and Insurance | 26,000 | 25,500 | 25,300 | 26,000 | 26,400 |
| Real Estate and Rental and Leasing | 16,600 | 15,500 | 14,600 | 14,800 | 15,600 |
| Professional and Business Services | 125,200 | 123,400 | 125,800 | 127,100 | 132,600 |
| Educational and Health Services | 155,000 | 154,000 | 157,600 | 167,200 | 182,000 |
| Leisure and Hospitality | 123,800 | 122,800 | 124,000 | 129,300 | 136,200 |
| Other Services | 37,300 | 38,200 | 39,100 | 40,100 | 40,800 |
| Federal Government | 20,600 | 22,700 | 21,300 | 20,600 | 20,300 |
| State Government | 29,800 | 29,300 | 29,200 | 28,200 | 27,800 |
| Local Government | 184,900 | 182,300 | 177,100 | 175,800 | 176,900 |
| Total All Industries | 1,177,800 | 1,159,200 | 1,162,500 | 1,194,300 | 1,241,200 |

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
*Source: State of California Employment Development Department.*

**Major Employers**

The table below shows the 10 largest employers in the City.

**CITY OF RIVERSIDE**
**LARGEST EMPLOYERS**
**(As of June 30, 2014)**

| Employer | Number of Employees | % of Total City Employment [1] |
|---|---|---|
| County of Riverside | 11,187 | 7.6% |
| University of California | 7,218 | 4.9 |
| Riverside Unified School District | 3,461 | 2.4 |
| Kaiser | 3,156 | 2.1 |
| City of Riverside | 2,476 | 1.7 |
| Riverside Community Hospital | 1,880 | 1.3 |
| Riverside County Office of Education | 1,765 | 1.2 |
| Alvord Unified School District | 1,445 | 1.0 |
| Parkview Community Hospital | 1,350 | 0.9 |
| Riverside Community College District | 1,061 | 0.7 |
| Total | 34,999 | 23.8% |

*Source: City of Riverside, Development Department (as presented in the City's Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2014).*

The following table lists the major employers within the County:

**COUNTY OF RIVERSIDE**
**MAJOR EMPLOYERS**
**(As of January 2015)**
**Listed Alphabetically**

| Employer Name | Location | Industry |
|---|---|---|
| Abbott Vascular Inc | Temecula | Physicians & Surgeons Equip & Supls-Whls |
| Corrections Dept | Norco | State Govt-Correctional Institutions |
| Desert Regional Medical Ctr | Palm Springs | Hospitals |
| Eisenhower Medical Ctr | Rancho Mirage | Hospitals |
| Handsome Rewards | Perris | Internet & Catalog Shopping |
| Hemet Valley Medical Ctr | Hemet | Hospitals |
| Hotel At Fantasy Springs | Indio | Casinos |
| Hub International Ins Svc-Ca | Riverside | Insurance |
| Inland Valley Medical Ctr | Wildomar | Hospitals |
| J W Marriott | Palm Desert | Hotels & Motels |
| Kaiser Permanente | Riverside | Hospitals |
| La Quinta Golf Course | La Quinta | Golf Courses |
| La Quinta Inn | La Quinta | Resorts |
| Morongo Casino Resort & Spa | Cabazon | Casinos |
| Morongo Tribal Gaming Ent | Banning | Business Management Consultants |
| Pechanga Resort & Casino | Temecula | Casinos |
| Restoration Technologies Inc | Corona | Electronic Equipment & Supplies-Repair |
| Riverside Community Hospital | Riverside | Hospitals |
| Riverside County Regional Med | Moreno Valley | Hospitals |
| Roupe's Renovations | Wildomar | Remodeling & Repairing Bldg Contractors |
| Starcrest of California | Perris | Internet & Catalog Shopping |
| Starcrest Products | Perris | Gift Shops |
| Sun World Intl Llc | Coachella | Fruits & Vegetables-Wholesale |

*Source: California Employment Development Dept., America's Labor Market Information System (ALMIS) Employer Database, 2014 2nd Edition.*

**Construction Activity**

The following is a five-year summary of the valuation of building permits issued in the City.

**CITY OF RIVERSIDE**
**Building Permit Valuation**
**(Valuation in Thousands of Dollars)**

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Permit Valuation | | | | | |
| New Single-family | $15,420.4 | $27,882.4 | $ 8,676.2 | $48,826.2 | $18,687.0 |
| New Multi-family | 1,711.3 | 23,278.4 | 26,763.7 | 15,419.0 | 4,442.2 |
| Res. Alterations/Additions | 6,812.3 | 7,603.4 | 15,242.7 | 9,099.8 | 7,516.9 |
| Total Residential | 23,944.0 | 58,764.2 | 50,682.6 | 73,345.0 | 30,646.1 |
| New Commercial | 16,667.4 | 42,753.6 | 15,570.6 | 8,275.3 | 55,296.4 |
| New Industrial | 0.0 | 0.0 | 0.0 | 1,541.5 | 1,638.3 |
| New Other | 7,370.9 | 9,051.8 | 9,762.3 | 329.5 | 56.0 |
| Com. Alterations/Additions | 21,845.0 | 35,463.3 | 57,824.2 | 44,862.4 | 59,540.4 |
| Total Nonresidential | 45,883.3 | 87,268.7 | 83,157.1 | 55,008.7 | 116,531.1 |
| New Dwelling Units | | | | | |
| Single Family | 56 | 107 | 43 | 193 | 70 |
| Multiple Family | 23 | 266 | 236 | 168 | 51 |
| TOTAL | 79 | 373 | 279 | 361 | 121 |

Source: Construction Industry Research Board, *Building Permit Summary*

The following is a five-year summary of the valuation of building permits issued in the County.

**COUNTY OF RIVERSIDE**
**Building Permit Valuation**
**(Valuation in Thousands of Dollars)**

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Permit Valuation | | | | | |
| New Single-family | $892,790.0 | $914,057.4 | $647,070.8 | $904,156.2 | $1,138,738.1 |
| New Multi-family | 75,756.1 | 71,151.9 | 113,170.4 | 87,878.6 | 138,636.0 |
| Res. Alterations/Additions | 85,148.0 | 94,427.5 | 188,468.9 | 87,370.5 | 98,219.3 |
| Total Residential | 1,053,694.1 | 1,079,636.8 | $948,710.1 | $1,079,405.3 | $1,375,593.4 |
| New Commercial | $94,651.4 | $191,323.7 | $166,714.4 | $508,192.8 | $263,837.7 |
| New Industrial | 12,277.6 | 6,685.5 | 10,000.0 | 26,432.5 | 141,184.4 |
| New Other | 107,332.1 | 98,104.6 | 16,576.8 | 11,115.5 | 109,795.2 |
| Com. Alterations/Additions | 162,557.5 | 243,265.5 | 297,356.4 | 171,263.2 | 369,502.4 |
| Total Nonresidential | $376,818.7 | $539,379.4 | $490,647.6 | $717,004.0 | $884,319.7 |
| New Dwelling Units | | | | | |
| Single Family | 3,431 | 4,031 | 2,659 | 3,720 | 4,716 |
| Multiple Family | 759 | 526 | 1,061 | 909 | 1,427 |
| TOTAL | 4,190 | 4,557 | 3,720 | 4,629 | 6,143 |

Source: Construction Industry Research Board, *Building Permit Summary*

**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."

**CITY OF RIVERSIDE**
**Effective Buying Income**
**2009 through 2013**

| Year | Area | Total Effective Buying Income ($ in thousands) | Median Household Effective Buying Income |
|---|---|---|---|
| 2009 | City of Riverside | $5,352,323 | $44,974 |
| | Riverside County | 41,337,770 | 47,080 |
| | California | 844,823,319 | 49,736 |
| | United States | 6,571,536,768 | 43,252 |
| 2010 | City of Riverside | $4,967,723 | $42,509 |
| | Riverside County | 38,492,225 | 44,253 |
| | California | 801,393,028 | 47,177 |
| | United States | 6,365,020,076 | 41,368 |
| 2011 | City of Riverside | $4,950,100 | $42,351 |
| | Riverside County | 39,981,683 | 44,116 |
| | California | 814,578,458 | 47,062 |
| | United States | 6,438,704,664 | 41,253 |
| 2012 | City of Riverside | $5,157,798 | $42,848 |
| | Riverside County | 40,157,310 | 43,860 |
| | California | 864,088,828 | 47,307 |
| | United States | 6,737,867,730 | 41,358 |
| 2013 | City of Riverside | $5,109,313 | $43,916 |
| | Riverside County | 40,293,518 | 44,784 |
| | California | 858,676,636 | 48,340 |
| | United States | 6,982,757,379 | 43,715 |

*Source: The Nielsen Company (US), Inc.*

**Education**

The City is included within the boundaries of the Riverside Unified School District and the Alvord Unified School District, which also serves the County area southwest of the City. These two districts include 64 elementary and middle schools and high schools. There are also about 48 private or parochial schools for kindergarten through twelfth grade. Higher education is available at four institutions: Riverside Community College, University of California at Riverside, California Baptist University and La Sierra University at

Riverside. Also located in the City are the California School for the Deaf and the Sherman Indian High School, a federally-run school for Native Americans.

**Transportation**

The City is served by a variety of land and air transportation facilities. Light rail commuter service is provided by Metrolink to Los Angeles and Orange Counties. Interstate bus service is available via Greyhound, and local bus service is provided by the Riverside Transit Agency. Most major trucking firms serve the City in addition to numerous local carriers. Overnight delivery can be scheduled to San Francisco, Los Angeles, San Diego and Sacramento.

Freight rail service to the City is provided by two major transcontinental railroads: the Santa Fe and Union Pacific. Amtrak-operated passenger train service is available at San Bernardino, approximately 15 miles north of the City.

Scheduled air transportation is available from the Ontario International Airport, approximately 18 miles to the west. The City-operated Riverside Municipal Airport is a general aviation facility.

The City is served by the Riverside Freeway (State Route 91), which provides access to Orange County; Interstate 215, which connects the City to San Diego, San Bernardino and points beyond; and the Pomona Freeway (U.S. Highway 60), an east-west route.

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# APPENDIX B

## AUDITED FINANCIAL STATEMENTS OF THE CITY OF RIVERSIDE FOR THE FISCAL YEAR ENDED JUNE 30, 2014

# Comprehensive Annual Financial Report

## Year Ended June 30, 2014

*Seizing Our Destiny: The Movement for Riverside's Prosperous Future*

# CITY OF RIVERSIDE, CALIFORNIA
# COMPREHENSIVE ANNUAL FINANCIAL REPORT
## FOR FISCAL YEAR ENDED JUNE 30, 2014

**Prepared by the Finance Department**
**Brent A. Mason, Finance Director/Treasurer**

**3900 Main Street, Riverside, California 92522 (951) 826-5660**

This report was printed on recycled stock

**CITY OF RIVERSIDE**
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**
**YEAR ENDED JUNE 30, 2014**

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**CITY OF RIVERSIDE**
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**
**YEAR ENDED JUNE 30, 2014**

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December 8, 2014

To the Honorable Mayor, Members of the City Council and Citizens of the City of Riverside:

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) of the City of Riverside (the City) for the fiscal year ended June 30, 2014.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with accounting principles generally accepted in the United States of America. Because the cost of internal controls should not outweigh their benefits, internal controls have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Macias Gini & O'Connell LLP, a firm of certified public accountants. The independent auditor concluded, based on the audit, that there was a reasonable basis for rendering an unmodified opinion on the City's financial statements for the fiscal year ended June 30, 2014. The independent auditor's report is presented as the first component of the financial section of this CAFR.

The independent audit of the financial statements of the City 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 internal controls and compliance with legal requirements, with emphasis on those involving the administration of federal awards. These reports are available in the City's separately issued Single Audit Report.

Management has provided an overall analysis of the financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement 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.

**Profile of the City of Riverside**

The City of Riverside, incorporated on October 11, 1883, is located in the western portion of Riverside County, about 60 miles east of Los Angeles. The City currently occupies a land area of 81.507 square miles.

The City operates under the council-manager form of government, with a seven-member council elected by ward for four-year overlapping terms. The mayor is elected at large for a four-year term and is the presiding officer of the Council, but does not have a vote except in the case of a tie. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the City Manager, City Attorney and City Clerk. The City Manager is responsible for carrying out the policies and ordinances of the Council, for overseeing the day-to-day operations of the City, and for appointing the heads of various departments. The Council is elected on a non-partisan basis.

The City provides a full range of services which include general government, public safety (police, fire, disaster preparedness and building inspection), construction and maintenance of highways and streets, economic development, culture and recreation, electric, water, airport, refuse, sewer, and senior citizen/handicap transportation. In addition to general City activities, the Council is financially accountable for the Riverside Housing Authority, Riverside Public Financing Authority, Riverside Municipal Improvements Corporation and the Successor Agency, which was formed to hold the assets of the former Redevelopment Agency; therefore, these entities are included as an integral part of the City's financial statements. Additional information on these legally separate entities can be found in Note 1 in the notes to the financial statements.

The annual budget serves as the foundation for the City's financial planning and control. The City Manager presents the proposed budget to the City Council for review at least thirty-five calendar days prior to the beginning of each fiscal year. The Council is required to hold public hearings on the proposed budget and to adopt a final budget no later than June 30, which is the close of the City's fiscal year. The appropriated budget is prepared by fund and department. Department heads may make transfers of appropriations within a department. Transfers of appropriations between departments, however, require the approval of the Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 23 as part of the basic financial statements for the governmental funds. For governmental funds other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which begins on page 68.

**Local economy:** The City is located in the Inland Empire, which consists of Riverside and San Bernardino Counties (the "MSA"). The population of the Inland Empire at approximately 4.2 million is larger than 24 states. The City leads the Inland Empire in most measures of economic power, including population, income, employment, bank deposits, assessed valuation, office space and college enrollment. The population of the City is 314,034, which places it as the sixth largest in Southern California.

Unemployment in the MSA is currently at 8.4% down from 9.7% for the same period last year with modest improvements in the real estate and home building sectors. The Citywide budget for the fiscal year 2014/2015 remains relatively flat and is balanced.

The MSA is projected to grow in future years because land values continue to remain well below those in Los Angeles, Orange and San Diego Counties. Among the City's challenges is a lack of available space for manufacturing and industrial development within current boundaries.

**Goals and Vision:** Seizing Our Destiny is Riverside's community-driven campaign that builds on the city's existing strengths to create an even better place to live, work and play for future generations. The Seizing Our Destiny Campaign was developed by City officials and civic leaders and encompasses a 20-year strategic vision that mobilizes the skills and resources of a broad cross-section of Riverside toward one common goal – a better community for us all. The goal, or Vision, has four primary aspects for Riverside:

- **Nurture Intelligent Growth**
- **Catalyst for Innovation**
- **Location of Choice**
- **Evolve as a Unified City**

**Long-term financial planning.** Annually, the City updates a five (5) year Capital Improvement Program (CIP). Planned capital expenditures during fiscal years 2014/15 - 2018/19 total approximately $505 million. The projects encompass all seven Council wards and enhance the life of all residents. Funding comes from multiple sources, including existing funds; bond proceeds, user fees, special tax revenues, and regional, state and federal funds. In addition to routine electric, water, sewer and transportation-related projects, the CIP includes improvements to Parks, Recreation and Community Services projects; railroad-related projects; and municipal buildings and facilities, such as library, police and fire facilities.

**Financial policies.** A portion of fund balance within the General Fund is set aside and designated for future economic contingencies. The amount that has been set aside is equal to approximately 15% of General Fund expenditures.

**Awards and Acknowledgements**

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting (Program) to the City of Riverside for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2013. This was the twenty-sixth consecutive year that the City has received this prestigious award. The City received this award for publishing an easily readable and efficiently organized CAFR that satisfied both GAAP and applicable legal requirements.

This award is valid for a period of one year only. We believe that our current CAFR continues to meet the Program's requirements and we are submitting it to the GFOA again this year.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department, particularly the leadership of Jason Al-Imam, Controller. We would like to express our appreciation to all members of the department who assisted and contributed to its preparation. Credit also must be given to the Mayor and the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully submitted,

| | |
|---|---|
| Scott C. Barber<br>City Manager | Brent A. Mason<br>Finance Director/Treasurer |

Government Finance Officers Association

**Certificate of Achievement for Excellence in Financial Reporting**

Presented to

**City of Riverside California**

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

**June 30, 2013**

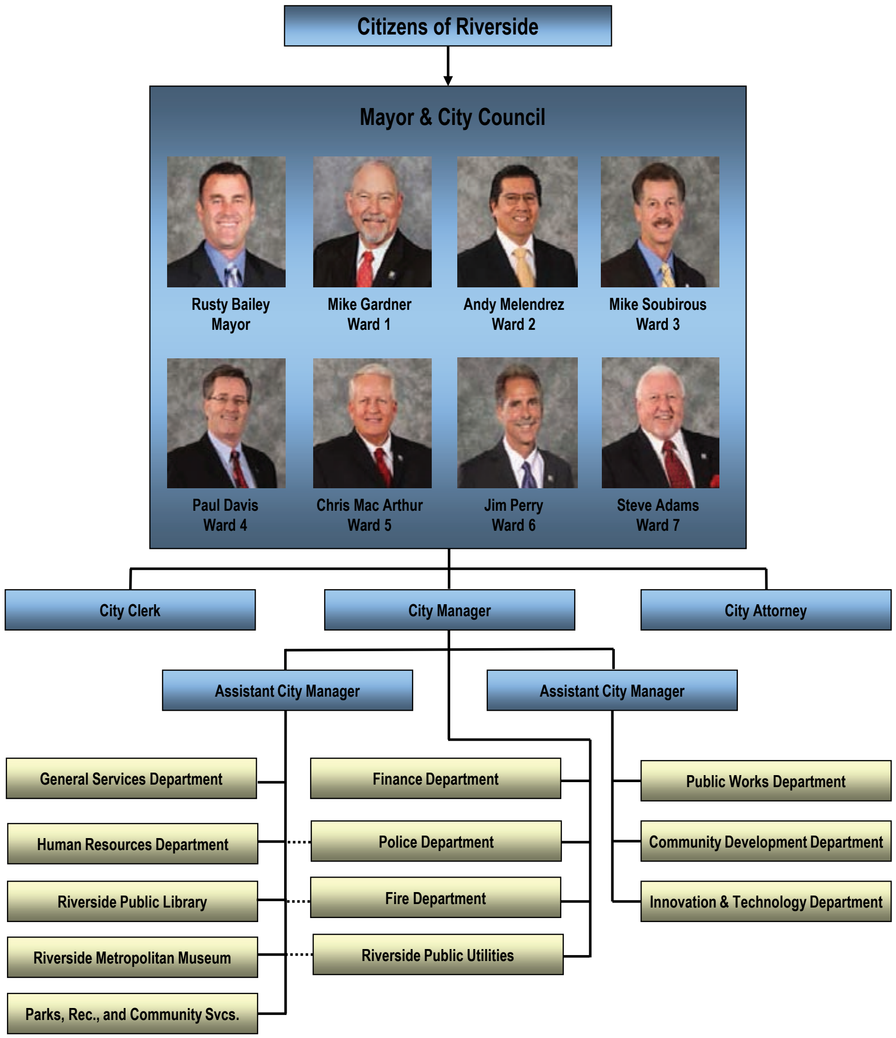
Executive Director/CEO

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 Riverside for our Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

## ORGANIZATION CHART




## LEGISLATIVE OFFICIALS

Rusty Bailey ........................................ Mayor
Mike Gardner ........................................ Councilmember – Ward 1
Andy Melendrez ........................................ Councilmember – Ward 2
Mike Soubirous ........................................ Councilmember – Ward 3
Paul Davis ........................................ Councilmember – Ward 4
Chris Mac Arthur ........................................ Councilmember – Ward 5
Jim Perry ........................................ Councilmember – Ward 6
Steve Adams ........................................ Councilmember – Ward 7

## CITY OFFICIALS

Scott C. Barber ........................................ City Manager*
Belinda Graham ........................................ Assistant City Manager
Deanna Lorson ........................................ Assistant City Manager

Colleen J. Nicol ........................................ City Clerk*
Cristina Talley ........................................ Interim City Attorney*
Sergio G. Diaz ........................................ Chief of Police
Lea Deesing ........................................ Chief Innovation Officer
Al Zelinka ........................................ Community Development Director
Brent A. Mason ........................................ Finance Director/Treasurer
Michael Moore ........................................ Fire Chief
Kris Martinez ........................................ General Services Director
Brenda Diederichs ........................................ Human Resources Director
Tonya Kennon ........................................ Library Director
Sarah Mundy ........................................ Museum & Cultural Affairs Director
Adolfo Cruz ........................................ Parks, Recreation & Community Svcs. Director
Girish Balachandran ........................................ General Manager - Public Utilities
Tom Boyd ........................................ Public Works Director/City Engineer

*Appointed by City Council

MGO Certified Public Accountants.

4675 MacArthur Court, Suite 600
Newport Beach, CA 92660
949.221.0025

Sacramento

Walnut Creek

Oakland

LA/Century City

San Diego

Seattle

## Independent Auditor's Report

To the Honorable Mayor and Members of the City Council
City of Riverside, California

### Report on the Financial Statements

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 Riverside, California (the City), as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *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, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and other post-employment benefits schedules of funding progress as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

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, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Newport Beach, California
December 8, 2014

## Management's Discussion and Analysis
## (Unaudited)

As management of the City of Riverside, we offer this narrative overview and analysis of financial activities for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal, which can be found on page i of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### Overview of the Financial Statements

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

**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 position* presents information on all of the City's assets, liabilities, and deferred inflows and outflows of resources, with the difference reported as net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, 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).

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, highways and streets, and culture and recreation. The business type activities of the City include Electric, Water, Sewer, Refuse, Public Parking, Airport and Transportation services.

The government-wide financial statements include the activities of the City and three blended component units, which consist of the Riverside Housing Authority, Riverside Public Financing Authority and the Riverside Municipal Improvements Corporation. Although legally separate, these entities function for all practical purposes as departments of the City and therefore have been blended as part of the primary government. The Successor Agency to the Redevelopment Agency of the City of Riverside (Successor Agency) is included as a fiduciary component unit since it would be misleading to exclude the Successor Agency due to the nature and significance of the relationship between the City and the Successor Agency. The activity of the Successor Agency is reported with the City's fiduciary funds, which is not included in the government-wide statements since the resources of those funds are *not* available to support the City's own programs.

Both the Governmental Activities and the Business Type Activities are presented on the accrual basis of accounting, a basis of accounting that differs from the modified accrual basis of accounting used in presenting governmental fund financial statements. Note 1 of the Notes to the Basic Financial Statements fully describe these bases of accounting. Proprietary funds, discussed below, also follow the accrual basis of accounting.

The government-wide financial statements can be found on pages 19-20 of this report.

**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, 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, proprietary, and fiduciary.

***Governmental funds***. *Governmental funds* are used to account for 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.

It is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. Reconciliations to facilitate this comparison are provided for both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. The major reconciling items relate to capital assets and debt. In the Governmental Funds, acquisitions of capital assets are treated as "expenditures" because upon purchase of a capital asset, cash used for the acquisition is no longer available for other purposes. The issuance of debt provides cash, which is now available for specified purposes. Accordingly, at the end of the fiscal year, the unrestricted fund balances of the Governmental Funds reflect spendable resources available for appropriation by the City Council. Spendable balances are not presented on the face of the government-wide financial statements.

The City maintains thirteen 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 and Capital Outlay Fund, which are major funds. Data from the other eleven 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* and can be found on pages 65-69 in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 21-25 of this report.

***Proprietary funds***. The City maintains two different types of proprietary funds, enterprise and internal service funds. Enterprise funds are used to report the same functions presented as *business type activities* in the government-wide financial statements. The City uses enterprise funds to account for Electric, Water, Sewer, Refuse, Parking, Airport and Transportation services. *Internal service* funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for self-insured insurance programs, central stores and its fleet of vehicles. Because these services predominantly benefit governmental rather than business type functions, they have been included within *governmental activities* in the government-wide financial statements. Internal service funds are presented as proprietary funds because both enterprise and internal service funds follow the accrual basis of accounting.

Proprietary funds provide the same type of information as the government-wide financial statements (*business type activities*), only in more detail. The proprietary fund financial statements provide separate information for the Electric, Water and Sewer operations, all of which are considered to be major funds of the City. The four remaining proprietary funds noted above are combined into a single, aggregated presentation. All internal service funds are also combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the non-major proprietary funds and the internal service funds is provided in the form of *combining statements* and can be found on pages 73-81 in this report.

The basic proprietary fund financial statements can be found on pages 26-29 of this report.

***Fiduciary funds***. Fiduciary funds are used to account for situations where the City's role is purely custodial. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on page 31-32 of this report, and the combining statement for the agency fund can be found on page 84.

**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. The notes to the financial statements begin on page 33 of this report.

**Government-wide Financial Analysis**

The following table presents a summarization of the City's assets, liabilities, deferred inflows and outflows, and net position for its governmental and business type activities. As noted earlier, a government's net position may serve over time as a useful indicator of its financial position.

| | Governmental Activities | | Business type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Current and other assets | $ 391,053 | $ 368,905 | $ 740,238 | $ 814,367 | $1,131,291 | $1,183,272 |
| Capital assets, net | 1,359,060 | 1,318,614 | 1,587,102 | 1,454,228 | 2,946,162 | 2,772,842 |
| Total assets | 1,750,113 | 1,687,519 | 2,327,340 | 2,268,595 | 4,077,453 | 3,956,114 |
| Deferred Outflows of Resources | 19,880 | 19,763 | 40,444 | 40,453 | 60,324 | 60,216 |
| Current liabilities | 65,949 | 71,349 | 154,937 | 159,173 | 220,886 | 230,522 |
| Long-term liabilities | 503,073 | 452,721 | 1,159,042 | 1,130,283 | 1,662,115 | 1,583,004 |
| Total liabilities | 569,022 | 524,070 | 1,313,979 | 1,289,456 | 1,883,001 | 1,813,526 |
| Deferred Inflows of Resources | 49 | 1,026 | 8,756 | 10,000 | 8,805 | 11,026 |
| Net position: | | | | | | |
| Net investment in capital assets | 1,106,384 | 1,083,485 | 616,844 | 609,691 | 1,723,228 | 1,693,176 |
| Restricted | 96,587 | 80,712 | 68,506 | 69,068 | 165,093 | 149,780 |
| Unrestricted | (2,049) | 17,989 | 359,699 | 330,833 | 357,650 | 348,822 |
| Total net position | $ 1,200,922 | $ 1,182,186 | $ 1,045,049 | $ 1,009,592 | $2,245,971 | $2,191,778 |

The City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $2,245,971 at June 30, 2014, an increase of $54,193 from June 30, 2013.

By far the largest portion of the City's net position (77 percent) reflects its investment in capital assets (i.e., land, buildings, machinery, equipment and infrastructure), net of any related debt that is still outstanding used to acquire those assets and net of unspent bond proceeds and cash held in bond reserve accounts. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

An additional portion of the City's net position (7 percent) represents resources that are subject to external restrictions on how they may be used. The remaining unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors. Of this amount, $359,699 is held by the business type activities and $(2,049) net deficit is held by the governmental activities.

The City's total net position increased by $54,193 during the current fiscal year, which reflects growth in governmental activities of $18,736 as well as an increase of $35,457 in business type activities. Governmental operating results is discussed on page 9 and business-type operating results is discussed on page 12.

On the following page is a condensed summary of activities of the City's governmental and business type operations for the period ended June 30, 2014 with the prior fiscal year presented for comparative purposes. Also included in the following analysis are revenue and expense graphs to aid in understanding the results of the current year's activities.

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(Amount presented in Thousands)

| | Governmental Activities | | Business type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charge for services | $ 46,112 | $ 42,193 | $ 485,462 | $ 487,540 | $ 531,574 | $ 529,733 |
| Operating Grants and Contributions | 14,341 | 21,485 | 2,524 | 2,718 | 16,865 | 24,203 |
| Capital Grants and Contributions | 48,433 | 32,202 | 11,486 | 11,734 | 59,919 | 43,936 |
| General Revenues: | | | | | | |
| Sales taxes | 55,096 | 50,222 | - | - | 55,096 | 50,222 |
| Property taxes | 51,323 | 52,904 | - | - | 51,323 | 52,904 |
| Other taxes and fees | 37,327 | 37,205 | - | - | 37,327 | 37,205 |
| Investment income | 2,759 | 2,786 | 8,005 | 4,744 | 10,764 | 7,530 |
| Other | 5,688 | 9,208 | 7,081 | 5,767 | 12,769 | 14,975 |
| Total Revenues | 261,079 | 248,205 | 514,558 | 512,503 | 775,637 | 760,708 |
| Expenses: | | | | | | |
| General government | 39,331 | 54,808 | - | - | 39,331 | 54,808 |
| Public safety | 149,555 | 147,652 | - | - | 149,555 | 147,652 |
| Highways and streets | 36,564 | 35,072 | - | - | 36,564 | 35,072 |
| Culture and recreation | 42,252 | 40,077 | - | - | 42,252 | 40,077 |
| Interest on long-term debt | 17,741 | 16,627 | - | - | 17,741 | 16,627 |
| Electric | - | - | 304,416 | 292,175 | 304,416 | 292,175 |
| Water | - | - | 60,030 | 58,768 | 60,030 | 58,768 |
| Sewer | - | - | 40,385 | 43,945 | 40,385 | 43,945 |
| Refuse | - | - | 20,831 | 20,581 | 20,831 | 20,581 |
| Airport | - | - | 1,662 | 2,029 | 1,662 | 2,029 |
| Transportation | - | - | 4,067 | 3,745 | 4,067 | 3,745 |
| Public parking | - | - | 4,610 | 5,051 | 4,610 | 5,051 |
| Total expenses | 285,443 | 294,236 | 436,001 | 426,294 | 721,444 | 720,530 |
| Increase (decrease) in net position before transfers and extraordinary items | (24,364) | (46,031) | 78,557 | 86,209 | 54,193 | 40,178 |
| Transfers, net | 43,100 | 42,262 | (43,100) | (42,262) | - | - |
| Extraordinary items: | | | | | | |
| Power Plant Closure | - | - | - | (41,259) | - | (41,259) |
| Total changes in net position | 18,736 | (3,769) | 35,457 | 2,688 | 54,193 | (1,081) |
| Net position - beginning | 1,182,186 | 1,185,955 | 1,009,592 | 1,006,904 | 2,191,778 | 2,192,859 |
| Net position - ending | $ 1,200,922 | $ 1,182,186 | $ 1,045,049 | $ 1,009,592 | $ 2,245,971 | $ 2,191,778 |

**Governmental activities.** Total net position for governmental activities increased by $18,736 or 2% over prior year. Governmental net position in the prior fiscal year decreased by $3,769. Key elements of this year's activity in relation to the prior year are as follows:

**Revenues:**

- While variances between years exist for the various revenue categories, the total net increase was approximately $15 million, which is largely attributable to an increase in grant revenue and sales tax revenue. Overall grants and contributions increased by $9 million or 17% and sales tax revenue increased by $4.9 million or 10%. The increase in grants and contributions was primarily attributable to a $5 million increase in grant revenue associated with the construction of the Streeter grade separation project which began construction in December 2012. The increase in sales tax revenue relates to an increase in general sales and use tax resulting from increased consumer spending.

**Expenses:**

- While variances between years exist for the various expense functions, the total net decrease was approximately $8.8 million or less than 3%. This is primarily related to the $10 million judgment recorded in the prior year related to the water settlement.

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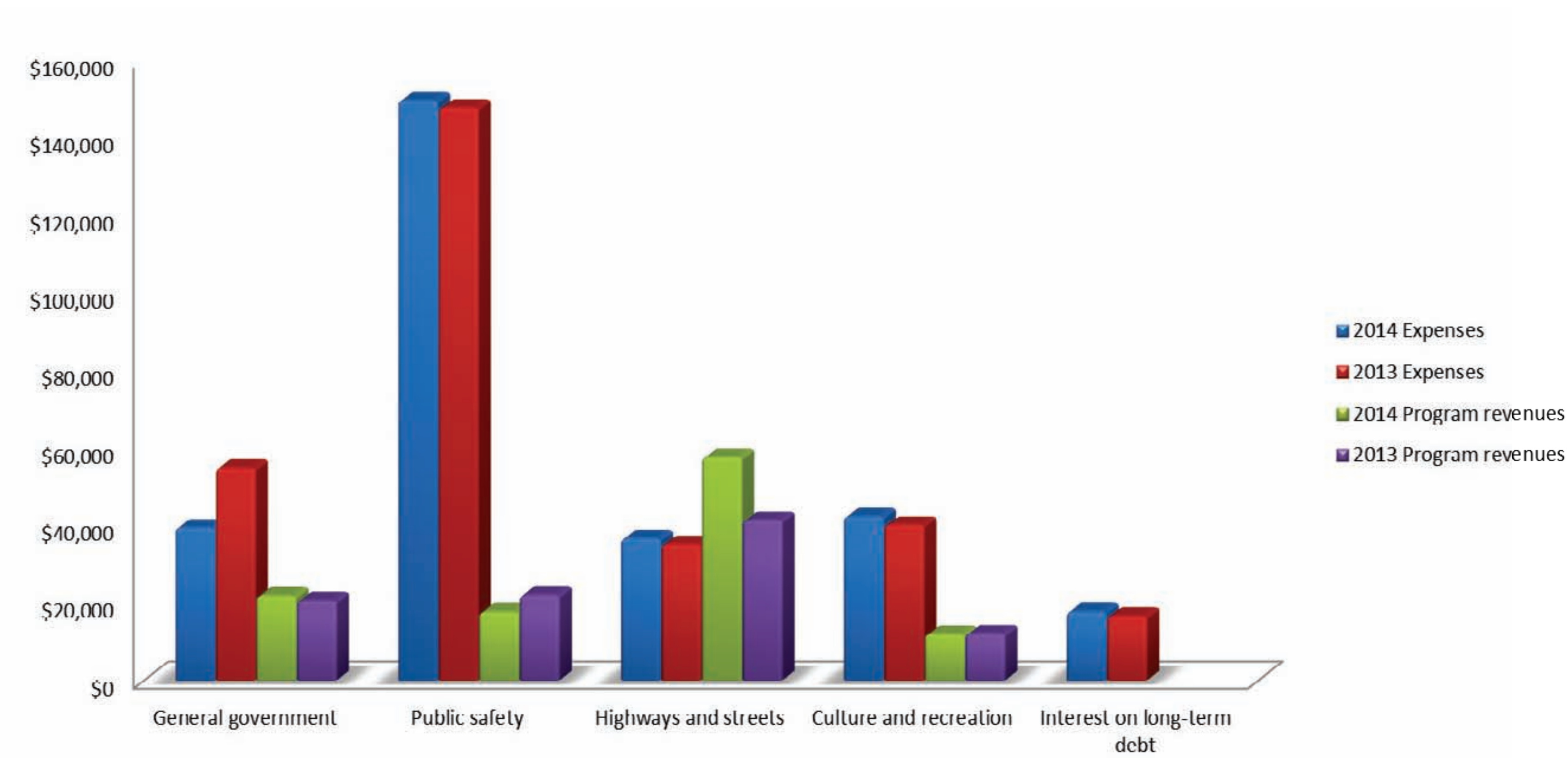
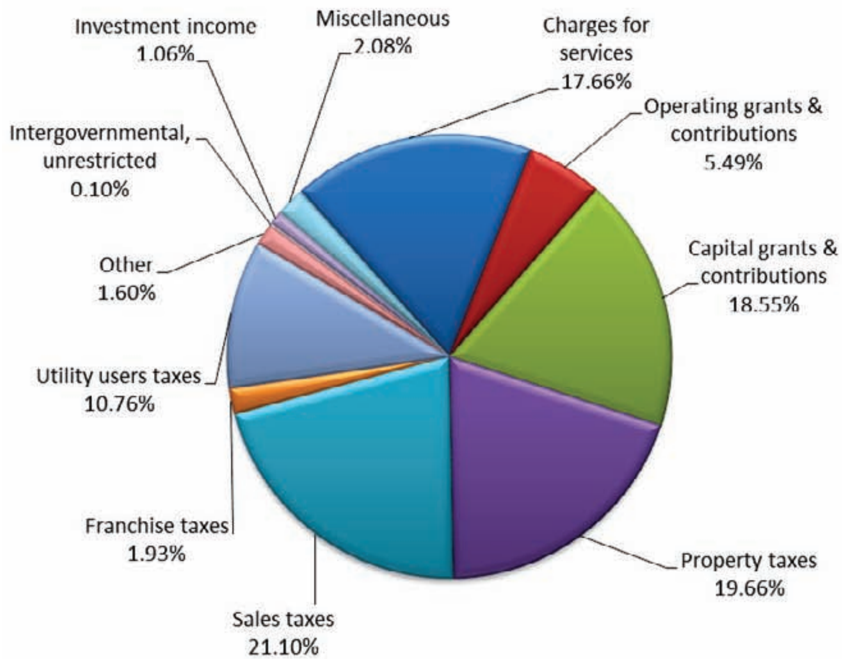
**Expenses and Program Revenues – Governmental Activities – Fiscal Year Comparison 2014 vs. 2013**

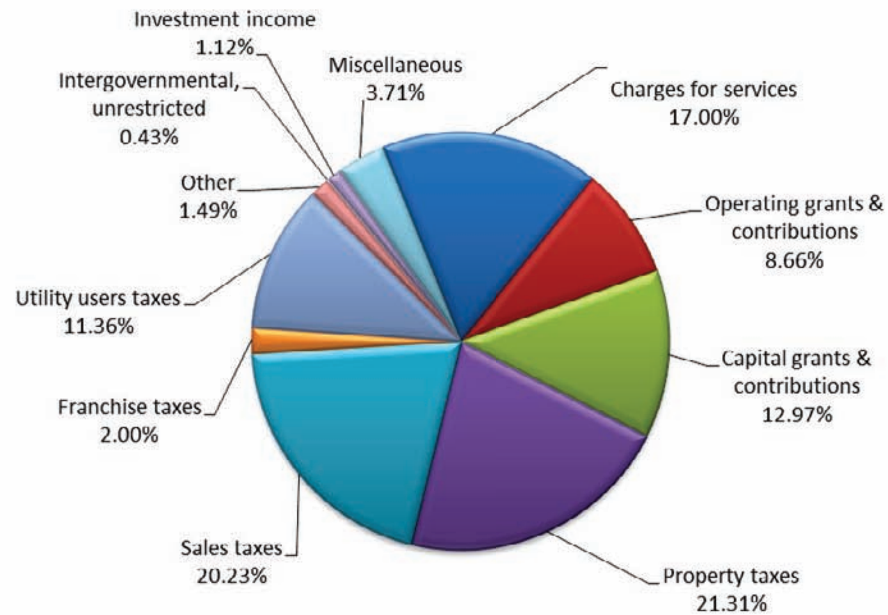


## Revenues by Source – Governmental Activities – Fiscal Year Comparison 2014 vs. 2013

### 2014



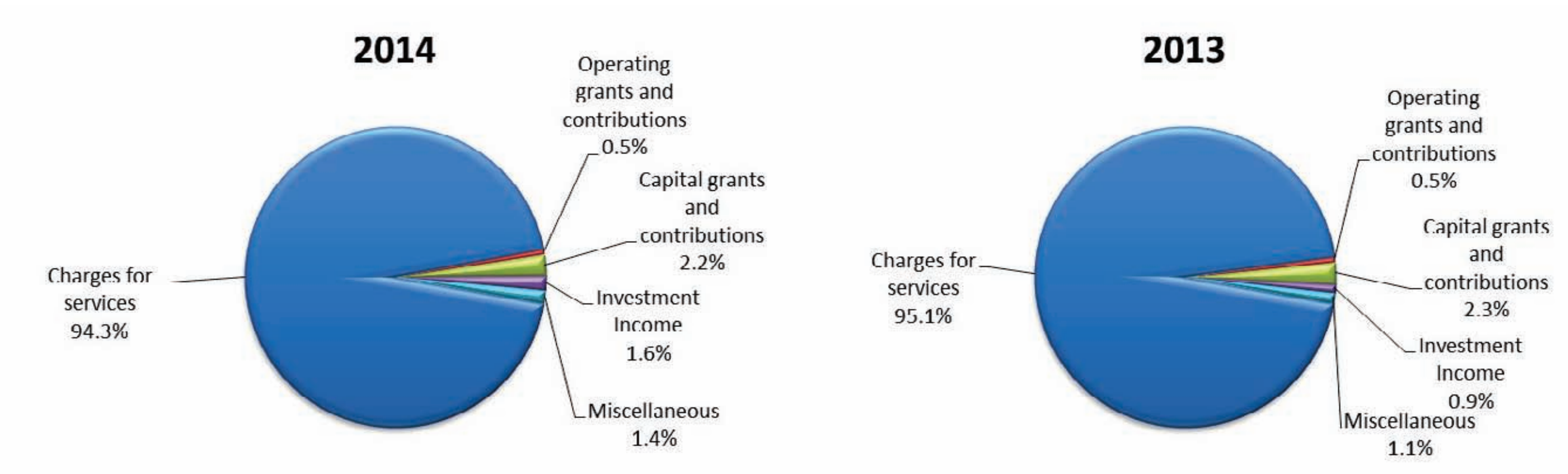

### 2013



**Business-type activities**. The net position of business type activities increased by $35,457, accounting for a 3.5% increase in total net position. The net position of business type activities increased by $2,688 in the prior year. Key elements of this year's activity in relation to the prior year are as follows:

- The increase primarily related to a one-time non-recurring expense of $41,000 incurred in the prior year as a result of the San Onofre Power Plant closure, which was partially offset by the following:
  - Charges for services remained relatively flat along service lines resulting in an overall decrease of $2,078.
  - Overall expenses increased by $9,707 primarily in Electric due to production and purchased power expense increase of $7,361 related to increased energy prices.

**Revenues by Source – Business Type Activities – Fiscal Year Comparison**



## Financial Analysis of the City's Funds

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

The following table summarizes the balance sheet of the City's General, Capital Outlay, and Other Governmental Funds. As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

| | General Fund | | Capital Outlay | | Other Governmental Funds | | Total Governmental Funds | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Total assets | $ 109,891 | $ 114,204 | $ 71,633 | $ 42,321 | $ 121,524 | $ 120,689 | $ 303,048 | $ 277,214 |
| Total liabilities | $ 26,114 | $ 30,309 | $ 29,406 | $ 34,353 | $ 15,312 | $ 15,525 | $ 70,832 | $ 80,187 |
| Deferred inflows of resources | | | | | | | | |
| Unavailable revenue | 4,917 | 6,804 | 4,860 | 6,536 | 34,522 | 34,371 | 44,299 | 47,711 |
| Fund balances | | | | | | | | |
| Nonspendable | 24,419 | 26,421 | - | - | 1,460 | 1,441 | 25,879 | 27,862 |
| Restricted | 2,204 | 2,196 | 37,367 | 1,432 | 71,963 | 69,352 | 111,534 | 72,980 |
| Assigned | 14,505 | 10,711 | - | - | - | - | 14,505 | 10,711 |
| Unassigned | 37,732 | 37,763 | - | - | (1,733) | - | 35,999 | 37,763 |
| Total fund balance | 78,860 | 77,091 | 37,367 | 1,432 | 71,690 | 70,793 | 187,917 | 149,316 |
| Total liabilities, deferred inflows and fund balances | $ 109,891 | $ 114,204 | $ 71,633 | $ 42,321 | $ 121,524 | $ 120,689 | $ 303,048 | $ 277,214 |

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $187,917 an increase of $38,601 compared to the prior year. Additionally, 14% of the fund balance ($25,879) is *nonspendable*, which comprises the portion of fund balance that cannot be spent due to form. $111,534 or 59% of fund balance is *restricted*, which represents the portion of fund balance that is subject to externally enforceable limitations by law, enabling legislation or limitations imposed by creditors or grantors. $14,505 or 8% of fund balance is constrained by the City's intent to utilize fund balance for specific purposes, which is reported within the fund balance classification *assigned*. The remainder of the fund balance is *unassigned*, meaning it is available for spending at the City's discretion. Of that amount, $36,000 has been set aside for future economic contingencies at June 30, 2014 whereas $34,000 had been set aside in the previous year. The City's governmental funds reported combined total assets of $303,048 at June 30, 2014, an increase of $25,834 compared to the prior year. Liabilities and deferred inflows of resources amounted to $115,131, a decrease of $12,767. This primary reason for the increase in total assets and related fund balances is due to unspent bond proceeds in the Capital Outlay Fund associated with the 2013 Certificates of Participation.

The General Fund is the principal operating fund of the City. At the end of the current fiscal year, total fund balance equaled $78,860 in comparison to $77,091 in the prior year. The portion of fund balance classified as unassigned was $37,732, most of which was set aside for future economic contingencies.

Fund balance for the Capital Outlay Fund increased by $35,935. As mentioned previously, the primary reason for the increase is due to unspent bond proceeds in the Capital Outlay Fund associated with the 2013 Certificates of Participation.

***Proprietary funds***. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Electric, Water and Sewer Funds at the end of the year amounted to $258,514, $78,570, and $19,066 respectively. The unrestricted net position for the Electric, Water and Sewer Funds in the prior year was $241,696, $69,996, and $18,651, respectively. The increase in unrestricted net position for the Electric, Water and Sewer Funds is primarily a result of operating activities as described below.

The Electric Fund operating results experienced a decrease in charges for services of $3,896 or 1.2%, primarily from the effects of a decrease in retail load as a result of cooler than normal temperatures. Retail sales (residential, commercial, industrial, and other sales) represent 85.9% of total revenues. Retail sales, net of reserve/recovery were $295,214 and $300,238 for years ended June 30, 2014 and 2013, respectively. Operating expenses increased $12,400 or 4.6%, which primarily relates to an increase in purchased power and distribution costs.

The Water Fund reported strong operating results, with retail sales exceeding the previous year's results. Retail sales (residential, commercial, industrial, and other sales) represent 91.5% of total revenues. Retail sales, net of reserve/recovery were $62,762 and $61,837 for the years ended June 30, 2014 and 2013, respectively. The increase in sales was primarily due to a 1.7% increase in commercial consumption.

Net position of the Sewer Fund increased by $10,993 and $2,173 for the years ended June 30, 2014 and 2013, respectively. Operating revenues increased by $2,390 or 5.5% primarily as a result of a rate increase and an increase in capital improvement fee revenue coupled with a reduction in interest expense and overall operating expenses.

## General Fund Budgetary Highlights

| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget |
|---|---|---|---|---|
| Total Revenues | $179,955 | $197,601 | $196,852 | ($749) |
| Expenditures: | | | | |
| General Government | 10,636 | 15,422 | 10,351 | 5,071 |
| Public Safety | 136,974 | 149,851 | 149,450 | 401 |
| Highways & Streets | 18,369 | 20,213 | 16,944 | 3,269 |
| Culture & Recreation | 30,331 | 36,165 | 34,165 | 2,000 |
| Capital Outlay | 156 | 13,039 | 8,589 | 4,450 |
| Debt Service | 15,846 | 46,786 | 46,564 | 222 |
| Total Expenditures | 212,312 | 281,476 | 266,063 | 15,413 |
| Deficiency of Revenue Under Expenditures | (32,357) | (83,875) | (69,211) | 14,664 |
| Other Financing Sources | 32,357 | 68,306 | 70,980 | 2,674 |
| Net Change in Fund Balances | - | (15,569) | 1,769 | 17,338 |
| Beginning Fund Balance | 77,091 | 77,091 | 77,091 | - |
| Ending Fund Balance | 77,091 | $61,522 | $78,860 | $17,338 |

Final budgeted revenues increased from the amount originally budgeted as a result of grant related programs and financing associated with capital projects. In addition, final budgeted expenditures increased from the amount originally budgeted as a result of grant related appropriations made during the year.

Actual amounts differed from the final fund budget as follows:

- Approximately $3.3 million of grant revenue was budgeted but not actually received during the year since the related grant expenditures had not been incurred, which was offset by property tax revenue and sales tax revenue coming in higher than what was budgeted.

- Actual expenditures were less than budgeted amounts by approximately $15 million. This is primarily associated with unspent appropriations for grants, capital projects and other special programs that were not completed during the year (which are carried over to the next fiscal year).

## Capital Asset and Debt Administration

**Capital assets**. The City's investment in capital assets for governmental and business type activities as of June 30, 2014 amounted to $2,946,162 (net of accumulated depreciation). This investment includes land, intangibles, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's net investment in capital assets for the current fiscal year was $173,320 ($40,446 for governmental activities including internal service funds and $132,874 for business type activities).

Major capital improvements during the current fiscal year included: new infrastructure, consisting primarily of street improvements of $46 million and $104 million in Sewer capital improvements primarily related to the plant expansion project.

Construction in progress totaled $293,892 at June 30, 2014. Some of the major projects in process are various Sewer system improvements including phase 1 of the Sewer plant expansion project, the Riverside Transmission Reliability Project (RTRP) and related reliability improvements to the Riverside Public Utility's Sub-Transmission System. Depreciation expense during the fiscal year was $42,278 for governmental activities and $50,526 for business type activities.

**City of Riverside's Capital Assets**
(net of depreciation)

| | Governmental Activities | | Business Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Land | $333,799 | $325,215 | $51,115 | $42,636 | $384,914 | $367,851 |
| Intangibles | - | - | 21,964 | 21,890 | 21,964 | 21,890 |
| Buildings | 125,869 | 130,051 | 153,917 | 158,428 | 279,786 | 288,479 |
| Improvements other than Buildings | 220,184 | 182,249 | 1,072,578 | 1,052,832 | 1,292,762 | 1,235,081 |
| Machinery and equipment | 21,016 | 19,612 | 26,647 | 29,057 | 47,663 | 48,669 |
| Infrastructure | 625,181 | 622,972 | - | - | 625,181 | 622,972 |
| Construction in progress | 33,011 | 38,515 | 260,881 | 149,385 | 293,892 | 187,900 |
| Total | $1,359,060 | $1,318,614 | $1,587,102 | $1,454,228 | $2,946,162 | $2,772,842 |

Additional information on the City's capital assets can be found in note 5 on page 42 of this report.

**Long-term debt**. At the end of the current fiscal year, the City had total debt outstanding of $1,662,115 which includes bonded debt of $1,588,315.

**City of Riverside's Long-Term Debt**

| | Governmental Activities | | Business Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Revenue Bonds | $ - | $ - | $1,094,290 | $1,031,839 | $1,094,290 | $1,031,839 |
| General Obligation Bonds | 14,460 | 15,314 | - | - | 14,460 | 15,314 |
| Pension Obligation Bonds | 115,775 | 122,005 | - | - | 115,775 | 122,005 |
| Certificates of Participation | 191,446 | 158,697 | - | - | 191,446 | 158,697 |
| Notes Payable | - | - | 36,030 | 28,137 | 36,030 | 28,137 |
| Loans Payable | 47,611 | 28,652 | - | 42,661 | 47,611 | 71,313 |
| Capital Leases | 13,168 | 8,424 | 2,266 | 2,558 | 15,434 | 10,982 |
| Lease Revenue Bonds | 42,344 | 43,762 | - | - | 42,344 | 43,762 |
| Landfill Capping | - | - | 6,172 | 6,457 | 6,172 | 6,457 |
| Arbitrage Liability | - | - | 14 | 269 | 14 | 269 |
| Compensated Absences | 21,996 | 21,761 | 7,925 | 7,638 | 29,921 | 29,399 |
| Judgment | 6,667 | 10,000 | - | - | 6,667 | 10,000 |
| Claims liability | 35,167 | 31,569 | - | - | 35,167 | 31,569 |
| Net OPEB Obligation | 14,439 | 12,537 | 11,403 | 9,780 | 25,842 | 22,317 |
| Water Acquisition Rights | - | - | 942 | 944 | 942 | 944 |
| Total | $503,073 | $452,721 | $1,159,042 | $1,130,283 | $1,662,115 | $1,583,004 |

The City's total debt increased by $79,111 or 5.0% during the current fiscal year. The net increase primarily resulted from the issuance of the 2014A Sewer Bonds and 2013 Certificates of Participation as well as normal scheduled principal maturities, debt refundings, and an increase in claims payable.

The City's Water Utility maintains "AAA" and "AA+" ratings, from Standard & Poors and Fitch, respectively, for their revenue bonds, while the Electric Utility maintains "AA-" ratings from both rating agencies. The City's general obligation bond ratings are "AA-" and "AA", respectively.

State statutes limit the amount of general obligation debt a governmental entity may issue to 15 percent of its total adjusted assessed valuation. The legal debt limit was $631,942 at June 30, 2014, which applies only to general obligation debt. At June 30, 2014, the City had $14,460 of general obligation debt, resulting in available legal debt capacity of $617,482.

Additional information on the City's long-term debt can be found in note 6 beginning on page 43 of this report.

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

- ❑ Unemployment in the City of Riverside is 8.4% as compared to 9.7% for the prior year.
- ❑ The required employer contribution rates as a percentage of payroll for the City's retirement program will be changing effective July 1, 2014 as follows:
    - Miscellaneous Plan –18.314% to 18.994%.
    - Safety Plan – 26.894% to 29.041%.

At the time of budget preparation for fiscal year 2015, the economic outlook for the City was considered to be stable. The General Fund Budget for fiscal year 2015 of approximately $240 million was adopted as balanced. It represents an increase from the prior year of approximately 8%, largely related to an increase in pension costs and debt service for the Convention Center renovation and expansion project and several capital leases.

**Request for information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, 3900 Main Street City of Riverside, CA 92522.

**City of Riverside**
**Statement of Net Position**
**June 30, 2014**
**(amounts expressed in thousands)**

| **Assets** | **Governmental Activities** | **Business-type Activities** | **Total** |
|---|---|---|---|
| Cash and investments | $ 62,599 | $ 322,169 | $ 384,768 |
| Receivables, net | 113,868 | 62,962 | 176,830 |
| Inventory | 5,819 | 2,530 | 8,349 |
| Prepaid items | 241 | 25,520 | 25,761 |
| Deposits | 300 | 854 | 1,154 |
| Derivative instruments | 49 | - | 49 |
| Internal balances | 13,328 | (13,328) | - |
| Restricted assets: | | | |
| Cash and cash equivalents | - | 46,506 | 46,506 |
| Cash and investments at fiscal agent | 43,118 | 234,179 | 277,297 |
| Other | - | 1,067 | 1,067 |
| Advances to Successor Agency | 46,025 | 10,236 | 56,261 |
| Land and improvements held for resale | 4,522 | - | 4,522 |
| Regulatory assets | - | 25,921 | 25,921 |
| Net pension asset | 101,184 | 21,622 | 122,806 |
| Land and other capital assets not being depreciated | 366,810 | 333,488 | 700,298 |
| Capital assets (net of accumulated depreciation) | 992,250 | 1,253,614 | 2,245,864 |
| Total assets | 1,750,113 | 2,327,340 | 4,077,453 |
| **Deferred Outflows of Resources** | | | |
| Deferred changes in derivative values | 14,784 | 19,277 | 34,061 |
| Deferred charge on refunding | 5,096 | 21,167 | 26,263 |
| Total deferred outflows of resources | 19,880 | 40,444 | 60,324 |
| **Liabilities** | | | |
| Accounts payable and other current liabilities | 26,399 | 30,429 | 56,828 |
| Accrued interest payable | 3,519 | 12,010 | 15,529 |
| Unearned revenue | 7,317 | 2,229 | 9,546 |
| Deposits | 9,229 | 4,779 | 14,008 |
| Derivative instruments | 19,485 | 30,191 | 49,676 |
| Decommissioning liability | - | 75,299 | 75,299 |
| Noncurrent liabilities: | | | |
| Due within one year | 76,147 | 86,427 | 162,574 |
| Due in more than one year | 426,926 | 1,072,615 | 1,499,541 |
| Total liabilities | 569,022 | 1,313,979 | 1,883,001 |
| **Deferred Inflows of Resources** | | | |
| Deferred changes in derivative values | 49 | - | 49 |
| Deferred regulatory charges | - | 8,756 | 8,756 |
| Total deferred inflows of resources | 49 | 8,756 | 8,805 |
| **Net Position** | | | |
| Net investment in capital assets | 1,106,384 | 616,844 | 1,723,228 |
| Restricted for: | | | |
| Expendable: | | | |
| Capital projects | 16,943 | - | 16,943 |
| Debt service | - | 51,240 | 51,240 |
| Economic development | 15,328 | - | 15,328 |
| Landfill capping | - | 901 | 901 |
| Public works | 17,439 | - | 17,439 |
| Housing | 45,417 | - | 45,417 |
| Programs and regulatory requirements | - | 16,365 | 16,365 |
| Nonexpendable | 1,460 | - | 1,460 |
| Unrestricted | (2,049) | 359,699 | 357,650 |
| Total net position | $ 1,200,922 | $ 1,045,049 | $ 2,245,971 |

The notes to the financial statements are an integral part of this statement.

**City of Riverside**
**Statement of Activities**
**For the fiscal year ended June 30, 2014**
**(amounts expressed in thousands)**

| | | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|---|---|---|---|---|---|---|---|---|
| **Functions/Programs** | **Expenses** | **Indirect Expenses Allocation** | **Charges for Services** | **Operating Grants and Contributions** | **Capital Grants and Contributions** | **Governmental Activities** | **Business type Activities** | **Total** |
| Governmental activities: | | | | | | | | |
| General government | $ 39,331 | $ (12,357) | $ 13,775 | $ 4,114 | $ 3,893 | $ (5,192) | | $ (5,192) |
| Public safety | 149,555 | 6,279 | 7,444 | 8,444 | 1,778 | (138,168) | | (138,168) |
| Highways and streets | 36,564 | 3,369 | 17,487 | 680 | 39,370 | 17,604 | | 17,604 |
| Culture and recreation | 42,252 | 2,709 | 7,406 | 1,103 | 3,392 | (33,060) | | (33,060) |
| Interest on long-term debt | 17,741 | - | - | - | - | (17,741) | | (17,741) |
| Total governmental activities | 285,443 | - | 46,112 | 14,341 | 48,433 | (176,557) | | (176,557) |
| Business type activities: | | | | | | | | |
| Electric | 304,416 | | 344,037 | - | 4,008 | | $ 43,629 | 43,629 |
| Water | 60,030 | | 68,691 | - | 3,534 | | 12,195 | 12,195 |
| Sewer | 40,385 | | 46,162 | - | 2,698 | | 8,475 | 8,475 |
| Refuse | 20,831 | | 20,677 | - | - | | (154) | (154) |
| Airport | 1,662 | | 1,100 | - | 296 | | (266) | (266) |
| Transportation | 4,067 | | 413 | 2,524 | 950 | | (180) | (180) |
| Public parking | 4,610 | | 4,382 | - | - | | (228) | (228) |
| Total business type activities | 436,001 | | 485,462 | 2,524 | 11,486 | | 63,471 | 63,471 |
| Total | $ 721,444 | | $ 531,574 | $ 16,865 | $ 59,919 | (176,557) | 63,471 | (113,086) |
| General revenues: | | | | | | | | |
| Taxes: | | | | | | | | |
| Sales | | | | | | 55,096 | - | 55,096 |
| Property | | | | | | 51,323 | - | 51,323 |
| Utility users | | | | | | 28,092 | - | 28,092 |
| Franchise | | | | | | 5,046 | - | 5,046 |
| Transient occupancy tax | | | | | | 4,189 | - | 4,189 |
| Intergovernmental, unrestricted | | | | | | 263 | - | 263 |
| Investment income | | | | | | 2,759 | 8,005 | 10,764 |
| Miscellaneous | | | | | | 5,425 | 7,081 | 12,506 |
| Subtotal | | | | | | 152,193 | 15,086 | 167,279 |
| Transfers, net | | | | | | 43,100 | (43,100) | - |
| Total general revenues and transfers | | | | | | 195,293 | (28,014) | 167,279 |
| Change in net position | | | | | | 18,736 | 35,457 | 54,193 |
| Net position - beginning | | | | | | 1,182,186 | 1,009,592 | 2,191,778 |
| Net position - ending | | | | | | $ 1,200,922 | $ 1,045,049 | $ 2,245,971 |

The notes to the financial statements are an integral part of this statement.

**City of Riverside**
**Balance Sheet**
**Governmental Funds**
**June 30, 2014**
**(amounts expressed in thousands)**

| **Assets** | **General Fund** | **Capital Outlay** | **Other Governmental Funds** | **Total Governmental Funds** |
|---|---|---|---|---|
| Cash and investments | $ 31,017 | $ - | $ 28,399 | $ 59,416 |
| Cash and investments at fiscal agent | 4,564 | 25,675 | 12,879 | 43,118 |
| Receivables (net of allowance for uncollectibles) | | | | |
| Interest | 1 | 84 | 134 | 219 |
| Property taxes | 5,027 | - | - | 5,027 |
| Sales tax | 13,106 | - | - | 13,106 |
| Utility billed | 1,182 | - | - | 1,182 |
| Accounts | 8,014 | 1,700 | 2 | 9,716 |
| Intergovernmental | 4,445 | 44,174 | 2,582 | 51,201 |
| Notes | - | - | 33,267 | 33,267 |
| Prepaid items | 241 | - | - | 241 |
| Deposits | 300 | - | - | 300 |
| Due from other funds | 18,116 | - | - | 18,116 |
| Advances to other funds | 23,226 | - | - | 23,226 |
| Advances to Successor Agency | 652 | - | 39,739 | 40,391 |
| Land & improvements held for resale | - | - | 4,522 | 4,522 |
| Total assets | $ 109,891 | $ 71,633 | $ 121,524 | $ 303,048 |
| | | | | |
| **Liabilities** | | | | |
| Accounts payable | $ 7,531 | $ 4,961 | $ 1,564 | $ 14,056 |
| Accrued payroll | 8,635 | - | 30 | 8,665 |
| Retainage payable | 10 | 134 | 1,396 | 1,540 |
| Intergovernmental | 159 | - | - | 159 |
| Unearned revenue | 387 | 6,930 | - | 7,317 |
| Deposits | 9,226 | - | 3 | 9,229 |
| Due to other funds | - | 17,381 | 602 | 17,983 |
| Advances from other funds | 166 | - | 11,717 | 11,883 |
| Total liabilities | 26,114 | 29,406 | 15,312 | 70,832 |
| | | | | |
| **Deferred Inflows of Resources** | | | | |
| Unavailable revenue | 4,917 | 4,860 | 34,522 | 44,299 |
| Total deferred inflows of resources | 4,917 | 4,860 | 34,522 | 44,299 |
| | | | | |
| **Fund Balances** | | | | |
| Nonspendable: | | | | |
| Inventories, prepaids and noncurrent receivables | 541 | - | - | 541 |
| Advances | 23,878 | - | - | 23,878 |
| Permanent fund principal | - | - | 1,460 | 1,460 |
| Restricted for: | | | | |
| Housing and redevelopment | - | - | 26,223 | 26,223 |
| Debt service | 1,819 | - | 26,177 | 27,996 |
| Transportation and public works | - | 37,367 | 17,509 | 54,876 |
| Other purposes | 385 | - | 2,054 | 2,439 |
| General government | 1,422 | - | - | 1,422 |
| Public safety | 834 | - | - | 834 |
| Highways and streets | 819 | - | - | 819 |
| Culture and recreation | 1,004 | - | - | 1,004 |
| Continuing projects | 10,426 | - | - | 10,426 |
| Unassigned | 37,732 | - | (1,733) | 35,999 |
| Total fund balances | 78,860 | 37,367 | 71,690 | 187,917 |
| Total liabilities, deferred inflows of resources, and fund balances | $ 109,891 | $ 71,633 | $ 121,524 | $ 303,048 |

The notes to the financial statements are an integral part of this statement.

**CITY OF RIVERSIDE**
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**
**TO THE STATEMENT OF NET POSITION**
**June 30, 2014**
**(amounts expressed in thousands)**

| | | | |
|---|---|---|---|
| Total fund balances - governmental funds | | | $187,917 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | | |
| Capital assets net of accumulated depreciation used in governmental activities that are not current financial resources and, therefore, are not reported in the funds. | | | 1,352,707 |
| The net pension asset is not an available resource and, therefore, is not reported in the funds. | | | 99,800 |
| Deferred refunding charges are not available resources and, therefore, are not reported in the funds. | | | 5,096 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds. | | | 44,299 |
| Accrued interest payable for the current portion of interest due on various debt issues has not been reported in the governmental funds. | | | (3,519) |
| Long-term liabilities, as listed below, are not due and payable in the current period and therefore are not reported in the funds. | | | |
| Bonds payable | $ | (170,015) | |
| Certificates of participation payable | | (190,580) | |
| Capital leases payable | | (13,168) | |
| Loan payable | | (47,611) | |
| Bond premiums | | (3,430) | |
| Net OPEB obligation | | (13,767) | |
| Compensated absences | | (21,437) | |
| Judgment payable | | (6,667) | |
| | | | (466,675) |
| The City uses derivative instruments to hedge its exposure to changing interest rates through the use of interest rate swaps. The following related items have been reflected in the Statement of Net Position. | | | |
| Net fair value of interest rate swaps | $ | (19,436) | |
| Deferred amount related to the hedgeable portion of the derivative instrument | | 14,735 | |
| | | | (4,701) |
| Internal service funds are used by management to charge the costs of insurance, centralized purchasing and fleet management to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position. | | | (14,002) |
| Net position of governmental activities | | | $1,200,922 |

**City of Riverside**
**Statement of Revenues, Expenditures, and Changes in Fund Balances**
**Governmental Funds**
**For the fiscal year ended June 30, 2014**
**(amounts expressed in thousands)**

| | General Fund | Capital Outlay | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **Revenues** | | | | |
| Taxes | $ 143,748 | $ - | $ - | $ 143,748 |
| Licenses and permits | 7,694 | - | 1,550 | 9,244 |
| Intergovernmental | 12,915 | 28,719 | 17,714 | 59,348 |
| Charges for services | 15,734 | - | - | 15,734 |
| Fines and forfeitures | 7,283 | - | - | 7,283 |
| Special assessments | 4,219 | 288 | 1,765 | 6,272 |
| Rental and investment income | 1,857 | 307 | 2,151 | 4,315 |
| Miscellaneous | 3,402 | 1,780 | 1,775 | 6,957 |
| Total revenues | 196,852 | 31,094 | 24,955 | 252,901 |
| **Expenditures** | | | | |
| Current: | | | | |
| General government | 10,351 | - | 3,207 | 13,558 |
| Public safety | 149,450 | - | 2,271 | 151,721 |
| Highways and streets | 16,944 | - | - | 16,944 |
| Culture and recreation | 34,165 | - | 110 | 34,275 |
| Capital outlay | 8,589 | 48,333 | 15,443 | 72,365 |
| Debt service: | | | | |
| Principal | 40,202 | - | 5,298 | 45,500 |
| Interest | 6,259 | - | 10,528 | 16,787 |
| Bond issuance costs | 103 | 738 | 2 | 843 |
| Total expenditures | 266,063 | 49,071 | 36,859 | 351,993 |
| Excess (deficiency) of revenues over (under) expenditures | (69,211) | (17,977) | (11,904) | (99,092) |
| **Other financing sources (uses)** | | | | |
| Transfers in | 45,695 | - | 12,774 | 58,469 |
| Transfers out | (13,184) | (2,185) | - | (15,369) |
| Issuance of long term debt | 30,940 | 56,097 | - | 87,037 |
| Capital lease financings | 6,625 | - | - | 6,625 |
| Sales of capital assets | 904 | - | 27 | 931 |
| Total other financing sources and uses | 70,980 | 53,912 | 12,801 | 137,693 |
| Net change in fund balances | 1,769 | 35,935 | 897 | 38,601 |
| Fund balances - beginning | 77,091 | 1,432 | 70,793 | 149,316 |
| Fund balances - ending | $ 78,860 | $ 37,367 | $ 71,690 | $ 187,917 |

The notes to the financial statements are an integral part of this statement.

**CITY OF RIVERSIDE**
**RECONCILIATION OF THE STATEMENT OF REVENUES,**
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**
**TO THE STATEMENT OF ACTIVITIES**
**For the year ended June 30, 2014**
**(amounts expressed in thousands)**

| | | |
|---|---|---|
| Net change in fund balances-total governmental funds | | $38,601 |
| 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 cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period, as listed below: | | |
| Capital asset additions | $ 66,315 | |
| Depreciation expense | (41,706) | 24,609 |
| The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to increase net position. | | 12,697 |
| Revenues in the statement of activities that do not meet the "availability" criteria for revenue recognition and therefore are not reported as revenue in the funds. | | (3,412) |
| The amortization of the net pension asset reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds. | | (4,851) |
| The issuance of long-term debt (e.g., bonds, leases, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds immediately report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term debt and related items is listed below: | | |
| Principal repayments | $ 45,500 | |
| Payment of judgment | 3,333 | |
| Other post-employment benefit liabilities | (1,810) | |
| Compensated absences | (168) | |
| Interest | 79 | |
| Premiums on the issuance of long-term debt | (1,211) | |
| Issuance of long-term debt | (92,451) | (46,728) |
| Internal service funds are used by management to charge the costs of insurance, centralized purchasing and fleet management to individual funds. The net revenue (expense) of certain activities of internal service funds is reported with governmental activities. | | (2,180) |
| Change in net position of governmental activities | | $ 18,736 |

The notes to the financial statements are an integral part of this statement.

**City of Riverside**
**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**
**General Fund**
**For the year ended June 30, 2014**
**(amounts expressed in thousands)**

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Variance with Final Budget |
|---|---|---|---|---|
| **Revenues** | | | | |
| Taxes | $ 140,868 | $ 140,868 | $ 143,748 | $ 2,880 |
| Licenses and permits | 7,736 | 7,736 | 7,694 | (42) |
| Intergovernmental | 1,195 | 16,185 | 12,915 | (3,270) |
| Charges for services | 13,087 | 15,739 | 15,734 | (5) |
| Fines and forfeitures | 5,516 | 5,516 | 7,283 | 1,767 |
| Special assessments | 4,401 | 4,401 | 4,219 | (182) |
| Rental and investment income | 1,318 | 1,318 | 1,857 | 539 |
| Miscellaneous | 5,834 | 5,838 | 3,402 | (2,436) |
| Total revenues | 179,955 | 197,601 | 196,852 | (749) |
| **Expenditures** | | | | |
| General government: | | | | |
| Mayor | 888 | 935 | 855 | 80 |
| Council | 1,278 | 1,278 | 1,215 | 63 |
| Manager | 7,176 | 7,517 | 6,912 | 605 |
| Attorney | 3,917 | 4,375 | 4,226 | 149 |
| Clerk | 1,342 | 1,485 | 1,369 | 116 |
| Community development | 9,634 | 10,421 | 9,200 | 1,221 |
| Human resources | 2,942 | 3,244 | 2,952 | 292 |
| General services | 8,492 | 9,713 | 7,694 | 2,019 |
| Finance | 8,254 | 8,612 | 8,236 | 376 |
| Innovation & technology | 10,451 | 11,580 | 9,646 | 1,934 |
| Subtotal | 54,374 | 59,160 | 52,305 | 6,855 |
| Allocated expenditures | (43,738) | (43,738) | (41,954) | (1,784) |
| Total general government | 10,636 | 15,422 | 10,351 | 5,071 |

continued

The notes to the financial statements are an integral part of this statement.

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Variance with Final Budget |
|---|---|---|---|---|
| Public safety: | | | | |
| Police | 82,023 | 91,303 | 91,208 | 95 |
| Fire | 44,809 | 48,384 | 48,019 | 365 |
| Animal regulation | 3,487 | 3,501 | 3,483 | 18 |
| Building and zoning inspection | 2,152 | 2,152 | 2,195 | (43) |
| Street lighting | 4,503 | 4,511 | 4,545 | (34) |
| Total public safety | 136,974 | 149,851 | 149,450 | 401 |
| Highways and streets | 18,369 | 20,213 | 16,944 | 3,269 |
| Culture and recreation | | | | |
| Library | 6,630 | 7,461 | 6,882 | 579 |
| Museum & cultural affairs | 7,990 | 9,775 | 9,698 | 77 |
| Parks, recreation & community services | 15,711 | 18,929 | 17,585 | 1,344 |
| Total culture and recreation | 30,331 | 36,165 | 34,165 | 2,000 |
| Capital outlay | 156 | 13,039 | 8,589 | 4,450 |
| Debt service: | | | | |
| Principal | 9,319 | 40,259 | 40,202 | 57 |
| Interest | 6,527 | 6,424 | 6,259 | 165 |
| Bond issuance costs | - | 103 | 103 | - |
| Total debt service | 15,846 | 46,786 | 46,564 | 222 |
| Total expenditures | 212,312 | 281,476 | 266,063 | 15,413 |
| Deficiency of revenue under expenditures | (32,357) | (83,875) | (69,211) | 14,664 |
| **Other financing sources (uses)** | | | | |
| Transfers in | 42,493 | 45,695 | 45,695 | - |
| Transfers out | (10,226) | (15,251) | (13,184) | 2,067 |
| Issuance of long term debt | - | 30,940 | 30,940 | - |
| Capital lease proceeds | - | 6,625 | 6,625 | - |
| Sale of capital assets | 90 | 297 | 904 | 607 |
| Total other financing sources | 32,357 | 68,306 | 70,980 | 2,674 |
| Net change in fund balances | - | (15,569) | 1,769 | 17,338 |
| Fund balance, beginning | 77,091 | 77,091 | 77,091 | - |
| Fund balance, ending | $ 77,091 | $ 61,522 | $ 78,860 | $ 17,338 |

**City of Riverside**
**Statement of Net Position**
**Proprietary Funds**
**June 30, 3014**
**(amounts expressed in thousands)**

| **Assets** | **Electric** | **Water** | **Sewer** | **Other Enterprise Funds** | **Total Enterprise Funds** | **Governmental Activities-Internal Service Funds** |
|---|---|---|---|---|---|---|
| | **Business-type Activities - Enterprise Funds** | | | | | |
| Current assets: | | | | | | |
| Cash and investments | $ 210,929 | $ 86,181 | $ 18,794 | $ 6,265 | $ 322,169 | $ 3,183 |
| Receivables (net allowances for uncollectibles) | | | | | | |
| Interest | 1,127 | 429 | 53 | 40 | 1,649 | 44 |
| Utility billed | 17,634 | 4,475 | 2,675 | 1,041 | 25,825 | - |
| Utility unbilled | 14,731 | 3,347 | 1,722 | 723 | 20,523 | - |
| Accounts | 3,930 | 1,601 | 134 | 1,217 | 6,882 | 54 |
| Intergovernmental | 385 | 241 | 706 | 85 | 1,417 | 52 |
| Other | - | 3,333 | - | - | 3,333 | - |
| Inventory | 1,202 | - | 1,328 | - | 2,530 | 5,819 |
| Prepaid items | 22,345 | 17 | 15 | - | 22,377 | - |
| Deposits | 854 | - | - | - | 854 | - |
| Due from other funds | 914 | 392 | - | - | 1,306 | - |
| Restricted assets: | | | | | | |
| Cash and cash equivalents: | | | | | | |
| Rate stabilization cash and cash equivalents | - | - | 9,360 | - | 9,360 | - |
| Other restricted cash and cash equivalents | 27,878 | 8,367 | - | 901 | 37,146 | - |
| Public benefit programs receivable | 939 | 128 | - | - | 1,067 | - |
| Total current assets | 302,868 | 108,511 | 34,787 | 10,272 | 456,438 | 9,152 |
| Non-current assets: | | | | | | |
| Restricted assets: | | | | | | |
| Cash and investments at fiscal agent | 176,349 | 10,554 | 47,276 | - | 234,179 | - |
| Regulatory assets | 17,451 | 943 | 1,028 | 6,499 | 25,921 | - |
| Prepaid items - non-current | 3,143 | - | - | - | 3,143 | - |
| Other receivables | - | 3,333 | - | - | 3,333 | - |
| Advances to other funds | - | - | 7,283 | - | 7,283 | 6,224 |
| Advances to Successor Agency | 5,800 | - | 4,436 | - | 10,236 | 5,634 |
| Net pension asset | 11,450 | 4,926 | 3,151 | 2,095 | 21,622 | 1,384 |
| Capital assets: | | | | | | |
| Land | 8,717 | 20,484 | 2,734 | 19,180 | 51,115 | 458 |
| Intangible assets, non-depreciable | 10,651 | 10,841 | - | - | 21,492 | - |
| Intangible assets, depreciable | 325 | 385 | 120 | - | 830 | - |
| Accumulated depreciation - intangible assets, depreciable | (123) | (228) | (7) | - | (358) | - |
| Buildings | 23,093 | 18,340 | 191,696 | 35,881 | 269,010 | 1,488 |
| Accumulated depreciation - buildings | (6,448) | (5,058) | (97,903) | (5,684) | (115,093) | (300) |
| Improvements other than buildings | 857,377 | 543,755 | 100,179 | 28,084 | 1,529,395 | 726 |
| Accumulated depreciation - improvements other than buildings | (267,734) | (163,605) | (17,233) | (8,245) | (456,817) | (83) |
| Machinery and equipment | 31,626 | 13,306 | 11,215 | 19,993 | 76,140 | 10,809 |
| Accumulated depreciation - machinery and equipment | (17,173) | (11,203) | (6,876) | (14,241) | (49,493) | (8,227) |
| Construction in progress | 51,105 | 15,828 | 193,913 | 35 | 260,881 | 1,482 |
| Total non-current assets | 905,609 | 462,601 | 441,012 | 83,597 | 1,892,819 | 19,595 |
| Total assets | 1,208,477 | 571,112 | 475,799 | 93,869 | 2,349,257 | 28,747 |
| **Deferred Outflows of Resources** | | | | | | |
| Deferred changes in derivative values | 16,336 | 2,941 | - | - | 19,277 | - |
| Deferred charge on refunding | 12,952 | 8,215 | - | - | 21,167 | - |
| Total deferred outflows of resources | 29,288 | 11,156 | - | - | 40,444 | - |

Continued

**City of Riverside**
**Statement of Net Position**
**Proprietary Funds**
**June 30, 3014**
**(amounts expressed in thousands)**

| Liabilities | Electric | Water | Sewer | Other Enterprise Funds | Total Enterprise Funds | Governmental Activities-Internal Service Funds |
|---|---|---|---|---|---|---|
| | **Business-type Activities - Enterprise Funds** | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | 11,401 | 3,224 | 1,303 | 1,032 | 16,960 | 1,808 |
| Accrued payroll | 1,292 | 465 | 305 | 196 | 2,258 | 100 |
| Retainage payable | 283 | 410 | - | 20 | 713 | 71 |
| Unearned revenue | - | - | - | 2,229 | 2,229 | - |
| Deposits | 3,844 | 935 | - | - | 4,779 | - |
| Due to other funds | - | - | - | 133 | 133 | 1,306 |
| Capital leases - current | 700 | - | - | - | 700 | - |
| Water stock acquisitions - current | - | 150 | - | - | 150 | - |
| Notes payable - current | - | - | 731 | 906 | 1,637 | - |
| Landfill capping - current | - | - | - | 200 | 200 | - |
| Claims and judgments - current | - | - | - | - | - | 11,122 |
| Compensated absences - current | 3,613 | 1,348 | 995 | 524 | 6,480 | 267 |
| Current liabilities payable from restricted assets: | | | | | | |
| Revenue bonds | 14,920 | 5,015 | 57,325 | - | 77,260 | - |
| Accrued interest | 5,770 | 1,801 | 4,439 | - | 12,010 | - |
| Accounts payable | 2,023 | 1,356 | 7,119 | - | 10,498 | - |
| Total current liabilities | 43,846 | 14,704 | 72,217 | 5,240 | 136,007 | 14,674 |
| Non-current liabilities: | | | | | | |
| Revenue bonds | 593,094 | 202,176 | 221,760 | - | 1,017,030 | - |
| Notes payable | - | 9,482 | 3,725 | 21,186 | 34,393 | - |
| Capital leases | 1,566 | - | - | - | 1,566 | - |
| Advances from other funds | 11,284 | 4,855 | 3,106 | 2,539 | 21,784 | 3,066 |
| Decommissioning liability | 75,299 | - | - | - | 75,299 | - |
| Derivative instruments | 22,108 | 8,083 | - | - | 30,191 | - |
| Claims and judgments | - | - | - | - | - | 24,045 |
| Water stock acquisitions | - | 792 | - | - | 792 | - |
| Landfill capping | - | - | - | 5,972 | 5,972 | - |
| Compensated absences | 830 | 333 | 185 | 97 | 1,445 | 292 |
| Other postemployment benefits | 5,749 | 2,446 | 1,734 | 1,474 | 11,403 | 672 |
| Other payables | 14 | - | - | - | 14 | - |
| Total non-current liabilities | 709,944 | 228,167 | 230,510 | 31,268 | 1,199,889 | 28,075 |
| Total liabilities | 753,790 | 242,871 | 302,727 | 36,508 | 1,335,896 | 42,749 |
| **Deferred Inflows of Resources** | | | | | | |
| Deferred regulatory charges | - | 6,667 | 2,089 | - | 8,756 | - |
| Total deferred inflows of resources | - | 6,667 | 2,089 | - | 8,756 | - |
| **Net Position** | | | | | | |
| Net investment in capital assets | 196,771 | 245,731 | 121,431 | 52,911 | 616,844 | 6,353 |
| Restricted for debt service | 15,808 | 5,930 | 29,502 | - | 51,240 | - |
| Restricted for landfill capping | - | - | - | 901 | 901 | - |
| Restricted for programs and regulatory requirements | 12,882 | 2,499 | 984 | - | 16,365 | - |
| Unrestricted | 258,514 | 78,570 | 19,066 | 3,549 | 359,699 | (20,355) |
| Total net position | $ 483,975 | $ 332,730 | $ 170,983 | $ 57,361 | $ 1,045,049 | $ (14,002) |

The notes to the financial statements are an integral part of this statement.

**City of Riverside**
**Statement of Revenues, Expenses, and Changes in Net Position**
**Proprietary Funds**
**For the fiscal year ended June 30, 2014**
**(amounts expressed in thousands)**

| | Business-type Activities - Enterprise Funds | | | | | |
|---|---|---|---|---|---|---|
| | **Electric** | **Water** | **Sewer** | **Other Enterprise Funds** | **Total Enterprise Funds** | **Governmental Activities-Internal Service Funds** |
| Operating revenues: | | | | | | |
| Charges for services | $ 344,037 | $ 68,691 | $ 46,162 | $ 26,572 | $ 485,462 | $ 21,772 |
| Operating expenses: | | | | | | |
| Personnel services | 37,572 | 12,847 | 9,916 | 8,169 | 68,504 | 4,164 |
| Contractual services | 7,394 | 2,326 | 1,470 | 5,545 | 16,735 | 141 |
| Maintenance and operation | 190,510 | 9,236 | 7,486 | 7,238 | 214,470 | 2,176 |
| General | 12,083 | 12,871 | 6,119 | 4,119 | 35,192 | 2,151 |
| Materials and supplies | 756 | 761 | 3,440 | 1,373 | 6,330 | 222 |
| Claims/Insurance | 1,342 | 591 | 499 | 300 | 2,732 | 14,628 |
| Depreciation and amortization | 27,260 | 12,799 | 6,861 | 4,013 | 50,933 | 572 |
| Total operating expenses | 276,917 | 51,431 | 35,791 | 30,757 | 394,896 | 24,054 |
| Operating income (loss) | 67,120 | 17,260 | 10,371 | (4,185) | 90,566 | (2,282) |
| Non-operating revenues (expenses): | | | | | | |
| Operating grants | - | - | - | 2,524 | 2,524 | - |
| Interest income | 6,041 | 1,049 | 827 | 88 | 8,005 | 229 |
| Other | 3,444 | 698 | 1,691 | 1,204 | 7,037 | (4) |
| Gain (loss) on retirement of capital assets | 293 | (253) | (11) | 536 | 565 | (4) |
| Capital improvement fees | - | - | 2,684 | - | 2,684 | - |
| Interest expense and fiscal charges | (27,499) | (8,599) | (4,583) | (945) | (41,626) | (119) |
| Total non-operating revenues (expenses) | (17,721) | (7,105) | 608 | 3,407 | (20,811) | 102 |
| Income (loss) before capital contributions and transfe | 49,399 | 10,155 | 10,979 | (778) | 69,755 | (2,180) |
| Cash capital contributions | 2,890 | 2,278 | - | 1,246 | 6,414 | - |
| Noncash capital contributions | 1,118 | 1,256 | 14 | - | 2,388 | - |
| Transfers in | - | 3,333 | - | - | 3,333 | - |
| Transfers out | (38,704) | (6,991) | - | (738) | (46,433) | - |
| Change in net position | 14,703 | 10,031 | 10,993 | (270) | 35,457 | (2,180) |
| Total net position - beginning | 469,272 | 322,699 | 159,990 | 57,631 | 1,009,592 | (11,822) |
| Total net position - ending | $ 483,975 | $ 332,730 | $ 170,983 | $ 57,361 | $ 1,045,049 | $ (14,002) |

The notes to the financial statements are an integral part of this statement.

City of Riverside
Proprietary Funds
Statement of Cash Flows
For the fiscal year ended June 30, 2014
(amounts expressed in thousands)

| | Electric | Water | Sewer | Other Enterprise Funds | Total Enterprise Funds | Governmental Activities- Internal Service Funds |
|---|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | | |
| Cash received from customers and users | $ 348,296 | $ 69,567 | $ 45,787 | $ 27,841 | $ 491,491 | $ 22,585 |
| Cash paid to employees for services | (34,466) | (12,591) | (10,419) | (7,911) | (65,387) | (3,863) |
| Cash paid to other suppliers of goods or services | (221,460) | (22,331) | (19,941) | (19,701) | (283,433) | (14,781) |
| Other receipts | 3,444 | 698 | 3,779 | 1,201 | 9,122 | 1 |
| Net cash provided (used) by operating activities | 95,814 | 35,343 | 19,206 | 1,430 | 151,793 | 3,942 |
| Cash flows from noncapital financing activities: | | | | | | |
| Transfers in | - | 3,333 | - | - | 3,333 | - |
| Transfers out | (38,704) | (6,991) | - | (738) | (46,433) | - |
| Receipts on interfund advances | 793 | 364 | 254 | - | 1,411 | 5,366 |
| Outflows on interfund advances | (497) | (214) | (137) | (1,401) | (2,249) | (6,675) |
| Advances to other funds | - | - | - | - | - | - |
| Net cash (used) provided by noncapital financing activities | (38,408) | (3,508) | 117 | (2,139) | (43,938) | (1,309) |
| Cash flows from capital and related financing activities: | | | | | | |
| Purchase of capital assets | (36,349) | (22,648) | (104,392) | (1,787) | (165,176) | (3,716) |
| Proceeds from the sale of capital assets | 341 | 2 | - | 2,642 | 2,985 | - |
| Proceeds from long-term obligations | 2,315 | - | 50,000 | - | 52,315 | - |
| Principal paid on long-term obligations | (21,827) | (4,363) | (7,841) | (878) | (34,909) | - |
| Interest paid on long-term obligations | (29,400) | (8,848) | (10,913) | (944) | (50,105) | (104) |
| Capital improvement fees | - | - | 2,684 | - | 2,684 | - |
| Grant Proceeds | - | - | - | 2,633 | 2,633 | - |
| Capital contributions | 2,890 | 2,278 | - | 1,246 | 6,414 | - |
| Bond issuance costs | (454) | (19) | (103) | - | (576) | - |
| Net cash (used) for capital and related financing activities | (82,484) | (33,598) | (70,565) | 2,912 | (183,735) | (3,820) |
| Cash flows from investing activities: | | | | | | |
| Purchase of investments | 5,301 | - | - | - | 5,301 | - |
| Income from investments | 5,748 | 1,004 | 861 | 73 | 7,686 | 161 |
| Net cash provided by investing activities | 11,049 | 1,004 | 861 | 73 | 12,987 | 161 |
| Net change in cash and cash equivalents | (14,029) | (759) | (50,381) | 2,276 | (62,893) | (1,026) |
| Cash and cash equivalents, beginning (including $137,262 for Electric, $32,780 for Water, $113,614 for Sewer and $1,185 for Other Enterprise Funds in restricted accounts.) | 335,085 | 105,861 | 125,811 | 4,890 | 571,647 | 4,209 |
| Cash and cash equivalents, ending (including $110,127 for Electric, $18,921 for Water, $56,636 for Sewer and $901 for Other Enterprise Funds in restricted accounts.) | $ 321,056 | $ 105,102 | $ 75,430 | $ 7,166 | $ 508,754 | $ 3,183 |

Continued

City of Riverside
Proprietary Funds
Statement of Cash Flows
For the fiscal year ended June 30, 2014
(amounts expressed in thousands)

Continued

| | Electric | Water | Sewer | Other Enterprise Funds | Total Enterprise Funds | Governmental Activities- Internal Service Funds |
|---|---|---|---|---|---|---|
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | | | |
| Operating Income (loss) | $ 67,120 | $ 17,260 | $ 10,371 | $ (4,185) | $ 90,566 | $ (2,282) |
| Other receipts | 3,444 | 698 | 1,690 | 1,201 | 7,033 | 1 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | | |
| Depreciation and amortization | 27,260 | 12,799 | 6,861 | 4,013 | 50,933 | 572 |
| Amortization of pension costs | 504 | 217 | 139 | 93 | 953 | 61 |
| (Increase) Decrease in utility billed receivable | (681) | 4 | (219) | - | (896) | - |
| (Increase) Decrease in utility unbilled receivable | 186 | 129 | (125) | - | 190 | - |
| (Increase) Decrease in accounts receivable | 4,869 | 565 | 16 | 1,275 | 6,725 | (3) |
| (Increase) in intergovernmental receivable | - | - | (47) | (6) | (53) | - |
| (Increase) Decrease in prepaid items | (5,168) | 2 | - | - | (5,166) | - |
| Decrease in inventory | - | - | 22 | - | 22 | 872 |
| (Decrease) Increase in accounts payable | (1,725) | 3,025 | (941) | (840) | (481) | 885 |
| Increase (Decrease) in accrued payroll | - | - | 8 | 488 | 496 | 80 |
| Increase (Decrease) in retainage payable | - | - | (966) | - | (966) | - |
| Increase (Decrease) in other payable | 400 | 467 | 316 | (323) | 860 | 159 |
| Increase in deferred regulatory charges | - | - | 2,089 | - | 2,089 | - |
| Increase (Decrease) in deposits | 473 | 177 | (8) | - | 642 | - |
| (Decrease) in decommissioning liabilitity | (868) | - | - | - | (868) | - |
| (Decrease) in landfill capping | - | - | - | (286) | (286) | - |
| Increase in claims and judgments | - | - | - | - | - | 3,597 |
| Net cash provided by operating activities | $ 95,814 | $ 35,343 | $ 19,206 | $ 1,430 | $ 151,793 | $ 3,942 |
| Schedule of noncash financing and investing activities: | | | | | | |
| Capital Contributions - capital assets | $ 1,118 | $ 1,256 | $ - | $ - | $ 2,374 | $ - |
| Land purchase with note payable | - | 9,482 | - | - | 9,482 | - |
| Proceeds of refunding debt | 80,236 | - | - | - | 80,236 | - |

The notes to the financial statements are an integral part of this statement.

**City of Riverside**
**Statement of Net Position/(Deficit)**
**Fiduciary Funds**
**June 30, 2014**
**(amounts expressed in thousands)**

| | Successor Agency Private-Purpose Trust Fund | Agency Fund |
|---|---|---|
| **Assets** | | |
| Cash and investments | $ 26,105 | $ 5,666 |
| Cash and investments at fiscal agent | 25,974 | 6,740 |
| Receivables: | | |
| Interest | 97 | 26 |
| Accounts | 22 | - |
| Notes | 22,235 | - |
| Direct financing lease receivable | 20,510 | - |
| Deposits | 2 | - |
| Property tax receivables | - | 114 |
| Land & improvements held for resale | 15,799 | - |
| Capital assets: | | |
| Land | 185 | - |
| Equipment | 6 | - |
| Accumulated depreciation - equipment | (6) | - |
| Total assets | 110,929 | 12,546 |
| **Liabilities** | | |
| Accounts payable | 1,155 | - |
| Retainage payable | 229 | - |
| Accrued interest | 4,940 | - |
| Advances from City of Riverside | 56,261 | - |
| Bonds payable | 248,040 | - |
| Notes payable | 5,607 | - |
| Held for bond holders | - | 12,546 |
| Total liabilities | 316,232 | 12,546 |
| **Deferred Inflows of Resources** | | |
| Deferred charge on refunding | 301 | - |
| Total deferred inflows of resources | 301 | - |
| **Net Position/(Deficit)** | | |
| Held by Successor Agency | (205,604) | - |
| Total net position/(deficit) | $ (205,604) | $ - |

The notes to the financial statements are an integral part of this statement

**City of Riverside**
**Statement of Changes in Net Position/(Deficit)**
**Fiduciary Fund - Private-Purpose Trust Fund**
**For the fiscal year ended June 30, 2014**
**(amounts expressed in thousands)**

| | Successor Agency Private-Purpose Trust Fund |
|---|---|
| **Additions** | |
| Property tax revenue | $ 26,460 |
| Rental and investment income | 2,624 |
| Miscellaneous | 1,240 |
| Total additions | 30,324 |
| **Deductions** | |
| Professional services and other deductions | 2,613 |
| Redevelopment projects | 8,129 |
| Interest expense | 13,680 |
| Total deductions | 24,422 |
| **Change in Net Position/(Deficit)** | 5,902 |
| Net position/(deficit) - beginning | (211,506) |
| Net position/(deficit) - ending | $ (205,604) |

The notes to the financial statements are an integral part of this statement

1. Summary of Significant Accounting Policies

The City of Riverside (City) was incorporated on October 11, 1883 as a Charter City and operates under a Council-Manager form of Government. The more significant accounting policies reflected in the financial statements are summarized as follows:

A. Reporting Entity

These financial statements present the City and its component units, entities for which the City is financially accountable. Blended component units are legally separate entities, but in substance are part of the City's operations and their data is combined with that of the City's. The City has no component units that meet the criteria for discrete presentation. All of the City's component units have a June 30 year end.

Blended Component Units

Riverside Housing Authority (Housing Authority) was established in 2006 by the City. The Housing Authority's primary purpose is to provide safe and sanitary housing accommodations for persons with low or moderate income. The Housing Authority's activity has been combined with that of the primary government because City Council members serve as the Housing Authority's commissioners and because the City is financially accountable and operationally responsible for all matters.

Riverside Public Financing Authority (Public Financing Authority) was organized in December 1987 by the City and the Redevelopment Agency. Pursuant to Assembly Bill 1X 26 (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies were dissolved effective February 1, 2012. Subsequently, the City became the Successor Agency to the Redevelopment Agency. The Parking Authority of the City of Riverside was added as an additional member of the Public Financing Authority on August 14, 2012. The Public Financing Authority's activity has been combined with that of the primary government because City Council members serve as the Public Financing Authority's board members and because the Public Financing Authority exclusively provides financing assistance to the primary government. The City is also financially accountable and operationally responsible for all matters.

Riverside Municipal Improvements Corporation (Municipal Improvements Corporation) was created in 1978 and operates under provisions of the Nonprofit Public Benefit Corporation Law of the State of California. The Municipal Improvements Corporation's primary purpose is to provide financing assistance by obtaining land, property and equipment on behalf of the City. The activity of the Municipal Improvements Corporation has been combined with that of the primary government because three members of the City Council serve as the Municipal Improvements Corporation's directors and because the Municipal Improvements Corporation exists to serve exclusively the primary government. The City is financially accountable and operationally responsible for all matters.

Fiduciary Component Unit

Successor Agency to the Redevelopment Agency of the City of Riverside (Successor Agency) is a separate legal entity, which was formed to hold the assets and liabilities of the former Redevelopment Agency pursuant to City Council actions taken on March 15, 2011 and January 10, 2012. The activity of the Successor Agency is overseen by an Oversight Board comprised of individuals appointed by various government agencies and the City of Riverside as Successor Agency of the former Redevelopment Agency. The nature and significance of the relationship between the City and the Successor Agency is such that it would be misleading to exclude the Successor Agency from the City's financial statements. The Successor Agency is presented herein in the City's fiduciary funds as a private-purpose trust fund

Complete financial statements are prepared for the Riverside Public Financing Authority and the Successor Agency to the Redevelopment Agency of the City of Riverside, which can be obtained from the City's Finance Department, 3900 Main Street, Riverside, California, 92522 or online at www.riversideca.gov.

B. Government-wide and Fund Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the City and its component units. Interfund activity has been removed from these statements except for utility charges, as this would distort the presentation of function costs and program revenues. 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.

The statement of net position presents financial information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities demonstrates 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. Indirect expenses are allocated to the various functions based on a proportionate utilization of the services rendered. Such allocations consist of charges for accounting, human resources, information technology and other similar support services.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. 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, proprietary and private-purpose trust fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Agency funds report only assets and liabilities and therefore have no measurement focus. 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 on the property. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. An allowance for doubtful accounts is maintained for the utility and other miscellaneous receivables.

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. Revenues are considered to be available if they are generally collected within 60 days after year end, except for revenue associated with neglected property abatement which is eleven (11) months and except for grant revenue, including reimbursement received from Transportation Uniform Mitigation Fees, which is six (6) months and sales tax revenue which is seven (7) months, as described below. Grant revenue is recognized if received within six (6) months of year end to enable the matching of revenue with applicable expenditures. Expenditures generally are recorded when a liability is incurred 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.

In 2004, the State temporarily began to exchange 25% of sales taxes for an equal amount of property taxes to securitize a short-term State bond issue. The State bond issue will remain outstanding for an uncertain number of years, but the bonds are currently estimated to retire in 2016. These in-lieu sales taxes will be paid to the City by the State on a different calendar than sales taxes, which are paid monthly, three months in arrears. The vast majority of the in-lieu amount will be paid during the applicable fiscal year; however, the final payment of the in-lieu sales taxes will not be paid until the January following the end of the applicable fiscal year. Since 2004, the final “true-up” payment has been reported in the fiscal year that the revenue was earned and thus provides consistency in the reporting of sales tax revenue.

Property taxes, special assessments, sales taxes, franchise taxes, licenses, charges for services, amounts due from other governments and interest associated with the current fiscal period are all considered to be susceptible to accrual. Other revenue items such as fines and permits are considered to be measurable and available only when the government receives cash, and are therefore not susceptible to accrual.

The government reports the following major governmental funds:

The General fund is the government’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 Capital Outlay fund accounts for the construction and installation of street and highway capital improvements for the City, including improvements funded by the ½ % sales tax approved by Riverside County in 1988.

The government reports the following major proprietary funds:

The Electric fund accounts for the activities of the City's electric distribution operations.

The Water fund accounts for the activities of the City's water distribution operations.

The Sewer fund accounts for the activities of the City's sewer systems.

Additionally, the government reports the following fund types:

Internal service funds account for self-insurance, central stores and central garage on a cost reimbursement basis.

Fiduciary funds include private-purpose trust and agency funds. The private-purpose trust fund accounts for assets and activities of the dissolved Redevelopment Agency, which is accounted for in the Successor Agency Trust. The agency fund is used to account for special assessments that service no-commitment debt.

The permanent fund is a governmental fund that is used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's Library programs. Non-expendable net position on the Statement of Net Position includes $1 million of permanent fund principal which are considered nonexpendable.

Amounts reported as program revenues include 1) charges to customers 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 non-operating 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 sewer fund also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service 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 non-operating revenues and expenses.

D. Cash and Investments

The City values its cash and investments in accordance with the provisions of Government Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools (GASB 31)," which requires governmental entities to report certain investments at fair value in the statement of net position/balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using published market prices.

Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings. Investments are stated at fair value except for investments in investment contracts which are recorded at contract value. All highly liquid investments (including restricted assets) with a maturity of 90 days or less when purchased are considered cash equivalents. Cash and investments held on behalf of proprietary funds by the City Treasurer are considered highly liquid and are classified as cash equivalents for the purpose of presentation in the Statement of Cash Flows.

E. Restricted Cash and Investments

Certain proceeds of long-term indebtedness, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. Restricted cash and investments also include cash set aside for nuclear decommissioning, public benefit programs, regulatory requirements and rate stabilization because their use is legally restricted to a specific purpose. Unspent proceeds received from the City's landfill capping surcharge are also recorded as restricted assets.

F. Land and Improvements Held for Resale

Land and improvements held for resale were generally acquired for future development projects. The properties are carried at the lower of cost or net realizable value.

For the year ended June 30, 2014 (amounts expressed in thousands)

G. Inventory

Supplies are valued at cost using the average-cost method. Costs are charged to user departments when consumed rather than when purchased.

H. Prepaid Items

Payments to vendors for services benefiting future periods are recorded as prepaid items and expenditures are recognized when items are consumed.

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, right of way, and similar items), are reported in the applicable governmental activities and business-type activities of the government-wide financial statements and in the proprietary funds and the fiduciary private-purpose trust fund statements of net position. The government defines capital assets as assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Costs include: labor; materials; interest during construction; allocated indirect charges such as engineering, construction and transportation equipment, retirement plan contributions and other fringe benefits. Donated capital assets are recorded at estimated fair market value at the date of donation. Intangible assets that cost more than one hundred thousand dollars with useful lives of at least three years are capitalized and are recorded at cost.

Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed for proprietary funds. For the year ended June 30, 2014, business-type activities capitalized net interest costs of $8,608 in the government-wide and fund financial statements. Total interest expense incurred by the business-type activities (and the enterprise funds on the proprietary funds statements) before capitalization was $50,234.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets other than land are depreciated using the straight-line method. Estimated useful lives used to compute depreciation are as follows:

| | |
|---|---|
| Buildings and Improvements | 30-50 years |
| Improvements other than Buildings | 20-99 years |
| Intangibles - Depreciable | 3-15 years |
| Machinery and Equipment | 3-15 years |
| Infrastructure | 20-100 years |

J. Compensated Absences

City employees receive 10 to 25 vacation days a year based upon length of service. A maximum of two years' vacation accrual may be accumulated and unused vacation is paid in cash upon separation.

City employees generally receive one day of sick leave for each month of employment with unlimited accumulation. Upon retirement or death, certain employees or their estates receive a percentage of unused sick leave paid in a lump sum based on longevity. The General, Electric and Water funds have been primarily used to liquidate such balances.

The liability associated with these benefits is reported in the government-wide statements. Vacation and sick leave of proprietary funds is recorded as an expense and as a liability of those funds as the benefits accrue to employees.

K. Derivative Instruments

The City's derivative instruments are accounted for in accordance with Government Accounting Standards Board (GASB) Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments (GASB 53)," which requires the City to report its derivative instruments at fair value. Changes in fair value for effective hedges that are achieved with derivative instruments are reported as deferrals in the statements of net position.
The City uses derivative instruments to hedge its exposure to changing interest rates through the use of interest rate swaps. The City had debt that was layered with "synthetic fixed rate" swaps, which was refunded in 2008 and 2011. At the time of the refunding, hedge accounting ceased to be applied. The balance of the deferral account for each swap is included as part of the deferred charge on refunding associated with the new bonds. The swaps were also employed as a hedge against the new debt. Hedge accounting was applied to that portion of the hedging relationship, which was determined to be effective. The negative fair value of the interest rate swaps related to the new hedging relationship has been recorded and deferred on the statement of net position. In 2012, the City also entered into an additional interest rate swap agreement, which has a positive fair value and is recorded

and deferred on the statement of net position. See Note 10 for further discussion related to the City's interest rate swaps.

Various transactions permitted in the Utility's Power Resources Risk Management Policies may be considered derivatives, including energy and/or gas transactions for swaps, options, forward arrangements and congestion revenue rights. The City has determined that all of its contracts including congestion revenue rights fall under the scope of "normal purchases and normal sales" and are exempt from GASB 53.

L. Long-Term Obligations

Long-Term Debt

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental and business-type activities columns in the government-wide financial statements and in the proprietary funds and fiduciary private-purpose trust fund statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, government fund types recognize bond issuance costs as expenditures during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses.

Decommissioning

Federal regulations require the Electric Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The Electric Utility has established trust accounts to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Based on the most recent site specific cost estimate as of July 2013, prepared by ABZ Incorporated, the Electric Utility has fully funded the San Onofre Nuclear Generating Station ("SONGS") decommissioning liability. With the recent retirement of SONGS units 2 and 3, there is much uncertainty as to future unknown costs to decommission SONGS. Although management believes the current cost estimate is the upper bound of decommissioning obligations, the Electric Utility has conservatively decided to continue to set aside $1,581 per year in an internally restricted cash reserve for unexpected costs not contemplated in the current estimates.

Increases to the funds held for the decommission liability are from amounts set aside and investment earnings. The investment earnings are included in investment income. These earnings, as well as amounts set aside, are reflected as decommissioning expense which is reflected as a component of maintenance and operation expense in the statement of revenues, expenses and changes in net position. To date, the Electric Utility has set aside $77,897 in cash investments with the trustee and $1,725 in an internally restricted decommissioning reserve as the Electric Utility's estimated share of the decommissioning cost of San Onofre, and these amounts are reflected as restricted assets and unrestricted cash and cash equivalents, respectively, on the Statements of Net Position. The Electric Utility's decommissioning liability is equivalent to the total funds accumulated less $4,323 paid as decommissioning costs for the fiscal year ended June 30, 2014 and is reflected as a non-current liability. The plant site easement at San Onofre terminates May 2024. The plant must be decommissioned and the site restored by the time the easement terminates.

M. Claims and Judgments Payable

Claims and judgments payable are recognized when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Such claims, including an estimate for claims incurred but not reported at year end, are recorded as liabilities in the self-insurance internal service fund. As of June 30, 2014, the City had an obligation related to a judgment, which is reflected as a liability on the government-wide statements and is more fully described in Note 8.

N. Fund Equity

In the fund financial statements, governmental fund balance is made up of the following components:

- Nonspendable fund balance is the portion of fund balance that cannot be spent due to form. Examples include inventories, prepaid amounts, long-term loans, and notes receivable, unless the proceeds are restricted, committed or assigned. Also, amounts that must be maintained intact legally or contractually, such as the principal of a permanent fund are reported within the nonspendable category.
- Restricted fund balance is the portion of fund balance that is subject to externally enforceable limitations by law, enabling legislation or limitations imposed by creditors or grantors.

- Committed fund balance is the portion of fund balance that can only be used for specific purposes due to formal action of the City Council through adoption of a resolution prior to the end of the fiscal year. Once adopted, the limitation imposed by resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. No amounts have been reported within this category of fund balance.
- Assigned fund balance reflects the City's intended use of resources. Intent can be expressed by the City Council or by an official to which the City Council delegates the authority. On February 22, 2011, the City Council approved a policy whereby the authority to assign fund balance was delegated to the City's chief financial officer, which authorized the assignment of fund balance for specific programs or purposes in accordance with City Council directives. The City also uses budget and finance policy to authorize the assignment of fund balance, which is done through the adoption of the budget and subsequent budget amendments throughout the year.
- Unassigned fund balance is the residual classification that includes all spendable amounts in the General Fund not contained in other classifications.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) fund balances are available, the City's policy is to use restricted amounts before unrestricted amounts. Within unrestricted resources, committed resources are used first followed by assigned resources, and finally unassigned resources.

O. Net Position

Net position represents the difference between assets and deferred outflows less liabilities and deferred inflows. Net position invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the related acquisition, construction or improvement of those assets excluding unspent debt proceeds. Restricted net position represents restricted assets less liabilities and deferred inflows related to those assets. Restricted assets are recorded when there are limitations imposed on their use either through legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriations.

P. Interfund Transactions

Interfund transactions are accounted for as revenues and expenditures or expenses. Transactions, which constitute reimbursements, are eliminated in the reimbursed fund and accounted for as expenditures or expenses in the fund to which the transaction is applicable.

During the year, transactions occur between individual funds for goods provided or services rendered. Related receivables and payables are classified as "due from/to other funds" on the accompanying fund level statements. The noncurrent portion of long-term interfund loans receivable are reported as advances and, for governmental fund types, are equally offset by a fund balance reserve to indicate that the receivable is not in spendable form.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Q. Unearned Revenue

Unearned revenues arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to meeting all eligibility requirements. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized.

R. Unavailable Revenue

Unavailable revenue arises only under a modified accrual basis of accounting. Accordingly, unavailable revenue is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available.

S. Deferred Outflows and Deferred Inflows of Resources

When applicable, the statement of net position and the balance sheet will report a separate section for deferred outflows of resources. Deferred outflows of resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore will not be recognized as an expense or expenditure until that time.

For the year ended June 30, 2014 (amounts expressed in thousands)

When applicable, the statement of net position and the balance sheet will report a separate section for deferred inflows of resources. Deferred inflows of resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are *not* recognized as an inflow of resources (revenue) until that time.

T. Regulatory Assets and Deferred Regulatory Charges

In accordance with GASB Statement No. 62, enterprise funds that are used to account for rate-regulated activities are permitted to defer certain expenses and revenues that would otherwise be recognized when incurred, provided that the City is recovering or expects to recover or refund such amounts in rates charged to its customers. Accordingly, regulatory assets and/or deferred regulatory charges have been recorded in the Electric, Water, Sewer and Refuse funds.

U. Property Tax Calendar

Under California law, general property taxes are assessed for up to 1% of the property's assessed value. General property taxes are collected by the counties along with other special district taxes and assessments and voter approved debt. General property tax revenues are collected and pooled by the county throughout the fiscal year and then allocated and paid to the county, cities and school districts based on complex formulas prescribed by State statutes.

Property taxes are calculated on assessed values as of January 1 for the ensuing fiscal year. On July 1 of the fiscal year the levy is placed and a lien is attached to the property. Property taxes are due in two installments. The first installment is due November 1 and is delinquent after December 10. The second installment is due February 1 and is delinquent after April 10. The City generally accrues only those taxes, which are received within sixty days after the year-end. Under the Teeter plan, the County of Riverside has responsibility for the collection of delinquent taxes and the City receives 100% of the levy.

V. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures. Specifically, the City has made certain estimates and assumptions relating to the revenues due and expenditures incurred through fiscal year end, collectability of its receivables, the valuation of property held for resale, the useful lives of capital assets, and the ultimate outcome of claims and judgments. Actual results may differ from those estimates and assumptions.

2. Legal Compliance - Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all departments within the general, special revenue and capital project funds. Formal budgets are not employed for debt service funds because debt indenture provisions specify payments. The permanent fund is not budgeted.

During the period December through February of each fiscal year, department heads prepare estimates of required appropriations for the following fiscal year. These estimates are compiled into a proposed operating budget that includes a summary of proposed expenditures and financial resources and historical data for the preceding fiscal year. The operating budget is presented by the City Manager to the City Council for review. Public hearings are conducted to obtain citizen comments. The City Council generally adopts the budget during one of its June meetings. The City Manager is legally authorized to transfer budgeted amounts between divisions and accounts within the same department. Transfer of appropriations between departments or funds and increased appropriations must be authorized by the City Council. Expenditures may not legally exceed budgeted appropriations at the departmental level within a fund. All appropriations shall lapse at the end of the fiscal year to the extent they have not been expended or lawfully encumbered, except for appropriations for capital projects which shall continue to their completion.

3. Cash and Investments

Cash and investments at fiscal year-end consist of the following:

| | |
|---|---|
| Investments | $ 391,630 |
| Investments at fiscal agent | 305,464 |
| | 697,094 |
| Cash on hand and deposits with financial institutions | 74,962 |
| Non-negotiable certificates of deposit | 1,000 |
| | $ 773,056 |

**For the year ended June 30, 2014** (amounts expressed in thousands)

The amounts are reflected in the statements of net position of the government-wide and fiduciary fund financial statements:

| | |
|---|---|
| Cash and investments | $ 384,768 |
| Restricted cash and cash equivalents | 46,506 |
| Restricted cash and investments at fiscal agent | 277,297 |
| Total per statement of net position | 708,571 |
| Fiduciary fund cash and investments | 64,485 |
| | $ 773,056 |

The City follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures, which are administered by outside agencies.

Interest income earned on pooled cash and investments is allocated monthly to funds based on the beginning and month-end balances. Interest income from cash and investments held at fiscal agents is credited directly to the related account. Bank deposits are covered by federal depository insurance for the first $250 or by collateral held in the pledging bank's trust department in the name of the City.

Authorized Investments

Under provisions of the City's investment policy, and in accordance with California Government Code Section 53601, the City Treasurer may invest or deposit in the following types of investments:

| | Max Maturity | Max % of Portfolio |
|---|---|---|
| Money Market Funds | N/A | 20% |
| Securities of the U.S. Government and its sponsored agencies | 5 Years | N/A |
| Corporate Medium-Term Notes | 5 Years | 30% |
| Local Agency Investment Fund (State Pool) | N/A | 100% |
| Negotiable Certificates of Deposit | 5 Years | 30% |
| Repurchase Agreements | 1 Year | N/A |
| Reverse Repurchase Agreements | 90 Days | 20% |
| Bankers Acceptances | 180 Days | 40% |
| Commercial Paper of "prime" quality | 270 Days | 25% |
| Local Agency Bonds | N/A | N/A |

Investments in Corporate Medium Term Notes may be invested in securities rated A or better by Moody's or Standard and Poor's rating services and no more than 15% of the market value of the portfolio may be invested in one corporation.

The City's investment policy provides two exceptions to the above; one is for investments authorized by debt agreements (described below) and the other for funds reserved in the San Onofre Nuclear Generating Station Decommissioning Account for which the five-year maturity limitation may be extended to the term of the operating license.

Investments Authorized by Debt Agreements

Provisions of debt agreements, rather than the general provisions of the California Government Code or the City's investment policy, govern investments of debt proceeds held by bond fiscal agents. Permitted investments are specified in related trust agreements and include the following:

Securities of the U.S. Government and its sponsored agencies
Bankers' Acceptances rated in the single highest classification
Commercial Paper rated AA or higher at the time of purchase
Investments in money market funds rated in the single highest classification, except for certain debt proceeds which have no minimum rating requirement
Municipal obligations rated Aaa/AAA or general obligations of states with ratings of at least A2/A or higher by both Moody's and S&P
Investment Agreements

No maximum percentage of the related debt issue or maximum investment in one issuer is specified.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City's investment policy requires that the interest rate risk exposure be managed by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by fiscal agent) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

For the year ended June 30, 2014 (amounts expressed in thousands)

| | | Remaining Maturity (in Months) | | | |
|---|---|---|---|---|---|
| Investment Type | Total | 12 Months or Less | 13 to 24 Months | 25 to 60 Months | More than 60 Months |
| Money Market Funds | $ 7,398 | $ 7,398 | $ - | $ - | $ - |
| Federal Agency Securities | 79,715 | - | 53,445 | 26,270 | - |
| U.S. Treasury Notes/Bonds | 138,374 | - | 23,306 | 115,068 | - |
| Corp. Medium Term Notes | 54,569 | 12,317 | 20,480 | 21,772 | - |
| State Investment Pool | 99,435 | 99,435 | - | - | - |
| Negotiable CDs | 12,139 | 3,967 | 5,437 | 2,735 | - |
| Held by Fiscal Agent | | | | | |
| Money Market Funds | 40,607 | 40,607 | - | - | - |
| State Investment Pool | 19,332 | 19,332 | - | - | - |
| Investment Contracts | 150,332 | 24,173 | 25,726 | 89,672 | 10,761 |
| Commercial Paper | 12,877 | 12,877 | - | - | - |
| Fed. Agency Securities | 61,634 | 1,193 | 10,323 | 50,118 | - |
| Corp. Med. Term Notes | 20,682 | - | 2,057 | 18,625 | - |
| Total | $697,094 | $221,299 | $140,774 | $324,260 | $10,761 |

The City assumes that callable investments will not be called.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Presented below is the actual rating as of year-end for each investment type:

| | | Ratings as of Year End | | | |
|---|---|---|---|---|---|
| Investment Type | Total | AAA | AA | A | Unrated |
| Money Market Funds | $ 7,398 | $ 1,062 | $ 1,290 | $ 5,046 | $ - |
| Federal Agency Securities | 79,715 | 79,715 | - | - | - |
| U.S. Treasury Notes/Bonds | 138,374 | 138,374 | - | - | - |
| Corporate Medium Term Notes | 54,569 | - | 44,301 | 10,268 | - |
| State Investment Pool | 99,435 | - | - | - | 99,435 |
| Negotiable CDs | 12,139 | - | - | - | 12,139 |
| Held by Fiscal Agent | | | | | |
| Money Market Funds | 40,607 | 9,232 | - | 29,650 | 1,725 |
| State Investment Pool | 19,332 | - | - | - | 19,332 |
| Investment Contracts | 150,332 | - | - | - | 150,332 |
| Commercial Paper | 12,877 | - | - | 12,877 | - |
| Federal Agency Securities | 61,634 | 61,634 | - | - | - |
| Corporate Medium Term Notes | 20,682 | - | 10,338 | 10,344 | - |
| Total | $697,094 | $290,017 | $55,929 | $68,185 | $282,963 |

Concentration on Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stated above. Investments in any one issuer (other than U.S. Treasury securities, money market funds, and external investment pools) that represent 5% or more of total City investments are as follows:

| Issuer | Investment Type | Reported Amount |
|---|---|---|
| Deutsche Bank Securities Inc. | Investment Contract | $82,249 |

Custodial Credit Risk

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 its 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 (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's investment policy requires that a third party bank trust department hold all securities owned by the City. All trades are settled on a delivery vs. payment basis through the City's safekeeping agent. The City has no deposits with financial institutions; bank balances are swept daily into a money market account.

Investment 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. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

4. Direct Financing Lease Receivable

The former Redevelopment Agency had a direct financing lease arrangement with the State of California (the State) for a twelve-story office building, which was transferred to the Successor Agency. The lease term is for thirty years and the State takes ownership of the facility at the conclusion of that term.

For the year ended June 30, 2014 (amounts expressed in thousands)

The lease calls for semi-annual payments not less than the debt service owed on the related lease revenue bonds issued by the former Redevelopment Agency for the purchase and renovation of the building. The future minimum lease payments to be received are as follows:

| | |
|---|---|
| 2015 | $ 2,507 |
| 2016 | 2,533 |
| 2017 | 2,561 |
| 2018 | 2,598 |
| 2019 | 2,626 |
| Thereafter | 16,443 |
| Total Due | 29,268 |
| Less: amount applicable to interest | (8,758) |
| Total direct financing lease receivable | $20,510 |

5. Capital Assets

The following is a summary of changes in the capital assets during the fiscal year ended June 30, 2014.

| Governmental activities: | Beginning Balance | Additions/ Transfers In | Deletions/ Transfers Out | Ending Balance |
|---|---|---|---|---|
| Capital assets, not depreciated: | | | | |
| Land | $ 325,215 | $ 8,628 | $ (44) | $ 333,799 |
| Construction in progress | 38,515 | 23,656 | (29,160) | 33,011 |
| Total capital assets not depreciated | 363,730 | 32,284 | (29,204) | 366,810 |
| Capital assets being depreciated: | | | | |
| Buildings | 180,337 | 469 | (152) | 180,654 |
| Improvements other than buildings | 250,021 | 49,324 | - | 299,345 |
| Machinery and equipment | 79,782 | 6,449 | (3,669) | 82,562 |
| Infrastructure | 910,700 | 24,244 | (331) | 934,613 |
| Total capital assets being depreciated | 1,420,840 | 80,486 | (4,152) | 1,497,174 |
| Less accumulated depreciation for: | | | | |
| Buildings | (50,286) | (4,618) | 119 | (54,785) |
| Improvements other than buildings | (67,772) | (11,389) | - | (79,161) |
| Machinery and equipment | (60,170) | (4,567) | 3,191 | (61,546) |
| Infrastructure | (287,728) | (21,704) | - | (309,432) |
| Total accumulated depreciation | (465,956) | (42,278) | 3,310 | (504,924) |
| Total capital assets being depreciated, net | 954,884 | 38,208 | (842) | 992,250 |
| Governmental activities capital assets, net | $1,318,614 | $70,492 | $(30,046) | $1,359,060 |

| Business type activities: | Beginning Balance | Additions/ Transfers In | Deletions/ Transfers Out | Ending Balance |
|---|---|---|---|---|
| Capital assets, not depreciated: | | | | |
| Land | $ 42,636 | $ 10,558 | $ (2,079) | $51,115 |
| Intangibles, non-depreciable | 21,492 | - | - | 21,492 |
| Construction in progress | 149,385 | 174,847 | (63,351) | 260,881 |
| Total capital assets not depreciated | 213,513 | 185,405 | (65,430) | 333,488 |
| Capital assets being depreciated: | | | | |
| Buildings | 267,232 | 1,778 | - | 269,010 |
| Improvements other than buildings | 1,475,267 | 58,011 | (3,883) | 1,529,395 |
| Intangibles, depreciable | 645 | 185 | - | 830 |
| Machinery and equipment | 74,526 | 3,405 | (1,791) | 76,140 |
| Total capital assets being depreciated | 1,817,670 | 63,379 | (5,674) | 1,875,375 |
| Less accumulated depreciation for: | | | | |
| Buildings | (108,804) | (6,289) | - | (115,093) |
| Improvements other than buildings | (422,435) | (38,404) | 4,022 | (456,817) |
| Intangibles, depreciable | (247) | (111) | - | (358) |
| Machinery and equipment | (45,469) | (5,722) | 1,698 | (49,493) |
| Total accumulated depreciation | (576,955) | (50,526) | 5,720 | (621,761) |
| Total capital assets being depreciated, net | 1,240,715 | 12,853 | 46 | 1,253,614 |
| Business type activities capital assets, net | $1,454,228 | $198,258 | $(65,384) | $1,587,102 |

Depreciation expense was charged to various functions as follows:

| | |
|---|---|
| Governmental activities: | |
| General government | $ 4,490 |
| Public safety | 4,113 |
| Highways and streets, including depreciation of general infrastructure assets | 22,989 |
| Culture and recreation | 10,686 |
| Total depreciation expense – governmental activities | $42,278 |
| Business type activities: | |
| Electric | $27,260 |
| Water | 12,799 |
| Sewer | 6,861 |
| Refuse | 1,223 |
| Special Transportation | 612 |
| Airport | 698 |
| Public Parking | 1,073 |
| Total depreciation expense – business type activities | $50,526 |

**For the year ended June 30, 2014** (amounts expressed in thousands)

6. Long-Term Obligations

Changes in Long-Term Obligations: Below is a summary of changes in long-term obligations during the fiscal year:

Governmental Activities:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| General Obligation Bonds | $15,314 | $ - | $ 854 | $14,460 | $ 900 |
| Pension Obligation Bonds | 122,005 | 30,940 | 37,170 | 115,775 | 37,990 |
| Certificates of Participation | 158,697 | 36,446 | 3,697 | 191,446 | 4,210 |
| Capital Leases | 8,424 | 6,625 | 1,881 | 13,168 | 2,635 |
| Lease Revenue Bonds | 43,762 | - | 1,418 | 42,344 | 1,330 |
| Loan Payable | 28,652 | 19,650 | 691 | 47,611 | 2,036 |
| Compensated Absences | 21,761 | 12,480 | 12,245 | 21,996 | 12,372 |
| Claims Liability | 31,569 | 13,582 | 9,984 | 35,167 | 11,122 |
| Judgment | 10,000 | - | 3,333 | 6,667 | 3,333 |
| Net OPEB Obligation | 12,537 | 2,566 | 664 | 14,439 | - |
| Total | $452,721 | $122,289 | $71,937 | $503,073 | $75,928 |

Business-type activities:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Revenue Bonds | $1,031,839 | $ 134,841 | $72,390 | $1,094,290 | $77,260 |
| Loan Payable | 42,661 | - | 42,661 | - | - |
| Notes Payable | 28,137 | 9,482 | 1,589 | 36,030 | 1,637 |
| Capital Leases | 2,558 | 353 | 645 | 2,266 | 700 |
| Landfill Capping | 6,457 | - | 285 | 6,172 | 200 |
| Arbitrage Liability | 269 | - | 255 | 14 | - |
| Water Stock Acquisition Rights | 944 | - | 2 | 942 | 150 |
| Compensated Absences | 7,638 | 6,536 | 6,249 | 7,925 | 6,480 |
| Net OPEB Obligation | 9,780 | 2,190 | 567 | 11,403 | - |
| Total | $1,130,283 | $153,402 | $124,643 | $1,159,042 | $86,427 |

The following debt has been issued for the purpose of generating capital resources for use in acquiring or constructing municipal facilities or infrastructure projects.

Long-Term Obligations at June 30, 2014:

| Revenue Bonds: | Principal Outstanding |
|---|---|
| Electric | |
| $27,500 2004 Electric Revenue Bonds; Series A fixed rate bonds, due in a final principal installment of $2,645 on October 1, 2014, interest of 5.0%. | $ 2,645 |
| $141,840 2008 Electric Refunding/Revenue Bonds; Series A and C. The bonds were issued at a variable rate; however the City entered into an agreement to convert to a fixed rate of 3.1% for the Series A bonds and 3.2% for the C bonds. For information on the swap agreements see note 10. Bonds are due in annual installments from $700 to $7,835 through October 1, 2035. | 112,515 |
| $209,740 2008 Electric Revenue Bonds; Series D fixed rate bonds, 3.6% to 5.0%, due in annual installments from $3,460 to $25,345 through October 1, 2038. | 209,740 |
| $34,920 2009 Electric Refunding/Revenue Bonds; Series A fixed rate bonds, 4.0% to 5.0%, due in annual installments from $1,150 to $7,035 through October 1, 2018. The bonds refunded the 1998 series and partially refunded the 2001 series. | 13,815 |
| $140,380 2010 Electric Revenue Bonds; Series A and B fixed rate bonds, 3% to 5.0%, due in annual installments from $95 to $33,725 through October 1, 2040. | 140,380 |
| $56,450 2011 Electric Revenue Refunding Bonds; Series A. The bonds were issued at a variable rate; however, the City entered into an agreement to convert to a fixed rate of 3.2%. For information on the swap agreements see note 10. Bonds are due in annual installments from $725 to $5,175 through October 1, 2035. | 41,925 |

For the year ended June 30, 2014 (amounts expressed in thousands)

| | |
|---|---|
| $79,080 2013 Electric Revenue Refunding Bonds; Series A fixed rate bonds, 3% to 5.25%, due in annual installments from $795 to $12,685 through October 1, 2043. | 76,560 |
| Subtotal | 597,580 |
| Add: Unamortized bond premium | 10,434 |
| | $608,014 |

Water

| | |
|---|---|
| $58,235 2008 Water Revenue Bonds; Series B fixed rate bonds, 4.0% to 5.0%, due in annual installments from $1,210 to $7,505 through October 1, 2038. | $58,235 |
| $31,895 2009 Water Refunding/Revenue Bonds; Series A fixed rate bonds, 3.0% to 5.0%, due in annual installments from $2,360 to $4,335 through October 1, 2020. The bonds refunded the 1998 series and partially refunded the 2001 series. | 21,205 |
| $67,790 2009 Water Revenue Bonds; Series B fixed rate bonds, 3.3% to 4.1%, due in annual installments from $2,475 to $4,985 through October 1, 2039. | 67,790 |
| $59,000 2011 Water Refunding/Revenue Bonds; Series A. The bonds were issued at a variable rate; however the City entered into an agreement to convert to a fixed rate of 3.2%. For information on the swap agreements see note 10. Bonds are due in annual installments from $600 to $3,950 through October 1, 2035. | 56,525 |
| Subtotal | 203,755 |
| Add: Unamortized bond premium | 3,436 |
| | $207,191 |

Sewer

| | |
|---|---|
| $240,910 2009 Sewer Revenue Bonds; Series A & B fixed rate bonds, 3.65% to 5.0%, due in annual installments from $5,555 to $13,350 through August 1, 2039. | $227,115 |
| $50,000 2014 Sewer Revenue Bonds; variable rate financing with Wells Fargo due June 1, 2015. The interest rate is 70% of the LIBOR one-month index plus 50 basis points. | 50,000 |
| Subtotal | 277,115 |
| Add: Unamortized bond premium | 1,970 |
| | $279,085 |
| Total Revenue Bonds | $1,094,290 |

Remaining revenue bond debt service payments will be made from revenues of the Electric, Water and Sewer Enterprise funds. Annual debt service requirements to maturity are as follows:

| | Electric Utility Fund | | | Water Utility Fund | | |
|---|---|---|---|---|---|---|
| Fiscal Year | Principal | Interest | Total | Principal | Interest | Total |
| 2015 | $14,920 | $ 26,194 | $ 41,114 | $ 5,015 | $ 8,276 | $ 13,291 |
| 2016 | 15,825 | 25,519 | 41,344 | 5,260 | 8,046 | 13,306 |
| 2017 | 13,320 | 24,863 | 38,183 | 5,180 | 7,814 | 12,994 |
| 2018 | 13,795 | 24,279 | 38,074 | 5,415 | 7,577 | 12,992 |
| 2019 | 14,445 | 23,636 | 38,081 | 5,635 | 7,352 | 12,987 |
| 2020-2024 | 80,575 | 109,462 | 190,037 | 31,580 | 33,265 | 64,845 |
| 2025-2029 | 97,715 | 91,628 | 189,343 | 38,055 | 26,563 | 64,618 |
| 2030-2034 | 120,155 | 68,298 | 188,453 | 46,200 | 18,174 | 64,374 |
| 2035-2039 | 149,040 | 38,047 | 187,087 | 56,430 | 7,625 | 64,055 |
| 2040-2041 | 77,790 | 4,844 | 82,634 | 4,985 | 103 | 5,088 |
| Premium | 10,434 | - | 10,434 | 3,436 | - | 3,436 |
| Total | $608,014 | $436,770 | $1,044,784 | $ 207,191 | $124,795 | $331,986 |

| | Sewer Utility Fund | | |
|---|---|---|---|
| Fiscal Year | Principal | Interest | Total |
| 2015 | $ 57,325 | $ 10,435 | $ 67,760 |
| 2016 | 7,660 | 9,811 | 17,471 |
| 2017 | 8,055 | 9,418 | 17,473 |
| 2018 | 8,410 | 9,063 | 17,473 |
| 2019 | 8,725 | 8,747 | 17,472 |
| 2020-2024 | 32,885 | 39,244 | 72,129 |
| 2025-2029 | 36,560 | 31,749 | 68,309 |
| 2030-2034 | 46,010 | 22,306 | 68,316 |
| 2035-2039 | 58,135 | 10,180 | 68,315 |
| 2040 | 13,350 | 312 | 13,662 |
| Premium | 1,970 | - | 1,970 |
| Total | $279,085 | $151,265 | $430,350 |

**For the year ended June 30, 2014** (amounts expressed in thousands)

| General Obligation Bonds: | Principal Outstanding |
|---|---|
| $20,000 Fire Facility Projects, Election of 2003 General Obligation Bond; 3.0% to 5.5%, due in annual installments from $410 to $1,740 through August 1, 2024. | $14,295 |
| Add: Unamortized bond premium | 165 |
| Total General Obligation Bonds | $14,460 |

Remaining general obligation bond debt service payments will be made from unrestricted revenues of the General fund. Annual debt service requirements to maturity are as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $ 900 | $ 671 | $ 1,571 |
| 2016 | 965 | 634 | 1,599 |
| 2017 | 1,040 | 592 | 1,632 |
| 2018 | 1,110 | 544 | 1,654 |
| 2019 | 1,195 | 492 | 1,687 |
| 2020-2024 | 7,345 | 1,485 | 8,830 |
| 2025 | 1,740 | 48 | 1,788 |
| Premium | 165 | - | 165 |
| Total | $14,460 | $4,466 | $18,926 |

| Pension Obligation Bonds: | Principal Outstanding |
|---|---|
| $89,540 California Statewide Community Development Authority (Public Safety) 2004 Taxable Pension Obligation Bond; 2.65% to 5.896%, due in annual installments from $1,125 to $10,715 through June 1, 2023. | $ 66,320 |
| $30,000 2005 Taxable Pension Obligation Bonds Series A; 3.85% to 4.78%, due in annual installments $630 to $3,860 through June 1, 2020. | 18,515 |
| $30,940 2014 Taxable Pension Obligation Refunding Bond Anticipation Notes; rate at June 30, 2014 was 0.60%, $30,940 due June 1, 2015. | 30,940 |
| Total Pension Obligation Bonds | $115,775 |

Remaining pension obligation bond debt service payments will be made from unrestricted revenues of the General fund. Annual debt service requirements to maturity are as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $ 37,990 | $ 4,950 | $ 42,940 |
| 2016 | 7,930 | 4,391 | 12,321 |
| 2017 | 8,880 | 3,971 | 12,851 |
| 2018 | 9,920 | 3,482 | 13,402 |
| 2019 | 11,035 | 2,936 | 13,971 |
| 2020-2023 | 40,020 | 5,891 | 45,911 |
| Total | $115,775 | $25,621 | $141,396 |

| Certificates of Participation: | Principal Outstanding |
|---|---|
| $19,945 2006 Galleria at Tyler Public Improvements Certificates of Participation; 4.0% to 5.0%, due in annual installments from $435 to $1,270 through September 1, 2036. | $18,585 |
| $128,300 2008 Riverside Renaissance Certificates of Participation; issued at a variable rate; however, the City entered into an agreement to convert to a fixed rate of 3.4%. For information on the swap agreement see note 10. Due in annual installments from $2,900 to $7,200 through March 1, 2037. | 116,100 |
| $20,660 2010 Recovery Zone Facility Hotel Project Certificates of Participation; 4.0% to 5.5%, due in annual installments from $415 to $1,410 through March 1, 2040. | 20,660 |
| $35,235 2013 Pavement Rehab Certificates of Participation; 4.0% to 5.0%, due in annual installments from $1,285 to $2,855 through June 1, 2034 | 35,235 |
| Subtotal | 190,580 |
| Plus: Unamortized bond premium | 866 |
| Total Certificates of Participation | $191,446 |

For the year ended June 30, 2014 (amounts expressed in thousands)

Remaining certificates of participation debt service payments will be made from unrestricted revenues of the debt service fund. Annual debt service requirements to maturity are as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $ 4,210 | 7,495 | 11,705 |
| 2016 | 5,730 | 7,345 | 13,075 |
| 2017 | 5,920 | 7,137 | 13,057 |
| 2018 | 6,110 | 6,922 | 13,032 |
| 2019 | 6,310 | 6,700 | 13,010 |
| 2020-2024 | 35,955 | 29,521 | 65,476 |
| 2025-2029 | 43,720 | 21,734 | 65,454 |
| 2030-2034 | 50,650 | 12,141 | 62,791 |
| 2035-2039 | 30,565 | 2,943 | 33,508 |
| 2040 | 1,410 | 78 | 1,488 |
| Premium | 866 | - | 866 |
| Total | $191,446 | $102,016 | $293,462 |

| Lease Revenue Bonds – Governmental Activities: | Principal Outstanding |
|---|---|
| On August 15, 2012, the City issued the Series 2012A Lease Revenue Refunding Bonds in the amount of $41,240. The bonds were issued to refinance the 2003 Certificates of Participation. Interest on the bonds is payable semi-annually on May 1 and November 1 of each year, commencing May 1, 2013. The rate of interest varies from 2% to 5% per annum depending on maturity date. Principal is payable in annual installments ranging from $1,295 to $2,840 commencing November 1, 2013 and ending November 1, 2033. The refunding transaction resulted in an economic gain of $2,455 and a reduction of $3,034 in future debt service payments. | $39,945 |
| Add: Unamortized bond premium | 2,399 |
| Total Lease Revenue Bonds – Governmental Activities | $42,344 |

Remaining lease revenue bond debt service payments will be made from unrestricted revenues of the debt service fund. Annual debt service requirements to maturity are as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $1,330 | $ 1,743 | $ 3,073 |
| 2016 | 1,370 | 1,702 | 3,072 |
| 2017 | 1,420 | 1,653 | 3,073 |
| 2018 | 1,485 | 1,588 | 3,073 |
| 2019 | 1,560 | 1,511 | 3,071 |
| 2020-2024 | 9,080 | 6,271 | 15,351 |
| 2025-2029 | 10,540 | 4,058 | 14,598 |
| 2030-2034 | 13,160 | 1,370 | 14,530 |
| Premium | 2,399 | - | 2,399 |
| Total | $42,344 | $19,896 | $62,240 |

| Loans Payable – Governmental Activities: | Principal Outstanding |
|---|---|
| In March 2012 the City entered into a financing arrangement in the amount of $4,000 with Pinnacle Public Finance, Inc. for the construction of Ryan Bonaminio Park at the Tequesquite Arroyo. The debt will be paid with resources from the General Fund in semi-annual debt service payments of approximately $468 per year over a 10 year period, which includes interest at an annualized rate of 3.05%. | $ 3,294 |
| On July 19, 2012, the City secured financing in the amount of $41,650 with BBVA Compass Bank for the renovation and expansion of the Riverside Convention Center. In March 2014, the financing arrangement with BBVA was increased to $44,650. The financing consists of an initial 21-month variable rate interest only period during construction that has a swap transaction layered over the remaining 20-year amortization resulting in a "synthetic fixed" rate of 3.24% for 20 of the 22 years. For information on the swap agreement see note 10. At the end of the construction period, principal and interest are due on the first of each month, with equal payments each year of approximately $2,850. | 44,317 |
| Total Loans Payable – Governmental Activities | $47,611 |

For the year ended June 30, 2014 (amounts expressed in thousands)

Remaining loans payable debt service payments will be made from unrestricted revenues of the debt service fund. Annual debt service requirements to maturity are as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $ 2,036 | $ 1,467 | $ 3,503 |
| 2016 | 2,094 | 1,409 | 3,503 |
| 2017 | 2,157 | 1,346 | 3,503 |
| 2018 | 2,222 | 1,281 | 3,503 |
| 2019 | 2,283 | 1,220 | 3,503 |
| 2020-2024 | 11,579 | 5,004 | 16,583 |
| 2025-2029 | 11,921 | 3,261 | 15,182 |
| 2030-2034 | 13,319 | 1,293 | 14,612 |
| Total | $47,611 | $16,281 | $63,892 |

| Notes Payable – Enterprise Funds: | Principal Outstanding |
|---|---|
| Sewer fund loan from State of California for Cogeneration project, 2.336%, payable in net annual installments of $339, beginning January 29, 2003 through January 29, 2021 | $ 2,191 |
| Sewer fund loan from State of California for Headworks project, 1.803%, payable in net annual installments of $477, beginning November 6, 1999 through November 6, 2018 | 2,265 |
| Public parking fund loan from City National Bank for Fox Entertainment Plaza project, 3.85%, payable in net annual installments of $1,747, beginning June 16, 2011 through December 16, 2031 | 22,092 |
| In 2014, the Water fund purchased property from Hillwood Enterprises, L.P. (Hillwood). The property was subsequently leased back to Hillwood, which is to be developed into a logistics center. In consideration of the costs to purchase the property the Water fund will make payments to Hillwood in the form of a credit equal to Hillwood's rental payments to the Water fund for the first 15 years of the lease. Rent will commence the earlier of when Hillwood starts construction of the logistic center or May 20, 2016. | 9,482 |
| Total notes payable – Enterprise Funds | $36,030 |

Remaining notes payable debt service payments will be made from unrestricted revenues of the Sewer fund. Annual debt service requirements to maturity are as follows:

Sewer Fund

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $ 731 | $ 85 | $ 816 |
| 2016 | 745 | 72 | 817 |
| 2017 | 759 | 58 | 817 |
| 2018 | 774 | 43 | 817 |
| 2019 | 788 | 29 | 817 |
| 2020-2021 | 659 | 20 | 679 |
| Total | $4,456 | $307 | $4,763 |

Public Parking Fund

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $ 906 | $ 841 | $ 1,747 |
| 2016 | 940 | 807 | 1,747 |
| 2017 | 977 | 770 | 1,747 |
| 2018 | 1,014 | 733 | 1,747 |
| 2019 | 1,054 | 693 | 1,747 |
| 2020-2024 | 5,917 | 2,817 | 8,734 |
| 2025-2029 | 7,160 | 1,574 | 8,734 |
| 2030-2032 | 4,124 | 241 | 4,365 |
| Total | $22,092 | $8,476 | $30,568 |

Water Fund

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $ - | $ - | $ - |
| 2016 | 40 | 156 | 196 |
| 2017 | 483 | 152 | 635 |
| 2018 | 492 | 144 | 636 |
| 2019 | 512 | 136 | 648 |
| 2020-2024 | 2,900 | 543 | 3,443 |
| 2025-2029 | 3,522 | 279 | 3,801 |
| 2030-2031 | 1,533 | 26 | 1,559 |
| Total | $ 9,482 | $ 1,436 | $10,918 |

For the year ended June 30, 2014 (amounts expressed in thousands)

| Contracts – Enterprise Funds: | Principal Outstanding |
|---|---|
| Water stock acquisition rights payable on demand to various water companies | $941 |

Current Year Refunding:

On July 25, 2013 the City issued $79,080 of 2013A Electric Revenue Refunding Bonds, which refunded previously outstanding debt. The refunding resulted in an increase in debt service payments of $10,962 over the next 30 years and an economic gain of $2,961.

Letters of Credit:

The City's 2008 Certificates of Participation and 2008 Electric Revenue Bonds (Series A and C) require an additional layer of security between the City and the purchaser of the bonds. The City has entered into the following letters of credit ("LOC") in order to provide liquidity should all or a portion of the debt be optionally tendered to the remarketer without being successfully remarketed:

| Debt Issue | LOC Provider | LOC Expiration Date | Annual Commitment Fee |
|---|---|---|---|
| 2008 Certificates of Participation | Bank of America, N.A. | 2015 | 0.450% |
| 2008A Electric Revenue Bonds | Barclays Bank, PLC | 2017 | 0.275% |
| 2008C Electric Revenue Bonds | Bank of America, N.A. | 2017 | 0.390% |

To the extent that remarketing proceeds are insufficient or not available, tendered amounts will be paid from drawings made under an irrevocable direct-pay letter of credit.

Liquidity advances drawn against the LOC that are not repaid will be converted to an installment loan over a 5-year period. The City would be required to pay $63,420 a year for 5 years (assuming a 12 percent interest rate) if $116,100 of 2008 Certificates of Participation and $112,515 of 2008 Electric Revenue Bonds (Series A and C) were "put" and not resold. No amounts have ever been drawn against the three letters of credit due to a failed remarketing.

The various indentures allow the City to convert the mode of the debt in the case of a failed remarketing.

Capital Leases:

The City leases various equipment through capital leasing arrangements in the governmental and proprietary fund types. These activities are recorded for both governmental and business-type activities in the government-wide financial statements. The assets and related obligations under leases in governmental funds are not recorded in the fund statements. For proprietary funds, the assets and their related liabilities are reported directly in the fund. Amortization applicable to proprietary assets acquired through capital lease arrangements is included with depreciation for financial statement presentation.

The assets acquired through capital leases are as follows:

| Asset | Governmental Activities | Business-Type Activities |
|---|---|---|
| Buildings and improvements | $1,103 | $ - |
| Equipment | 9,722 | 4,830 |
| Subtotal | 10,825 | 4,830 |
| Less: Accumulated depreciation | (3,315) | (1,738) |
| Total | $7,510 | $3,092 |

The future minimum lease obligations as of June 30, 2014 were as follows:

| Years Ending June 30, | Governmental Activities | Business-type Activities |
|---|---|---|
| 2015 | $2,854 | $ 751 |
| 2016 | 2,854 | 387 |
| 2017 | 2,232 | 322 |
| 2018 | 2,232 | 322 |
| 2019 | 1,927 | 322 |
| Thereafter | 1,771 | 309 |
| Copiers | 20 | 1 |
| Total Minimum lease payments | 13,890 | 2,414 |
| Less: Amount representing interest (rates ranging from 1.2% to 9%) | (722) | (148) |
| Total capital lease payable | $13,168 | $2,266 |

**For the year ended June 30, 2014** (amounts expressed in thousands)

The following are legally required debt service cash reserves. These amounts, at a minimum, are held by the City or fiscal agents at June 30, 2014:

| | |
|---|---|
| Governmental long-term obligations: | |
| Certificates of Participation | $10,281 |
| Total | $10,281 |
| | |
| Enterprise funds: | |
| Electric | $14,833 |
| Sewer | 20,142 |
| Total | $34,975 |

The City has a number of debt issuances outstanding that are collateralized by the pledging of certain revenues. The amount and term of the remainder of these commitments are indicated in the debt service to maturity tables presented in the accompanying notes. The purposes for which the proceeds of the related debt issuances were utilized are disclosed in the debt descriptions in the accompanying notes. For the current year, debt service payments as a percentage of the pledged gross revenue (or net of certain expenses where so required by the debt agreement) are indicated in the table below. The debt service coverage ratios also approximate the relationship of debt service to pledged revenue for the remainder of the term of the commitment.

| Description of Pledged Revenue | Annual Amount of Pledged Revenue (net of expenses, where required) | Annual Debt Service Payments (of all debt secured by this revenue) | Debt Service Coverage Ratio for FYE 6/30/14 |
|---|---|---|---|
| Electric revenues | $106,405 | $49,207 | 2.16 |
| Water revenues | 36,761 | 13,110 | 2.80 |
| Sewer revenues | 23,168* | 18,534 | 1.25 |

* Includes $2,425 of cash set-aside in a rate stabilization account in accordance with applicable bond covenants.

There are also a number of limitations and restrictions contained in Assessment Bond indentures. The City believes they are in compliance with all significant limitations and restrictions.

Landfill Capping:

State and Federal laws and regulations require the City to place a final cover on all active landfills when closed and to perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. To comply with these laws and regulations, the City is funding the costs of closure and "final capping" of the Tequesquite landfill located in the City. This area, comprised of approximately 120 acres, operated as a "Class II Sanitary Landfill" until its closure in 1985. During its operation, the landfill did not accept hazardous waste and no clean up and abatement or cease and desist orders have been issued to the City. The capacity used at June 30, 2014 was 100%. The remaining post closure period is currently 19 years.

The estimated costs as determined by an independent consultant and updated by the City's Engineering Department are associated with flood control upgrades, remediation of possible ground water contamination and control of methane gas. All potential costs have been recognized in the financial statements. However, there is the potential for these estimates to change due to inflation, deflation, technology, or change in laws or regulations. The City is recovering such costs in rates charged to its customers. The portion of costs to be recovered through future rates is classified as a regulatory asset and will be amortized over future periods.

7. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Property insurance coverage has a limit of $1,000,000, with a deductible of $100. Earthquake and flood insurance coverage has a limit of $25,000, with a deductible of 5% for earthquake and $100 for flood. Workers' compensation insurance coverage has a limit of $25,000, with a self-insured retention of $3,000 per occurrence. The City carries commercial insurance in the amount of $20,000 for general and auto liability claims greater than $3,000. There were no claims settled in the last three fiscal years that exceed insurance coverage. Internal service funds have been established to account for and finance the uninsured risks of loss. All funds of the City participate in the Risk Management program and make payments to the Internal Service Funds based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. Interfund premiums are accounted for as quasi - external transactions and are therefore recorded as revenues of the Internal Service funds in the fund financial statements.

For the year ended June 30, 2014 (amounts expressed in thousands)

Changes in the self-insurance fund's claims liability amounts are:

| | |
|---|---|
| Unpaid Claims, June 30, 2012 | $27,542 |
| Incurred claims (including IBNR's) | 20,897 |
| Claim payments and adjustments | (16,870) |
| Unpaid Claims, June 30, 2013 | 31,569 |
| Incurred claims (including IBNR's) | 13,582 |
| Claim payments and adjustments | (9,984) |
| Unpaid Claims, June 30, 2014 | $35,167 |

8. Judgment

In April 2013, the City settled a lawsuit challenging its century-old practice of transferring Water Fund monies to the General Fund. Under the settlement agreement, the General Fund agreed to pay $10 million over a three year period beginning in fiscal year 2013/14. In fiscal year 2013/14, the General Fund paid the first installment of $3,333. The remaining obligation is $6,667, which has been reflected as a liability in the government-wide statements.

9. Other Long-Term Obligations

Changes in Long-Term Obligations: Below is a summary of changes in long-term obligations during the fiscal year for the former Redevelopment Agency, which is accounted for in the Successor Agency Trust (a fiduciary fund):

Successor Agency Trust:

| | Beginning Balance* | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Redevelopment Agency bonds | $ 256,222 | $ - | $ 8,182 | $248,040 | $ 8,310 |
| Notes Payable | 6,257 | - | 650 | 5,607 | 733 |
| Total | $ 262,479 | $ - | $ 8,832 | $253,647 | $9,043 |

| Redevelopment Agency Bonds: | Principal Outstanding |
|---|---|
| $13,285 1991 Public Financing Authority Revenue Bonds, Series A, Multiple Project Areas; $1,470 serial revenue bonds 7.15% to 7.6%, due in annual installments from $100 to $145 through Feb. 1, 2003; and $4,175 term bonds, 8.0%, due in annual installments from $155 to $450 through Feb. 1, 2018 (portion not refunded). | $ 85 |
| $17,025 1999 University Corridor/Sycamore Canyon Merged Project Area, Tax Allocation Bonds, Series A; $6,205 serial bonds, 3.4% to 4.7% due in annual installments from $40 to $570 through Aug. 1, 2014; $4,810 term bonds at 4.75% due Aug. 1, 2021; and $6,010 term bonds at 5.0% due Aug. 1, 2027. | 11,390 |
| $6,055 1999 University Corridor/Sycamore Canyon Merged Project Area, Subordinate Tax Allocation Bonds, Series B; $1,900 serial bonds, 4.5% to 5.5% due in annual installments from $35 to $190 through Sep. 1, 2013; $1,135 term bonds at 5.5% due Sep. 1, 2018; and $3,020 term bonds at 5.625% due Sep. 1, 2027. | 4,155 |
| $20,395 1999 Casa Blanca Project Area, Tax Allocation Bonds, Series A; $8,925 serial bonds, 3.4% to 4.7% due in annual installments from $455 to $780 through Aug. 1, 2014; $2,565 term bonds at 4.75% due Aug. 1, 2017; $4,035 term bonds at 4.75% due Aug. 1, 2021; and $4,870 term bonds at 5% due Aug. 1, 2025. | 12,250 |
| $4,550 Arlington Redevelopment Project, 2004 Tax Allocation Bonds, Series A; $420 term bonds at 3.8% due Aug. 1, 2014; $615 term bonds at 4.6% due Aug. 1, 2024; $3,515 term bonds at 4.7% due Aug. 1, 2034. | 4,175 |
| $2,975 Arlington Redevelopment Project Area, 2004 Tax Allocation Bonds; Series B: 5.5% due in annual installments from $85 to $235 through Aug. 1, 2024. | 2,010 |
| $26,255 State of California Department of General Services Project, 2003 Lease Revenue Refunding Bonds, Series A; 2% to 5% due in annual installments from $545 to $2,230 through Oct. 1, 2024. | 17,790 |
| $4,810 State of California Dept. of General Services Project, 2003 Lease Revenue Refunding Bonds, Series B; $310 serial bonds 1.20% to 1.42% through Oct.1, 2004; $620 term bonds at 3.090% due Oct. 1, 2008; $1,110 term bonds at 4.340% due Oct. 1, 2014 and $2,770 term bonds at 5.480% due Oct. 1, 2024. | 2,975 |

(amounts expressed in thousands)

| | |
|---|---|
| $40,435 Downtown/Airport Merged Project Area, 2003 Tax Allocation and Refunding Bonds; $32,720 serial bonds 2.0% to 5.25% due in annual installments from $1,220 to $1,955 through Aug. 1, 2023; and $7,715 term bonds at 5.0% due in annual installments from $195 to $2,060 through Aug. 2034. | 26,780 |
| $24,115 2005 Housing Set-Aside Tax Allocation Bonds; $17,025 serial bonds 3.0% to 4.625% due in annual installments from $505 to $1,165 through Aug. 1, 2025; $2,425 term bonds at 5.0% due Aug. 1, 2028; and $4,665 term bonds at 4.85% due Aug. 1, 2034. | 18,415 |
| $8,340 Downtown/Airport Merged Project Area and Casa Blanca Project Area 2007 Tax Allocation Bonds, Tax Exempt, Series A, serial bonds 4.0% to 4.25% due in annual installments from $20 to $590,000 through Aug. 1, 2025; $4,980 term bonds at 4.5% due Aug. 1, 2029; $410 term bonds at 4.375% due Aug. 1, 2037. | 8,220 |
| $1,465 California Statewide Communities Development Authority 2005 Taxable Revenue Bonds, Series A (CRA/ERAF Loan Program); 3.87% to 5.01% due in annual installments of $105 to $180 through Aug. 1, 2015. | 180 |
| $14,850 Downtown/Airport Merged Project Area and Casa Blanca Project Area 2007 Tax Allocation Bonds, Taxable, Series B, $4,050 term bonds at 5.2% due Aug. 1, 2017; $10,800 term bonds at 5.8% due Aug. 1, 2028. | 12,520 |
| $89,205 University Corridor/Sycamore Canyon Merged Project Area, Arlington Project Area, Hunter Park/Northside Project Area, Magnolia Center Project Area, and La Sierra/Arlanza Project Area 2007 Tax Allocation Bonds, Tax-Exempt, Series C, serial bonds 4.0% to 5.0% due in annual installments from $50 to $3,210 through Aug. 1, 2025; $17,955 term bonds at 4.5% due Aug. 1, 2030; $47,775 term bonds at 5.0% due Aug. 1, 2037. | 87,110 |
| $43,875 University Corridor/Sycamore Canyon Merged Project Area, Arlington Project Area, Hunter Park/Northside Project Area, Magnolia Center Project Area, and La Sierra/Arlanza Project Area 2007 Tax Allocation Bonds, Taxable, Series D, $15,740 term bonds at 5.24% due Aug. 1, 2017; $28,135 term bonds at 5.89% due Aug. 1, 2032. | 34,785 |
| Subtotal | 242,840 |
| Add: Unamortized bond premium | 5,200 |
| Total Redevelopment Agency Bonds | $248,040 |

Remaining debt service will be paid by the Successor Agency Trust from future property tax revenues. Annual debt service requirements to maturity are as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $ 8,310 | $ 12,047 | $ 20,357 |
| 2016 | 8,520 | 11,665 | 20,185 |
| 2017 | 8,905 | 11,256 | 20,161 |
| 2018 | 9,660 | 10,799 | 20,459 |
| 2019 | 10,125 | 10,299 | 20,424 |
| 2020-2024 | 61,015 | 42,744 | 103,759 |
| 2025-2029 | 58,175 | 26,736 | 84,911 |
| 2030-2034 | 45,205 | 13,826 | 59,031 |
| 2035-2038 | 32,925 | 3,110 | 36,035 |
| Premium | 5,200 | - | 5,200 |
| Total | $248,040 | $142,482 | $390,522 |

| Notes Payable – Successor Agency: | Principal Outstanding |
|---|---|
| These notes payable have been issued to promote development and expansion within the City's redevelopment areas. | $2,987 |
| Pepsi Cola Bottling Company of Los Angeles, 10.5%, payable in net annual installments of $341, subject to recording of completion. | 775 |

**For the year ended June 30, 2014** (amounts expressed in thousands)

| | |
|---|---|
| HUD Section 108 loan for University Village, 5.36% to 7.66%, payable in semi-annual installments beginning Aug. 1, 1996 of $272 to $425 through Aug. 1, 2015 HUD Section 108 loan for Mission Village Project, 6.15% to 6.72%, payable in semi-annual installments beginning Aug. 1, 1999 of $110 to $420 through Aug. 1, 2018 | 1,845 |
| Total notes payable – Successor Agency | $ 5,607 |

Remaining debt service will be paid by the Successor Agency Trust from future property tax revenues. Annual debt service requirements to maturity are as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $ 733 | $ 383 | $ 1,116 |
| 2016 | 771 | 357 | 1,128 |
| 2017 | 399 | 337 | 736 |
| 2018 | 428 | 323 | 751 |
| 2019 | 462 | 306 | 768 |
| 2020-2024 | 286 | 1,423 | 1,709 |
| 2025-2029 | 471 | 1,238 | 1,709 |
| 2030-2034 | 777 | 933 | 1,710 |
| 2035-2038 | 1,280 | 430 | 1,710 |
| Total | $ 5,607 | $5,730 | $11,337 |

As a result of action by the State of California to dissolve all redevelopment agencies in the state, the Successor Agency no longer receives the full amount of tax increment previously pledged by the dissolved redevelopment agency to its bondholders. In its place is a new revenue stream provided to the Successor Agency that represents only that portion of tax increment that is necessary to pay the enforceable obligations approved by the California Department of Finance.

For the current year, debt service payments as a percentage of the pledged gross revenue (or net of certain expenses where so required by the debt agreement) are indicated in the table below. The debt service coverage ratios for the Successor Agency also approximate the relationship of debt service to pledged revenue for the remainder of the term of the commitment.

| Description of Pledged Revenue | Annual Amount of Pledged Revenue (net of expenses, where required)* | Annual Debt Service Payments (of all debt secured by this revenue) | Debt Service Coverage Ratio for FYE 6/30/14 |
|---|---|---|---|
| Property Taxes: | | | |
| Non-Housing | $41,335 | $15,298 | 2.70 |
| Housing | 8,667 | 2,765 | 3.13 |

* The computations above are based on the total tax increment generated for the year ended June 30, 2014 for each project area that had been pledged as collateral for the Bonds. As discussed above, only a portion of tax increment has been actually remitted to the Successor Agency and reported as revenue in the accompanying financial statements.

Assessment Districts and Community Facilities Districts Bonds
(Not obligations of the City)

As of June 30, 2014, the City has several series of Assessment District and Community Facility District Bonds outstanding in the amount of $45,350. Bonds were issued for improvements in certain districts and are long-term obligations of the property owners. The City Treasurer acts as an agent for the property owners in collecting the assessments, forwarding the collections to bondholders and initiating foreclosure proceedings, if applicable. Since the debt does not constitute an obligation of the City, it is not reflected as a long-term obligation of the City and is not reflected in the accompanying basic financial statements.

Conduit Debt Obligations

Mortgage Revenue Bonds outstanding of $5,385 and Industrial Development Revenue Bonds of $1,700 are not included in the accompanying financial statements. These bonds are special obligations of third parties and payable solely from and secured by a pledge of the receipts received from loans and certain other reserve funds and related monies. The bonds are not payable from any other revenues or assets of the City. Neither the faith and credit nor the taxing power of the City, the State of California or any political subdivision thereof is pledged to the payment of the principal and interest on the bonds.

For the year ended June 30, 2014 (amounts expressed in thousands)

10. Derivative Instruments

Interest Rate Swaps

The City has six cash flow hedging derivative instruments, which are pay-fixed swaps. These swaps were employed as a hedge against debt that was refunded in 2008 and 2011 and against debt issued in 2012. At the time of the refundings, hedge accounting ceased to be applied. The balance of the deferral account for each swap is included as part of the deferred charge on refunding associated with the new bonds. The swaps were also employed as a hedge against the new debt. Hedge accounting was applied to that portion of the hedging relationship, which was determined to be effective. Hedge accounting was also applied to the swap associated with the debt issued in 2012, which was also determined to be effective.

The following is a summary of the derivative activity for the year ended June 30, 2014:

| | Notional Amount | Fair Value as of 6/30/14 | Change in Fair Value for Fiscal Year |
|---|---|---|---|
| **Governmental Activities** | | | |
| 2008 Renaissance Certificates of Participation | $116,100 | (19,485) | (146) |
| 2012 Convention Center Financing | 41,406 | 49 | (977) |
| **Business-Type Activities** | | | |
| 2008 Electric Refunding/Revenue Bonds Series A | 68,525 | (8,845) | 800 |
| 2008 Electric Refunding/Revenue Bonds Series C | 41,975 | (6,646) | 410 |
| 2011 Electric Refunding/Revenue Bonds Series A | 41,925 | (6,617) | 411 |
| 2011 Water Refunding/Revenue Bonds Series A | 56,525 | (8,083) | (199) |

Objective: In order to lower borrowing costs as compared to fixed-rate bonds, the City entered into interest rate swap agreements in connection with its $141,840 2008 Electric Revenue Bonds (Series A and C), $56,450 2011 Electric Revenue Bonds, $59,000 2011 Water Revenue Bonds and $128,300 2008 Certificates of Participation ("COP"). Also, in 2012, the City entered into an additional interest rate swap agreement in connection with the Convention Center financing with BBVA Compass Bank.

Terms: Per the existing swap agreements, the City pays a counterparty a fixed payment and receives a variable payment computed as 62.68% of the London Interbank Offering Rate ("LIBOR") one month index plus 12 basis points for the Electric and Water swaps. For the COP swap, the City pays a fixed payment and receives a variable payment computed as 63.00% of the LIBOR one month index plus 7 basis points. The Convention Center financing consists of an initial 21-month variable rate interest only period during construction, which swaps to a fixed rate for the remaining 20-year amortization whereby the City will pay a fixed payment and will receive a variable payment computed at 65.01% of the LIBOR one month index plus 150 basis points. The lease interest rate on the Convention Center has a cap at the lesser of 12% or the highest rate permitted by applicable law whereas the related swap does not have a cap. The swaps have notional amounts equal to the principal amounts stated above. The notional value of the swaps and the principal amounts of the associated debt decline by $975 to $7,200 until the debt is completely retired in fiscal year 2037.

The bonds and the related swap agreements for the 2008A Electric Revenue Bonds mature on October 1, 2029, 2008C Electric and 2011A Electric and 2011A Water Revenue/Refunding Bonds mature on October 1, 2035. The 2008 Certificates of Participation mature on March 1, 2037. The loan with BBVA Compass Bank will be paid in full on April 1, 2034.

As of June 30, 2014 rates were as follows:

| | 2008 Electric Refunding/ Revenue Bonds Series A | 2008 Electric Refunding/ Revenue Bonds Series C | 2011 Electric Refunding/ Revenue Bonds Series A |
|---|---|---|---|
| | Rates | Rates | Rates |
| Interest rate swap: | | | |
| Fixed payment to counterparty | 3.11100% | 3.20400% | 3.20100% |
| Variable payment from counterparty | (0.42414%) | (0.42543%) | (0.24925%) |
| Net interest rate swap payments | 2.68686% | 2.77857% | 2.95175% |
| Variable-rate bond coupon payments | 0.35041% | 0.34837% | 0.14338% |
| Synthetic interest rate on bonds | 3.03727% | 3.12694% | 3.09513% |

| | 2011 Water Refunding/ Revenue Bonds Series A | 2008 Renaissance COPs | 2012 Convention Center Financing |
|---|---|---|---|
| | Rates | Rates | Rates |
| Interest rate swap: | | | |
| Fixed payment to counterparty | 3.20000% | 3.36200% | 3.24000% |
| Variable payment from counterparty | (0.24900%) | (0.39595%) | (1.59857%) |
| Net interest rate swap payments | 2.95100% | 2.96605% | 1.64143% |
| Variable-rate bond coupon payments | 0.16488% | 0.38032% | 1.59857% |
| Synthetic interest rate on bonds | 3.11588% | 3.34637% | 3.24000% |

For the year ended June 30, 2014 (amounts expressed in thousands)

Fair Value: As of June 30, 2014, in connection with all swap arrangements, the transactions had a combined net negative fair value of <$49,627>. Because the coupons on the City's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit risk: The City is exposed to credit risk on one of its derivative instruments that has a positive fair value. The counterparty for this swap is BBVA/Compass Bank. To mitigate credit risk, the City has the ability to offset swap payments due to it from BBVA/Compass pursuant to the swap, against current and future rental payments required to be made by the City to Compass Mortgage Corporation under the lease agreement. The City is not exposed to credit risk on the remaining swaps because those swaps have a negative fair value. The swap counterparties, Bank of America, N.A., Bank of America Corp. and J.P. Morgan Chase & Co. were rated A, A- and A respectively by Standard & Poor's. To mitigate the potential for credit risk for these swaps, the swap agreements require the fair value of the swap to be collateralized by the counterparty with U.S. Government securities if the counterparties' rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2014, there is no requirement for collateral posting for any of the outstanding swaps.

Basis risk: The city is exposed to basis risk on its pay-fixed interest rate swap and rate cap hedging derivative instruments because the variable-rate payments received by the city on these hedging derivative instruments are based on a rate or index other than interest rates the city pays on its hedged variable-rate debt. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized.

Termination risk: The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, a swap may be terminated by the City if either counterparty's credit quality falls below "BBB-" as issued by Standard and Poor's. The City or the counterparty may terminate a swap if the other party fails to perform under the terms of the contract. If a swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination a swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

Swap payments and associated debt: As of June 30, 2014, the debt service requirements of the variable-rate debt and net swap payments assuming current interest rates remain the same, for their term are summarized in the following table. As rates vary, variable-rate bond interest payments and net swap payments will vary.

| Fiscal Year Ending June 30 | Variable-Rate Bonds Principal | Variable-Rate Bonds Interest | Interest Rate Swaps, Net | Total |
|---|---|---|---|---|
| 2015 | $ 5,842 | $ 1,692 | $ 10,540 | $ 18,074 |
| 2016 | 6,138 | 1,654 | 10,389 | 18,181 |
| 2017 | 5,964 | 1,614 | 10,235 | 17,813 |
| 2018 | 7,217 | 1,571 | 10,058 | 18,846 |
| 2019 | 13,516 | 1,514 | 9,736 | 24,766 |
| 2020-2024 | 86,525 | 6,418 | 41,555 | 134,498 |
| 2025-2029 | 91,151 | 4,369 | 29,403 | 124,923 |
| 2030-2034 | 105,979 | 2,050 | 15,391 | 123,420 |
| 2035-2039 | 49,050 | 194 | 1,790 | 51,034 |
| Total | $371,382 | $21,076 | $139,097 | $531,555 |

11. Economic Contingency

A portion of unassigned fund balance within the General Fund is set aside for future economic contingencies. The amount that has been set aside is equal to approximately 15% of General Fund expenditures.

12. Interfund Assets, Liabilities and Transfers

Due From/To Other Funds: These balances resulted from expenditures being incurred prior to receipt of the related revenue source.

The following table shows amounts receivable/payable between funds within the City at June 30, 2014:

**For the year ended June 30, 2014** (amounts expressed in thousands)

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| General | Nonmajor Governmental Funds | $ 602 |
| | Capital Outlay Fund | 17,381 |
| | Nonmajor Enterprise Funds | 133 |
| | | 18,116 |
| Electric | Central Stores * | 914 |
| Water | Central Stores * | 392 |
| Total | | $19,422 |

* Internal service fund

Advances To/From Other Funds: These balances consist of advances used to fund capital projects in advance of related financing/assessments and for other long-term borrowing purposes.

The following table shows amounts advanced from funds within the City to other funds within the City at June 30, 2014:

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| General | Electric | $11,284 |
| | Water | 4,855 |
| | Sewer | 3,106 |
| | Nonmajor Governmental Funds | 516 |
| | Nonmajor Enterprise Funds | 2,087 |
| | Self-Insurance Trust * | 204 |
| | Central Stores * | 213 |
| | Central Garage * | 961 |
| | | 23,226 |
| Self-Insurance Trust * | Nonmajor Enterprise Funds | 452 |
| | General Fund | 166 |
| | Nonmajor Governmental Funds | 458 |
| | Central Garage * | 1,688 |
| | | 2,764 |
| Central Garage * | Nonmajor Governmental Funds | 3,460 |
| Sewer | Nonmajor Governmental Funds | 7,283 |
| Total | | $36,733 |

In addition, the following advances to the former Redevelopment Agency are accounted for in the Private-Purpose Trust Fund of the Successor Agency:

| Receivable Fund | Amount |
|---|---|
| General | $ 652 |
| Nonmajor Governmental Funds | 39,739 |
| Electric | 5,800 |
| Sewer | 4,436 |
| Self-Insurance Trust * | 5,634 |
| Total | $56,261 |

Transfers In/Out: Transfers are primarily used to (1) move revenues to the fund that statute or budget requires to expend them, and (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due.

The following table shows amounts transferred to/from funds within the City as of June 30, 2014:

| Transfer In Fund | Transfer Out Fund | Amount |
|---|---|---|
| General | Electric | $38,704 |
| | Water | 6,991 |
| | | 45,695 |
| Nonmajor Governmental Funds | General Fund | 9,851 |
| | Capital Outlay Fund | 2,185 |
| | Nonmajor Enterprise Funds | 738 |
| | | 12,774 |
| Water | General Fund | 3,333 |
| Total | | $61,802 |

13. Deficit Net Position

Deficit net position exists in the Self-Insurance Internal Service Fund ($25,953). In order to begin funding a portion of the deficit in the internal service fund, self-insurance rates were increased in the current year. However, this was offset by unusually large losses incurred during the year combined with an adjustment for the increase in the amount estimated for claims and judgments. Management believes that there are sufficient funds on hand to cover current payment obligations and plans to continue to control

costs and increase rates over the next few years as needed to match expected long-term payment requirements.
Deficit net position exists in the Special Capital Improvement Fund ($1,733). The deficit relates to short-term borrowings, which will be repaid over the next six years as park development fees are expected to increase as the local economy continues to recover

Deficit net position also exists in the Successor Agency Private-Purpose Trust Fund ($205,604). The deficit in the Successor Agency Trust Fund will be reduced over the years as the related debt is paid-off with funds received from the Redevelopment Property Tax Trust Fund (RPTTF), which is administered by the County Auditor-Controller.

14. Litigation

The City is a defendant in various lawsuits arising in the normal course of business. Present lawsuits and other claims against the City are incidental to the ordinary course of operations and are largely covered by the City's self-insurance program. In the opinion of management and the City Attorney, such claims and litigation will not have a materially adverse effect upon the financial position or results of operation of the City.

The Water Utility is a plaintiff in a lawsuit against several entities that either owned or leased a property site in the City of Colton and City of Rialto that is contaminated by perchlorate. The lawsuit was filed March 31, 2009, and no trial date has been set.

15. City Employees Retirement Plan

(A) Plan Description. The City of Riverside contributes to the California Public Employees Retirement System (CalPERS), an agent multiple employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. PERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by PERS. Benefit provisions and all other requirements are established by state statute and City ordinance. A copy of CalPERS' annual financial report may be obtained online at www.calpersca.gov.

(B) Funding Policy. For each of the fiscal years shown on the following page, the City has contributed at the actuarially determined rate provided by PERS' actuaries. Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City has a multiple tier retirement plan with benefits varying by plan. The City pays the employees' contribution to CalPERS for both miscellaneous and safety employees hired on or before specific dates as follows:

Safety (Police):

- 1st Tier (RPOA, RPOA Supervisory & RPAA) - The retirement formula is 3% at age 50 for employees hired before February 16, 2012. The City pays the employee share (9%) of contributions on their behalf and for their account.
- 2nd Tier (RPOA only) - The retirement formula is 3% at age 50 and new employees hired on or after February 17, 2012 pay their share (9%) of contributions.
- 3rd Tier (RPOA, RPOA Supervisory & RPAA) – The retirement formula is 2.7% at age 57 for new members hired on or after January 1, 2013 and the employee must pay the employee share (9%). Classic members (CalPERS members prior to 12/31/12) hired on or after January 1, 2013 may be placed in a different tier.

Safety (Fire):

- 1st Tier - The retirement formula is 3% at age 50 for employees hired before June 11, 2011. The City pays the employee share (9%) of contributions on their behalf and for their account.
- 2nd Tier - The retirement formula is 3% at age 55 and new employees hired on or after June 11, 2011 pay their share (9%) of contributions.
- 3rd Tier – The retirement formula is 2.7% at age 57 for new members hired on or after January 1, 2013 and the employee must pay the employee share (9%). Classic members (CalPERS members prior to 12/31/12) hired on or after January 1, 2013 may be placed in a different tier.

Miscellaneous:

- 1st Tier - The retirement formula is 2.7% at age 55. The City pays the employee share (8%) of contributions on their behalf and for their account except for general SEIU employees, which contributed 2% in fiscal year 2013/14, with the City paying the remaining 6% of the employee share.
- 2nd Tier - The retirement formula is 2.7% at age 55, and:

For the year ended June 30, 2014 (amounts expressed in thousands)

  - SEIU and SEIU Refuse employees hired on or after June 7, 2011 pay their share (8%) of contributions.
  - All other miscellaneous employees hired on or after October 19, 2011 pay their share (8%) of contributions.
- 3rd Tier – The retirement formula is 2% at age 62 for new members hired on or after January 1, 2013 and the employee must pay the employee share ranging from 7-8% based on bargaining group classification. Classic members (CalPERS members prior to 12/31/12) hired on or after January 1, 2013 may be placed in a different tier.

The contribution requirements of plan members and the City are established and may be amended by CalPERS.

(C) Annual Pension Cost. The required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases of 3.30% per year compounded annually, attributable to inflation, and (c) 2.75% expected long term inflation. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments (smoothed market value). All changes in the unfunded actuarial accrued liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methodology are amortized separately as a level percentage of pay over a closed 20-year period. All gains or losses are tracked and amortized over a rolling 30-year period with the exception of special gains and losses in fiscal years 2008-2009, 2009-2010 and 2010-2011. Each of these years' gains or losses has been isolated and amortized over fixed and declining 30 year periods (as opposed to the current rolling 30 year amortization).

Three-year trend information for CalPERS:

| Fiscal Year June 30, | Plan | Annual Pension Cost (APC) | % of APC Contributed | Net Pension Obligation (Asset) |
|---|---|---|---|---|
| 2012 | Misc | $21,661 | 92.8% | $(53,694) |
| 2012 | Safety | 18,542 | 86.6% | (79,890) |
| 2013 | Misc | 21,907 | 91.5% | (51,825) |
| 2013 | Safety | 18,945 | 83.9% | (76,846) |
| 2014 | Misc | 22,361 | 90.1% | (49,615) |
| 2014 | Safety | 20,861 | 82.5% | (73,191) |

In 2004 and 2005, the City issued pension obligation bonds to fund the unfunded actuarial accrued liability for safety and miscellaneous employees. The asset related to the net pension asset will be amortized in accordance with the method used by CalPERS for calculating actuarial gains and losses over a 19-year period. A total of $122,806 of net pension assets is included in the Government-wide Statement of Net Position and in the proprietary fund statements.

Determination of Net Pension Asset as of June 30, 2014:

| | Misc | Safety |
|---|---|---|
| Annual required contribution | $ 20,151 | $ 17,206 |
| Interest on net pension asset | (3,887) | (5,763) |
| Adjustment to annual required contribution | 6,097 | 9,418 |
| Annual pension cost | 22,361 | 20,861 |
| Less contributions made | (20,151) | (17,206) |
| Decrease in net pension asset | 2,210 | 3,655 |
| Net pension asset, beginning of year | (51,825) | (76,846) |
| Net pension asset, end of year | $(49,615) | (73,191) |

Schedule of funding for CalPERS:

| Plan | Actuarial Valuation Date | Entry Age Normal Actuarial Accrued Liability (AAL) | Actuarial Value of Assets | Unfunded/ (Overfunded) Actuarial Accrued Liability (UAAL) | % Funded Ratio | Annual Covered Payroll | UAAL as a % of Covered Payroll |
|---|---|---|---|---|---|---|---|
| Misc. | 6/30/11 | $998,216 | 887,857 | 110,359 | 88.9 | 108,106 | 102.1 |
| Safety | 6/30/11 | $731,074 | 650,954 | 80,120 | 89.0 | 62,538 | 128.1 |

16. Other Post-Employment Benefits

The City provides healthcare benefits to retirees in the form of an implied rate subsidy. Retirees and active employees are insured together as a group, thus creating a lower rate for retirees than if they were insured separately. Although the retirees are solely responsible for the cost of their health insurance benefits through this plan, the retirees receive the benefit of a lower rate. The difference between these amounts is the implied rate subsidy, which is considered an other post-employment benefit (OPEB) under GASB 45.

**For the year ended June 30, 2014** (amounts expressed in thousands)

Retiree coverage terminates either when the retiree becomes covered under another employer health plan, or when the retiree reaches Medicare eligibility age, which is currently age 65. Spousal coverage is available until the retiree becomes covered under another employer health plan, attains Medicare eligibility age, or dies. However, the retiree benefit continues to the surviving spouse if the retiree elects the CalPERS survivor annuity.

The contribution requirements are established by the City Council. The City is not required by law or contractual agreement to provide funding other than the pay-as-you-go amount necessary to provide current benefits to eligible retirees and beneficiaries.

The City's annual OPEB cost (expense) is reported based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) (UAAL) over a period not to exceed thirty years. The ARC for the year ended June 30, 2014 was $4,913, which consisted of normal cost of $2,553 and UAAL amortization of $2,360. The ARC as a percentage of payroll was 3.2% for the year ended June 30, 2014.

As of June 30, 2013, the most recent actuarial valuation date, the OPEB plan was 0.0% funded. The actuarial accrued liability for benefits was $47 million, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $47 million.

Determination of the Net OPEB Obligation as of June 30, 2014:

| | |
|---|---|
| Annual required contribution | $ 4,913 |
| Interest on net OPEB obligation | 960 |
| Amortization of net OPEB obligation | (1,116) |
| Annual benefit pension cost | 4,757 |
| Less contributions made | (1,232) |
| Increase in net OPEB obligation | 3,525 |
| Net OPEB liability, beginning of year | 22,317 |
| Net OPEB liability, end of year | $25,842 |

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The method used by the actuary was the entry age normal cost method. The actuarial assumptions included (a) discount rate of 4.30%, (b) 2.75% inflation, (c) projected salary increases of 3.00% annually and (d) healthcare cost trend rates ranging from 5.0% to 7.0%.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the city and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

*Three-year trend information:*

| Fiscal Year June 30, | ARC | Actual Contributions | % of ARC Contributed |
|---|---|---|---|
| 2012 | $5,821 | $1,426 | 25% |
| 2013 | 6,011 | 1,626 | 27% |
| 2014 | 4,913 | 1,232 | 25% |

| Fiscal Year June 30, | Annual OPEB Cost | % of OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 2012 | $5,789 | 25% | $17,796 |
| 2013 | 6,147 | 26% | 22,317 |
| 2014 | 4,756 | 26% | 25,842 |

The table below displays the funding progress of the plan and is based upon the most recent actuarial valuation data:

| Actuarial Valuation Date | Actuarial Accrued Liability | Actuarial Value of Assets | Unfunded Actuarial Liability (UL) | Funded Ratio | Annual Covered Payroll | UL as a % of Covered Payroll |
|---|---|---|---|---|---|---|
| 6/30/13 | $47,195 | $ - | $47,195 | 0% | $153,077 | 31% |

For the year ended June 30, 2014 (amounts expressed in thousands)

17. Commitments and Contingencies

A. Long-Term Electric Utility Commitments

Intermountain Power Agency

The Electric Utility has entered into a power purchase contract with Intermountain Power Agency (IPA) for the delivery of electric power. The Electric Utility's share of IPA power is equal to 7.6 percent, or approximately 137.1 MW, of the net generation output of IPA's 1,800 MW coal-fueled generating station located in central Utah. The contract expires in 2027 and the debt fully matures in 2024.

The contract constitutes an obligation of the Electric Utility to make payments solely from operating revenues. The power purchase contract requires the Electric Utility to pay certain minimum charges that are based on debt service requirements. Such payments are considered a cost of production.

Southern California Public Power Authority

On November 1, 1980, the City of Riverside joined with the Imperial Irrigation District and the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale and Pasadena to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the State of California. As of July 2001, the City of Cerritos was admitted as a member. The primary purpose of SCPPA is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. SCPPA is governed by a Board of Directors, which consists of one representative for each of the members. During the 2013-14 and 2012-13 fiscal years, the Electric Utility paid approximately $17,440 and $16,171, respectively, to SCPPA under various take-or-pay contracts. These payments are reflected as a component of maintenance and operation expense in the financial statements.

The projects and the Electric Utility's proportionate share of SCPPA's obligations, including final maturities and contract expirations are as follows:

| Project | Percent Share | Entitlement |
|---|---|---|
| Palo Verde Nuclear Generating Station (PV) | 5.4% | 12.3MW |
| Southern Transmission System (STS) | 10.2% | 244.0MW |
| Hoover Dam Uprating (Hoover) | 31.9% | 30.0MW |
| Mead – Phoenix Transmission (MPP) | 4.0% | 18.0MW |
| Mead – Adelanto Transmission (MAT) | 13.5% | 118.0MW |

Terms of Take or Pay Commitments

As part of the take-or-pay commitments with IPA and SCPPA, the Electric Utility has agreed to pay its share of current and long-term obligations. Management intends to pay these obligations from operating revenues received during the year that payment is due. A long–term obligation has not been recorded on the accompanying financial statements for these commitments. Take-or-pay commitments terminate upon the later of contract expiration or final maturity of outstanding bonds for each project.

Outstanding debts associated with the take-or-pay obligations have variable interest rates for the Palo Verde Nuclear Generating Station Project and the remaining projects have fixed interest rates which range from 0.35 percent to 6.13 percent. The schedule below details the amount of principal and interest that is due and payable by the Electric Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

| | | SCPPA | | | | | |
|---|---|---|---|---|---|---|---|
| Fiscal Year | IPA | PV | STS | Hoover | MPP | MAT | Total |
| 2015 | $ 14,786 | $ 669 | $ 8,310 | $ 703 | $ 269 | $ 3,087 | $ 27,824 |
| 2016 | 22,127 | 672 | 8,364 | 701 | 269 | 3,013 | 35,146 |
| 2017 | 11,650 | 675 | 8,182 | 701 | 262 | 2,952 | 24,422 |
| 2018 | 16,935 | 679 | 8,020 | 699 | 258 | 2,910 | 29,501 |
| 2019 | 18,827 | - | 7,927 | - | 257 | 2,882 | 29,893 |
| Thereafter | 55,421 | - | 54,497 | - | 443 | 4,995 | 115,356 |
| Total | $139,746 | $ 2,695 | $95,300 | $ 2,804 | $ 1,758 | $19,839 | $262,142 |

Final maturities of outstanding debt associated with take-or-pay obligations and related contract expirations are as follows:

| Project | Final Maturity | Contract Expiration |
|---|---|---|
| Palo Verde Nuclear Generating Station | 2017 | 2030 |
| Southern Transmission System | 2027 | 2027 |
| Hoover Dam Uprating | 2017 | 2017 |
| Mead – Phoenix Transmission | 2020 | 2030 |
| Mead – Adelanto Transmission | 2020 | 2030 |

In addition to debt service, Riverside's entitlements require the payment of fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year.

The costs incurred for the year ended June 30, 2014 and 2013, are as follows (in thousands):

| Fiscal Year | IPA | PV | STS | Hoover | MPT | MAT | Total |
|---|---|---|---|---|---|---|---|
| 2014 | $24,466 | $2,416 | $3,296 | $ 104 | $ 50 | $ 312 | $30,644 |
| 2013 | $26,445 | $2,528 | $2,405 | $ 97 | $ 41 | $ 338 | $31,854 |

These costs are reflected as a component of maintenance and operation expense on the statement of revenues, expenses and changes in net position.

B. Other Commitments

Power Purchase Agreements:

The Electric Utility has a firm power purchase agreement with Bonneville Power Administration (BPA) for the purchase of capacity (50 megawatts during the summer months and 13 megawatts during the winter months) beginning April 30, 1996, for 20 years. Effective May 1, 1998, these summer and winter capacity amounts increased to 60 megawatts and 15 megawatts, respectively, for the remainder of the second agreement. On January 29, 2013, Riverside revised the delivery and return portion of the agreement to allow for a flat 40 MW of delivery during May and June through calendar year 2013, 2014 and 2015. The Agreement with BPA will terminate on May 1, 2016.

On April 12, 2011, the California Renewable Energy Resources Act (SB 2 (1X)) was passed by the State Legislative and signed by the Governor. SB 2 (1X) revised the amount of statewide retail electricity sales from renewable resources in the State Renewable Energy Resources Program to 33% by December 31, 2020 in three stages: average of 20% of retail sales during 2011-2013; 25% of retail sales by December 31, 2016; and 33% of retail sales by December 31, 2020. The Riverside Public Utilities Board and City Council approved the enforcement program required by SB 2 (1X) on November 18, 2011 and December 13, 2011, respectively, and further approved the City's RPS Procurement plan implementing the new RPS mandates on May 3, 2013 and May 14, 2013, respectively. It is expected that the City will be able to meet the new mandates with new resource procurement actions as outlined in the City's RPS Procurement Plan. For Calendar year 2013, renewable resources provided 24% of retail sales requirements.

In an effort to increase the share of renewables in the Electric Utility's power portfolio, the Electric Utility entered into power purchase agreements with various entities described below on a "take-and-pay" basis. The contracts in the following table were executed as part of compliance with this standard.

Long-term renewable power purchase agreements:

| Supplier | Type | Maximum Contract | Contract Expiration | Estimated Annual Cost for 2015 |
|---|---|---|---|---|
| Salton Sea Power LLC | Geothermal | 46.0MW | 5/31/20 | $ 23,675 |
| Wintec | Wind | 1.3MW | 12/30/18 | 211 |
| WKN Wagner | Wind | 6.0MW | 12/22/32 | 1,113 |
| | | 53.3MW | | |

| Supplier | Type | Maximum Contract[1] | Expected Delivery | Energy Delivery No Later Than | Contract Term In Years |
|---|---|---|---|---|---|
| CalEnergy | Geothermal | 86.0MW | 2/11/16 | 2/11/16 | 25 |
| AP North Lake | Photovoltaic | 20.0MW | 6/30/15 | 12/31/15 | 25 |
| FTP Solar | | | | | |
| Summer Solar | Photovoltaic | 10.0MW | 6/30/16 | 12/31/16 | 25 |
| Antelope Big Sky Ranch | Photovoltaic | 10.0MW | 6/30/16 | 12/31/16 | 25 |
| First Solar | Photovoltaic | 14.0MW | 12/31/15 | 6/30/16 | 20 |
| Recurrent Clearwater | Photovoltaic | 14.9MW | Delayed | 12/31/15 | 20 |
| Dominion Columbia II | Photovoltaic | 11.1MW | 12/31/14 | 12/31/15 | 20 |
| Cabazon Wind | Wind | 39.0MW | 1/1/15 | 12/31/15 | 10 |
| Solar Star | Photovoltaic | 7.3MW | 9/30/15 | 12/31/15 | 25 |
| | | 212.3MW | | | |

[1]Contracts are contingent on energy production from specific related generating facilities. Riverside has no commitment to pay any amounts except for energy produced on a monthly basis from these facilities.

Construction Commitments:

As of June 30, 2014, the Sewer and Electric Utilities had approximately $86 million and $11 million, respectively, in major construction commitments related to unfinished capital projects. These construction commitments are expected to be funded primarily with current and future bond proceeds.

C. Jointly-Owned Utility Project - SONGS

The City has a 1.79% undivided ownership interest in Units 2 and 3 of SONGS, located south of the City of San Clemente in northern San Diego County; however, on June 7, 2013, Southern California Edison (SCE) announced in a press release its plan to retire Units 2 and 3 of SONGS permanently. Consequently, the units are no longer a source of supply for the Electric Utility, but remain associated with certain of its costs, including those associated with the units' shutdown and decommissioning.

SONGS was operated and maintained by SCE, under an agreement with the City and San Diego Gas & Electric Company (SDG&E), which expires upon termination of the easement for the plant in 2024. The three-member SONGS Board of Review approved the budget for capital expenditures and operating expenses. The City and the two other owners each had one representative on that board. The participation agreement provided that each owner was entitled to its proportionate share of benefits of, and paid its proportionate share of costs and liabilities incurred by SCE for, construction, operation and maintenance of the project; each owner's obligation was several, and not joint or collective.

In 2005, the CPUC authorized a project to install four new steam generators in Units 2 and 3 at SONGS and remove and dispose of the predecessor generators. SCE completed the installation of these steam generators in 2010 and 2011 for Units 2 and 3, respectively. Replacement of the steam generators was expected to enable plant operations to continue through at least 2022, and perhaps beyond, subject to the approval of the Nuclear Regulatory Commission (NRC).

In January 2012, a water leak occurred in one of the heat transfer tubes of Unit 3's steam generators, causing it to be shut down. At that time, Unit 2 was off-line for a planned outage when unexpected wear in areas of tube-to-support structure were found. Units 2 and 3 remained off-line for extensive inspections, testing and analysis of their steam generators. On June 7, 2013, SCE unilaterally announced its plan to retire Units 2 and 3 permanently.

The current plant site easement for SONGS terminates on May 12, 2024 and would need to be extended in order for the plant to be decommissioned and the site restored.

As a result of SCE's decision to permanently retire SONGS Units 2 and 3, SCE has begun the decommissioning phase of the plant. The process of decommissioning a nuclear power plant is governed by NRC regulations. The regulations categorize the decommissioning activities into three phases: initial activities, major decommissioning and storage activities, and license termination. Initial activities include providing notice of permanent cessation of operations (accomplished on June 12, 2013) and notice of permanent removal of fuel from the reactor vessels (provided by SCE to the NRC on June 28 and July 22, 2013 for Units 3 and 2, respectively). Within two years after the announcement of retirement, SCE, as the operating licensee must submit a post-shutdown decommissioning activities report, an irradiated fuel management plan and a site-specific decommissioning cost estimate. SCE currently estimates that it will provide the other initial activity phase plans and cost estimates to the NRC by the end of 2014.

SCE has prepared a draft decommissioning plan, an environmental evaluation and an updated cost estimate to decommission the San Onofre nuclear plant. The draft plan, called a Post-Shutdown Decommissioning Activities Report (PSDAR), spells out the timetable for major decommissioning work expected to begin in early 2016 and indicates adequate funds exist to pay for the work. SCE estimates that it will cost $4.4 billion to safely complete the 20-year decommissioning of San Onofre.

There are no separate financial statements for the jointly-owned utility plant since each participant's interests in the utility plant and operating expenses are included in their respective financial statements. The Electric Utility will continue to set aside approximately $1,600 per year to fund decommissioning costs. The Electric Utility's portion of current and long-term debt associated with the decommissioning of SONGS is included in the accompanying financial statements.

Replacement Power Costs

During the outage, the City has procured replacement power to serve its customers' requirements. These costs are in addition to the operating and maintenance expenses paid annually during normal operations. Replacement power costs incurred by the City as a result of the outage (commencing on January 31, 2012 for Unit 3 and March 5, 2012 for Unit 2) were approximately $13.2 million and are reported as regulatory assets on the Statements of Net Position.

Contractual Matters

The replacement steam generators for Units 2 and 3 were designed and manufactured by Mitsubishi Heavy Industries (MHI) and were warranted for an initial period of 20 years from acceptance. MHI was contractually obligated to repair or replace defective items and to pay specified damages for certain repairs. MHI's liability under the purchase agreement is limited to $138 million and excludes consequential damages, defined to include "the cost of replacement power." The limitations are subject to certain exceptions.

There are insurance policies for both property damage and accidental outage issued by Nuclear Electric Insurance Limited (NEIL), and SCE has notified NEIL of claims under the two policies. The City is a named insured on the SCE insurance policies covering SONGS and will assist SCE in pursuing claims recoveries from NEIL, but there is no assurance that the City will recover all or any of its applicable costs under these arrangements. To the extent that any third-party recoveries are made, they will reduce cost to the Electric Utility. In fiscal year 2014, the City continued to collect from customers, through its rates, which paid for the City's share of the ongoing operating costs and replacement power related to SONGS.

As a result of the decision by SCE to permanently retire Units 2 and 3 of SONGS prior to the expiration of the NRC licenses, the City expects to incur certain costs resulting from the early termination of long-term uranium fuel supply contracts. On November 12, 2013, Uranium One Inc. served a Demand for Arbitration on SCE, SDG&E and the City, seeking an award of damages in the approximate amount of $12.5 million. Uranium One, Inc. asserts damages from a purchase agreement to deliver certain amounts of uranium concentrates in 2011, 2012 and 2013. On April 25, 2014, Energy Resources of Australia, Ltd. and Rossing Uranium Ltd. served a Demand for Arbitration on SCE, asserting similar claims as Uranium One Inc. and seeking an award of damages in the approximate amount of $19.5 million. No arbitration dates have been set and the City cannot estimate the outcomes of these pending claims at this time.

18. Subsequent Events

2014 Subordinate Tax Allocation Refunding Bonds

On October 16 2014, the Successor Agency to the Redevelopment Agency of the City of Riverside issued 2014 Subordinate Tax Allocation Refunding Bonds (Series A and B) in the amount of $62,980. The bonds were issued to refund certain obligations of the former Redevelopment Agency of the City of Riverside. Interest is due semi-annually on March 1 and September 1, commencing March 1, 2015. Principal is due in annual installments from $160 to $4,745 through September 1, 2034. The rate of interest varies from 0.6% to 5% per annum.

CITY OF
RIVERSIDE

## Required Supplementary Information

**Consists of the following:**

- Pension Plan Funding Progress
- Other Post-Employment Benefits (OPEB) Funding Progress

**CITY OF RIVERSIDE**
**REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED**
**SUMMARY OF PENSION OBLIGATION AND OTHER POST EMPLOYMENT BENFITS FUNDING PROGRESS (THOUSANDS)**

**Employee Retirement System - Schedule of Funding Progress**

| June 30, 2012 Actuarial Valuation Date | Value of Assets: Actuarial Value of Assets (AVA) | Value of Assets: Market Value of Assets (MVA) | Accrued Liability | Unfunded Liability: AVA | Unfunded Liability: MVA | Funded Ratios: AVA | Funded Ratios: MVA | Annual Covered Payroll | UL as a % of Payroll |
|---|---|---|---|---|---|---|---|---|---|
| Miscellaneous | $ 919,572 | $ 766,804 | $ 1,046,200 | $ 126,628 | $ 279,395 | 87.9% | 73.3% | $ 110,037 | 115.1% |
| Safety | 673,938 | 561,734 | 766,405 | 92,468 | 204,672 | 87.9% | 73.3% | 63,115 | 146.5% |
| Total | $ 1,593,510 | $ 1,328,538 | $ 1,812,605 | $ 219,096 | $ 484,067 | | | $ 173,152 | |

| June 30, 2011 Actuarial Valuation Date | Value of Assets: Actuarial Value of Assets (AVA) | Value of Assets: Market Value of Assets (MVA) | Accrued Liability | Unfunded Liability: AVA | Unfunded Liability: MVA | Funded Ratios: AVA | Funded Ratios: MVA | Annual Covered Payroll | UL as a % of Payroll |
|---|---|---|---|---|---|---|---|---|---|
| Miscellaneous | $ 887,857 | $ 786,080 | $ 998,216 | $ 110,359 | $ 212,136 | 88.9% | 78.7% | $ 108,106 | 102.1% |
| Safety | 650,954 | 575,006 | 731,074 | 80,120 | 156,068 | 89.0% | 78.7% | 62,538 | 128.1% |
| Total | $ 1,538,811 | $ 1,361,086 | $ 1,729,290 | $ 190,479 | $ 368,204 | | | $ 170,644 | |

| June 30, 2010 Actuarial Valuation Date | Value of Assets: Actuarial Value of Assets (AVA) | Value of Assets: Market Value of Assets (MVA) | Accrued Liability | Unfunded Liability: AVA | Unfunded Liability: MVA | Funded Ratios: AVA | Funded Ratios: MVA | Annual Covered Payroll | UL as a % of Payroll |
|---|---|---|---|---|---|---|---|---|---|
| Miscellaneous | $ 846,368 | $ 660,844 | $ 952,499 | $ 106,131 | $ 291,656 | 88.9% | 69.4% | $ 106,590 | 99.6% |
| Safety | 621,107 | 483,776 | 685,213 | 621,107 | 201,437 | 90.6% | 70.6% | 61,778 | 103.8% |
| Total | $ 1,467,475 | $ 1,144,620 | $ 1,637,712 | $ 727,238 | $ 493,093 | | | $ 168,368 | |

**Other Post-Employment Benefits - Schedule of Funding Progress**

| Actuarial Valuation Date | Actuarial Value of Assets (AVA) | Accrued Liability | Unfunded Liability AVA | Funded Ratios AVA | Annual Covered Payroll | UL as a % of Payroll |
|---|---|---|---|---|---|---|
| June 30, 2013 | - | $ 47,195 | $ 47,195 | - | $ 153,077 | 31% |
| June 30, 2011 | - | 56,060 | 56,060 | - | 149,321 | 38% |
| June 30, 2009 | - | 54,869 | 54,869 | - | 132,275 | 41% |

## Nonmajor Governmental Funds

### Special Revenue Funds

**Special Revenue Funds** are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

**Urban Areas Security Initiative (UASI) Fund** – To account for UASI grants received from the U.S. Department of Homeland Security.

**Gas Tax Fund** – To account for the construction and maintenance of the road network system of the City. Financing is provided by the City's share of state gasoline taxes which state law requires to be used to maintain streets.

**Air Quality Improvements Fund** – To account for qualified air pollution reduction programs funded by the South Coast Air Quality Management District.

**Housing & Community Development Fund** – To account for Federal grants received from the Department of Housing and Urban Development (HUD). The grants are used for the development of a viable urban community by providing decent housing, a suitable living environment, and expanding economic opportunities, principally for persons with low and moderate incomes.

**National Pollution Discharge Elimination System (NPDES) Storm Drain Fund** – To account for storm drain maintenance and inspection required for California storm water permits. Activities are funded by a special assessment district of Riverside County, California.

**Housing Fund** – To account for the housing activities for persons with low or moderate income.

### Capital Projects Funds

**Capital Projects Funds** are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

**Special Capital Improvement Fund** – To account for the acquisition, construction and installation of capital improvements and a Community Facilities District within the City.

**Storm Drain Fund** – To account for the acquisition, construction and installation of storm drains in the City.

**Transportation Fund** – To account for the construction and installation of street and highway improvements in accordance with Articles 3 and 8 of the Transportation Development Act of 1971 of the State of California.

### Debt Service Fund

**Debt Service Funds** are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The **General Debt Service Fund** accounts for the resources accumulated and payments made for principal, interest and related costs on long-term general obligation debt of governmental funds.

### Permanent Fund

**Permanent Funds** are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

**Library Special Fund** – To account for the monies held in trust for the benefit of the Riverside City Public Library System.

**City of Riverside**
**Combining Balance Sheet**
**Nonmajor Governmental Funds**
**June 30, 2014**
**(amounts expressed in thousands)**

| | Special Revenue | | | | | | |
|---|---|---|---|---|---|---|---|
| **Assets** | **Urban Areas Security Initiative** | **Gas Tax** | **Air Quality Improvements** | **Housing & Community Development** | **NPDES Storm Drain** | **Housing** | **Total** |
| Cash and investments | $ - | $ 17,867 | $ 571 | $ 1,194 | $ - | $ 1,383 | $ 21,015 |
| Cash and investments at fiscal agent | - | - | - | - | - | 163 | 163 |
| Receivable (net of allowance for uncollectibles): | | | | | | | |
| Interest | - | 86 | 2 | 6 | - | 8 | 102 |
| Accounts | - | - | - | 2 | - | - | 2 |
| Intergovernmental | 545 | 208 | 96 | 1,077 | 656 | - | 2,582 |
| Notes | - | - | - | 12,602 | - | 20,665 | 33,267 |
| Advances to Successor Agency | - | - | - | - | - | 20,571 | 20,571 |
| Land & improvements held for resale | - | - | - | 1,310 | - | 3,212 | 4,522 |
| Total assets | $ 545 | $ 18,161 | $ 669 | $ 16,191 | $ 656 | $ 46,002 | $ 82,224 |
| **Liabilities** | | | | | | | |
| Accounts payable | $ 298 | $ 306 | $ 22 | $ 331 | $ - | $ 110 | $ 1,067 |
| Accrued payroll | - | - | - | 16 | - | 14 | 30 |
| Retainage payable | - | 1,364 | - | - | - | - | 1,364 |
| Deposits | - | - | - | - | - | 3 | 3 |
| Due to other funds | 247 | - | - | - | 355 | - | 602 |
| Advance from other funds | - | - | - | 516 | - | 458 | 974 |
| Total liabilities | 545 | 1,670 | 22 | 863 | 355 | 585 | 4,040 |
| **Deferred Inflows of Resources** | | | | | | | |
| Unavailable revenue | - | - | - | 13,913 | - | 20,609 | 34,522 |
| Total deferred inflows of resources | - | - | - | 13,913 | - | 20,609 | 34,522 |
| **Fund Balances (Deficits)** | | | | | | | |
| Restricted for: | | | | | | | |
| Housing and redevelopment | - | - | - | 1,415 | - | 24,808 | 26,223 |
| Transportation and public works | - | 16,491 | 647 | - | 301 | - | 17,439 |
| Total fund balances (deficits) | - | 16,491 | 647 | 1,415 | 301 | 24,808 | 43,662 |
| Total liabilities deferred inflows of resources, and fund balances (deficits) | $ 545 | $ 18,161 | $ 669 | $ 16,191 | $ 656 | $ 46,002 | $ 82,224 |

**City of Riverside**
**Combining Balance Sheet**
**Nonmajor Governmental Funds**
**June 30, 2014**
**(amounts expressed in thousands)**

| | Capital Projects | | | | | Permanent Fund | |
|---|---|---|---|---|---|---|---|
| **Assets** | **Special Capital Improvement** | **Storm Drain** | **Transportation** | **Total** | **General Debt Service** | **Library Special** | **Total Nonmajor Governmental Funds** |
| Cash and investments | $ 3,053 | $ 2,043 | $ 70 | $ 5,166 | $ 758 | $ 1,460 | $ 28,399 |
| Cash and investments at fiscal agent | 2,418 | - | - | 2,418 | 10,298 | - | 12,879 |
| Receivable (net of allowance for uncollectibles): | | | | | | | |
| Interest | 15 | 11 | - | 26 | 6 | - | 134 |
| Accounts | - | - | - | - | - | - | 2 |
| Intergovernmental | - | - | - | - | - | - | 2,582 |
| Notes | - | - | - | - | - | - | 33,267 |
| Advances to Successor Agency | - | - | - | - | 19,168 | - | 39,739 |
| Land & improvements held for resale | - | - | - | - | - | - | 4,522 |
| Total assets | $ 5,486 | $ 2,054 | $ 70 | $ 7,610 | $ 30,230 | $ 1,460 | $ 121,524 |
| **Liabilities** | | | | | | | |
| Accounts payable | $ 326 | $ - | $ - | $ 326 | $ 171 | $ - | $ 1,564 |
| Accrued payroll | - | - | - | - | - | - | 30 |
| Retainage payable | 32 | - | - | 32 | - | - | 1,396 |
| Deposits | - | - | - | - | - | - | 3 |
| Due to other funds | - | - | - | - | - | - | 602 |
| Advance from other funds | 6,861 | - | - | 6,861 | 3,882 | - | 11,717 |
| Total liabilities | 7,219 | - | - | 7,219 | 4,053 | - | 15,312 |
| **Deferred Inflows of Resources** | | | | | | | |
| Unavailable revenue | - | - | - | - | - | - | 34,522 |
| Total deferred inflows of resources | - | - | - | - | - | - | 34,522 |
| **Fund Balances (Deficits)** | | | | | | | |
| Nonspendable: | | | | | | | |
| Permanent fund principal | - | - | - | - | - | 1,460 | 1,460 |
| Restricted for: | | | | | | | |
| Housing and redevelopment | - | - | - | - | - | - | 26,223 |
| Debt service | - | - | - | - | 26,177 | - | 26,177 |
| Transportation and public works | - | - | 70 | 70 | - | - | 17,509 |
| Other purposes | - | 2,054 | - | 2,054 | - | - | 2,054 |
| Unassigned | (1,733) | - | - | (1,733) | - | - | (1,733) |
| Total fund balances (deficits) | (1,733) | 2,054 | 70 | 391 | 26,177 | 1,460 | 71,690 |
| Total liabilities, deferred inflows of resources, and fund balances (deficits) | $ 5,486 | $ 2,054 | $ 70 | $ 7,610 | $ 30,230 | $ 1,460 | $ 121,524 |

**City of Riverside**
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**
**Nonmajor Governmental Funds**
**For the fiscal year ended June 30, 2014**
**(amounts expressed in thousands)**

| | Special Revenue | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Urban Area Security Initiative** | **Gas Tax** | **Air Quality Improvement** | **Housing & Community Development** | **NPDES Storm Drain** | **Housing** | **Total** |
| **Revenues** | | | | | | | |
| Intergovernmental | $ 2,271 | $ 9,418 | $ 480 | $ 5,429 | $ - | $ - | $ 17,598 |
| Special assessments | - | - | - | - | 657 | - | 657 |
| Rental and investment income | - | 202 | 5 | 33 | - | 96 | 336 |
| Miscellaneous | - | - | 258 | 314 | - | 564 | 1,136 |
| Total revenues | 2,271 | 9,620 | 743 | 5,776 | 657 | 660 | 19,727 |
| **Expenditures** | | | | | | | |
| Current: | | | | | | | |
| General government | - | - | 556 | 423 | - | 1,472 | 2,451 |
| Public safety | 2,271 | - | - | - | - | - | 2,271 |
| Capital outlay | - | 7,479 | - | 4,736 | 532 | - | 12,747 |
| Debt service: | | | | | | | |
| Interest | - | - | - | 12 | - | 5 | 17 |
| Bond issuance costs | - | - | - | 2 | - | - | 2 |
| Total expenditures | 2,271 | 7,479 | 556 | 5,173 | 532 | 1,477 | 17,488 |
| Excess (deficiency) of revenues over (under) expenditures | - | 2,141 | 187 | 603 | 125 | (817) | 2,239 |
| **Other financing sources (uses)** | | | | | | | |
| Sales of capital assets | - | - | - | - | - | 27 | 27 |
| Total other financing sources (uses) | - | - | - | - | - | 27 | 27 |
| Net change in fund balances | - | 2,141 | 187 | 603 | 125 | (790) | 2,266 |
| Fund balances - beginning | - | 14,350 | 460 | 812 | 176 | 25,598 | 41,396 |
| Fund balances - ending | $ - | $ 16,491 | $ 647 | $ 1,415 | $ 301 | $ 24,808 | $ 43,662 |

**City of Riverside**
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**
**Nonmajor Governmental Funds**
**For the fiscal year ended June 30, 2014**
**(amounts expressed in thousands)**

| | Capital Projects | | | | | Permanent Fund | |
|---|---|---|---|---|---|---|---|
| | Special Capital Improvement | Storm Drain | Transportation | Total | General Debt Service | Library Special | Total Nonmajor Governmental Funds |
| **Revenues** | | | | | | | |
| Licenses and permits | $ 1,422 | $ 128 | $ - | $ 1,550 | $ - | $ - | 1,550 |
| Intergovernmental | - | 116 | - | 116 | - | - | 17,714 |
| Special assessments | - | - | - | - | 1,108 | - | 1,765 |
| Rental and investment income | 30 | 22 | 1 | 53 | 1,748 | 14 | 2,151 |
| Miscellaneous | 105 | - | - | 105 | 419 | 115 | 1,775 |
| Total revenues | 1,557 | 266 | 1 | 1,824 | 3,275 | 129 | 24,955 |
| **Expenditures** | | | | | | | |
| Current: | | | | | | | |
| General government | 736 | 4 | - | 740 | 16 | - | 3,207 |
| Public safety | - | - | - | - | - | - | 2,271 |
| Culture and recreation | - | - | - | - | - | 110 | 110 |
| Capital outlay | 2,517 | 179 | - | 2,696 | - | - | 15,443 |
| Debt service: | | | | | | | |
| Principal | - | - | - | - | 5,298 | - | 5,298 |
| Interest | 69 | - | - | 69 | 10,442 | - | 10,528 |
| Bond issuance costs | - | - | - | - | - | - | 2 |
| Total expenditures | 3,322 | 183 | - | 3,505 | 15,756 | 110 | 36,859 |
| Excess (deficiency) of revenues over (under) expenditures | (1,765) | 83 | 1 | (1,681) | (12,481) | 19 | (11,904) |
| **Other financing sources (uses)** | | | | | | | |
| Transfers in | - | - | - | - | 12,774 | - | 12,774 |
| Sales of capital assets | - | - | - | - | - | - | 27 |
| Total other financing sources (uses) | - | - | - | - | 12,774 | - | 12,801 |
| Net change in fund balances | (1,765) | 83 | 1 | (1,681) | 293 | 19 | 897 |
| Fund balances - beginning | 32 | 1,971 | 69 | 2,072 | 25,884 | 1,441 | 70,793 |
| Fund balances - ending | $ (1,733) | $ 2,054 | $ 70 | $ 391 | $ 26,177 | $ 1,460 | $ 71,690 |

City of Riverside
Schedule of Revenues, Expenditures and Changes in Fund Balances -Budget and Actual
Nonmajor Governmental Funds
For the fiscal year ended June 30, 2014
(amounts expressed in thousands)

| | Special Revenue | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Urban Area Security Initiative | | | Gas Tax | | | Air Quality Improvement | | |
| | Final Budget | Actual | Variance to Final Budget | Final Budget | Actual | Variance to Final Budget | Final Budget | Actual | Variance to Final Budget |
| **Revenues** | | | | | | | | | |
| Intergovernmental | $ 3,171 | $ 2,271 | $ (900) | $ 6,985 | $ 9,418 | $ 2,433 | $ 360 | $ 480 | $ 120 |
| Rental and investment income | - | - | - | 150 | 202 | 52 | - | 5 | 5 |
| Miscellaneous | - | - | - | - | - | - | 233 | 258 | 25 |
| Total revenues | 3,171 | 2,271 | (900) | 7,135 | 9,620 | 2,485 | 593 | 743 | 150 |
| **Expenditures** | | | | | | | | | |
| Current: | | | | | | | | | |
| General government | - | - | - | - | - | - | 922 | 556 | 366 |
| Public safety | 3,349 | 2,271 | 1,078 | - | - | - | - | - | - |
| Capital outlay | - | - | - | 19,267 | 7,479 | 11,788 | - | - | - |
| Total expenditures | 3,349 | 2,271 | 1,078 | 19,267 | 7,479 | 11,788 | 922 | 556 | 366 |
| Net change in fund balances | (178) | - | 178 | (12,132) | 2,141 | 14,273 | (329) | 187 | 516 |
| Fund balances (deficit), beginning | - | - | - | 14,350 | 14,350 | - | 460 | 460 | - |
| Fund balances (deficit), ending | $ (178) | $ - | $ 178 | $ 2,218 | $ 16,491 | $ 14,273 | $ 131 | $ 647 | $ 516 |

(continued)

**City of Riverside**
**Schedule of Revenues, Expenditures and Changes in Fund Balances -Budget and Actual**
**Nonmajor Governmental Funds**
**For the fiscal year ended June 30, 2014**
**(amounts expressed in thousands)**

| | Special Revenue | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Housing & Community Development | | | NPDES Storm Drain | | | Housing | | |
| | Final Budget | Actual | Variance to Final Budget | Final Budget | Actual | Variance to Final Budget | Final Budget | Actual | Variance to Final Budget |
| **Revenues** | | | | | | | | | |
| Intergovernmental | $ 6,473 | $ 5,429 | $ (1,044) | $ - | $ - | $ - | $ - | $ - | $ - |
| Special assessments | - | - | - | 604 | 657 | 53 | - | - | - |
| Rental and investment income | 28 | 33 | 5 | - | - | - | - | 96 | 96 |
| Miscellaneous | 404 | 314 | (90) | - | - | - | - | 564 | 564 |
| Total revenues | 6,905 | 5,776 | (1,129) | 604 | 657 | 53 | - | 660 | 660 |
| **Expenditures** | | | | | | | | | |
| Current: | | | | | | | | | |
| General government | 1,277 | 423 | 854 | - | - | - | 1,423 | 1,472 | (49) |
| Capital outlay | 16,900 | 4,736 | 12,164 | 747 | 532 | 215 | - | - | - |
| Debt service: | | | | | | | | | |
| Principal | 23 | - | 23 | - | - | - | - | - | - |
| Interest | 15 | 12 | 3 | - | - | - | - | 5 | (5) |
| Bond issuance costs | - | 2 | (2) | - | - | - | - | - | - |
| Total expenditures | 18,215 | 5,173 | 13,042 | 747 | 532 | 215 | 1,423 | 1,477 | (54) |
| Excess (deficiency) of revenues over (under) expenditures | (11,310) | 603 | 11,913 | (143) | 125 | 268 | (1,423) | (817) | 606 |
| **Other financing sources (uses)** | | | | | | | | | |
| Sale of capital assets | - | - | - | - | - | - | - | 27 | 27 |
| Total other financing sources (uses) | - | - | - | - | - | - | - | 27 | 27 |
| Net change in fund balances | (11,310) | 603 | 11,913 | (143) | 125 | 268 | (1,423) | (790) | 633 |
| Fund balances (deficit), beginning | 812 | 812 | - | 176 | 176 | - | 25,598 | 25,598 | - |
| Fund balances (deficit), ending | $ (10,498) | $ 1,415 | $ 11,913 | $ 33 | $ 301 | $ 268 | $ 24,175 | $ 24,808 | $ 633 |

(continued)

**City of Riverside**
**Schedule of Revenues, Expenditures and Changes in Fund Balances -Budget and Actual**
**Nonmajor Governmental Funds**
**For the fiscal year ended June 30, 2014**
**(amounts expressed in thousands)**

| | Capital Projects | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital Outlay | | | Special Capital Improvement | | | Storm Drain | | | Transportation | | |
| | Final Budget | Actual | Variance to Final Budget | Final Budget | Actual | Variance to Final Budget | Final Budget | Actual | Variance to Final Budget | Final Budget | Actual | Variance to Final Budget |
| **Revenues** | | | | | | | | | | | | |
| Licenses and permits | $ - | $ - | $ - | $ 3,120 | $ 1,422 | $ (1,698) | $ 100 | $ 128 | $ 28 | $ - | $ - | $ - |
| Intergovernmental | 84,092 | 28,719 | (55,373) | - | - | - | 3,345 | 116 | (3,229) | - | - | - |
| Special assessments | 125 | 288 | 163 | - | - | - | - | - | - | - | - | - |
| Rental and investment income | 170 | 307 | 137 | - | 30 | 30 | 25 | 22 | (3) | - | 1 | 1 |
| Miscellaneous | 3,599 | 1,780 | (1,819) | - | 105 | 105 | - | - | - | - | - | - |
| Total revenues | 87,986 | 31,094 | (56,892) | 3,120 | 1,557 | (1,563) | 3,470 | 266 | (3,204) | - | 1 | 1 |
| **Expenditures** | | | | | | | | | | | | |
| Current: | | | | | | | | | | | | |
| General government | - | - | - | 2,336 | 736 | 1,600 | 4 | 4 | - | - | - | - |
| Capital outlay | 138,244 | 48,333 | 89,911 | 4,634 | 2,517 | 2,117 | 4,857 | 179 | 4,678 | - | - | - |
| Debt service: | | | | | | | | | | | | |
| Interest | - | - | - | 137 | 69 | 68 | - | - | - | - | - | - |
| Bond issuance costs | 738 | 738 | - | - | - | - | - | - | - | - | - | - |
| Total expenditures | 138,982 | 49,071 | 89,911 | 7,107 | 3,322 | 3,785 | 4,861 | 183 | 4,678 | - | - | - |
| Excess (deficiency) of revenues over (under) expenditures | (50,996) | (17,977) | 33,019 | (3,987) | (1,765) | 2,222 | (1,391) | 83 | 1,474 | - | 1 | 1 |
| **Other financing sources (uses)** | | | | | | | | | | | | |
| Transfers out | (1,521) | (2,185) | 664 | - | - | - | - | - | - | - | - | - |
| Issuance of long-term debt | 54,886 | 54,886 | - | - | - | - | - | - | - | | | |
| Bond Premium | 1,211 | 1,211 | - | - | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | 54,576 | 53,912 | 664 | - | - | - | - | - | - | - | - | - |
| Net change in fund balances | 3,580 | 35,935 | 33,683 | (3,987) | (1,765) | 2,222 | (1,391) | 83 | 1,474 | - | 1 | 1 |
| Fund balances (deficit), beginning | 1,432 | 1,432 | - | 32 | 32 | - | 1,971 | 1,971 | - | 69 | 69 | - |
| Fund balances (deficit), ending | $ 5,012 | $ 37,367 | $ 33,683 | $ (3,955) | $ (1,733) | $ 2,222 | $ 580 | $ 2,054 | $ 1,474 | $ 69 | $ 70 | $ 1 |

## Nonmajor Enterprise Funds

**Enterprise Funds** are used to account for the operations that are financed and operated in a manner similar to private business enterprises. The City's intent is to demonstrate that the cost of services provided to the general public on a continuing basis is financed or recovered through user charges; or the City has decided that the periodic determination of net income is appropriate for accountability purposes.

**Airport Fund** – To account for the operations of the City's airport.

**Refuse Fund** – To account for the operations of the City's solid waste and sanitation program which provides for the collection and disposal of solid waste on a user charge basis to residents and businesses.

**Transportation** – To account for the operations of the City's Senior Citizens' and Handicapped Transportation System in accordance with Article 4 of the Transportation Development Act of 1971 (SB325) of the State of California. Federal Transit Administration Funds are also accounted for in this fund.

**Public Parking** – To account for the operations and construction of the City's public parking facilities.

**City of Riverside**
**Combining Statement of Net Position**
**Nonmajor Enterprise Funds**
**June 30, 2014**
**(amounts expressed in thousands)**

| **Assets** | **Airport** | **Refuse** | **Transportation** | **Public Parking** | **Total** |
|---|---|---|---|---|---|
| Current assets: | | | | | |
| Cash and investments | $ - | $ 3,444 | $ 2,477 | $ 344 | $ 6,265 |
| Receivables (net of allowance for uncollectibles) | | | | | |
| Interest | - | 23 | 12 | 5 | 40 |
| Utility billed | - | 1,041 | - | - | 1,041 |
| Utility unbilled | - | 723 | - | - | 723 |
| Accounts | 34 | 592 | 36 | 555 | 1,217 |
| Intergovernmental | 75 | - | 1 | 9 | 85 |
| Restricted assets: | | | | | |
| Other restricted cash and cash equivalents | - | 901 | - | - | 901 |
| Total current assets | 109 | 6,724 | 2,526 | 913 | 10,272 |
| Non-current assets: | | | | | |
| Regulatory assets | - | 6,499 | - | - | 6,499 |
| Net pension asset | 214 | 1,164 | 560 | 157 | 2,095 |
| Capital assets: | | | | | |
| Land | 9,988 | - | - | 9,192 | 19,180 |
| Buildings | 2,631 | - | 22 | 33,228 | 35,881 |
| Accumulated depreciation-buildings | (1,245) | - | (10) | (4,429) | (5,684) |
| Improvements other than buildings | 19,662 | - | 1,691 | 6,731 | 28,084 |
| Accumulated depreciation-improvements other than buildings | (6,510) | - | (98) | (1,637) | (8,245) |
| Machinery and equipment | 412 | 14,487 | 3,956 | 1,138 | 19,993 |
| Accumulated depreciation-machinery and equipment | (307) | (9,978) | (2,948) | (1,008) | (14,241) |
| Construction in progress | - | - | 35 | - | 35 |
| Total non-current assets: | 24,845 | 12,172 | 3,208 | 43,372 | 83,597 |
| Total assets | 24,954 | 18,896 | 5,734 | 44,285 | 93,869 |

Continued

**City of Riverside**
**Combining Statement of Net Position**
**Nonmajor Enterprise Funds**
**June 30, 2014**
**(amounts expressed in thousands)**

| **Liabilities** | **Airport** | **Refuse** | **Transportation** | **Public Parking** | **Total** |
|---|---|---|---|---|---|
| Current liabilities: | | | | | |
| Accounts payable | 7 | 853 | 24 | 148 | 1,032 |
| Accrued payroll | 12 | 105 | 50 | 29 | 196 |
| Retainage payable | - | - | - | 20 | 20 |
| Unearned revenue | - | - | 2,229 | - | 2,229 |
| Due to other funds | 133 | - | - | - | 133 |
| Notes payable - current | - | - | - | 906 | 906 |
| Landfill capping - current | - | 200 | - | - | 200 |
| Compensated absences - current | 22 | 393 | 70 | 39 | 524 |
| Total current liabilities | 174 | 1,551 | 2,373 | 1,142 | 5,240 |
| Non-current liabilities: | | | | | |
| Notes payables | - | - | - | 21,186 | 21,186 |
| Advances from other funds | 213 | 1,160 | 558 | 608 | 2,539 |
| Landfill capping | - | 5,972 | - | - | 5,972 |
| Compensated absences | 4 | 73 | 13 | 7 | 97 |
| Other postemployment benefits | 99 | 824 | 375 | 176 | 1,474 |
| Total non-current liabilities | 316 | 8,029 | 946 | 21,977 | 31,268 |
| Total liabilities | 490 | 9,580 | 3,319 | 23,119 | 36,508 |
| **Net Position** | | | | | |
| Net investment in capital assets | 24,631 | 4,509 | 2,648 | 21,123 | 52,911 |
| Restricted for landfill capping | - | 901 | - | - | 901 |
| Unrestricted | (167) | 3,906 | (233) | 43 | 3,549 |
| Total net position | $ 24,464 | $ 9,316 | $ 2,415 | $ 21,166 | $ 57,361 |

**City of Riverside**
**Combining Statement of Revenues, Expenses, and Changes in Net Position**
**Nonmajor Enterprise Funds**
**For the fiscal year ended June 30, 2014**
**(amounts expressed in thousands)**

| | Airport | Refuse | Transportation | Public Parking | Total |
|---|---|---|---|---|---|
| Operating revenues: | | | | | |
| Charges for services | $ 1,100 | $ 20,677 | $ 413 | $ 4,382 | $ 26,572 |
| Operating expenses: | | | | | |
| Personnel services | 544 | 4,472 | 2,106 | 1,047 | 8,169 |
| Contractual services | 51 | 3,960 | 20 | 1,514 | 5,545 |
| Maintenance and operation | 225 | 5,911 | 661 | 441 | 7,238 |
| General | 113 | 3,578 | 382 | 46 | 4,119 |
| Materials and supplies | 19 | 1,114 | 221 | 19 | 1,373 |
| Insurance | 28 | 115 | 49 | 108 | 300 |
| Depreciation and amortization | 698 | 1,630 | 612 | 1,073 | 4,013 |
| Total operating expenses | 1,678 | 20,780 | 4,051 | 4,248 | 30,757 |
| Operating Income (loss) | (578) | (103) | (3,638) | 134 | (4,185) |
| Nonoperating revenues (expenses): | | | | | |
| Operating grants | - | - | 2,524 | - | 2,524 |
| Interest income | - | 51 | 30 | 7 | 88 |
| Other | 84 | 413 | 8 | 699 | 1,204 |
| Gain/loss on retirement of capital assets | 27 | (19) | 4 | 524 | 536 |
| Interest expense and fiscal charges | (11) | (32) | (16) | (886) | (945) |
| Total non-operating revenues | 100 | 413 | 2,550 | 344 | 3,407 |
| Income (loss) before capital contributions and transfers | (478) | 310 | (1,088) | 478 | (778) |
| Cash capital contributions | 296 | - | 950 | - | 1,246 |
| Transfers out | - | - | - | (738) | (738) |
| Change in net position | (182) | 310 | (138) | (260) | (270) |
| Total net position - beginning | 24,646 | 9,006 | 2,553 | 21,426 | 57,631 |
| Total net position - ending | $ 24,464 | $ 9,316 | $ 2,415 | $ 21,166 | $ 57,361 |

City of Riverside
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the fiscal year ended June 30, 2014
(amounts expressed in thousands)

| | Airport | Refuse | Transportation | Public Parking | Totals |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Cash received from customers and users | $ 1,120 | $ 20,785 | $ 1,006 | $ 4,930 | $ 27,841 |
| Cash paid to employees for services | (537) | (4,363) | (1,999) | (1,012) | (7,911) |
| Cash paid to other suppliers of goods or services | (733) | (14,831) | (1,676) | (2,461) | (19,701) |
| Other receipts | 83 | 413 | 6 | 699 | 1,201 |
| Net cash provided (used) by operating activities | (67) | 2,004 | (2,663) | 2,156 | 1,430 |
| Cash flows from noncapital financing activities: | | | | | |
| Transfers out | - | - | - | (738) | (738) |
| Outflows on interfund advances | (329) | (51) | (25) | (996) | (1,401) |
| Net cash (used) by noncapital financing activities | (329) | (51) | (25) | (1,734) | (2,139) |
| Cash flows from capital and related financing activities: | | | | | |
| Purchase of capital assets | (25) | - | (834) | (928) | (1,787) |
| Proceeds from the sale of capital assets | 27 | 9 | 4 | 2,602 | 2,642 |
| Principal paid on long-term obligations | - | - | (7) | (871) | (878) |
| Interest paid on long-term obligations | (11) | (32) | (16) | (885) | (944) |
| Grant proceeds | 109 | - | 2,524 | - | 2,633 |
| Capital contributions | 296 | - | 950 | - | 1,246 |
| Net cash (used) provided for capital and related financing activities | 396 | (23) | 2,621 | (82) | 2,912 |
| Cash flows from investing activities: | | | | | |
| Income from investments | - | 42 | 28 | 3 | 73 |
| Net cash provided by investing activities | - | 42 | 28 | 3 | 73 |
| Net change in cash and cash equivalents | - | 1,972 | (39) | 343 | 2,276 |
| Cash and cash equivalents, beginning | - | 2,373 | 2,516 | 1 | 4,890 |
| Cash and cash equivalents, ending | $ - | $ 4,345 | $ 2,477 | $ 344 | $ 7,166 |

Continued

City of Riverside
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the fiscal year ended June 30, 2014
(amounts expressed in thousands)

Continued

| | Airport | Refuse | Transportation | Public Parking | Totals |
|---|---|---|---|---|---|
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | | |
| Operating Income (loss) | $ (578) | $ (103) | $ (3,638) | $ 134 | $ (4,185) |
| Other receipts | 83 | 413 | 6 | 699 | 1,201 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | |
| Depreciation and amortization | 698 | 1,630 | 612 | 1,073 | 4,013 |
| Amortization of pension costs | 9 | 52 | 25 | 7 | 93 |
| Decrease in accounts receivable | 20 | 108 | 593 | 554 | 1,275 |
| (Increase) due from other governments | - | - | - | (6) | (6) |
| Increase (Decrease) in accounts payable | (297) | 133 | (343) | (333) | (840) |
| Increase (Decrease) in accrued payroll | (15) | 471 | 30 | 2 | 488 |
| Increase (Decrease) in other payable | 13 | (414) | 52 | 26 | (323) |
| (Decrease) in landfill capping | - | (286) | - | - | (286) |
| Net cash provided (used) by operating activities | $ (67) | $ 2,004 | $ (2,663) | $ 2,156 | $ 1,430 |

## Internal Service Funds

**Internal Service Funds** are used to account for the financing of goods and services provided by one City department to other City departments on a cost-reimbursement basis.

**Self-Insurance Trust** – To account for the operations of the City's self-insured workers' compensation, unemployment and liability programs.

**Central Stores Fund** – To account for the operations of the City's centralized supplies inventory, including receiving and delivery services provided to City departments.

**Central Garage Fund** – To account for the maintenance and repair of all city-owned vehicles and motorized equipment, except for Police vehicles.

**City of Riverside**
**Combining Statement of Net Position**
**Internal Service Funds**
**June 30, 2014**
**(amounts expressed in thousands)**

| **Assets** | **Self-Insurance Trust** | **Central Stores** | **Central Garage** | **Total** |
|---|---|---|---|---|
| Current assets: | | | | |
| Cash and investments | $ 1,118 | $ - | $ 2,065 | $ 3,183 |
| Receivables (net of allowance for uncollectibles) | | | | |
| Interest | 16 | - | 28 | 44 |
| Accounts | - | - | 54 | 54 |
| Intergovernmental | 46 | - | 6 | 52 |
| Inventory | - | 5,444 | 375 | 5,819 |
| Total current assets | 1,180 | 5,444 | 2,528 | 9,152 |
| | | | | |
| Non-current assets: | | | | |
| Advances to other funds | 2,764 | - | 3,460 | 6,224 |
| Advances to Successor Agency | 5,634 | - | - | 5,634 |
| Net pension asset | 205 | 215 | 964 | 1,384 |
| Capital assets: | | | | |
| Land | | | 458 | 458 |
| Buildings | - | - | 1,488 | 1,488 |
| Accumulated depreciation-buildings | - | - | (300) | (300) |
| Improvements other than buildings | - | - | 726 | 726 |
| Accumulated depreciation - improvements other than buildings | - | - | (83) | (83) |
| Machinery and equipment | 5 | 139 | 10,665 | 10,809 |
| Accumulated depreciation-machinery and equipment | - | (139) | (8,088) | (8,227) |
| Construction in progress | - | - | 1,482 | 1,482 |
| Total non-current assets: | 8,608 | 215 | 10,772 | 19,595 |
| | | | | |
| Total assets | 9,788 | 5,659 | 13,300 | 28,747 |
| | | | | |
| **Liabilities** | | | | |
| Current liabilities: | | | | |
| Accounts payable | 233 | 212 | 1,363 | 1,808 |
| Accrued payroll | 13 | 16 | 71 | 100 |
| Retainage payable | - | - | 71 | 71 |
| Due to other funds | - | 1,306 | - | 1,306 |
| Claims and judgments - current | 11,122 | - | - | 11,122 |
| Compensated absences - current | 15 | 45 | 207 | 267 |
| Total current liabilities | 11,383 | 1,579 | 1,712 | 14,674 |
| | | | | |
| Non-current liabilities: | | | | |
| Advances from other funds | 204 | 213 | 2,649 | 3,066 |
| Claims and judgments | 24,045 | - | - | 24,045 |
| Compensated absences | 17 | 48 | 227 | 292 |
| Other postemployment benefits | 92 | 111 | 469 | 672 |
| Total non-current liabilities | 24,358 | 372 | 3,345 | 28,075 |
| | | | | |
| Total liabilities | 35,741 | 1,951 | 5,057 | 42,749 |
| | | | | |
| **Net Position** | | | | |
| Net investment in capital assets | 5 | - | 6,348 | 6,353 |
| Unrestricted | (25,958) | 3,708 | 1,895 | (20,355) |
| Total net position | $ (25,953) | $ 3,708 | $ 8,243 | $ (14,002) |

**City of Riverside**
**Combining Statement of Revenues, Expenses, and Changes in Net Position**
**Internal Service Funds**
**For the fiscal year ended June 30, 2014**
**(amounts expressed in thousands)**

| | Self-Insurance Trust | Central Stores | Central Garage | Totals |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Charges for services | $ 11,894 | $ 1,511 | $ 8,367 | $ 21,772 |
| Operating expenses: | | | | |
| Personnel services | 511 | 662 | 2,991 | 4,164 |
| Contractual services | 68 | - | 73 | 141 |
| Maintenance and operation | 4 | 26 | 2,146 | 2,176 |
| General | 1,034 | 367 | 750 | 2,151 |
| Materials and supplies | 1 | 11 | 210 | 222 |
| Claims/Insurance | 14,572 | 9 | 47 | 14,628 |
| Depreciation and amortization | - | - | 572 | 572 |
| Total operating expenses | 16,190 | 1,075 | 6,789 | 24,054 |
| Operating income (loss) | (4,296) | 436 | 1,578 | (2,282) |
| Non-operating revenues (expenses): | | | | |
| Interest income | 153 | - | 76 | 229 |
| Other | 1 | - | (5) | (4) |
| Gain (loss) on retirement of capital assets | - | - | (4) | (4) |
| Interest expense and fiscal charges | (72) | (6) | (41) | (119) |
| Total non-operating revenue (expenses) | 82 | (6) | 26 | 102 |
| Change in net position | (4,214) | 430 | 1,604 | (2,180) |
| Total net position - beginning | (21,739) | 3,278 | 6,639 | (11,822) |
| Total net position - ending | $ (25,953) | $ 3,708 | $ 8,243 | $ (14,002) |

City of Riverside
Combining Statement of Cash Flows
Internal Service Funds
For the fiscal year ended June 30, 2014
(amounts expressed in thousands)

| | Self-Insurance Trust | Central Stores | Central Garage | Total |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Cash received from customers and users | $ 11,902 | $ 2,322 | $ 8,361 | $ 22,585 |
| Cash paid to employees for services | (487) | (631) | (2,745) | (3,863) |
| Cash paid to other suppliers of goods or services | (12,059) | (460) | (2,262) | (14,781) |
| Other receipts | 1 | - | - | 1 |
| Net cash provided (used) by operating activities | (643) | 1,231 | 3,354 | 3,942 |
| Cash flows from noncapital financing activities: | | | | |
| Receipts on interfund advances | 3,692 | - | 1,674 | 5,366 |
| Outflows on interfund advances | (1,948) | (1,225) | (3,502) | (6,675) |
| Net cash provided (used) by noncapital financing activities | 1,744 | (1,225) | (1,828) | (1,309) |
| Cash flows from capital and related financing activities: | | | | |
| Interest paid on long-term obligation | (72) | (6) | (26) | (104) |
| Purchase of capital assets | (5) | - | (3,711) | (3,716) |
| Net cash (used) for capital and related financing activities | (77) | (6) | (3,737) | (3,820) |
| Cash flows from investing activities: | | | | |
| Income from investments | 94 | - | 67 | 161 |
| | 94 | - | 67 | 161 |
| Net increase (decrease) in cash and cash equivalents | 1,118 | - | (2,144) | (1,026) |
| Cash and cash equivalents, beginning | - | - | 4,209 | 4,209 |
| Cash and cash equivalents, ending | $ 1,118 | $ - | $ 2,065 | $ 3,183 |

Continued

City of Riverside
Combining Statement of Cash Flows
Internal Service Funds
For the fiscal year ended June 30, 2014
(amounts expressed in thousands)

Continued

| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | Self-Insurance Trust | Central Stores | Central Garage | Total |
|---|---|---|---|---|
| Operating (loss) income | $ (4,296) | $ 436 | $ 1,578 | $ (2,282) |
| Other receipts | 1 | - | - | 1 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Depreciation and amortization | - | - | 572 | 572 |
| Amortization of pension costs | 9 | 9 | 43 | 61 |
| (Increase) Decrease in account receivable | 8 | - | (11) | (3) |
| Decrease in inventory | - | 811 | 61 | 872 |
| Increase (Decrease) in accounts payable | 23 | (46) | 908 | 885 |
| Increase in other payable | 13 | 21 | 125 | 159 |
| Increase in accrued payroll | 2 | - | 78 | 80 |
| Increase in claims and judgments | 3,597 | - | - | 3,597 |
| Net cash (used) provided by operating activities | $ (643) | $ 1,231 | $ 3,354 | $ 3,942 |

## Agency Fund

The City’s Agency Fund is used to account for special assessments that service no-commitment debt.

**City of Riverside**
**Fiduciary Fund - Agency Fund**
**Combining Statement of Changes in Assets and Liabilities**
**For the fiscal year ended June 30, 2014**
**(amounts expressed in thousands)**

| | Balance July 1, 2013 | Additions | Deductions | Balance June 30, 2014 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and investments | $ 6,688 | $ 4,908 | $ 5,930 | $ 5,666 |
| Cash and investments at fiscal agent | 6,778 | 5,938 | 5,976 | 6,740 |
| Interest receivable | 33 | 212 | 219 | 26 |
| Accounts receivable | 24 | - | 24 | - |
| Property taxes receivable | 124 | 114 | 124 | 114 |
| Total assets | $ 13,647 | $ 11,172 | $ 12,273 | $ 12,546 |
| **Liabilities** | | | | |
| Accounts payable | $ - | $ 82 | $ 82 | - |
| Held for bond holders | 13,647 | 11,090 | 12,191 | 12,546 |
| Total liabilities | $ 13,647 | $ 11,172 | $ 12,273 | $ 12,546 |

# CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS

**City of Riverside**
**Capital Assets Used in the Operation of Governmental Funds**
**Schedule By Source**
**June 30, 2014**
**(amounts expressed in thousands)**

| | | |
|---|---|---|
| Governmental funds capital assets: | | |
| Land | $ | 333,799 |
| Buildings and improvements | | 180,653 |
| Improvements other than buildings | | 299,345 |
| Machinery and equipment | | 82,561 |
| Infrastructure | | 934,614 |
| Construction in progress | | 33,011 |
| Total governmental funds capital assets | $ | 1,863,983 |

| | | |
|---|---|---|
| Investments in governmental funds capital assets by source: | | |
| Certificates of participation | $ | 122,610 |
| Gifts | | 322,300 |
| Operating revenue | | 537,498 |
| General obligation bonds | | 4,364 |
| Revenue bonds | | 21,229 |
| County contracts and grants | | 316 |
| State grants | | 40,506 |
| Asset forfeiture - state | | 994 |
| Asset forfeiture - federal | | 2,870 |
| Housing and community development grants | | 18,955 |
| Other federal grants | | 35,248 |
| Community facilities bonds | | 1,026 |
| Assessment district bonds | | 397 |
| Capital leases | | 10,825 |
| RDA tax increment bonds | | 2,983 |
| Capital projects funds | | 741,862 |
| Total governmental funds capital assets | $ | 1,863,983 |

# Statistical Section
## (Unaudited)

This part of the City's 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** **Page**



**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

**Table 1**
**City of Riverside**
**Net Position by Component**
**Last Ten Fiscal Years**
**(accrual basis of accounting)**

**(in thousands)**

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012[1]** | **2013** | **2014** |
| **Governmental activities** | | | | | | | | | | |
| Net investment in capital assets | $ 515,354 | $ 622,336 | $ 712,801 | $ 850,740 | $ 950,496 | $ 976,614 | $ 1,019,892 | $ 1,076,485 | $ 1,083,485 | $ 1,106,384 |
| Restricted | 154,957 | 158,038 | 107,982 | 102,677 | 98,903 | 108,932 | 80,820 | 86,325 | 80,712 | 96,587 |
| Unrestricted | (46,419) | (51,261) | (34,245) | (31,429) | (41,861) | (80,947) | (90,159) | 23,145 | 17,989 | (2,049) |
| Total governmental activities net position | $ 623,892 | $ 729,113 | $ 786,538 | $ 921,988 | $ 1,007,538 | $ 1,004,599 | $ 1,010,553 | $ 1,185,955 | $ 1,182,186 | $ 1,200,922 |
| **Business-type activities** | | | | | | | | | | |
| Net investment in capital assets | $ 402,377 | $ 425,285 | $ 520,059 | $ 601,999 | $ 659,904 | $ 660,619 | $ 654,974 | $ 666,919 | $ 609,691 | $ 616,844 |
| Restricted | 54,540 | 71,386 | 57,613 | 43,341 | 38,621 | 59,863 | 56,397 | 54,923 | 69,068 | 68,507 |
| Unrestricted | 229,462 | 250,041 | 242,966 | 225,281 | 207,405 | 219,720 | 256,038 | 285,062 | 330,833 | 359,698 |
| Total business-type activities net position | $ 686,379 | $ 746,712 | $ 820,638 | $ 870,621 | $ 905,930 | $ 940,202 | $ 967,409 | $ 1,006,904 | $ 1,009,592 | $ 1,045,049 |
| **Primary government** | | | | | | | | | | |
| Net investment in capital assets | $ 917,731 | $ 1,047,621 | $ 1,232,860 | $ 1,452,739 | $ 1,610,400 | $ 1,637,233 | $ 1,674,866 | $ 1,743,404 | $ 1,693,176 | $ 1,723,228 |
| Restricted | 209,497 | 229,424 | 165,595 | 146,018 | 137,524 | 168,795 | 137,217 | 141,248 | 149,780 | 165,094 |
| Unrestricted | 183,043 | 198,780 | 208,721 | 193,852 | 165,544 | 138,773 | 165,879 | 308,207 | 348,822 | 357,649 |
| Total primary government net position | $ 1,310,271 | $ 1,475,825 | $ 1,607,176 | $ 1,792,609 | $ 1,913,468 | $ 1,944,801 | $ 1,977,962 | $ 2,192,859 | $ 2,191,778 | $ 2,245,971 |

[1] The increase in total governmental activities net position (and related unrestricted net position) is primarily due to the dissolution of the Redevelopment Agency.

(in thousands) Page 1 of 2

**Table 2**
**City of Riverside**
**Changes in Net Position**
**Last Ten Fiscal Years**
**(accrual basis of accounting)**



| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| **Expenses** | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| General government | $ 58,460 | $ 74,458 | $ 105,486 | $ 113,897 | $ 71,391 | $ 85,110 | $ 72,606 | $ 48,731 | $ 54,808 | $ 42,664 |
| Public safety | 110,969 | 120,470 | 114,312 | 122,783 | 142,353 | 137,338 | 139,364 | 148,605 | 147,652 | 149,555 |
| Highways and streets | 20,364 | 20,757 | 22,556 | 26,986 | 29,700 | 31,492 | 32,131 | 35,342 | 35,072 | 36,564 |
| Culture and recreation | 26,353 | 32,602 | 28,016 | 31,659 | 29,423 | 44,319 | 50,017 | 54,594 | 40,077 | 42,252 |
| Interest on long-term debt | 15,885 | 16,358 | 26,378 | 34,075 | 34,361 | 32,049 | 33,638 | 25,087 | 16,627 | 17,741 |
| Total governmental activities expenses | 232,031 | 264,645 | 296,748 | 329,400 | 307,228 | 330,308 | 327,756 | 312,359 | 294,236 | 288,776 |
| Business-type activities: | | | | | | | | | | |
| Electric | 200,030 | 226,186 | 232,346 | 271,412 | 269,209 | 256,860 | 275,922 | 288,799 | 292,175 | 304,416 |
| Water | 36,709 | 39,486 | 42,108 | 47,570 | 53,931 | 55,402 | 56,390 | 56,715 | 58,768 | 60,030 |
| Sewer | 26,108 | 27,299 | 29,510 | 31,209 | 34,853 | 41,248 | 42,276 | 43,702 | 43,945 | 40,385 |
| Refuse | 12,841 | 14,546 | 16,490 | 18,430 | 18,425 | 20,527 | 20,046 | 19,979 | 20,581 | 20,831 |
| Airport | 1,185 | 1,004 | 1,201 | 1,418 | 1,734 | 2,206 | 2,320 | 2,646 | 2,029 | 1,662 |
| Transportation | 2,557 | 2,917 | 2,831 | 3,190 | 3,194 | 3,368 | 3,493 | 3,667 | 3,745 | 4,067 |
| Public parking | 824 | 2,701 | 3,762 | 4,093 | 5,095 | 4,024 | 4,401 | 4,984 | 5,051 | 4,610 |
| Total business-type activities expenses | 280,254 | 314,139 | 328,248 | 377,322 | 386,441 | 383,635 | 404,848 | 420,492 | 426,294 | 436,001 |
| Total primary government expenses | $ 512,285 | $ 578,784 | $ 624,996 | $ 706,722 | $ 693,669 | $ 713,943 | $ 732,604 | $ 732,851 | $ 720,530 | $ 724,777 |
| **Program Revenues** | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| General government | $ 25,995 | $ 24,683 | $ 10,245 | $ 23,969 | $ 13,691 | $ 12,933 | $ 14,241 | $ 14,662 | $ 13,338 | $ 13,775 |
| Public safety | 6,982 | 5,845 | 12,410 | 9,924 | 8,414 | 8,177 | 8,075 | 7,837 | 7,793 | 7,444 |
| Highways and streets | 23,108 | 25,412 | 30,563 | 19,695 | 14,391 | 17,847 | 16,985 | 16,532 | 15,825 | 17,487 |
| Culture and recreation | 7,002 | 7,716 | 8,302 | 4,370 | 3,168 | 2,367 | 3,180 | 4,622 | 5,237 | 7,406 |
| Operating grants and contributions | 16,140 | 13,150 | 12,101 | 15,024 | 23,313 | 32,853 | 21,127 | 31,581 | 21,485 | 14,341 |
| Capital grants and contributions | 5,292 | 18,618 | 10,557 | 115,982 | 69,745 | 23,395 | 38,138 | 54,476 | 32,202 | 48,433 |
| Total governmental activities program revenues | 84,519 | 95,424 | 84,178 | 188,964 | 132,722 | 97,572 | 101,746 | 129,710 | 95,880 | 108,886 |
| Business-type activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| Electric | 252,322 | 259,572 | 278,888 | 305,299 | 314,164 | 309,910 | 313,703 | 333,029 | 347,933 | 344,037 |
| Water | 34,002 | 37,613 | 47,080 | 49,855 | 54,923 | 57,534 | 62,084 | 65,206 | 68,489 | 68,691 |
| Sewer | 21,967 | 21,510 | 24,057 | 22,525 | 23,247 | 27,342 | 32,769 | 37,747 | 43,772 | 46,162 |
| Refuse | 14,492 | 15,160 | 15,833 | 16,289 | 18,394 | 18,712 | 19,134 | 19,588 | 20,829 | 20,677 |
| Airport | 1,088 | 1,162 | 1,263 | 1,423 | 1,232 | 1,315 | 1,342 | 1,524 | 1,396 | 1,100 |
| Transportation | 200 | 238 | 302 | 313 | 336 | 328 | 344 | 352 | 344 | 413 |
| Public parking | 2,961 | 2,837 | 3,431 | 3,717 | 4,332 | 4,876 | 5,205 | 4,803 | 4,777 | 4,382 |
| Operating grants and contributions | 2,261 | 2,704 | 1,939 | 3,308 | 1,929 | 2,487 | 2,159 | 2,738 | 2,718 | 2,524 |
| Capital grants and contributions | 32,317 | 29,293 | 40,066 | 29,215 | 17,288 | 6,838 | 7,337 | 21,164 | 11,734 | 11,486 |
| Total business-type activities program revenues | 361,610 | 370,089 | 412,859 | 431,944 | 435,845 | 429,342 | 444,077 | 486,151 | 501,992 | 499,472 |
| Total primary government program revenues | $ 446,129 | $ 465,513 | $ 497,037 | $ 620,908 | $ 568,567 | $ 526,914 | $ 545,823 | $ 615,861 | $ 597,872 | $ 608,358 |

(continued)

**Table 2**
**City of Riverside**
**Changes in Net Position**
**Last Ten Fiscal Years**
**(accrual basis of accounting)**

**(in thousands)** 

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012[1]** | **2013[2]** | **2014** |
| **Net Revenues (Expense)** | | | | | | | | | | |
| Governmental activities | $ (147,512) | $ (169,221) | $ (212,570) | $ (140,436) | $ (174,506) | $ (232,736) | $ (226,010) | $ (182,649) | $ (198,356) | $ (179,890) |
| Business-type activities | 81,356 | 55,950 | 84,611 | 54,622 | 49,404 | 45,707 | 39,229 | 65,659 | 75,698 | 63,471 |
| Total primary government net expense | $ (66,156) | $ (113,271) | $ (127,959) | $ (85,814) | $ (125,102) | $ (187,029) | $ (186,781) | $ (116,990) | $ (122,658) | $ (116,419) |
| **General Revenues and Other Changes in Net Position** | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Taxes | | | | | | | | | | |
| Sales | $ 53,348 | $ 57,522 | $ 55,666 | $ 50,526 | $ 41,882 | $ 39,645 | $ 44,157 | $ 47,701 | $ 50,222 | $ 55,096 |
| Property | 61,553 | 80,934 | 106,114 | 114,176 | 116,420 | 104,087 | 100,802 | 74,179 | 52,904 | 51,323 |
| Utility users | 22,133 | 23,502 | 25,384 | 26,267 | 25,964 | 25,975 | 26,691 | 27,320 | 28,206 | 28,092 |
| Franchise | 4,481 | 4,813 | 5,031 | 4,972 | 5,144 | 4,477 | 4,937 | 4,883 | 4,959 | 5,046 |
| Transient occupancy | 3,828 | 4,372 | 3,581 | 3,795 | 2,912 | 2,488 | 2,731 | 2,995 | 3,703 | 4,189 |
| Intergovernmental, unrestricted | 1,795 | 1,747 | 1,863 | 2,074 | 4,569 | 1,339 | 1,285 | 351 | 337 | 263 |
| Unrestricted grants and contributions | 15,220 | 39,653 | 29,743 | - | - | - | - | - | - | - |
| Investment earnings | 7,815 | 10,150 | 18,582 | 25,670 | 15,941 | 8,289 | 7,439 | 4,440 | 2,786 | 2,759 |
| Miscellaneous | 5,756 | 26,173 | 4,228 | 9,480 | 5,137 | 3,344 | 9,544 | 9,273 | 9,208 | 5,425 |
| Transfers | 14,918 | 25,576 | 31,171 | 32,326 | 42,087 | 40,153 | 34,378 | 40,679 | 42,262 | 46,433 |
| Extraordinary items | - | - | - | - | - | - | - | 149,617 | - | - |
| Total governmental activities | 190,847 | 274,442 | 281,363 | 269,286 | 260,056 | 229,797 | 231,964 | 361,438 | 194,587 | 198,626 |
| Business-type activities: | | | | | | | | | | |
| Investment income | 7,548 | 11,259 | 16,988 | 22,756 | 23,402 | 21,271 | 17,548 | 11,405 | 4,744 | 8,005 |
| Miscellaneous | 7,362 | 18,700 | 3,498 | 4,931 | 4,590 | 7,447 | 4,808 | 3,110 | 5,767 | 10,414 |
| Special item | (3,014) | - | - | - | - | - | - | - | - | - |
| Transfers | (14,918) | (25,576) | (31,171) | (32,326) | (42,087) | (40,153) | (34,378) | (40,679) | (42,262) | (46,433) |
| Extraordinary items | - | - | - | - | - | - | - | - | (41,259) | - |
| Total business-type activities | (3,022) | 4,383 | (10,685) | (4,639) | (14,095) | (11,435) | (12,022) | (26,164) | (73,010) | (28,014) |
| Total primary government | 187,825 | 278,825 | 270,678 | 264,647 | 245,961 | 218,362 | 219,942 | 335,274 | 121,577 | 170,612 |
| **Change in Net Position** | | | | | | | | | | |
| Governmental activities | $ 43,335 | $ 105,221 | $ 68,793 | $ 128,850 | $ 85,550 | $ (2,939) | $ 5,954 | $ 178,789 | $ (3,769) | $ 18,736 |
| Business-type activities | 78,334 | 60,333 | 73,926 | 49,983 | 35,309 | 34,272 | 27,207 | 39,495 | 2,688 | 35,457 |
| Total primary government | $ 121,669 | $ 165,554 | $ 142,719 | $ 178,833 | $ 120,859 | $ 31,333 | $ 33,161 | $ 218,284 | $ (1,081) | $ 54,193 |

[1] The increase in total governmental activities net position is primarily due to the dissolution of the Redevelopment Agency.

[2] The decrease in total business-type activities net position is primarily due to the power plant closure.

**Table 3**
**City of Riverside**
**Fund Balances of Governmental Funds**
**Last Four Fiscal Years**
**(modified accrual basis of accounting, in thousands)**

| | 2011 | 2012[1,2] | 2013 | 2014 |
|---|---|---|---|---|
| General fund | | | | |
| Nonspendable | $ 26,646 | $ 25,720 | $ 26,421 | $ 24,419 |
| Restricted | 82,249 | 2,803 | 2,196 | 2,204 |
| Assigned | 15,589 | 6,380 | 10,711 | 14,505 |
| Unassigned | 36,359 | 39,347 | 37,763 | 37,732 |
| Total general fund | $ 160,843 | $ 74,250 | $ 77,091 | $ 78,860 |
| | | | | |
| All other governmental funds | | | | |
| Nonspendable | $ 1,626 | $ 1,539 | $ 1,441 | $ 1,460 |
| Restricted for: | | | | |
| Housing and redevelopment | 96,571 | 26,911 | 26,410 | 26,223 |
| Debt service | 56,526 | 29,080 | 25,884 | 26,177 |
| Transportation and public works | 26,459 | 31,075 | 16,487 | 54,876 |
| Other purposes | 5,073 | 1,401 | 2,003 | 2,054 |
| Unassigned | - | - | - | (1,733) |
| Total all other governmental funds | $ 186,255 | $ 90,006 | $ 72,225 | $ 109,057 |

[1] The decrease in fund balance of the General Fund primarily relates to the transfer of land held for resale (in the amount of $76.3 million) to the Redevelopment Agency Capital Projects Fund, which had been transferred to the General Fund during the fiscal year ended June 30, 2011.

[2] The decrease in fund balance of all other governmental funds relates to the dissolution of the Redevelopment Agency.

*The City of Riverside implemented GASB 54 in the fiscal year ended June 30, 2011.*
*The City has elected to show four years of data for this schedule.*

**Table 4**
**City of Riverside**
**Changes in Fund Balances of Governmental Funds**
**Last Ten Fiscal Years**
**(modified accrual basis accounting)**

(in thousands) 

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues:** | | | | | | | | | | |
| Taxes | $ 142,056 | $ 170,638 | $ 191,131 | $ 200,438 | $ 192,322 | $ 177,255 | $ 179,318 | $ 156,593 | $ 139,994 | $ 143,748 |
| Licenses and permits | 14,389 | 16,351 | 12,984 | 10,027 | 7,368 | 6,899 | 7,657 | 9,292 | 10,173 | 9,244 |
| Intergovernmental | 42,568 | 55,178 | 47,934 | 79,423 | 86,873 | 60,550 | 61,082 | 66,618 | 50,734 | 59,348 |
| Charges for services | 11,299 | 11,538 | 11,914 | 11,325 | 9,099 | 9,570 | 10,720 | 11,774 | 12,062 | 15,734 |
| Fines and forfeitures | 2,006 | 2,098 | 2,778 | 4,573 | 6,213 | 7,512 | 8,928 | 6,293 | 6,234 | 7,283 |
| Special assessments | 6,272 | 6,247 | 6,170 | 5,245 | 5,431 | 5,464 | 6,014 | 6,276 | 6,669 | 6,272 |
| Use of money and property | 10,915 | 14,324 | 22,587 | 27,970 | 18,620 | 11,173 | 10,173 | 8,095 | 3,878 | 4,315 |
| Miscellaneous | 9,996 | 8,502 | 6,164 | 12,796 | 7,596 | 7,082 | 16,605 | 10,611 | 14,933 | 6,957 |
| Total revenues | $ 239,501 | $ 284,876 | $ 301,662 | $ 351,797 | $ 333,522 | $ 285,505 | $ 300,497 | $ 275,552 | $ 244,677 | $ 252,901 |
| **Expenditures:** | | | | | | | | | | |
| General government | $ 21,800 | $ 25,193 | $ 39,093 | $ 26,177 | $ 25,995 | $ 23,835 | $ 26,090 | $ 18,835 | $ 15,713 | $ 13,558 |
| Public safety | 117,267 | 126,007 | 139,739 | 151,773 | 145,802 | 138,594 | 140,994 | 150,878 | 150,290 | 151,721 |
| Highways and streets | 11,695 | 11,281 | 19,722 | 25,209 | 18,452 | 14,987 | 14,587 | 16,651 | 16,294 | 16,944 |
| Culture and recreation | 28,939 | 31,017 | 31,039 | 30,622 | 26,859 | 40,373 | 44,345 | 57,538 | 45,356 | 34,275 |
| Capital outlay | 64,127 | 121,978 | 149,325 | 171,952 | 180,394 | 131,908 | 105,689 | 75,482 | 73,581 | 72,365 |
| Debt Service: | | | | | | | | | | |
| Principal | 8,599 | 9,733 | 12,045 | 11,257 | 44,349 | 48,078 | 89,264 | 83,378 | 45,006 | 45,500 |
| Interest | 15,025 | 19,205 | 21,330 | 31,239 | 33,033 | 31,267 | 32,611 | 24,133 | 15,116 | 16,787 |
| Debt issuance costs | 1,538 | - | 2,551 | 697 | 259 | 231 | 174 | 169 | 581 | 843 |
| Payment for advance refunding | - | - | - | - | - | - | - | - | 3,521 | - |
| Total expenditures | $ 268,990 | $ 344,414 | $ 414,844 | $ 448,926 | $ 475,143 | $ 429,273 | $ 453,754 | $ 427,064 | $ 365,458 | $ 351,993 |
| Excess of revenues | | | | | | | | | | |
| over (under) expenditures | $ (29,489) | $ (59,538) | $ (113,182) | $ (97,129) | $ (141,621) | $ (143,768) | $ (153,257) | $ (151,512) | $(120,781) | $ (99,092) |

(continued)

(in thousands) Page 2 of 2

**Table 4**
**City of Riverside**
**Changes in Fund Balances of Governmental Funds**
**Last Ten Fiscal Years**
**(modified accrual basis accounting)**



| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Other financing sources (uses):** | | | | | | | | | | |
| Transfers in | $ 49,944 | $ 59,545 | $ 84,306 | $ 62,841 | $ 100,797 | $ 88,303 | $ 214,631 | $ 196,859 | $ 56,572 | $ 58,469 |
| Transfers out | (35,026) | (33,969) | (53,135) | (30,515) | (58,710) | (48,150) | (180,280) | (156,305) | (14,178) | (15,369) |
| Issuance of long term debt | 85,691 | 20,969 | 299,645 | 164,408 | 30,425 | 51,821 | 104,875 | 34,940 | 99,753 | 87,037 |
| Capital lease financings | - | - | - | - | - | 3,116 | 2,000 | - | 7,203 | 6,625 |
| Sales of capital assets | 6,230 | 1,281 | 541 | 8,931 | (5,798) | 529 | (1,629) | 156 | 82 | 931 |
| Payments to refunded bond agent | (9,167) | - | - | (148,975) | - | - | - | - | (43,591) | - |
| Total other financing sources (uses) | 97,672 | 47,826 | 331,357 | 56,690 | 66,714 | 95,619 | 139,597 | 75,650 | 105,841 | 137,693 |
| Special item - pension contribution | (32,141) | - | - | - | - | - | - | - | - | - |
| **Extraordinary items:** | | | | | | | | | | |
| Dissolution of Riverside Redevelopment Agency: | | | | | | | | | | |
| Transfer of assets and liabilities to Successor Agency | - | - | - | - | - | - | - | (130,174) | - | - |
| Transfer of assets from Successor Agency | - | - | - | - | - | - | - | 28,121 | - | - |
| Assumption of obligation | - | - | - | - | - | - | - | (4,927) | - | - |
| Total extraordinary items | - | - | - | - | - | - | - | (106,980) | - | - |
| Net change in fund balances | $ 36,042 | $ (11,712) | $ 218,175 | $ (40,439) | $ (74,907) | $ (48,149) | $ (13,660) | $ (182,842) | $ (14,940) | $ 38,601 |
| Debt service as a percentage of noncapital expenditures | 15.301% | 13.777% | 14.011% | 16.947% **(1)** | 26.058% **(2)** | 23.211% | 32.757% **(3)** | 32.507% **(4)** | 21.039% | 21.803% |

**(1)** Increase in debt service related to the issuance of the 2007 Redevelopment Agency Tax Allocation Bonds and 2008 Riverside Renaissance Certificates of Participation.
**(2)** Increase relates to $30 million refinancing of 2005B pension bonds that took place in May 2008, which became due in-full in June 2009. The $30 million Pension Bond Anticipation Notes have been paid in-full and immediately re-issued each year in 2009, 2010, 2011, 2012, 2013 and 2014.
**(3)** Increase in debt service related to one-time early redemption of $31.7 million of 2011 Redevelopment Tax Allocation Bonds and $9.1 million of loan proceeds that were drawn-down during the year and re-paid within the year.
**(4)** Includes one-time early redemption of $33.3 million of 2011 Redevelopment Tax Allocation Bonds.

**Table 5**
**City of Riverside**
**Business-Type Activities Electricity Revenues By Source**
**Last Ten Fiscal Years**
**(accrual basis of accounting)** **(in thousands)**

| Fiscal Year | Residential Sales | Commercial Sales | Industrial Sales | Wholesale Sales | Other Sales | Transmission Revenue | Other Operating Revenue | Total Revenues |
|---|---|---|---|---|---|---|---|---|
| 2005 | $ 79,786 | $ 59,998 | $ 59,157 | $ 15,249 | $ 6,337 | $ 20,213 | $ 12,697 | $ 253,437 |
| 2006 | 85,243 | 53,773 | 71,084 | 11,952 | 7,139 | 20,043 | 9,183 | 258,417 |
| 2007 | 94,426 | 55,421 | 83,698 | 9,913 | 5,713 | 20,097 | 9,536 | 278,804 |
| 2008 | 99,981 | 60,768 | 92,697 | 14,805 | 5,425 | 19,211 | 12,405 | 305,292 |
| 2009 | 105,525 | 65,532 | 97,100 | 4,674 | 5,684 | 18,673 | 12,250 | 309,438 |
| 2010 | 107,301 | 65,091 | 97,458 | 1,466 | 5,639 | 21,100 | 11,855 | 309,910 |
| 2011 | 107,792 | 64,039 | 102,067 | 124 | 5,529 | 22,091 | 12,061 | 313,703 |
| 2012 | 110,471 | 66,047 | 107,455 | 50 | 5,614 | 30,735 | 12,657 | 333,029 |
| 2013 | 118,173 | 66,632 | 110,680 | 638 | 5,712 | 32,688 | 13,410 | 347,933 |
| 2014 | 111,880 | 67,063 | 111,260 | 115 | 5,600 | 32,630 | 15,489 | 344,037 |

**Table 6**
**City of Riverside**
**Governmental Activities Tax Revenues By Source**
**Last Ten Fiscal Years**
**(accrual basis of accounting)** **(in thousands)**

| Fiscal Year | Sales Tax | Property Tax[1] | Utility Users Tax | Franchise Tax | Transient Occupancy Tax | Total Taxes |
|---|---|---|---|---|---|---|
| 2005 | 53,348 | 61,553 | 22,133 | 4,481 | 1,795 | 143,310 |
| 2006 | 57,522 | 80,934 | 23,502 | 4,813 | 4,372 | 171,143 |
| 2007 | 55,666 | 101,469 | 25,384 | 5,031 | 3,581 | 191,131 |
| 2008 | 50,526 | 114,176 | 26,267 | 4,972 | 3,795 | 199,736 |
| 2009 | 41,882 | 116,420 | 25,964 | 5,144 | 2,912 | 192,322 |
| 2010 | 39,645 | 104,087 | 25,975 | 4,477 | 2,488 | 176,672 |
| 2011 | 44,157 | 100,802 | 26,691 | 4,937 | 2,731 | 179,318 |
| 2012 | 47,701 | 74,179 | 27,320 | 4,883 | 2,995 | 157,078 |
| 2013 | 50,222 | 52,904 | 28,206 | 4,959 | 3,703 | 139,994 |
| 2014 | 55,096 | 51,323 | 28,092 | 5,046 | 4,189 | 143,746 |

[1] Decrease in property taxes in fiscal years 2012 and 2013 relates to the dissolution of the Redevelopment Agency. Upon the dissolution of the Redevelopment Agency on February 1, 2012, property taxes received by the Successor Agency are reported in a private-purpose trust fund and therefore are excluded from the activities of the primary government.

**Table 7**
**City of Riverside**
**Assessed Value and Estimated Actual Value of Taxable Property**
**Last Ten Fiscal Years**

**(in thousands)**

| | City | | | | Dissolved Redevelopment Agency[1] | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Fiscal Year Ended June 30** | **Secured** | **Unsecured** | **Less: Exemptions** | **Taxable Assessed Value** | **Secured** | **Unsecured** | **Less: Exemptions** | **Taxable Assessed Value** | **Total Direct Tax Rate[2]** |
| 2005 | 15,540,982 | 951,211 | (2,751,844) | 13,740,349 | 1,775,655 | 158,148 | (33,654) | 1,900,149 | 0.266 |
| 2006 | 17,557,341 | 1,058,995 | (4,002,177) | 14,614,159 | 2,914,600 | 210,025 | (51,992) | 3,072,633 | 0.309 |
| 2007 | 20,672,126 | 1,140,891 | (5,417,388) | 16,395,629 | 4,145,700 | 410,625 | (93,261) | 4,463,064 | 0.304 |
| 2008 | 23,618,776 | 1,291,972 | (6,960,666) | 17,950,082 | 5,509,441 | 553,124 | (138,490) | 5,924,075 | 0.334 |
| 2009 | 24,428,633 | 1,330,053 | (7,515,667) | 18,243,019 | 5,998,768 | 581,943 | (224,025) | 6,356,686 | 0.343 |
| 2010 | 22,644,262 | 1,299,353 | (7,103,040) | 16,840,575 | 5,598,484 | 564,825 | (266,257) | 5,897,052 | 0.349 |
| 2011 | 22,056,793 | 1,260,923 | (6,920,720) | 16,396,996 | 5,396,219 | 544,906 | (268,323) | 5,672,802 | 0.347 |
| 2012 | 22,031,328 | 1,264,151 | (6,952,649) | 16,342,830 | 5,395,632 | 572,153 | (270,313) | 5,697,472 | 0.348 |
| 2013 | 22,313,665 | 1,244,448 | (7,142,401) | 16,415,712 | N/A | N/A | N/A | N/A | 0.348 |
| 2014 | 23,045,134 | 1,201,634 | (7,394,982) | 16,851,786 | N/A | N/A | N/A | N/A | 0.125 |

Notes:
In 1978, the voters of the State of California passed Proposition 13 which limited property 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 increase of 2%). With few exceptions, property is only re-assessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above. Assessed valuations are based on 100 percent of estimated actual value.

[1] In accordance with the timeline set forth in Assembly Bill 1X 26 (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

[2] Total Direct Rate is the weighted average of all individual direct rates. Beginning in 2013/14, the Direct Rate no longer includes revenue generated from the former redevelopment tax rate areas.

Source: Riverside County Auditor-Controller

**Table 8**
**City of Riverside**
**Direct and Overlapping Property Tax Rates**
**(Rate per $100 of Assessed Valuation)**
**Last Ten Fiscal Years**

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| Basic Levy[1] | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| Unified School Districts Debt Service[2] | 0.234 | 0.220 | 0.155 | 0.185 | 0.291 | 0.326 | 0.334 | 0.363 | 0.409 | 0.462 |
| City of Riverside Debt Service | 0.011 | 0.009 | 0.008 | 0.006 | 0.007 | 0.006 | 0.006 | 0.006 | 0.006 | 0.007 |
| Eastern Municipal Water Improvement District | 0.023 | 0.010 | 0.009 | 0.008 | - | - | - | - | - | - |
| Metropolitan Water District Original Area | 0.006 | 0.005 | 0.005 | 0.005 | 0.004 | 0.004 | 0.004 | 0.004 | 0.004 | 0.004 |
| Riverside City Community College Debt Service | 0.018 | 0.018 | 0.018 | 0.013 | 0.013 | 0.012 | 0.015 | 0.017 | 0.017 | 0.018 |
| Rubidoux Community Service Debt Service | 0.003 | - | - | - | - | - | - | - | - | - |
| **Total Direct & Overlapping[3] Tax Rates** | **1.295** | **1.262** | **1.195** | **1.217** | **1.315** | **1.348** | **1.359** | **1.390** | **1.436** | **1.491** |
| **City's Share of 1% Levy Per Prop 13[4]** | 0.145 | 0.145 | 0.145 | 0.145 | 0.145 | 0.145 | 0.145 | 0.145 | 0.145 | 0.145 |
| **General Obligation Debt Rate** | 0.011 | 0.009 | 0.009 | 0.006 | 0.007 | 0.006 | 0.006 | 0.006 | 0.006 | 0.007 |
| **Redevelopment Rate[5,7]** | 1.006 | 1.005 | 1.005 | 1.005 | 1.004 | 1.004 | 1.004 | 1.004 | - | - |
| **Total Direct Rate[6]** | 0.266 | 0.309 | 0.304 | 0.334 | 0.343 | 0.349 | 0.347 | 0.348 | 0.348 | 0.125 |

[1] In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of the various intergovernmental overlapping debt.

[2] Includes: Alvord Unified School District, Corona Norco Unified School District, Jurupa Unified School District, Moreno Valley Unified School District, Riverside Unified School District and Val Verde Unified School District.

[3] Overlapping rates are those of local and county governments that apply to property owners within the City. Not all overlapping rates apply to all city property owners.

[4] City's share of 1% levy is based on the City's share of the general fund tax rate area with the largest net taxable value within the city. ERAF general fund tax shifts may not be included in tax ratio figures.

[5] RDA rate is based on the largest RDA tax rate area (TRA) and includes only rate(s) from indebtedness adopted prior to 1989 per California State statue. RDA direct and overlapping rates are applied only to the incremental property values. The approval of ABX1 26 eliminated Redevelopment from the State of California for the fiscal year 2012/13 and years thereafter.

[6] Total Direct Rate is the weighted average of all individual direct rates. Beginning in 2013/14, the Direct Rate no longer includes revenue generated from the former redevelopment tax rate areas.

[7] In accordance with the timeline set forth in Assembly Bill X1 26 (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Source: Riverside County Assessor 2004/05 - 2013/14 Tax Rate Table.

**Table 9**
**City of Riverside**
**Principal Property Taxpayers**
**Current Year and Nine Years Ago**

**(in thousands)**

| Property Owner | 2014 Taxable Assessed Value | 2014 Rank | 2014 Percentage of Total Taxable Assessed Value | 2005 Taxable Assessed Value | 2005 Rank | 2005 Percentage of Total Taxable Assessed Value |
|---|---|---|---|---|---|---|
| Tyler Mall | $ 194,241 | 1 | 0.8% | $ 141,698 | 1 | 0.9% |
| La Sierra University | 136,505 | 2 | 0.6% | | | |
| Riverside Healthcare System | 110,756 | 3 | 0.5% | 52,395 | 6 | 0.3% |
| Rohr Inc | 108,703 | 4 | 0.5% | 49,989 | 7 | 0.3% |
| Cole ID | 93,330 | 5 | 0.4% | | | |
| State Street Bank & Trust Co of Calif | 91,636 | 6 | 0.4% | 101,260 | 2 | 0.6% |
| Vestar Riverside Plaza | 84,860 | 7 | 0.4% | | | |
| Corona Pointe Apartments | 77,450 | 8 | 0.3% | | | |
| 7450 Northrop Drive Apartments | 73,297 | 9 | 0.3% | | | |
| Canyon Springs Marketplace Corp | 70,030 | 10 | 0.3% | | | |
| BRE Properties | | | | 91,589 | 3 | 0.6% |
| California State Teachers Retirement | | | | 55,391 | 4 | 0.4% |
| Charter Comm Entertainment II | | | | 54,931 | 5 | 0.4% |
| Bottling Group | | | | 49,168 | 8 | 0.3% |
| Press Enterprise Company | | | | 44,912 | 9 | 0.3% |
| Mission Grove Park Apartments | | | | 44,270 | 10 | 0.3% |
| Totals | $ 1,040,808 | | 4.5% | $ 685,603 | | 4.4% |

Notes:
The amounts shown above include assessed value data for both the City and the Successor Agency.

Source: Riverside County Assessor 2013/14 and 2004/05 Combined Tax Rolls

**Table 10**
**City of Riverside**
**Property Tax Levies and Collections**
**Last Ten Fiscal Years** **(in thousands)**

| Fiscal Year Ended June 30 | Taxes Levied for 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 |
| **2005** | 36,825 | 36,332 | 98.66% | 493 | 36,825 | 100.00% |
| **2006** | 52,532 | 51,815 | 98.64% | 717 | 52,532 | 100.00% |
| **2007** | 69,246 | 67,046 | 96.82% | 2,200 | 69,246 | 100.00% |
| **2008** | 83,996 | 82,345 | 98.03% | 1,651 | 83,996 | 100.00% |
| **2009** | 86,251 | 84,134 | 97.55% | 2,117 | 86,251 | 100.00% |
| **2010** | 77,228 | 74,491 | 96.46% | 2,737 | 77,228 | 100.00% |
| **2011** | 74,608 | 72,327 | 96.94% | 2,281 | 74,608 | 100.00% |
| **2012** | 41,020 | 40,340 | 98.34% | 680 | 41,020 | 100.00% |
| **2013** | 43,333 | 42,447 | 97.96% | 886 | 43,333 | 100.00% |
| **2014** | 45,138 | 44,684 | 98.99% | - | 44,684 | 98.99% |

Note:
The table reflects amounts related to the City. In addition, it includes amounts related to the Redevelopment Agency through dissolution (1/31/12). The amounts collected by the Redevelopment Agency include monies that were passed-though to other agencies. Current tax levies are the original charge as provided by the County of Riverside. Current tax collections do not include supplemental taxes, aircraft taxes or other property taxes.

The City adopted the Teeter plan available with the County of Riverside effective Fiscal year 2014. Under the Teeter plan the County of Riverside has responsibility for the collection of delinquent taxes and the City receives 100% of the levy.

**Table 11**
**City of Riverside**
**Electricity Sold by Type of Customer**
**Last Ten Fiscal Years** **(in millions of kilowatt-hours)**

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Type of Customer:** | | | | | | | | | | |
| Residential | 675 | 696 | 748 | 734 | 733 | 701 | 666 | 688 | 726 | 700 |
| Commercial | 530 | 474 | 456 | 441 | 433 | 406 | 400 | 413 | 419 | 421 |
| Industrial | 707 | 810 | 924 | 960 | 946 | 906 | 912 | 969 | 1,003 | 997 |
| Wholesale sales | 470 | 287 | 295 | 357 | 137 | 44 | 7 | 2 | 14 | 4 |
| Other | 50 | 58 | 39 | 34 | 33 | 32 | 31 | 31 | 31 | 30 |
| Total | 2,432 | 2,325 | 2,462 | 2,526 | 2,282 | 2,089 | 2,016 | 2,103 | 2,193 | 2,152 |
| Total direct rate | | | | | | | | | | |
| Monthly Base Rate [1] | 3.36 | 3.36 | 5.00 | 11.35 | 13.06 | 18.06 | 18.06 | 18.06 | 18.06 | 18.06 |

[1] Monthly Base Rate includes a Reliability Charge of $5.00 (small residence 100 amp) implemented in January 2008. In January 2010 the Reliability Charge increased to $10.00 (small residence 100 amp).

Source: Riverside Public Utilities, Finance Services

**Table 12**
**City of Riverside**
**Electricity Rates**
**Last Ten Fiscal Years**
**(Average Rate in Dollars per Kilowatt-Hour)**

| Fiscal Year Ended June 30 | Residential | Commercial | Industrial | Other |
|---|---|---|---|---|
| **2005** | 0.11813 | 0.11321 | 0.08369 | 0.12768 |
| **2006** | 0.12222 | 0.11330 | 0.08798 | 0.12373 |
| **2007** | 0.12621 | 0.12164 | 0.09059 | 0.14493 |
| **2008** | 0.13613 | 0.13781 | 0.09658 | 0.16099 |
| **2009** | 0.14389 | 0.15122 | 0.10271 | 0.17169 |
| **2010** | 0.15307 | 0.16014 | 0.10756 | 0.17876 |
| **2011** | 0.16173 | 0.16001 | 0.11194 | 0.18089 |
| **2012** | 0.16068 | 0.15991 | 0.11088 | 0.17938 |
| **2013** | 0.16274 | 0.15913 | 0.11030 | 0.18375 |
| **2014** | 0.15995 | 0.15936 | 0.11156 | 0.18513 |

Source: Riverside Public Utilities, Finance Services

**Table 13**
**City of Riverside**
**Top 10 Electricity Customers**
**Current Year and Nine Years Ago**

| | 2014 | | 2005 | |
|---|---|---|---|---|
| Electricity Customer | Electricity Charges | Percent of Total Electric Revenues | Electricity Charges | Percent of Total Electric Revenues |
| Local University | $10,947,884 | 3.70% | N/A | N/A |
| Local Government | 8,335,217 | 2.82% | N/A | N/A |
| Local Government | 7,386,521 | 2.50% | N/A | N/A |
| Local School District | 4,189,035 | 1.42% | N/A | N/A |
| Corporation | 3,677,670 | 1.24% | N/A | N/A |
| Corporation | 3,315,738 | 1.12% | N/A | N/A |
| Corporation | 2,775,346 | 0.94% | N/A | N/A |
| Hospital | 2,453,555 | 0.83% | N/A | N/A |
| Corporation | 2,120,900 | 0.72% | N/A | N/A |
| Corporation | 2,113,037 | 0.71% | N/A | N/A |
| | $47,314,903 | 16.00% | N/A | N/A |

Retail Sales Per Financial Statements $295,803,687

N/A - not available

Source: Riverside Public Utilities, Finance Services

**Table 14**
**City of Riverside**
**Ratios of Outstanding Debt by Type**
**Last Ten Fiscal Years** **(in thousands)**

| | Governmental Activities | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Fiscal Year | General Obligation Bonds | Redevelopment Bonds | Revenue Bonds | Assessment Bonds | Pension Obligation Bonds | Certificates of Participation | Capital Leases | Notes/Loans Payable |
| 2005 | 20,280 | 144,024 | - | - | 148,280 | 57,336 | 7,431 | 10,645 |
| 2006 | 19,858 | 140,195 | - | - | 146,470 | 55,571 | 6,008 | 10,215 |
| 2007 | 19,331 | 296,598 | - | - | 144,450 | 192,874 | 4,929 | 9,759 |
| 2008 | 18,774 | 292,244 | - | - | 142,170 | 200,273 | 9,391 | 9,040 |
| 2009 | 18,171 | 285,743 | - | - | 139,410 | 198,268 | 7,455 | 8,749 |
| 2010 | 17,533 | 278,867 | - | - | 136,050 | 211,212 | 6,303 | 9,291 |
| 2011 | 16,845 | 305,195 | - | - | 132,095 | 207,246 | 6,670 | 8,849 |
| 2012 | 16,107 | - | - | - | 127,480 | 207,278 | 5,220 | 4,000 |
| 2013 | 15,314 | - | 43,762 | - | 122,005 | 158,697 | 8,424 | 28,652 |
| 2014 | 14,460 | - | 42,344 | - | 115,775 | 191,446 | 13,168 | 47,611 |

| | Business-Type Activities | | | | | |
|---|---|---|---|---|---|---|
| Fiscal Year | Revenue Bonds | Notes/Loans Payable | Capital Leases | Total Primary Government | Percentage of Personal Income[1] | Debt Per Capita[1] |
| 2005 | 419,581 | 10,459 | 392 | 818,428 | 14.98% | 2.91 |
| 2006 | 509,577 | 9,841 | 317 | 898,052 | 15.47% | 3.13 |
| 2007 | 482,929 | 9,211 | 253 | 1,160,334 | 18.67% | 4.01 |
| 2008 | 720,749 | 8,569 | 211 | 1,401,421 | 21.51% | 4.80 |
| 2009 | 670,512 | 7,915 | 2,574 | 1,342,931 | 20.15% | 4.54 |
| 2010 | 968,393 | 7,249 | 2,151 | 1,637,049 | 24.83% | 5.44 |
| 2011 | 1,071,554 | 76,747 | 1,720 | 1,826,921 | 27.58% | 6.01 |
| 2012 | 1,063,853 | 73,821 | 1,332 | 1,499,091 | 22.01% | 4.86 |
| 2013 | 1,031,839 | 70,798 | 2,558 | 1,482,049 | 21.41% | 4.75 |
| 2014 | 1,094,290 | 36,030 | 2,266 | 1,557,390 | 22.54% | 4.96 |

[1] These ratios are calculated using personal income and population data for the prior calendar year.

Source: City of Riverside Notes to Financial Statements and Statistical Table 19.

**Table 15**
**City of Riverside**
**Ratios of General Bonded Debt Outstanding**
**Last Ten Fiscal Years** **(in thousands, except per capita amount)**

| Fiscal Year | General Obligation Bonds | Pension Bonds | Certificates of Participation | Tax Allocation Bonds | Total | Percent of Assessed Value [1] | Per Capita[2] |
|---|---|---|---|---|---|---|---|
| 2005 | 20,280 | 148,280 | 57,336 | 144,024 | 369,920 | 2.69% | 1,316 |
| 2006 | 19,858 | 146,470 | 55,571 | 140,195 | 362,094 | 2.48% | 1,264 |
| 2007 | 19,331 | 144,450 | 192,874 | 296,598 | 653,253 | 3.98% | 2,260 |
| 2008 | 18,774 | 142,170 | 200,273 | 292,244 | 653,461 | 3.64% | 2,239 |
| 2009 | 18,171 | 139,410 | 198,268 | 285,743 | 641,592 | 3.52% | 2,167 |
| 2010 | 17,533 | 136,050 | 211,212 | 278,867 | 643,662 | 3.82% | 2,140 |
| 2011 | 16,845 | 132,095 | 207,246 | 305,195 | 661,381 | 4.03% | 2,175 |
| 2012 | 16,107 | 127,480 | 207,278 | - | 350,865 | 2.15% | 1,137 |
| 2013 | 15,314 | 122,005 | 158,697 | - | 296,016 | 1.80% | 949 |
| 2014 | 14,460 | 115,775 | 191,446 | - | 321,681 | 1.91% | 1,024 |

Notes:
General bonded debt is debt payable with governmental fund resources and general obligation bonds recorded in enterprise funds (which, the City has none.)

[1] Assessed value has been used because the actual value of taxable property is not readily available in the State of California.

[2] These ratios are calculated using population data for the prior calendar year.

Source: City of Riverside Notes to Financial Statements and Reserve Cash Reconciliation maintained by City Finance Department.

**Table 16**
**City of Riverside**
**Direct and Overlapping Governmental Activities Debt**
**As of June 30, 2014**



| | |
|---|---|
| 2013-14 Assessed Valuation: | $ 22,864,558,235 |
| Less Dissolved Redevelopment Agency Incremental Valuation: | 6,012,772,332 |
| Adjusted Assessed Valuation: | $ 16,851,785,903 |

| | Total Debt | % Applicable | City's Share of Debt[1] |
|---|---|---|---|
| **Overlapping debt repaid with property taxes[2]** | | | |
| Metropolitan Water District | $ 1,322,750 | 1.059% | $ 1,400,792 |
| Riverside City Community College District | 227,729,565 | 29.816 | 67,899,847 |
| Alvord Unified School District | 227,560,233 | 71.179 | 161,975,098 |
| Riverside Unified School District | 139,315,000 | 87.040 | 121,259,776 |
| Corona-Norco Unified School District | 260,100,000 | 0.001 | 2,601 |
| Jurupa Unified School District | 46,700,000 | 0.002 | 934 |
| Moreno Valley Unified School District | 36,708,522 | 11.159 | 4,096,304 |
| Alvord Unified School District Community District No.2006-1 | 7,960,000 | 82.333 | 6,553,707 |
| Riverside Unified School District Community Facilities Districts | 89,052,000 | 89.479-100. | 88,906,388 |
| City of Riverside Community Facilities Districts | 15,210,000 | 100. | 15,210,000 |
| City of Riverside 1915 Act Bonds | 26,755,000 | 100. | 26,755,000 |
| Total overlapping debt repaid with property taxes | | | $ 494,060,447 |

(continued)

**Table 16**
**City of Riverside**
**Direct and Overlapping Governmental Activities Debt**
**As of June 30, 2014**



**Other overlapping debt[2]**

| | | | |
|---|---|---|---|
| Riverside County General Fund Obligations | $ 718,909,871 | 11.053% | $ 79,461,108 |
| Riverside County Pension Obligations | 334,515,000 | 11.053 | 36,973,943 |
| Riverside County Board of Education Certificates of Participation | 2,700,000 | 11.053 | 298,431 |
| Alvord Unified School District Certificates of Participation | 2,027,061 | 71.179 | 1,442,842 |
| Corona-Norco Unified School District Certificates of Participation | 29,000,000 | 0.001 | 290 |
| Jurupa Unified School District Certificates of Participation | 6,450,000 | 0.002 | 129 |
| Moreno Valley Unified School District Certificates of Participation | 13,279,998 | 11.159 | 1,481,915 |
| Riverside Unified School District General Fund Obligations | 11,880,000 | 87.040 | 10,340,352 |
| Total other overlapping debt | | | 129,999,010 |
| Less: Riverside County supported obligations | | | 1,116,603 |
| | | | 128,882,407 |
| Overlapping tax Increment debt | | | 262,192,206 |
| Total overlapping debt | | | 885,135,060 |
| City direct debt | | | 424,804,000 |
| Combined total direct and overlapping debt | | | $ 1,309,939,060 |

(1) Debt balances are as of April 1, 2014 (most recent available) for other agency debt, and June 30, 2014 for all City of Riverside direct debt.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue, non-bonded capital lease obligations. Qualified Zone Academy bonds are included based on principal due at maturity.

Ratios to 2013-14 Assessed Valuation:
Total debt repaid with property taxes……………………….……..... 2.16%
City direct debt ($424,804,000)………..…………..………..…. 1.86%
Combined total direct and overlapping debt……………………... 5.73%

Ratios to Dissolved Redevelopment Incremental Valuation ($6,012,772,332):
Total overlapping tax Increment debt…………………………….. 4.36%

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

Source: California Municipal Statistics, Inc., Riverside County Auditor-Controller and City Finance Department.

**Table 17**
**City of Riverside**
**Legal Debt Margin Information**
**Last Ten Fiscal Years**

**(in thousands)**

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| Assessed valuation | $13,740,349 | $14,614,159 | $16,395,629 | $17,950,082 | $ 18,243,019 | $ 16,840,575 | $ 16,396,996 | $ 16,342,830 | $ 16,415,712 | $ 16,851,786 |
| Conversion percentage | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% |
| Adjusted assessed valuation | 3,435,087 | 3,653,540 | 4,098,907 | 4,487,521 | 4,560,755 | 4,210,144 | 4,099,249 | 4,085,708 | 4,103,928 | 4,212,947 |
| Debt limit percentage | 15% | 15% | 15% | 15% | 15% | 15% | 15% | 15% | 15% | 15% |
| Debt limit | 515,263 | 548,031 | 614,836 | 673,128 | 684,113 | 631,522 | 614,887 | 612,856 | 615,589 | 631,942 |
| Total net debt applicable to limit: | 20,280 | 19,858 | 19,331 | 18,774 | 18,171 | 17,533 | 16,845 | 16,107 | 15,314 | 14,460 |
| Legal debt margin | 494,983 | 528,173 | 595,505 | 654,354 | 665,942 | 613,989 | 598,042 | 596,749 | 600,275 | 617,482 |
| Total net debt applicable to the limit as a percentage of debt limit | 3.9% | 3.6% | 3.1% | 2.8% | 2.7% | 2.8% | 2.7% | 2.6% | 2.5% | 2.3% |

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect a the time that the legal debt margin was enacted by the State of California for local governments located within the State.

Source: City of Riverside, Statistical Table 7 and Notes to Financial Statements.

**Table 18**
**City of Riverside**
**Pledged-Revenue Coverage**
**Business Type Activity Debt**
**Last Ten Fiscal Years**

**(in thousands)**

| Fiscal Year | Electric Revenue Bonds: Pledged Revenue[1] | Less: Operating Expenses[1] | Net Available Revenue | Debt Service: Principal | Debt Service: Interest | Coverage | Water Revenue Bonds: Pledged Revenue[1] | Less: Operating Expenses[1] | Net Available Revenue | Debt Service: Principal | Debt Service: Interest | Coverage |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2005 | 262,350 | 164,159 | 98,191 | 14,555 | 12,143 | 3.68 | 45,348 | 26,436 | 18,912 | 4,045 | 2,591 | 2.85 |
| 2006 | 265,086 | 184,421 | 80,665 | 15,015 | 15,245 | 2.67 | 66,226 | 27,028 | 39,198 | 3,875 | 3,790 | 5.11 |
| 2007 | 289,784 | 187,700 | 102,084 | 18,815 | 14,200 | 3.09 | 55,699 | 29,461 | 26,238 | 4,300 | 3,454 | 3.38 |
| 2008 | 314,733 | 219,680 | 95,053 | 19,460 | 16,790 | 2.62 | 67,312 | 33,827 | 33,485 | 4,355 | 4,275 | 3.88 |
| 2009 | 320,447 | 202,904 | 117,543 | 20,572 | 24,941 | 2.58 | 60,886 | 35,639 | 25,247 | 4,473 | 6,728 | 2.25 |
| 2010 | 320,560 | 199,040 | 121,520 | 21,574 | 22,572 | 2.75 | 61,985 | 35,953 | 26,032 | 4,533 | 8,008 | 2.08 |
| 2011 | 319,177 | 212,878 | 106,299 | 23,029 | 25,087 | 2.21 | 84,328 | 35,220 | 49,108 | 4,799 | 9,263 | 3.49 |
| 2012 | 340,098 | 221,876 | 118,222 | 25,174 | 27,630 | 2.24 | 73,557 | 35,309 | 38,248 | 4,708 | 8,872 | 2.82 |
| 2013 | 348,187 | 226,997 | 121,190 | 18,486 | 25,941 | 2.73 | 72,700 | 35,940 | 36,760 | 5,395 | 8,700 | 2.61 |
| 2014 | 347,541 | 241,136 | 106,405 | 21,632 | 27,575 | 2.16 | 71,317 | 37,698 | 36,761 | 4,574 | 8,536 | 2.80 |

| Fiscal Year | Sewer Revenue Bonds: Pledged Revenue[1] | Less: Operating Expenses[1] | Net Available Revenue | Debt Service: Principal | Debt Service: Interest | Coverage |
|---|---|---|---|---|---|---|
| 2010 | 31,470 | 26,865 | 4,605 | 666 | 151 | 5.64 |
| 2011 | 37,772 | 27,575 | 10,197 | 692 | 125 | 12.48 |
| 2012 | 42,562 | 29,632 | 12,930 | 692 | 5,471 | 2.10 |
| 2013 | 52,944 | 29,999 | 22,945 | 7,465 | 10,891 | 1.25 |
| 2014 | 52,098 | 28,930 | 23,168 | 7,753 | 10,781 | 1.25 |

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

[1] Amounts have been calculated in accordance with the provisions set forth in the debt covenants. Total operating expenses exclusive of depreciation.
Pledged revenue includes applicable cash set aside in a rate stabilization account in accordance with applicable bond covenants.

The City of Riverside does not have any pledged revenue related to Govermental Activities.

**Table 19**
**City of Riverside**
**Demographic and Economic Statistics**
**Last Ten Calendar Years**

| Calendar Year | Population [1] | Personal Income [2] (in thousands) | Per Capita Personal Income [2] | Unemployment Rate [3] |
|---|---|---|---|---|
| 2004 | 281,192 | 5,462,823 | 19,427 | 6.1 |
| 2005 | 286,572 | 5,806,339 | 20,261 | 5.4 |
| 2006 | 289,045 | 6,214,628 | 21,501 | 5.1 |
| 2007 | 291,814 | 6,514,489 | 22,324 | 6.1 |
| 2008 | 296,038 | 6,665,142 | 22,514 | 8.6 |
| 2009 | 300,769 | 6,592,294 | 21,918 | 13.7 |
| 2010 | 304,051 | 6,623,143 | 21,783 | 14.8 |
| 2011 | 308,511 | 6,811,923 | 22,080 | 13.7 |
| 2012 | 311,955 | 6,923,217 | 22,193 | 9.7 |
| 2013 | 314,034 | 6,909,376 | 22,002 | 8.4 |

Sources:

[1] California State Department of Finance.

[2] Demographic Estimates for 2004-2009 are based on the last available Census. Projections are developed by incorporating all fo the prior census data released to date. Demographic Data is totaled from Census Block Groups that overlap the City's boundaries. Demographic Estimates for 2010 and later are per the US Cenus Bureau, most recent American Community Survey.

[3] State of California Empolyment Development Department.

**Table 20**
**City of Riverside**
**Principal Employers**
**Current Year and Nine Years Ago**

| | 2014 | | | 2005 | | |
|---|---|---|---|---|---|---|
| **Employer** | **Employees** | **Rank** | **Percentage of Total City Employment** | **Employees** | **Rank** | **Percentage of Total City Employment** |
| County of Riverside | 11,187 | 1 | 7.6% | N/A | N/A | N/A |
| University of California | 7,218 | 2 | 4.9% | N/A | N/A | N/A |
| Riverside Unified School District | 3,461 | 3 | 2.4% | N/A | N/A | N/A |
| Kaiser | 3,156 | 4 | 2.1% | N/A | N/A | N/A |
| City of Riverside | 2,476 | 5 | 1.7% | N/A | N/A | N/A |
| Riverside Community Hospital | 1,880 | 6 | 1.3% | N/A | N/A | N/A |
| Riverside County Office of Education | 1,765 | 7 | 1.2% | N/A | N/A | N/A |
| Alvord Unified School District | 1,445 | 8 | 1.0% | N/A | N/A | N/A |
| Parkview Community Hospital | 1,350 | 9 | 0.9% | N/A | N/A | N/A |
| Riverside Community College District | 1,061 | 10 | 0.7% | N/A | N/A | N/A |
| Total | 34,999 | | 23.8% | N/A | | N/A |

N/A - not available

Source: City of Riverside, Finance Department

**Table 21**
**City of Riverside**
**Full-Time Equivalent City Government Employees by Function**
**Last Ten Fiscal Years**

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Function** | | | | | | | | | | |
| General government | 331.88 | 377.15 | 412.22 | 436.35 | 439.10 | 433.40 | 431.40 | 440.40 | 413.90 | 356.25 |
| Public safety (sworn and non-sworn personnel) | | | | | | | | | | |
| Police [1] | 568.83 | 589.33 | 618.33 | 637.33 | 591.93 | 589.93 | 589.93 | 599.93 | 596.75 | 551.75 |
| Fire | 221.11 | 221.73 | 251.73 | 254.21 | 254.21 | 255.46 | 255.46 | 255.46 | 255.46 | 255.00 |
| Highways and streets | 281.35 | 262.35 | 286.35 | 318.35 | 369.65 | 349.50 | 348.11 | 357.11 | 362.11 | 333.48 |
| Sanitation | 48.49 | 59.49 | 60.29 | 64.29 | 58.60 | 59.00 | 56.00 | 56.00 | 57.00 | 59.00 |
| Culture and recreation | 300.92 | 311.45 | 324.26 | 339.52 | 340.71 | 328.07 | 328.07 | 341.22 | 351.48 | 269.98 |
| Airport | 6.00 | 6.00 | 7.00 | 7.00 | 7.00 | 7.00 | 9.50 | 9.50 | 9.50 | 6.00 |
| Water | 130.00 | 133.00 | 142.00 | 167.00 | 167.00 | 177.65 | 180.15 | 181.15 | 181.15 | 182.15 |
| Electric | 305.60 | 337.60 | 351.35 | 404.60 | 408.10 | 419.45 | 448.50 | 452.50 | 459.50 | 462.50 |
| Total | 2,194.18 | 2,298.10 | 2,453.53 | 2,628.65 | 2,636.30 | 2,619.46 | 2,647.12 | 2,693.27 | 2,686.85 | 2,476.11 |

[1] In fiscal year 2009 the Crossing Guards program (46.40 FTEs) was moved from the Police Department to the Public Works Department (highways and streets).

[2] In fiscal year 2013/14 the City Council deleted a number of long-term unfunded positions.

Source: City of Riverside, Finance Department

**Table 22**
**City of Riverside**
**Operating Indicators by Function**
**Last Ten Fiscal Years**

| Function/Program | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| Police | | | | | | | | | | |
| Arrests | 11,280 | 10,093 | 9,827 | 9,367 | 10,150 | 8,690 | 8,118 | 7,736 | 8,362 | 9,321 |
| Fire | | | | | | | | | | |
| Number of calls answered | 26,505 | 26,696 | 27,458 | 27,429 | 26,397 | 26,484 | 27,322 | 27,637 | 29,988 | 30,668 |
| Inspections | 17,028 | 19,261 | 7,261 | 10,812 | 7,638 | 7,234 | 6,505 | 10,074 | 10,151 | 12,476 |
| Public works: | | | | | | | | | | |
| Street resurfacing (miles) | 102.45 | 51.26 | 73.40 | 26.27 | 18.90 | 20.00 | 21.25 | 18.43 | 16.50 | 35.38 |
| Parks and recreation | | | | | | | | | | |
| Number of recreation classes | 15,195 | 16,272 | 19,079 | 22,146 | 21,884 | 27,762 | 37,303 | 43,318 | 41,364 | 45,707 |
| Number of facility rentals | 27,074 | 27,483 | 32,980 | 35,076 | 36,822 | 34,565 | 42,638 | 43,288 | 43,358 | 46,432 |
| Water | | | | | | | | | | |
| Number of accounts | 62,492 | 62,985 | 63,431 | 63,494 | 64,062 | 64,231 | 64,349 | 64,367 | 64,591 | 64,829 |
| Annual consumption (ccf) | 27,875,253 | 28,865,030 | 32,110,208 | 30,583,266 | 29,721,236 | 26,687,271 | 25,902,439 | 27,062,142 | 28,186,178 | 28,887,304 |
| Electric | | | | | | | | | | |
| Number of accounts | 103,463 | 104,294 | 105,226 | 106,015 | 106,385 | 106,335 | 106,855 | 107,321 | 107,525 | 108,358 |
| Annual consumption (kwh) | 2,432 | 2,359 | 2,462 | 2,526 | 2,282 | 2,089 | 2,016 | 2,103 | 2,193 | 2,152 |
| Sewer: | | | | | | | | | | |
| New connections | 9,621 | 16,717 | 15,423 | 16,412 | 18,765 | 16,971 | 17,746 | 18,166 | 17,607 | 17,274 |
| Average daily sewage treatment (millions of gallons) | 38.07 | 35.91 | 32.50 | 32.10 | 33.00 | 33.29 | 30.06 | 29.84 | 29.57 | 28.49 |

[1] Amounts expressed in millions
N/A - not available

Source: City of Riverside, various departments

**Table 23**
**City of Riverside**
**Capital Asset Statistics by Function**
**Last Ten Fiscal Years**

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 (1) | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| **Function** | | | | | | | | | | |
| Public Safety | | | | | | | | | | |
| Police | | | | | | | | | | |
| Stations | 2 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Substations | 7 | 5 | 4 | 4 | 5 | 4 | 4 | 4 | 4 | 4 |
| Helicopters | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 3 |
| Fire | | | | | | | | | | |
| Stations | 13 | 13 | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 |
| Active apparatus | 30 | 29 | 30 | 30 | 30 | 30 | 26 | 27 | 28 | 28 |
| Reserve apparatus | 5 | 6 | 6 | 6 | 7 | 7 | 9 | 9 | 11 | 11 |
| Training facilities | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Highways and streets | | | | | | | | | | |
| Streets (miles) | 836.00 | 845.35 | 852.04 | 864.68 | 866.89 | 867.96 | 868.39 | 868.70 | 868.89 | 871.19 |
| Streetlights | 28,581 | 28,847 | 29,028 | 29,312 | 29,675 | 29,757 | 29,868 | 29,933 | 29,949 | 29,968 |
| Signalized intersections | 322 | 353 | 358 | 363 | 365 | 362 | 362 | 365 | 365 | 367 |
| Culture and recreation | | | | | | | | | | |
| Parks acreage | 2,534.00 | 2,534.00 | 2,773.00 | 2,773.00 | 2,773.00 | 2,773.00 | 2,811.00 | 2,811.00 | 2,891.00 | 2,911.80 |
| Community centers | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 |
| Playgrounds | 26 | 27 | 38 | 38 | 41 | 41 | 41 | 41 | 43 | 44 |
| Swimming pools | 7 | 6 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 |
| Softball & baseball diamonds | 35 | 33 | 44 | 44 | 44 | 44 | 49 | 51 | 54 | 54 |
| Library branches | 5 | 6 | 6 | 6 | 7 | 7 | 8 | 8 | 8 | 8 |
| Museum exhibit-fixed | 8 | 7 | 13 | 8 | 6 | 5 | 8 | 5 | 3 | 3 |
| Museum exhibit-special | 1 | - | 2 | 5 | 2 | 2 | 2 | 1 | 4 | 4 |
| Water | | | | | | | | | | |
| Fire hydrants | 6,926 | 7,127 | 7,187 | 7,381 | 7,523 | 7,593 | 7,632 | 7,682 | 7,726 | 7,754 |
| Sewer | | | | | | | | | | |
| Sanitary sewers (miles) | 765 | 775 | 785 | 794 | 794 | 820 | 823 | 829 | 829 | 829 |
| Electric | | | | | | | | | | |
| Miles of overhead distribution system | 531.0 | 527.0 | 528.0 | 523.5 | 522.0 | 519.0 | 517.0 | 515.0 | 513.0 | 513.0 |
| Miles of underground system | 622.0 | 663.0 | 704.0 | 741.6 | 769.0 | 782.0 | 791.0 | 804.0 | 810.0 | 814.0 |

Source: City of Riverside, various departments

(1) Museum Fixed Exhibits - In 2007, the Riverside Municipal Museum remodeled a number of the spaces within the museum allowing the museum the opportunity to debut new exhibitions and to display more permanent collections in addition to partnering with others on exhibits that were available that year.

CITY OF RIVERSIDE

City of Arts & Innovation

***3900 Main Street***
***Riverside, CA 92522***

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# APPENDIX C

# SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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## APPENDIX C

## SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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

### Definitions

**"Accreted Value"** means, with respect to any Capital Appreciation Bond, the principal amount thereof plus the interest accrued thereon from its delivery date, compounded at the approximate interest rate thereof on each date specified therein. The Accreted Value at any date to which reference is made shall be the amount set forth in the Accreted Value Table as of such date, if such date is a compounding date, and if not, shall be determined by straight-line interpolation with reference to such Accreted Value Table.

**"Accreted Value Table"** means the table denominated as such, and to which reference is made in, a Supplemental Resolution for any Capital Appreciation Bonds issued pursuant to such Supplemental Resolution.

**"Assumed Debt Service"** means, with respect to any Excluded Principal Payment for any Fiscal Year (or other designated 12 month period) on or after the Excluded Principal Payment date the sum of the amount of principal (and interest in the case of a Capital Appreciation Bond) which would be payable in each such Fiscal Year (or other designated 12 month period) if that Excluded Principal Payment were amortized for a period specified by the City at the time of issuance of such Bonds or Parity Debt (no greater than 30 years from the date of such Excluded Principal Payment) on a substantially level debt service basis, calculated based on a fixed interest rate equal to the rate at which the City could borrow (as of the time of calculation) for such period, as certified by a certificate of a financial advisor or investment banker delivered to the City at the time of issuance of such Bonds or Parity Debt, which may rely conclusively on such certificate, within 30 days of the date of calculation.

**"Authorized Investments"** means any investments in which the City may legally invest sums subject to its control, as certified to each Fiscal Agent, and shall include any Designated Investments.

**"Bond" or "Bonds"** means the City of Riverside Sewer Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Resolution. "Bonds" include any obligations of the City issued under the Resolution, including bonds, notes or other evidences of indebtedness payable from Net Operating Revenues under the terms of the Resolution.

**"Bond Counsel"** means a firm of lawyers nationally recognized in the area of tax-exempt bonds.

**"Bond Obligation"** means, as of any date of calculation, (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof as of the date on which interest on such Capital Appreciation Bond is compounded next preceding such date of calculation (unless such date of calculation is a date on which such interest is compounded, in which case, as of such date); and (3) with respect to the State Loans or Parity Debt, the unpaid principal balance thereof.

**"Bond Register"** means the Bond Register as defined in the Resolution.

**"Bond Service Account"** means the Sewer Revenue Bonds, Bond Service Account established pursuant to the Resolution in the Sewer Revenue Fund.

**"Build America Bonds"** means any Bonds or Parity Debt issued under a Supplemental Resolution as a Build America Bond under the American Recovery and Reinvestment Act of 2009 and as such act may be amended from time to time and any Bond or Parity Debt issued under any other similar act pursuant to which the issuer of taxable bonds receives a cash subsidy or related payment from the U.S, Treasury (defined in the Resolution as the "Treasury Credit").

**"Business Day"** means any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or obligated by law or executive order to be closed, and (2) for purposes of payments and other actions relating to credit or liquidity enhanced Bonds, a day upon which commercial banks in the city in which is located the office of the credit or liquidity enhancer at which demands for payment under the credit document with respect to the credit or liquidity enhancement are to be presented are authorized to be closed.

**"Capacity Charges"** means connecting capacity, capital or other similar fees and charges imposed or caused to be imposed by the City on a development project of the purpose of defraying all or a portion of the cost of improving or expanding the Sewer System in order to accommodate such development project.

**"Capital Appreciation Bonds"** means any Bonds the interest on which is compounded and not scheduled to be paid until maturity or on prior redemption.

**"Certificate," "Statement," "Request," "Requisition" and "Order"** of the City means, respectively, a written certificate, statement, request, requisition or order signed by the Treasurer or any other Person authorized by the City Council to execute such instruments. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Resolution, each such instrument shall include the statements provided for in the Resolution.

**"Charter"** means the Charter of the City, as it may be amended from time to time.

**"City"** means the City of Riverside, California.

**"City Clerk"** means the City Clerk of the City.

**"City Council" or "Council"** means the City Council of the City.

**"Code"** means the Internal Revenue Code of 1986.

**"Construction Costs"** means the cost of acquiring, constructing, reconstructing, replacing, extending and improving the Sewer System and any facilities related thereto.

**“Costs of Issuance”** means all items of expense directly or indirectly payable by or reimbursable to the City and related to the authorization, execution, sale and delivery of any Series of Bonds, including but not limited to initial fees and expenses of any Credit Facility, advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiscal Agent or paying agent, legal fees and charges, fees and disbursements of consultants and professionals, financial advisor fees and expenses, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds, and any other cost, charge or fee in connection with the delivery of such Series of Bonds.

**“Credit Facility”** means a letter of credit, liquidity facility or other credit facility issued by a financial institution or other form of credit enhancement, including, but not limited to, municipal bond insurance and guarantees, delivered to the Treasurer or the Fiscal Agent for a Series or portion of Series of Bonds, which provides for payment, in accordance with the terms of such Credit Facility, of principal or Accreted Value, premium and/or interest of such Series or portion of such Series of Bonds and/or the purchase price of such Series of or portion of such Series of Bonds. A Credit Facility may be comprised of two or more credit facilities issued by two or more financial institutions.

**“Current Interest Bonds”** means the Bonds of any Series, other than Capital Appreciation Bonds, which pay interest at least annually to the Owners thereof excluding the first payment of interest thereon for such purposes. Current Interest Bonds include any Build America Bonds that pay interest in the manner set forth in the preceding sentence.

**“Designated Investments”** means, with respect to the 2009A Bonds and the 2009B Bonds, the following:

(a) investment agreements, guaranteed investment contracts, funding agreements, or any other form of obligation or corporate note which represents the unconditional obligation of one or more banks, insurance companies or other financial institutions, or are guaranteed in full by a financial institution which has an unsecured rating, or which agreement is itself rated, as of the date of execution thereof, in one of the two highest Rating Categories by two or more Rating Agencies;

(b) repurchase agreements with financial institutions or banks insured by the FDIC, or any broker dealer with “retail customers” which falls under the jurisdiction of the Securities Investors Protection Corporation, provided that: (i) the over co]lateralization is at one hundred three percent or one hundred four percent (103% or 104%), computed weekly, consisting of securities of the types outlined in the California Government Code Section 53601; (ii) a third party custodian, the Fiscal Agent or the Federal Reserve Bank shall have possession of such obligations; (iii) the Fiscal Agent shall have perfected a first priority security interest in such obligations; and (iv) failure to maintain the requisite collateral percentage will require the Fiscal Agent to liquidate the collateral;

(c) forward delivery or forward purchase agreements with underlying securities of the types outlined in the California Government Code Section 53601;

(d) the Local Agency Investment Fund (“LAIF”) established pursuant to Section 16429.1 of the Government Code of the State of California;

(e) Unsecured certificates of deposit, time deposits and bankers’ acceptance (having maturities of not more than 365 days) of any bank the short-term obligations of which are rated on the date of purchase "A-1+" or better by S&P and "P-1" by Moody's Investors Service and or certificates of deposit (including those of the Fiscal Agent, its parent and its affiliates) secured at all times by collateral that may be used by a national bank for purposes of satisfying its obligations to collateralize pursuant to federal law which are issued by commercial banks, savings and loan associations or mutual savings bank whose short-term obligations are rated on the date of purchase A-1 or better by S&P, Moody's Investors Service and Fitch; and

(f) any other investments which are rated "AA" or better by the Rating Agencies which the City deems to be prudent investments and are not prohibited by law.

**"Excluded Principal Payment"** means each payment of principal of Bonds or Parity Debt which the City designates (in the Supplemental Resolution or other document delivered on a date not later than the date of issuance of such Bonds or Parity Debt) to be an Excluded Principal Payment. No such determination shall affect the security for such Bonds or Parity Debt or the obligation of the City to pay such payments from Net Operating Revenues or from the applicable reserve account, if any. With respect to any Bonds or Parity Debt for which the City designates Excluded Principal Payments and which have a final maturity date less than the amortization term designated by the City (which amortization term so designated by the City shall in any event not exceed 30 years) in the Assumed Debt Service for such Bonds or Parity Debt, the City shall designate such Bonds or Parity Debt as having Excluded Principal Payments only if the City has covenanted to refund such Bonds or Parity Debt on or before the maturity date thereof and only if such Bonds or Parity Debt shall have a final maturity date or remarketing date not to exceed 24 months from the date of issuance.

**"Final Compounded Amount"** means the Accreted Value of any Capital Appreciation Bond on its maturity date.

**"Fiscal Agent"** means with respect to any Series of Bonds, the fiscal agent appointed pursuant to the Supplemental Resolution authorizing the issuance of such Series and which may be the Treasurer.

**"Fiscal Year"** means the year period beginning on July 1st and ending on the next following June 30th.

**"Fitch"** means Fitch Ratings Group, and its successors and assigns.

**"Generally Accepted Accounting Principles"** means the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successors and the National Council on Governmental Accounting or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Governmental Accounting Standards Board or its successor.

**"Government Obligations"** means any of the following which are noncallable by the issuer thereof except to the extent not permitted by the laws of the State as an investment for the moneys to be invested therein at the time of investment:

(i) (a) direct general obligations of the United States of America, or (b) obligations the payment of the principal of and interest on which are unconditionally guaranteed as to the full and timely payment by the United States of America;

(ii) advance refunded tax-exempt obligations secured by the obligations specified in clause (i) which tax-exempt obligations are rated "Aaa" by Fitch and "AAA" by S&P as a result of such obligations being secured by said obligations;

(iii) bonds, debentures, notes or other evidence of indebtedness issued by the Federal Farm Credit Bank; provided that such bonds, debentures or notes shall be the senior obligations of such agency (including participation certificates); and

(iv) bonds, debentures, notes or other evidence of indebtedness issued by any Federal agency later created by an act of Congress, the payment of the principal of and interest on which are unconditionally guaranteed by the United States of America as to the full and timely payment; provided, that, such obligations shall not include unit investment trusts or mutual fund obligations secured by such bonds, debentures or notes.

**"Gross Operating Revenues"** means, for any period, all income and revenue received by the City during such period from the operation or ownership of the Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all fees and charges received during such period for the services of the Sewer System, investment income received during such period (but only to the extent that such investment income is generally available to pay costs with respect to the Sewer System, including Operating and Maintenance Expenses), and all other money received during such period howsoever derived by the City from the operation or ownership of the Sewer System or arising from the Sewer System. Gross Operating Revenues shall include any fund balance held in the Sewer Reserve Fund on the date of adoption of the Resolution and thereafter any fund balance held from time to time in the Sewer Revenue Fund. Gross Operating Revenues also shall include any amounts on deposit in the Rate Stabilization Fund. Gross Operating Revenues shall not include any Treasury Credit or Capacity Charges.

**"Initial Amount"** means the principal amount of a Capital Appreciation Bond on the date of issuance and delivery to the original purchaser thereof.

**"Information Services"** shall mean Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Mergent/FIS, Inc., 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attention: Called Bond Department; Kenny S&P, 55 Water Street, 45th Floor, New York, New York 10041, Attention: Notification Department, and in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds, or any other such services as the City may designate in a Request of the City delivered to any Fiscal Agent.

**"Interest Account"** means the sub-account by that name established pursuant to the Resolution in the Bond Service Account.

**"Law"** means collectively the City Charter, Ordinance No. 5001 of the City Council, as amended, and the Resolution.

**"Mandatory Sinking Account Payment"** means, with respect to Bonds of any Series and maturity, the amount required by the Resolution to be deposited by the Treasurer in the Principal Account for the payment of Term Bonds of such Series and maturity.

**"Maximum Annual Debt Service"** shall mean, as of any date of calculation, the greatest amount of principal and interest becoming due and payable on all Bonds, Parity Debt and the State Loans in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purposes of computing Maximum Annual Debt Service:

(a) Excluded Principal Payments shall be excluded from such calculation and Assumed Debt Service shall be included in such calculation;

(b) if the Parity Debt or Bonds are Variable Rate Indebtedness and (i) are secured pursuant to a Credit Facility which, if drawn upon, could create a repayment obligation which has a lien on Net Operating Revenues subordinate to the lien of the Parity Debt or Bonds or (ii) are not secured by any Credit Facility, the interest rate on such Parity Debt or Bonds for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to an interest rate calculated by multiplying 1.20 times the interest rate on the Parity Debt or Bonds on the date of calculation or, if such Parity Debt or Bonds are not currently Outstanding, 1.20 times the interest rate that such Parity Debt or Bonds would bear if they were Outstanding on such date, as certified by a certificate of a financial advisor or investment banker delivered to the City;

(c) if the Parity Debt or Bonds are Variable Rate Indebtedness and are secured pursuant to a Credit Facility which, if drawn upon, could create a repayment obligation which has a lien on Net Operating Revenues on a parity with the lien of the Parity Debt or Bonds, the interest rate on such Parity Debt or Bonds for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the greater of the maximum rate on the Credit Facility or the maximum rate permitted on the Parity Debt or Bonds;

(d) principal and interest payments on Parity Debt and Bonds shall be excluded.to the extent such payments are to be paid from amounts on deposit as of the date of calculation with the Treasurer, any Fiscal Agent or any other fiduciary in an escrow irrevocably dedicated therefor and to the extent that such interest payments are to be paid from the proceeds of Parity Debt or Bonds held by the Treasurer, the Fiscal Agent or any other fiduciary as capitalized interest specifically to pay such interest;

(e) in determining the principal amount due in each Fiscal Year, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Bonds on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or payment date; and

(f) Interest deemed payable on any Build America Bond shall be based on the net economic effect on the City expected to be produced by the receipt by the City of the Treasury Credit equal to 35%'(or such other percentage as may be then applicable) of the interest payable on the Build America Bond so long as such subsidy payments are pledged to the repayment of the Build America Bond under the applicable Supplemental Resolution.

**"Net Operating Revenues"** means the Gross Operating Revenues, less Operating and Maintenance Expenses.

**“Operating and Maintenance Expenses”** means all reasonable and necessary costs paid or incurred by the City for maintaining and operating the Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Sewer System in good repair and working order, all administrative costs of the City that are charged directly or apportioned to the operation of the Sewer System, such as salaries and wages of employees, overhead, taxes (if any), insurance premiums and payments into pension funds, and all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Resolution or of any Supplemental Resolution, such as compensation, reimbursement and indemnification of the Fiscal Agent and fees and expenses of independent certified public accountants and independent engineers, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

**“Opinion of Bond Counsel”** means a written opinion of Bond Counsel.

**“Outstanding,”** when used as of any particular time with reference to Bonds, means (subject to the provisions of the Resolution) all Bonds theretofore, or thereupon being, authenticated and delivered by the Fiscal Agent for that Series under the Resolution except (1) Bonds theretofore cancelled by the Fiscal Agent for that Series or surrendered to the Fiscal Agent for that Series for cancellation; (2) Bonds with respect to which all liability of the City shall have been discharged in accordance with the Resolution, including Bonds (or portions of Bonds) referred to in the Resolution; (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Fiscal Agent for that Series pursuant to the Resolution; and (4) Bonds no longer deemed to be outstanding under the Resolution as provided in the Supplemental Resolution pursuant to which such Bonds were issued.

**“Owner” or “Bondholder” or “Bondowner,”** whenever used with respect to a Bond, means the Person in whose name such Bond is registered.

**“Parity Debt”** means (1) any indebtedness or other obligation of the City’s Sewer System for borrowed money, or (2) any obligations of the City for deferred purchase price, in each case having an equal lien and charge upon the Net Operating Revenues and therefore payable on a parity with the Bonds and the State Loans (whether or not any Bonds are Outstanding).

**“Person”** means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

**“Principal Account”** means the sub-account by that name established pursuant to the Resolution in the Bond Service Account.

**“Rate Stabilization Fund”** means the fund by that name established pursuant to the Resolution.

**“Rating Agencies”** means either or both of Standard & Poor’s and Fitch, and/or such other securities rating agencies providing a rating with respect to a Series of Bonds.

**“Rating Category”** means (1) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (2) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

**"Redemption Account"** means the account by that name established pursuant to the Resolution in the Sewer Revenue Fund.

**"Redemption Price"** means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Resolution.

**"Refunding Bonds"** means all Bonds whether issued in one or more Series, or as a portion of a Series of Bonds, authorized pursuant to the Resolution, to the extent the proceeds thereof are used or allocated to pay or to provide for the payment of Bonds or, Parity Debt.

**"Renewal and Replacement Account"** means the Sewer Revenue Bonds, Renewal and Replacement Account established pursuant to the Resolution in the Sewer Revenue Fund.

**"Resolution" or "the Resolution"** means Resolution No. 21860 adopted by the City Council on July 14, 2009, as amended, modified or supplemented from time to time by any Supplemental Resolution.

**"Securities Depositories"** means the following: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; or, in accordance with then-current guidelines of the Securities and Exchange Commission, to such other addresses and/or such other securities depositories as the City may designate in a Request of the City delivered to any Fiscal Agent.

**"Serial Bonds"** means the Bonds, maturing in specified years, for which no Mandatory Sinking Account Payments are provided.

**"Series"** whenever used in the Resolution with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Resolution.

**"Sewer Revenue Fund"** means the revenue fund pertaining to the Sewer System into which all Gross Operating Revenues are deposited.

**"Sewer System"** means the whole and each and every part of the sewer public utility owned, controlled and updated by the City, including, without limitation, wastewater collection, transmission, treatment and disposal facilities of the City, all real and personal property, or any interest therein, constituting a part thereof and all additions, improvements, betterments and extensions thereto, whether existing as of the date of the Resolution or subsequently acquired, constructed or installed.

**"Standard & Poor's"** means Standard & Poor's Ratings Services, a Division of the McGraw-Hill Corporation, Inc., and its successors and assigns, except that if such Division shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Standard & Poor’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the City (other than Moody’s).

**“State”** means the State of California.

**“State Loans”** means (i) State Revolving Fund Loan Program Contract Between the State Water Resources Control Board and the City (Contract No. 6-814-550-0, Loan No. 5-06-4331-130), dated January 2, 1997 and (ii) State Revolving Fund Local Match Loan Program Contract Between the State Water Resources Control Board and the City (Contract No. 7-831-550-0, Local Match Loan No. C-06-4331-120), dated August 28, 1997.

**“Subordinate Obligations”** means any indebtedness or other obligation of the City, so designated as Subordinate Obligations on the date issued or incurred, in each case having a lien on Net Operating Revenues and payable therefrom on a subordinate basis to the State Loans, the Bonds and any Parity Debt.

**“Subordinate Payments”** means all amounts required to be paid by the City under the Subordinate Obligations.

**“Supplemental Resolution”** means any resolution duly executed and delivered, supplementing, modifying or amending the Resolution in accordance with the Resolution.

**“Term Bonds”** means Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

**“Treasurer”** means the Treasurer of the City who may also be a Fiscal Agent for a Series of Bonds if so designated in the Supplemental Resolution authorizing the issuance of such Series.

**“Treasury Credit”** means, with respect to Build America Bonds, the amounts which are payable by the federal government under Section 6431 of the Internal Revenue Code of 1986, which the City has elected to receive under Section 54AA(g)(1) of the Internal Revenue Code of 1986.

**“Variable Rate Indebtedness”** means any Bonds or Parity Debt the interest rate on which is not fixed at the time of issuance or incurrence of such Bonds or Parity Debt, and has not at some subsequent date been fixed, at a single numerical rate for the entire remaining term of such Bonds or Parity Debt.

## The Bonds

***Exchange of Bonds***. Bonds of any Series may be exchanged at the designated office of the Fiscal Agent for that Series for a like aggregate principal amount of Bonds of other authorized denominations of the same Series, tenor and maturity; provided that, unless otherwise provided in any Supplemental Resolution, a Fiscal Agent is not required to exchange Bonds within 15 days before the date of selection of Bonds for redemption, or exchange any Bond or portion of a Bonds so selected for redemption. The Fiscal Agent shall require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

***Bond Register***. The Fiscal Agent for each Series of Bonds will keep or cause to be kept, at its designated office, sufficient books for the registration and transfer of the Bonds of that Series, which shall at all times be open to inspection during normal business hours by the City; and, upon presentation for such purpose, the Fiscal Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as provided in the Resolution.

***Temporary Bonds***. The Bonds may be issued in temporary form exchangeable for definitive Bonds when ready for delivery. Any temporary Bond may be printed, lithographed or typewritten, shall be of such denomination as may be determined by the City, shall be in registered form and may contain such reference to any of the provisions of the Resolution as may be appropriate. A temporary Bond may be in the form of a single Bond payable in installments, each on the date, in the amount and at the rate of interest established for the Bonds maturing on such date. Every temporary Bond shall be executed by the City and authenticated by the Fiscal Agent upon the same conditions and in substantially the same manner as the definitive Bonds. If the City issues temporary Bonds it will execute and deliver definitive Bonds as promptly thereafter as practicable, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the designated office of the Fiscal Agent for such Series and that Fiscal Agent shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations of the same Series, tenor and maturity or maturities. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under the Resolution as definitive Bonds authenticated and delivered thereunder.

***Bonds Mutilated, Lost, Destroyed or Stolen***. If any Bond shall become mutilated, the City at the expense of the Owner of said Bond, shall execute, and the Fiscal Agent for such Bond shall thereupon authenticate and deliver, a new Bond of like tenor and amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Fiscal Agent for that Bond shall be cancelled by it and destroyed. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City and the Fiscal Agent for that Bond and, if such evidence be satisfactory to both that Fiscal Agent and the City and indemnity satisfactory to them shall be given, the City at the expense of the Owner, shall execute, and that Fiscal Agent shall thereupon authenticate and deliver, a new Bond of like tenor and amount in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall have been called for redemption, instead of issuing a substitute Bond, the Fiscal Agent for that Series may pay the same without surrender thereof upon receipt of the aforementioned indemnity). The City may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under the Resolution and of the expenses which may be incurred by the, City and the Fiscal Agent in the premises. Any Bond issued under the Resolution in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the City whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of the Resolution with all other Bonds secured thereby. Neither the City nor any Fiscal Agent shall be required to treat both the original Bond and any substitute Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be issued under the Resolution or for the purpose of determining any percentage of Bonds Outstanding thereunder, but both the original and substitute Bond shall be treated as one and the same.

**Revenues; Funds and Accounts**

***Pledge of Net Operating Revenues, Capacity Charges and Treasury Credits.*** The Bonds of each Series are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable, as to the principal thereof; interest thereon, and any premiums upon redemption thereof, solely from and secured on a parity with the State Loans and Parity Debt by a lien upon the Net Operating Revenues, Capacity Charges and Treasury Credits and other funds, assets and security described under the Resolution and under the Supplemental Resolution creating that Series. The City pledges, places a charge upon and assigns all Net Operating Revenues, Capacity Charges and Treasury Credits to secure the payment of the principal of premium, if any, and interest on the Bonds and Parity Debt on a parity with the State Loans in accordance with their respective terms without priority or distinction of one over the other, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution, and the Net Operating Revenues, Capacity Charges and Treasury Credits so pledged constitute a trust fund for the security and payment of the interest and any premium on and principal of the Bonds and Parity Debt on a parity with the State Loans. There are pledged to secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms all amounts (including proceeds of the Bonds) held by the Treasurer in the Bond Service Account, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

Out of Gross Operating Revenues there shall be applied as set forth in the Resolution all sums required for the payment of the Operating and Maintenance Expenses and, thereafter, together with Treasury Credits, and Capacity Charges, shall be applied to the payment of the principal of (including any premium thereon) and interest on the State Loans, the Bonds and all Parity Debt, together with any sinking fund payments of the State Loans, the Bonds and Parity Debt and any reserve fund and excess earnings or rebate requirements with respect thereto. All remaining Gross Operating Revenues, after making the foregoing allocations, shall be retained in the Sewer Revenue Fund as a fund balance or surplus and may be used for any lawful purpose. The pledge of Net Operating Revenues, Capacity Charges and Treasury Credits made in the Resolution shall be irrevocable until there are no longer Bonds Outstanding.

***Establishment of Funds and Accounts; Application***. Pursuant to the Law, there is continued and there shall be maintained by the Treasurer in accordance with the terms of the Resolution the Sewer Revenue Fund (the “Sewer Revenue Fund”), in which there are created, the following accounts and sub-accounts:

1. Sewer Revenue Bonds, Bond Service Account (the “Bond Service Account”), in which there are established the following subaccounts:

    (a) Sewer Revenue Bonds, Principal Account (the “Principal Account”);

(b) Sewer Revenue Bonds, Interest Account (the "Interest Account"); and

2. Sewer Revenue Bonds, Renewal and Replacement Account (the "Renewal and Replacement Account").

There is also established and there shall be maintained by the Treasurer in accordance with the terms of the Resolution the Sewer Rate Stabilization Fund (the "Rate Stabilization Fund").

All funds and accounts established or continued under the Resolution or by any Supplemental Resolution shall be held by the Treasurer or, if applicable, a Fiscal Agent and shall be accounted for separate and apart from all other funds and moneys of the Treasurer or such Fiscal Agent until all Bonds have been paid in full or discharged in accordance with the Resolution and any Supplemental Resolution.

***Sewer Revenue Fund***. The Gross Operating Revenues shall be deposited in the Sewer Revenue Fund, and payments from said fund shall be made only as provided by the Law and the Resolution or any Supplemental Resolution relating to the Bonds.

***Operating and Maintenance Expenses***. As soon as practicable in each month, the Treasurer shall provide for payment of the Operating and Maintenance Expenses for that month, prior to the payment or provision for payment of the interest on and the principal of the State Loan, the Bonds and any Parity Debt and prior to the establishment and maintenance of any reserves therefor.

***Bond Service Account***. Upon delivery of the Bonds to the purchasers thereof, the amount, if any, specified pursuant to the Resolution to be applied to accrued interest or capitalized interest shall be placed in the Bond Service Account, all as further provided in the applicable Supplemental Resolution.

Thereafter, following the transfers required to pay Operating and Maintenance Expenses, there shall be set aside and transferred within the Sewer Revenue Fund to the Bond Service Account for transfer to the Interest Account and to the Principal Account, as applicable, the following amounts at the following times:

(A) *Interest Account*. As soon as practicable in each month an amount equal to (a) with respect to the State Loans, Parity Debt and the Outstanding Current Interest Bonds of each Series (except for Bonds or Parity Debt constituting Variable Rate Indebtedness), such amount as shall be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on the next interest payment for the State Loans, Parity Debt and for all such Outstanding Current Interest Bonds of such Series (excluding any interest for which there are moneys deposited in the Interest Account from the proceeds of such Series of Bonds or other source and reserved as capitalized interest to pay such interest until the next interest payment date), until the requisite amount of interest becoming due on the next interest payment date on the State Loans, Parity Debt and all such Outstanding Current Interest Bonds of such Series (except for Bonds and Parity Debt constituting Variable Rate Indebtedness) is on deposit in such account, and (b) 110% of the aggregate amount of interest, estimated by the Treasurer in his or her reasonable discretion, to accrue during that month on the Outstanding Variable Rate Indebtedness; provided, however, that the amount of such deposit into the Interest Account for any month may be reduced by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness exceeded the actual amount of interest accrued during that month on said Outstanding

Variable Rate Indebtedness and further provided that the amount of such deposit into the Interest Account for any month shall be increased by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness was less than the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness, No deposit need be made into the Interest Account if the amount contained therein is at least equal to the interest to become due and payable on the interest payment date falling within the next six months upon the State Loans, Parity Debt and all of the Bonds issued under the Resolution and then Outstanding (but excluding any moneys on deposit in the Interest Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates). If the City shall issue or incur any Parity Debt, the payments required to be placed in any debt service account to pay interest on such Parity Debt shall rank and be made pari passu with the payments required to be placed in the Interest Account.

(B) *Principal Account*. As soon as practicable in each month an amount equal to at least (a) one-sixth of the aggregate semi-annual amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series and Parity Debt having semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments due within the next six months, plus (b) one twelfth of the aggregate yearly amount of any Bond Obligation become due and payable on the Outstanding Bonds of all Series, the State Contracts and Parity Debt having annual maturity dates or annual Mandatory Sinking Account Payments due within the next twelve months; provided that if the City Council irrevocably determines by resolution that any principal payments on the Bonds of any Series or Parity Debt shall be refunded or prepaid on or prior to their respective due dates or paid from amounts on deposit in a reserve account established and maintained for Bonds of that Series, no amounts need be set aside toward such principal to be so refunded or paid; and provided further that no deposit to the Principal Account shall be required to be made prior to the payment due at the maturity date thereof with respect to any outstanding Bond or Parity Debt for which the City has designated such payment as an Excluded Principal Payment under the Resolution. If, during the twelve-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding a Mandatory Sinking Account Payment date, the Treasurer has purchased Term Bonds of a Series and maturity subject to such Mandatory Sinking Account Payment with moneys in the Principal Account, or, during said period and prior to giving said notice of redemption, the City has deposited Term Bonds of such Series and maturity with the Fiscal Agent for such Series for cancellation, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Treasurer or the Fiscal Agent for such Series from the Redemption Account, such Term Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce amounts required to be deposited in the Principal Account, All Term Bonds purchased from the Principal Account or deposited by the City with the Fiscal Agent for such Series shall be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, than as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City. All Term Bonds redeemed by the Treasurer or the Fiscal Agent for such Series from amounts in the Redemption Fund shall be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City. No deposit need be made into the Principal Account so long as there shall be in such funds moneys sufficient to pay (i) the Bond Obligations of all Bonds issued under the Resolution and then Outstanding and maturing by their terms or subject to mandatory redemption within the next twelve months and (ii) for the Bond Obligations with respect to Parity Debt not having semi-annual or annual maturity dates, the amounts, if any, required by the terms of any Parity

Debt documents to then be on deposit in the Principal Account. If the City shall issue or incur any Parity Debt, the payments required to be placed in any debt service fund or sinking fund to pay the principal of, or mandatory sinking fund payments with respect to, such Parity Debt shall rank and be made pari passu with the payments required to be placed in the Principal Account.

***Reserve Accounts***. Following the transfers described above, the Treasurer shall deposit as soon as practicable in each month in any reserve account established under a Supplemental Resolution for a Series of Bonds and in any reserve account established for any Parity Debt, upon the occurrence of any deficiency therein, one-twelfth (1/12th) of the aggregate amount of each unreplenished prior withdrawal from such reserve account and the full amount of any deficiency due to any required valuations of the investments in such reserve account until the balance in such reserve account is at least equal to the amount required pursuant to the Supplemental Resolution or other document creating such reserve account.

***Excess Earnings and Certain Other Accounts***. Following the transfers required above, the Treasurer shall deposit in any excess earnings account or rebate account established pursuant to a Supplemental Resolution for a Series of Bonds or Parity Debt such amounts at such times as shall be required pursuant to the Supplemental Resolution or other document creating such account.

***Renewal and Replacement Account***. Following the transfers required above, the Treasurer shall set aside in the Renewal and Replacement Account as soon as practicable in each month such amount, if any, as shall be required by action of the City Council.

***Sewer Revenue Fund Remaining Balance***. On the first day of each calendar month, after the transfers to the aforementioned accounts required above or any Supplemental Resolution and all other covenants of the City contained in the Resolution have been duly performed, any moneys remaining in the Sewer Revenue Fund shall continue to be held in the Sewer Revenue Fund as a fund balance or surplus and may be: (i) invested in any investments that are consistent with the City's then effective investment policy, or (ii) used for the redemption or prepayment of any Outstanding Bonds or Parity Debt which are subject to call and redemption or prepayment prior to maturity or for the purchase from time to time on the open market of any of the Outstanding Bonds whether or not subject to call (irrespective of the maturity or number of such Bonds) at such prices and in such manner, either at public or private sale, or otherwise as the City in its discretion may determine, (iii) deposited to the Rate Stabilization Fund, (iv) pledged or used by the City to make Subordinate Payments with respect to any Subordinate Obligations, or (v) used by the City in any lawful manner.

***Application of Funds and Accounts***.

(A) Bond Service Account.

(i) *Interest Account*. Amounts in the Interest Account shall be used and withdrawn by the Treasurer solely for the purpose of paying interest on the State Loans, Parity Debt and Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity). If proceeds of Bonds of a Series are deposited to the Interest Account to pay capitalized interest on the Bonds of such Series, the Supplemental Resolution shall so specify.

(ii) *Principal Account*.

(a) All amounts in the Principal Account shall be used and withdrawn by the Treasurer solely for the purposes of paying the Bond Obligation of the State Loans, Parity Debt and Bonds when due and payable at maturity or upon redemption.

(b) Notwithstanding paragraph (a) above, moneys in the Principal Account may be applied to the purchase of Bonds maturing or subject to mandatory sinking fund redemption (1) within the next six months in the case of Bonds subject to semi-annual maturity dates or (2) within the next twelve months in the case of Bonds subject to annual maturity dates (but only to the extent of amounts deposited in the Principal Account in respect of such Bonds), at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as is directed by the City, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) shall not exceed the principal amount or Accreted Value thereof. All Bonds purchased pursuant to this subsection shall be delivered to the Fiscal Agent for such Bonds and cancelled and destroyed by that Fiscal Agent and a certificate of destruction shall be delivered to the Treasurer by the Fiscal Agent for such Series.

(B) <u>Reserve Accounts</u>. Amounts on deposit in any reserve account for a Series of Bonds shall be used and withdrawn as provided in the Supplemental Resolution authorizing the issuance of such Series.

(C) <u>Excess Earnings Accounts</u>. Amounts on deposit in any excess earnings or rebate account for a Series of Bonds shall be used and withdrawn as provided in the Supplemental Indenture authorizing the issuance of such Series.

(D) <u>Renewal and Replacement Account</u>. Amounts on deposit in the Renewal and Replacement Account shall be applied to the acquisition and construction of renewals and replacements to the Sewer System to the extent provision therefore has not been made from other sources.

***Establishment, Funding and Application of Redemption Account***. The Treasurer shall establish, maintain and hold in trust a special account within the Sewer Revenue Fund designated as the "Redemption Account." All moneys deposited with the Treasurer for the purpose of optionally redeeming Bonds shall, unless otherwise directed by the City Council, be deposited in the Redemption Account. All amounts deposited in the Redemption Account shall be used and withdrawn by the Treasurer solely for the purpose of redeeming Bonds of any Series, in the manner, at the times and upon the terms and conditions specified in the Supplemental Resolution pursuant to which the Series of Bonds was created; provided that, at any time prior to the Fiscal Agent for such Series giving notice of redemption, the Treasurer shall, upon receipt of a Request of the City, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Account) as is directed by the City except that the purchase price (exclusive of such accrued interest) may not exceed the Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from amounts in the Redemption Account shall be allocated to Mandatory Sinking Account Payments then applicable to such Series and maturity of Term Bonds as may be specified in a Request of the City.

***Rate Stabilization Fund***. The City may make an initial deposit to the Rate Stabilization Fund in an amount as may be set forth in a Supplemental Resolution. Thereafter, there shall be deposited in the Rate Stabilization Fund from time to time from available moneys in the Sewer Revenue Fund such amount, that when added to operating revenues, as shown on the books of the City, plus Capacity Charges and interest earnings on the fund balance in the Sewer Revenue Fund, as shown on the books of the City, less Operating and Maintenance Expenses, is as least equal to 1.25 times debt service on the State Contracts, Bonds and Parity Debt (the "Rate Stabilization Fund Coverage Test"). For purposes of the Rate Stabilization Fund Coverage Test, debt service deemed payable on any Build America Bond shall be based on the net economic effect on the City expected to be produced by the City's receipt of the Treasury Credit. Moneys in the Rate Stabilization Fund in excess of the Rate Stabilization Fund Coverage Test shall be released and transferred from time to time to the Sewer Revenue Fund or any account therein as shall be determined by the City.

***Investment of Moneys in Funds and Accounts***. All moneys in any of the funds and accounts held by the Treasurer or any Fiscal Agent and established pursuant to the Resolution shall be invested solely in Authorized Investments maturing or available on demand not later than the date on which it is estimated that such moneys will be required by the Treasurer or such Fiscal Agent.

Unless otherwise provided in a Supplemental Resolution with respect to any fund or account created pursuant to that Supplemental Resolution, all interest, profits and other income received from the investment of moneys in any fund or account shall be transferred to the Sewer Revenue Fund when received. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Authorized Investment equal to the amount of accrued interest, if any, paid as part of the purchase price of such Authorized Investment shall be credited to the fund or account from which such accrued interest was paid.

Unless otherwise provided in a Supplemental Resolution with respect to a fund or account created pursuant to that Supplemental Resolution, the Treasurer and any Fiscal Agent may commingle any of the accounts established pursuant to the Resolution into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Treasurer or any Fiscal Agent under the Resolution shall be accounted for separately as required by the Resolution. The Treasurer or any Fiscal Agent may sell at the best price obtainable, or present for redemption, any Authorized Investment so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Authorized Investment is credited.

The Treasurer and each Fiscal Agent shall keep proper books of record and accounts containing complete and correct entries of all transactions made by each, respectively, relating to the receipt, investment, disbursement, allocation and application of the moneys related to the Bonds, including moneys derived from, pledged to, or to be used to make payments on the Bonds. Such records shall specify the account to which each investment (or portion thereof) held by the Treasurer and each Fiscal Agent is to be allocated and shall set forth, in the case of each Authorized Investment, (a) its purchase price, (b) identifying information, including par amount, coupon rate, and payment dates, (c) the amount received at maturity or its sale price, as the case may be, including accrued interest, (d) the amounts and dates of any payments made with respect thereto, and (e) the dates of acquisition and disposition or maturity.

**Covenants**

Pursuant to the Resolution, the City has covenanted as follows:

*Punctual Payment*. The City covenants that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond issued under the Resolution, together with the premium thereon, if any, on the date, at the place and in the manner mentioned in the Bonds in accordance with the Resolution, and that the payments into the Bond Service Account and any reserve fund or account will be made, all in strict conformity with the terms of said Bonds and, of the Resolution and any Supplemental Resolutions, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Resolution and any Supplemental Resolutions and of the Bonds issued under the Resolution, and that time of such payment and performance is of the essence of the City's contract with the Owners of the Bonds.

*Discharge Claims*. The City covenants that in order to fully preserve and protect the priority and security of the Bonds the City shall pay from the Sewer Revenue Fund and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Sewer System which, if unpaid, may become a lien or charge upon the revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. The City shall also pay from the Sewer Revenue Fund all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Sewer System or upon any part thereof or upon any of the revenues therefrom.

*Commence Acquisition and Construction*. As soon as funds are available therefor, the City will commence the accomplishment of the purposes for which each Series of Bonds are issued and will continue the same to completion with all practical dispatch and in an economical manner.

*Operate Sewer System in Efficient and Economical Manner*. The City covenants and agrees to operate the Sewer System in an efficient and economical manner and to operate, maintain and preserve the Sewer System in good repair and working order.

*Against Sale, Eminent Domain*. The City covenants that the Sewer System shall not be mortgaged or otherwise encumbered, sold, leased, pledged, any charge placed thereon, or disposed of as a whole or substantially as a whole unless such sale or other disposition be so arranged as to provide for a continuance of payments into the Sewer Revenue Fund sufficient in amount to permit payment therefrom of the principal of and interest on and the premiums, if any, due upon the call and redemption thereof, of the Bonds and any Parity Debt, and also to provide for such payments into any reserve account as are required under the terms of the Resolution or any Supplemental Resolutions or any Parity Debt documents. The Net Operating Revenues shall not be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used, nor shall any charge be placed thereon, except as authorized by the terms of the Resolution or any Supplemental Resolutions. The City further covenants that it will not enter into any agreement which impairs the operation of the Sewer System or any part of it necessary to secure adequate Net Operating Revenues to pay the principal of and interest on the Bonds or any Parity Debt or which otherwise would impair the rights of the Owners with respect to the Net Operating Revenues or the operation of the Sewer System. If any substantial part of the Sewer System is sold, the payment therefor shall, at the option of the City Council, either be used for the acquisition, construction and financing of additions to and extension and improvements of the Sewer System or shall be placed in the Bond Service Account or the Redemption Account and shall be used to pay or call and redeem Outstanding Bonds in the manner provided in the Resolution or any Supplemental Resolutions.

The City covenants that any amounts received as awards as a result of the taking of all or any part of the Sewer System by the lawful exercise of eminent domain or sale under threat thereof, if and to the extent that such right can be exercised against such property of the City, shall either be used for the acquisition and/or construction of improvements and extensions of the Sewer System or shall be placed in the Bond Service Account or the Redemption Account and shall be used to pay or call and redeem Outstanding Bonds in the manner provided in the Resolution.

*Insurance*. The City covenants that it shall at all times maintain with responsible insurers, to the extent available from responsible insurers at reasonable rates, or through a program of self-insurance (or a combination thereof) all such insurance on the Sewer System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Sewer System shall be damaged or destroyed, such part shall be .restored to use. The money collected from insurance against accident to or destruction of the Sewer System shall be used for repairing or rebuilding the damaged or destroyed Sewer System, and to the extent not so applied, shall be applied to the retirement of any Outstanding Bonds.

The City shall also (by self-insuring or by maintenance with responsible insurers, to the extent available from responsible insurers at reasonable rates, or by a combination thereof) provide for worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the City and the Owners.

*Records and Accounts*. The City shall keep proper books of records and accounts of the Sewer System separate from all other records and accounts in which complete and correct entries shall be made of all transactions relating to the Sewer System. Said books shall at all times be subject to the inspection of the Owners of not less than 10% of the Outstanding Bonds or their representatives authorized in writing.

The City shall cause the books and accounts of the Sewer System to be audited annually, which may be a part of the City's Comprehensive Annual Financial Reports, by an independent certified public accountant or firm of certified public accountants, and will make available for inspection by the Owners at the office of the City Clerk, and at the office of the Treasurer and at the office of each Fiscal Agent, a copy of the report of such accountant or accountants.

*No Free Service*. Except to the extent that the City is required under agreements and/or contracts existing on the effective date of the Resolution, no sewer or other service from the Sewer System may be furnished or rendered free to any public agency (such term to include the United States of America, the State of California, the City, and any other municipal or public corporation, district or public agency) or any private corporation or Person. Except to the extent that the City is required under agreements and/or contracts existing on the effective date of the Resolution, no such sewer service shall be rendered to any such public agency or any private corporation or Person at rates lower than those charged other Persons for service, except that charges to the City for sewer used for facilities of the City may be made at rates lower than those charged private Persons. No building or other real property of the Sewer System shall be furnished free to any such public agency or any private Person or corporation, but each of the foregoing shall pay the reasonable rental value of any property so used. Reasonable and proper charges for service rendered or quarters furnished to the Sewer System shall be paid to the City from the Sewer Revenue Fund. The City shall maintain and enforce valid regulations for the payment of bills for sewer service. Such regulations shall at all times during such period provide that the City shall, to the extent permitted by law, discontinue sewer service to any user whose sewer bill has not been paid within the time fixed by said regulations.

*Rates and Charges*. The City shall prescribe, revise and collect such rates and charges for the services, facilities and sewer of the Sewer System which, together with other moneys available for such purpose and after making allowances for contingencies and error in estimates, shall provide Gross Operating Revenues at least sufficient to pay the following amounts in the order set forth:

(a) Operating and Maintenance Expenses;

(b) The interest on and Bond Obligation (or Mandatory Sinking Account Payment) of the Outstanding Bonds (whether Serial or Term Bonds), Parity Debt and the State Contracts, as they become due and payable; provided, (i) the Assumed Debt Service shall be used for purposes of this covenant in the case of Bonds or Parity Debt for which the City has designated Excluded Principal Payments; (ii) interest deemed payable on any Build America Bond shall be based on the net economic effect on the City expected to be produced by the receipt by the City of the Treasury Credits equal to 35% (or such other percentage as may be then applicable) of the interest payable on any Build America Bond so long as such Treasury Credits are pledged to the repayment of any Build America Bond under the applicable Supplemental Resolution; and (iii) interest with respect to any Bonds or Parity Debt that constitute Variable Rate Indebtedness shall be estimated by the Treasurer in his or reasonable discretion taking into account the terms of such Variable Rate Indebtedness.

(c) All other payments required for compliance with the Resolution or any Supplemental Resolutions; and

(d) All other payments required to meet any other obligations of the City which are charges, liens or encumbrances upon or payable from Net Operating Revenues (including, but not limited to, payments due under any Subordinate Obligations).

The charges shall be so fixed that the Net Operating Revenues, plus any amounts on deposit in the Rate Stabilization Fund and Capacity Charges, shall be at least 1.25 times the amounts payable under (b) above and 1.0 times the amounts payable under (c) and (d) above.

*No Priority for Additional Bonds*. No additional bonds, notes or other evidences of indebtedness payable out of the Net Operating Revenues shall be issued having any priority in payment of principal or interest out of the Sewer Revenue Fund or out of any Net Operating Revenues payable into such Fund over the Outstanding Bonds.

*Limits on Additional Debt*. Except for the State Contracts and Refunding Bonds or Parity Debt to the extent incurred to pay or discharge Outstanding Bonds or Parity Debt and which result in a present value savings to the City computed based on the rate of interest on such Refunding Bonds or Parity Debt, no additional Bonds or Parity Debt shall be created or incurred unless:

First: The City is not in default under the terms of the Resolution.

Second: Either (i) the Net Operating Revenues, plus Capacity Charges and any amounts on deposit in the Rate Stabilization Fund, calculated on generally accepted accounting principles, as shown by the books of the City for the latest Fiscal Year or for any 12 consecutive month period within the last completed 18-month period ended not more than three months before the issuance of or incurrence of such additional Bonds or Parity Debt as set forth in a Certificate of the City or (ii) the ‘estimated Net Operating Revenues, plus Capacity Charges and any amounts on deposit in the Rate Stabilization Fund, for the first complete Fiscal Year when the improvements to the Sewer System financed with the proceeds of the additional Bonds or Parity Debt shall be in operation as estimated by and set forth in an opinion of an independent consulting engineer or independent financial consultant or firm of independent consulting engineers or independent financial consultants employed by the City, plus, at the option of the City, any or all of the items ‘hereinafter in this covenant designated (a) and (b), shall have amounted to at least 1.25 times the Maximum Annual Debt Service in any Fiscal Year thereafter on the State Contracts and all Bonds and Parity Debt to be Outstanding immediately subsequent to the incurring of such additional Bonds or Parity Debt.

The items either or all of which may be added to such Net Operating Revenues for the purpose of meeting the requirement set forth in this covenant are the following:

(a) An allowance for any increase in Net Operating Revenues (including, without limitation, a reduction in Operating and Maintenance Expenses) which may arise from any additions to and extensions and improvements of the Sewer System to be made or acquired with the proceeds of such additional Bonds or Parity Debt or with the proceeds of Bonds and Parity Debt previously issued, and also for net revenues from any such additions, extensions or improvements which have been made or acquired with moneys from any source but which, during all or any part of such Fiscal Year or such 12 consecutive month period within the last completed 18-month period, were not in service, all in an amount equal to the estimated additional average annual net revenues to be derived from such additions, extensions and improvements, commencing with the dates on which each addition, extension or improvement are to be in operation, all as shown by the certificate or opinion of an independent engineer or independent financial consultant or firm of independent consulting engineers or independent financial consultants employed by the City.

(b) An allowance for earnings arising from any increase in the rates or charges made for the use of the Sewer System which has become effective prior to the incurring of such additional indebtedness but which, during all or any part of such Fiscal Year or such 12 consecutive month period within the last completed 18-month period, was not in effect, in an amount equal to the amount by which the Net Operating Revenues would have been increased if such increase in rates or charges had been in effect during the whole of such Fiscal Year or such 12 consecutive month period within the last completed 18-month period, as shown by the certificate or opinion of an independent engineer or independent financial consultant or firm of independent consulting engineers or independent financial consultants employed by the City.

Third: On the date of delivery of and payment for such additional Bonds or Parity Debt, the amount in any reserve fund for any Bonds or Parity Debt previiously established shall be not less than an amount required to be maintained in such fund pursuant to the Supplemental Resolution or other document creating such fund.

Fourth: Operating revenues, as shown on the books of the City, shall be in excess of Operating and Maintenance Expenses and the annual debt service (based on the net economic effect on the City expected to be produced by the City’s receipt of the Treasury Credit) on State Contracts, Outstanding Bonds and Parity Debt, calculated on generally accepted accounting principles, as shown by the books of the City for the latest Fiscal Year or for any 12 consecutive month period within the last completed 18-month period ended not more than three months before the issuance of or incurrence of such additional Bonds or Parity Debt.

Nothing in the Resolution shall limit the ability of the City to issue or incur obligations, including the Subordinate Obligations, which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements for the State Contracts, Bonds and all Parity Debt and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Net Operating Revenues after the prior payment of all amounts then due required to be paid or set aside under the Resolution from Net Operating Revenues for principal, premium, interest and reserve fund requirements for the State Contracts, Bonds and all Parity Debt, as the same become due and payable and at the times and in the manner as required in the Resolution or any Parity Debt documents.

**The Fiscal Agent**

***Appointment; Duties of Fiscal Agent***

(A) The City may appoint a Fiscal Agent, who may be the Treasurer, for a Series of Bonds in the Supplemental Resolution pursuant to which such Bonds are issued. Each Fiscal Agent shall act as the agent of the City and shall perform such duties and only such duties as are specifically set forth in the Resolution or the Supplemental Resolution pursuant to which it was appointed and no implied covenants shall be read into the Resolution or such Supplemental Resolution against the Fiscal Agent. Each Fiscal Agent shall exercise such of the rights and powers vested in it by the Resolution or the Supplemental Resolution pursuant to which it was appointed.

(B) The City may remove any Fiscal Agent at any time with or without cause and shall remove any Fiscal Agent if at any time such Fiscal Agent shall cease to be eligible in accordance with subsection (E) below, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of such Fiscal Agent or its property shall be appointed, or any public officer shall take control or charge of such Fiscal Agent or, of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to such Fiscal Agent, and thereupon shall appoint a successor Fiscal Agent by an instrument in writing.

(C) Each Fiscal Agent may at any time resign by giving 90 days written notice of such resignation to the City and by giving the Owners notice of such resignation by mail at the addresses shown on the registration books maintained by such Fiscal Agent. Upon receiving such notice of resignation,' the City shall promptly appoint a successor Fiscal Agent by an instrument in writing.

(D) Any removal or resignation of a Fiscal Agent and appointment of a successor Fiscal Agent shall become effective only upon acceptance of appointment by the successor Fiscal Agent. If no successor Fiscal Agent shall have been appointed and have accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Fiscal Agent may petition any court of competent jurisdiction for the appointment of a successor Fiscal Agent, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Fiscal Agent. Any successor Fiscal Agent appointed under the Resolution, shall signify its acceptance of such appointment by executing and delivering to the City and to its predecessor Fiscal Agent a written acceptance thereof, and thereupon such successor Fiscal Agent, without any further act, deed or conveyance, shall become vested with all the rights, powers, duties and obligations of such predecessor Fiscal Agent, with like effect as if originally named Fiscal Agent under the Resolution. Upon request of the successor Fiscal Agent, the City and the predecessor Fiscal Agent shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Fiscal Agent all such rights, powers, duties and obligations.

(E) Unless otherwise provided in a Supplemental Resolution any Fiscal Agent appointed under the provisions of the Resolution in succession to a Fiscal Agent shall be either the Treasurer or a trust company or bank having the powers of a trust company and having a corporate trust office in the State. Any such bank or trust company shall have a combined capital and surplus of at least one hundred million dollars ($100,000,000) and be subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the regulations of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Each successor shall be a bank or a trust company doing business in and having an office in the city where the predecessor did business and had an office.

Upon merger, consolidation, or reorganization of a Fiscal Agent, the City will appoint a new Fiscal Agent, which may be the corporation resulting from such reorganization. In case at any time a Fiscal Agent shall cease to be eligible in accordance with the provisions described in paragraph (E) above, such Fiscal Agent shall resign immediately in the manner and with the effect specified in the Resolution.

If, by reason of the judgment of any court, a Fiscal Agent for a Series of Bonds or any successor Fiscal Agent is rendered unable to perform its duties under the Resolution, and if no successor Fiscal Agent be then appointed, all such duties and all of the rights and powers of such Fiscal Agent shall be assumed by and vest in the Treasurer in trust for the benefit of the Bondholders of such Series.

**Amendments**

***Amendments Permitted***

(A) (1) The Resolution and the rights and obligations of the City, the Owners of the Bonds and any Fiscal Agent may be modified or amended from time to time and at any time by filing with each Fiscal Agent (or if such modification or amendment is only applicable to a Series of Bonds, to such Fiscal Agent) a Supplemental Resolution, adopted by the City Council with the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Resolution is only applicable to a Series of Bonds, the Bonds of that Series) then Outstanding; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the Resolution.

(2) No such modification or amendment shall (a) extend the fixed maturity of any Bond, or reduce the amount of Bond Obligation thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Owner of each Bond so affected, (b) reduce the aforesaid percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the

Net Operating Revenues and other assets pledged under the Resolution prior to or on a parity with the lien created by the Resolution, or deprive the Owners of the Bonds of the lien created by the Resolution on such Net Operating Revenues and other assets (in each case, except as expressly provided in the Resolution), without the consent of the Owners of all of the Bonds then Outstanding, or (c) modify any rights or duties of the Fiscal Agent without its consent.

It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Resolution, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the adoption by the City Council of any Supplemental Resolution pursuant to this subsection (A), the Fiscal Agent for each Series of Bonds that may be affected by any such modification or amendment shall mail a notice provided by the City, setting forth in general terms the substance of such Supplemental Resolution to the Owners of the Bonds at the addresses shown on the registration books of the Fiscal Agent. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Resolution.

(B) The Resolution and the rights and obligations of the City, of each Fiscal Agent and of the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Resolution, which the City Council may adopt without the consent of any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City in the Resolution thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power under the Resolution reserved to or conferred upon the City, in each case which shall not materially and adversely affect the interests of the Owners of any of the Bonds;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Resolution, or in regard to matters or questions arising under the Resolution, as the City Council may deem necessary or desirable, and which shall not materially and adversely affect the interests of the Owners of any of the Bonds;

(3) to modify, amend or supplement the Resolution in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute later 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 and adversely affect the interests of the Owners of any of the Bonds;

(4) to provide for the issuance of a Series of Bonds with such interest rate, payment, maturity and other terms as the City may deem desirable; subject to the provisions of the Resolution;

(5) to provide for the issuance of Bonds in book-entry form or bearer form, provided that no such provision shall materially and adversely affect the interests of the Owners of any of the Bonds;

(6) if the City has covenanted in a Supplemental Resolution to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income

taxation, to make such provisions as are necessary or appropriate to ensure such exclusion; and

(7) for any other purpose that does not materially and adversely affect the interests of the Owners of any of the Bonds.

**Defeasance**

***Discharge of Resolution***. Except as may be provided in any Supplemental Resolution creating a Series of Bonds, any or all of the Bonds of any Series may be paid by the City in any of the following ways:

(a) by paying or causing to be paid the Bond Obligation of and interest on all such Bonds, as and when the same become due and payable;

(b) by depositing with the Treasurer, the Fiscal Agent for such Bonds, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Resolution) to pay or redeem such Bonds; or

(c) by delivering such Bonds to the Fiscal Agent for such Bonds, for cancellation by it.

If the City shall pay all such Bonds and also pay or cause to be paid all other sums payable to any provider of a Credit Facility with respect to such Bonds under the Resolution by the City, then and in that case, at the election of the City (evidenced by a Certificate of the City, filed with each Fiscal Agent, signifying the intention of the City to discharge all such indebtedness and the Resolution), and notwithstanding that any of such Bonds shall not have been surrendered for payment, the Resolution and the pledge of Net Operating Revenues and other assets made under the Resolution and all covenants, agreements and other obligations of the City under the Resolution with respect to such Bonds shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the City, the Treasurer shall cause an accounting for such period or periods as the City may request to be prepared and filed with the City and shall cause to be executed and delivered to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction.

***Discharge of Liability on Bonds***. Upon the deposit with the Treasurer or the Fiscal Agent for a Series, an escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, irrevocable notice of such redemption shall have been given as provided in the Resolution or provision satisfactory to such Fiscal Agent shall have been made for the giving of such notice, then all liability of the City in respect of such Bond shall cease, terminate and be completely discharged; provided that the Owner thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on such Bond, and the City shall remain liable for such payment, but only out of such money or securities deposited as aforesaid for their payment, subject, however, to the provisions of the Resolution and the continuing duties of the Fiscal Agent for such Series under the Resolution.

The City may at any time surrender to the Fiscal Agent for a Series for cancellation by it any Bonds previously issued and delivered, which the City may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

***Deposit of Money or Securities with Treasurer***. Whenever in the Resolution it is provided or permitted that there be deposited with or held in trust by the Treasurer or the Fiscal Agent for a Series, an escrow agent or other fiduciary, money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Treasurer in the funds and accounts established pursuant to the Resolution and shall be one or more of the following:

(a) lawful money of the United States of America in an amount equal to the Bond Obligation of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Resolution or provision satisfactory to the Fiscal Agent for such Series shall have been made for the giving of such notice, the amount to be deposited or held shall be the Bond Obligation or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) non-callable Government Securities, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Fiscal Agent of such Series for which payment is being made (upon which opinion such Fiscal Agent may conclusively rely), provide money sufficient to pay the Bond Obligation or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds-to be paid or redeemed, as such Bond Obligation or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Resolution or provision satisfactory to the Fiscal Agent for such Series shall have been made for the giving of such notice;

provided, in each case, that the Fiscal Agent for such Series shall have been irrevocably instructed (by the terms of the Resolution or by Request of the City) to apply such money to the payment of such Bond Obligation or Redemption Price and interest with respect to such Bonds.

***Payment of Bonds After Discharge of Resolution***. Any moneys held by the Fiscal Agent of a Series, an escrow agent or other fiduciary in trust for the payment of the principal or Accreted Value of, premium, if any, or interest on, any Bond of such Series and remaining unclaimed for two years after such principal or Accreted Value of, premium, if any, or interest on such Bond of such Series has become due and payable (whether at maturity or upon call for redemption as provided in the Resolution), if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when such Bond became so due and payable, shall, upon Request of the City, be released from the trusts created by the Resolution and transferred to the Treasurer, and all liability of the Fiscal Agent for such Series, an escrow agent or other fiduciary with respect to such moneys shall thereupon cease; provided, however, that before the release of such trust as aforesaid, such Fiscal Agent may (at the cost of the City) first mail to the Owners of any Bonds of such Series remaining unpaid at the addresses shown on the registration books maintained by such Fiscal Agent a notice, in such form as may be deemed appropriate by such Fiscal Agent, with respect to the Bonds of such Series so payable and not presented and with respect to the provisions relating to the repayment to the Treasurer of the moneys held for the payment thereof. All moneys held by or on behalf of the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary for the payment of Bond Obligation of or interest or premium on Bonds of such Series, whether at redemption or maturity, shall be held in trust for the account of the Owners thereof and the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary shall not be required to pay Owners any interest on, or be liable to the Owners or any other Person (other than the City) for any interest earned on, moneys so held. Any interest earned thereon shall belong to the City and shall be deposited monthly by the Treasurer into the Bond Service Account.

**Events of Default; Remedies**

***Events of Default***. Each of the following events shall be an Event of Default:

(a) Default by the City in the due and punctual payment of the principal of, premium, if any, or Accreted Value on any Bond (whether at maturity, by acceleration, call for redemption or otherwise);

(b) Default by the City in the due and punctual payment of the interest on any Bond;

(c) Failure of the City to observe and perform any of its other covenants, conditions or agreements under the Resolution or in the Bonds for a period of 90 days after written notice from the Owners of 25% in aggregate amount of Bond Obligation, specifying such failure and requesting that it be remedied, or in the case of any such default that cannot with due diligence be cured within such 90 day period, failure of the City to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence;

(d) Destruction or damage to any substantial part of the Sewer System to the extent of impairing its efficient operation or adversely affecting to a substantial degree the Net Operating Revenues and failure for any reason promptly to repair, replace or reconstruct the same (whether such failure promptly to repair, replace or reconstruct the same be due to the impracticability of such repair, replacement or reconstruction, the lack of funds therefor or for any other reason);

(e) (1) Failure of the City generally to pay its debts as the same become due, (2) commencement by the City of a voluntary case under the Federal bankruptcy laws, as now or later constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (3) consent by the City to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official for the City, the Sewer System or any substantial part of the City's property, or to the taking possession by any such official of the Sewer System or any substantial part of the City's property, (4) making by the City of any assignment for the benefit of creditors, or (5) taking of corporate action by the City in furtherance of any of the foregoing;

(f) The entry of any (1) decree or order for relief by a court having jurisdiction over the City or its property in an involuntary case under the Federal bankruptcy laws, as now or later constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (2) appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for the City, the Sewer System or any substantial part of the City's property, or (3) order for the termination or liquidation of the City or its affairs; or

(g) Failure of the City within 90 days after the commencement of any proceedings against it under the Federal bankruptcy laws prior any other applicable Federal or state bankruptcy, insolvency or similar law, to have such proceedings dismissed or stayed.

The provisions of subsections (c) and (d) above are subject to the limitation that if by reason of force majeure the City is unable in whole or in part to observe and perform any of its covenants, conditions or agreements under the Resolution, the City shall not be deemed in default during the continuance of such disability. The term "force majeure" as used in the Resolution shall include without limitation acts of God, strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States of America or of the State of California or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people, civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the City. The City shall, however, remedy with all reasonable dispatch the cause or causes preventing it from carrying out is agreements, provided that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the City, and the City shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the City unfavorable to it.

***Bondholders' Committee***. If an Event of Default shall have occurred and be continuing, the Owners of 25% in aggregate amount of Bond Obligation may call a meeting of the Owners for the purpose of electing a Bondholders' committee (a "Bondholders' Committee"). At such meeting the Owners of not less than a majority in aggregate amount of Bond Obligation must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present at such meeting, the Owners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Owners, to the Bondholders' Committee. The Owners present in person or by proxy at such meeting, or at any adjoined meeting thereof (a) shall prescribe the manner in which the successors of the persons elected to the Bondholders' Committee shall be elected or appointed, (b) may prescribe rules and regulations governing the exercise by the Bondholders' Committee of the power conferred upon it by the Resolution, and (c) may provide for the termination of the existence of the Bondholders' Committee. The Bondholders' Committee is declared to be trustee for the Owners of all Bonds then Outstanding, and are empowered to exercise in the name of the Bondholder& Committee as trustee all the rights and powers conferred in the Resolution on any Owner, provided, however, that whenever any provision of the Resolution requires the consent, approval or concurrence of the Owners of a specified percentage of Bond Obligation, in order to exercise the right or power conferred in the Resolution on the Owners to which such percentage obtains, the Bondholders' Committee either shall have been elected by or their election shall have been approved by or concurred in, and such committee shall then represent, the Owners of such specified percentage of the Bond Obligation. A certificate of the election of the Bondholders' Committee, including the names and addresses of its chairman and other members, shall be filed with the City Clerk.

***Acceleration***. Upon the occurrence and continuation of an Event of Default specified in the Resolution, the Bondholders' Committee or, if there is none, the Owners of 25% in aggregate amount Bond Obligation may, by written notice to the City, declare the entire unpaid principal and Accreted Value of the Bonds due and payable and, thereupon, the entire unpaid principal and Accreted Value of the Bonds shall forthwith become due and payable. Upon any such declaration the City shall forthwith pay to the Owners of the Bonds the entire unpaid principal and Accreted Value of, premium, if any, and accrued interest on the Bonds, but only from Net Operating Revenues and other moneys specifically pledged for such purpose by the Resolution. If at any time after such a declaration and before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of such default or before the completion of the enforcement of any other remedy under the Resolution, the principal and Accreted Value of all Bonds that have matured or been called for redemption pursuant to any sinking fund provision and all arrears of interest have been paid and any other Events of Default which may have occurred have been remedied, then the Bondholders' Committee or, if there is none, the Owners of 25% in aggregate amount of Bond Obligation may, by written notice to the City, rescind or annul such declaration and its consequence. No such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

***Receiver***. Upon the occurrence and continuation of an Event of Default for a period of 60 days, the Bondholders' Committee or, if there is none, the Owners of 25% in aggregate amount of Bond Obligation shall be entitled to the appointment of a receiver upon application to any court of competent jurisdiction in the State of California. Any receiver so appointed may enter and take possession of the Sewer System, operate, maintain and repair the same, to the extent permitted by law impose and prescribe rates fees and other charges, and receive and apply all Net Operating Revenues thereafter arising therefrom in the same manner as the City itself might do. No bond shall be required of such receiver.

***Other Remedies; Rights of Bondholders***. Upon the occurrence and continuation of an Event of Default the Owners may proceed to protect and enforce their rights by mandamus or other suit, action or proceeding at law or in equity, including an action for specific performance of any agreement contained in the Resolution.

No remedy conferred by the Resolution upon or reserved to the Owners is intended to be exclusive of any other remedy, but each such remedy shall be cumulative and shall be in addition to any other remedy given to the Bondholders under the Resolution or now or later existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or Event of Default under the Resolution by the Owners shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

***Unconditional Rights To Receive Principal, Accreted Value, Premium and Interest***. Nothing in the Resolution shall, however, affect or impair the right of any Owner to enforce, by action at law, payment of the principal and Accreted Value of, premium, if any, or interest on any Bond at and after the maturity thereof, or on the date fixed for redemption or upon the same being declared due prior to maturity as provided in the Resolution, or the obligation of the City to pay the principal and Accreted Value of, premium, if any, and interest on each of the Bonds issued under the Resolution to the respective holders thereof at the time and place, from the source and in the manner expressed in the Resolution and in the Bonds.

**Limitation of City Limited to Net Operating Revenues**. Notwithstanding anything in the Resolution or in the Bonds, the City shall not be required to advance any moneys derived from any source other than the Net Operating Revenues and other money, assets and security pledged under the Resolution for any of the purposes therein mentioned, whether for the payment of the principal or Redemption Price of or interest on the Bonds or for any other purpose of the Resolution.

The general fund of the City is not liable for the payment of any Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of the City pledged for the payment of any Bonds, any premium thereon upon redemption prior to maturity or their interest. The Owner of any Bond shall not compel the exercise of the taxing power by the City or the forfeiture of any of its property. The principal of and interest on any Bonds and any premiums upon the redemption of any thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues and other funds, security or assets which are pledged to the payment of the Bonds, interest thereon and any premiums upon redemption.

**Amendments to Resolution**

The amendments to the Resolution set forth below, shall not become effective until the 2009A Bonds, the 2009B Bonds and the 2014 Bonds are no longer Outstanding or have been defeased in accordance with the Resolution. **BY PURCHASING THE 2015 BONDS, INVESTORS ARE CONSENTING TO THESE AMENDMENTS.**

***Definition of Assumed Debt Service***. The definition of Assumed Debt Service is stricken in its entirety.

***Definition of Debt Service***. The term "Debt Service" is added to the Resolution and means, for any Fiscal Year, the sum of:

(1) the interest payable during such Fiscal Year on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized or is reasonably anticipated to be reimbursed to the City by the United States of America through Build America Bonds), or any future similar program);

(2) those portions of the principal amount of all outstanding serial Bonds maturing in such period;

(3) those portions of the principal amount of all outstanding term Bonds required to be redeemed or paid in such period;

(4) those Parity Debt and State Loan obligations required to be paid by the City during such period (except to the extent that the interest evidenced and represented thereby is capitalized or is reasonably anticipated to be reimbursed to the City by the United States of America through Build America Bonds); and

(5) so long as any Credit Facility is in effect, the principal amount of any amounts owing thereunder, with interest thereon as provided in the agreement relating to such Credit Facility;

but less the earnings to be derived from the investment of moneys on deposit in debt service reserve funds established for Bonds or Parity Debt;

provided that, as to any such Bonds or Parity Debt bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall, for all purposes, be assumed to bear interest:

(I) for periods when the actual interest rate can be determined, at the actual interest rate; and

(II) for periods when the actual interest rate cannot be determined:

(A) if interest on such Bonds or Parity Debt has accrued for at least twelve (12) months, at the average interest rate with respect to such Bonds or Parity Debt over the preceding twelve (12) months; or

(B) if interest on such Bonds or Parity Debt has not accrued for at least twelve (12) months, at: (y) the average of the Securities Industry and Financial Markets Association Index for tax-exempt variable rate obligations for the twelve (12) months prior to the time of such calculation (in the case of tax-exempt variable rate obligations) plus any applicable spread to the Securities Industry and Financial Markets Association Index or other index for such Bonds or Parity Debt; or (z) average of the one-month London Interbank Offered Rate for taxable variable rate obligations for the twelve (12) months prior to the time of such calculation (in the case of taxable variable rate obligations) plus any applicable spread to the London Interbank Offered Rate for taxable variable rate obligations.

provided further that if any series or issue of such Bonds or Parity Debt have twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year, Debt Service shall be determined, at the election of the City, either when due and payable or, for the period of determination, as if the principal of and interest on such series or issue of such Bonds or Parity Debt were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty-five (25) years from the date of calculation; and

provided further that, as to any such Bonds or Parity Debt or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Bonds or Parity Debt or portions thereof, such accreted discount shall not be treated as interest in the calculation of Debt Service and any interest payable on such Bonds or Parity Debt shall be calculated only when due and payable; and

provided further that the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the Bonds and Parity Debt for which such debt service reserve fund was established and, to the extent that the amount in such debt service reserve fund is in excess of such amount of principal, such excess shall be applied to the full amount of principal due, in each preceding year, in descending order, until such amount is exhausted.

***Definition of Excluded Principal Payment***. The definition of Excluded Principal Payment us stricken.

***Definition of Gross Operating Revenues***. The definition of Gross Operating Revenues is stricken and redefined to mean for any period, all income and revenue received by the City during such period from the operation or ownership of the Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all fees and charges received during such period for the services of the Sewer System, investment income received during such period (but only to the extent that such investment income is generally available to pay costs with respect to the Sewer System, including Operating and Maintenance Expenses), and all other money received during such period howsoever derived by the City from the operation or ownership of the Sewer System or arising from the Sewer System. Gross Operating Revenues also shall include Capacity Charges and any amounts transferred from the Rate Stabilization Fund to the Sewer Revenue Fund during any Fiscal Year exclusive of any amounts transferred to the Rate Stabilization Fund in such fiscal year. Gross Operating Revenues shall not include any Treasury Credit or amounts transferred from the Sewer Revenue Fund to the Rate Stabilization Fund during any Fiscal Year.

***Definition of Maximum Annual Debt Service***. The definition of Maximum Annual Debt Service is stricken.

***General Provisions for the Issuance of Bonds***. The Section entitled "General Provisions for the Issuance of Bonds" is stricken.

***Pledge of Revenues***. The Section entitled "Pledge of Revenues" is stricken and replaced with the following:

<u>Pledge of Revenues</u>. The Bonds of each Series are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable, as to the principal thereof, interest thereon, and any premiums upon redemption thereof, solely from and secured on a parity with the State Loans and Parity Debt by a lien upon the Net Operating Revenues and Treasury Credits and other funds, assets and security described under the Resolution. The City pledges, places a charge upon and assigns all Net Operating Revenues and Treasury Credits to secure the payment of the principal of, premium, if any, and interest on the Bonds and Parity Debt on a parity with the State Loans in accordance with their respective terms without priority or distinction of one over the other, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution, and the Net Operating Revenues and Treasury Credits so pledged constitute a trust fund for the security and payment of the interest and any premium on and principal of the Bonds and Parity Debt on a parity with the State Loans. There is pledged to secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms all amounts (including proceeds of the Bonds) held by the Treasurer in the Bond Service Account, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein.

Out of Gross Operating Revenues there shall be applied as set forth in the Resolution all sums required for the payment of the Operating and Maintenance Expenses and, thereafter, together with Treasury Credits, shall be applied to the payment of the principal of (including any premium thereon) and interest on the State Loans, the Bonds and all Parity Debt, together with any sinking fund payments of the State Loans, the Bonds and Parity Debt and any reserve fund and excess earnings or rebate requirements with respect thereto. All remaining Gross Operating Revenues, after making the foregoing allocations, shall be retained in the Sewer Revenue Fund as a fund balance or surplus and may be used for any lawful purpose. The pledge of Net Operating Revenues and

Treasury Credits made in the Resolution shall be irrevocable until there are no longer Bonds Outstanding.

***Principal Account***. A portion of the Section entitled "Principal Account" is stricken and replaced with the following:

Principal Account. As soon as practicable in each month an amount equal to at least (a) one-sixth of the aggregate semi-annual amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series and Parity Debt having semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments due within the next six months, plus (b) one twelfth of the aggregate yearly amount of any Bond Obligation become due and payable on the Outstanding Bonds of all Series, the State Loans and Parity Debt having annual maturity dates or annual Mandatory Sinking Account Payments due within the next twelve months; provided that if the City Council irrevocably determines by resolution that any principal payments on the Bonds of any Series or Parity Debt shall be refunded or prepaid on or prior to their respective due dates or paid from amounts on deposit in a reserve account established and maintained for Bonds of that Series, no amounts need be set aside toward such principal to be so refunded or paid. If, during the twelve-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding a Mandatory Sinking Account Payment date, the Treasurer has purchased Term Bonds of a Series and maturity subject to such Mandatory Sinking Account Payment with moneys in the Principal Account, or, during said period and prior to giving said notice of redemption, the City has deposited Term Bonds of such Series and maturity with the Fiscal Agent for such Series for cancellation, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Treasurer or the Fiscal Agent for such Series from the Redemption Account, such Term Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce amounts required to be deposited in the Principal Account. All Term Bonds purchased from the Principal Account or deposited by the City with the Fiscal Agent for such Series shall be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, than as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City. All Term Bonds redeemed by the Treasurer or the Fiscal Agent for such Series from amounts in the Redemption Fund shall be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City. No deposit need be made into the Principal Account so long as there shall be in such funds moneys sufficient to pay (i) the Bond Obligations of all Bonds issued under the Resolution and then Outstanding and maturing by their terms or subject to mandatory redemption within the next twelve months and (ii) for the Bond Obligations with respect to Parity Debt not having semiannual or annual maturity dates, the amounts, if any, required by the terms of any Parity Debt documents to then be on deposit in the Principal Account. If the City shall issue or incur any Parity Debt, the payments required to be placed in any debt service fund or sinking fund to pay the principal of, or mandatory sinking fund payments with respect to, such Parity Debt shall rank and be made pari passu with the payments required to be placed in the Principal Account.

***Rate Stabilization Fund***. The Section entitled "Rate Stabilization Fund" is stricken and replaced with the following:

Rate Stabilization Fund. The City agrees and covenants to maintain the Rate Stabilization Fund and to hold it separate and apart from other funds so long as any Bonds remain Outstanding.

Moneys transferred to the Rate Stabilization Fund in accordance with the Resolution shall be held therein and applied in accordance with the Resolution.

The City may withdraw all or any portion of the amounts on deposit in the Rate Stabilization Fund and transfer such amounts to the Sewer Revenue Fund for application in accordance with the Resolution or, in the event that all or a portion of the Bonds are discharged in accordance therewith, transfer all or any portion of such amounts for application in accordance with the Resolution.

Notwithstanding the foregoing, no moneys shall be transferred to the Rate Stabilization Fund in a given Fiscal Year if such transfer would prevent the City from meeting the coverage requirements of the Resolution for such Fiscal Year.

***Rates and Charges***. The Section entitled "Rates and Charges" is stricken and replaced with the following:

Rates and Charges. To the fullest extent permitted by law, the City shall fix, prescribe, revise and collect rates, fees and charges for the Sewer System which will be at least sufficient to yield during each Fiscal Year Net Operating Revenues equal to one hundred ten per cent (110%) of the Debt Service for such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Operating Revenues from such reduced rates and charges will at all times be sufficient to meet these requirements.

***Limits on Additional Debt***. The Section entitled "Limits on Additional Debt" is stricken and replaced with the following:

Limits of Additional Debt. Except for the State Loans and Refunding Bonds or Parity Debt to the extent incurred to pay or discharge Outstanding Bonds or Parity Debt and which result in a present value savings to the City computed based on the rate of interest on such Refunding Bonds or Parity Debt, no additional Bonds or Parity Debt shall be created or incurred unless:

(a) The Net Operating Revenues for the most recent audited Fiscal Year or any consecutive twelve calendar month period during the eighteen calendar month period preceding the date of adoption by the City Council of the resolution authorizing the issuance of such Bonds or the date of the execution of such Parity Debt, as the case may be, as evidenced by a special report prepared by an independent certified public accountant or firm of certified public accountants or by an independent financial consultant on file with the City, shall have produced a sum equal to at least one hundred ten per cent (110%) of the Debt Service for such Fiscal Year or twelve month period, as applicable; and

(b) The Net Operating Revenues for the most recent audited Fiscal Year or any consecutive twelve calendar month period during the eighteen calendar month period preceding the date of the execution of such Parity Debt or the date of adoption by the City Council of the resolution authorizing the issuance of such Bonds, as the case may be, including adjustments to give effect as of the first day of such Fiscal Year or twelve month period to increases or decreases in rates and charges for the Sewer System approved and in effect as of the date of calculation, as evidenced by a special report prepared by an independent certified public accountant or firm of certified public accountants or by an independent financial consultant on file with the City, shall have produced a sum equal to at least one hundred ten per cent (110%) of the Debt Service for such Fiscal Year or twelve month period, as applicable, plus the Debt Service which would have accrued on any Parity Debt executed or Bonds issued since the end of such Fiscal Year or twelve month period assuming such Parity Debt had been executed or Bonds had been issued at the beginning of such Fiscal Year or twelve month period plus the Debt Service which would have accrued had such Parity Debt been executed or Bonds been issued at the beginning of such Fiscal Year or twelve month period.

Nothing in the Resolution shall limit the ability of the City to issue or incur obligations, including the Subordinate Obligations, which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements for the State Loans, Bonds and all Parity Debt and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Net Operating Revenues after the prior payment of all amounts then due required to be paid or set aside under the Resolution from Net Operating Revenues for principal, premium, interest and reserve fund requirements for the State Loans, Bonds and all Parity Debt, as the same shall become due and payable and at the times and in the manner as required by the Resolution or any Parity Debt documents.

# APPENDIX D

# FORM OF CONTINUING DISCLOSURE CERTIFICATE

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# CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") dated June 10, 2015 is executed and delivered by the City of Riverside (the "Issuer") in connection with the issuance and delivery of $200,030,000 City of Riverside Sewer Revenue Bonds, Series 2015A (the "Bonds"). The Bonds are being issued pursuant to Resolution No. 21860 of the Issuer, adopted by the City Council on July 14, 2009, as amended and supplemented, including as supplemented by Resolution No. 22281, adopted by the City Council on March 17, 2015 (collectively, the "Resolution").

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Disclosure Representative" shall mean the City Manager, Treasurer or Finance Director of the Issuer or either of their designees, or such other officer or employee as the Issuer shall designate in writing from time to time.

"Dissemination Agent" shall mean, initially, the Issuer, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designed in writing by the Issuer and which has been filed with the then current Dissemination Agent a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access system of the MSRB.

"Listed Events" shall mean any of the events listed in Section 5 of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

"Official Statement" means the Official Statement relating to the Bonds dated May 28, 2015.

"Participating Underwriter" shall mean Wells Fargo Bank, National Association, as the original underwriter of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent upon written direction to, not later than 270 days following the end of the Issuer's fiscal year (which presently ends on June 30), commencing with the report for the fiscal year ending June 30, 2015, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report shall be provided to the MSRB in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. 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 Issuer may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

The Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The Issuer's fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The Issuer will promptly notify the MSRB and the Dissemination Agent (if other than the Issuer) of a change in the fiscal year dates. The Issuer 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 it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

(b) If the Dissemination Agent is a person or entity other than the Issuer then, not later than fifteen (15) days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Issuer shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) days prior to such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB, in the form required by the MSRB.

(d) The Dissemination Agent shall:

(i) confirm the electronic filing requirements of the MSRB for the Annual Reports; and

(ii) promptly after receipt of the Annual Report, file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided the MSRB. The Dissemination Agent's duties under this clause (ii) shall exist only if the Issuer provides the Annual Report to the Dissemination Agent for filing.

(e) Notwithstanding any other provision of this Disclosure Certificate, all filings shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

SECTION 4. <u>Content of Annual Reports</u>. The Issuer's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the Issuer's Sewer System for the most recent fiscal year of the Issuer then ended, which may be a part of the Issuer's audited financial statements.

If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the Issuer's Sewer System in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements, if any, of the Issuer's Sewer System shall be audited by such auditor as shall then be required or permitted by State law or the Resolution. Audited financial statements shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the Issuer may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the Issuer shall modify the basis upon which its financial statements are prepared, the Issuer shall provide a notice of such modification to the MSRB, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

(b) To the extent not included in the audited financial statements of the Issuer's Sewer System, the Annual Report shall also include the following:

(1) the principal amount of the Bonds outstanding as of the end of the immediately preceding fiscal year and a list of Parity Debt issued and then currently outstanding under the Resolution and their respective principal amounts,

(2) the balance in the 2015A Reserve Account as of the end of the immediately preceding fiscal year and a statement of the 2015A Bond Reserve Requirement,

(3) updated information comparable to the information in the table entitled "Revenues by Customer Category" as it appears in the Official Statement,

(4) updated information comparable to the information in the table entitled "Total Connection Fee Revenues" as it appears in the Official Statement, and

(5) updated information comparable to the information in the table entitled "Historical Summary of Operations" as it appears in the Official Statement.

(c) 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 Issuer or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) business days after the event:

(1) principal and interest payment delinquencies;

(2) unscheduled draws on debt service reserves reflecting financial difficulties;

(3) unscheduled draws on credit enhancements reflecting financial difficulties;

(4) substitution of credit or liquidity providers, or their failure to perform;

(5) adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determinations of taxability or of the Notice of Proposed Issue (IRS Form 5701-TEB);

(6) tender offers;

(7) defeasances;

(8) ratings changes; and

(9) bankruptcy, insolvency, receivership or similar proceedings.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 5, the Issuer 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) unless described in paragraph 5(a)(5), notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

(2) the consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

(3) appointment of a successor or additional trustee or the change of the name of a trustee;

(4) nonpayment related defaults;

(5) modifications to the rights of Owners of the Bonds;

(6) notices of redemption; and

(7) release, substitution or sale of property securing repayment of the Bonds.

(c) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event described in subsection (b), the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the Issuer determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the Issuer shall file a notice of such occurrence with EMMA in a timely manner not more than ten (10) business days after the event.

(e) The Issuer hereby agrees that the undertaking set forth in this Disclosure Certificate is the responsibility of the Issuer and that the Dissemination Agent shall not be responsible for determining whether the Issuer's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

(f) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(7) and (b)(6) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Resolution. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (f) prior to the occurrence of such Listed Event.

(g) Any of the filings required to be made under this Section 5 shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

SECTION 6. Termination of Reporting Obligation. The obligation of the Issuer and the Dissemination Agent under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Issuer. The Dissemination Agent may resign by providing thirty days written notice to the Issuer and the Fiscal Agent. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the Issuer. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Issuer in a timely manner and in a form suitable for filing.

SECTION 8. Amendment. (a) This Disclosure Certificate may be amended, in writing, without the consent of the Owners, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Disclosure Certificate as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) there shall have been delivered to the Issuer an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the same effect as set forth in clause (2) above, (4) the Issuer shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the effect that the amendment does not materially impair the interests of the Owners, and (5) the Issuer shall have delivered copies of such opinion and amendment to the MSRB.

(b) This Disclosure Certificate may be amended in writing with respect to the Bonds, upon obtaining consent of Owners at least 25% in aggregate principal of the Bonds then outstanding; provided that the conditions set forth in Section 8(a)(1), (2) and (3) have been satisfied; and provided, further, that the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder.

(c) To the extent any amendment to this Disclosure Certificate results in a change in the type of financial information or operating data provided pursuant to this Disclosure Certificate, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report 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. Such comparison shall include a quantitative and, to the extent reasonably feasible, 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.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer 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 Issuer 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 Issuer shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice if occurrence of a Listed Event.

The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that under some circumstances compliance with this Disclosure Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the Issuer under such laws.

SECTION 10. Default. In the event the Issuer fails to comply with any provision in this Disclosure Certificate, the Dissemination Agent may (or shall upon direction of the Owners of 25% in aggregate principal of the Bonds then outstanding or the Participating Underwriter) take all action necessary to cause the Issuer to comply with this Disclosure Certificate. In the event of a failure of the Dissemination Agent to comply with any provision of this Disclosure Certificate, any 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 Issuer 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 Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. If the Dissemination Agent is a person or entity other than the Issuer, this Section 11 shall apply. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it 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 be paid compensation by the Issuer for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Bond Owner's, or any other party. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent hereunder, seeking any remedy other than to compel specific performance of this Disclosure Certificate. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Certificate.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter and Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

*[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]*

SECTION 13. Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

| | |
|---|---|
| Disclosure Representative: | City of Riverside<br>3900 Main Street<br>Riverside, CA 92501 |

CITY OF RIVERSIDE

By: ________________________________________
Treasurer

# APPENDIX E

## PROPOSED FORM OF BOND COUNSEL OPINION

*Upon the issuance of the 2015 Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:*

[Date of Delivery]

City of Riverside
Riverside, California

*Re: $200,030,000 City of Riverside Sewer Revenue Bonds, Series 2015A*

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the City of Riverside, California (the "City") of the $200,030,000 aggregate principal amount of the City's Sewer Revenue Bonds, Series 2015A (the "Bonds"). The Bonds are being issued pursuant to the Charter of the City (the "Charter"), Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended (the "Ordinance"), and Resolution No. 21860 adopted by the City Council on July 14, 2009, as amended and supplemented, including as amended and supplemented by Resolution No. 22821 adopted by the City Council on March 17, 2015 (collectively, the "Resolution").

In rendering the opinions set forth below, we have examined the Constitution and statutes of the State of California, the Charter, the Ordinance and the Resolution, certified copies of the proceedings of the City, and other information submitted to us relative to the issuance and sale by the City of the Bonds. We have examined originals, or copies identified to our satisfaction as being true copies of the Charter, the Ordinance, the Resolution and the Tax Certificate relating to the Bonds, opinions of counsel to the City, certificates of the City and others, and such other documents, agreements, opinions and matters as we have considered necessary or appropriate under the circumstances to render the opinions set forth herein.

In connection with our representation we have examined a certified copy of the proceedings relating to the Bonds. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth in the Resolution, we are of the opinion that:

1. The Bonds constitute the valid and binding special revenue obligations of the City.

2. The Resolution was duly adopted at meetings of the City Council of the City.

3. The Bonds are special limited obligations of the City payable from and secured by a pledge of and lien and charge upon the Net Operating Revenues and certain amounts held under the Resolution. The general fund of the City is not liable for the payment of the Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of the City pledged for the payment of the Bonds, any premium thereon upon redemption prior to maturity or their interest.

4. Additional Bonds and other Parity Debt of the City have been and may from time to time hereafter be issued under the Resolution which are payable from Net Operating Revenues on a parity basis with the Bonds.

5. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in the Resolution, 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 calculating the federal alternative minimum tax imposed on individuals and corporations. It should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

6. Interest on the Bonds is exempt from State of California personal income tax.

7. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Bond Owner will increase the Bond Owner's basis in the Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of a Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

8. The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The opinions expressed herein as to the exclusion from gross income of interest on the Bonds are based upon certain representations of fact and certifications made by the City and others and are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to issuance of the Bonds to assure that interest on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City covenanted to comply with all such requirements.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Resolution and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) with respect to the Bonds if any such action is taken or omitted based upon the opinion or advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the Bonds.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Resolution and the Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

Our opinion is limited to maters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the Bonds or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

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## APPENDIX F

## BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company, New York, New York, will act as securities depository for the 2015 Bonds. The 2015 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2015 Bond certificate will be issued for each maturity of 2015 Bond, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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 and www.dtc.org.

Purchases of the 2015 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2015 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2015 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2015 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2015 Bonds, except in the event that use of the book-entry system for the 2015 Bonds is discontinued.

To facilitate subsequent transfers, all 2015 Bonds deposited by Direct Participants with DTC are registered in the name of Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2015 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2015 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2015 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2015 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2015 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Resolution. For example, Beneficial Owners of 2015 Bonds may wish to ascertain that the nominee holding the 2015 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2015 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2015 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2015 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price (if any) and interest payments on the 2015 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Fiscal Agent, on each payment date in accordance with their respective holdings shown on DTC's records. Payments by 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 nor its nominee, the Fiscal Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price (if any) and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2015 Bonds at any time by giving reasonable notice to the City or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, the 2015 Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2015 Bond certificates will be printed and delivered.

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

### Discontinuation of the Book-Entry System

In the event that DTC determines not to continue to act as securities depository by giving notice to the City and the Fiscal Agent, and discharges its responsibilities with respect thereto under applicable law and there is not a successor securities depository, or the City determines that it is in the best interest of the Beneficial Owners of the 2015 Bonds that they be able to obtain certificates, the Fiscal Agent will execute, transfer and exchange 2015 Bonds as requested by DTC and will deliver new 2015 Bonds in fully registered form in authorized denominations in the names of Beneficial Owners or DTC Participants.

In the event the book-entry system is discontinued, the principal amount of and premium, if any, payable with respect to the 2015 Bonds will be payable upon surrender thereof at the principal corporate trust office of the Fiscal Agent. The interest on 2015 Bonds will be payable by check mailed to the respective owners thereof at their addresses as they appear on the books maintained by the Fiscal Agent.

### Transfer and Exchange of 2015 Bonds

Any 2015 Bond may, in accordance with its terms, be transferred, upon the register required to be kept pursuant to the provisions of the Resolution, by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such 2015 Bond for cancellation, accompanied by deliver of a written instrument of transfer, duly executed in a form approved by the Fiscal Agent. The 2015 Bonds may be exchanged at the corporate trust office of the Fiscal Agent for a like aggregate principal amount of 2015 Bonds of other authorized denominations of the same Series, tenor, maturity and interest rate; provided that no transfer or exchange may occur during the 15 days before the date of selection of 2015 Bonds for redemption, or of any 2015 Bond or portion of a 2015 Bond so selected for redemption. The Fiscal Agent shall require the bondowner requesting such transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

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CITY OF RIVERSIDE, CALIFORNIA • SEWER REVENUE BONDS, SERIES 2015A

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